**News conference**

**Embargo**
21 March 2024, 10.00 am

# Introductory remarks by the Governing Board

**Thomas Jordan, Martin Schlegel and Antoine Martin**

Chairman of the Governing Board / Vice Chairman of the Governing Board / Member of the Governing Board
Swiss National Bank
Zurich, 21 March 2024

**News conference**

Ladies and gentlemen

As Chairman of the Governing Board, it is my pleasure to welcome you to the news conference of the Swiss National Bank. I would also like to welcome all those who are joining us today online. I extend a special welcome to Antoine Martin. This is his first press conference as a Member of the Governing Board. After our introductory remarks, we will take questions from journalists as usual. Questions can also be asked by telephone.

## Monetary policy decision

I will begin with our monetary policy decision. We have decided to lower the SNB policy rate by 0.25 percentage points to 1.5%. The change applies from tomorrow, 22 March 2024. Banks' sight deposits held at the SNB will be remunerated at the SNB policy rate up to a certain threshold, and at 1.0% above this threshold. We also remain willing to be active in the foreign exchange market as necessary.

The easing of our monetary policy has been made possible because the fight against inflation over the past two and a half years has been effective. For some months now, inflation has been back below 2% and thus in the range we equate with price stability. According to our new forecast, inflation is also likely to remain in this range over the next few years.

With our decision, we are taking into account the reduced inflationary pressure as well as the appreciation of the Swiss franc in real terms over the past year. The policy rate cut also supports economic activity. Today's easing thus ensures that monetary conditions remain appropriate.

We will continue to monitor the development of inflation closely. We will adjust our monetary policy again if necessary to ensure inflation remains within the range consistent with price stability over the medium term.

## Inflation forecast

Allow me to address the development of inflation. Inflation has declined further since the beginning of the year, and stood at 1.2% in February. This decrease was attributable to lower goods inflation. Inflation is currently being driven above all by higher prices for domestic services.

Our new conditional inflation forecast is significantly lower than that of December. In the short term, this is above all due to the fact that price momentum in the case of some categories of goods has slowed more quickly than had been expected in December. In the medium term, lower second-round effects are leading to a downward revision. Over the entire forecast horizon, the conditional inflation forecast is within the range of price stability (cf. chart). The forecast puts average annual inflation at 1.4% for 2024, 1.2% for 2025 and 1.1% for 2026 (cf. table). Our forecast is based on the assumption that the SNB policy rate is 1.5% over the entire forecast horizon.

## Global economic outlook

Let me now turn to the global economic outlook. The global economy grew moderately in the fourth quarter of 2023. However, developments continued to vary greatly between the individual economic areas. The US economy again showed robust growth, while activity was modest in many other countries.

Having declined rapidly in many countries in 2023, inflation has decreased at a somewhat slower pace in recent months. Inflation in many countries remains above central banks' targets. Against this background, many central banks have left their restrictive monetary policy unchanged for the time being.

Global economic growth is likely to remain moderate in the coming quarters, in particular due to the tightening of monetary policy in the last two years and less expansionary fiscal policy. Inflation is likely to decline further, not least due to the restrictive monetary policy.

Our scenario for the global economy is still subject to significant risks. Inflation could remain elevated for longer in some countries, necessitating a tighter monetary policy there than expected in our baseline scenario. Equally, geopolitical tensions could increase. It therefore cannot be ruled out that global economic activity will be weaker than assumed.

## Swiss economic outlook

How does the economic situation look in Switzerland? GDP growth was moderate in the fourth quarter of last year. The services sector expanded again, while value added in manufacturing stagnated. This was above all attributable to the subdued momentum in the manufacturing sector globally, but especially in Germany. Unemployment rose somewhat further, and the utilisation of overall production capacity was normal.

Growth is likely to remain modest in the coming quarters. The weak demand from abroad and the appreciation of the Swiss franc in real terms over the past year are having a dampening effect. Overall, Switzerland's GDP is likely to grow by around 1% this year. In this environment, unemployment is likely to continue to rise gradually, and the utilisation of production capacity is likely to decline somewhat further.

