News conference

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA
SWISS NATIONAL BANK

Berne, 13 December 2018
Thomas Jordan

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 developments in the area of financial stability. After that, Andréa Maechler will review the situation on the financial markets and will update you on the progress towards replacing Libor. 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.

We are maintaining our expansionary monetary policy, thereby stabilising price developments and supporting economic activity. Interest on sight deposits held by banks at the SNB is to remain at –0.75% and the target range for the three-month Libor is also unchanged at between −1.25% and –0.25%. We will remain active in the foreign exchange market as necessary, while taking the overall currency situation into consideration.

Since the monetary policy assessment of September 2018, the Swiss franc has depreciated slightly on a trade-weighted basis. This development is primarily due to the strengthening of the US dollar. The franc is virtually unchanged against the euro. Overall, the Swiss franc is still highly valued, and 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 so doing, we are keeping the attractiveness of Swiss franc investments low and reducing upward pressure on our currency.

The new conditional inflation forecast for the coming quarters is lower than it was in September. This is mainly due to the drop in oil prices. The medium-term inflation forecast is also slightly lower owing to more moderate growth prospects. For the current year, we continue to anticipate inflation of 0.9%. For 2019, we have revised our forecast down from 0.8% to 0.5%. For 2020, we expect inflation of 1.0%, compared with the previous forecast of 1.2%. 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.

The global economy is somewhat less robust than it was a few months ago. Although the pace of growth remains strong worldwide, it is no longer quite as pronounced as at the beginning of the year. One reason for this is that the economic recovery is already well advanced in many countries, and momentum is slowing as a result of the high utilisation of production factors. Another reason is that a number of uncertainties are hampering growth.

In this context, global growth lost momentum somewhat in the third quarter. This was largely attributable to special factors, such as production losses in the German automotive industry and extreme weather events in Japan. Economic expansion in the US and China remained robust. Employment figures in the advanced economies rose again and unemployment continued to decline. The growth in international trade in goods also continued.

In our baseline scenario for global economic developments, we anticipate solid growth in the coming quarters. In the short term, the world economy is set to continue to expand somewhat above potential, benefiting from the clear improvement in the labour market situation and the ongoing expansionary monetary policy in the advanced economies. However, a gradual slowdown is likely in the medium term.

Nevertheless, we also see significant risks to this baseline scenario, primarily in connection with political uncertainties and protectionist tendencies. These risks have considerable potential for damage. The resulting uncertainty alone can curb growth and weaken the resilience of the global economy. For instance, surveys indicate that trade tensions have prompted companies to reassess their investment plans and value chains. As far as Brexit is concerned, uncertainty remains high following the postponement of the vote in the UK parliament. The tension surrounding Italy’s fiscal policy also persists. All these risks could lead to turbulence in the financial markets, jeopardise global economic growth, and also influence monetary policy.

Swiss economic outlook

I shall now turn to the economic outlook for Switzerland. According to initial estimates, Swiss GDP fell by an annualised rate of 0.9% in the third quarter. Despite this decline, GDP was still 2.4% higher year-on-year thanks to the strong expansion in the previous quarters.

How are we to assess this development? First, a slowdown in momentum was to be expected after several very strong quarters. Second, the decline in GDP is also attributable to a number of temporary factors. These include the absence of the contribution made by major international sporting events and the weather-related production losses at hydroelectric power plants. An analysis of all the available economic indicators points to momentum weakening slightly but remaining positive.

The favourable development on the labour market also continued. Employment increased strongly in the third quarter. The unemployment rate declined again through to November and now stands at 2.4%. The companies surveyed by our delegates in October and November expect staff numbers to rise in the coming months. They also report increasing difficulties in finding specialist employees.

We are now anticipating slightly lower GDP growth of around 2.5% for 2018 as a whole. As in other countries, economic momentum in Switzerland is likely to weaken somewhat in 2019. We are expecting a rise of around 1.5% in GDP for the coming year. Overall, capacity utilisation in the Swiss economy should remain high. The business representatives surveyed by our delegates are also confident about 2019.

Risks remain to the downside, as is the case with the global economy. In particular, a sharp slowdown internationally would quickly spread to Switzerland.

Exchange rates, inflation expectations and interest rates

Let me now move on to address the monetary conditions – that is to say, exchange rates and interest rates – as well as inflation expectations.

As I mentioned at the start, the Swiss franc depreciated slightly in the third quarter. Overall in 2018, however, it has appreciated by 3.5% against the currencies of our trading partners, largely driven by a weaker euro. Analysis of the exchange rate situation as a whole indicates that the Swiss franc remains highly valued. The real trade-weighted exchange rate, which is relevant for the economy, is still high.

Given the economic and political uncertainties, there is also the risk of major and sudden movements in the exchange rate, which would significantly alter monetary conditions. We therefore continue to regard the situation on the foreign exchange market as fragile.

This leads me to our inflation expectations, as derived from surveys of households, companies and forecasting institutions. It is our mandate to ensure price stability while taking due account of economic developments. We equate price stability with a rise in consumer prices of less than 2% per annum. With short-term expectations just under 1% and longer-term expectations slightly above, inflation expectations are firmly anchored within the range consistent with price stability. Economic actors are confident that the SNB will also be able to keep inflation well under control over the long term.

In view of the stable inflation expectations, it is not surprising that long-term rates have changed little since the beginning of the year. The yield on ten-year Confederation bonds has fluctuated between –0.1% and +0.2% since the start of 2018.

Andréa Maechler will examine exchange rate and interest rate developments in more detail later.

Monetary policy outlook

Let me summarise the key points with regard to monetary policy. We anticipate that our economy has expanded by around 2.5% this year. In line with a gradual slowdown in the global economy and high capacity utilisation in Switzerland, domestic growth is likely to stabilise at around 1.5% next year. The inflation forecast for this year is unchanged; for 2019 and 2020 it is somewhat below our forecast last quarter. The Swiss franc is still highly valued.

Given the slightly muted inflation outlook and the continued fragility in the exchange rate situation, our expansionary monetary policy remains appropriate. 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 now my pleasure to give the floor to Fritz Zurbrügg.