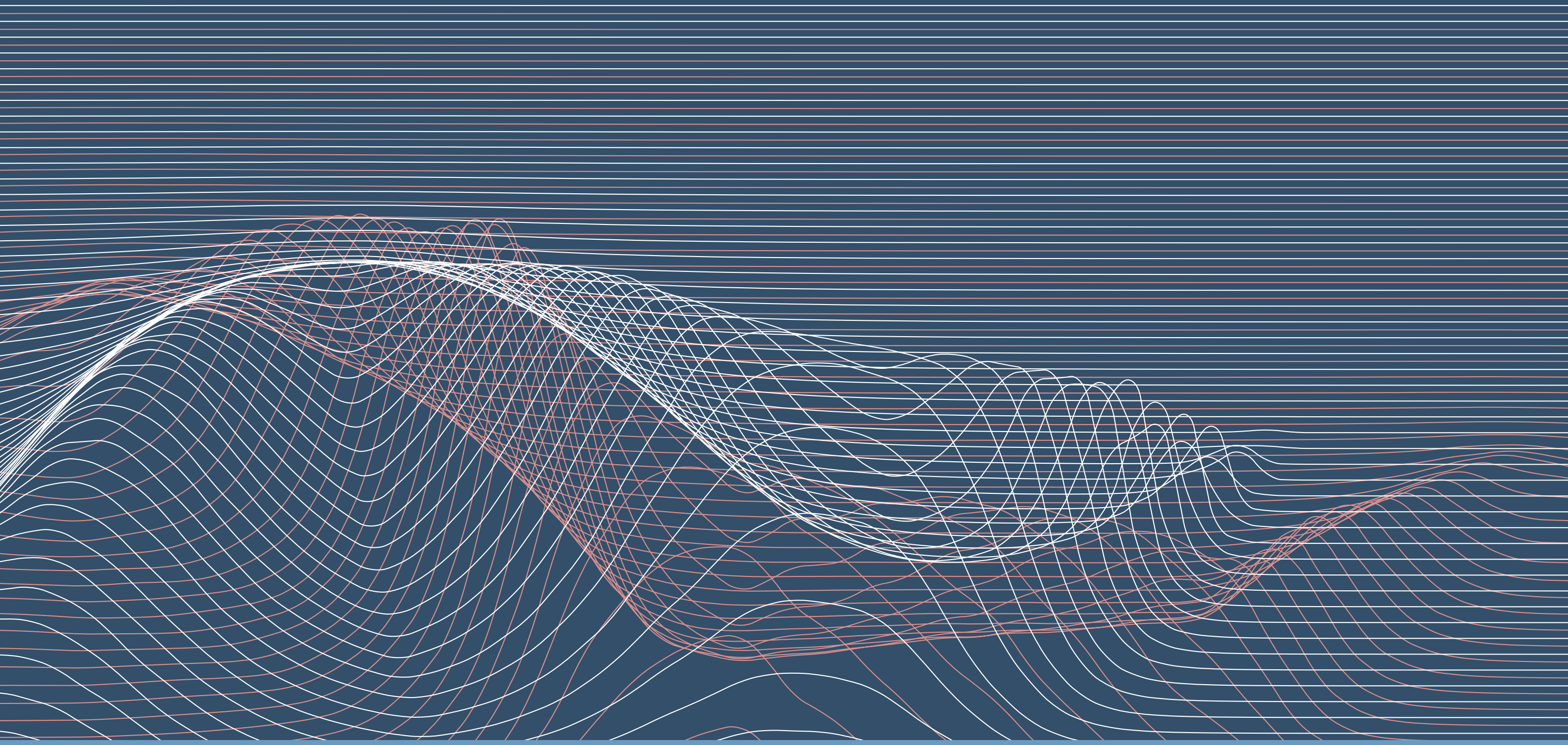

Quarterly Bulletin
1/2022 March

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

Quarterly Bulletin
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Volume 40

Contents

Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of March 2022

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 24 March 2022') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 24 March 2022. Unless otherwise stated, all rates of change from the previous period are based on seasonally adjusted data and are annualised.

Key points

- On 24 March 2022, the SNB decided to retain its expansionary monetary policy. It kept the SNB policy rate at –0.75% and is willing to intervene in the foreign exchange market as necessary. The conditional inflation forecast was above that of December 2021, particularly for 2022.
- The global economic recovery continued in the fourth quarter of 2021. It is difficult to assess the future course of the war in Ukraine and its impact on the global economy. In its baseline scenario, the SNB anticipates that the economic recovery will continue overall, albeit somewhat subdued.
- The positive economic momentum also continued in Switzerland. The SNB expects GDP growth of around 2.5% for 2022. The uncertainty associated with the forecast has increased considerably owing to the war in Ukraine.
- Annual CPI inflation continued to rise, and stood at 2.2% in February. The longer-term inflation expectations derived from the surveys were within the range compatible with price stability.
- The Swiss franc appreciated slightly in trade-weighted terms. There was a marked increase in long-term interest rates, whereas share prices fell. Real estate prices continued to rise. Growth in monetary and credit aggregates slowed.

1 Monetary policy decision of 24 March 2022

Swiss National Bank retains expansionary monetary policy

The SNB is retaining its expansionary monetary policy. It is keeping the SNB policy rate and interest on sight deposits at the SNB at –0.75% and is willing to intervene in the foreign exchange market as necessary, in order to counter upward pressure on the Swiss franc. In so doing, it takes the overall currency situation and the inflation rate differential with other countries into consideration. The Swiss franc remains highly valued. Russia's invasion of Ukraine has led to a strong increase in uncertainty worldwide. Against this backdrop, the SNB with its monetary policy is ensuring price stability and supporting the Swiss economy.

Inflation has risen again in recent months, and stood at 2.2% in February. This is primarily due to the significant increase in the prices for oil products and goods affected by supply bottlenecks. The tight situation with regard to these products and goods is likely to persist in the coming months owing to the war in Ukraine. The SNB's new conditional inflation forecast is therefore above that of December, particularly for 2022 (cf. chart 1.1). The upward revision is less pronounced over the longer term. The new forecast stands at 2.1% for 2022, and 0.9% for 2023 and 2024 (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.

The global economic recovery continued in the fourth quarter of 2021. However, economic activity was temporarily impaired at the turn of the year by a renewed wave of the pandemic. At the same time, inflation continued to rise in the US and the euro area. As a result of the war in Ukraine, there was a significant increase in financial market volatility in February, with strong rises in the prices of fossil fuels and other commodities.

In its baseline scenario for the global economy, the SNB assumes that energy prices will remain high for the time being, but that there will be no acute energy shortages in the major economic areas. It also anticipates that the global economic recovery will continue overall despite the war in Ukraine, albeit somewhat subdued. The higher commodity prices will lift inflation further in the short term.

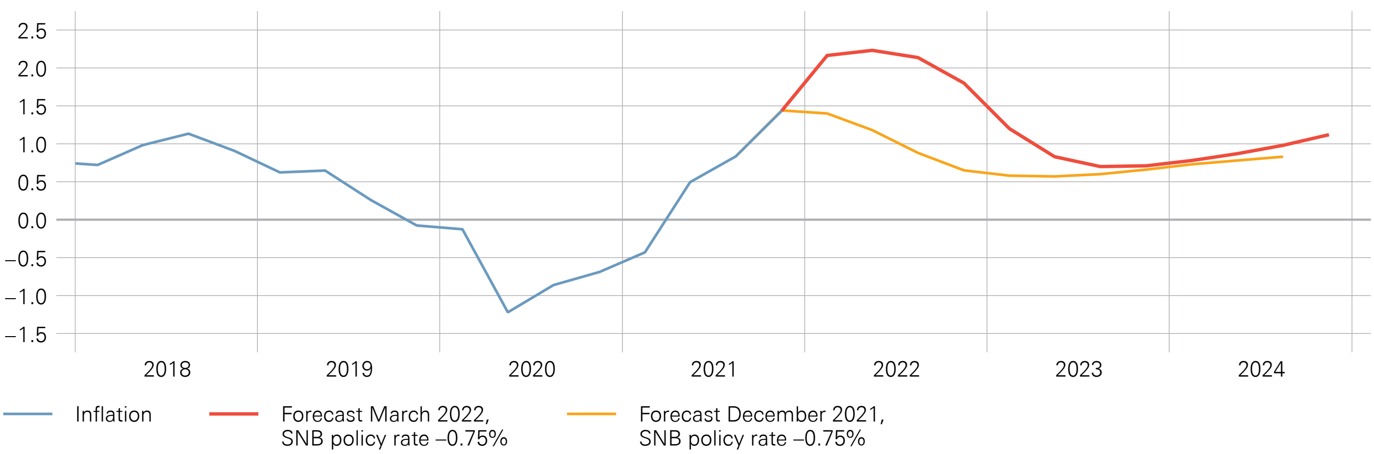
Economic growth has slowed in Switzerland. Following a strong increase in both preceding quarters, GDP rose by 1.1% in the fourth quarter of 2021. For the year as a whole, however, the Swiss economy grew by 3.7%. Momentum remained positive through to February 2022. The situation on the labour market also continued to improve.

Thus far, the war in Ukraine has had an effect on the Swiss economy above all via the strong increase in commodity prices. The higher commodity prices are likely to weigh on consumption and increase companies' production costs. Foreign trade is also likely to be affected by the war, albeit not severely given Switzerland's limited direct economic ties to Ukraine and Russia. Supply bottlenecks in the case of imported intermediate products could deteriorate further, and uncertainty could have an adverse impact on investment activity.

Chart 1.1

CONDITIONAL INFLATION FORECAST OF MARCH 2022

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



Source(s): SFSO, SNB

In its baseline scenario for 2022, the SNB anticipates GDP growth of around 2.5%, this being lower than its previous forecast. In this scenario, growth is briefly subdued before rebounding, and unemployment is likely to decline further somewhat.

It is difficult to assess the future course of the war and its economic impact. The forecasts for the global economy and for Switzerland are therefore subject to very high uncertainty. The risks to growth are considerable and to the downside. In particular, a further escalation of the war and a widening of the sanctions could weigh more heavily on economic activity worldwide and in Switzerland than assumed in the baseline scenario. At the same time, a worsening in the tight supply of raw materials could lead to a further rise in inflation globally. This would also increase the risk of inflation dynamics firming as a result of second-round effects. Added to this, a renewed deterioration in the pandemic situation cannot be ruled out.

The momentum on the mortgage and real estate markets has continued, and the vulnerabilities have increased further overall. Against this backdrop, the Federal Council reactivated the sectoral countercyclical capital buffer on 26 January 2022 following a proposal by the SNB, setting the level at 2.5% of risk-weighted exposures secured by residential property in Switzerland. This will increase the capital requirements for these exposures as of 30 September 2022, and will maintain – and where necessary, strengthen – the banking sector’s resilience. The SNB will continue to monitor developments on the mortgage and real estate markets closely.

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 MARCH 2022

	2018				2019				2020				2021				2019	2020	2021
	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	0.5	0.8	1.4	0.4	−0.7	0.6

Source(s): SFSO

CONDITIONAL INFLATION FORECAST OF MARCH 2022

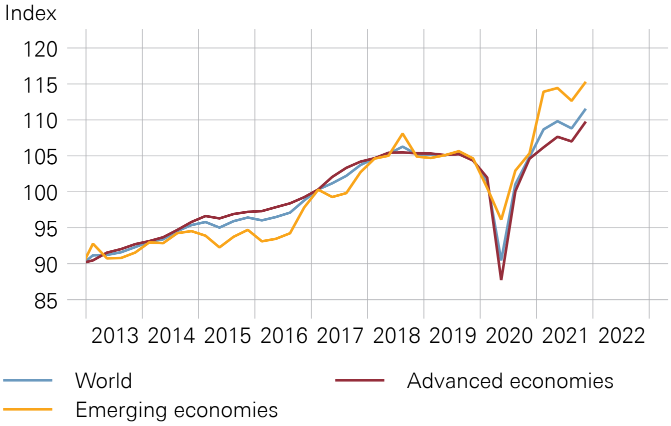
	2021				2022				2023				2024				2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast December 2021, SNB policy rate −0.75%				1.4	1.4	1.2	0.9	0.7	0.6	0.6	0.6	0.7	0.7	0.8	0.8		1.0	0.6	
Forecast March 2022, SNB policy rate −0.75%					2.2	2.2	2.1	1.8	1.2	0.8	0.7	0.7	0.8	0.9	1.0	1.1	2.1	0.9	0.9

Source(s): SNB

Chart 2.1

GLOBAL GOODS TRADE

Average of depicted period = 100



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

2 Global economic environment

The global economic recovery continued in the fourth quarter of 2021. There was also strong growth in global trade (cf. chart 2.1). However, economic activity was temporarily impaired at the turn of the year by a renewed wave of the coronavirus pandemic. At the same time, inflation continued to rise in the US and the euro area. As a result of the war in Ukraine, there was a significant increase in financial market volatility in February, with strong rises in the prices of fossil fuels and other commodities. Added to this, the supply bottlenecks in manufacturing persisted, contributing to further price increases for various goods.

