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Slower growth has affected the monetary policy environment and interest rates

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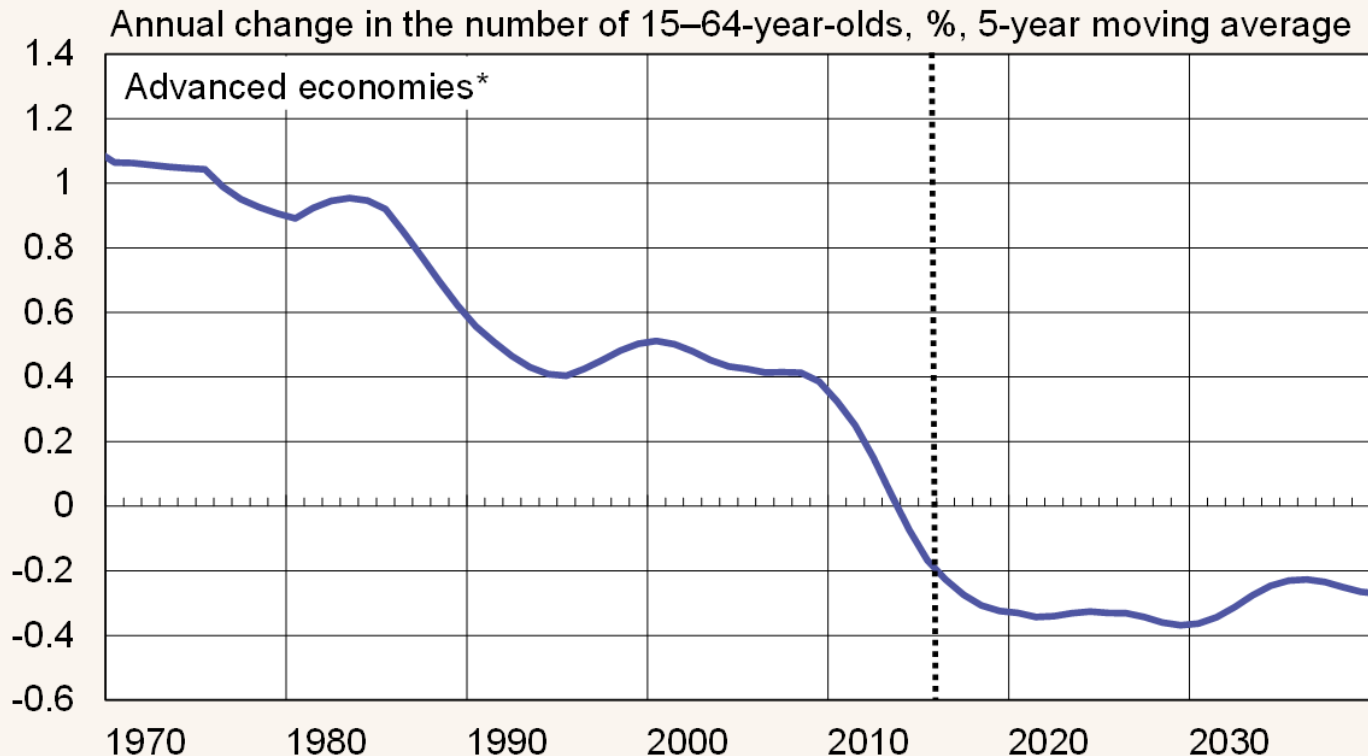
- 1. Slower growth has affected the monetary policy environment and interest rates**
- 2. ECB monetary policy accommodative**
 - Banks' situation has improved and lending recovered**
- 3. A great deal of public discussion on monetary policy in summer 2016**



