Quarterly Bulletin
2/2020 June

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA
SWISS NATIONAL BANK

Quarterly Bulletin
2/2020 June

Volume 38

SNB BNS

Contents

Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of June 2020

The report describes economic and monetary developments in Switzerland and explains the inflation forecast. It shows how the SNB views the economic situation and the implications for monetary policy it draws from this assessment. The first section ('Monetary policy decision of 18 June 2020') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 18 June 2020. Unless otherwise stated, all rates of change from the previous period are based on seasonally adjusted data and are annualised.

1 Monetary policy decision of 18 June 2020

Swiss National Bank maintains expansionary monetary policy

The coronavirus pandemic and the measures implemented to contain it have led to a severe downturn in economic activity and a decline in inflation both in Switzerland and abroad. The SNB's expansionary monetary policy remains necessary to ensure appropriate monetary conditions in Switzerland.

The SNB is keeping the SNB policy rate and interest on sight deposits at the SNB at –0.75%, and in light of the highly valued Swiss franc it remains willing to intervene more strongly in the foreign exchange market. In so doing, it takes the overall exchange rate situation into account. Furthermore, under the SNB COVID-19 refinancing facility (CRF), it is providing the banking system with additional liquidity and thus supporting the supply of credit to the economy at favourable terms. The SNB's expansionary monetary policy helps stabilise economic activity and price developments in Switzerland.

In the current situation, inflation and growth forecasts are subject to unusually high uncertainty. The new conditional inflation forecast is lower than in March (cf. chart 1.1). This is primarily due to the significantly weaker growth prospects and lower oil prices. The forecast for the current year is negative (–0.7%). The inflation rate is likely to rise in 2021, but still be slightly negative (–0.2%), before returning to positive territory in 2022 (0.2%). The conditional inflation forecast is based on the assumption that the SNB policy rate remains at –0.75% over the entire forecast horizon (cf. table 1.1).

The coronavirus pandemic has pushed the global economy into a sharp recession. The measures to contain the virus have massively restricted both production and consumption, which already led to a severe economic downturn in many countries in the first quarter of 2020. The decline in global GDP is likely to be even more pronounced in the second quarter. Unemployment has increased in many countries, with short-time work schemes having prevented a stronger rise in Europe.

In light of the declining infection numbers, many economies have in the meantime begun to ease their containment measures. The first indications are that economic activity has since picked up. Further loosening of the measures is likely to contribute to a significant economic recovery in the third quarter.

In its baseline scenario for the global economy, the SNB anticipates that further waves of infection will be successfully prevented. Nevertheless, as regards both consumption and investment, demand is likely to remain moderate for the time being. Global production capacity will probably be underutilised for some time yet, and inflation is likely to remain modest in most countries.

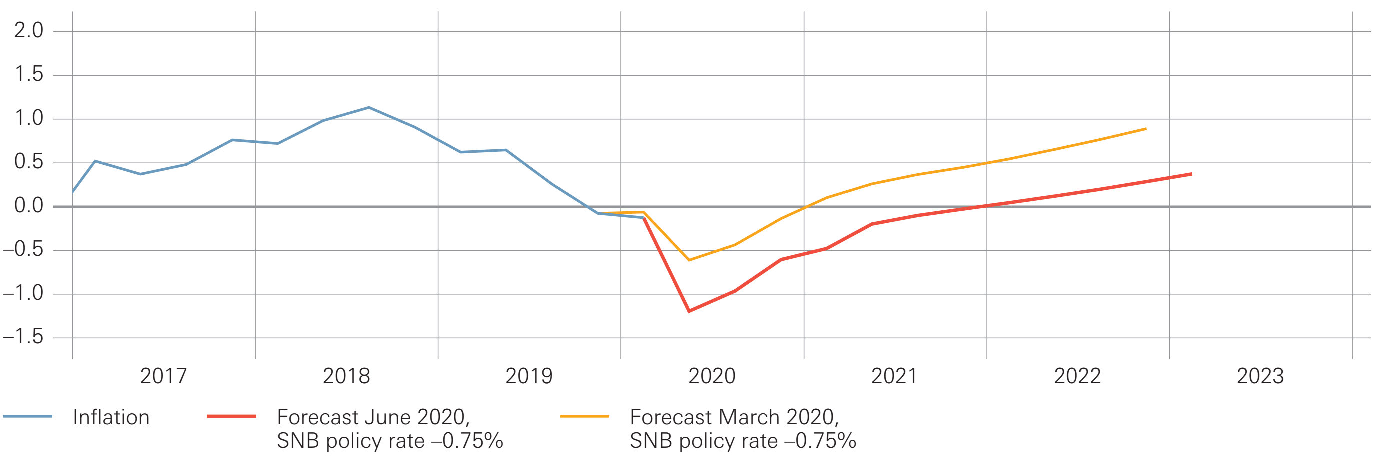
This baseline scenario is subject to a high level of uncertainty on the upside and downside alike. On the one hand, further waves of infection or trade tensions could additionally impair economic activity. On the other, the significant monetary policy and fiscal policy measures introduced in many countries could support the recovery more strongly than expected.

The Swiss economy is also in a sharp recession. Correspondingly, most economic indicators have deteriorated drastically in recent months. Short-time working has reached unprecedented levels, unemployment has risen rapidly, and consumer

Chart 1.1

CONDITIONAL INFLATION FORECAST OF JUNE 2020

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



Sources: SFSO, SNB

sentiment has fallen to a record low. Although the downturn set in only in March, GDP was already 2.6% lower in Q1 2020 than in the previous quarter. The low point in terms of economic activity came in April. The decline in GDP is therefore likely to be even stronger in the second quarter.

Various signals indicate that economic activity has picked up again somewhat since May with the loosening of containment measures. This positive development is likely to continue in the coming months. However, the SNB anticipates that, as abroad, there will be only a partial recovery for the time being, and GDP will not return quickly to its pre-crisis level. Overall, GDP is likely to contract by around 6% this year. This would be the strongest decline since the oil crisis in the 1970s. The economic revival in the second half of the year is likely to be reflected in clearly positive growth in 2021.

Given the fall in revenues experienced by many companies, ensuring the appropriate supply of bridging loans to the economy is crucial for a rapid recovery. Bridging loans can prevent liquidity shortfalls caused by the crisis from leading to insolvencies. To enable banks to offer such loans quickly and at favourable terms, the SNB has provided them with around CHF 10 billion in liquidity at the SNB policy rate of –0.75% since the launch of the CRF. The banks receive this liquidity with COVID-19 loans guaranteed by the federal government or the cantons serving as collateral. The federal government, the SNB and the banks have thus ensured an appropriate supply of credit and liquidity to businesses in Switzerland.

Monetary policy strategy at the SNB

The SNB has a statutory mandate to ensure price stability while taking due account of economic developments.

The SNB has specified the way in which it exercises this mandate in a three-part monetary policy strategy. First, it regards prices as stable when the Swiss consumer price index (CPI) rises by less than 2% per annum. This allows it to take account of the fact that the CPI slightly overstates actual inflation. At the same time, it allows inflation to fluctuate somewhat with the economic cycle. Second, the SNB summarises its assessment of the situation and of the need for monetary policy action in a quarterly inflation forecast. This forecast, which is based on the assumption of a constant short-term interest rate, shows how the SNB expects the CPI to move over the next three years. As the third element in implementing its monetary policy the SNB sets the SNB policy rate, and seeks to keep the secured short-term Swiss franc money market rates close to this rate.

Table 1.1

OBSERVED INFLATION IN JUNE 2020

	2017				2018				2019				2020				2017	2018	2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	0.5	0.4	0.5	0.8	0.7	1.0	1.1	0.9	0.6	0.6	0.3	–0.1	–0.1				0.5	0.9	0.4

Source: SFSO

CONDITIONAL INFLATION FORECAST OF JUNE 2020

	2020				2021				2022				2023				2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast March 2020, SNB policy rate –0.75%	–0.1	–0.6	–0.4	–0.1	0.1	0.3	0.4	0.5	0.5	0.7	0.8	0.9					–0.3	0.3	0.7
Forecast June 2020, SNB policy rate –0.75%		–1.2	–1.0	–0.6	–0.5	–0.2	–0.1	0.0	0.0	0.1	0.2	0.3	0.4				–0.7	–0.2	0.2

Source: SNB

2 Global economic environment

The coronavirus pandemic and the measures implemented to contain it have pushed the global economy into a sharp recession. Most countries implemented far-reaching containment measures to halt the spread of the virus. The infection numbers have since fallen substantially in many major economies.

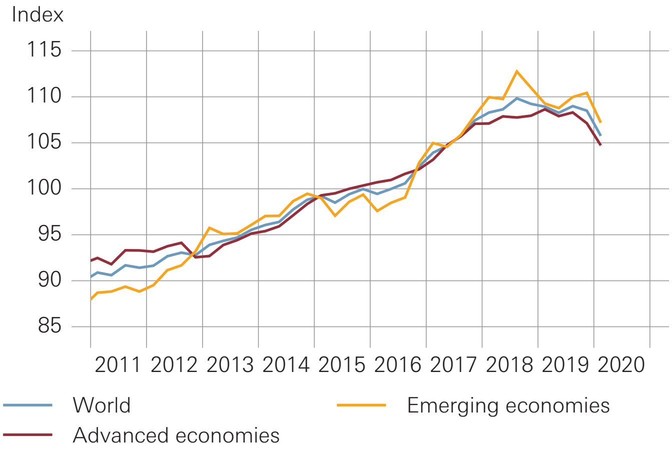
The pandemic measures have restricted both production and consumption, which already led to an economic downturn in many countries in the first quarter. In April, economic activity in most countries is likely to have been only 65% to 80% of the normal level. The decline in global GDP is thus likely to be even more pronounced in the second quarter. Unemployment has increased worldwide, with short-time work schemes having in some instances prevented a stronger rise in certain countries.

Many economies have in the meantime begun to ease their containment measures. The first indications are that economic activity has since picked up. Further loosening of the measures is likely to contribute to a significant economic recovery in the third quarter.

Chart 2.1

GLOBAL GOODS TRADE

Average of depicted period = 100



Sources: CPB Netherlands Bureau for Economic Policy Analysis, Refinitiv Datastream

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

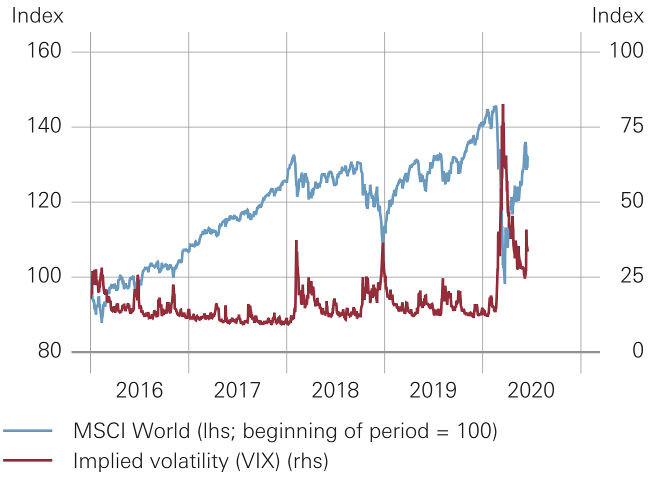
					Scenario	
	2016	2017	2018	2019	2020	2021
GDP, year-on-year change in percent						
Global [1]	3.5	4.1	4.0	3.4	–4.6	7.8
US	1.6	2.4	2.9	2.3	–6.2	5.2
Euro area	1.9	2.7	1.9	1.2	–8.0	5.9
Japan	0.5	2.2	0.3	0.7	–7.4	4.0
Oil price in USD per barrel	43.8	54.3	71.0	64.3	34.0	30.0

1 PPP-weighted (US, euro area, UK, Japan, China, India, Brazil and Russia).

Sources: Refinitiv Datastream, SNB

Chart 2.2

STOCK MARKETS

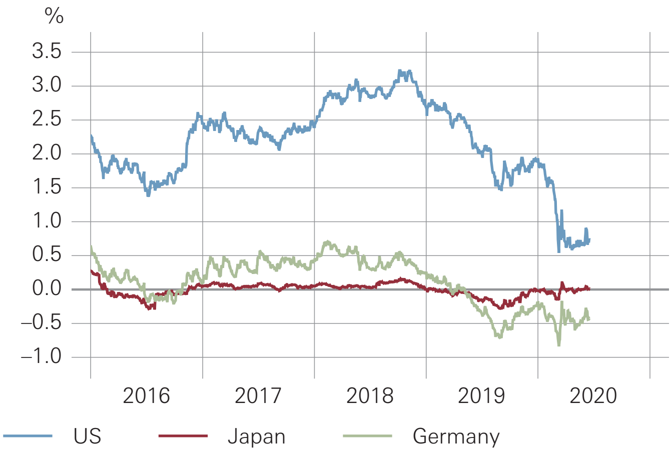


Source: Refinitiv Datastream

Chart 2.3

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

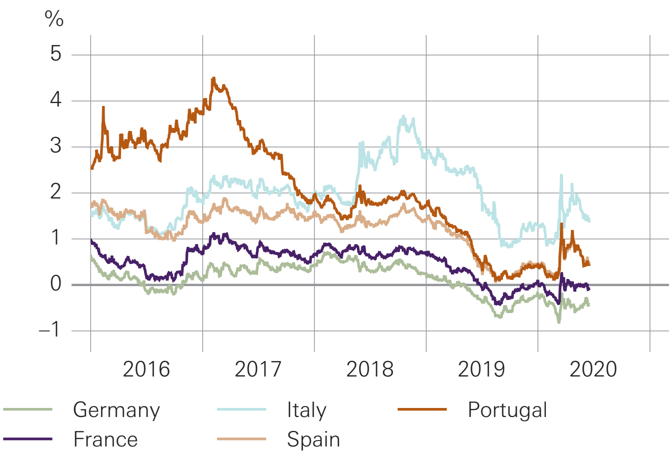


Source: Refinitiv Datastream

Chart 2.4

EUROPEAN LONG-TERM INTEREST RATES

10-year government instruments



Source: Refinitiv Datastream

In response to the severe downturn in economic activity in the first half of the year, numerous economic policy measures were implemented to cushion the impact of losses in income for businesses and households and to mitigate liquidity shortfalls.

In its baseline scenario for the global economy, the SNB anticipates that further waves of infection will be successfully prevented, and that thanks to the economic policy measures taken there will not be a spate of insolvencies and renewed financial market upheaval. Nevertheless, as regards both consumption and investment, demand is likely to remain moderate for the time being. The reasons for this are the uncertainty among economic agents, the rise in unemployment and higher corporate debt. Global production capacity will probably be underutilised for some time yet, and inflation is likely to remain modest in most countries.

This baseline scenario is subject to a high level of uncertainty on the upside and downside alike. On the one hand, further waves of infection or trade tensions could additionally impair economic activity. On the other, the significant monetary policy and fiscal policy measures introduced in many countries could support the recovery more strongly than expected.

The SNB's forecasts for the global economy are based on assumptions about oil prices and the EUR/USD exchange rate. The SNB is assuming an oil price for Brent crude of USD 30 per barrel and an exchange rate of USD 1.09 to the euro. Both correspond to the five-day average when the current baseline scenario was drawn up.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Financial market sentiment started to improve from the end of March, after the worldwide spread of coronavirus had caused severe disruptions from the end of February. This was also reflected in the implied volatility of US stocks as measured by option prices (VIX), which dropped significantly after having peaked in mid-March (cf. chart 2.2). Risk premia on corporate bonds narrowed again somewhat, too. Factors lending support in this regard were the monetary policy and fiscal policy measures adopted in many countries, which ensured the supply of liquidity and cushioned the impact of losses in income for businesses and households.

Share prices recovered worldwide in the course of the second quarter. The MSCI World Index recouped much of the heavy losses sustained between February and the end of March.

Yields on ten-year government bonds in the advanced economies trended sideways for the most part (cf. charts 2.3 and 2.4). In the member states of the euro area hit particularly hard by the coronavirus crisis, the yield spreads to German government bonds narrowed again against the backdrop of the expansion of the ECB's bond purchase programme and the proposal of a European recovery fund.

