Fiscal And Monetary Policy Answer Sheet

Recovery from the deepest recession in 60 years has started. But sustaining it will require delicate rebalancing acts, both within and across countries. IMF chief economist Olivier Blanchard writes in our lead article that the turnaround will not be simple. The crisis has left deep scars that will affect both supply and demand for many years to come. This issue of F&D also looks at what's next in the global crisis and beyond. We look at ways of unwinding crisis support, the shape of growth worldwide after the crisis, ways of rebuilding the financial architecture, and the future of reserve currencies. Jeffrey Frankel examines what's in and what's out in global money, while a team from the IMF's Research Department looks at what early warning systems can be expected to deliver in spotting future problems. In our regular People in Economics profile, we speak to Nobel prize winner Daniel Kahneman, whose work led to the creation of the field of behavioral economics, and our Picture This feature gives a timeline of how the Bank of England's policy rate has fallen to its lowest level in 300 years. Back to Basics gives a primer on monetary policy, and Data Spotlight looks at how the crisis has affected the eastern European banking system.

With integrated trade and financial markets, a collapse in aggregate demand in a large country can cause 'natural real interest rates' to fall below zero in all countries, giving rise to a global 'liquidity trap'. This paper explores the policy choices that maximize the joint welfare of all countries following such a shock, when governments cooperate on both fiscal and monetary policy. Adjusting to a large negative demand shock requires raising world aggregate demand, as well as redirecting demand towards the source (home) country. The key feature of demand shocks in a liquidity trap is that relative prices respond perversely. A negative shock causes an appreciation of the home terms of trade, exacerbating the slump in the home country. At the zero bound, the home country cannot counter this shock. Because of this, it may be optimal for the foreign policy-maker to raise interest rates. Strikingly, the foreign country may choose to have a positive policy interest rate, even though its 'natural real interest rate' is below zero. A combination of relatively tight monetary policy in the foreign country combined with substantial fiscal expansion in the home country achieves the level and composition of world expenditure that maximizes the joint welfare of the home and foreign country. Thus, in response to conditions generating a global liquidity trap, there is a critical mutual interaction between monetary and fiscal policy.

"Does an inflation conservative central bank à la Rogoff (1985) remain desirable in a setting with endogenous fiscal policy? To provide an answer we study monetary and fiscal policy games without commitment in a dynamic stochastic sticky price economy with monopolistic distortions. Monetary policy determines nominal interest rates and fiscal policy provides public goods generating private utility. We find that lack of fiscal commitment gives rise to excessive public spending. The optimal inflation rate internalizing this distortion is positive, but lack of monetary commitment robustly generates too much inflation. A conservative monetary authority thus remains desirable. When fiscal policy is determined before monetary policy each period, the monetary authority should focus exclusively on stabilizing inflation, as this eliminates the steady state biases associated with lack of monetary and fiscal commitment. It also leads to stabilization policy that is close to if not fully optimal. " -- abstract.

The Morocco Policy Analysis model (MOPAM) was created in the Bank Al-Maghrib to simulate the impact of external developments, domestic macroeconomic policies, and structural reforms on key macroeconomic aggregates. We describe its structure and demonstrate its operation on two medium-term scenarios: (1) fiscal consolidation to stabilize the debt-to-GDP ratio and (2) the effects of the COVID-19 shock, including the endogenous fiscal and monetary policy response.

A New Keynesian model allowing for an active monetary and passive fiscal policy (AMPF) regime and a passive monetary and active fiscal policy (PMAF) regime is fit to various U.S. samples from 1955 to 2007. Data in the pre-Volcker periods strongly prefer an AMPF regime, but the estimation is not very informative about whether the inflation coefficient in the interest rate rule exceeds one in pre-Volcker samples. Also, whether a government spending increase yields positive consumption in a PMAF regime depends on price stickiness. An income tax cut can yield a negative labor response if monetary policy aggressively stabilizes output.

