

Policy Session 1
Shifting Sands of Low interest Rates

**Managing Global Financial Risks:
Shifting Sands and Shock Waves**

Annual Financial Markets Conference
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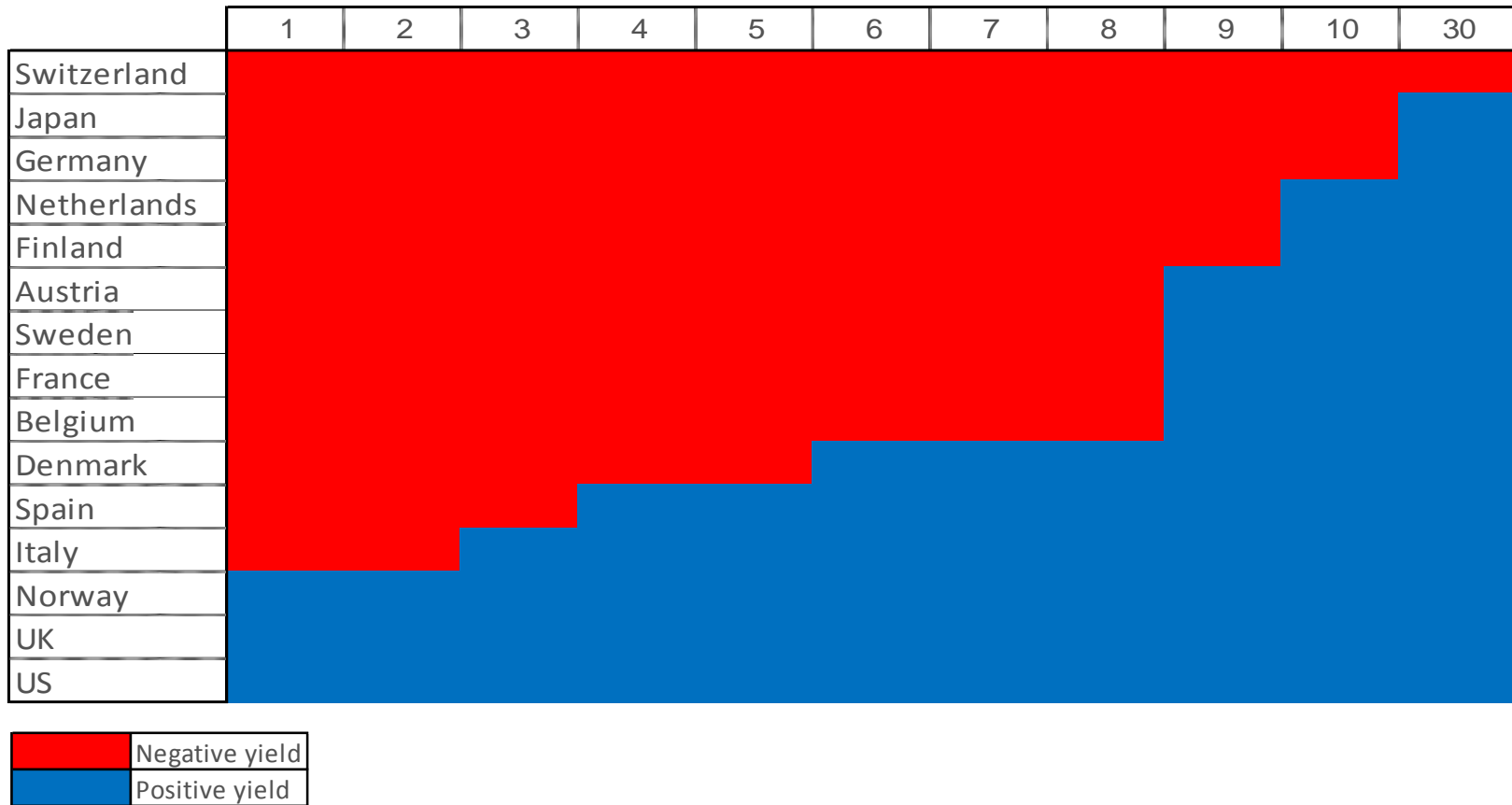
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A New Normal

- Low for long
 - Low potential growth
 - Exceptionally easy monetary policy and slow exit
- Risks of higher -- or lower – rates?
- Monetary policy transmission with exceptionally low (negative) rates
 - Capital gains/wealth/collateral
 - Market interest rates and exchange rates
 - Credit/banking channels: risk taking

