News conference

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Introductory remarks by the Governing Board

Thomas Jordan, Martin Schlegel and Antoine Martin

Chairman of the Governing Board / Vice Chairman of the Governing Board / Member of the Governing Board
Swiss National Bank
Zurich, 20 June 2024

Ladies and gentlemen

As Chairman of the Governing Board, it is my pleasure to welcome you to the news conference of the Swiss National Bank. I would also like to welcome all those who are joining us today online. After our introductory remarks, we will take questions from journalists as usual. Questions can also be asked by telephone.

Monetary policy decision

I will begin with our monetary policy decision. We have decided to lower the SNB policy rate by 0.25 percentage points to 1.25%. The change applies from tomorrow, 21 June 2024. Banks' sight deposits held at the SNB will be remunerated at the SNB policy rate up to a certain threshold, and at 0.75% above this threshold. We are also willing to be active in the foreign exchange market as necessary.

The underlying inflationary pressure has decreased again compared to the previous quarter. With today's lowering of the SNB policy rate, we are able to maintain appropriate monetary conditions. We will continue to monitor the development of inflation closely, and will adjust our monetary policy if necessary to ensure inflation remains within the range consistent with price stability over the medium term.

Inflation forecast

Allow me to address the development of inflation in more detail. Inflation has risen slightly since the last monetary policy assessment, as we expected at the time, and stood at 1.4% in May. Higher inflation in rents, tourism services and oil products has contributed in particular to this increase. Overall, inflation in Switzerland is currently being driven above all by higher prices for domestic services.

Taking into account today's policy rate cut, our new conditional inflation forecast is similar to that of March. Over the longer term, it is slightly below the previous forecast. This reflects somewhat lower second-round effects. Over the entire forecast horizon, the conditional inflation forecast is within the range of price stability (cf. chart). The forecast puts average annual inflation at 1.3% for 2024, 1.1% for 2025 and 1.0% for 2026 (cf. table). It is based on the assumption that the SNB policy rate is 1.25% over the entire forecast horizon. Without today's rate cut, the forecast would have been lower.

Global economic outlook

Let me now turn to the global economic outlook. Global economic growth was solid in the first quarter of 2024. In Europe, the economy gained momentum somewhat following the stagnation of previous quarters. In the US, economic activity remained robust despite a slowdown in growth.

Inflation largely moved sideways over the past months, and remained above central banks' targets in many countries. However, the underlying inflationary pressure continued to decrease slightly. Against this background, some central banks eased their monetary policy for the first time following the tightening cycle of the past two years. However, monetary policy remains restrictive in many countries.

Inflationary pressure abroad is likely to continue to ease gradually over the next quarters. At the same time, the global economy is likely to pick up somewhat. Consumers' purchasing power should gradually recover and the dampening effect of the monetary policy tightening should ease slowly. However, for the coming quarters we expect only moderate growth in global economic activity by longer-term comparison.

Our scenario for the global economy is still subject to significant risks. Inflation could remain elevated for longer in some countries, necessitating a tighter monetary policy there than expected in our baseline scenario. Equally, a renewed increase in geopolitical tensions could result in weaker development of global economic activity.

Swiss economic outlook

How does the economic situation look in Switzerland? GDP growth was moderate in the first quarter of 2024. The services sector continued to expand, while value added in manufacturing stagnated. This stagnation was above all attributable to the subdued momentum in the manufacturing sector globally. There was a further slight increase in unemployment. The utilisation of overall production capacity was normal.

Growth is likely to remain moderate in Switzerland in the coming quarters. We anticipate GDP growth of around 1% this year. In this environment, unemployment is likely to continue to rise slightly, and the utilisation of production capacity is set to decline slightly. Over the medium term, economic activity should improve gradually, supported by somewhat stronger demand from abroad. We currently expect growth of around 1.5% for 2025.

