

Discussion of

“The Case for Unencumbering Interest Rate Policy at the Zero Bound”

by Marvin Goodfriend

Federal Reserve Bank of Kansas City
Economic Symposium in Jackson Hole 2016

August 26, 2016

S V E R I G E S R I K S B A N K



Marianne Nessén

Head, Monetary
Policy Department

The views expressed here are my own and do not necessarily reflect those of the Executive Board of Sveriges Riksbank.



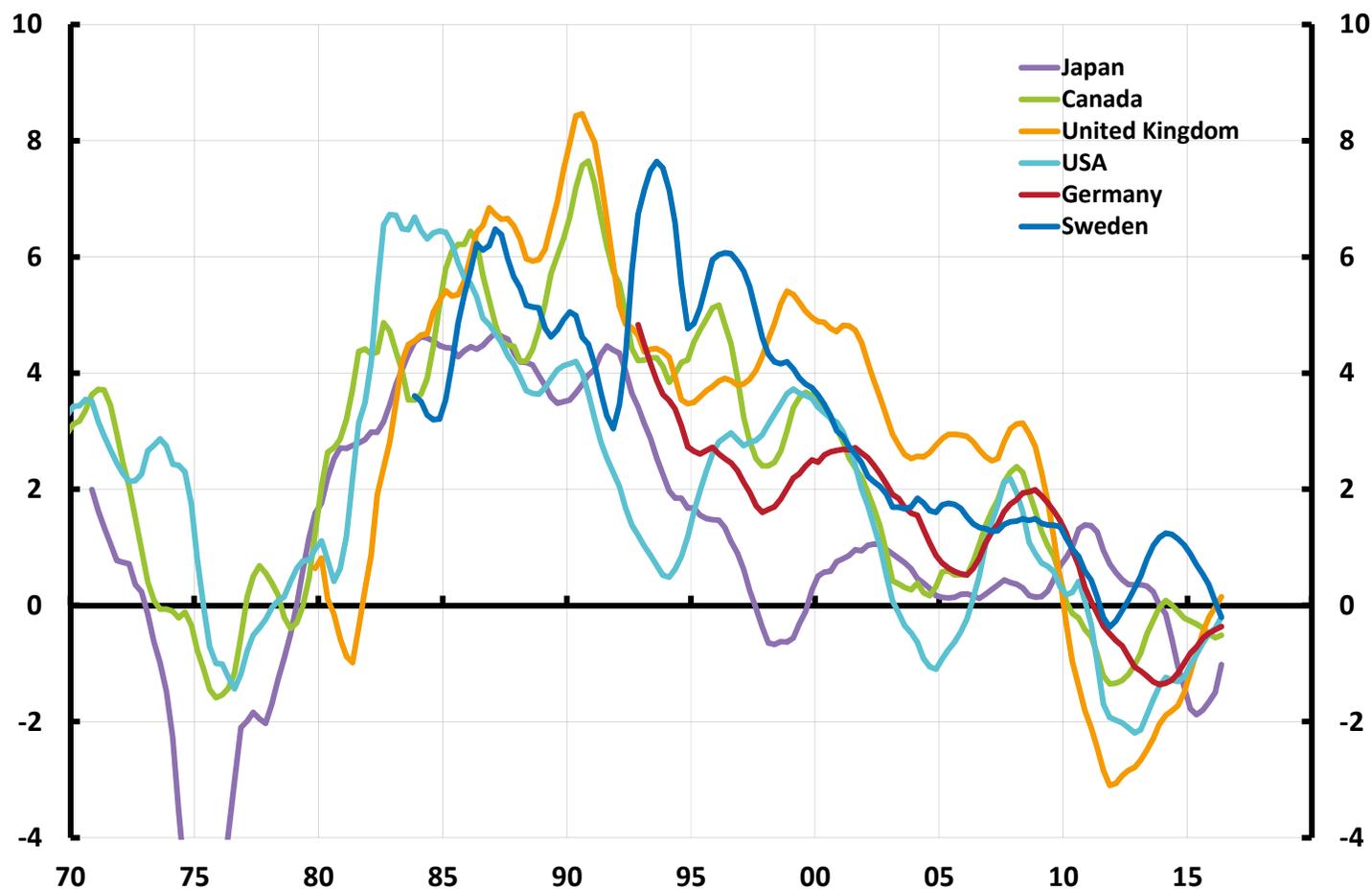
Main points of Goodfriend's paper

- Expected low natural rates and low inflation =>
limited scope for interest rate policy
unless lower bound removed altogether
- Provides suggestions on how the lower bound can be removed

