

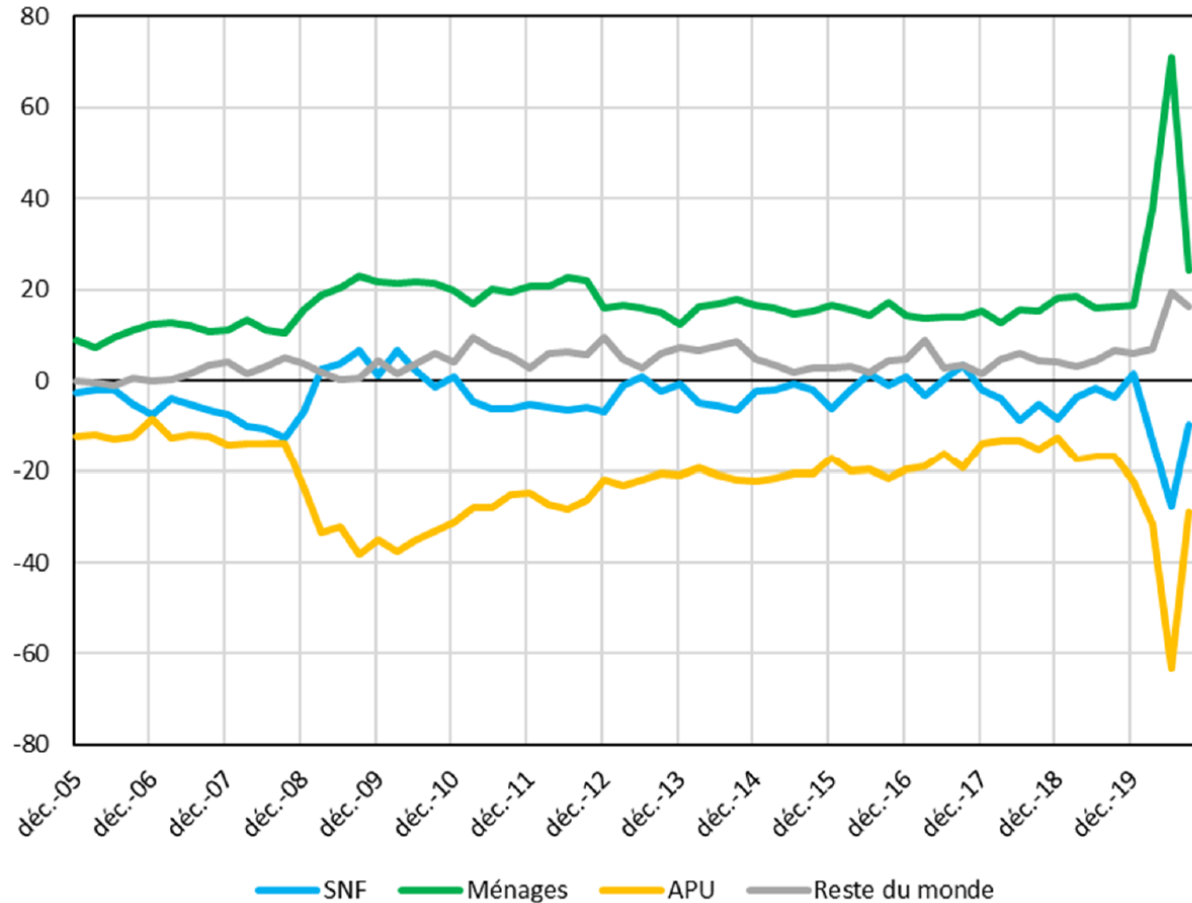
The role of fiscal policy in mitigating the economic effect of the COVID-19 pandemic

Agnès Bénassy-Quéré, DG Ecfm webinar, 28 January 2021

- Economic recovery
 - Supporting the economy (short term)
 - Preparing the next crisis (medium term)
- Significant inflation
 - Condition for a normalization of monetary policy
 - Impact on debt dynamics
- Financial stability
 - Fiscal sustainability
 - Asset prices

France

Capacité / besoin de financement, milliards €



Fiscal normalization needs to be conditional on recovery of market income and private spending.

