Thomas Jordan: Repercussions of the financial markets crisis in Switzerland

Summary of a speech by Mr Thomas Jordan, Member of the Governing Board of the Swiss National Bank, at the Zuger Wirtschaftskammer, Zug, 28 April 2008.

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

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The turbulence in the financial markets that began in August 2007 is having a generally negative impact on the Swiss economy and is spreading through different transmission channels.

The downgraded growth prospects for the US economy are resulting in fewer imports from the rest of the world. Since net exports and the global economic developments are of particular importance for Switzerland, they are having a negative effect, which may be reinforced by the appreciation of the Swiss franc. Because of the major importance of banking in the industrial structure of the Swiss economy, falling turnover on the financial markets can also affect Switzerland more severely than other countries. Moreover, rising credit risk premiums result in higher financing costs for companies, and the deterioration in bank balance sheets could be an additional factor in compromising the availability of credit in Switzerland. Finally, the increase in commodity prices has had a significant impact on the inflation rate in Switzerland.

Despite the fallout from the financial crisis, the outlook for Switzerland's economy remains good. In Europe – which is crucial for Switzerland – the economy will probably weaken only gradually. What is more, the Swiss franc has only seen a moderate rise against the euro. As Swiss households and companies are on a solid financial footing, they are shielded – so to speak – against a tightening in credit conditions. Lastly, the stronger Swiss franc vis-à-vis the US dollar has limited the impact of higher commodity prices. Several other factors, like a robust labour market and a competitive industrial sector, could cushion the negative repercussions of the financial crisis in Switzerland.

Against this backdrop, the SNB is expecting real GDP to grow between 1.5% and 2% this year. Inflation should be below the 2% mark again in the course of 2008. These forecasts still involve substantial uncertainties. Given the present state of the economy, the current interest level seems to be appropriate. However, the SNB will keep a close eye on further economic developments and inflation so that it is able to identify when action needs to be taken and react in a quick and flexible manner.