
Extrapolating negative real yields 30 years into the future: Realistic or overly pessimistic outlook?

Michael Rottmann, Head of FI Research

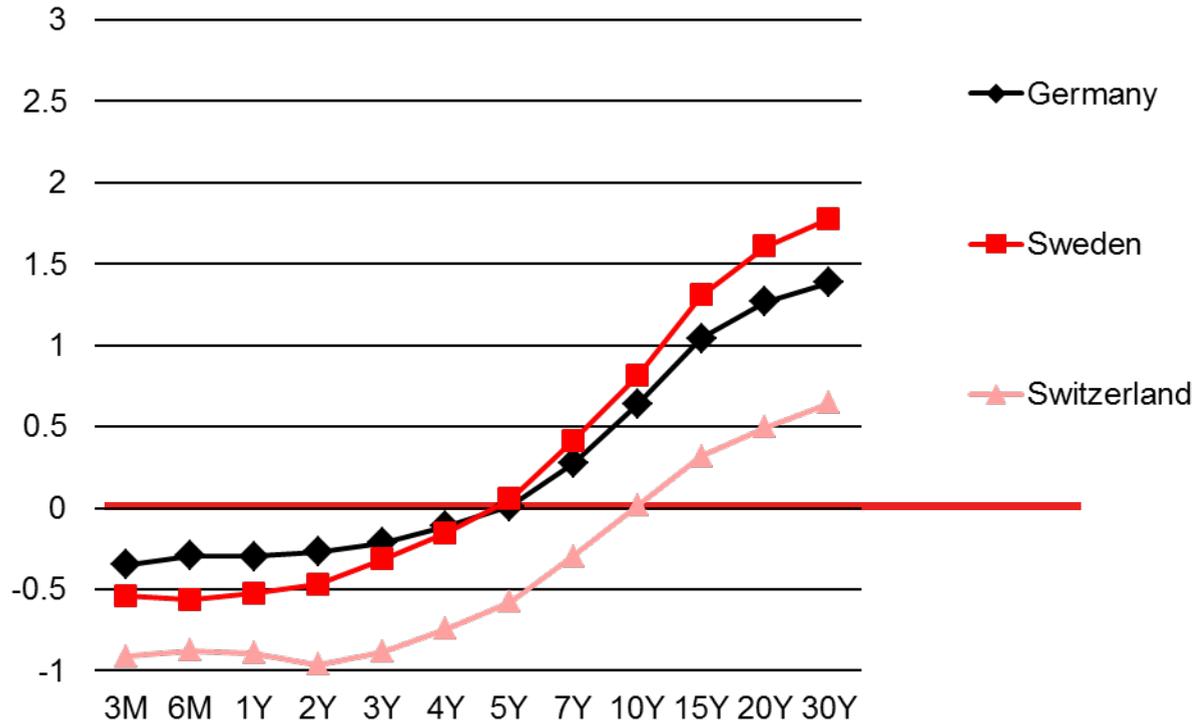
Keitum, 17 July 2015

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A New Normal? Negative nominal interest rates in Europe

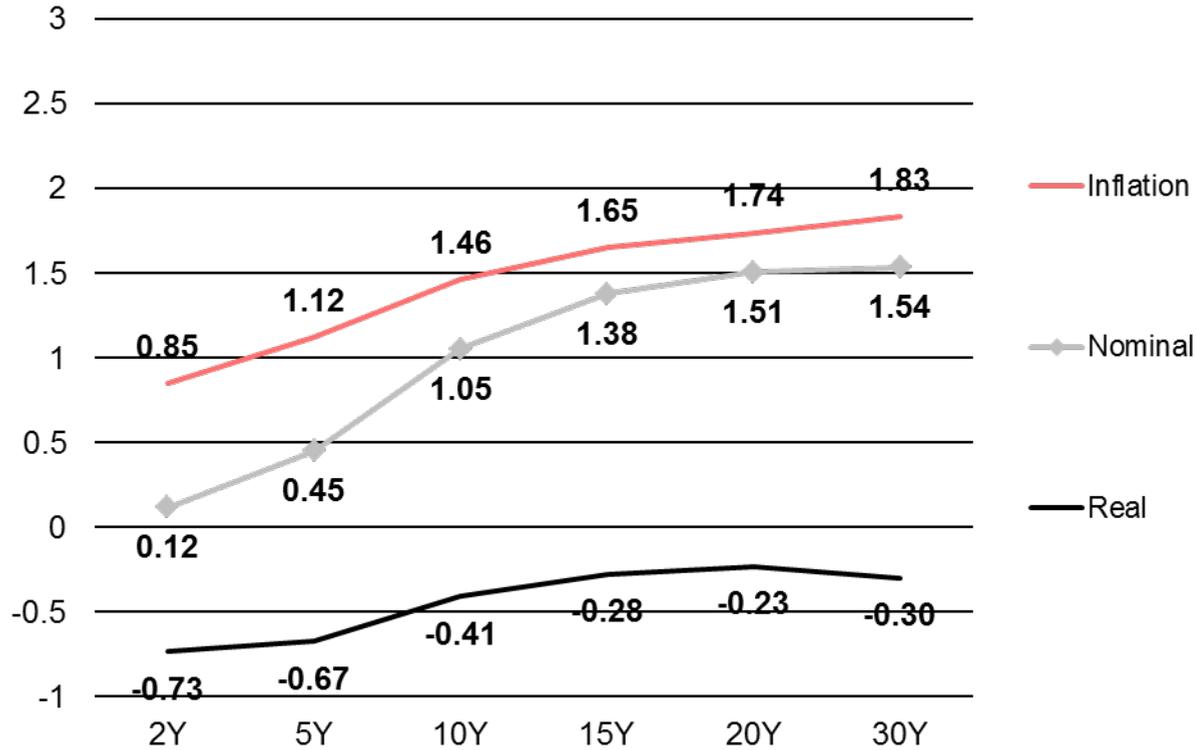
Government bond yields Germany, Sweden, Switzerland



