

Thomas Jordan: Monetary policy under the spell of the financial crisis

Summary of a speech by Mr Thomas Jordan, Member of the Governing Board of the Swiss National Bank, at the State Street Global Advisors (SSgA) Prima Talk, Zurich, 6 May 2009.

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

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The crisis in global financial markets has led to a sharp downturn in the world economy. Unavoidably, the Swiss economy has been pulled down too. The Swiss National Bank (SNB) has reacted by considerably relaxing its monetary policy, moving – in effect – to a zero interest rate policy.

The SNB is maintaining its ability to act at times of zero interest rates by making use of three unconventional measures: increasing the number of long-term repo transactions, purchasing Swiss franc bonds issued by private sector borrowers and buying foreign currency on the open market. The initial impact of these measures has been positive. Risk premiums in the money and capital markets have fallen slightly. The tendency of the Swiss franc to appreciate against the euro has been checked and volatility is declining. Curbing the upward pressure on the Swiss franc helps to protect against deflation risks in Switzerland.

The Swiss economy is currently experiencing the most severe economic crisis since the mid-seventies. If the economies of our most important trading partners recover, and if the financial markets begin to stabilise, it is likely that the Swiss economy will also pass through the cyclical trough during the course of the year 2010. Faint signs that the economy is gaining a little ground have recently become evident abroad. The SNB's measures are aimed at reducing the danger of deflation in Switzerland.

To maintain price stability in the future, pinpointing the optimal date for exiting from the current zero interest rate policy will be critical. Although the reduction in liquidity can be carried out swiftly and easily in technical terms, the practical details are extremely challenging. Correct assessments by decision-makers are very important in view of the particularly high level of model uncertainty at present. In addition, firmness will be required in the face of political pressure so that necessary, but unpopular corrective measures can be taken in good time.