America finds itself in a moment of profound and complex governing challenges. A crushing recession followed by a feeble recovery have shaken the foundations of our financial and economic system. We are struggling with the exploding costs of health-care and entitlement spending, and fiscal disaster looms as our society ages. American families are anxious about wage stagnation, barriers to social mobility, and the nation's competitiveness in an era of globalization. Meanwhile, our large governing institutions — most of them designed several decades ago — are showing signs of strain and decay, calling out for serious reform.National Affairs, a quarterly journal of essays on domestic policy and political economy, was launched in 2009 to help Americans think more clearly about these problems and to develop promising solutions. This book is a collection of some of the most timely and concrete policy proposals published in the journal's pages, offering ideas for reforming our welfare state, our tax system, financial regulation, monetary policy, education, state finances, and more. Each essay was written by a prominent expertin the field—the authors are all notable right-leaning academics, policy experts, former government officials, or think tank scholars with national reputations. The book thus comprises a ready-made domestic policy agenda for conservative policymakers (including a Republican president, should one be elected in 2012), based on the latest and best thinking from the world of conservative policy intellectuals. It will be the only resource of its kind in this election year—a one-stop-shopfor conservative policy ideas.

This book studies the international coordination of monetary and fiscal policies in the world economy. It carefully discusses the process of policy competition and the structure of policy cooperation. As to policy competition, the focus is on monetary and fiscal competition between Europe and America. Similarly, as to policy cooperation, the focus is on monetary and fiscal cooperation between Europe and America. The spillover effects of monetary policy are negative while the spillover effects of fiscal policy are positive. The policy targets are price stability and full employment. The policy makers follow either cold-turkey or gradualist strategies. Policy expectations are adaptive or rational. The world economy consists of two, three or more regions. The present book is part of a larger research project on European Monetary Union, see the references at the back of the book. Some parts of this project were presented at the World Congress of the International Economic Association in Lisbon. Other parts were presented at the International Institute of Public Finance, at the Macro Study Group of the German Economic Association, at the Annual Meeting of the Austrian Economic Association, at the Gottingen Workshop on International Economics, at the Halle Workshop on Monetary Economics, at the Research Seminar on Macroeconomics in Freiburg, and at the Passau Workshop on International Economics.

"The Incomplete Currency explains the reasons that are at the root of the current unsolved Euro zone crisis: The architecture of the Euro, the relationship between finance and the real economy, the functioning of the Eurosystem and how the unique currency has changed EU countries' economies are all topics analysed and illustrated in an elementary yet rigorous way, making extensive use of examples, tables, and numerous coloured graphics. Datasets and their statistical elaborations support the arguments illustrated throughout the book. Facts, not theories, matter: every assumption and statement is justified with strong evidence and data. In a macroeconomic context where the monetary policy is the prerogative of the European Central Bank and fiscal policy. Hopeless austerity works against the economic recovery of the Euro Zone countries, a positive attitude is difficult but necessary. Therefore, from the perspectives of solutions available to restore the unique interest rate curve, the reader is guided through a reasoned journey that carefully considers the pros and the cons of each possible solution and its implications"--

Maxwell Fry was known internationally for his research into international and domestic financial issues. This book constitutes a tribute to his pioneering work in so many areas, and draws together contributions from a range of academic and policy-making colleagues who were fortunate enough to experience the depth of knowledge and insights which Maxwell demonstrated.

This book studies the strategic policy interactions in a monetary union. The leading protagonists are the European Central Bank and national governments. The target of the ECB is low inflation in Europe. The targets of a national government are low unemployment and a low structural deficit. There are demand shocks, supply shocks, and mixed shocks. There are country-specific shocks and common shocks. This book develops a series of basic, intermediate, and more advanced models. Here the focus is on the Nash equilibrium. The key questions are: Given a shock, can policy interactions reduce the existing loss? And to what extent can they do so? Another topical issue is policy cooperation. To illustrate all of this there are a lot of numerical examples. The present book is part of a larger research project on European Monetary Union, see the references given at the back of the book. Some parts of this project were presented at the World Congress of the International Economic Association, at the International Conference on Macroeconomic Analysis, at the International Institute of Public Finance, and at the International Atlantic Economic Conference. Other parts were presented at the Macro Study Group of the German Economic Association, at the Annual Meeting of the Austrian Economic Association, at the Göttingen Workshop on International Economics, at the Halle Workshop on Monetary Economics, at the Research Seminar on Macroeconomics in Freiburg, at the Research Seminar on Economics in Kassel, and at the Passau Workshop on International Economics.