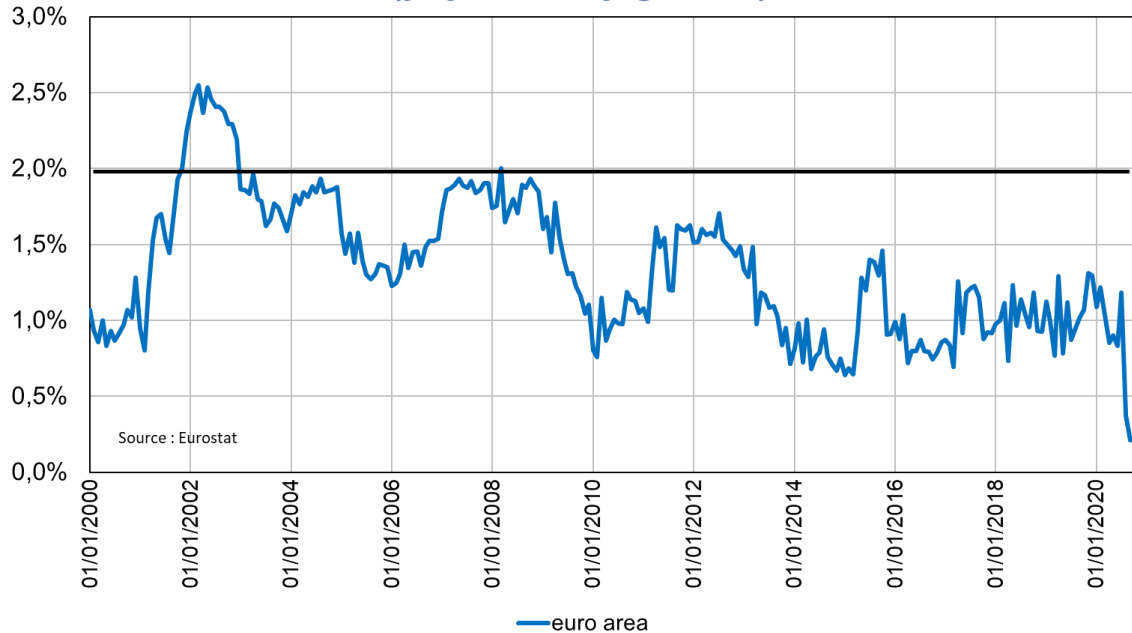
Macro first!

At aggregate level

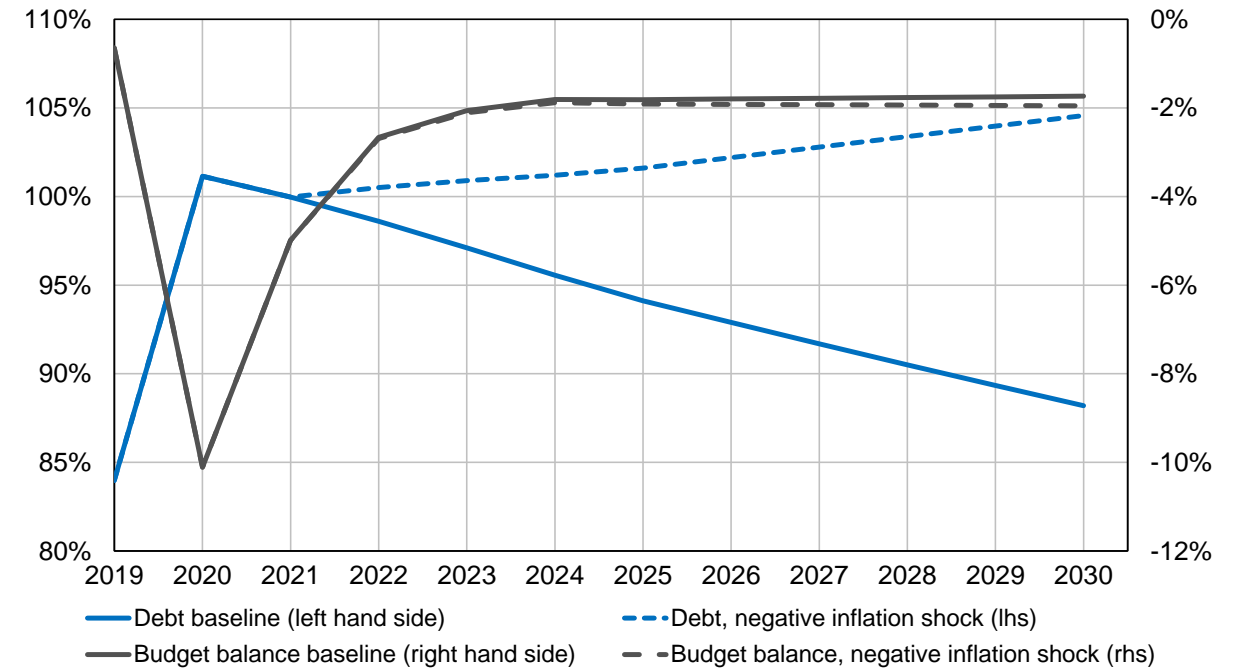
At country level

At the ZLB, debt sustainability depends on inflation

**Core inflation
(yoy monthly growth)**



**Public debt and deficit (% GDP) in the Euro Area
with and without inflation**



Source: French Treasury, based on WEO up to 2025. Inflation shock: -2 pp after 2021.

