Long-time low interest rates – too much of a good thing?

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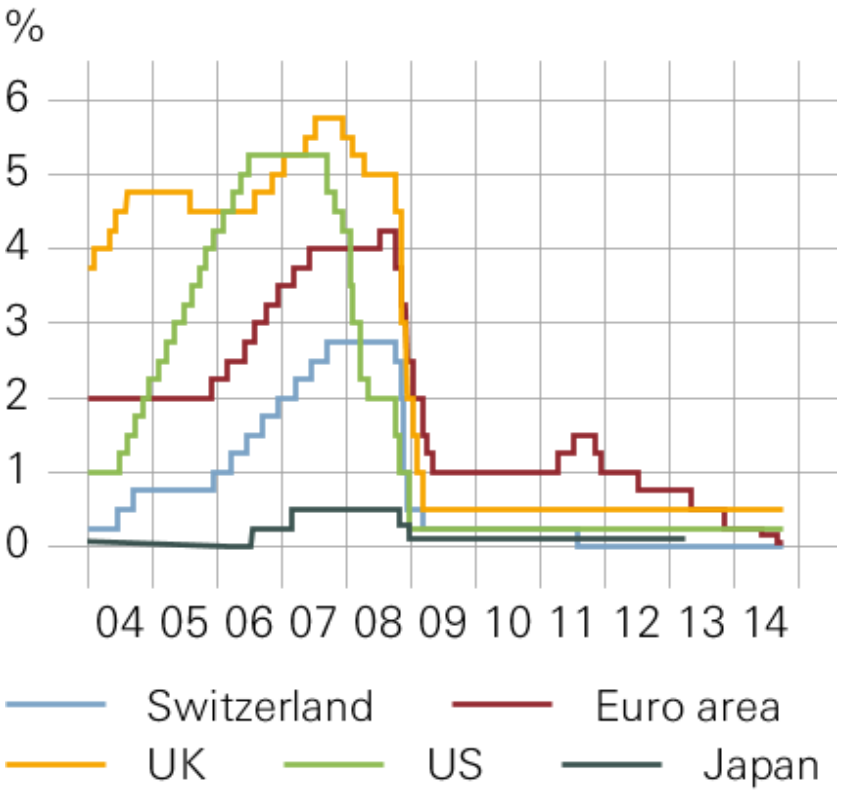
Central banks have cut interest rates decisively and adopted unconventional policy measures