Slower growth has affected the monetary policy environment and interest rates



Growth in working-age population has slowed in advanced economies

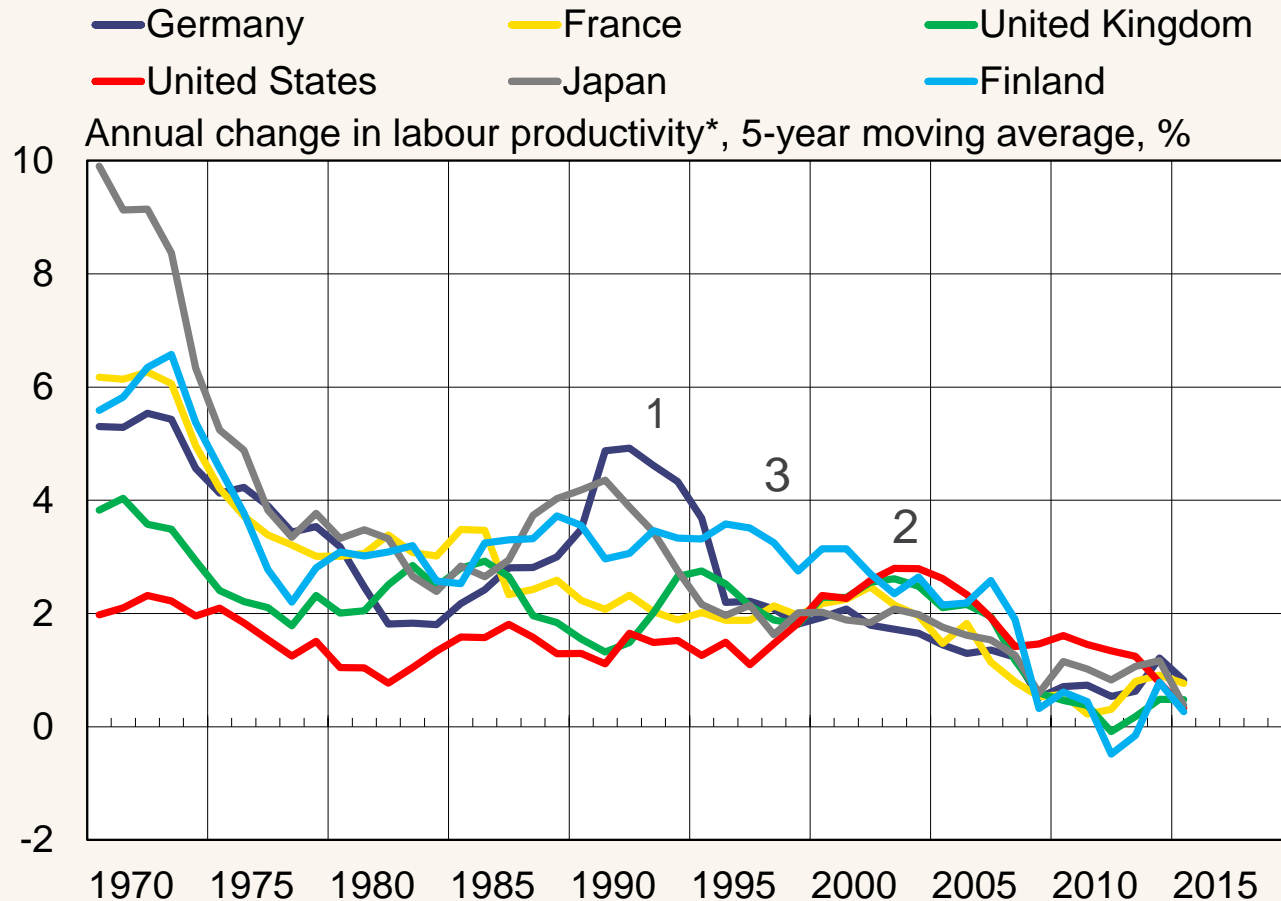


*) Europe, North America, Australia, New Zealand and Japan.

Source: UN.



