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Monetary policy assessment of 13 December 2012

Swiss National Bank maintains minimum exchange rate

The Swiss National Bank (SNB) is leaving the minimum exchange rate of CHF 1.20 per euro unchanged. The Swiss franc is still high. An appreciation of the Swiss franc would compromise price stability and would have serious consequences for the Swiss economy. Consequently, the SNB will continue to enforce the minimum exchange rate with the utmost determination. It is prepared to buy foreign currency in unlimited quantities for this purpose. In addition, the SNB is leaving the target range for the three-month Libor at 0.0–0.25%. If necessary, it stands ready to take further measures at any time.

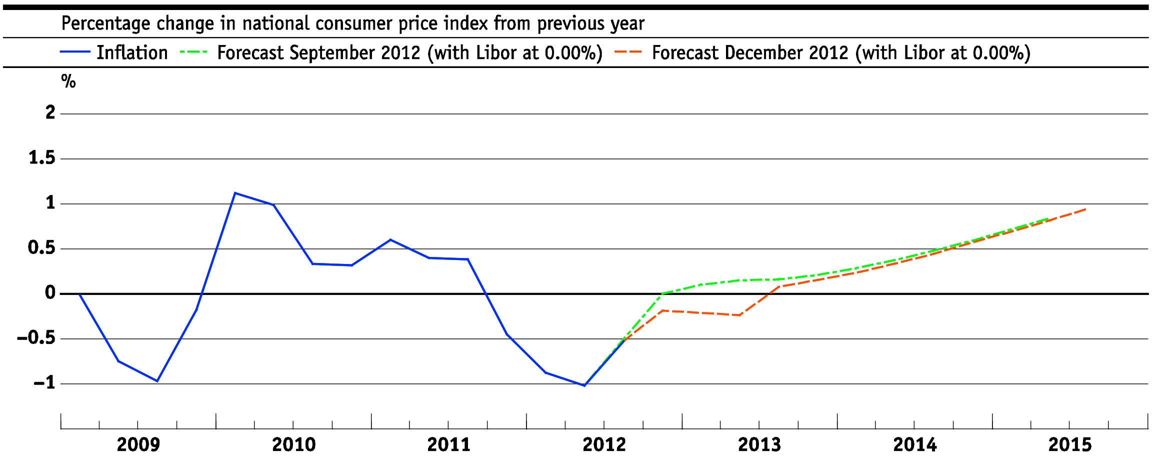
Essentially, the SNB's conditional inflation forecast is unchanged from its September forecast. In the short term, price movements will again be subdued by a somewhat weaker economy in the euro area. In addition, the impact which past appreciation of the Swiss franc is having on the price level is rather stronger than had originally been expected. From mid-2013 onwards, the path of the new conditional inflation forecast is almost identical to that of September. The forecast is based on an unchanged three-month Libor of 0.0% over the next three years. Given this assumption, the Swiss franc weakens over the forecast period. Nevertheless, forecast inflation remains low for the next few years. For 2012, the inflation rate will amount to –0.7%. For 2013, the National Bank expects inflation of –0.1% and for 2014, 0.4%. In the foreseeable future, therefore, there is no risk of inflation in Switzerland.

The third quarter of 2012 saw weak growth and a decline in trading activity worldwide. Although growth in the US economy and some of the emerging economies picked up, a mild recession persisted in the euro area. In Switzerland, real GDP in the third quarter increased again following a temporary downturn. For the fourth quarter, however, the Swiss National Bank expects significant weakening in growth. Consequently, economic growth in Switzerland for the year 2012 is likely to remain unchanged at around 1.0%. For 2013, the SNB expects growth of 1.0–1.5%.

Press release

The downside risks for the Swiss economy remain considerable. Although the measures announced by the European Central Bank have significantly reduced the probability of extreme developments in the monetary union, there is still substantial uncertainty in connection with the management of the debt crisis in the euro area. It also remains to be seen how far the upcoming budget consolidation in the US will hamper growth. This question is weighing on the sentiment in the financial markets and the real economy. Moreover, momentum in the Swiss residential mortgage and real estate markets remains strong, and has led to a further increase in risks for financial stability.

Conditional inflation forecast of September 2012 and of December 2012



Observed inflation in December 2012

	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2009	2010	2011
Inflation	0.0	−0.7	−1.0	−0.2	1.1	1.0	0.3	0.3	0.6	0.4	0.4	−0.5	−0.9	−1.0	−0.5		−0.5	0.7	0.2

Conditional inflation forecast of September 2012 with Libor at 0.00% and of December 2012 with Libor at 0.00%

	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2012	2013	2014
Forecast September 2012, Libor at 0.00%			−0.5	0.0	0.1	0.2	0.2	0.2	0.3	0.4	0.5	0.6	0.7	0.8			−0.6	0.2	0.4
Forecast December 2012, Libor at 0.00%				−0.2	−0.2	−0.2	0.1	0.2	0.2	0.3	0.4	0.6	0.7	0.8	0.9		−0.7	−0.1	0.4

Press release