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## THE EQUILIBRIUM INTEREST RATE – THEORETIC CONCEPTS AND APPLICATIONS

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### Abstract

This paper presents various theoretical concepts of equilibrium interest rate, applies several of them and discusses the impact of euro adoption in this area. We present calculations of neutral real interest rates for Slovakia and the euro zone, as well as an approximation of the long-run equilibrium interest rate for Slovakia. The neutral interest rate is defined by the IS curve and the Philips curve. Its values are around zero, but it is biased because of the global savings glut. The long-run equilibrium interest rate is computed directly by Ramsey-Keynes rule and its values are around 2.5%. After joining the euro zone, a gap will emerge between neutral interest rates in original euro zone and Slovakia. Other policy measures will probably be necessary to eliminate the expansionary impact of interest rates.

Key words: equilibrium interest rate, IS curve, Ramsey model, Kalman filter  
JEL classification: E43, E47

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