This paper uses a New Keynesian framework to study the coordination of fiscal and monetary policies, in response to an inflation shock when the policymaker acts with commitment. We first show that, in the simplest New Keynesian model, fiscal policy plays no part in the optimal policy response, because of the comparative advantage which monetary policy has in the control of inflation. We then add endogenous public debt and show that the above result is no longer true. When the initial stock of debt is low, it is optimal for government spending to remain largely inactive, but when the initial stock of debt is high, government spending should play a significant stabilisation role in the first period. This finding is robust to adding endogenous capital accumulation and inflation persistence in the Phillips curve.

COVID-19 and Macroeconomic UncertaintyFiscal and Monetary Policy ResponseOptimal Fiscal and Monetary Policy, Debt Crisis and ManagementInternational Monetary Fund

"Keynesian macro policy has been thought to fail because of crowding out. To compensate ... accommodating monetary policies were developed by the Federal Reserve ... this book shows that Keynesian macro policy was not the failure, it was the accommodating monetary policies that failed; they were not large enough to overcome ... crowding out." - John Polimeni, Albany College of Pharmacy, Albany, NY, USA This book comprehensively and scientifically tests the assertion that accommodative monetary policy can eliminate the "crowd out" problem, allowing fiscal stimulus programs (such as tax cuts or increased government spending) to stimulate the economy as intended. The book is intended to be the largest scale scientific test ever performed on this topic. It includes about 800 separate statistical tests on the U.S. economy testing different parts or all of the period 1960 - 2010. These tests focus on whether accommodative monetary policy, which increases the pool of loanable resources, can offset the crowd out problem. The book, employing the best scientific methods available to economists, concludes it could have, but until the quantitative easing program, Federal Reserve efforts to accommodate fiscal stimulus programs were not large enough to offset more than 23% to 44% of any one year's crowd out problem. That provides the science part of the answer as to why accommodative monetary policy didn't accommodate: too little of it was tried. The book also tests whether other changes in loanable funds, occurring because of natural changes in the economy or the savings rate can also offset crowd out, and concludes it can. Its companion volume Why Fiscal Stimulus Programs Fail, Volume 1: The Limits of Accommodative Monetary Policy in Practice explores the policy implications of these results. John J. Heim is Visiting Professor at University of Albany-SUNY, and retired Clinical Professor of Economics at Rensselaer Polytechnic Institute, both in New York, USA.

This paper argues that asset price cycles have significant effects on fiscal outcomes. In particular, there is evidence of debt bias—the tendency of debt to increase over the cycle— that is significantly larger for house price cycles than stand-alone business cycles. Automatic stabilizers and discretionary fiscal policy generally respond to output fluctuations, whereas revenue increases due to house price booms are largely treated as permanent. Thus, neglecting the direct and indirect impact of asset prices on fiscal accounts encourages procyclical fiscal policies.

This paper examines European economic integration in light of standard thinking about fiscal federalism. We first describe the main features of European integration, analyzing how institutions in the European Union fit the prescriptions of a federal system. We find that in some areas the European Union has already developed arrangements that fit standard views of fiscal federalism, in other areas there is gradual movement toward prescribed arrangements, and in still other areas the European Union's unique historical path may suggest some interesting new departures in the federalism literature. We try to extract some lessons from this analysis: some recommendations for Europe based on the orthodox principles of fiscal federalism, and some modifications of these orthodox principles based on the European experience.

After the financial crisis, what important lessons can we learn from fiscal policy? This book provides an answer this question.