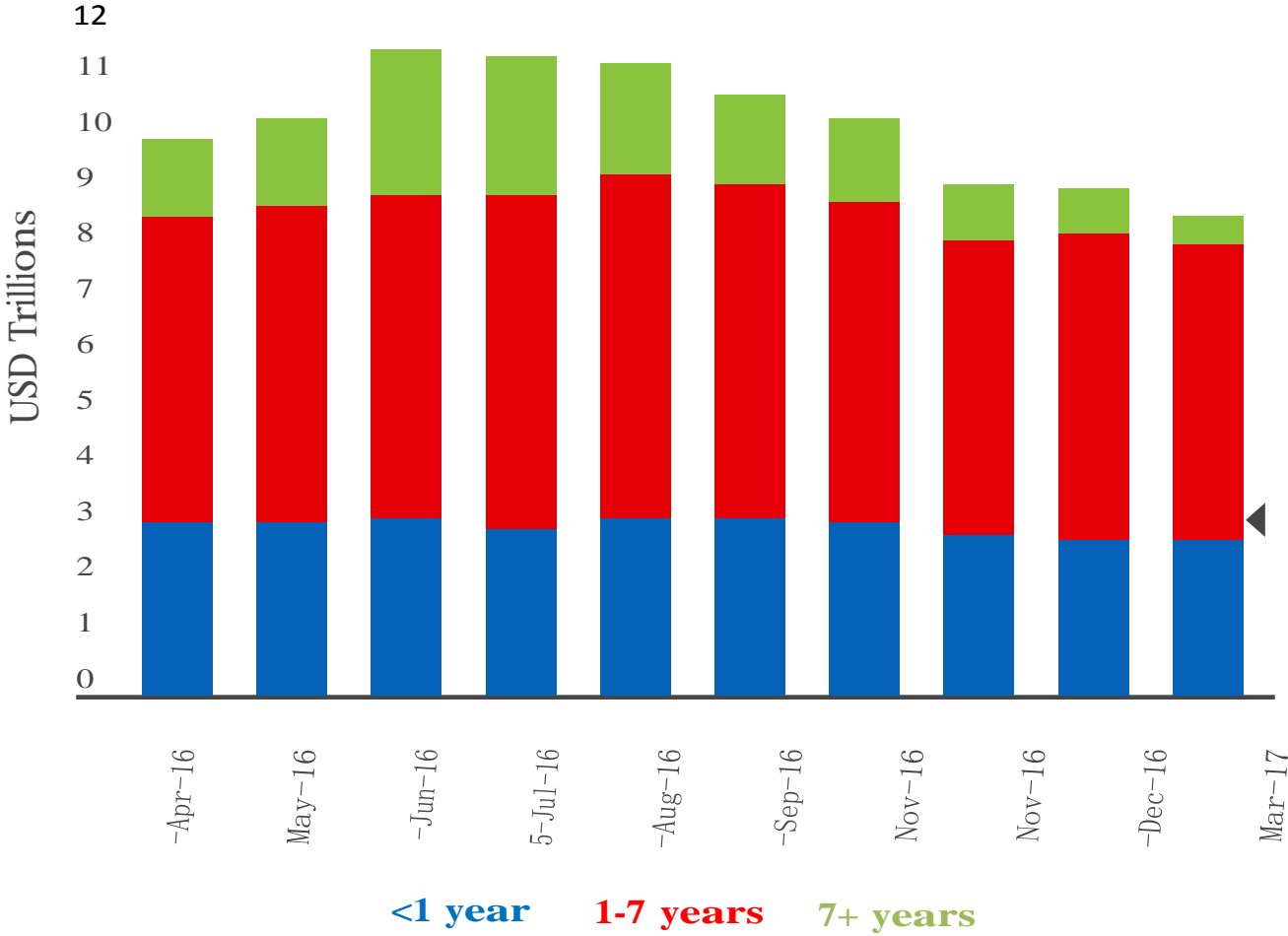




Sources: Deutsche Bank , Bloomberg and ECB calculations.

Note: Maturities are shown on the horizontal axis. For NL, SE, FR and IT the 1y maturity refers to T-Bills and all the other bonds refer to generic government bonds. The last observation available for SE 1y T-Bill is 20/01/2016. The last observation for the 2y Government Bond for NO is 18/02/2016. The last observation available for the 3y Government Bond for DK is 12/01/2016 and for SE is 05/02/2015. The last observation available for the 4y Government Bond for NO is 18/02/2016. The last observation available for the 6y Government Bond for DK is 22/10/2015 and for NO is the 18/02/2016. No observations are available for 6, 8 and 9 years maturity for SE; 1, 4 ,7, 8 and 9 years maturity for DK; 4, 6, 8 and 9 years maturity for US; 9 years maturity for the UK; 30 years maturity for NO and 30 years maturity for SE. Where the observation is missing it takes the colour of the adjacent maturities. Where those colours differ, it takes the colour of the longer maturity. Latest observation: 21 July 2016.