Our forecast for Switzerland, as for the global economy, is subject to significant uncertainty. The main risk is weaker economic activity abroad.

## Monetary policy outlook

Ladies and gentlemen, allow me to return to our monetary policy.

Following the coronavirus pandemic, inflation rose strongly worldwide. In many countries, the increase in inflation proved to be more persistent than at first assumed. The SNB began tightening its monetary policy at an early stage. We initially allowed the Swiss franc to appreciate and then from June 2022 onwards raised the SNB policy rate by a total of 2.5 percentage points. In addition to this, we sold foreign exchange.

Tightening monetary conditions in this way had various advantages. First, the appreciation of the Swiss franc significantly weakened the transmission of inflation from abroad. The increase in inflation in Switzerland was therefore considerably smaller than in other countries. Second, we had to raise our policy rate only moderately by international comparison. This also prevented a stronger rise in the mortgage reference interest rate.

The tightening of our monetary policy led to inflation being above 2% only for a short time, and rapidly decreased from its peak of 3.5% in August 2022 to the current level of 1.2%. Inflation expectations remained well anchored throughout this period. Overall, the second-round effects were limited. Over the past three months, the underlying inflationary pressure has decreased further. This is reflected in our conditional inflation forecast, which we have revised down significantly compared with December. It is within the range of price stability over the entire forecast horizon.

Having already decided in December to no longer focus on sales of foreign exchange, we can now lower the SNB policy rate by 0.25 percentage points to 1.5%. Our decision takes into account the significantly reduced inflationary pressure as well as the appreciation of the Swiss franc in real terms over the past year. It also supports economic activity. With today's easing, we are ensuring that monetary conditions remain appropriate.

However, in the current environment uncertainty is still elevated. We will therefore monitor the ongoing development of inflation closely. If necessary we will adjust our monetary policy again. We also remain willing to be active in the foreign exchange market as necessary. Our goal remains to keep inflation within the range consistent with price stability on a sustainable basis over the medium term.

Ladies and gentlemen, thank you for your attention. I will now hand over to Martin Schlegel.

## Lessons from the crisis at Credit Suisse

It is now around one year since the crisis at Credit Suisse came to a head. On 19 March 2023, the authorities announced a broad package of measures. It comprised the acquisition of Credit Suisse by UBS and state support measures. The SNB provided a total of up to CHF 168 billion in liquidity assistance loans. In its capacity as lender of last resort, it thus made a substantial contribution towards stabilising the financial system.

Over the past year, the SNB has analysed the crisis in depth and identified lessons to be learnt. We have explained our findings in detail in the accountability report just published. I would like to briefly present to you here the key lessons from the SNB's perspective.

The crisis at Credit Suisse highlighted a need for adjustments to the regulation of systemically important banks. The goal must be to make the financial system more resilient. I would like to focus on three elements. First, banks' liquidity provisions should be improved. Liquidity requirements should take appropriate account of the liquidity needs observed during the crisis. At the same time, banks should be required to prepare significantly more collateral to be used for obtaining liquidity assistance from the SNB and from foreign central banks. This preparation is absolutely essential to ensure that the collateral can actually be used if the need arises. Second, options for the stabilisation of a systemically important bank at an early stage should be expanded. Any decision to take such action could also consider market-based and forward-looking indicators in addition to the regulatory metrics. Third, banks' equity should be structured in a way that losses can be better absorbed. The objective must be a more robust valuation of assets that are included in regulatory capital as well as a more solid regulatory treatment of participations.

The measures I have outlined are aimed at making the financial system more resilient. The SNB is actively involved in ongoing work to adjust the regulations, at both national and international level.

Ladies and gentlemen, thank you for your attention. I will now hand over to Antoine Martin.

### Developments on the financial markets and implementation of monetary policy

Before discussing the implementation of monetary policy, I would like briefly to review the main developments on the global financial markets. Since the last monetary policy assessment, interest rates have increased worldwide on the back of robust economic data and a slower-than-expected decrease in inflation in the US. Improving expectations regarding economic conditions and solid Q4 2023 corporate earnings in the US supported risk assets. Various US equity indices traded at all-time highs and credit spreads tightened further.

