

## Macro Roundup Article

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

**Article Link:** [https://www.bis.org/publ/qtrpdf/r\\_qt2403b.htm](https://www.bis.org/publ/qtrpdf/r_qt2403b.htm)

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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. Related: The Future Of  $r^*$  and The Price of Money Is Going Up, and It's Not Only Because of the Fed and Global Natural Rates in the Long Run: Postwar Macro Trends and the Market-Implied  $r^*$  in 10 Advanced Economies

**Primary Topic:** Business Cycle

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

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