

Thomas Jordan: Financial crisis dispersing? Economy changing direction?

Speech by Mr Thomas Jordan, Member of the Governing Board of the Swiss National Bank, at the general assembly of the Handels- und Industrieverein des Kantons Schwyz, Schwyz, 25 August 2009.

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

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The situation on the international financial markets has recently brightened again. This is mainly due to the positive keynote in company earnings reports and a series of unexpectedly favourable economic data. The relaxation of monetary policy was pursued further through the implementation of unconventional measures in March 2009, and this is also likely to have had a calming effect. Price advances since March should, however, be partly seen as corrections to excessive downward movements in the previous period. Considerable uncertainties still prevail and the danger of setbacks should not be carelessly underestimated.

The recessionary developments in the world economy weakened significantly in the second quarter of 2009. Expansionary monetary policy around the world, together with fiscal support programmes, have probably played an important role in this respect. Economic indicators are also showing a turn for the better in the Swiss economy. Nevertheless, in view of the exceedingly low level of utilisation of production capacity, industrial investment will probably continue falling. Given the increasingly gloomy outlook for employment, private consumption is also likely to put a damper on the resumption of cyclical activity. Consequently, the current overall situation of the Swiss economy remains difficult despite the many rays of hope with regard to the economic cycle. Also, the danger of deflation does not yet seem to have been entirely averted.

We have not yet reached the moment for a change of direction in monetary policy in Switzerland. After analysing the available economic data and forecasts and taking various risk considerations into account, there is no need for the SNB to take monetary policy action at present. The SNB can afford to adopt a holding stance. However, this holding stance should not be mistaken for inactivity. The SNB continues its firm implementation of an extremely expansionary monetary policy and the unconventional measures launched on 12 March 2009. The Swiss franc money market is still being provided with a generous and flexible supply of liquidity, interest rates remain low, Swiss franc bonds are still being purchased to dampen the level of risk premiums on the Swiss franc bond market as and when needed and the appreciation of the Swiss franc will continue to be prevented.