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Quarterly Bulletin  
2/2021 June

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





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Quarterly Bulletin  
2/2021 June

Volume 39



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# Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of June 2021

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 17 June 2021') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 17 June 2021. 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 17 June 2021

## Swiss National Bank maintains expansionary monetary policy

The SNB is maintaining its expansionary monetary policy with a view to ensuring price stability and providing ongoing support to the Swiss economy in its recovery from the impact of the coronavirus pandemic. It is keeping the SNB policy rate and interest on sight deposits at the SNB at  $-0.75\%$ , and remains willing to intervene in the foreign exchange market as necessary, while taking the overall currency situation into consideration. The Swiss franc remains highly valued. The SNB's expansionary monetary policy provides favourable financing conditions, contributes to an appropriate supply of credit and liquidity to the economy, and counters upward pressure on the Swiss franc.

The new conditional inflation forecast for 2021 and 2022 is slightly higher than in March (cf. chart 1.1). This is primarily due to higher prices for oil products and tourism-related services, as well as for goods affected by supply bottlenecks. In the longer term, the inflation forecast is virtually unchanged compared with March. The new forecast stands at  $0.4\%$  for 2021, and  $0.6\%$  for both 2022 and 2023 (cf. table 1.1). The conditional inflation forecast is based on the assumption that the SNB policy rate remains at  $-0.75\%$  over the entire forecast horizon.

Coronavirus and the measures implemented to contain it are continuing to shape the global economy more than

a year after the outbreak of the pandemic. GDP shrank again in many countries in the first quarter, and remained significantly below pre-crisis levels. The pandemic situation has eased in many areas in recent months, and vaccination programmes are progressing. Containment measures have thus been gradually relaxed in many countries over the past several weeks.

The SNB's baseline scenario for the global economy anticipates that the major advanced economies will ease containment measures further through to the summer. Against this backdrop, the SNB expects strong growth in the second and third quarters. However, the after-effects of the pandemic will continue to weigh on demand for some time yet. Utilisation of global production capacity is therefore likely to only gradually return to normal.

This scenario for the global economy is subject to high uncertainty, with risks on the upside and downside alike. On the one hand, further waves of infection could slow the economy once again. On the other, the monetary and fiscal policy measures implemented could support the recovery more strongly than anticipated in the baseline scenario, as could a rapid improvement in consumer and business sentiment.

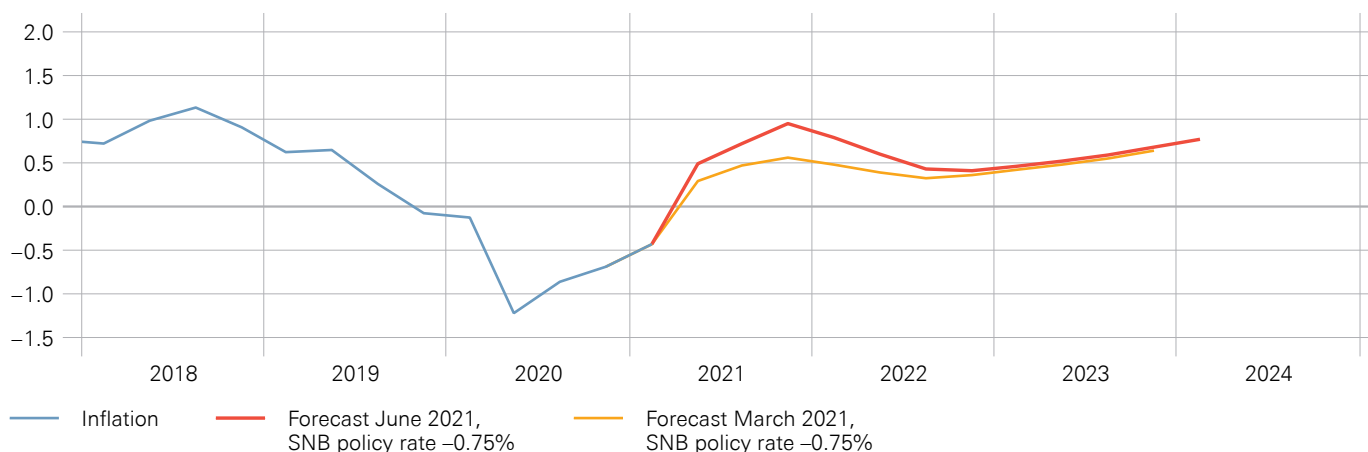
In Switzerland, too, the second wave of the pandemic interrupted the economic recovery at the beginning of the year. The tightening of containment measures led to a renewed decline in GDP in the first quarter. However, the contraction was much less pronounced than in the first wave of the pandemic in spring 2020.

The economic indicators have improved significantly of late. This is in part attributable to the easing of public health measures in Switzerland, and in part to the economic recovery abroad. Swiss GDP can therefore be expected to show strong growth in the second quarter. There are also signs of an improvement in the labour market.

Chart 1.1

### CONDITIONAL INFLATION FORECAST OF JUNE 2021

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



Source(s): FSO, SNB

In its baseline scenario for Switzerland, the SNB anticipates a continuation of the economic recovery in the second half of the year. This is also based on the assumption that the containment measures will be eased further.

Against this backdrop, the SNB expects GDP growth of around 3.5% for 2021. The upward revision compared with March is primarily attributable to the lower-than-expected decline in GDP in the first quarter. Swiss GDP is likely to return to its pre-crisis level by the middle of the year. However, production capacity will remain underutilised for some time yet.

Owing to the pandemic, the forecast for Switzerland, as for the global economy, remains subject to heightened uncertainty.

Mortgage lending and residential property prices have risen strongly in recent quarters. Overall, the vulnerability of the mortgage and real estate markets has increased further. The SNB regularly reassesses the need for the countercyclical capital buffer to be reactivated.

### 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 2021

	2018				2019				2020				2021				2018	2019	2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	0.7	1.0	1.1	0.9	0.6	0.6	0.3	-0.1	-0.1	-1.2	-0.9	-0.7	-0.4				0.9	0.4	-0.7

Source(s): FSO

#### CONDITIONAL INFLATION FORECAST OF JUNE 2021

	2021				2022				2023				2024				2021	2022	2023
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast March 2021, SNB policy rate -0.75%	-0.4	0.3	0.5	0.6	0.5	0.4	0.3	0.4	0.4	0.5	0.6	0.6					0.2	0.4	0.5
Forecast June 2021, SNB policy rate -0.75%		0.5	0.7	1.0	0.8	0.6	0.4	0.4	0.5	0.5	0.6	0.7	0.8				0.4	0.6	0.6

Source(s): SNB



## 2 Global economic environment

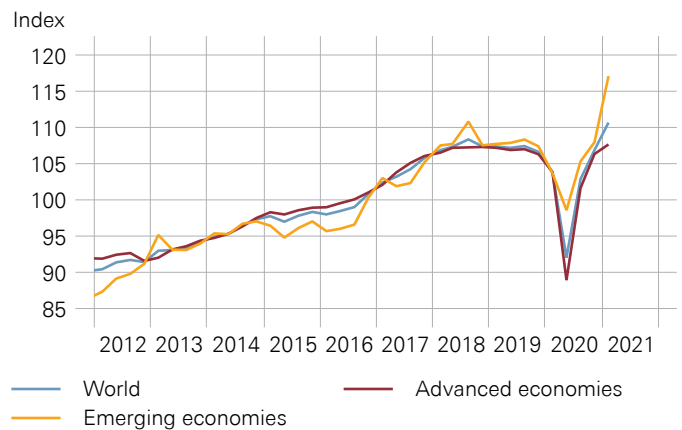
Coronavirus and the measures implemented to contain it are continuing to shape the global economy more than a year after the outbreak of the pandemic. Significant containment measures were in force in numerous countries in the winter and through into the spring. Added to this, the public in part avoided activities associated with a higher risk of infection. This took its toll on economic activity. GDP shrank again in many countries in the first quarter, and remained significantly below pre-crisis levels. Employment was also still lower in the first quarter than at the end of 2019. However, global trade showed a stronger recovery (cf. chart 2.1). This is likely to be in part attributable to the shift in consumer demand from services to goods, owing to the containment measures.

The pandemic situation has eased in many areas in recent months, and vaccination programmes are progressing. Containment measures have thus been gradually relaxed in many countries over the past several weeks. The SNB's baseline scenario for the global economy anticipates that the major advanced economies will ease such measures further through to the summer. Against this backdrop, the SNB expects strong growth in the second and third quarters.

Chart 2.1

### GLOBAL GOODS TRADE

Average of depicted period = 100



Source(s): CPB Netherlands Bureau for Economic Policy Analysis, Refinitiv Datastream

Table 2.1

### BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

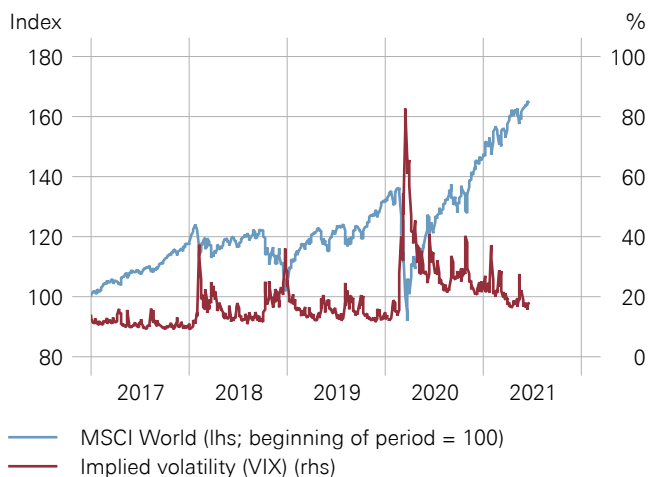
	2017	2018	2019	2020	Scenario	
					2021	2022
<b>GDP, year-on-year change in percent</b>						
Global <sup>1</sup>	3.8	3.6	2.8	-3.3	7.0	4.6
US	2.3	3.0	2.2	-3.5	6.4	4.2
Euro area	2.7	1.9	1.3	-6.7	4.4	4.3
Japan	1.7	0.6	0.0	-4.7	2.8	3.6
China <sup>2</sup>	7.0	6.8	6.0	2.0	9.5	6.2
<b>Oil price in USD per barrel</b>						
	54.3	71.0	64.3	41.8	65.3	67.0

<sup>1</sup> World aggregate as defined by the IMF, PPP-weighted.

<sup>2</sup> The annual figures are based on seasonally adjusted data and can therefore differ slightly from the official annual figures.

Chart 2.2

**STOCK MARKETS**

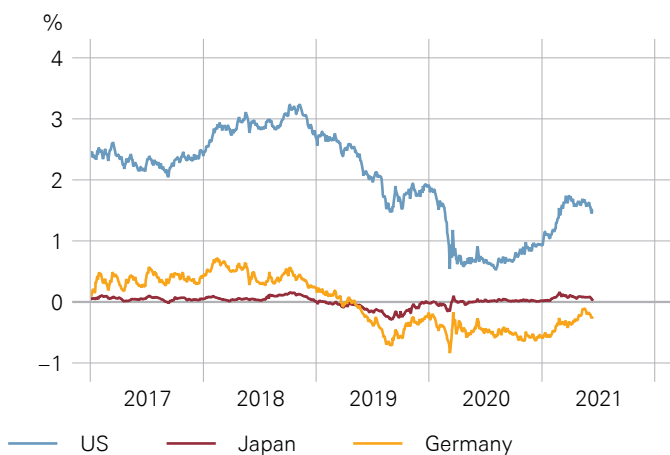


Source(s): Refinitiv Datastream

Chart 2.3

**INTERNATIONAL LONG-TERM INTEREST RATES**

10-year government instruments

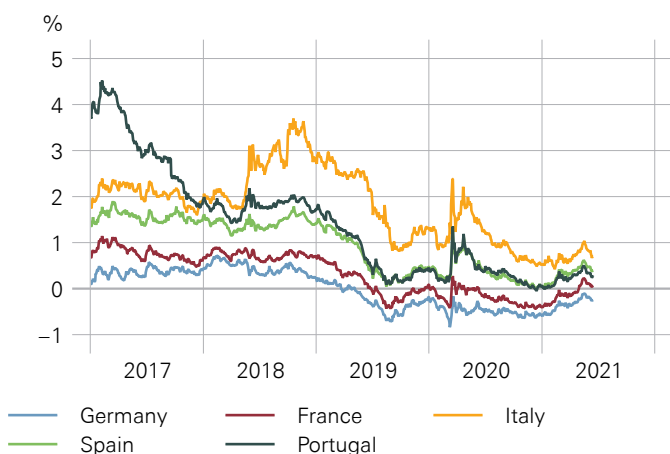


Source(s): Refinitiv Datastream

Chart 2.4

**EUROPEAN LONG-TERM INTEREST RATES**

10-year government instruments



Source(s): Refinitiv Datastream

However, the after-effects of the pandemic will continue to weigh on demand for some time yet. Utilisation of global production capacity is therefore likely to only gradually return to normal. Inflation is thus expected to be only moderate in most countries over the medium term. That said, the higher oil prices and various one-off effects are bringing about a temporary rise in global inflation this year.

The baseline scenario for the global economy is subject to high uncertainty, with risks on the upside and downside alike. On the one hand, further waves of infection could slow the economy once again. On the other, the monetary and fiscal policy measures implemented could support the recovery more strongly than anticipated, as could a rapid improvement in consumer and business sentiment.

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 67 per barrel, compared with USD 59 in the last baseline scenario, and continues to anticipate an exchange rate of USD 1.21 to the euro. Both correspond to the 20-day average when the current baseline scenario was drawn up.

**INTERNATIONAL FINANCIAL AND COMMODITY MARKETS**

Financial market sentiment has remained positive in recent months. The progress of vaccination programmes has made further reopening possible, a move that has particularly benefited the services sector. The MSCI World Index climbed to a new all-time high amid optimism over the economic outlook. The implied volatility of stocks as measured by option prices – e.g. the VIX in the US – receded further, almost returning to its pre-pandemic level (cf. chart 2.2).

Having risen in the first quarter, yields on ten-year government bonds subsequently presented a mixed picture. While they stabilised in the US at lower levels than at the end of March, the slow return to economic optimism in Europe saw yields on German government bonds increase somewhat. As a result, the interest rate differential between US and German government bond yields has narrowed (cf. charts 2.3 and 2.4). The lower US interest rates as well as the upbeat risk sentiment have meant that the dollar weakened again somewhat on a trade-weighted basis. The euro, by contrast, appreciated slightly owing to the smaller interest rate differential. The pound sterling trended sideways, while the yen continued to lose value (cf. chart 2.5).

Driven by the global economic recovery, commodity prices picked up across a broad front. At over USD 74 per barrel, oil prices reached levels last seen in mid-2019. Support in this regard has come from declining inventory levels as well as the supply discipline of OPEC+ states. Industrial metal prices also increased further (cf. chart 2.6).

## UNITED STATES

The economic upswing in the US gathered pace at the beginning of the year. This was attributable, on the one hand, to falling coronavirus infection rates and the easing of containment measures. On the other, the expansionary fiscal policy lent support to this development. As a result, GDP grew in the first quarter by 6.4%, and was just under 1% lower than before the pandemic (cf. chart 2.7). Unemployment declined in recent months and stood at 5.8% in May (cf. chart 2.9). Although employment figures increased, they were still below their pre-crisis level.

Economic signals for the second quarter are favourable and point to consistently dynamic development. Moreover, the fiscal stimulus packages approved by Congress in December 2020 and March 2021 will boost the economy. These include one-time cash payments and tax rebates for households, forgivable loans to small and medium-sized enterprises, a temporary extension of unemployment benefits as well as additional funding for the healthcare system and state governments. For 2021, the SNB is now expecting US GDP growth to be somewhat higher, at 6.4%. The forecast for 2022 remains virtually unchanged at 4.2% (cf. table 2.1).

Annual inflation as measured by the CPI increased considerably in recent months and stood at 5.0% in May (cf. chart 2.10). This reflected not only rising energy prices, but also markedly higher core inflation (cf. chart 2.11). The surge in core inflation is primarily due to price increases for used cars and transport services, and is likely to be temporary. Core inflation as measured by the personal consumption expenditure deflator likewise rose and, at 3.6% in April, significantly exceeded the US Federal Reserve's target.

