



Panel
**Fiscal-monetary interactions –
lessons from the recent
experience**

Agnès Bénassy-Quéré
Banque de France

Annual Congress of the European Economic Association, Rotterdam, 27 August 2024

MAASTRICHT: DEMAND SHOCKS



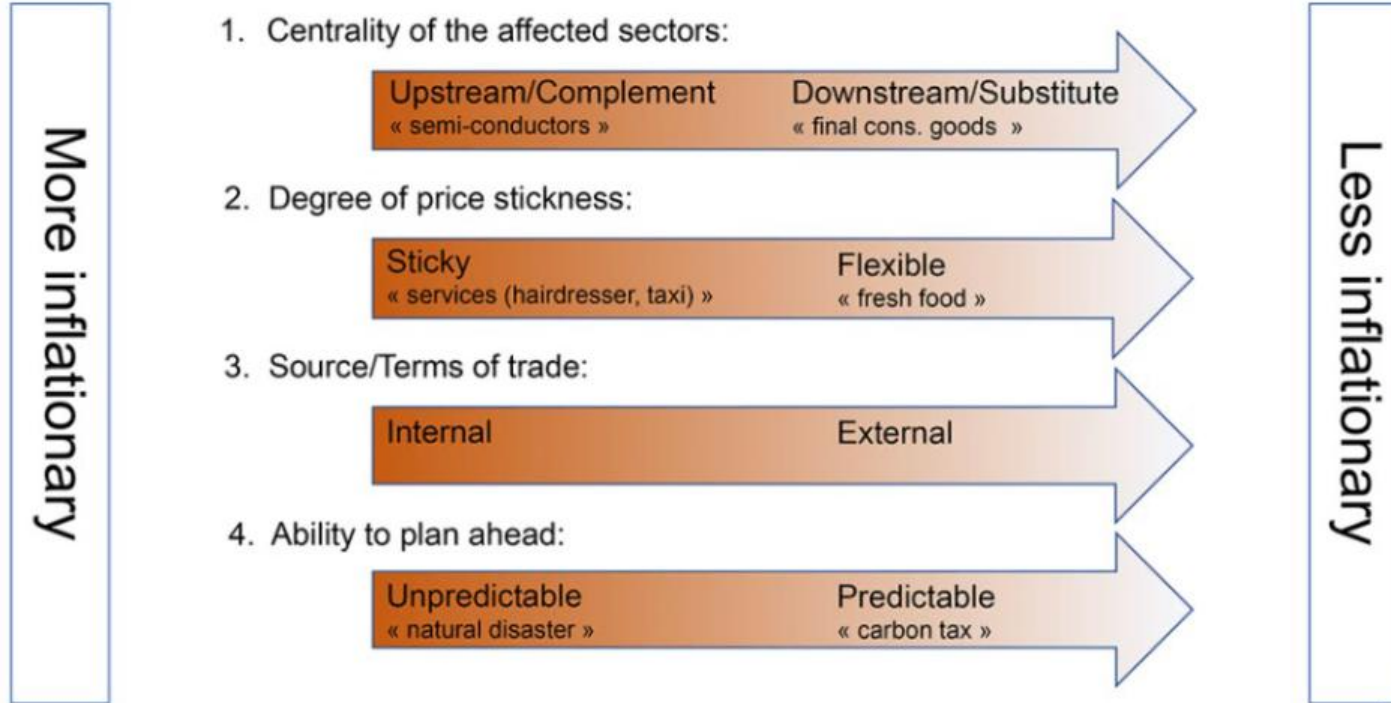
		Shocks	
		Symmetric	Idiosyncratic
Objectives	Output stabilization	(Aggregate fiscal stance)	National fiscal stance
	Price stabilization	Monetary policy	∅

Policy mix: fiscal and monetary policies may reinforce each other, notably at the effective lower bound (e.g. Draghi, Jackson Hole 2014, “*it would be helpful for the overall stance of policy if fiscal policy could play a greater role alongside monetary policy*”).

Otherwise: credibility as a way to enhance the effectiveness of both legs of the policy mix (Bartsch et al., 2020; Grosse-Steffen et al., 2021).

Asymmetric shocks: across countries or (since Covid) across sectors; in both cases, fiscal stabilization (Cox et al. 2024).

WHAT ABOUT SUPPLY SHOCKS? (lock-downs, energy, red sea...)



