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NEWSLETTER

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The negative consequences of the SNB’s negative interest rates

Dear Sir or Madam,

In December 2014 the Swiss National Bank imposed negative interest rates on balances at the SNB. This measure had been introduced when the minimum exchange rate of CHF 1.20 to the Euro was abandoned in order to make the Swiss currency unattractive for foreign investors and thereby to avoid a further increase in demand in the Swiss Franc which in turn would have put an additional burden on the Swiss economy.

The economy only partially implemented the negative interest rates. The federal bonds are gravitating towards zero. Bonds issued by companies with negative interest rates are an exception. The majority of the bank accounts either offer a small interest rate or none, negative interest rates are not levied. An exception are major deposits by private persons and companies exceeding a certain amount. No bank would rigorously levy negative interest rates on their customers’ deposits.

Who pays those negative interest rates?
The savers are those suffering most under negative interest rates. There are hardly any interests on deposits at banks. The second pillar with its funded schemes comes increasingly under pressure to adequately pay interest on employers’ retirement assets. With regard to the mandatory coverage the legally required interest rate of currently 1% (October 2016) is a major challenge. Thus negative interest rates are to the detriment of any saver. Being conservative savers they are punished and receive nothing, or they have to pay for having made major deposits. It’s a topsy-turvy world!

As soon as the first major bank would rigorously impose negative interest rates on their clients’ deposits a massive rebellion would be on the cards. What so far has only been discussed on a purely theoretical basis among economists would be painfully and immediately felt by a large number of the banks’ customers: the cost of saving.

What would be the consequences to abandon the negative interest rate policy?
There would again be a huge demand for the Swiss Franc, which in turn would severely hurt the export industry. At least, so they say, every third Swiss Franc is earned abroad. However, this would have no influence on the major part of the gross domestic product. Two thirds of the Swiss economy would remain unaffected. Internationally the demand for CHF would increase, and so would the capital on offer. Savers would then again receive adequate interest payment for the capital they saved.

Personally I believe that the positive influences on the gross domestic product compensate or even outweigh the negative effects on the export industry.

This gives rise to the question whether Switzerland, like Japan or other countries, should go into an extended period of zero percent interest rates or should reintroduce adequate interest payment on deposits. Besides reallocation via taxes and duties the negative interest rate policy creates another reallocation. It is the saver who is punished and now forced to pay twice.

Kind regards
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