Given that the Fed considers the rise in inflation to be temporary, a monetary policy adjustment was not deemed necessary. It thus kept its target range for the federal funds rate unchanged at 0.0–0.25% (cf. chart 2.12). It plans to leave interest rates at their current level until the labour market has recovered from the crisis, and until inflation has risen to 2% and is on track to moderately exceed 2% for some time. In so doing, the Fed is seeking to achieve a rate that averages 2%. It will continue its bond-buying programme until substantial further progress has been made with regard to its employment mandate and inflation target.

Chart 2.5

### EXCHANGE RATES

Trade-weighted

Index, beginning of period = 100



Source(s): Refinitiv Datastream

Chart 2.6

### COMMODITY PRICES

Index, beginning of period = 100



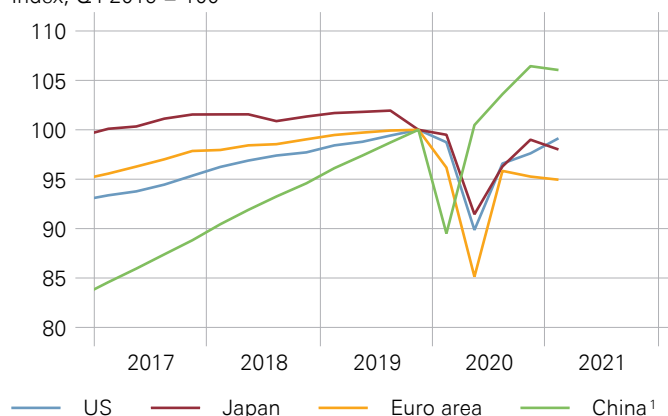
Commodities Industrial metals  
Oil: Brent (rhs)

Source(s): Refinitiv Datastream

Chart 2.7

### REAL GDP

Index, Q4 2019 = 100

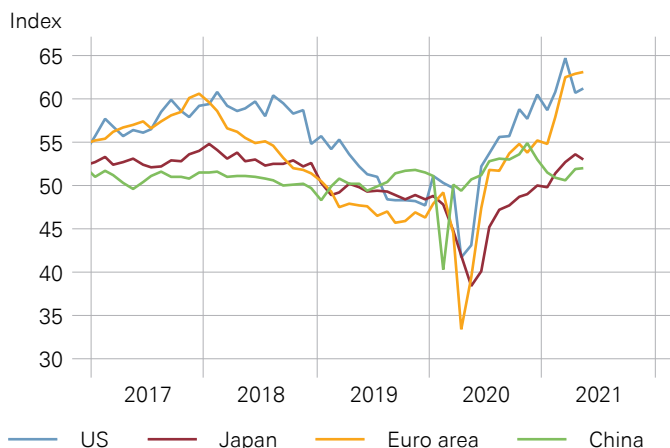


<sup>1</sup> Seasonal adjustment: SNB

Source(s): Refinitiv Datastream

Chart 2.8

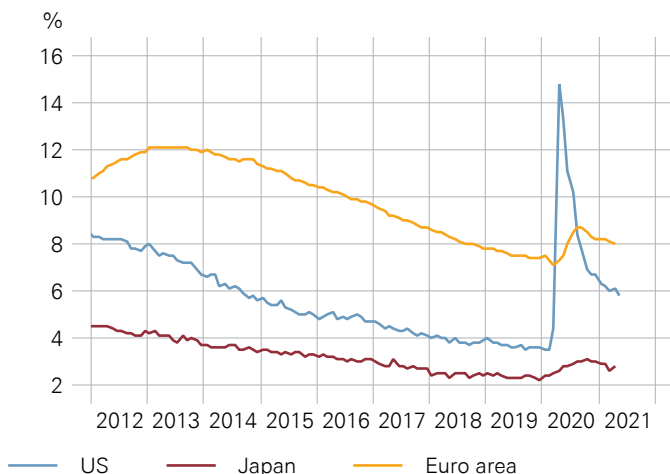
**PURCHASING MANAGERS' INDICES (MANUFACTURING)**



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

Chart 2.9

**UNEMPLOYMENT RATES**

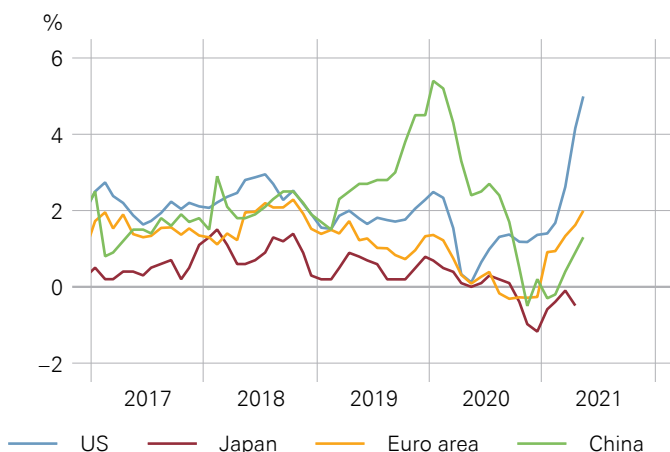


Source(s): Refinitiv Datastream

Chart 2.10

**CONSUMER PRICES**

Year-on-year change



Source(s): Refinitiv Datastream

**EURO AREA**

In the first quarter, GDP contracted in the euro area by 1.3%, remaining considerably below its pre-crisis level (cf. chart 2.7). The tightening and extension of containment measures in many member states weighed on the services sector in particular. Moreover, manufacturing was hit by a global shortage of intermediate products. GDP fell substantially in Germany, while the decline in France and Italy virtually stagnated. Employment in the euro area decreased marginally in the first quarter amid sluggish economic growth, and remained lower than before the pandemic. Unemployment eased back slightly, however, to stand at 8.0% in April, having peaked at 8.7% in mid-2020 (cf. chart 2.9).

Since the end of April, infection rates have been on the decline in all the major euro area member states. Additionally, the pace of vaccination has been stepped up considerably in recent months. This allowed containment measures to be eased gradually over the course of the second quarter. Most of the remaining economic restrictions are expected to be lifted by the beginning of the third quarter. Given that the restrictions were in place somewhat longer than anticipated, it is likely that the recovery will be slower – but still strong – in the current year. The SNB expects GDP growth of 4.4% for 2021 and 4.3% for 2022 (cf. table 2.1).

Driven by rising energy prices, consumer price inflation in the euro area picked up substantially in recent months and stood at 2.0% in May. Core inflation has fluctuated sharply since the beginning of the year and was last recorded at 0.9% (cf. charts 2.11 and 2.12).

The European Central Bank left its key interest rates unchanged (cf. chart 2.12) It intends to maintain them at their present levels or lower until inflation dynamics are sufficiently robust. The ECB plans to continue with its asset purchase programme (APP) until shortly before it starts raising the key interest rates. Furthermore, the pandemic emergency purchase programme (PEPP), introduced during the coronavirus crisis, is to run until at least the end of March 2022. In June, the ECB decided to continue into the third quarter the higher pace of asset purchases it had announced in March 2021.

## JAPAN

Having staged a strong recovery in the second half of 2020, Japan's GDP contracted by 3.9% in the first quarter following a renewed wave of infections and tightening of containment measures in the winter months (cf. chart 2.7). GDP remained below its pre-crisis level. Private consumption was particularly hard hit by mobility constraints and the restrictions mandated in the services sector. Exports, by contrast, recovered further, as reflected in robust growth in manufacturing output. Employment recently dipped once again, remaining considerably lower than before the pandemic. The unemployment rate stood at 2.8% in April (cf. chart 2.9).

Following the gradual easing of containment measures in March, the number of new infections started to rise again. Some prefectures – including Tokyo and Osaka – have been in another state of emergency since the end of April. The restrictions under the new emergency declaration are somewhat stricter than those imposed in winter and are likely to further delay the economic upswing. Once the emergency has been lifted, however, the country's recovery should continue at a robust pace, driven by rising global demand. The SNB now expects GDP expansion to be somewhat lower for 2021, at 2.8%, but anticipates stronger growth of 3.6% for 2022 (cf. table 2.1).

At -0.2%, core inflation slipped back into negative territory in April (cf. chart 2.11). The decline was attributable to reduced prices in mobile communication. Inflation is likely to remain volatile in the short term.

The Bank of Japan left its targets under the yield curve control programme unchanged (cf. chart 2.12).

Chart 2.11

### CORE INFLATION RATES <sup>1</sup>

Year-on-year change

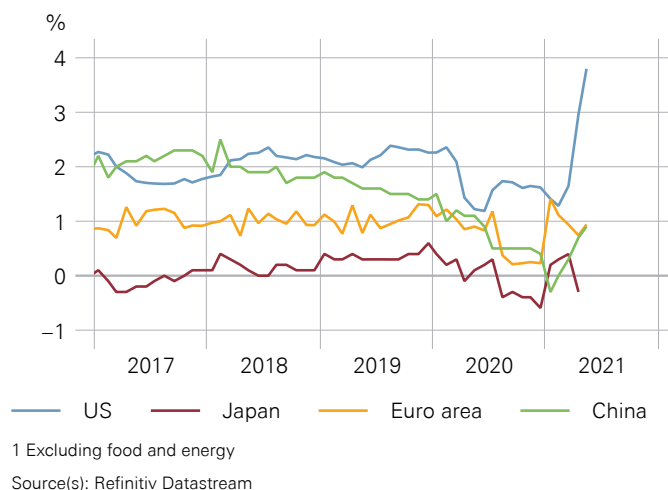
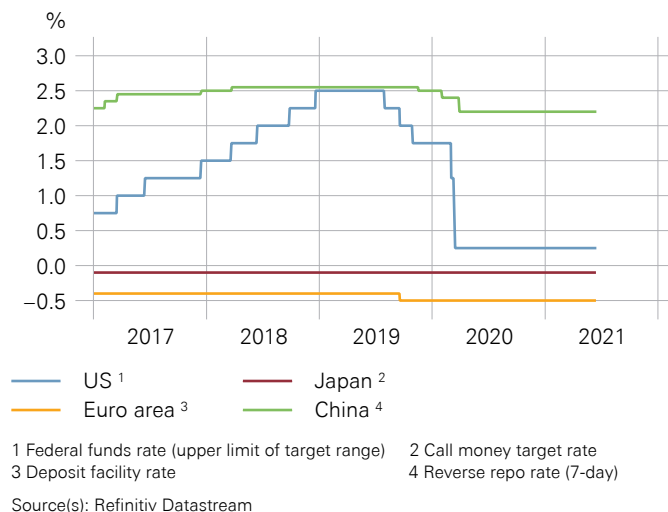


Chart 2.12

### OFFICIAL INTEREST RATES



## CHINA

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After recovering rapidly over the course of last year, economic activity in China weakened temporarily in the first quarter. As a result, GDP deviated slightly again from its pre-crisis trend, which it had reached in the second half of 2020 (cf. chart 2.7). This was due to the emergence of new virus hotspots in some parts of the country and the reintroduction of containment measures, which restricted travel for the Chinese New Year and, in particular, held back growth in consumption. Exports, by contrast, continued to develop favourably.

Following the easing of containment measures, economic activity started to recover from March. GDP growth is therefore likely to pick up again in the second quarter. The government has meanwhile begun to gradually unwind its economic stimulus measures. In this context, the central bank has introduced a phased normalisation of the credit supply, but has left its key rates unchanged (cf. chart 2.12).

Supported by rising fuel prices, consumer price inflation increased to 1.3% in May, having been slightly negative at the beginning of the year. Core inflation climbed to 0.9% (cf. charts 2.10 and 2.11).

# 3 Economic developments in Switzerland

The second wave of the pandemic interrupted the economic recovery in Switzerland. The tightened containment measures led to a renewed decline in GDP in the first quarter. However, the contraction was much less pronounced than in the first wave of the pandemic in spring 2020.

The economic indicators have improved significantly of late. This is in part attributable to the easing of public health measures in Switzerland, and in part to the economic recovery abroad. Swiss GDP can therefore be expected to show strong, broad-based growth in the second quarter. There are also signs of an improvement in the labour market.

In its baseline scenario for Switzerland, the SNB anticipates a continuation of the economic recovery in the second half of the year. This is also based on the assumption that the containment measures will be eased further.

Against this backdrop, the SNB expects GDP growth of around 3.5% for 2021. In March, the SNB was still anticipating that growth would not be as high. The upward revision is primarily attributable to the lower-than-expected decline in GDP in the first quarter.

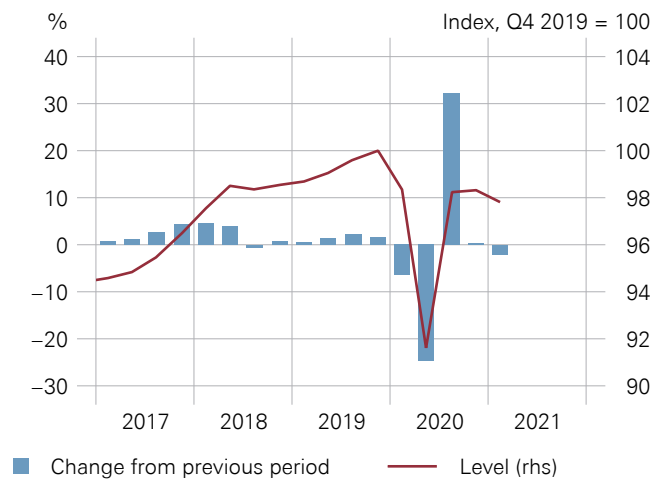
GDP is likely to return to its pre-crisis level by the middle of the year. However, production capacity will remain underutilised for some time yet. Owing to the pandemic, the forecast for Switzerland, as for the global economy, remains subject to heightened uncertainty.

## OUTPUT AND DEMAND

The SNB takes a wide range of information into account when assessing the economic situation. In the first quarter, economic activity declined again as a result of the tightening of containment measures. Economic conditions have improved considerably in recent months, however, amid the easing of restrictions.

Chart 3.1

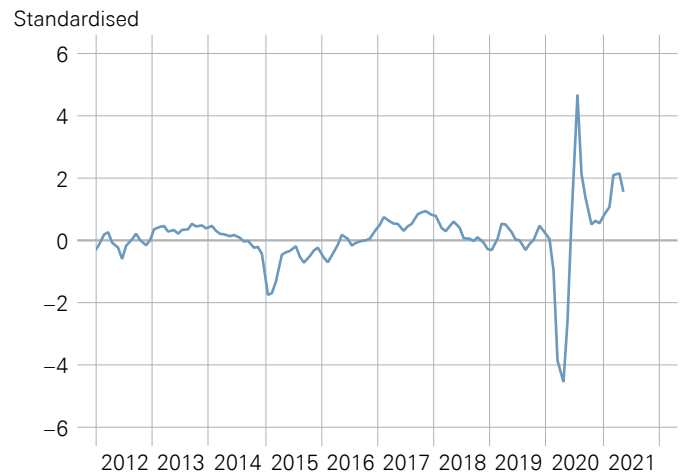
### REAL GDP



Source(s): SECO

Chart 3.2

### SNB BUSINESS CYCLE INDEX



Source(s): SNB

Chart 3.3

### MANUFACTURING PMI AND KOF ECONOMIC BAROMETER



Source(s): Credit Suisse, KOF Swiss Economic Institute

### GDP decline in first quarter

Economic growth was very weak in the fourth quarter of 2020 and the first quarter of 2021 in the wake of the second pandemic wave. According to the initial estimate by the State Secretariat for Economic Affairs (SECO), GDP contracted by 2.0% in the first quarter of 2021, having stagnated in the previous quarter. As a result, first-quarter GDP was still 2.2% below its pre-crisis level at the end of 2019 (cf. chart 3.1).

Growth continued to vary widely across the industries. Value added fell in several areas, particularly in those directly affected by the restrictions (retail trade, hospitality and entertainment). Meanwhile, in manufacturing and financial services, value added saw a significant rise.

The majority of final demand components decreased. The decline in private consumption was especially pronounced. By contrast, government consumption and trade in goods posted substantial gains (cf. table 3.1).

### Considerable recovery since March

Various economic indicators point to a pronounced upswing in economic activity in recent months, with retail sales, for instance, growing strongly following the reopening of shops at the beginning of March. The hospitality and entertainment industries also showed signs of improvement, while industries less affected by the restrictions continue to recover. Goods exports and the company survey results suggest strong momentum in manufacturing, in particular (cf. chart 3.3).

