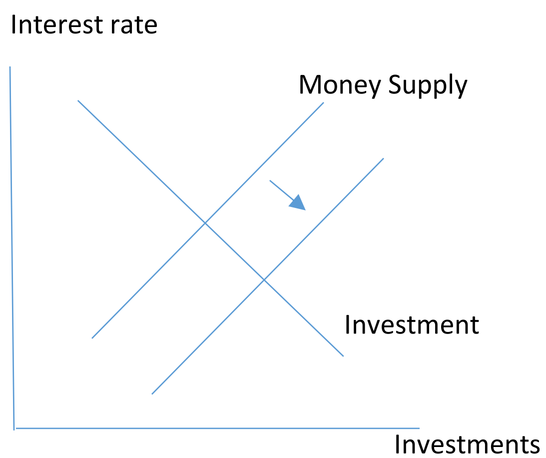
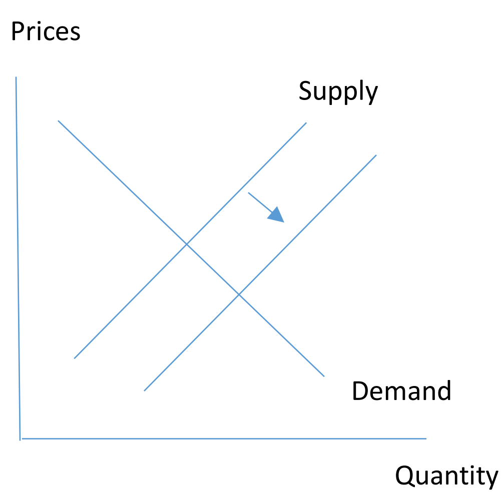
Negative Interest Rates: Supply creates its own demand?

There have been plenty of discussions held on negative interest rates – most of them doubt the effectiveness. In the Eurozone, however, it did lead to a weakening currency, which ultimately helped exports and pushed government borrowing costs down. Both essential for the region undergoing low economic growth and an austerity programme that have lasted for much longer than initially thought.

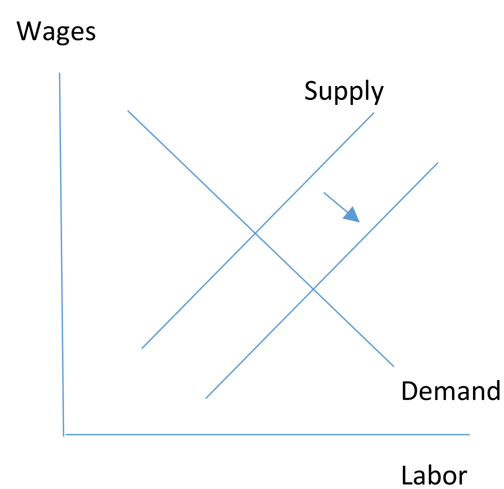
1.) Central Bank lowers interest rates, which stimulates investments → Firms take on new debt / investment



2.) Companies invest, for example in commodities, extracting more quantity, yet demand stays constant → Prices decline



3.) Firms move production to lower labor cost countries, and hence tapping into new labor supply, which puts pressure on wages



- ➔ How to stimulate demand?
- ➔ Population growth, which is difficult in industrialized countries, as wages are so low that both, women and men have to work. The cultural shift (women don’t want to be housewives any more) plays a key role here as well
- ➔ Enter new markets, which is also difficult right now, as uncertainty is high due to increasing diverse shifts in culture. Countries that rely on domestic culture also struggle more to remain this culture, since the internet gives people so much freedom to choose for themselves – Often in a disrupting way, such as radical left and right groups
- ➔ Optimize the trade balance sheet. Establish trade pacts or agreements with nations you want to import good X and export good Y, in a way it is mutually beneficial
- ➔ Innovation
- ➔ Weaker currency