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This FT piece on deb #cancellation is interesting and poses a few interesting questions.

Let me begin with what I do not like.

The case against cancelling debt at the #ECB https://t.co/o0Vvvf6leU

#monetization 1/

The excessive focus on Italy is off the mark. Any serious discussion on sterilizing this exceptional debt linked to the pandemics should concern all EMU countries. All have had a spike in deficit

2/

Nor I like the argument that debt sterilization would not bring fresh cash. It would not, and of course it would not be needed. EMU public debt is today (and for a long period to come) in excess demand. On top of that the ECB will keep the PEPP umbrella open for a while

3/

> Neither would cancelling the eurosystem's debt holdings hand any more cash to the Italian government. The debts represent spending that has already been financed and the interest rate payments are recycled back into eurozone treasuries. For the moment, warehousing the debt on the Italian central bank's balance sheet is not very different to cancelling it altogether.

Sterilizing the EMU pandemics-related public debt is a medium term issue, related to future fiscal space. Will this exceptional stock of debt that built in 2020 constrain EMU countries in their ordinary fiscal policies in the future? This is the question to ask
4/

If the answer is yes (I believe it is), then sterilizing that debt is eventually going to be an issue to be dealt with. And the ECB will have to be part of the solution
This is what the FT seems to suggest too (this is why the piece is more complex than it seems)
5/

The piece suggests that extending the maturity of debt (in principle to perpetuity) should be a solution. If the ECB were to buy that debt, we'd have monetization
6/

> Italy could act by itself to make its debt easier to deal with over the long run, in case the ECB ever decides to sell its holdings back to the private sector and rates go up. In particular it could issue much longer dated debt to lock in the current low rate of funding, and gain more time to fix the country's sluggish growth rate. Italy could even try to sell perpetual debt.

A side note: The macroeconomic impact of cancellation and of monetization are alike. But cancellation poses a number of (mainly political) issues. I'd take it off the table and discuss pros and cons of a permanent increase of the ECB balance sheet (monetization/reservization)
7/

The piece then goes on with a discussion of helicopter money (and an obscure link with debt write-off) in managing deflationary pressures.
What is interesting is the last sentence of this paragraph:
8/

> There may be monetary reasons to cancel government debt holdings. Many economists argue that "helicopter money" — a permanent increase in the money supply, likened by the economist Milton Friedman to central bankers dropping cash from a helicopter — will be necessary to rescue the eurozone from potential deflation. This would be most easily enacted by simply writing down the ECB's existing holdings of government debt to zero. Any move towards this policy should come from central bankers keen to hit their inflation targets and not politicians playing with populist slogans.

The initiative should come from the ECB in pursuing its objectives, not from governments. I made the exact same point a couple of days ago (in Italian, unfortunately).

Interestingly, the strong independence of the ECB in this case could help.
9/
https://t.co/G4XhPZQZup

So in the end the case against cancellation boils down to timing and to the opportunity that politicians (especially Italians) bring it up now.
But the FT acknowledges that the issue is on the table and that sterilization may be part of the equation.
I am ok with this
/end

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