

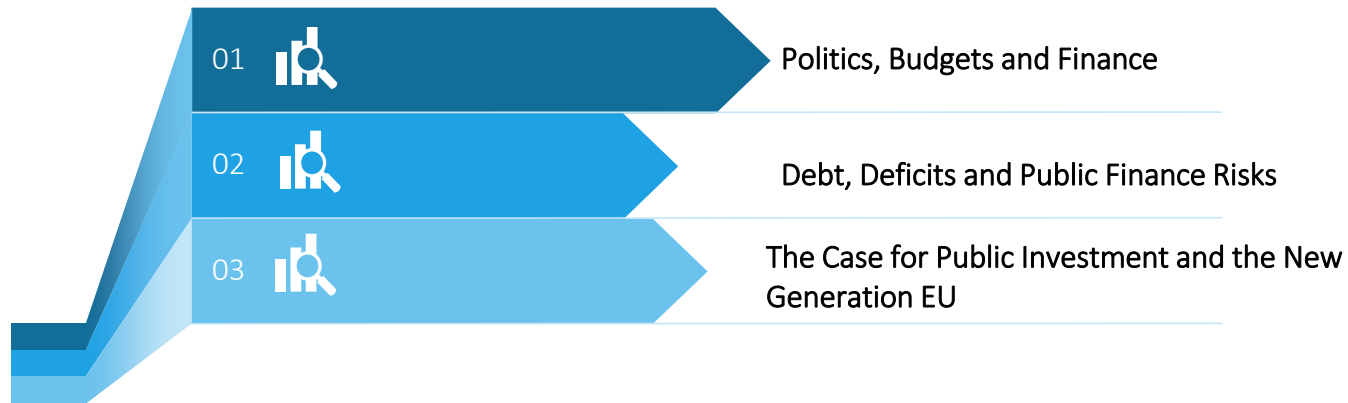
## Discussion at the ECB Forum on Central Banking

