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Six Key Statements on the Impact of Negative Interest Rates in Switzerland

When the Swiss National Bank (SNB) set its policy rate at -0.75% in January 2015, the step was regarded as an exceptional measure both at home and abroad. More than six years later, the short-term interest rate is still at this level, and long-term interest rates are now also in negative territory. In a new SFI Public Discussion Note, Swiss Finance Institute Professor Philippe Bacchetta from the University of Lausanne examines when the Swiss economy might return to positive interest rates and what implications negative interest rates generally entail.

Zurich, September 8, 2021. The subject of negative interest rates is a highly controversial one, in Switzerland and abroad. In particular, representatives of the SNB regularly cross swords on the matter with politicians as well as with established players from the financial sector and the economy. One argument often heard from critics is that very low or negative real interest rates particularly benefit borrowers, who can obtain cheaper financing, while they penalize savers, who are bound to expect lower future returns. This may lead investors in search of returns to consider riskier investments, which in turn threatens financial stability. Additionally, the real estate market risks overheating, as low interest rates fuel mortgage borrowing. Recent experience also shows that a low interest rate environment exacerbates inequalities: higher-income households benefit from attractive returns since they often invest in equity markets, while lower-income households without equity investments are left empty-handed.

These are the main criticisms expressed thus far with regard to negative interest rates. This skepticism inspired Swiss Finance Institute Professor Philippe Bacchetta of the University of Lausanne to consider the topic in the context of the ongoing COVID pandemic, drawing on financial theory to analyze its various dimensions. His conclusions reveal a nuanced overall picture, which can essentially be summarized in the following six key statements:

1. Switzerland is no longer an "interest rate island."
2. Switzerland's "safe haven" status remains warranted.
3. Interest rates have not been significantly affected by the pandemic shock.
4. Austerity measures are slowing down the economic recovery and putting unnecessary downward pressure on Swiss interest rates.
5. There is no evidence of a systematic decline in bank profits in countries with negative interest rates.
6. All relevant factors point to a sustained period of low real interest rates.

The detailed findings related to these individual key statements can be found in the *SFI Public Discussion Note* accessible at www.sfi.ch/pdnlir.

The Swiss Finance Institute is organizing a public discussion event on the subject tonight, Wednesday, 8 September 2021 (6:00–7:20 p.m.). For further information about the event, please visit www.sfi.ch/nir2021.

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