
Introductory remarks by Thomas Jordan

Ladies and gentlemen

It is a pleasure for me to welcome you to the Swiss National Bank's news conference. I will begin by explaining our monetary policy decision and our assessment of the economic situation. I will then hand over to Fritz Zurbrügg, who will speak about current developments in the area of financial stability and announce the dates for the release of the new 20-franc banknote. After that, Andréa Maechler will review the situation on the financial markets and discuss the impact of negative interest on the money and capital markets. Finally, we will – as ever – be pleased to take your questions.

Monetary policy decision

Let me begin with our monetary policy decision and the inflation forecast.

Our monetary policy remains expansionary and continues to be based on two elements: the negative interest rate and our willingness to intervene in the foreign exchange market. We are leaving interest on sight deposits at the SNB at -0.75% and the target range for the three-month Libor will remain unchanged at between -1.25% and -0.25% . At the same time, we will remain active in the foreign exchange market as necessary, while taking the overall currency situation into consideration.

The SNB's expansionary monetary policy is aimed at stabilising price developments and supporting economic activity. The negative interest rate and our willingness to intervene in the foreign exchange market are intended to make Swiss franc investments less attractive, thereby easing pressure on the currency. The Swiss franc is still significantly overvalued.

Compared to September, the new conditional inflation forecast has been revised slightly downwards in the short term. This mainly reflects the fact that inflation in October and

News conference

November was somewhat lower than expected. However, our expectations for the medium-term development of inflation remain essentially unchanged.

We continue to anticipate an inflation rate of -0.4% for the current year. For 2017, the inflation forecast is down to 0.1% , from 0.2% in the previous quarter. For 2018, we now expect inflation of 0.5% , compared to 0.6% in the third quarter. The conditional inflation forecast is based on the assumption that the three-month Libor remains at -0.75% over the entire forecast horizon.

Global economic outlook

I would now like to turn to economic developments abroad, as these have a considerable bearing on the inflation and economic outlook in Switzerland.

Since the last monetary policy assessment in September, the global economy has developed in line with our expectations. It has continued to recover and capacity utilisation in many countries is improving gradually. This is especially evident in the labour market, where job numbers are on the rise and unemployment is declining. However, global economic growth is moderate and not yet broad-based. International trade and demand for investment in particular continue to be subdued. Inflationary pressure abroad also remains low. Although higher energy prices are currently resulting in a marked increase in inflation, core inflation remains at a low level in a number of countries and central banks are thus maintaining their expansionary monetary policy course.

Among advanced economies, the economic cycle has progressed furthest in the US. Third-quarter GDP growth in the US was again significantly above potential. Private consumption was once more the driving force. The situation on the labour market continued to improve as well; the US economy has now almost reached full employment. This is also reflected in more robust real wage growth. Inflation is now close to the target set by the US Federal Reserve. Against this backdrop, the Federal Reserve decided yesterday to raise its key interest rate by 25 basis points. This move is confirmation that – in the Federal Reserve's view – the world's largest economy is gradually emerging from a protracted period of crisis.

The other major economic areas also recorded favourable economic activity in the third quarter. The euro area and Japan continued to register moderate growth, while in China, growth remained strong thanks to a variety of fiscal measures. In the UK, the economic impact of the Brexit decision has so far proved less pronounced than originally feared. However, the country's economic performance is still expected to be impaired by this outcome in the coming quarters.

Our assessment of international economic developments over the next few quarters has remained largely unchanged since September. The SNB expects the moderate pace of global growth to continue in 2017. It is thus likely that the economic situation will continue to improve, particularly in the euro area, and that inflation will also pick up somewhat.

News conference

Our baseline scenario for the global economy is still subject to considerable risks, however. Structural problems in a number of advanced economies – such as a fragile financial system, high public debt and low growth potential – could negatively affect the outlook. Added to this are a multitude of political uncertainties. First, it is unclear what direction economic policy in the US will take following the presidential election. Second, several countries in the euro area have important elections coming up in 2017. And third, exit negotiations between the UK and the EU are likely to be complex and arduous.

Swiss economic outlook

I shall now turn to the economic outlook for Switzerland.

According to an initial quarterly estimate, GDP in Switzerland grew at an annualised rate of 0.2% in the third quarter. This small increase must also be seen in the context of high growth in the second quarter. Year-on-year, GDP rose by 1.3% in the third quarter.