Vitor Gaspar  
Director  
Fiscal Affairs Department

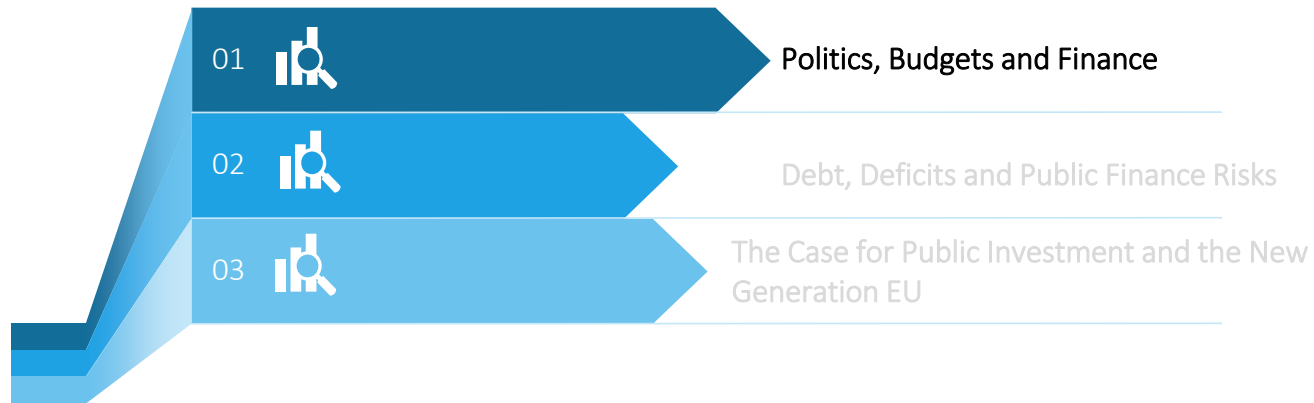
November 12, 2020



# Introduction



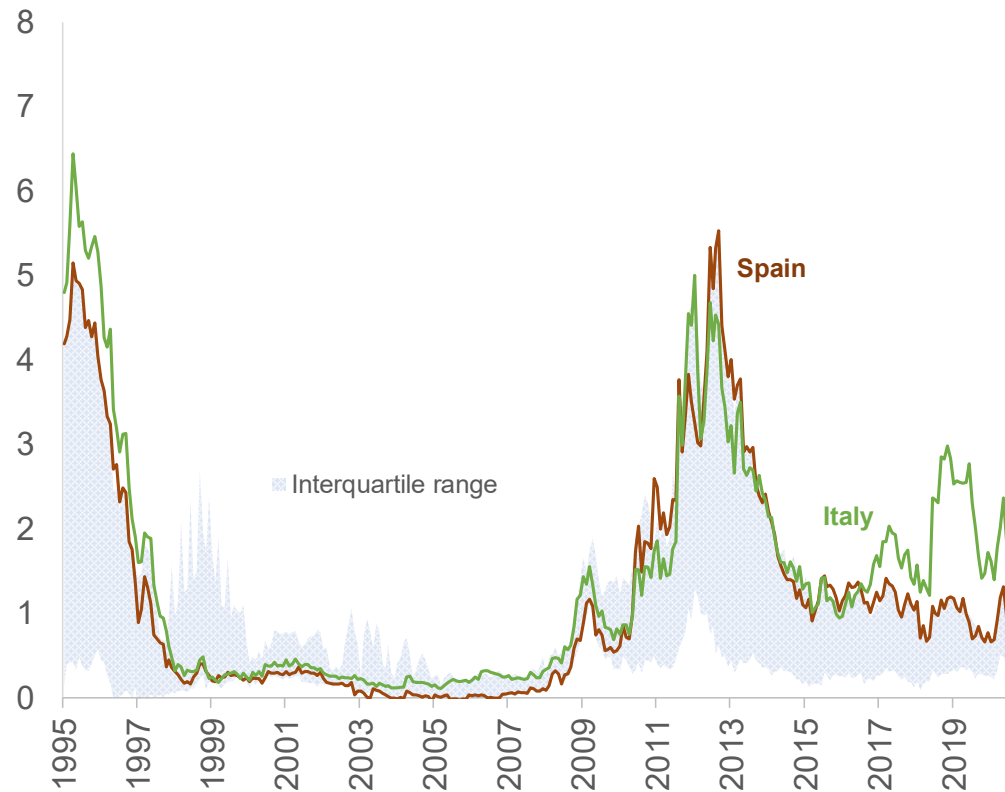
# Introduction



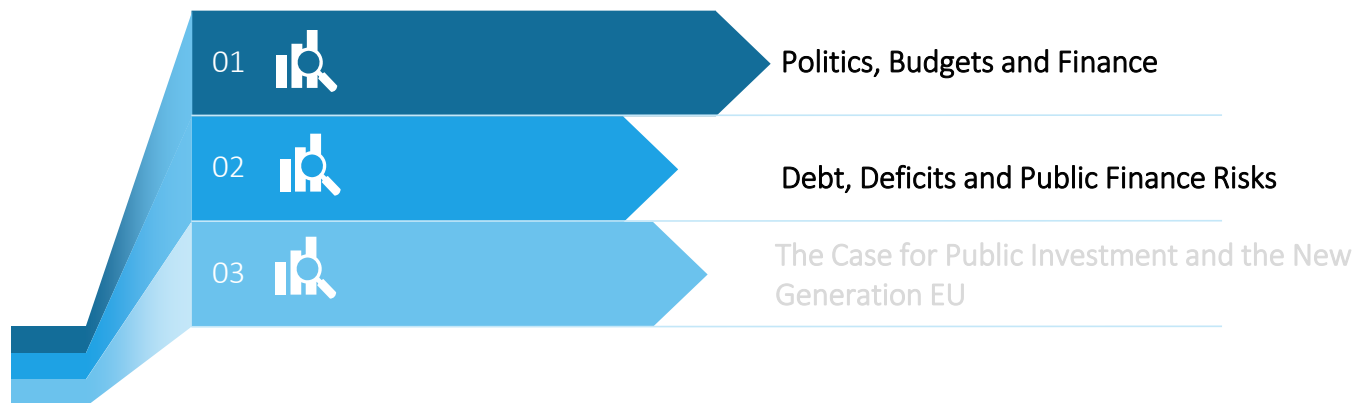


# Market forces too slow and weak, or too sudden and disruptive\*

Euro Area Spreads (10-year bonds, Jan 1995 - Oct 2020)



