

General Discussion of 'Fiscal R-star: Fiscal-Monetary Tensions and Implications for Policy'

Participants discussed the factors that determine the level of the fiscal 'r-star' measure presented, with a focus on the role of the inflation target given the presence of other nominal variables in the equation that defines fiscal r-star. It was suggested that it is the real interest rate that matters for stabilisation of the debt-to-GDP ratio. One participant questioned whether the debt-to-GDP ratio alone captures the paper's intent. However, it was noted that not all monetary-fiscal interactions are reflected in debt-to-GDP measures, and that fiscal r-star offers a broader set of interactions with the additional advantage of being easier to communicate.

Participants then discussed the outlook for the monetary neutral rate of interest. It was noted that some recent research suggests the fundamental drivers of monetary r-star remain unchanged and that it is likely to return to low levels. Participants discussed whether a persistently low monetary neutral rate, and more frequent episodes of zero lower bound, would require a greater role for fiscal policy in stabilising business cycles. It was noted that the paper presented did not account for macro stabilisation on the part of the fiscal authority, and that a low monetary neutral rate afforded the fiscal authority more space by lowering the interest costs on government debt.