Negative Yielding Debt by Maturity



Source: Fitch Ratings, Bloomberg

Private Credit as % of GDP: Euro Area



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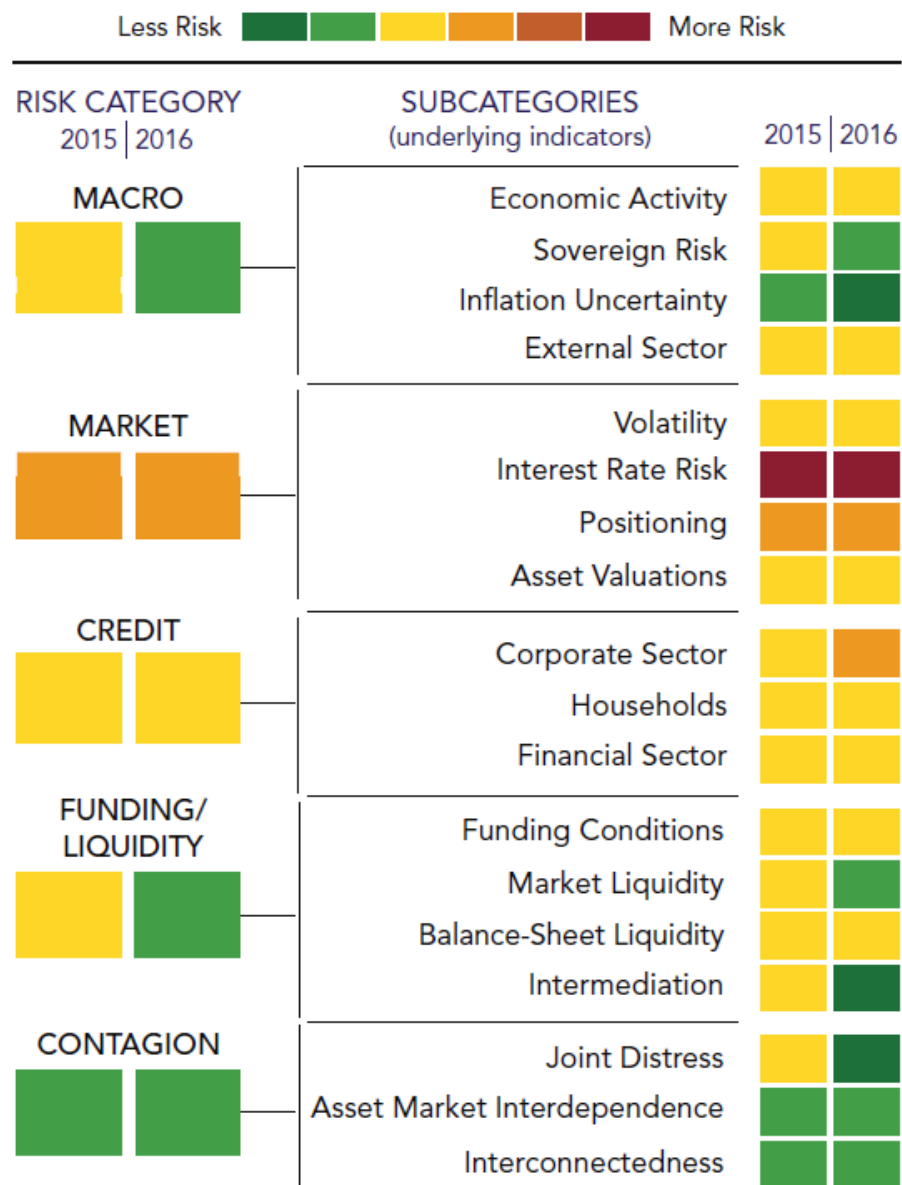
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Financial (and Macro) Stability Implications

- Low returns and profits
 - Less credit formation or more risk taking?

Figure 2. OFR Financial Stability Monitor



Financial (and Macro) Stability Implications

- Low returns and profits
 - Less credit formation or more risk taking?
- Global SIFIs: interaction with regulatory changes
- Financial activity shifting, but how much?
- Macro risks:
 - What happens when reserves (and liquidity buffers) start to shrink?
 - Monetary policy headroom