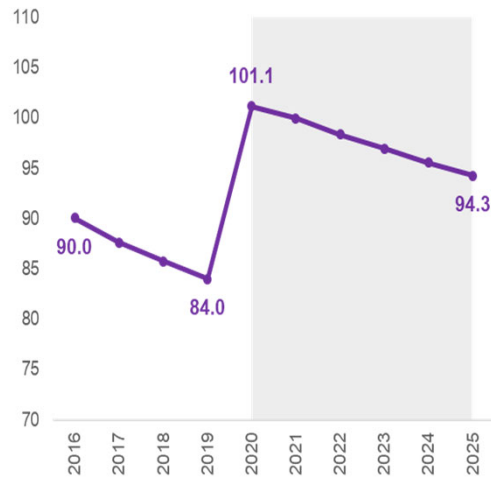
Source: Thomson Reuters Datastream, Bloomberg, Haver Analytics, Global Financial Data and International Financial Statistics  
Note: Spreads are against Germany. \* Alexandre Lamfalussy, Delors Report, April 1989



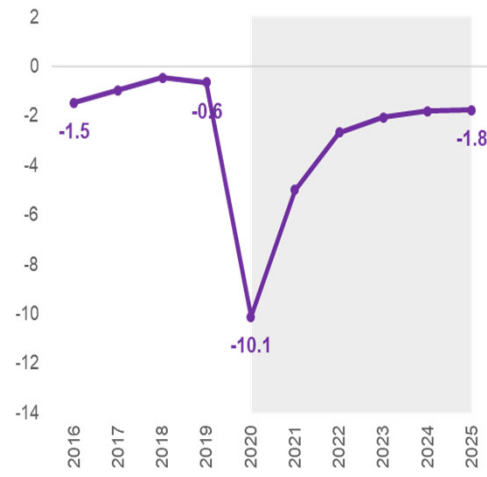
# Debt, Deficits and Public Finance Risks



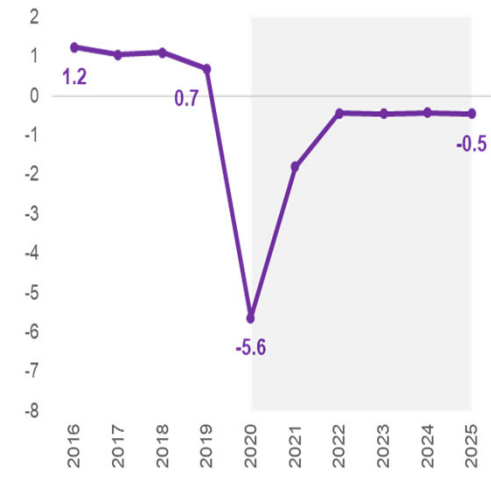
**Euro Area: Public Debt (2016-2025, percent of GDP)**



