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Introductory remarks by Thomas Jordan

The Swiss National Bank (SNB) is maintaining its minimum exchange rate of CHF 1.20 per euro. The Swiss franc is still high. An appreciation of the Swiss franc would compromise price stability and would have serious consequences for the Swiss economy. In the current environment, the minimum exchange rate remains important in order to avoid an undesirable tightening of monetary conditions for Switzerland in the event of sudden upward pressure on the Swiss franc. We stand ready to enforce the minimum exchange rate, if necessary, by buying foreign currency in unlimited quantities, and to take further measures, as required. The target range for the three-month Libor will be left unchanged at 0.0–0.25%.

Since March, the SNB's conditional inflation forecast has remained almost unchanged, apart from inflation for the current year, which is slightly lower due to a reduction in the oil price. The forecast is again based on an unchanged three-month Libor of 0.0% over the next three years. For 2013, we now anticipate slightly lower inflation of –0.3%. For 2014, the inflation forecast is unchanged at 0.2% and for 2015 at 0.7%. Consequently, inflation in Switzerland will remain very low in the foreseeable future.

In the first quarter of 2013, the global economy was weaker than expected. The recession continued in the euro area. In the US, the recovery remained hesitant and in China, economic activity lost strength. In Switzerland, real GDP rose significantly in the first quarter. However, we expect a perceptible weakening in growth for the second quarter. Overall, we still anticipate growth of 1.0–1.5% for 2013.

The risks for the Swiss economy remain high. They continue to originate, for the most part, from the international environment. A weakening in global economic momentum cannot be excluded. Further developments in the euro area financial and sovereign debt crisis remain uncertain. Tensions can reappear at any moment on global financial markets. Domestically, there is a risk that the imbalances on the mortgage and real estate markets will grow, given the sustained period of exceptionally low interest rates.

Media News Conference

Global economic outlook

I would now like to outline the outlook for the global economy and Switzerland in more detail. I will then look at monetary and financial conditions and the SNB's monetary policy.

In the first quarter, the growth of the global economy was weaker than expected, across the board. In many emerging markets, particularly China, economic activity lost strength. In the euro area, the recession continued, and in the US, the recovery remained hesitant. The only advanced economy to gain significant momentum was Japan.

However, in the quarters ahead, global growth is likely to firm up gradually. In the US, the recovery will be supported by the labour market and rising asset prices. In Japan, the very expansionary economic policy is having an invigorating effect. Due to the upturn in world trade and the improvement in financing conditions, the euro area is also likely to emerge gradually from recession. In addition, the burden imposed by budget consolidation will be lower next year.

Overall, however, the outlook remains uncertain. The risk of a deterioration in the global economy continues to be high. As before, the biggest risk remains a renewed deterioration in the euro area financial and sovereign debt crisis. Even though our baseline scenario assumes a gradual solution of the crisis, it is possible that tensions could re-emerge on financial markets at any time.

Swiss economic outlook

In Switzerland, the economy experienced a temporary revival in the first quarter, as expected, and real GDP rose by 2.3%, in annualised terms. Thus, we experienced more favourable growth than our neighbouring countries.

The difference is primarily attributable to domestic demand. Once again, growth was mainly driven by private consumption and investment in residential construction. These demand components benefited from the relatively robust labour market, a continued strong inflow of immigrants and the favourable financing conditions. In particular, the supply of credit in Switzerland is currently having a much stronger effect on the real economy than in most European countries.

In the case of exports, however, there are no indications of a lasting revival. Since the beginning of 2011, real exports have been moving sideways. They are being held back not only by the high value of the Swiss franc, but also by the subdued momentum in world trade. Moreover, investment by Swiss companies is hesitant. One reason for this is uncertainty about further developments in the global economy. However, further factors dampening investment activity are pressure on profit margins and the continued overcapacity in parts of the manufacturing industry. According to information derived from the quarterly survey carried out by SNB regional delegates, this cautious approach will persist in the near future. This means that domestic equipment investment in 2013 will probably stagnate.

On the output side, too, developments were mixed in the first quarter. Construction, banking, insurance and health recorded clearly positive growth figures. In manufacturing, business activity merely stabilised. In this area, the situation in the metal processing and machine industries, in particular, remains difficult. Both of these industries are suffering from weak industrial activity and the lack of investment demand on the part of companies in many European countries.

Most recently, growth in employment has slowed, and unemployment has risen again somewhat, in seasonally-adjusted terms. We expect that unemployment figures will increase again marginally to the end of the year.

For the second quarter, we forecast a perceptible weakening in growth compared to the strong first quarter. In the following quarters, if the recovery of the global economy strengthens, economic momentum is likely to increase gradually again. We continue to expect growth of 1.0–1.5% for the year 2013 as a whole. Consequently, we do not expect that the Swiss economy will return to full utilisation of production capacity in the near future.

Monetary and financial conditions

I will now turn to monetary and financial conditions.

In recent weeks, volatility in financial markets has again increased. Since the last monetary policy assessment, however, the export-weighted external value of the Swiss franc has remained largely unchanged. Recent developments suggest that safe-haven considerations continue to play an important role in the demand for Swiss francs. Overall, the value of the Swiss franc remains high and should fall further over the next few quarters.

The level of interest rates in Switzerland remained very low in the first quarter. On the secured Swiss franc money market, interest rates are in negative territory. Yields at issue for Confederation money market debt register claims also continue to be negative. By contrast, yields on ten-year Confederation bonds have risen slightly from the lows reached last December. Movements in long-term interest rates show that demand for secure investments reacts strongly to the international environment. My colleague, Fritz Zurbrügg, will talk about developments on financial markets in more detail afterwards.

Banks’ sight deposits at the SNB have not increased any further since September 2012. However, growth in the M1, M2 and M3 monetary aggregates, which measure the amount of money held by households and companies, remained strong. This growth in money was accompanied by robust lending on the part of banks. Although the rate of growth of mortgage loans to households has declined since mid-2012, it is still at a high level. Most recently, mortgage lending to companies, in particular in residential construction, has increased significantly.

Overall, lending has been growing faster than nominal GDP for several years. In addition, prices for owner-occupied apartments and single-family homes have risen strongly in the past few years. Given the sustained period of exceptionally low interest rates, there is a risk that the imbalances on the mortgage and real estate markets will increase further. This development jeopardises financial stability and, in the event of an abrupt correction, can have wide-reaching consequences for the real economy.

SNB monetary policy

Ladies and gentlemen, the SNB continues to face major challenges. In particular, the threat that the Swiss franc could suddenly come under upward pressure again has not been averted. In the current low interest rate environment, therefore, the minimum exchange rate remains the focal instrument for ensuring appropriate monetary conditions.

The financial crisis has shown that for balanced economic development more than just price stability is required; financial stability must also be guaranteed. In Switzerland, the fact that the SNB is required to contribute to ensuring financial stability was already laid down in the National Bank Act of 2004. Our annual *Financial Stability Report* is an important instrument in this respect. It draws attention to emerging imbalances and the existence of risks which, in our view, could jeopardise the stability of the banking industry as a whole in the medium term.

In addition, last year a new instrument was created – the countercyclical capital buffer – based on the lessons drawn from the financial crisis. At the beginning of the year, the SNB proposed that this buffer be activated, and the Federal Council decided in favour of an activation in February. The countercyclical capital buffer will come into effect from the end of September 2013 and will strengthen the resilience of the banking industry. Moreover, it will help to counter a further build-up of imbalances on the mortgage and real estate markets. My colleague, Jean-Pierre Danthine, will now give you our assessment of the risks in the financial sector.