Source: Bloomberg, UniCredit Research

A New Normal? Negative real rates forever

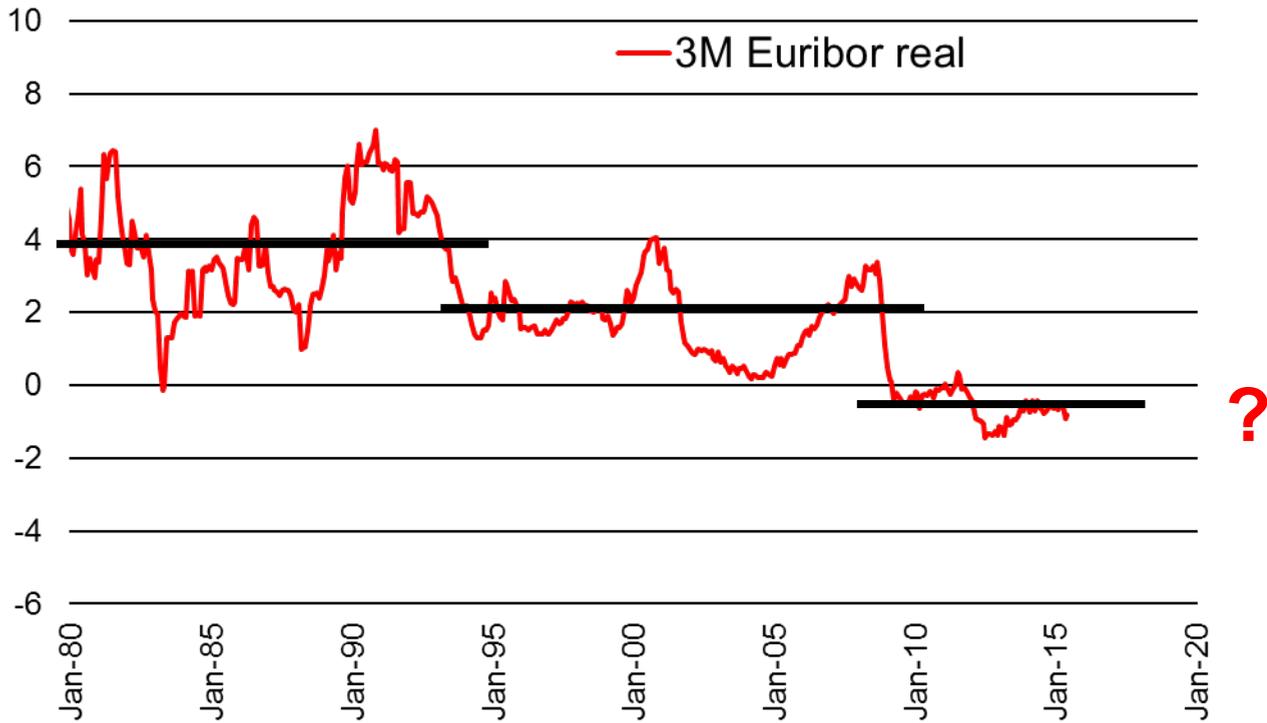
EUR swap curve: nominal rate, inflation compensation and real rate



