

The interest rate unbound?

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Negative interest rates: Lessons from Europe

Hutchins Center on Fiscal and Monetary Policy at the Brookings Institution,
Washington, June 6, 2016

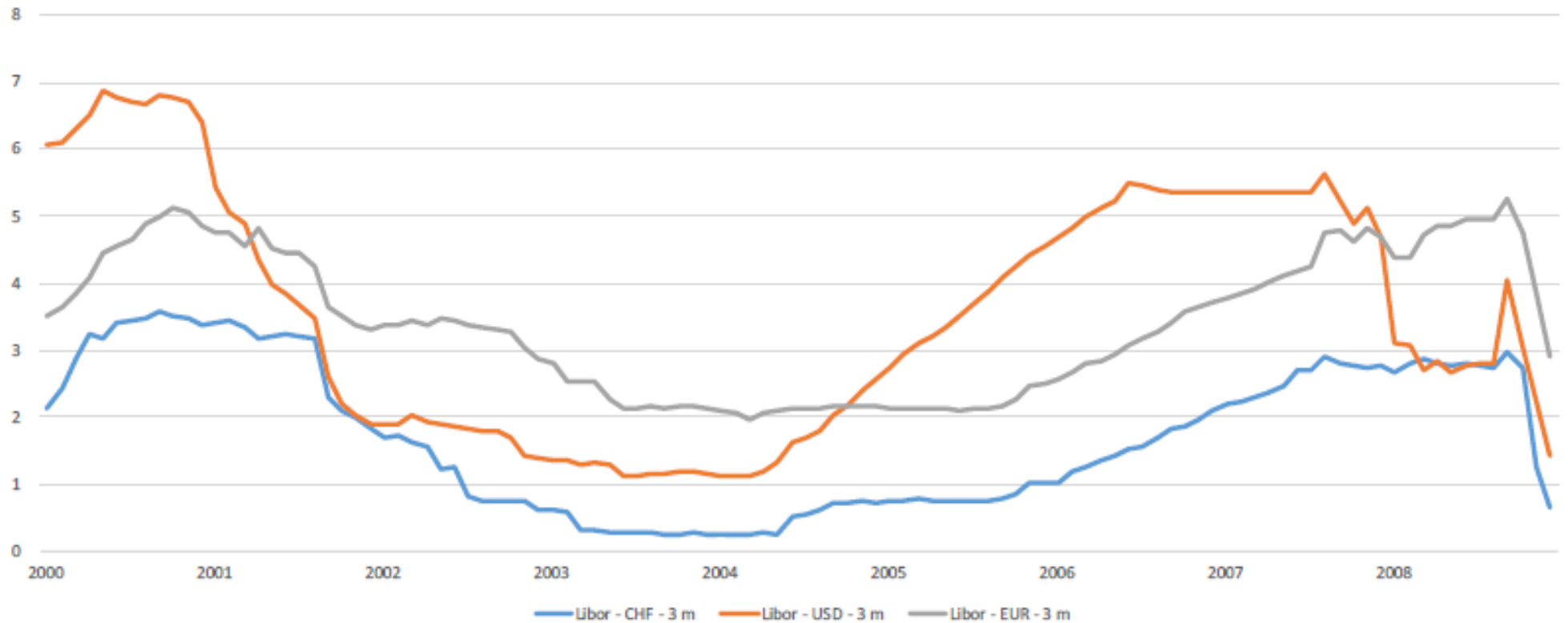
A simple message

- Negative interest rates are not popular
 - Radical measures to permit rates significantly lower than those currently observed are not democratically enforceable today
- Negative policy rates are transmitted to market rates but (mostly) not to bank rates (retail deposits or bank lending rates)
 - Such an intermediate constellation – general public not directly affected but asymmetrical propagation as a consequence – could constitute a platform for a further push of policy rates into negative territory
- Interest rate unbound?
 - Not soon for central banks in search of monetary stimulus at the ZLB
 - Yes, in limited sense, for small opening economies with safe haven currencies

Outline

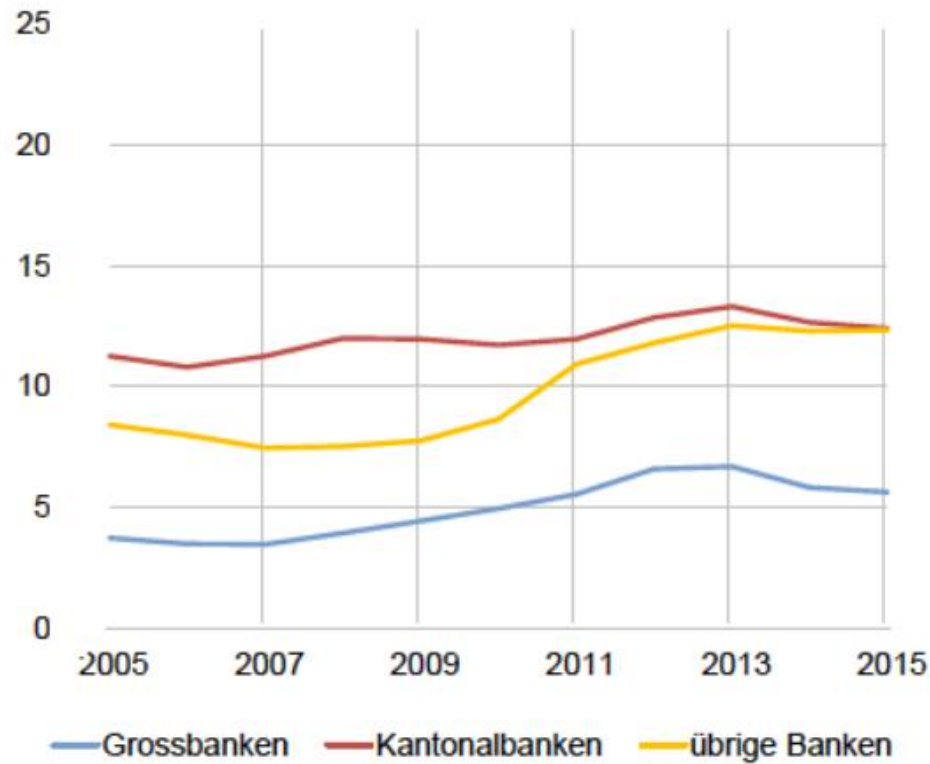
- **Introduction**
 - Negative rates: what for?
 - A common characteristics: retail deposits not affected
 - An unpopular measure
- **How low can we go?**
 - The lower bound is not far from -0.75%
 - Radical measures are not democratically feasible
 - A modest middle way
- **A symmetrical transmission?**
 - Market rates vs bank rates
- **Conclusion: No, but maybe**

