SCHWEIZERISCHE NATIONALBANK
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Press release

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Monetary policy assessment of 14 December 2017

Swiss National Bank leaves expansionary monetary policy unchanged

The Swiss National Bank (SNB) is maintaining its expansionary monetary policy, with the aim of stabilising price developments and supporting economic activity. Interest on sight deposits at the SNB is to remain at –0.75% and the target range for the three-month Libor is unchanged at between –1.25% and –0.25%. The SNB will remain active in the foreign exchange market as necessary, while taking the overall currency situation into consideration.

Since the last monetary policy assessment, the Swiss franc has weakened further against the euro and, more recently, has also depreciated against the US dollar. The overvaluation has thus continued to decrease, yet the franc remains highly valued. The depreciation of the Swiss franc reflects the fact that safe havens are currently less sought after. However, this development is still fragile. Therefore, despite the easing of the situation, the negative interest rate and the SNB’s willingness to intervene in the foreign exchange market as necessary remain essential. These measures keep the attractiveness of Swiss franc investments low and thus ease pressure on the currency. A renewed appreciation would still be a threat to price and economic developments.

The new conditional inflation forecast for the coming quarters is higher than it was in September. This is mainly due to increased oil prices and the further weakening of the Swiss franc. The longer-term inflation forecast is virtually unchanged. For the current year, it has risen marginally to 0.5%, from 0.4% in the previous quarter. For 2018, the SNB anticipates an inflation rate of 0.7%, compared to 0.4% last quarter. For 2019, it continues to expect inflation of 1.1%. The conditional inflation forecast is based on the assumption that the three-month Libor remains at –0.75% over the entire forecast horizon.

The past few months have seen further improvements in the international environment. The global economy exhibited strong, broad-based growth in the third quarter. The SNB expects it

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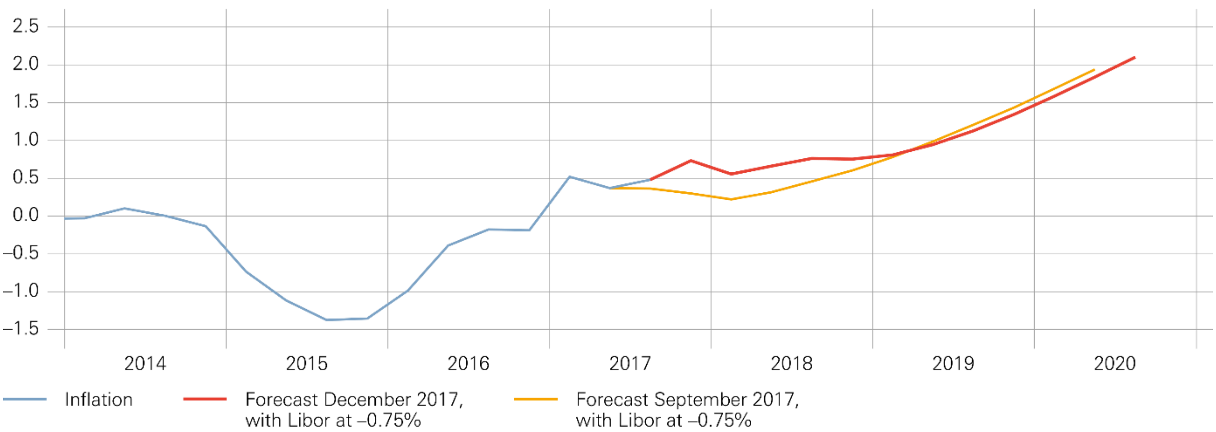
to continue developing favourably in the quarters ahead. The growth forecasts for the euro area and the US have been revised upwards slightly compared to the previous baseline scenario. While the normalisation of monetary policy gradually continues in the US, monetary policy in the euro area and Japan remains highly expansionary. In Switzerland, GDP grew in the third quarter at an annualised 2.5%. Growth was primarily driven by manufacturing, which benefited from dynamic economic developments abroad and the weaker Swiss franc. In the wake of this development, capacity utilisation in the economy as a whole increased further. The unemployment rate declined again slightly through to November.

Given the supportive global environment and favourable monetary conditions, the recovery in the Swiss economy looks set to continue in the coming months. For 2018, the SNB expects GDP growth of around 2%, compared to 1% in the current year.

Imbalances on the mortgage and real estate markets persist. While growth in mortgage lending remained relatively low in 2017, residential property prices rose again slightly. In the residential investment property segment, the strong price growth continued. The SNB will continue to monitor developments on these markets closely, and will regularly reassess the need for an adjustment of the countercyclical capital buffer.

CONDITIONAL INFLATION FORECAST OF DECEMBER 2017

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



OBSERVED INFLATION IN DECEMBER 2017

	2014				2015				2016				2017				2014	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	0.0	0.1	0.0	–0.1	–0.7	–1.1	–1.4	–1.4	–1.0	–0.4	–0.2	–0.2	0.5	0.4	0.5		0.0	–1.1	–0.4

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CONDITIONAL INFLATION FORECAST OF DECEMBER 2017

	2017				2018				2019				2020				2017	2018	2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast September 2017, with Libor at −0.75%			0.4	0.3	0.2	0.3	0.5	0.6	0.8	1.0	1.2	1.4	1.7	1.9			0.4	0.4	1.1
Forecast December 2017, with Libor at −0.75%				0.7	0.6	0.7	0.8	0.8	0.8	0.9	1.1	1.3	1.6	1.8	2.1		0.5	0.7	1.1