

NEGATIVE INTEREST RATES - ABSOLUTE DESPAIR IMPROVISES THE ECONOMY

Maria NEGREPONTI-DELIVANIS¹

Abstract. *This article deals with a timely issue, the recent EU decision to implement an unprecedented economic measure. This consists of the application of negative interest rates on bank deposits, which in principle, represents an incomprehensible measure for economists. In particular, European citizens, who will put their savings in commercial European banks, not only will not be rewarded with a positive interest rate, as was the rule until now, but they will have to pay a negative interest to the banks for safeguarding their money. This incredible measure abolishes the quintessence of savings and causes turmoil and an unprecedented review of the entire monetary theory and policy, as well as the content of basic concepts and principles of economic science. It is a measure of despair and improvisation, moving away from the fundamentals of the economy and trying to overcome the failure of low and very low interest rates to yield the desired results, ie the revitalization of the European economy. This paradox measure is an extension of the famous statement by Mario Draghi, the ECB president, on January 2016, that "there are no limits" to what he will do in order to achieve the objectives he has set for his term. The ECB is the first bank implementing this measure for a year already. It is therefore necessary to investigate the meaning, the causes and consequences of this European*

Keywords: negative interest rates, economic theory, eurozone, fiscal policy

Jell code: E43, E62

1. Which is the Meaning of this unconventional financial measure which punishes savings, and aims at encouraging total expenditure, i.e. consumption and investment?

Negative interest rates, from a theoretical viewpoint, aim at making borrowing cheaper, thus leading to an increase in demand and reviving the economy. Savers are discouraged to save as they are required to pay a price to the banks for keeping their savings. The initiators of this measure hope, moreover, that those who are discouraged to save because of negative interest rates will shift to consumption or investment.

This however is by no means certain. Chances are that under the deep recession prevailing in European economies they will prefer hoarding, awaiting more favorable developments. This is because hoarding will bring about a zero interest rate, while depositing their savings in the bank will result in negative interest rates.

¹Prof. Ph.D., Honorary member of the Academy of Romanian Scientists (delimar@uom.gr).
