Based on:


GLOBAL REDUCTION OF REAL INTEREST RATES

**R-STAR FOR SELECTED ECONOMIES**

**PERCENT**


**REAL INTEREST RATES**

**AVERAGE ACROSS 17 COUNTRIES**

Source: Jordá, Schularick and Taylor Macrohistory Database and WB. Average, maximum and minimum across 17 countries: AU, BE, CA, DK, FI, FR, DE, IT, JP, NL, NO, PT, SP, SW, CH, UK and US
GIVEN THAT IT IS A GLOBAL PHENOMена – ROLE OF GLOBALISATION?

Rachel and Smith (2015) review six potential determinants:

- Demographics
- Inequality
- Lower government investment
- Price of capital
- Savings glut
- Spread between risk free rate and cost of capital
+ Productivity

Country-specific, with similar trends

Common trends, influenced by globalization

Country-specific, but driven by global trends
• Financial globalization (might) contribute to lower r and r*, and to higher cross-country correlation between natural interest rates
  Caballero et al., 2008 and 2016, Borio et al., 2017, Eichengreen, 2015, Bean et al., 2015, Rachel and Smith, 2017, Lunsford and West, 2017, Glick 2019; …
  - Increasing global supply of savings (‘savings glut’), increasing safe asset demand (Del Negro et al., 2018, Caballero et al 2016, Caballero et al 2017)
  - Natural interest rates share a global factor
  - Foreign influence on domestic financial markets, global financial cycle

• Trade openness is linked to productivity growth
  - Productivity-enhancing resource reallocation within and across countries - Bernard et al. (2006)
  - Global production through GVCs, reducing costs, lower markups - Comin and Johnson (2020)

• Globalization might induce more market power (Natal and Stoffels, 2019), putting downward pressure to interest rates.
• Negative relationship between the accumulation of reserves in emerging economies and long-run interest rates (Grab et al., 2019, Busetti and Caivano, 2018)

• Positive relationship between the supply of safe assets and global rates (Caballero et al. 2016; Glick, 2019; Ferrera and Shousha, 2020)

• Ambiguous relationship between trade globalization and long-run interest rates (Busetti and Caivano, 2018)
## FROM THEORY TO EMPIRICS (II)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Theoretical effect</th>
<th>Empirical effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Young age share in population</td>
<td>Positive</td>
<td>Positive</td>
</tr>
<tr>
<td>Term spread</td>
<td>Negative</td>
<td>Negative</td>
</tr>
<tr>
<td>Global savings</td>
<td>Negative</td>
<td>Negative</td>
</tr>
<tr>
<td>Trade openness</td>
<td>Ambiguous</td>
<td>Positive</td>
</tr>
</tbody>
</table>
DETERMINANTS OF REAL INTEREST RATES IN ADVANCED ECONOMIES

Source: Jordá, Schularick and Taylor Macrohistory Database, WB, Lane and Milesi-Ferretti EWN Database and own calculations. The line represents the (demeaned) natural rate estimated by the panel error-correction model. The contributions are the simple average of 17 countries: AU, BE, CA, DK, FI, FR, DE, IT, JP, NL, NO, PT, SP, SW, CH, UK and US

• **Trade openness** seems to be positively related to long-run interest rates

• **Global excess savings** are negatively related to long-run interest rates

• **Both factors interact:** more openness (but balanced) can put upward pressure to $r^*$, less openness (but imbalanced) can put downward pressure

• **Pre-COVID vs. Post-COVID dynamics?**