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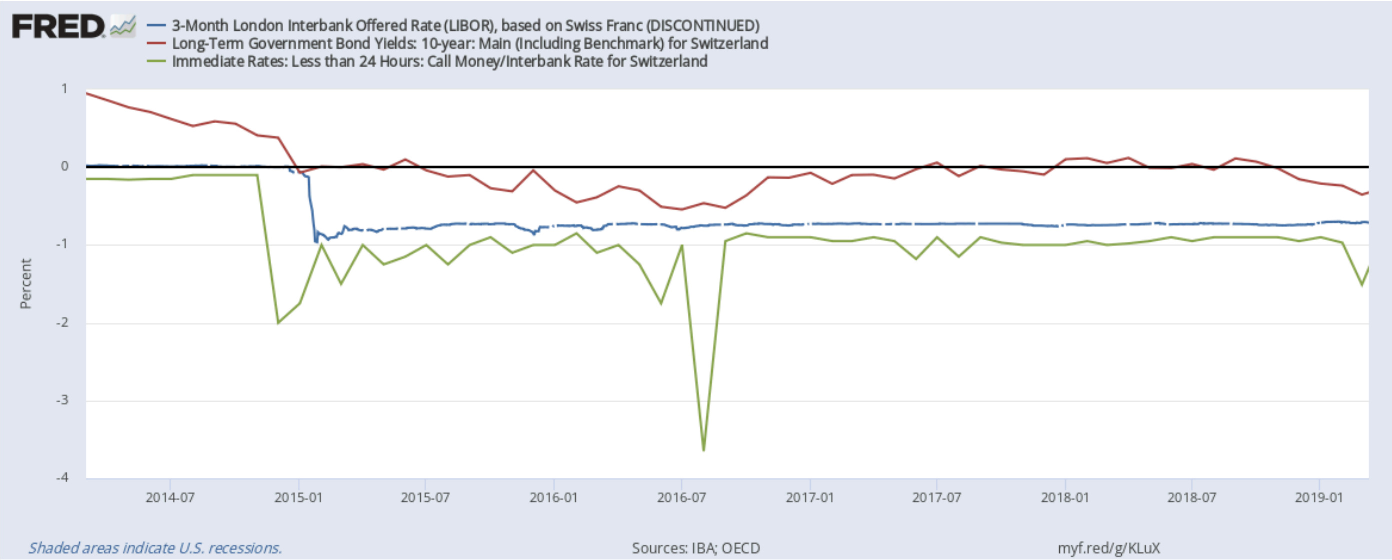
Negative nominal interest rates for real?

A true story in Switzerland

Posted on March 11, 2019



Real negative interest rates are easy to imagine when inflation is higher than the interest rate. But *nominal* negative interest rates have long been thought of as either inconceivable or unsustainable. Yet, in recent years, several European countries and Japan have made negative nominal interest rates a reality. The most extreme case seems to be Switzerland, which is featured in the top graph: The spot rate, the 3-month LIBOR, and even the 10-year government bond rate are all negative now and have been for several years. How is this possible?

This isn't a case of an economy that needs major stimulus through low interest rates. Rather, it's an export-focused economy whose currency has a strong tendency to appreciate; in fact, the Swiss franc is considered a refuge currency in times of crisis. The crisis at hand involves the euro's various troubles in recent years, including the debt problems of some of its member countries. Switzerland has avoided these troubles and has even managed to achieve successive government surpluses. So it's easy to understand why there's so much demand for Swiss francs and bonds. But so much demand typically causes a local currency to appreciate, which would make exporting more difficult. The Swiss National Bank, therefore, has adopted a policy of negative interest rates to make the franc less attractive. Interestingly, the effect permeates the Eurodollar market as well, as shown in the bottom graph.

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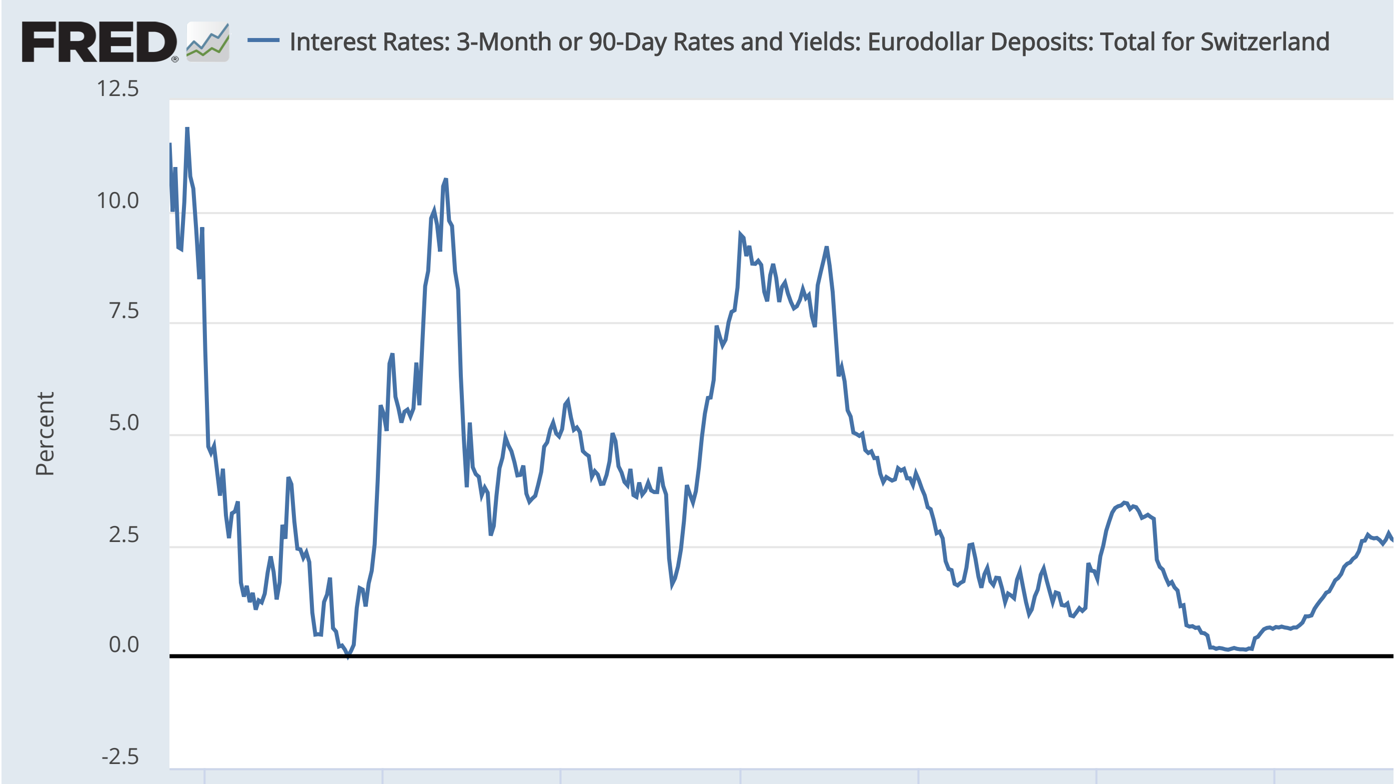

How these graphs were created: NOTE: Data series used in these graphs have been removed from the FRED database, so the instructions for creating the graphs are no longer valid. The graphs were also changed to static images.

Suggested by Christian Zimmermann.

View on FRED, series used in this post: CHF3MTD156N, IR3TED01CHM156N, IRLTLT01CHM156N, IRSTCI01CHM156N