

Macro Roundup Article

Headline: [Fiscal R-Star: Fiscal-Monetary Tensions and Implications for Policy](#)

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Tweet: .@MA_Bolhuis notes that over the last 60 years, monetary R^* was significantly below “fiscal R^* ”, the rate required to stabilize debt as a % of GDP, but that a narrowing gap requires growth-enhancing reforms and fiscal consolidation to avoid inflation.

Summary: This paper explores tensions between active fiscal and monetary policies by introducing the concept of “fiscal r -star,” which is the real interest rate required to stabilize debt levels when the primary balance is set exogenously, output is growing at potential, and inflation is at target. An analysis of over 140 years of data from 16 advanced economies shows that larger gaps [between monetary r^* and fiscal r^*] are associated with rising debt levels, higher inflation, financial repression, lower real returns on bonds and cash, with elevated risks of future debt, inflation, currency, housing, and systemic crises. Current estimates indicate that fiscal-monetary tensions are at historic highs. Given the tepid growth outlook, growth-enhancing reforms and fiscal consolidation, among other policy adjustments, may be needed to attenuate fiscal-monetary tensions over time.

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Primary Topic: Financial Markets

Topics: Academic paper, Business Cycle, Financial Markets, Fiscal Deficits, Fiscal Policy, GDP, Weekly

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