The US dollar weakened on a trade-weighted basis, while the euro and yen trended sideways. In the second half of March, the pound sterling managed to recoup some of the losses suffered earlier in the month and thereafter also trended sideways (cf. chart 2.5).

The severe downturn in economic activity combined with high levels of oil production weighed heavily on oil prices, which fluctuated between mid-March and the end of April at around USD 25. By mid-June, oil prices had recovered to roughly USD 40 amid the gradual pick-up in economic activity worldwide and the output cuts made by OPEC and other oil-producing countries. Although prices for industrial metals were higher than in mid-March, they remained well below their level at the start of the year (cf. chart 2.6).

UNITED STATES

The economic situation in the US has deteriorated markedly in recent months. Activity fell sharply from the second half of March in the wake of measures taken to stem the coronavirus outbreak. The first quarter saw a 5.0% decline in GDP (cf. chart 2.7). Unemployment rose rapidly and stood at 13.3% in May, compared to 3.6% at the beginning of the year (cf. chart 2.10).

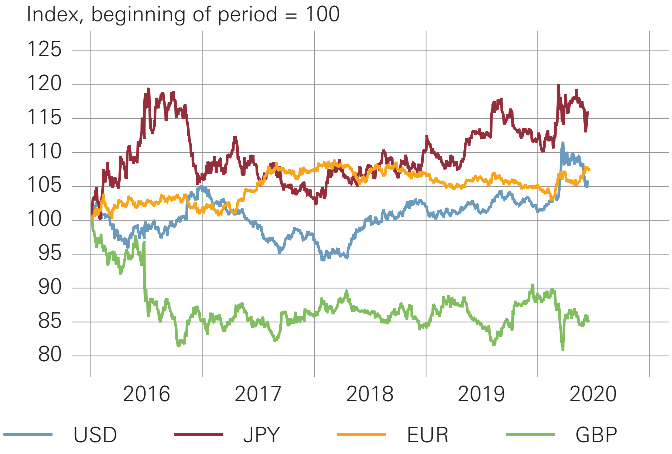
A number of states began to relax coronavirus measures in early May. Economic activity should gradually revive again as a result. Overall, however, given the very weak level of activity in April, GDP is likely to experience another exceptionally sharp drop in the second quarter. In order to mitigate the economic after-effects of the coronavirus crisis, the government adopted a number of fiscal stimulus packages totalling 13.5% of GDP. These include forgivable loans to small and medium-sized enterprises, tax rebates for households and companies, an extension of unemployment benefits, and additional funds for the healthcare system. The SNB anticipates a decline in output of around 6% for 2020. Subsequent years will likely see GDP grow again (cf. table 2.1).

Annual inflation as measured by the CPI decreased considerably in recent months and stood at 0.1% in May (cf. chart 2.11). Owing to the low oil prices, energy prices fell below their year-back level. Core inflation also receded, to 1.2% (cf. chart 2.12). By April, core inflation as measured by the personal consumption expenditure deflator index had decreased to 0.5%, which was significantly below the US Federal Reserve's target.

Chart 2.5

EXCHANGE RATES

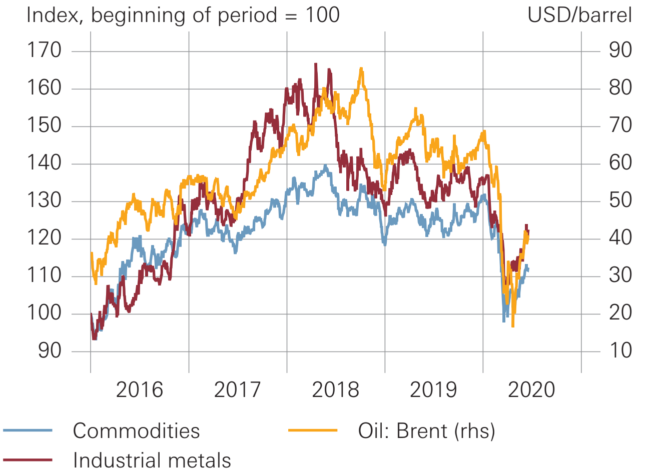
Trade-weighted



Source: Refinitiv Datastream

Chart 2.6

COMMODITY PRICES

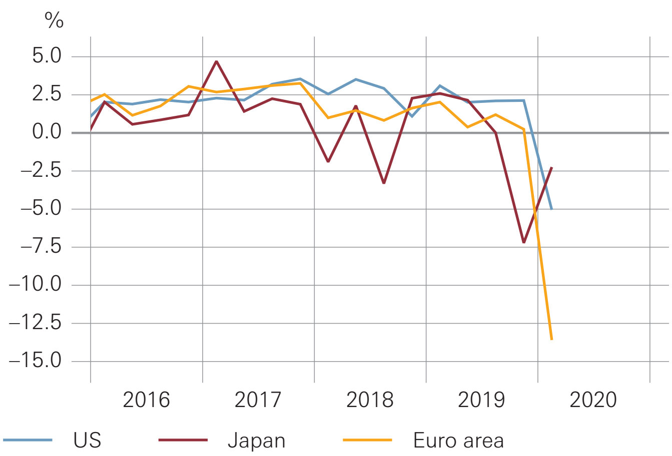


Source: Refinitiv Datastream

Chart 2.7

REAL GDP: ADVANCED ECONOMIES

Change from previous period

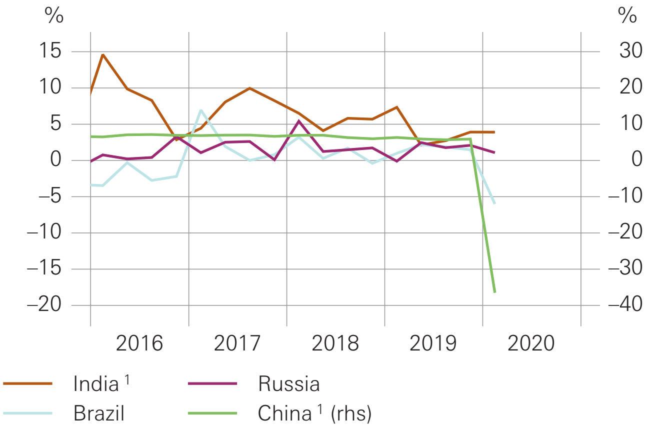


Source: Refinitiv Datastream

Chart 2.8

REAL GDP: EMERGING ECONOMIES

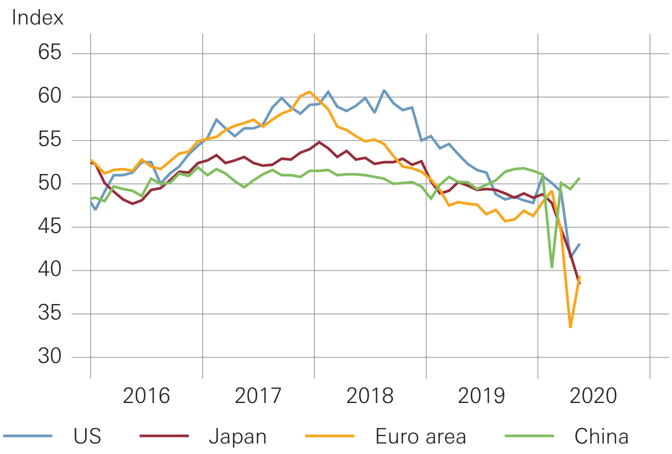
Change from previous period



1 Seasonal adjustment: SNB
Sources: CEIC, Refinitiv Datastream

Chart 2.9

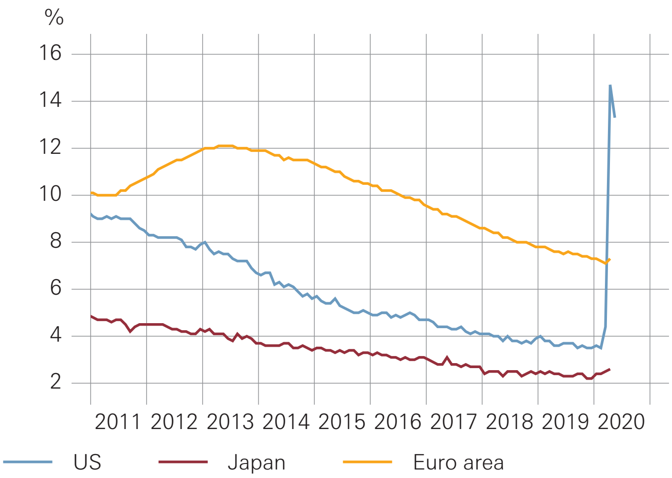
PURCHASING MANAGERS' INDICES (MANUFACTURING)



Sources: Institute for Supply Management (ISM), Markit Economics Limited

Chart 2.10

UNEMPLOYMENT RATES



Source: Refinitiv Datastream

The Fed kept the target range for its policy rate unchanged, having lowered it in March to 0.0–0.25% (cf. chart 2.13). It intends to leave interest rates at this level until the economy has weathered the latest events, and will continue its bond-buying programme in the amounts needed to support smooth market functioning. Additionally, the Fed introduced a number of new credit facilities in March and April. These are aimed at counteracting a tightening of financing conditions and at ensuring the flow of credit to households and companies.

EURO AREA

In the euro area, GDP fell by 13.5% in the first quarter (cf. chart 2.7). The exceptionally sharp decline was due to the severe downturn in activity in March. The drop in GDP was particularly pronounced in France and Italy, where coronavirus containment measures were introduced early on and were very strict. The decline in Germany's GDP, by contrast, was less severe. The unemployment rate in the euro area rose slightly in April to 7.3% (cf. chart 2.10). However, owing to the crisis, numerous people out of work were no longer counted as unemployed. The rapid extension of short-time work schemes initially forestalled a more substantial rise in unemployment in most euro area member states.

In May, member states began to lift their containment measures. Economic activity should pick up again as a result. However, given the exceptionally weak level of activity in April, it can be assumed that there will be a further marked drop in economic output in the euro area in the second quarter. To mitigate the impact of the crisis, member states adopted comprehensive fiscal policy measures. These include liquidity support and loan guarantees for businesses, extended short-time work schemes, tax relief and investment in infrastructure. Due to their discretionary nature, the measures will support the recovery to varying degrees in the individual member states. The SNB expects GDP to decrease by 8.0% for 2020 and then grow again thereafter (cf. table 2.1).

Having declined substantially in recent months in the wake of falling energy prices, consumer price inflation stood at 0.1% in May (cf. chart 2.11). Core inflation receded slightly to 0.9% (cf. chart 2.12).

Following the implementation of extensive support measures in March, the European Central Bank took additional steps in April and June. These included easing the conditions for its targeted longer-term refinancing operations (TLTROs) further and launching a series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs). Moreover, it increased the envelope for its pandemic emergency purchase programme (PEPP) by EUR 600 billion to EUR 1,350 billion. It left its key interest rates unchanged (cf. chart 2.13).

JAPAN

In Japan, GDP contracted in the first quarter by 2.2%, having already fallen 7.2% in the previous quarter as a result of the consumption tax hike and severe typhoons (cf. chart 2.7). In the first quarter, the economy was particularly affected by supply chain disruptions and a sharp decline in tourism from China.

At that stage, the measures to contain the spread of coronavirus were still moderate. In mid-April, however, a six-week state of emergency was declared. The associated restrictions for companies and households severely impacted economic activity and are likely to be reflected in a further, substantial decline in GDP in the second quarter. At the same time, the government also announced an extensive stimulus package in an effort to cushion the economy from the effects of the pandemic. The main relief measures include immediate financial aid to households and small businesses, a one-year moratorium on tax and social security payments, and zero-interest loans to smaller companies. Economic activity looks set to pick up from the third quarter. The SNB expects GDP to decline by around 7% for 2020 and to climb again thereafter (cf. table 2.1).

Consumer price inflation fell considerably in recent months and stood at 0.1% in April, while core inflation dipped into negative territory to stand at –0.1% (cf. charts 2.11 and 2.12). The longer-term inflation expectations derived from company surveys were also weaker, thus remaining significantly below the Japanese central bank's inflation target of 2%.

The Bank of Japan adopted further measures to support bank lending to small and medium-sized enterprises. Moreover, it announced that it would purchase necessary amounts of Japanese government bonds without setting an upper limit so as to keep the yield curve low across all maturities.

CHINA

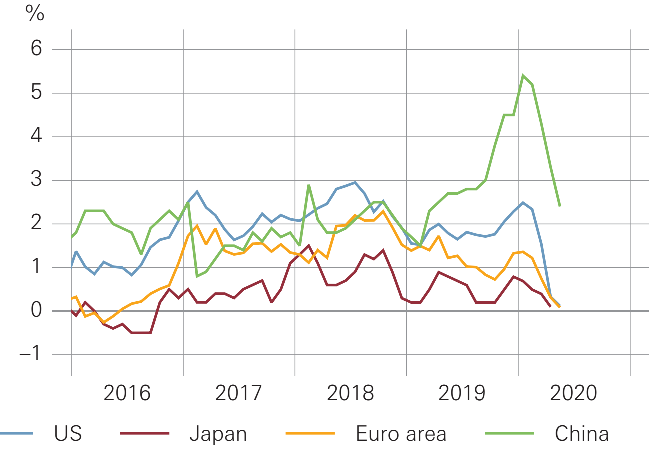
Already in January, the spread of coronavirus had led the Chinese government to introduce extensive quarantine measures. China's GDP consequently fell by 36.5% in the first quarter (cf. chart 2.8). Economic output contracted in all sectors.

From March onwards, the quarantine measures were gradually relaxed as the number of new cases started to decline. Economic activity picked up as a result. In May, manufacturing activity was well above its pre-crisis level again. Overall, signs of a marked recovery are emerging for the second quarter.

Chart 2.11

CONSUMER PRICES

Year-on-year change

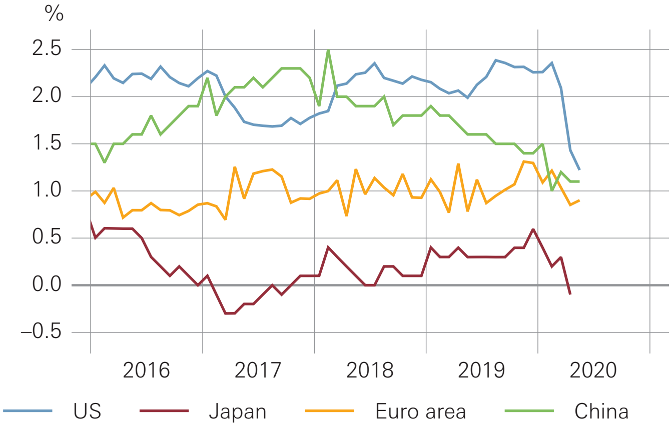


Source: Refinitiv Datastream

Chart 2.12

CORE INFLATION RATES [1]

Year-on-year change

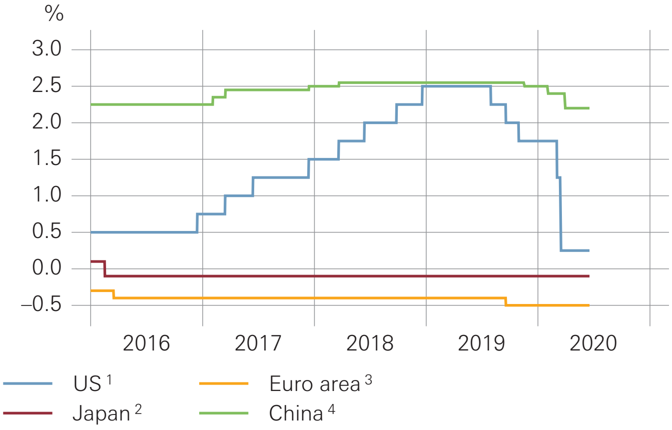


1 Excluding food and energy

Source: Refinitiv Datastream

Chart 2.13

OFFICIAL INTEREST RATES

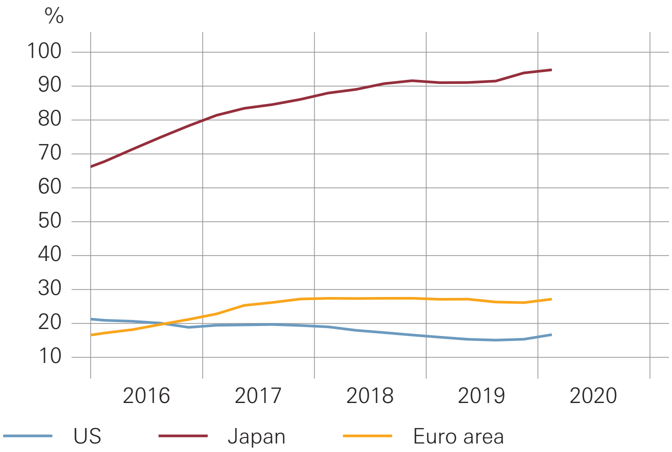


1 Federal funds rate (upper limit of target range)
2 Call money target rate
3 Deposit facility rate
4 Reverse repo rate (7-day)
Source: Refinitiv Datastream

Chart 2.14

MONETARY BASE

Relative to GDP



Source: Refinitiv Datastream

Monetary and fiscal policy measures are expected to provide positive growth stimuli. These include various temporary tax and fee cuts for companies. Furthermore, the government is planning to expedite infrastructure projects. Since the coronavirus outbreak, the People's Bank of China has introduced additional measures to ensure the supply of liquidity and has lowered its key rates (cf. chart 2.13).