My discussion

- A. Declining interest rates and the role of monetary policy
- B. International experience with 'mildly' negative interest rates
- C. Perspectives on 'deeply' negative interest rates

Declining real interest rates

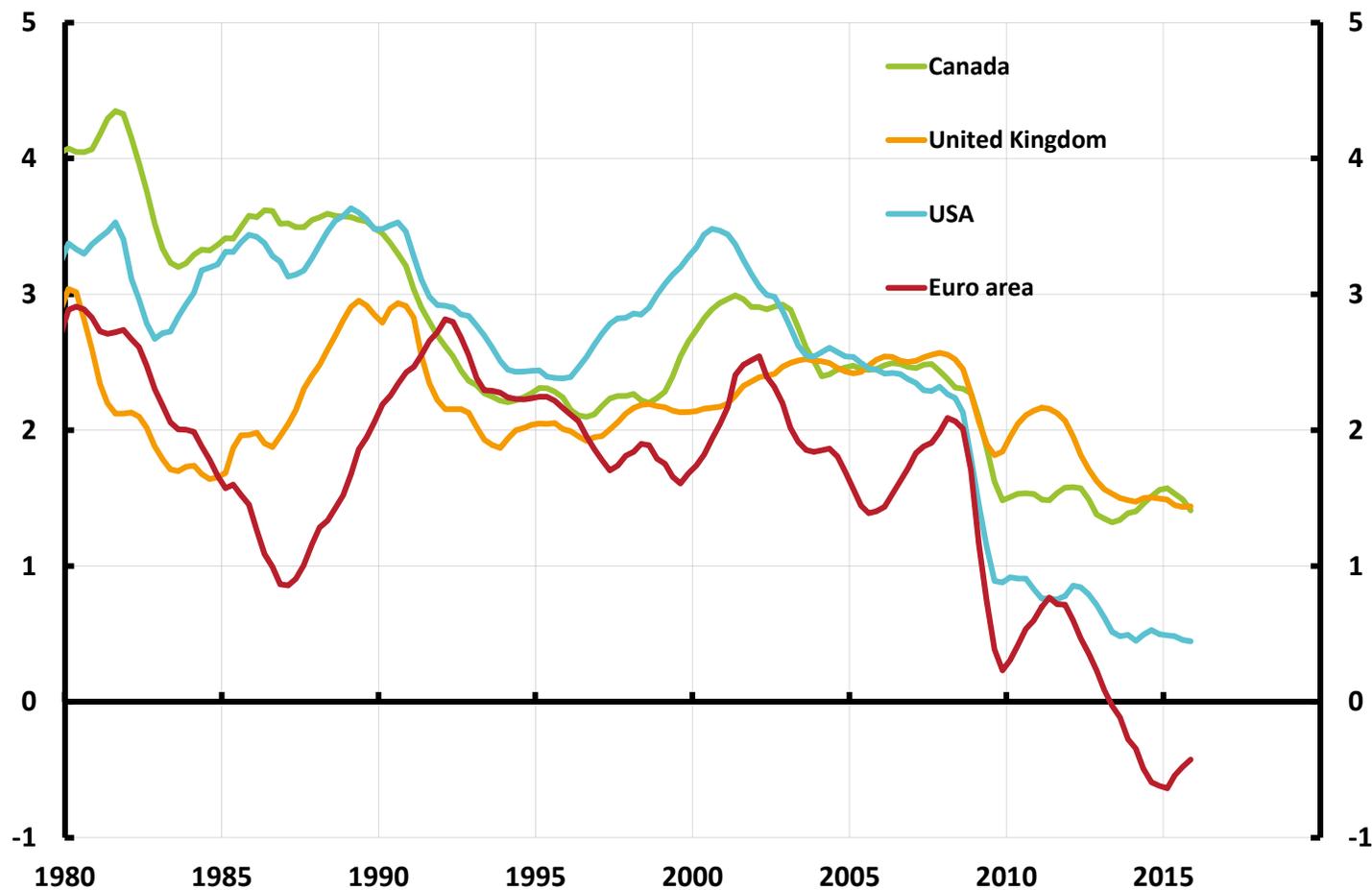


Note: Per cent. The figure shows a 2-year moving average of nominal 3-month risk-free interest rates minus actual annual CPI inflation.

