

Communications

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Monetary policy assessment of 18 September 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 and is leaving the target range for the three-month Libor unchanged at 0.0–0.25%.

The economic outlook has deteriorated considerably. The Swiss franc is still high. With the three-month Libor close to zero, the minimum exchange rate remains the key instrument to avoid an undesirable tightening of monetary conditions. The SNB will therefore continue to enforce the minimum exchange rate with utmost determination. For this purpose, it is prepared to purchase foreign currency in unlimited quantities. If necessary, it will take further measures immediately.

The SNB's conditional inflation forecast of September points to significantly lower inflationary pressure in the medium term. In the first quarter of 2015, the inflation forecast actually shows a slight increase in inflation, reflecting a base effect due to the rise in prices in the previous quarter. However, from mid-2015 onwards, inflation is set to be lower. This is mainly due to the deterioration in the global economic outlook and slower growth in Switzerland. For the current year, the inflation forecast of 0.1% remains unchanged. The new forecast for 2015 of 0.2% is 0.1 percentage points lower than at the last monetary policy assessment, while the forecast for 2016 of 0.5% is even lower, namely by 0.4 percentage points. For Switzerland, the risk of deflation has thus increased again. As in the previous quarter, the forecast is based on a three-month Libor of 0.0% over the next three years, and expects that the Swiss franc will weaken over the forecast horizon.

Since the monetary policy assessment in June, there has been a deterioration in the international environment. Although the US economy rebounded in the second quarter following a weather-related winter slump, the major euro area economies experienced considerably weaker growth than expected, and inflation was again very low. In many of the emerging economies, too, growth was lacklustre.

Press release

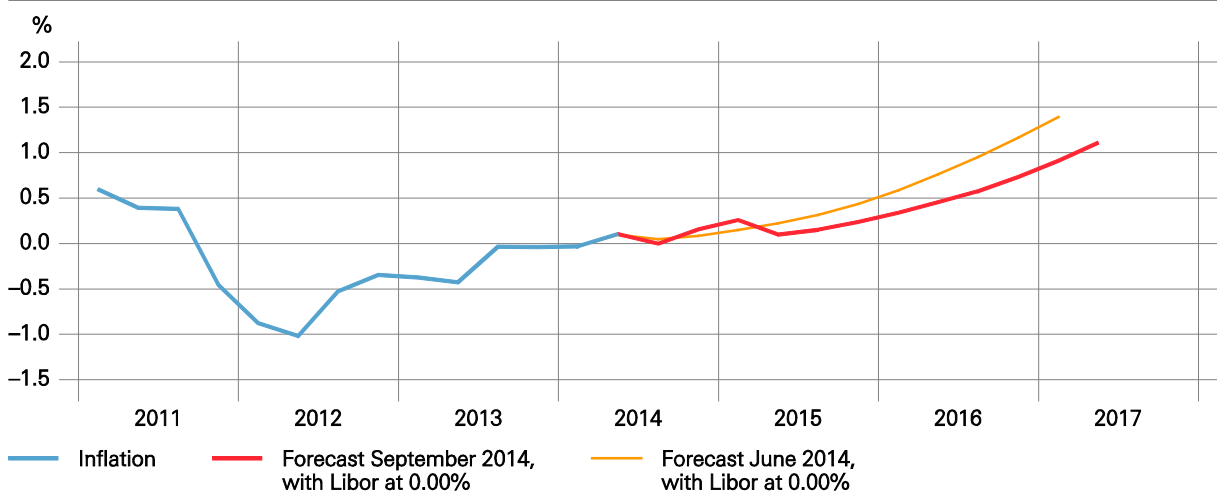
The SNB expects that the global economic recovery will be weaker in the approaching quarters than previously forecast. Economic developments in the US are still likely to drive growth, while in the euro area, growth looks set to remain modest. Furthermore, the global economic recovery remains vulnerable to setbacks. Geopolitical tensions could further weigh on corporate and consumer confidence. The consolidation of public finances, the implementation of reforms aimed at promoting growth and the completion of the assessment of banks' balance sheets still pose significant challenges for the euro area.

At an annualised rate of -0.2% , second-quarter GDP growth in Switzerland was distinctly lower than forecast in June. Despite having expected a rate of around 2% in June, given the current data, the SNB now puts this year's growth rate at only just below 1.5% . Production capacity will therefore remain underutilised for longer than previously assumed, and the recovery on the labour market is also likely to be delayed.

In the second quarter, mortgage lending again recorded slightly weaker growth. However, there is no evidence of a decline in the imbalances that have accumulated in recent years on the Swiss mortgage and real estate markets. The SNB is monitoring the situation on these markets closely, and regularly reassesses the need for an adjustment of the countercyclical capital buffer.

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2014

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



Press release

OBSERVED INFLATION IN SEPTEMBER 2014

| | 2011 | | | | 2012 | | | | 2013 | | | | 2014 | | | | 2011 | 2012 | 2013 |
|-----------|------|-----|-----|------|------|------|------|------|------|------|-----|-----|------|-----|----|----|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Inflation | 0.6 | 0.4 | 0.4 | -0.5 | -0.9 | -1.0 | -0.5 | -0.3 | -0.4 | -0.4 | 0.0 | 0.0 | 0.0 | 0.1 | | | 0.2 | -0.7 | -0.2 |

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2014

| | 2014 | | | | 2015 | | | | 2016 | | | | 2017 | | | | 2014 | 2015 | 2016 |
|---|------|-----|-----|-----|------|-----|-----|-----|------|-----|-----|-----|------|-----|----|----|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Forecast June 2014, with Libor at 0.00% | | 0.1 | 0.0 | 0.1 | 0.1 | 0.2 | 0.3 | 0.4 | 0.6 | 0.8 | 1.0 | 1.2 | 1.4 | | | | 0.1 | 0.3 | 0.9 |
| Forecast September 2014, with Libor at 0.00% | | | 0.0 | 0.2 | 0.3 | 0.1 | 0.2 | 0.2 | 0.3 | 0.5 | 0.6 | 0.7 | 0.9 | 1.1 | | | 0.1 | 0.2 | 0.5 |