



100 YEARS
UNDERSTANDING
AND SHAPING
THE GLOBAL ECONOMY

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„Navigating unknown monetary territory – Coping with low interest rate regimes“

Setting the Stage

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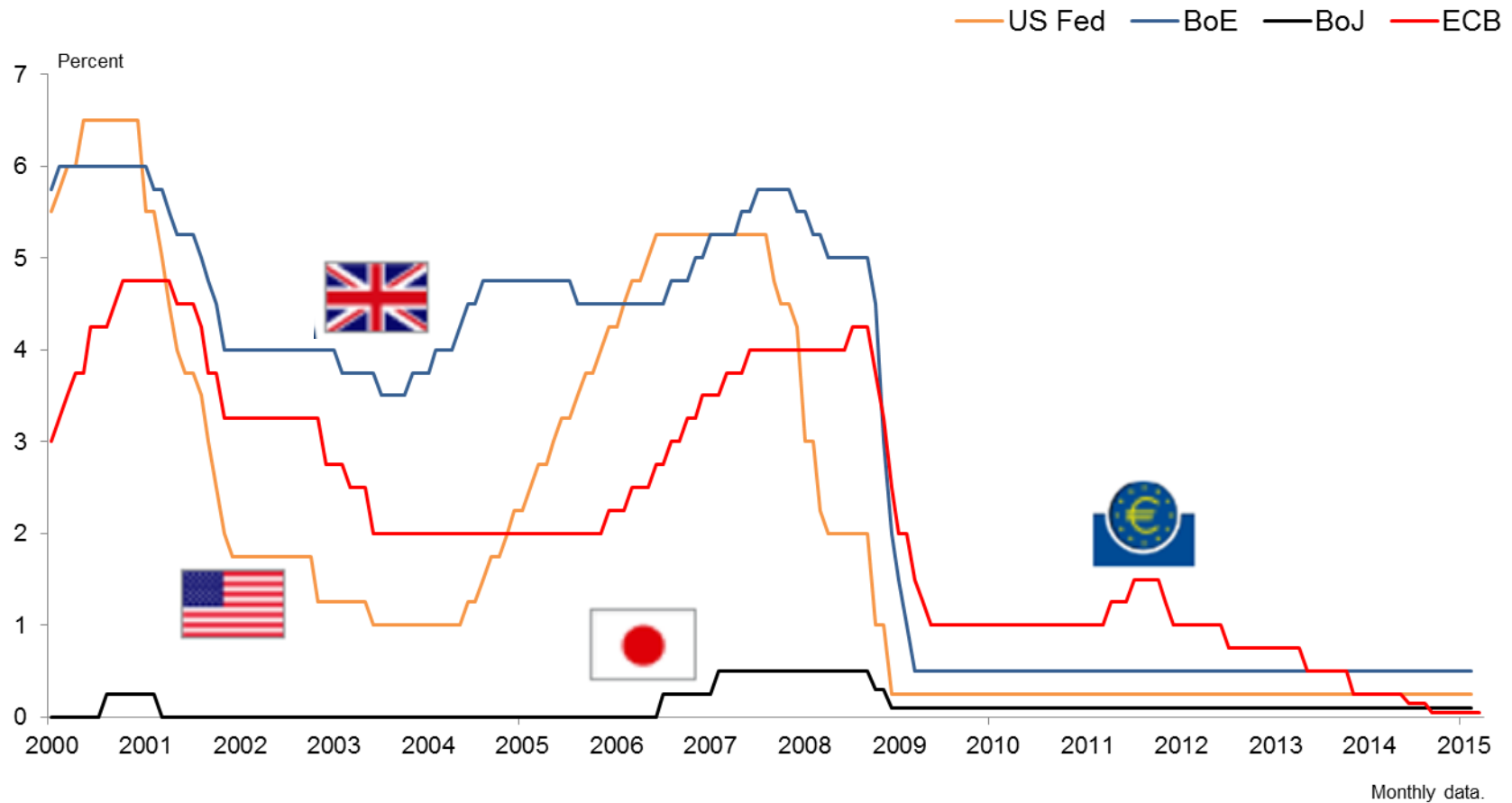
Global monetary environment