The SNB's Business Cycle Index and the KOF Economic Barometer aim to depict overall economic momentum on a monthly basis. Both indicators point to growth that is clearly above average (cf. charts 3.2 and 3.3). The talks held by the SNB's delegates for regional economic relations with companies also suggest robust growth in the second quarter (cf. 'Business cycle signals', pp. 28 et seq.).

GDP is thus likely to expand substantially in the second quarter as containment measures are eased.

Table 3.1

### REAL GDP AND COMPONENTS

Growth rates on previous period in percent, annualised

	2017	2018	2019	2020	2019			2020				2021
					Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Private consumption	1.2	0.8	1.4	-4.4	2.6	-0.2	1.9	-13.4	-29.2	53.0	-5.4	-12.6
Government consumption	0.6	0.9	0.9	3.6	0.5	2.1	2.5	4.6	4.4	0.7	12.8	4.8
Investment in fixed assets	3.6	0.8	1.2	-2.2	-2.4	-0.5	20.3	-14.5	-24.9	34.1	2.2	-0.9
Construction	1.5	0.0	-0.5	-1.0	-1.0	1.0	1.6	-0.1	-18.6	22.2	-0.9	0.6
Equipment	4.9	1.2	2.2	-2.9	-3.2	-1.4	32.0	-21.5	-28.4	41.6	4.1	-1.7
Domestic final demand	1.8	0.8	1.3	-2.7	0.8	0.0	7.0	-11.6	-24.1	39.2	-1.0	-7.1
Change in inventories <sup>1</sup>	-0.3	0.9	-0.2	-1.1	-1.3	2.6	-8.7	10.3	-10.1	3.3	-3.3	5.1
Total exports <sup>2</sup>	3.4	5.0	2.1	-5.2	3.9	2.2	2.8	-12.8	-30.8	22.0	16.5	-2.2
Goods <sup>2</sup>	5.3	5.0	4.8	-0.4	10.3	6.7	4.3	-7.6	-21.7	28.0	3.0	6.3
Goods excluding merchanting <sup>2</sup>	5.8	4.4	4.9	-2.8	3.9	6.9	-3.1	4.5	-44.3	47.3	14.6	21.2
Services	0.1	5.0	-3.0	-15.0	-8.2	-6.7	-0.7	-23.0	-48.2	8.1	57.7	-19.4
Total imports <sup>2</sup>	3.8	3.3	2.5	-8.7	0.4	3.8	-4.9	-1.5	-51.8	46.1	10.4	-0.5
Goods <sup>2</sup>	4.6	6.2	2.8	-7.3	-4.2	4.5	-8.5	-1.6	-45.8	55.0	-0.7	6.8
Services	2.4	-1.5	2.0	-11.2	8.9	2.5	1.4	-1.3	-60.8	31.1	33.6	-12.1
Net exports <sup>3</sup>	0.3	1.3	0.1	1.0	2.0	-0.4	3.8	-6.6	6.1	-6.6	4.4	-1.0
<b>GDP</b>	<b>1.6</b>	<b>3.0</b>	<b>1.1</b>	<b>-2.6</b>	<b>1.5</b>	<b>2.2</b>	<b>1.6</b>	<b>-6.5</b>	<b>-24.7</b>	<b>32.2</b>	<b>0.3</b>	<b>-2.0</b>

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(s): SECO



## LABOUR MARKET

The second wave of the pandemic also left its mark on the labour market. There are signs of a recovery, however.

### Decline in employment in first quarter

According to the national job statistics (JOBSTAT), the seasonally adjusted number of full-time equivalent positions dropped in the first quarter. Job losses were recorded in both manufacturing and construction as well as in services (cf. chart 3.4). These statistics measure employment on the company side and are based on a survey of firms. First-quarter results for the Employment Statistics (ES), which measure the number of employed persons on the household side, have yet to be published by the Swiss Federal Statistical Office (FSO).

### Decline in unemployment ...

In recent months there have been growing signs of a recovery in the labour market. The number of people registered as unemployed at the regional employment offices has declined considerably. Excluding seasonal fluctuations, 140,000 people were registered as unemployed at the end of May, 18,000 fewer than at the end of February. Meanwhile, the seasonally adjusted unemployment rate published by SECO for the same period stood at 3.0%, which was still around half a percentage point above its pre-crisis level at the end of 2019 (cf. chart 3.5). With regard to the unemployment figures in line with the International Labour Organization (ILO) definition, no new data have been published since the last Quarterly Bulletin.

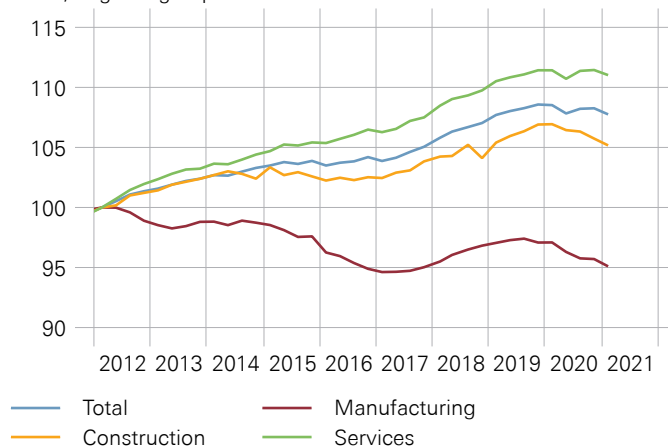
### ... and in short-time working

Following a renewed rise in the preceding months, short-time working declined again from February. Provisional figures from SECO suggest that the number of people in short-time work fell by 145,000 to 341,000 between January and March (cf. chart 3.6). Thus, in March, around 7% of all economically active persons were still in short-time work.

Chart 3.4

### FULL-TIME EQUIVALENT JOBS

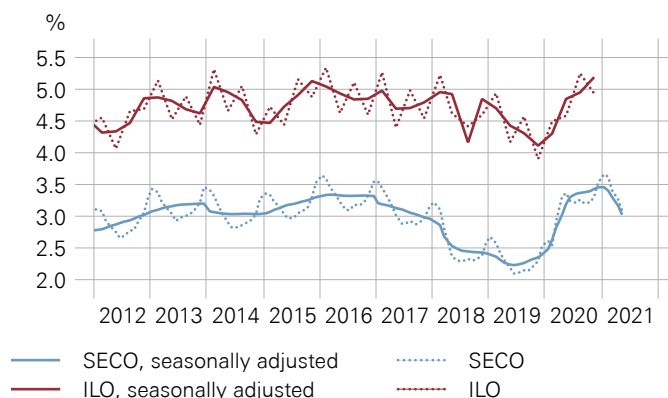
Index, beginning of period = 100



Source(s): FSO; seasonal adjustment: SNB

Chart 3.5

### UNEMPLOYMENT RATE



SECO: Unemployed persons registered with the regional employment offices, as a percentage of the labour force (economically active persons).

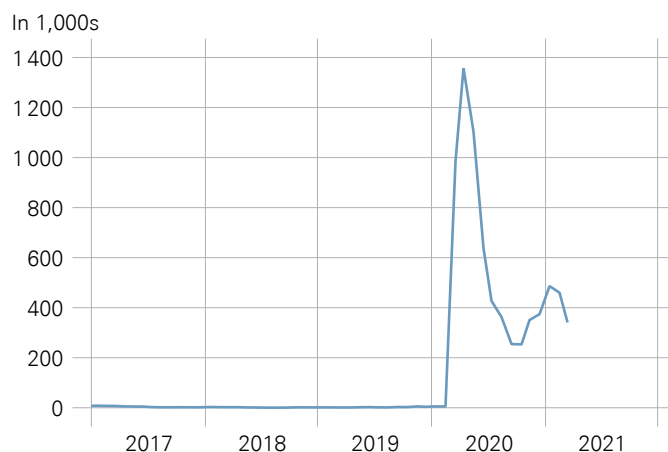
ILO: Unemployment rate based on International Labour Organization definition.

Source(s): SECO, FSO

Chart 3.6

### SHORT-TIME WORKING

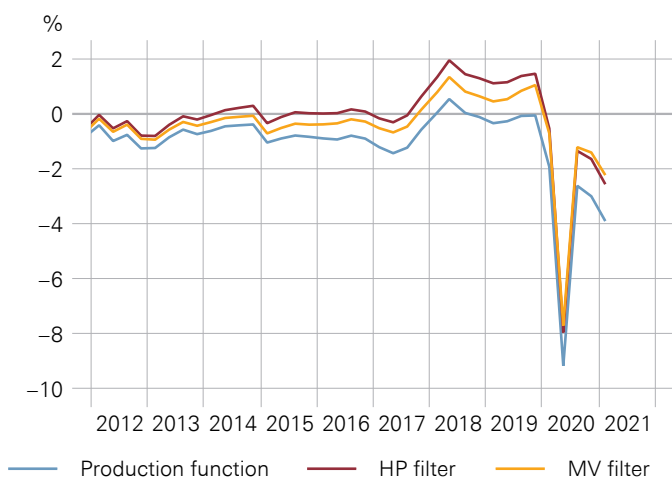
Employees affected



Source(s): SECO

Chart 3.7

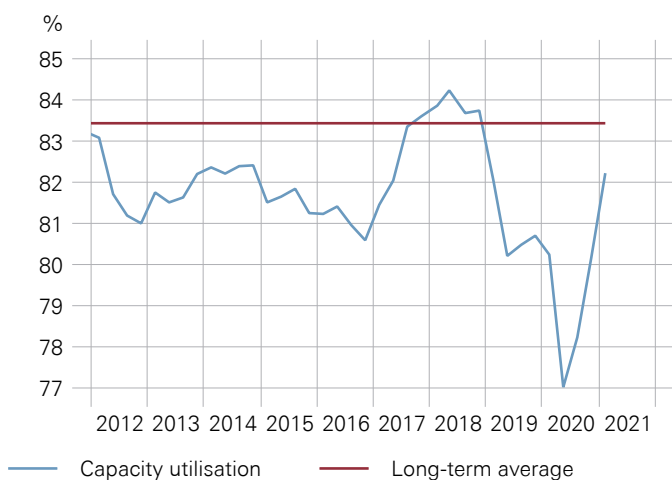
**OUTPUT GAP**



Source(s): SNB

Chart 3.8

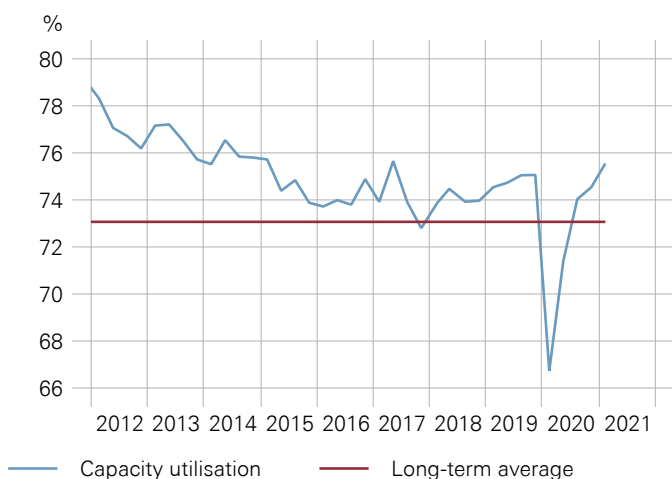
**CAPACITY UTILISATION IN MANUFACTURING**



Source(s): KOF Swiss Economic Institute

Chart 3.9

**CAPACITY UTILISATION IN CONSTRUCTION**



Source(s): KOF Swiss Economic Institute

**CAPACITY UTILISATION**

**Negative output gap in first quarter**

The output gap, defined as the percentage deviation of actual GDP from estimated aggregate potential output, shows how well production capacity in an economy is being utilised. In the case of overutilisation the gap is positive, and in the case of underutilisation it is negative.

The decline in economic activity in the first quarter caused the output gap to open up again. Potential output as estimated by means of a production function shows an output gap of -3.9% for the first quarter. Other estimation methods indicate a narrower gap (cf. chart 3.7).

**Underutilisation in many industries**

The surveys conducted among companies confirm that the utilisation of production factors has improved in many industries. They also show, however, that there are significant differences between the industries. According to the KOF survey, although utilisation of technical capacity in manufacturing continued to be below average, the situation improved considerably in the first three months of the year (cf. chart 3.8). Utilisation in construction was again slightly above its pre-crisis level in the first quarter (cf. chart 3.9). In many services industries, by contrast, capacity remained underutilised. The hotel industry was particularly affected, with occupancy rates still very low.

As regards the labour situation, the majority of companies indicated that their staffing levels were too high in the first quarter. Utilisation is likely to have improved since March, however, following the easing of containment measures.

## OUTLOOK

The economic outlook for Switzerland has picked up significantly. With the progress of vaccination programmes and declining infection rates, economic activity can increasingly return to normal. The gradual easing of health policy measures in recent months has been lending considerable impetus to the economy. In addition, global manufacturing indicates that foreign demand is solid (cf. chart 3.10). On the whole, there are signs of strong GDP growth in the second quarter.

Economic prospects have improved in most industries. Companies therefore expect the business situation to rally over the course of the next six months (cf. chart 3.11). Investment activity will likely see an upswing as a result. Surveys indicate that the employment outlook is also considerably more positive than it was three months ago (cf. chart 3.12).

Developments going forward hinge on whether there will be renewed waves of the pandemic and which measures are implemented to contain them. As vaccination programmes progress, it may be assumed that new waves would have a less severe impact than in the past.

In its baseline scenario for Switzerland, the SNB anticipates a continuation of the economic recovery in the second half of the year. It is also based on the assumption that the containment measures will be eased further.

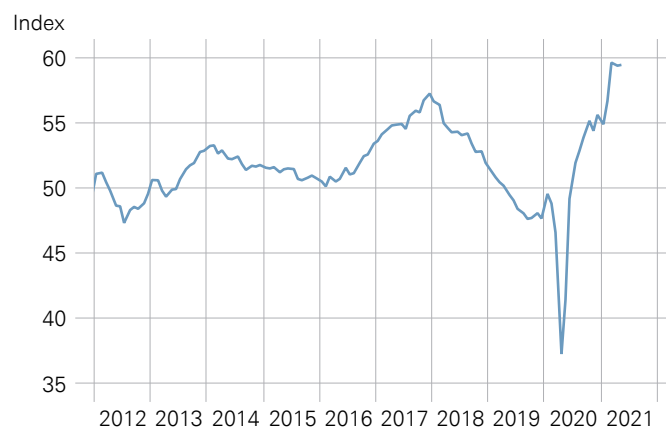
For 2021, the SNB anticipates GDP growth of around 3.5%. The main reason for this upward revision compared with the March forecast is that GDP contracted less sharply in the first quarter than expected.

Activity looks set to return to its pre-crisis level by mid-year. However, production capacity will remain underutilised for some time to come. Owing to the pandemic, the forecast for Switzerland, as for the global economy, remains subject to heightened uncertainty.

