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Negative interest rates: from emergency measure to the “new normal” – and back?

A study by the SBA on the effectiveness and consequences of the negative interest rate policy

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Preface

We are living in an upside-down world – at least when it comes to interest rates in Switzerland.

While interest rates were once the very foundation of savings, lending and pensions, this logic no longer applies today. The risk-free interest rate is negative, and the expression “time is money” therefore appears to have become obsolete.

Negative interest rates are difficult to reconcile with Swiss values. In addition to its purely financial meaning, the phrase “owing a debt” can also be understood as referring to a moral or legal obligation. However, we currently live in a peculiar world where people are sometimes actually rewarded for amassing debt. What might appear odd, immoral or even paradoxical to the general public is also difficult for economists to grasp.

At the end of 2014, in light of the significant deflation risks and following the lifting of the minimum euro exchange rate, the Swiss National Bank took the step of lowering interest rates below zero. This extraordinary measure probably averted serious economic damage to Switzerland. Negative interest rates have now been in place for almost five years, meaning that this anomaly has long since transitioned from an emergency measure to the new normal.

An in-depth analysis is therefore now called for. The risks and detrimental impact of the negative interest rate policy are evident. Small savers are being penalised for holding money in their accounts and are concerned about their pensions. Pension funds are suffering from a lack of investment options that provide attractive returns (known as the investment plight) and are worried about their ability to meet their payment obligations. The authorities are concerned about rising property prices and are introducing regulatory measures in the mortgage market. Financial institutions are preoccupied by the risks associated with shrinking interest margins – and there is general concern because negative interest rates send a signal that the crisis has apparently become a permanent condition.

All of these concerns should be tolerated only if the economic risks mean that negative interest rates are indispensable and only if they actually have the desired effect. Considering the economic situation, the exchange rate and the inflation outlook, it is doubtful in our view that negative interest rates are necessary and are still having the desired effect. They must not be seen as the only alternative.

We are convinced that, from an overall economic perspective, it is necessary to pave the way for an exit from crisis mode. This study examines in detail the relevant aspects of the impact and consequences of negative interest rates to this end. The independence of the SNB is a central pillar of our economic system, and this study does not call this into question. From the macroeconomic and social perspectives, however, we believe that a public discourse and a critical review of the negative interest rate policy are necessary. This analysis is intended as the Swiss Bankers Association's contribution to a public debate on the optimal framework for our society and economy.

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Executive summary

Negative interest rates no longer fulfil their economic purpose: the Swiss franc is not overvalued, prices are stable, and the economy has adjusted to the current realities. Since their introduction almost five years ago, the impact of negative interest rates on exchange rates and economic growth has diminished substantially.

Negative interest rates also have a number of adverse consequences for the economy. These include asset price inflation, a lack of investment options that provide attractive returns for pension funds, incentives for borrowing, excessive saving despite negative real interest rates and a redistribution effect from savers to borrowers and from the financial sector to exporting industries. These disadvantages are becoming increasingly pronounced, while the benefits of negative interest rates are at the same time steadily diminishing.

There are a number of reasons why interest rates will remain significantly lower than in the past for a long time to come. However, negative interest rates must remain an extraordinary, temporary monetary policy measure.



1. Background to current negative interest rate policy

Today's low interest rate environment is structurally justified. The introduction of negative interest rates, however, was a policy decision made by the Swiss National Bank (SNB) to prevent excessively restrictive monetary policy after the minimum euro exchange rate was lifted. It is worrying that, five years later, this "emergency measure" has become the "new normal".

1.1 Negative interest rates to dampen demand for Swiss francs

The introduction of negative interest rates on sight deposit account balances at the SNB almost five years ago was comprehensible. In view of the divergence between the major currency areas at the time, the expansionary measures introduced by foreign central banks and the reduced overvaluation of the Swiss franc, the SNB decided to lift the minimum exchange rate of CHF 1.20 per EUR. Its aim was to prevent an unreasonable tightening of the monetary framework once the minimum exchange rate was lifted and thus dampen the strong demand for Swiss francs. To cushion the consequences of negative interest rates, the SNB introduced an exemption threshold for banks amounting to 20 times the minimum reserve or at least

CHF 10 million. According to the SNB, "... the aim is to ensure that the banking system does not have to bear the full interest burden associated with the high level of sight deposits"¹

The SNB has since kept its target interest rate level unchanged and intervened in the foreign exchange market when required. Such interventions have caused its foreign exchange investments to rise from around CHF 500 billion at the end of 2014 to around CHF 800 billion in July 2019.

Five years ago, the SNB introduced **negative interest rates** on banks' sight deposit account balances. Against the backdrop of stronger demand for safe investments in the days leading up to this, the SNB's goal was for the three-month CHF LIBOR to fall into negative territory, making it less attractive to hold Swiss-franc investments. When the announcement was made on 18 December 2014, interest rates on sight deposit account balances were set at -0.25 %. On 15 January 2015, the SNB reduced the interest rate on sight deposit account balances to -0.75 %, where it remains today, at the same time as it lifted the minimum euro-franc exchange rate (see Figure 1).

In its monetary policy assessment of September 2019, the SNB adjusted the calculation of the exemption threshold for negative interest rates applied to banks' sight deposits. While this provides relief for the banks overall, it does not do so for each individual bank. However, it has increased the SNB's room for manoeuvre as regards further rate cuts going forward.