Source: OECD

Secular decline in the natural rate

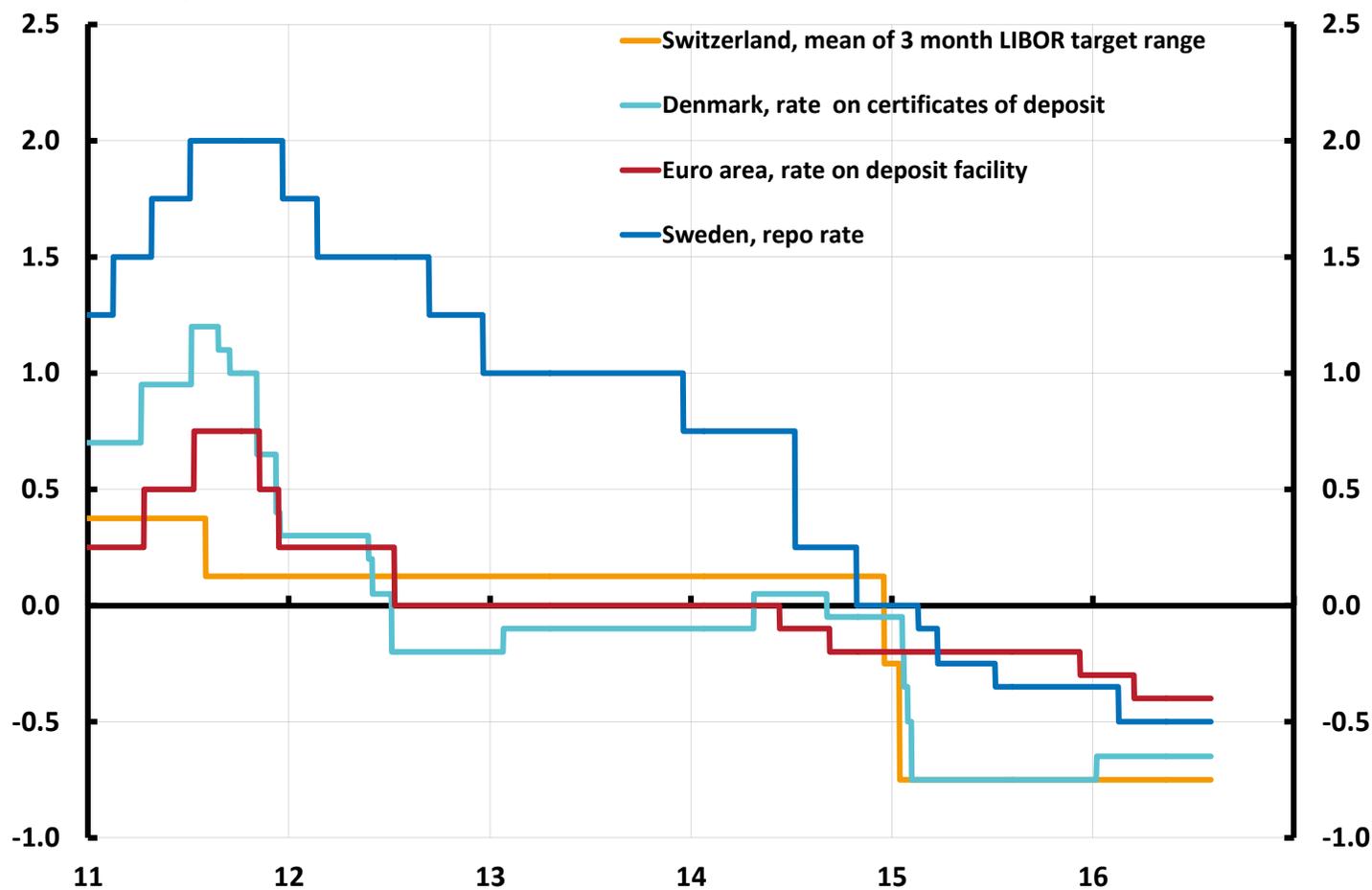
Estimate of the real natural interest rate from Holston, Laubach and Williams (2016)



Note: Per cent. Four-quarter moving averages.