In its baseline scenario for the global economy, the SNB assumes that energy prices will remain high for the time being, but that there will be no acute energy shortages in the major economic areas. It also anticipates that the global economic recovery will continue overall despite the war in Ukraine, albeit somewhat subdued. The higher commodity prices will lift inflation further in the short term.

It is difficult to assess the future course of the war and its economic impact. The forecasts for the global economy are therefore subject to very high uncertainty. The risks to growth are considerable and to the downside. In particular, a further escalation of the war and a widening of the sanctions could weigh more heavily on economic activity

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

					Scenario	
	2018	2019	2020	2021	2022	2023
GDP, year-on-year change in percent						
Global [1]	3.6	2.8	−3.1	5.9	3.3	2.5
US	2.9	2.3	−3.4	5.7	3.8	1.9
Euro area	1.8	1.6	−6.5	5.3	3.7	2.3
Japan	0.6	−0.2	−4.5	1.7	2.9	2.0
China [2]	6.7	5.9	1.6	8.5	5.0	5.6
Oil price in USD per barrel	71.0	64.3	41.8	70.7	97.0	98.0

1 World aggregate as defined by the IMF, PPP-weighted.
2 The annual figures are based on seasonally adjusted data and can therefore differ slightly from the official annual figures.

Source(s): Refinitiv Datastream, SNB

than assumed in the baseline scenario. At the same time, a worsening in the tight supply of raw materials and in the supply bottlenecks in manufacturing could lead to a further rise in inflation globally. This would also increase the risk of inflation dynamics firming as a result of second-round effects. Added to this, a renewed deterioration in the pandemic situation cannot be ruled out.

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 98 per barrel, compared with USD 84 in the last baseline scenario, and an exchange rate of USD 1.13 to the euro compared with USD 1.16 previously. Both correspond to the five-day average when the current baseline scenario was drawn up.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Financial market sentiment has fluctuated considerably since the monetary policy assessment in December. Important factors influencing developments initially were lessening concerns over the economic impact of the most recent pandemic wave, as well as market expectations of a faster normalisation of monetary policy in the advanced economies. From the end of February, activity on the financial markets was dominated in particular by the war in Ukraine.

Global stock markets declined overall since the beginning of the year. Until mid-March, the MSCI World Index fell close to the level recorded at the beginning of 2021, but subsequently recovered again slightly. Nervousness on the stock markets also grew; the implied volatility of stocks as measured by option prices – e.g. the VIX in the US – rose significantly until mid-March, before latterly receding again somewhat (cf. chart 2.2).

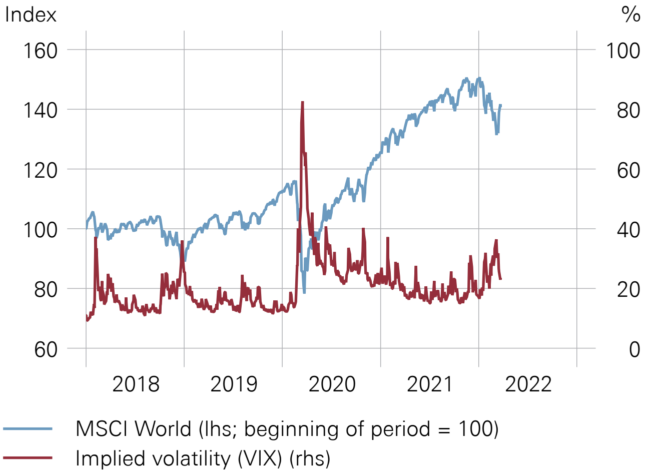
Yields on ten-year government bonds in advanced economies initially rose significantly at the turn of the year, as market participants expected a stronger monetary policy response to rising inflation. Yields temporarily fell again slightly in the wake of Russia's invasion of Ukraine, though they were trending upwards again recently (cf. charts 2.3 and 2.4).

Changing expectations regarding the pace of monetary policy normalisation continued to determine the shifts in the international currency structure. Thus the US dollar appreciated somewhat on a trade-weighted basis from the beginning of the year, while the yen weakened. The euro initially trended sideways and depreciated with the war in Ukraine (cf. chart 2.5).

Commodity prices recorded a substantial and broad-based increase as a result of the war. In March, the price of Brent crude was at times almost USD 130 per barrel; more recently, the oil price stood at around USD 120 per barrel (cf. chart 2.6).

Chart 2.2

STOCK MARKETS

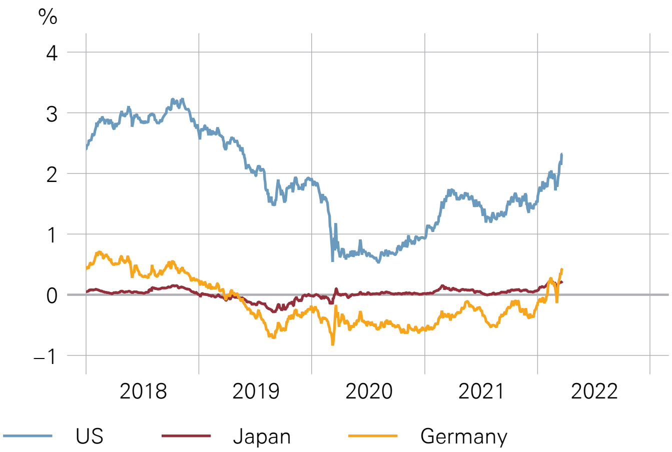


Source(s): Refinitiv Datastream

Chart 2.3

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

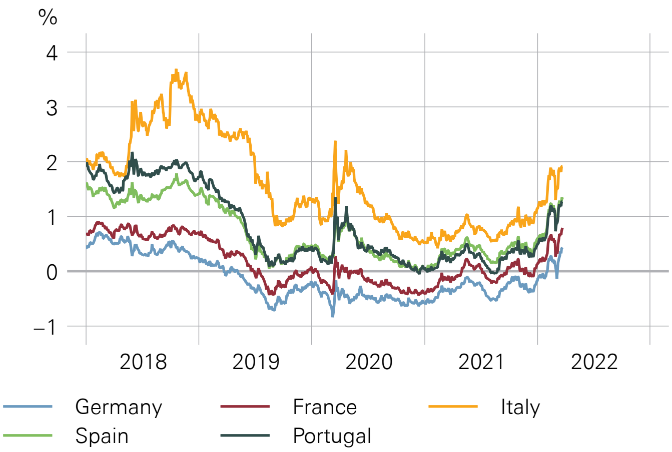


Source(s): Refinitiv Datastream

Chart 2.4

EUROPEAN LONG-TERM INTEREST RATES

10-year government instruments

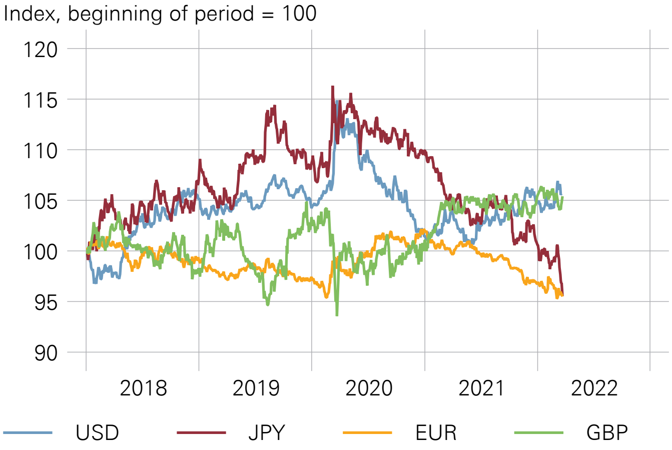


Source(s): Refinitiv Datastream

Chart 2.5

EXCHANGE RATES

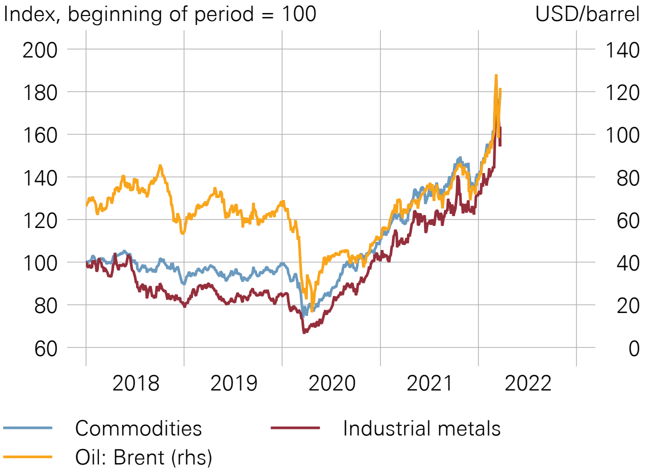
Trade-weighted



Source(s): Refinitiv Datastream

Chart 2.6

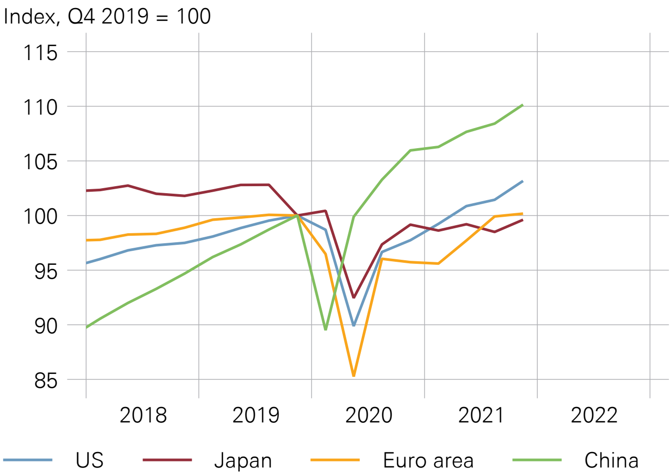
COMMODITY PRICES



Source(s): Refinitiv Datastream

Chart 2.7

REAL GDP



Source(s): Refinitiv Datastream

UNITED STATES

GDP in the US expanded by 7.0% in the fourth quarter of 2021 (cf. chart 2.7). With the temporary calming of the pandemic situation, private consumption grew again somewhat more strongly. Moreover, inventory levels increased substantially. For the year as a whole, GDP growth amounted to 5.7%.

Overall production capacity was once again well utilised at year-end. Although employment figures were still below pre-pandemic levels, this was likely attributable in part to lower labour market participation. At 3.8% in February, the unemployment rate was only slightly above the pre-crisis level of 3.5% (cf. chart 2.9).

According to the latest indicators, the economy lost momentum again at the beginning of the year. This is likely due in part to a new pandemic wave. In addition, economic activity is still being affected by supply chain problems. On the whole, the outlook for the rest of the year remains positive. Favourable financing conditions, and fiscal policy, should continue to support economic activity for some time to come.

The SNB expects GDP expansion of 3.8% for 2022 and 1.9% for 2023 (cf. table 2.1). The slowdown in growth in 2023 can be primarily attributed to a less expansionary monetary and fiscal policy. However, owing to the war in Ukraine, uncertainty associated with the forecast has increased.

Consumer prices once again rose substantially in recent months, bringing annual inflation to 7.9% in February, a level last seen in the 1980s (cf. chart 2.10). This elevated level of inflation was due in part to higher prices for energy and food. However, core inflation also rose further across the board as the economy recovered, and stood at 6.4% in February (cf. chart 2.11). Inflation as measured by the personal consumption expenditure deflator – the index used by the US Federal Reserve to set its 2% inflation target – stood at 6.1% in January.

Against this background, the Fed increased its target range for the federal funds rate in March by 25 basis points, to 0.25–0.5% (cf. chart 2.12). It signalled additional interest rate hikes this year in order to curb inflation. As planned, the Fed phased out its net asset purchases.

EURO AREA

In the euro area, GDP expanded by 1.0% in the fourth quarter, thus reaching its pre-crisis level (cf. chart 2.7). While GDP grew in most member states, it declined in Germany as a result of tightened containment measures. The recovery in the services sector continued in the fourth quarter. Manufacturing also recorded slight growth, despite having been burdened for some time by the global shortage of intermediate products. For 2021 as a whole, GDP expansion amounted to 5.3%. Employment figures in the euro area increased further; unemployment, at 6.8% in January, was lower than its pre-pandemic level (cf. chart 2.9).

