Banka Slovenije

in cooperation with

the Research Centre of the School of Economics and Business

invites you to a seminar

A Theory of Public Debt as a Macro-financial Stability Tool

Co-author and speaker:

Jacopo Bonchi

Research Adviser at the European Central Bank

The paper is a joint work of Guido Ascari (University of Pavia & De Nederlandsche Bank), Jacopo Bonchi (University of Bologna), Andrea Ferrero (University of Oxford)

The seminar will be held in the

Great Hall of Banka Slovenije on Thursday, 17 December 2026 at 14:00

Abstract:

In an overlapping generation model of secular stagnation, characterized by a low real interest rate and zero nominal interest rate, and where public bonds can carry a safety or risk premium, intrinsically worthless assets ("bubbles") can be valued in equilibrium. These asset bubbles can be both leveraged, held by banks and used as collateral, and unleveraged, held by investors. In this framework, public debt can serve as a macro-financial stability tool to maximize output and minimize bubbly fluctuations and sovereign risk. First, it can lift the real interest rate and thus bring the economy out of the zero lower bound, leading output to the potential. Second, it can eliminate the incentive to create bubbles by satisfying the demand for overall assets in general and safe assets in particular. Third, it can keep a positive safety premium or, at least, a zero risk premium, if it does not exceed the maximum "safe" level. We investigate whether and under which conditions public debt can achieve these three objectives. While a public debt level considered "safe" can bring the economy out of the ZLB in steady state, it can only prevent leveraged bubbly fluctuations from emerging, but not unleveraged ones. Indeed, preventing any bubbly fluctuations from occurring ex ante requires a level of debt so high that sovereign risk becomes positive and output falls because of lower capital accumulation. Therefore, there exists a trade-off in steady state between maximizing output and minimizing sovereign risk, on the one hand, and minimizing bubbly fluctuations, on the other. The transition dynamics fundamentally alter the policy trade-off identified in steady state, showing that bubbly episodes and sovereign default are not mutually exclusive but each can indirectly trigger the other.

About the co-author and speaker:

Jacopo Bonchi is currently Assistant Professor at Alma Mater University of Bologna. He holds a Ph.D. in Economics from Sapienza University of Rome. Prior to joining the University of Bologna, he was Assistant Professor at Bicocca University of Milan and Research Fellow at the University of Pavia, Sapienza University of Rome, and LUISS University. His research focuses on Macroeconomics, with a special interest on Monetary and Fiscal Policies, and Macro-Finance.

How to sign up:

To sign up for the seminar, please send an email to seminar@bsi.si. You can sign up by Tuesday, 16 December 2026. The seminar will be held in English.