The Swiss interest rate bonus



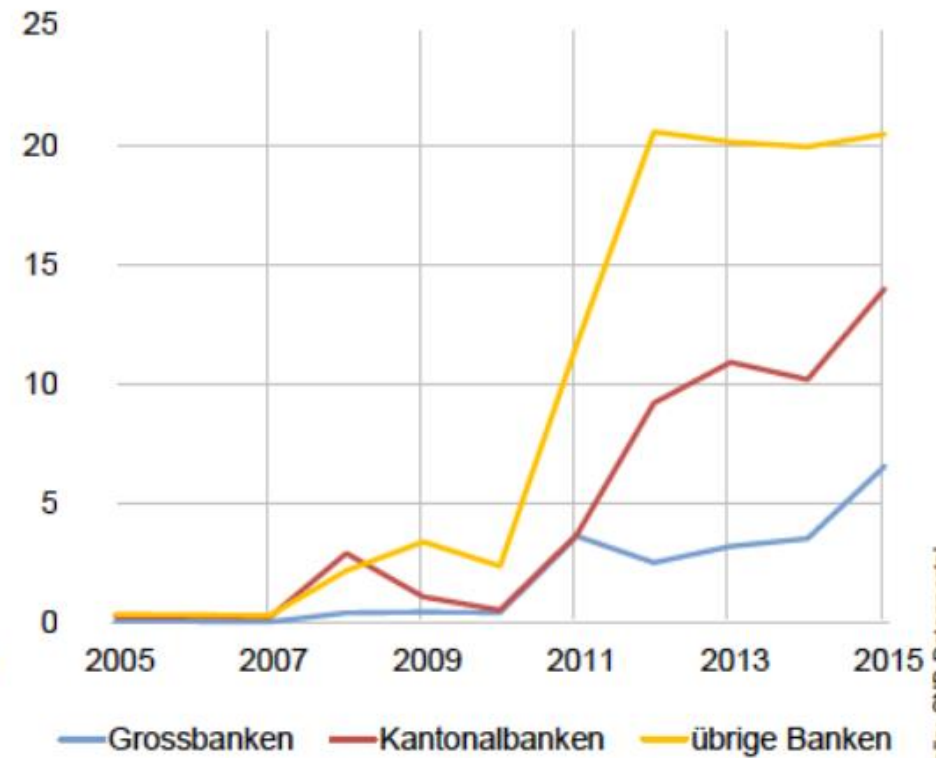
MIRE/BILANZLÄNGE

ZWANZIGFACHES DER MIRE IN PROZENT DER TOTAL AKTIVEN



GIROGUTHABEN/BILANZLÄNGE

GIROGUTHABEN IN PROZENT DER TOTAL AKTIVEN

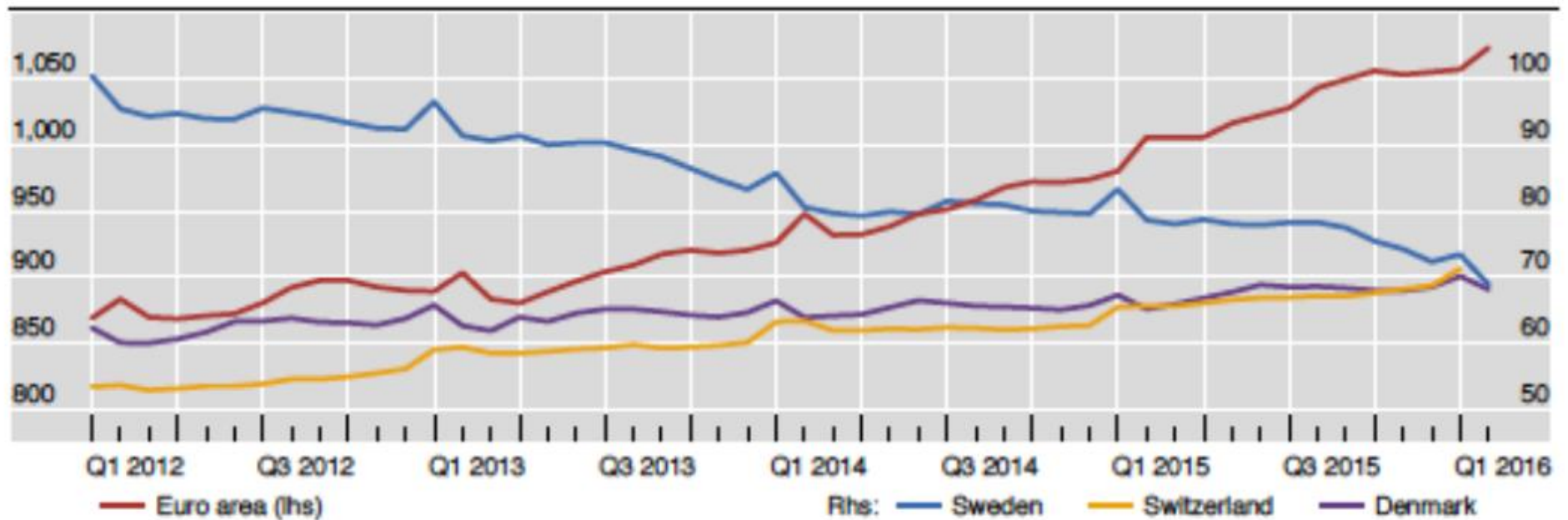


Quelle: SNB Datenportal

Outline

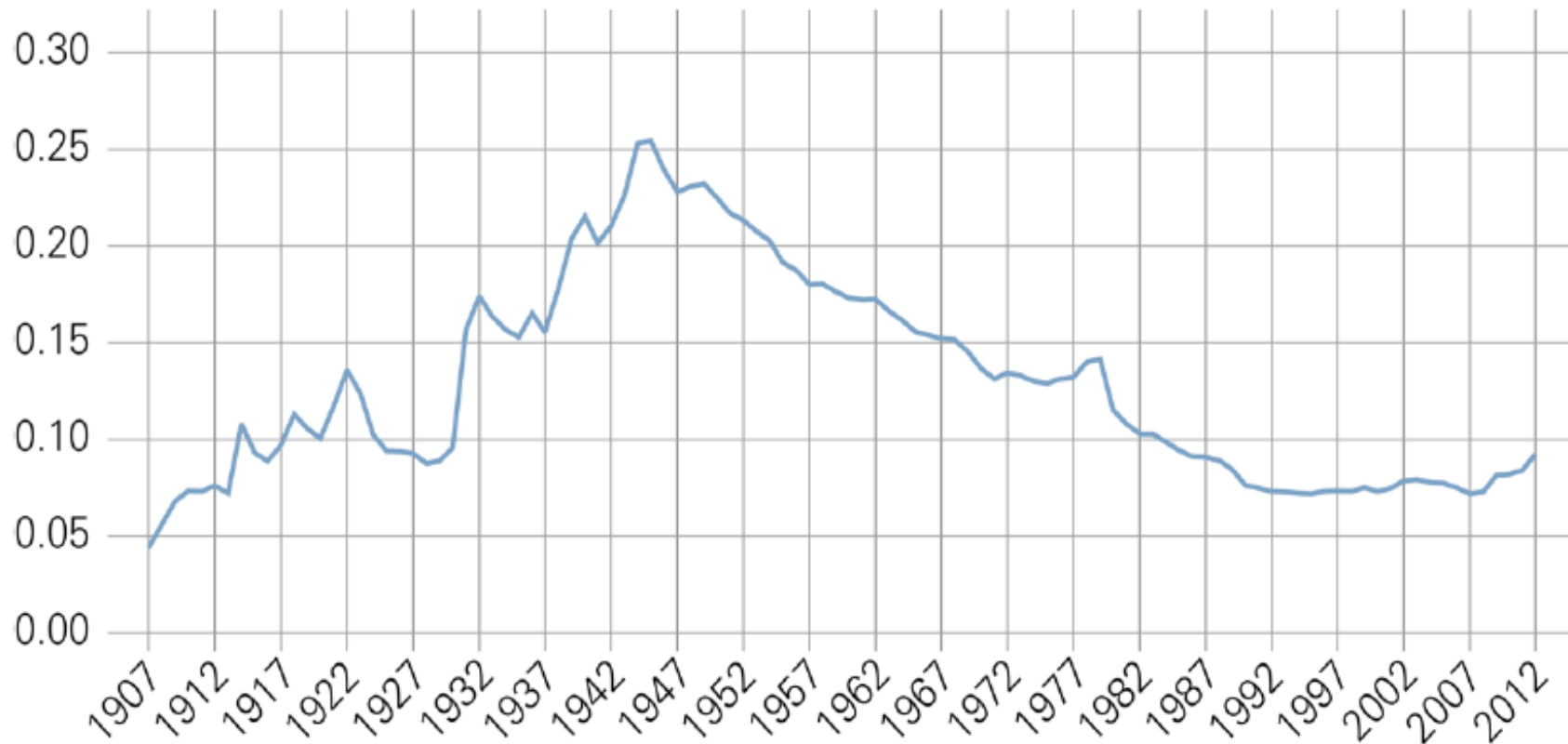
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Paper currency holdings



Sources: European Central Bank; Datastream.