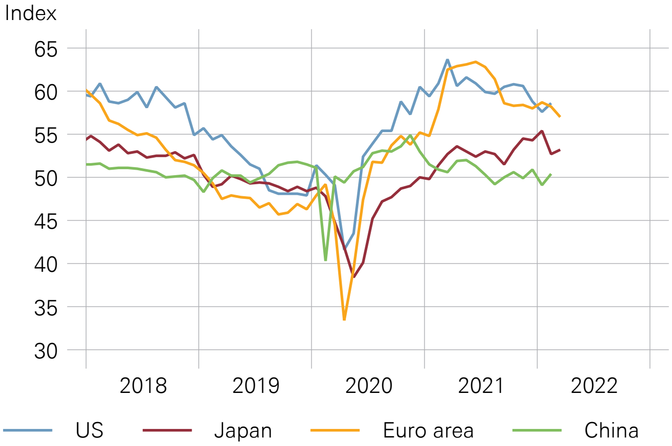
The tightening of containment measures at the beginning of the year is likely to have temporarily impacted the continued recovery in services. However, from February, restrictions were eased again considerably in most member states. The recovery is expected to regain momentum in the second quarter, although the outbreak of the war in Ukraine will likely weigh on economic sentiment. In addition, monetary and fiscal policy measures will support economic activity for some time yet. The SNB now expects growth in the euro area of 3.7% for 2022 and 2.3% for 2023 (cf. table 2.1). Nevertheless, downside risks to the economy have increased as a result of the war.

Consumer price inflation in the euro area advanced further in recent months and stood at 5.9% in February (cf. chart 2.10); higher energy prices played a key role in this regard. However, core inflation also rose, primarily as a result of the supply bottlenecks, and latterly stood at 2.7% (cf. chart 2.11).

Although the European Central Bank left its key interest rates unchanged in March (cf. chart 2.12), it announced its decision to wind down the net purchases under its asset purchase programme (APP) faster than planned and probably end them in the third quarter. In addition, it said that any adjustments to the key interest rates will likely take place some time after discontinuing the net purchases. It intends not to raise them until it sees inflation durably reach 2%. The pandemic emergency purchase programme (PEPP), introduced during the coronavirus crisis, will end in March as planned. The ECB will reinvest the principal payments from maturing securities until at least the end of 2024.

Chart 2.8

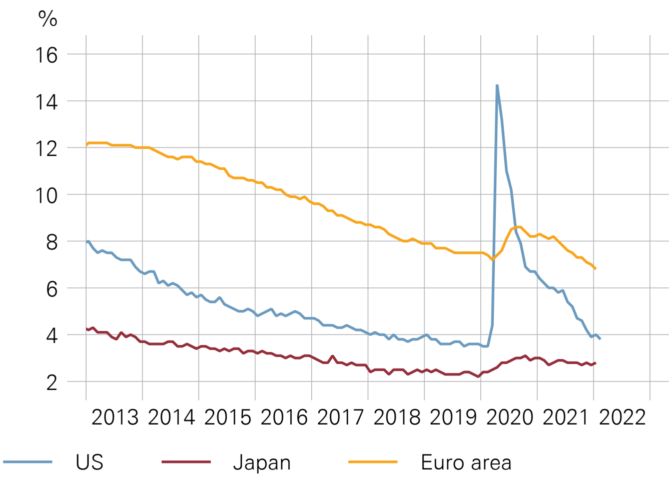
PURCHASING MANAGERS' INDICES (MANUFACTURING)



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

Chart 2.9

UNEMPLOYMENT RATES

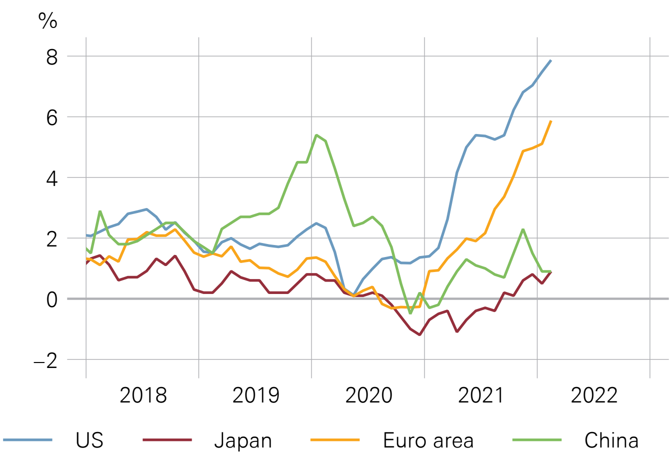


Source(s): Refinitiv Datastream

Chart 2.10

CONSUMER PRICES

Year-on-year change

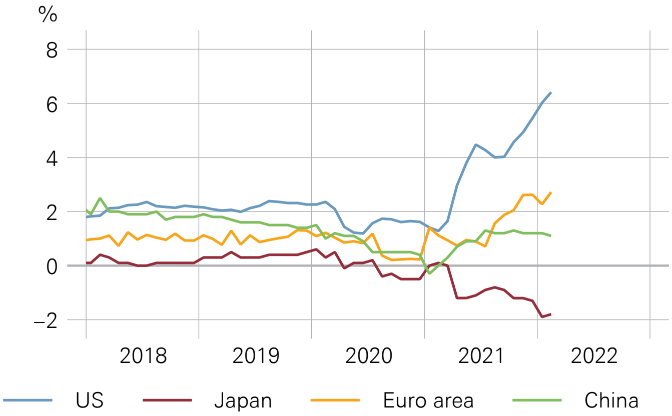


Source(s): Refinitiv Datastream

Chart 2.11

CORE INFLATION RATES [1]

Year-on-year change

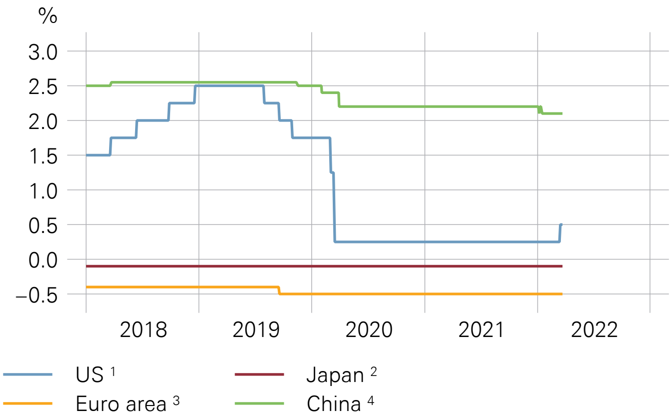


1 Excluding food and energy

Source(s): Refinitiv Datastream

Chart 2.12

OFFICIAL INTEREST RATES



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

Source(s): Refinitiv Datastream

JAPAN

In Japan, GDP grew by 4.6% in the fourth quarter of 2021, having contracted in the previous quarter (cf. chart 2.7). As the pandemic situation eased and procurement problems in manufacturing diminished, economic activity picked up across a broad front. Although private consumption recorded strong growth, it has not yet reached its pre-crisis level. Exports and corporate investment also continued to expand. For 2021 as a whole, GDP advanced by 1.7%. To date, employment figures and labour market participation have remained lower than before the pandemic. The unemployment rate stood at 2.8% in January 2022, still roughly half a percentage point above its pre-crisis level (cf. chart 2.9).

The pandemic situation worsened again at the beginning of the year, with the result that emergency measures were reinstated in a number of prefectures in the first quarter. According to surveys, the business situation in the services sector deteriorated significantly as a result. In addition, procurement problems in the automotive industry again weighed increasingly on growth in industrial output and exports. Nevertheless, economic activity looks set to recover quickly after a period of weak performance in the first quarter. The SNB expects GDP growth of 1.7% for 2022 and 2.9% for 2023 (cf. table 2.1).

Driven by higher energy and food prices, consumer price inflation increased again in recent months, and stood at 0.9% in February (cf. chart 2.10). Core inflation, by contrast, remained in negative territory following cuts in mobile communication charges, and latterly stood at –1.8% (cf. chart 2.11). Against this backdrop, the Bank of Japan left its targets under the yield curve control programme unchanged.

CHINA

GDP in China grew robustly in the fourth quarter (cf. chart 2.7). Manufacturing picked up and services also performed favourably overall, despite the emergence of local virus hotspots. Residential construction, by contrast, continued to slow. Growth for 2021 amounted to 8.5% (cf. table 2.1).

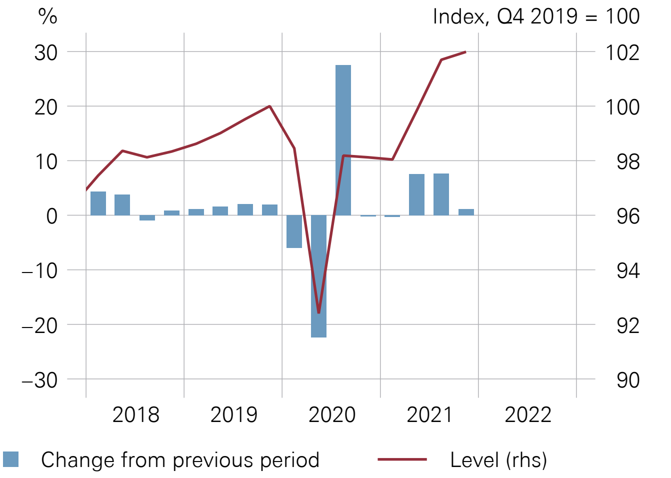
The deleveraging in the real estate sector as well as renewed outbreaks of coronavirus are likely to weigh on economic activity in the near term. To help cushion the economic impact, the government intends to prioritise infrastructure investment and to continue providing financial relief to small and medium-sized enterprises. Furthermore, monetary policy should also provide support. The SNB anticipates GDP expansion of 5.0% for 2022 and 5.6% for 2023.

Consumer price inflation fell to 0.9% in February, while core inflation remained virtually unchanged at 1.1% (cf. charts 2.10 and 2.11).

In January, the People's Bank of China lowered key official interest rates for the first time since April 2020 (cf. chart 2.12).

Chart 3.1

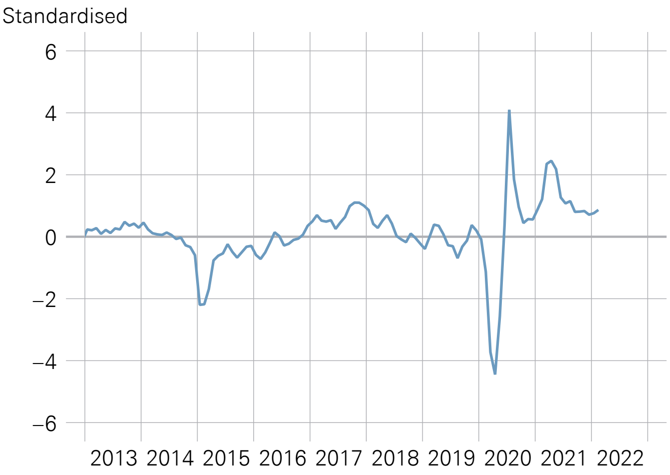
REAL GDP



Source(s): SECO

Chart 3.2

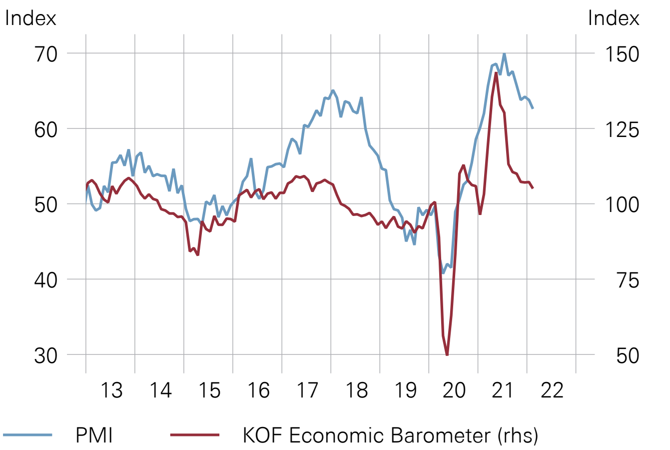
SNB BUSINESS CYCLE INDEX



Source(s): SNB

Chart 3.3

MANUFACTURING PMI AND KOF ECONOMIC BAROMETER



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

3 Economic developments in Switzerland

Economic growth has slowed in Switzerland. Following a strong increase in both preceding quarters, GDP rose by 1.1% in the fourth quarter of 2021. Economic momentum remained positive at the beginning of Q1 2022. The situation on the labour market also continued to improve.

However, the economic risks increased significantly with Russia's invasion of Ukraine. The Swiss economy has thus far been affected above all via the strong rise in commodity prices. The higher commodity prices are likely to weigh on consumption and increase companies' production costs. Foreign trade is also likely to be affected by the war, albeit not severely given Switzerland's limited direct economic ties to Russia and Ukraine. Supply bottlenecks in the case of imported intermediate products could also deteriorate further, and uncertainty could have an adverse impact on investment activity.

In its baseline scenario, the SNB anticipates GDP growth of around 2.5% for 2022, this being lower than its previous forecast. In this scenario, growth is briefly subdued as a result of the war in Ukraine before subsequently rebounding, and unemployment is likely to decline further somewhat.

