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Headline: The Future Of r*

Article Link: https://blog.rangvid.com/2023/12/10/the-future-of-r/

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Tweet: Jesper Rangvid examines links between trend growth and future equilibrium interest rates and concludes that “a nominal r* of around 3.5 is probably not a super crazy assumption,” with a risk of higher rates from unprecedented levels of government debt.

Summary: Let me emphasise what I am saying so that I am not misunderstood. I am saying that rates are likely to be low in the long run, compared to the historical average of recent decades, but not as low as immediately before the pandemic. That means we should not expect rates to be very much lower than they are today, a little lower, but not very much. An example, which is not a prediction but is meant to illustrate the point, is that a nominal r* of around 3.5 is probably not a super crazy assumption. With the 10-year Treasury bond currently trading at just over 4%, this implies slightly lower rates than today, but not much lower rates. At the same time, I think there is in particular one thing that could alter this picture: very high debt levels. I think exploding debt, particularly in the US, is probably the biggest risk to the base case scenario of low equilibrium interest rates in the future. Related: Have Interest Rates Risen Fundamentally? and What Have We Learned About the Neutral Rate? and Measuring the Natural Rate of Interest After COVID-19

Primary Topic: Financial Markets

Topics: Financial Markets, Fiscal Deficits, Fiscal Policy, GDP, Growth, Op-Ed/Blog Post, Weekly

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