**Euro Area: Fiscal Balance (2016-2025, percent of GDP)**



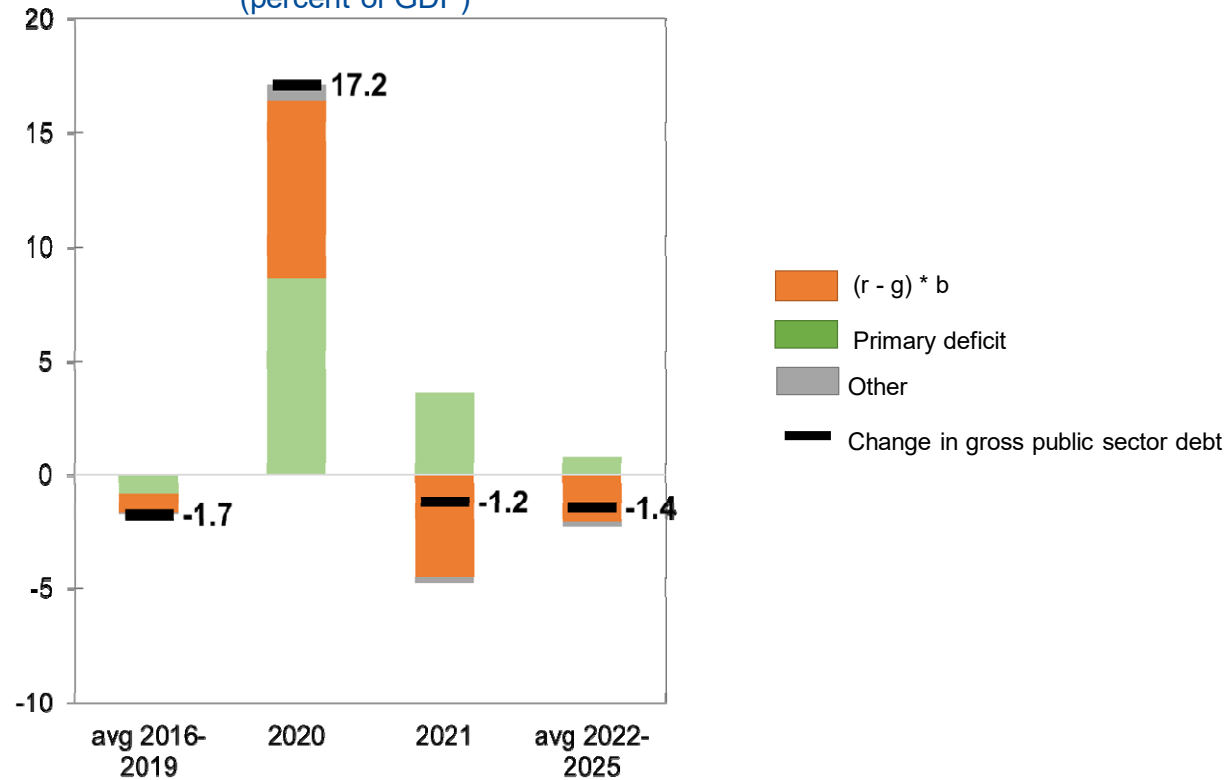
**Euro Area: Cyclical-adjusted primary balance (2016-2025, percent of GDP)**



# Debt, Deficits and Public Finance Risks



Decomposition of the Change in Euro Area Public Debt  
(percent of GDP)

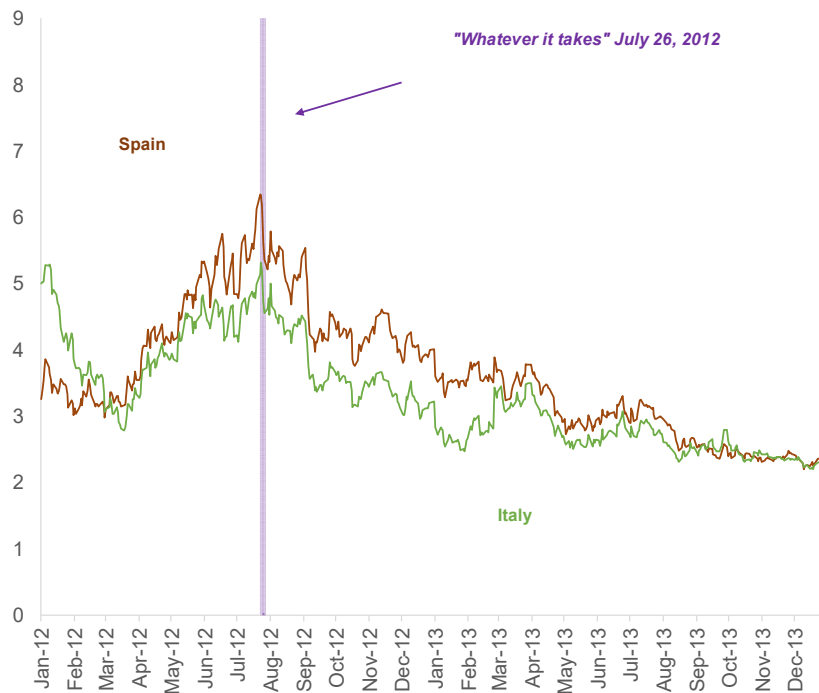


Source: IMF FM, WEO, and Staff Calculations.