As is the case with the global economy, the forecast for Switzerland is also subject to high uncertainty as it is difficult to assess the future course of the war and its economic impact. Added to this, a renewed deterioration in the pandemic situation cannot be ruled out.

OUTPUT AND DEMAND

The SNB takes a wide range of information into account when assessing the economic situation. In line with expectations, GDP growth slowed in the fourth quarter of 2021. However, economic indicators were still positive at the beginning of 2022.

GDP growth slows in fourth quarter
According to the initial estimate by the State Secretariat for Economic Affairs (SECO), GDP grew by 1.1% in the fourth quarter of 2021, having risen strongly in the previous two quarters. It thus exceeded its pre-pandemic level by 2% (cf. chart 3.1).

Economic activity slowed in almost every industry. In services, value added stagnated overall, with the hospitality industry in particular suffering from a renewed deterioration in the pandemic situation. While a decrease was recorded in financial services and construction, value added in manufacturing again exhibited strong growth.

On the demand side, developments were predominantly influenced by weaker growth in private consumption and a decline in exports (cf. table 3.1).

With the fourth-quarter estimate released, initial provisional annual figures for 2021 are available. GDP expanded by 3.7% and thus recovered quickly from the downturn in the previous year (–2.4%). The recovery was broad-based both on the demand side and in a breakdown by industry.

Economic growth continues

Various economic indicators suggest that the economy continued to expand at the beginning of the year. The SNB's Business Cycle Index and the KOF Economic Barometer aim to depict overall economic momentum. Both indicators point to above-average growth for January and February (cf. charts 3.2 and 3.3).

Economic signals in manufacturing and services have remained positive to date. At the beginning of the year, the manufacturing purchasing managers' index (PMI) indicated robust growth (cf. chart 3.3). The services PMI rose substantially in February; the hospitality and entertainment industries are likely to have benefited in particular from the easing of containment measures.

The talks held by the SNB's delegates for regional economic relations with companies also suggest positive economic growth in the first quarter. Although procurement and recruitment problems continue to be a source of concern for companies, they have so far not had a significant impact on overall economic activity. Owing to the war in Ukraine, however, uncertainty has increased considerably (cf. 'Business cycle signals', pp. 28 et seq.).

Table 3.1

REAL GDP AND COMPONENTS

Growth rates on previous period in percent, annualised

	2018	2019	2020	2021	2020				2021			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Private consumption	0.7	1.4	−3.7	2.6	−10.7	−25.6	42.7	−6.5	−11.7	17.4	11.2	1.2
Government consumption	1.0	0.7	3.5	2.7	4.6	4.0	0.4	11.1	−3.2	6.3	−1.4	4.1
Investment in fixed assets	1.3	0.6	−1.8	3.0	−13.2	−25.3	35.7	3.5	−4.2	9.3	−4.8	6.1
Construction	0.0	−0.9	−0.4	1.3	1.5	−19.0	22.9	−0.3	−0.2	0.6	−0.1	−0.5
Equipment	2.1	1.4	−2.5	4.0	−20.3	−28.7	43.7	5.7	−6.4	14.4	−7.4	10.0
Domestic final demand	0.9	1.1	−2.2	2.7	−9.6	−22.1	34.1	−1.4	−8.4	13.4	4.6	3.0
Change in inventories [1]	1.0	0.5	−0.9	−2.4	7.4	−7.6	−0.1	−2.6	1.1	−8.3	−2.4	0.1
Total exports [2]	4.9	1.5	−5.6	11.4	−10.8	−33.8	30.3	15.8	9.8	14.7	20.7	−2.2
Goods [2]	4.4	3.4	−1.1	11.7	−4.4	−25.8	40.3	1.3	19.9	7.9	25.6	−8.4
Goods excluding merchanting [2]	4.4	4.9	−2.9	13.3	6.0	−44.9	44.7	15.3	22.0	8.1	15.1	10.2
Services	5.9	−2.3	−14.5	10.5	−22.6	−48.6	9.0	58.6	−10.5	32.6	9.9	13.7
Total imports [2]	3.6	2.3	−8.0	5.4	−1.9	−50.6	47.1	11.3	−1.9	9.8	14.1	0.8
Goods [2]	6.2	2.8	−6.2	4.8	0.6	−45.2	54.3	0.6	4.6	−0.6	13.6	5.1
Services	−0.7	1.4	−11.0	6.5	−6.0	−58.9	34.5	33.9	−12.6	30.5	14.9	−6.1
Net exports [3]	1.1	−0.2	0.4	3.7	−5.1	4.3	−3.1	3.5	6.0	4.1	5.8	−1.6
GDP	**2.9**	**1.2**	**−2.4**	**3.7**	**−6.0**	**−22.4**	**27.5**	**−0.3**	**−0.3**	**7.5**	**7.7**	**1.1**

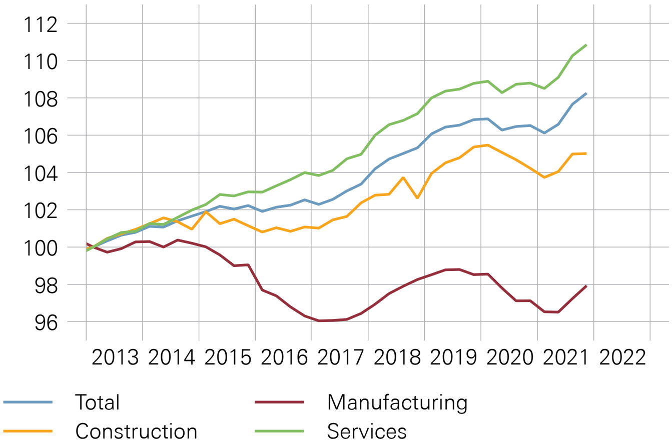
1 Contribution to growth in percentage points (including statistical discrepancy).
2 Excluding valuables (non-monetary gold and other precious metals, precious stones and gems as well as works of art and antiques).
3 Contribution to growth in percentage points.

Source(s): SECO

Chart 3.4

FULL-TIME EQUIVALENT JOBS

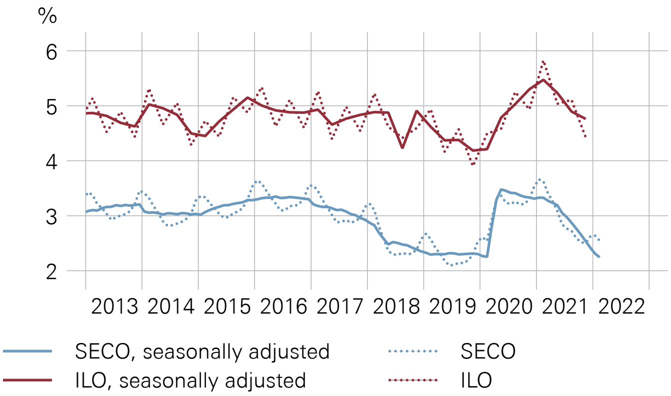
Index, beginning of period = 100



Source(s): SFSO; seasonal adjustment: SNB

Chart 3.5

UNEMPLOYMENT RATE



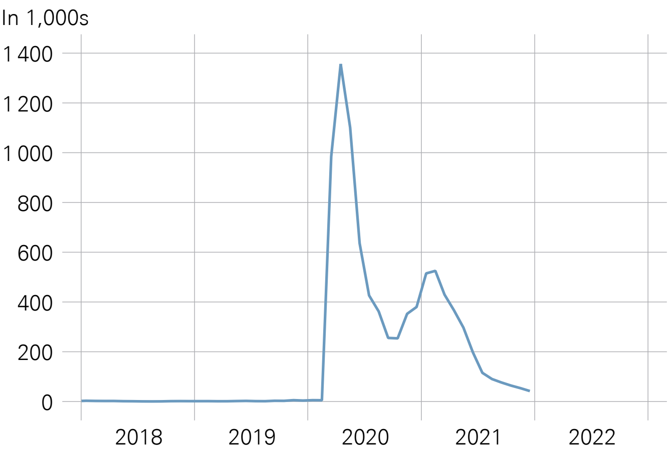
SECO: Unemployed persons registered with the regional employment offices, as a percentage of the labour force (economically active persons).
ILO: Unemployment rate based on International Labour Organization definition.

Source(s): SECO, SFSO

Chart 3.6

SHORT-TIME WORKING

Employees affected



Source(s): SECO

LABOUR MARKET

The ongoing recovery in economic activity was also reflected in the labour market.

Employment growth continues in fourth quarter

The employment trend remained positive in the fourth quarter. According to the national job statistics (JOBSTAT), the seasonally adjusted number of full-time equivalent positions rose further. New jobs were created in both services and manufacturing, while in construction, employment levels stayed stable (cf. chart 3.4). The Employment Statistics (ES) also recorded an increase in the seasonally adjusted number of persons employed.

Further decline in unemployment …

In recent months, the unemployment rate published by SECO decreased further. Excluding seasonal fluctuations, 104,000 people were registered as unemployed at the end of February, 14,000 fewer than at the end of November 2021. The seasonally adjusted unemployment rate stood at 2.2% at the end of February, similar to the pre-pandemic level in February 2020. The unemployment figures calculated by the Swiss Federal Statistical Office (SFSO) in line with the definition of the International Labour Organization (ILO) also receded. This seasonally adjusted rate decreased in the fourth quarter to 4.8%, but was still above the pre-crisis level of 4.2% (cf. chart 3.5).

… and in short-time working

Short-time working also declined further. Provisional figures from SECO suggest that the number of people in short-time work fell from 76,000 to 42,000 between September and December (cf. chart 3.6). Thus, in December, around 1% of all economically active persons were still in short-time work.

CAPACITY UTILISATION

Output gap closed
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.

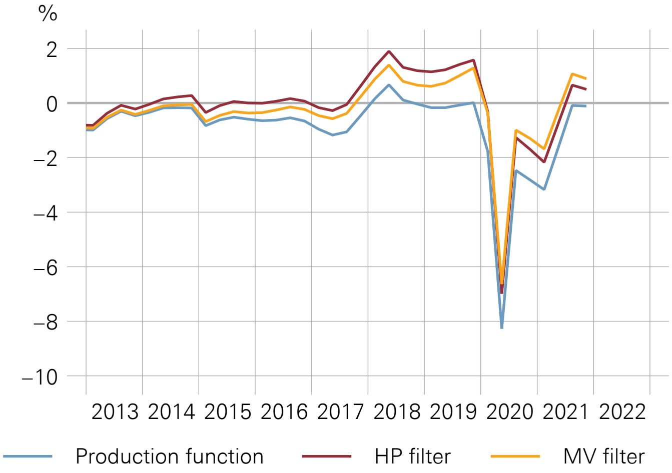
Utilisation of production capacity was average in the fourth quarter. Potential output as estimated by means of a production function shows an output gap of –0.1% for the fourth quarter. Other estimation methods indicate a slightly positive gap (cf. chart 3.7).

Underutilisation continues in some services industries
The surveys conducted by KOF show that, overall, utilisation remained stable in the fourth quarter. Utilisation of technical capacity in manufacturing declined somewhat and was only marginally above its long-term average (cf. chart 3.8). In construction, by contrast, utilisation rose slightly and stayed at an above-average level (cf. chart 3.9). Utilisation in the services sector was mixed. While in the hotel industry average occupancy rates improved further, utilisation in other industries – such as entertainment – recorded a slight decrease in the fourth quarter. Overall, capacity utilisation in the services sector remained slightly below average.

As regards the labour situation, surveys for the fourth quarter indicate that companies are finding it increasingly difficult to fill vacant positions. In some industries, staff levels are considered to be on the low side.

