Thomas Jordan: Swiss National Bank's monetary policy decision and assessment of the Swiss 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, 1 December 2014.

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Ladies and gentlemen

Welcome to the Swiss National Bank's six-monthly news conference. I will begin by explaining the Governing Board's monetary policy decision and outlining our assessment of the economic situation. I will then hand over to my colleagues, Jean-Pierre Danthine and Fritz Zurbrügg, who will comment on current developments in financial stability and the financial markets. Thereafter, we will be happy to take your questions.

Monetary policy decision

I will begin with our monetary policy decision.

The Swiss National Bank (SNB) has decided to maintain the minimum exchange rate of CHF 1.20 per euro. The target range for the three-month Libor remains at 0.0–0.25%. Deflation risks have increased once again in recent months, and the Swiss franc is still high. We will therefore continue to enforce the minimum exchange rate with the utmost determination. If necessary, we are prepared to buy foreign currency in unlimited quantities for this purpose. With interest rates at zero, the minimum exchange rate is the key instrument to avoid an undesirable tightening of monetary conditions. This is especially important at the moment, as upward pressure on the Swiss franc has intensified once again. Furthermore, we will not hesitate to take further measures, should they prove necessary.

Our new conditional inflation forecast has been revised downwards once again. Above all, the appreciably lower oil price will push inflation into negative territory during the next four quarters. Moreover, the economic outlook for the euro area has deteriorated once more. Together with persistently low inflation across the globe, this is dampening the medium and long-term inflation outlook for Switzerland. For the current year, we have revised our forecast downwards by 0.1 percentage points to 0.0%. For 2015, we are now even anticipating a negative inflation rate of –0.1%, with inflation turning positive only in 2016, at 0.3%. This constitutes a downward adjustment of 0.3 percentage points for 2015, and 0.2 percentage points for 2016. These forecasts assume that the three-month Libor will remain at zero over the entire forecast horizon, and that the Swiss franc will weaken. The revision of the inflation forecast is a clear sign that deflation risks have increased once more.

Global economic outlook

The SNB's inflation forecast is embedded in a global economic scenario. Let me now discuss our assessment of the global economy.

Global economic developments continue to be mixed. The US, UK and China all saw robust growth in the third quarter. In the euro area and Japan, by contrast, it was weaker than expected. In addition, inflation in the advanced economies was below central bank targets – in some cases by a considerable margin. In the euro area, it is only just in positive territory. The decline in commodity prices, above all crude oil, will curb inflation further over the short term.

We continue to assume that global economic growth will gradually firm over the course of next year. The considerable fall in oil prices should be a contributory factor. However, the prospects for individual countries vary widely. For the US, we are expecting that growth will remain robust over the next few quarters, leading to better utilisation of economic capacity. For the euro area, by contrast, we have revised the growth forecast downwards once more, and the outlook for this region remains very subdued. The picture for the emerging economies is mixed. China will continue to be a driver of the global economy, although it is likely to see a gradual weakening of growth. For India, growth prospects are picking up again. The outlook for Brazil and Russia, by contrast, remains muted.

Overall, the global economic outlook is still very uncertain and dominated by downside risks – the most important of which are the continuing difficult conditions in the euro area and a possible escalation in geopolitical tensions.

Swiss economic outlook

I will now look at economic developments in Switzerland.

Following a weak second quarter, real GDP growth was unexpectedly favourable in the third. On the demand side, the increase was supported predominantly by goods exports, with manufacturing the main beneficiary of the strong export demand. However, private and public consumption also picked up, after having registered only lacklustre growth in the first half of the year. Momentum in equipment investment, by contrast, remained weak. In part, growth was also boosted by special factors, including an unusually large increase in value added in the healthcare industry. Despite the positive developments of the third quarter, utilisation of economic capacity remains unsatisfactory.

We are assuming that growth will be markedly lower in the fourth quarter. In particular, export demand and value added in manufacturing are likely to contribute significantly less to growth than in the previous quarter. As a result of the comprehensive revision of the national accounts, the reported figures for previous quarters are higher, and therefore GDP growth for the current year should also be somewhat higher than we assumed in September, by 1.5–2%. However, the underlying economic momentum has not changed. For next year we expect to see GDP growth of about 2%. Under this assumption, the underutilisation of economic capacity will decline only gradually. We are also expecting only a modest recovery on the labour market.

Monetary and financial conditions

I will now turn to monetary and financial conditions.

After a long period in negative territory, inflation has been hovering around zero for over a year. The minimum exchange rate has prevented deflationary developments, but inflation still lies towards the bottom of the range that we equate with price stability. Moreover, according to the available surveys, medium-term inflation expectations have fallen steadily in recent years. Yet, at around 1%, they are still close to the long-term average inflation rate.

Interest rates, too, have remained very low across all maturities in the past few quarters. Mortgage rates have declined further, reaching a new low in October. Government bond rates have also fallen to new lows. My colleague, Fritz Zurbrügg, will discuss developments on the financial markets in more detail.

Despite falling mortgage rates, mortgage lending growth slowed again. At the same time, real estate prices continued to rise. However, as in 2013, price momentum is weaker than in previous years. This suggests that the measures to contain developments on the mortgage and real estate markets are starting to have an impact. Yet the imbalances that have built up on these markets in recent years remain the same. It is still too early for an all-clear. The SNB will continue to monitor the situation closely. My colleague Jean-Pierre Danthine will discuss this topic in more detail in his presentation.

Since the last monetary policy assessment, the Swiss franc has moved closer to the minimum exchange rate, and has thus strengthened against the euro once again. At the same time, both it and the euro have depreciated against the US dollar. Overall, the export-weighted real external value of the Swiss franc is virtually unchanged compared to last year, and thus continues to lie considerably above its long-term average. The Swiss franc is still high.

In view of the elevated deflation risks, the minimum exchange rate remains the key instrument for ensuring appropriate monetary conditions. A further appreciation of the Swiss franc would have a major impact on wages and prices, and would push inflation well into negative territory. Companies in Switzerland would once again be forced into drastic price cuts, in order to remain competitive. In such a scenario, price stability would be seriously compromised. The minimum exchange rate helps to reduce such deflation risks.

SNB monetary policy

Let me close with a few additional explanations of SNB monetary policy.

On 30 November, the Swiss voters rejected the gold initiative. The initiative demanded that the SNB hold at least 20% of its assets in gold, that it sell no more gold and that it store all its gold in Switzerland. We are relieved that the gold initiative has been rejected. As we have pointed out on several occasions, had the initiative been accepted this would have seriously impaired the implementation of a stability-oriented monetary policy. Let me just take this opportunity to reiterate that, in an international comparison, the SNB's gold holdings are high. Gold has always been, and will remain, an important component of our currency reserves and we have no intention of selling gold.

In the prevailing international environment, the monetary policy challenges facing the SNB remain considerable. The situation is still particularly difficult in the euro area. In order that the SNB is able to fulfil its mandate – of ensuring price stability while taking due account of economic developments – in the best possible way, it must make full use of its room for manoeuvre in monetary policy. For this reason, the SNB will not hesitate to take further measures to fulfil its mandate, should they prove necessary.

Ladies and gentlemen, thank you for your attention.