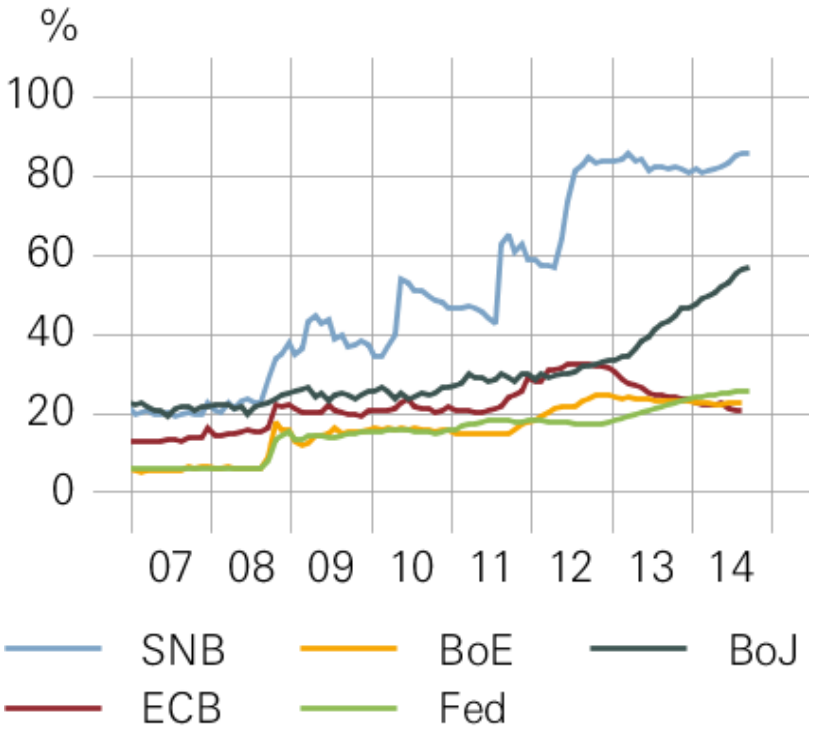
CENTRAL BANK POLICY RATES



Sources: SNB MAP, Bloomberg

CENTRAL BANKS ASSETS

% of GDP

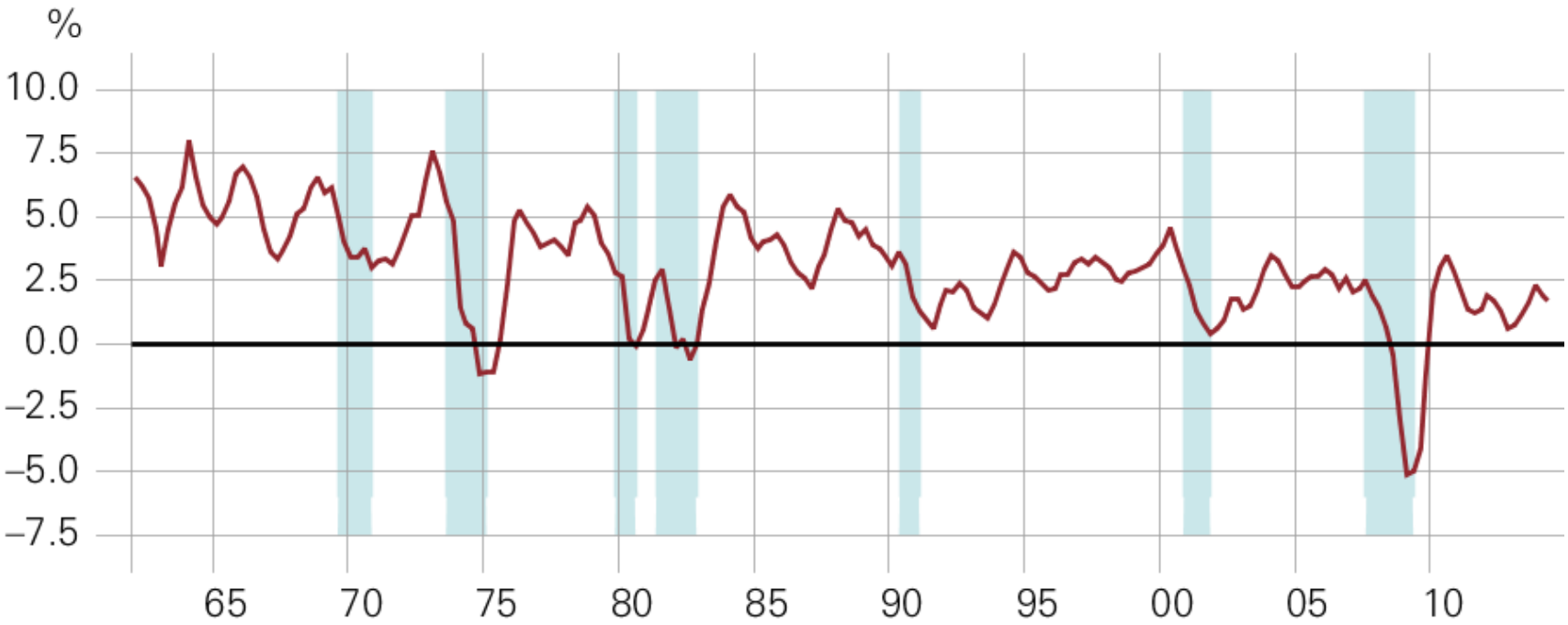


Sources: SNB MAP, Bloomberg, BIS

in response to the worst recession

G7 GDP GROWTH

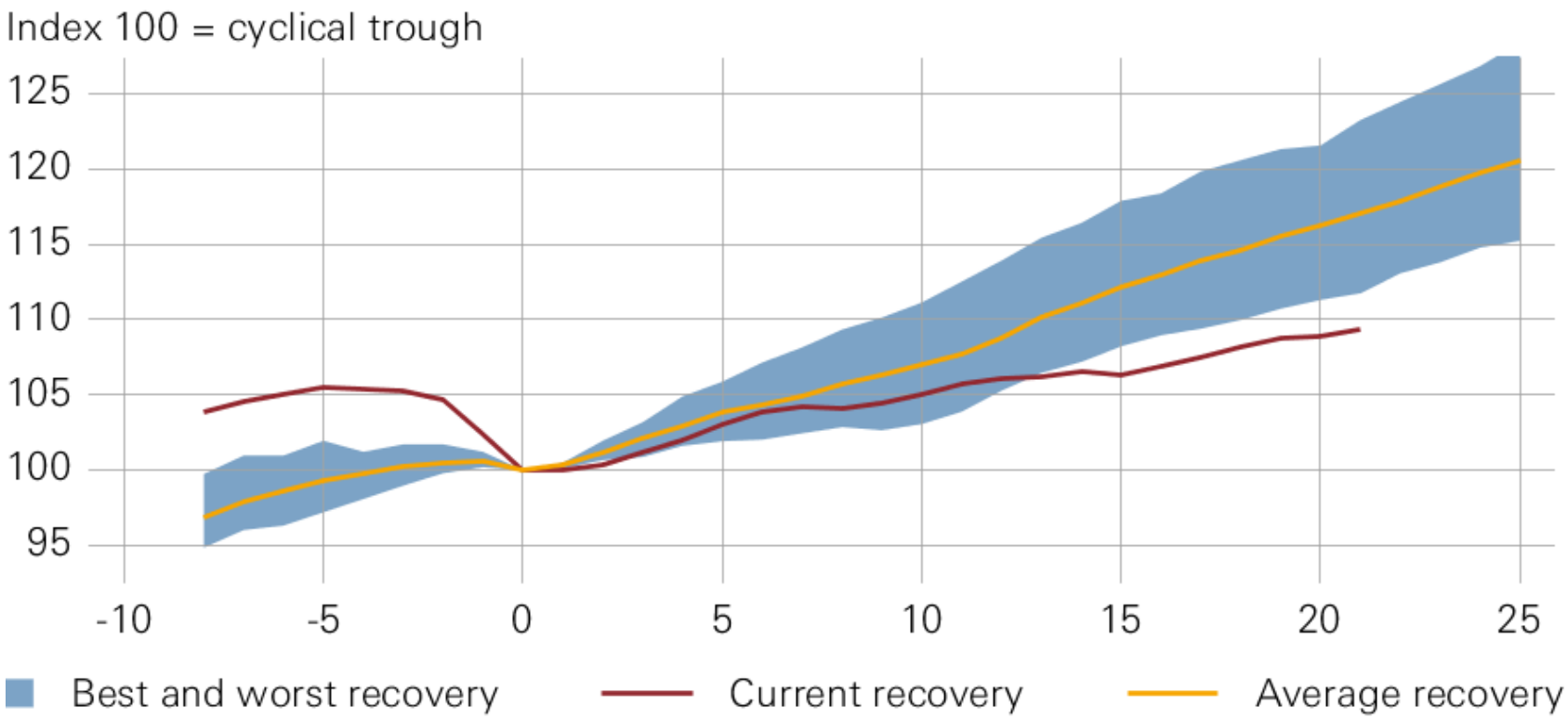
Quarterly yoy change, shaded areas indicate US recessions



