Negative interest rates: take two. Will it ever end?

Last April we wrote an opinion about the Swiss National Bank (SNB) policy on interest rates and our concerns for the future. For those of you who missed it, let me recap the important points. After the 2015 lifting of the fixed parity with the Euro the Swiss Franc begun to fly and the ECB started to lower the interest rates. We certainly cannot claim that this ordeal started only because of the SNB, but surely that also led our central bank to go lower and reach -0.75%. What was supposed to be a short intervention became, well, written in stone. To this day we are still at negative 0.75.

The negative interest rates reality does not concern only Switzerland, which used this tool several times-notably in the seventies- to protect its currency from appreciation, as both economists as and large institutions see many flaws. Pimco, one of the largest external asset managers, sees three main issues: lower banks' profitability, dropping market returns and lastly the fact that savers feel poorer and, looking into the future and the fear of not having enough money at the time of retirement, consume less and start saving even more.

Five monetary authorities have already decided to introduce negative interest rates as part of their policy: the Swiss National Bank (the lowest rate on the planet), the European Central Bank, and those of Sweden (back to at 0% since January 2020), Denmark and Japan. The US and UK, as much as we have seen historically low rates, do not see negative rates as a worthy measure: they rather use other instruments to boost the economy.

What about Switzerland then? Where do we stand after five years of negative rates? The Swiss Bankers Association conducted a study that concluded that the measure had little positive effect but was structurally very problematic, for example the risk of bubbles forming in various asset classes and, most importantly, the destabilization of pension plans. Funny, because as much as many pension plans have been benefitting from rising markets (such as the real estate one), the risk that this boom is not sustainable is very much an issue. What is also very troubling is that pension fund managers feel compelled to take on greater risks just to get what they consider an acceptable return on their (...our) money. Employees are, generally speaking, on the losing end as they see their future pension funds deteriorating and they can only worry about the future.

A second survey, organized by KOF and NZZ clearly shows that only 1/5 of the economists (659 took part) expect to be out of the negative area five years from now.

Other examples? Sweden is an interesting one. Their banking sector is heavily involved in mortgages and, from the negative rate of 0.25% still present in October, the Riksbank pushed it up to 0% after five years in the negative area.

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The expectation from the central bank is to have stable rates at 0% for the years to come. Critics warned that by so doing the country was risking economic slowdown, but the central bank highlighted that after year of good economic growth, returning to a more normal situation could only be beneficial.

As much as there are obvious and important differences between the two countries (inflation, current account surplus and currency appreciation) perhaps, should rates remain positive also in the long term, we should try to use the Swedes as a role model. Yet Thomas Jordan still deems negative interest rates important for the Swiss economy and thinks this trend will not be reversed without a significant change in global economic conditions. Sure, the franc has been protected from further appreciation -thus helping our sizable export driven economy- but it is odd when we consider that both local as well as global GDP has been quite good over the past years. In any event, the considerable difference from last year is that today even the Swiss Bankers Association has joined the chorus of critics. The SNB might eventually need to put some pressure on the political agenda, especially considering that a new parliament has been sworn in last October. The only regret we have is that politics should mark the course, not leaving the burden to the BNS. So far neither the Federal government nor the Federal Assembly seem to react.

Affaire a suivre, but our government doesn't seem to be wanting to hear. It accepts instead the status quo, if not even suggesting a further slash to negative 1%. It is worth noting that since the introduction of negative interest rates, Swiss banks have paid only 8 billion francs to the Swiss National Bank as sort of a hidden tax that at the end reached all of us as customers. According to a report presented at the 50th edition of the World Economic Forum in Davos, in 2018 alone our institutions sent 13% of their profits to Bern, while in the Euro zone the percentage paid to the European Central Bank was only 5.6% (25 billion Euros). The trend is on the rise if we only consider that in 2018 alone 2 billion of those 8 were paid (making it 25% of the total amount).

It is our desire that Switzerland could undertake a real fiscal policy by beginning to invest in its own infrastructure. For example, the continuation of light railroad systems, such as the Leman Express in the Geneva area or those in Ticino or Basel, that will eventually drastically reduce the problem of congested roads. We shouldn't forget the investments in the NEAT project in cooperation with both Italy and Germany. There are of course plenty of others in different fields, such as education, or solar energy, thus perhaps reducing the 2050 deadline for the zero-carbon emission goal. After all, relaxing a bit our historical low debt mantra could turn out beneficial.

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