Thomas Jordan: The rationale for discontinuing the minimum exchange rate and lowering interest rates

Introductory remarks by Mr Thomas Jordan, Chairman of the Governing Board of the Swiss National Bank, at the press conference of the Swiss National Bank, Zurich, 15 January 2015.

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Ladies and gentlemen

Thank you for once again accepting our invitation to this press conference at such short notice. Let me begin by explaining the rationale for discontinuing the minimum exchange rate and lowering interest rates. Afterwards, I shall be happy to answer your questions.

Discontinuation of the minimum exchange rate

The Swiss National Bank (SNB) has decided to discontinue the minimum exchange rate of CHF 1.20 per euro with immediate effect and to cease foreign currency purchases associated with enforcing it.

The minimum exchange rate was introduced during a period of exceptional overvaluation of the Swiss franc and an extremely high level of uncertainty on the financial markets. This exceptional and temporary measure protected the Swiss economy from serious harm. While the Swiss franc is still high, the overvaluation has decreased as a whole since the introduction of the minimum exchange rate. The economy was able to take advantage of this phase to adjust to the new situation.

Recently, divergences between the monetary policies of the major currency areas have increased significantly – a trend that is likely to become even more pronounced. The euro has depreciated substantially against the US dollar and this, in turn, has caused the Swiss franc to weaken against the US dollar. In these circumstances, the SNB has concluded that enforcing and maintaining the minimum exchange rate for the Swiss franc against the euro is no longer justified.

Interest rate lowered

At the same time as discontinuing the minimum exchange rate, the SNB will be lowering the interest rate for balances held on sight deposit accounts to –0.75% from 22 January. The exemption thresholds remain unchanged. Further lowering the interest rate makes Swiss-franc investments considerably less attractive and will mitigate the effects of the decision to discontinue the minimum exchange rate. The target range for the three-month Libor is being lowered by 0.5 percentage points to between –1.25% and –0.25%.

Outlook for inflation and the economy

The inflation outlook for Switzerland is low. In December we presented a conditional inflation forecast, which predicts inflation of –0.1% for this year. Since this forecast was published, the oil price has once again fallen significantly, which will further dampen the inflation outlook for a time. However, lower oil prices will stimulate growth globally, and this will influence economic developments in Switzerland positively. Swiss franc exchange rate movements also impact inflation and the economic situation.

The SNB remains committed to its mandate of ensuring medium-term price stability while taking account of economic developments. In concluding, let me emphasise that the SNB will continue to take account of the exchange rate situation in formulating its monetary policy in future. If necessary, it will therefore remain active in the foreign exchange market to influence monetary conditions.

Thank you very much for your attention. I will now be happy to answer your questions.