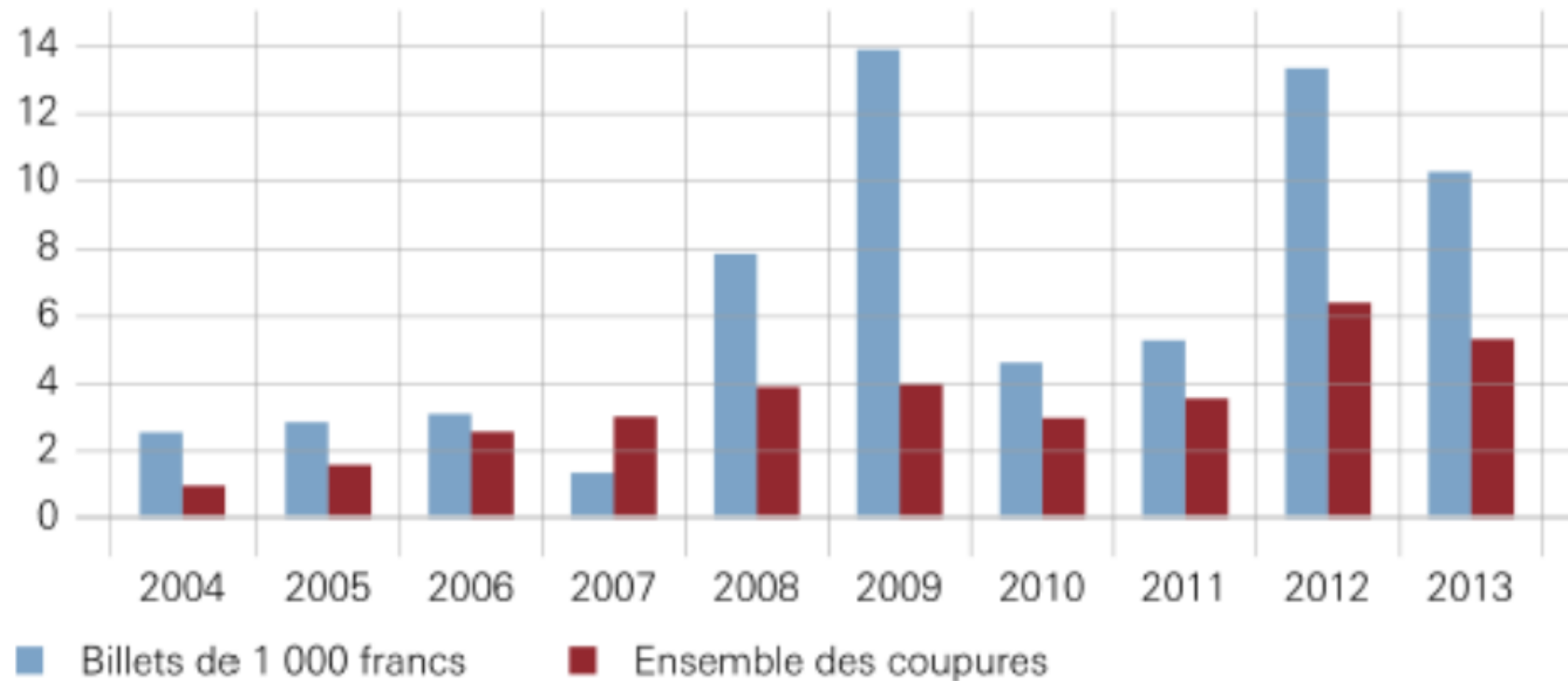
Paper currency in circulation/GDP



SNB BNS

Demand for CHF 1000 notes

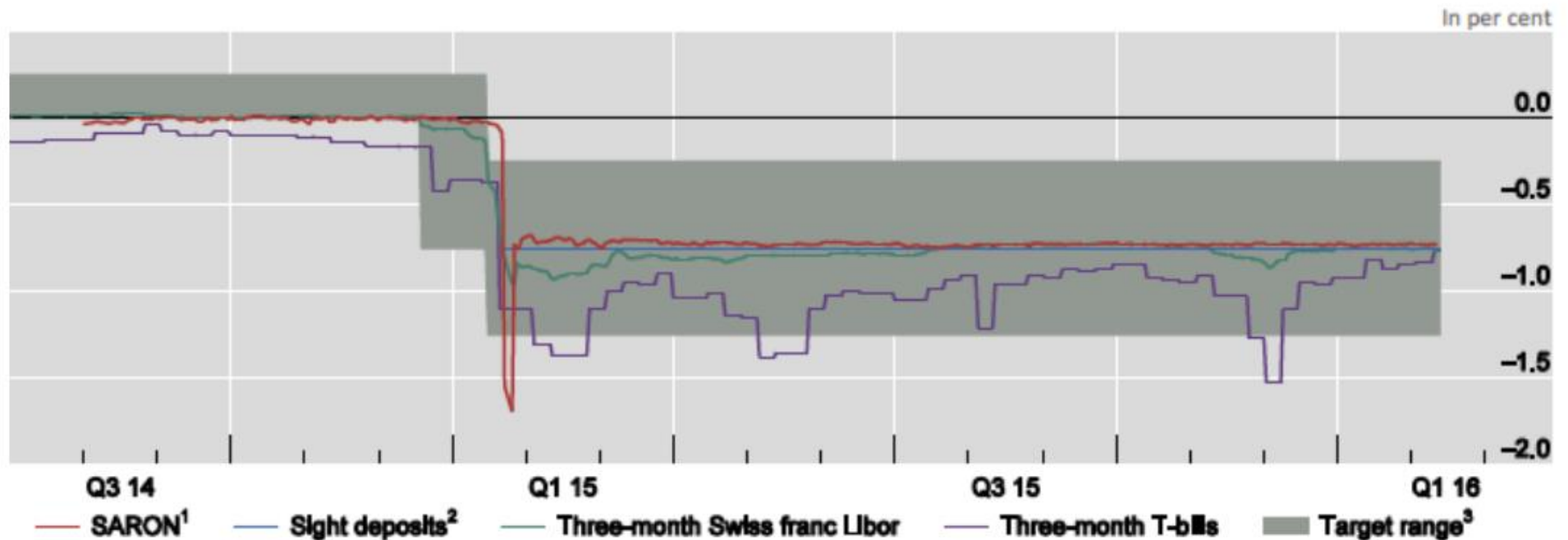
