

The low real interest rate Real or Monetary causes and consequences

Nathan Sussman

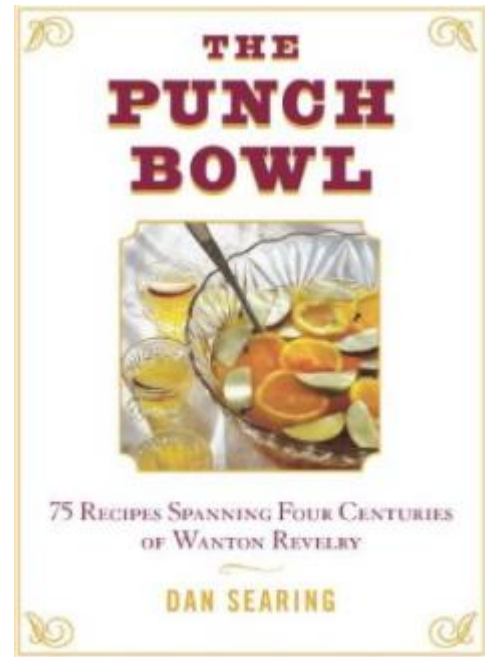
Debt in the 21st Century

23rd Geneva Conference on the World Economy

Geneva 8th October

Should we worry about post-COVID debt levels?

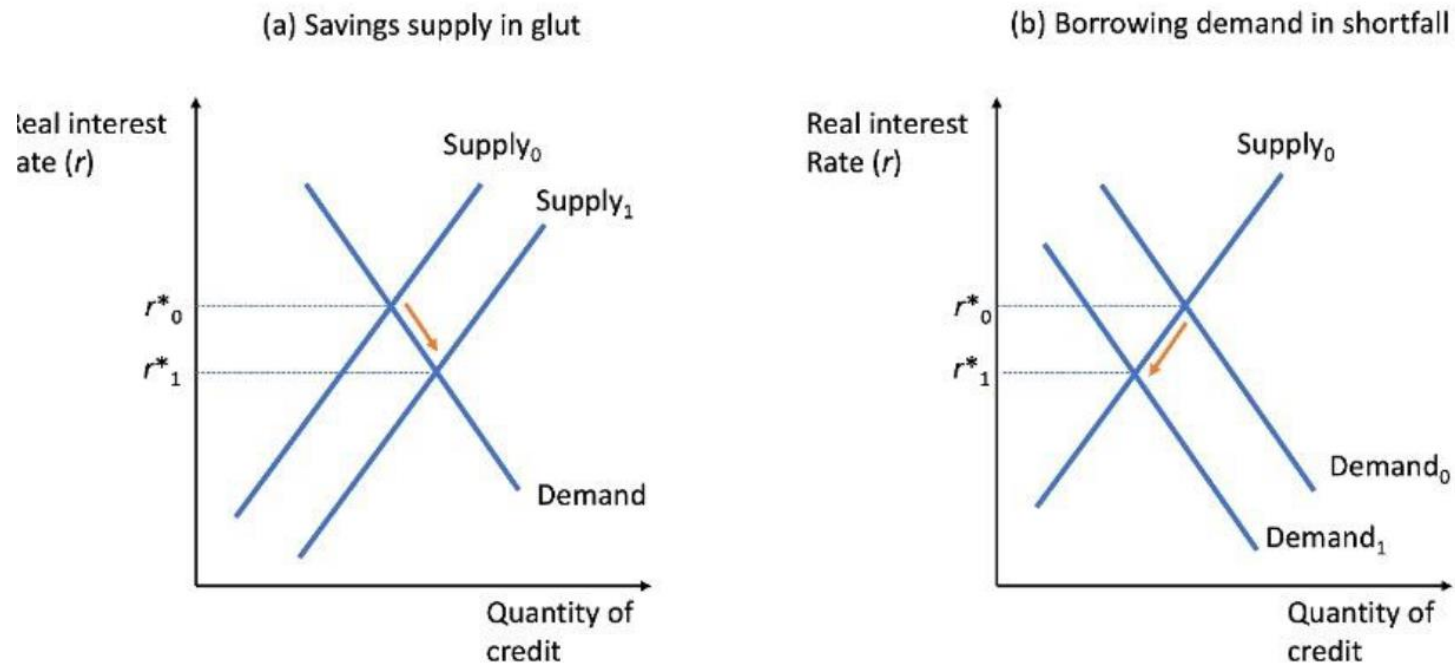
- The tone of the Geneva report authors is positive:
- Sentiment analysis of report: **84.7% positive**
- Sentiment analysis of summary and chapter 1 : **79.9% positive**



Why this time is different?