The initial government debt-to-GDP ratio and the government’s commitment play a pivotal role in determining the welfare-optimal speed of fiscal consolidation in the management of a debt crisis. Under commitment, for low or moderate initial government debt-to-GPD ratios, the optimal consolidation is very slow. A faster pace is optimal when the economy starts from a high level of public debt implying high sovereign risk premia, unless these are suppressed via a bailout by official creditors. Under discretion, the cost of not being able to commit is reflected into a quick consolidation of government debt. Simple monetary-fiscal rules with passive fiscal policy, designed for an environment with “normal shocks”, perform reasonably well in mimicking the Ramsey-optimal response to one-off government debt shocks. When the government can issue also long-term bonds–under commitment–the optimal debt consolidation pace is slower than in the case of short-term bonds only, and entails an increase in the ratio between long and short-term bonds.

How should monetary authorities react to an oil price shock? A trade-off between stabilizing inflation and the welfare relevant output gap arises in a distorted economy once one recognizes: (1) that oil (energy) cannot be easily substituted by other factors in the short-run; (2) that there is no fiscal transfer available to policymakers to neutralize the steady-state distortion due to monopolistic competition; and (3) that increases in oil prices also directly affect consumption by raising the price of fuel, heating oil, and other energy sources. The author derives an interest rate feedback rule that mimics the optimal plan in all relevant dimensions but that depends only on observables, namely core inflation, oil price inflation, and the growth rate of output. Illus.

The global financial crisis has reignited interest in counter-cyclical fiscal policy as a critical instrument to provide immediate economic stimulus. But policy makers are also increasingly interested in how fiscal policy will impact growth and poverty over a longer run horizon, knowing that any quick responses to exogenous shocks also affect income generation and distribution. Those effects are less well known, however, and their dynamics still represent a challenge for many countries. In this book the authors explore methodological advances and new practices for fiscal policy implementation with a particular focus on developing countries. They also attempt to draw preliminary lessons from the global crisis and the still persisting uncertainty about future growth prospects. The crisis has brought into question many economic concepts, policies, and implementation practices that economists supported in previous decades. Counter-cyclical fiscal policy has suddenly returned to prominence worldwide either in conjunction with or in lieu of monetary policy and exchange rate adjustments, as a possible alternative in response to the unexpected and acute shocks that the crisis has brought about. These experiences are providing valuable lessons about the design and effectiveness of fiscal policy measures in developing countries, which is the focus of this volume. Since focusing entirely on the temporary effects of the crisis would mask the bigger challenges underlying the conduct of fiscal policy, particularly in countries where longer term growth patterns remain sluggish or volatile, and poverty and inequality still persist, the authors adopt a broader perspective trying to better understand the dynamics of longer term effects. The purpose of this book is precisely to improve our understanding of the challenges and possible innovative solutions in implementing fiscal policy for growth and welfare purposes, taking into account that crises do occur and will continue occurring, affecting previous growth and inequality paths. The authors present an analysis of some of the trade offs and policy choices that developing countries face, in light of the recent crisis. From expenditure composition to benefit incidence analysis, passing through the difficulties of improving public investment management, the authors consider a whole range of methodological advances and new practices that could enlighten practitioners in designing fiscal policy packages appropriate to the reality of their own countries. A special chapter is dedicated to African countries and a final section highlights some of the remaining topics for future research, together with data and other pertinent issues.

The COVID-19 pandemic and associated policy responses triggered a historically large wave of capital reallocation between markets and asset classes. Using high-frequency country-level data, this paper examines if and how the number of COVID cases, the stringency of the lockdown, and the fiscal and monetary policy response determined the dynamics of portfolio flows. Despite more dominant global factors, we find that these domestic factors played an important role, particularly for emerging markets and bond flows, contributing to a global wave of

