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Negative Interest Rates in Switzerland—A Curse or a Blessing?

The Swiss National Bank (SNB) resolutely defends its current negative interest rate policy, and in explaining its actions cites its core objective of ensuring price stability. Moreover, it emphasizes that the benefits as a whole outweigh the costs for Switzerland. Nevertheless, the number of critical voices calling for a rethink of the negative interest rate policy is on the increase, and a lively debate has arisen. In this context, the Swiss Finance Institute has published a Public Discussion Note on the subject to explain the positive and negative consequences of the current situation for Switzerland and to discuss possible future developments.

Zurich, 16 March 2020. Over recent years, the central banks of several countries have set short-term interest rates below zero. In some cases, even long-term market interest rates have become negative. It does not, therefore, come as a surprise that negative interest rates have become a focal point of discussion and are increasingly being questioned. In Switzerland—currently the country with the lowest negative interest rates—the debate about the past, present, and future of this phenomenon and its impact on the overall economy is especially active. Similar discussions are taking place in the euro area with respect to the policy of the European Central Bank (ECB). Even the US president tweeted, in September 2019, that the Federal Reserve should lower interest rates "to ZERO, or less," for the US to refinance its debt.

The Swiss National Bank (SNB) regularly explains the fundamental economic reasons for negative interest rates and why they could stay negative for some time to come. Nevertheless, the current situation is of increasing concern to a growing number of critical observers. The discussion centers around the fundamental question of whether the benefits of the current policy still outweigh the costs (including low returns on savings, asset inflation, incentives for risk-taking, and the financial situation of pension funds). It is clear that ultimately the SNB’s monetary policy influences the entire Swiss economy—and thus the Swiss population as a whole. But could the SNB really avoid negative interest rates?

Should the SNB deviate from its current negative interest rate policy? In an ideal world the easy answer would be "yes". In the real world, however, the question has to be different: Is the SNB able to initiate a change of direction? Swiss Finance Institute Professor Philippe Bacchetta from the University of Lausanne states: "An interest rate increase would most likely lead to an appreciation of the Swiss Franc and to a reduction of economic activity. Deflation could set in. Still, it is recommended that new measures, which go beyond the classic instrument of monetary policy, will have to be brought into the public, political, and academic debate as well." Swiss Finance Institute Adjunct Professor Alfred Mettler from the University of Miami adds: "Ultimately, the SNB will have to carefully evaluate matters and try to keep the overall costs

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for all industry sectors, as well as the Swiss economy, at a reasonable and fair level. This is a complex and difficult task."

As part of the ongoing debate, the Swiss Finance Institute is organizing a public discussion event on 12 May 2020 in Zurich, which will focus on the SNB's current negative interest rate policy. Further information about the event and the SFI Public Discussion Note can be found at www.sfi.ch/nir.

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Swiss Finance Institute

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