Monetary policy around the (Western) world:

Mankind's largest monetary
experiment of all peace times

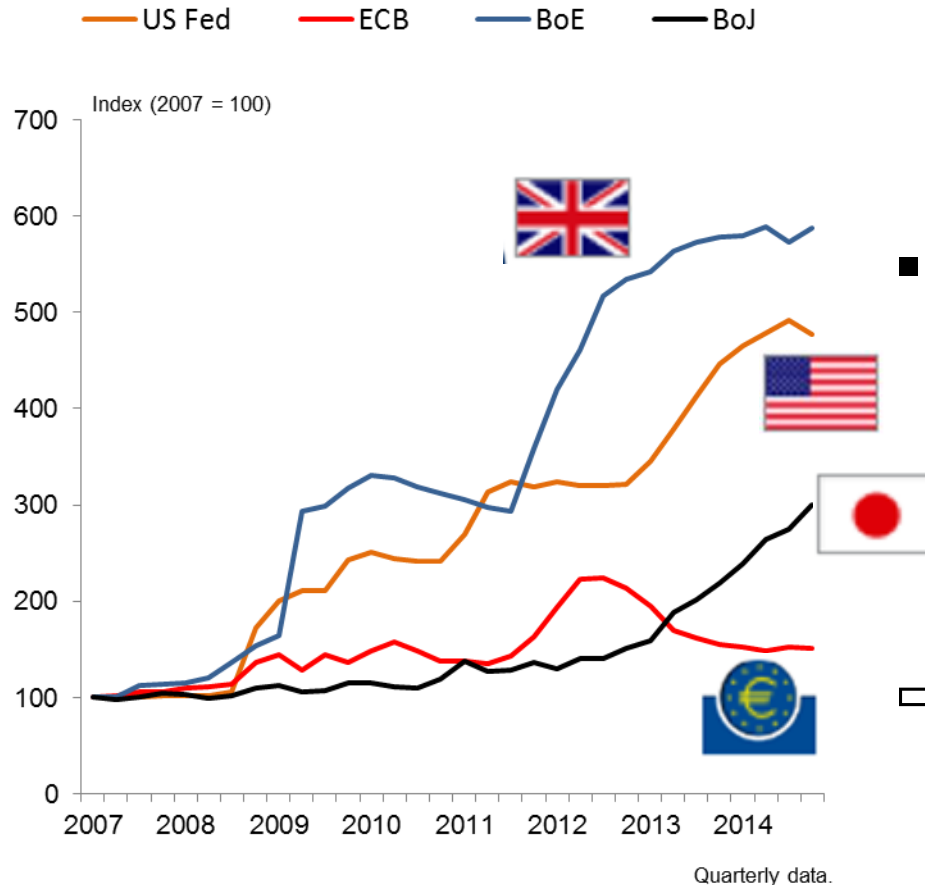
Monetary policy at the zero lower bound

Monetary policy rates



„Quantitative Easing“ at work

Monetary base



- Type 1:
Liquidity provision in times of financial turmoil

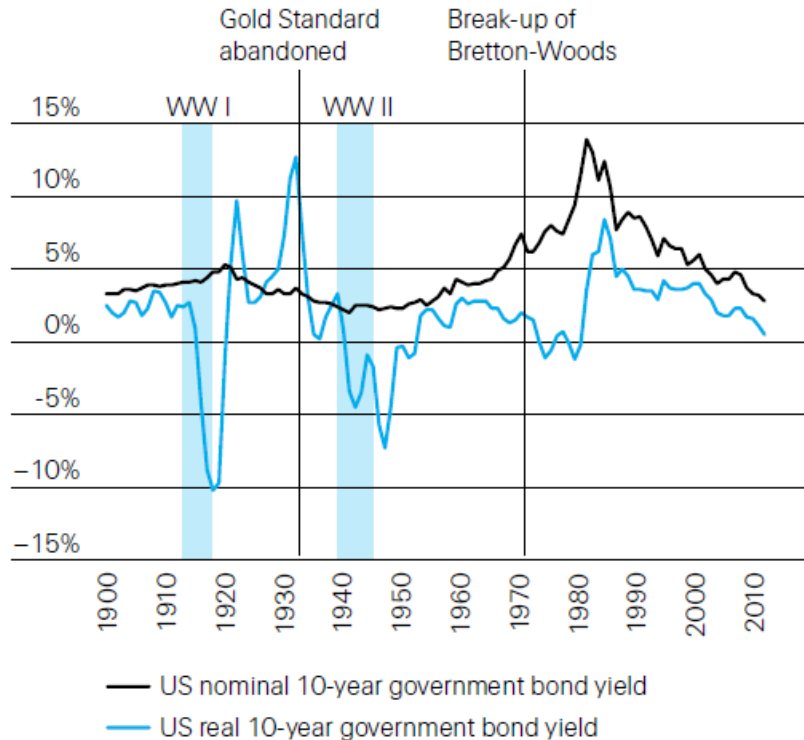
- Type 2:
Boosting demand at the zero lower bound