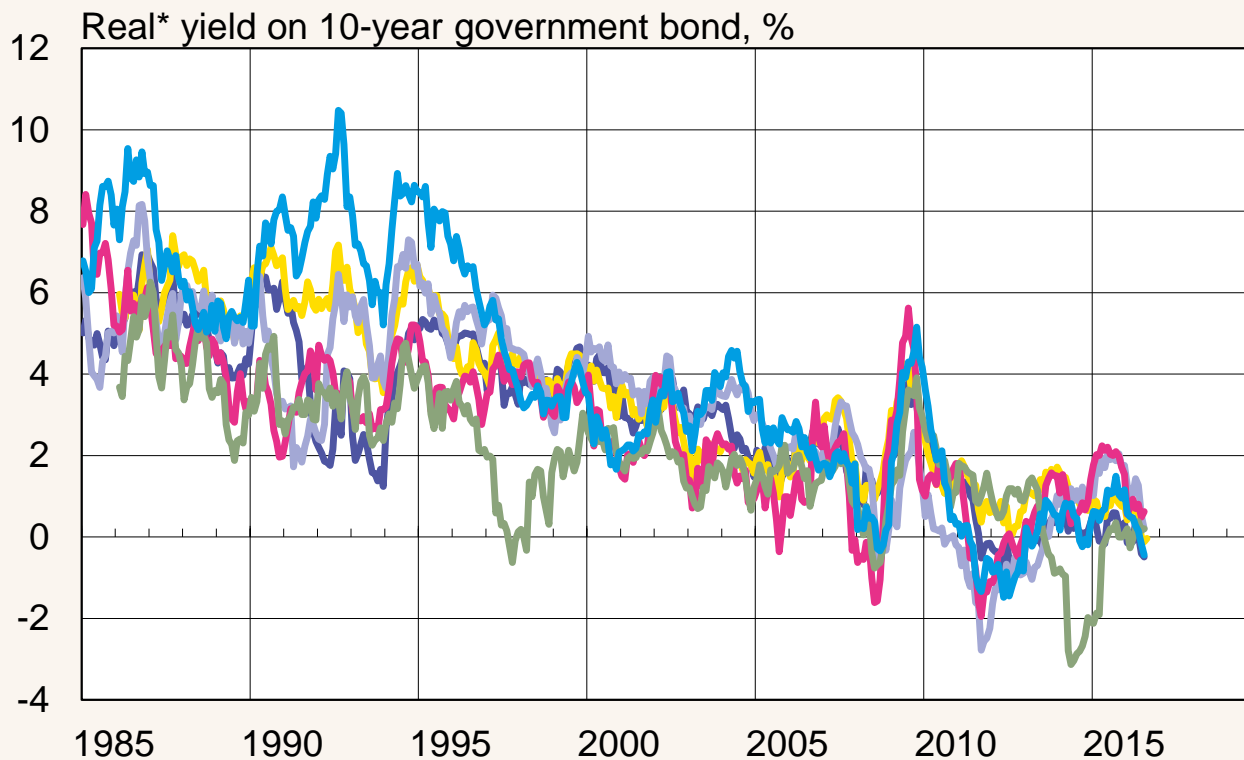
Growth in labour productivity has slowed in advanced economies





Long-term real interest rates have declined worldwide

Germany France United Kingdom
United States Japan Finland



*) Difference between nominal interest rate and actual 12-month inflation rate.
Sources: Macrobond and OECD.



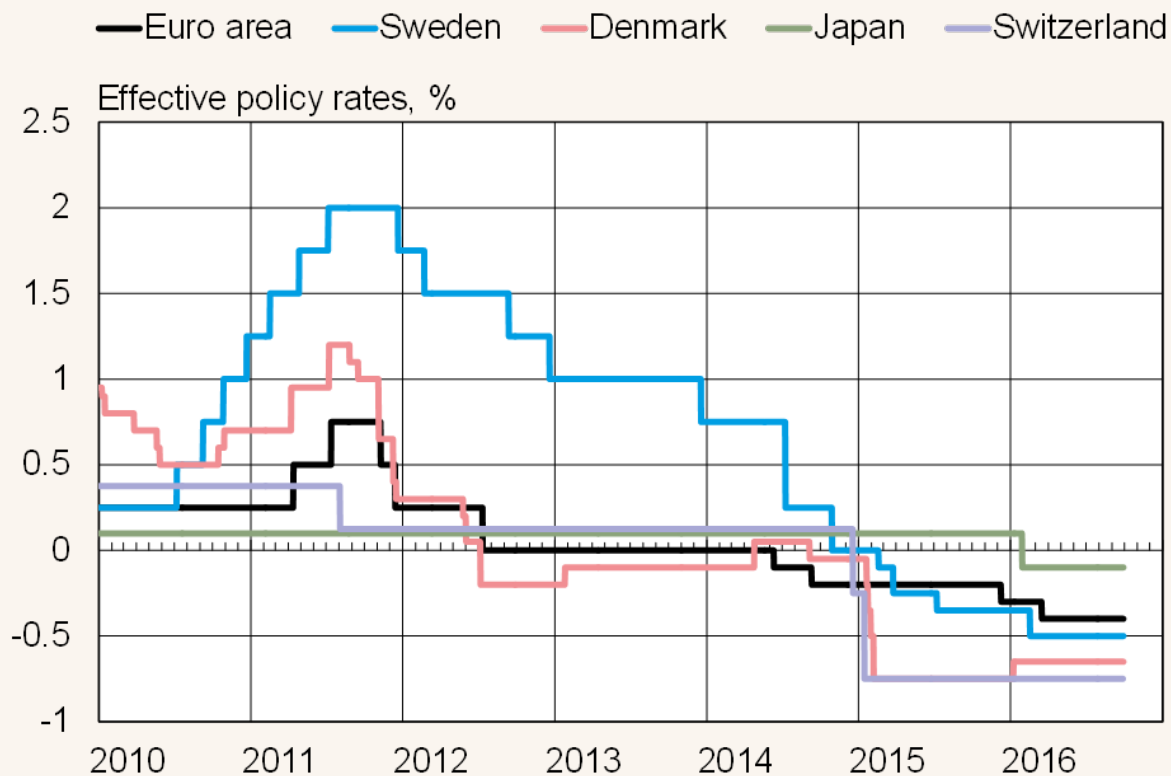
Natural rate of interest has decreased (*)

