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## Monetary Policy in a Low Interest Rate World\*<sup>1</sup>

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### 1. Introduction

How should monetary policy be conducted if trend global real interest rates continue to remain below historical norms for another decade or two? And how, especially, might monetary authorities prepare for another deep recession? Whether or not the world has fallen into “secular stagnation,” or whatever the roots of today’s low real interest rate environment (which might well have less to do with low expected real growth than with the aftermath of the financial crisis, including de-leveraging, financial regulation, financial repression and risk aversion), the question of how to best conduct monetary policy in a low interest rate environment is perhaps the most difficult issue currently facing central banks in advanced countries around the world.

The main challenge, of course, has been the unexpected return of the zero lower bound on nominal interest rates that handcuffed the initial central bank response to the 2008 financial

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<sup>1</sup> Paper presented at American Economic Association, 2017

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