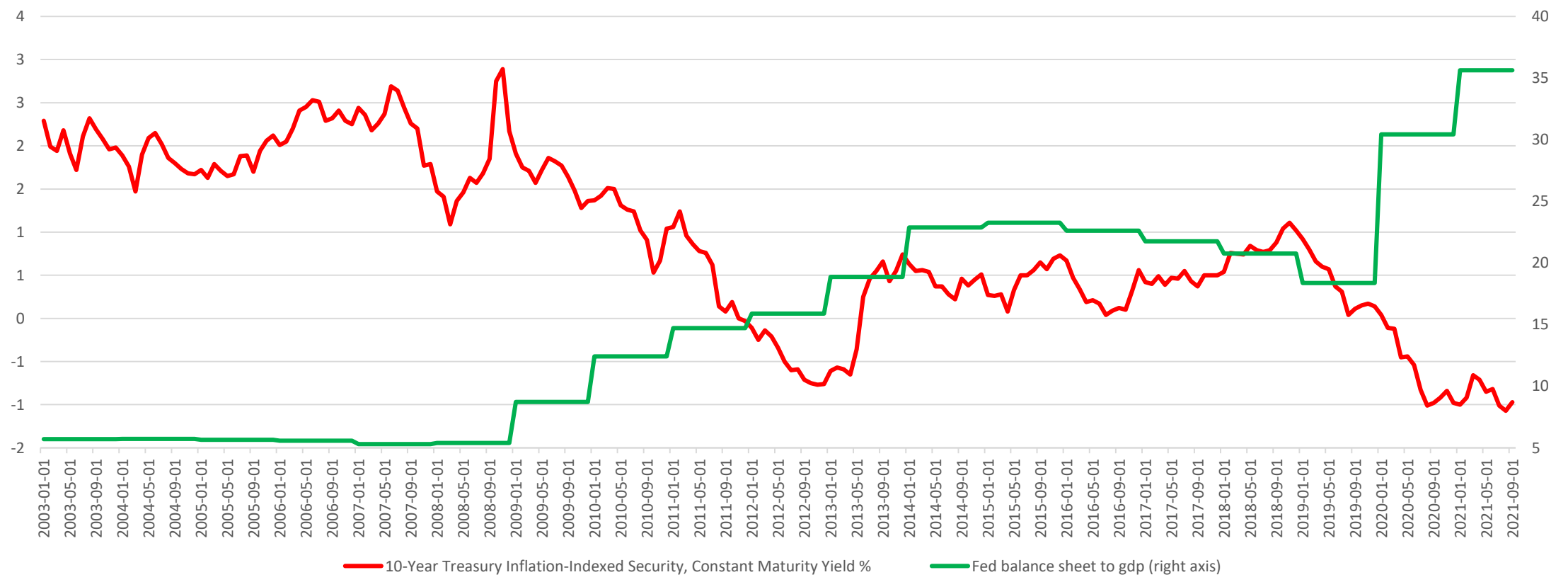
The Savings' glut

Figure 1.1: The supply and demand for credit



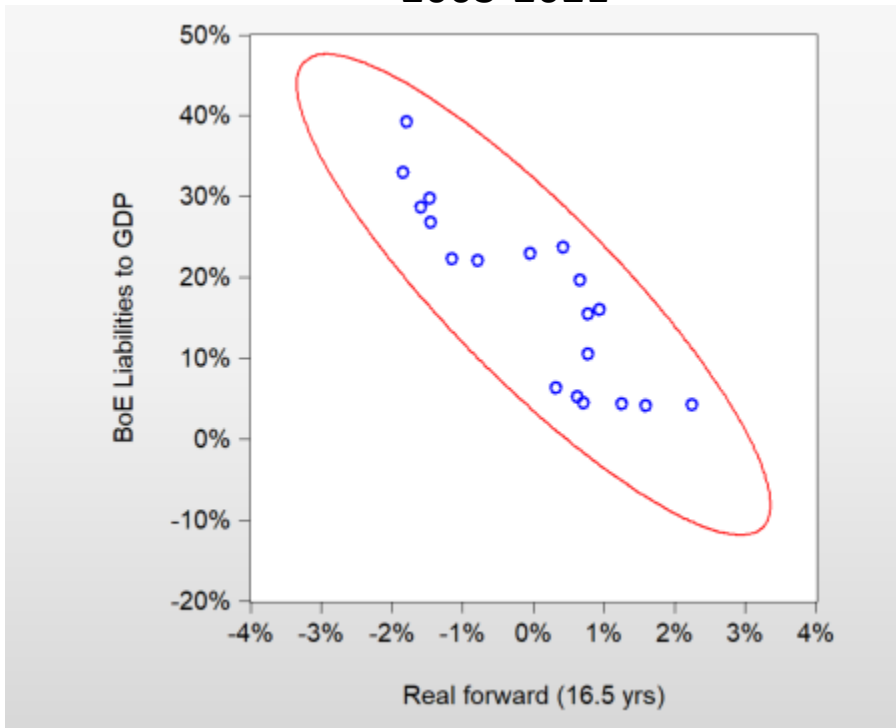
Is it really the Saving's Glut?