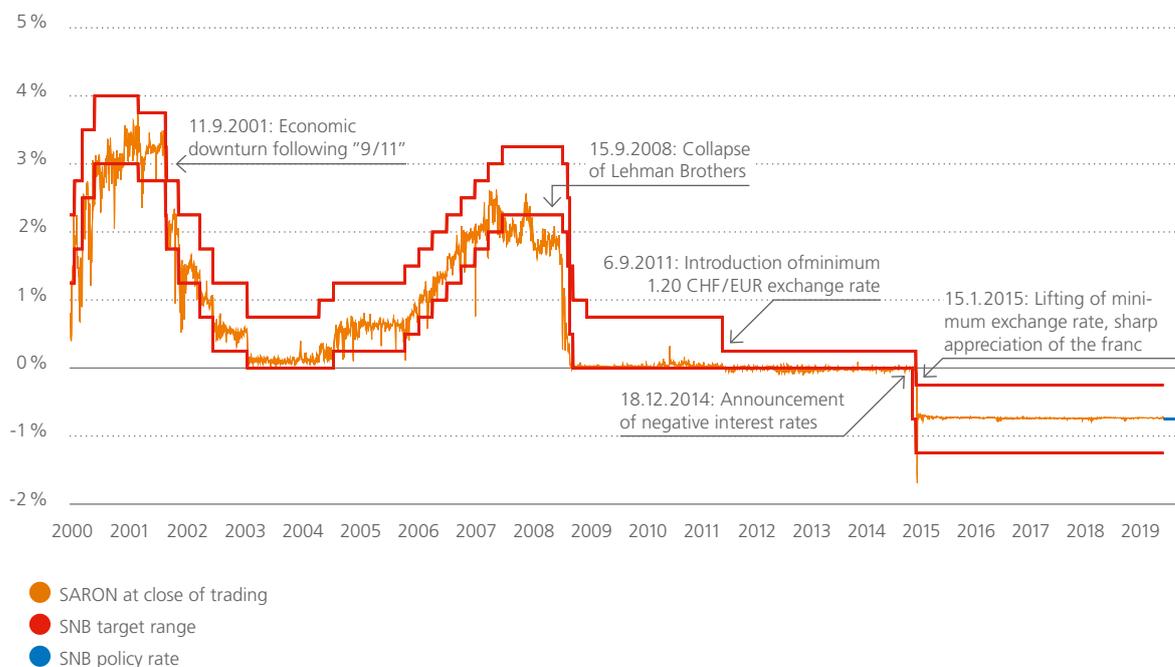
Considering the latest monetary policy decisions reached by the European Central Bank (ECB) and the US Federal Reserve (Fed), the period of low interest rates in key currency areas is likely to continue for a long time to come. In order to maintain an interest rate differential, most observers expect the SNB to uphold its negative interest rate policy in the medium term.

¹ Source: SNB media news conference of 18.12.2014: introductory remarks by Thomas Jordan.

Fig. 1

Money market interest rates and monetary policy targets since 2000

SARON: Swiss average overnight rate at close of trading



Source: SNB

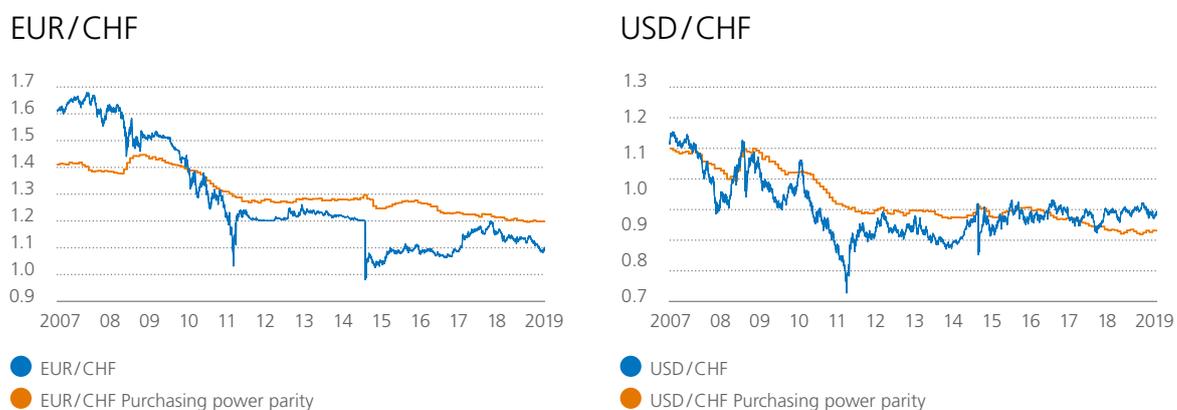
1.2 Swiss franc no longer overvalued

As far as the external value of the Swiss franc is concerned, UBS estimates that the CHF/EUR exchange rate based on purchasing power parity (PPP) is in the 1.20 range. Other banks have made similar estimates (e.g. ZKB at 1.15). From this perspective, the Swiss franc is currently rather highly valued against the euro. Pictet, meanwhile, already considers the Swiss franc to be slightly undervalued against the euro. However, almost no one argues that the franc is undervalued against the US dollar (see Figure 2).

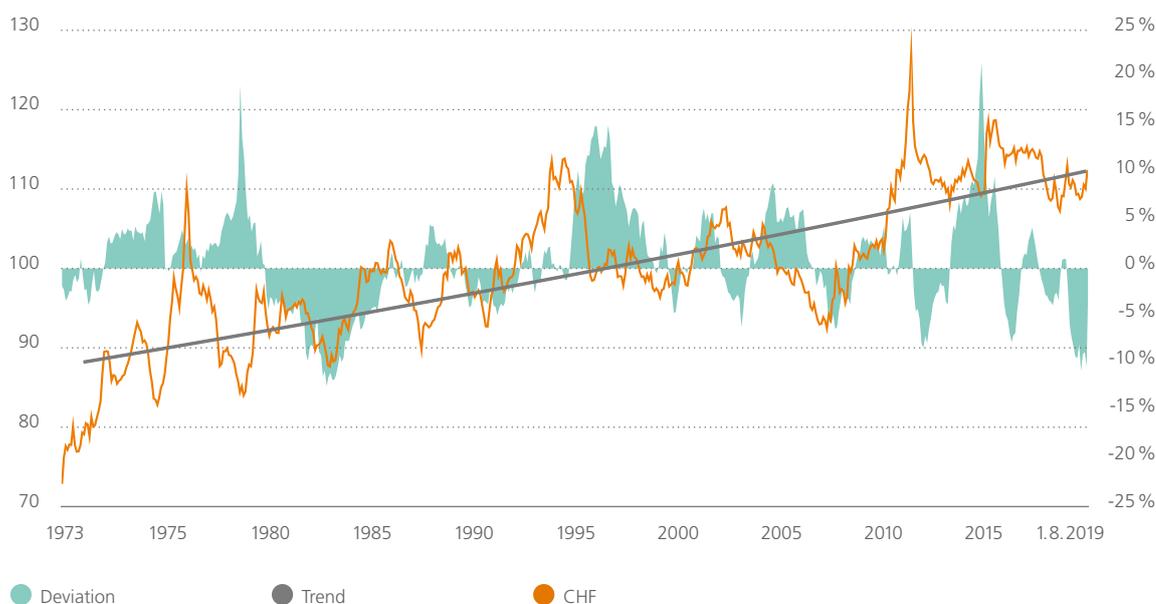
On a trade-weighted basis, the Swiss franc exchange rate is within the range of its long-term trend and thus close to equilibrium. Figure 2 shows that the Swiss franc experienced an upward trend for decades, but this has been interrupted in recent years. It is currently at the same level as nine years ago and has therefore been weaker than implied by the trend for at least two years.

