



## The Global Liquidity Trap

Central bank monetary easing, liquidity injections and asset purchases have prevented financial catastrophe. In nearly all developed economies, central banks have pushed interest rates below 1 per cent. Interest rates are negative for 20% of them. Although central banks have encouraged the trend towards low interest rates, their actions only added to the demographic reality of low interest rates being determined by ageing (see Chart 1). A consequence of a more slowly growing ageing population is that monetary policy becomes increasingly impotent in its ability to stimulate demand. Persistently low inflation and intermittent deflation confirm that the world is in a global liquidity trap. Fiscal policy is the main game in town.

Chart 1