Source: Bloomberg, UniCredit Research

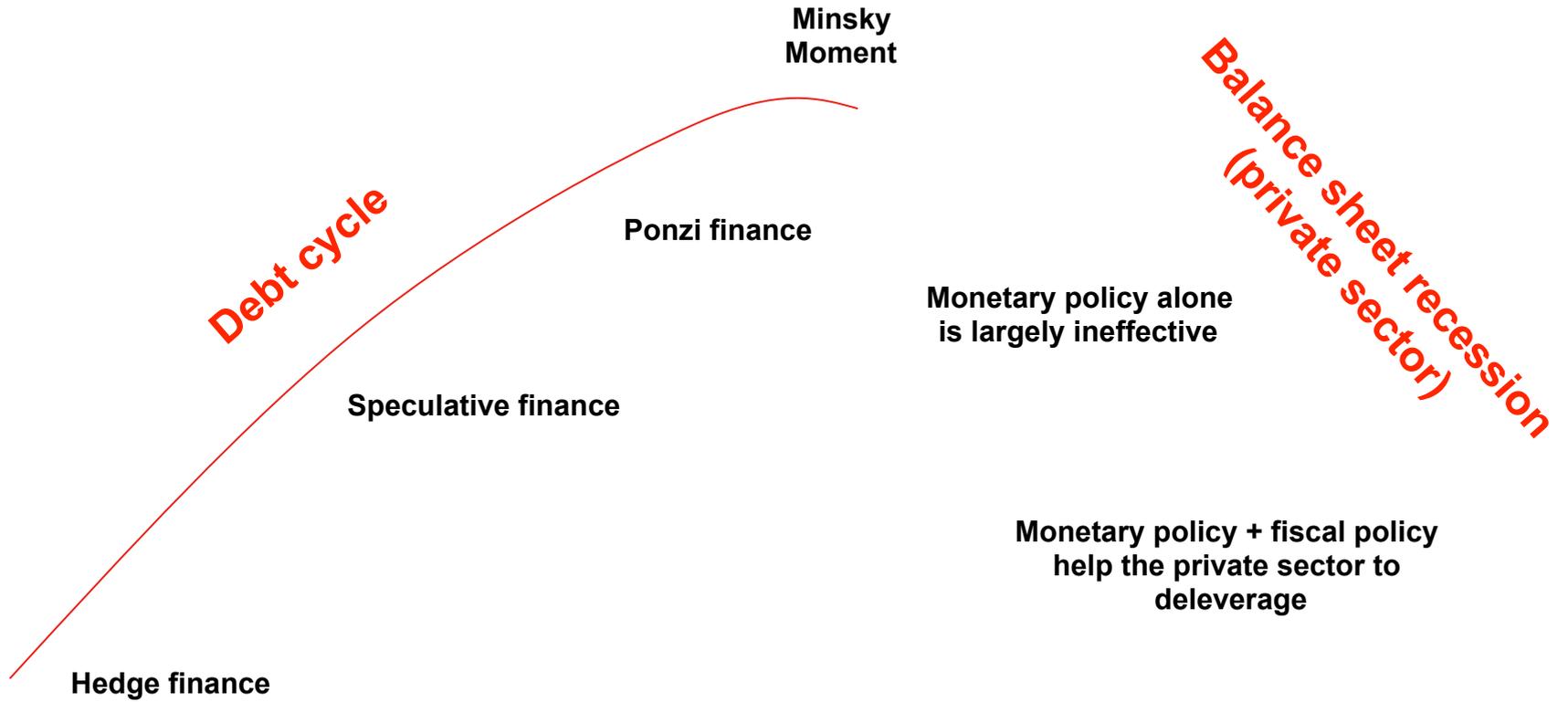
Hypothesis I: "Secular Stagnation"

Euro area: real 3M Euribor based on core inflation (prior to 1999: Germany)



