Thomas Jordan: Strong Swiss franc and large current account surplus – a contradiction?

Introductory remarks by Mr Thomas Jordan, Chairman of the Governing Board of the Swiss National Bank, at the Swiss Institute of International Studies, Zurich, 19 February 2013.

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

For almost 18 months now, the Swiss National Bank (SNB) has been enforcing the minimum exchange rate of CHF 1.20 per euro with the utmost determination. The need for this measure is widely recognised, both domestically and abroad, due to the substantial appreciation of the Swiss franc in summer 2011. At the same time, however, there are isolated voices claiming that given the large current account surplus, the Swiss franc is too weak, and that the SNB should allow the currency to appreciate in order to contribute towards reducing global imbalances.

This view is based on a lack of knowledge about the situation in Switzerland. Specific factors are responsible for the Swiss current account surplus. The balance on the trading account, for instance, makes only a modest contribution. The most important elements with regard to the current account surplus are the following: first, investment income from Switzerland's substantial net international investment position, second, financial sector earnings from business with customers abroad, which is traditionally of significance for Switzerland, and third, earnings from merchanting, which have risen sharply over the past decade. The current account surplus is also statistically overestimated.

These three most important elements are dependent on developments abroad, international financial markets, and global demand for commodities. The Swiss franc exchange rate, by comparison, does not play a decisive role. There is thus no contradiction between having a strong Swiss franc and a large current account surplus. Nor is the surplus a suitable measure for assessing Switzerland's share in global imbalances. It is much more the case that Switzerland and its extensive level of direct investment abroad contributes significantly to balanced global economic growth.

SNB monetary policy is focused on ensuring price stability. In so doing, it takes due account of economic developments. To fulfil this mandate, the SNB must secure appropriate monetary conditions. The current account surplus does not play a role in monetary policy. In an open economy like Switzerland, however, sizeable exchange rate fluctuations have a strong impact on production and prices. In the current environment, and with interest rates close to zero, the minimum exchange rate is therefore the correct monetary policy instrument. The SNB will continue to enforce it with the utmost determination.