

Negative Interest Rates: An Assessment of a Historic Experiment *by Pierre Vercueil — Updated Edition 2025–2026*

Hello everyone and welcome to a new episode of EconoMag. Today, we take a look back at a phenomenon that has left a lasting mark on the history of global monetary policy: negative interest rates. An experiment that began in the mid-2010s and whose last remaining practitioner has only recently turned the page.

Reminder: What Is a Negative Interest Rate?

When you lend money to someone, that person normally pays you for this privilege in the form of interest — a fundamental assumption in financial history for centuries.

The banking system operates in a similar way: when we deposit our savings in bank accounts, our bank usually pays us interest in return. With a negative interest rate, the opposite happens: depositors pay to keep their money, and borrowers repay less than they originally borrowed.

The Great Experiment of the 2010s: Stimulating the Economy at All Costs

Central banks implemented highly accommodative — and even unconventional — monetary policies to deal with the consequences of the 2008 financial crisis and to combat the risk of deflation.

Among them, the European Central Bank (ECB), the Swedish central bank, the Swiss National Bank, and the Bank of Japan all crossed into negative interest rate territory.

In the euro area, the deposit facility rate was negative between June 2014 and July 2022. This meant that commercial banks had to pay to deposit their excess liquidity at the ECB, encouraging them to inject money into the real economy instead.

The logic was simple: penalize banks that hold too much liquidity in order to push them to lend more to businesses and households, thereby stimulating economic growth.

The Results: Very Limited Effectiveness

The overall assessment of this policy is rather harsh.

Negative interest rates did not significantly influence the value of the currencies concerned, nor did they bring inflation rates closer to the targets set by central banks.

In short, they effectively acted as a tax on savers and banks, failed to significantly boost economic growth, and may even have slightly weighed on it.

The End of an Era: The Return of Positive Rates

The turning point came with the return of inflation starting in 2021–2022.

Central banks then carried out a dramatic policy reversal, raising interest rates at an unprecedented speed. Between July 2022 and September 2023, the ECB increased its key interest rates by 450 basis points in total, marking a historic monetary tightening.

The final chapter of this story was written in Japan. In March 2024, the Bank of Japan raised its policy rate and officially ended its negative interest rate policy, becoming the last central bank in the world to abandon the practice after Europe had already done so in 2022.

The Bank of Japan continued this normalization process by raising rates to 0.75% in December 2024, the highest level seen in Japan in 30 years.

Where Do We Stand in 2025–2026?

The era of negative interest rates is now clearly over. However, central banks must now navigate between two conflicting objectives: keeping inflation under control without suffocating economic growth.

In Europe, the ECB has gradually eased its policy stance. After maintaining its deposit rate at 4% in the summer of 2024, it lowered it six consecutive times, reaching 2.5% in March 2025.

The rate-cutting cycle now appears to be over, as the ECB has stabilized its policy rate at 2% since June 2025. Inflation in the euro area is expected to reach 2.1% in 2025, 1.9% in 2026, and 1.8% in 2027, broadly in line with the ECB's 2% inflation target.

In the United States, the Federal Reserve has adopted a more cautious approach. It has maintained its policy rate within a range of 4.25% to 4.50%, waiting for clearer signals about the future path of inflation before considering further rate cuts.

Although nominal interest rates have returned to positive territory since 2021, high inflation kept real interest rates negative for several years, encouraging investment rather than saving.

However, since late 2024, with inflation gradually declining and interest rates stabilizing, real interest rates have once again become positive in most advanced economies, creating a more favorable environment for saving.

Conclusion: A Valuable Lesson

The experiment with negative interest rates will remain in economic textbooks as one of the boldest — and most controversial — bets in modern monetary history.

While it may have helped avoid the worst outcomes during the lost decade following the 2008 financial crisis, its impact on real economic growth was far more limited than expected.

The losses recorded by the ECB since 2022 — nearly €8 billion in 2024 — are directly linked to the monetary policy measures implemented during this period in order to fulfill its mandate of price stability.

Whether central banks might again venture into negative territory during a future crisis remains an open question — but for now, the consensus clearly favors other policy tools.

Stay tuned for the next episode of EconoMag!

Vocabulary:

Negative interest rate – Taux d'intérêt négatif

Interest – Intérêt

Banking system – Système bancaire

Depositors – Déposants

Borrowers – Emprunteurs

Liquidity – Liquidité

Central bank – Banque centrale

European Central Bank (ECB) – Banque centrale européenne (BCE)

Swedish central bank – Banque centrale suédoise

Swiss National Bank – Banque nationale suisse

Bank of Japan – Banque du Japon

Deposit facility rate – Taux de dépôt

Commercial bank – Banque commerciale

Monetary policy – Politique monétaire

Economic growth – Croissance économique

Inflation – Inflation

Policy rate – Taux directeur

Monetary tightening – Resserrement monétaire

Rate-cutting cycle – Cycle de baisse des taux

Nominal interest rate – Taux d'intérêt nominal

Real interest rate – Taux d'intérêt réel

Price stability – Stabilité des prix

Financial crisis – Crise financière

Monetary experiment – Expérience monétaire

Fiscal impact – Impact fiscal

Investment – Investissement

Saving – Épargne

Controversial – Controversé

Policy tools – Instruments de politique

Advanced economies – Économies avancées