

Philipp Hildebrand: The Swiss National Bank's ability to act in the crisis

Summary of a speech by Mr Philipp Hildebrand, Vice-Chairman of the Governing Board of the Swiss National Bank, at the Executive MBA HSG, Universität St Gallen, St Gallen, 21 January 2009.

The complete speech can be found in German on the Swiss National Bank's website (www.snb.ch).

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The global financial system is in the midst of the biggest crisis of the postwar years. Above all, the crisis is the most complex of this period. Problems in the US sub-prime mortgage market led to the breakdown of both markets and general trust. In particular, the interbank market, the nerve centre of the financial markets, froze up for several months. Governments and central banks managed to prevent the financial system from collapsing. The interbank market has been revived and risk premia have come down from their former record levels. In the meantime, however, the financial crisis has worked its way through into the real economy, which is now moving into a sharp downturn.

In order to fight the crisis, the central banks have lowered their key interest rates aggressively. The instrument of the Swiss National Bank (SNB), the repo rate, has practically reached zero. However, this certainly does not mean that the SNB is incapable of action. If needed, there are other options available. The National Bank can extend the terms of repo transactions or give consideration to the purchase of government and corporate bonds. Where necessary, the SNB may also, for example, sell an unlimited amount of Swiss francs against foreign currency in order to prevent an appreciation of the Swiss franc or even to bring about a devaluation of the national currency.

The SNB is very well aware that the determined route it is pursuing in fighting this historic crisis is associated with long-term risks. At the same time, it is firmly convinced that the risks involved in not following this course would be considerably greater. In this spirit, it is facing up to the task of fighting the crisis while at the same time maintaining a watch on the long-term aspects. At some point, the moment will come when the National Bank decision-makers will need the courage to do what is right in the long term even if it is not popular in the short term.