In Switzerland, on the other hand, interest rates have fallen slightly. The resulting widening of interest rate differentials has been weakening the Swiss franc since the beginning of 2024. The Swiss franc has depreciated by around 1% on a trade-weighted basis since the last monetary policy assessment, having appreciated temporarily at year-end. The Swiss franc is approximately 5% higher relative to the beginning of 2023.

Let me now give you a brief overview of our monetary policy implementation, specifically in the money market. We can see that this continues to prove its worth. In an environment with high excess liquidity, the remuneration of sight deposits and the liquidity-absorbing open market operations ensure that the secured short-term Swiss franc money market rates remain close to the SNB policy rate. In addition, tiered remuneration creates an incentive for liquidity redistribution in the money market and thus also contributes to a solid calculation basis for SARON.

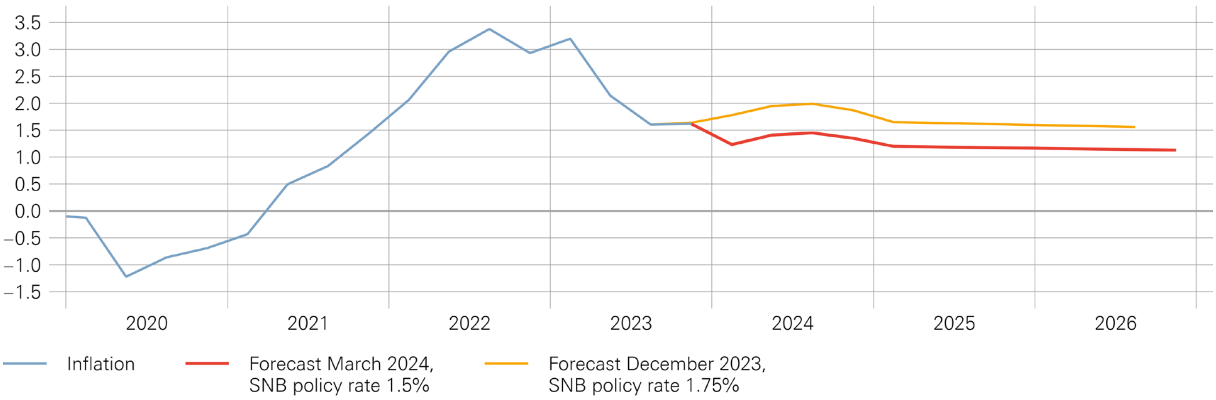
The SNB regularly reviews the implementation of its monetary policy and adjusts it as necessary. Its main goal is always the effective steering of secured short-term Swiss franc money market rates. Furthermore, we aim to keep the costs of implementing our monetary policy low. To this end, since 1 December 2023 we no longer remunerate sight deposits held by banks to meet the minimum reserve requirement. This adjustment has no effect on money market rates.

Zurich, 21 March 2024
Thomas Jordan, Martin Schlegel and
Antoine Martin

**News conference**

## CONDITIONAL INFLATION FORECAST OF MARCH 2024

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




Source(s): SFSO, SNB

## OBSERVED INFLATION IN MARCH 2024

| | 2020 | | | | 2021 | | | | 2022 | | | | 2023 | | | | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Inflation | −0.1 | −1.2 | −0.9 | −0.7 | −0.4 | 0.5 | 0.8 | 1.4 | 2.1 | 3.0 | 3.4 | 2.9 | 3.2 | 2.1 | 1.6 | 1.6 | 0.6 | 2.8 | 2.1 |

Source(s): SFSO

## CONDITIONAL INFLATION FORECAST OF MARCH 2024

| | 2023 | | | | 2024 | | | | 2025 | | | | 2026 | | | | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | | |
| Forecast December 2023, SNB policy rate 1.75% | | | | 1.6 | 1.8 | 2.0 | 2.0 | 1.9 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | 1.6 | | 1.9 | 1.6 | |
| Forecast March 2024, SNB policy rate 1.5% | | | | | 1.2 | 1.4 | 1.5 | 1.4 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.1 | 1.1 | 1.4 | 1.2 | 1.1 |

Source(s): SNB