Fluctuation en comparaison annuelle (en %)



Outline

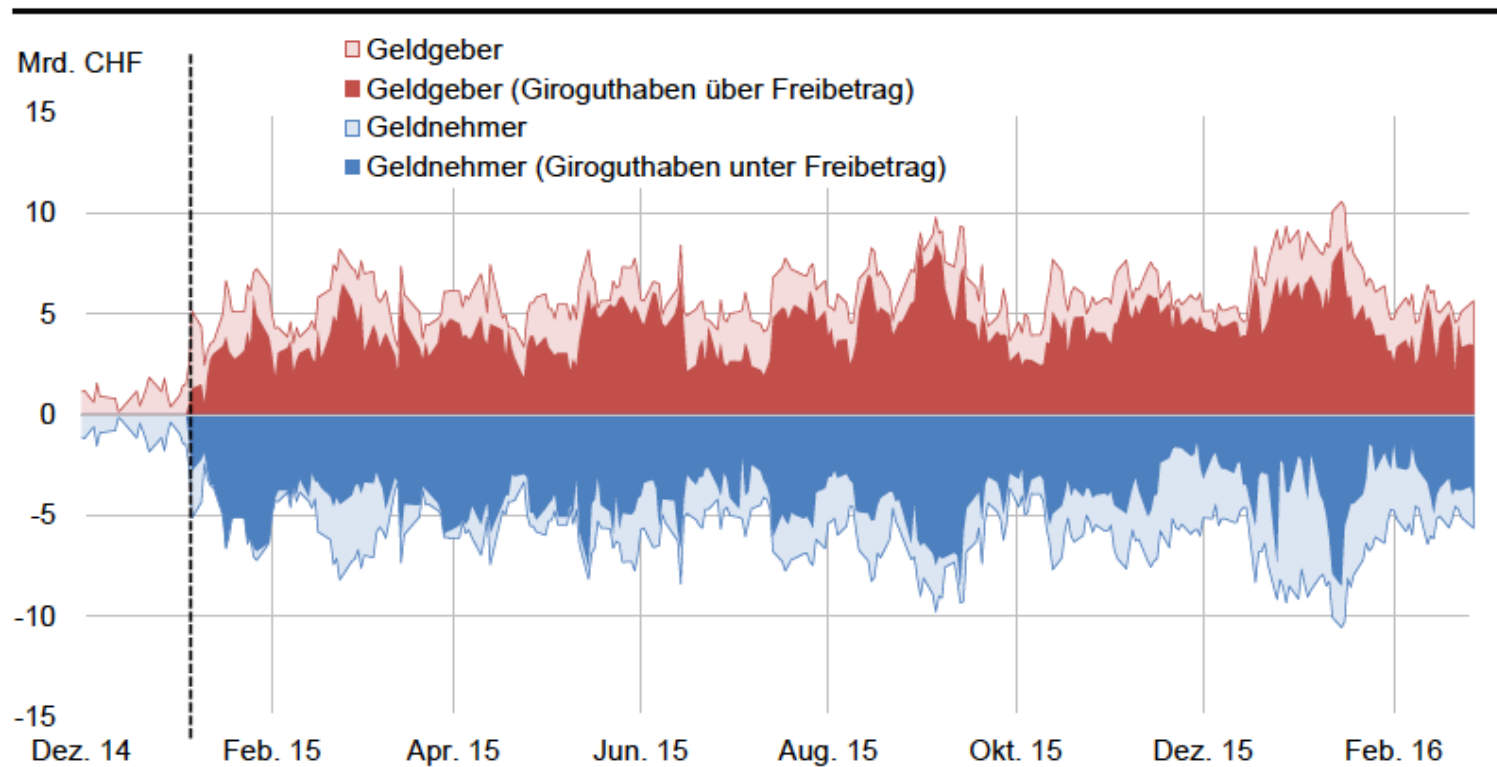
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Key policy rates and market rates