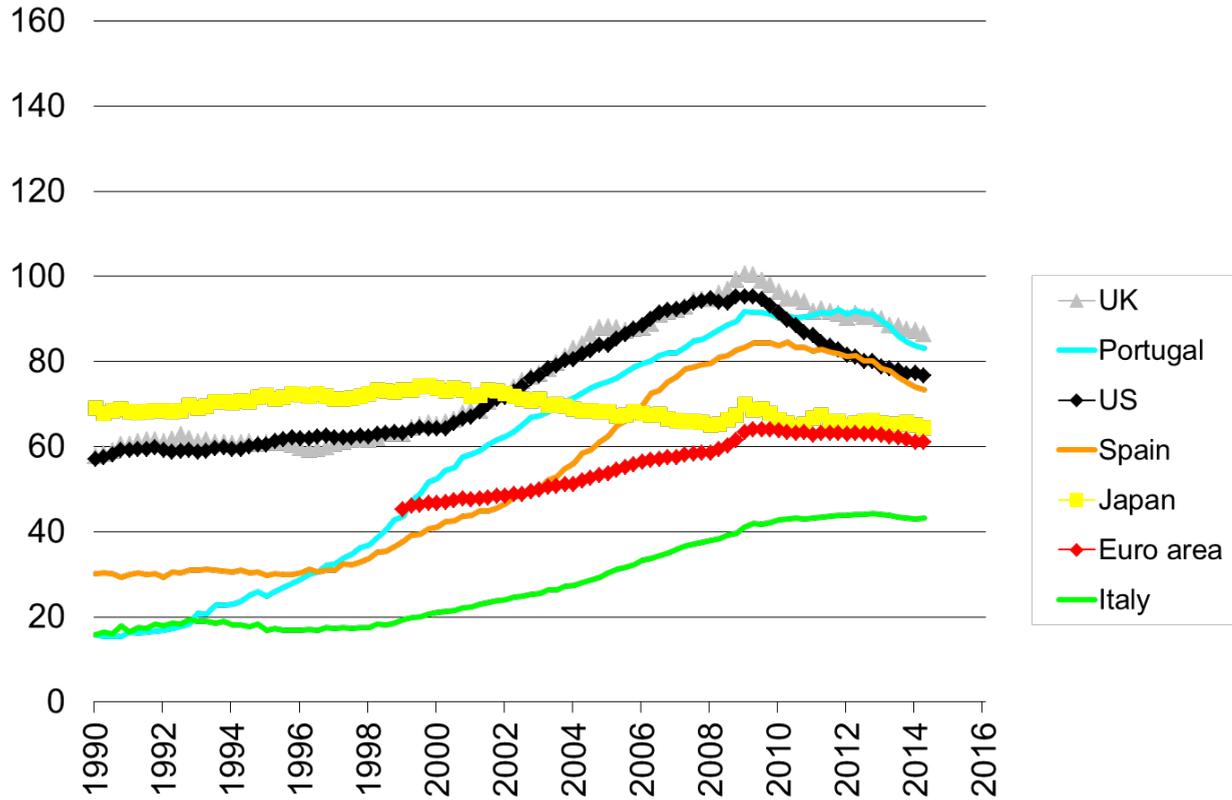
Hypothesis II: "balance sheet recession"

Minsky
"Financial Instability Hypothesis"



Balance sheet recession in the private household sector. Where do we stand?

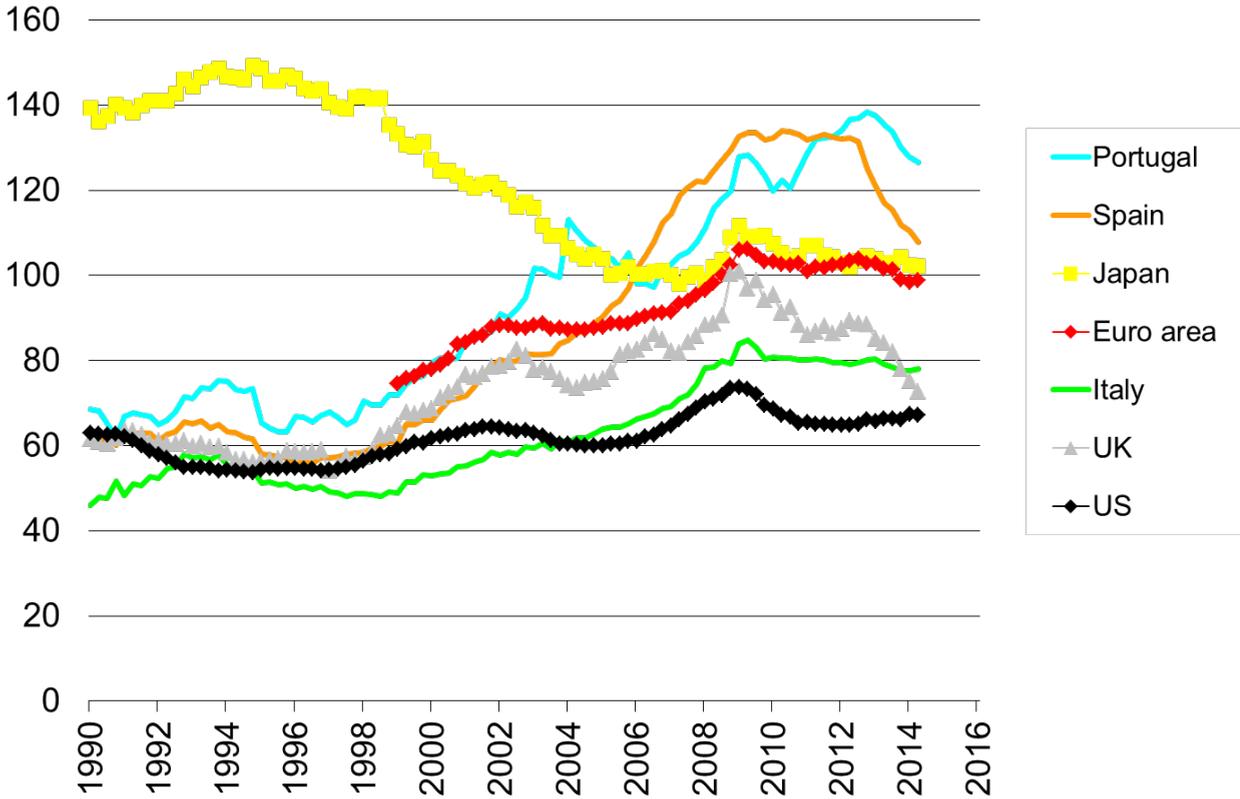
Private households: debt (% of GDP)