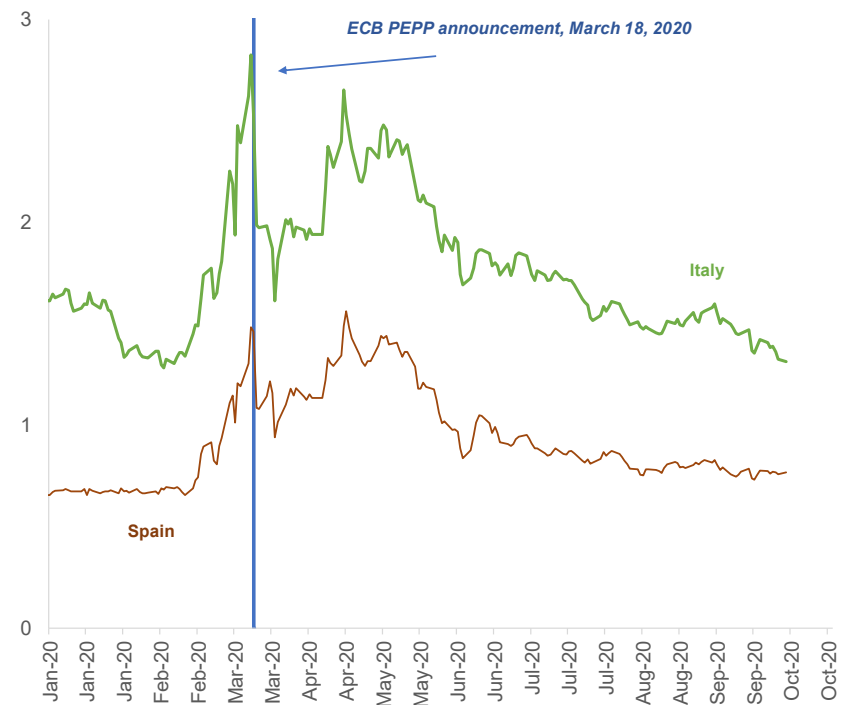
# Debt, Deficits and Public Finance Risks