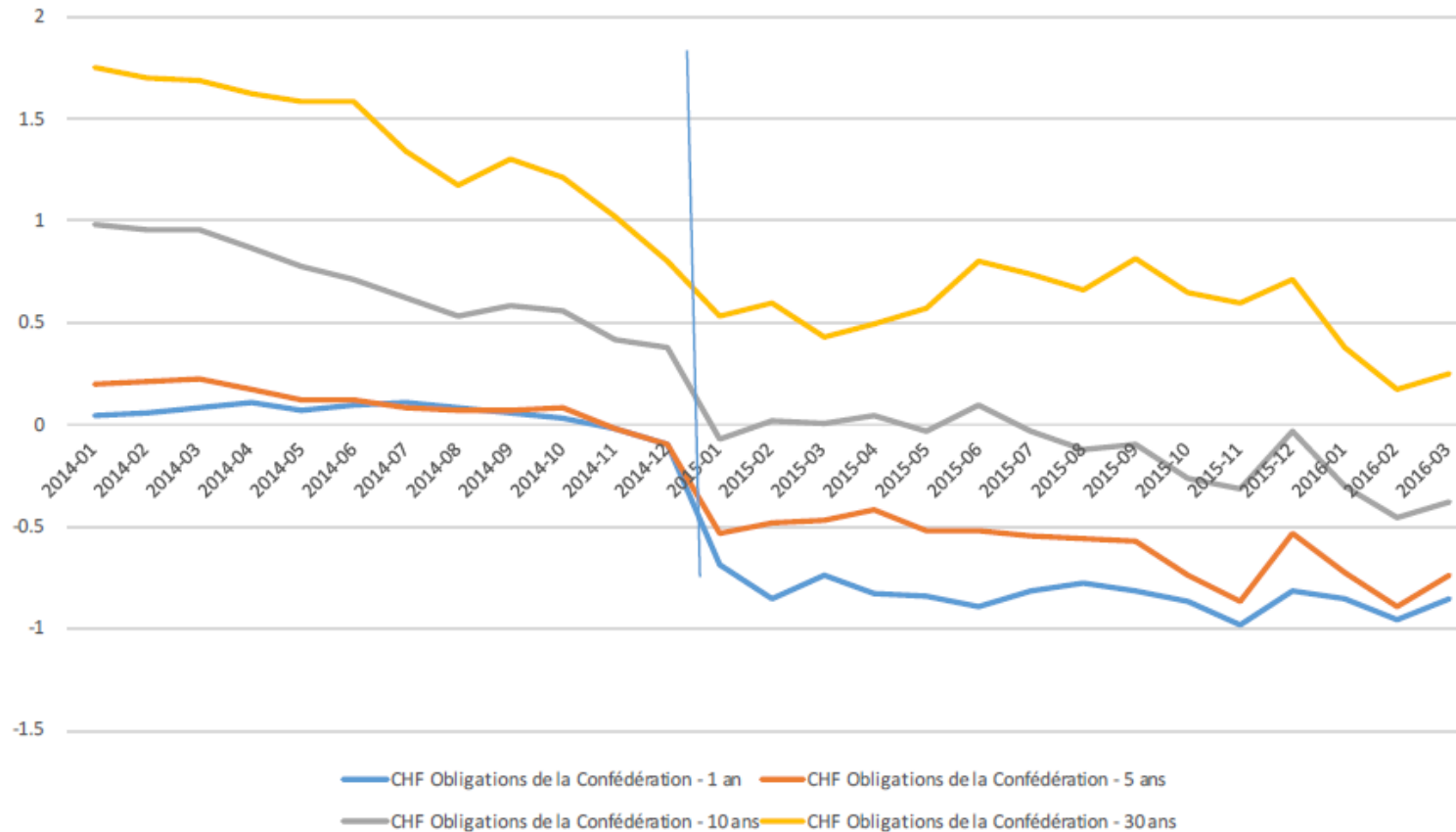


¹ The overnight Swiss average rate (SARON) replaced the repo overnight index (SNB) in August 2009. ² Charged on the portion of sight deposits exceeding the exemption threshold. ³ Shaded corridor represents the SNB target range for the three-month Libor rate.