Chart 3.7

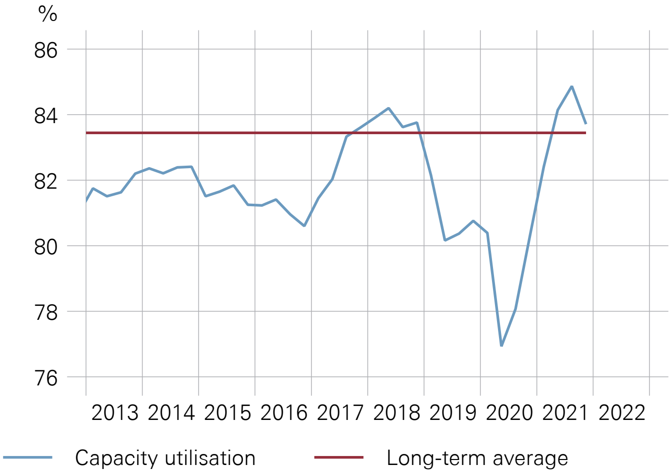
OUTPUT GAP



Source(s): SNB

Chart 3.8

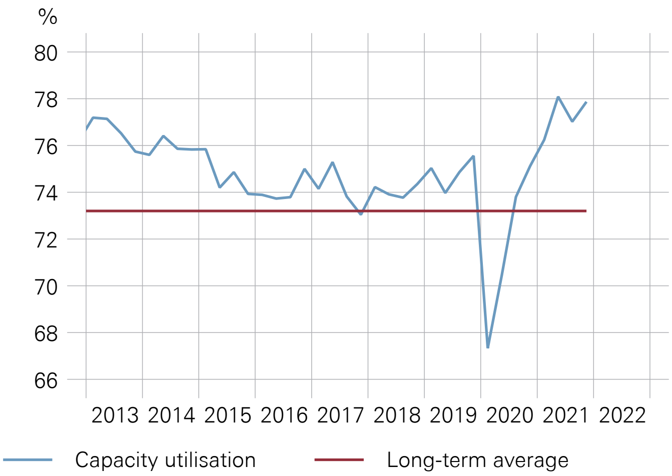
CAPACITY UTILISATION IN MANUFACTURING



Source(s): KOF Swiss Economic Institute

Chart 3.9

CAPACITY UTILISATION IN CONSTRUCTION

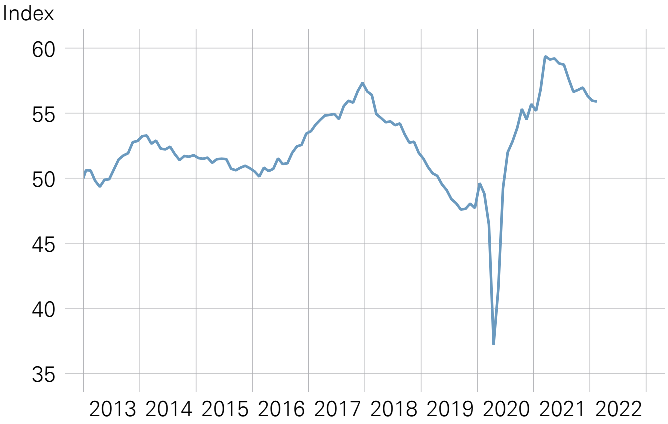


Source(s): KOF Swiss Economic Institute

Chart 3.10

MANUFACTURING PMI ABROAD

Export-weighted, 27 countries

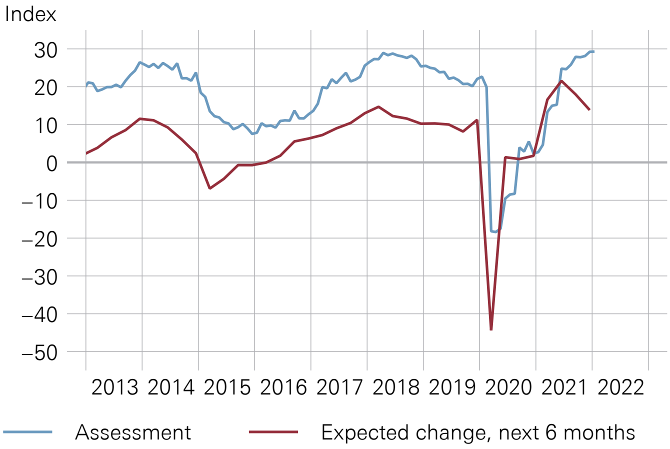


Source(s): International Monetary Fund – Direction of Trade Statistics (IMF – DOTS), Refinitiv Datastream, SNB

Chart 3.11

BUSINESS SITUATION

Average across all KOF surveys

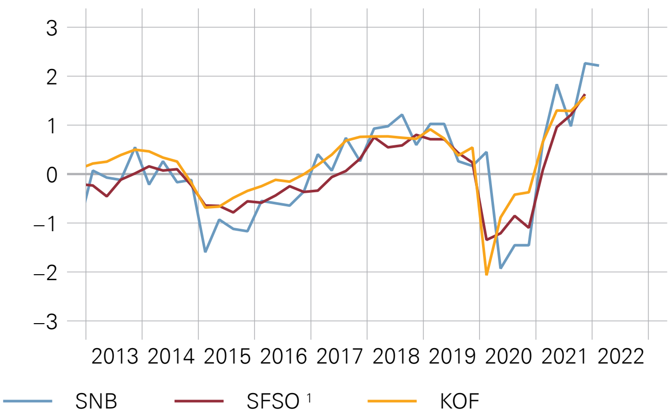


Source(s): KOF Swiss Economic Institute

Chart 3.12

EMPLOYMENT OUTLOOK

Seasonally adjusted, standardised



1 Seasonal adjustment: SNB

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

OUTLOOK

The economic outlook for Switzerland was favourable at the beginning of the year, though this deteriorated following the outbreak of war in Ukraine.

In February, the PMI for manufacturing abroad remained well above the growth threshold (cf. chart 3.10). In addition, services benefited from the recent easing of pandemic measures. Up until February, companies in Switzerland were thus upbeat in their outlook (cf. charts 3.11 and 3.12). However, the war in Ukraine is likely to have dampened business and consumer confidence.

So far, the most significant effects of the war have come from the sharp increases in the price of fossil fuels and other raw materials. The higher commodity prices are likely to weigh on consumption and increase companies' production costs. Foreign trade is also likely to be affected by the war. However, given Switzerland's limited direct economic ties to Russia and Ukraine, the impact on exports overall is likely to remain minimal. There is also a risk that supply bottlenecks affecting imported intermediate products could deteriorate once again and that uncertainty could impact investment.

Assuming that the conflict does not escalate further and the global economic recovery remains intact, the SNB anticipates GDP growth for 2022 of around 2.5%. In this scenario, growth is briefly subdued before rebounding. Unemployment is likely to decline further somewhat.

However, the level of uncertainty associated with the forecast has increased considerably. An escalation of the conflict could cause commodity prices in particular to rise further and have a greater impact on economic developments than assumed in the baseline scenario. Furthermore, if trade in raw materials from Russia were to come to a standstill, this could have a significant impact on energy supplies and thus also on economic activity. Moreover, a renewed deterioration in the pandemic situation can also not be ruled out.

4
Prices and inflation expectations

The inflation rate as measured by the CPI has risen further in recent months. Inflation stood at 2.2% in February, while core inflation reached 1.3% (SFSO1) and 1.0% (TM15).

Short-term expectations continued to increase. However, longer-term expectations changed little 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.

CONSUMER PRICES

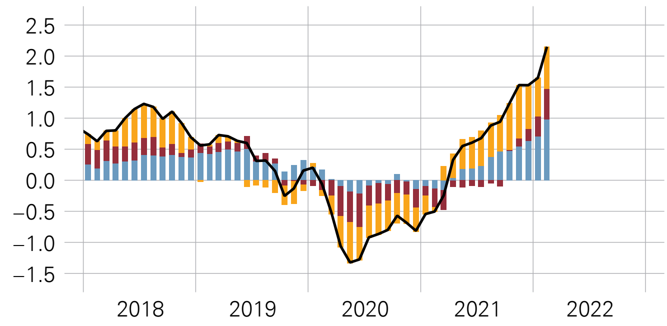
Continued rise in annual inflation rate
Annual CPI inflation has climbed further since November 2021. In February 2022, it stood at 2.2%, an increase of 0.7 percentage points since the beginning of the year and 2.7 percentage points since the beginning of 2021 (cf. chart 4.1, table 4.1).

Inflation for imported products increases again
Inflation for imported goods and services was up a further 0.8 percentage points on November and stood at 4.9% in February. The renewed increase resulted from a significant rise in inflation for imported goods and services excluding oil products, which stood at 2.3% in February, compared to 0.6% in November. 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.

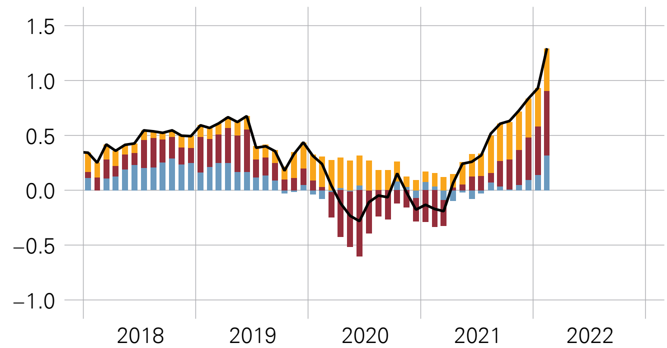


Source(s): SFSO, SNB

Chart 4.2

CPI: DOMESTIC GOODS AND SERVICES

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



Source(s): SFSO, SNB

Table 4.1

SWISS CONSUMER PRICE INDEX AND COMPONENTS

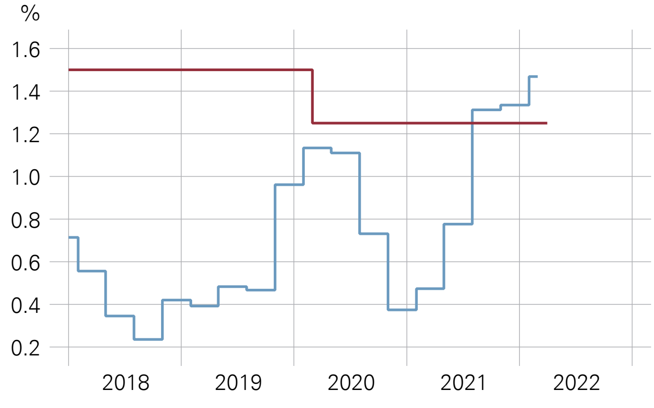
Year-on-year change in percent

	2021	2021 Q1	Q2	Q3	Q4	2021 Dec	2022 Jan	Feb
Overall CPI	**0.6**	**−0.4**	**0.5**	**0.8**	**1.4**	**1.5**	**1.6**	**2.2**
Domestic goods and services	0.3	−0.2	0.2	0.5	0.7	0.8	0.9	1.3
Goods	0.0	0.0	−0.3	0.0	0.2	0.4	0.5	1.2
Services	0.4	−0.2	0.3	0.6	0.9	1.0	1.0	1.3
Private services excluding housing rents	0.3	−0.6	0.3	0.5	0.9	1.1	1.2	1.7
Housing rents	0.9	0.4	0.7	1.1	1.3	1.3	1.3	1.5
Public services	−0.1	−0.3	−0.3	0.1	0.0	0.0	0.1	0.1
Imported goods and services	1.5	−1.3	1.5	2.0	3.7	3.8	4.0	4.9
Excluding oil products	−0.4	−1.2	−0.5	−0.4	0.5	0.9	1.5	2.3
Oil products	17.9	−1.3	19.2	23.7	32.3	29.0	24.7	27.2

Source(s): SFSO, SNB

Chart 4.3

HOUSING RENTS

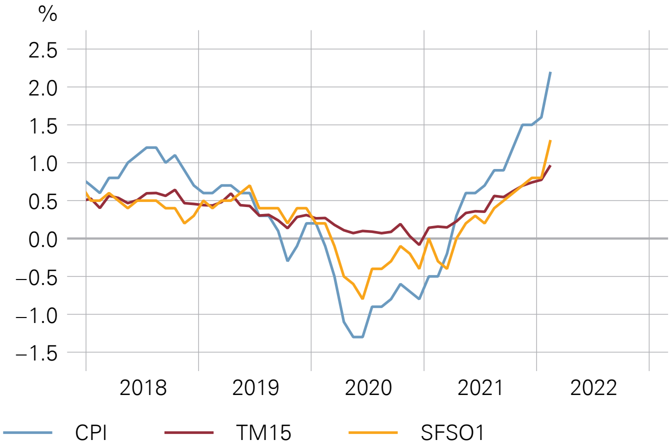


Source(s): Federal Office for Housing (FOH), SFSO

Chart 4.4

CORE INFLATION RATES

Year-on-year change

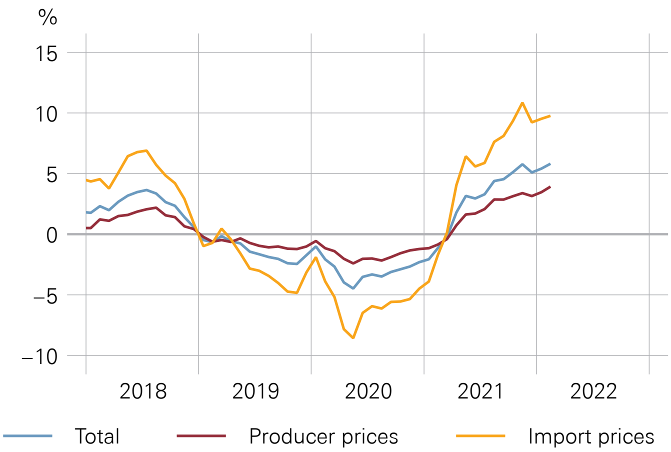


Source(s): SFSO, SNB

Chart 4.5

PRODUCER AND IMPORT PRICES

Year-on-year change



Source(s): SFSO

Although inflation for oil products decreased from 36.3% in November to 27.2% in February, it still remained at a very high level (cf. table 4.1).

