



Is Europe doomed to Secular Stagnation?

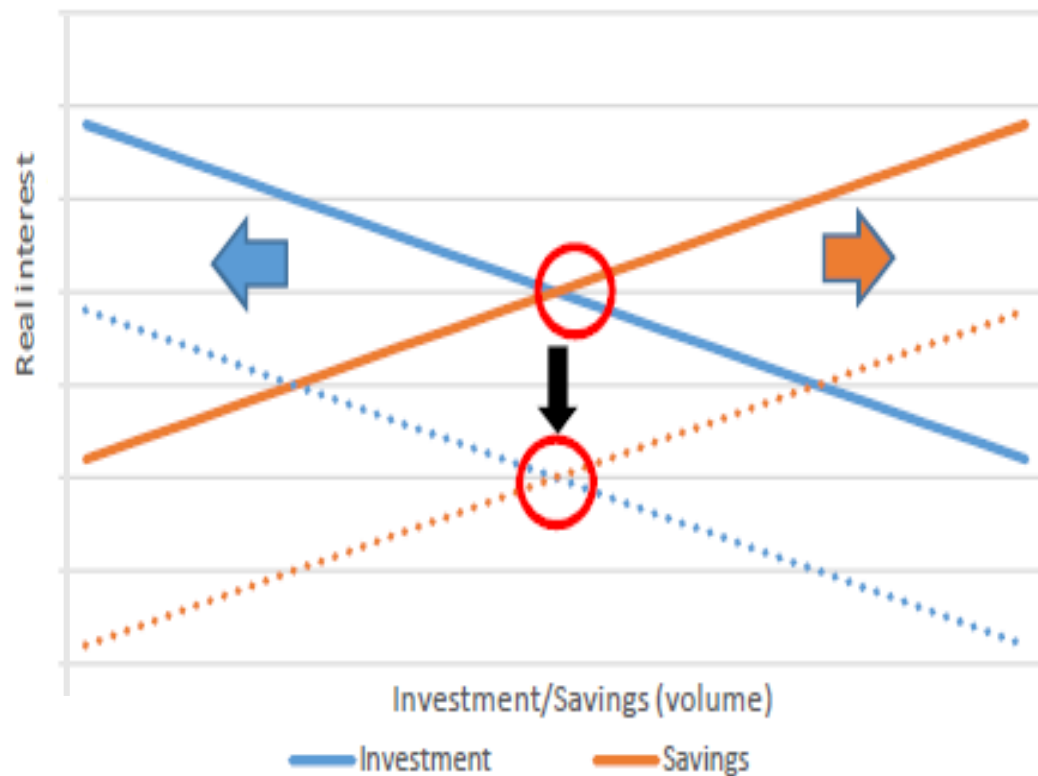
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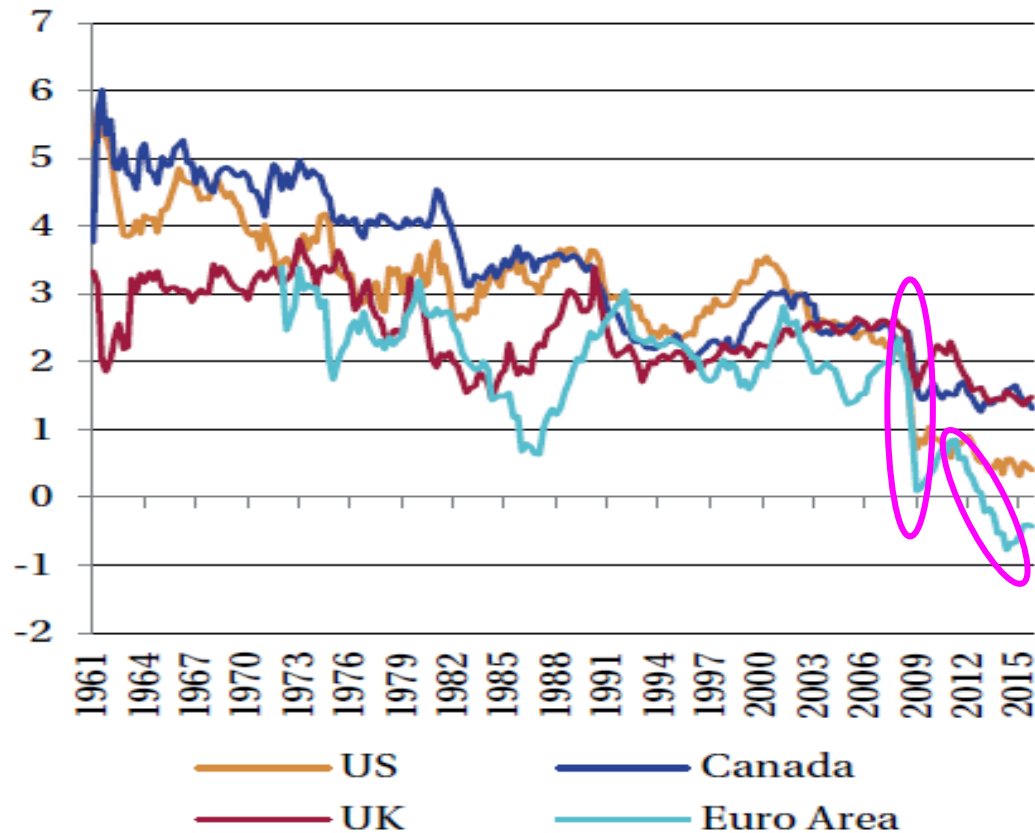
**Challenges to More Sustainable and Inclusive
Growth in Europe**



