

Communications

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Monetary policy assessment of 17 September 2015

Swiss National Bank leaves monetary policy unchanged

The Swiss National Bank (SNB) is leaving the target range for the three-month Libor unchanged at between -1.25% and -0.25% . The interest rate on sight deposits with the SNB remains at -0.75% . Furthermore, the SNB will remain active in the foreign exchange market as necessary, in order to take account of the impact of the exchange rate situation on inflation and economic developments. Overall, the Swiss franc is still significantly overvalued, despite a slight depreciation. The negative interest rates in Switzerland and the SNB's willingness to intervene as required in the foreign exchange market make investments in Swiss francs less attractive; both of these factors serve to ease the pressure on the franc.

Overall, the new conditional inflation forecast differs very little from that in the June assessment. Owing primarily to the drop in oil prices, the forecast for the short term is somewhat lower than that presented in the previous quarter. For the current year, the forecast decreases by 0.2 percentage points to -1.2% ; for 2016, it drops from -0.4% to -0.5% . The SNB continues to expect inflation to move back into positive territory at the beginning of 2017. Averaged over the year, the conditional inflation forecast for 2017 increases by 0.1 percentage points to 0.4% . The forecast assumes that the three-month Libor will remain at -0.75% over the entire forecast horizon and that the Swiss franc will weaken further.

Global economic growth continued in the second quarter in line with the SNB's expectations. In the advanced economies, growth was slightly more positive than in the first quarter; this was mainly attributable to the economic recovery in the US. The muted recovery in the euro area continued, due partly to the favourable exchange rate situation. Internationally, however, growth was not broad-based. This was reflected, for instance, in the lack of momentum in global trade and in low commodity prices.

The SNB expects the moderate pace of global economic recovery to continue. In the advanced economies, the recovery is likely to be underpinned by monetary policies which are still very expansionary, as well as favourable energy prices. Consequently, underutilisation of

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production capacity should decrease further in these countries. In a number of the major emerging economies, however, activity remains weak.

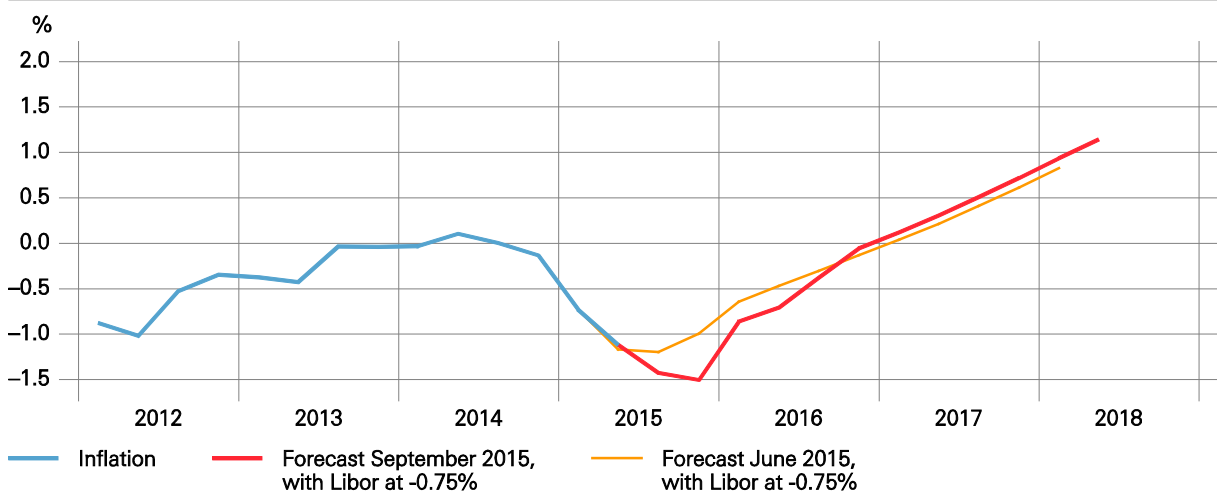
The global economic recovery is fraught with risks. In particular, uncertainty regarding economic developments in China has increased perceptibly. By contrast, the agreement of a new bailout programme for Greece has soothed concerns over an escalation of the sovereign debt crisis for the time being. Renewed turbulence in the international financial markets could have a major impact on global monetary policy.

In Switzerland, GDP rose slightly in the second quarter, after having declined somewhat in the previous quarter. Thus, overall economic output stagnated in the first half of the year. Growth in employment continued at a slower pace. However, in manufacturing, employment decreased further. The seasonally adjusted unemployment rate continued to increase slightly during the summer months. Despite the fact that output remained stable overall following the appreciation of the Swiss franc in the first half of the year, the situation remains challenging for many companies. In view of the lower margins, these companies are under pressure to raise efficiency and reduce costs.

The SNB expects economic activity to pick up gradually in the second half of the year. Domestic demand is likely to further support the economy. If the international environment continues to improve and the overvaluation of the Swiss franc eases, exports should once again make a greater contribution to economic growth. For the current year, the SNB still expects real GDP growth of close to 1%.

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2015

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



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OBSERVED INFLATION IN SEPTEMBER 2015

	2012				2013				2014				2015				2012	2013	2014
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	-0.9	-1.0	-0.5	-0.3	-0.4	-0.4	0.0	0.0	0.0	0.1	0.0	-0.1	-0.7	-1.1			-0.7	-0.2	0.0

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2015

	2015				2016				2017				2018				2015	2016	2017
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast June 2015, with Libor at -0.75%		-1.2	-1.2	-1.0	-0.6	-0.5	-0.3	-0.1	0.0	0.2	0.4	0.6	0.8				-1.0	-0.4	0.3
Forecast September 2015, with Libor at -0.75%		-1.4	-1.5	-0.9	-0.7	-0.4	-0.1	0.1	0.3	0.5	0.7	0.9	1.1				-1.2	-0.5	0.4