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Introductory remarks by Thomas Jordan

Ladies and gentlemen

It is my pleasure to welcome you to the Swiss National Bank's news conference. I will begin by setting out our monetary policy decision and our assessment of the economic situation, and will also be explaining an adjustment to our monetary policy strategy. I will then hand over to Fritz Zurbrügg, who will present this year's *Financial Stability Report*. After that, Andréa Maechler will talk about the situation on the financial markets, the progress made in replacing the Libor, and the SNB joining the Network for Greening the Financial System. Finally, we will – as ever – be pleased to take your questions.

Monetary policy decision and introduction of the SNB policy rate

Let me begin with our monetary policy decision. We are maintaining our expansionary monetary policy. Interest on sight deposits held by banks at the SNB remains at –0.75%, and we will continue to be active in the foreign exchange market as necessary, while taking the overall currency situation into consideration. Our expansionary monetary policy remains necessary. We thereby stabilise price developments and support economic activity.

At our monetary policy assessment we also decided to make a small adjustment to our monetary policy strategy. We are now introducing the SNB policy rate, which will take over the function previously performed by the target range for the three-month Libor. The SNB policy rate currently stands at −0.75%.

The reason for this adjustment is that the future of the Libor is not guaranteed. The UK's Financial Conduct Authority will only ensure that the Libor is maintained through to the end of 2021. The volume of money market transactions underlying the Libor has dwindled. This has also placed a question mark over the basis for its calculation. Given that our monetary policy is focused on the medium term, we are already adjusting our strategy at this juncture.

Our inflation forecast is based on the assumption that a specified interest rate remains unchanged over the entire forecast horizon of three years. The current forecast extends beyond the end of 2021 for the first time. The introduction of the SNB policy rate ensures that it will be based on the same interest rate over the entire horizon.

So what is the SNB policy rate, and what changes does this entail for our monetary policy strategy? In answering these questions, please allow me to give you a brief recap of the three elements of our strategy and explain the impact this adjustment will have.

The first element is our definition of price stability. The SNB equates price stability with a rise in the Swiss consumer price index of less than 2% per annum. Price stability is to be ensured over the medium term. This primary goal of our monetary policy remains unchanged.

The second element is our conditional inflation forecast. This is drawn up quarterly, with each forecast having a horizon of three years. The inflation forecast gives us an indication as to whether our current monetary policy stance is appropriate for keeping future inflation within the range consistent with price stability. It is our compass, so to speak, showing us whether we are heading in the right direction. It plays another important role in that it gives the public an indication with regard to the need for monetary policy adjustments going forward. The inflation forecast is based on the assumption that a given interest rate remains unchanged over the entire forecast horizon. To date this has been the three-month Libor, and from now on it will be the SNB policy rate.

This brings me to the third element of our monetary policy strategy. This determines how we communicate the level of money market rates we seek to maintain. To date, we have used the target range for the three-month Libor for this purpose. We will now do so by setting the SNB policy rate. In implementing our monetary policy, we will ensure that the secured short-term money market rates are close to the SNB policy rate. In this regard, we are focusing on SARON, the most representative of the short-term Swiss franc rates. SARON is an overnight rate. Given that we are now focusing on an overnight rate rather than a three-month rate, there is no further need for a target range. This was previously necessary because expectations regarding future monetary policy could strongly influence the three-month rate.

The SNB policy rate also sets the terms for monetary policy-related transactions with the SNB. The conditions on the money market are currently determined by the interest rate banks pay on their sight deposits at the SNB. We have decided that the interest on these deposits will at present correspond to the SNB policy rate, and will thus remain at −0.75%.

I will now summarise the importance of the SNB policy rate. From this point onwards, we will use the SNB policy rate in taking and communicating our interest rate decisions. Our conditional inflation forecast will now be based on the assumption of an unchanged SNB policy rate over the relevant horizon. The SNB policy rate signals the interest rate level we will seek to maintain on the short-term money market. In assessing the actual conditions on the money market, we are focusing on SARON. The terms for monetary policy-related transactions will be based on the SNB policy rate.

This adjustment does not entail any change in our current monetary policy, and in particular our expansionary stance. The inflation forecast of March 2019 and the new forecast can be directly compared with one another. In the current environment, the assumption of a given interest rate remaining unchanged results in an identical forecast, irrespective of whether it is the SNB policy rate or the three-month Libor that is being kept constant. This also applies to the conditions on the money market. The three-month Libor and SARON are virtually on a par at present. Setting the SNB policy rate at −0.75% therefore means that conditions on the money market remain unchanged.

In my remarks, I have looked at the changeover to the SNB policy rate from the perspective of monetary policy. My colleague Andréa Maechler will talk about the market's transitioning from the Libor to SARON in more detail. We are supporting the work on this transition since representative and reliable reference rates are of pivotal importance for monetary policy and the financial markets alike.

