

# INTERCAMBIO

*Special guest:*

***Monetary Policy  
and COVID-19.  
An Interview with  
Peter Tillman***

*Invitado Especial:*

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COVID-19. Una Entrevista  
a Peter Tillman***

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## **Monetary Policy and COVID-19 An Interview with Peter Tillman\***

**Invitado Especial:**

### **Política Monetaria y COVID-19 Una Entrevista a Peter Tillman**

#### **Revista Intercambio**

Peter Tillmann holds a Ph.D. in economics from the University of Cologne through the empirical analysis of international financial markets with modern time-series econometric techniques. His research interests are mainly monetary theory and policy; international macroeconomics and financial markets; and time series econometrics. Currently, Dr Tillmann is professor of Monetary Economics at Justus-Liebig-Universität Giessen. Previously, Dr. Tillman worked as a Senior Economics at the Economic Activity Department of the Swiss National Bank in Zurich.

**Source:** Justus-Liebig-Universität Giessen

#### **Some Context:**

**25/06/20** *European Union approves massive bailout of German giant Lufthansa: “This substantial amount of aid will help Lufthansa weather the current coronavirus crisis, which has hit the airline sector*



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\* The Editorial Committee of Intercambio Journal, economic students' journal of National University of Colombia, did this interview to Dr. Peter Tillman in the context of the, perhaps, the most important crisis in the last 100 years to talk about monetary policies as responses to the crisis in Germany, Europe and developing countries. The production was in charge of the Delegated Editor, Luis Eduardo Castellanos Rodríguez.

particularly hard,” EU competition commissioner Margrethe Vestager said- —The plan was part of an overall rescue that became a reality on 24/07/20, after a billionaire shareholder reversed course and backed the plan.

**02/07/20** German lawmakers ended a legal standoff over the European Central Bank’s bond-buying, backing a monetary program seen as a key prop for the euro area’s battered economy. The motion sends a signal that Germany’s political establishment intends to keep Europe together. “The German authorities have assessed the PSPP as proportionate before the Constitutional Court,” Mersch said during a webinar on Thursday (Jennen, 2020).

**06/07/20** Predictions from policymakers to mull over as a new week begins. The pandemic will result in a permanent change to European monetary policy by locking in the more extensive policies that have been enacted and forcing the creation of a joint fiscal plan, according to the European Central Bank’s Francois Villeroy de Galhau. ECB President Christine Lagarde, meanwhile, says Europe will face two years of downward pressure on prices but that the virus will accelerate existing shifts in the economy toward digitization, automation, shorter supply chains and greener technology that will ultimately help with the recovery. At the same time, a split is brewing over the bank’s emergency bond-buying program (Colten, 2020).

**Intercambio Journal (IJ): What would you say are the main objectives of the recovery package designed by the European Union (EU)?**

**Peter Tillman (PT):** I think the primary objective of the EU package is to stimulate the recovery after the enormous drop-in economic activity in the second quarter of 2020. The second objective is an improvement in the health care systems of member states in order to stand ready for future challenges.

One has to interpret the EU package as one building block of the European policy response. There are also sizeable fiscal policy measures implemented by national authorities. You should also not forget the ECB’s massive program that supports financial stability in the euro area.

**IJ: What are the principal features of the recovery package designed by the EU?**

**PT:** The main feature of the package is an investment into digital infrastructure and other productivity-enhancing areas. The most interesting feature of the package is its financing: the commission will borrow 750 billion euro from financial markets. This request is remarkable given the debate about joint liability in Europe.

**IJ: Do you consider that the recovery package is adequate? Will it have a significant impact on the well-being of the population? What will that effect be?**

**PT:** The announcement of the package is a bold move. It will undoubtedly contribute to the recovery after the pandemic. What I find even more important than the size of the package is the clear signal of European solidarity and unity.

Whether or not the recovery gains momentum will also depend on a successful fight against the virus. A potential second wave of infections, either in Europe or its main trading partners, could endanger the current recovery. I think there will reduce consumer spending and investment activities of firms.

**IJ: What is the importance of the bailout of Lufthansa by the German Government? In macroeconomic terms, was it a right call?**

**PT:** I think Lufthansa is a prominent victim of the pandemic. It was profitable before. That is the main difference concerning other companies, which do not receive direct financial support. In regular times, the government should not bail out firms. In these exceptional times, a bailout is probably acceptable. The macroeconomic agent, however, remains limited.

**IJ: Which elements do you think that developing countries should consider when formulating their recovery plans during and after the current crisis?**

**PT:** Many developing countries have limited fiscal resources to adopt generous spending plans. Besides, some countries received an outflow of capital since the outbreak of the virus. The US and Europe, main export markets for the developing world, gradually

recover, but will be in severe recessions in the coming months. There is also a more subtle issue: many developing economies greatly benefit from remittances, money sent home from migrant workers working overseas. The recession in advanced economies will be particularly harmful to migrant workers, such that developing countries have to expect a sharp drop in remittance inflows.

On the positive side, there is still abundant capital available in the global economy, searching for investment opportunities. I think capital will quickly return to developing economies once the pandemic is over. Developing and emerging market countries should also make use of support through the IMF and the World Bank.

**IJ: There are two important monetary models in macroeconomics analysis; both Dornbusch model and Mundell-Fleming model (MF). Why is the last one the most famous and used? Do you think that it is the best model between them to make macroeconomic analysis? Are there better options to exchange rates?**

**PT:** The MF model is certainly the most popular framework among policymakers. This importance occurs because it is the most intuitive framework that can easily provide answers to policy questions.

From a scientific perspective, progress has been made in terms of modeling open economies. More recent models are based on microeconomic foundations and allow a more meaningful discussion of optimal policies. Most importantly, modern models of open economies include a several fictions such as an incomplete adjustment of prices, monopolistic competition, and others. The literature has made quite some progress over the past decades.

While modeling has undoubtedly improved, the literature is still unable to make good exchange rate forecast. Model explain exchange rate fluctuations but are notoriously wicked in forecasting.

## References

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