News conference

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
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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. Owing to the coronavirus pandemic, we are once again unfortunately only able to meet virtually today.

In my remarks, I will begin by explaining our monetary policy decision and our assessment of the economic situation. Fritz Zurbrügg will report on developments in the area of financial stability. Andréa Maechler will then comment on the situation on the financial markets and the final steps with regard to replacing the Swiss franc Libor with SARON, as well as on SSFN, the new communications network for the Swiss financial sector. We will – as ever – be pleased to take your questions afterwards.

Monetary policy decision

I will begin with our monetary policy decision. The SNB is maintaining its expansionary monetary policy. We are thus ensuring price stability and supporting 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, in order to counter upward pressure on the Swiss franc. In so doing, we take the overall currency situation into consideration. The Swiss franc remains highly valued.

Inflation forecast

I would now like to address the development of inflation. Inflation stood at 1.5% in November, somewhat higher than at the last monetary policy assessment. However, we anticipate that inflation will soon have peaked, and will decline again in the course of the next year.

Our new conditional inflation forecast for 2021 and 2022 is slightly above that of September (cf. chart 1). This is primarily due to higher import prices, above all for oil products and for goods affected by global supply bottlenecks. In the longer term, the inflation forecast is virtually unchanged compared with September. Our new forecast stands at 0.6% for 2021, 1.0% for 2022, and 0.6% for 2023 (cf. table 1). Forecasted inflation thus remains within the range consistent with price stability throughout. 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 me turn to the economic outlook worldwide. The coronavirus pandemic is continuing to shape the global economic situation. In the third quarter, output and employment were still below their pre-crisis levels in many countries, and new waves of infection are time and again impairing economic activity. Added to this, there are supply bottlenecks in certain industries in the manufacturing sector. These are attributable to a strong recovery in demand for goods and to disruptions in international production chains. Against this backdrop, the global economic recovery slowed somewhat in the third quarter. At the same time, inflation was unusually high in both the US and the euro area. This is above all attributable to the aforementioned supply chain difficulties and higher energy prices. One-off effects, such as the recovery of prices that had fallen markedly last year owing to the pandemic, are also contributing to the rise in inflation.

In our baseline scenario for the global economy, we assume that extensive containment measures will not have to be introduced again, this despite the adverse developments regarding the pandemic at present. The economic recovery should thus continue, albeit somewhat subdued. At the same time, the supply bottlenecks seen in various manufacturing industries are likely to persist a while longer, leading to price increases for the goods concerned. However, as the supply bottlenecks ease and energy prices stabilise, and as various one-off effects abate, inflation abroad is likely to come down to more moderate levels in the course of the next year.

Our scenario for the global economy is subject to high uncertainty, with risks on the upside and downside alike. On the one hand, there could be a renewed deterioration in the situation surrounding the pandemic, once again significantly impairing the economy. On the other hand, the economic policy measures introduced since the outbreak of the pandemic could support the recovery more strongly than anticipated in the baseline scenario. There is also heightened uncertainty about the development of inflation abroad at present.

Swiss economic outlook

Let us turn now to the economic outlook for Switzerland. In Switzerland, the economic recovery has continued. There was a further robust increase in gross domestic product (GDP) in the third quarter, thus lifting it above its pre-crisis level for the first time. The situation on the labour market also continued to improve. GDP is likely to grow by around 3.5% this year.

This is slightly stronger than we had expected in September, the reason being that activity in certain service industries – such as hospitality – was more dynamic than was assumed at that time. That said, the economy has lost momentum again somewhat of late. Supply bottlenecks are posing a challenge for Swiss companies, too. However, in our assessment they have had little impact on economic growth thus far.

In our baseline scenario for Switzerland, we anticipate a continuation of the economic recovery next year. One key assumption in this respect is that no containment measures will have to be introduced that would additionally impair economic activity. Against this backdrop, we expect GDP growth of around 3% for 2022. Unemployment is likely to decline again somewhat, and the utilisation of production capacity should continue to return to normal.

The forecast for Switzerland, as for the global economy, is subject to high uncertainty. Economic developments in the coming quarters will hinge on whether the pandemic situation worsens further and which additional containment measures are taken.

