Negative Interest Rate: The Dead Corner of the Horror Movie

In the end, the real horror isn't the minus sign itself it's realizing the system needed it to survive.

Imagine the final scene of a horror movie. The main character is out of options, the monster is closing in, and every exit is sealed. There's only one desperate move left, something no one dares to try unless it's truly the last resort.

In economics, that move is called **the negative interest rate.**

The Classic: How Interest Rates Usually Work

For generations, interest rates have been the reliable steering wheel of economic policy.

When inflation rises, central banks raise interest rates to cool things down. When the economy slows, they cut rates to stimulate borrowing, investment, and spending.

The logic is simple: cheaper money stimulates activity.

But what happens when the rate hits zero, and the economy still won't move?

Welcome to the dead corner of monetary policy, where certainty dies and improvisation begins.

What Is a Negative Interest Rate?

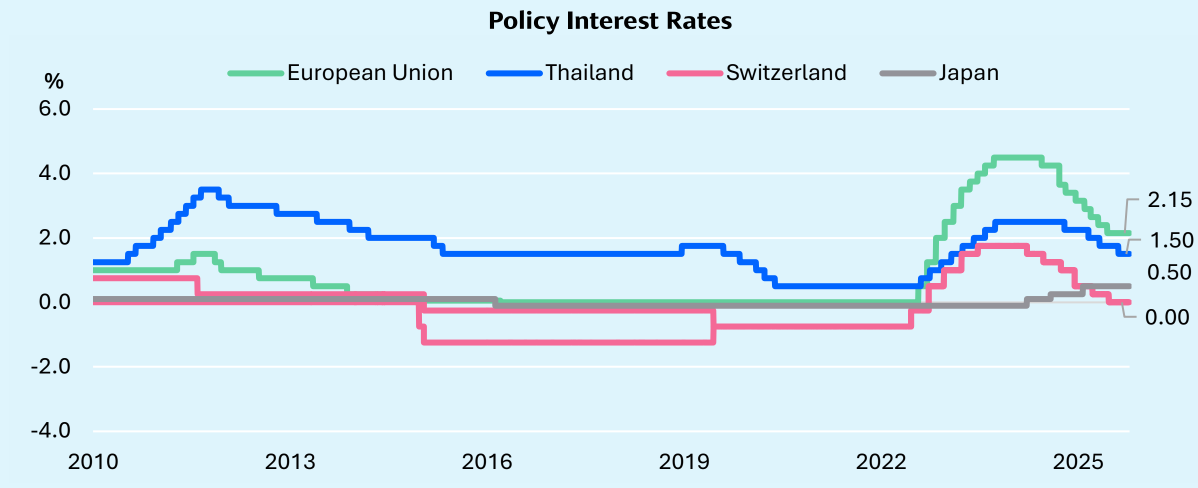
Negative rates turn the logic of money upside down. Normally, savers earn interest for keeping money in the bank. Under negative rates, they *pay* the bank to hold their money.

The same applies to commercial banks: instead of earning interest on reserves at the central bank, they pay for the privilege of parking them there.

In essence, idle money starts to lose value by design.

This isn't theory — it's been tried in practice:

- Japan: The Bank of Japan (BoJ) adopted negative rates in 2016 to combat chronic deflation and stagnation. After nearly a decade of ultra-loose policy, it ended the experiment in 2024.
- Eurozone: The European Central Bank (ECB) pushed deposit rates below zero in 2014 to fight post-crisis deflation. Charging banks to hold reserves was meant to push lending until the policy ended in 2022.
- Switzerland: The Swiss National Bank (SNB) used negative rates to weaken its overvalued currency and protect exporters from a surging franc.



Source: Central banks (BOJ, BOT, ECB, SNB)

Why Use Negative Rates?

Negative interest rates are not Plan A. They're Plan Z.

They appear when:

- Growth is stagnant.
- Inflation is too low, or deflation sets in.
- Households and firms refuse to spend.
- The currency is too strong, crushing exporters.
- Traditional rate cuts have lost their power.

By making it costly to hoard cash, policymakers try to force banks to lend, consumers to spend, and investors to take risks. Sometimes it's also about discouraging excessive capital inflows that overheat the currency.

In theory, this "chases" money into circulation like driving ghosts from one room to another until they flee the house. In practice, though, shouting in a haunted house can awaken something worse.

The Side Effects: Victim in the Haunted house

Negative rates are not just unconventional — they're unsettling.

- Savers suffer: Retirees and households lose income from deposits.
- Banks bleed: Profit margins shrink, lending becomes riskier.
- Asset bubbles grow: Investors rush into equities, real estate, and crypto in search of yield.
- Governments celebrate: They can borrow almost for free.

It's an unnatural equilibrium. The ECB itself warned that negative rates distort incentives, erode trust, and weaken policy effectiveness over time.

Thailand's Choice

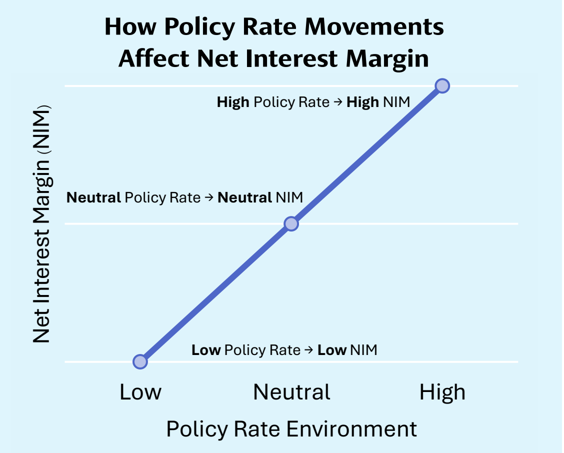
Thailand has wisely never crossed that line.

After COVID-19, the Bank of Thailand cut rates to a record low of 0.50 percent and held them there for almost two years.

Inflation was subdued and growth fragile, but going below zero posed greater risks:

- Banks—heavily reliant on interest margins—would be hurt.
- High household debt (over 90 percent of GDP) meant lower rates wouldn't spur borrowing.
- Capital outflows could destabilize the baht.

Instead, Thailand relied on fiscal stimulus, targeted SME lending, and debt restructuring. In a country where precautionary savings are already high, negative rates would punish savers more than they would revive the economy.



Source: Author's compilation

Scratches on the Wall: Lessons from Abroad

- Japan: Borrowing costs fell, but inflation and spending barely budged. Households kept hoarding cash.
- Eurozone: Northern Europe like Germany saw housing booms, while southern Europe struggled with bank profitability.
- Switzerland: The franc stayed strong despite negative rates, proving currency dynamics can overpower monetary tools.

In all cases, exiting negative rates has proven difficult. It's like using a painkiller that numbs the pain without healing the wound.

Final Takeaway: Different Paths, Same Caution

Thailand avoided negative rates not out of fear, but out of understanding — like a seasoned traveler who knows which trails through the haunted forest to avoid.

Every economy carries its own structure, strengths, and scars.

What worked in Japan or Europe may not work elsewhere. When central banks venture below zero, they are rarely chasing growth; they are buying time.

And time alone does not heal an economy just as standing still in a haunted house doesn't make the ghosts disappear.

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