Thomas Jordan: Swiss National Bank's monetary policy decision and assessment of the economic situation

Introductory remarks by Mr Thomas Jordan, Chairman of the Governing Board of the Swiss National Bank, at the media news conference of the Swiss National Bank, Berne, 16 June 2016.

*   *   *

Ladies and gentlemen

It is a pleasure for me to welcome you to the Swiss National Bank's news conference. I will begin by explaining our monetary policy decision and our assessment of the economic situation. I will then hand over to Fritz Zurbrügg, who will present this year's *Financial Stability Report*. After that, Andréa Maechler will review the situation on the financial markets and outline some innovations affecting financial market infrastructure. Finally, we will – as ever – be pleased to take your questions.

Monetary policy decision

Let me begin with our monetary policy decision and the inflation forecast.

As you will have gathered from our press release a few minutes ago, we are maintaining our expansionary monetary policy. Interest on sight deposits at the SNB is to remain at –0.75% and the target range for the three-month Libor is unchanged at between –1.25% and –0.25%. At the same time, we will remain active in the foreign exchange market, as necessary.

Our monetary policy thus continues to be based on two key elements: the negative interest rate and our willingness to take an active role in the foreign exchange market. Both are intended to make Swiss franc investments less attractive, thereby easing pressure on the franc. This is important given that the franc remains significantly overvalued. Our expansionary monetary policy is aimed at stabilising price developments and supporting economic activity.

Our new conditional inflation forecast suggests that inflation will rise faster over the coming quarters than we predicted in March, principally due to the significant increase in oil prices in the intervening period. The effect of this oil price rise on annual inflation vanishes after the first quarter of 2017. The new conditional forecast moves closer to that of the last quarter from then on, and is in line with it from 2018. This forecast shows that our expectations for the medium-term development of inflation and the Swiss economy remain essentially unchanged.

At –0.4%, our inflation forecast for the current year is 0.4 percentage points higher than in March. For 2017, we expect inflation to be 0.3%, somewhat higher than assumed in the previous quarter. For 2018, we continue to anticipate inflation of 0.9%. The conditional inflation forecast is based on the assumption that the three-month Libor will remain at –0.75% over the entire forecast horizon.

Global economic outlook

Since the assessment of the inflation and economic outlook for Switzerland is heavily influenced by economic developments abroad, let me now present our assessment of the global economy.

The moderate recovery in the global economy is continuing, supported by ongoing highly expansionary monetary policy worldwide.

Economic recovery is particularly well advanced in the US where labour market developments in the first few months of the year were generally positive. The US is on the cusp of full employment for the first time since the onset of the financial crisis in 2008. Economic growth in the euro area is gradually becoming more broad-based, and this is increasingly spilling over into the labour market. The unemployment rate has again fallen slightly in recent months. In China, growth remains robust, thanks to various economic policy measures aimed at stimulating domestic demand. Overall, international growth is principally being driven by domestic demand and the services sector. By contrast, global manufacturing and trade remain subdued.

The international financial markets were dominated by turbulence at the start of the year, however positive economic signals since then have helped to ease the situation. Risk premiums and volatility have fallen perceptibly in recent months. At the same time, commodity prices have also recovered from their multi-year lows.

We expect the global economic recovery to sustain over the next few quarters. Nevertheless, significant risks remain. Global growth continues to be fragile due to deeply entrenched structural problems. Furthermore, uncertainty emanating from political events could escalate, hampering economic development. The imminent UK referendum on whether to stay in the European Union has already caused volatility on the financial markets to rise.

Swiss economic outlook

I shall now turn to the economic outlook for Switzerland.

After a robust fourth quarter in 2015, the pace of growth slowed in the first quarter of 2016. According to the first official estimate, annualised real GDP increased by 0.4% in the first quarter. However, this deceleration is not a sign of a more fundamental slowdown. If we disregard short-term volatility, an upward trend is discernible. Available indicators thus point to a continuation of the moderate but steady recovery that has prevailed since the beginning of the year. This would suggest that growth is likely to gather pace in the second quarter.

The gradual improvement in the international environment will also benefit Switzerland. Exports are likely to continue to recover. Until now, the positive development was largely driven by pharmaceutical exports. As global economic activity gradually picks up, other industries too are likely to show signs of recovery. Exports of machinery, precision instruments and metal goods have rallied slightly since the beginning of the year. Utilisation of production capacity in manufacturing should continue to improve. This is likely to stimulate corporate investment and have a positive impact on the labour market. Various industry surveys confirm these emerging signals. The employment outlook has brightened somewhat recently. We expect the unemployment rate to stabilise in the second half of the year. We still anticipate real GDP growth for 2016 as a whole of between 1% and 1.5%.