Current exchange rate developments and monetary policy outlook

Ladies and gentlemen, against the backdrop of the recent economic developments and our outlook with regard to inflation, our expansionary monetary policy remains appropriate. We ensure appropriate monetary conditions by maintaining the SNB policy rate at −0.75% and intervening in the foreign exchange market as necessary. In so doing, we are supporting the economic recovery and keeping inflation within the range consistent with price stability.

I would like to close my remarks by looking at the current exchange rate situation in more detail. Because of the increase in the inflation rate differential with other countries, it has become more difficult to interpret the situation in the context of our monetary policy.

Since the last monetary policy assessment, the Swiss franc has appreciated by a further 3% in nominal and trade-weighted terms, and by some 6% since the beginning of the pandemic. Nevertheless, we continue to view the Swiss franc as highly valued. Why so? The reason is inflation abroad, which is at present noticeably higher than it is in Switzerland. The nominal appreciation therefore does not entail an appreciation to the same extent in real terms. The real trade-weighted Swiss franc exchange rate – which takes into account the inflation rate differential with other countries – has hardly changed since the beginning of the pandemic. There is thus no change in our assessment that the Swiss franc remains highly valued.

At the same time, we have been able to prevent a stronger rise in inflation in Switzerland by allowing a certain amount of nominal appreciation. The nominal appreciation of the Swiss franc has countered rising prices in that it makes imports cheaper. The increase in the value of the franc in recent months has therefore contributed to the rise in prices in Switzerland being kept relatively low.

Finally, I would like to say a few words about the outlook. We are currently in a situation where there is a high degree of uncertainty regarding the further course of the pandemic and the future direction of monetary policy worldwide. By now we are all well aware that, time and again, uncertainty can lead to increased demand for the Swiss franc and result in stronger upward pressure. This could then quickly weigh on the economy again, and depending on the circumstances could even cause inflation to fall back into negative territory. We will therefore continue to closely monitor the development of the Swiss franc exchange rate and will take the overall currency situation into consideration in our analysis. And we will react as necessary to ensure price stability in Switzerland and to further support the economic recovery.

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

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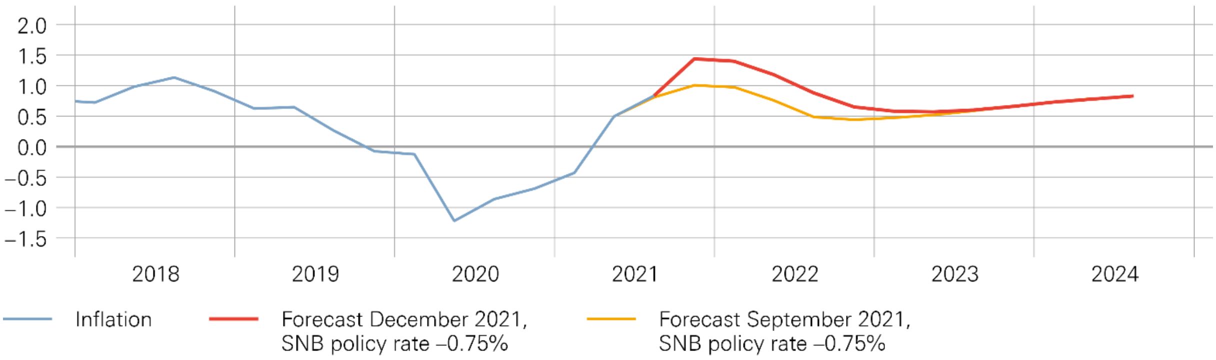
Charts

CONDITIONAL INFLATION FORECAST OF DECEMBER 2021

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



Source(s): SFSO, SNB

OBSERVED INFLATION IN DECEMBER 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	0.5	0.8		0.9	0.4	–0.7

Source(s): SFSO

CONDITIONAL INFLATION FORECAST OF DECEMBER 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 September 2021, SNB policy rate –0.75%			0.8	1.0	1.0	0.8	0.5	0.4	0.5	0.5	0.6	0.7	0.7	0.8			0.5	0.7	0.6
Forecast December 2021, SNB policy rate –0.75%				1.4	1.4	1.2	0.9	0.7	0.6	0.6	0.6	0.7	0.7	0.8	0.8		0.6	1.0	0.6

Source(s): SNB

SNB BNS