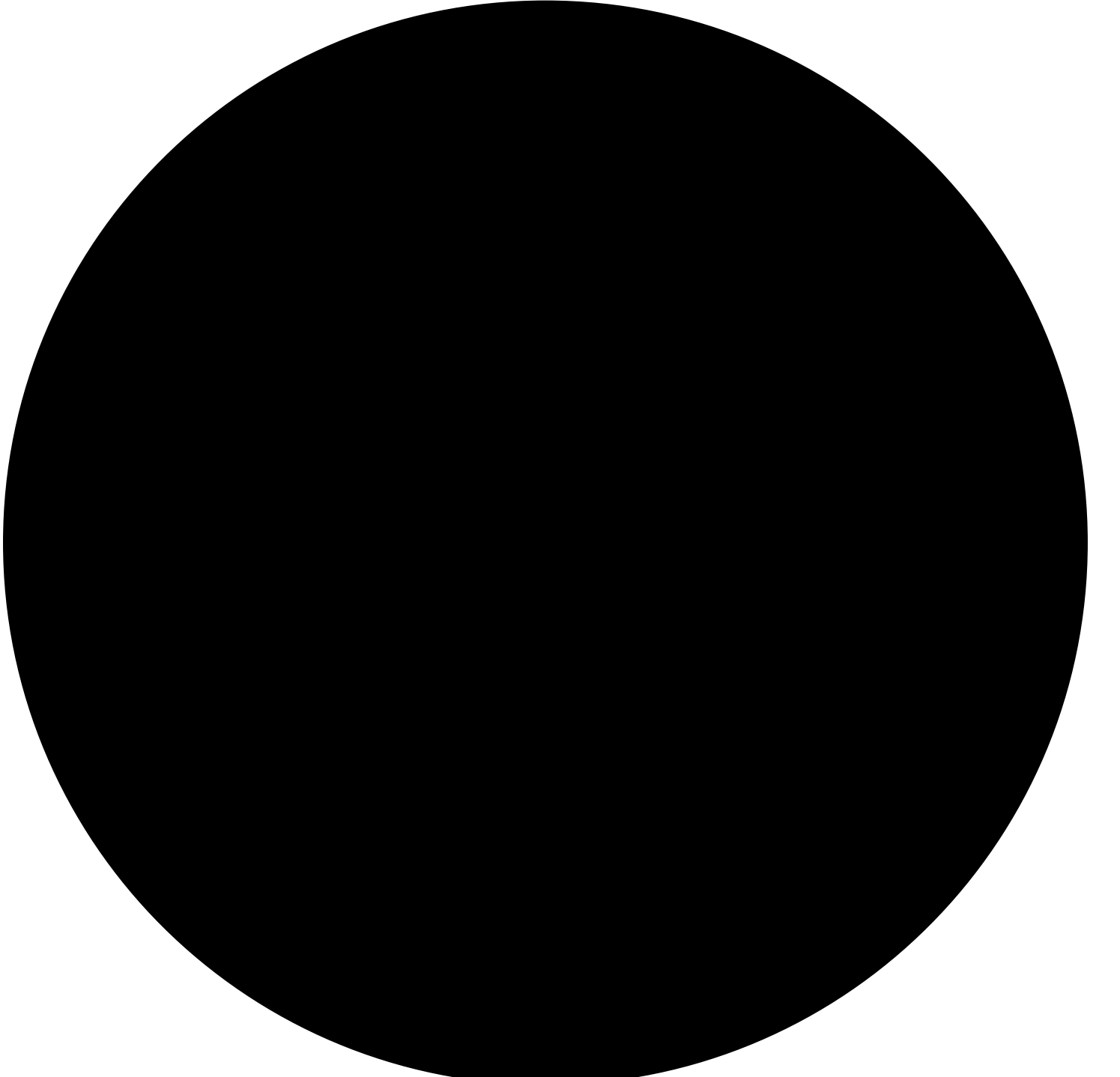


DENMARK: INTEREST RATES DEFY GRAVITY

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The European Central Bank or the central banks of Japan, Sweden, and Switzerland have introduced negative interest rates, but in Denmark, where they have had negative rates since 2012, something is happening that seems hard to imagine. There are citizens who [charge interest on their home mortgage](#), as well as companies - for now not individuals- who have to pay to keep their funds in a bank deposit. According to experts cited by [Bloomberg](#), rates are not expected to turn positive again until 2018, leading to an

unprecedented monetary policy "experiment" that defies financial orthodoxy.

For now, it seems that there have been no major distortions in the economy, perhaps because it is Denmark, but there are economists who see potential dangers ahead. Savings do not receive interest, and there are pressures on bank profitability. Apartment prices have increased by 43% between 2010 and 2015 and there has been a mortgage boom that raises fears that it will happen to homes when rates rise.

The Danish authorities, however, defend having the appropriate policies to avoid a speculative real estate boom like the one we sadly experienced. The real estate market is heavily regulated, it is difficult to buy a home that you do not intend to live in, and it is almost impossible for foreigners with no connection to the country to acquire a property.

Where does this monetary policy come from? Maintaining the stability of its currency, the Danish krone, against the euro, is the only mandate of the Danish Central Bank, so crucial is it for the economy to protect trade with the eurozone. Faced with the euro crisis, in 2012 speculators invested in the crown as a safe haven currency, threatening to unanchor them from the euro, for which the authorities introduced negative interest rates to reduce capital inflows.

There are no comments yet.