Source: Holston, Laubach and Williams (2016), "Measuring the Natural Rate of Interest: International Trends and Determinants", FRBSF Working Paper 2016-11

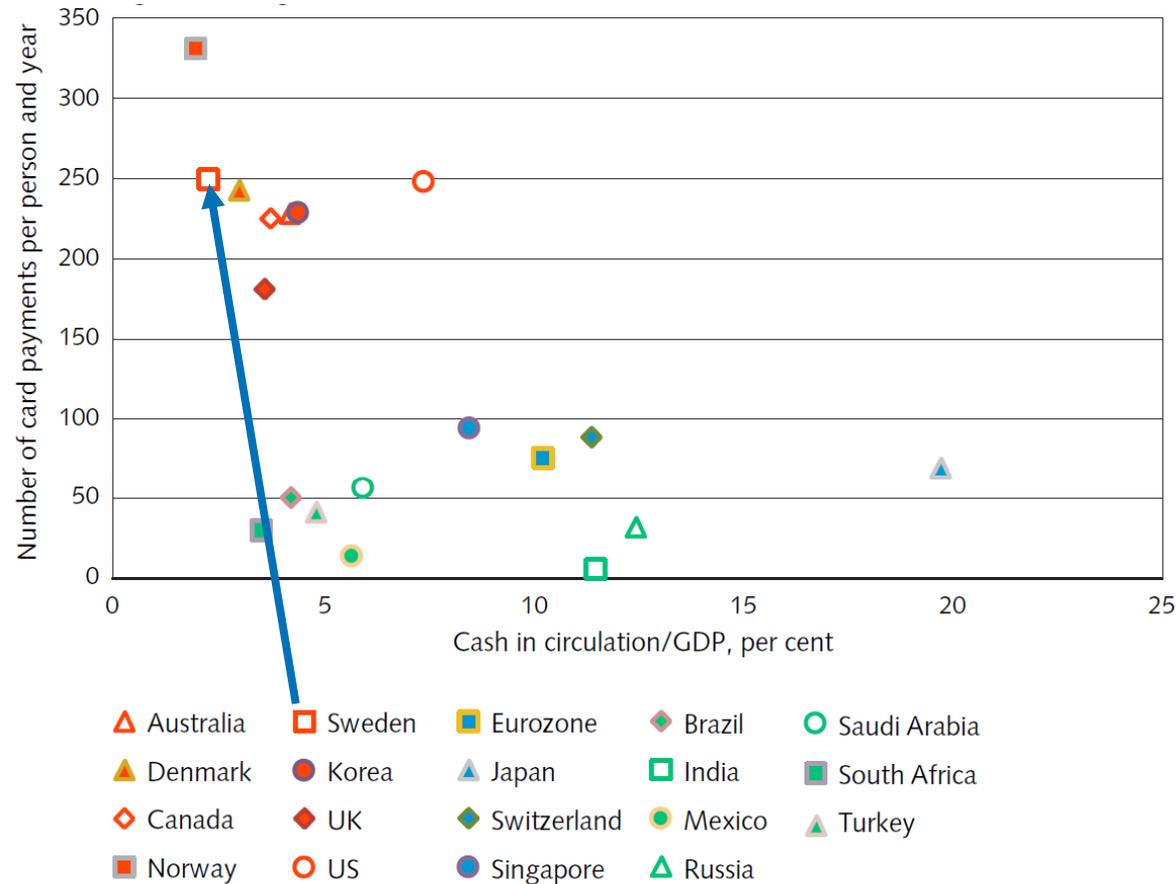
Negative policy interest rates in Europe



Note: Per cent.