I would now like to return to my explanation of our monetary policy. An expansionary monetary policy remains necessary against the backdrop of the current price and economic developments. On a trade-weighted basis, the Swiss franc is somewhat stronger than in March and is still highly valued. The situation on the foreign exchange market continues to be fragile. The negative interest rate and our willingness to intervene in the foreign exchange market as necessary remain essential in order to keep the attractiveness of Swiss franc investments low and thus ease pressure on the currency.

Looking at the short term, the new conditional inflation forecast is slightly higher than in March. This is primarily attributable to a rise in the prices of imported goods. The longer-term inflation forecast is virtually unchanged. For 2019 it stands at 0.6%, up from the figure of 0.3% last quarter. For 2020, we anticipate an inflation rate of 0.7%, compared to 0.6% last quarter. The forecast for 2021 is 1.1%, 0.1 of a percentage point lower than last quarter. The conditional inflation forecast is based on the assumption that the SNB policy rate remains at –0.75% over the entire forecast horizon.

Global economic outlook

Our inflation forecast is based on assumptions regarding the development of the global economy. The signs from the global economy remain mixed. GDP growth picked up in the first quarter, with all large economies recording above-average expansion. However, manufacturing output again tended to weaken in a number of countries. This has been accompanied by subdued capital spending and a decline in the global trade in goods. The weakening in industrial activity is attributable to various factors, including difficulties faced by specific sectors – in particular the automotive industry – as well as the impact of protectionist measures and increased uncertainty.

On the labour markets, the signals have remained positive overall. Employment figures have risen again in the advanced economies. Unemployment has continued to decline, and is now at or close to historic lows. This favourable situation on the labour market is supporting consumer demand.

In our baseline scenario for the global economy, we expect growth in the coming quarters to remain in line with potential. In the advanced economies, expansionary monetary policy is lending support, as is fiscal policy in some countries. Inflationary pressure is likely to remain moderate.

The risks to this baseline scenario for the global economy are still to the downside. However, they are more pronounced than at our previous monetary policy assessment. Chief among them are political uncertainty and trade tensions, which could lead to renewed turbulence on the financial markets and a further dampening of economic sentiment.

Swiss economic outlook

I shall now turn to the economic outlook for Switzerland. The Swiss economy also gathered momentum at the beginning of the year. According to the initial estimate, GDP grew by 2.3% in the first quarter. Growth was broad-based across the different sectors of the economy. Labour market developments were also positive. Employment figures continued to rise, and the unemployment rate remained stable at a low level. Production capacity in Switzerland was well utilised overall.

As regards the developments in the second quarter and the months thereafter, the surveys and leading indicators are currently presenting a mixed picture. All in all, however, they point towards momentum remaining favourable. Even in manufacturing, which is likely to be affected most directly by weaker industrial activity, expectations are that the business situation will continue to improve. Companies' plans regarding capital spending and recruitment also remain positive, which offers further grounds for confidence. Against this backdrop, we continue to expect the economy to grow by around 1.5% in 2019.

As is the case with the global economy, the risks for this scenario remain to the downside. In particular, an unexpectedly sharp slowdown internationally would quickly spread to Switzerland.

Exchange rates, interest rates and inflation expectations

Let me now move on to address monetary conditions – that is to say, exchange rates and interest rates – as well as inflation expectations. My comments here relate to the developments since our last news conference in December, and not just those during the past quarter.

Monetary conditions are similar today to six months ago. The Swiss franc remains highly valued. The situation on the foreign exchange market is still fragile. When the trade dispute between the US and China escalated again in May, the Swiss franc and the Japanese yen appreciated. Both currencies are sought after as safe havens in periods of uncertainty. In light of the high valuation of the franc and the fragility of the situation, our willingness to intervene remains necessary, as does the negative interest rate.

This brings me to the development of interest rates since December. At the beginning of the year, the US Federal Reserve signalled that it would be patient with regard to raising interest rates further. Since then, long-term rates in the US as well as in Switzerland and the euro area have continued to decline, as they have been doing since autumn 2018. The yield on 10-year Swiss Confederation bonds currently stands at –0.45%, around 35 basis points lower than in December. The global decline in long-term interest rates reflects the heightened risks.

Finally, inflation expectations have declined slightly in Switzerland by comparison with December. However, they remain within the range of 0% to 2% that we equate with price stability.

Monetary policy outlook

Ladies and gentlemen, allow me to summarise the key messages with regard to our monetary policy. Inflation and inflation expectations in Switzerland are consistent with our definition of price stability. The conditional inflation forecast for the current year is slightly higher than in March, but it remains essentially unchanged looking at the medium term. Our economy is likely to grow by around 1.5% this year. However, the risks are to the downside. The Swiss franc remains highly valued, and the situation on the foreign exchange market is still fragile.

Against this backdrop, our expansionary monetary policy remains necessary. With the negative interest rate and our willingness to intervene in the foreign exchange market as necessary, we support economic activity and ensure price stability.

Ladies and gentlemen, thank you for your attention. It is my pleasure to give the floor to Fritz Zurbrügg.