Source: SNB MAP, OECD

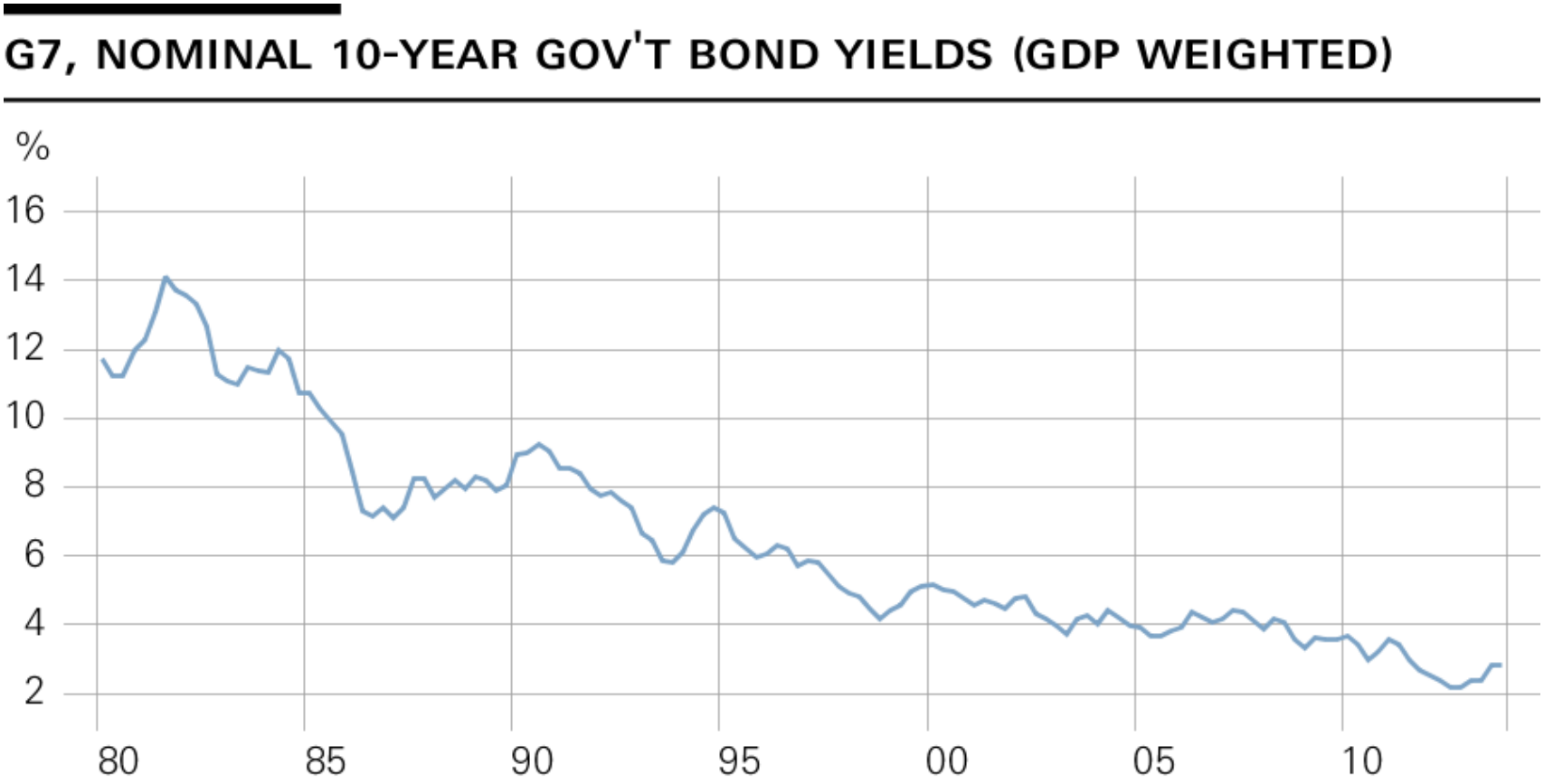
and the weakest recovery in at least half a century.

G7: GDP RECOVERY



Sources: SNB MAP, OECD

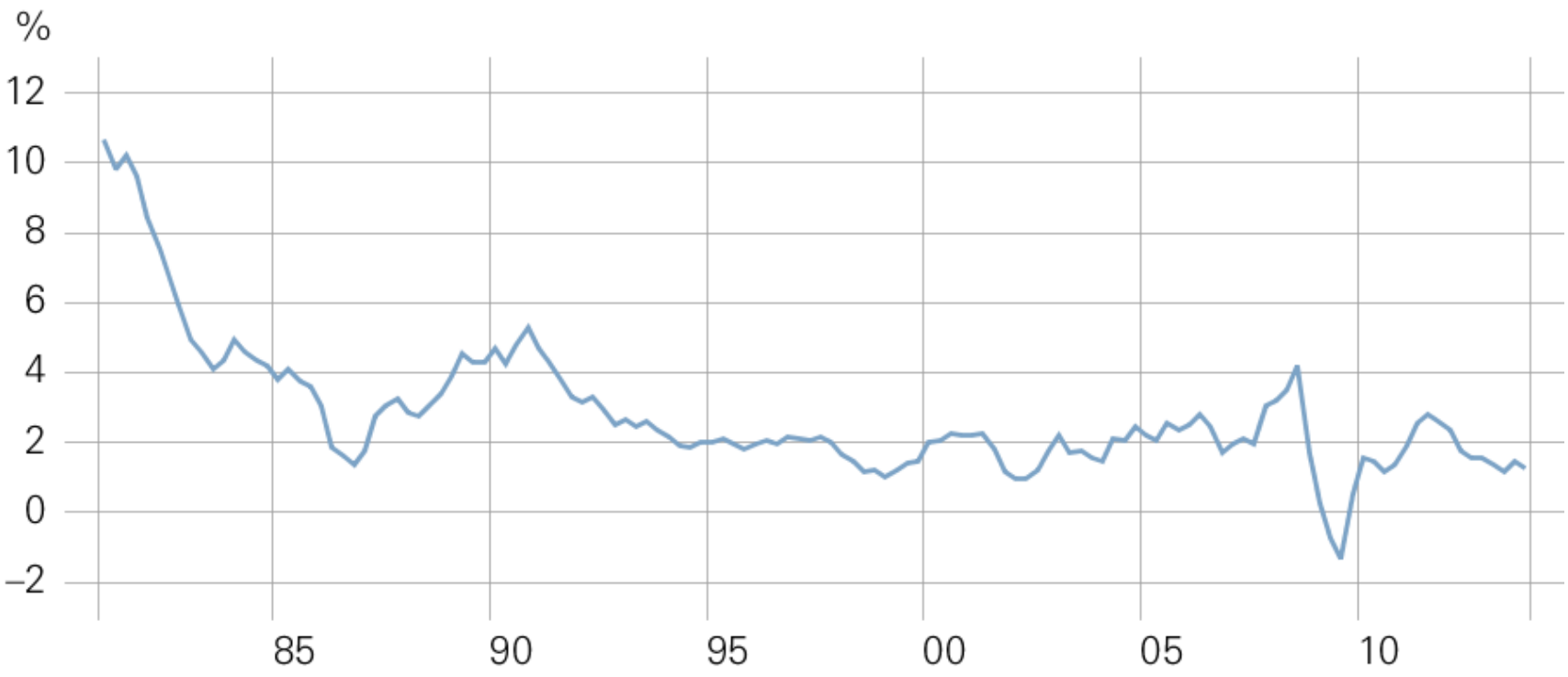
Nominal interest rates have been trending lower since the 1980s



Sources: SNB MAP, Thomson Reuters Datastream

which is no problem to the extent that inflation premiums have fallen as well.

