

Negative Interest Rates: Taking Stock of the Experience So Far

Joint IMF-IMFS Webinar

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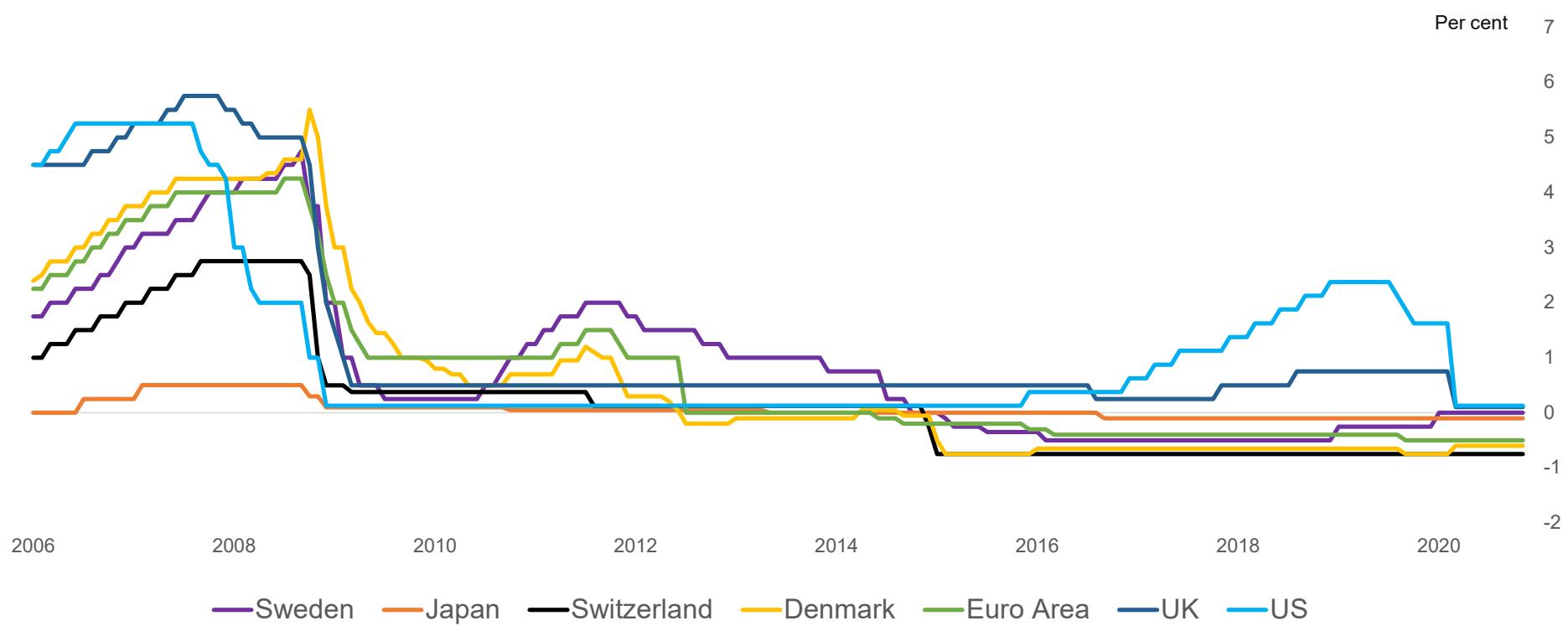
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*Views are my own, not the BoE or the MPC.



