

Ranking policy alternatives

Effectiveness of stabilization in the short-term + avoidance of a debt crisis in the medium term

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Stabilization* (best to worse outcome)			
	Fiscal mechanism**	ECB action	Probability of adoption
1	Eurozone fiscal facility (enabling direct transfers)	-	Currently unthinkable
1	Joint debt issuance	Purchase and monetary financing (debt cancellation)	Currently unthinkable
1	Joint debt issuance	Purchase and monetary financing (debt roll-over)	Highly unlikely
1	Joint debt issuance (perpetual bonds)	Purchase	Highly unlikely
2	Recovery fund (funded by common resource)	-	Highly unlikely
3	Coronabonds	Purchase	Highly unlikely
4	National debt issuance	Purchase and monetary financing (debt roll-over and/or reprofiling/restructuring)	Likely (depending on ECB's agency) ***
5	Recovery fund (EU budget, with tweaks in allocation)	Purchase issuing agency bonds	Likely
6	COVID-credit line (ESM – some conditionality)	Purchase ESM bonds	Likely
7	National debt issuance	Purchase	Already happening (until when?)

* Based on implicit assumptions about the size and persistence of the supply shock and hysteresis effects; and expectations about inflationary trends and growth and debt dynamics (which are endogenous to ECB's decisions) ** For simplicity purposes the underlying funding mechanism is not always displayed -for all cases, a common fiscal resource (e.g. a European tax) is always a preferred option to national budgets *** This refers to decisions taken in the future under a particular scenario -policy option 7, without initiatives in the 1-3 range, leads to debt sustainability concerns for some countries- the evaluation refers to the joint probability of both the scenario and the policy decisions by the ECB being realized (for one of us -Koutsiaras- this is the most likely scenario)