Welcome to the 4th edition

of the

ERMEES Macroeconomics Workshop

The European Economy in the Time of COVID-19: Towards a New Dawn?

Making European Society | MAKErS

The Interdisciplinary thematic institutes of the University of Strasbourg & cnrs & Inserm funded under the Excellence Initiative program

BETA Bureau d'économie théorique et appliquée UMR 7522

Unistra ermees Equipe de Recherche en Macro-Economie Européenne de Strasbourg

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Programme Workshop

Collège Doctoral Européen[1]

8h30-9h – Welcome coffee

9h - Welcome speech
Jamel Saadaoui (Strasbourg University – BETA (France))

9h15 – 10h15 - Plenary session I – Keynote speaker : Xavier DEBRUN
Amphithéâtre, Ground floor

10h15-10h30 - Coffee break

10h30 – 12h - Parallel session I
(1) Fiscal Rules
(2) Monetary Policy
(3) Financial Markets

12h-13h30 – Lunch break

13h30– 15h - Parallel session II
(1) Debt Sustainability
(2) Fiscal Policy
(3) Economic growth and convergence

15h-15h15 - Coffee break

15h15– 16h45 - Parallel session III
(1) Fiscal Policy
(2) International Money and Finance

16h45-17h – Break

17h-18h - Plenary session II - Keynote speaker: Jérôme CREEL
Amphitheater, Ground floor

18h-18h15 Closing speech and information about special issue
Jamel Saadaoui (Strasbourg University – BETA (France))

19h30 Dîner au Bon Vivant [2]: https://www.aubonvivant.eu

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[1] 46 Boulevard de la Victoire, 67000 Strasbourg, tram station OBSERVATOIRE
[2] 4 Pl. du Marché-aux-Cochons-de-Lait, 67000 Strasbourg

ERMEES Team

Amélie BARBIER-GAUCHARD
Senior Lecturer

Thierry BETTI
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Meixing DAI
Senior Lecturer

Francesco DE PALMA
Senior Lecturer

Pierre LESUISSE
PhD – Assistant lecturer

Samuel LIGONNIERE
Senior Lecturer

Jérémy RASTOUIL
Senior Lecturer

Jamel SAADAOUI
Senior Lecturer

Moïse SIDIROPOULOS
Professor

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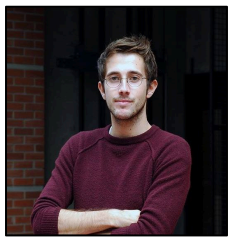
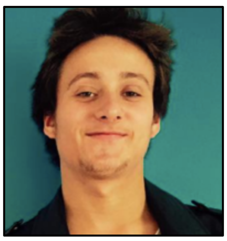
PhD candidate



Benoit DICHARRY
PhD – Research Fellow



Antoine EBELING
PhD candidate

Théo METZ
PhD candidate

Agathe SIMON
PhD candidate

Yann THOMMEN
PhD – Research Fellow

Emilien VERON
PhD candidate

About us

Created in November 2013, ERMEES (Strasbourg European Macroeconomics Research Team) is the result of an effort bringing together macroeconomists working on European matters within the BETA laboratory (CNRS – UMR 7522). Constituted of experts specialized in European monetary, financial and fiscal issues, ERMEES also intends to contribute to these topics in the public debate.

Keynote Speakers

Xavier DEBRUN – *National Bank of Belgium – European Fiscal Board*

Xavier Debrun is an economic advisor at the National Bank of Belgium and a Member of the European Fiscal Board. He worked in the Research and Fiscal Affairs Departments of the International Monetary Fund for two decades. His interests include international economic cooperation, the macroeconomics of public policy, political economics, and public finance. He published extensively in professional journals, conference volumes, and IMF flagship reports.

Jérôme CREEL - *OFCE, Sciences Po – ESCP Business school*

Jérôme Creel is Director of the Research Department at Observatoire français des conjonctures économiques (Sciences Po, OFCE). He is also associate professor of economics at ESCP Business School.

His areas of research include Macroeconomics, economic policy, European economy, financial stability
.

List of Participants

AFONSO	Antonio	University of Lisbon (Portugal)
ALVES	José	University of Lisbon (Portugal)
BOKEMEIER	Bettina	Department of Business Administration and Economics, Bielefeld University (Germany)
BORSATO	Andrea	University of Strasbourg, BETA (France)
CHLETSOS	Michael	University of Piraeus, Department of Economics (Greece)
CLAEYS	Peter	Vrije Universiteit Brussel (Belgium)
D'ANDREA	Sara	Department of Economics and Law, Sapienza University of Rome (Italy)
FAJEAU	Maxime	University of Lille (France)
KARAPANAGIOTIS	Pantelis	Goethe University Frankfurt (Germany)
LUCAS COLE	Alexandre	Parliamentary Budget Office, Rome (Italy)
LEPERS	Etienne	City, University of London & OECD (United Kingdom)
MARSI	Antonio	University of Bologna (Italy)
MINEA	Alexandru	Carleton University and University Clermont Auvergne (France
OUERK	Salima	National Bank of Belgium (Belgium)
PARAMAGURU	Kanya	Brunel University London (Uniterd Kingdom)
SOONS	Oscar	University of Amsterdam and Tinbergen Institute (Netherland)
STOIAN	Andreea	Faculty of Finance and Banking, Bucharest University of Economic Studies (Romania)
TKACEVS	Oleg	Bank of Latvia (Latvia)
TRAFICANTE	Guido	Università Europea di Roma (Italy)
VAN RIET	Ad	United Nations University Institute on Comparative Regional Integration Studies (UNU-CRIS) (Belgium)
VINTURIS	Cezara	CERDI, University Clermont Auvergne (France)`
ZLOBINS	Andrejs	Bank of Latvia (Latvia)