Fig. 2

EUR/CHF and USD/CHF exchange rate trends



Trade-weighted CHF exchange rate



Sources: Macrobond, SNB

Other models for determining an equilibrium exchange rate take a country's balance of payments into account. Such models identify an undervaluation of the Swiss franc, as Switzerland has persistently high trade surpluses.

Based on these analyses and taking into account model uncertainty (uncertainty regarding the choice of the right model) and estimation uncertainty (errors in the specification and estimation of a model), it can be unequivocally stated that the franc is not overvalued at present. For some time now, the SNB has also considered the Swiss franc as no longer being overvalued.²

1.3 Low interest environment structurally induced

Nominal interest rates have fallen significantly in all industrialised nations since the 1980s. This is due to important fundamental economic and demographic changes of a structural nature. Growth and inflation rates have in particular fallen significantly (see Figure 3 and 4). According to the International Monetary Fund (IMF), potential growth in industrialised nations has fallen from around 3 % to 1.5 %, and average inflation from over 5 % in the 1980s to 1.5 % since the financial crisis.

Research has identified the key causes of the fall in interest rate levels to be lower growth, demographic factors (which result in increased saving for retirement), lower risk premia and relative price of capital as well as increasing income inequality (see Figure 5). The share of wealth and income attributable to the wealthiest segment of the population is increasing steadily. Due to their higher savings ratio, the supply of capital is rising faster than demand. On the other hand, capital spending has fallen due to the decline in the economy's capital intensity (e.g. as a result of the digital transformation) and states' greater reluctance to invest. At the same time, demand for government bonds from industrialised nations has also increased as a result of regulatory changes in the wake of the financial crisis, as banks have had to reduce the risks associated with their investments. All of these factors have contributed to lower interest rates.

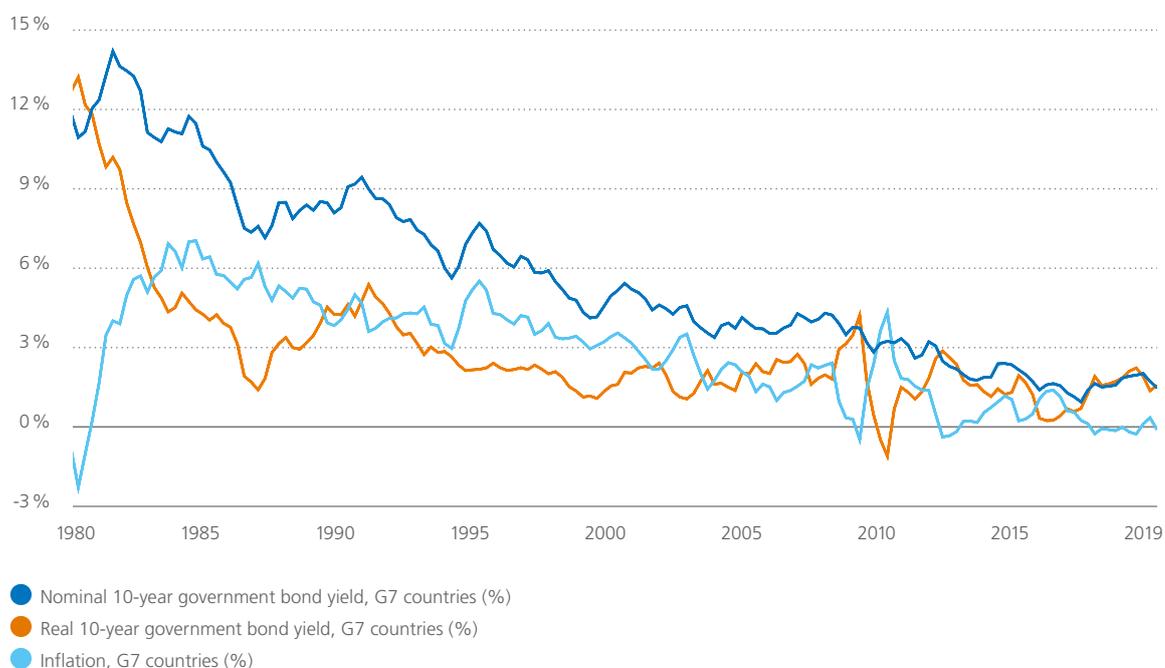
2 Since the monetary policy assessment of September 2017, the SNB has considered the franc to be "highly valued" after having considered it to be "overvalued" for several years (see SNB, Chronicle of monetary events 1848–2019).

In light of this latent, structurally induced low interest rate environment, the politically motivated negative interest rates are comparable to the tip of an iceberg protruding out of the water. As an element of expansionary monetary policy, they in part increase the effects of the generally low interest rates. Because negative interest rates are a deliberate political decision, however, a separate analysis of the need for them and of their effects is essential.

