Berne, 12 December 2019
Thomas Jordan

Introductory remarks by Thomas Jordan

Ladies and gentlemen

It is my pleasure to welcome you to the Swiss National Bank's news conference. As usual, I will begin by explaining our monetary policy decision and presenting our assessment of the economic situation. I will also be addressing three additional subjects: five years of negative interest, the possible consequences of climate change for the SNB in fulfilling its mandate, and a study on the methods behind our company talks.

After my remarks, Fritz Zurbrügg will report on the developments in the area of financial stability, and Andréa Maechler will then talk about the situation on the financial markets. We will – as ever – be pleased to take your questions afterwards.

Monetary policy decision

I will begin with our monetary policy decision.

We are keeping the SNB policy rate and interest on sight deposits at the SNB at −0.75%. We remain willing to intervene in the foreign exchange market as necessary, while taking the overall currency situation into consideration. Our expansionary monetary policy continues to be necessary given the inflation outlook in Switzerland.

The trade-weighted exchange rate of the Swiss franc is practically unchanged compared with September 2019. The franc thus remains highly valued, and the situation on the foreign exchange market is still fragile. Negative interest and the willingness to intervene counteract the attractiveness of Swiss franc investments and thus ease the upward pressure on the currency. In this way, the SNB stabilises price developments and supports economic activity.

The new conditional inflation forecast for the coming quarters is slightly lower than in September. The longer-term forecast is virtually unchanged. For 2019 the forecast stands at

0.4%, for 2020 at 0.1% and for 2021 at 0.5%. 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

International trade tensions and political uncertainty have weighed on the global economy in recent months. Accordingly, economic growth around the world was again slightly below average in the third quarter. The increase in manufacturing output was modest in many countries, this being accompanied by subdued capital spending and lacklustre global trade in goods. Against this backdrop, employment growth in the advanced economies was slower than a few quarters ago, and unemployment fell only slightly. However, it is already very low in many countries, and is thus lending support to consumer demand.

Various central banks eased their monetary policy in the autumn in light of modest inflation and the economic risks. Moreover, they signalled that they would probably leave their policy rates at a low level for an extended period of time.

The SNB is maintaining its existing baseline scenario for the global economy, and expects momentum to remain modest over the short term. The monetary policy easing is likely to contribute to the economy – and thus also inflation – picking up again over the medium term.

Risks to the global economy remain tilted to the downside. Chief among them are still trade tensions and the possibility of the persisting weakness in manufacturing activity spreading to the economy as a whole.

Swiss economic outlook

According to the initial estimate, the Swiss economy grew by 1.6% in the third quarter. This growth was primarily driven by manufacturing, where value added increased significantly thanks to strong growth in the exports of pharmaceutical products. The other industries in the manufacturing sector recorded a more modest expansion, in line with the slowdown in manufacturing worldwide. The labour market continues to be a mainstay of the economy. Employment figures rose again slightly, and the unemployment rate persisted at a low level through to November.

GDP is likely to expand by around 1% in 2019, and the SNB expects growth of between 1.5% and 2% in 2020. The stronger expansion next year reflects the gradual firming expected in global economic activity as well as an exceptional effect. The latter stems from the fact that the forecast includes the revenue generated by major international sporting events, which is likely to increase growth by around half a percentage point.

Monetary situation 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.

The external value of the Swiss franc has remained stable since the monetary policy assessment in September. There has also been scarcely any change in the trade-weighted exchange rate over 2019 as a whole, although it initially declined before appreciating again in the summer. The Swiss franc thus remains highly valued, and the situation on the foreign exchange market is still fragile.

Short-term interest rates are close to the SNB policy rate. The long-term Swiss franc rates reached new lows in the summer, and have recovered only slightly since. This pattern reflects global interest rate movements. The yield on 10-year Swiss Confederation bonds currently stands at –0.5%, compared with –0.2% at the beginning of the year. The long-term interest rates in the euro area and the US have declined even more strongly. All in all, the low interest rate environment around the world has become more entrenched over the course of 2019.

Finally, inflation expectations have declined slightly in Switzerland by comparison with the start of the year. However, they remain within the range of 0% to 2% that the SNB equates with price stability.

Five years of negative interest

Ladies and gentlemen, the SNB introduced the negative interest rate five years ago. Hardly anyone thought then that it would still be in place at the end of 2019. I would therefore like to take this opportunity to set out for you why we are convinced that negative interest remains necessary today.

As a rule, Switzerland has lower interest rates than other countries, one of the reasons for this being that investors value the security of Swiss franc investments. Following the outbreak of the financial crisis, many central banks quickly lowered their policy rates towards zero. This meant Swiss money market rates were practically at the same level as those of other countries. Amid the prevailing uncertainty at that time, the demand for Swiss francs rose sharply. To counter the extreme upward pressure, and thus ward off the threat of a severe recession coupled with deflation, we introduced the minimum exchange rate in 2011. This initially brought calm to the situation.

