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## **Monetary policy assessment of 19 September 2019**

### **Swiss National Bank leaves expansionary monetary policy unchanged and adjusts basis for calculating negative interest on sight deposits at SNB**

The Swiss National Bank is keeping the SNB policy rate and interest on sight deposits at the SNB at  $-0.75\%$ . It remains willing to intervene in the foreign exchange market as necessary, while taking the overall currency situation into consideration. Furthermore, the National Bank is adjusting the basis for calculating negative interest on sight deposits at the SNB.

The expansionary monetary policy continues to be necessary given the latest international developments and the inflation outlook in Switzerland. The situation on the foreign exchange market is still fragile, and the Swiss franc has appreciated in trade-weighted terms. It remains highly valued.

Negative interest and the willingness to intervene are important in order to counteract the attractiveness of Swiss franc investments and thus ease pressure on the currency. In this way, the SNB stabilises price developments and supports economic activity.

The SNB is adjusting the basis for calculating negative interest as follows. Negative interest will continue to be charged on the portion of banks' sight deposits which exceeds a certain exemption threshold. However, this exemption threshold will now be updated monthly and thereby reflect developments in banks' balance sheets over time.

This adjustment to the calculation basis takes account of the fact that the low interest rate environment around the world has recently become more entrenched and could persist for some time yet. The adjustment raises the exemption threshold for the banking system and reduces negative interest income for the SNB. The new exemption threshold calculation comes into effect on 1 November 2019.

**Press release**

The SNB regularly reviews the basis for calculating negative interest and adjusts it as necessary, in order to ensure room for manoeuvre in monetary policy going forward. The negative interest charge is to be limited to what is necessary, however. More information on the calculation of the exemption threshold can be found in the attached instruction sheet.

The new conditional inflation forecast is lower than in June. This is primarily due to weaker growth and inflation prospects abroad and the stronger Swiss franc. The forecast for the current year has been reduced slightly to 0.4%, from 0.6% in the previous quarter. For 2020, the SNB now expects an inflation rate of 0.2%, compared to 0.7% last quarter. The inflation rate increases to 0.6% in 2021; in the previous quarter, a rise to 1.1% had been forecast. 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 signals have deteriorated in recent months due to heightened trade tensions and political uncertainty. Economic growth around the world slowed in the second quarter, and manufacturing output has since been showing signs of weakening. The economic slowdown is being accompanied by subdued capital spending and a decline in the global trade in goods. Employment growth in the advanced economies was also slower than in previous quarters. In light of the heightened economic risks and modest inflation dynamics, various central banks have adjusted their monetary policy stance and lowered their key rates.

In its new baseline scenario for the global economy, the SNB is revising down its growth forecast for the coming quarters. Over the short term, international momentum is likely to be modest. However, in the medium term the SNB expects the global economy to pick up again, not least due to monetary policy easing measures. Inflation is then expected to rise again gradually.

Risks to the global economy remain tilted to the downside. Chief among them are still political uncertainty and trade tensions, which could lead to renewed turbulence on the financial markets and a further dampening of economic sentiment.

The Swiss economy continued to grow at a moderate rate in the second quarter. Developments on the labour market also remained positive. Employment figures continued to rise, and the unemployment rate remained stable at a low level.

The deterioration of the international economic environment will likely cause growth to weaken temporarily. The SNB expects growth of between 0.5% and 1% for 2019 as a whole, compared to around 1.5% in June. The forecast adjustment is largely attributable to the fact that GDP growth rates for the second half of 2018 and the first quarter of 2019 were revised downwards.