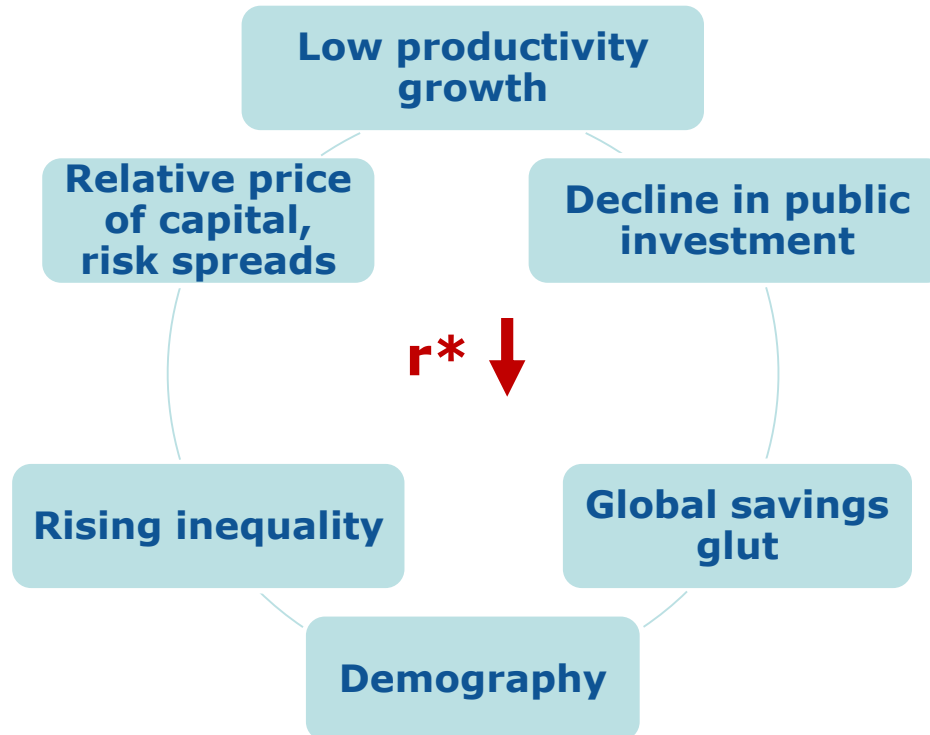
Downward shifts in "full-employment" savings and investment schedules



Estimated neutral real interest rates: trends, cycles and shocks



Factors pushing r^* into negative terrain: trends, cycles and shocks



How much fiscal space?