Consumer price inflation receded again in recent months and stood at 2.4% in May (cf. chart 2.11). This was largely a reflection of a fall in food prices, which had risen sharply through to February as a result of an outbreak of swine fever. Core inflation was virtually unchanged at 1.1% (cf. chart 2.12).

BRAZIL, INDIA AND RUSSIA

Brazil, India and Russia were also severely affected by the outbreak of coronavirus. In Brazil, GDP contracted in the first quarter, while India and Russia recorded only weak growth (cf. chart 2.8). In all three economies, the coronavirus containment measures adopted in March weighed on economic activity. Additionally, Russia suffered from the effects of the fall in oil prices.

The economic situation in all three countries is likely to continue to deteriorate substantially. While India began to gradually relax its containment measures in June, measures in Brazil and Russia have thus far proven less effective than elsewhere and are therefore expected to remain in place for longer. Low oil prices will further slow Russia's economy.

3 Economic developments in Switzerland

The coronavirus pandemic has also pushed the Swiss economy into a sharp recession. The measures to contain the virus, the massive decline in foreign demand and delivery problems have led to a marked decrease in business activity in many industries. Unlike in previous recessions, services are also heavily affected, in particular the hospitality industry, passenger transport, the entertainment industry and parts of the retail trade.

Correspondingly, most economic indicators have worsened markedly in recent months. Short-time working has reached record levels, unemployment has risen rapidly, and consumer sentiment has fallen to an all-time low. Although the downturn set in only at the end of March, GDP already fell by 10% in the first quarter of 2020, and the output gap thus turned negative.

With the loosening of the containment measures since the end of April and the fiscal policy and monetary policy measures implemented, economic activity has picked up again somewhat. The economy is likely to recover further in the coming months. However, the SNB anticipates that, as abroad, there will be only a partial recovery for the time being, and GDP will not return quickly to its pre-crisis level.

GDP is likely to contract by around 6% this year. This would be the strongest decline since the oil crisis in the 1970s. The economic revival in the second half of the year is likely to be reflected in significant growth in 2021. However, this forecast is subject to considerable uncertainty.

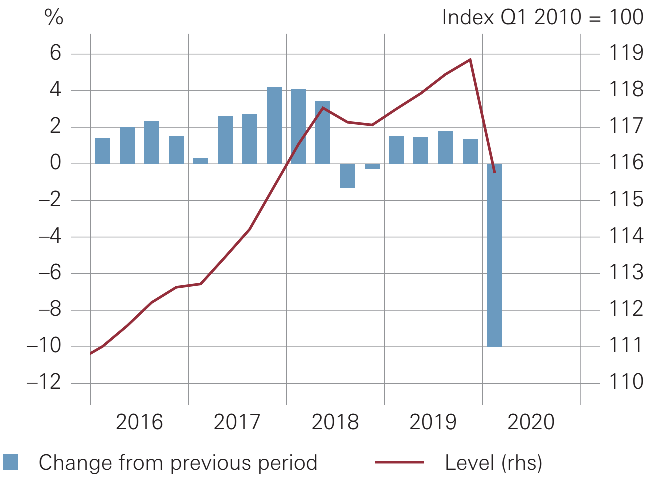
OUTPUT AND DEMAND

The SNB takes a wide range of information into account when assessing the economic situation. This information reveals that activity contracted sharply in March and April.

Strong decline in GDP in first quarter
Although the downturn did not begin until March, GDP had receded by 10.0% in the first quarter (cf. chart 3.1) according to the initial estimate by the State Secretariat for Economic Affairs (SECO). This constitutes the sharpest decline since SECO first started recording quarterly estimates in 1980. Value added decreased in almost every industry. The worst hit were the consumer-related industries, which were directly affected by the mandated closures (hotels and restaurants, retail,

Chart 3.1

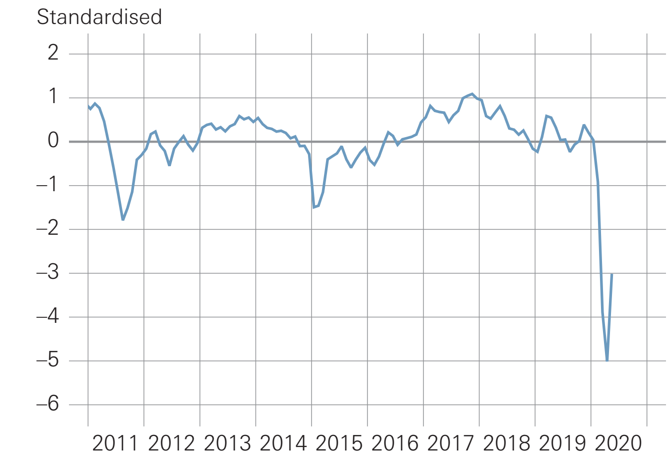
REAL GDP



Source: SECO

Chart 3.2

SNB BUSINESS CYCLE INDEX



Source: SNB

Chart 3.3

MANUFACTURING PMI AND KOF ECONOMIC BAROMETER

Sources: Credit Suisse, KOF Swiss Economic Institute entertainment). In manufacturing, the drop in value added was comparatively small. The only industries to see an increase in value added were finance and public administration.

Final demand also contracted across a broad front (cf. table 3.1). Private consumption, in particular, exhibited the strongest decline since records began. Government consumption and goods exports were the only components to record an expansion. Goods exports benefited especially from robust demand for pharmaceutical products.

Dramatic downturn in economic indicators

Most economic indicators have fallen sharply in recent months. Consumer-oriented indicators such as the non-food retail trade, overnight stays and new car registrations experienced record declines in March and April, as did foreign trade.

The SNB's Business Cycle Index, which offers a comprehensive overview of economic momentum, fell to levels last seen during the financial crisis (cf. chart 3.2). Even the KOF Economic Barometer reached an all-time low. The manufacturing purchasing managers' index (PMI) also recorded a significant deterioration (cf. chart 3.3). The talks held by the SNB's delegates for regional economic relations with companies paint a similar picture (cf. 'Business cycle signals', pp. 28 et seq.); they suggest a severe downturn in the second quarter.

Low point in April

An analysis of the currently available information indicates that economic activity reached a low point in April and stood roughly 20–30% below its usual level. Owing to the extremely low level of activity in April, the decline in GDP is likely to be even more pronounced in the second quarter than in the first.

Activity has picked up again since early May on the back of the gradual easing of containment measures. A range of real-time data, such as mobility and payment transaction figures, show that economic activity has since been on the rise again. Should the trend continue, strong GDP growth is to be expected for the third quarter.

Table 3.1

REAL GDP AND COMPONENTS

Growth rates on previous period in percent, annualised

	2016	2017	2018	2019	2018			2019				2020
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Private consumption	1.4	1.2	1.0	1.2	1.1	0.1	1.2	2.1	1.3	1.1	1.2	–13.3
Government consumption	1.3	1.2	0.3	1.3	0.5	–0.4	1.4	1.8	0.7	2.7	2.8	2.9
Investment in fixed assets	2.5	3.4	1.1	0.8	–1.6	–5.1	–1.2	6.3	–1.5	1.7	8.2	–10.3
Construction	–0.2	1.5	1.2	0.6	2.9	–0.3	–0.8	2.2	–0.4	1.5	2.5	–1.4
Equipment	4.3	4.6	1.1	1.0	–4.2	–7.9	–1.5	8.8	–2.2	1.9	11.6	–15.2
Domestic final demand	1.7	1.8	0.9	1.1	0.3	–1.4	0.6	3.1	0.5	1.5	3.3	–10.5
Change in inventories [1]	–1.4	0.0	0.6	–0.8	5.5	–0.7	–10.9	2.9	0.8	1.9	–5.1	–4.8
Total exports [2]	6.5	3.8	4.5	2.6	–5.9	–8.1	21.9	1.3	–1.3	1.8	0.7	3.7
Goods [2]	5.9	5.2	5.9	4.8	–5.4	–12.7	40.9	–1.7	2.7	3.3	–0.4	14.4
Goods excluding merchanting [2]	5.8	5.8	4.4	4.8	4.5	–11.2	31.5	0.6	1.9	4.8	–4.2	11.0
Services	7.6	1.1	1.6	–1.9	–6.9	1.7	–9.2	8.0	–9.3	–1.5	3.4	–16.6
Total imports [2]	4.4	4.4	2.4	1.6	–2.2	–11.5	4.3	11.3	–2.2	5.4	–7.1	–4.5
Goods [2]	3.8	5.2	6.2	1.9	0.2	–14.1	6.2	16.4	–6.6	6.2	–9.0	–4.4
Services	5.5	2.8	–4.3	1.0	–6.8	–6.0	0.5	1.6	7.4	3.9	–3.1	–4.7
Net exports [3]	1.6	0.2	1.4	0.8	–2.3	0.6	10.1	–4.2	0.2	–1.4	3.5	4.0
GDP	**1.7**	**1.8**	**2.8**	**1.0**	**3.4**	**–1.3**	**–0.3**	**1.5**	**1.4**	**1.8**	**1.4**	**–10.0**

1 Contribution to growth in percentage points (including statistical discrepancy).
2 Excluding valuables (non-monetary gold and other precious metals, precious stones and gems as well as works of art and antiques).
3 Contribution to growth in percentage points.

Source: SECO

LABOUR MARKET

The situation on the labour market has deteriorated considerably since the outbreak of coronavirus in Switzerland. Applications for short-time work shot up, and unemployment rose sharply.

Steep rise in short-term work

The federal government reported that up to 20 May around 190,000 businesses had applied for short-term work for a total of around 1.94 million employees. This corresponds to around 37% of the entire Swiss workforce. Provisional figures from SECO suggest that nearly 37 million working hours were lost in March due to short-time work; the figure for April is likely to be significantly higher still. By comparison, the corresponding figure recorded for the financial crisis peaked at just under 5 million.

Rapid increase in unemployment

The number of people registered as unemployed at the regional employment offices has also risen sharply in the last three months. Excluding seasonal fluctuations, around 160,000 people were recorded as unemployed at the end of May, roughly 40,000 more than at the end of February. Meanwhile, the seasonally adjusted unemployment rate published by SECO for the same period stood at 3.4% (cf. chart 3.4), the highest level since 2010.

In addition, the Swiss Federal Statistical Office (SFSO) calculates unemployment figures in line with the International Labour Organization (ILO) definition, based on data provided by the Swiss Labour Force Survey (SLFS), a household survey conducted quarterly. This survey includes people who are looking for work but are not registered, or are no longer registered, as unemployed with the regional employment offices. The SFSO unemployment rate calculated in accordance with the ILO definition is therefore higher than the one published by SECO. Unlike the SECO unemployment rate, the seasonally adjusted unemployment rate rose only slightly, from 4.1% in the fourth quarter of 2019 to 4.2% in the first quarter of 2020.

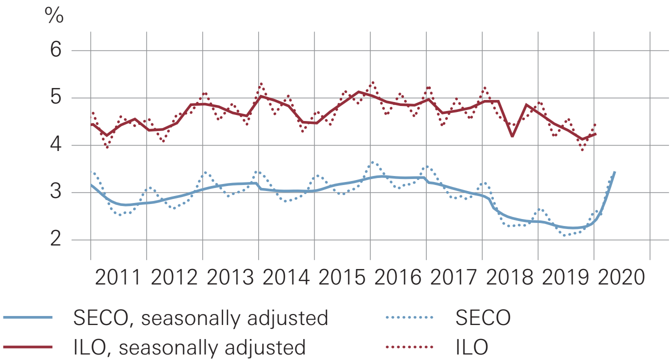
Slight drop in employment in first quarter

According to the Employment Statistics (ES), the seasonally adjusted number of persons employed increased significantly in the first quarter. At 1.5%, growth was actually above the long-term average of 1.1% (cf. chart 3.5). The ES measure the number of employed persons on the household side and are based primarily on SLFS data.

The national job statistics (JOBSTAT), by contrast, measure employment on the company side and are based on a survey of firms. According to these statistics, the seasonally adjusted number of full-time equivalent positions receded slightly in the first quarter, which was attributable to developments in services. Employment remained stable in construction, and even grew slightly in manufacturing (cf. chart 3.6).