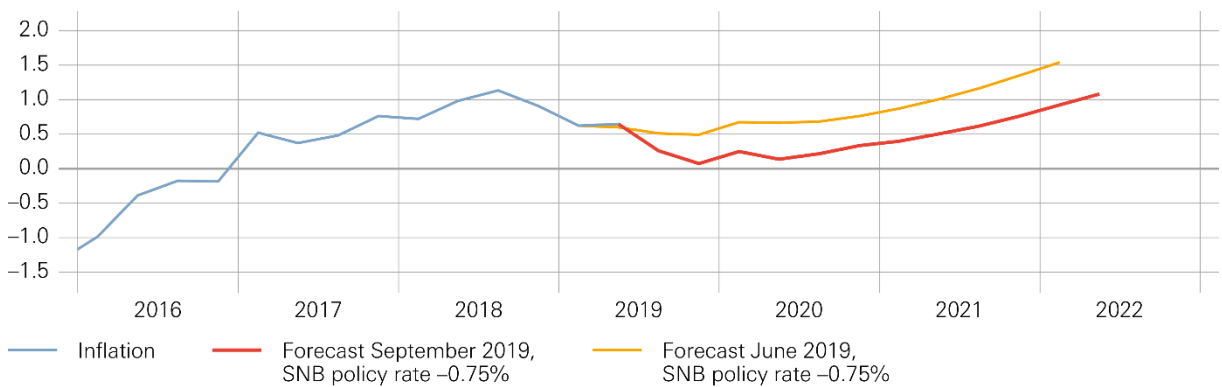
Imbalances persist on the mortgage and real estate markets. Both mortgage lending and prices for single-family homes and privately owned apartments continued to rise slightly in recent quarters, while prices in the residential investment property segment declined somewhat. Nevertheless, due to the strong price increases in recent years and growing vacancy rates there is the risk of a correction in this segment in particular. The SNB therefore welcomes the latest

Press release

revision of the self-regulation guidelines for banks in the area of investment properties. It 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.

**CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2019**

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



Sources: SFSO, SNB

**OBSERVED INFLATION IN SEPTEMBER 2019**

	2016				2017				2018				2019				2016	2017	2018
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	-1.0	-0.4	-0.2	-0.2	0.5	0.4	0.5	0.8	0.7	1.0	1.1	0.9	0.6	0.6			-0.4	0.5	0.9

Source: SFSO

**CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2019**

	2019				2020				2021				2022				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast June 2019, SNB policy rate -0.75%		0.6	0.5	0.5	0.7	0.7	0.7	0.8	0.9	1.0	1.2	1.4	1.5				0.6	0.7	1.1
Forecast September 2019, SNB policy rate -0.75%			0.3	0.1	0.2	0.1	0.2	0.3	0.4	0.5	0.6	0.8	0.9	1.1			0.4	0.2	0.6

Source: SNB

Department III

Zurich, 19 September 2019

**This is an English translation of a German original.  
Only the German original text is authoritative and legally binding.**

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## **Instruction sheet governing negative interest on sight deposit account balances**

### **1. General**

Pursuant to its Terms of Business, the Swiss National Bank (SNB) charges negative interest (cf. section 3 below) on sight deposit account balances (cf. section 2), once the sight deposit account balance exceeds a certain exemption threshold (cf. section 4).

### **2. Scope of application**

Negative interest is charged on sight deposit account balances denominated in Swiss francs. The central Federal Administration and the compensation funds for old age and survivors' insurance, disability insurance and the fund for loss of earned income (compenswiss) are currently exempted.

### **3. Negative interest**

The negative interest rate currently corresponds to the SNB policy rate. Changes in the rate will be announced by the SNB. The applicable interest rate on sight deposits is available at [www.snb.ch](http://www.snb.ch), *Statistics, Reports and press releases, Interest rates and foreign exchange rates (current)*.

Negative interest is calculated on a daily basis according to the Actual/360 convention customary in the money market. It is debited at the end of each month for the interest period of the previous month (cf. section 5). Unless otherwise specified, a change in the negative interest rate will apply with immediate effect, and the affected sight deposit account balances will be subject to the new interest rate on the day of the announcement.

## 4. Exemption threshold

Negative interest is charged only on the portion of the sight deposit account balance which exceeds a certain threshold (exemption threshold).

The exemption threshold applies to each individual sight deposit account holder and shall be at least CHF 10 million.

Should a sight deposit account holder, in exceptional circumstances, hold more than one sight deposit account at the SNB, the threshold only applies once to the aggregate balance of all relevant accounts.