reallocation to safer asset classes. Our results indicate that rising domestic COVID cases had a strong positive effect on portfolio flows, which responded to an increase in financing needs in affected economies. Lockdown and fiscal policy measures also led to an increase in portfolio flows; however, evidence from the CDS market suggests that the increase in flows was dominated by supply forces, reflecting investors' preference for stronger policy responses. In contrast, we find that interest rate cuts led to a decline in portfolio flows as investors searched for higher yield. Finally, we show that COVID policy responses also affected countries' exposure to the global shock and that pre-COVID macroeconomic conditions, such as lower sovereign risk and higher trade openness, contributed to larger flows during the COVID episode.
Is aggressive monetary policy response to inflation feasible in countries that suffer from fiscal dominance? We find that if nominal interest rates are allowed to respond to government debt, even aggressive rules that satisfy the Taylor principle can produce unique equilibria. However, resulting inflation is extremely volatile and zero lower bound on nominal interest rates is frequently violated. Within the set of feasible rules the optimal response to inflation is highly negative, and more aggressive inflation fighting is inferior from a welfare point of view. The welfare gain from responding to fiscal variables is minimal compared to the gain from eliminating fiscal dominance.
This paper analyzes how fiscal and monetary policy typically respond during downturns in G7 countries. It evaluates whether discretionary fiscal responses to downturns are timely and temporary, and compares the response of fiscal policy to that of monetary policy. The results suggest that while responding more weakly and less quickly than monetary policy, discretionary fiscal policy is more timely than conventional wisdom would suggest, particularly in “Anglo-Saxon” countries, but the response differs substantially across fiscal instruments. Both fiscal and monetary policy are found to be subject to an easing bias, with more easing during downturns than tightening during upturns; and liable to easing in response to erroneously perceived downturns, many of which are subsequently revised to expansions.
During the so-called Great Moderation the variability of output, employment and inflation declined substantially in most of the major economies. Because of this positive co-movement the ultimate objective of monetary policy was clear. By stabilizing inflation output will also stay at its potential and the central bank does not face any trade-off between its targets – a situation known as the divine coincidence. With the onset of the financial crisis 2007 these relationships changed. This book contributes to the research on the optimal macroeconomic policy design in the presence of financial frictions. These are incorporated via the cost channel approach into a two-country currency union model. Ultimately, a supply-side effect arises which lowers the efficiency of monetary policy - divine coincidence is not possible any more. Three questions are in the focus of interest of this analysis: What is the optimal monetary policy in the presence of country-specific financial frictions? What role can fiscal policy play? Is macroprudential policy able to improve welfare if the central bank targets a financial stability measure?
This paper asks whether an aggressive monetary policy response to inflation is feasible in countries that suffer from fiscal dominance, as long as monetary policy also responds to fiscal variables. We find that if nominal interest rates are allowed to respond to government debt, even aggressive rules that satisfy the Taylor principle can produce unique equilibria. But following such rules results in extremely volatile inflation. This leads to very frequent violations of the zero lower bound on nominal interest rates that make such rules infeasible. Even within the set of feasible rules the optimal response to inflation is highly negative, and more aggressive inflation fighting is inferior from a welfare point of view. The welfare gain from responding to fiscal variables is minimal compared to the gain from eliminating fiscal dominance.
This book offers a fresh perspective on the recent Eurozone "double crisis" and its related economic policies. The authors present empirical evidence which sheds new light on the growing economic and political debate on the future of the Euro, the Eurozone and the EU. The book

investigates and assesses the impact of the crisis with particular reference to monetary and fiscal policy, whose protracted austerity approach has dampened economic growth. In their discussion of the long-run European integration process, the authors emphasize the original weaknesses in the construction of the European Monetary Union and examine its failure to respond to the recent crisis. The concluding chapter focuses on the need for crucial reform in European governance and discusses the impact of the UK's recent EU membership referendum. Scholars, students and members of the general public with an interest in the future of the Eurozone will find this work thought-provoking, instructive and highly informative.