Chart 3.10

### MANUFACTURING PMI ABROAD

Export-weighted, 27 countries

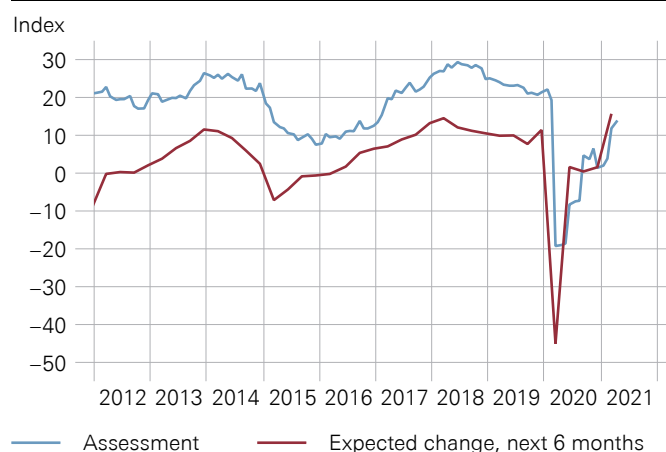


Source(s): International Monetary Fund – Direction of Trade Statistics (IMF – DOTs), Refinitiv Datastream, SNB

Chart 3.11

### BUSINESS SITUATION

Average across all KOF surveys

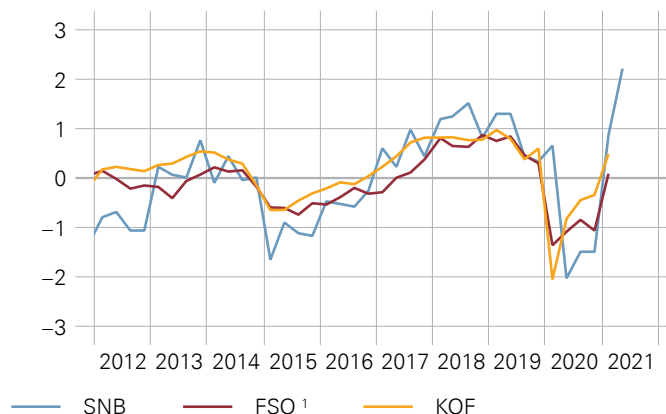


Source(s): KOF Swiss Economic Institute

Chart 3.12

### EMPLOYMENT OUTLOOK

Seasonally adjusted, standardised



1 Seasonal adjustment: SNB

Source(s): KOF Swiss Economic Institute, FSO, SNB regional network

# 4

## Prices and inflation expectations

In April, the inflation rate as measured by the CPI was back in positive territory for the first time since before the pandemic. Inflation stood at 0.6% in May, while core inflation reached 0.3%.

Short-term inflation expectations increased quarter-on-quarter, while longer-term expectations were virtually unchanged. Both short and longer-term expectations were within the range consistent with price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

### CONSUMER PRICES

#### Annual inflation returns to positive territory

Having remained in negative territory since the outbreak of the pandemic, annual CPI inflation has been climbing steadily since December and, in April, was positive again, at 0.3%, for the first time. In May, annual inflation rose to 0.6% (cf. chart 4.1, table 4.1).

#### Higher inflation for imported products

Inflation for imported goods and services was likewise back in positive territory. After posting a negative rate of -1.6% in February, it rose to 1.2% in April and stood at 1.6% in May.

The increase was largely attributable to the rise in inflation for oil products, which climbed year-on-year from -2.3% in February to 9.4% in March, reaching 20.5% in May. This upsurge reflects a return of oil prices to roughly their pre-pandemic levels, having declined sharply at the beginning of 2020.

Inflation for other imported goods and services, by contrast, remained in the negative range, although it did rise from -1.4% in February to -0.5% in April and May (cf. table 4.1). This increase was primarily due to higher prices for tourism-related services.

Table 4.1

### SWISS CONSUMER PRICE INDEX AND COMPONENTS

Year-on-year change in percent

	2020	2020			2021	2021		
		Q2	Q3	Q4	Q1	March	April	May
<b>Overall CPI</b>	<b>-0.7</b>	<b>-1.2</b>	<b>-0.9</b>	<b>-0.7</b>	<b>-0.4</b>	<b>-0.2</b>	<b>0.3</b>	<b>0.6</b>
Domestic goods and services	0.0	-0.2	-0.1	0.0	-0.2	-0.2	0.1	0.2
Goods	0.0	0.1	0.0	0.1	0.0	-0.4	-0.5	-0.1
Services	0.0	-0.3	-0.1	0.0	-0.2	-0.1	0.2	0.3
Private services excluding housing rents	-0.4	-1.0	-0.5	-0.2	-0.6	-0.4	0.3	0.3
Housing rents	0.9	1.1	0.9	0.5	0.4	0.5	0.5	0.8
Public services	-0.8	-0.8	-0.8	-0.6	-0.3	-0.4	-0.4	-0.4
Imported goods and services	-2.9	-4.2	-3.3	-2.8	-1.3	-0.4	1.2	1.6
Excluding oil products	-1.4	-2.3	-1.4	-1.1	-1.2	-1.5	-0.5	-0.5
Oil products	-13.7	-18.6	-16.8	-15.3	-1.3	9.4	16.2	20.5

Source(s): FSO, SNB

### Slightly higher inflation for domestic products

Inflation for domestic goods and services has also been back in positive territory since April. It climbed from -0.2% in February to 0.1% in April and stood at 0.2% in May (cf. chart 4.2). While inflation for domestic goods fell again slightly in March and April, inflation for domestic services excluding housing rents rose steadily, from -0.6% in February to 0.1% in May. This increase was also largely attributable to higher prices for tourism-related services.

### Slight rise in rent inflation

Housing rent inflation rose to 0.8% in May, up 0.3 percentage points on February (cf. chart 4.3).

### Core inflation slightly positive

The FSO core inflation rate 1 (FSO1) increased from -0.3% in February to 0.2% in May. Core inflation, as measured by the SNB's trimmed mean (TM15), rose in the same period from 0.2% to 0.3% (cf. chart 4.4). The two core inflation rates were thus in the low positive range in May.

Both core inflation rates exclude goods and services with particularly volatile prices. When calculating FSO1, energy and fuel as well as unprocessed food and seasonal goods and services are not included. TM15 excludes the goods and services with the most extreme price changes every month (i.e. the 15% of goods and services with the lowest annual rates of change in prices, and the 15% with the highest).

## PRODUCER AND IMPORT PRICES

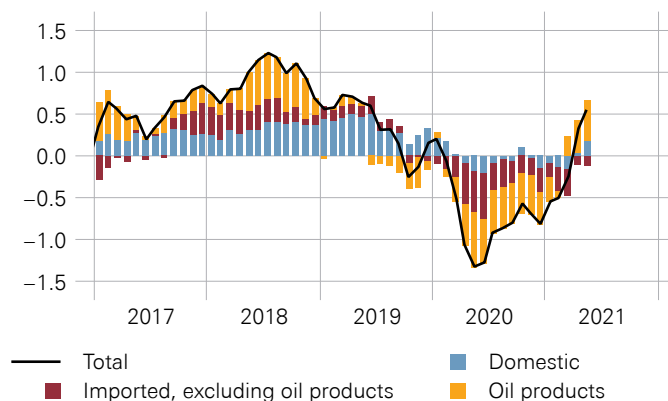
### Higher inflation for producer and import prices

Inflation for producer and import prices rose substantially in recent months and stood at 3.2% in May, compared to -1.1% in February (cf. chart 4.5). This increase is primarily a reflection of the considerable hike in import prices, which in May were up 6.4% year-on-year. Producer prices also recorded an increase. However, at 1.6%, the rise was less pronounced than its counterpart. The rise in inflation for producer and import prices was broad based. The biggest contribution to this increase, however, came from oil products and intermediate goods (e.g. metal, timber, plastic). Supply bottlenecks are likely to have played an important role here.

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.

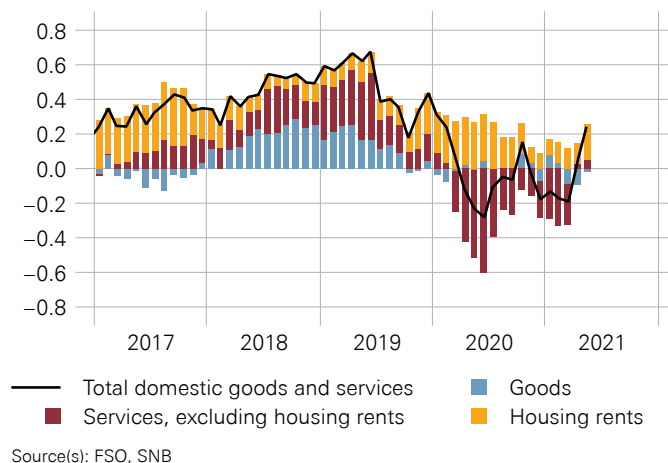


Source(s): FSO, SNB

Chart 4.2

### CPI: DOMESTIC GOODS AND SERVICES

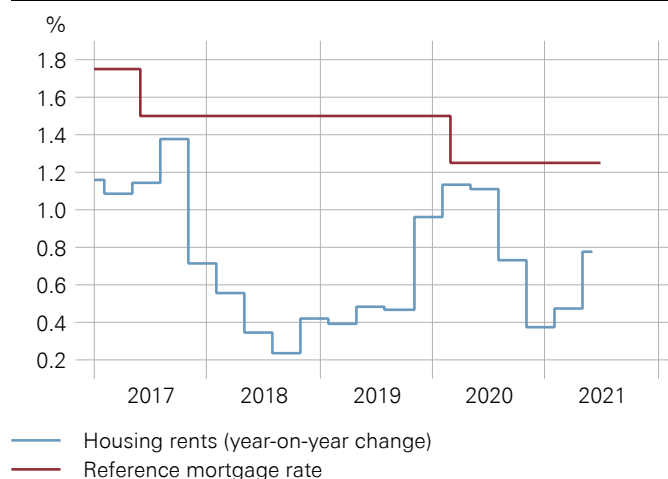
Year-on-year change in domestic CPI in percent. Contribution of individual components, in percentage points.



Source(s): FSO, SNB

Chart 4.3

### HOUSING RENTS

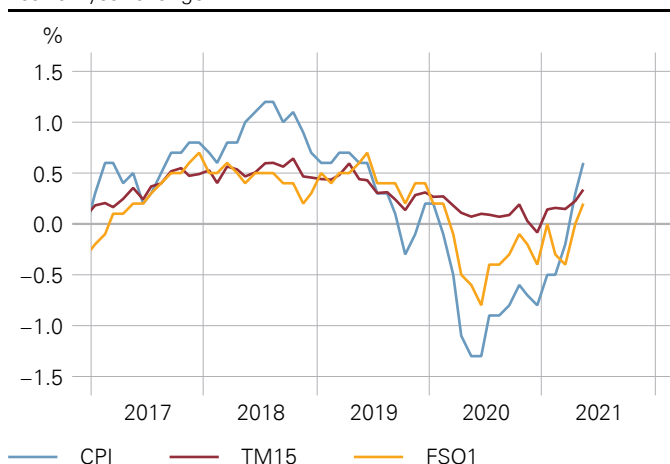


Source(s): Federal Office for Housing (FOH), FSO

Chart 4.4

### CORE INFLATION RATES

Year-on-year change

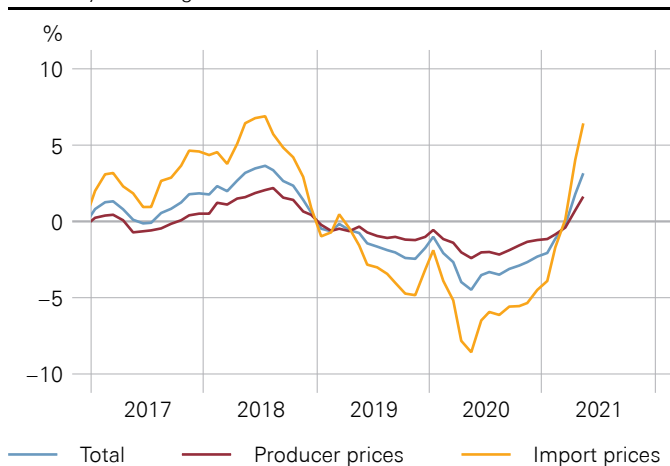


Source(s): FSO, SNB

Chart 4.5

### PRODUCER AND IMPORT PRICES

Year-on-year change

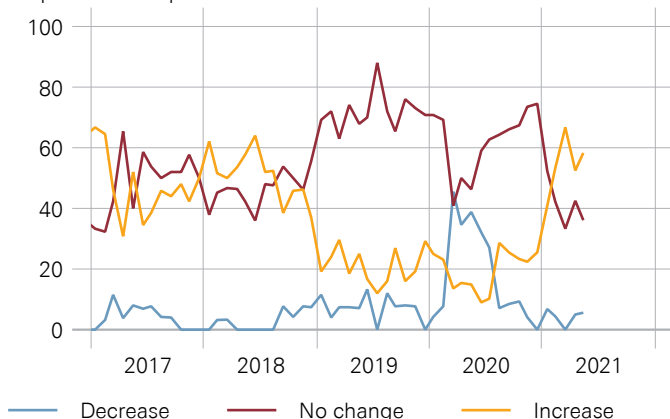


Source(s): FSO

Chart 4.6

### CS-CFA SURVEY: SIX-MONTH INFLATION EXPECTATIONS

Proportion of respondents in %



Source(s): CFA Society Switzerland, Credit Suisse

## INFLATION EXPECTATIONS

### Short-term inflation expectations slightly higher again

In the wake of the rise in annual inflation, short-term inflation expectations increased again slightly compared with the previous quarter.

According to the joint monthly financial market survey by Credit Suisse and the CFA Society Switzerland, 58% of analysts questioned in May 2021 continued to expect inflation rates to rise in the next six months (cf. chart 4.6). Meanwhile, 36% of respondents anticipated unchanged rates, and fewer than 6% thought rates would fall. It is likely that survey participants would have known that the annual CPI inflation rate in spring had returned to positive territory. The survey results thus suggest that respondents also expect annual inflation rates to remain positive in the months ahead.

The survey of households conducted by SECO in April paints a similar picture. With a share of 54%, the majority of households were still expecting prices to rise in the next twelve months, while 41% of households were expecting unchanged prices. The share of respondents anticipating a fall in prices, by contrast, fell from 10% in January to 4%.

In the talks conducted by the SNB's delegates for regional economic relations, companies also expected higher inflation in the short term (cf. chart 10 in 'Business cycle signals'). In the second quarter of 2021, company representatives anticipated an annual inflation rate of 1.1% for the next six to twelve months. In the preceding quarter, they had put the rate at 0.3%.

### Longer-term expectations consistent with price stability

Medium and longer-term inflation expectations changed little, however, and remained within the range consistent with price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

Company representatives interviewed by the SNB's delegates in Q2 of 2021 thus put the average inflation rate in three to five years at approximately 1.2% (Q1 2021: 1.1%).

# 5

## Monetary developments

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At its quarterly assessment of 25 March 2021, the SNB reaffirmed its expansionary monetary policy. It kept 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 remained willing to intervene in the foreign exchange market as necessary. It also continued to supply the banking system with liquidity on generous terms.

In the period following the March monetary policy assessment, share prices and yields on long-term Confederation bonds rose further. By mid-June, the Swiss franc was significantly stronger against the US dollar and had also gained against the euro.

Growth rates for the broad monetary aggregates weakened owing to base effects. Annual growth in bank lending remained robust in Q1 2021, and there were still no discernible signs of credit rationing.

### **SUMMARY OF MONETARY POLICY SINCE THE LAST ASSESSMENT**

---

#### **Expansionary monetary policy remains unchanged**

At its quarterly assessment of 25 March 2021, the SNB confirmed its expansionary monetary policy stance. The environment continued to be affected by the coronavirus pandemic. 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 confirmed its willingness to intervene as necessary in the foreign exchange market to contribute to the stabilisation of the situation. In so doing, it continued to take the overall exchange rate situation into account. Moreover, it continued to provide the banking system with liquidity on generous terms and thus supported the supply of credit to the economy at favourable conditions.

#### **No liquidity provision in CHF, less in USD**

In the last quarter, the secured short-term money market rates remained consistently close to the SNB policy rate. It was therefore not necessary to provide the money market with Swiss franc liquidity through open market operations.

In view of the sustained improvements in US dollar funding conditions, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank, in consultation with the Federal Reserve, jointly decided to discontinue offering dollar liquidity at the 84-day maturity from July 2021. Operations with a 7-day maturity will continue to be held on a weekly basis, however.

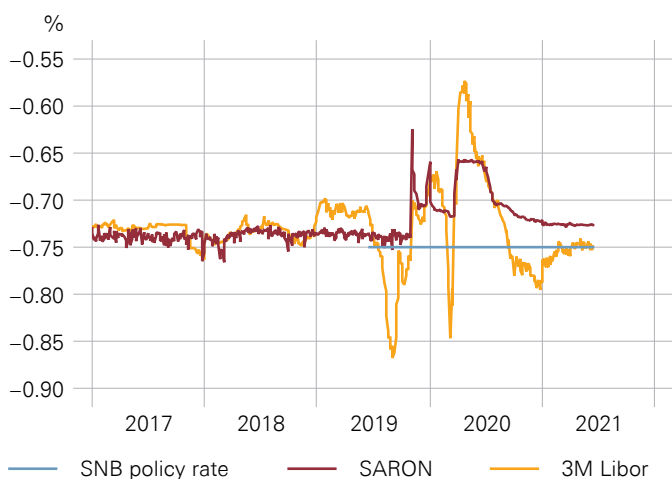
#### **Higher sight deposits at the SNB**

Since the monetary policy assessment of March 2021, total sight deposits held at the SNB have increased. In the week ending 11 June 2021 (last calendar week before the assessment of June 2021), they amounted to CHF 711 billion. This was higher than in the last calendar week preceding the mid-March assessment (CHF 702.9 billion). Between the assessments of March and June 2021, sight deposits at the SNB averaged CHF 706 billion. Of this amount, CHF 631.9 billion were sight deposits of domestic banks and the remaining CHF 74.1 billion were other sight deposits.