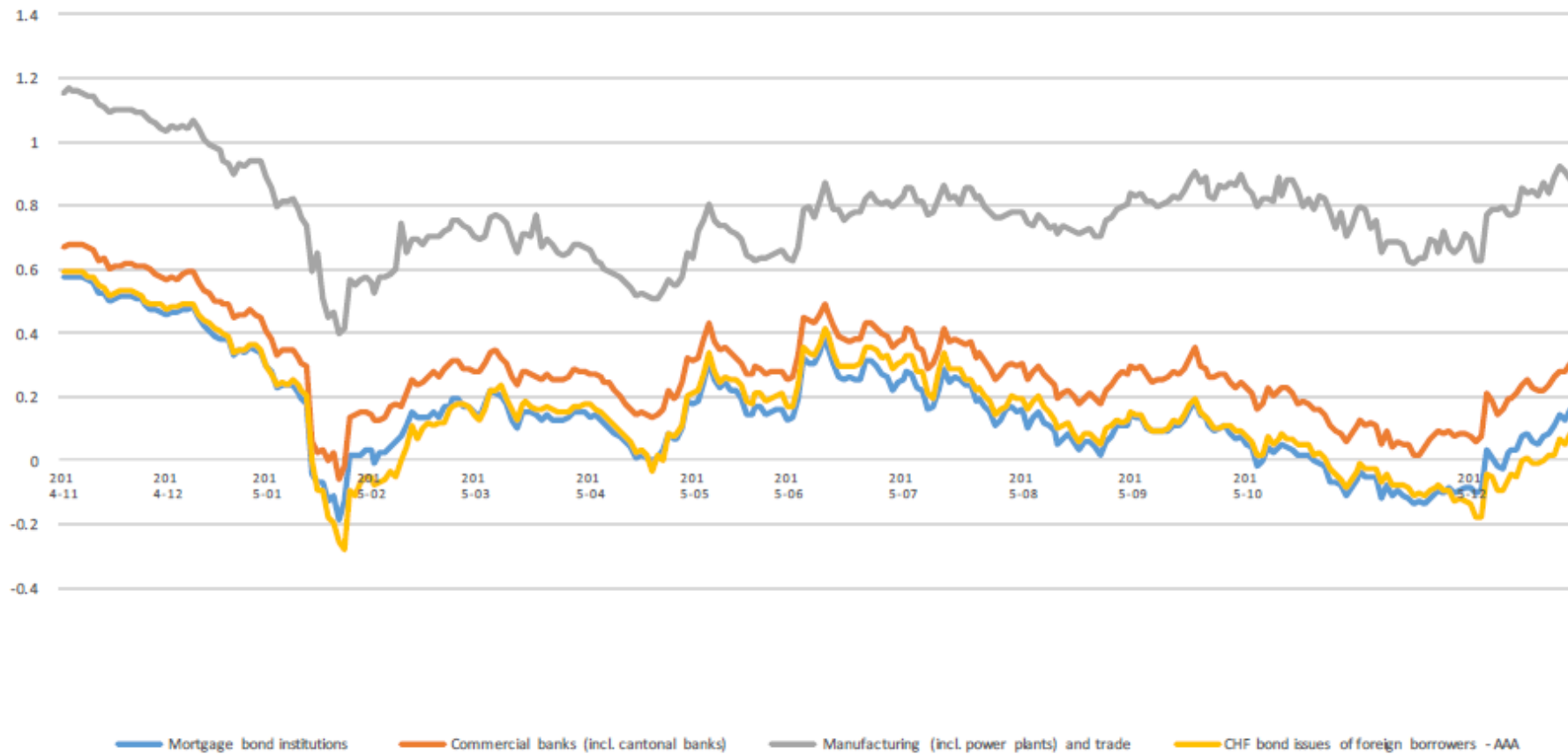
Repo volumes since the introduction of negative rates