Scientific Committee

BARBIER-GAUCHARD	Amélie	University of Strasbourg (France)
BENNANI	Hamza	University Paris Nanterre, EconomiX (France)
BETTI	Thierry	University of Strasbourg (France)
COUHARDE	Cécile	University Paris Nanterre, EconomiX (France)
DAI	Meixing	University of Strasbourg (France)
DAMETTE	Olivier	University of Lorraine, BETA (France)
DE PALMA	Francesco	University of Strasbourg (France)
FARVAQUE	Etienne	University of Lille, LEM (France)
LIGONNIERE	Samuel	University of Strasbourg (France)
MATHONNAT	Clément	University of Lorraine, BETA (France)
SAADAOUI	Jamel	University of Strasbourg (France)
SIDIROPOULOS	Moïse	University of Strasbourg (France)
THOMMEN	Yann	University of Strasbourg (France)
TRABELSI	Jamel	University of Strasbourg (France)
VAN AARLE	Bas	KU Leuven, Leuven Institute for Irish Studies (Belgium)
VOGEL	Lucas	European Commission (Belgium)

Local Organization Committee

BARBIER-GAUCHARD	Amélie	Strasbourg University – BETA (France)
BARET	Kéa	Strasbourg University – BETA (France)
BETTI	Thierry	Strasbourg University – BETA (France)
DAI	Meixing	Strasbourg University – BETA (France)
DE PALMA	Francesco	Strasbourg University – BETA (France)
DICHARRY	Benoit	Strasbourg University – BETA (France)
EBELING	Antoine	Strasbourg University – BETA (France)
LESUISSE	Pierre	Strasbourg University – BETA (France)
LIGONNIERE	Samuel	Strasbourg University – BETA (France)
RASTOUIL	Jérémy	Strasbourg University – BETA (France)
SAADAOUI	Jamel	Strasbourg University – BETA (France)
SIDIROPOULOS	Moïse	Strasbourg University – BETA (France)
SIMON	Agathe	Strasbourg University – BETA (France)
THOMMEN	Yann	Strasbourg University – BETA (France)
TRABELSI	Jamel	Strasbourg University – BETA (France)
VERON	Emilien	Strasbourg University – BETA (France)

Detailed Program

8h30-9h – Welcome coffee

9h - Welcome speech
Jamel Saadaoui (Strasbourg University – BETA (France))

9h15 – 10h15 - Plenary session I – Keynote speaker : Xavier DEBRUN
Amphithéâtre, Ground floor,
Participer à la réunion Zoom Workshop ERMEES (Amphithéâtre) :
https://us02web.zoom.us/j/88492150612?pwd=OXBTRWVJYVJpdjRwT0kvbWJ6NzBEdz09
Xavier Debrun (National Bank of Belgium (Belgium)), *Recovery, price stability and debt sustainability: ménage à trois or trilemma ?*

10h15-10h30 - Coffee break

10h30 – 12h - Parallel session I
(1) Fiscal Rules

Amphithéâtre, Ground floor,
Participer à la réunion Zoom Workshop ERMEES (Amphithéâtre) :
https://us02web.zoom.us/j/88492150612?pwd=OXBTRWVJYVJpdjRwT0kvbWJ6NzBEdz09
Chairman: Meixing Dai (Strasbourg University – BETA (France))

- ID: 15 Oleg Tkacevs *(Bank of Latvia (Latvia)) Choosing the European Fiscal Rule* (Referee : Kéa Baret)
- ID: 20 Peter Claeys *(Vrije Universiteit Brussel (Belgium)) Endogenous Fiscal Policy Rules* ***(Online)*** (Referee : Oleg Tkacevs)
- ID:35 Kea Baret *(Strasbourg University – BETA (France)) Fiscal rules compliance and social welfare* (Referee : Peter Claeys)

(2) Monetary Policy
Salle de visioconférence, Ground flour,
Participer à la réunion Zoom Workshop ERMEES (Salle de visioconférence) :
https://us02web.zoom.us/j/88650299226?pwd=TDM2cTM1b2FrMVVzcEUyMmtwVnc1UT09
Chairman: Moïse Sidiropoulos (Strasbourg University – BETA (France))

- ID: 10 Pierre Lesuisse (Strasbourg University – BETA (France)) *Inflation and Unemployment, New Insights During The EMU Accession* (Referee : Salima Ouerk)
- ID: 40 Salima Ouerk *(National Bank of Belgium (Belgium)) ECB Unconventional Monetary Policy, Volatile Bank Flows and Turbulence in Emerging Market Economies* (Referee : Antonio Marsi)
- ID: 7 Antonio Marsi *(University of Bologna (Italy)) Unconventional monetary policy in the Euro Area : a tale of three shocks* (Referee : Pierre Lesuisse)

(3) Financial Markets
Salle de séminaire, First floor
Chairman: Samuel Ligonnière (Strasbourg University – BETA (France))

- ID: 34 Maxime Fajeau *(University of Lille (France)) The Interplay of Public & Private Debts* (Referee : Andrejs Zlobins)

- ID: 33 Pantelis Karapanagiotis (Goethe University Frankfurt (Germany)) *Small and Vulnerable ? Financial Constraints during Economic Crises* (Referee : Maxime Fajeau*)*
- ID: 14 Andrejs Zlobins *(Bank of Latvia (Latvia)) ECBS's Asset Purchases : Five Years of Experience* (Referee : Pantelis Karapanagiotis)

