



Information for research project

Call: Competition for financial support for projects of junior basic researchers and postdocs – 2020
Main scientific area: Social sciences
Contract No: КП-06-М45/4 - 2020
Initial date: 12.07.2021
Duration of the project: 2 years
Project title: FISCAL AND MONETARY INSTRUMENTS FOR REGULATING UNCERTAINTY IN THE ECONOMY
Research organization: Economic Research Institute at the Bulgarian Academy of Sciences
Principle investigator: Chief Assist. Prof. Sonya Georgieva Georgieva, PhD
Abstract of the research project: <p>The large-scale nature of the global financial and economic crisis since 2008 and the current COVID-19 crisis, combined with the impossibility of implementing a sufficiently effective anti-crisis policy in practice, call for an in-depth study of the interaction between fiscal and monetary instruments in economic uncertainty. For the first time since the Great Depression, there have been dynamic activities to develop and implement large-scale and ubiquitous macroeconomic programs and countermeasures. Such a situation requires an analysis of the possibilities of the macroeconomic policy for limiting the fluctuations of the business cycle and an assessment of the effectiveness of the applied stabilization strategies.</p> <p>The starting point for assessing the interaction between fiscal and monetary policy are the effects on national income, which is associated with the achievement of certain economic goals. In the ascending phase of the economic cycle, good coordination between the two policies requires that the increase in the contribution of fiscal policy be combined with a decrease in the contribution of monetary policy, which in this case performs a countercyclical function and vice versa. However, in times of crisis, both policies are required to promote economic growth, and the procyclicality of one or the other macroeconomic policies can be interpreted as a manifestation of poor coordination. Coordination between the two policies also takes into account the institutional dependencies between fiscal and monetary authorities, which is reflected in the preferred way</p>



of conducting macroeconomic policy, expressed through discretionary macroeconomic policy or following the built-in automatic stabilizers.

As supported by historical research, it is appropriate to consider the achievement of full employment as the main economic goal of fiscal policy, and to ensure price stability as the goal of monetary policy. Thus expressed, the coordination and effects of the implementation of the two macroeconomic policies are analysed in terms of the dependencies between unemployment and inflation on the Phillips curve, which becomes the starting point of the analysis. At the same time, there is a consensus around these general objectives of macroeconomic policy at both theoretical and macroeconomic management level, which is not valid for the choice of instruments to achieve them, which is where the many differences between the perceptions of policy implementation come from macro level.

The main goal of this study is to justify the quantitative rational and effective application of the instruments of fiscal and monetary policy to regulate uncertainty in the economy of Bulgaria and the euro zone and on this basis to make specific proposals for the necessary level of coordination between fiscal and monetary policy. The proposals made can be used both for the purposes of conducting macroeconomic policy by governments and central banks, and for its analysis and evaluation. This circumstance corresponds to the priority directions for development of applied research in Bulgaria, defined in the national strategy, namely: socio-economic development and management.