⇒ **Missing exit experience:
The story is not over yet**

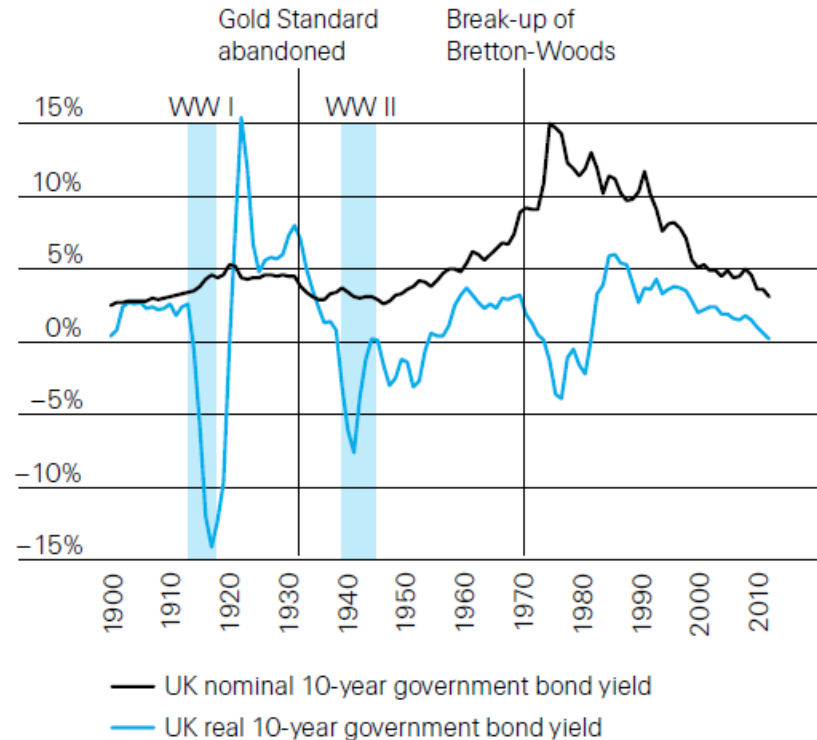
Interest rates: A centenary perspective

Nominal and real 10-year government bond yields 1900-2011

US



UK



Sources: Datastream; Homer Sidney and Richard Sylla, *A History of Interest Rates* (New Jersey: Wiley Finance, 2005); Swiss Re Economic Research & Consulting

- Interest rate regime transitions vs. ultra-low interest rate levels

The role of interest in society

Interest rates ...

- ... just another policy instrument for short-run aggregate demand management?
- ... or the price of time preference?
 - » Coordination of saving/investment decisions
 - » Shaping capital stock/production structure
(= future production portfolio possibilities)
 - » Reflected in all other prices

⇒ **„Capital gives money time to cause trouble.“ (Garrison)**

Global savings glut?

- Summers/CCvW:
“No investment opportunities for savings of ageing societies”
- Global savings rate on downward trend
 - » 1970: 26,0 percent
 - » 2013: 22,4 percent
- Global capital intensity of labor: Far from hitting any roofs
- If there was a global savings glut: Reduce production!