Owing to international developments, it became apparent at the beginning of 2015 that the minimum exchange rate was no longer sustainable. To limit the appreciation of the Swiss franc after its discontinuation, we set a negative interest rate of −0.75%. The impact of negative interest proved considerable, as it helped stabilise the exchange rate situation in short order. Without it, the franc would have been significantly stronger in recent years, which would have been highly detrimental to the Swiss economy and would have jeopardised price stability.

And, ladies and gentlemen, negative interest remains central to our monetary policy to this day. If we were to dispense with it, Swiss interest rates would increase compared to those of other countries, Swiss franc investments would be markedly more attractive, and we would have to expect a marked and rapid appreciation in our currency. Inflation would thus fall significantly into negative territory, and the economy would be slowed.

But why are interest rates so low in the first place? This is in some part due to the expansionary monetary policy. However, the main reason is that for some time saving has been increasing worldwide, with comparatively little investment being made. The high saving rate is largely attributable to demographics. The dearth of investment is due, among other things, to low productivity gains. Both these factors have been heightened by the prevailing uncertainty since the onset of the financial crisis. If there is more saving and less investment, the interest rate at which the economy is in equilibrium falls. Switzerland cannot distance itself from this global development.

Central banks set their policy rates relative to this equilibrium interest rate. To have an expansionary effect, a policy rate must be lower than the equilibrium interest rate. And if the latter is very low, it can be that the policy rate has to be lowered below zero. Unusual though they may be, ladies and gentlemen, negative interest rates are nonetheless necessary in the current situation if we are to fulfil our mandate against the backdrop of low interest rates worldwide.

At the same time, low interest rates do give rise to certain challenges. Negative interest therefore also attracts criticism. That said, we are convinced that the benefits clearly hold sway. Our assessment centres on the fact that we take an overall view, and seek to serve the interests of the country as a whole.

From the perspective of savers and pension funds, the present situation with low interest income is, of course, difficult. You might think that the SNB could simply remedy this. But let us assume that we were to raise the SNB policy rate to zero in the current situation. The economy would cool down dramatically, inflation would fall well into negative territory, and unemployment would rise. In such an environment, there would be scarcely any increase in longer-term interest rates. Furthermore, we would probably soon have to lower our policy rate again given the economic slowdown and lower inflation. Hence any gains in income for savers and pension funds would not be sustainable.

From the banks' perspective, negative interest rate payments to the SNB are a cost factor. We are aware of the burden this represents. That is why in September we adjusted our calculation of the exemption thresholds in such a way that the payments made by the banking system have nearly halved. We do not burden the banking system any more than is necessary for us to be able to steer short-term money market rates.

Ladies and gentlemen, we monitor the impact of negative interest precisely, and we take the side-effects seriously. However, we remain convinced that the benefits it brings Switzerland as a whole clearly outweigh the costs. The negative interest rate and the willingness to intervene are currently the best instruments for ensuring appropriate monetary conditions and thus securing price stability and supporting the economy.

Monetary policy outlook

Allow me to summarise the key messages with regard to our monetary policy. We anticipate that our economy has expanded by around 1% this year. We are expecting growth of between 1.5% and 2% next year. Inflation expectations are within the range consistent with price stability. The conditional inflation forecast for the coming quarters is slightly lower than in September, but it is essentially unchanged in the longer term. 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 appropriate.

Monetary policy and climate change

This brings me now to the significance of climate change for the SNB. When it comes to this key issue, we are focused first and foremost on being able to properly assess the possible consequences for the functioning of economies and financial systems, both in Switzerland and worldwide.

Broadly speaking, climate change can affect monetary policy in two ways. On the one hand, it can lead to structural changes in the economy. This rather slow and steady process must be taken into account in our forecasting models over the course of time. On the other hand, regulatory climate protection measures can lead to sudden changes in the prices of important goods. The SNB analyses the impact that both these types of change have on growth and inflation, and the resultant consequences for monetary policy.

The dialogue we have within the framework of the Central Banks' and Supervisors' Network for Greening the Financial System also helps us in this respect. The SNB is actively involved in NGFS working groups that address monetary policy, financial stability and investment policy aspects. We also regularly exchange information on climate-related issues with other institutions. My two colleagues will talk about climate change from the perspective of financial stability and investment policy afterwards.

Study on the methods used in the SNB's company talks

I would now like to talk about an additional document that you will find in your press kits, namely a study looking at the methods the SNB's delegates use in carrying out their discussions with companies.

As you know, our delegates for regional economic relations regularly conduct talks with managers of companies throughout Switzerland. These provide us with a timely, first-hand account of the latest cyclical and structural developments in the Swiss economy. A summary of the results has for some time now been published in our quarterly Business Cycle Signals report. The enclosed study explains the objectives and the methods underlying these company talks.

You will also find the latest issue of the Business Cycle Signals in your press kits. Both of these sources of information are, of course, also available on our website.

News conference

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