Chart 3.4

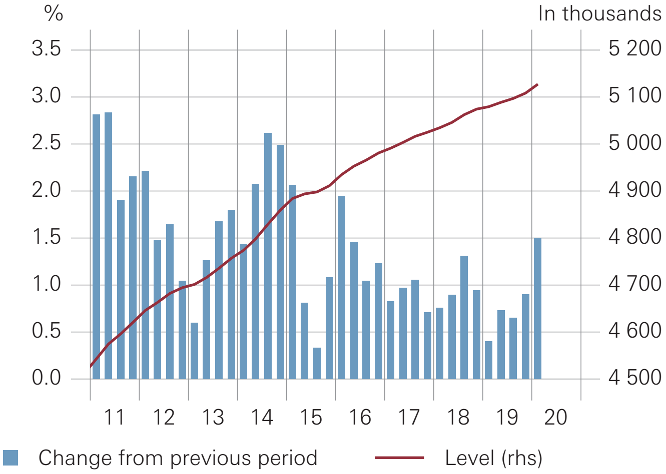
UNEMPLOYMENT RATE



SECO: Unemployed persons registered with the regional employment offices, as a percentage of the labour force (economically active persons). The number of economically active persons is based on the 2000 and 2010 censuses and the three-year averages of the 2012–2014 and 2015–2017 structural surveys.
ILO: Unemployment rate based on International Labour Organization definition.
Sources: SECO, SFSO

Chart 3.5

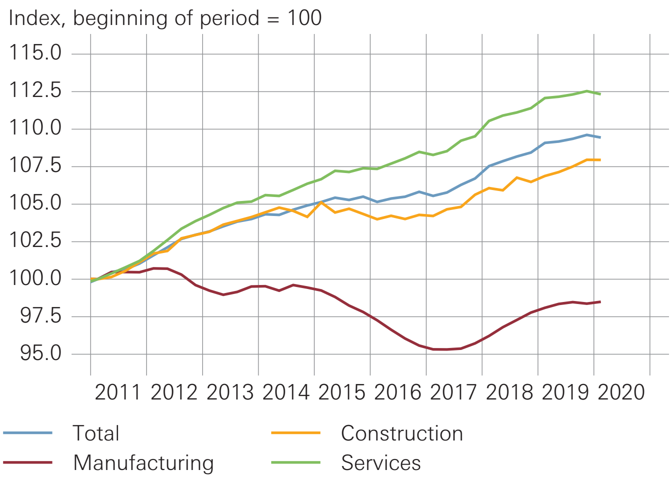
EMPLOYED PERSONS



Source: SFSO; seasonal adjustment: SNB

Chart 3.6

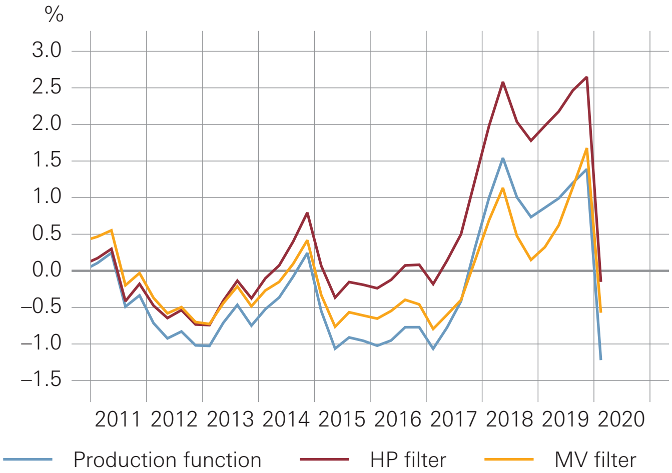
FULL-TIME EQUIVALENT JOBS



Source: SFSO; seasonal adjustment: SNB

Chart 3.7

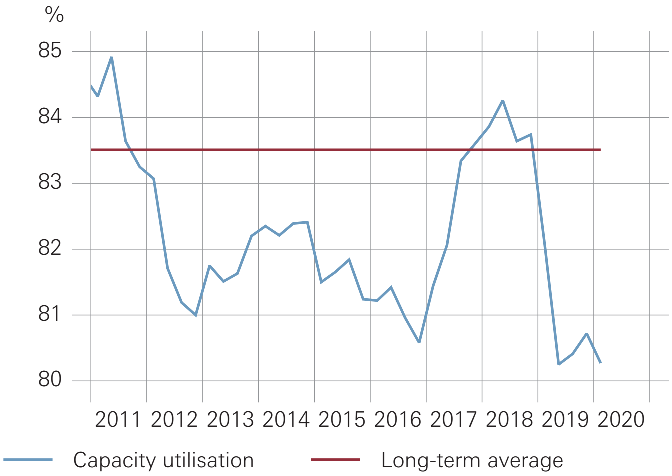
OUTPUT GAP



Source: SNB

Chart 3.8

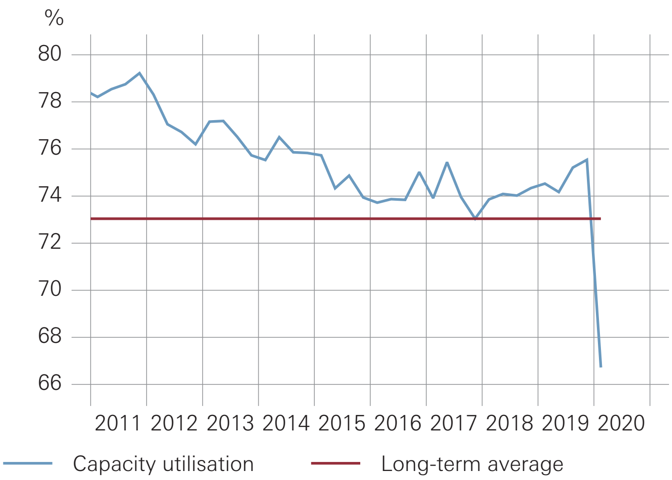
CAPACITY UTILISATION IN MANUFACTURING



Source: KOF Swiss Economic Institute

Chart 3.9

CAPACITY UTILISATION IN CONSTRUCTION



Source: KOF Swiss Economic Institute

Statistics on the number of employed people (based on ES) and the number of full-time equivalent positions (based on JOBSTAT) thus developed differently. This is due in part to the fact that the ES are based on average values during a quarter, while JOBSTAT look at figures for the last month of the quarter. As unemployment and short-time work figures show, the effects of the coronavirus crisis were not felt on the labour market until March.

CAPACITY UTILISATION

Negative output gap in first quarter
The output gap, which is defined as the percentage deviation of actual GDP from estimated aggregate potential output, shows how well the production factors in an economy are being utilised. While economic activity fell sharply in the first quarter, estimated potential output initially remained stable. A large output gap developed as a result. Potential output as estimated by means of a production function shows an output gap of –1.2% for the first quarter of 2020. Estimates using other methods to establish potential output (particularly the multivariate filter) confirm that the gap was negative in the first quarter (cf. chart 3.7).

Surveys show substantial underutilisation
The surveys conducted among companies confirm that the utilisation of production factors declined considerably as a result of the coronavirus crisis. According to the KOF survey, utilisation of technical capacity in manufacturing was still well below average (cf. chart 3.8). Utilisation in construction fell significantly below the long-term average (cf. chart 3.9). In services, too, capacity utilisation saw a sharp decline – particularly in the hotel industry, where occupancy rates recorded a significant drop owing to the travel restrictions. One exception to continue reporting good utilisation of technical capacity was the banking sector.

As regards the labour situation, the majority of companies indicated that their staffing levels are now too high after having experienced shortages in recent quarters. This development is consistent with the rise in short-time working.

OUTLOOK

Containment measures have succeeded in halting the spread of coronavirus in Switzerland for the time being. The daily number of new cases dropped rapidly from the beginning of April, and was latterly at a very low level. Correspondingly, restrictions have been gradually relaxed since the end of April.

The economic situation has also improved as the measures have been eased, with various industries able to resume activities. Furthermore, the fiscal and monetary policy measures implemented are helping to cushion the impact of the coronavirus crisis on companies and households. Nevertheless, the effects of the crisis will likely be felt for some time to come. In light of the loss of income due to the recession and weaker growth abroad, consumption and investment are expected to remain muted for a while longer.

In its baseline scenario, the SNB assumes that GDP will continue to decline in the second quarter. The output gap looks set to widen further as a result. The third quarter can expect to see a strong surge in growth. After that, the economy should continue to recover at a slower pace. The effects of the crisis in the labour market will be more long-lasting. Unemployment is likely to increase further in the near term and peak early next year.

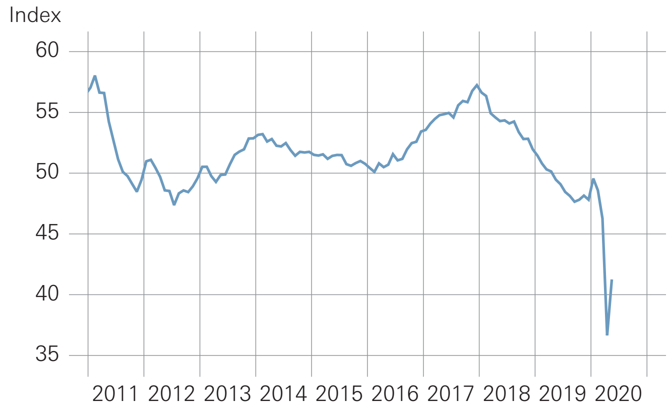
The SNB anticipates a decline in GDP of around 6% for 2020. This would represent the sharpest drop since the oil crisis in the 1970s. The economic revival in the second half of the year is likely to be reflected in significant growth in 2021.

This forecast, which is based on a number of assumptions, is subject to considerable uncertainty. In particular, the SNB assumes that there will not be a second pandemic wave, that the recovery abroad will proceed as expected and that the economic policy measures will succeed in preventing a wave of insolvencies and mass redundancies. Should these assumptions prove to be incorrect, the recovery could take longer than forecast in the baseline scenario.

Chart 3.10

MANUFACTURING PMI ABROAD

Export-weighted, 27 countries



Sources: International Monetary Fund – Direction of Trade Statistics (IMF – DOTS), Refinitiv Datastream, SNB

Chart 3.11

BUSINESS SITUATION

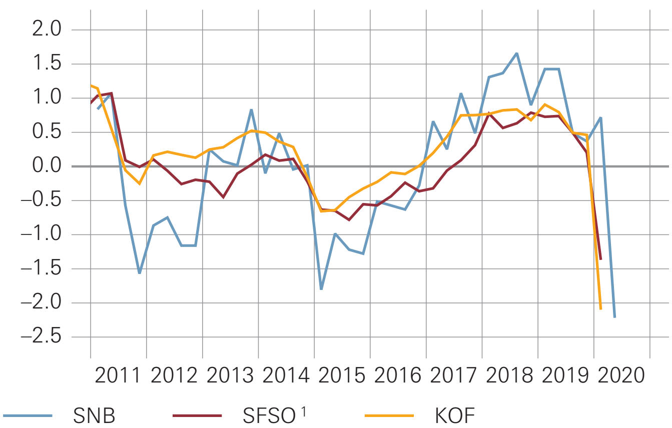
Average across all KOF surveys

Source: KOF Swiss Economic Institute

Chart 3.12

EMPLOYMENT OUTLOOK

Seasonally adjusted, standardised



1 Seasonal adjustment: SNB
Sources: KOF Swiss Economic Institute, SFSO, SNB regional network

4 Prices and inflation expectations

The economic impact of the coronavirus pandemic and the slump in oil prices in recent months have strongly affected both the available price data and the survey results on inflation expectations. The annual inflation rate as measured by the CPI fell substantially. While core inflation rates also declined, they remained – as in previous quarters – above CPI inflation.

Short-term inflation expectations dropped considerably. Medium and longer-term expectations, by contrast, are still within the range consistent with price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

The pandemic and the associated containment measures are temporarily impairing the collection of price data. Nevertheless, it was at all times possible to capture more than 80% of all the prices usually recorded. Furthermore, the collection problems were predominantly in just a few components of the CPI.

CONSUMER PRICES

Low annual inflation rate

The annual CPI inflation rate fell significantly in the past three months. In May, it stood at –1.3%, compared to –0.1% in February (cf. chart 4.1, table 4.1). Inflation both for domestic goods and services and for imported products registered a downturn. In domestic goods and services, the strongest decrease in inflation was seen in private services excluding housing rents. The prices of oil products recorded the steepest decline.

Negative inflation for imported products …

Inflation for imported goods and services has fallen 4.4 percentage points since the beginning of the year, and stood at –4.6% in May. Prices of both oil products and other imported products dropped sharply (cf. chart 4.1).

… and for domestic products

Inflation for domestic goods and services also registered a rapid and marked decline. In May 2020, it stood at –0.2% (cf. chart 4.2). While inflation for domestic goods, housing rents and public services remained stable for the most part, inflation for private services excluding housing rents dropped to –1% in May, its lowest level in over twenty years.

Table 4.1

SWISS CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2019	2019			2020	2020		
		Q2	Q3	Q4	Q1	March	April	May
Overall CPI	**0.4**	**0.6**	**0.3**	**–0.1**	**–0.1**	**–0.5**	**–1.1**	**–1.3**
Domestic goods and services	0.5	0.7	0.4	0.3	0.2	0.0	–0.1	–0.2
Goods	0.6	0.9	0.5	0.0	–0.2	–0.1	0.1	0.0
Services	0.5	0.6	0.4	0.4	0.3	0.1	–0.2	–0.3
Private services excluding housing rents	0.7	0.9	0.5	0.5	0.2	–0.3	–0.8	–1.0
Housing rents	0.5	0.5	0.5	0.8	1.1	1.1	1.1	1.1
Public services	–0.3	–0.1	–0.4	–0.6	–0.9	–0.8	–0.9	–0.8
Imported goods and services	0.0	0.6	–0.1	–1.2	–1.1	–2.2	–3.9	–4.6
Excluding oil products	0.4	0.7	0.4	–0.3	–0.8	–1.1	–2.2	–2.2
Oil products	–2.7	0.1	–4.0	–7.4	–3.8	–10.1	–16.7	–21.3

Sources: SFSO, SNB

Rent inflation unchanged
At 1.1%, housing rent inflation in May was virtually unchanged from previous months. The reference interest rate used for rent adjustments (calculated as a volume-weighted, average interest rate on domestic mortgage loans in Swiss francs at banks in Switzerland) remained at 1.25% (cf. chart 4.3).

Core inflation still above annual CPI inflation
Having changed very little since autumn 2017, core inflation rates recorded a discernible decline in recent months. The decrease was more pronounced for the SFSO core inflation rate 1 (SFSO1) than for the SNB's trimmed mean (TM15), which stood at –0.6% and 0.1%, respectively, in May. However, both rates were still above CPI inflation (cf. chart 4.4).

The SFSO1 and TM15 rates are both based on the prices of a reduced basket of goods. When calculating SFSO1, energy and fuel as well as fresh and seasonal products are excluded. TM15 excludes the products with the most extreme price changes every month (15% at either end of the distribution curve of annual rates of change in product prices).

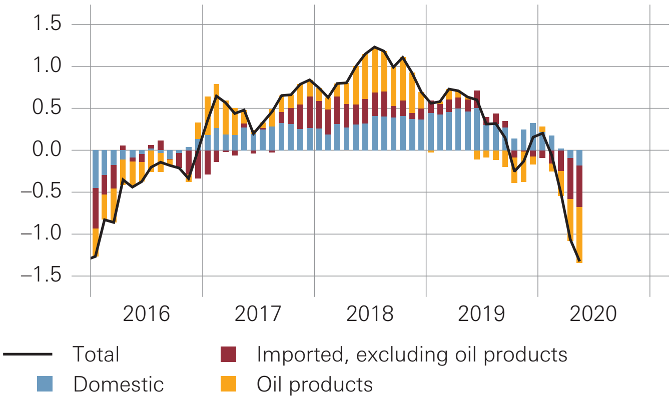
PRODUCER AND IMPORT PRICES

Lower inflation for producer and import prices
Annual inflation for producer and import prices was –4.5% in May 2020, compared with –2.1% in February (cf. chart 4.5). Import prices recorded a sharper decline than producer prices. Both made a significant contribution to the overall decrease.

Chart 4.1

CPI: DOMESTIC AND IMPORTED GOODS AND SERVICES

Year-on-year change in CPI in percent. Contribution of individual components, in percentage points.

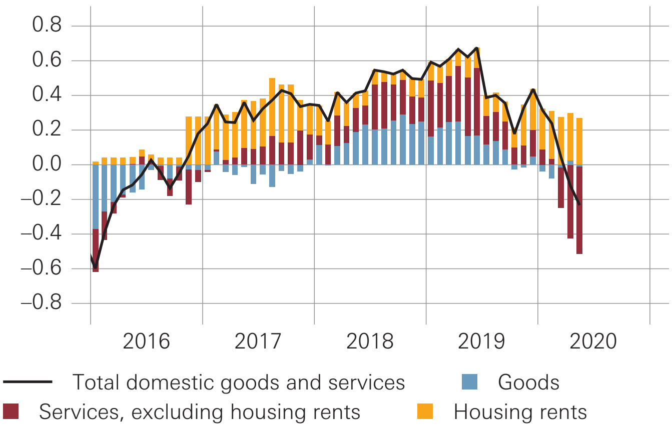


Sources: SFSO, SNB

Chart 4.2

CPI: DOMESTIC GOODS AND SERVICES

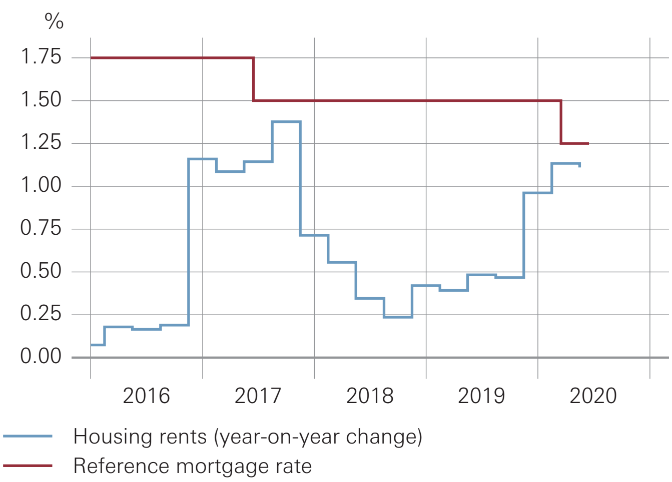
Year-on-year change in domestic CPI in percent. Contribution of individual components, in percentage points.



