

Macro Roundup Article

Headline: [Quo Vadis, \$r^*\$? The Natural Rate Of Interest After The Pandemic](#)

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Tweet: A @BIS_org analysis of the natural rate of interest suggests the rate has risen in the post-pandemic period however there is considerable uncertainty about its current level.

Summary: We assess the post-pandemic natural rate from different perspectives. A review of various established measures of r^* in core advanced economies suggests that it may indeed have increased. That said, there is considerable dispersion across estimates and high statistical uncertainty around individual estimates. The recent behaviour of the structural drivers of r^* does not paint a clear-cut picture either. Low expected potential growth and rising longevity may continue to weigh on r^* . Several other factors may exert upward pressure though, including persistently large fiscal deficits due to rising age-related spending as well as higher public investment needs for infrastructure, defence, and the green transition. Moreover, and less often appreciated, monetary policy itself could have a non-negligible effect on natural rates and perceptions thereof, through debt accumulation and beliefs about r^* . As such, the recent reemergence of upside inflation risks inducing a tighter monetary policy stance going forward may have pushed at least perceptions of r^* higher.

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Primary Topic: Business Cycle

Topics: Business Cycle, Financial Markets, GDP, Other Source

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