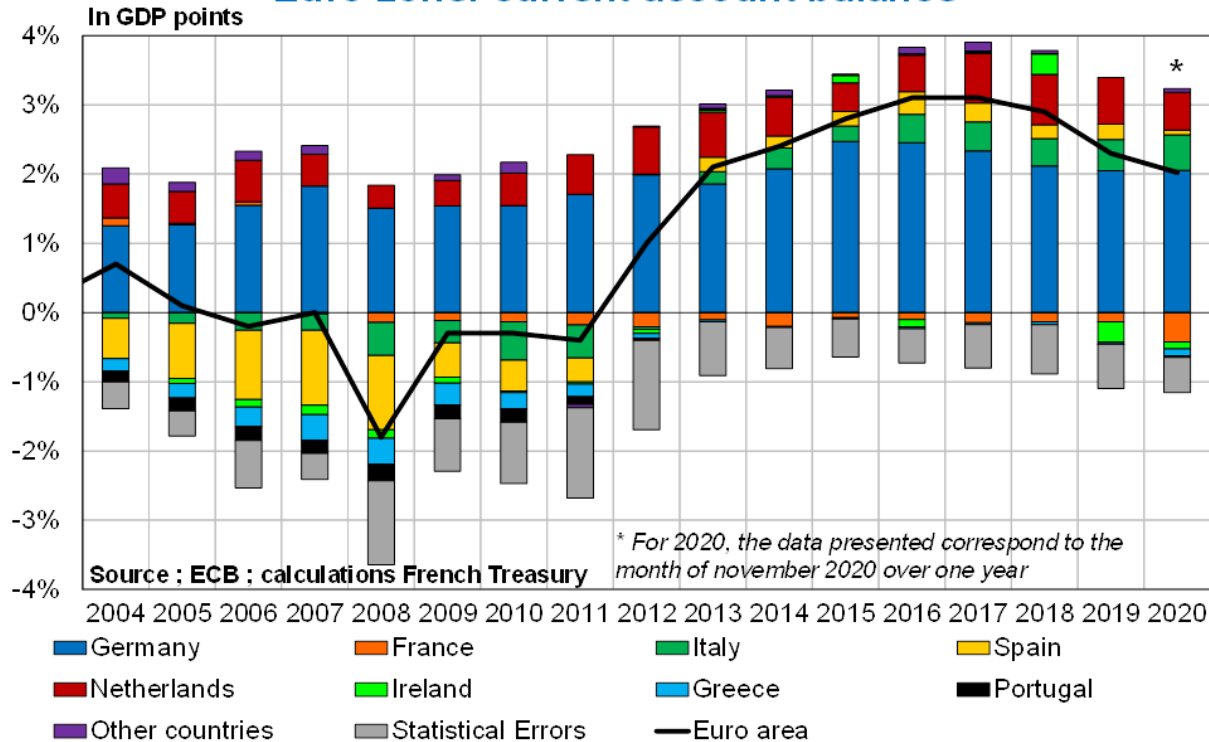
- If inflation lingers close to 0%, public debt will trend upwards despite controlled deficits
- Persistently low inflation also jeopardizes private non financial corporation deleveraging
- Inflation is a common good in the euro area.

- Fiscal input: doom loop
- Monetary input: low interest rates feeding asset prices
- Price input: debt overhang
- Bank input: NPLs triggering credit crunch

Finding the right balance based on monetary, fiscal, micro- and macro-prudential policies

→ Reforming the MIP should be given the priority in the review of 2pack-6pack

Euro zone: current account balance



- Individual contributions to the common goods: growth, inflation, financial stability.
- Identifying the horizons: structural policies (e.g. labour market reform) vs policies at the margin (e.g. min. wage)
- Triple responsibility of fiscal policy: aggregate demand, investment, debt.