Sources: SFSO, SNB

Chart 4.3

HOUSING RENTS

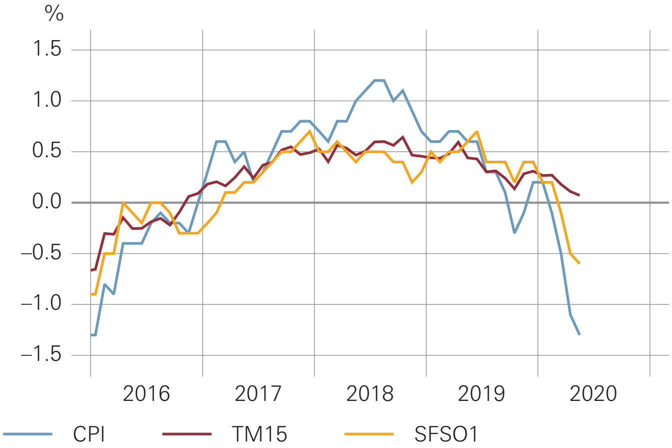


Sources: Federal Office for Housing (FOH), SFSO

Chart 4.4

CORE INFLATION RATES

Year-on-year change

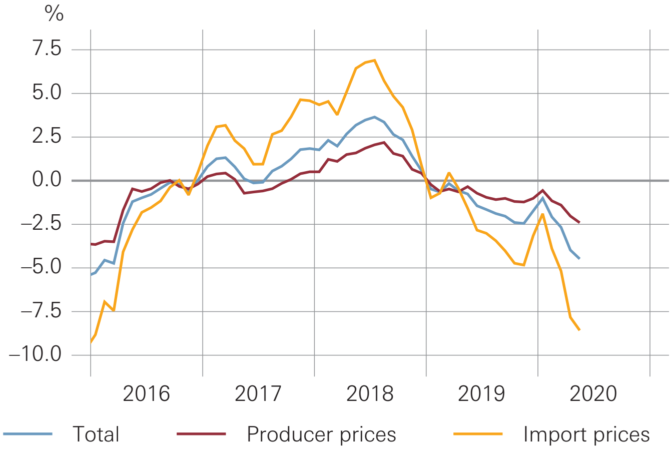


Sources: SFSO, SNB

Chart 4.5

PRODUCER AND IMPORT PRICES

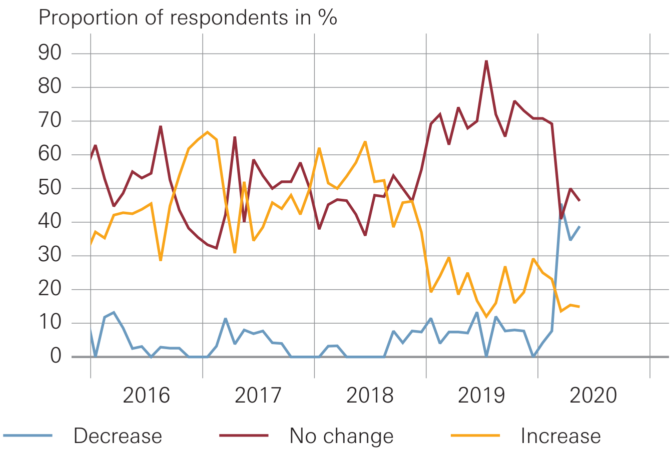
Year-on-year change



Source: SFSO

Chart 4.6

CS-CFA SURVEY: SIX-MONTH INFLATION EXPECTATIONS



Sources: CFA Society Switzerland, Credit Suisse

INFLATION EXPECTATIONS

Short-term inflation expectations significantly lower

Inflation expectations for the current year declined sharply amid the coronavirus pandemic and the slump in oil prices in recent months. According to the joint monthly financial market survey by Credit Suisse and the CFA Society Switzerland, 46% of analysts questioned in May 2020 expected inflation rates to remain unchanged in the next six months (cf. chart 4.6). 39% anticipated a fall in inflation, while the remainder thought inflation rates would rise. Annual CPI inflation stood at –1.1% in April. The survey results thus suggest that respondents expect annual inflation rates to be negative in the months ahead.

The talks conducted by the SNB's delegates for regional economic relations with companies from all sectors also point to short-term inflation expectations in negative territory. In the second quarter of 2020, company representatives expected an average annual inflation rate of –0.2% for the next six to twelve months (Q1 2020: 0.4%).

The quarterly survey of households conducted by SECO in April 2020 shows that more than half of the respondents anticipated a rise in prices over the next twelve months, while less than one-third expected them to remain unchanged. The proportion of respondents anticipating prices to fall was up somewhat on the previous quarter (14% versus 6%).

Longer-term expectations consistent with price stability

Medium and longer-term inflation expectations remain within the range consistent with price stability, which the SNB equates to a rise in CPI of less than 2% per year. Company representatives interviewed by the SNB's delegates in the second quarter of 2020 thus put the inflation rate in three to five years at 1.0% on average (Q1 2020: 0.7%).

5 Monetary developments

At its quarterly assessment on 19 March 2020, the SNB reaffirmed its monetary policy stance. It left its policy rate unchanged, but raised the negative interest exemption threshold for the banking system by increasing the factor from 25 to 30. The SNB also provided the banks with additional liquidity through the creation of the SNB COVID-19 refinancing facility (CRF) and US dollar swap agreements. It thus supported the supply of credit to the economy at favourable terms.

In the period following the March monetary policy assessment, the Swiss franc appreciated against the US dollar but weakened slightly against the euro. While there was little change in capital market rates, share prices recovered substantially.

Growth rates for the broad monetary aggregates returned to positive territory over the course of the past quarter. Growth in bank lending picked up, influenced in particular by the joint and several guarantees programme introduced by the federal government.

SUMMARY OF MONETARY POLICY SINCE THE LAST ASSESSMENT

Expansionary monetary policy remains unchanged

At its quarterly assessment of 19 March 2020, the SNB confirmed its expansionary monetary policy stance. The environment was dominated by the considerable rise in uncertainty associated with the coronavirus pandemic and the marked deterioration in the economic outlook. Against this backdrop, the SNB left unchanged, at –0.75%, the SNB policy rate and the interest rate on sight deposits held by banks and other financial market participants at the SNB which exceed a given threshold. Furthermore, the SNB announced that it was intervening more strongly in the foreign exchange market to contribute to the stabilisation of the situation. In so doing, it was continuing to take the overall exchange rate situation into account. Moreover, the SNB raised the exemption threshold factor from 25 to 30 as of 1 April 2020 to increase the banks' latitude for lending. As with the last adjustment on 1 November 2019, the increase in the threshold factor in April led to a significant rise in the exempt amounts for the banking system and to upward pressure on short-term interest rates. The SNB was active in the repo market in order to ensure that the secured short-term money market rates remain close to the SNB policy rate.

Measures to enhance provision of US dollar liquidity

In March 2020, in a coordinated move to enhance the provision of liquidity via the standing US dollar liquidity swap arrangements, the SNB together with the Federal Reserve, the Bank of Canada, the Bank of England, the Bank of Japan and the European Central Bank announced that the pricing on the standing US dollar swap lines would be lowered by 25 basis points. The new rate is thus the US dollar overnight index swap rate plus 25 basis points. Furthermore, the central banks agreed to increase the frequency of seven-day maturity operations from weekly to daily and to also begin offering US dollars weekly with a maturity of 84 days.

Introduction of SNB COVID-19 refinancing facility

The SNB announced on 25 March 2020 that it was launching the CRF. This facility allows banks to obtain liquidity from the SNB at the SNB policy rate of –0.75% by assigning credit claims as collateral. In so doing, the SNB enables banks to expand their lending rapidly and on a large scale. As collateral the SNB accepts credit claims in respect of loans guaranteed by the federal government under the COVID-19 ordinance on joint and several guarantees. It also accepts claims secured by loan guarantees or credit default guarantees offered by cantons, provided these have been granted in order to cushion the economic impact of the pandemic. Claims secured by joint and several guarantees provided for startups by the federal government in cooperation with the cantons are also deemed by the SNB to be eligible collateral, as are other loans guaranteed by the federal government.

Request for deactivation of countercyclical capital buffer

After consulting with the Swiss Financial Market Supervisory Authority (FINMA), the SNB submitted a proposal to the Federal Council requesting that the countercyclical capital buffer be deactivated. On 27 March 2020, the Federal Council approved the request, which was designed to further support the banks in their key role as lenders.

Higher sight deposits at the SNB

Total sight deposits held at the SNB have increased since the monetary policy assessment of March 2020. In the week ending 12 June 2020 (last calendar week before the assessment of June 2020), they amounted to CHF 679.5 billion. This was higher than in the last calendar week preceding the assessment of mid-March 2020 (CHF 603 billion). Between the assessments of March and June 2020, sight deposits at the SNB averaged CHF 658.6 billion. Of this amount, CHF 575.3 billion were sight deposits of domestic banks and the remaining CHF 83.3 billion were other sight deposits.

Between 20 February and 19 May 2020, statutory minimum reserves averaged CHF 18.5 billion. Overall, banks exceeded the minimum reserve requirement by CHF 533.3 billion (previous period: CHF 491.3 billion). Banks' surplus reserves thus remain very high.

EMERGENCY CORPORATE LOANS

The coronavirus pandemic is weighing heavily on the Swiss economy. In response, Swiss authorities have implemented a comprehensive package of measures to cushion the impact of loss in revenues and income for companies and households. Key elements of this package are the provision of credit to companies and the provision of liquidity to the banking system.

Loans guaranteed by the federal government
On 26 March 2020, the federal government initiated a guaranteed loan programme to provide companies with quick access to loans to bridge liquidity shortages caused by the pandemic. Under this programme, companies can receive loans for up to 10% of their annual turnover (up to a maximum of CHF 20 million).[1] The largest possible COVID-19 loan in the first tranche is CHF 500,000. It is guaranteed in full by the federal government and is interest free. Larger companies can apply for a second tranche (COVID-19 plus loan) in excess of CHF 500,000; the federal government guarantees 85% of such loans.[2]

1 Companies with an annual turnover of up to CHF 500 million are eligible to participate in the programme (cf. covid19.easygov.swiss/en).
2 The interest rate for this guaranteed tranche is 0.5%.

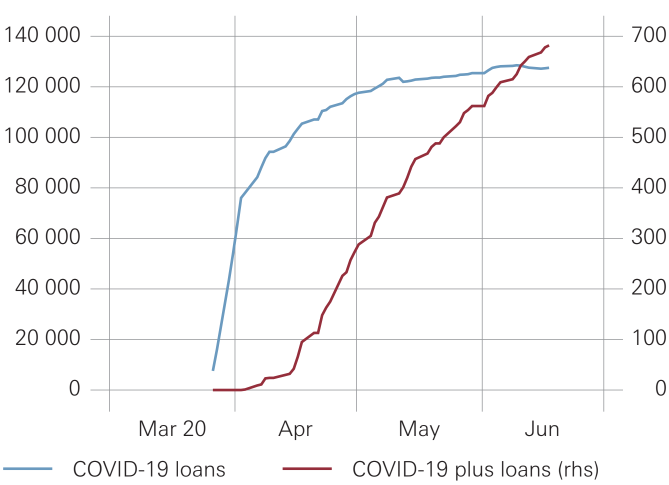
Access to the loans is quick and easy since the lending takes place via existing client relationships with the banks.

The programme has met with high demand (cf. chart 1). By mid-June, just under 128,000 COVID-19 loans had been granted, with over 20% of eligible companies participating. Many of these companies have never had a bank loan before. In addition, nearly 700 applications had been filed for COVID-19 plus loans. The total credit lines are estimated to amount to CHF 15 billion. This corresponds to some 13% of loans not secured by mortgages to private companies as at end-February 2020.

SNB COVID-19 refinancing facility
The CRF was established by the SNB and offers the banks liquidity at the SNB policy rate and secured by the federally guaranteed COVID-19 loans. This in turn enables them to expand their lending rapidly and on a large scale. The facility is in wide use (cf. chart 2) – by mid-June the banks had used the CRF to obtain liquidity amounting to almost two-thirds of the entire COVID-19 credit lines.

Chart 1

NUMBER OF COVID-19 LOANS

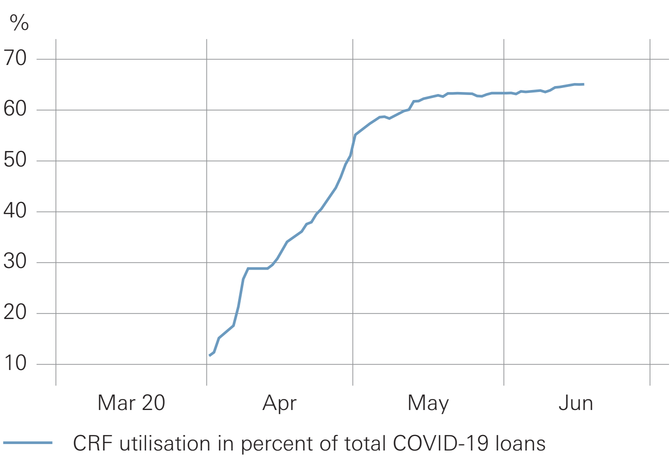


Source: SECO

Chart 2

CRF UTILISATION

COVID-19 and COVID-19 plus loans



Sources: SECO, SNB

MONEY AND CAPITAL MARKET INTEREST RATES

Slight increase in money market rates
In mid-June, short-term money market rates were somewhat higher compared to the March assessment. On the secured money market, SARON stood at –0.66%. The SNB was selectively active on the repo market to keep secured short-term money market rates close to the SNB policy rate of –0.75%. In the quarter under review, unsecured interest rates were, at times, also up on the values recorded in the previous quarter. However, they declined again from May. In mid-June, the three-month Libor stood at –0.66%, thus returning almost to the same level as at the beginning of the year (cf. chart 5.1).

Little change to capital market rates
Long-term capital market rates fluctuated within a relatively narrow range in the second quarter. Yields on ten-year Confederation bonds stood at just under –0.4% in mid-June, thus slightly higher than at the time of the March assessment (cf. chart 5.2).

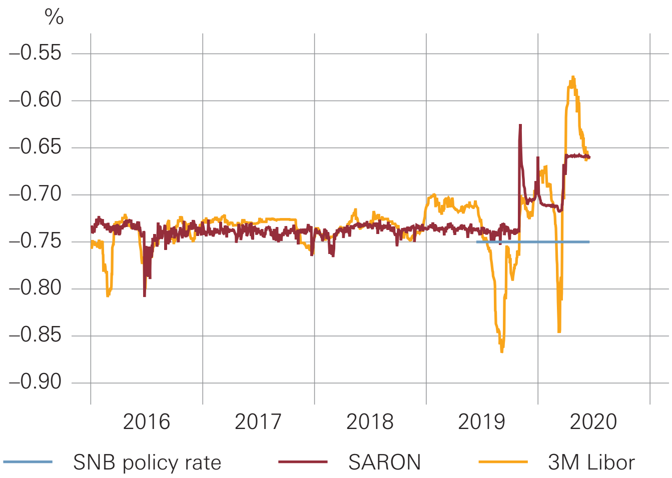
Fluctuations in Confederation bond yields primarily reflected global factors and were consistent with movements in long-term interest rates in other currency areas.

Upward shift in yield curve
Long-term interest rates rose marginally compared to the previous quarter. Estimated interest rates at the short end of the yield curve saw a somewhat more substantial increase. The yield curve for Confederation bonds shifted upwards and flattened as a result (cf. chart 5.3). In mid-June, Confederation bond yields across all maturities remained in negative territory.