Statutory minimum reserves averaged CHF 21.4 billion between 20 February and 19 May 2021. Overall, banks exceeded the minimum reserve requirement by some CHF 616.9 billion (previous period: CHF 621.6 billion). Banks' excess reserves thus remain very high.

Chart 5.1

**SNB POLICY RATE AND MONEY MARKET RATES**



Source(s): Bloomberg, SIX Swiss Exchange Ltd, SNB

Chart 5.2

**10-YEAR SWISS CONFEDERATION BOND YIELD**

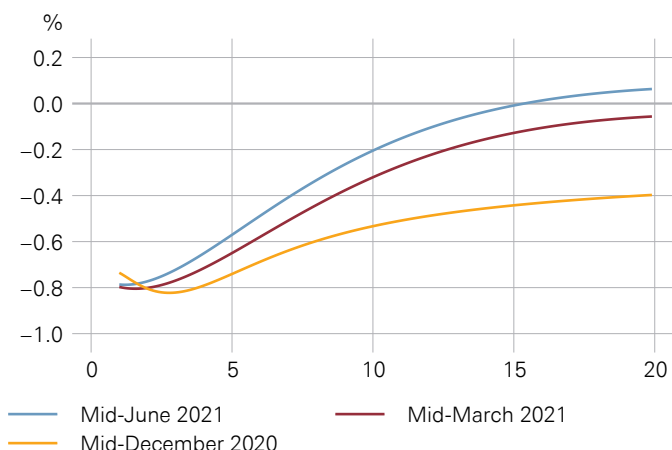


Source(s): SNB

Chart 5.3

**TERM STRUCTURE OF CONFEDERATION BONDS**

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



Source(s): SNB

**MONEY AND CAPITAL MARKET INTEREST RATES**

**Money market rates largely unchanged**

Money market interest rates have consistently tracked close to the SNB policy rate of  $-0.75\%$  in the three months since the last monetary policy assessment. Over the entire period, SARON had stood at around  $-0.73\%$ , while the three-month Libor, which had served as the SNB's monetary policy reference rate up until June 2019, was at  $-0.75\%$  (cf. chart 5.1). The setting of CHF Libor rates will cease as per end-2021.

**Slight increase in capital market rates**

Long-term capital market rates continued to rise in the second quarter of 2021. The yield on ten-year Confederation bonds stood at  $-0.20\%$  in mid-June. It was thus around 0.3 percentage points higher than at the beginning of the year (cf. chart 5.2). The increase was largely consistent with movements in corresponding rates in Germany and reflects, among other things, the improving economic outlook linked to global vaccination programmes. As the long-term nominal interest rates are also driven by expected inflation over the interest rate term, the upward revision of the short-term inflation outlook is also likely to have contributed to the rise in long-term interest rates.

**Steeper yield curve**

The yield curve for Confederation bonds was somewhat steeper in mid-June than at the time of the last monetary policy assessment in March 2021 (cf. chart 5.3). Yields for maturities in excess of 15 years returned to positive territory, after the yield curve across all maturities covered had been negative for the last two years.

**Real interest rates low**

Real interest rates – the difference between nominal interest rates and inflation expectations – are an important factor in the saving and investment decisions of companies and households.

Real interest rates persisted at low levels. This was attributable to the fact that although nominal yields on Confederation bonds registered a slight rise since the last monetary policy assessment, survey measures of short-term inflation expectations were somewhat more clearly in positive territory than in Q1.



## EXCHANGE RATES

### Swiss franc stronger against US dollar

Since the monetary policy assessment in March, the Swiss franc has gained in value against the US dollar by 4% (cf. chart 5.4). This development reflected broad-based dollar weakness, driven in part by a rise in US inflation expectations coupled with an unchanged expansionary monetary policy. One US dollar was worth CHF 0.90, the lowest it has been since February.

The Swiss franc appreciated by 1.5% against the euro. In mid-June, the euro was trading at CHF 1.09 to the franc.

### Swiss franc's trade-weighted external value stronger

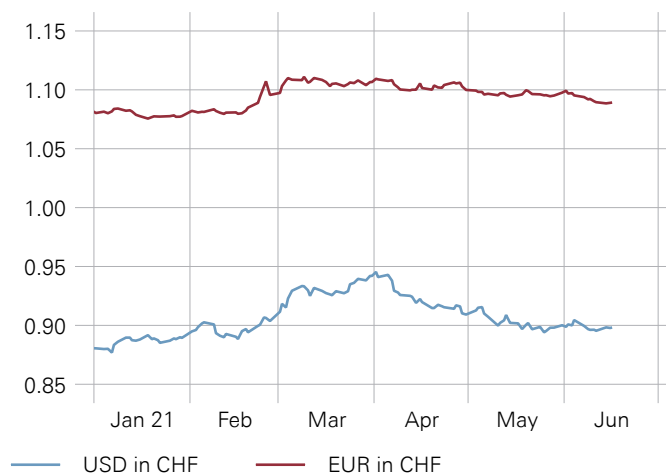
The nominal trade-weighted external value of the Swiss franc has increased by around 2% since the monetary policy assessment in March (cf. chart 5.5). The Swiss franc gained in value across a broad front. In addition to the aforementioned appreciation against the euro (1%, index weighting 43%) and the US dollar (4%, index weighting 15%), the appreciation in particular against the renminbi (2%, index weighting 9%) and the yen (just under 5%, index weighting 3%) also contributed to the strength of the Swiss franc's trade-weighted external value.

### Real external value still high

Following the Swiss franc's nominal depreciation in February and early March, the real external value also declined considerably in the first quarter; it rose again with the franc's renewed appreciation in nominal terms in April and May (cf. chart 5.6). In a longer-term comparison, the Swiss franc remains highly valued.

Chart 5.4

## EXCHANGE RATES



Source(s): SNB

Chart 5.5

## NOMINAL EXTERNAL VALUE OF SWISS FRANC

Index, March 2021 monetary policy assessment = 100



Source(s): SNB

Chart 5.6

## REAL EXTERNAL VALUE OF SWISS FRANC

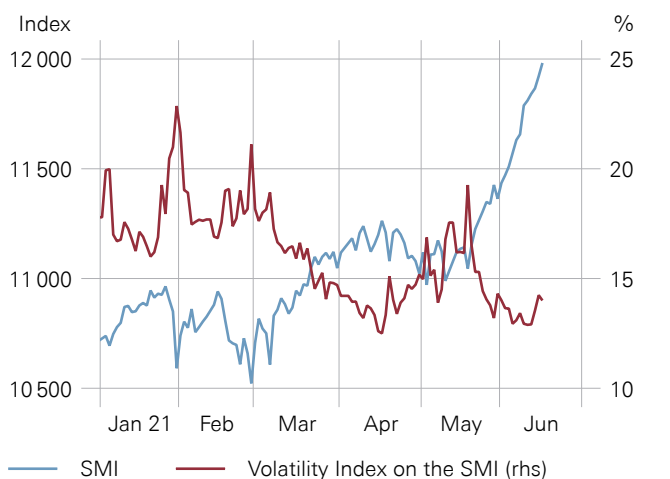
Index, December 2000 = 100



Source(s): SNB

Chart 5.7

### SHARE PRICES AND VOLATILITY



Source(s): Bloomberg, Refinitiv Datastream

Chart 5.8

### SELECTED SPI SECTORS

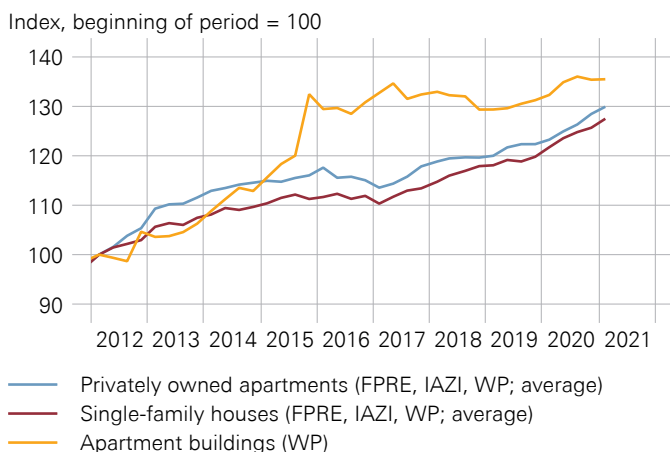


Source(s): Refinitiv Datastream

Chart 5.9

### HOUSING TRANSACTION PRICES

Nominal (hedonic)



Source(s): Fahländer Partner Raumentwicklung (FPRE), IAZI, Wüest Partner (WP)

### SHARE AND REAL ESTATE PRICES

#### Share prices reach new all-time highs

Since the last monetary policy assessment in March, share prices have increased further in the major economies. At the same time, concerns over central banks possibly taking restrictive action in response to rising inflation contributed to share prices falling somewhat in the second half of April. As concerns eased, however, global share prices continued their upward trend. In June, the Swiss Market Index (SMI) reached a new all-time high; by mid-month, it was up about 8% on its end-March level (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 fell significantly in the period from the last monetary policy assessment up to mid-April. Subsequent uncertainty about the future path of inflation and its impact on the financial markets resulted in a temporary rise in the index. It declined again in May, however.

#### Substantial gains for most sector indices

Chart 5.8 shows the movements of important sector indices in the broad-based Swiss Performance Index (SPI). Compared with the last monetary policy assessment, share prices of consumer goods companies, industrials and healthcare companies rose considerably, while share prices of financial service providers recorded little change.

#### Continued growth in residential real estate prices

In the first quarter of 2021, transaction prices for residential real estate rose further (cf. chart 5.9), with the exception of prices in the apartment buildings segment, which stagnated. All in all, the residential real estate market does not seem to be negatively affected by the coronavirus pandemic thus far. However, it is not possible to rule out the pandemic having an unfavourable effect on this market in the future.

## MONETARY AND CREDIT AGGREGATES

### Stable monetary base

The monetary base, which consists of banknotes in circulation and sight deposits of domestic banks held at the SNB, has remained roughly at the level recorded since August 2020. In May 2021, it averaged CHF 722.4 billion (cf. chart 5.10), and was thus down CHF 7.0 billion on February.

### Weaker growth in broad monetary aggregates

Growth rates for broad monetary aggregates have declined in recent months. In May 2021, the M1 aggregate (currency in circulation, as well as sight deposits and transaction accounts of resident bank customers) was up 6.5% year-on-year (cf. table 5.1). In the same period, M2 (M1 plus savings deposits) grew by 4.4% and M3 (M2 plus time deposits) was up by 4.1%, compared with annual growth rates of 6.8% for both aggregates in February. The lower annual rates of growth reflect a base effect, attributable to the fact that money creation resulting from the granting of COVID-19 loans had been particularly pronounced at the beginning of the pandemic last year.

### Stronger growth in bank lending

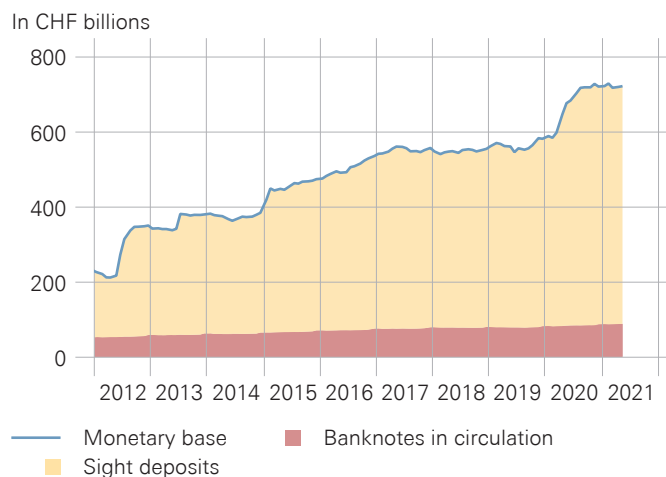
Bank lending (by domestic bank offices, in all currencies) was up 4.0% year-on-year in the first quarter of 2021, having risen by 3.5% in the fourth quarter of 2020 (cf. table 5.1). Both mortgage lending and other loans contributed to the increase in growth.

Banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, were up 3.3% year-on-year in the first quarter of 2021. Demand for mortgages continued to be supported by low mortgage interest rates. The ten-year mortgage interest rate stood at around 1.4% in April 2021, which was only slightly above the all-time low of approximately 1.2% recorded in August 2019.

Other loans are considerably more volatile than mortgage loans (cf. chart 5.11). While unsecured other loans have changed little since the beginning of 2021, the volume of secured other loans saw an increase. This is largely attributable to a rise in foreign currency lending.

Chart 5.10

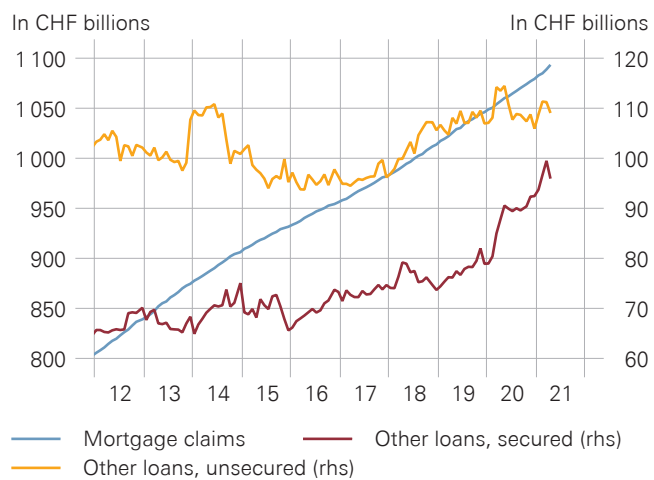
### MONETARY BASE



Source(s): SNB

Chart 5.11

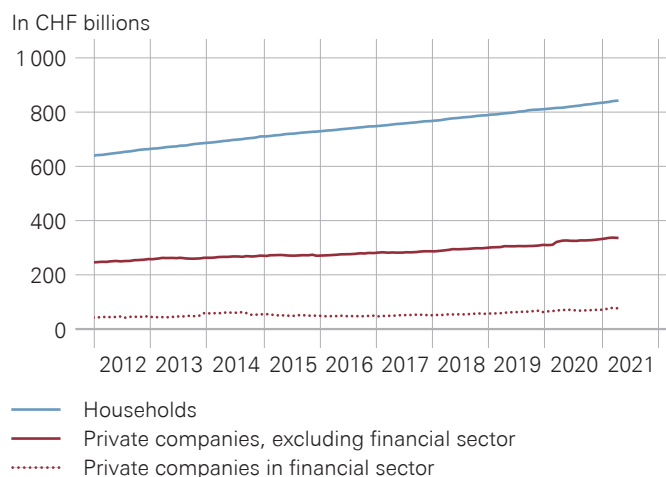
### MORTGAGE CLAIMS AND OTHER LOANS



Source(s): SNB

Chart 5.12

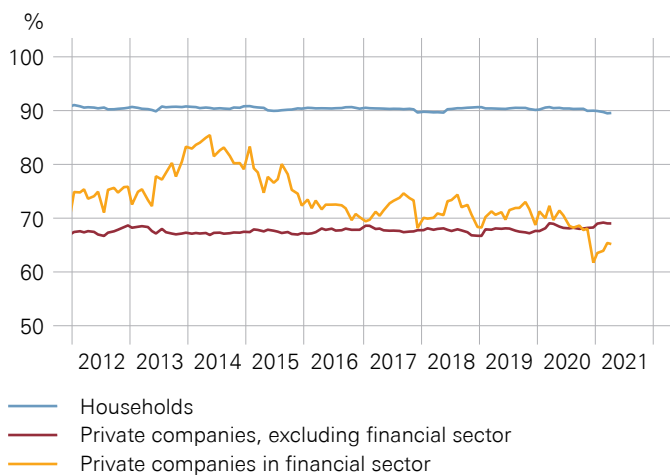
### LOANS TO HOUSEHOLDS AND COMPANIES



Source(s): SNB

Chart 5.13

**UTILISATION OF CREDIT LIMITS BY SECTOR**



Source(s): SNB

**Lending growth and credit line utilisation by sector**

Both households and non-financial companies continue to make use of the 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 2021, loans to households recorded a year-on-year increase of CHF 25.0 billion (3.1%) and loans to non-financial companies a rise of CHF 16.0 billion (5.0%). Loans to financial companies rose in the same period by CHF 9.2 billion (13.3%).

