

Negative interest rates: the new economic reality is ju...

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As the [FT has reported this morning](#):

Growing expectations for further rate cuts in the UK sent yields on government bonds below zero on Thursday, with debt prices fired up after Bank of England governor Andrew Bailey indicated that negative rates were “under active review”.

The yield on the five-year gilt fell below zero for the first time, meaning buyers were willing to accept a nominal loss if they held the debt to maturity. Yields sank as far as minus 0.012 per cent, according to Reuters. Two-year yields hit a new intraday low of minus 0.062 per cent.

This needs some explanation.

First, negative interest rates are just what they sound like: a saver really does pay a bank to deposit money with them. This is what those buying government bonds might now do: they will willingly get back less than they save, overall.

Second, these are already happening in Europe and in places like Denmark there are even negative interest rate mortgages (yes, the bank pays you to take its money). So there is nothing that unusual about this now.

Third, this is perhaps the inevitable consequence of the centuries long downward trend in interest rates that has been exacerbated since the global financial crisis of 2008.

Fourth, this is not irrational behaviour by savers. Those who buy government bonds hold vast amounts of cash. They are pension funds, life assurance funds, banks and others. And what they know is that banks fail. And for them an £85,000 government bank deposit guarantee scheme is meaningless,. So they deposit funds in gilts for the security that gilts provide. They know, as modern monetary theory suggests, that governments with their own central banks and currencies and fairly efficient (and large) tax systems cannot go bust. So that is with whom they want to save, irrespective of the price.

Fifth, that's good for the economy when right now government borrowing is going to hit record highs.

Sixth, if only this flowed through to the rest of the economy it would be good for that too, by reducing the economic extraction of interest from the economy that acts like a tax charged by the wealthy on borrowers.

Negative interest rates are just fine, right now.