Fig. 3

Fall in nominal interest rates driven by lower inflation

Percent

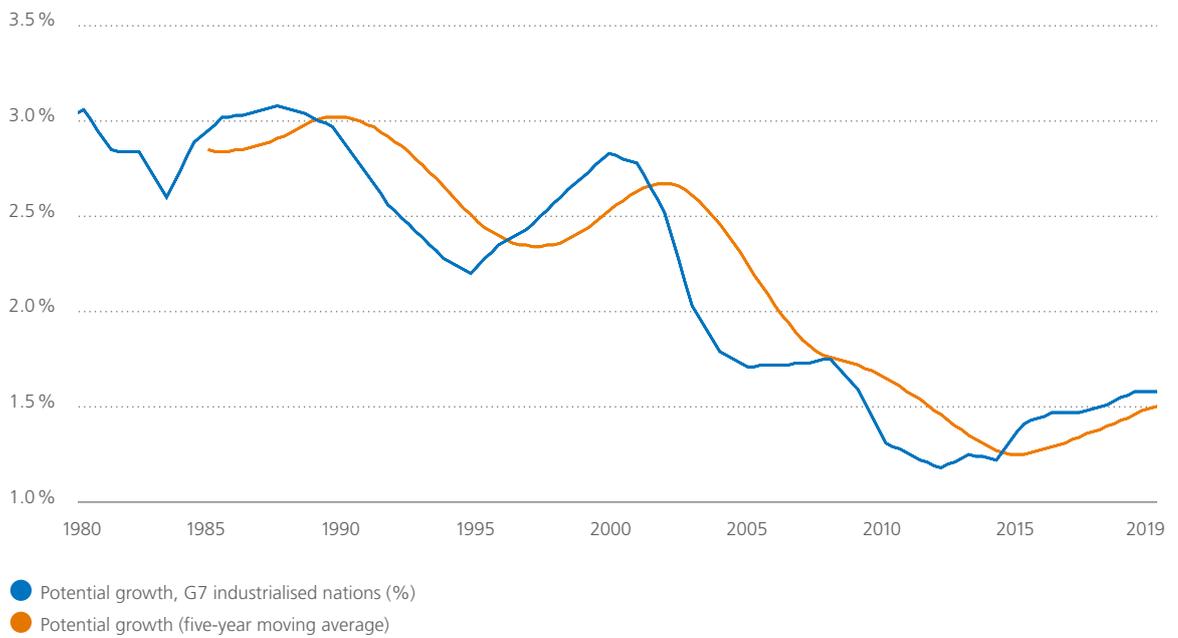


Sources: IWF, OECD, Thomson Reuters

Fig. 4

Strong decline in potential growth

Percent

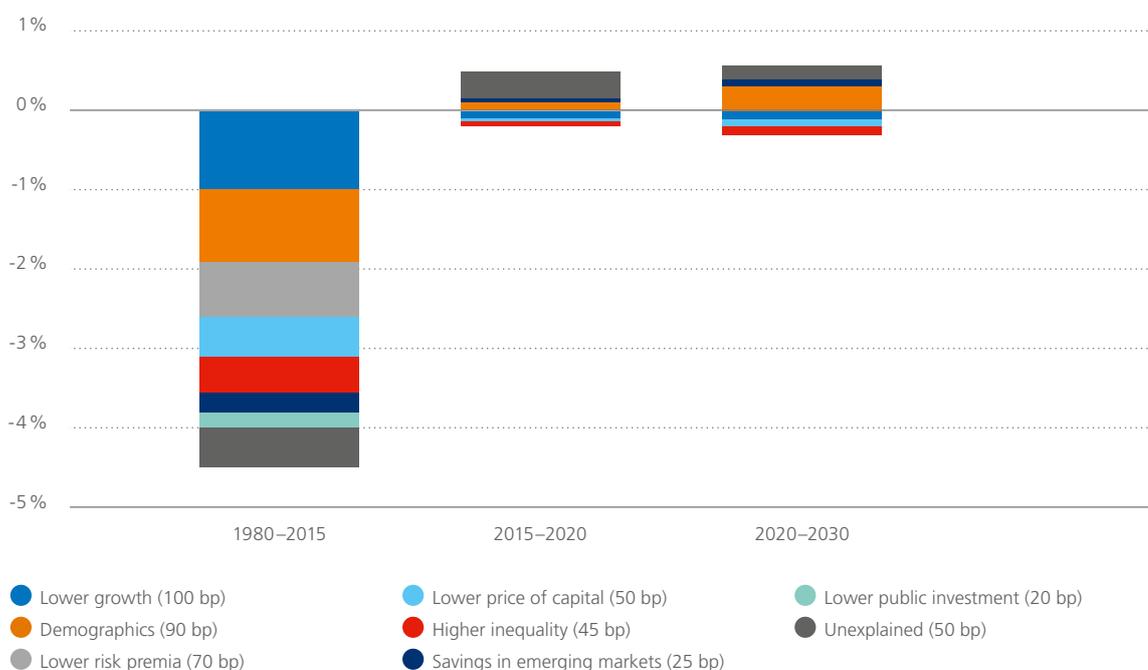


Sources: IWF, OECD, Thomson Reuters

Fig. 5

Drivers of the 450 basis-point fall in real interest rates since the 1980s

Changes in the global neutral rate in basis points (bp)



Sources: Rachel, L. and Smith, T.D. (2017). Are Low Real Interest Rates Here to Stay? IJCB.

2. Negative interest rates neither effective nor necessary

The framework conditions that were decisive at the time of the introduction of negative interest rates have changed since 2015. The impact of negative interest rates on inflation, exchange rates and capital spending has therefore decreased sharply. However, negative interest rates result in a considerable redistribution from savers to borrowers and from banks to exporters.

2.1 Current monetary policy has little impact on inflation rate

The deflation risks have largely been averted, the Swiss franc is no longer overvalued, and the export-oriented sectors of the economy have recovered from the Swiss franc shock. The framework conditions that were decisive at the time when negative interest rates were introduced have changed. Inflation rates, however, persist at a low level (see Figure 6), and growth and inflation outlooks abroad have recently weakened.

Experience in recent years in Switzerland, the eurozone and Japan has shown that targets are only just being reached despite extraordinarily expansionary monetary

policies. The modest impact of monetary policy on inflation has also been demonstrated by economists at the ECB.³ It is doubtful that inflation would have been even lower in the long term without negative interest rates. Inflation rates in industrialised nations are highly correlated, regardless of whether or not the respective central bank has introduced negative interest rates. Due to structural developments, low inflation is increasingly recognised as a global phenomenon. These causal drivers are largely unaffected by monetary policy measures. A longer-term continuation of extraordinary monetary policy to counteract a structural trend is therefore hardly sustainable.

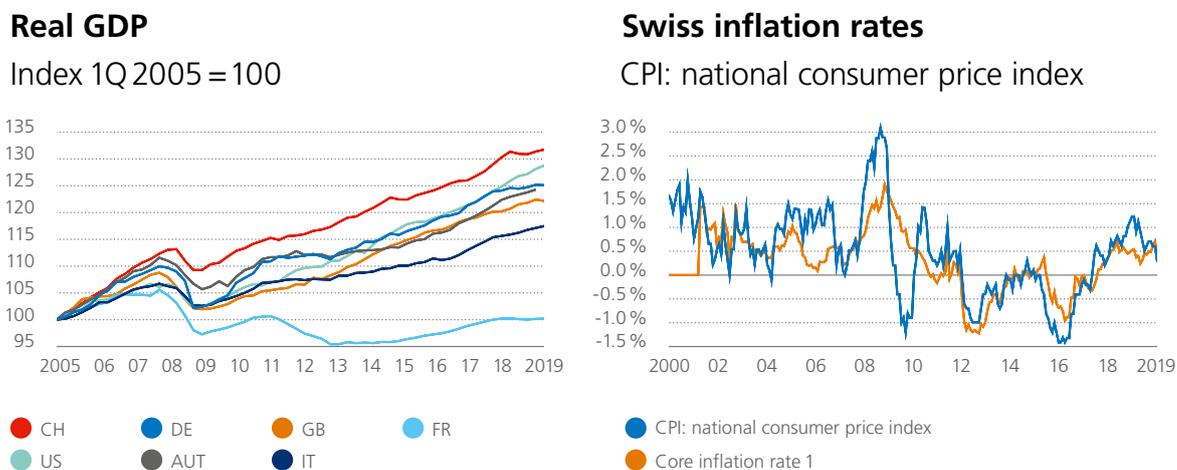
With negative interest rates having a negligible influence on inflation rates both in Switzerland and internationally, one of the key factors that previously explained the difference between Swiss and foreign interest rates no longer applies.