The role of central banks

- „Buying time“
 - » If interest is the price of time, why does buying more time go along with decreasing interest rates?
 - » Buying time = delaying adjustments (by increasing debt)
- „Heroes of the financial crisis“ (C. Lagarde)
 - » No link between pre-crisis credit expansion and the financial crisis?
 - » Addressing crisis symptoms with instruments that provoked distortions of the capital stocks in the first place (fighting debt with debt)
- „Central banks always manipulate interest rates“
 - » Not necessarily so (policy rates may follow market rates)
 - » Doses matter

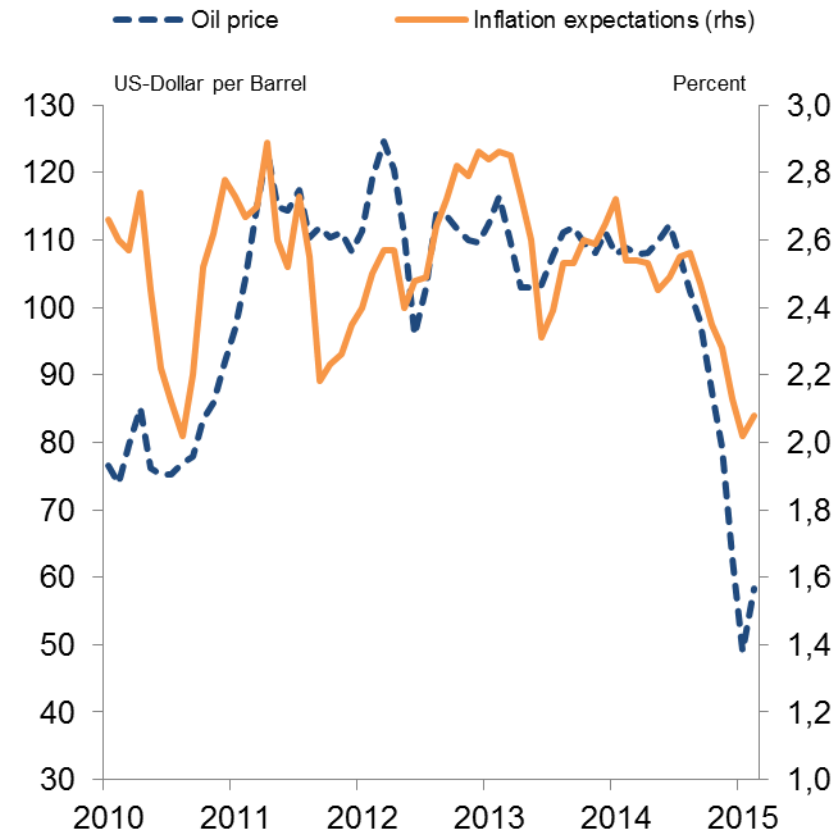
Inflation and deflation

- Two types of deflation
 - » Good deflation: Reflecting productivity gains/structural adjustments
 - » Bad deflation: Due to money supply contractions

- Inflation targeting and deflation phobia
 - » A misleading concept in times of heavy global productivity shifts?