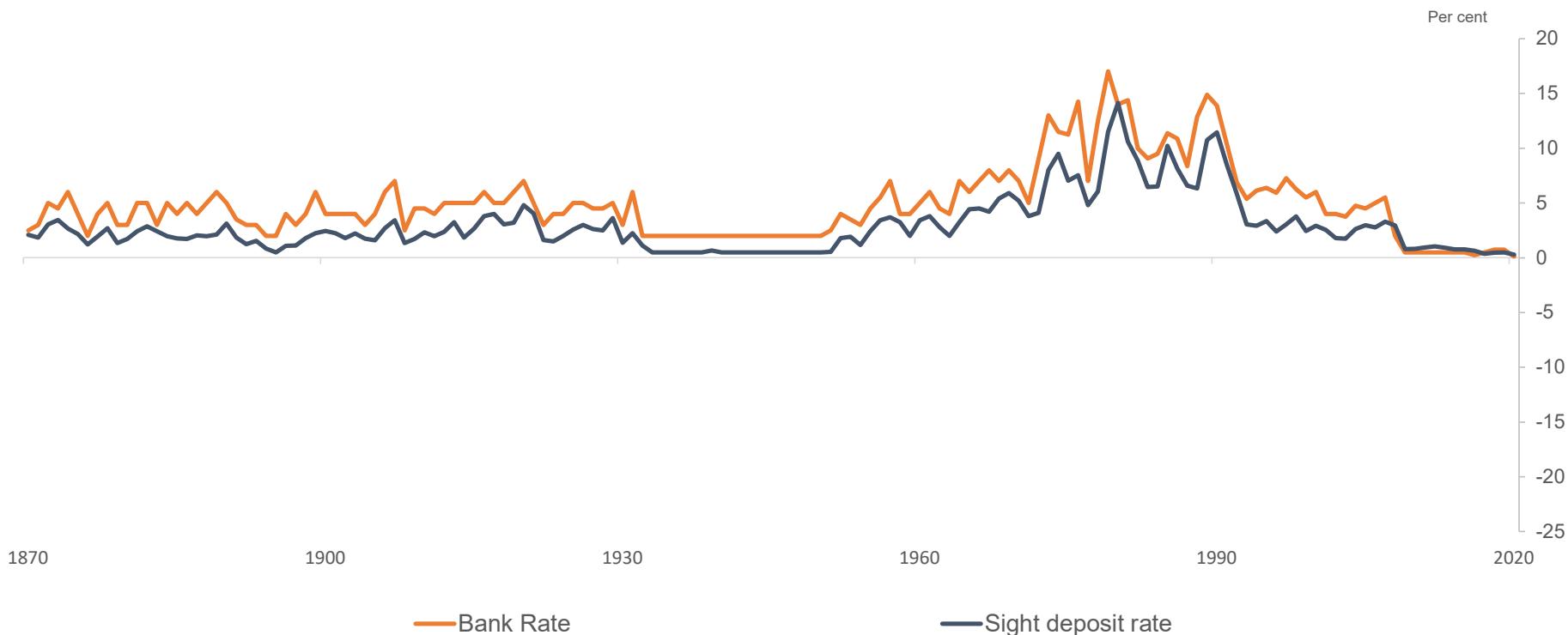
BANK OF ENGLAND

Advanced economy policy rates



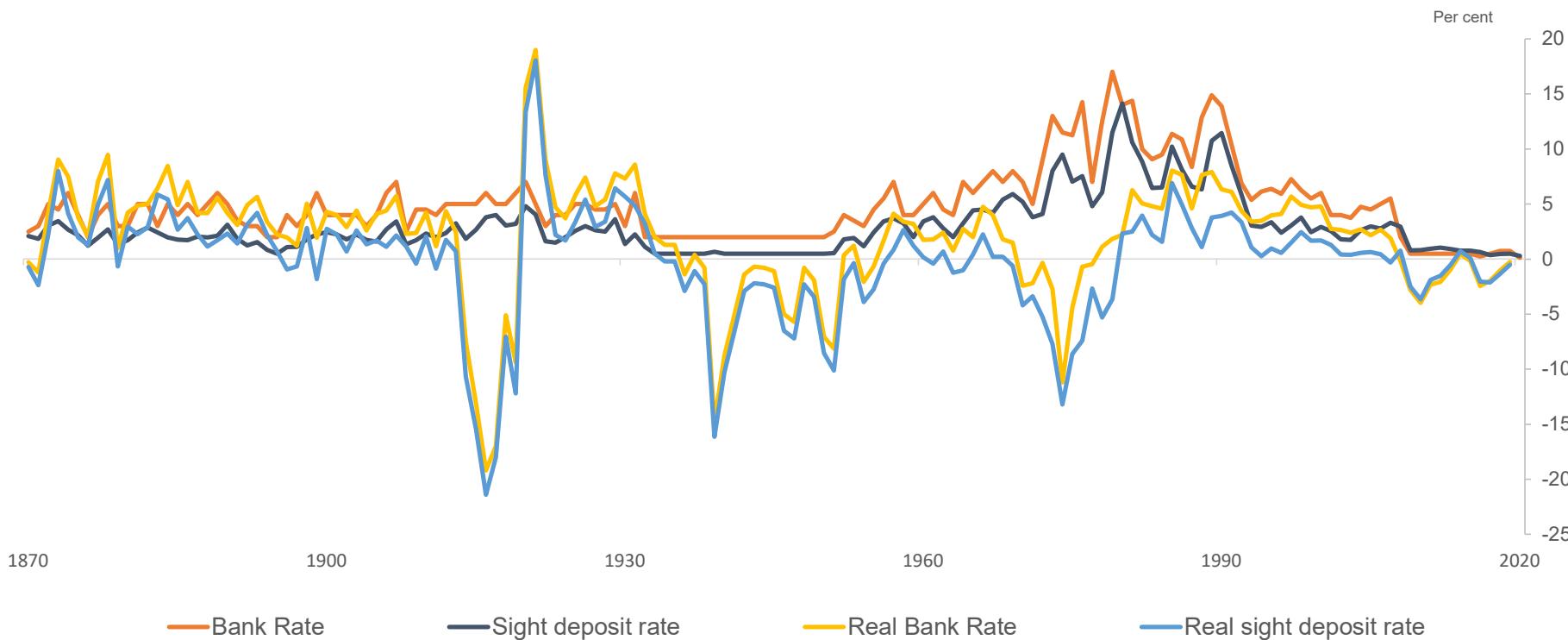
Sources: Bank of England and Bank calculations.

Long-run UK interest rates



Sources: Thomas and Dimsdale (2017), Bank of England, ONS, Capie and Webber (1985) and Bank calculations.

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International evidence on policy effectiveness

1. Financial-market channels appear to be unimpeded under negative rates, and some channels may even be stronger than usual.
2. Banking-sector channels:
 - Pass-through to household deposit rates can be constrained near zero. Pass-through to corporate deposit rates less constrained; the latter stimulated firm spending.
 - There is strong evidence of transmission into looser bank lending conditions, with some studies finding transmission is somewhat constrained relative to ‘normal’.
3. There is no clear evidence that negative rates have reduced bank profits overall, and a number of studies find positive impacts.

Other factors that might influence how negative rates work

- Composition of bank balance sheets
- Size and composition of household debt
- Differences in openness across countries
- Importance of market-based finance

Key points:

1. Financial-market channels of monetary policy (e.g., cost of capital, exchange-rate, asset prices) have worked effectively under negative rates in other countries.
2. Bank-lending channels have also been effective, with some variation in the estimates. No clear evidence that bank profits were reduced.
3. Differences in economic structure can affect how the tool works. The UK banking system could lead to a less positive impact on bank lending. On the other hand, financial channels should work normally.