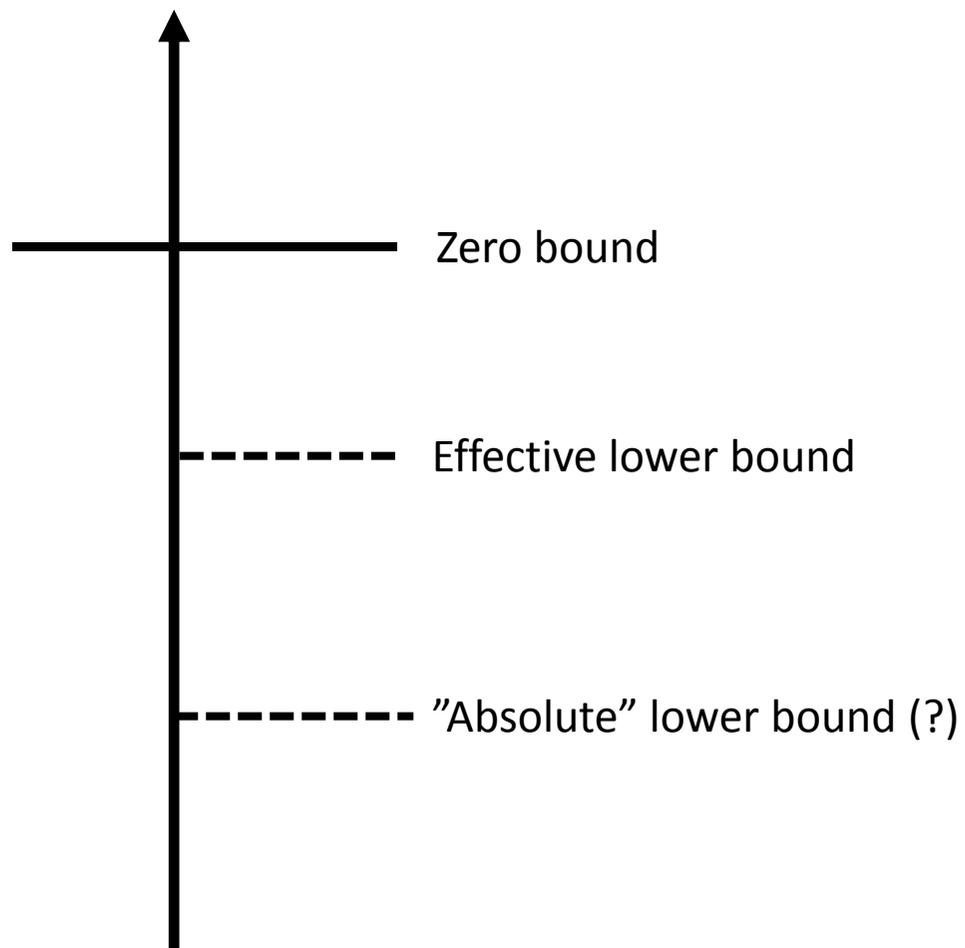
Sources: Macrobond and the Riksbank

Usage of cards and cash in circulation – selection of countries (2013)



Sources: CPMI (2014b), ECB Statistical Warehouse and Norges Bank

Having breached zero...



Perspectives on 'deeply' negative interest rates

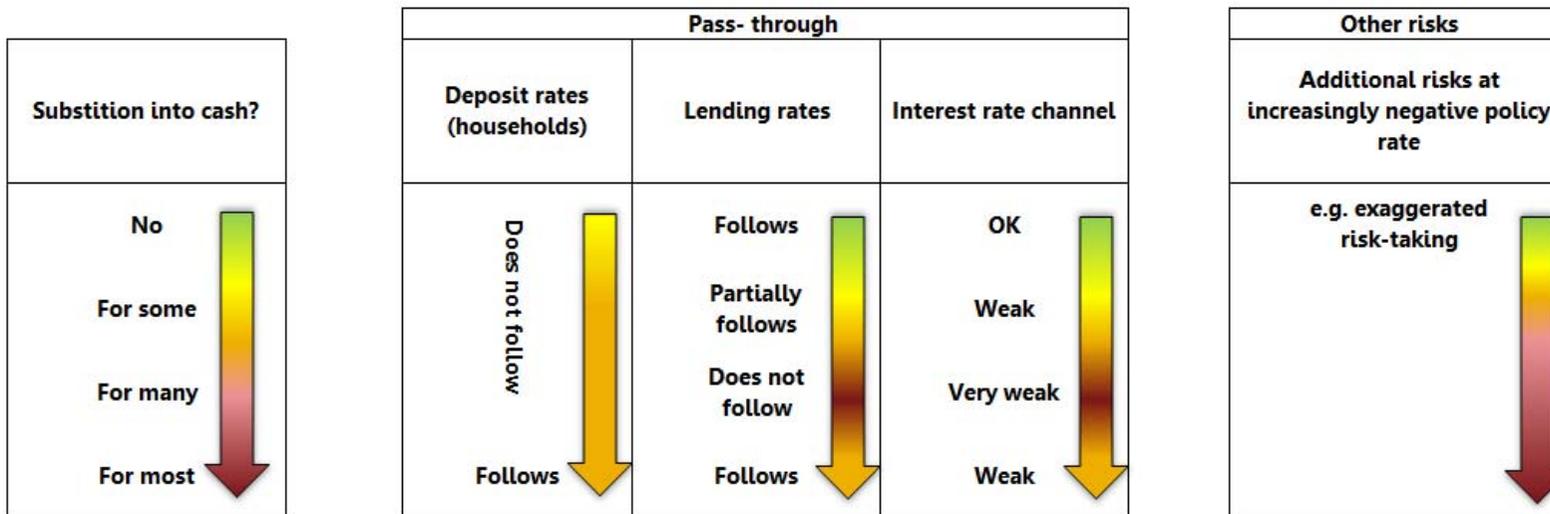


- Unchartered territory
- Social conventions
- Effects on financial intermediation