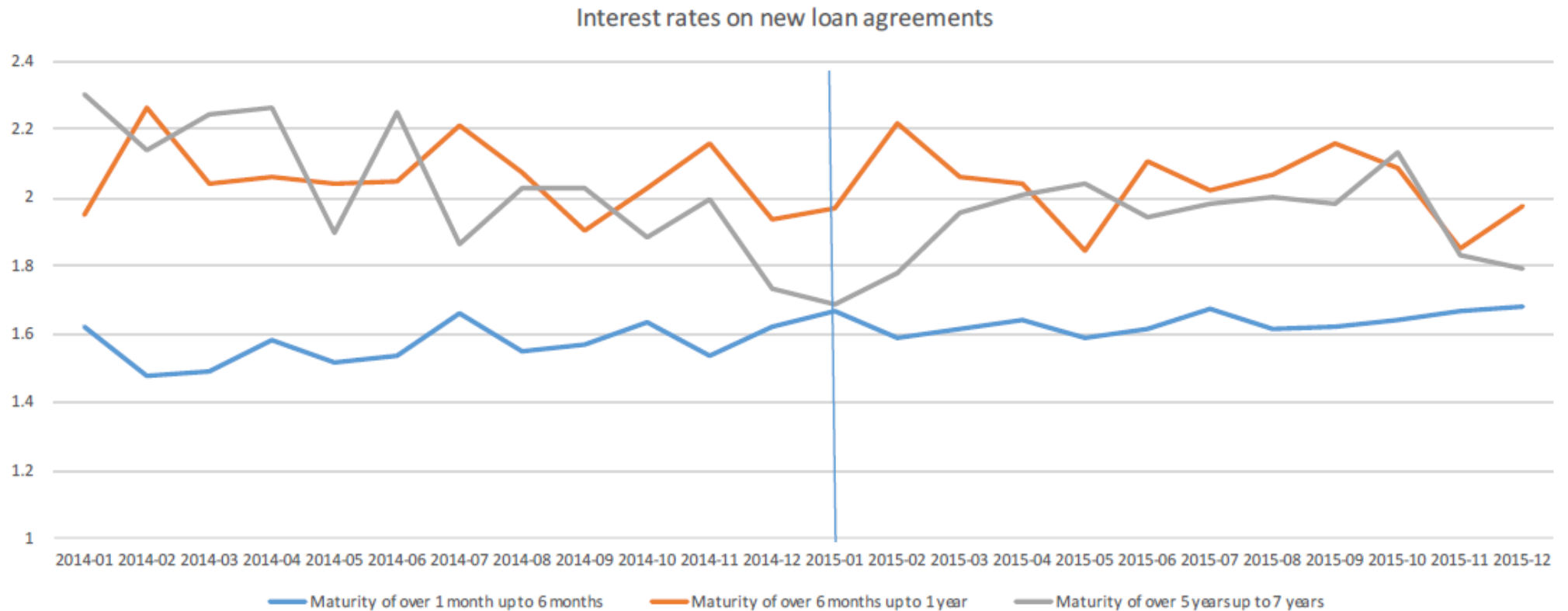
Swiss confederation bond yields



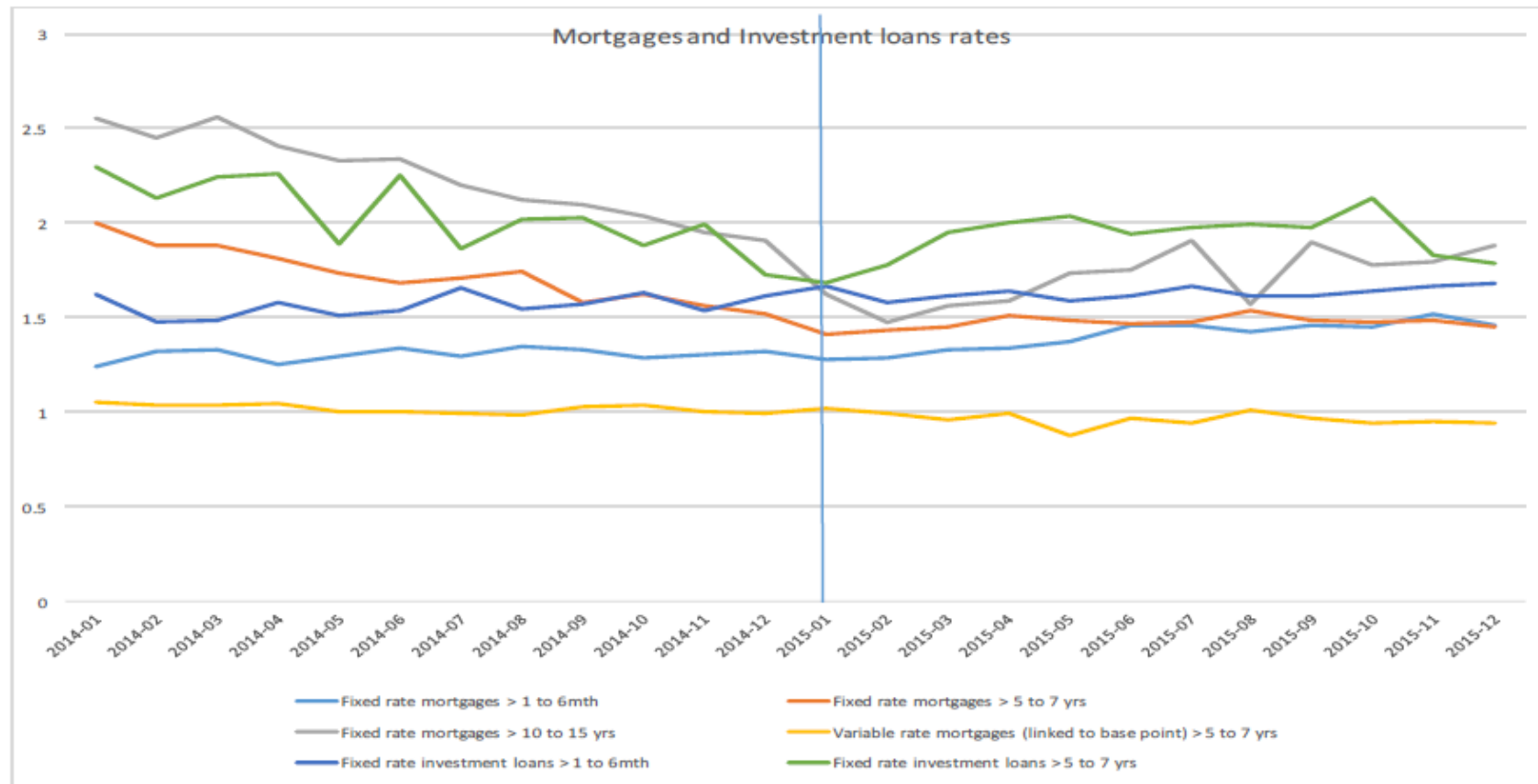
Yields on bond issues (8 years maturity) – Various private borrowers