Inflation for domestic products also higher

Inflation for domestic goods and services rose from 0.7% in November to 1.3% in February. Despite this increase, it stayed well below inflation for imported goods and services (cf. chart 4.2).

In February, domestic services excluding housing rents accounted for just under half of the rise in prices for domestic goods and services, while domestic goods and housing rents accounted for about a quarter each.

Rent inflation up slightly

Housing rent inflation has increased slightly since November, up from 1.3% to 1.5% in February (cf. chart 4.3). The reference mortgage rate has remained unchanged since the beginning of 2020.

Higher core inflation

The SFSO core inflation rate 1 (SFSO1) increased from 0.7% in November to 1.3% in February. Core inflation, as measured by the SNB's trimmed mean (TM15), rose in the same period from 0.7% to 1.0% (cf. chart 4.4).

PRODUCER AND IMPORT PRICES

Marginally higher inflation for producer and import prices

Inflation for total producer and import prices rose again slightly in January and February 2022, having declined somewhat in December 2021. In February, it stood at 5.8% and was thus only marginally above the level recorded in November 2021 (cf. chart 4.5). Inflation rates for the two individual indices – producer prices and import prices – followed a similar pattern. In February, inflation for import prices stood at 9.8%, while for producer prices it was 3.9%. The high inflation levels in both producer prices and import prices were mainly attributable to oil products and intermediate inputs (e.g. metal, timber and plastic). Prices for consumer goods, by contrast, have declined slightly since November 2021.

INFLATION EXPECTATIONS

Rise in short-term inflation expectations
The majority of indicators for short-term inflation expectations rose further in comparison with the previous quarter.

The index on the expected development of prices over the next twelve months, which is based on the survey of consumer sentiment conducted by SECO, climbed to its highest level since 2008 (cf. chart 4.6). According to the January survey, over three-quarters of households anticipated a continued rise in prices in the short term.

By contrast, the index based on the joint monthly financial market survey by Credit Suisse and the CFA Society Switzerland trended mostly sideways in the last quarter (cf. chart 4.6). In February, just one-third of respondents felt that inflation would increase further in the next six months.

According to the monthly survey conducted by Consensus Economics, participating banks and economic institutions have, over the last year, steadily adjusted their forecast for expected inflation in 2022 upwards; in March, they put inflation at 1.8% (cf. chart 4.7). Meanwhile, for 2023, the panel of experts anticipated a fall in inflation, to 0.7%.

In the talks conducted by the SNB's delegates for regional economic relations, companies expected a somewhat higher level of inflation in the short term (cf. chart 8 in 'Business cycle signals'). The expected annual inflation rate for the next six to twelve months increased from 1.9% in the previous quarter to 2.3%.

Little change in medium and long-term inflation expectations
Longer-term inflation expectations, by contrast, were almost unchanged.

For CS CFA financial market survey respondents, average inflation expectations for a time horizon of three to five years saw a slight decline from 1.4% to 1.3% in December 2021 (cf. chart 4.8). Meanwhile, company representatives interviewed by the SNB's delegates in the first quarter of 2022 put inflation for the same time frame at around 1.6%, compared with 1.5% in the previous quarter.

According to the Consensus Economics survey conducted in January, the longer-term inflation expectations of participating banks and economic institutions recently stood at 1.1%, thus slightly higher than in the previous quarter (1.0%).

All available survey results on medium and long-term inflation expectations were still within the range consistent with price stability, which the SNB equates to a rise in the CPI of less than 2% per year.

Chart 4.6

SHORT-TERM PRICE AND INFLATION EXPECTATIONS

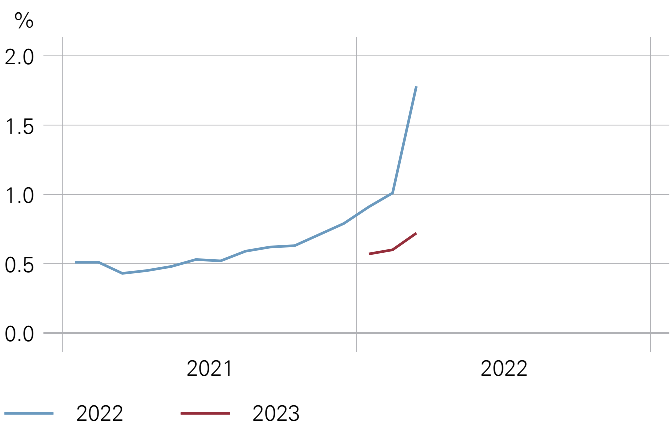
Aggregate responses from SECO survey on consumer sentiment and CS CFA financial market survey

Source(s): CFA Society Switzerland, Credit Suisse, SECO

Chart 4.7

SHORT-TERM INFLATION EXPECTATIONS FROM CONSENSUS ECONOMICS

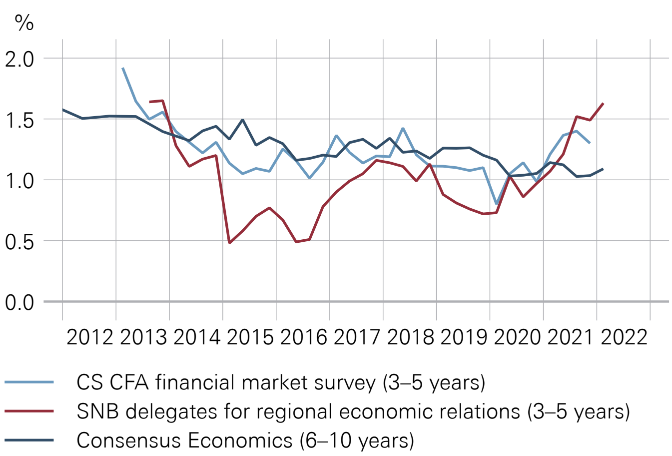
Monthly forecasts for annual inflation



Source(s): Consensus Economics Inc.

Chart 4.8

MEDIUM AND LONG-TERM INFLATION EXPECTATIONS



Source(s): CFA Society Switzerland, Consensus Economics Inc., Credit Suisse, SNB

5
Monetary developments

In the period following the December monetary policy assessment, share prices reached new highs, but thereafter fell markedly owing to expectations regarding tighter monetary policy in the US and to the war in Ukraine. The yields on long-term Confederation bonds rose significantly over the same period. The Swiss franc depreciated somewhat against the US dollar, but appreciated against the euro.

There was a further decrease in the growth rates of the broad monetary aggregates. Growth in bank lending weakened somewhat, but remained robust.

MONETARY POLICY MEASURES SINCE LAST ASSESSMENT

Expansionary monetary policy remains unchanged

At its monetary policy assessment of 16 December 2021, the SNB confirmed its expansionary monetary policy stance 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 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, in order to counter upward pressure on the Swiss franc. In so doing, it took the overall currency situation into consideration.

Fine-tuning operations and repo auctions in money market

Since the monetary policy assessment in December 2021, the SNB has been making selective use of fine-tuning operations to provide liquidity via the secured Swiss franc money market. In addition, as of mid-March 2022 the SNB began once again to conduct repo auctions with longer maturities. The aim of these operations was to counter slight upward pressure on secured, short-term money market rates.

Furthermore, in December, a liquidity operation in US dollars with a 14-day maturity was conducted over the year-end period, with an allocation of USD 2.4 billion. There was hardly any demand for weekly USD auctions with maturities of seven days. The USD auctions are conducted in coordination with the Bank of England, the Bank of Japan and the European Central Bank, in consultation with the US Federal Reserve.

Higher sight deposits at the SNB

Sight deposits held at the SNB have increased slightly since the monetary policy assessment in December 2021. In the week ending 18 March 2022 (last calendar week before the assessment of March 2022), they amounted on average to CHF 728.9 billion. This was higher than in the last calendar week preceding the 16 December 2021 assessment (CHF 722.7 billion). Between these two assessments, they averaged CHF 725.3 billion. Of this amount, CHF 657.0 billion were sight deposits of domestic banks and the remaining CHF 68.3 billion were other sight deposits. Statutory minimum reserves averaged CHF 22.6 billion between 20 November 2021 and 19 February 2022. Overall, banks exceeded the minimum reserve requirement by CHF 636.4 billion (previous period: CHF 623.8 billion). Banks' excess reserves thus remain very high.

MONEY AND CAPITAL MARKET INTEREST RATES

SARON close to SNB policy rate

Since the monetary policy assessment of December 2021, SARON, the average overnight interest rate on the secured money market, has fluctuated between around –0.68% and just under –0.72% (cf. chart 5.1). At the end of March, SARON stood at –0.69%. As in the previous quarter, SARON was subject to slight upward pressure at the end of each month. SARON also experienced a slight upswing in mid-March, to which the SNB reacted by conducting repo auctions with longer maturities and selective fine-tuning operations.

Rise in capital market interest rates

Since the monetary policy assessment in December, yields on ten-year government bonds have increased considerably both in Switzerland and abroad. In Switzerland, the yield on ten-year Confederation bonds climbed from –0.26% at the time of the last monetary policy assessment to 0.41% at the end of March (cf. chart 5.2). This development was largely in line with that of long-term government bonds in the US and the euro area. Two factors are likely to have contributed significantly to the rise in yields on long-term government bonds domestically and internationally. First, concerns over the impact of coronavirus on health and the economy receded at the beginning of the year, which had a positive impact on growth prospects. Second, as inflation continued to rise, the focus shifted to monetary policy normalisation abroad, which also had an effect on Swiss interest rates. Following the outbreak of the war in Ukraine, yields on ten-year government bonds fell slightly for a time, as investors increasingly sought safe government bonds.

Yield curve shifts upwards

The yield curve for Confederation bonds shifted upwards compared to the last monetary policy assessment. At the same time, it steepened somewhat for maturities of up to ten years, as short-term interest rates rose less strongly than long-term rates. For longer maturities, the yield curve remained flat (cf. chart 5.3).

Real interest rates still 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.

With long-term inflation expectations virtually unchanged (cf. chapter 4), the increase in long-term nominal yields since the last monetary policy assessment led to a rise in long-term real interest rates. By historical standards, however, the estimated long-term real interest rate remained at a low level.

Chart 5.1

SNB POLICY RATE AND MONEY MARKET RATES

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

Chart 5.2

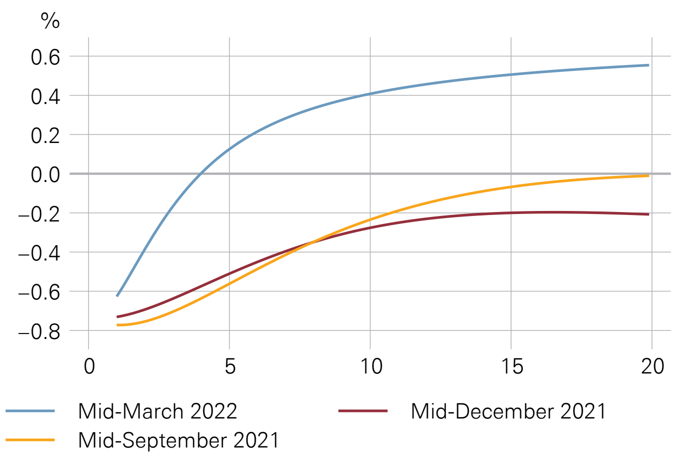
10-YEAR SWISS CONFEDERATION BOND YIELD

Source(s): SNB

Chart 5.3

TERM STRUCTURE OF CONFEDERATION BONDS

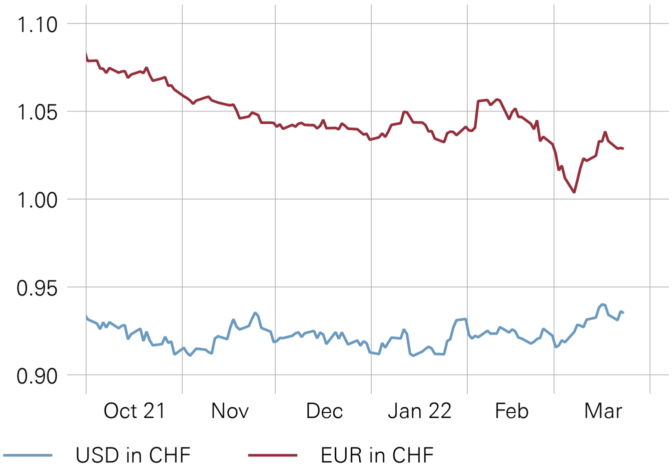
Years to maturity (horizontal axis); Nelson-Siegel-Svensson method



Source(s): SNB

Chart 5.4

EXCHANGE RATES



Source(s): SNB

Chart 5.5

NOMINAL EXTERNAL VALUE OF SWISS FRANC

Index, December 2021 monetary policy assessment = 100

Source(s): SNB

Chart 5.6

REAL EXTERNAL VALUE OF SWISS FRANC

Index, December 2000 = 100

Source(s): SNB

EXCHANGE RATES

Appreciation of Swiss franc against euro

The Swiss franc has gained further in value against the euro since the monetary policy assessment in December (cf. chart 5.4). At times, one euro was worth approximately one Swiss franc, the lowest it has been since January 2015. At the end of March, the franc stood at around 1.03 to the euro, which had thus lost some 1.5% in value since mid-December.