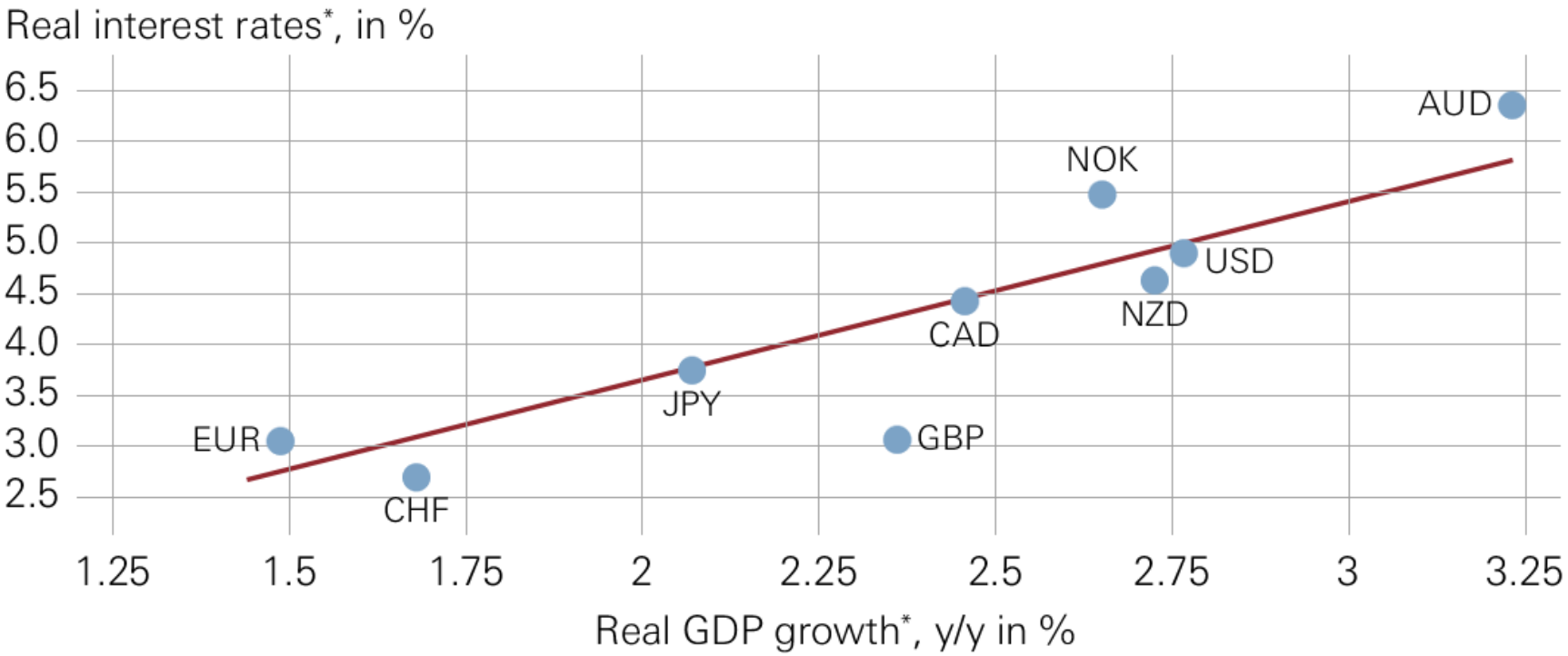
G7, CONSUMER PRICE INFLATION (GDP WEIGHTED)



Sources: SNB MAP, Thomson Reuters Datastream

Real interest rates reflect economies' growth potential

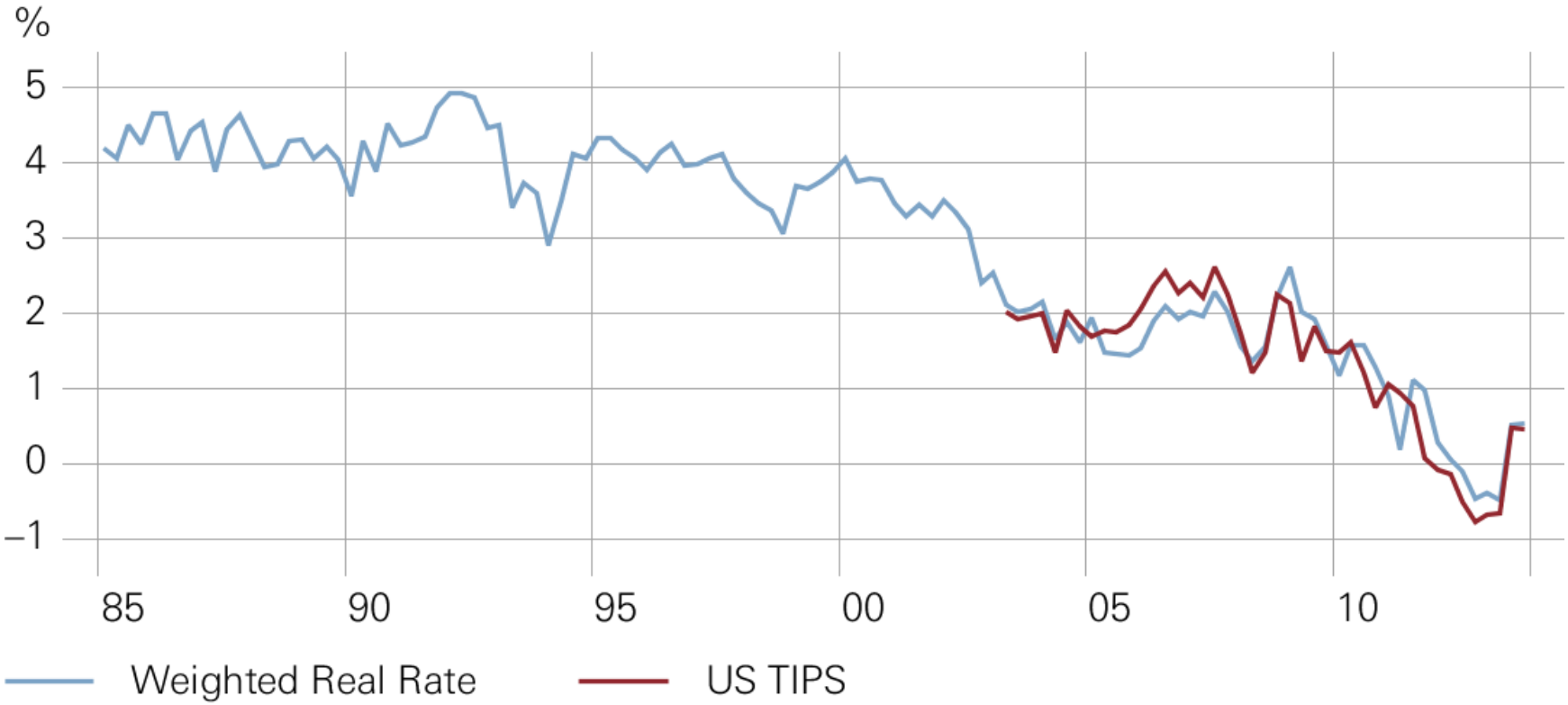
GDP GROWTH VS. REAL INTEREST RATES



*Averages since 1981 (EMU since 1991).
Source: World Bank

meaning that the long-term decline in real interest rates could be a problem.

