Martin Schlegel: Price stability benefits all

Speech by Mr Martin Schlegel, Chairman of the Governing Board of the Swiss National Bank, at the 117th Ordinary General Meeting of Shareholders of the Swiss National Bank, Berne, 25 April 2025.

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Madam President of the Bank Council
Dear Shareholders
Dear Guests

Welcome to the General Meeting of Shareholders of the Swiss National Bank. I am delighted to be able to speak to you here today. The challenging times we are currently experiencing make it all the more pleasant to come together for this occasion.

I have brought a 20-centime coin with me today, which I received as change not so long ago. It was minted in 1881, so it has been in use for over 140 years. It will certainly have experienced a lot over all those years and will have seen the inside of countless wallets throughout Switzerland – and perhaps even the world. It is somewhat worn as a result, but otherwise looks like the newest 20-centime coins.

Some of you may now be thinking that the purchasing power of this coin today is no longer the same as it was in 1881. And you are, of course, right. But the mere fact that it is still in circulation impresses me. For the time that has passed since it was struck spans not only many decades but also encompasses extraordinary political and world-historical events. Think, for example, of the two world wars or the fall of the Berlin Wall.

This coin thus epitomises the long-term stability of Switzerland – political stability, institutional stability and price stability. Price stability is the key contribution that the SNB can make to the stability of Switzerland. This also holds true in the current environment.

The trade policy situation at present is creating high uncertainty for all the countries affected – Switzerland included. The uncertainty relates to both the economic outlook and longer-term implications such as a possible fragmentation of the global economy. As a small open economy, Switzerland feels the effects of protectionism particularly hard.

This environment also presents a challenge for the SNB. However, the SNB must fulfil its mandate also in times of uncertainty and change. That is to say, it must ensure price stability while taking due account of economic developments. Price stability is an important prerequisite for our country to be able to prosper. Stable and favourable framework conditions are more important now than ever before. This brings me to the subject of my speech. I would like to answer some fundamental questions today: Why is price stability so important? How can the SNB ensure it? And finally, what monetary policy has enabled the SNB to safeguard price stability in recent years?

Focus on the overall interests

Ladies and gentlemen, let me begin by setting out what the SNB's monetary policy aims to achieve. Article 99 of the Federal Constitution states that the SNB shall pursue a monetary policy that serves the overall interests of the country, i.e. focused on the interests of Switzerland as a whole. The SNB's monetary policy may therefore not give consideration to individual industries or sections of the population, and must instead be oriented towards the country in its entirety.

How can the SNB act in the overall interests of the country? Article 5 of the National Bank Act gives us the answer: The SNB shall ensure price stability. In so doing, it shall take due account of economic developments. Fulfilling this mandate is the best way that the SNB can serve the interests of the country as a whole, and thus of us all. It is simple to explain why this is the case.

First, price stability makes purchasing and investment decisions easier – this is, for instance, true for people buying their own home and for companies investing in new machinery. Price stability also helps the public sector, for example when it comes to budget planning. Stable prices provide planning security. Planning security promotes saving and investing, which in turn lays the foundations for growth and progress, thus generating new jobs and innovation. If the opposite is the case, namely if inflation is too high or too low, this creates uncertainty and thus curbs economic activity. Of course, price stability alone does not automatically result in investment. Uncertainty, such as we are currently experiencing with regard to trade policy, can lead to hesitancy in purchasing and investment decisions, even if price stability is maintained. Uncertainty is anathema to economic activity. Price stability cannot prevent trade policy uncertainty. However, stable prices are an important basis for the smooth functioning of the economy.

Price stability is also an important basis for politicians to be able to perform their tasks as well as possible. If inflation rises, it quickly becomes the most important concern on people's minds. We saw this during the recent wave of inflation, when household purchasing power fell noticeably in many countries owing to significantly higher prices.

This brings me to my second point. Price stability is also highly relevant for social cohesion in our country. It ensures that wages, pensions and savings retain their purchasing power – which is particularly important for low-income households. By contrast, high inflation erodes purchasing power, and the people hit hardest are those who are the most vulnerable financially.

Ladies and gentlemen, as you can see, the most important contribution the SNB can make to growth and prosperity in our country is to ensure price stability. Of course, price stability is only one of the necessary requirements for growth and prosperity, and not sufficient in and of itself.

How do we stay on course?

So how do we ensure price stability? We are guided by our monetary policy strategy, which provides the framework for how we implement our monetary policy mandate. It defines what we understand by price stability, namely inflation between 0% and 2%. All values within that range are consistent with price stability. This definition gives us a certain flexibility, as we do not want to target a specific value for inflation. This flexibility is essential especially for a small open economy such as ours, with Switzerland being particularly strongly exposed to global economic developments. In ensuring price stability, we always focus on the medium term. This means that we can allow inflation to temporarily move outside our range, i.e. below 0% or above 2%.

