Navigating by $r^*$: safe or hazardous?

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Head of the Monetary and Economic Department
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*The views expressed are those of the author and not necessarily those of the BIS.
Central bank speeches mentioning the natural rate of interest

Sources: BIS central bankers’ speeches database; author’s calculations.
Estimates of natural interest rates

Variation across estimates

Average estimates have drifted down over time

$r^*$ estimates for US:
- Laubach and Williams
- Johannsen and Mertens
- Del Negro et al – VAR
- Christensen and Rudebusch

Sources: Armelius et al (2018); Carter et al (2019); Christensen and Rudebusch (2019); Del Negro et al (2017); Fries et al (2018); Holston et al (2017); Johannsen and Mertens (2016); Kiley (2015); Laubach and Williams (2003); Lubik and Matthes (2015); McCririck and Rees (2017); Sudo et al (2018); Bank of England (2018); BIS calculations.
r-star and its determinants

Demographic variables

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Lhs: Long-term real rates
Rhs: Dependency
Life expectancy

Median long-term rate across countries

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Median
Average

The common component of inflation drops

Time-varying fraction of variance attributable to the common component

US headline PCE components

The pass-through of “salient” relative price increases to core PCE has declined

Annex
Narrowing room for policy manoeuvre

Interest rates and central bank balance sheets

The changing nature of business cycle

The debt trap

Interest rates sink as debt soars

Sources: Bloomberg; Datastream; national data; author’s calculations.
Monetary policy loses traction

Response of the common component of sectoral price changes

Percentage of sectors with significant sector-specific price response

Percentage of sectors with significant price response