

Philipp Hildebrand: Financial market turbulence and the economic outlook

Summary of a speech by Mr Philipp Hildebrand, Vice-Chairman of the Governing Board of the Swiss National Bank, at the Handels- und Industrieverein des Kantons Bern, Burgdorf-Emmental section, Burgdorf, 25 October 2007.

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

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It is very difficult to assess how the shifts in the credit markets triggered by the US sub-prime mortgage market will impact on the real economy. As a result, the uncertainties with regard to the economic outlook have increased considerably.

The evaluation of structured credit products, some of them very complex, is based on models. Because of the difficulties this evaluation poses, the market for such products gradually disappeared. The uncertainty as to the degree of exposure of individual banks in the structured credit market led to illiquidity in the unsecured interbank market.

Central banks around the world have reacted to this unusual situation with injections of liquidity. An adequate supply of liquidity to the economy is essential for our economic system to function.

A favourable aspect of the situation was the fact that the credit market turbulence occurred at a time when the global economy and the Swiss economy were both in good shape.