*Euro Area Spreads (Ten-Year Bonds)  
Percentage points, Jan 2012-Dec 2013*



*Euro Area Spreads (Ten-Year Bonds)  
Percentage points, Jan 2020-Oct-2020*



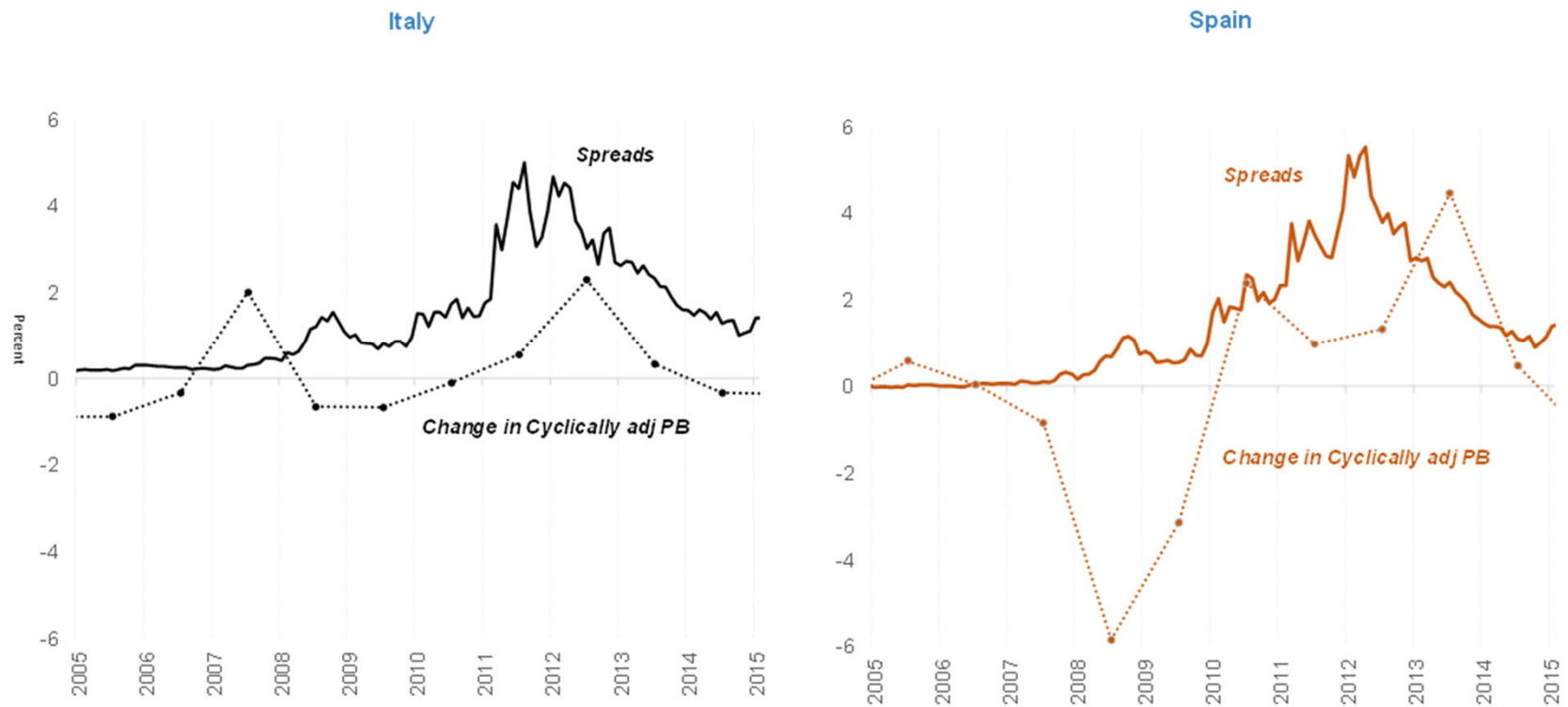
Source: Thomson Reuters Datastream, Bloomberg, Haver Analytics, Global Financial Data and International Financial Statistics.  
Note: Spreads are against Germany.