Source: IWF, UniCredit Research

Balance sheet recession in the non-financial corporate sector. Where do we stand?

Non-financial corporates: Debt (% of GDP)

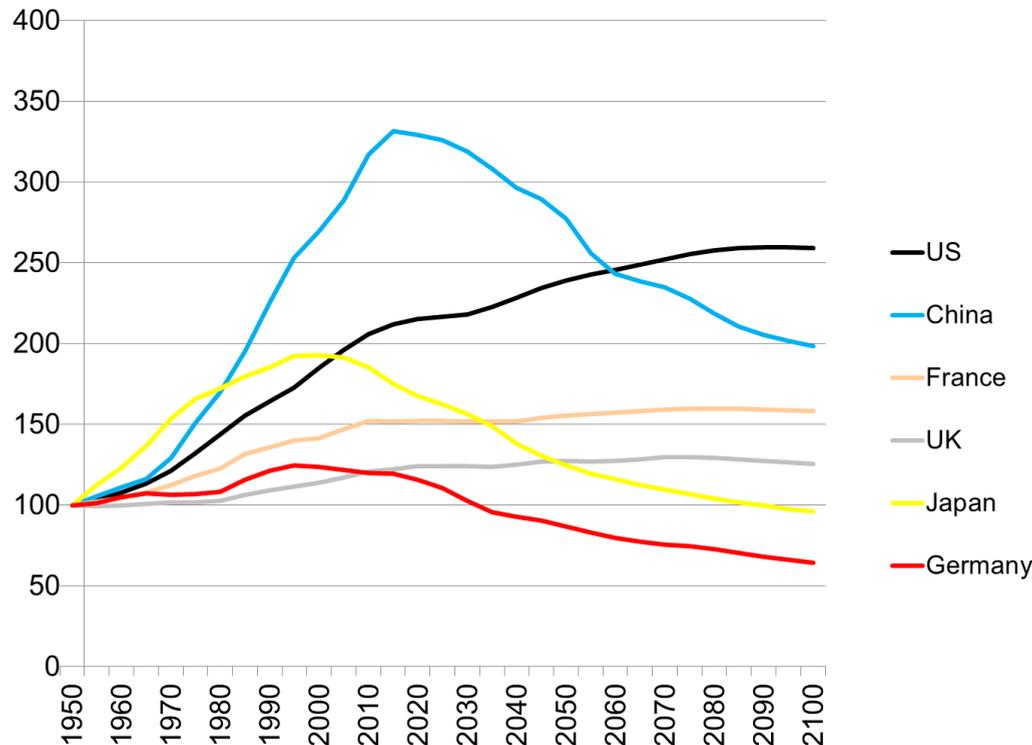


Source: IWF, UniCredit Research

Bottom line: low rates alone can't do the trick. In contrast, we should try to increase the "neutral" key rate level

1. smarter fiscal policy (education, infrastructure investment)
2. evening out of skewed income distribution
3. more immigration, an increase in retirement age, higher women's participation ratios

Population growth age 20-64Y in selected countries (1950 = 100)



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