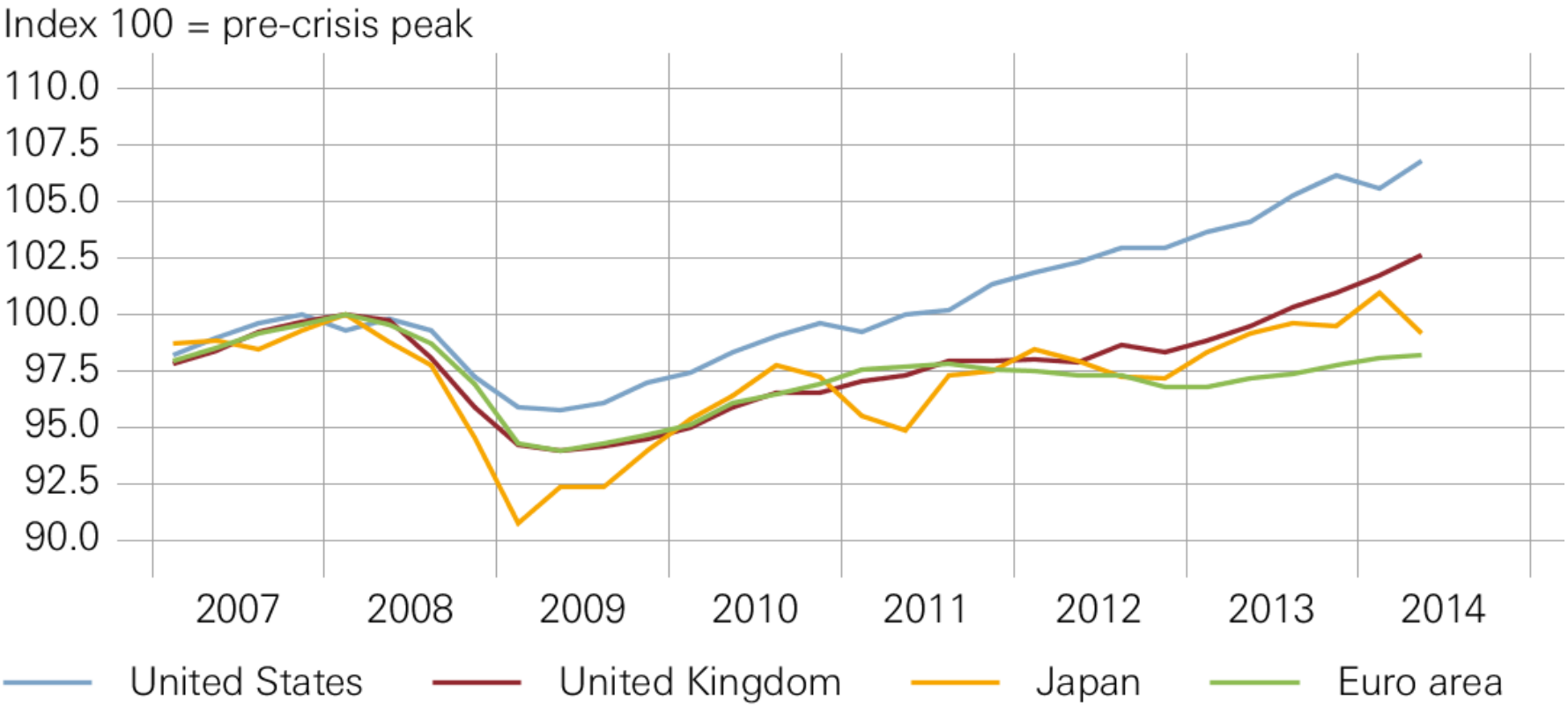
G7 (EX. ITALY), REAL INTEREST RATE (GDP WEIGHTED)



Sources: King, Mervyn and David Low (2014)

“Secular stagnation” view is trying to explain the weakness of the post-crisis recovery