Despite the significant growth in lending, the level of credit line utilisation has hardly changed since the beginning of the pandemic (cf. chart 5.13). Since the beginning of 2020, credit line utilisation for non-financial companies has increased from 67.6% to 69.0%, while it has dropped for households from 90.1% to 89.5% and for financial companies from 68.7% to 65.4%. This indicates that the supply of credit is meeting demand and there are no signs of credit rationing.

Table 5.1

**MONETARY AGGREGATES AND BANK LOANS**

Year-on-year change in percent

	2020	2020			2021	2021		
		Q2	Q3	Q4	Q1	March	April	May
<b>M1</b>	<b>4.3</b>	<b>3.5</b>	<b>5.2</b>	<b>8.1</b>	<b>9.3</b>	<b>8.2</b>	<b>7.3</b>	<b>6.5</b>
<b>M2</b>	<b>2.3</b>	<b>1.5</b>	<b>2.8</b>	<b>5.2</b>	<b>6.5</b>	<b>6.0</b>	<b>5.3</b>	<b>4.4</b>
<b>M3</b>	<b>3.2</b>	<b>2.5</b>	<b>4.0</b>	<b>5.9</b>	<b>6.5</b>	<b>5.7</b>	<b>4.9</b>	<b>4.1</b>
<b>Bank loans, total</b> <sup>1,3</sup>	<b>3.6</b>	<b>4.0</b>	<b>3.5</b>	<b>3.5</b>	<b>4.0</b>	<b>3.7</b>	<b>3.2</b>	
Mortgage claims <sup>1,3</sup>	3.1	3.0	2.9	3.1	3.3	3.3	3.4	
Households <sup>2,3</sup>	2.7	2.6	2.6	2.7	2.7	2.8	2.9	
Private companies <sup>2,3</sup>	4.4	4.4	4.1	4.6	5.3	5.4	5.6	
Other loans <sup>1,3</sup>	6.8	9.4	6.5	5.7	8.3	5.8	1.8	
Secured <sup>1,3</sup>	13.5	16.5	14.8	14.5	18.7	17.1	9.3	
Unsecured <sup>1,3</sup>	2.0	4.4	0.6	-0.8	0.6	-2.6	-3.9	

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(s): SNB

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# Business cycle signals

Results of the SNB company talks

## Second quarter of 2021

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 236 company talks were conducted between 13 April and 31 May.

### Regions

Central Switzerland  
  
Eastern Switzerland  
Fribourg/Vaud/Valais  
Geneva/Jura/Neuchâtel  
Italian-speaking Switzerland  
Mittelland  
Northwestern Switzerland  
Zurich

### Delegates

Gregor Bäurle  
Astrid Frey  
Urs Schönholzer  
Aline Chabloz  
Jean-Marc Falter  
Fabio Bossi  
Roland Scheurer  
Daniel Hanimann  
Fabian Schnell

## Key points

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- In the second quarter the Swiss economy gained a foothold and picked up pace again. This was helped by the easing of containment measures and the favourable global economic situation.
- In the services, manufacturing and construction sectors there were significant increases in real turnover on both a year-on-year and quarter-on-quarter basis. However, it should be taken into account that in some cases the comparison periods were characterised by considerable pandemic-related restrictions.
- There was a marked worsening with regard to procurement difficulties and the related price increases for raw materials and intermediate products.
- Technical capacity utilisation increased further. Overall, however, technical capacity is still underutilised, primarily due to the services sector.
- Thanks to the upturn in business activity and the measures taken, the margin situation has improved further.
- Staff numbers are currently considered to be in line with needs. Companies intend to employ significantly more staff in the coming quarters.
- Companies anticipate continued improvement in business activity in the coming quarters. Uncertainty around ongoing developments on the procurement markets, and the emergence of virus mutations, are among the most significant risk factors. Company representatives also mention the longer-term structural consequences of the pandemic.

## CURRENT SITUATION

### Significant improvement in economic situation

In the second quarter the Swiss economy gained a foothold and picked up pace again. The easing of measures to contain the pandemic and the favourable international economic situation were contributory factors. Real turnover in all three sectors – services, manufacturing and construction – increased significantly on both a year-on-year and a quarter-on-quarter basis (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report).

Exports to Asia, in particular China, are described as markedly dynamic. Sales to the US and the Middle East are also developing favourably. Business with European countries is characterised as sluggish and mixed. Demand is broadly based in terms of product groups. Activity in the automotive sector is picking up and there are initial signs of a slight increase in demand from the aviation sector.

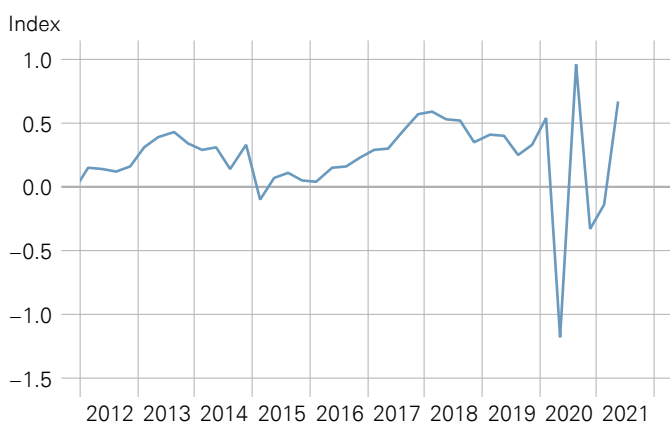
When asked to assess the overall effect of the coronavirus crisis so far, just under 60% of companies said they had been negatively affected by the pandemic (cf. chart 2). Around 20% of the companies surveyed reported a positive impact, and another 20% said the positive and negative effects had cancelled each other out or that the pandemic had had no tangible impact. The overall picture has thus continued to improve by comparison with the previous quarters.

### Production capacity slightly underutilised

Utilisation of technical capacity increased further (cf. chart 3), but it remains underutilised overall. This is due primarily to the services sector, which continued to be affected by closures and restrictions ordered by the authorities. Capacity is slightly overutilised in broad sections of the manufacturing and construction sectors. Manufacturing companies are increasingly returning to multiple shifts and in some cases weekend operations.

Chart 1

### TURNOVER COMPARED TO PREVIOUS QUARTER

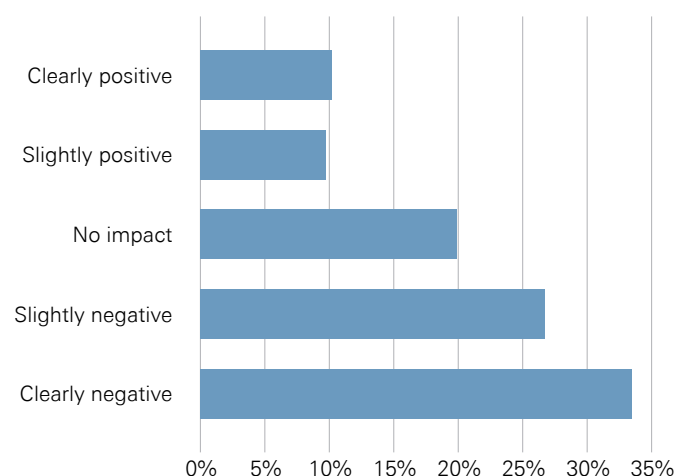


Developments in real turnover compared to the previous quarter. Positive (negative) index values signal an increase (decrease).

Source(s): SNB

Chart 2

### OVERALL EFFECT OF CORONAVIRUS CRISIS



Source(s): SNB



### Significant worsening in procurement bottlenecks

There was a significant worsening with regard to procurement bottlenecks for raw materials and components versus the previous quarter. Company representatives describe the situation as tighter than at any time since the outbreak of the pandemic (cf. chart 4). In the second quarter, 56% of companies were affected by bottlenecks and delays, in some cases massive, in deliveries from suppliers. There were many reasons for this, including reduced capacity at production facilities in Asia, persistent or even exacerbated bottlenecks in the availability of freight capacity, and extremely high demand from China and the US. Many different raw materials, inputs and components are affected by shortages. The situation regarding the availability of timber is precarious. Some companies are having to adjust their production plans.

### Sales obstacles still discernible

The supply problems on the sales side have eased slightly. Nevertheless, around 40% of companies reported difficulties in delivering their products and services as usual. The main reasons for this were the existing travel restrictions as well as specific industries being affected by the pandemic. Acquiring customers is still proving difficult.

### Appropriate staff levels

Overall, personnel resources are currently considered to be in line with needs. The situation has improved significantly compared with the previous quarter, when they were viewed as being too high; however, the situation continues to vary widely depending on the sector. While staff levels are considered to be slightly too low in manufacturing and construction, in the services sector they are still too high. Some companies continue to operate short-time working. Around 20% of companies consider their current staff numbers to be too high, versus 40% the previous quarter.

### Hiring situation within normal limits

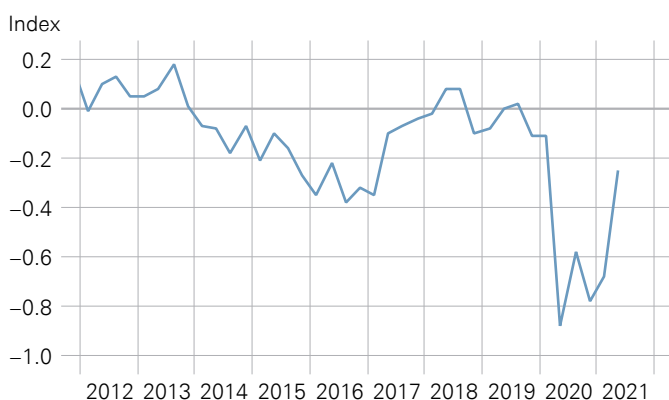
Companies that have been looking for staff report that hiring has gradually become more challenging again. However, the situation is still perceived as being slightly more relaxed than before the beginning of the pandemic. It is mentioned somewhat more frequently than before that specialists in some occupational groups – namely IT, engineers, lab technicians and drivers – are very difficult to find. Even companies that still have short-time working are in some cases looking for staff to be prepared in good time for an improvement in the demand situation.

### Appreciable improvement in profit margins

Profit margins, which had been under heavy pressure in recent quarters, have seen a significant recovery. While they are still considered to be lower than usual in the services and construction sectors, in manufacturing they have returned to levels that are considered normal. Business measures taken in past quarters, such as investment freezes and cost reductions, as well as government support mechanisms such as short-time working and hardship compensation in specific cases, are having an effect. This can be seen in the further decline in the percentage of companies describing their margins as not being sustainable. The margin situation in service sector industries directly affected by pandemic-related restrictions remains unfavourable.

Chart 3

### CAPACITY UTILISATION



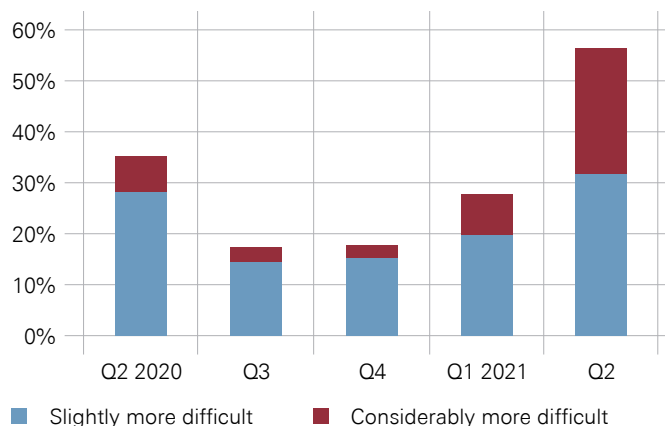
Current utilisation of technical capacity / business infrastructure compared to a normal level. A positive (negative) index value signals utilisation is higher (lower) than normal.

Source(s): SNB

Chart 4

### PROCUREMENT SITUATION

Share of companies facing a more difficult procurement situation as compared to pre-COVID 19



Source(s): SNB

### Liquidity situation continues to ease

Companies' liquidity situation has eased further, and is now more favourable than at any time since the outbreak of the pandemic. Around 30% of companies characterise the situation as more relaxed than before the outbreak of the crisis (cf. chart 5), while 15% regard it as tighter. Around half the companies describe the liquidity situation as being the same as before the coronavirus crisis.

In addition to an improvement in business activity, the short-time working mechanism, the federal government's bridging loans and measures undertaken by companies are having a positive impact on the liquidity situation, and in some cases have led to 'excess' liquidity. According to the company representatives, there are hardly any delays in payment on the part of customers or bad debt losses. Nevertheless, the situation still varies widely from sector to sector and company to company.

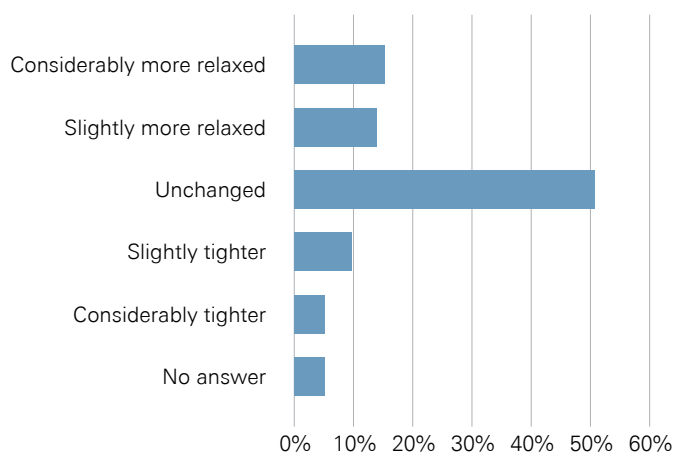
### Lending conditions essentially unchanged

Representatives assess the banks' lending conditions as similar to previous quarters. Around one-third of representatives had the impression that the banks' lending conditions were 'normal' (cf. chart 6). Of the representatives interviewed, 15% characterised the banks' lending conditions as relaxed and 6% as restrictive. Just under half of the companies were unable to answer this question as they do not require loans or, if so, have not approached banks. Representatives of industries that have been hard hit by the pandemic are experiencing greater restraint on the part of the banks when it comes to matters of financing.

Chart 5

#### LIQUIDITY SITUATION

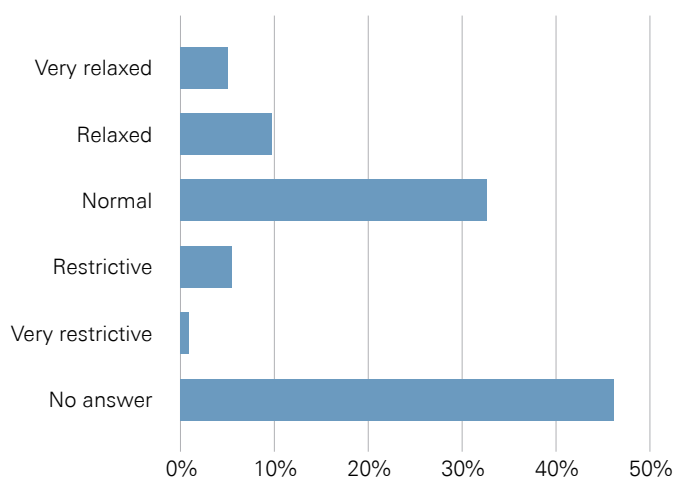
As compared to pre-COVID 19



Source(s): SNB

Chart 6

#### LENDING CONDITIONS



Source(s): SNB

## DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Business activity in the trade industry has improved considerably. Real turnover in all segments (wholesale, retail and vehicles) is higher than both the previous quarter and the previous year's level. However, the infrastructures of bricks-and-mortar retailers remain underutilised. Online distribution channels, by contrast, are in strong demand. With the exception of bricks-and-mortar retail, representatives consider margins to be higher than usual.