Extras

Riksbank framework for identifying the effective lower bound



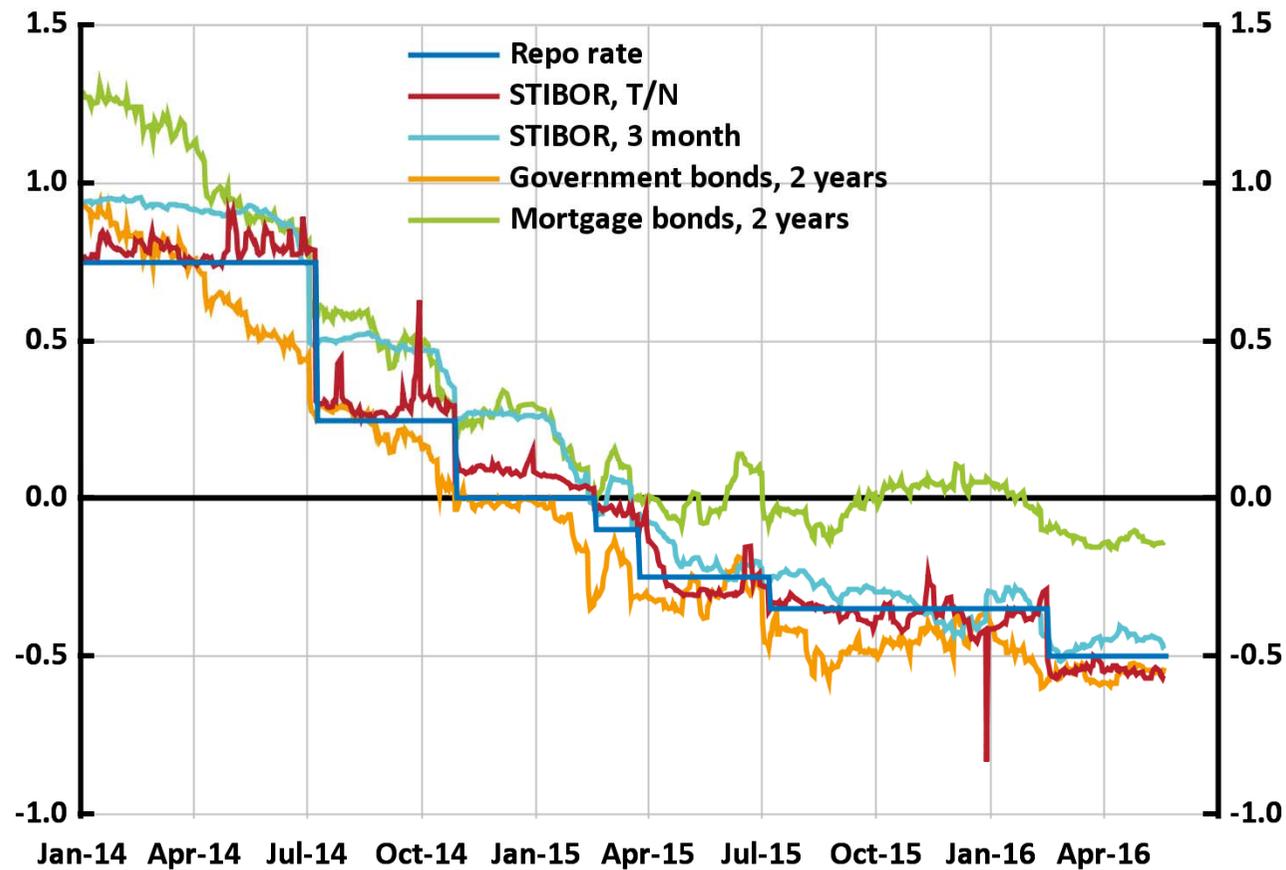
Adapted from Alsterlind J., Armelius H., Forsman D., Jönsson B. och Wretman A.-L. (2015), "How far can the repo rate be cut?", Economic Commentary, No. 11, Sveriges Riksbank