Inflation expectations

United States: Inflation expectations and oil price

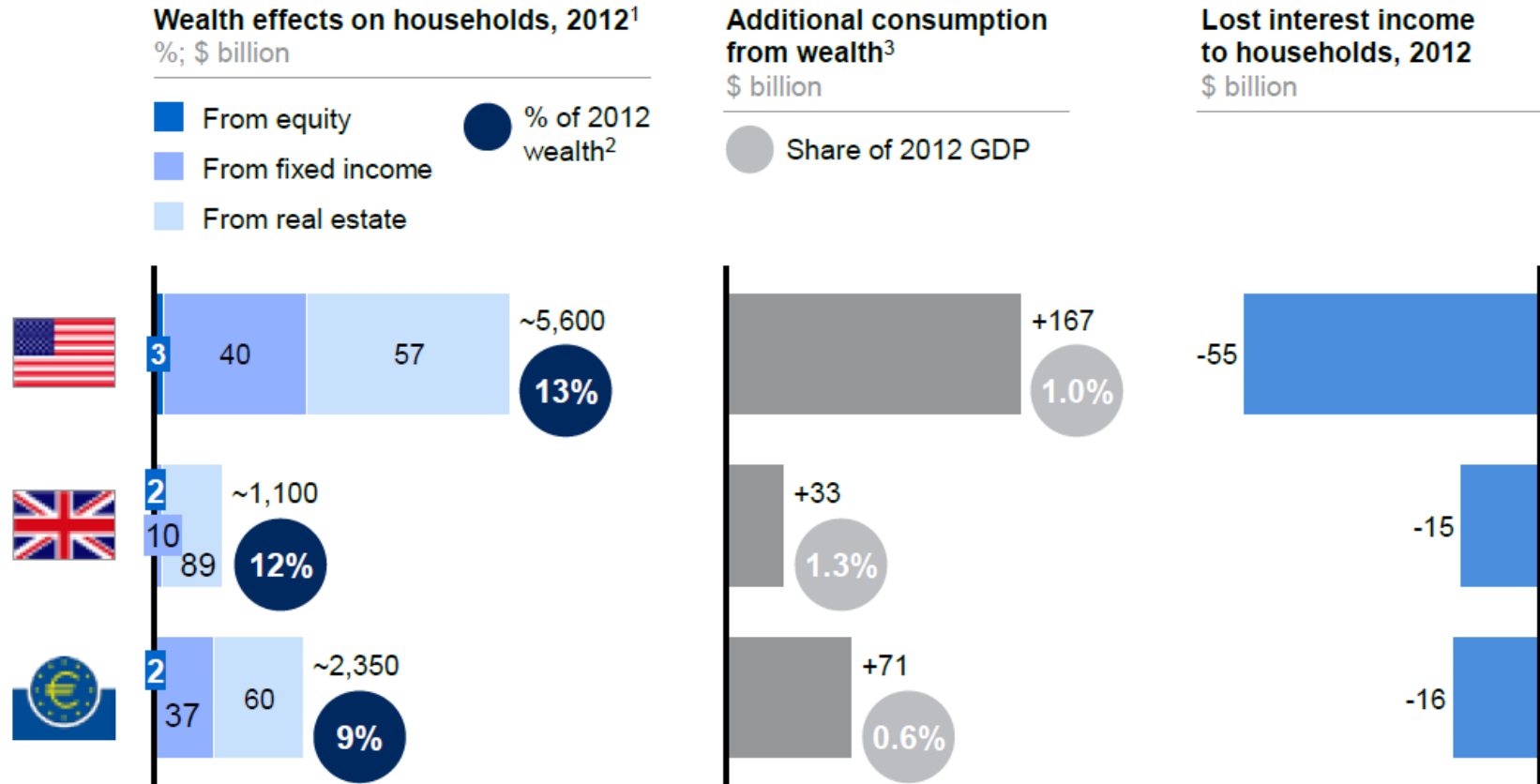


Monthly data.
Oil price: Brent; Inflation expectations: 5-year/5-year forward rate calculated from inflation indexed government bonds.

- Inflation targeting = stabilizing inflation expectations
- Oil as most effective asset to buy in QE programs???

Wealth effects of low interest rates?

Source: McKinsey Global Institute



1 Assuming counterfactual of a prevented decrease in equity and house prices and no increase in bond prices.

2 Includes real estate, equity and fixed-income holdings, including indirect holdings via mutual funds, defined-contribution pension funds, and variable-rate life insurance assets.

3 Assuming 3% pass-through to consumption from incremental wealth.

SOURCE: US Federal Reserve; Bloomberg; Eurostat; European Central Bank; Bank of England; UK Office for National Statistics; McKinsey Global Institute analysis

Where we go from here today

■ Country analysis

- » United States (*Adolfo Laurenti*)
- » Japan (*Gunther Schnabl*)

■ Policy issues

- » Searching for the „search for yield“ (*Bernd Amann*)
- » Unconventional monetary policy and foreign exchange markets (*Stefan Reitz*)

■ Corporate response

- » The impact of the low-interest-rate environment on the German insurance industry (*Rolf Ketzler*)
- » Corporate impact and response (*Christoph Kulik*)

⇒ Plenary discussion

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