12h-13h30 – Lunch break

13h30– 15h - Parallel session II
(1) Debt Sustainability
Amphithéâtre, Ground floor,
Participer à la réunion Zoom Workshop ERMEES (Amphithéâtre) :
https://us02web.zoom.us/j/88492150612?pwd=OXBTRWVJYVJpdjRwT0kvbWJ6NzBEdz09
Chairman: Jamel Saadaoui (Strasbourg University – BETA (France))

- ID: 39 Bas van Aarle (KU Leuven, Leuven Institute for Irish Studies (Belgium)) *Social Polarization and Implications for Debt Stabilization* (Referee : José Alves)
- ID: 26 Bettina Bokemeier *(Department of Business Administration and Economics, Bielefeld University (Germany)) Assessing non-linearities and heterogeneity in debt sustainability analysis : A panel spline approach* **(Online)** (Referee : Bas van Aarle)
- ID: 25 José Alves *(University of Lisbon (Portugal)) (Non-)Keynesian Effects of Fiscal Austerity : New Evidence from a large sample* (Referee : Bettina Bokemeier)

(2) Fiscal Policy
Salle de visioconférence, Ground flour,
Participer à la réunion Zoom Workshop ERMEES (Salle de visioconférence) :
https://us02web.zoom.us/j/88650299226?pwd=TDM2cTM1b2FrMVVzcEUyMmtwVnc1UT09
Chairman: Pierre Lesuisse (Strasbourg University – BETA (France))

- ID: 9 António Afonso (University of Lisbon (Portugal)) *Do Financial Markets Reward Government Spending Efficiency ?* (Referee : *Andreea Stoian)*
- *ID:30 Andreea Stoian (Faculty of Finance and Banking, Bucharest University of Economic Studies (Romania)) Heterogeneity in the Fiscal Reaction Function: An Empirical Analysis for EU Member States* **(Online)** (Referee : Cezara Vinturis)
- ID: 38 Cezara Vinturis *(University Clermont Auvergne (France)) One size really does not fit all : Fiscal rules and institutional quality in the EU* (Referee : António Afonso)

(3) Economic growth and convergence
Salle de séminaire, First floor
Chairman: Jamel Trabelsi (Strasbourg University – BETA (France))

- ID: 13 Michael Chletsos *(University of Piraeus, Department of Economics (Greece)) COVID-19 : Lockdown stringency and individuals' search behavior* (Referee : Sara D'Andrea)
- ID: 22 Sara D'Andrea *(Department of Economics and Law, Sapienza University of Rome (Italy)) Are There Any Robust Determinants of Growth in Europe ? A Bayesian Model Averaging Approach* (Referee : Kanya Gowthami Paramaguru)
- ID: 6 Kanya Gowthami Paramaguru *(Brunel University London (United Kingdom)) Measuring International Convergence in Demand-Side Persistence* (Referee : Michael Chletsos)

15h-15h15 - Coffee break
15h15– 16h45 - Parallel session III
(1) Fiscal Policy
Amphithéâtre, Ground floor,
Participer à la réunion Zoom Workshop ERMEES (Amphithéâtre) :
https://us02web.zoom.us/j/88492150612?pwd=OXBTRWVJYVJpdjRwT0kvbWJ6NzBEdz09

Chairman: Thierry Betti (Strasbourg University – BETA (France))

- ID: 21 Alexandre Lucas Cole *(Università Europea di Roma (Italy)) Government Debt Deleveraging in the EMU* (Referee : Ad van Riet)
- ID: 11 Ad van Riet (United Nations University Institute on Comparative Regional Integration Studies (UNU-CRIS) (Belgium)) *The European Monetary Union after Covid-19 : Towards Fiscal Integration Aligned with Monetary Policy* (Referee : Oscar Soons)
- ID: 16 Oscar Soons (University of Amsterdam and Tinbergen Institute (Netherland)) *The Safety Demand View of Fiscal Policy in a Monetary Union* (Referee : Alexandre Lucas Cole)

(2) International Money and Finance
Salle de visioconférence, Ground flour,
Participer à la réunion Zoom Workshop ERMEES (Salle de visioconférence) :
https://us02web.zoom.us/j/88650299226?pwd=TDM2cTM1b2FrMVVzcEUyMmtwVnc1UT09
Chairman: Jérémy Rastouil (Strasbourg University – BETA (France))

- ID: 8 Andrea Borsato *(Strasbourg University – BETA (France)) An Agent-based Model for Secular Stagnation in the USA : Theory and Empirical Evidence* (Referee : Alexandru Minea)
- ID: 37 Alexandru Minea *(Carleton University and University Clermont Auvergne (France)) On the Redistributive Effects of Monetary Policy : Inflation Targeting Adoption and Income Inequality* (Referee : Etienne Lepers)
- ID: 17 Etienne Lepers *(City, University of London & OECD (United Kingdom)) Extreme Capital Flow Episodes from the Global Financial Crisis to COVID-19 : An Exploration with Monthly Data* (Referee : Andrea Borsato)

16h45-17h – Break

17h-18h - Plenary session II - Keynote speaker: Jérôme CREEL
Amphithéâtre, Ground floor,
Participer à la réunion Zoom Workshop ERMEES (Amphithéâtre) :
https://us02web.zoom.us/j/88492150612?pwd=OXBTRWVJYVJpdjRwT0kvbWJ6NzBEdz09
Keynote Speaker: Jérôme Creel (Sciences Po, OFCE & ESCP Europe (France)), *The European Fiscal Framework: an overview of reform proposals*

18h-18h15 Closing speech and information about special issue
Jamel Saadaoui (Strasbourg University – BETA (France))