Negative policy rates – different reasons



- **Denmark** – **fixed exchange** rate against the euro and appreciation pressure
- **Switzerland** – **inflation target**, inflation below target and safe haven currency with massive appreciation pressure
- **Sweden** – **inflation target**, inflation below target and exchange rate as one important determinant of inflation
- **Euro Area** – **inflation target**, inflation below target and "large open economy"

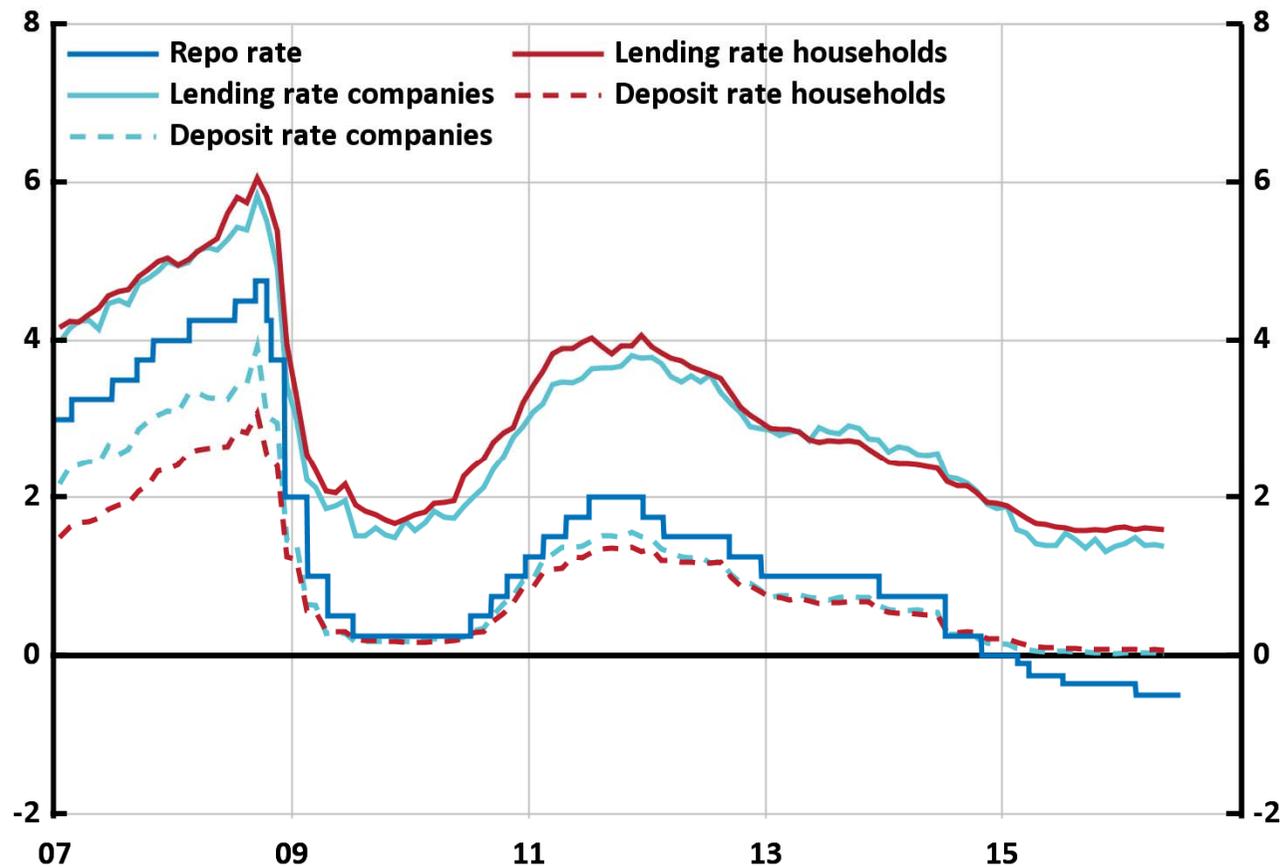
Sweden: Normal pass-through to market rates (and exchange rate channel intact)



Note: Per cent.

Sources: Macrobond and the Riksbank

Sweden: Interest rate channel – partial pass-through



Note: Per cent. MFIs' average deposit and lending rates for households and companies.

Sources: Statistics Sweden and the Riksbank