The **inflation rate** for consumer prices is currently 0.3 %, and core inflation rate 1 is 0.4 %. The SNB expects inflation to be 0.4 % for 2019, 0.2 % for 2020 and 0.6 % for 2021. This means that inflation will remain within the SNB's target range of 0–2 % for the foreseeable future. The period of negative inflation from 2011 to 2016 has been overcome, and consumer prices have been rising again since 2017.

The SNB's balance sheet has grown by CHF 300 billion since the minimum exchange rate was lifted in 2015. This roughly corresponds to the increase seen during the period in which the minimum exchange rate was in place and the turbulent period of currency purchases prior to the introduction of the minimum exchange rate, which were similar in length. The fact that the SNB intervened to a similar extent during both periods could be an indication that the interventions were effective instruments, in contrast to negative interest rates, which are hardly effective. Banks have largely shielded private savers from negative interest rates. In recent years, they have in practice not passed on negative interest rates on deposits in excess of the exemption thresholds.

3 cf. Hammermann et. al. 2019.

Fig. 6



The various arguments show that central banks' negative interest rate policies are having little effect in the current environment.

2.2 Positive signs in foreign trade

As a small, open economy, Switzerland is highly reliant on foreign trade. The former minimum exchange rate of CHF 1.20 per euro and the monetary policy measures introduced by the SNB following its lifting very quickly led to a decrease in the franc's overvaluation. As a result, the SNB was successful in stabilising foreign trade prices and ultimately the economy.

A look at the figures for foreign trade shows that exports recovered from the appreciation shock in 2015 and are growing dynamically. Goods exports grew annually by an average of 5 % in real terms and 5.8 % in nominal terms over the last two years. The surpluses in the trade of goods exhibit an uninterrupted upward trend and now amount to around CHF 2 billion per month. Switzerland's trade balance also shows a rising surplus, which now stands at over CHF 7 billion per quarter.

Exports of chemical and pharmaceutical products have been growing faster than exports of other goods for an extended period and exceeded these for the first time in June 2019. They now account for over half of all Swiss goods exports and have low exchange rate elasticity. The share of exports with a higher sensitivity to the exchange rate – such as generic, mass-produced goods – is steadily declining, which is attributable to a longer-term structural shift in Swiss manufacturing towards knowledge-intensive and high-value-added products. Tourism has clearly recovered in the last three years. Hotel overnight stays have risen rapidly since 2017 (see Figure 7 and 8). The balance of services also points to a recovery in tourism services for foreign guests. By contrast, service exports have stagnated since 2017.

If we look at the breakdown of GDP by sector since the first quarter of 2009 (see Figure 7), the strong contributions made by the “real estate, other services” and construction sectors stand out. Both sectors benefit from low interest rates. In absolute terms, industry made the second-largest contribution to GDP growth – despite the appreciation of the franc. The only major sector that has been shrinking in real terms since 2009 is the financial sector, with value creation down CHF 1 billion per quarter or 11 % compared with ten years ago. Negative interest rates are one of the main reasons for the financial sector’s weak performance.

Trends in the job market since the first quarter of 2009 show that the largest relative job losses were seen in financial services (down 16 % or 20,500 full-time equivalents). This partly reflects the outsourcing of purely administrative activities to other sectors, but a large proportion is also likely to be attributable to the structural change in the financial centre. Although even more jobs were lost in industry in absolute terms (28,000 in all), this corresponds to a decline of only 4 % in relative terms and is probably at least partly due to high productivity growth. Since 2009, a total of over 400,000 new jobs (+11 %) have been created in the Swiss economy.

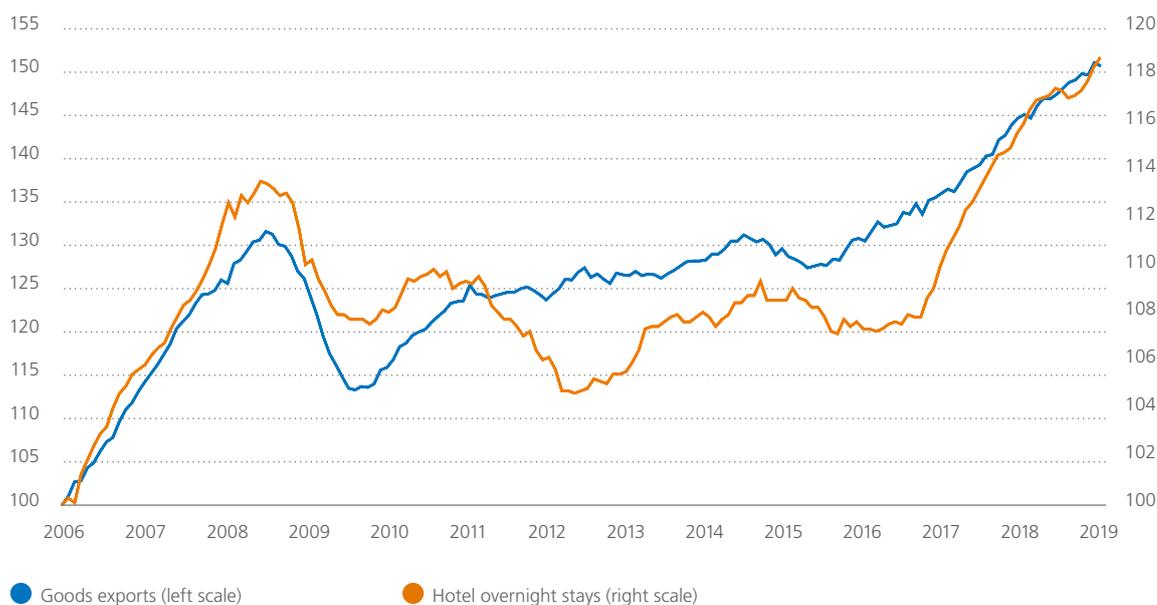
Overall, it can be observed that export-oriented sectors are growing. Deflation risks have largely been averted, and inflation is within the SNB’s target range. There are currently signs of an economic slowdown, but this is not comparable to the situation prevailing when negative interest rates were introduced. Negative interest rates are causing a redistribution from savers (who are hardly seeing any returns) and a

stagnating banking sector (which is suffering from sharply declining interest margins) to exporting sectors, which are benefiting from favourable conditions. The pressure on interest margins also stems from the fact that banks are protecting savers' deposits from negative interest rates. In addition to savers, Swiss consumers and importers are currently also bearing the costs of the expansionary monetary policy because their international purchasing power is being weakened. The need for negative interest rates can therefore be called into question from a macroeconomic perspective.