Our forecast for Switzerland, as for the global economy, is subject to significant uncertainty. Developments abroad represent the main risk.

Monetary policy outlook

Ladies and gentlemen, allow me to return to our monetary policy.

As we expected at the monetary policy assessment in March, inflation has risen slightly in recent months. However, the underlying inflationary pressure has decreased further compared with the previous quarter owing to somewhat lower second-round effects. With today's lowering of the SNB policy rate, we are able to maintain appropriate monetary conditions. Forecasted inflation is within the range of price stability over the entire forecast horizon.

Let me now say a few words about the exchange rate. The Swiss franc depreciated from January to the end of May. However, it has increased in value again significantly in the past weeks. The recent appreciation is above all attributable to political uncertainties in Europe.

This, too, is contributing to uncertainty about the development of inflation remaining elevated. We will therefore continue to monitor the situation closely and use our monetary policy measures to ensure that inflation remains within the range consistent with price stability on a sustainable basis over the medium term. We also remain willing to be active in the foreign exchange market as necessary.

Ladies and gentlemen, thank you for your attention. I will now hand over to Martin Schlegel.

Financial Stability Report

The SNB published its latest Financial Stability Report today. In this report we explain our assessment of the stability of the Swiss banking sector.

Over the last year, the Swiss banking sector has strengthened its resilience. Thanks to increased profits, the banks were able to build up their capital buffers overall. We welcome the strengthening of resilience given the prevailing risks. I would like to discuss four risks in particular.

First, the crisis at Credit Suisse revealed weaknesses in the regulations. The Federal Council's report on banking stability identifies measures to remedy these weaknesses. We support the measures and are involved in their development. In the area of capital, proposed measures include strengthening the capital backing of participations and the loss-absorbing capacity of AT1 capital instruments. This would ensure that the regulatory capital figures better reflect a bank's actual loss-absorbing capacity. Furthermore, these capital figures should be complemented by forward-looking elements such as market indicators and stress tests.

Second, the mortgage and real estate markets continue to pose significant risks. This concerns the domestically focused banks in particular, since their main business is granting mortgages. With the rise in interest rates, growth in mortgage lending has declined and price momentum on the real estate market slowed. At the same time, however, mortgage affordability risks persist. Moreover, the vulnerability of the real estate market to price corrections remains elevated.

Third, last year's bank crises highlighted liquidity risks. Even when banks have large liquidity buffers, they can still face substantial liquidity risks due to their short-term funding. Banks finance themselves largely through deposits, which can be rapidly withdrawn. Regulations should provide incentives for longer-term funding. In addition, banks should prepare more collateral for obtaining liquidity assistance. More stable funding and better preparation for obtaining liquidity strengthen the resilience of the banking sector.

And finally, let me turn to operational risks in the financial system. Banks and financial market infrastructures are increasingly exposed to cyber risks. Moreover, a rise in the outsourcing of functions to third-party providers can lead to banks becoming more dependent on unregulated providers. It is important that financial market participants adequately manage their operational risks.

I will now hand over to Antoine Martin.

Zurich, 20 June 2024
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Continuation and expansion of Project Helvetia pilot

I would now like to give you some news about the SNB's Project Helvetia III. As you know, since 1 December 2023, the SNB has been providing wholesale central bank digital currency (wholesale CBDC) as part of this innovative project. It issues this wholesale CBDC on the regulated SIX Digital Exchange (SDX), which uses distributed ledger technology. Digital (token-based) Swiss franc bond transactions can thus be settled in central bank money directly on SDX. With Project Helvetia III, the SNB is playing a globally leading role in deploying wholesale CBDC in a live production environment.

Six banks are participating in the current Project Helvetia III pilot: Banque Cantonale Vaudoise, Basler Kantonalbank, Commerzbank, Hypothekarbank Lenzburg, UBS and Zürcher Kantonalbank. These banks have to date settled six digital bond issuances. The cantons of Basel-Stadt and Zurich, the cities of Lugano and St Gallen, as well as UBS and the World Bank have each issued a bond on SDX as part of the pilot project. The total value of transactions settled is around CHF 750 million.