Bank lending rates – New loan agreements

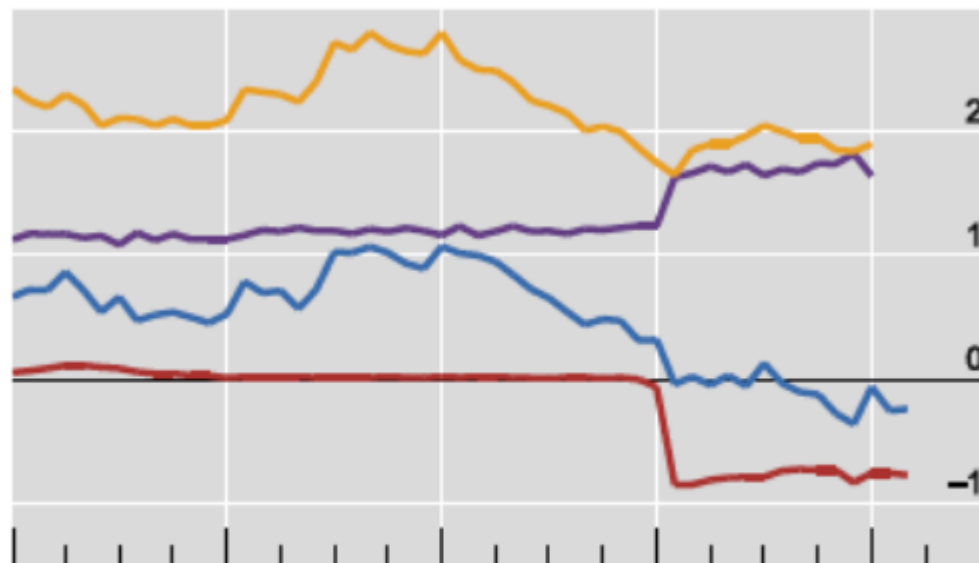


Mortgage and investment loan rates



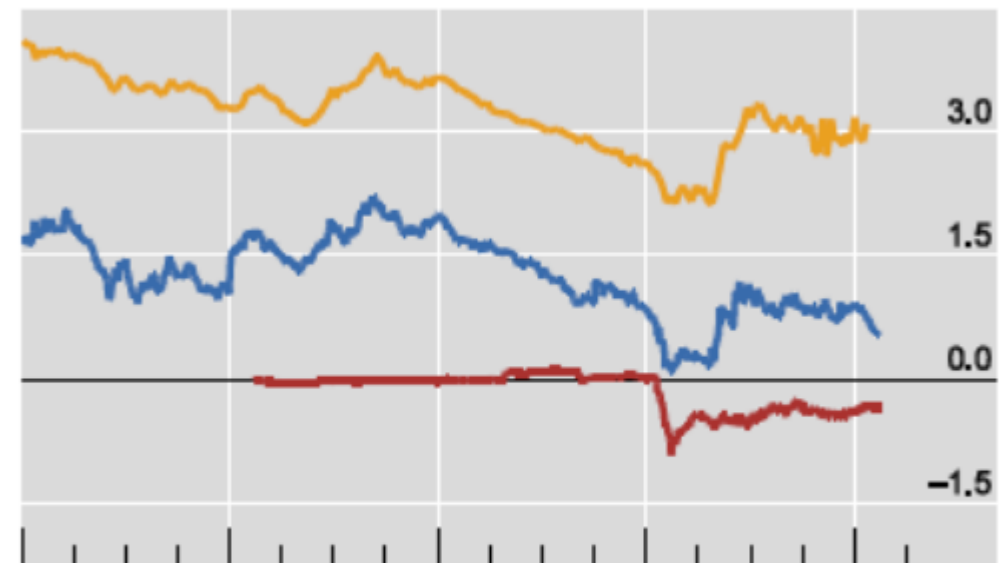
Differential pass-through in CH and DK

Switzerland



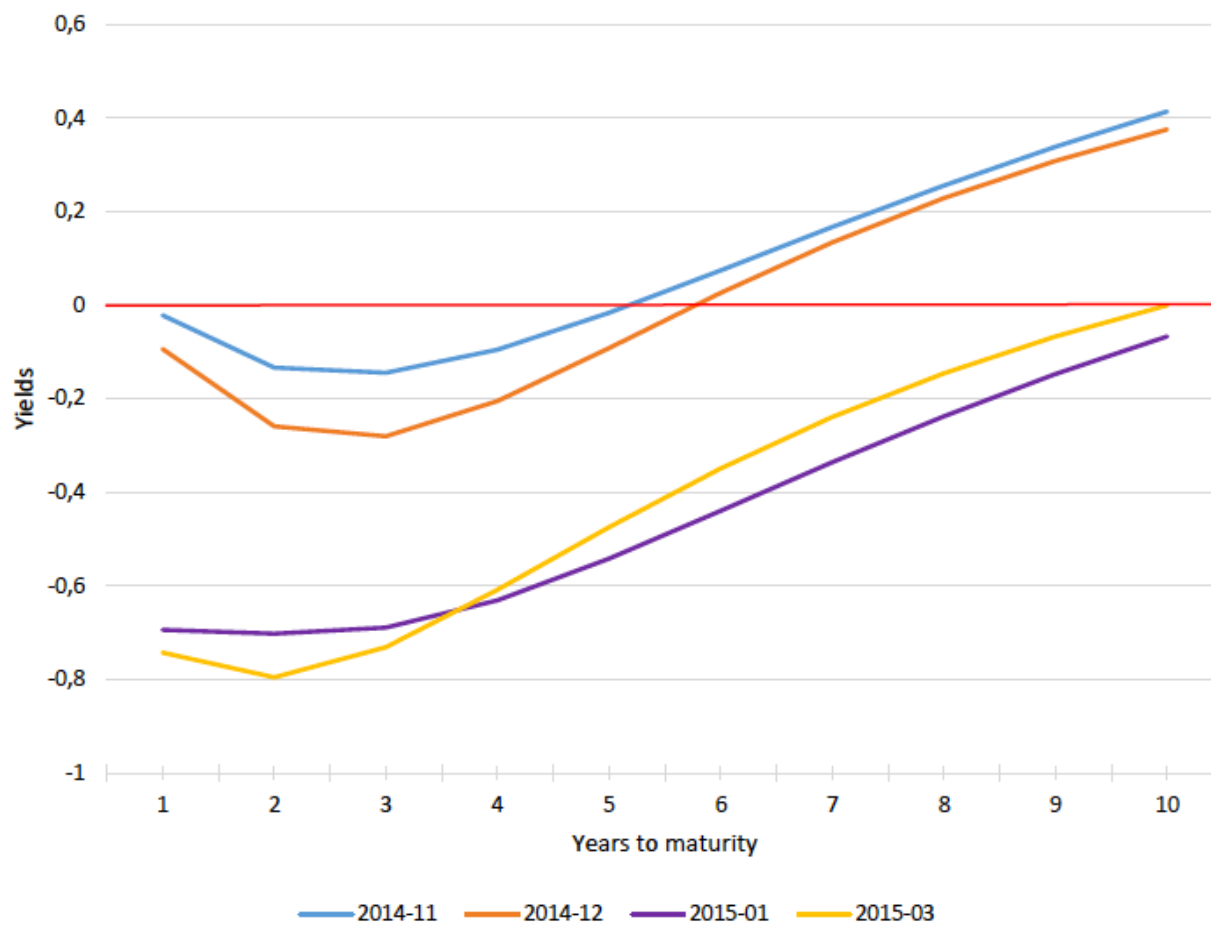
- Three-month Swiss franc Libor
- Ten-year Swiss government bond yield
- Ten-year mortgage fixed rates¹
- Mortgage markup²

Denmark



- One-month CITA swap rate³
- Ten-year government bond yield
- Thirty-year mortgage rate

Swiss yield curves



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