Fiscal and monetary policy interactions in a low interest world.

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- Simulations of "normal" business cycles and a large (demand) shock.

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- QE can alleviate negative consequences of ZLB. Lower average unemployment, inflation closer to target, lower debt and smaller deficits. Less sluggish recovery after a large shock and a smaller debt increase.

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- Negative policy rates also works.
- Assuming anchored inflation expectations, i.e., agents know that $\pi^* = 2\%$, rather than learn about it, substantially reduces the need for QE or negative policy rates, but not fully.

Some questions/comments

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  - Gut-feeling that this would not work.
  - If it doesn't work, maybe it is something else that make QE work, e.g., that debt in the hands of the CB appears safer. This might change policy implications.

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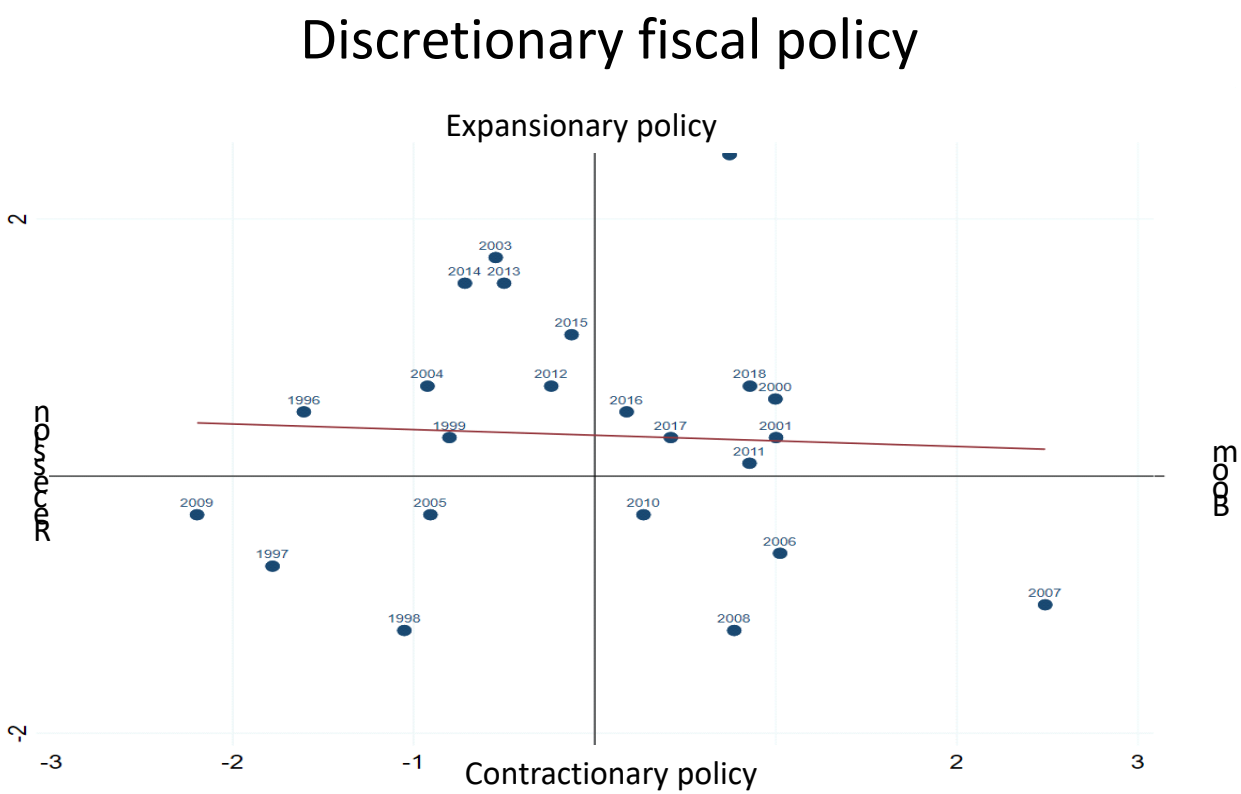
- What is optimal speed of going out of QE?
- Fiscal policy is modeled as a Taylor type rule. In reality, a lot of it is discretionary and not very countercyclical. Weakens the argument for a more active fiscal policy.

Discretionary fiscal policy in Sweden



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  1. If QE can reduce interests that matter for real economy, it can be helpful, in particular if it helps anchoring inflation expectations.
  2. Negative policy rates also works and may have less negative consequences (few modelled here, though).
  3. Moderately large automatic stabilizers combined with a more active fiscal policy at ZLB is good.
  4. Quick debt consolidations bad (unless necessary).