Negative rates risk 'massive dislocation', warns ex-Barclays exec

John McFarlane believes banks' share prices would struggle to recover from sub-zero rates

By Lucy Burton

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The Bank of England's flirtation with negative interest rates risks a "massive dislocation" in financial markets, according to the former chairman of Barclays.

John McFarlane, who left the lender last year, this weekend joined a chorus of warnings from the banking industry against the unprecedented step.

The City veteran said that once negative rates are imposed, it could be difficult to return to more normal monetary policy.

He said: "Economies are interconnected, and low or negative rates has become the norm in developed economies, particularly Europe, and it is virtually impossible for any single economy to depart significantly.

"The issue at some point is how to raise rates without massive dislocation."

Mr McFarlane, 73, is now chairman of the Australian bank Westpac, but was speaking in a personal capacity.

He suggested widespread fears in the industry about the impact of negative rates on bank share prices are justified.

The pandemic has punished banks

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A decade of low interest rates has combined with Covid to leave big banks including NatWest and Lloyds with a stock market value significantly lower than the assets on their books.

Mr McFarlane warned: "Negative rates would make this worse."

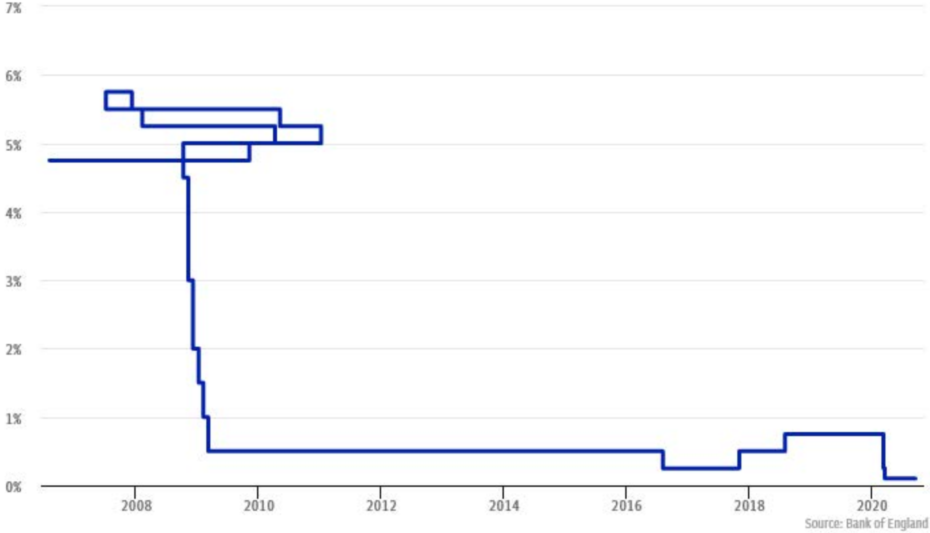
His comments come days after the Bank of England asked bank bosses about their readiness to deal with negative rates, including in relation to computer systems that were only designed to deal with positive rates.

The letter from Sam Woods, deputy Governor, was the clearest sign yet that Threadneedle Street is seriously considering the move to support the pandemic economy.

The Bank has already slashed rates to a record low of 0.1pc.

Negative thoughts

The Bank of England may have to go negative if it wants to cut interest rates further



The potential shift has sent a chill through Britain's banking industry.

Sir Howard Davies, the chairman of taxpayer-backed NatWest, said late last week that there would be "technical issues and many contractual issues" if the controversial policy came into force and warned that banks were not ready.

Bruce Carnegie-Brown, the vice chairman of Santander, said the bank was "ready from an operational perspective but the challenges are more about customer impact and understanding of how this would operate in practices, because there is no precedent for it".

Banks have to submit information to the Bank of England by Nov 12.