The continuation of this moderate recovery and the impact of efficiency measures already taken will help industry to improve margins. However, many challenges remain. Not all industries and companies will benefit equally from the upturn in demand. Furthermore, our companies are faced with technological, institutional and market-led changes, irrespective of the economic situation. Examples include the digitalisation of the economy, structural adjustments to domestic trade due to new consumer habits and distribution channels, new business models in the financial sector and shifting tourism flows. To overcome these challenges, companies must continue to position their products successfully through innovation and new business ideas. This capacity has proved to be a key strength of the Swiss economy in recent years. Equally, Switzerland must continue to do everything it can to offer conditions which allow companies to compete globally.

Inflation expectations, interest rates and exchange rates

I will now review changes in inflation expectations and monetary conditions since the beginning of the year.

Due to the appreciation of the Swiss franc and the decline in commodity prices, Swiss inflation once again moved well into negative territory at the beginning of 2015. Despite persistently low inflation rates, medium and long-term inflation expectations have nevertheless remained stable. According to the Consensus Economics forecast published in April, expected inflation for a horizon of six to ten years stands at 1.2%.

In the current environment, a relaxed monetary policy is still needed to ensure price stability and support the economy. Consequently, interest on sight deposits at the SNB stands at −0.75%. Negative interest has led to a decline in interest rates on the money and capital markets, which has been quite substantial in some cases. Mortgage rates have only dropped slightly, however. Fritz Zurbrügg and Andréa Maechler will discuss interest rate developments in more detail later.

After the discontinuation of the minimum exchange rate, the Swiss franc appreciated significantly in trade-weighted terms. This was partly due to the fact that the euro had reached a low point in early 2015 in the context of the Greek crisis. Our expansionary monetary policy has since helped to weaken the Swiss franc. Since January 2015, the franc has offset about half of the effective appreciation. It nevertheless remains significantly overvalued.

Monetary policy outlook

Ladies and gentlemen, let me summarise my main points. Our monetary policy is based on two key elements – the negative interest rate and our willingness to intervene in the foreign exchange market. Unlike during the period when the minimum exchange rate was in force, we now decide on a case-by-case basis when – and on what scale – we will intervene. Our monetary policy aims to have a stabilising effect on the price level and to support the economy. The negative interest rate and our willingness to intervene make the Swiss franc less attractive and thereby help to achieve these goals.

The persistently low interest rate environment presents a challenge for savers and investors. However, it is important to emphasise that negative interest is an absolutely essential instrument at this point in time. In the current climate, higher interest rates in Switzerland would cause monetary conditions to deteriorate. If the SNB were to aim for higher interest rates, investments in Swiss francs would be far more attractive than investments in other currencies. A substantial appreciation of the franc – and its consequent effects on the Swiss economy – would be virtually unavoidable in these circumstances. Such a scenario would be beneficial neither for savers nor investors.

As a small open economy, Switzerland is highly exposed to developments abroad. Next week's UK referendum on whether to remain in the EU may cause uncertainty and turbulence to increase. We will be monitoring the situation closely and will take measures if required.

Our National Bank

I would like to close with a few words about something completely different, a new online information platform for the general public called "Our National Bank". This has been available for a few days now at our.snb.ch, and provides basic information on the SNB and money, price stability, and monetary policy. Additional focus topics featured on "Our National Bank" include the minimum exchange rate and the real estate market. The complex subject of monetary policy is explained in a manner that is easy to understand, using a multimedia approach. Charts and illustrations visualise the content, while short films provide a more in-depth insight into the SNB.

The associated app presents detailed information and the brochure summarises the key points in a succinct form.[1] These new products are currently available in German and French; from autumn 2016, they will also be available in English and Italian. All this information may also be accessed via our main website, www.snb.ch.

"Our National Bank" helps us to fulfil one of our statutory tasks – informing the public about our activities. The new platform replaces "The world of the National Bank", which has provided the general public with information until now. We hope that this new resource will prove useful to you, too, in one way or another.

Ladies and gentlemen, thank you for your attention. It is now my pleasure to give the floor to Fritz Zurbrügg, who will present this year's *Financial Stability Report*.

---

1 The *Our National Bank* brochure can be accessed in the form of a pdf file at our.snb.ch or ordered through library@snb.ch.