PARALLEL SESSION I : (1) Fiscal Rule

Oleg Tkacevs, Choosing the European Fiscal Rule

Contributing to ongoing discussions at the European Union level about the potential simplication of its fiscal framework, we evaluate the economic and public finance stabilization properties of two benchmark fiscal rules, structural balance rule and expenditure growth rule using a New Keynesian small open economy model. If these fiscal rules are implemented one at a time, having just an expenditure growth rule tends to yield more stable macroeconomic outcomes, but more volatile public finances, as compared to having only a structural balance rule. Much of the quantitative differences in relative volatilities can be accounted for by the modifcations of the public expenditure definition in the expenditure growth rule, in particular the removal of debt service payments. Accounting for debt service payments in fiscal rules strengthens monetary-fiscal policy interaction but it may turn vicious to macroeconomic stability at business cycle frequencies. Strong-enough debt correction for either fiscal rule contains public debt volatility at little expense to macroeconomic stability in the long run. The households' welfare gain from having the expenditure growth rule instead of the structural balance rule is 4% for a small country in a monetary union and 5% for a country with sovereign monetary policy.

Keywords: *Fiscal policy, DSGE, Small open economy, fiscal-monetary policy interaction.*

Peter Claeys, Endogenous Fiscal Policy Rules

The 2008–2009 financial crisis has shaken the beliefs about how macroeconomic policy should be conducted. Central banks in G7 countries shifted to unconventional policy measures in the aftermath of the Financial Crisis, when faced with economic slack, financial instability and fiscal trouble. Governments were swift in saving the banking system, and the economy as a whole, from collapse. This shift ended a spell of rules-based time consistent policy that started in the mid-1980s in many industrialised economies. Changes in policy regimes occur in response to economic or political events. These changes are often modelled by estimating the respective policy rules with Markov Switching (MS) techniques. One important pitfall in these estimations is the endogeneity of explanatory variables. When the explanatory variables are endogenous, MS estimates are inconsistent. We account for this endogeneity with a novel MS test of a fiscal rule. Results show that the stable mix of policies during the Great Moderation has given way to a mix of 'passive' monetary and 'active' fiscal policies since the mid 2000s.

Keywords: *Fiscal regimes, Markov Switching, endogenous variables, IV*

Kea Baret, Fiscal rules compliance and social welfare

This paper studies the side-effects of fiscal rules compliance on the economy and social welfare. It considers Budget Balance Rules' (BBR) compliance effects on maroeconomic indicators and social welfare proxy indicators in sixteen countries between 2004 and 2015. Instead of fiscal rules strength or fiscal rules presence effectiveness, we focus on fiscal rules compliance to assess the impact of governments behavior on the social area. The paper shows that governments go beyond the expected trade-off between BBR's compliance and GDP Growth by operating a reallocation of their spending. Such choices in public expense lead to an increase in social inequalities highlighted that governments finally face a trade-off between fiscal rules' compliance and social objectives. The analysis constitutes the first use of double/debiased machine learning for treatment recently developed by Chernozhukov et al. [2018] applied to fiscal discipline issues. Through this method we are able to highlight key determinants for BBR's compliance and assess the compliance's effect on different macroeconomic and social indicators. We take care of Voter Preferences by computing a new proxy though Latent Factor Analysis Approach, and show that Voter prefenreces appear as a key variable for BBR's compliance, giving an empirical proof that Wyplosz [2012]'s bias matters.

Keywords: *Fiscal Rules compliance; social welfare; Fiscal Surveillance; Machine learning*

PARALLEL SESSION I : (1) Monetary Policy

Pierre Lesuisse , Inflation and Unemployment, New Insights During The EMU Accession

In the process of EU integration, toward the EA accession, we try to understand, how changes in exchange rate regime, attributed to the switch through the ERM-II and to the EA accession, influence the dynamic between inflation and unemployment, that is, shock on the Phillips curve coefficient. We look at a panel of countries, in the CEECs over the last twenty years, using a recent work from McLeay and Tenreyro (2020), to clarify the impact of loosing the monetary autonomy. Being under a pegged regime is not asso- ciated with a flattened Phillips curve. However, after the EA accession, the Phillips curve coefficient becomes not significant. This result is confirmed, looking at other small EA countries; while "economic leaders" tend to maintain a significant trade-off between inflation and unemployment, inside the EA.

Keywords: *Phillips curve; European Monetary Union; Panel*

Salima Ouerk, Volatile Bank Flows and Turbulence in Emerging Market Economies

This paper intends to analyze whether European central bank (ECB) unconventional monetary policy shocks contribute to the emergence of the global financial cycle. Using a large scale global VAR models, I assess the possible effects of the ECB's unconventional monetary policy (UMP) on financial and macroeconomic conditions in emerging markets and documents the channels through which the potential spillovers occur, focusing on crossborder banking flows. The results are that the ECB's UMP influences the decisions made in the Euro Area (EA) banking system which leads to an increase of banking outflows. In turn, the rise of inflows into Emerging Market Economies (EMEs) results in a significant response of financial variables which proves that ECB's UMP is a driver of the financial conditions of EMEs. While these results represent general trends, there is evidence for cross-regions heterogeneity. Moreover, the findings suggest that the monetary authorities of EMEs react to UMP independently from their exchange rate regime.