This thesis addresses interactions between monetary and fiscal policies in a theoretical dynamic stochastic general equilibrium (DSGE) model of a small open economy and in an empirical model under a structural vector error correction model (SVECM). The thesis consists of three essays. The contribution is both theoretical and empirical that enables a better understanding of the complexity of interactions between monetary and fiscal policies in small open economies. The first essay examines the equilibrium determinacy under monetary and fiscal rules. The goal is to investigate how monetary and fiscal policy interactions ensure a unique and non-explosive (determinate) equilibrium for a small open economy. The study focuses when policy makers implement a set of policy mixes to address domestic output price inflation control for monetary policy, debt stabilization for fiscal policy, and joint output stabilization tasks. The result indicates that two policy schemes facilitate a determinate equilibrium. First, monetary policy actively controls inflation when fiscal policy sets a sufficient feedback on debt. Second, monetary policy becomes passive against inflation when fiscal policy is insolvent. Adding output stabilization to each rule simply causes variants of this fundamental. An interest rate rule with output stabilization can be more passive against inflation while providing a stronger response to the output gap. Fiscal policy is required to set higher feedback on debt along with its stronger counter-cyclical policy. The second essay links between the equilibrium determinacy and policy optimization. This essay provides insights into the design of policy mixes and compares determinacy outcomes between two theoretical models of a small open economy: with and without an explicit exchange rate role. This study shows that policy interactions in a small open economy with an endogenous exchange rate is quite sophisticated, especially when a monetary rule is added with an output stabilization task and/or targeted to Consumer Price Index (CPI) inflation. Additional concern for monetary policy in an open economy causes a partial offset to its reaction on domestic output price inflation that weakens its effect on the real debt burden. To minimize economic fluctuations, policy makers should mute the role of output stabilization for monetary policy, and set minimum feedback on debt that is compatible with the degree of counter-cyclical fiscal policy. Substantially active response to inflation is satisfactory for monetary policy with CPI inflation targeting. The third essay empirically presents monetary and fiscal policy interactions in Thailand's SVECM suggested by a theoretical DSGE model developed from the previous essays. This essay shows that the DSGE-SVECM model can be supported by Thai data. A shock to monetary policy is effective with a lag. Government spending policy is also effective with a lag and some crowding-out effects on output. An adverse shock in tax policy unexpectedly stimulates the economy, indicating room for enhancing economic growth by relaxing revenue constraint. Monetary policy is mainly implemented to correct a consequence of a fiscal shock on inflation (and also the domestic and foreign shocks), while fiscal policy appears to counter a consequence of the monetary policy shock on output.

This is a Chinese translation of "Rethinking Macro Policy II" (SDN/13/03). This note explores how the economic thinking about macroeconomic management has evolved since the crisis began. It discusses developments in monetary policy, including unconventional measures; the challenges associated with increased public debt; and the policy potential, risks, and institutional challenges associated with new macroprudential measures. Rationale: The note contributes to the ongoing debate on several aspects of macroeconomic policy. It follows up on the earlier “Rethinking” paper, refining the analysis in light of the events of the past two years. Given the relatively fluid state of the debate (e.g., recent challenges to central bank independence), it is useful to highlight that while many of the tenets of the pre-crisis consensus have been challenged, others (such as the desirability of central bank independence) remain valid.

This book explores the role of national fiscal policies in a selected group of Euro-area countries under the European Economic and Monetary Union (EMU). In particular, the authors characterize the response of output to fiscal consolidations and expansions in the small Euro-area open economies affected by high public and private debt. It is shown that the macroeconomic outcome of fiscal shocks is strongly related to debt levels. The Euro-area countries included in the investigation are Greece, Ireland, Italy, the Netherlands, Spain, and Portugal, over the sample period 1999–2016, i.e., the EMU period. The main econometric tools used in this research are structural vector autoregressive (VAR) models, including panel VAR models. The available literature relating to the subject is also fully reviewed. A further closely investigated topic is the potential spillover effects of German fiscal policies on the selected small Euro-area economies. Moreover, in the perspective of the evolution of the Euro Area towards a full Monetary and Fiscal Union, the authors study the effects of area-wide government spending shocks on aggregate output and other macroeconomic variables during the EMU period. The closing chapter of the book considers evidence on the consequences of austerity policies for European labour markets during recent years.

The U.K. monetary policy framework, which combines inflation targeting with operational independence, provides a suitable arrangement for focused and credible monetary policy. However, potential weaknesses could result from features that have not yet been fully tested: the credibility and transparency of the inflation forecasts, which form the core of policy decisions, have diminished as a result of independence; and the framework could encourage excessive activism and frequent changes in interest rates. Although policy coordination could also suffer from independence, the new partly rules-based fiscal and monetary regimes will promote overall macroeconomic stability.

