Swiss Banking

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Little impact and structurally problematic - SBA study on the consequences of negative interest rates

Basel, October 24, 2019 – Negative interest rates have been in place in Switzerland for almost five years. The measure introduced by the Swiss National Bank (SNB) at the end of 2014 was justifiable for a number of reasons. Since then, the once successful emergency measure has become the "new normal". In a study, the Swiss Bankers Association (SBA) has analysed the effects and consequences of negative interest rates. While it does not question the independence of the Swiss National Bank and its monetary policy, the SBA is convinced that a public discourse on the macroeconomic consequences of negative interest rates is required and that the way should be paved for an exit from crisis mode.

In its study "Negative interest rates: from emergency measure to the "new normal" – and back?", the Swiss Bankers Association (SBA) has examined the effectiveness and consequences of negative interest rates. Research shows that the desired effects of negative interest rates on the Swiss economy have diminished. While the economic fundamentals have improved, the side effects and the risks for the population and the economy are increasing.

"We are monitoring not only the banks, but also the economy as a whole. The banks have their fingers on the pulse of the matter and are witnessing the adverse consequences of negative interest rates on Swiss citizens, our companies and the overall economy," says Jörg Gasser, CEO of the Swiss Bankers Association, with regard to the findings of the study. These findings show that negative interest rates no longer fulfil their economic purpose. The Swiss franc is no longer over-valued, prices are stable, and – almost five years after the introduction of negative interest rates – companies have recovered from the Swiss franc shock.

The study also examines the longterm structural consequences of the current interest rate policy on Switzerland and its economy. These include:

- The risk of bubbles forming in certain asset classes is increasing. The investment plight attributable to low returns on fixed-income investments, for instance, has pushed real property prices in Switzerland up to record levels. At the same time, housing vacancies have increased significantly.
- Negative interest rates penalise savers and at the same time create strong incentives for government, companies and households to assume greater debt. Indebtedness has increased substantially in almost all industrialised nations in the wake of the financial crisis.
- The crisis mood threatens to paralyse consumers and investors. 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. They restrict room for manoeuvre in monetary policy in the event of an economic downturn.

- The investment plight and lower returns are jeopardising the stability of pension funds. Negative interest rates further exacerbate the problem of the already low interest rate level faced by pension funds. On the one hand, banks are passing some of the negative interest rates on to their large customers, such as 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 has economic and social consequences – particularly for the pensioners of tomorrow.
- The central banks' negative interest rates are putting direct pressure on the banks: in 2018, the SNB received CHF 2 billion in negative interest rates. This significantly reduces the banks' profitability. This fundamental problem remains, despite the new, increased exemption threshold on SNB sight deposit accounts.

In light of the limited effect and the adverse consequences of negative interest rates, the study concludes that ways to exit crisis mode must be found. Martin Hess, Chief Economist of the

Swiss Bankers Association: "Negative interest rates are comparable to emergency medication: they can be very beneficial in the short term despite the risks. In the long term, however, they become less effective, and the side effects increase steadily."

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