- ***Natural rate of interest = the real interest rate that prevails when the output of the economy is at its potential level and price developments are stable***
- ***The natural rate of interest has decreased in advanced economies as the expected growth of potential output has declined***
 - ***Space for normal monetary policy has diminished***
- ***If monetary policy is to support the economy, the policy rate must be below the natural rate of interest and, if monetary tightening is desired, the policy rate must be above the natural rate of interest.***

(*) See. *Houston, Laubach & Williams, FRBSF Wp. 2016-11, Lauri Vilmi, E&t 4/2016*).



Central banks have lowered their policy rates



Source: Macrobond.

Effective policy rates: Euro area: deposit rate; United States: fed funds rate; United Kingdom: O/N interbank rate; Japan: deposit rate; Sweden: repo rate; Denmark: certificates of deposit rate; Hungary: deposit rate; Switzerland: 3-month libor target.



Real deposit rates have varied



Source: ECB, Eurostat and calculations by the Bank of Finland.
Calculated as the difference between the nominal interest rate on fixed-term deposits from households and the consumer price index.



ECB monetary policy accommodative

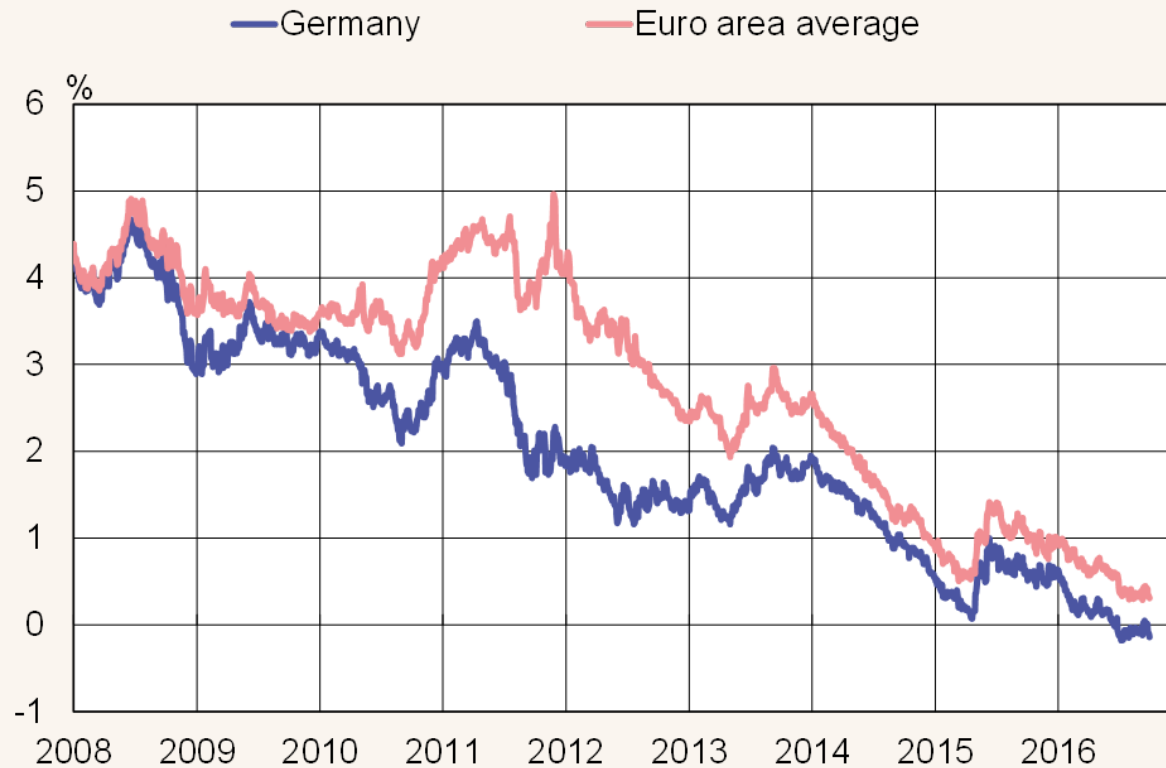
- ***Governing Council of the ECB kept key decisions unchanged at its meeting on 8 September 2016***

