Discussion of "On secular stagnation and low interest rates: demography matters" by Guiseppe Ferrero, Marco Gross and Stefano Neri

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Bank of Finland – CEPR Conference on Demographics and the Macroeconomy, Oct 13, 2017

Paper in a nutshell

Estimate panel VAR for a set of euro area countries with

1. population growth, and
2. dependency ratio

as exogenous variables.

Conditional path of macroeconomic variables given no-population-change in 2006–2015 to deduct what is the contribution of demographic variables to various macroeconomic variables.

Significant variables in euro area

- consumption,
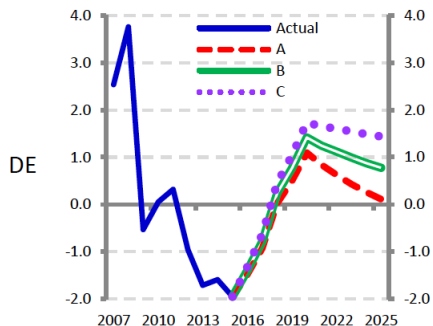- potential output,
- unemployment, and
- investment deflator.
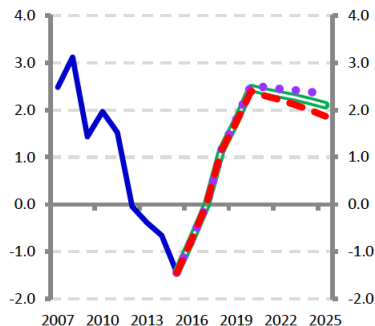
Real short rate seems to respond

Short-term real interest rate
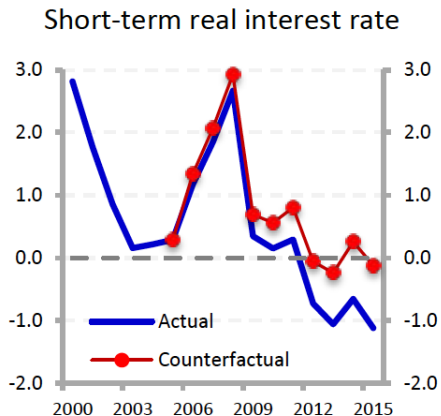
But it is not significant!

Whereas long rate does not respond
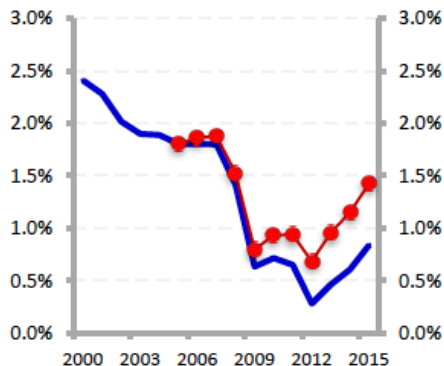

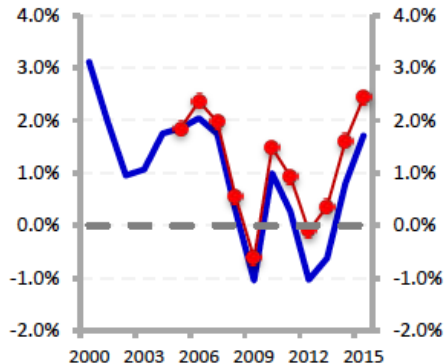Real short-term rate   Real long-term rate

DE

(Germany as an example.)

Demographics has a significant impact on potential output and consumption growth
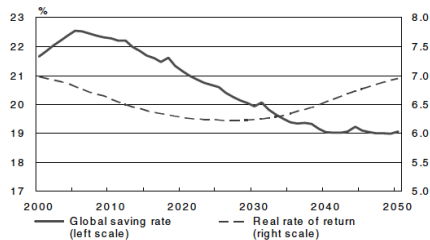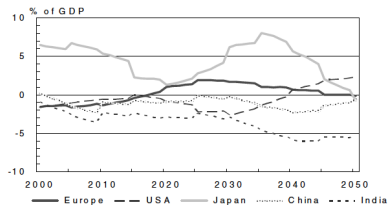

Potential output

Consumption growth

Comments: open economy

In an open economy, current account responds   and real rate portrays global demographic trends
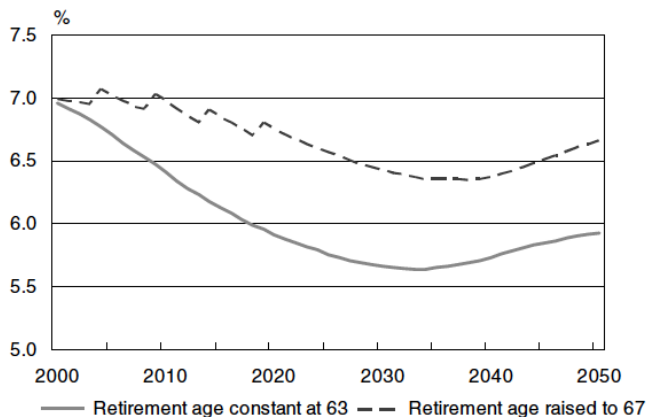

Figure 3b. Current accounts

Source: Saarenheimo (2005): Ageing, interest rates and financial flows. BOF DP 2/2005.

Comments: pension system

Parameters of the pension system play important role! Euro area data has variation in pension systems.

Figure 5b. Real interest rates with tax cap

Retirement age constant at 63 — — Retirement age raised to 67

Source: Saarenheimo (2005)

Comments: other

What is the correct interest rate variable?

Return to capital? Long term interest rate of corporate bonds? Stock premium?

Responses forced similar across countries

Statistical model assumes the same VAR coefficients in all countries. This is a neat way to tackle the curse of dimensionality. Is there a Bayesian way to tackle the issue, eg common prior?