Allow me to illustrate how we make our monetary policy decisions with the help of a simple image. Imagine the SNB as a big ship. The ship has set course for price stability, but on the high seas there are currents, strong waves and storms that threaten to divert it from its destination. And there have been numerous global disruptions in recent years: the financial crisis, the euro debt crisis, Brexit, the coronavirus pandemic, the Russian attack on Ukraine and the current trade policy situation.

No matter how rough the waters are, the SNB must remain on course. To this end, we regularly carry out a comprehensive reassessment of the monetary policy situation. In doing so, we check whether our bearings are still correct. Specifically, we examine whether monetary conditions are still appropriate to ensure price stability. Monetary conditions result from the interest rate level and the Swiss franc exchange rate. If they are not compatible with price stability over the medium term, we have to adjust them accordingly. Or to return to the image of the ship: We turn the wheel.

Our main instrument here is the SNB policy rate. Changes to the policy rate affect the interest rate level and Swiss franc exchange rate – in other words, the monetary conditions that are decisive for our assessment. If necessary, we can also use other measures to ensure price stability, for example foreign exchange market interventions. It is always about adjusting monetary conditions. In other words, it is not about achieving a specific exchange rate target. In principle, Switzerland has flexible exchange rates. However, if exchange rate movements influence monetary conditions in such a way that price stability is threatened, then we react. To sum up, we can use both of these measures – i.e. the SNB policy rate and, if necessary, foreign exchange market interventions – to adjust monetary conditions in Switzerland. In doing so, we ensure price stability over the medium term.

Having discussed our aim, as well as our instruments and how we use them, I would now like to address uncertainty – an important aspect that constantly accompanies our work at the SNB, although generally not as markedly as in recent weeks. To maintain the maritime metaphor, the weather is hard to predict at times on the high seas.

How do we at the SNB deal with uncertainty? We tackle it with a risk management approach. This means that we think in terms of scenarios for the future development of inflation and the economy. We weigh up our respective courses of action and choose the option that delivers good results for a range of different scenarios.

Another important consideration with regard to monetary policy is timing, given that it takes time for our decisions to take full effect. Monetary policy therefore requires foresight. A ship also reacts only sluggishly to turns of the wheel. If we identify a need to act on our monetary policy stance, we have to do so resolutely. Putting off a necessary decision does not give you any additional room for manoeuvre – on the contrary: delaying monetary policy decisions entails the risk of second-round effects taking hold, i.e. of prices rising or falling because other prices have moved beforehand. In such circumstances, it becomes more difficult to bring inflation under control.

Our monetary policy stance in the recent past

I would now like to turn to the SNB's monetary policy in recent years. As inflation increased after the pandemic, we raised the SNB policy rate at an early stage and sold foreign currency. This enabled us to combat inflation quickly. From summer 2023, we did not tighten our monetary policy further as inflationary pressure was decreasing. When inflation declined last year and the conditional inflation forecasts also showed a significant reduction in medium-term inflationary pressure, we reacted decisively and lowered the SNB policy rate in several steps. This easing helped to prevent inflation from weakening too sharply in the medium term.

We eased our monetary policy further at the assessment in March, lowering the SNB policy rate by 0.25 percentage points to 0.25%. We also confirmed our willingness to intervene in the foreign exchange market as necessary. With this rate cut, we are taking account of the still weak inflationary pressure and elevated downside risks for inflation. At the same time, we are supporting the development of the Swiss economy.

The uncertainty surrounding the trade policy situation is very high. At this stage, it is only possible to make a rough estimate of the impact on the Swiss economy and inflation in Switzerland. It remains very uncertain how inflation and the economy in Switzerland will develop. However, an economic slowdown cannot be ruled out. Growth is likely to be lower than was expected just a few weeks ago. The SNB is closely monitoring the situation and further developments, and will take them into account in its analyses and forecasts. We will adjust our monetary policy if necessary, to ensure price stability in the future as well.

It is not only the short-term implications for the Swiss economy that are uncertain. There is also uncertainty regarding the longer-term consequences, such as a possible reduction in global economic integration. Various events of late have already highlighted the possibility of an increasing fragmentation of the world economy, such as Russia's attack on Ukraine or the coronavirus pandemic, which weighed on global supply chains.

Central banks cannot shape the global trading system. They cannot prevent tariffs or protectionism in general. However, the SNB must always adapt to new situations and address their impact. This is the only way to ensure that it can fulfil its mandate, also in difficult circumstances.

Ladies and gentlemen, this brings me back to the 20-centime coin that I have brought with me to the General Meeting of Shareholders today. This coin should continue to retain its value – not because of the coin itself, but because price stability is in the interests of Switzerland as a whole and benefits us all.

Thank you for your attention.

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