- ***Currently valid monetary policy measures***
 - *Policy rates low (deposit facility interest rate -0.4%)*
 - *Expanded asset purchase programme (EUR 1,740 billion until March 2017)*
 - *Targeted longer-term refinancing operations*
 - *Corporate sector purchase programme*

- ***Forward guidance***
 - *Monetary policy to remain accommodative for an extended period*



Euro area sovereign bond yields low ...

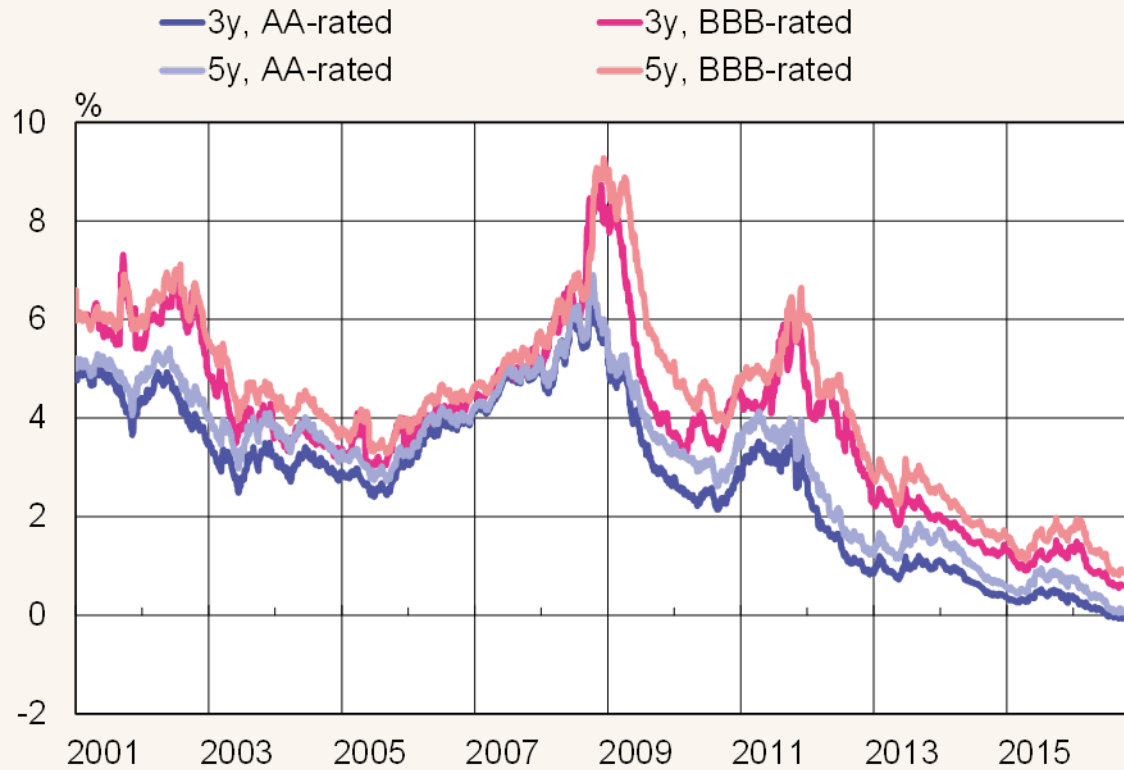


Source: Macrobond.



... and corporate funding costs down

Interest rates on corporate bonds



Source: Marcobond.