Policy mix: (i) how is aggregate demand affected? (e.g. terms-of-trade shock versus carbon tax), (ii) is the shock temporary or permanent?, (iii) how is the shock affecting some specific types of households or firms?

Fiscal policy: a wider range of tools, but also limited by (i) institutional constraints, administrative capacity, (ii) debt sustainability, fiscal rules, (iii) political economy, expansionary bias.

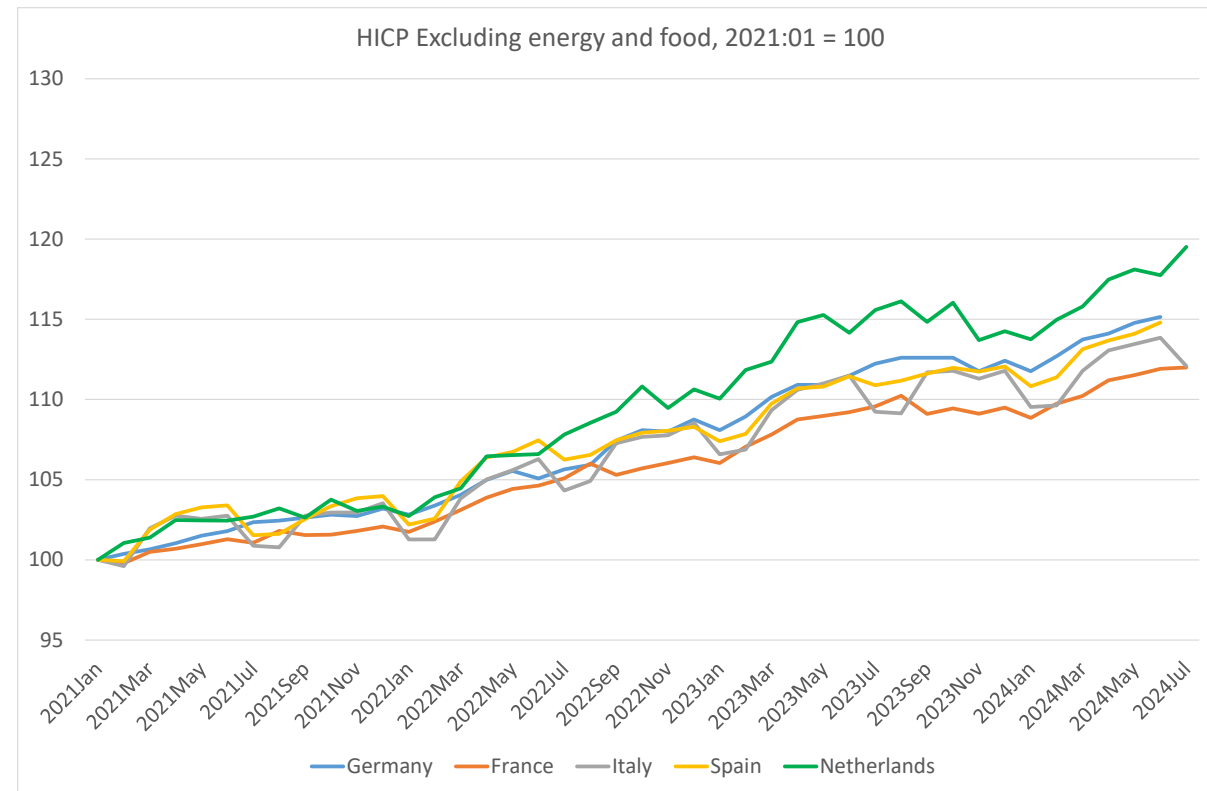
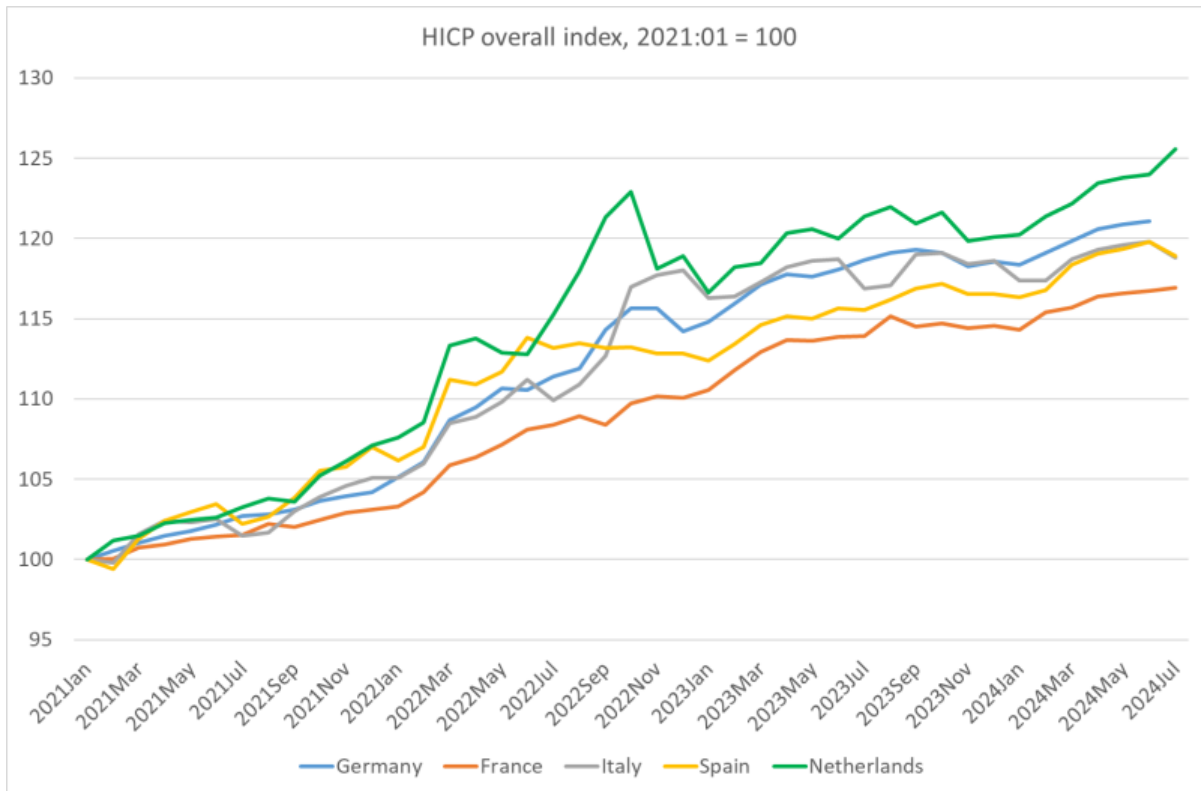
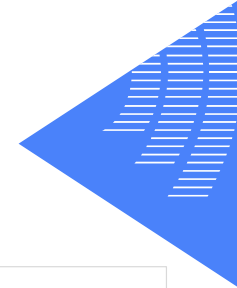
Government can also regulate, e.g. capping prices. Dao, Dizioli, Jackson, Gourinchas & Leigh (2023): euro area inflation would have been ≈ 2 pp higher without interventions on prices in 2022. Fiscal implications, though.