There are two methods:

### Method 1: Minimum reserve-based<sup>1</sup> threshold

*For sight deposit account holders subject to minimum reserve requirements (domestic banks<sup>2</sup>):* The exemption threshold is calculated as a basis component minus a cash holdings component. The basis component corresponds to the moving average of the minimum reserve requirements over the preceding 36 reference periods (RPs), multiplied by the applicable threshold factor. The last RP, i.e. RP 36, is considered to start on the 20th calendar day three months before the beginning of the respective interest period.<sup>3</sup> The cash holdings component corresponds to the cash holdings reported in this last RP.

The applicable threshold factor is available at [www.snb.ch](http://www.snb.ch), *Statistics, Reports and press releases, Interest rates and foreign exchange rates (current)*. Changes in the threshold factor will be announced by the SNB. Unless otherwise specified, a change in the threshold factor will apply as of the beginning of the subsequent interest period.

The threshold, comprising a basis and a cash holdings component according to method 1, is therefore calculated as follows:

	Moving average of minimum reserve requirements over the last 36 RPs multiplied by a threshold factor (basis component)
–	Cash holdings in the last RP (cash holdings component)
=	Exemption threshold

Furthermore, under method 1, the threshold shall not be less than the *basic* minimum reserve requirement of the last RP.

<sup>1</sup> Minimum reserves as defined by the National Bank Ordinance (arts. 12–17 NBO).

<sup>2</sup> Banks as defined by the Federal Act on Banks and Savings Banks.

<sup>3</sup> For example, the last RP for the November interest period is 20 August–19 September.

**Method 2: Fixed threshold**

*For all other sight deposit account holders not mentioned under method 1, the SNB sets a fixed threshold.*

**5. Calculation, debit and notification**

Negative interest is calculated on a daily basis on the portion of the sight deposit account balance which exceeds the exemption threshold at the end of each calendar day. This applies analogously for the aggregate balance of an account holder with several sight deposit accounts.

The negative interest charge for the interest period of the previous month is debited from the sight deposit account on the last value date of each month (reference date). If the sight deposit account holder has more than one sight deposit account, the SNB decides which of those accounts is to be debited (main account). The SNB is authorised to debit the account without prior notice.

The sight deposit account holder must ensure that the main account has sufficient cover on the reference date for the debit of the negative interest.

Debiting the negative interest triggers a sight deposit account transfer by the SNB for Swiss Interbank Clearing (SIC) system participants.

On the reference date, the sight deposit account holder is notified that the negative interest has been charged by the following: account statement via SWIFT (MT950) or physical statement for the main account plus a separate debit notice via SWIFT (MT900), or physical notice. In addition, the sight deposit account holder will receive a physical interest calculation statement detailing the basis for calculation of the negative interest.

**6. New incorporations, changes to legal structures and transformations**

In the case of new incorporations, changes to legal structures and transformations (mergers, demergers or transfers of assets), for sight deposit account holders whose threshold is calculated according to method 1, the principles set out below shall apply when determining the minimum reserve positions (minimum reserve requirements and cash holdings) for the exemption threshold calculation. These positions are used to calculate the threshold for all interest periods which follow a new incorporation, change to legal structure or transformation and are relevant for calculating the exemption threshold (cf. section 4).

**New incorporations**

For the RP preceding the incorporation, the values of the positions of the first minimum reserve report following incorporation that are relevant for the calculation of the threshold are applied retroactively to the RP preceding the incorporation.

**Mergers**

For the RP preceding the merger, the values of the positions of the minimum reserve report of each bank involved that are relevant for the calculation of the threshold are aggregated.

**Demergers**

For the RP preceding the demerger, the values of the positions of the minimum reserve report of the banks involved that are relevant for the calculation of the threshold are divided proportionately. The proportionate allocation for the basis component is made using the ratio of the first minimum reserve requirement values reported by each bank involved following the demerger. For the cash holdings component, the corresponding ratio of the cash holdings is calculated.

**Transfers of assets**

Transfers of assets as per the Merger Act or Code of Obligations which result in a change in the minimum reserve requirements may be taken into account by the SNB in calculating the basis component. In all cases, this requires a joint written application from the banks involved. In addition, any adjustment must always be made for both banks.