Low-income countries in sub-Saharan Africa present unique monetary policy challenges, from the high share of volatile food in consumption to underdeveloped financial markets; however most academic and policy work on monetary policy is aimed at much richer countries. Can economic models and methods invented for rich countries even be adapted and applied here? How does and should monetary policy work in sub-Saharan African? Monetary Policy in Sub-Saharan Africa answers these questions and provides practical tools and policy guidance to respond to the complex challenges of this region. Most countries in sub-Saharan Africa have made great progress in stabilizing inflation over the past two decades. As they have achieved a degree of basic macroeconomic stability, policymakers are looking to avoid policy misalignments and respond appropriately to shocks in order to achieve stability and growth. Officially, they often have adopted "money targeting" frameworks, a regime that has long disappeared from almost all advanced and even emerging-market discussions. In practice, though, they are in many cases finding current regimes lacking, with opaque and sometimes inconsistent objectives, inadequate transmission of policy to the economy, and difficulties in responding to supply shocks. Monetary Policy in Sub-Saharan Africa takes a new approach by applying dynamic general equilibrium models suitably adapted to reflect key features of low-income countries for the analysis of monetary policy in sub-Saharan African countries. Using a progressive approach derived from the International Monetary Fund's extensive practice and research, Monetary Policy in Sub-Saharan Africa seeks to address what we know about the empirics of monetary transmission in low-income countries, how monetary policy can work in countries characterized by underdeveloped financial markets and opaque policy regimes, and how we can use empirical and theoretical methods largely derived in advanced countries to answer these questions. It then uses these key topics to guide policymakers as they attempt to adjust food price, terms of trade, aid shocks, and the effects of the global financial crisis.

Fiscal policy makers have faced an extraordinarily challenging environment over the last few years. At the outset of the global financial crisis, the International Monetary Fund (IMF) for the first time advocated a fiscal expansion across all countries able to afford it, a seeming departure from the long-held consensus among economists that monetary policy rather than fiscal policy was the appropriate response to fluctuations in economic activity. Since then, the IMF has emphasized that the speed of fiscal adjustment should be determined by the specific circumstances in each country. Its recommendation that deficit reduction proceed steadily, but gradually, positions the IMF between the fiscal doves (who argue for postponing fiscal adjustment altogether) and the fiscal hawks (who argue for a front-loaded adjustment). This volume brings together the analysis underpinning the IMF's position on the evolving role of fiscal policy. After establishing its analytical foundation, with chapters on such topics as fiscal risk and debt dynamics, the book analyzes the buildup of fiscal vulnerabilities before the crisis, presents the policy response during the crisis, discusses the fiscal outlook and policy challenges ahead, and offers lessons learned from the crisis and its aftermath. Topics discussed include a historical view of debt accumulation; the timing, size, and composition of fiscal stimulus packages in advanced and emerging economies; the heated debate surrounding the size of fiscal multipliers and the effectiveness of fiscal policy as a countercyclical tool; coordination of fiscal and monetary policies; the sovereign debt crisis in Europe; and institutional reform aimed at fostering fiscal discipline.ContributorsAli Abbas, Nate Arnold, Aqib Aslam, Thomas Baunsgaard, Nazim Belhocine, Dora Benedek, Carlo Cottarelli, Petra Dacheva, Mark De Broeck, Xavier Debrun, Asmaa ElGanainy, Julio Escolano, Lorenzo Forni, Philip Gerson, Borja Gracia,, Martine Guerguil, Alejandro Guerson, Laura Jaramillo, Jiri Jonas, Mika Kortelainen, Manmohan Kumar, Suchitra, Kumarapathy, Douglas Laxton, Pablo Lopez-Murphy, Thornton Matheson, Jimmy McHugh, Uffe Mikkelsen, Kyung-Seol Min, Aiko Mineshima, Marialuz Moreno, John Norregaard, Ceyla Pazarbasioglu, Iva Petrova, Tigran Poghosyan, Marcos Poplawski-Ribeiro, Anna Shabunina, Andrea Schaechter, Jack Selody, Abdelhak Senhadji, Baoping Shang, Mauricio Soto, Bruno Versailles, Anke Weber, Jaejoon Woo, Li Zeng

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