# Debt, Deficits and Public Finance Risks

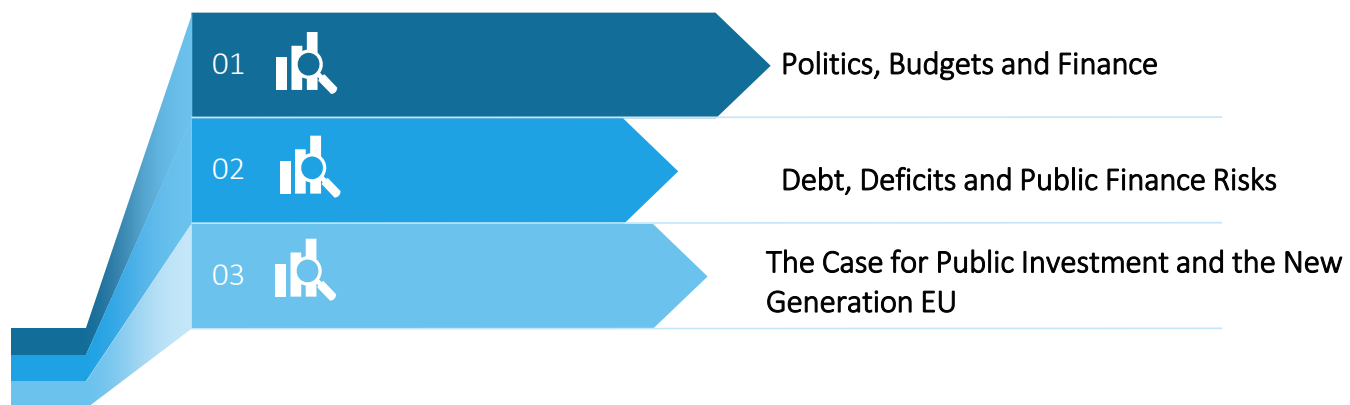


### Fiscal Stance and 10-year Bond Spreads



Source: Thomson Reuters Datastream, Bloomberg, Haver Analytics, Global Financial Data, International Financial Statistics, CEPR, WEO & IMF Staff Estimates.

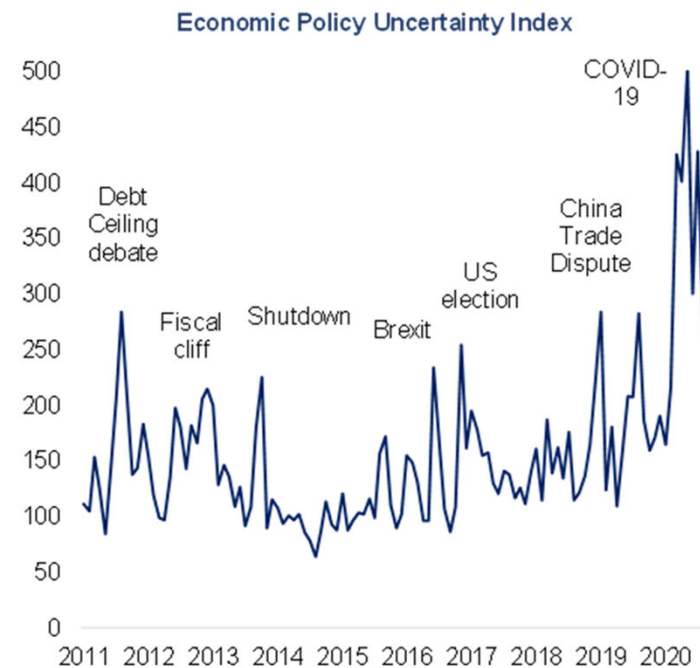
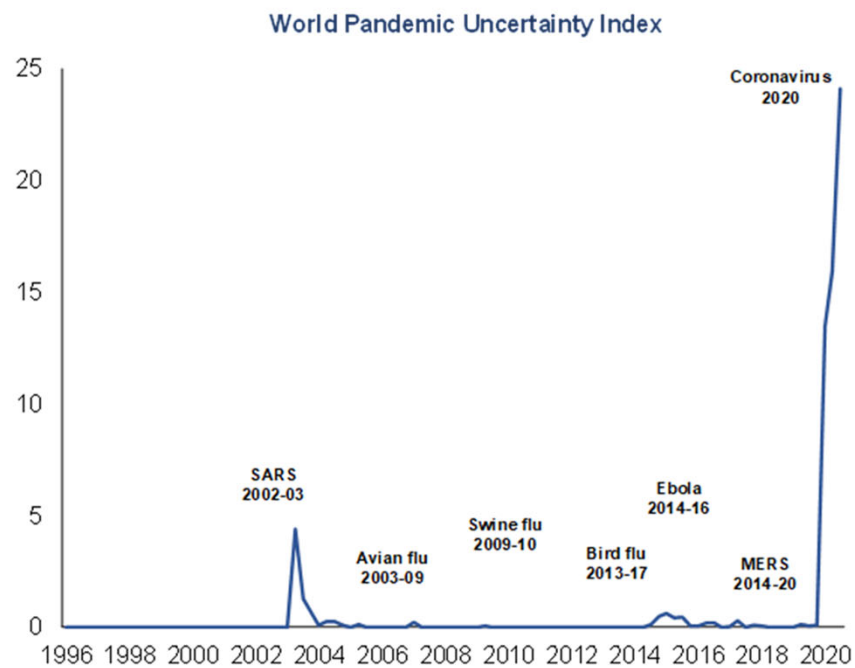
Note: Spreads are averaged by month and the chart uses monthly frequency. Spreads are against Germany. Cyclically adjusted Primary Balance, in percent of potential in fiscal year GDP, and is annual frequency.