Fig. 7

Goods exports and hotel overnight stays at record levels

(index, 2006 = 100)

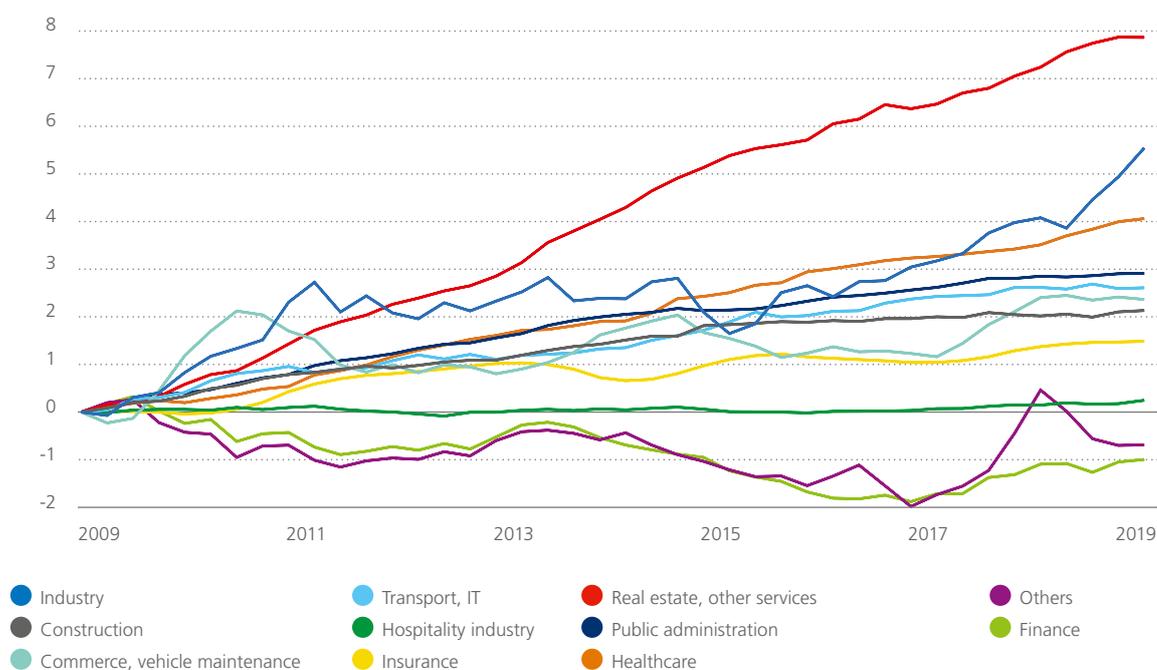


Source: Macrobond

Fig. 8

Gross value added by sector

(change since 1Q2009, nominal, CHF bn/quarter)



N.B.: The "real estate, other services" sector comprises housing as well as professional, scientific, technical and other services.

Source: Macrobond

3. Negative interest rates have side effects

Negative interest rates entail significant risks and economic distortions. They lead to a misallocation of capital, thus weakening competitiveness and impairing the accumulation of wealth by today's savers and tomorrow's pensioners. Rising collateral damage is becoming an increasingly important factor to consider when weighing the harm caused by negative interest rates against their benefits.

3.1 Misallocated resources leading to distortions in real estate market

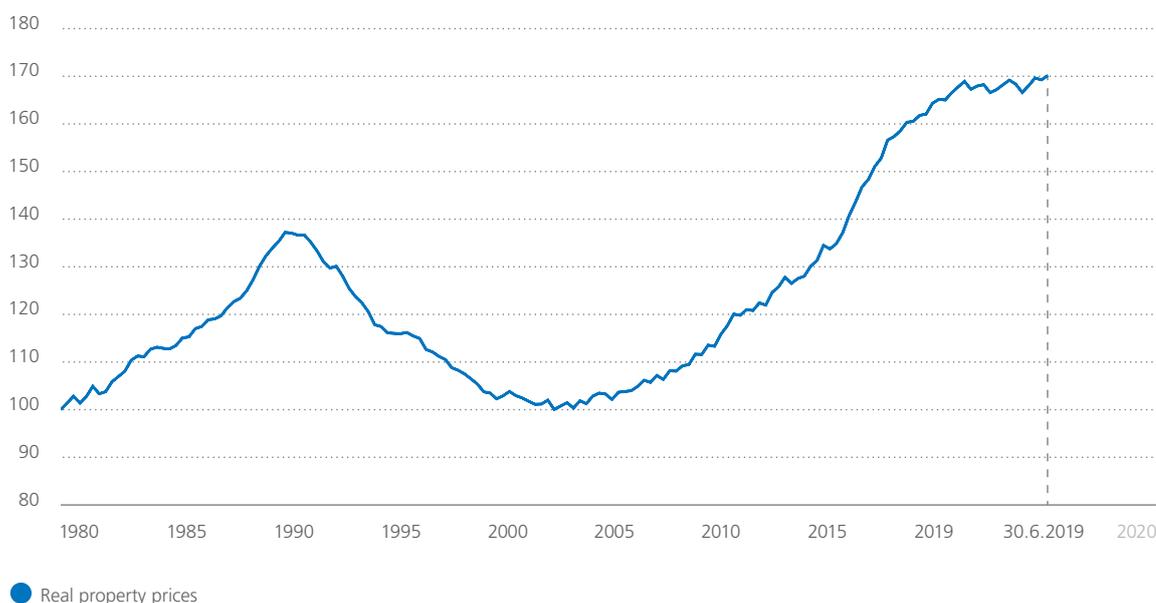
Low and negative interest rates have resulted in significant distortions in the Swiss real estate market. The investment plight attributable to the low returns on fixed-income investments has pushed real property prices in Switzerland up to significantly higher levels than those seen at the end of the 1980s, when the last major real estate bubble reached its peak (see Figure 9). Vacancy rates have risen from less than 1% ten years ago to 1.7% today (the actual number of vacant properties has doubled by approximately 40,000) and are likely to rise further. A not insignificant proportion of these vacancies is likely to have arisen due to the extreme dearth of viable investment options. Investing in a potentially vacant

building is seen as more profitable than holding cash or bonds. In other words, negative interest rates have led to a misallocation of resources in the economy and increased the risk of write-downs on vacant properties. According to the SNB, the imbalances in the mortgage and real estate markets persist.⁴

For the banks, these developments have resulted not only in narrowing interest margins but also in additional regulations governing mortgages that were introduced as a corrective measure. The banks therefore bear the costs of regulation created largely in response to the effects of excessively expansionary monetary policy.

