News conference

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Introductory remarks by the Governing Board

Thomas Jordan, Martin Schlegel and Thomas Moser

Chairman of the Governing Board / Vice Chairman of the Governing Board /
Alternate Member of the Governing Board
Swiss National Bank
Zurich, 21 September 2023

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. In addition to the members of the Governing Board, Thomas Moser is participating in today's news conference. He is currently heading Department III on an ad interim basis. 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 leave the SNB policy rate unchanged at 1.75%. The significant tightening of our monetary policy over recent quarters is countering remaining inflationary pressure. From today's perspective, it cannot be ruled out that a further tightening of monetary policy may become necessary to ensure price stability over the medium term. We will therefore monitor the development of inflation closely in the coming months. To provide appropriate monetary conditions, we are also willing to be active in the foreign exchange market as necessary. In the current environment, the focus is on selling foreign currency.

Banks' sight deposits held at the SNB will continue to be remunerated at the SNB policy rate of 1.75% up to a certain threshold. Sight deposits above this threshold will be remunerated at an interest rate of 1.25%, and thus still at a discount of 0.5 percentage points relative to the SNB policy rate.

Inflation forecast

Allow me to address the development of inflation. Inflation has declined further in recent months, and stood at 1.6% in August. This decrease was above all attributable to lower inflation on imported goods and services. At the moment, it is almost exclusively domestic goods and services that are contributing to inflation. Inflation is likely to increase again somewhat in the coming months due to higher rents and energy prices.

Our new conditional inflation forecast is based on the assumption that the SNB policy rate is 1.75% over the entire forecast horizon (cf. chart 1). In the medium term, the new forecast is somewhat below that of June, mainly due to the economic slowdown and slightly lower inflationary pressure from abroad. The inflation forecast puts average annual inflation at 2.2% for 2023 and 2024, and at 1.9% for 2025 (cf. table 1). It is thus just within the range of price stability at the end of the forecast horizon.

Global economic outlook

Let me now turn to the global economic outlook. Global economic growth was moderate in the second quarter of this year, with manufacturing performance weak but services sector performance solid in many places. Although inflation continued to decline in many countries, it remains clearly above the respective targets. Against this background, numerous central banks tightened their monetary policy further during the last quarter, albeit at a slower pace than in the previous quarters.

The growth outlook for the global economy in the coming quarters remains subdued, mainly due to tighter monetary policy, less expansionary fiscal policy and the loss of purchasing power due to inflation in the recent past. At the same time, inflation is likely to remain elevated worldwide for the time being. Over the medium term, however, it should return to more moderate levels, not least due to more restrictive monetary policy.

Our scenario for the global economy remains subject to large risks. In particular, the high inflation in some countries could be more persistent than expected, necessitating a further tightening of monetary policy there. Equally, the energy situation in Europe could deteriorate again in Q4 2023 and Q1 2024. A pronounced slowdown in the global economy therefore cannot be ruled out.

Swiss economic outlook

How does the economic situation look in Switzerland at the moment? GDP stagnated in the second quarter of 2023. The services sector once again grew solidly, while value added in manufacturing contracted significantly. The weak manufacturing performance primarily reflects subdued momentum in the manufacturing sector globally, but especially in Germany. Consumption, on the other hand, continued to grow moderately. This is partly due to the situation on the labour market, which remains robust. The utilisation of overall production capacity continued to be above average, albeit only slightly.

Growth is expected to remain weak for the rest of the year. Subdued demand from abroad, the loss of purchasing power due to inflation, and more restrictive financing conditions are having a dampening effect. Overall, Switzerland’s GDP is likely to grow by around 1% this year. In this environment, unemployment will probably continue to rise slightly, and the utilisation of production capacity is likely to decline somewhat.

Our forecast for Switzerland, as for the global economy, is subject to high uncertainty. The main risk is a more pronounced economic slowdown abroad.

Monetary policy outlook

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

Inflation has declined further in recent months and, since June, it has returned to the range that the SNB equates with price stability, i.e. between 0% and 2%. This is a welcome development, particularly in an international comparison. Although inflation is likely to increase again somewhat in the coming months due to higher rents and energy prices, underlying inflation pressure in Switzerland has decreased slightly. In the medium term, our conditional inflation forecast is therefore somewhat below that of the previous quarter. After projecting an increase to 2.2% next summer, it sees inflation return to just below 2% from the beginning of 2025. At the same time, monetary conditions have tightened somewhat again, also due to the appreciation of the Swiss franc since the June monetary policy assessment. This situation allows us to wait for now and review at the next monetary policy assessment whether the monetary policy measures we have taken to date are sufficient to keep inflation within the price stability range on a sustainable basis.