Real interest rates still low
Real interest rates are a determining factor in the saving and investment decisions of companies and households. These rates persisted at a low level in the quarter under review, as nominal yields on Confederation bonds were in negative territory, while survey measures of medium and longer-term inflation expectations remained positive.

Chart 5.1

SNB POLICY RATE AND MONEY MARKET RATES



Sources: Bloomberg, SIX Swiss Exchange Ltd, SNB

Chart 5.2

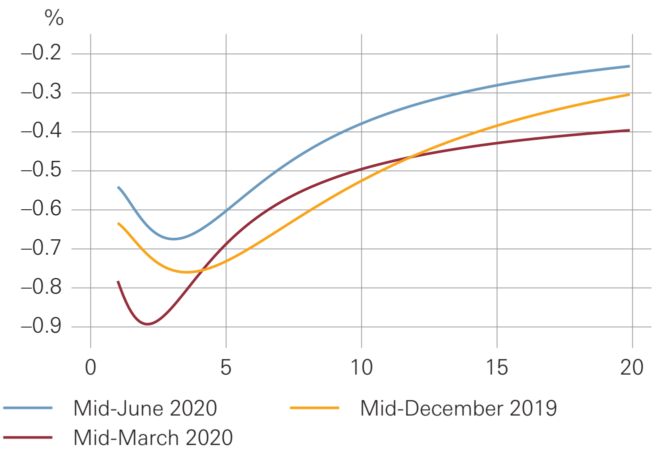
10-YEAR SWISS CONFEDERATION BOND YIELD

Source: SNB

Chart 5.3

TERM STRUCTURE OF CONFEDERATION BONDS

Years to maturity (hor. axis); Nelson-Siegel-Svensson method



Source: SNB

Chart 5.4

EXCHANGE RATES

Source: SNB

Chart 5.5

NOMINAL EXTERNAL VALUE OF SWISS FRANC

Source: SNB

Chart 5.6

REAL EXTERNAL VALUE OF SWISS FRANC

Source: SNB

EXCHANGE RATES

Swiss franc depreciates slightly against euro
Swiss franc exchange rates fluctuated little against the euro and US dollar for most of the quarter under review (cf. chart 5.4). At its quarterly assessment in March, the SNB announced that it was intervening more strongly in the foreign exchange market, thereby counteracting the upward pressure on the franc. Subsequently, the day-to-day fluctuations in the Swiss franc exchange rate remained relatively low, despite the unsettled environment.

In the weeks following the assessment in March, amid concerns about the financial situation of certain euro area member states, the upward pressure against the euro was particularly pronounced. Since mid-May, however, on the back of proposals for an EU recovery fund, the euro has appreciated considerably against the Swiss franc and other currencies, trading at times at around 1.08 to the franc. In mid-June, the Swiss franc was some 1% weaker against the euro compared to the March assessment.

The Swiss franc appreciated against the US dollar in the quarter under review. In mid-June, one dollar was worth CHF 0.95, which was roughly 2% lower than when the monetary policy decision was taken in March.

Lower nominal external value of Swiss franc
Shortly before the March assessment, the nominal trade-weighted external value of the Swiss franc reached its highest level (cf. chart 5.5). It has since weakened slightly was latterly just under 1% lower than at that assessment.

Real external value of Swiss franc high
With the Swiss franc appreciating in nominal terms at the beginning of the year, its real external value also increased markedly. In March, it reached the highest level since early 2017 (cf. chart 5.6). In April and May, the real external value weakened again somewhat. In a longer-term comparison, the value of the Swiss franc remains high.

SHARE AND REAL ESTATE PRICES

Share prices more stable
Following price declines in the first quarter, expansionary fiscal and monetary policy measures, as well as a slowdown in the coronavirus pandemic initially in advanced western economies and China, have contributed to a marked improvement in risk sentiment in financial markets. While global share prices rose sharply in the quarter under review, they remain below the peak levels reached at the beginning of the year. In mid-June, the Swiss Market Index (SMI) was around 16% higher than at the time of the March assessment. However, it was still roughly 9% below its previous all-time high in February 2020 (cf. chart 5.7).

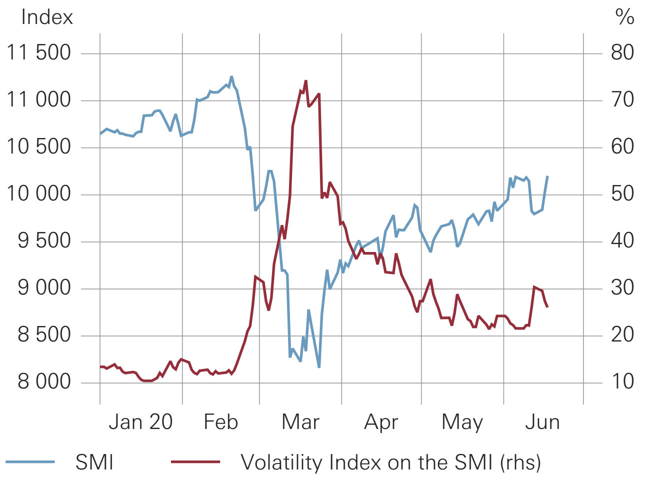
Lower market uncertainty
The volatility index derived from options on SMI futures contracts is an indicator of how investors gauge uncertainty on the stock market (cf. chart 5.7). The index rose sharply with the spread of the pandemic in March. Market uncertainty declined thereafter again. However, the index remains above the levels recorded for much of the last few years.

Distinct differences between sectoral indices
Chart 5.8 shows the movements of important sub-indices in the broad-based Swiss Performance Index (SPI). Having already seen some divergence in the previous quarter, the sub-indices temporarily widened even further in the quarter under review. While share prices of healthcare companies once again approached their all-time high levels from the first quarter, those of financials and industrials recovered only slowly from the fall they took in March.

Continued growth in residential real estate prices
In the first quarter of 2020, transaction prices for residential real estate continued to grow moderately (cf. chart 5.9). It is very likely that the potential consequences of the coronavirus pandemic are not yet visible in the transaction data from the first quarter because real estate transactions need a certain lead time to emerge. The possible effects of the pandemic on the residential real estate market are difficult to gauge given that they are contingent on numerous factors. These include the duration of restrictions on public life, the loss of income for households, developments in immigration, and residential construction activity.

Chart 5.7

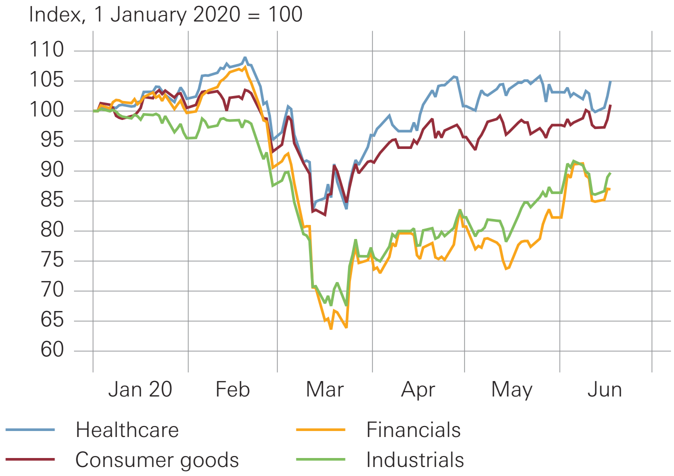
SHARE PRICES AND VOLATILITY



Sources: Bloomberg, Refinitiv Datastream

Chart 5.8

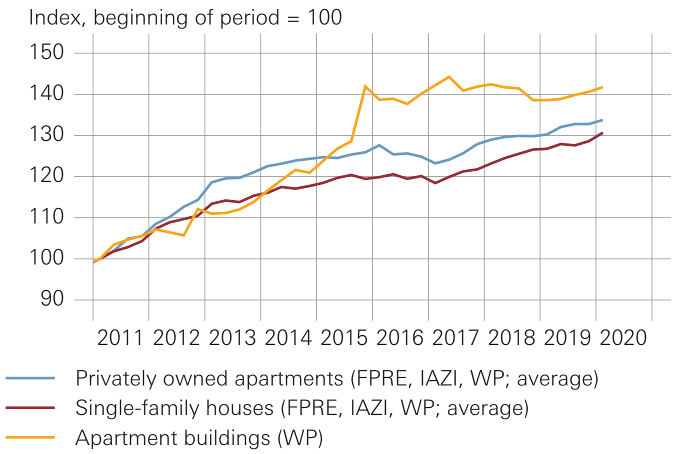
SELECTED SPI SECTORS



Source: Refinitiv Datastream

Chart 5.9

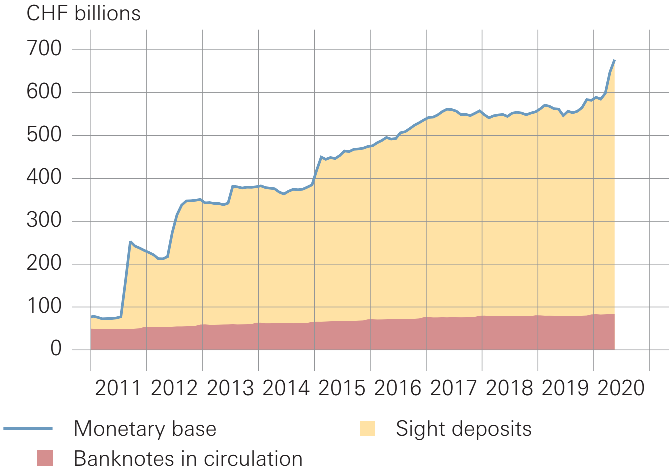
HOUSING TRANSACTION PRICES
Nominal (hedonic)



Sources: Fahrländer Partner Raumentwicklung (FPRE), IAZI, Wüest Partner (WP)

Chart 5.10

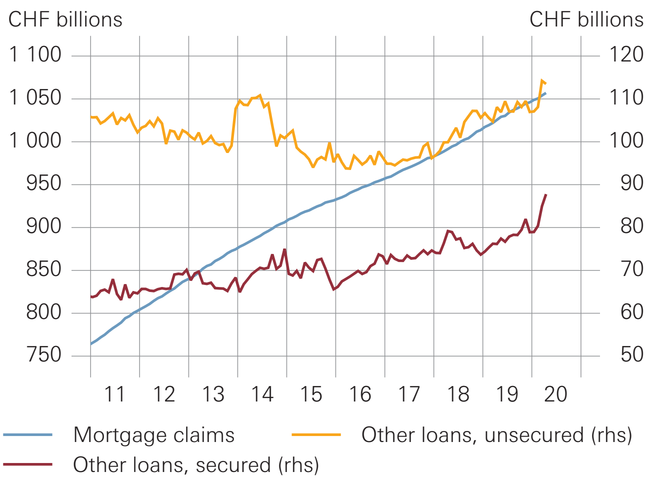
MONETARY BASE



Source: SNB

Chart 5.11

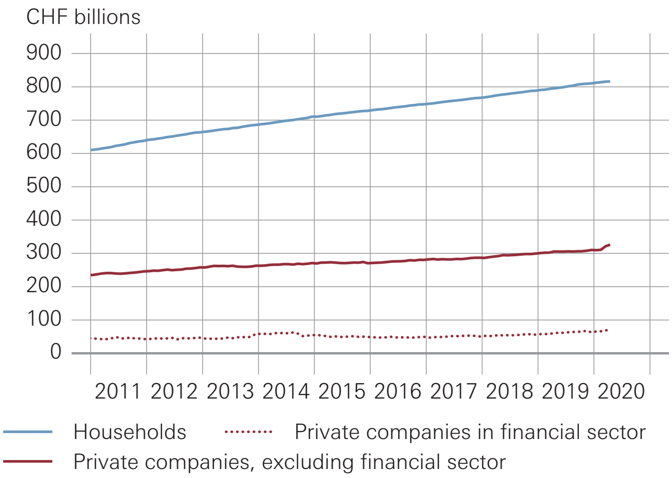
MORTGAGE CLAIMS AND OTHER LOANS



Source: SNB

Chart 5.12

LOANS TO HOUSEHOLDS AND COMPANIES



Source: SNB

MONETARY AND CREDIT AGGREGATES

Rise in monetary base

The monetary base, which consists of banknotes in circulation and sight deposits of domestic banks held at the SNB, has increased considerably since March 2020, averaging CHF 676.9 billion in May (cf. chart 5.10). The bulk of this increase is attributable to the SNB's interventions in the foreign exchange market. The use of the CRF by a number of banks as well as the fine-tuning operations (repos) by the SNB also contributed to the rise in the monetary base.

The other sight deposits held at the SNB have changed little since March.

Broad monetary aggregates on the rise again

Growth rates for the broad monetary aggregates returned to positive territory in March 2020. In April and May, the pace of growth in the monetary aggregates increased further, with the result that the growth rates for broad monetary aggregates were close to those of lending growth rates again. In May, M1 (currency in circulation, sight deposits and transaction accounts) was 3.3% above its year-back level (cf. table 5.1). Meanwhile, M2 (M1 plus savings deposits) rose by 1.3% and M3 (M2 plus time deposits) was up by 2.5%.

Stronger growth in bank lending

Bank lending (domestic bank offices, all currencies) was up 3.5% year-on-year in the first quarter of 2020, compared to a rise of 3.3% in the previous quarter (cf. table 5.1). While growth in mortgage lending slowed marginally, growth in other loans rose sharply, also in response to the joint and several guarantees programme introduced by the federal government (cf. box, p. 22).

Banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, were up 3.1% year-on-year in the first quarter of 2020 (Q4 2019: 3.3%). Demand for mortgages continued to be supported by low mortgage interest rates. The ten-year mortgage interest rate stood at 1.3% in April, close to the all-time low of 1.2% recorded in February.

Other loans are considerably more volatile than mortgage loans (cf. chart 5.11). Between the fourth quarter of 2019 and the first quarter of 2020, they grew substantially from 3.8% to 5.7% (9.3% in April). This increase in growth is attributable to both secured other loans – which include the COVID-19 bridging loans guaranteed by the federal government – and unsecured other loans.

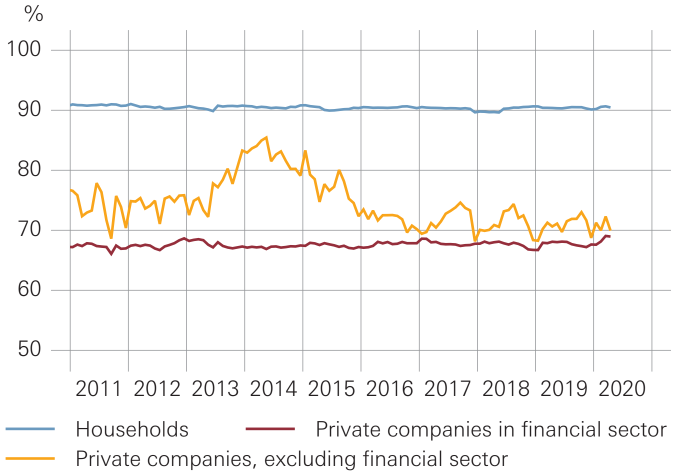
Lending growth and credit line utilisation by sector
Both households and non-financial companies have continued to benefit from favourable financing conditions. This was reflected in the ongoing steady rise in bank loans extended to these two important customer groups (cf. chart 5.12).

At the end of March 2020, loans to households recorded a year-on-year increase of CHF 21.7 billion (2.7%) and loans to non-financial companies a rise of CHF 18.9 billion (6.3%). Loans to financial companies, which exhibit greater volatility at a significantly lower volume, grew by CHF 10.6 billion (18.2%) in the same period.

Despite the significant growth in lending, the level of credit line utilisation rose only marginally (cf. chart 5.13). Since the beginning of the year, credit line utilisation for households increased from 90.1% to 90.7%, for non-financial companies from 67.6% to 69.1%, and for financial companies from 68.7% to 72.3%. The credit supply thus developed in line with demand, and there are no signs of credit rationing.

