Thomas Jordan: The Swiss economy in a weakened world

Summary of a speech by Mr Thomas Jordan, Chairman of the Governing Board of the Swiss National Bank, at the General Meeting of the Federation of the Swiss Watch Industry, Lausanne, 25 June 2015.

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

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Since summer 2007, the global economy has been in a state of near-permanent crisis. What began as a subprime crisis triggered the banking and financial crisis, leading to a deep recession. This culminated in the European debt crisis. The current strength of the Swiss franc is a reflection of this global crisis, and highlights the franc's status as a safe haven, which is especially pronounced in times of high global uncertainty.

The Swiss National Bank (SNB) has responded to the appreciation pressure by taking exceptional measures. In terms of Switzerland's economic activity and the SNB's balance sheet, no other country has seen its monetary policy so highly exposed. The decision to discontinue the minimum exchange rate was prompted by renewed changes in international conditions, particularly the growing divergence between the monetary policy stances of the world's main currency blocks. Had the SNB delayed its decision, it would have lost control of monetary policy and would have had to discontinue the minimum exchange rate at a later date under much less favourable conditions.

The end of the minimum exchange rate has major repercussions for the Swiss economy, and it was by no means an easy decision for the SNB. Yet this is not the first time that the Swiss economy has had to react to shocks and changes in the international environment, and the experience was often painful. The example of the watch industry shows that even a severe crisis can be overcome. Unfortunately, this example is not readily transferable to other export industries. Many companies currently find themselves compelled to seek cost reductions and efficiency gains.

The economic outlook depends to a great extent on global economic developments. In its latest monetary policy assessment, the SNB is projecting that momentum in the global economy will pick up again. This should cushion the impact of the exchange rate shock somewhat, and allow Switzerland to return to positive growth in the second half of the year. While inflation has dropped well into negative territory, as things currently stand, a sustained price decline - or, indeed, a deflationary spiral - is not to be expected.

Overall, the Swiss franc is currently significantly overvalued. Monetary policy is geared towards this challenging set of circumstances, and is guided by the SNB's willingness to take an active role in the foreign exchange market and apply negative interest rates. This two-pronged approach is designed to ease the upward pressure on the Swiss franc. However, in the current climate there is, regrettably, no easy solution that would absorb all external disruptions. We must accept these challenging economic conditions for the time being.

The SNB is aware that many companies find themselves in a difficult situation. And it has great respect for the challenges facing Switzerland's businesses and their staff.