Tourism and hospitality have been particularly affected by the effects of the pandemic, although the situation is improving as the authorities relax measures. In the course of the second quarter, restaurants were initially able to reopen outdoor seating areas, then followed by indoor areas. Accordingly, real turnover in the industries concerned was significantly higher on both a quarter-on-quarter and a year-on-year basis. Given the precautionary measures in place, however, capacity remains markedly underutilised. In addition, there are still major differences between hotel and catering establishments depending on their clientèle and locality. The fact that there continues to be hardly any business travel or international tourism is hitting city hotels particularly hard. Representatives of the industry fear permanent structural change in this segment of the market.

The entertainment and leisure industry is still among the segments most affected by the pandemic. It will only be possible to hold events again on a limited basis towards the end of the second quarter. Accordingly, infrastructure utilisation and margins are below normal for companies in these industries. The situation also appears similarly unfavourable for companies in the media industry.

In the financial sector, business volumes have increased further, with all business areas faring well. Contributory factors include the fact that mortgage business remains dynamic, coupled with favourable stock market developments and inflows of new money. Margins are at levels representatives consider to be normal. There has been a further decline in customer visits to branches, prompting some banks to reduce their branch networks.

Real turnover in the ICT industry has continued to increase. The most important drivers in this business are persistently high demand for fast, secure IT infrastructure, and the trend toward online commerce. Turnover at healthcare companies is also higher quarter-on-quarter and compared with 2020.

Business in the manufacturing industries is developing very positively. On the one hand this is due to a pick-up in demand; on the other hand it should be taken into account that in some cases turnover was very low in the reference periods. The development of turnover has been particularly dynamic for the pharmaceutical industry, food producers, the mechanical engineering, electrical engineering and metals industries, and manufacturers of precision instruments. International travel restrictions are having a negative impact in terms of the supply of machinery, the execution of service and maintenance work, and customer acquisition. The signs of an upturn in the watchmaking and automotive industries have strengthened further.

Business continues to go well in the construction sector. Seasonally-adjusted turnover was significantly above the levels of last quarter and last year. Margins are still slightly below the levels that would be considered normal. The sector is profiting from lively demand in public infrastructure construction and a high level of residential investment. Additions, extensions and renovations are serving as drivers of the business. Order books are well filled in most places. Business activity has also been favourable for architectural, engineering and planning firms.

When asked about the situation on the real estate market, respondents in some regions continued to raise the issue of high vacancy rates for rental properties and rising prices for investment properties. Companies are also considering the question of their own office space requirements in future.

## OUTLOOK

### Confidence strengthens

Companies in all three sectors expect real turnover to continue increasing significantly in the next two quarters (cf. chart 7). Their confidence is based on the one hand on good global economic demand and, on the other, on the effect of vaccination programmes and the reopening steps decided by the Federal Council.

As confidence grows, the percentage of companies saying turnover will not return to pre-crisis levels this year has declined from around 26% to 18% (cf. chart 8). Around 27% of companies had already seen turnover return to pre-crisis levels in the course of last year, and 9% in the first half of 2021. Another 11% of companies expect to return to this level in the further course of this year.

The representatives anticipate an appreciable increase in the utilisation of their technical capacity and infrastructure over the next two quarters (cf. chart 9). However, the anticipated 'catch-up' effect is no longer as pronounced as it was in the first quarter.

### Expansion of investment

There has been a tangible increase in companies' appetite for investment. In the next twelve months they are planning higher investment in both equipment and buildings. A large part of the investment projects involve expanding and modernising IT. Many companies invested only very cautiously last year or only made the necessary replacement investments. Given the significant improvement in the outlook, a relatively large percentage (38%) are now investing with the aim of expanding production capacity.

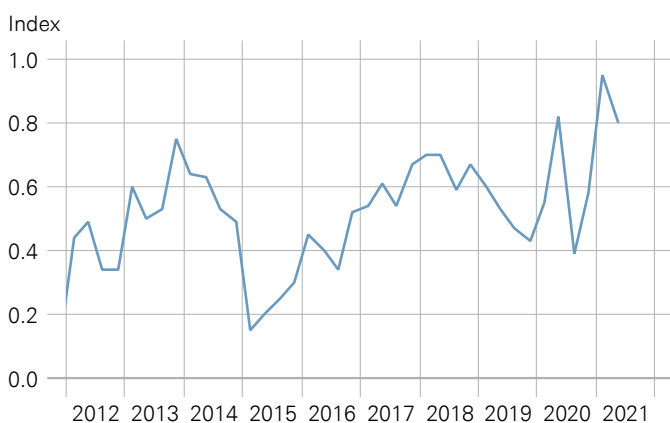
### Purchase and sales prices rising significantly

The increase in both expected purchase and sales prices that began in the previous quarter has continued at an accelerated pace. Representatives from all three sectors are expecting significant increases in prices for the next two quarters. Judging by the experience of these talks with companies, there have never been such clear expectations of price increases as in the second quarter.

While in the previous quarter it was mainly metals, plastics and electronic components that were affected by price increases, now a wide range of raw materials and products are cited as becoming more expensive. Higher transport costs resulting from capacity bottlenecks are still a contributory factor in price increases. Wherever possible, companies are passing on higher purchase prices to their customers.

Chart 7

### EXPECTED TURNOVER

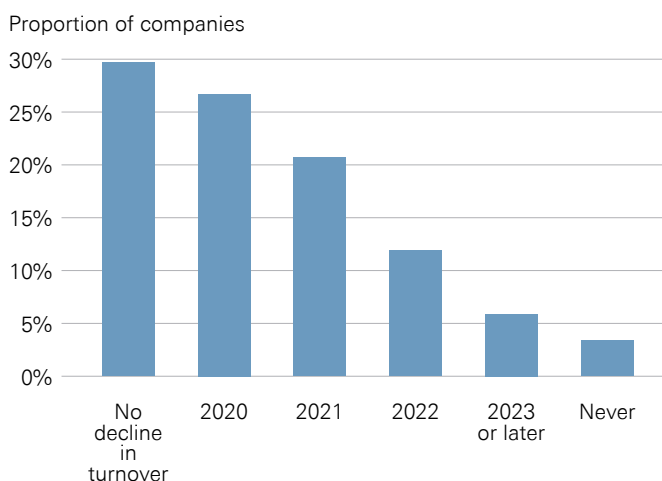


Expected developments in real turnover over the coming two quarters. Positive (negative) index values indicate turnover is expected to be higher (lower).

Source(s): SNB

Chart 8

### RETURN TO PRE-CRISIS TURNOVER LEVELS



Source(s): SNB

### Continued increase in staff levels

In the first quarter many representatives had – for the first time since the outbreak of the pandemic – expected staff numbers to increase. This development continued in the second quarter. In all three sectors – services, manufacturing and construction – companies plan to substantially increase staff numbers in the next two quarters (cf. chart 10). This reflects more favourable business prospects and the fact that, owing among other things to staff reductions in the last few quarters, many companies no longer consider staffing levels to be too high.

The following industries are planning particularly pronounced increases in staff numbers: information and communications technology, hospitality, retail and insurance. There is also relatively high demand for personnel in the pharmaceutical and metal industries.

Given the difficult situation last financial year, companies see little scope for substantial wage increases on a broad scale: On the basis of the responses given, wages will increase by an average of 0.7% in the coming year, mostly by way of structural adjustments or performance-related wage rises.

### ENVIRONMENT AND RISKS

The difficult procurement situation, which according to representatives could persist at least until the end of the year, is a primary concern for many companies. Price increases resulting from shortages are putting pressure on margins.

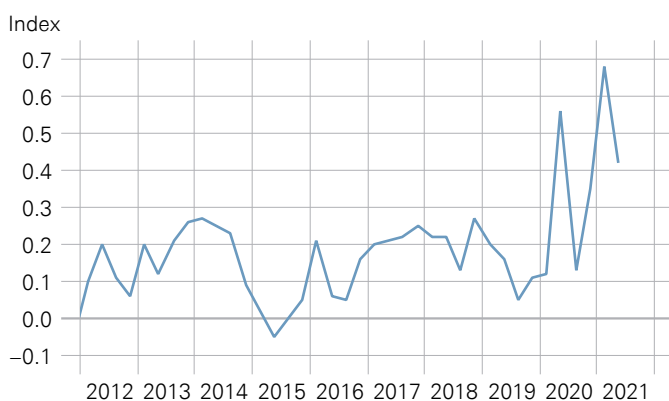
The uncertainty resulting directly from the pandemic has receded into the background somewhat. Representatives see a risk in further mutations of the virus. More often than before, long-term structural consequences of the pandemic are raised as factors of uncertainty. Concerns about the sharp rise in government debt internationally have become more acute. In this context the issue of increasing inflation rates is also raised more frequently.

Companies appreciate the stability of the Swiss franc against the euro; otherwise the exchange rate situation hardly gave rise to comment.

The independence of the SNB is important to the representatives.

Chart 9

#### 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(s): SNB

Chart 10

#### EXPECTED EMPLOYMENT



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

Source(s): SNB

Chart 11

## EXPECTED INFLATION



Source(s): SNB

## INFLATION EXPECTATIONS

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

There has been a significant increase in short-term inflation expectations as measured by the CPI: The average for the next six to twelve months (blue line in chart 11) is 1.1%, compared to 0.3% in the previous quarter. A reason frequently given for this is price increases for raw materials and components, which, according to representatives, will gradually be reflected in consumer prices.

On the other hand there has been little change in longer-term inflation expectations – i.e. with a time horizon of three to five years (red line in chart) – which average around 1.2% (Q1 2021: 1.1%).

## 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 administration and agriculture are not taken into consideration. As a rule, the companies in the sample have at least 50 employees. 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](http://www.snb.ch), *The SNB*, *SNB regional network*.

# Glossary

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Annualised	Data are said to be annualised when they are converted to an annual value. When → GDP increases by 1% from one quarter to the next, the annualised growth is 4.06%.
Baseline scenario	The SNB's baseline scenario comprises forecasts for what it considers to be the most likely global economic development for the coming three years. It serves as an important basis for the domestic economic and → inflation forecasts.
Basket of goods	The basket of goods represents an average household's expenditure on goods and services. It is determined on the basis of a household survey and is used to calculate the → Swiss consumer price index.
Bond	A bond is a → security. The buyer of a bond (creditor) makes a specific amount of money available to the bond issuer for a specific period. The issuer repays this amount to the creditor at the end of the term, and in most cases also pays → interest.
Business cycle, business cycle conditions	Business cycle refers to deviations in economic activity from the long-term trend. In addition to → real → GDP, the business cycle is also reflected in a variety of other economic → indicators (e.g. unemployment and consumer confidence indices). A business cycle lasts from the beginning of an upturn and all the way through the economic downturn to its end (→ recession).
Capacity utilisation	Capacity utilisation measures the degree of utilisation of the technical capacities (e.g. machines and equipment) of a company or an industry.
Capital	Capital refers on the one hand to financing resources (→ equity and → debt capital) and on the other to a → factor of production (e.g. machinery).
Capital market	The capital market supplements the → money market, and is a market for raising and investing funds with a term of more than one year. A distinction is made between the market for → equity capital (→ shares), and the market for → debt capital (→ bonds).
Collateral	In credit transactions, the debtor can provide the creditor with collateral (→ secured loan) in order to reduce the risk for the creditor and thus the → interest. The creditor can take possession of the collateral if the debtor is unable to pay the agreed interest or make the repayment.
Consumer price index	→ Swiss consumer price index
Core inflation	Core inflation is a measure of → inflation that excludes goods and services with particularly volatile prices (e.g. energy and food). Core inflation thus captures the underlying price trend.
Corporate bond	A corporate bond is a → bond issued by a company.
Countercyclical capital buffer	The countercyclical capital buffer is a → macroprudential measure which contributes towards → financial stability. If the capital buffer is activated, banks are required to hold more → capital. The capital buffer can be targeted at the entire credit market or just individual sectors, e.g. the mortgage market.
Debt capital	Debt capital refers to the borrowings and provisions of a company.
Deflation	Deflation denotes a sustained decrease in the general price level over time.
Delegates for regional economic relations	The delegates for regional economic relations represent the SNB in the various regions of Switzerland, collect information on economic development through their contacts to companies in those regions and, as ambassadors of the SNB, explain its policies. They are supported by the Regional Economic Councils. The SNB maintains representative offices in Basel, Berne, Geneva, Lausanne, Lucerne, Lugano, St Gallen and Zurich.
Equity	Equity is the difference between a company's assets and liabilities (→ debt capital).
Exchange rate	The exchange rate is the rate at which two currencies are exchanged. It is expressed as the price of one currency in units of another currency. If the exchange rate is adjusted for the price development of the countries concerned, it is referred to as the real exchange rate; if it is measured against the currencies of trading partners, it is referred to as the → trade-weighted exchange rate.
Exemption threshold, threshold factor	The exemption threshold indicates the limit below which no → negative interest is charged on a bank's → sight deposits. This threshold applies to each sight deposit account holder and is at least CHF 10 million. For a domestic bank, the exemption threshold is usually calculated as the three-year average of the → minimum reserve requirement multiplied by the threshold factor (currently 30) minus the bank's cash holdings.
Factors of production	Factors of production are the inputs (primarily labour and → capital) used in the production of goods and services.
Final demand, domestic	Domestic final demand is the sum of private and public consumption plus construction and equipment investment (e.g. new machines).

Financial stability	A financial system is stable if its individual components – banks, financial markets and financial market infrastructures (e.g. stock exchanges) – fulfil their individual functions and are resilient to potential disruptions.
Fine-tuning operations	Fine-tuning operations refer to measures taken by a central bank to curb excessive volatility in short-term → interest rates on the → money market. This can be carried out using → repo transactions, for example.
Fiscal policy	Measures (receipts and expenditure) that aim to influence → business cycle conditions.
Foreign exchange	Foreign exchange comprises credit balances and claims denominated in a foreign currency.
Foreign exchange market interventions	When a central bank intervenes in the foreign exchange market, it buys or sells its domestic currency against a foreign currency with the aim of influencing the → exchange rate.
Full-time equivalent (FTE)	The full-time equivalent is the unit of measure for the number of full-time employees that would be needed to complete the working hours of full-time and part-time employees.
Futures contract	A futures contract governs a transaction that has to be performed at a future point in time specified in the contract.
Government bond	A government bond is a → bond issued by a public-law institution.
Government consumption	Government consumption measures government consumption expenditure, i.e. current spending on goods and services provided by the government to the citizens of a country (e.g. schools, healthcare, defence).
Gross domestic product, GDP	Gross domestic product indicates the total value of all final goods and services produced in a country during a period, after subtracting the cost of intermediate inputs. → Real GDP is the most important measure of an economy's → value added.
Hodrick-Prescott filter (HP filter)	The Hodrick-Prescott filter is a tool for calculating a trend in a data series. For example, deviations of → real → GDP from trend are used in business cycle analysis.
ICT industry	The ICT industry comprises those companies active in information and communications technology.
Indicator	An indicator is a statistical metric or data series that, for example, provides information on → business cycle conditions.
Inflation forecast, conditional	The SNB publishes a forecast of movements in the → inflation rate over the coming three years every quarter at its → monetary policy assessment. The forecast is conditional because it is based on the assumption that the SNB will not change the → SNB policy rate over the forecast horizon. The SNB bases its monetary policy decisions on the inflation forecast.
Inflation, inflation rate	Inflation is a sustained increase in the general price level over time. Inflation reduces the → purchasing power of money. In Switzerland, inflation is measured using the → Swiss consumer price index (CPI). The inflation rate denotes the percentage change in the index compared to the previous year.
Interest differential, interest margin transaction	The difference between → interest rates on investments which vary, for example, according to currency or risk, is called the interest rate differential. An interest margin transaction uses the interest differential between various financial products to generate profit.
Interest, interest rate	Interest is the price a borrower pays to the creditor in return for the latter making a sum of money available for a certain period. Its level is influenced by the term and the financial standing (creditworthiness and solvency) of the debtor as well as the quality of any → collateral. Interest is expressed as a percentage of the loan (interest rate) and usually refers to a time period of one year.
Joint and several guarantee	A joint and several guarantee is a form of guarantee in which the guarantor may already be held liable after one unsuccessful reminder to the debtor.
KOF Economic Barometer	The KOF Economic Barometer is an → indicator that shows how the Swiss → business cycle is likely to develop in the near future. It has been published by the KOF Swiss Economic Institute at ETH Zurich since the 1970s.
Libor	The Libor (London Interbank Offered Rate) corresponds to the average → interest rate at which banks report being able to borrow on the → money market in a given currency and for a certain term without depositing → collateral. The Swiss franc Libor is being discontinued at the end of 2021.
Liquidity	Liquidity has three meanings in economics. First, being liquid refers to the ability to make due payments at any time and without restriction. Second, liquidity describes the funds required for this purpose. Banks exchange liquidity via the → money market, and the SNB can influence liquidity with → repo transactions, among other things. Third, a market is considered liquid if transactions can be effected without triggering significant price movements.
Macroprudential measure	Regulatory requirement for banks, for example, which contributes to → financial stability.
Mandate	Mandate refers to the SNB's statutory tasks. Article 99 of the Federal Constitution entrusts the Swiss National Bank, as an independent central bank, with the conduct of monetary policy in the interests of the country as a whole. The National Bank Act sets this out in detail, explaining that the SNB is required to ensure → price stability and, in so doing, to take due account of economic developments (art. 5 para. 1 NBA).



