Negative interest rates by ECB, BOJ can't boost growth, Allianz says

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Negative interest rates fail to boost growth. Allianz economists say impact from the moves by central banks to implement zero or negative rates are counterintuitive.

Central banks are essentially out of ammunition, with zero and negative interest rate policies spurring greater savings, not growth, said Michael Heise, chief economist at Allianz Group.

Moves by central banks from Japan to the euro zone to slash interest rates below zero have upended financial markets: investors are now paying some governments for the privilege of parking their funds while commercial lenders are mulling storing their cash in costly vaults instead of keeping them with central banks.

Despite the stimulus, economic growth remains feeble.

"Monetary policy has basically run its course in stimulating the economies," said Heise in an exclusive interview with CNBC in Singapore. "The Japanese example is very telling."

In late January, the Bank of Japan blindsided global financial markets by adopting negative interest rates for the first time ever - a move that should have spurred outflows of the local currency. But instead, the yen surged and signs of the intended effects, such as increased bank loans, have been scarce.

"The impact of monetary policy is actually counter intuitive and that shows that there's a lot of uncertainty that policy makers are facing," Heise said. "They can't even be sure how their instruments are going to affect the economy."
For one, the chief economist at Allianz, which had 1.723 trillion euros ($1.95 trillion) under management as of the end of 2015, noted that low-to-negative rates aren't encouraging spending, which is what textbook economics would suggest.

"It is quite remarkable that savings rates are not going down, although savings in terms of return is completely unattractive," he said.

Instead, he added, "there's a concern that the wealth not accumulating in a way that [people] can take care of their retirement income or other objectives you have when you save: for buying a house or protecting your children or sending your children to school."

That's made the savings ratio "completely inelastic," while low capital costs have done the same to dampen investment, he said, noting that consumption has only been rising in Germany because of salary increases.

A low cost of capital means that the "opportunity cost" -- or the cost of making one investment as opposed to another or not investing at all -- is also low, which may encourage companies to simply wait on the sidelines.

Low interest rates have also not spurred bank loans, he noted.

"Bank lending does not accelerate just because of low interest rates or a lot of liquidity. Liquidity was never the problem for bank lending," Heise said. "It's the capital situation of the banks and lack of demand for loans by the corporate sector and the households."

But he pointed to signs this is changing in Europe as the economy there recovers.

"Slowly, companies are becoming more courageous to take up some loans, but it does not have to do with the buying of government bonds by the European Central Bank," he said.

But he noted that within Asia, he's hearing a shift toward structural reforms, rather than relying on monetary policy.

"We've completely exploited that and it's high time to refocus on other policies," Heise said, noting that these efforts may vary across countries, such as reforming inefficient state-owned enterprises, focusing on infrastructure and education spending, attracting foreign investment or fighting corruption.

But when it comes to the U.S. Federal Reserve, Heise still expects interest rate increases ahead.

After last week's non-farm payrolls report came in well-below expectations, many analysts pushed back their expectations for an interest rate hike from previous forecast for June or July.

But Heise said that while a June move was likely off the table, he still put a greater than 50 percent chance that the Fed will hike interest rates at its July meeting.

He said there's still too many reasons for the Fed to move and that the labor market appeared to remain in fairly good shape, with some wage-growth acceleration, although there was room for the participation rate to rise.

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