# The Case for Public Investment and the New Generation EU



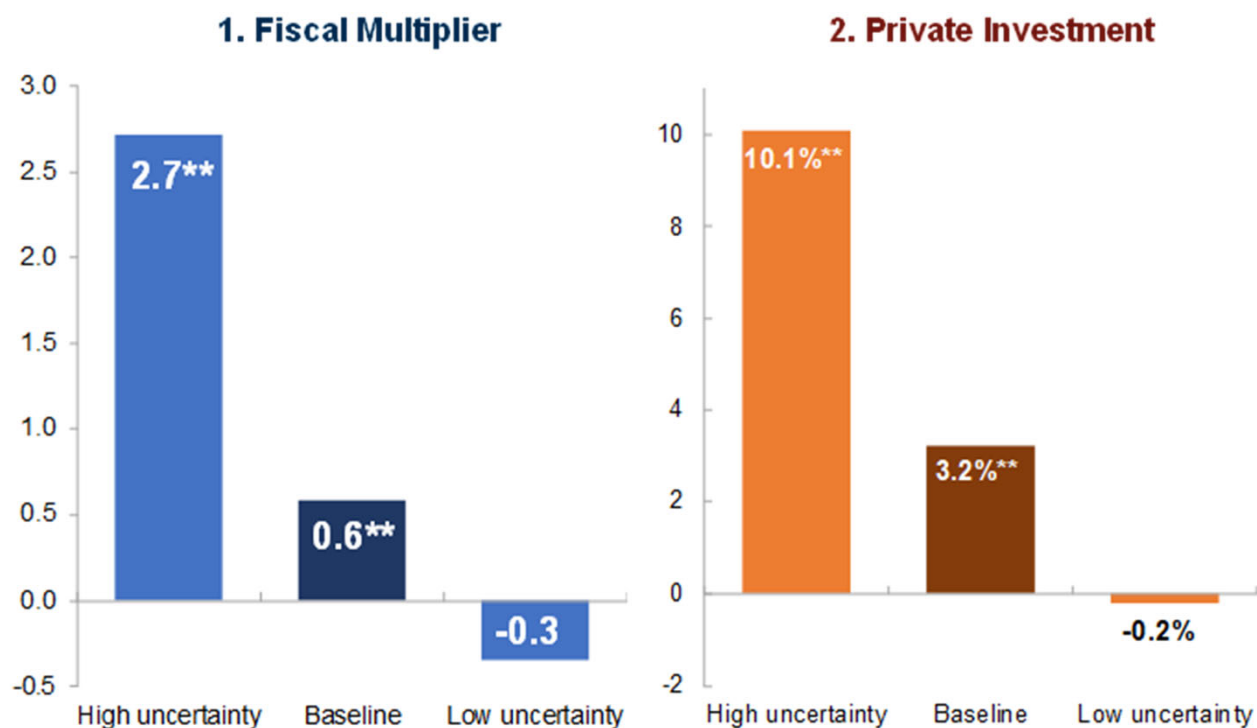
## Uncertainty Indices



Source: Barrero and Bloom (2020)

Note: Data are from the World Uncertainty Index's website's World Pandemic Uncertainty Index (WPU) which measures discussions about pandemics at the global and country level in the Economist Intelligence Unit (see Ahir, Bloom and Furceri, 2020). Monthly values for Economic Policy Uncertainty (EPU) index from [www.policyuncertainty.com](http://www.policyuncertainty.com). See Baker, Bloom and Davis (2016) for details of EPU index construction.

# The Case for Public Investment and the New Generation EU



Source: IMF Staff estimates.

Note: Panel 1: two-year ahead fiscal multipliers of public investment. Panel 2: semi-elasticity of private investment to public investment. \*\* stands for statistically significant coefficient at two standard deviations confidence interval.