MEM industries	MEM industries refers to the companies in the mechanical engineering, electrical engineering and metals industries.
Minimum reserves, minimum reserve requirement	In order to facilitate the smooth functioning of the → money market, banks are required to hold minimum reserves against a certain percentage of their Swiss franc short-term liabilities (e.g. customer deposits). The minimum reserves are composed of cash in Swiss francs and → sight deposits held at the SNB. The minimum reserves form the basis for calculating the → exemption thresholds for → negative interest.
Monetary aggregate, broad	The broad monetary aggregate, in contrast to the → monetary base, is the stock of money held by households and companies outside the banking sector. It comprises money held on bank accounts and cash.
Monetary base	The monetary base is composed of the sum of banknotes in circulation plus the → sight deposits of domestic commercial banks held at the SNB. The monetary base is also referred to as the M0 monetary aggregate.
Monetary conditions	The interest rate level and the → exchange rate determine monetary conditions. The SNB uses → monetary policy instruments to influence monetary conditions in order to fulfil its → mandate.
Monetary policy	Monetary policy is the implementation of → monetary policy instruments by the central bank to set appropriate → monetary conditions and thereby fulfil its statutory → mandate.
Monetary policy assessment	As a rule, the SNB conducts a monetary policy assessment every quarter. Based on economic developments both domestically and abroad as well as → monetary conditions in Switzerland, the SNB Governing Board decides whether → monetary policy is to remain unchanged, or be tightened or eased.
Monetary policy instruments	In order to set appropriate → monetary conditions, the SNB uses monetary policy instruments such as → repo transactions and → foreign exchange market interventions.
Monetary policy strategy	The SNB's monetary policy strategy sets out how it operationalises its statutory → mandate. The strategy, which has been in place since December 1999, consists of three elements: the definition of → price stability, the conditional → inflation forecast over the subsequent three years, and the → SNB policy rate.
Money market	The money market is the market for raising and investing short-term → liquidity. Here, banks in particular grant short-term loans to each other, either secured against → collateral (→ repo transactions) or unsecured. Short-term liquidity is defined as liquidity with a term of up to one year.
Mortgage loan	A → secured loan for which real estate serves as the collateral.
Multivariate filter (MV filter)	Multivariate filters are used, for example, in business cycle analysis. In contrast to the → HP filter, MV filters use multiple → indicators to calculate a trend in a data series.
Negative interest	Negative interest is the → interest which the SNB charges on → sight deposits held by banks and other financial market participants at the SNB above a certain → exemption threshold. It is a → monetary policy instrument and currently corresponds to the → SNB policy rate.
Nominal	Nominal is the term used when an economic variable is not adjusted to reflect price development (→ nominal interest rate).
Nominal interest rate	→ Interest rates are usually stated in nominal terms, i.e. they do not take into account that, during → inflation, the → purchasing power of money is lower after the credit transaction expires than before the credit transaction.
Open market operations	Open market operations are a type of → monetary policy instrument. In contrast to → standing facilities, the use of open market operations is initiated by the SNB, rather than a commercial bank.
Option	An option is the right to either buy (call option) or sell (put option) a → share, for example, at a fixed price on a specific date. This right can be securitised and traded on exchanges.
Other loans	According to the SNB's definition, the other loans category comprises all loans granted to households and companies that are not → mortgage loans. They can be secured or unsecured (→ secured loan).
Output gap	The output gap is defined as the percentage deviation of → real → GDP from the estimated → potential output. If actual economic output falls below potential output, the output gap is negative and the economy is thus underutilised.
Personal consumption expenditure (PCE) deflator	The personal consumption expenditure (PCE) deflator measures the development of prices for domestic and foreign goods and services in demand by households in Switzerland. Unlike the → Swiss consumer price index, it is not based on a specific → basket of goods, rather it takes all current consumer spending into account.
PMI manufacturing	The Purchasing Managers' Index is based on surveys and is an important → indicator of activity in the manufacturing sector. The Swiss index is composed of sub-indices covering production, order volume, delivery times, inventory, purchases and number of employees. A value above 50 points is considered a growth signal.
Potential growth	Potential growth refers to the change in → potential output.

Potential output, production potential	Potential output or production potential is the level of → real → GDP at normal utilisation of the → factors of production. Potential output is estimated using tools such as the → HP filter.
Price stability	According to the SNB's definition, price stability is considered to prevail when → inflation, as measured by the → Swiss consumer price index, is below 2%, and there is also no → deflation.
Production function	A production function describes the relationship between inputs (→ factors of production) and the resulting output (goods and services).
Purchasing power	The purchasing power of money indicates how many goods and services in a fixed → basket of goods can be bought with one unit of money. If → inflation prevails, purchasing power decreases over time.
Real	Real is the term used when an economic variable is adjusted to reflect price development (→ real rate of interest).
Real rate of interest	Adjusting the → nominal interest rate for the loss of → purchasing power due to → inflation over the duration of a credit transaction gives the real interest rate. The real rate of interest is thus calculated as the difference between the → nominal interest rate and the → inflation rate.
Recession	A recession is an economic downturn. There is no uniform definition, but a recession is often said to occur when → real → GDP falls for at least two consecutive quarters.
Refinancing	Refinancing has two meanings in economics. First, refinancing is when commercial banks raise funds on the → money market or → capital market. Second, it refers to the replacement of maturing debt by means of new debt.
Repo transactions, repo rate	In a repo transaction, the cash taker sells → securities to the cash provider and simultaneously agrees to repurchase securities of the same type and quantity at a later date. Economically, a repo transaction is a → secured loan. The → interest rate used in a repo transaction is called the repo rate. The SNB can use repo transactions to steer → liquidity in the → money market.
Risk premium	A risk premium reflects the valuation of the risk associated with a financial instrument.
SARON	SARON (Swiss Average Rate Overnight) is the interest rate for → repo transactions in Swiss francs with overnight maturity. It is based on → transaction prices and trade quotes. The SNB has been focusing on SARON in seeking to keep the short-term Swiss franc money market rates close to the → SNB policy rate.
Seasonal adjustment	Seasonal adjustment is a statistical method to remove regular seasonal effects (such as the rise in unemployment in the winter months) from time series so that → business cycle conditions, for example, can be more easily identified.
Secured money market rate	The secured money market rate is the → interest for → secured loans on the → money market which are usually concluded as → repo transactions (→ SARON).
Secured/covered loan	A secured or covered loan, in contrast to an unsecured (uncovered) loan, is a loan where the debtor provides → collateral. The main type of secured loan is a → mortgage loan.
Security	A security certifies a property right (e.g. the right to receive an interest payment). The most important securities traded on a market are → shares and → bonds.
Share	A share or → stock is a → security with which the buyer acquires a participation in a company.
Sight deposits at the SNB	Banks use their sight deposits held at the SNB to carry out transactions (e.g. payments) for their customers. In addition to sight deposits held by domestic banks, total sight deposits include sight liabilities towards the Confederation, sight deposits of foreign banks and institutions, as well as other sight liabilities.
SNB COVID-19 refinancing facility (CRF)	The CRF is a → standing facility established as part of the measures to cushion the economic impact of the coronavirus pandemic. The CRF allows banks to obtain liquidity from the SNB. The corporate loans, for which the Confederation and cantons have provided guarantees, serve as → collateral. The SNB can also accept other collateral for the CRF.
SNB policy rate	The Swiss National Bank implements its → monetary policy by setting the SNB policy rate. The SNB seeks to keep short-term Swiss franc → money market rates close to the SNB policy rate. → SARON is the most representative of these rates today. The → negative interest rate currently corresponds to the SNB policy rate.
Standing facilities	Standing facilities are a type of → monetary policy instrument. In contrast to → open market operations, the use of standing facilities is initiated not by the SNB, but by a commercial bank.
Stock	→ share
Swap, interest rate swap	A swap is a financial transaction in which the contracting parties exchange payment flows. In an interest rate swap, one contracting party pays the other a variable → interest rate linked to a market interest rate and in return receives fixed interest payments contractually determined in advance.
Swiss consumer price index (CPI)	The Swiss consumer price index (CPI), which is compiled by the Swiss Federal Statistical Office (SFSO), measures the average development of prices for goods and services in demand by households in Switzerland. The CPI is calculated every month based on a → basket of goods representative of household consumption.

Trade-weighted exchange rate	The trade-weighted or effective → exchange rate is the value of an economy's currency vis-à-vis the currencies of its trading partners. It is calculated using bilateral exchange rates with trading partners, with weightings dependent on trading activity.
Transaction price	The price at which a transaction is actually executed, as opposed to a bid or ask price.
Unemployment rate	The rate of unemployment is the ratio of the number of unemployed people to the number of people in the labour force (i.e. those employed and unemployed), expressed as a percentage.
Utilisation of credit lines	Depending on the type of loan, a borrower can decide whether to use the maximum amount granted by the bank or just some of it. Utilisation refers to the amount drawn down.
Value added	Value added measures the economic output of a sector or industry. It is defined as the difference between the value of goods and services produced in a given sector and the value of inputs obtained from other sectors. Total value added of all sectors, adjusted for taxes and subsidies, gives → GDP.
Volatility	Volatility describes the extent of fluctuations in given variables, e.g. share prices or → interest rates, over a certain period of time.
Yield	Yield refers to the return on financial assets or investments and is usually expressed as a percentage of the → capital invested.
Yield curve	The yield curve, also known as the term structure of interest rates, graphically represents the → yields of fixed-interest investments of the same quality with different maturities. Typically, the yields of → government bonds are used. The yield curve usually slopes upwards as investors demand a → risk premium for bonds with longer maturities.

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# 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](http://www.snb.ch)

At its quarterly assessment of 17 June, the SNB leaves its policy rate and the interest rate on sight deposits with the SNB at  $-0.75\%$ . It remains willing to intervene in the foreign exchange market as necessary. In so doing, it takes the overall exchange rate situation into account. The SNB's expansionary monetary policy provides favourable financing conditions, counters upward pressure on the Swiss franc, and contributes to an appropriate supply of credit and liquidity to the economy.

June 2021

On 23 April, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank, in consultation with the Federal Reserve, jointly decide to discontinue offering dollar liquidity at the 84-day maturity. This decision is taken in view of sustained improvements in US dollar funding conditions. The operational change will be effective as of 1 July 2021. From 1 July 2021 onwards, these central banks will continue to hold weekly operations with a 7-day maturity.

April 2021

At its quarterly assessment of 25 March, the SNB leaves its policy rate and the interest rate on sight deposits with the SNB at  $-0.75\%$ . It remains willing to intervene in the foreign exchange market as necessary. In so doing, it takes the overall exchange rate situation into account. It is also continuing to supply the banking system with liquidity on generous terms. The SNB's expansionary monetary policy provides favourable financing conditions, counters upward pressure on the Swiss franc, and contributes to an appropriate supply of credit and liquidity to the economy.

March 2021

At its quarterly assessment of 17 December, 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 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 continues to supply the banking system with liquidity on generous terms via the SNB COVID-19 refinancing facility. The SNB's expansionary monetary policy provides favourable financing conditions, counters upward pressure on the Swiss franc, and contributes to an appropriate supply of credit and liquidity to the economy.

December 2020

At its quarterly assessment of 24 September, 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 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 continues to supply the banking system with liquidity via the SNB COVID-19 refinancing facility (CRF). The SNB's expansionary monetary policy thus helps stabilise economic activity and price developments in Switzerland.

September 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.

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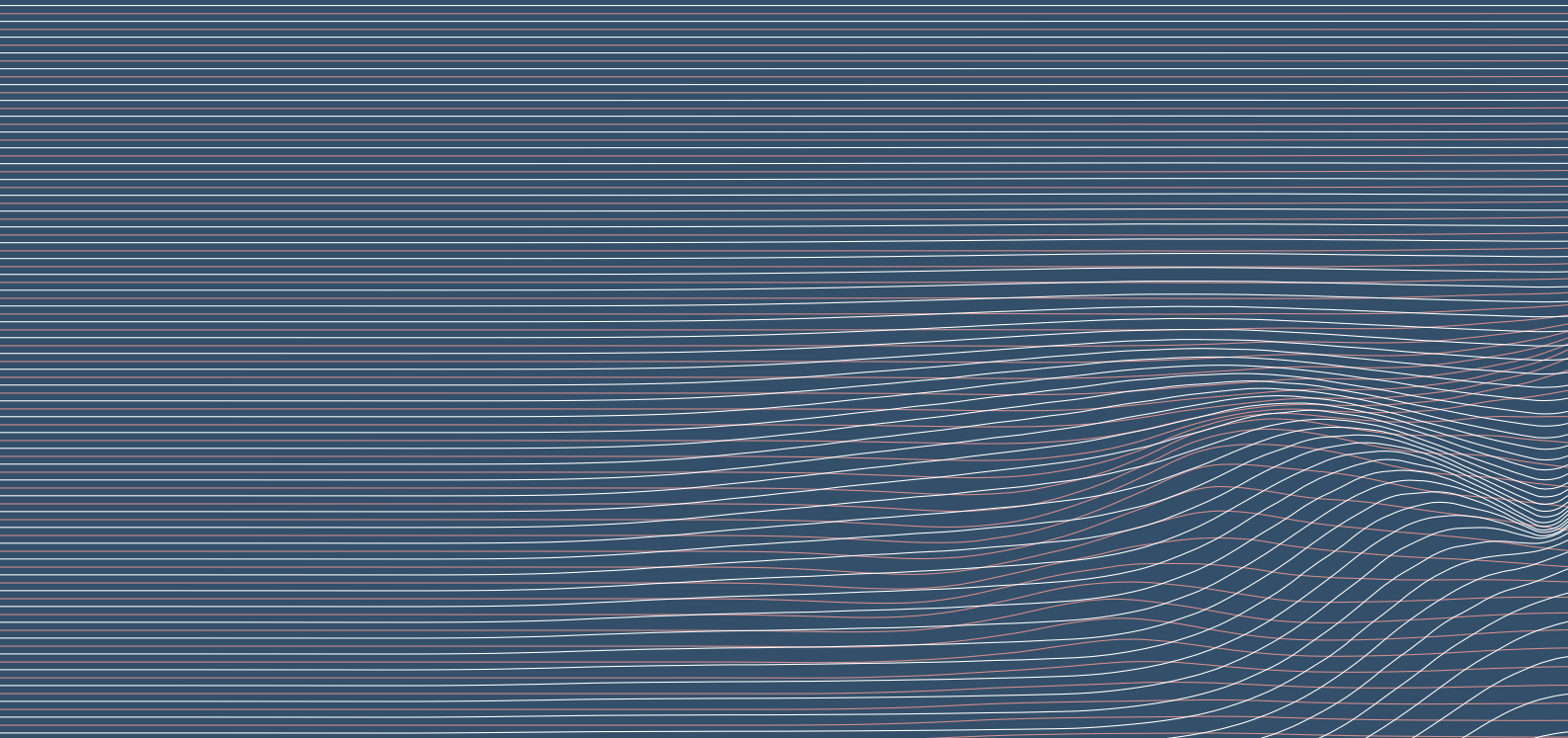
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