

Essays on Macroeconomics of Debt Deleveraging

Abstract

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This dissertation analyzes, in two chapters, how monetary and fiscal authorities can optimally manage debt reduction episodes.

In the first chapter I show how public debt deleveraging leads to a recession with different effects on real interest rates according to the fiscal instruments the government is using to reduce the debt. The fiscal authority should not depress much consumption of the agents who hold savings to improve the welfare of the ones who do not have access to financial markets. Moreover speed and timing of public deleveraging depend crucially on the type of instrument the fiscal authority uses to enforce it. Nominal rigidities, in this context, seem to be beneficial for the agents who cannot insure themselves through financial markets.

In the second chapter, written together with Prof. Pierpaolo Benigno, we show how deleveraging from high debt can provoke deep recession with

significant international side effects. Due the debt reduction process, real and nominal variables can be subject to high fluctuations. All these movements are inefficient and interesting trade-offs emerge from the perspective of global welfare. Counterintuitively, we show that the optimal adjustment to global imbalances should not necessarily require large movements in the nominal exchange rate. Moreover we show that, whenever countries have an high degree of openness to trade, Central Banks needs to create a global liquidity trap to face the deleveraging shock.