The inflation outlook is characterised by a number of uncertainties. On the one hand, significant upside risks to inflation remain. We continue to observe second-round effects in many domestic goods and services. It is also difficult to assess how strong the overall increase in rents will be. As our conditional inflation forecast is only just below 2% at the end of the forecast period, even minor disruptions, for instance in the energy supply, or an increase in second-round effects, could take inflation above the price stability range again in the medium term. On the other hand, economic momentum in Switzerland, as in other countries, has weakened, especially in manufacturing. The economic downturn could dampen inflation more strongly than expected.

In addition, there is also some uncertainty about how strongly our monetary tightening to date will further weaken inflation. It takes a certain amount of time for increases in the SNB policy rate and the appreciation of the Swiss franc to fully transmit to economic activity and inflation.

With our monetary policy decision today we are taking account of the current uncertainties. Our focus remains firmly on ensuring price stability. We will not hesitate to tighten our monetary policy further if necessary in order to keep inflation below 2% on a sustainable basis.

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

The events in the US banking sector and at Credit Suisse a few months ago have demonstrated once again how important liquidity provisions are to banks. No matter their size, banks can find themselves in a situation where they need significant liquidity quickly. The need for liquidity may result from uncertainty in the banking sector. It may, however, also be specific to an individual bank, for example due to a cyberattack.

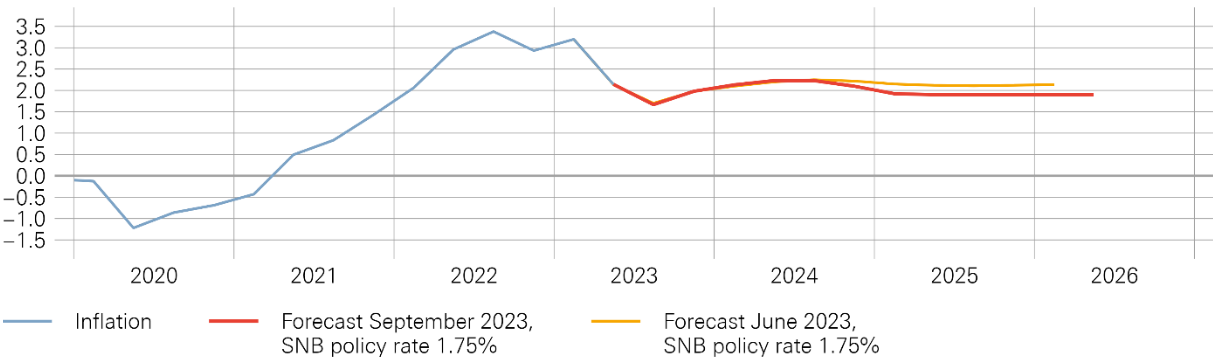
In view of this, I am pleased to inform you of an SNB initiative designed to expand the possibilities we have for making liquidity available to banks. The aim is to ensure that should the need arise, the SNB will in future be able to provide liquidity against mortgages as collateral to all banks in Switzerland that have made the requisite preparations. This possibility has already been available to systemically important banks. The initiative was launched in 2019 and implementation began last year with a pilot project. The SNB duly informed all banks at the end of July.

The initiative focuses on mortgages because they are by far the most significant illiquid balance sheet item in the banking system. Mortgages account for around 85% of domestic credit volume. For a bank to be able to obtain liquidity when needed using mortgages as collateral, it must be able to transfer them to the SNB. This requires legal and operational preparations on the part of the bank. The large number of banks involved means that such transfers must be standardised. To this end, the SNB has developed a digital process together with SIX Terravis. The initiative thus also contributes to the further progress of digitalisation and efficiency in the banking business, in addition to the benefits with regard to liquidity in the banking system.

The SNB expects banks involved in mortgage lending to take part in the initiative. The more banks that take the preparatory steps necessary for this new possibility of obtaining liquidity, the greater the SNB's room to manoeuvre will be in time of need. This will benefit not only the participating banks themselves, but also Switzerland as a whole. The initiative provides broad-based support to financial stability and to the resilience of the banking system.

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2023

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



Source(s): SFSO, SNB

OBSERVED INFLATION IN SEPTEMBER 2023

	2020				2021				2022				2023				2020	2021	2022
	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			−0.7	0.6	2.8

Source(s): SFSO

CONDITIONAL INFLATION FORECAST OF SEPTEMBER 2023

	2023				2024				2025				2026				2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast June 2023, SNB policy rate 1.75%		2.1	1.7	2.0	2.1	2.2	2.3	2.2	2.2	2.1	2.1	2.1	2.1				2.2	2.2	2.1
Forecast September 2023, SNB policy rate 1.75%			1.7	2.0	2.1	2.2	2.2	2.1	1.9	1.9	1.9	1.9	1.9	1.9			2.2	2.2	1.9

Source(s): SNB