***Keywords** unconventional monetary policy spillovers, shadow short rate, international banking flows, global financial cycle, global Var*

Antonio Marsi , Unconventional monetary policy in the Euro Area : a tale of three shocks

High-frequency (HF) surprises of relevant asset prices around central bank meetings are extensively employed in the literature to identify the effects of conventional/unconventional monetary policy. This identification strategy assumes that these surprises reflect either a single unconventional 'monetary shock' or, as recently suggested, jointly an unconventional monetary shock and a central bank 'information shock'. In this paper we show that monetary policy in the euro area after 2008 is best characterized by three shocks, not two. Besides the unconventional monetary shock and the information shock, we consider a third shock resulting from the ECB directly managing fragmentation risk in the sovereign bond market. We call this additional shock 'spread shock', and show that it permits to solve a puzzle we observe in HF comovement of long term risk free rates and sovereign spreads around press conferences. We identify the dynamic causal effects produced by the three shocks through a proxy-SVAR methodology which, using HF surprises of the euro area risk-free yield curve, stock prices and sovereign spreads, combines sign-restrictions with narrative restrictions and then extracts external variables (instruments) from an admissible identification set. Empirical results, obtained through a daily proxy-SVAR and Local Projections based on monthly data, reveal that the spread shock represents an important ingredient of the transmission mechanism of the monetary policy after the Global Financial Crisis. It reflects ECB's attempt to offset self-fulling expectations of default in the euro area sovereign debt markets and behaves as a complement, not a substitute of the information shock

.

***Keywords**: European Central Bank, Monetary Policy Shock, Proxy-SVAR, Spread Shock*

PARALLEL SESSION I : (3) Financial Market

Maxime Fajeau, The Interplay of Public & Private Debts

Private credit and public debt levels are drifting to uncharted waters. Are such high levels concerning? This paper suggests bridging private and public borrowing to study their interaction on various horizons. This investigation builds on disaggregated data on debt recipients covering 1970-2018. Overall, this paper demonstrates that the separate narratives regarding private credit and public debt with output growth conceal meaningful and substantial interactions. In particular, evidence shows that the accumulation of private-sector liabilities during the preceding expansion triggers financial distress and delays the recovery. An initially high level of public debt then compounds the aftereffect of a prior private credit surge. The additional financial structure analysis stresses that these interactions carry out beyond the business cycle horizon, with a long-lasting effect. This study also emphasizes that more than the level of public debt, it is rather its trajectory that affects economic growth. Public debt tends to be a drag on growth if policymakers are unable to pursue a counter-cyclical fiscal policy in the aftermath of a crisis.

Keywords *: Public Debt, Private Credit, Growth, Business Cycles, Panel Data*

Pantelis Karapanagiotis, Small and Vulnerable ? Financial Constraints during Economic Crises

This study investigates how financing conditions were affected during the 2009 financial crisis using German firms' financial statement data gathered for regulatory purposes. Policies addressing financing difficulties often presume a higher vulnerability of small firms based on various proxies of financial constraints that use size as one key constituent. In contrast, our analysis is based on structural estimations of financial constraints that disentangle it from size, which allows us to study the relativistic effects between small and large firms. We show that the worsening of financing conditions during the crisis did not depend on a firm's size. Instead, it was the unavailability of financing alternatives, the limited capacity in providing collateral, and the operational risk that intensified financial constraints. Our results suggest that policies that address these underlying causes of vulnerability during financial contractions instead of in general enhancing accessto funding for SMEs are potentially more efficient.

Keywords*: financial constraints, disequilibrium, SME borrowing, firm-level data*

Andrejs Zlobins, ECBS's Asset Purchases : Five Years of Experience

This paper (re-)evaluates the effectiveness of central bank asset purchases in the euro area given their prominent role in ECB's response to the pandemic as well as the evidence from the US suggesting diminishing returns of this policy measure over time. We analyse their macroeconomic impact in the euro area using a time-varying parameter structural vector autoregression with stochastic volatility and perform identification via sign and zero restrictions of Arias et al. (2018), their fusion with high frequency information approach akin to Jarocı̆nski and Karadi (2020) and a novel method which merges high frequency identification with narrative sign restrictions of Antolin-Diaz and Rubio-Ramirez (2018). We find that the potency of ECB's asset purchases to lift inflation has indeed considerably declined over time with several factors contributing to a more muted response of prices to central bank asset purchases. Our results show that the reanchoring channel is no longer active while the counterproductive effects via the mechanism outlined in the Boehl et al.(2020), which we dub the capacity utilization channel, have emergedlately and are further complemented with disinflationary effects stemming from the cost channel. Also the effects passed through more standard transmission channels of central bank asset purchases like portfolio rebalancing and signalling, while still significant, appear to be less persistent recently. Overall, our findings point to a diminishing returns of ECB's asset purchases to stabilize inflation and its expectations in the euro area.

Keywords *Quantitative easing, central bank asset purchases, monetary policy, euro area, nonlinearities*

PARALLEL SESSION II: (1) Debt Sustainability

Bas van Aarle, Polarization and Implications for Debt Stabilization

Social and political polarization have been an increasing feature in many societies recently. This paper analyzes the effect of social polarization on debt, deficit and inflation stabilization using a theoretical framework inspired inparticular by the analyses of Tabellini (1986) and Woo (2005). We analyze the analytical properties of the theoretical model and use numerical analysis to study its relevant policy implications.

Keywords *debt stabilization, social polarization, non-linear dynamical systems, risk premium, economic dynamics*

Bettina Bokemeier, Assessing non-linearities and heterogeneity in debt substainability

This paper empirically studies public debt sustainability with the penalized panel splines approach for 25 EU economies from 2000 to 2019 by estimating the response of the primary surplus to lagged debt relative to GDP, respectively. A positive coefficient on average indicates sustainable policies, which is supported by all our results. Moreover, we show that this relationship is not homogeneous across the distribution of the debt ratios, but, varies with the magnitude of public debt to GDP. The estimations reveal a strongly increasing reaction for small and high debt ratios while it is rather flat for intermediate levels. This holds for normal times, too, whereas during years of economic crises a monotonously increasing response can be observed. Additionally, for a cluster consisting of smaller EU economies, there is indication of 'fiscal fatigue', meaning that the effort of active fiscal counter-steering peters out for high ratios of public debt to GDP. The same effect can be observed for the whole sample and for a sample including the large EU economies, once Greece is removed.