REAL GDP, GLOBAL

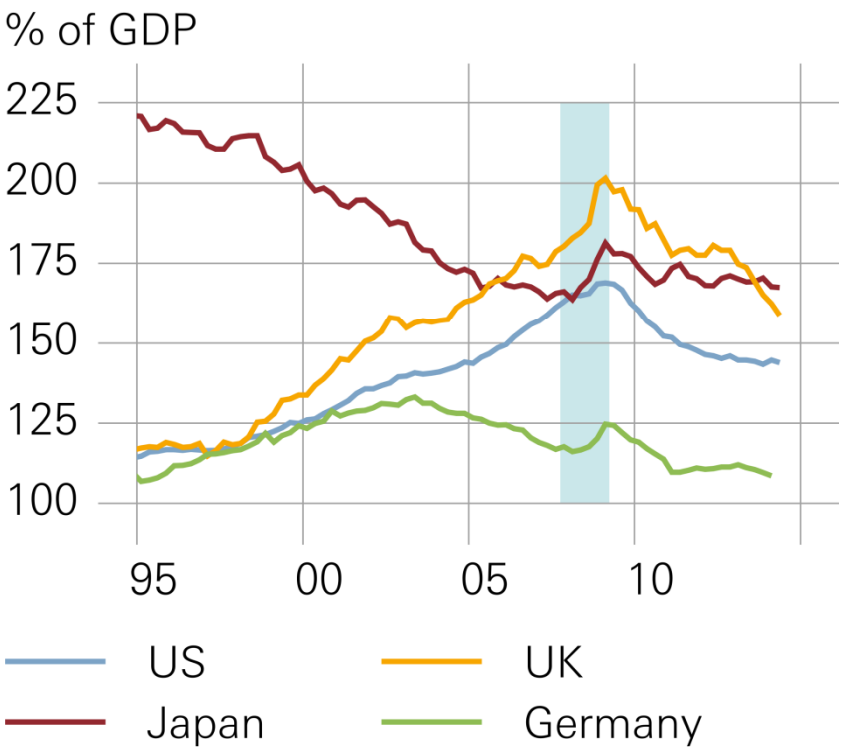


Source: SNB MAP

“Balance-sheet” view is trying to do the same by focusing on debt overhang

TOTAL PRIVATE SECTOR CREDIT

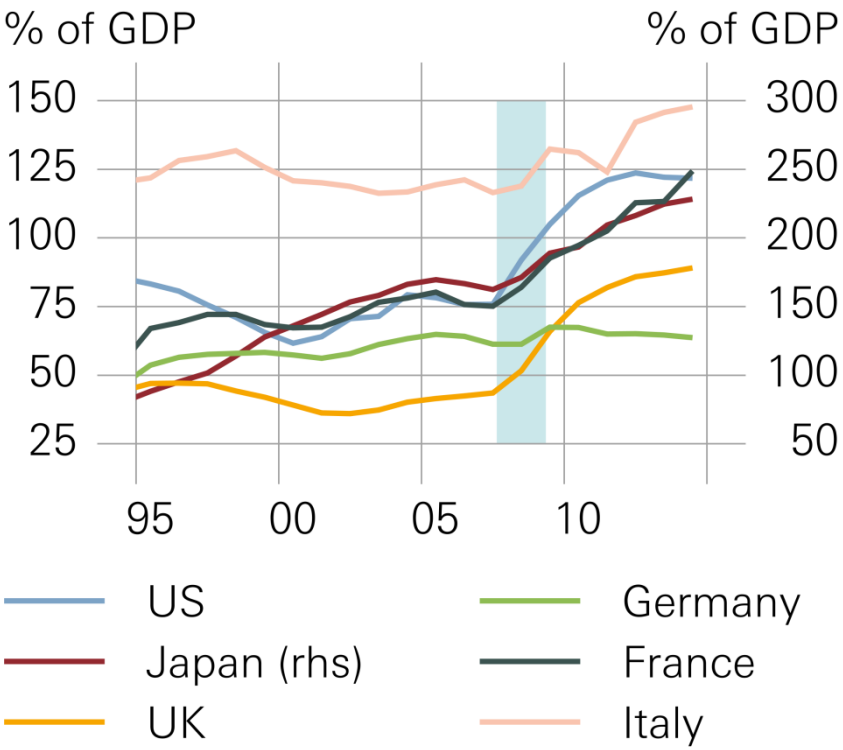
Shaded area indicates last US recession



Source: BIS

GOVERNMENT DEBT

Shaded area indicates last US recession



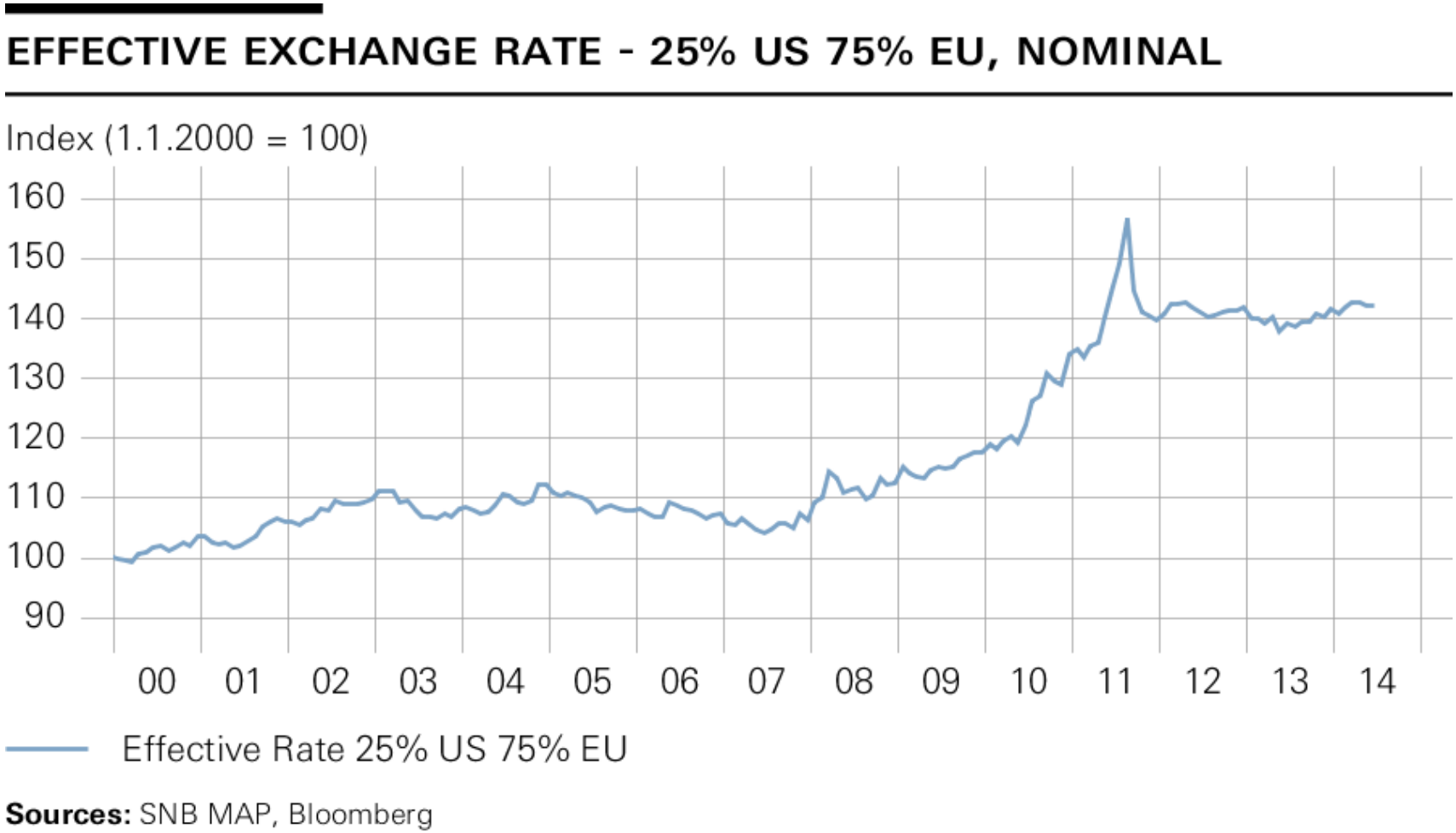
Sources: Datastream, Oxford Economics