A Blanchard-inspired framework

$$\hat{b} = \frac{\hat{p}}{r^* - y^*}$$

\hat{b} : maximum politically sustainable debt

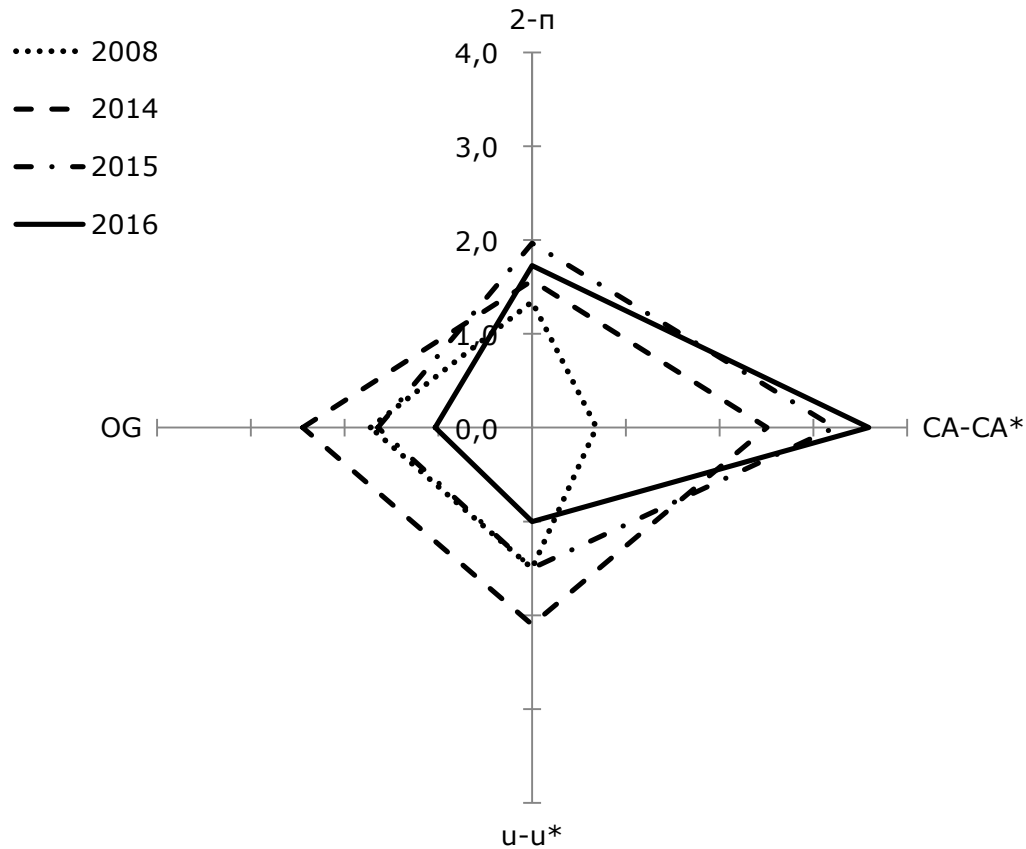
\hat{p} : maximum politically achievable primary surplus

r^* : "neutral" interest rate

y^* : potential growth rate

- Implications of Blanchard's model:
 - Lower r^* increases the fiscal space
 - Lower y^* reduces the fiscal space
- The neutral interest rate (r^*) has been falling,
- but potential growth rates (y^*) have also dropped,
- and \hat{p} will probably decrease in the future

How much economic slack in the EA?



Getting out of a low growth trap

Macroeconomic Policies

- Unconventional monetary policies
- Fiscal stabilisation policies, investment
- Financial stability policies

Structural reforms 2.0

- Productivity/TFP
- Human capital
- Inclusiveness, intergenerational fairness

Governance issues

- Preserving open and integrated markets
- Restoring convergence
- New public goods, vertical coherence