Navigating by \( r^* \): safe or hazardous?

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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

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.
The changing nature of business cycle

Inflation

Short-term interest rate

Credit-to-GDP gap

Quarters around beginning of recessions

1970–85  Since 1985

r-star and its determinants

Demographic variables

Median long-term rate across countries

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

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

Source: C Borio, P Disyatat, D Xia and E Zakrajšek, "Monetary policy, relative prices and inflation control: flexibility born out of success", forthcoming.
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

Source: C Borio, P Disyatat, D Xia and E Zakrajšek, "Monetary policy, relative prices and inflation control: flexibility born out of success", forthcoming.
Narrowing room for policy manoeuvre

Interest rates and central bank balance sheets

Interest rates sink as debt soars

Sources: Bloomberg; Datastream; national data; author’s calculations.