

Communications

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Monetary policy assessment of 13 December 2018

Swiss National Bank leaves expansionary monetary policy unchanged

The Swiss National Bank (SNB) is maintaining its expansionary monetary policy, thereby stabilising price developments and supporting economic activity. Interest on sight deposits at the SNB remains at -0.75% and the target range for the three-month Libor is unchanged at between -1.25% and -0.25% . The SNB will remain active in the foreign exchange market as necessary, while taking the overall currency situation into consideration.

Since the monetary policy assessment of September 2018, the Swiss franc has depreciated slightly on a trade-weighted basis. This development is primarily due to the strengthening of the US dollar. The franc is virtually unchanged against the euro. Overall, the Swiss franc is still highly valued, and the situation on the foreign exchange market continues to be fragile. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary remain essential. These measures keep the attractiveness of Swiss franc investments low and reduce upward pressure on the currency.

The new conditional inflation forecast for the coming quarters is lower than it was in September. This is mainly due to the drop in oil prices. The medium-term inflation forecast is also slightly lower owing to more moderate growth prospects. For the current year, the SNB continues to anticipate inflation of 0.9% . The forecast for 2019 has been revised down from 0.8% to 0.5% . For 2020, the SNB expects inflation of 1.0% , compared with its previous forecast of 1.2% . The conditional inflation forecast is based on the assumption that the three-month Libor remains at -0.75% over the entire forecast horizon.

Global growth lost momentum somewhat in the third quarter. However, this was largely attributable to special factors in the euro area and Japan. Economic expansion in the US and China remained robust. Employment figures in the advanced economies rose again and

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unemployment continued to decline. The growth in international trade in goods also continued.

In its baseline scenario for global economic developments, the SNB anticipates solid growth in the coming quarters. In the short term, the world economy is set to continue to expand somewhat above potential, benefiting from the clear improvement in the labour market situation and the ongoing expansionary monetary policy in the advanced economies. However, a gradual slowdown is likely in the medium term.

Nevertheless, there are significant risks to this positive baseline scenario, primarily in connection with political uncertainties and protectionist tendencies. These factors have had an increasingly negative effect on both business and financial market sentiment in recent months. Stronger turbulence could jeopardise global economic growth and have an impact on monetary policy.

In Switzerland, GDP fell by an annualised rate of 0.9%. Despite this decline, GDP was still 2.4% higher year-on-year thanks to the strong expansion in the previous quarters. A slowdown in GDP momentum was to be expected after several very strong quarters. Furthermore, the decline in GDP is also attributable to temporary factors. An analysis of all the available economic indicators points to momentum weakening slightly but remaining positive. The favourable development on the labour market also continued. Employment increased strongly in the third quarter. The unemployment rate declined again through to November to stand at 2.4%.

The SNB now anticipates slightly lower GDP growth of around 2.5% for 2018 as a whole. As in other countries, economic momentum in Switzerland is likely to weaken somewhat in 2019. The SNB expects a rise of around 1.5% in GDP for the coming year.

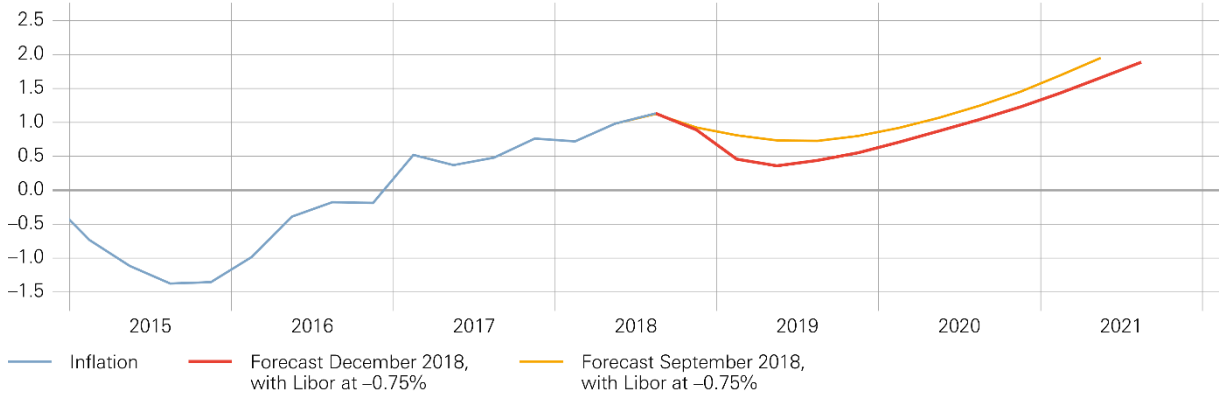
Risks are to the downside, as is the case with the global economy. In particular, a sharp slowdown internationally would quickly spread to Switzerland.

Imbalances on the mortgage and real estate markets persist. Both mortgage lending and prices for single-family homes and privately owned apartments continued to rise at a moderate rate over recent quarters. Although prices in the residential investment property segment have stabilised, there is the particular risk of a correction due to strong price increases in recent years and growing vacancy rates. The SNB will continue to monitor developments on the mortgage and real estate markets closely, and will regularly reassess the need for an adjustment of the countercyclical capital buffer.

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CONDITIONAL INFLATION FORECAST OF DECEMBER 2018

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



Sources: SFSO, SNB

OBSERVED INFLATION IN DECEMBER 2018

	2015				2016				2017				2018				2015	2016	2017
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	-0.7	-1.1	-1.4	-1.4	-1.0	-0.4	-0.2	-0.2	0.5	0.4	0.5	0.8	0.7	1.0	1.1		-1.1	-0.4	0.5

Source: SFSO

CONDITIONAL INFLATION FORECAST OF DECEMBER 2018

	2018				2019				2020				2021				2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast September 2018, with Libor at -0.75%				1.1	0.9	0.8	0.7	0.7	0.8	0.9	1.1	1.2	1.5	1.7	2.0		0.9	0.8	1.2
Forecast December 2018, with Libor at -0.75%				0.9	0.5	0.4	0.4	0.6	0.7	0.9	1.0	1.2	1.4	1.7	1.9		0.9	0.5	1.0

Source: SNB