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Monetary policy assessment of 14 March 2013

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. The minimum exchange rate is an important instrument in avoiding an undesirable tightening of monetary conditions. The SNB will therefore enforce this minimum rate with the utmost determination and, if necessary, 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 unchanged at 0.0–0.25%. It stands ready to take further measures at any time.

The SNB's conditional inflation forecast has been adjusted downwards appreciably over the entire forecast period compared to the previous quarter. In the fourth quarter of 2012, inflation was lower than expected due to the continued decline in import inflation. Furthermore, the economic outlook is once again somewhat subdued, especially for the euro area. The inflation forecast is based on an unchanged three-month Libor of 0.0% over the next three years. Under this assumption, the Swiss franc weakens over the forecast period. The SNB is expecting an inflation rate of –0.2% for 2013, 0.2% for 2014, and 0.7% for 2015. In the foreseeable future, therefore, there continues to be no threat of inflation in Switzerland.

Despite a considerable easing of tensions on the international financial markets, global economic growth was rather weak in the fourth quarter. In Switzerland, economic activity slowed as expected. The unemployment rate rose again slightly, despite a rise in employment. The SNB continues to anticipate growth of 1.0–1.5% for Switzerland in 2013.

On 13 February 2013, at the proposal of the SNB, the Federal Council activated the countercyclical capital buffer (CCB). As of September, banks will therefore be required to provide more capital backing for residential mortgage loans in Switzerland. The aim of the CCB is to strengthen the resilience of banks and counter imbalances on the mortgage and real estate markets. These imbalances have reached such a level that they pose a risk to the stability of the banking system and hence the Swiss economy. The SNB continues to

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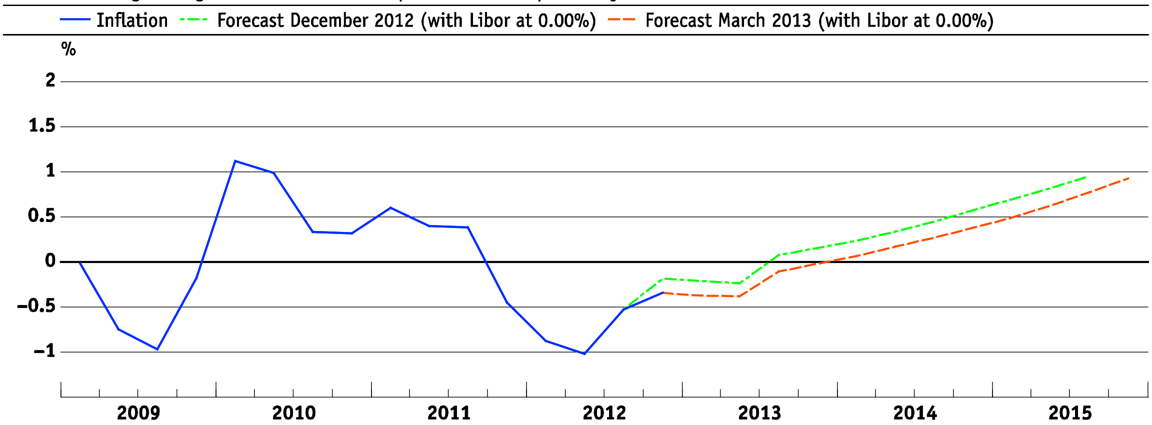
monitor the momentum on the domestic residential mortgage and real estate markets closely.

Downside risks to the Swiss economy remain considerable. There is a risk that tensions in the euro area will increase again. In addition, uncertainty about future developments in the fiscal policies of numerous advanced economies is dampening consumer and investment confidence and poses risks to growth. The global economic situation and sentiment on the financial markets therefore remain vulnerable.

Conditional inflation forecast of December 2012 and of March 2013

Percentage change in national consumer price index from previous year



Observed inflation in March 2013

	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	2010	2011	2012
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	−0.3	0.7	0.2	−0.7

Conditional inflation forecast of December 2012 with Libor at 0.00% and of March 2013 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	2013	2014	2015
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		−0.1	0.4	
Forecast March 2013, Libor at 0.00%					−0.4	−0.4	−0.1	0.0	0.1	0.2	0.3	0.4	0.5	0.6	0.8	0.9	−0.2	0.2	0.7

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