Chart 5.13

UTILISATION OF CREDIT LIMITS BY SECTOR



Source: SNB

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2019	2019 Q2	Q3	Q4	2020 Q1	2020 March	April	May
M1	**4.1**	**5.4**	**4.4**	**1.5**	**0.5**	**1.9**	**2.8**	**3.3**
M2	**2.7**	**3.7**	**3.0**	**0.9**	**–0.4**	**0.2**	**0.9**	**1.3**
M3	**2.9**	**3.7**	**3.0**	**1.4**	**0.5**	**1.3**	**2.0**	**2.5**
Bank loans, total [1, 3]	**3.4**	**3.3**	**3.4**	**3.3**	**3.5**	**4.2**	**4.0**	
Mortgage claims [1, 3]	3.4	3.4	3.5	3.3	3.1	3.1	3.1	
Households [2, 3]	2.8	2.8	2.8	2.8	2.7	2.7	2.7	
Private companies [2, 3]	5.3	5.6	5.5	4.8	4.3	4.6	4.3	
Other loans [1, 3]	3.6	2.7	3.4	3.8	5.7	10.1	9.3	
Secured [1, 3]	2.0	–2.1	2.8	7.1	8.1	11.5	15.3	
Unsecured [1, 3]	4.8	6.5	3.8	1.4	3.9	9.1	5.0	

1 Monthly balance sheets (domestic bank offices, positions vis-à-vis domestic non-banks, all currencies).
2 Credit volume statistics (domestic bank offices, positions vis-à-vis domestic non-banks, all currencies).
3 Growth rates for the bank loans item and its components include information provided by banks on changes in their classification practices. Consequently, they may deviate from growth rates published on the SNB's data portal, data.snb.ch.

Source: SNB

Business cycle signals

Results of the SNB company talks

Second quarter of 2020

Report submitted to the Governing Board of the Swiss National Bank for its quarterly assessment.

The appraisals presented here are based on discussions between the SNB's delegates for regional economic relations and company managers throughout Switzerland. In its evaluation, the SNB aggregates and interprets the information received. A total of 245 company talks were conducted between mid-April and the beginning of June.

In light of current events, the delegates addressed several additional issues, including specific questions on the liquidity situation and credit demand (for more details, cf. page 32).

Regions	Delegates
Central Switzerland	Gregor Bäurle
Eastern Switzerland	Urs Schönholzer
Fribourg/Vaud/Valais	Aline Chabloz
Geneva/Jura/Neuchâtel	Jean-Marc Falter
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Roland Scheurer
Northwestern Switzerland	Daniel Hanimann
Zurich	Rita Kobel
	Fabian Schnell

Key points

- The spread of coronavirus and the measures implemented to combat it – in particular the lockdown – led to a severe downturn in economic activity in the second quarter.
- According to the information from the talks, which were held between 15 April and 2 June, the declines in turnover, capacity utilisation and margins have been exceptionally strong and have affected virtually all industries.
- Companies have reacted with a broad range of measures, such as working from home and short-time work. The focus is on employee health and on ensuring liquidity.
- With the easing of containment measures that has been phased in since May, the situation has improved – above all in the services sector – albeit at a low level.
- Uncertainty about the future outlook remains exceptionally high. The focus is on the impact of a possible second wave of infections, the threat of a protracted recession, and a further appreciation of the Swiss franc.
- The bridging loans offered by the federal government are seen as a helpful measure (for more details, cf. page 32).

CURRENT SITUATION

Exceptionally strong economic downturn

After a solid start to the year, many companies suffered an unprecedented decline in activity from the beginning of March. This downward trend was exacerbated from mid-March by the closure of businesses across Switzerland by government order.

According to most of the representatives, the low point in terms of business activity came in April. Around 75% of companies said they had been negatively affected by the pandemic in the second quarter, most of them clearly so (cf. chart 1). 12% reported a positive impact, and the same proportion said the positive and negative effects had cancelled each other out. Since May the federal government has phased in an easing of the containment measures, and this has led to a gradual improvement in the business environment.

There was a massive decline in real turnover in the second quarter (cf. chart 2; for guidance on interpreting the charts, refer to the relevant section at the end of this report). This was the case for the services, manufacturing and construction sectors alike, with the latter showing significant regional differences. The export business was also hit hard by falling demand worldwide and the lockdowns in many countries. While business with China and other Asian countries has been gradually returning to normal since April, the signals with regard to the US and in particular southern Europe remain mostly negative.

Production capacity substantially underutilised

As a result of the severe economic downturn and the business closures ordered by the authorities, technical capacity was substantially underutilised in all sectors (cf. chart 3). Furthermore, complying with the hygiene measures is also hindering efficient production.

Significant sales obstacles – only minor procurement bottlenecks

Just under 40% of the companies reported bottlenecks and delays in deliveries, above all from Asia but also from Italy and France. 60% said that procurement was not more difficult. Correspondingly, only 11% of the companies have implemented measures to achieve greater diversification in purchasing (markets, suppliers, products); a further 7% are evaluating such measures.

The companies initially faced significantly larger challenges with regard to sales. 52% were unable to deliver their products and services for a number of reasons, such as their own business premises or those of their customers being closed, customers no longer wanting to accept delivery, and a lack of transport capacity. 10% of the companies are therefore diversifying with regard to sales (markets, products, distribution channels), with an additional 6% looking into such alternatives. There has been a marked upturn in online sales.

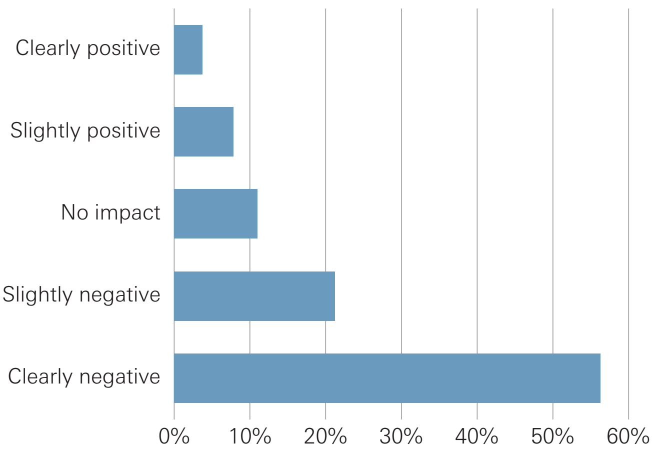
The problems with regard to procurement and sales decreased over the course of the quarter.

Staff levels clearly too high – short-time working widespread

Representatives said their staff levels were much too high after the outbreak of the coronavirus pandemic. Businesses therefore reacted quickly and implemented a range of measures. 58% of the companies visited have introduced or applied for short-time working, and a further 7% are considering doing so (cf. chart 4). Thanks to this measure, large-scale redundancies have thus far been prevented. Nevertheless, 16% of the companies are reducing their staff numbers, above all in the case of temporary employees. People leaving on account of natural fluctuations are often not being replaced. Added to this, around a quarter of the companies have introduced

Chart 1

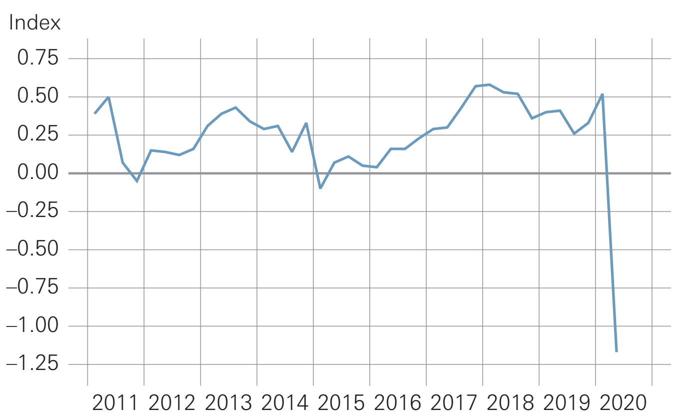
OVERALL EFFECT OF CORONAVIRUS CRISIS



Source: SNB

Chart 2

TURNOVER COMPARED TO PREVIOUS QUARTER



Developments in real turnover compared to the previous quarter. Positive (negative) index values signal an increase (decrease).
Source: SNB

a hiring freeze, while half are having employees reduce overtime or their remaining holiday allowance. In some cases, planned wage increases have been postponed or the pay round cancelled.

As regards operational measures to safeguard employee health, the most commonly used are working from home and dividing teams, which nearly 90% of the companies have introduced. The representatives said that in terms of maintaining productivity, their experience with working from home has been better than expected.

Hiring easier

Given the lower demand for staff, an extraordinarily high proportion of companies – more than 30% – did not hire any new employees in the reporting period. Companies that were looking for new staff reported a strong increase in both responses to job advertisements and unsolicited applications, and said that hiring is easier than is normally the case.

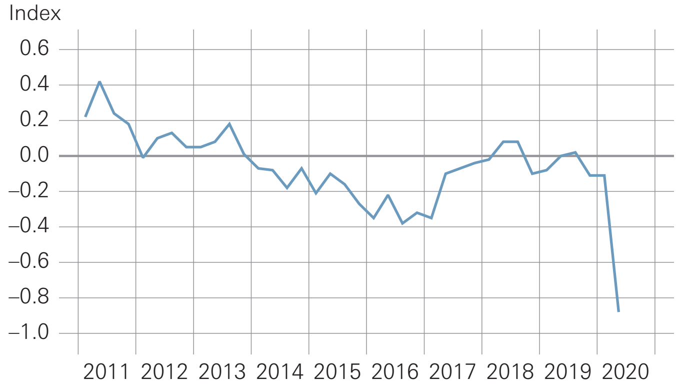
There was less mention of the lack of specialised staff as a problem, this having been very frequently cited as a key challenge in previous quarters. IT specialists and engineers remain in demand. Companies are also experiencing difficulty in finding specialists in the chemicals and pharmaceuticals areas, and laboratory assistants.

Decline in profit margins

The strong decline in sales volume in all three sectors resulted in a marked decrease in profit margins for a large proportion of companies. Margins are described as being considerably tighter than usual, and were said to be at an uncomfortable or very uncomfortable level. The strength of the Swiss franc is putting additional pressure on margins for many companies.

Chart 3

CAPACITY UTILISATION

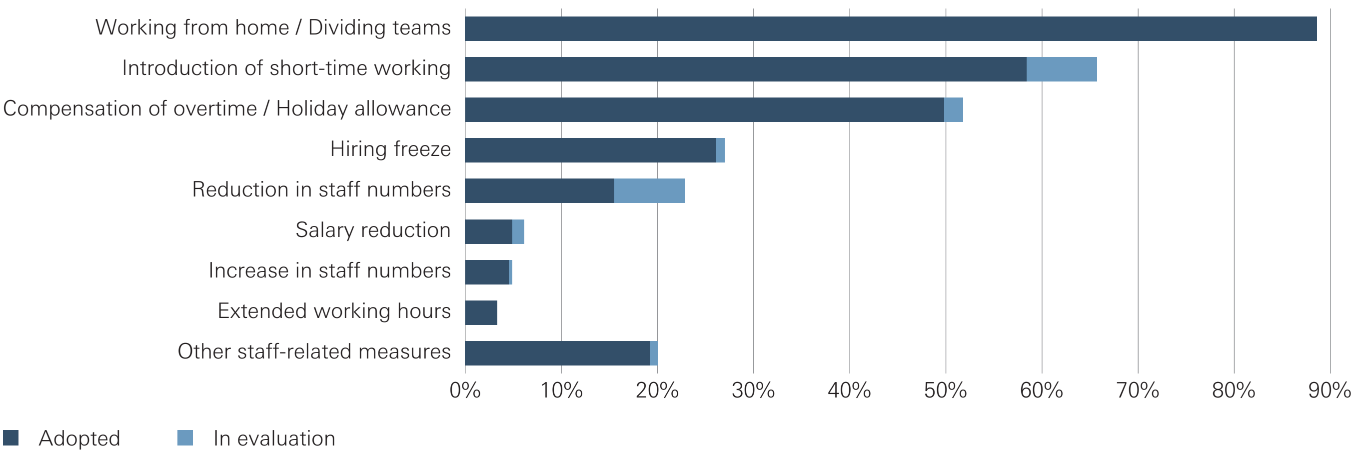


Current utilisation of technical capacity / business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.
Source: SNB

Chart 4

MEASURES TAKEN WITH REGARD TO STAFF

Multiple answers possible



Source: SNB

Liquidity situation and demand for credit

Since the outbreak of the coronavirus crisis, securing sufficient liquidity has been among the most pressing challenges facing companies. In response, the SNB included several additional questions on this issue in its company talks in the second quarter.

Not factoring in the bridging loans provided by the federal government, over 40% of companies surveyed view their liquidity situation as tighter than usual (cf. chart 5). Half of the companies consider their liquidity situation to be unchanged, since many of them have undertaken numerous measures to secure liquidity. Such measures include registering for short-time working, negotiating with landlords, postponing plans for investment and raising additional capital.

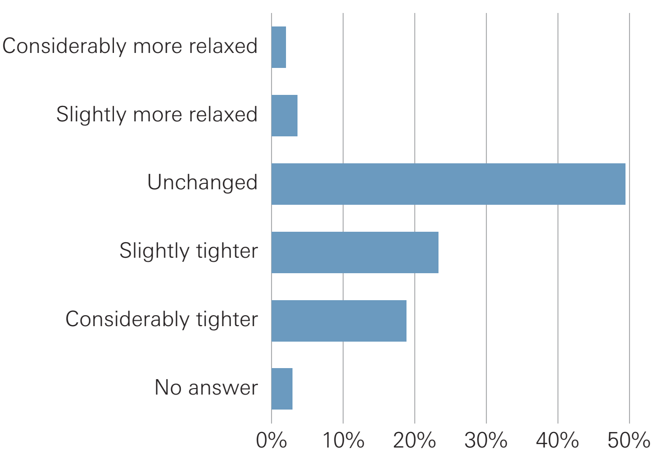
In this environment, around one-third of the companies surveyed have applied for credit – whether bridging loans with full or partial joint and several guarantees from the federal government, or other loans – or have sought to extend existing credit limits. 96% relied on existing credit relationships. Their creditors approved 88% of such applications in full, and 4% were partially approved. At the time of the company talks, an additional 7% (approximately) of applications were still being processed. Many companies applied for bridging loans as a precautionary measure and have not yet drawn on them.

A large number of representatives (39%) had the impression that the banks' lending conditions had not changed due to the coronavirus crisis (cf. chart 6). Equal proportions of representatives characterised the banks' lending conditions as either being tighter or more relaxed (8% in each case). In some cases, the banks themselves approached their clients to offer them loans and other assistance.

Various companies experienced delays in payment, whether on their own part or on the part of their customers. According to the company representatives, it has nevertheless been possible in almost all cases to avoid bad debt losses so far, although some companies expect an accumulation of delays in payment and defaults among their customers in the coming months. Only a few firms have experienced a critical liquidity situation to date. In addition to short-time working, the federal government's bridging loans have helped alleviate the liquidity situation. These measures, and their quick and unbureaucratic implementation, have generally met with broad approval in business circles.

Chart 5

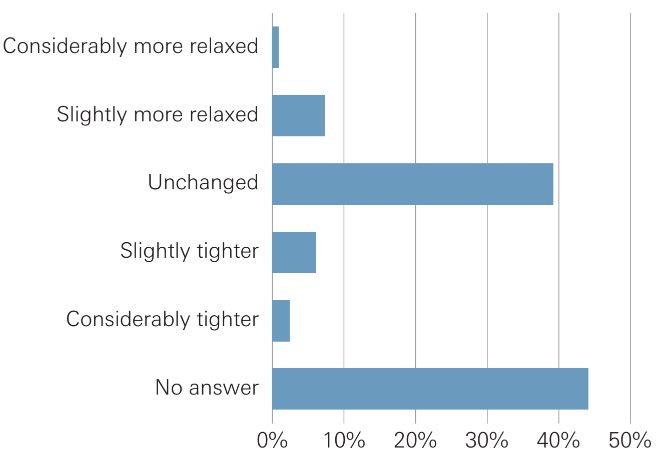
CURRENT LIQUIDITY SITUATION



Source: SNB

Chart 6

LENDING CONDITIONS



Source: SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

The coronavirus crisis has had an exceptionally strong impact on the trade industry overall. Turnover has declined dramatically in real terms, both year-on-year and quarter-on-quarter, and infrastructure is underutilised. Retail trade initially experienced a massive increase in demand for food, protection and hygiene items, and medicines. As regards the other non-food articles, however, business came to a halt for several weeks owing to the lockdown. Online distribution channels are experiencing a significant upturn and accelerated expansion. The retail trade was also supported by cross-border shopping no longer being possible following the closure of the borders. Since the reopening of non-food retail, there has been discernible pent-up demand on the consumption side.

