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

Fritz Zurbrügg
Member of the Governing Board, Swiss National Bank

ICMB
Geneva, 21 October 2014
Central banks have cut interest rates decisively and adopted unconventional policy measures.
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**

Index 100 = cyclical trough

- **Blue shaded area:** Best and worst recovery
- **Red line:** Current recovery
- **Orange line:** Average recovery

**Sources:** SNB MAP, OECD
Nominal interest rates have been trending lower since the 1980s

**G7, NOMINAL 10-YEAR GOV'T BOND YIELDS (GDP WEIGHTED)**

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**

Real interest rates*, in %

Real GDP growth*, y/y in %

*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

Index 100 = pre-crisis peak

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

<table>
<thead>
<tr>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>225</td>
</tr>
<tr>
<td>200</td>
</tr>
<tr>
<td>175</td>
</tr>
<tr>
<td>150</td>
</tr>
<tr>
<td>125</td>
</tr>
<tr>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>UK</th>
<th>Japan</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>95</td>
<td>100</td>
<td>125</td>
<td>150</td>
<td>175</td>
</tr>
<tr>
<td>00</td>
<td>125</td>
<td>150</td>
<td>175</td>
<td>200</td>
</tr>
<tr>
<td>05</td>
<td>175</td>
<td>200</td>
<td>225</td>
<td>250</td>
</tr>
<tr>
<td>10</td>
<td>225</td>
<td>250</td>
<td>300</td>
<td>275</td>
</tr>
</tbody>
</table>

**GOVERNMENT DEBT**

Shaded area indicates last US recession

<table>
<thead>
<tr>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>150</td>
</tr>
<tr>
<td>125</td>
</tr>
<tr>
<td>100</td>
</tr>
<tr>
<td>75</td>
</tr>
<tr>
<td>50</td>
</tr>
<tr>
<td>25</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>US</th>
<th>Japan (rhs)</th>
<th>Germany</th>
<th>France</th>
<th>Italy</th>
</tr>
</thead>
<tbody>
<tr>
<td>95</td>
<td>75</td>
<td>75</td>
<td>75</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>00</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>05</td>
<td>125</td>
<td>125</td>
<td>125</td>
<td>125</td>
<td>125</td>
</tr>
<tr>
<td>10</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
<td>150</td>
</tr>
</tbody>
</table>

**Source:** BIS

**Sources:** Datastream, Oxford Economics
Exceptionally low interest rates

INTEREST RATES IN SWITZERLAND

Sources: SNB MAP, Bloomberg
and unprecedented appreciation of the Swiss franc.

**EFFECTIVE EXCHANGE RATE - 25% US 75% EU, NOMINAL**

Index (1.1.2000 = 100)

Sources: SNB MAP, Bloomberg
Inflation fears are not warranted

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2014
Year-on-year change in Swiss consumer price index in percent

- Inflation
- Forecast September 2014, with Libor at 0.00%
- Forecast June 2014, with Libor at 0.00%
but risks to financial stability have emerged in real estate markets
and in mortgage markets.

**FIXED MORTGAGE RATES**

- 2-year
- 10-year
- 5-year

**MORTGAGES-TO-GDP**

Source: Bloomberg, SNB

Source: SNB, BfS, Seco

---

21.10.2014 | ICMB Geneva | Fritz Zurbrügg | © Swiss National Bank
Macroprudential measures in Switzerland

**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)

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

**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!

© Swiss National Bank