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Thomas Jordan

Introductory remarks by Thomas Jordan

Ladies and gentlemen

It is my pleasure to welcome you to the Swiss National Bank's news conference. We are delighted that we are able to have people here with us in person again, and our thanks also go to all those who are joining us online.

In my remarks, I will begin by explaining our monetary policy decision and our assessment of the economic situation. After that, Fritz Zurbrügg will present this year's Financial Stability Report. Andréa Maechler will then comment on the situation on the financial markets and the upcoming replacement of the CHF Libor with SARON, and will also discuss instant payments. We will – as ever – be pleased to take your questions afterwards. The representatives of the media who are attending our conference online will also be able to ask questions.

Monetary policy decision

I now come to our monetary policy decision. The SNB is maintaining its expansionary monetary policy with a view to ensuring price stability and providing ongoing support to the Swiss economy in its recovery from the impact of the coronavirus pandemic. We are keeping the SNB policy rate and interest on sight deposits at the SNB at −0.75%, and remain willing to intervene in the foreign exchange market as necessary, while taking the overall currency situation into consideration. The Swiss franc remains highly valued. Our expansionary monetary policy provides favourable financing conditions, contributes to an appropriate supply of credit and liquidity to the economy, and counters upward pressure on the Swiss franc.

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Inflation forecast

As usual, I would like to first set out our inflation forecast. Inflation has been positive since April and is thus back within the range consistent with price stability. It is likely to rise further in the course of the year, before declining again somewhat. The new conditional inflation forecast for 2021 and 2022 is slightly higher than in March (cf. chart 1). This is primarily due to higher prices for oil products and tourism-related services, as well as for goods affected by supply bottlenecks. In the longer term, the inflation forecast is virtually unchanged compared with March. The new forecast stands at 0.4% for 2021, and 0.6% for both 2022 and 2023. The conditional inflation forecast is based on the assumption that the SNB policy rate remains at −0.75% over the entire forecast horizon.

Global economic outlook

Let us turn now to the development of the global economy. Coronavirus and the measures implemented to contain it are continuing to shape the global economy more than a year after the outbreak of the pandemic. GDP shrank again in many countries in the first quarter, and remained significantly below pre-crisis levels. The pandemic situation has eased in many areas in recent months, and vaccination programmes are progressing. Containment measures have thus been gradually relaxed in many countries over the past several weeks.

Our baseline scenario for the global economy anticipates that the major advanced economies will ease containment measures further through to the summer. Against this backdrop, we expect strong growth in the second and third quarters. However, the after-effects of the pandemic will continue to weigh on demand for some time yet. Utilisation of global production capacity is therefore likely to only gradually return to normal. Inflation is thus expected to be only moderate in most countries over the medium term. That said, the higher oil prices and various one-off effects are likely to bring about a temporary rise in global inflation this year.

This scenario for the global economy is subject to high uncertainty, with risks on the upside and downside alike. On the one hand, further waves of infection could slow the economy once again. On the other, the monetary and fiscal policy measures implemented could support the recovery more strongly than we anticipate, as could a rapid improvement in consumer and business sentiment.

Swiss economic outlook

In Switzerland, too, the second wave of the pandemic interrupted the economic recovery. The tightening of containment measures led to a renewed decline in GDP in the first quarter. However, the contraction was much less pronounced than in the first wave of the pandemic in spring 2020.

The economic indicators have improved significantly of late. Swiss GDP can therefore be expected to show strong, broad-based growth in the second quarter. One reason for this is the easing of public health measures in Switzerland. There has already been a significant recovery in turnover in the retail trade. The situation is also likely to improve in the hospitality and entertainment industries. Another reason is the economic recovery abroad. Industrial exports have shown very dynamic growth of late. There are also signs of an improvement in the labour market. Unemployment has been declining since the beginning of the year, and the use of short-time working has recently decreased again.

In our baseline scenario for Switzerland, we anticipate that the economy will continue to recover in the second half of the year. This is also based on the assumption that the containment measures will be eased further.

Against this backdrop, we expect GDP growth of around 3.5% for 2021. In March, we were still anticipating that growth would not be as high. The upward revision is primarily attributable to the lower-than-expected decline in GDP in the first quarter. Swiss GDP is likely to return to its pre-crisis level by the middle of the year. However, production capacity will remain underutilised for some time yet.

