Seminario 441: The Liquidity Trap: What to do about it?

Calendario de actividades

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Entrada libre. Indispensable inscribirse en el siguiente vínculo: Inscripciones

Hora: 12:00 m. (refrigerio) y 12:30 p. m. (inicio del seminario)
Tiempo de exposición: 12:30 p. m. a 2:00 p.m.
Lugar: Banco de la República, carrera 7 # 14-78, piso 13 (Sala de prensa), Bogotá D.C.
Idioma de la exposición: Inglés

Resumen del documento: The global financial crisis of 2008-09 ushered in the worst recession in advanced economies since the 1930s. Central banks initially responded by reducing policy interest rates sharply. Soon these rates approached zero, raising the specter of a liquidity trap: the point at which further conventional monetary expansion becomes impossible. In an effort to provide further stimulus, central banks experimented with a range of unconventional policies, including guidance on the future stance of policy, extensive outright asset purchases (quantitative easing or QE), and exchange rate management. Negative interest rates were brought into the mix later, as some central banks probed just how low their policy rates could safely and effectively go.

Unconventional expansionary monetary policies have been effective in easing financial conditions, producing a greater recovery of output and employment than would otherwise have occurred. Nonetheless, real interest rates have not been lowered far enough or fast enough to avoid a disappointing macroeconomic performance. Recovery has been slow compared to recoveries from past deep recessions, and eight years after the crisis much of the world is still far from full employment. In the euro area, for example, where the unemployment rate jumped from about 7 percent in 2008 to over 12 percent in 2013, the rate is still over 10 percent today. Furthermore, euro-area inflation has undershot even its low target for three years now and has been stuck at around zero since 2014.

It seems that monetary policy has indeed faced some form of constraint, and this constraint may frequently bind in the future as well. The questions addressed by this Report are “do central banks have effective tools for economic stimulus when nominal interest rates are already so low?” and “how can central banks reduce the likelihood of being in a liquidity trap in the future?” We find that central banks can deliver more economic stimulus in a liquidity trap than they have so far and that there are options for reducing the likelihood of being in a liquidity trap going forward.

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