At the beginning of June, the SNB became the world's first central bank to carry out a monetary policy operation in a live production environment using distributed ledger technology. Specifically, we successfully issued digital SNB Bills on SDX. These token-based SNB Bills (issued volume: CHF 64 million) had a term of one week.

Project Helvetia III has been very successful to date. The SNB has therefore decided to continue the pilot project for at least two more years and to broaden its scope. The SNB hopes that additional financial institutions will participate over time and that wholesale CBDC can be made available for a wider range of financial transactions. The financial institutions will be informed in due course about how they can participate.

By continuing the Project Helvetia pilot, the SNB is supporting private-sector innovation. The future success of the pilot project will largely depend on whether new financial market participants join, whether the volume of transactions increases, and whether additional financial market transactions are settled on this platform.

The pilot does not constitute a commitment on the part of the SNB to introduce wholesale CBDC or digital SNB Bills on a permanent basis.

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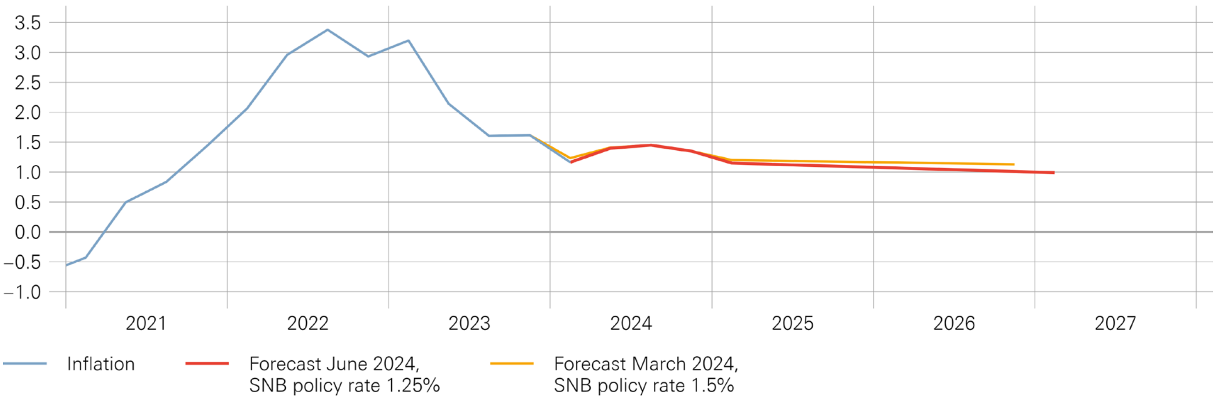
CONDITIONAL INFLATION FORECAST OF JUNE 2024

Year-on-year change in Swiss consumer price index in percent



Source(s): SFSO, SNB

OBSERVED INFLATION IN JUNE 2024

	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2021	2022	2023
Inflation	−0.4	0.5	0.8	1.4	2.1	3.0	3.4	2.9	3.2	2.1	1.6	1.6	1.2				0.6	2.8	2.1

Source(s): SFSO

CONDITIONAL INFLATION FORECAST OF JUNE 2024

	2024 Q1	2024 Q2	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025 Q3	2025 Q4	2026 Q1	2026 Q2	2026 Q3	2026 Q4	2027 Q1	2027 Q2	2027 Q3	2027 Q4	2024	2025	2026
Forecast March 2024, SNB policy rate 1.5%	1.2	1.4	1.5	1.4	1.2	1.2	1.2	1.2	1.2	1.2	1.1	1.1					1.4	1.2	1.1
Forecast June 2024, SNB policy rate 1.25%		1.4	1.5	1.4	1.2	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0				1.3	1.1	1.0

Source(s): SNB