In early February, the euro appreciated temporarily across a broad front, also against the Swiss franc. This reflected market expectations of a faster tightening of monetary policy in the euro area. In the subsequent weeks, uncertainty and financial market volatility rose substantially as a result of the outbreak of the war in Ukraine. The Swiss franc strengthened considerably against this background, while the euro lost ground on a broad front. In the same period, the US dollar and the yen – which, alongside the franc, are likewise often considered safe-haven currencies by market participants – also gained in value against most other currencies.

Over the past three months, the Swiss franc depreciated somewhat against the US dollar. At the end of March, one dollar was worth just under CHF 0.94, up around 1% on mid-December.

Nominal trade-weighted external value of Swiss franc reaches new high

Amid the appreciation resulting from the war in Ukraine, the Swiss franc's nominal trade-weighted external value reached a new high in March, before weakening again somewhat (cf. chart 5.5). Compared to the monetary policy assessment in December, it gained almost 1% in value in trade-weighted terms. This increase primarily reflected the franc's appreciation against the euro (index weighting 43%).

Real external value still high

In recent months, the Swiss franc also strengthened somewhat on a real trade-weighted basis (cf. chart 5.6). However, given that inflation was considerably higher abroad than in Switzerland, real appreciation was lower than nominal appreciation. Thus, unlike the nominal external value, the real external value did not reach a new high, but remained significantly lower than in 2011 (before the introduction of the minimum exchange rate against the euro), in 2015 (following the discontinuation of the minimum exchange rate), or in 2020 (at the beginning of the coronavirus pandemic).

SHARE AND REAL ESTATE PRICES

Substantial decline in share prices after record highs
Up to the beginning of January 2022, share prices in the major economies had risen to new all-time highs. However, as signs of a tightening of monetary policy in the US became increasingly clear, share prices began to fall across a broad front. The outbreak of the war in Ukraine resulted in further price declines before a recovery commenced mid-March.

Swiss shares lost value considerably compared to the last monetary policy assessment. At the end of March, the Swiss Market Index (SMI) was down around 5% on the mid-December level (cf. chart 5.7).

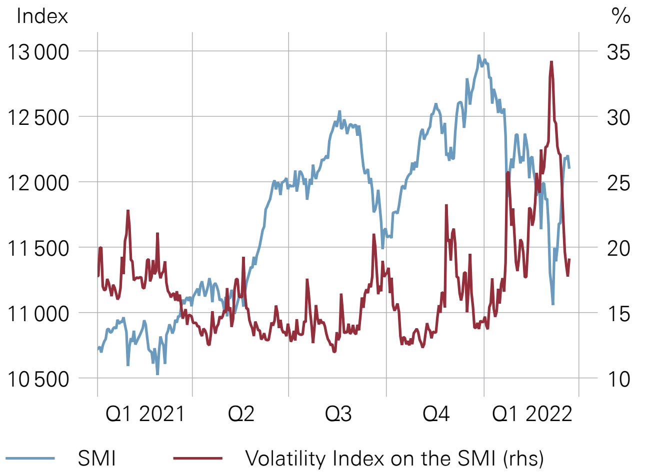
Temporary significant rise in stock market volatility
The volatility index derived from options on SMI futures contracts is an indicator of how investors gauge uncertainty on the stock market (cf. chart 5.7). The index rose significantly for a time in the quarter under review. This increase was driven, on the one hand, by uncertainty surrounding the pace of the imminent tightening of monetary policy abroad and, on the other, by the war in Ukraine. The stock markets calmed down in mid-March and the volatility index dropped again. By the end of March, it was somewhat above the level at the time of the last monetary policy assessment in December 2021.

Share price losses in all major sectors
Chart 5.8 shows the movements of important sector indices in the broad-based Swiss Performance Index (SPI). In contrast to other sectors, shares of financials initially registered price gains in the last three months. Since February, however, share prices of companies in this sector, too, followed the general trend.

Continued rise in residential real estate prices
In the fourth quarter of 2021, transaction prices for privately owned apartments and single-family houses increased further (cf. chart 5.9). The apartment buildings segment – which includes residential investment property of private and institutional investors – was the only segment to see prices stagnate, after they had risen strongly in the first half of the year.

Chart 5.7

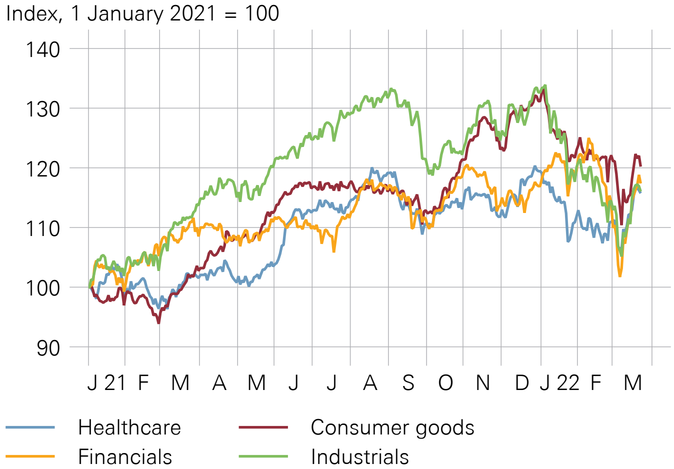
SHARE PRICES AND VOLATILITY



Source(s): SIX Swiss Exchange Ltd

Chart 5.8

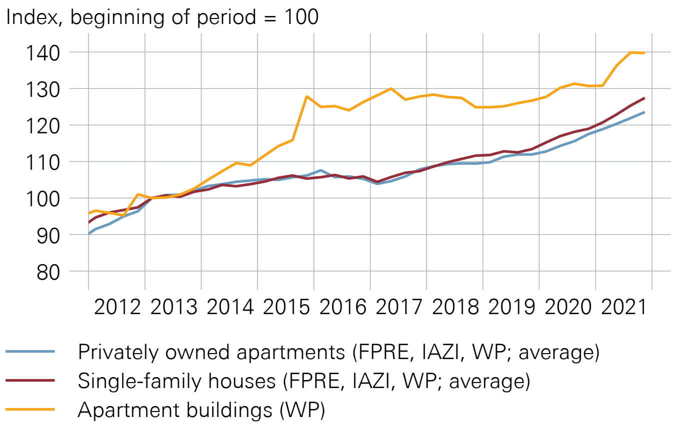
SELECTED SPI SECTORS



Source(s): SIX Swiss Exchange Ltd

Chart 5.9

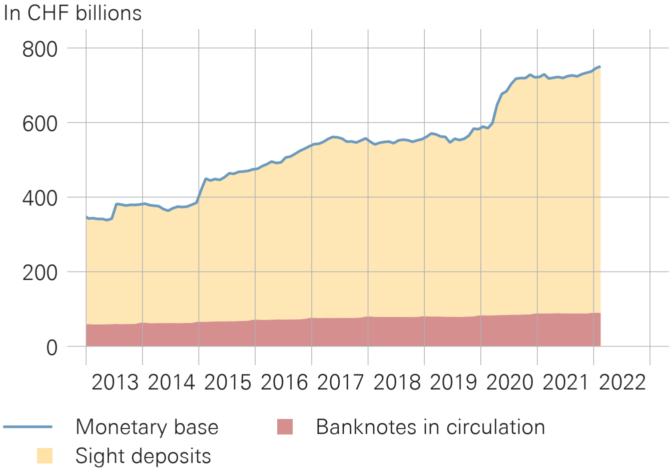
TRANSACTION PRICES FOR RESIDENTIAL REAL ESTATE
Nominal (hedonic)



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

Chart 5.10

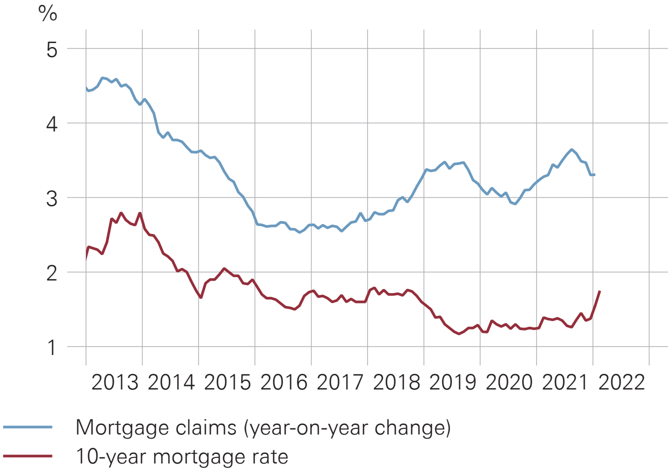
MONETARY BASE



Source(s): SNB

Chart 5.11

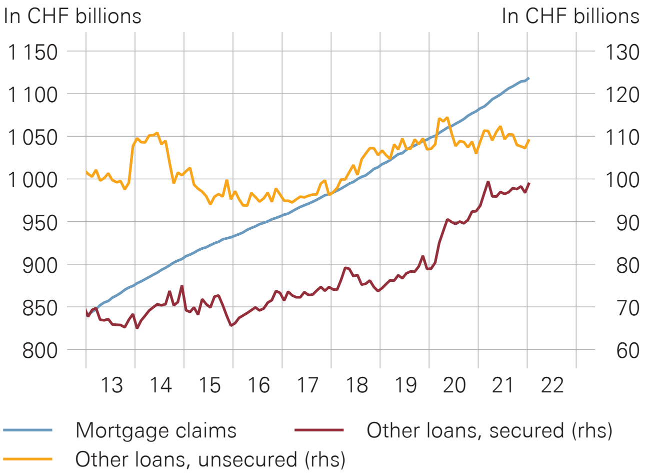
MORTGAGE CLAIMS AND INTEREST RATES



Source(s): SNB

Chart 5.12

MORTGAGE CLAIMS AND OTHER LOANS



Source(s): SNB

MONETARY AND CREDIT AGGREGATES

Rise in monetary base

The monetary base, which consists of banknotes in circulation and sight deposits of domestic banks held at the SNB, increased in the last three months. In February 2022, it averaged CHF 750.7 billion (cf. chart 5.10), and was thus up around CHF 17.2 billion on November 2021.

Slower growth in broad monetary aggregates

Growth in the broad monetary aggregates continued to weaken in the last three months (cf. table 5.1). In February 2022, the M1 aggregate (currency in circulation, as well as sight deposits and transaction accounts of resident bank customers) grew 3.8% year-on-year, thus slower than in November 2021 (4.6%). Similarly, annual growth rates for the M2 and M3 aggregates also declined further. In February, the annual growth rate for M2 (M1 plus savings deposits) stood at 0.8% (November 2021: 2.0%), while that for M3 (M2 plus time deposits) was 1.0% (November: 1.9%). The decrease in these growth rates is attributable to higher long-term interest rates. Higher capital market interest rates reduce the incentive to hold bank deposits at relatively low rates of interest.

Lending growth slows slightly

Bank lending by domestic bank offices in all currencies was up 3.4% year-on-year in the fourth quarter of 2021, having risen by 3.8% in the third quarter (cf. table 5.1). Both mortgage lending and other lending contributed to the decline in the growth rate.

Banks' mortgage claims, which make up roughly 85% of all bank lending to domestic customers, were up 3.4% year-on-year in the fourth quarter of 2021 (cf. chart 5.11).

In line with movements in long-term capital market interest rates, the ten-year mortgage interest rate also rose in recent months. At just under 1.8% in February 2022, it reached its highest level in more than three years. Nevertheless, it remains low by historical standards and should continue to support demand for mortgages.

Other loans are considerably more volatile than mortgage loans (cf. chart 5.12). However, the volume of unsecured other loans saw little change in the second half of 2021. The same applies to secured other loans, despite the first repayments of COVID-19 loans in the amount of CHF 4.7 billion.

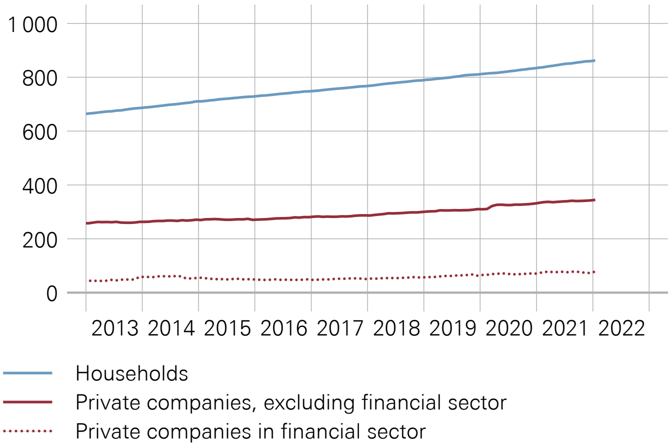
Lending growth and credit line utilisation by sector
Households as well as financial and non-financial companies made use of the continued favourable financing conditions. This was seen in the ongoing steady rise in bank loans extended to these customer groups (cf. chart 5.13).