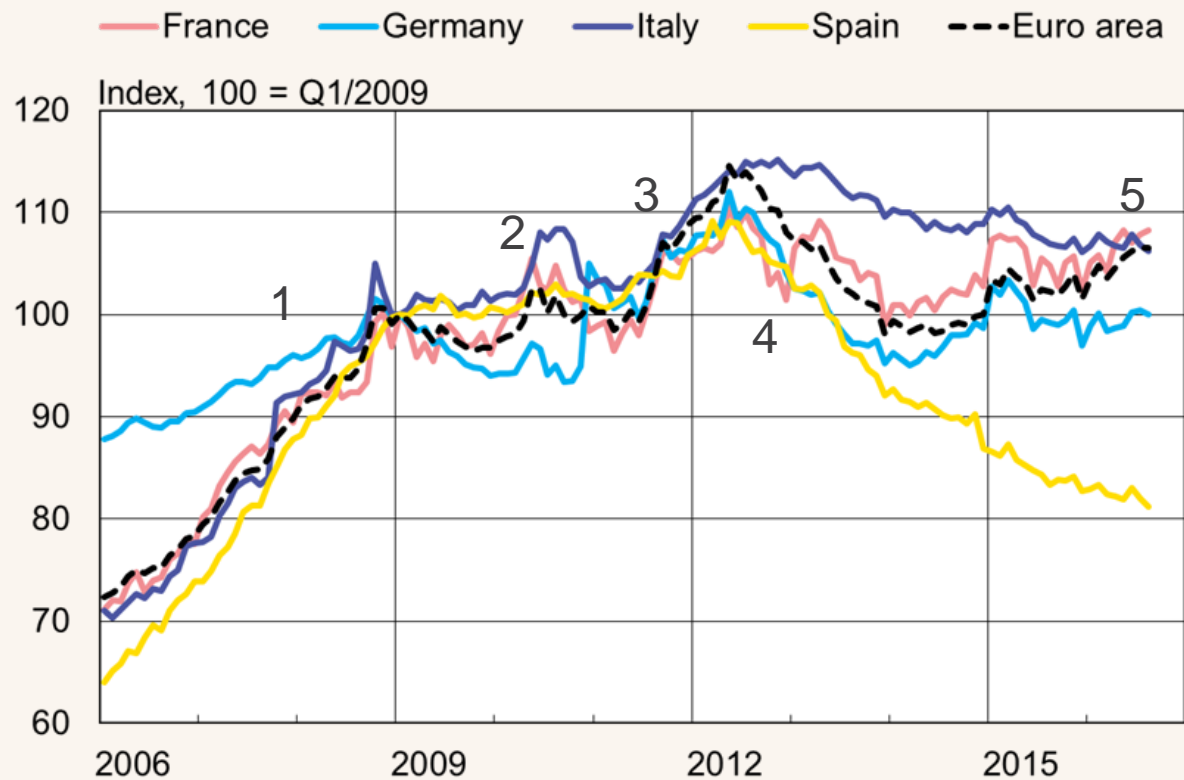


Position of euro area banks' improved and lending recovered



Contraction of banking sector assets halted

Aggregate banking sector assets



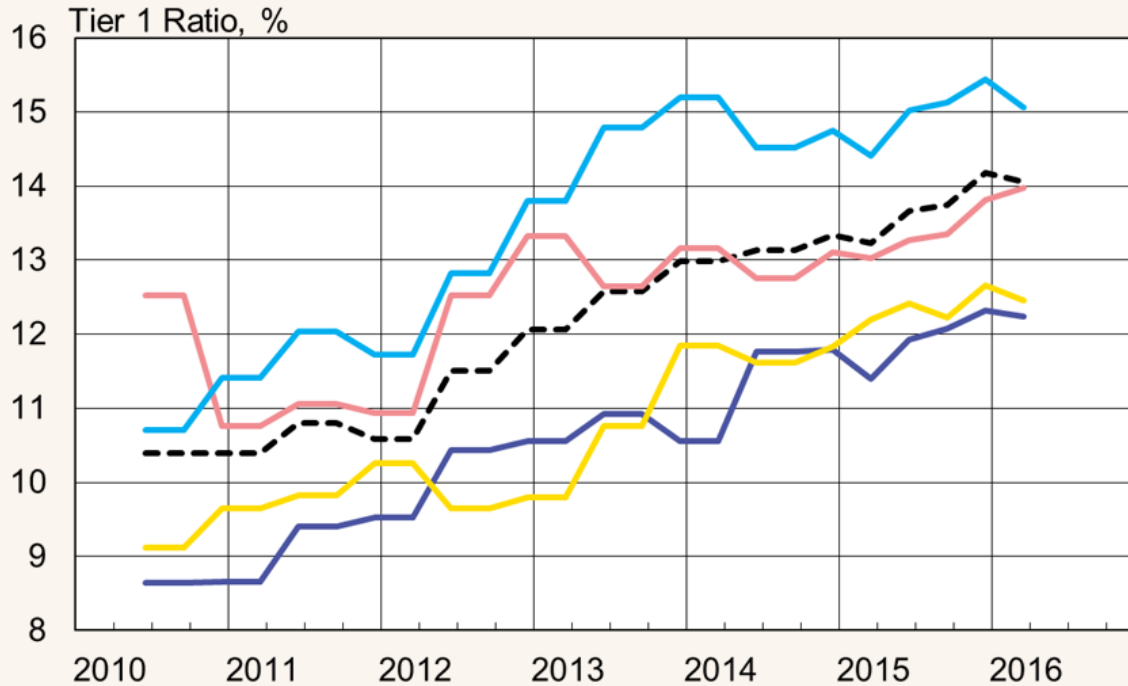
Sources: ECB and Macrobond.