Keywords*: Debt sustainability, fiscal response function, panel spline estimation*

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José Alves, (Non-)Keynesian Effects of Fiscal Austerity : New Evidence from a large sample

We assess transmission mechanisms and the macroeconomic impact of the unconventional monetary policy in the euro area. We estimate a FAVAR model and use a shadow rate to measure the stance of the monetary policy. The ECB"s unconventional monetary policy (UMP) measures adopted at the zero lower bound (ZLB) have sustained the real economy. For instance, in 2016, without unconventional monetary policy, investment would have been lower by 9%, consumption by 2% and unemployment rate higher by 0.9%. However, the impact of unconventional monetary shocks is weaker and less persistent compared to these emanating from conventional monetary policy. Furthermore, the difference in the transmission of monetary policies between countries of the euro area is more pronounced during the period 2009-2016. The zero lower bound has therefore decreased the efficiency of monetary policy and accentuated the heterogeneity of the euro area.

Keywords*: non-Keynesian effects, fiscal consolidation, filtering, consumption, investment, financial crises, panel data, endogeneity*

PARALLEL SESSION II: (2) Fiscal Policy

António Afonso, Do Financial Markets Reward Government Spending Efficiency

We link governments' spending efficiency scores, to sovereign debt assessments made by financial markets´, more specifically by three rating agencies (Standard & Poors, Moody´s and Fitch). Public efficiency scores are computed via data envelopment analysis. Then, we rely notably on ordered response models to estimate the response of sovereign ratings to changes in efficiency scores. Covering 34 OECD countries over the period 2007-2018, we find that increased public spending efficiency is rewarded by financial markets via higher sovereign debt ratings. In addition, higher inflation and government indebtedness lead to sovereign rating downgrades, while higher foreign reserves contribute to rating upgrades.

Keywords *government spending efficiency, DEA, panel analysis, ordered probit (logit), sovereign ratings, rating agencies*

Andreea Stoian, Heterogeneity in the Fiscal Reaction Function: An Empirical Analysis for EU Member States

This paper studies heterogeneity in the fiscal reaction function for European Union members by resorting to the unconditional quantile regression estimation. Based on annual observations spanning from 2005 to 2018, the results point to significant asymmetries concerning the fiscal response measured in terms of the cyclically adjusted primary balance to different covariates. First, the primary deficit has a stronger reaction to debt across the lower quantile, which becomes weaker as the balance reaches a surplus. This indicates the prevalence of fiscal discipline to ensure the public finance sustainability. Moreover, the life-expectancy negatively affects the fiscal position and the response is the highest compared to other covariates, which can diminish the debt and business stabilizing response. Governments seem to run more pronounced pro-cyclical fiscal policy when the fiscal position is already deteriorated. These empirical evidences are questioning current as well as future policy design particularly against the background of the recent pandemic situation exerting supplementary social and financial burden on the countries. In addition, the level of economic development matters for the response pattern and the reaction is stronger and positive when countries face poorer fiscal positions. Also, an increase in the longterm interest rate amplifies the deterioration of fiscal balance especially when its condition is already bad. Finally, our estimations show that the fiscal position improves as an effect of educational attainment and of external position especially when the former reaches surplus.

Keywords: *Fiscal response function, Heterogeneity, Fiscal sustainability, Unconditional quantile regression.*

Cezara Vinturis, One size really does not fit all : Fiscal rules and institutional quality in the EU

Fiscal rules aim at constraining governments' discretion to encourage strongerfiscal performance. However, their effectiveness varies across countries. The nexus between fiscal policy rules and host of other institutions indeed shape fiscal behavior, possibly also through the influence of fiscal rules on fiscal policy. A natural prior is that rules nested in stronger institutional frameworks should be more effective. We explore empirically whether such complementarity exists in a panel of EU countries. While empirical interaction effects indeed seem pervasive in our sample, they are strikingly heterogeneous across member states.One clear dividing line seems to exist between countries that experienced communism (CC)and those that kept liberal democratic systems during the entire post-war era (NCC). We findthat only the latter group exhibits the expected—albeit quantitively small complementarity between rules and institutions, whereas a substitution effect emerges in the former group. In addition, CC countries with weaker institutions also tend to be subject to a stronger substitution effect, all else equal. The contrast between the two groups is robust to alternative specifications of the empirical model. Interestingly, the type of institutions affecting fiscal rules' effectiveness seems to differ between the two groups: political and economic institutions are most relevant among NCCs whereas political and social institutions matter among CCs. The nexus between fiscal rules and institutional frameworks thus seems to be more subtle than the conventional prior. These results are reminiscent of the long-standing argument that reforms are in general more likely to work when part of coherent and carefully sequenced package. Hence, any successful reform of EU fiscal governance should rely in part on national fiscal frameworks tailored to the relevant economic, political and social institutions of each member state.

