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Press release

Monetary policy assessment of 16 September 2010

Swiss National Bank maintains its expansionary monetary policy

The Swiss National Bank (SNB) is maintaining its expansionary monetary policy. It is leaving the target range for the three-month Libor unchanged at 0.00–0.75%, and intends to keep the Libor within the lower part of the target range at around 0.25%.

The global economic recovery is continuing, albeit at a somewhat slower pace than the SNB had assumed at the time of the previous monetary policy assessment. Since mid-2009, the Swiss economy has developed more dynamically than previously expected. For 2010, the SNB expects real GDP to grow at a rate of approximately 2.5%. For the second half of the year, and in particular for 2011, however, the SNB now expects a marked slowdown in growth. This reflects the strong appreciation of the Swiss franc and the declining momentum of the global economy.

Uncertainty about the future outlook for the global economy remains high. Economic recovery is not yet sustainable. Downside risks predominate. Should they materialise and result in a renewed threat of deflation, the SNB would take the measures necessary to ensure price stability.

The SNB's new conditional inflation forecast is lower than the June forecast, over the entire forecast horizon. Assuming an unchanged three-month Libor of 0.25%, average inflation for 2010 is expected to amount to 0.7%, for 2011 to 0.3% and for 2012 to 1.2%. The possibility that inflation will temporarily turn slightly negative at the beginning of 2011 cannot be ruled out. The inflation forecast indicates that the expansionary monetary policy is currently appropriate, although it poses long-term risks to price stability.

Global economic outlook

The recovery of the global economy is continuing at a moderate pace. In the US and Asia, growth slowed in the second quarter of 2010. At the same time, the economy in the euro area firmed considerably, supported by vigorous foreign demand and a favourable exchange rate. The SNB still assumes there will be a further – albeit slightly slower – recovery, particularly in the industrialised countries. The SNB has revised its 2010 and 2011 growth assumptions for the US and the emerging economies of Asia slightly downwards, while its 2010 forecast for the euro area has been revised upwards. Forecast uncertainties remain high and risks are still to the downside.

Swiss economic outlook

According to the recent revision of figures for the national accounts, the recession was deeper than has been assumed to date. By contrast, the rise in Swiss real GDP between the third quarter of 2009 and the second quarter of 2010 was significantly stronger than potential output. The second quarter of 2010 saw a clear continuation of the recovery in manufacturing – the area which, in 2009, had been most seriously affected by the recession. However, momentum was vigorous in other sectors, too. The increase in activity had a favourable impact on the labour market. Both short-time work and unemployment have declined further. However, in the second half of the year and the beginning of next year, the SNB expects a marked slowdown in growth due to the strong appreciation of the Swiss franc and the declining momentum in the global economy. For 2010, real GDP is now expected to grow at a rate of approximately 2.5%. This higher growth forecast, compared to the last assessment, does not result from a reassessment of the economic outlook, but mainly because of the revision of the previous GDP figures.

Changes in monetary conditions

Monetary conditions are characterised by two opposing trends. Yields on Swiss Confederation bonds remain at a very low level. Yields on corporate bonds, credit risk premia and interest rates on bank loans declined further.

Since the June assessment, the three-month Libor has risen slightly. Liquidity in the banking sector is still high, and money stocks held by households and companies are rising. The growth rates for the broader monetary aggregates remain high. In August, for instance, the M2 aggregate rose by 10.4% year-on-year, while the M3 aggregate was up 6.6%. Since the last assessment, the Swiss franc has appreciated substantially against the euro and the US dollar.

Overall, monetary conditions have become somewhat less expansionary since the last assessment.

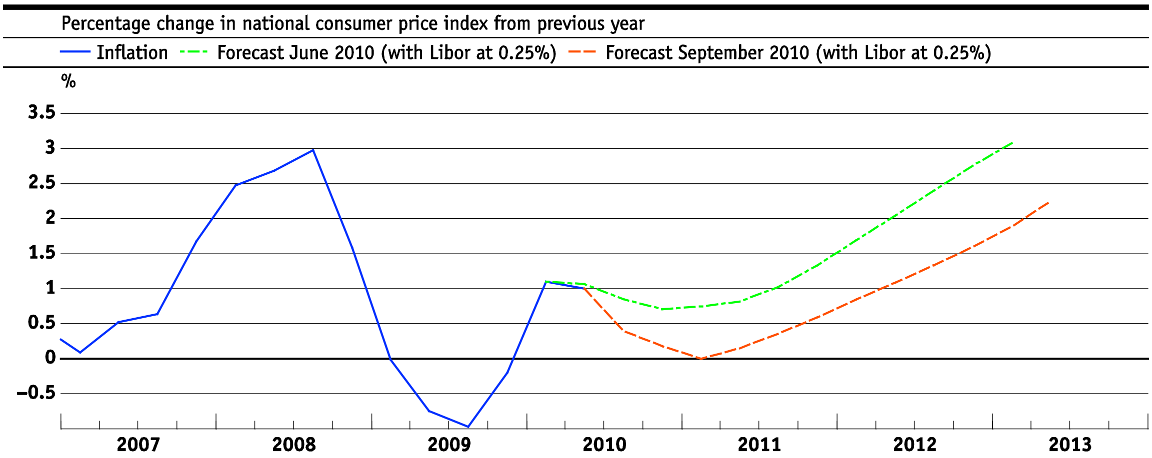
Lending business remained brisk. The SNB survey of lending operations showed that, in the second quarter of 2010, the slight tightening of lending conditions during the crisis for corporate loans was eased a little – a development that had already been observed in the previous quarter. As regards mortgage lending to households, most banks report unchanged lending conditions and a further increase in demand. The growth in mortgage lending and real estate prices has decelerated marginally, compared to the situation at the end of 2009. However, developments in the mortgage market still require the full attention of the SNB.

Chart of conditional inflation forecast

The (dashed) red curve on the chart represents the new, conditional inflation forecast. It covers the period from the third quarter of 2010 to the second quarter of 2013 and shows future inflation developments on the assumption of the three-month Libor remaining constant at 0.25% over the entire forecasting horizon. For purposes of comparison, the (dash-dotted) green curve shows the inflation forecast published in June, which was also based on the assumption of a three-month Libor of 0.25%.

Over the entire forecasting horizon, the path of the new inflation forecast is lower than that of three months ago. The reason for this is the appreciation of the Swiss franc and the declining momentum in the global economy. The forecast sinks to 0% in the first quarter of 2011, reflecting the declining base effect from the movement of oil prices and the reduction in the price of imports resulting from exchange rate effects. The possibility that inflation will temporarily turn slightly negative at the beginning of 2011 cannot be ruled out. The inflation forecast indicates that the expansionary monetary policy is currently appropriate, although it poses long-term risks to price stability.

Conditional inflation forecast of June 2010 and of September 2010



Observed inflation September 2010

	2007				2008				2009				2010				2007	2008	2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	0.09	0.52	0.63	1.68	2.47	2.68	2.97	1.58	-0.02	-0.75	-0.97	-0.20	1.10	1.00			0.7	2.4	-0.5

Conditional inflation forecast of June 2010 with Libor at 0.25% and of September 2010 with Libor at 0.25%

	2010				2011				2012				2013				2010	2011	2012
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast June 2010, Libor at 0.25%		1.06	0.85	0.71	0.74	0.81	1.02	1.33	1.69	2.04	2.40	2.76	3.07				0.9	1.0	2.2
Forecast September 2010, Libor at 0.25%			0.40	0.18	0.00	0.15	0.36	0.59	0.84	1.08	1.33	1.60	1.89	2.25			0.7	0.3	1.2

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