Banks' capital adequacy improved

Capital adequacy ratio

---Euro area — France — Germany — Italy — Spain

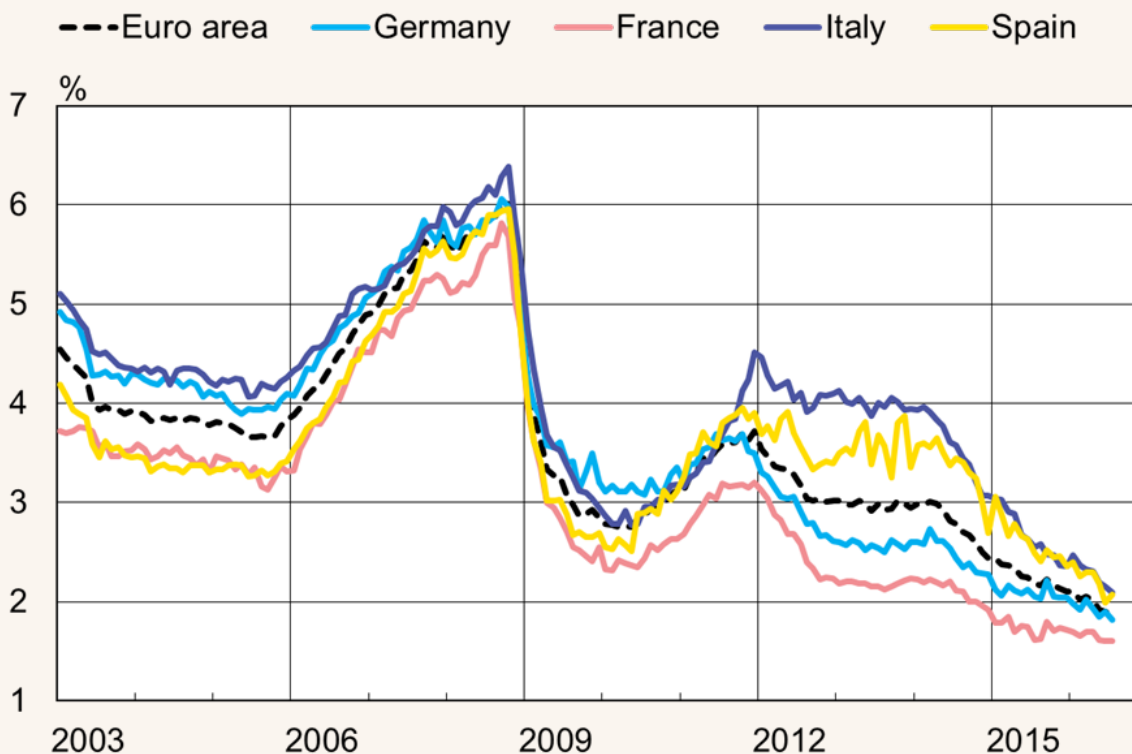


Sources: ECB and Macrobond.



Interest rates low on new corporate loans...

