

Thomas Jordan: The Swiss National Bank's monetary policy in turbulent times

Summary of a speech by Mr Thomas Jordan, Member of the Governing Board of the Swiss National Bank, at the Geldmarkt-Apéro of the Swiss National Bank, Zurich, 19 March 2009.

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

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The financial market crisis has now widened into a global economic recession, and the Swiss economy is feeling the full impact. The SNB has taken prompt and decisive action in response, and substantially relaxed its monetary policy.

In mid-March, as a result of the sharp economic downturn since December 2008, a further major expansion of monetary policy became necessary. However, the SNB was already operating a de facto zero interest rate policy (ZIRP), and the natural limits of conventional monetary policy had been reached. The SNB therefore took three unconventional measures: increasing the number of transactions in repos with longer terms, purchasing Swiss franc bonds issued by private sector borrowers, and buying foreign currency on the open market.

In implementing these unconventional steps, the SNB has demonstrated that, even in an environment of zero interest rates, it still has a number of tools at its disposal which allow it to react flexibly to any undesired tightening of monetary conditions. In this context, it is important not to misinterpret the foreign currency measures as the start of a “beggar thy neighbour” policy. In periods of zero interest rates, such purchases help to counter the risk of deflation.

The Swiss economy faces an exceptionally difficult year in 2009. Economic activity is set to pick up again gradually over the course of 2010, thanks to the extremely expansive monetary policy. This is, however, conditional upon an economic recovery by our main trading partners, as well as a return to stability on financial markets. The SNB measures are also aimed at reducing the risk of deflation in Switzerland.

Despite the creation of massive amounts of liquidity, the SNB remains committed to ensuring price stability in the future. We will use all means at our disposal to reduce liquidity again in good time, so as to prevent any upsurge of inflation in Switzerland once the crisis has ended.