PRICE STABILITY, INFLATION STABILITY

“Price stability” = “a 2% inflation rate over the medium term”

- **Optimal reaction to a temporary commodity price shock: “look through” (Dupraz and Marx, 2024)**
- **However, short-term price deviations may have long-lasting effects:**
 - **Asymmetric pass-through, sticky-price sectors (services), e.g. Netherlands vs France in 2022-23**
 - **Possible de-anchoring of expectations following abrupt price adjustments (excess attention to energy and food prices)**
 - **Resource misallocation due to forecast errors (evidence for Italy by Ropele, Gorodnichenko and Coibion, 2024)**

EMPIRICAL EVIDENCE DURING THE ENERGY CRISIS



Source: ECB, non seasonally adjusted.

Long-lasting price differences.

TOWARDS A GREEN POLICY MIX

- **Greening the economy interfering with the stabilization objectives**
 - Climate policies as a source of shocks
 - Climate policies depleting fiscal space

- **Central bank having to deal with « *climateflation* » and « *greenflation* » (Schnabel, 2022)**
 - Risk of a sub-optimal policy mix, with loose fiscal policy and tight monetary policy
 - Not to mention: loose climate policy!

- **Energy transition requires low real long-term interest rates, hence**
 - Fiscal sustainability (low credit risk)
 - Price stability (anchored expectations)
 - Long-term savings (low uncertainty)

→ Key role of policy predictability