Fig. 9

**Real property prices, average of all available price indices
(index, 1980 = 100)**



Source: UBS

4 SNB monetary policy assessment of 19 September 2019.

The long-term consequences of this development could be even more grave. Returns on real estate, driven by negative interest rates, have reached such a low level that there would hardly be any room for manoeuvre to cushion a possible correction in the event of a recession. Such a correction could also be triggered without a rise in domestic interest rates, for example by a slump in demand in important Swiss sectors or by an economic crisis abroad.

3.2 Pension funds face accentuated problems

A prolonged low interest rate environment results in a number of redistributive effects from savers and investors to borrowers. Where savings on a large scale are tied to future payment obligations, as is the case in the Swiss pension system, negative interest rates accentuate the latent challenges posed by the lengthy period of low interest rates.

Due to the continuous fall in interest rates, Swiss pension funds achieved returns on their bond holdings of roughly 2.5 % in CHF and 3 % in foreign currencies between the beginning of 2009 and the end of 2018. These returns are likely to be close to zero or even negative in the coming years. Given the high proportion of bonds pension funds have to hold in their investment portfolios to comply with regulatory requirements (generally 20–50 %), the particularly attractive returns generated by these bonds as a result of steadily declining interest rates are likely to have initially masked the need for pension fund reforms over the past few years. Swiss pension funds also hold a large proportion of their assets in real estate. Negative interest rates are thus increasing the upward pressure on property prices.

For pension funds, negative interest rates exacerbate the problem of the already low interest rate level in two respects. On the one hand, banks are passing some of the negative interest rates on to their large customers, such as pension funds. The Swiss pension fund association ASIP estimates that negative interest rates place a burden of around CHF 400 million per year on pension funds. On the other hand, negative interest rates have further lowered the overall interest rate level in Switzerland and thus reduced pension fund members' returns almost across the board.

This will make funding pensions all the more challenging in future, and younger generations will presumably be the ones paying the price.

Immediately following the introduction of negative interest rates in 2015, the Federal Council, in its response to a parliamentary question, expressed concern about their consequences for the pension system: “In general, the low interest rates that have existed for some time represent a major challenge for pension funds. Negative interest rates further exacerbate the situation for pension funds, which must either take more risks in order to continue achieving positive returns (e.g. on debt investments, specifically bonds) or accept negative interest rates. These higher risks can cause further losses in the medium to long term – in addition to the direct negative interest rate on the liquid funds required for pension payments.”

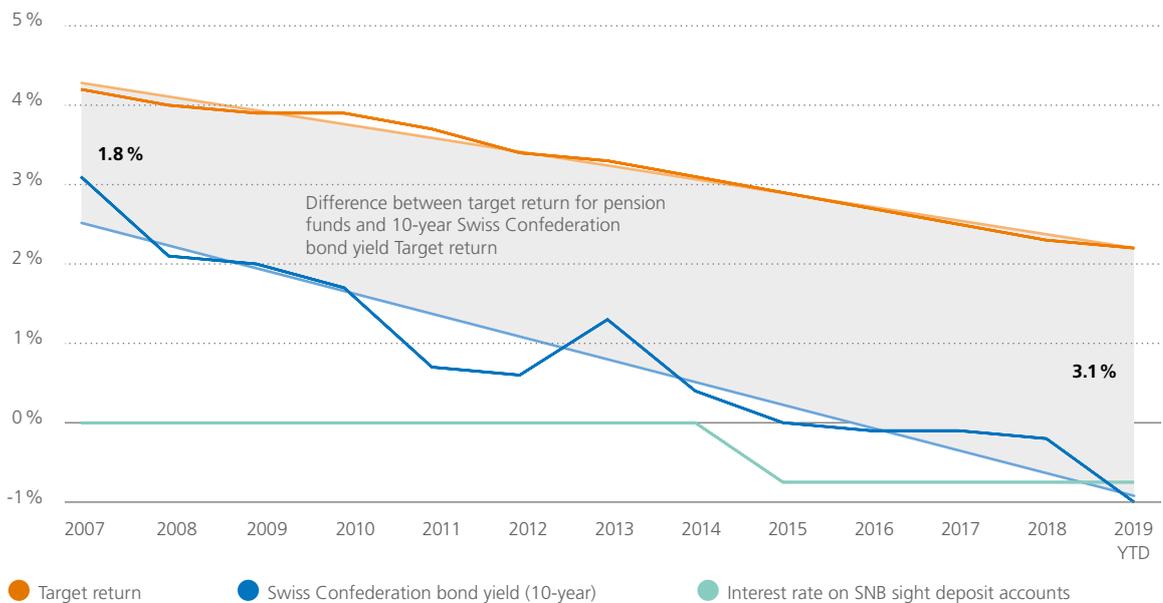
The investment crisis in the pension system is illustrated very clearly by the increased spread between pension funds’ target return and the returns on risk-free investments (see Figure 10). The target return is the return that a pension fund must generate on its financial investments in order to maintain its coverage ratio at a constant level. If it generates a lower return, the coverage ratio decreases. Due to changes in the statutory retirement age and rules on employees’ contributions, the conversion rate and other key parameters, target returns have been reduced since 2007.

However, risk-free returns (using 10-year Swiss Confederation bonds as an example) have fallen much more sharply. Looking at the trend, the difference has increased from 1.8 percentage points in 2007 to 3.1 in 2019. As asserted by the Federal Council, pension funds will have to generate significantly higher returns in order to cover pension benefits. The only way to do so is to shift asset allocations towards riskier and therefore higher-yielding investments. Since the compensation for risk has also fallen in recent years, a disproportionate increase in risk is required. The focus here is often on Swiss real estate and investment properties.