Exceptionally low interest rates

INTEREST RATES IN SWITZERLAND

Sources: SNB MAP, Bloomberg

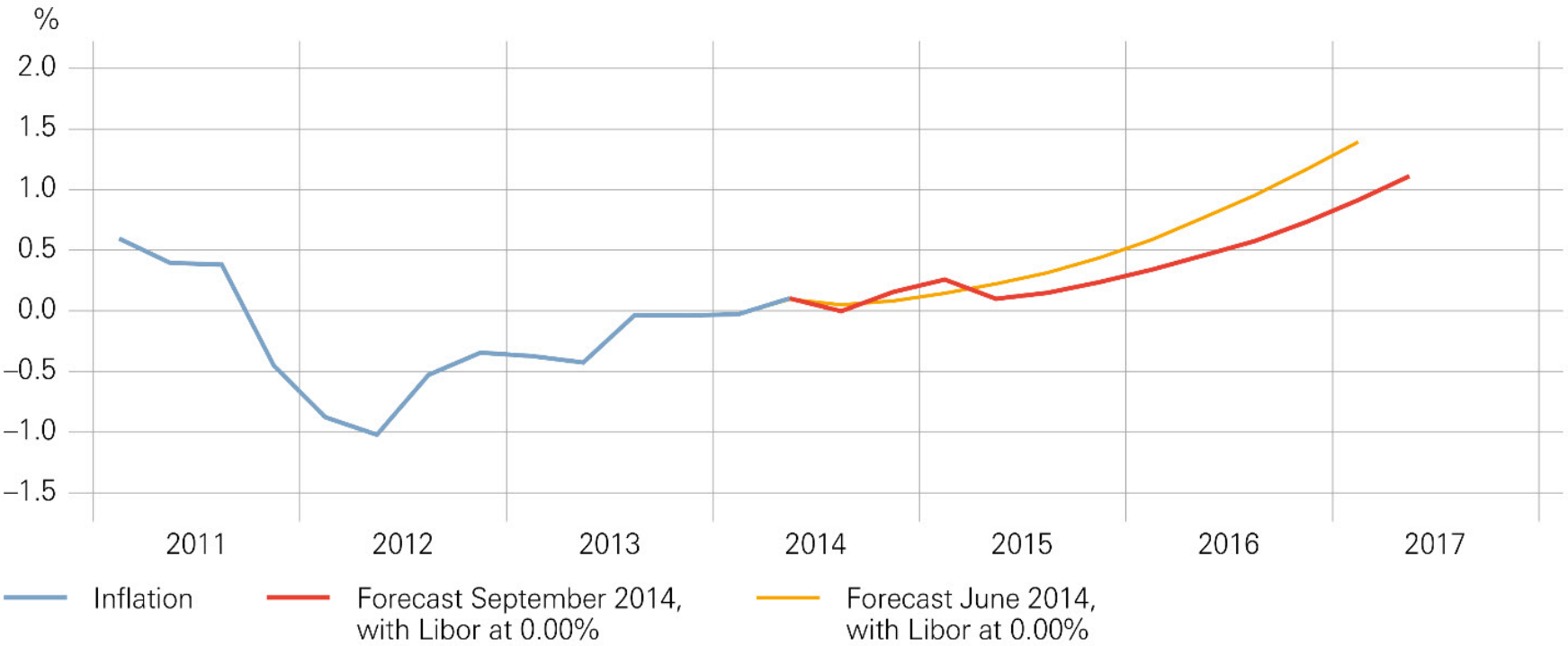
and unprecedented appreciation of the Swiss franc.



Inflation fears are not warranted

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2014

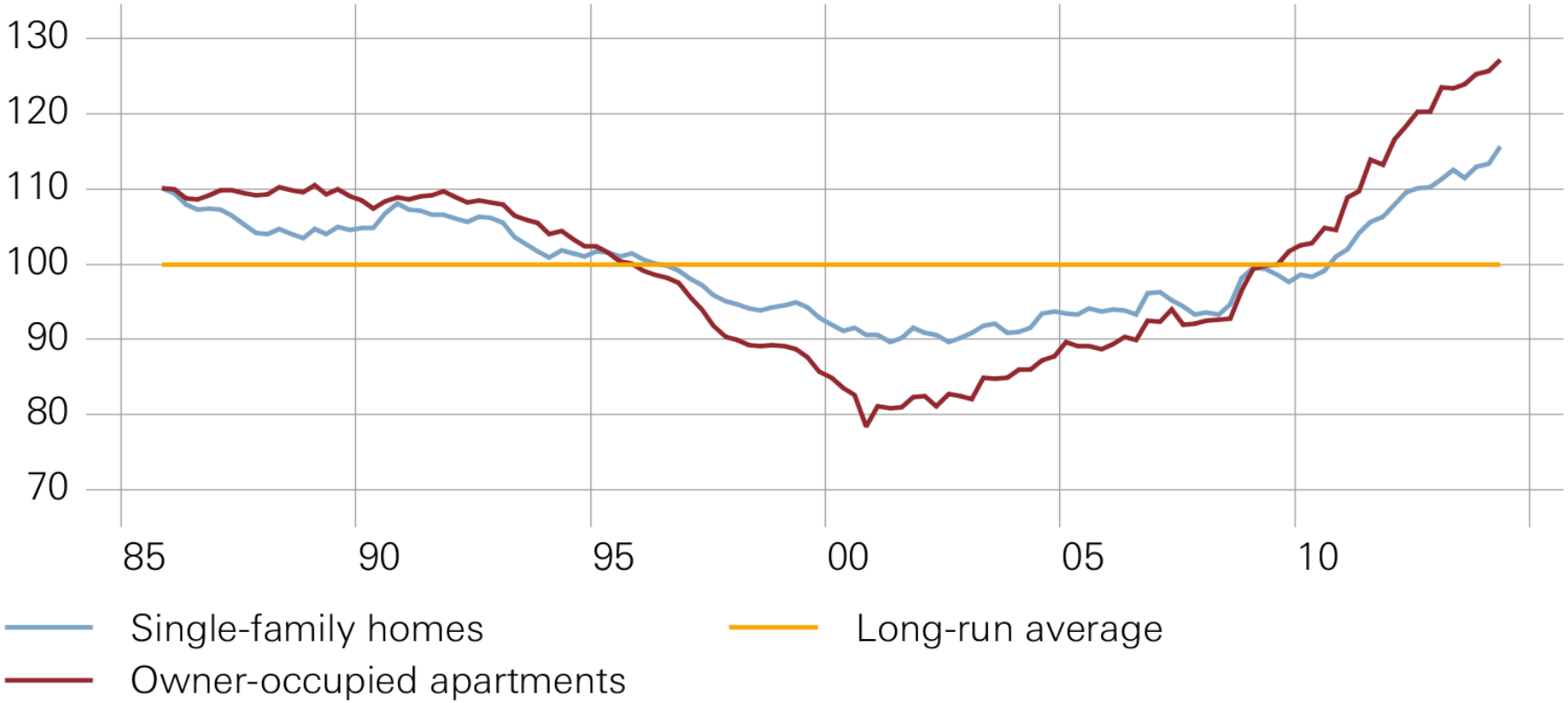
Year-on-year change in Swiss consumer price index in percent



