Is Europe doomed to Secular Stagnation?

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Challenges to More Sustainable and Inclusive Growth in Europe
Downward shifts in "full-employment" savings and investment schedules

Source: Ludolph and Barshund (2016).
Estimated neutral real interest rates: trends, cycles and shocks

Source: Holston, Laubach and Williams (2016)
Factors pushing $r^*$ into negative terrain: trends, cycles and shocks

- Low productivity growth
- Relative price of capital, risk spreads
- Decline in public investment
- Rising inequality
- Global savings glut
- Demography
How much fiscal space? 
A Blanchard-inspired framework

\[ \hat{b} = \frac{\hat{p}}{r^* - y^*} \]

\( \hat{b} \): maximum politically sustainable debt
\( \hat{p} \): maximum politically achievable primary surplus
\( r^* \): "neutral" interest rate
\( y^* \): potential growth rate

- Implications of Blanchard's model:
  - Lower \( r^* \) increases the fiscal space
  - Lower \( y^* \) reduces the fiscal space

- The neutral interest rate (\( r^* \)) has been falling,
  - but potential growth rates (\( y^* \)) have also dropped,
  - and \( \hat{p} \) will probably decrease in the future
How much economic slack in the EA?
## Getting out of a low growth trap

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