Real Interest rates vary inversely with FED quantitative easing

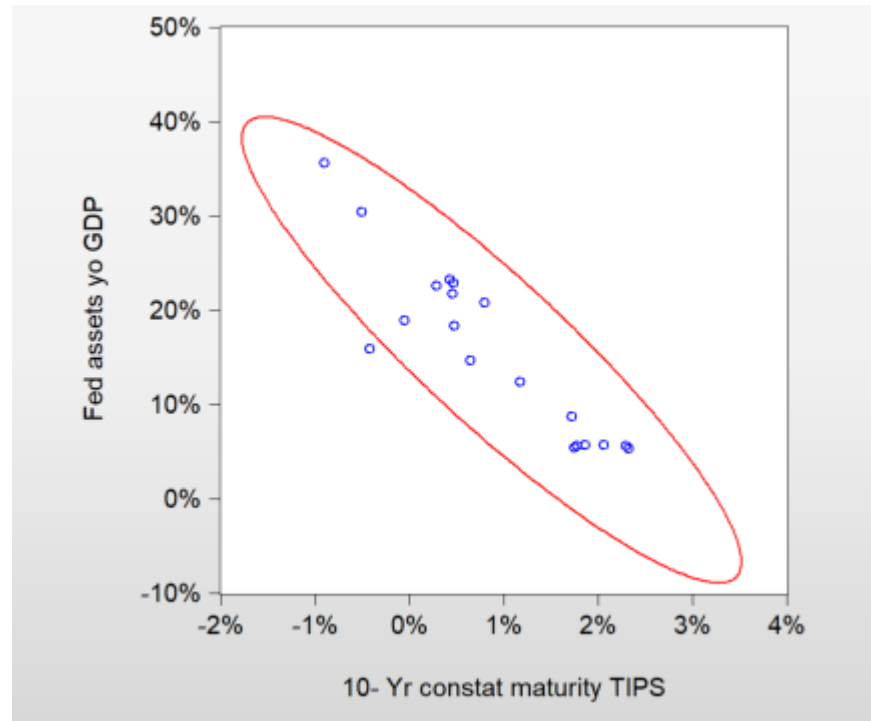


No contradiction to “greater supply than demand” – the new kid in town is the central bank

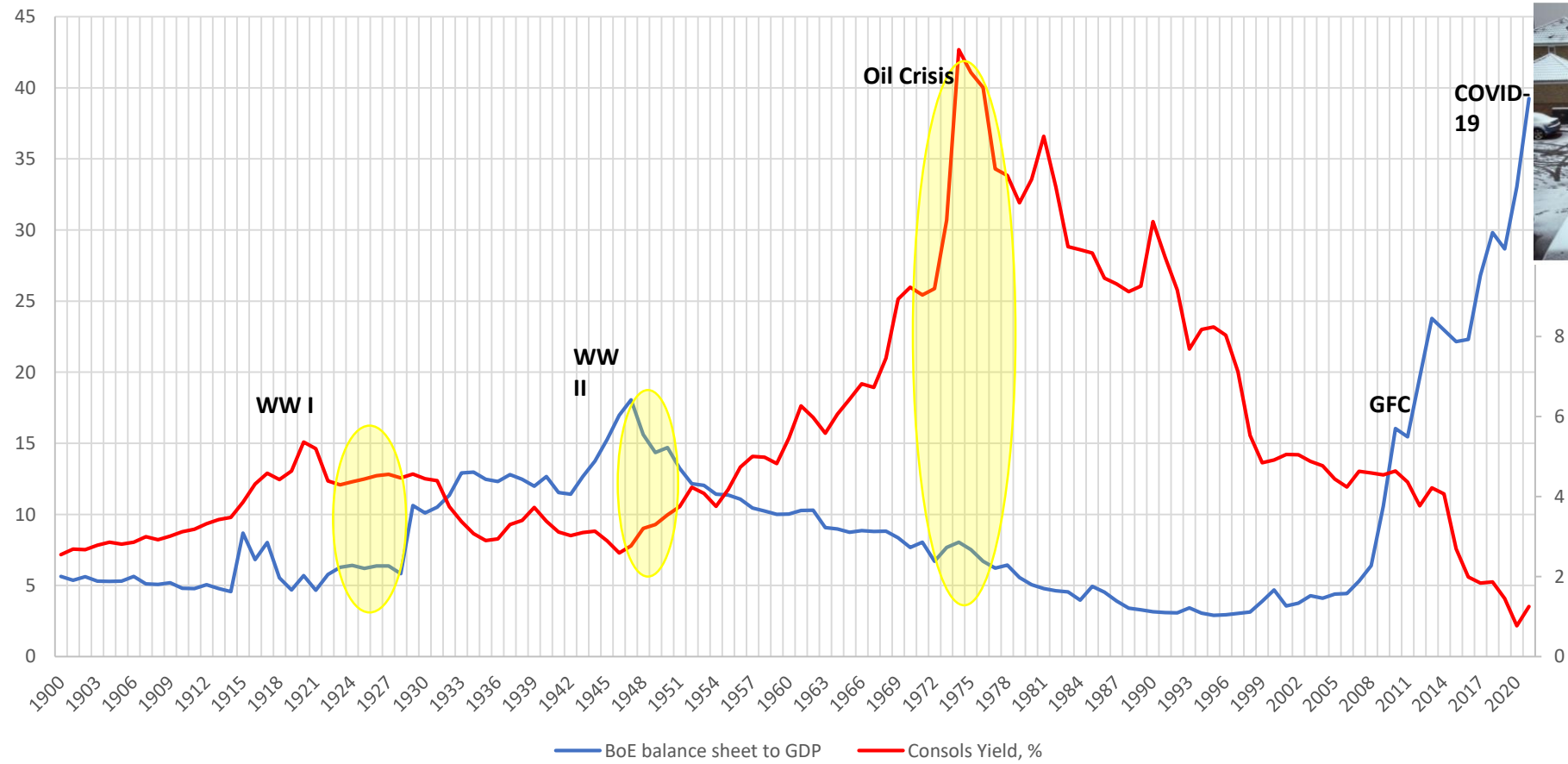
UK real interest rate and the Bank of England's balance sheet
2003-2021



