SCHWEIZERISCHE NATIONALBANK
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Press release

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Monetary policy assessment of 20 March 2014

Swiss National Bank reaffirms minimum exchange rate

The Swiss National Bank (SNB) is maintaining its minimum exchange rate of CHF 1.20 per euro. The Swiss franc is still high. The SNB stands ready to enforce the minimum exchange rate, if necessary, by buying foreign currency in unlimited quantities, and to take further measures as required. With the three-month Libor close to zero, the minimum exchange rate continues to be the right tool to avoid an undesirable tightening of monetary conditions in the event of renewed upward pressure on the Swiss franc. The SNB is leaving the target range for the three-month Libor unchanged at 0.0–0.25%.

In March, the SNB’s conditional inflation forecast was adjusted downwards once again. Inflation in Switzerland was close to 0% for January and February. Internationally declining inflation rates and the slightly stronger Swiss franc are delaying the rise of inflation into positive territory. As in the previous quarter, the forecast is based on a three-month Libor of 0.0% over the next three years and assumes that the Swiss franc will weaken over the forecast period. The SNB is now expecting the inflation rate to be 0.2 percentage points lower for both 2014 and 2015, at 0% and 0.4% respectively. In 2016, inflation should increase to 1.0%. Consequently, no inflation risks can be identified for Switzerland in the foreseeable future.

The moderate recovery of the global economy continued in the fourth quarter. In Europe, growth was, geographically, broader-based than in previous quarters. By contrast, euro area inflation was low, in part reflecting the persistent weakness of demand within the euro area.

Nevertheless, there are still substantial risks attached to the global economic recovery. Concerns over the state of the euro area financial system are likely to remain high until the assessment of banks’ balance sheets has been completed. The decline in inflation in the advanced economies has increased uncertainty regarding the future path of monetary policy in the major currency areas. In addition, bringing about a sustained improvement in public finances poses a considerable challenge for a number of advanced economies. Likewise,

Press release

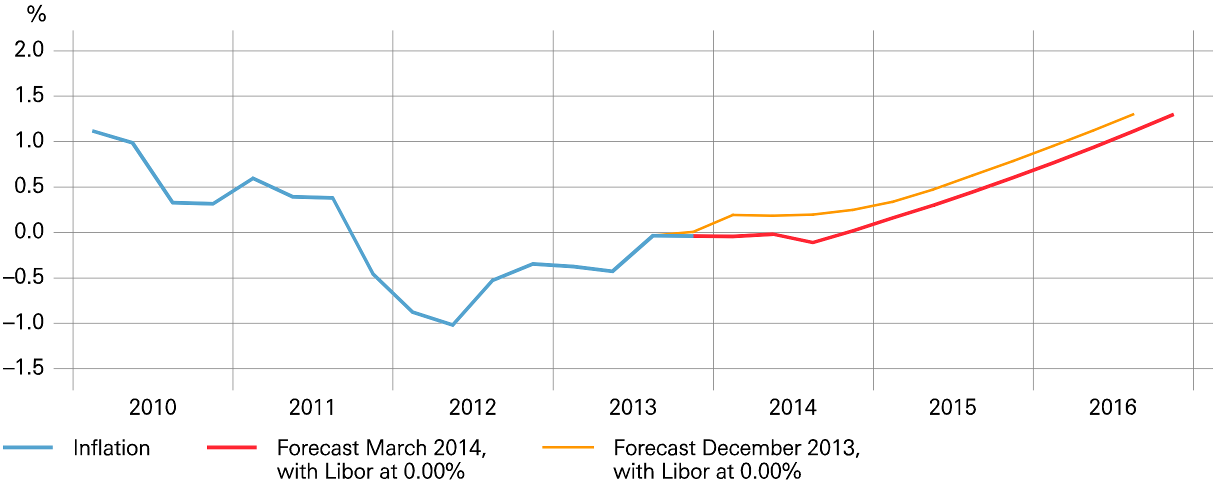
structural weaknesses in key emerging markets and political tensions in various regions could weigh on the global economic recovery.

In Switzerland, as expected, the fourth quarter of 2013 saw a weakening of growth momentum, largely as a result of a decline in exports, which led to a corresponding decrease in value added in the manufacturing industry. Economic activity should pick up again from the first quarter of 2014. For 2014 as a whole, the SNB is still anticipating GDP growth of around 2%.

In January, at the proposal of the SNB, the Federal Council increased the sectoral countercyclical capital buffer (CCB), which will result in a temporary rise, as of 30 June 2014, in capital requirements for mortgage loans on residential property in Switzerland. This will increase banks' resilience to a possible correction of imbalances on the mortgage and real estate markets, and will counteract a further build-up of these imbalances. The SNB continues to monitor the situation on the mortgage and real estate markets closely, and regularly reassesses the need for an adjustment of the CCB.

CONDITIONAL INFLATION FORECAST OF MARCH 2014

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



OBSERVED INFLATION IN MARCH 2014

	2010 Q1	Q2	Q3	Q4	2011 Q1	Q2	Q3	Q4	2012 Q1	Q2	Q3	Q4	2013 Q1	Q2	Q3	Q4	2011	2012	2013
Inflation	1.1	1.0	0.3	0.3	0.6	0.4	0.4	–0.5	–0.9	–1.0	–0.5	–0.3	–0.4	–0.4	0.0	0.0	0.2	–0.7	–0.2

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Press release

CONDITIONAL INFLATION FORECAST OF MARCH 2014

	2013				2014				2015				2016				2014	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast December 2013, with Libor at 0.00%				0.0	0.2	0.2	0.2	0.2	0.3	0.5	0.6	0.8	1.0	1.1	1.3		0.2	0.6	
Forecast March 2014, with Libor at 0.00%					0.0	0.0	−0.1	0.0	0.2	0.3	0.4	0.6	0.8	0.9	1.1	1.3	0.0	0.4	1.0