but risks to financial stability have emerged in real estate markets

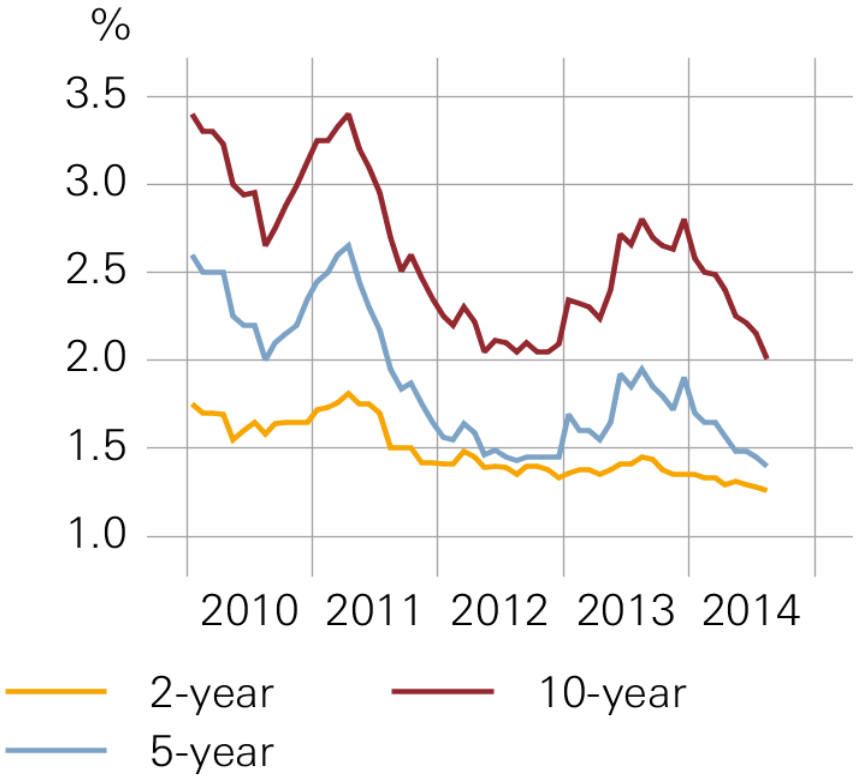
PRICE-TO-INCOME RATIO

Average = 100, Hedonic transaction prices W&P and nominal GDP per capita



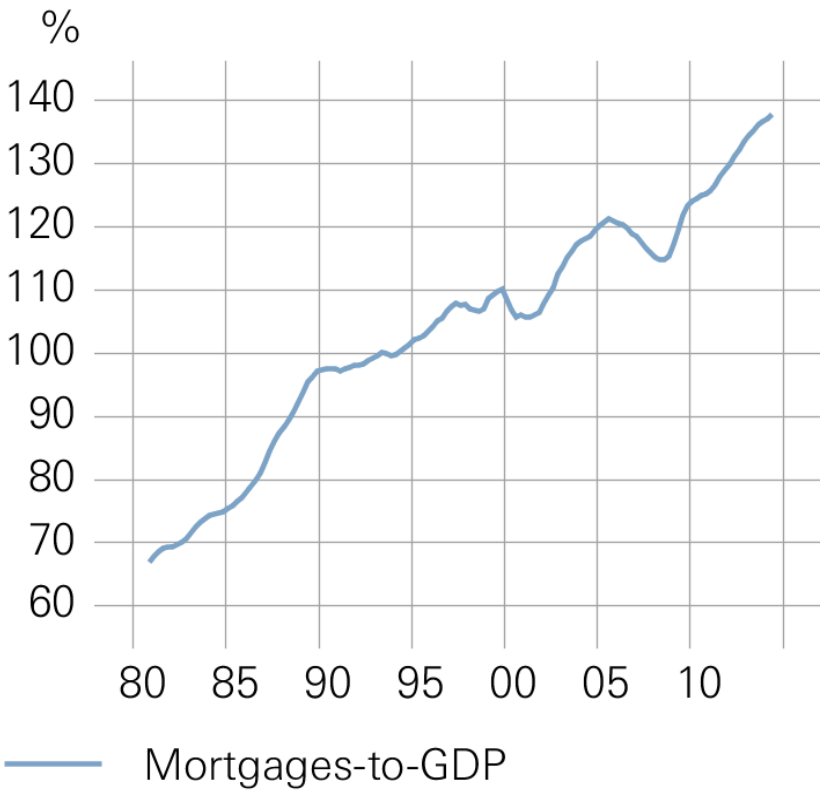
and in mortgage markets.

FIXED MORTGAGE RATES



Sources: Bloomberg, SNB

MORTGAGES-TO-GDP



Source: SNB, BfS, Seco

Macroprudential measures in Switzerland

Structural

Banking Association

- **July 2012:** Increase in risk-weighting for mortgage loans not in line with self-regulation guidelines (down-payment and equity)
- **Sep 2014:** Adjustment of self-regulation guidelines with regards to loan repayment (reduction of loan to two-thirds of lending value within 15 years)

Structural

FINMA (Microregulator)

- **Jan 2013:** Permanent increase in the risk-weighting for the loan tranche exceeding LTV of 80%

Cyclical

SNB

- **Feb 2013:** Activation of sectoral CCB at 1%, effective as of September 2013
- **Jan 2014:** Increase in sectoral CCB to 2%, effective as of June 2014

Thank you for your attention!

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