Initial quarterly estimates of the national accounts are uncertain by definition. The SNB therefore takes a wide range of additional information into account when assessing the economic situation. Available indicators suggest that there has been a gradual recovery since mid-2015, which continued in the second half of 2016. A key factor here is improved business and household sentiment in the euro area and other advanced economies, which in turn creates a more favourable environment for the Swiss export industry. Overall, the signals from the economic indicators are consistent with our previous GDP growth forecast of around 1.5% for 2016 as a whole.

Developments on the labour market support this view. Employment statistics show that the number of jobs in Switzerland grew in the third quarter, too. Up until November, the seasonally adjusted unemployment rate for this year was stable at 3.3%.

The outlook for the coming year is cautiously optimistic. Over the course of 2017, export demand looks set to gradually strengthen further. For the export industry, this will mean better capacity utilisation and less pressure on margins. We are also expecting a gradual recovery on the labour market. Various surveys confirm this assessment. Together with our continued expansionary monetary policy, labour market developments should boost domestic demand. Private consumption, too, is likely to once again make a greater contribution to economic growth. Overall, as for 2016, the SNB expects GDP growth for 2017 to be roughly 1.5%.

However, the Swiss economy will also face some major challenges in the coming year. Structural change continues to affect several important industries. Retailing is having to contend with changes both to distribution channels and the spending habits of households. The financial sector will have to push ahead with regulatory adjustments and manage the transition to new business models, while in manufacturing, digitalisation is going to be a particular focus of attention. Our country's future welfare depends critically on how well we master these challenges.

News conference

Exchange rates, interest rates and inflation expectations

I will now review changes to monetary conditions since the middle of the year.

The last half year has been shaped by the surprising outcomes of a number of political events. The Brexit decision led to a significant devaluation of the pound sterling and generated upward pressure on safe-haven currencies. Thanks to our willingness to intervene in the foreign exchange market, we were able to cushion the effect of the additional pressure on the Swiss franc, which can often build up in such phases of increased market volatility. Equally, neither the US elections nor the Italian constitutional referendum caused any significant changes in the value of the franc overall.

On a trade-weighted basis, the real external value of the franc hardly changed over the course of the year. An analysis of nominal exchange rates since our last assessment in June shows that the franc has appreciated slightly against the euro. Against the dollar, meanwhile, it has depreciated somewhat.

One reason for the appreciation of the US dollar against the Swiss franc and most other currencies is the substantial increase in long-term interest rates in the US, particularly following the presidential election. Long-term yields on Swiss Confederation bonds have also risen, but yield increases have been less pronounced here than in the US. The interest rate differential with the US has thus widened. Short-term rates in Switzerland are virtually unchanged, with the yield curve steepening as a result.

Inflation expectations in Switzerland remain stable. Most households, companies and financial analysts anticipate that inflation will be slightly positive in the short to medium term. This view is substantiated in the surveys conducted by the SNB's delegates for regional economic relations. Despite weak inflation in recent years, long-term inflation expectations have changed very little and remain firmly anchored in the range which we equate with price stability.

Monetary policy outlook

Ladies and gentlemen, let me summarise my key points. Even in times of turbulence such as those witnessed in the last six months, our monetary policy has proved its worth. The negative interest rate has partially restored the traditional interest rate differential with other currencies and has thus made Swiss franc investments less attractive. During periods of high volatility, our willingness to intervene in the foreign exchange market has a stabilising effect on the exchange rate. The two elements on which our monetary policy is based – the negative interest rate and our willingness to intervene – are both helping to reduce pressure on the Swiss franc. Thus, despite periods of heightened uncertainty over the last few months, the franc has remained quite stable overall. Furthermore, the negative interest rate has led to lower interest on the capital market, which is facilitating corporate financing.

In other words, our expansionary monetary policy is effective. The negative interest rate and our willingness to intervene in the foreign exchange market continue to be both necessary and

News conference

appropriate. This is because inflation is still very low, production capacity is not yet being fully utilised and the Swiss franc continues to be significantly overvalued. Our monetary policy stabilises price developments and supports economic activity in Switzerland.

Ladies and gentlemen, thank you for your attention. It is now my pleasure to give the floor to Fritz Zurbrügg, who will speak about current developments in the area of financial stability.