Fig. 10

The investment plight of pension funds

Percent



N.B.: The target return is the return that a pension fund must achieve in order for its coverage ratio to remain stable. The difference between the target return and the return on low-risk investments must be offset through additional risk-taking.

Sources: SBA, SNB, Swisscanto

Negative interest rates also have a massive impact on the development of pension assets in Pillar 3a and vested benefits foundations.

3.3 Malinvestments delay structural change

Negative interest rates contribute to malinvestments, which adversely affect near-term growth and price developments. In the current interest rate environment, investments are being made that could not be justified under circumstances where returns are normal. In addition to the aforementioned distortions in the investment space, this also affects the real economy.

There is therefore a risk in a number of sectors that excessive production capacities will be built up. This results in inflation being rigidly below the desired level, creating additional impetus to keep negative interest rates in place. This phenomenon is known as Japanisation.

Negative interest rates significantly reduce companies' interest costs. As a result, the threat of bankruptcy in the event of overindebtedness, which is central to a market economy, loses importance. The pressure to innovate decreases, which has a negative impact on productivity growth and competitiveness. The rise in the number of so-called "zombie companies" that would have to close their doors under normal circumstances can already be observed in some countries.

Overall, it is evident that sustainable growth cannot be brought about through negative interest rates. They incentivise over-investment and pre-consumption, in other words pulling potential future growth forward.

Negative interest rates penalise savers and at the same time create strong incentives for the government, companies and households to assume greater debt. The debt level of Swiss households for car leasing and cash and consumer loans has risen by 60 % since 2004 and amounted to CHF 23.5 billion at the end of 2018.⁵ Indebtedness has increased sharply in almost all industrialised nations in the wake of the financial crisis. Government and corporate debt have in particular increased significantly in recent years. As a result, there is less pressure to implement austerity measures and successively pay down debts.

However, very high levels of debt make an exit from highly expansionary monetary policy even more unrealistic because a significant rise in interest rates would lead to a deep recession (technically speaking, a balance sheet recession; see box). The negative interest rate therefore remains in force in order to avoid the damaging effects of payment defaults and bankruptcies.

⁵ NZZ, 08.10.2019: *Die private Verschuldung steigt markant.* (Personal indebtedness increasing significantly).

A **balance sheet recession** is a situation in which not only private households but also companies and banks are saving money with a view to compensating for losses in the value of assets. Balance sheet recessions can occur particularly after financial crises and can result in prolonged stagnation. The recession in Japan after 1990 is often cited as a typical example of this scenario.

3.4 Greater incentives for risk-taking

The central banks' negative interest rates are putting direct pressure on the banks: in 2018, the SNB received CHF 2 billion in negative interest and the ECB EUR 7.5 billion. This significantly reduces the banks' profitability. The SNB's aimed to take this into account with its move to increase the exemption threshold on SNB sight deposit accounts in its monetary policy assessment of 19 September 2019. This will probably cut the SNB's income from negative interest by almost half, but it will nonetheless remain a major burden for the financial sector.

The recalculation of the exemption threshold affects individual banks' business models in different ways. This highlights how difficult it is to ensure competitive neutrality for such rules. Since banks are in particular protecting retail customers from negative interest rates, they must subsidise the interest they pay on account deposits through their lending business. From an economic perspective, negative interest rates are a tax, which makes the SNB's earnings something of a political football.

Negative interest rates lower the banks' interest margins and earnings potential. Banks have fewer incentives to conduct riskier business and reduce low-risk loans. In certain European countries, some banks are still not well capitalised and have a high level of non-performing loans, which can result in a credit crunch.

The European and Swiss economies are more dependent on bank lending than the US or UK economies. In order to counteract margin erosion, the incentives for banks to expand their credit volumes are increasing. With a view to possible adverse effects on financial stability, this could lead to further macroprudential interventions by central banks.

The flight to risk and volume can – for example in a cyclical downturn – endanger stability. In Switzerland, this danger is currently relatively small. However, the negative interest rate policy tends to counteract the SNB's contribution to financial stability.

3.5 Sustained negative interest rate environment creates general uncertainty

If negative interest rates remain in place over the course of years with no prospect of any change in the foreseeable future, the psychological effect thereof on companies and households should not be underestimated. Sustained negative interest rates are equated with a "crisis scenario". They do not therefore have a stimulating effect but rather inhibit economic activity and dampen inflation.

The suggested state of emergency or crisis increases the willingness to pay for security. Demand for government bonds grows, perpetuating the low interest rate environment. A strong and sharply increasing demand from private individuals for savings can be observed – at a time when real interest rates are negative. This widens the wealth delta between the wealthy, who benefit from rising securities prices, and those segments of the population that cannot take risks with their savings. Examples in other countries show that such developments entail social and political risks. This problem would be massively aggravated if the banks were forced to pass negative interest rates on to clients on a larger scale.

4. Conclusion: initiate exit from crisis mode

Empirical studies show that the desired effects of negative interest rates on the economy have decreased. While the economic fundamentals have improved, risks and collateral damage are increasing due to negative interest rates. In an overall assessment, the prerequisites for negative interest rates are no longer in place today.

In light of the latest rate cuts by the ECB and the Fed, the SNB was under pressure in September 2019 to toe the same line as other central banks. The fact that the SNB did not cut interest rates further and at the same time reduced the burden on the banks by raising the exemption threshold is to be welcomed. In doing so, it has proved its independence and averted further damage to the Swiss economy.

Nevertheless, the question arises as to how the SNB intends to shape monetary policy in the future. Both the eurozone and the US are showing almost no signs of renouncing their current policies; the pressure on the SNB to continue with its negative interest rate policy is therefore likely to remain. On the other hand, the

Swiss economy is not in crisis mode: inflation is currently clearly within the 0–2 % range defined as price stability. Moreover, since the introduction of negative interest rates, the franc has depreciated significantly relative to the equilibrium exchange rate adjusted for purchasing power. Exports have recovered from the Swiss franc shock. The economic environment that justified the negative interest rates in Switzerland has changed. Meanwhile, the risks and collateral damage to the economy caused by the negative interest rate policy will increase the longer this policy remains in place: the formation of bubbles in markets, the investment plight and lower returns for pension funds, the strain on savers and the financial sector, and the crisis mood among consumers and investors.

Negative interest rates are comparable to emergency medication: they can be very beneficial in the short term despite significant risks and side effects. In the long term, however, they become less effective, while the unwanted side effects and the dependencies that make it more difficult to stop taking the medication steadily increase. It is no longer necessary to extend the central banks' crisis mode.

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