***Keywords**: fiscal performance; fiscal rules; institutions; former communist countries.*

PARALLEL SESSION II: (3) Economic growth and Convergence

Michael Chletsos, COVID-19 : Lockdown stringency and individuals' search behavior

The spread of COVID-19 (Corona Virus Disease 2019) internationally is a major public health challenge. Governments around the world have taken public health protection measures to reduce this rapid spread. Their main strategy is by implementing complete (or partial) lockdowns. This document highlights the heterogeneous effects of lockdown on individuals' behavior and everyday life in response to the COVID-19 pandemic taking into consideration the number and stringency of government policies between countries. We also consider various indicators of government responses based on information on containment and closure policies, such as school closures and restrictions in movement. We find evidence that individuals' search behavior has been altered due to lockdown measures affecting their everyday life.

***Keywords**: COVID-19, Lockdown, Individuals' behavior*

Sara D'Andrea, Are There Any Robust Determinants of Growth in Europe ? A Bayesian Model Averaging Approach

Quantitative growth economists often have to deal with model uncertainty (Brock et al. [2003]) and the issue of open-endedness of theories (Brock and Durlauf [2001]). Bayesian Averaging is the best statistical tool to evaluate what variables to include in a growth regression. This work aims to investigate the robustness of the determinants of growth in Europe from 2002 to 2019. Our dataset is composed of 70 explanatory variables for 19 European countries. We compare different BMA estimates by combining 2 model priors with 5 coefficient priors and we find that no variable is robust to all our specifications. Our results support neoclassical growth theories, as the initial level of GDP per capita and savings are robust determinants of growth. Other robust determinants include the share of manufacturing in GDP, demography, public accounts, wage and labour contract regulation, and fixed capital accumulation.

Keywords *Bayesian Model Averaging, Growth Econometrics, Economic Growth, Bayesian Methods*

Kanya Gowthami Paramaguru, Measuring International Convergence in Demand-Side Persistence

This research analyses two broad questions within the context of the Optimal Currency Area (OCA) literature. The first question is whether macroeconomic symmetry amongst the economies of the EU has increased during the years 2008-2017. The second question is what economic features determine or promote macroeconomic symmetry. A novel index is developed, aimed at measuring the responsiveness of demand to a supply-side shock to help measure macroeconomic convergence within the EU. The index shows us that EU countries have exhibited an increased degree of symmetry over the decade between 2008-2017.

PARALLEL SESSION III: (1) Fiscal Policy

Alexandre Lucas Cole, Government Debt Deleveraging in the EMU

We evaluate the stabilization properties of alternative rules and instruments to reduce government debt in a Currency Union, like the EMU. In a two-country New-Keynesian DSGE model, with a debt-elastic government bond spread and incomplete international _nancial markets, we study the effects of government debt deleveraging, under alternative scenarios for fiscal policy coordination. We find that greater stabilization is achieved when the two countries coordinate by stabilizing net exports. Moreover, we find that taxes are a better instrument for deleveraging compared to government transfers. Our policy prescriptions for the Euro Area are to reduce government debt less during recessions and liquidity traps, and to do so using distortionary taxes, while concentrating on reducing international demand imbalances.

Keywords: *Sovereign Debt, International Policy Coordination, Monetary Union, New Keynesian*

Ad van Riet, The European Monetary Union after Covid-19 : Towards Fiscal Integration Aligned with Monetary Policy

Within the Economic and Monetary Union (EMU) of Europe the responsibility for the single monetary policy lies with the European Central Bank (ECB). By contrast, economic policies remain national and must therefore be coordinated to ensure the proper functioning of EMU. This paper argues that euro area governments could build on the cooperative model of Europe's economic policy response to the Covid-19 pandemic to establish a permanent EMU fiscal framework alongside monetary policy that is more similar to those that are found in other currency areas. First, they could create a central fiscal capacity to ensure a euro area economic policy stance that is consistent with the orientation of monetary policy. Second, member countries could introduce a safe sovereign asset for the eurozone in order to anchor financial integration and facilitate the implementation of monetary policy. Third, euro area governments could commit when necessary to recapitalise their National Central Bank and (indirectly) the ECB to underpin the credibility of large central bank balance-sheet operations. Taking these three steps towards fiscal integration aligned with monetary policy and in full respect of the ECB's political independence would reduce systemic risk and strengthen confidence in the euro.

Keywords: *European Economic and Monetary Union, European Central Bank, fiscal integration, macroeconomic management, safe sovereign asset, central bank capital, Covid-19*

Oscar Soons, The Safety Demand View of Fiscal Policy in a Monetary Union

I show that a common fiscal policy can benefit all member states of a monetary union, even in the absence of a risk-sharing motive, by satisfying a demand for safety. I analyse a two-country model where governments choose public spending and bond issuance to satisfy the safety demand of households. Individually, national governments supply an insufficient amount of public safety as they don't internalize that their public spending also benefits foreign households by increasing the total supply of public safety available in the monetary union. I show that a common fiscal policy funded by common debt can result in a Pareto improvement when it increases the public safety supply, both with and without fiscal transfers.

Keywords: *fiscal union; euro; safety; common fiscal policy; safe assets.*

PARALLEL SESSION III: (2) International Money and Finance

Andrea Borsato, An Agent-based Model for Secular Stagnation in the USA : Theory and Empirical Evidence

The paper extends the research started with Borsato (2020). I develop an agent-based, stock-flow consistent growth model to analyze the interplay between income distribution, innovation and productivity growth. Results still show that the mounting shrinkage of the labour share impacts negatively upon firm's innovative effort. Additionally, I question the neoclassical belief on the negative interest-elasticity of investments, since decreases in the rate of interest are not associated with increases in capital accumulation. Finally, the panel cointegration analysis based on US manufacturing industries corroborates the theoretical predictions for the period 1958−2011.

