



KATEDRA HOSPODÁRSKEJ POLITIKY



CENTRUM PRE EKONÓMIU A FINANČIE



NÁRODNÁ BANKA SLOVENSKA  
EUROSYSTEM



12 June 2013

### **Reinhard Neck**

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### ***"Haircuts" for the EMU Periphery: Virtue or Vice?***

#### **Abstract**

We use a dynamic game model of a two-country monetary union to study the impacts of an exogenous fall in aggregate demand, the resulting increase in public debt, and the consequences of a sovereign debt "haircut" for a member country or bloc of the union. In this union, the governments of participating countries pursue national goals when deciding on fiscal policies, while the common central bank's monetary policy aims at union-wide objective variables. The union considered is asymmetric, consisting of a "core" with lower initial public debt, and a "periphery" with higher initial public debt. The "periphery" may experience a debt relief ("haircut") due to an evolving high sovereign debt. Calibrating the model to the Euro Area, we calculate numerical solutions of the dynamic game between the governments and the central bank using the OPTGAME algorithm. We show that a "haircut" as modeled in our study is disadvantageous for both the "core" and the "periphery" of the monetary union. Moreover, the cooperative solution is preferable to the noncooperative equilibrium solution (both without and with a "haircut"), providing an argument for coordinated fiscal policies in a monetary union.

Venue: National Bank of Slovakia, conference room,  
Imricha Karvaša 1, Bratislava

Date: 12 June 2013

Program: 14:50 registration

15:00 Reinhard Neck: "Haircuts" for the EMU Periphery: Virtue or Vice?

16:30 coffee