Banks reported higher business volume compared with the same quarter in 2019, but the figure was lower compared with Q1 2020, which had been particularly strong. Although there was considerable business connected with the issuing of COVID-19 loans, many other areas were negatively impacted as a result of direct contact with customers temporarily no longer being possible. In the low interest rate environment, the interest margin business is still seen as a challenge. Insurers and asset managers are reporting a stagnation in business activity.

Tourism, hospitality, entertainment and leisure, as well as conferences and trade fairs are among the areas most affected by the pandemic, this being reflected in a correspondingly pronounced decline in turnover, infrastructure utilisation and margins. These industries are now concentrating more on domestic customers wherever possible. Industry representatives see a certain degree of risk in companies continuing to use working from home and videoconferencing to some extent, resulting in a lasting decline in turnover from business travel and lunch catering. Many companies in the hospitality industry are also reporting difficulty in covering costs while operating under the current requirements.

The ICT industry was able to essentially maintain its turnover levels, both on a quarter-on-quarter and year-on-year basis. It has been subject to two contradictory effects: while demand has been bolstered by the need for functioning, quick and secure IT infrastructure, there has also been the negative impact of business closures and customer contact no longer being possible. Some customers have stopped or postponed projects.

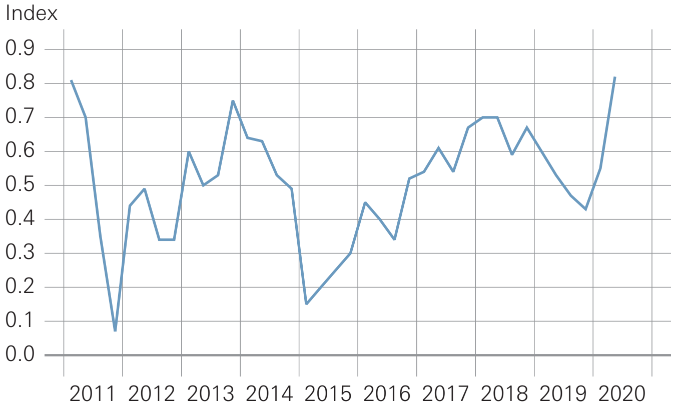
Healthcare companies reported a significant decline in real turnover until the ban on non-essential medical procedures was lifted. Some hospitals have even introduced short-time working.

In manufacturing, virtually all industries reported a strong decline in orders, a decrease in real turnover and weak utilisation. The marked weakness in the watchmaking, automotive and aviation industries is also impacting on business activity in other areas. In the case of suppliers in the automobile industry, the coronavirus crisis has exacerbated an already difficult situation. The medtech industry has also been affected in some instances, since many operations were banned. However, many industries reported positive impetus from rail infrastructure. Pharmaceutical companies recorded dynamic business activity, with real turnover up quarter-on-quarter and utilisation bordering on full capacity in specific instances. The only industries to describe profit margins as being at a comfortable level were chemicals and pharmaceuticals, producers of electrical appliances, and energy suppliers.

In construction, seasonally adjusted turnover was lower quarter-on-quarter, this being the case for building construction, civil engineering and the finishing trade alike. The regional differences are particularly pronounced due to building sites in Ticino and Geneva having been closed for several weeks while those in other cantons mostly remained open. The hygiene and distancing rules have restricted productivity across Switzerland, however. The situation with regard to orders is becoming a problem due to projects being postponed. According to representatives, this could result in a dip in the autumn. The construction sector continues to regard the low interest rate environment as being helpful.

Chart 7

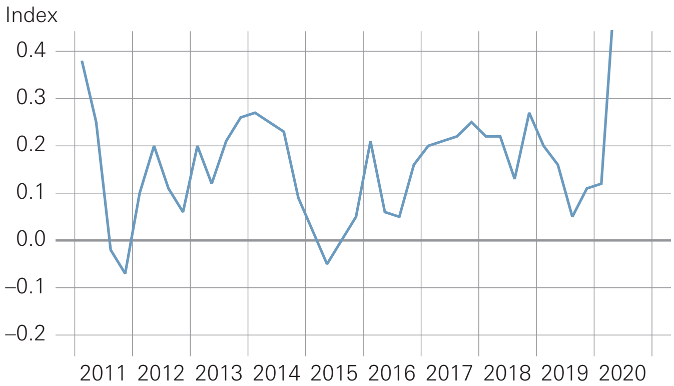
EXPECTED TURNOVER



Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).
Source: SNB

Chart 8

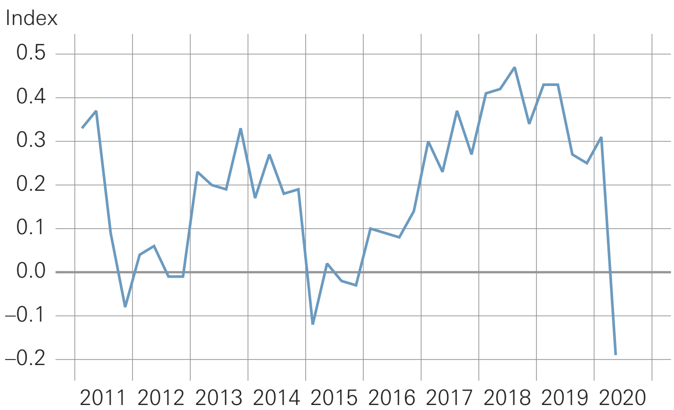
EXPECTED CAPACITY UTILISATION



Expected developments in utilisation of technical capacity / business infrastructure over the coming two quarters. Positive (negative) index values indicate utilisation is expected to be higher (lower).
Source: SNB

Chart 9

EXPECTED EMPLOYMENT



Expected developments in staff numbers over the coming two quarters. Positive (negative) index values indicate an expected increase (decrease).
Source: SNB

OUTLOOK

Tentative optimism despite high level of uncertainty

Companies in all sectors expect to see a significant increase in turnover in the coming two quarters from the low level recorded in Q2 2020 (cf. chart 7). Few anticipate a return to pre-crisis levels over this period, however, and many expect to see this only from 2021. In general, uncertainty remains very high.

Based on the reduced capacity utilisation in the reporting period, the representatives anticipate a significant increase in the utilisation of their technical capacity and infrastructure over the next two quarters (cf. chart 8), this being in keeping with the higher turnover expectations. Certain companies also expect there to be discernible 'catch-up' effects.

Freeze on investment

With a view to securing liquidity and the expectation of weaker demand, most companies have halted their investments wherever possible. Representatives from all three sectors said they also intend to reduce their expenditure on equipment and construction in the next twelve months.

Only 20% of the companies which nonetheless plan to invest said they intend to use their investments primarily to expand their production capacity. The focus is above all on rationalisation projects as well as the expansion and modernisation of IT. The low interest rate environment continues to support such investment.

Prices expected to decline

In all sectors, the representatives said they anticipate a slight decline in purchase prices in the next two quarters, and a somewhat stronger decrease in sales prices. Higher prices are expected for certain goods and services; goods transport costs are rising, for instance, especially in the case of air freight. In terms of the overall impact on prices, however, these factors are being outweighed by the dampening effects of a weaker global economy, the available overcapacities and the full inventories in some cases.

Planned reduction in staff numbers

Representatives said their companies intend to reduce staff numbers further in the next two quarters (cf. chart 9). This applies to 30% of the companies. The hospitality industry is particularly affected by this. By contrast, the pharmaceuticals and IT industries plan to hire new staff.

ENVIRONMENT AND RISKS

Uncertainty remains very high on account of coronavirus. The primary concern is the risk of a second wave of infections and a further lockdown. There are also fears of a pronounced recession with high unemployment. When the company talks were conducted, representatives found it difficult to assess the medium-term impact the crisis would have on demand from customers and consumers. A stronger focus on regional value chains is presenting an opportunity for some companies.

However, the representatives are troubled by the fragile global economy, pronounced protectionist tendencies, and increasing sovereign debt worldwide. Concerns over the strength of the Swiss franc have also heightened. Furthermore, they see a certain degree of risk in the longer term in the additional debt taken on by the federal government and companies alike.

The representatives regard the independence of the SNB as a major issue. They remain uneasy about the persistent low interest rate environment, but welcome it as a means of containing the appreciation of the Swiss franc.

The widespread use of working from home during the crisis has given a significant boost to digitalisation efforts. The companies also see an opportunity in this respect.

INFLATION EXPECTATIONS

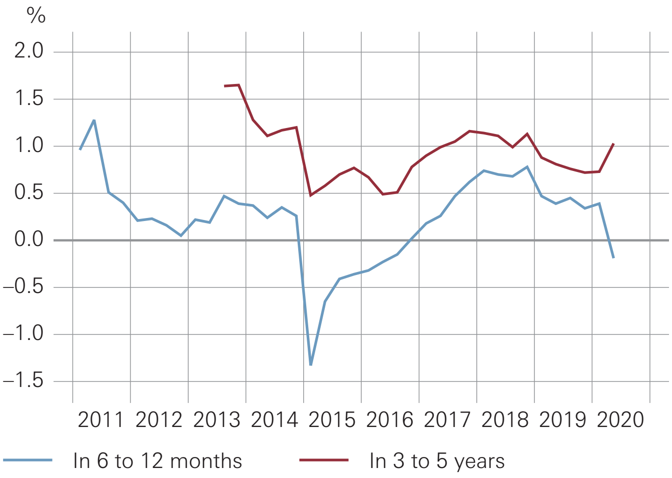
The delegates also ask company representatives about their short and long-term inflation expectations as consumers.

Short-term inflation expectations – measured in terms of the consumer price index – have fallen markedly. The average for the next six to twelve months is –0.2% (blue line in chart 10), compared to 0.4% in the previous quarter. Over the longer-term – i.e. with a time horizon of three to five years (red line in chart) – the average has risen from 0.7% to 1%. This scissors-like divergence in expectations can often be explained by prices falling in the short term owing to low demand and cheaper imports, while over the longer term the state support measures and expansionary monetary policy are more likely to lead to inflation.

The relatively high level of uncertainty regarding the assessment of inflation going forward is reflected in a broader range of expectations and a comparatively low response rate.

Chart 10

EXPECTED INFLATION



Source: SNB

About this report

Approach
Each quarter, the SNB's delegates for regional economic relations hold talks with managers of companies throughout Switzerland. The main results of these discussions are summarised in the 'Business cycle signals' report.

Approximately 240 companies are visited every quarter. The selection of companies reflects the industrial structure of the Swiss economy based on GDP and employment. Industries subject to stronger cyclical fluctuations are somewhat over-represented, while the public sector and agriculture are not taken into consideration. Different companies are visited from one quarter to the next.

In the talks, the SNB's delegates capture primarily qualitative information. The discussions are nevertheless structured in such a way as to allow the delegates to grade part of the qualitative information received according to a numeric scale. This enables the results to be aggregated and represented graphically.

The five-tier scale ranges from 'substantially higher' or 'much too high' (+2), 'slightly higher' or 'somewhat high' (+1), 'the same' or 'normal' (0), 'slightly lower' or 'somewhat low' (–1), to 'substantially lower' or 'much too low' (–2).

Interpreting the charts
The charts are to be regarded as a numeric summary of the qualitative information received. The index value shown represents the average of the findings from all companies visited. When interpreting the curves, particular relevance should be attached to their overall development, rather than to their numeric level or individual changes.

Additional information
Further information on the 'Business cycle signals' report is available at www.snb.ch, *The SNB, SNB regional network*.

Chronicle of monetary events

The chronicle summarises the most recent monetary events. For events dating further back, please refer to SNB press releases and the *Annual Report* at www.snb.ch

June 2020

At its quarterly assessment of 18 June, the SNB leaves its policy rate and interest on sight deposits at the SNB at –0.75%, and in light of the highly valued Swiss franc it remains willing to intervene more strongly in the foreign exchange market. In so doing, it takes the overall exchange rate situation into account. The SNB's expansionary monetary policy thus helps stabilise economic activity and price developments in Switzerland. On 25 March, the SNB announces the introduction of the SNB COVID-19 refinancing facility. Under this facility, it provides the banking system with additional liquidity, thus supporting the supply of credit to the economy at favourable terms. In addition, it proposes the deactivation of the countercyclical capital buffer.

March 2020

At its quarterly assessment of 19 March, the SNB leaves its policy rate and the interest rate on sight deposits with the SNB at –0.75%. However, it increases the threshold factor from 25 to 30, thus raising the exemption threshold. In so doing, the SNB strengthens the banks so that they can perform their key role in the economy. The SNB is intervening more strongly in the foreign exchange market. The Swiss franc is even more highly valued, and the world's financial markets are under strong pressure. Negative interest and the interventions serve 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.

December 2019

At its quarterly assessment of 12 December, the SNB leaves its policy rate and the interest rate on sight deposits with the SNB at –0.75%. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. In the SNB's view, the Swiss franc is highly valued, and the situation on the foreign exchange market is still fragile. Negative interest and the willingness to intervene serve 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.

September 2019

At its quarterly assessment of 19 September, the SNB leaves its policy rate and the interest rate on sight deposits with the SNB at –0.75%. The SNB also adjusts the basis for calculating negative interest, thereby raising the exemption threshold for the banking system and reducing negative interest income for the SNB. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. In the SNB's view, the Swiss franc is highly valued, and the situation on the foreign exchange market is still fragile. Negative interest and the willingness to intervene serve 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.

June 2019

At its quarterly assessment of 13 June, the SNB leaves the interest rate on sight deposits with the SNB at –0.75%. The SNB reaffirms that it will remain active in the foreign exchange market, as necessary. In the SNB's view, the Swiss franc is highly valued, and the situation on the foreign exchange market is still fragile. The negative interest rate and the SNB's willingness to intervene in the foreign exchange market as necessary are intended to keep the attractiveness of Swiss franc investments low and ease pressure on the currency. The expansionary monetary policy aims to stabilise price developments and support economic activity.

On 13 June, the SNB introduces the SNB policy rate and announces that it will use this rate in taking and communicating its monetary policy decisions going forward. The SNB policy rate replaces the target range for the three-month Libor. Interest on sight deposits held by banks at the SNB currently corresponds to the SNB policy rate and remains at –0.75%. The SNB will seek to keep the secured short-term Swiss franc money market rates close to the SNB policy rate.

Published by
Swiss National Bank
Economic Affairs
Börsenstrasse 15
P.O. Box
CH-8022 Zurich

Design
Interbrand Ltd, Zurich

Typeset by
Neidhart + Schön Group AG, Zurich

Language versions:
The *Quarterly Bulletin* is available in printed form in German (ISSN 1423-3789), French (ISSN 1423-3797) and Italian (ISSN 2504-3544), either as single copies or on subscription, from:
Swiss National Bank, Library
P.O. Box, CH-8022 Zurich
Telephone +41 58 631 11 50
Fax +41 58 631 50 48
Email: library@snb.ch

The *Quarterly Bulletin* can also be downloaded from the SNB website in the following language versions:
English: www.snb.ch, *Publications, Economic publications, Quarterly Bulletin* (ISSN 1662-257X)
German: www.snb.ch, *Publikationen, Ökonomische Publikationen, Quartalsheft* (ISSN 1662-2588)
French: www.snb.ch*, Publications, Publications économiques, Bulletin trimestriel* (ISSN 1662-2596)
Italian: www.snb.ch, *Pubblicazioni, Pubblicazioni economiche, Bollettino trimestrale* (ISSN 2504-480X)

Website
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