***Keywords**: Secular Stagnation, Innovation dynamics, Income distribution, Agent-based SFC models, US manufacturing industries, Panel cointegration analysis.*

Alexandru Minea, On the Redistributive Effects of Monetary Policy : Inflation Targeting Adoption and Income Inequality

Within the very recent literature that looks at the redistributive effects of monetary policy, this paper investigates the causal effect of inflation targeting adoption on income inequality. Using the entropy balancing methodology on a wide sample of 107 countries over 1980-2008, we find that the adoption of inflation targeting significantly increases income inequality. Particularly robust to the use of various alternative methods and specifications, this effect is nevertheless subject to heterogeneities related to various economic and structural variables. By suggesting that monetary policy is not neutral in terms of income inequality, our analysis supports recent proposals aiming at reshaping the monetary policy to better cope with its inequality consequences.

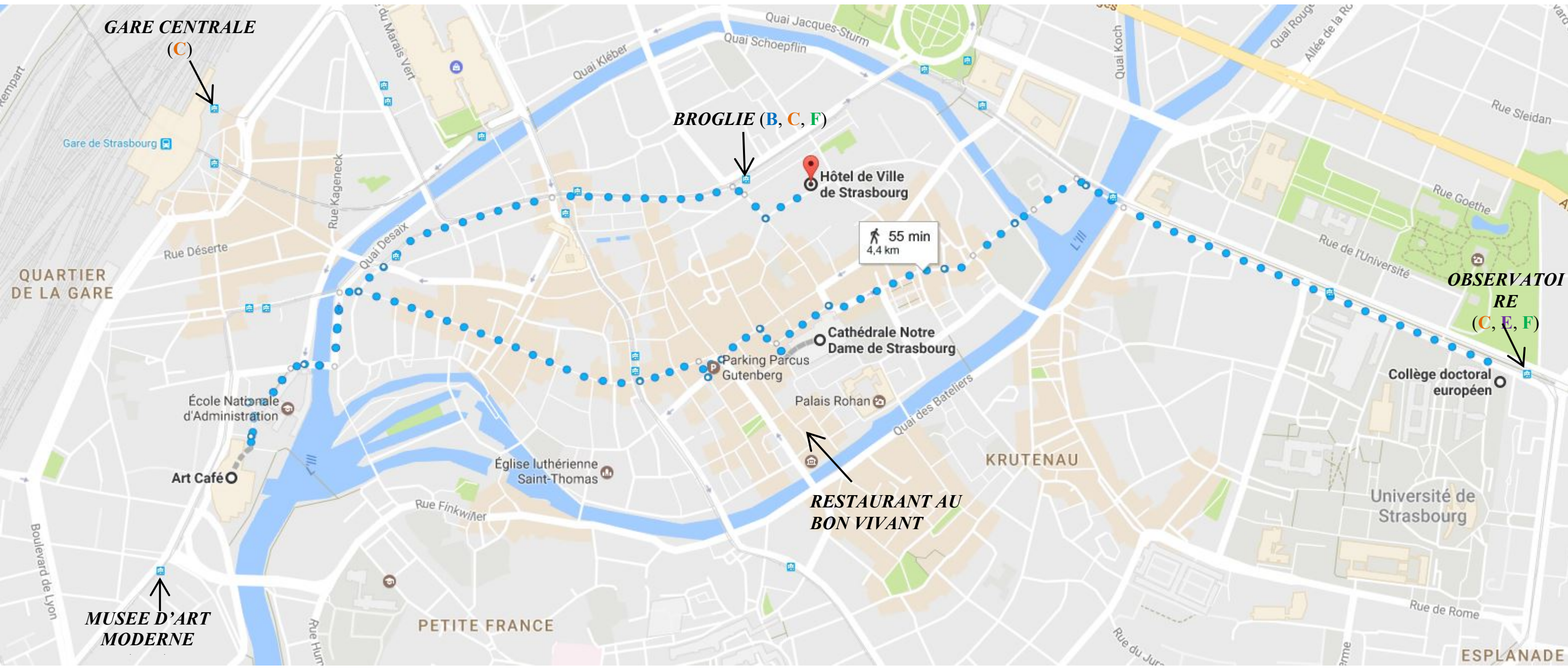
***Keywords**: Monetary policy; redistribution; inflation targeting adoption; income inequality.*

Etienne Lepers, Extreme Capital Flow Episodes from the Global Financial Crisis to COVID-19 : An Exploration with Monthly Data

The COVID-19 pandemic triggered major disruptions in international capital flows, the latest of several extreme episodes since the global financial crisis (GFC). This paper presents a new monthly dataset of gross capital flows for 41 countries, available publicly and regularly updated, that is better suited to the identification of sudden shocks than quarterly Balance of Payments data. Leveraging on this dataset, we revisit the occurrence and drivers of extreme episodes since the GFC, asking whether COVID-19 significantly changed recent findings of a weaker role of global factors. The answer is no. Rather, the COVID global shock should have predicted more sudden stops than experienced. Instead, pull factors such as pre-COVID vulnerabilities and pandemic-specific factors appear key to explaining the identified cross-country heterogeneity.

***Keywords**: capital flows, monthly data, COVID-19, extreme episode, global factors*

Practical Information



<u>Conference place</u> (27th and 28th):
***Collège Doctoral Européen (CDE),* 46 Boulevard de la Victoire, 67000 Strasbourg**
(Tram Station OBSERVATOIRE (lines **C**, **E**, **F**))
***Restaurant Au Bon Vivant :* 4 Pl. du Marché-aux-Cochons-de-Lait, 67000 Strasbourg**

The ERMEES Workshop Organizing Committee is at your disposal during the conference:
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