Owing to the pandemic, the forecast for Switzerland, as for the global economy, remains subject to heightened uncertainty.

Interest rates, inflation expectations and monetary policy outlook

The negative interest rate and high levels of foreign exchange market interventions ensured appropriate monetary conditions during the difficult phase of the coronavirus pandemic. Inflation currently stands at 0.6%, and is thus back within the range we equate with price stability. Our expansionary monetary policy is also supporting the ongoing economic recovery in Switzerland. So what is the outlook for our monetary policy?

I would first like to address the development of interest rates and inflation worldwide. Since our last media conference, long-term interest rates have risen in most countries on the back of the economic recovery and higher inflation expectations.

Short-term inflation expectations have risen globally. On the one hand, those prices that fell strongly last year owing to the pandemic are currently recovering rapidly. On the other hand, coronavirus-related supply bottlenecks and pent-up consumer spending are contributing to the rise in inflation in many countries at present. This pressure on prices is likely to continue to be felt over the coming months, and is therefore influencing short-term inflation expectations. However, these effects should have abated in a few quarters’ time.

In some countries – albeit not in Switzerland – there has also been a rise in longer-term inflation expectations in recent months. This primarily reflects a return to normal, given that long-term inflation expectations had fallen significantly in many countries. At present, we therefore do not anticipate a strong increase in global inflation in the medium term.

In Switzerland, interest rates and inflation remain low by international comparison. The long-term inflation expectations are well anchored, and have remained stable despite the pandemic. Survey data show an expected inflation rate of around 1% for the long term.

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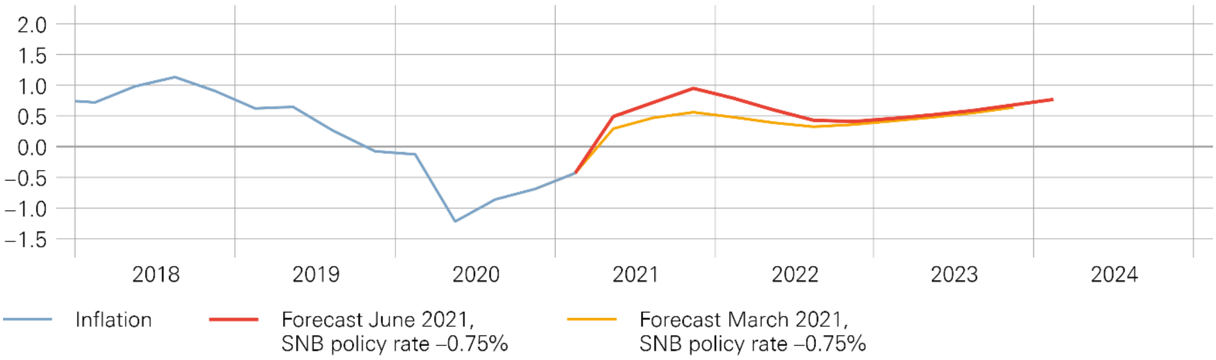
Against the backdrop of production capacity not yet being fully utilised and our moderate inflation forecast, our expansionary monetary policy remains appropriate. The well-anchored inflation expectations reflect the confidence in price stability being ensured in Switzerland and speak for the continuation of the current monetary policy, with the aim of supporting the ongoing recovery of our economy.

Ladies and gentlemen, thank you for your attention. It is now my pleasure to give the floor to Fritz Zurbrügg.

Charts

CONDITIONAL INFLATION FORECAST OF JUNE 2021

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



Source(s): FSO, SNB

OBSERVED INFLATION IN JUNE 2021

	2018				2019				2020				2021				2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	0.7	1.0	1.1	0.9	0.6	0.6	0.3	–0.1	–0.1	–1.2	–0.9	–0.7	–0.4				0.9	0.4	–0.7

Source(s): FSO

CONDITIONAL INFLATION FORECAST OF JUNE 2021

	2021				2022				2023				2024				2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast March 2021, SNB policy rate –0.75%	–0.4	0.3	0.5	0.6	0.5	0.4	0.3	0.4	0.4	0.5	0.6	0.6					0.2	0.4	0.5
Forecast June 2021, SNB policy rate –0.75%		0.5	0.7	1.0	0.8	0.6	0.4	0.4	0.5	0.5	0.6	0.7	0.8				0.4	0.6	0.6

Source(s): SNB