US 10yr real interest rate and the Federal Reserve balance sheet
2003-2021



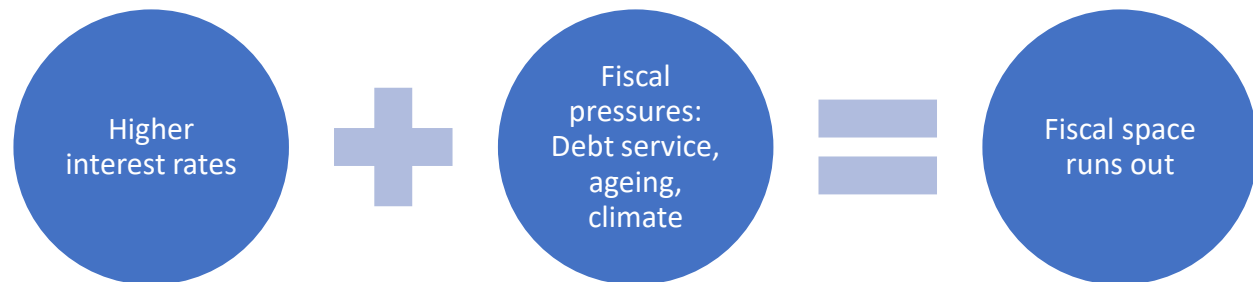
A cautionary tale: central banks may take the punch bowl: lessons from a century of British history

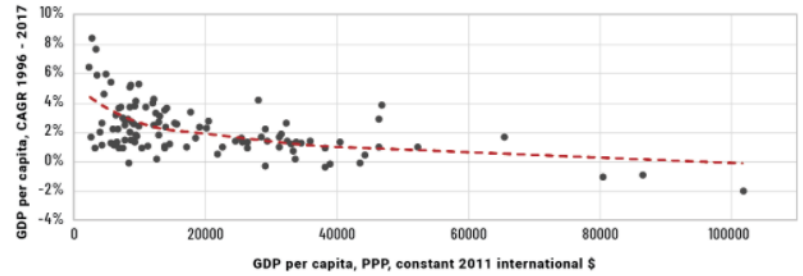
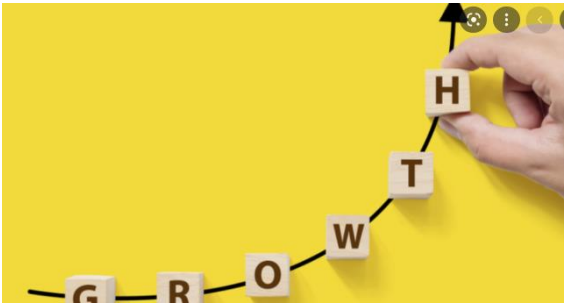


Thomas L. Friedman
A Scary Energy Winter Is Coming. Don't Blame the Greens.
Too many people could face a choice between eating and heating.
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Conclusions

- Central banks pushed real interest rates and debt service ratios down – right thing to do in times of crisis.
- Unprecedented increase in balance sheets has so far relied on central banks' hard-earned credibility.
- To maintain credibility, future rising fiscal pressures (ageing and climate change) cannot be financed by central banks.
- Central banks likely to unwind their extended positions.





Source: WDI