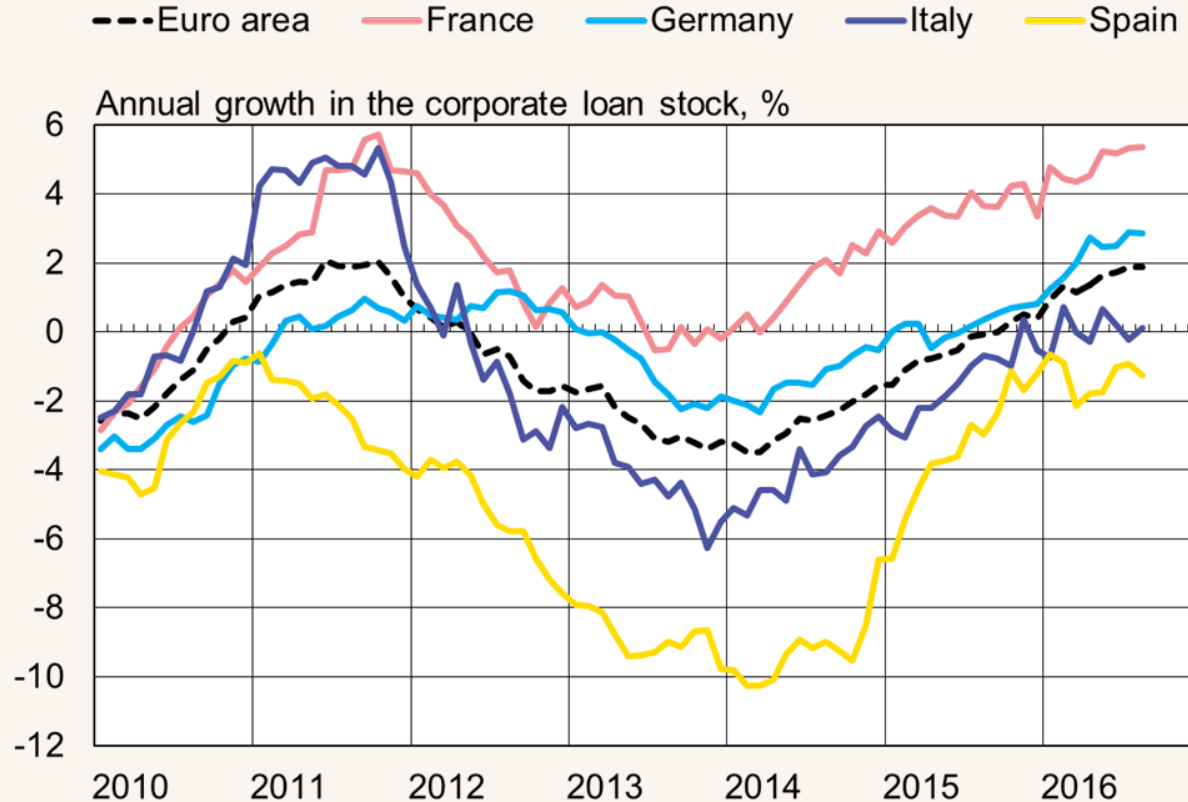
Average interest rate on new corporate loans



Sources: ECB and Macrobond.



...and loan stocks growing



Sources: ECB and Macrobond.

Loan stocks adjusted for balance sheet transfers and securitisation.



A lot of public debate on monetary policy in summer 2016

- ***Secular stagnation and its causes***
- ***Impacts of slow growth and a lower natural rate of interest***
- ***Conduct of monetary policy in a new environment***
 - ***Are negative interest rates and extensive securities purchases a permanent part of the monetary policy toolkit?***
 - ***Size of central bank balance sheet – is large balance sheet permanent?***
 - ***Negative monetary policy rates – how low can they be cut without significant adverse effects?***
 - ***Inflation target – should it be raised?***



Notable contributions to the monetary policy debate in summer 2016

Benoît Cœuré: *Assessing the implications of negative interest rates*, New Haven, July 2016.

Benoît Cœuré: *The ECB's operational framework in post-crisis times*, Jackson Hole, August 2016.

Ben S. Bernanke: *The Fed's shifting perspective on the economy and its implications for monetary policy*

Ben S. Bernanke: *Modifying the Fed's policy framework: Does a higher inflation target beat negative interest rates?*

James Bullard: *A New Characterization of the U.S. Macroeconomic and Monetary Policy Outlook*, London, June 2016.

Mario Draghi: *Delivering a symmetric mandate with asymmetric tools: monetary policy in a context of low interest rates*, Vienna, June 016.



Notable contributions to the monetary policy debate in summer 2016 (continued)

Stanley Fischer: *Remarks on U.S. Economy, Aspen, August 2016.*

Robin Greenwood, Samuel G. Hanson and Jeremy C. Stein: *The Federal Reserve's Balance Sheet as a Financial-Stability Tool, Jackson Hole, August 2016*

David Reifschneider: *Gauging the Ability of the FOMC to Respond to Future Recessions, Finance and Economics Discussion Series 2016-068.*

Lawrence H. Summers: *The Age of Secular Stagnation, Foreign Affairs. Mar/Apr 2016.*

Janet L. Yellen: *The Federal Reserve's Monetary Policy Toolkit: Past, Present, and Future, Jackson Hole, August 2016.*

John C. Williams: *Monetary Policy in a Low R-star World, FRBSF Economic Letter, August 2016.*



Thank you!