At the end of January 2022, loans to households recorded a year-on-year increase of CHF 26.7 billion (3.2%) and loans to non-financial companies a rise of CHF 11.2 billion (3.4%). Loans to financial companies rose in the same period by CHF 5.6 billion (7.7%).

Chart 5.13

LOANS TO HOUSEHOLDS AND COMPANIES

In CHF billions



Source(s): SNB

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2021	2021 Q1	Q2	Q3	Q4	2021 Dec	2022 Jan	Feb
M1	**6.7**	**9.3**	**6.6**	**6.2**	**4.8**	**4.5**	**4.5**	**3.8**
M2	**4.1**	**6.6**	**4.5**	**3.3**	**2.0**	**1.5**	**1.2**	**0.8**
M3	**4.0**	**6.5**	**4.3**	**3.3**	**1.9**	**1.4**	**1.1**	**1.0**
Bank loans, total [1,3]	**3.6**	**4.0**	**3.3**	**3.8**	**3.4**	**3.2**	**3.2**	
Mortgage claims [1,3]	3.4	3.3	3.4	3.6	3.4	3.3	3.3	
Households [2,3]	3.0	2.7	3.0	3.1	3.1	3.1	3.1	
Private companies [2,3]	5.3	5.3	5.4	5.7	4.9	4.3	3.9	
Other loans [1,3]	4.5	8.3	2.3	4.6	3.1	2.8	2.9	
Secured [1,3]	10.0	18.7	7.6	8.3	6.4	4.7	5.7	
Unsecured [1,3]	0.1	0.6	−1.9	1.5	0.2	1.2	0.5	

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

Business cycle signals

Results of the SNB company talks

First quarter of 2022

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 241 company talks were conducted between 18 January and 8 March.

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

Key points

- Companies saw turnover growth continue in the first quarter at only slightly slower pace. The slight weakening was primarily due to those companies in the services sector directly affected by the consequences of the spread of the Omicron variant. The robust increases in turnover in manufacturing continued.

- Only a few companies are directly affected by the war in Ukraine because they have production facilities or trading partners in the region. Company representatives primarily talked about the impact on the energy markets and the procurement situation. There has been a sharp increase in general uncertainty regarding the development of the global economy.

- Despite the uncertain global environment, companies anticipate significant increases in turnover in the coming quarters. Now that measures to contain the pandemic have largely been lifted, this applies especially to the services sector.

- Shortages of staff became even more pronounced in the first quarter. Companies plan to employ more staff in the coming quarters. Recruitment difficulties continue to mount and are now seen as one of the greatest risks.

- Procurement bottlenecks also remain problematic. In some cases, restrictions and delays in production cannot be avoided. The tight supply situation and higher energy prices are leading to significant increases in purchase prices. In many places, companies are planning to pass these increases on to their customers.

- Against the backdrop of cautious salary adjustments last year, higher inflation and the tighter employment market, companies report somewhat stronger but still moderate wage growth overall for the current year.

CURRENT SITUATION

Sustained growth in turnover

In the first quarter, companies saw turnover continue to increase at only slightly slower pace (cf. chart 1; for guidance on interpreting the charts, refer to the relevant section at the end of this report). The somewhat lower growth compared to the previous quarter was primarily due to those companies in the services sector directly affected by the consequences of the rapid spread of the Omicron variant. In manufacturing, by contrast, turnover again increased significantly.

The situation in Ukraine was already seen as a potential risk in the discussions at the beginning of the quarter. After Russia's attack on Ukraine on 24 February there was a massive increase in uncertainty regarding global economic development. The immediate concern is the impact on the energy markets and the procurement of raw materials and agricultural produce from the region. On the other hand, there are hardly any discernible effects on demand, and in only isolated cases are companies directly affected because they have production facilities or trading partners in the region.

In manufacturing, makers of chemical and pharmaceutical products, as well as companies in the mechanical engineering, electrical engineering and metals industries, are profiting from the sustained positive development of demand from abroad. The main drivers are still Europe and the United States. Another factor supporting the positive development is firming demand from Asia, particularly China. While production losses owing to ongoing procurement bottlenecks cannot be prevented everywhere, in most cases companies are finding ways of maintaining production, even if this often entails additional work and expense.

In the first weeks of the year, some companies in various industries reported that staff were absent because of the quarantine rules, leading to more organisational and financial expense. There were hardly any declines in turnover, however. The situation eased significantly in mid-February with the lifting of the quarantine regulations and the shortening of the isolation period.

Production capacity underutilised

In manufacturing and construction, technical capacity utilisation is close to normal. However, overall capacity utilisation remains below average because of the underutilisation of infrastructure in the services sector (cf. chart 2). Many companies report overcapacity in office space, given that they expect the proportion of homeworking to remain higher. Furthermore, reduced international travel is still having a curbing effect on tourism and associated industries such as food services, passenger transport and, in specific instances, retail.

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

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

Procurement bottlenecks continue

Procuring intermediate products remains a challenge. As had already been the case the previous quarter, around two thirds of companies were affected by supply difficulties (cf. chart 3). Above all, procuring IT and electronics products still entails great challenges, which have even become somewhat more pronounced. This particularly affects products procured from the Asian region. Supply problems also remain pronounced for companies trading in motor vehicles, and in some cases for consumer goods as well. While there were initial signs of a reversal in the trend in the case of raw materials, the war in Ukraine is likely to have brought this positive development to an abrupt end. As a result of supply bottlenecks, prices are continuing to increase. In addition, delays are impairing the efficiency of production processes, increasingly leading to reductions in production. Some companies report that because of the uncertain global supply situation, orders are being shifted back to Switzerland, a situation from which these companies are profiting. Whenever possible, companies are endeavouring to increase their inventories to boost their resilience to supply chain delays.

International travel restrictions remain an obstacle

The ongoing travel restrictions in Asian countries are still seen as having a severe impact, and are slowing demand in the hotel industry. They are also preventing certain manufacturing companies that export to Asia from ensuring the usual on-site presence when delivering products and spares or providing services. At the same time, acquiring new customers is still proving difficult.

Continued tight staffing levels and more challenging recruitment

Recruitment difficulties continue to worsen, to the extent that a growing number of companies name staff shortages as their main concern. The companies are observing an increasing shortage of job-seekers with a medium to high level of specialisation. The process of digital transformation accelerated by the pandemic continues to result in greater shortages of IT specialists. Also noticeable are a further increase in hiring difficulties in logistics, and persisting problems in this regard in the hotel and hospitality industry, where finding staff is only possible with considerable effort and high starting wages. The reasons cited by companies are the reorientation of skilled workers to other industries during the pandemic and greater difficulty in recruiting from nearby foreign countries.

Little change in profit margins

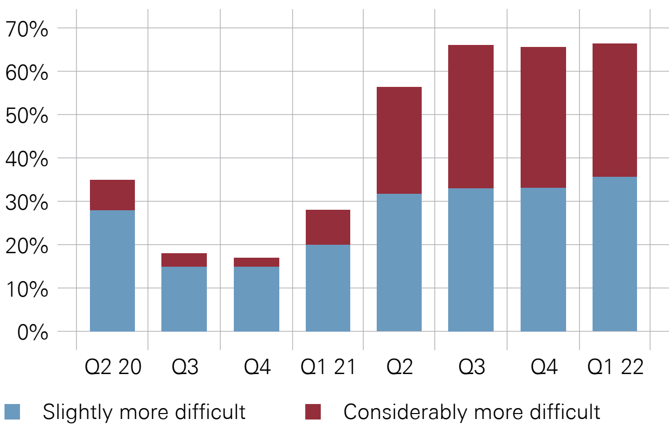
The majority of companies report stable profit margins at what is at least a sustainable level. On the one hand, margins are being underpinned by higher turnover, while costs are lower due to the still reduced levels of travel activity and to events not being held. On the other hand, supply chain delays are hindering efficient production processes, which is increasing production costs and reducing margins.

The effects of rising purchase and sales prices are manifold. Some companies are finding that given the general price dynamics, higher sales prices are easier to push through,

Chart 3

PROCUREMENT SITUATION

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



Source(s): SNB

and that this room for manoeuvre can be used to increase margins. On the other hand, higher purchase prices are having a curbing effect on margins at companies that cannot fully or immediately pass the increases through to sales prices. This can be due to intense competition or contractual agreements. Frequently affected by this are construction companies, which are increasingly attempting to build automatic price adjustment clauses into their sales contracts.

LIQUIDITY AND FUNDING CONDITIONS

Liquidity situation stable

Companies' liquidity situation remains stable. Just under than 40% of companies describe the current liquidity situation as being the same as before the coronavirus crisis. One third even describe the liquidity situation as more relaxed (cf. chart 4). This percentage has increased slightly. The improvement in business activity is having a positive impact on the liquidity of these companies. At one fifth of companies the situation is tighter than before the coronavirus crisis. Some of these companies report delays in payment on the part of customers. Against the backdrop of ongoing supply chain delays, some companies report that they are increasing their inventories. They say that this is tying up more capital and putting a greater strain on their liquidity.

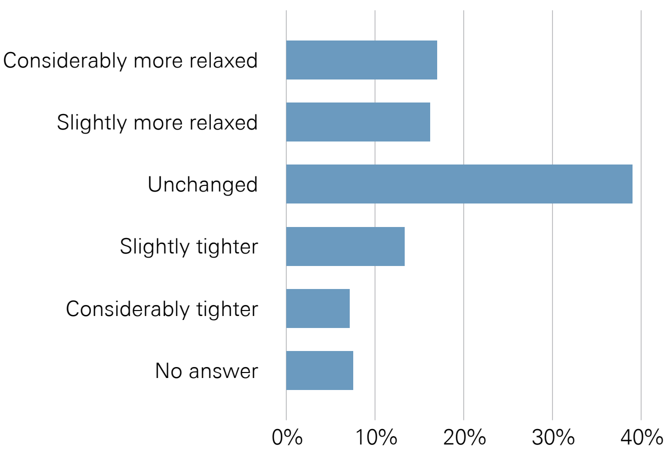
Little change in lending conditions

Most representatives assess the banks' lending conditions as similar to previous quarters. Only few companies are confronted with more restrictive credit conditions. 91% of companies have not noticed any problems with lending – either judging lending conditions to be normal or even relaxed, or not requiring bank loans in the first place (cf. chart 5). On the other hand, just under 9% of companies report tighter conditions, a slight increase versus the previous quarter. For the most part, representatives of industries that have been hard hit by the pandemic and whose prospects remain uncertain are experiencing greater restraint on the part of the banks.

Chart 4

LIQUIDITY SITUATION

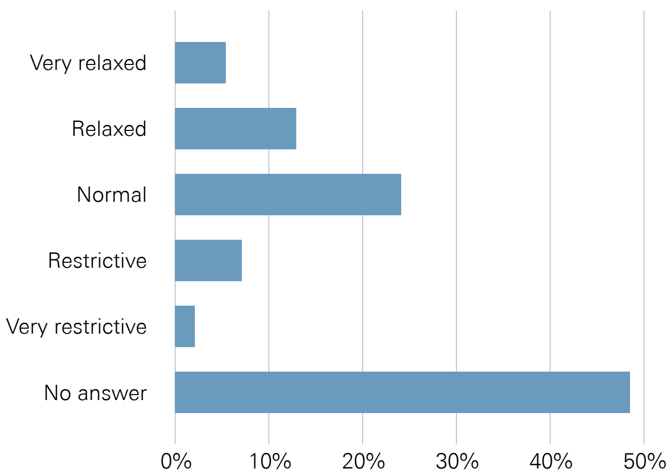
As compared to pre-COVID 19



Source(s): SNB

Chart 5

LENDING CONDITIONS



Source(s): SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Business activity in the trade industry remained lacklustre in the first quarter. Overall, real turnover was at around the same level as the previous quarter. While some wholesale operations are profiting from sustained positive demand from manufacturing and construction, procurement bottlenecks are having a curbing effect. This especially applies to the motor vehicle trade. At the same time, the procurement bottlenecks in retail have become more pronounced, reflected in appreciably lower turnover.

The lifting of measures to manage the pandemic in the course of the first quarter has had a positive impact on turnover in hospitality, as well as in the entertainment and leisure industry. In food services in particular, companies are benefiting from a renewed increase in customer frequency. Turnover at hotels geared to an international clientele, by contrast, has remained muted. The spread of the Omicron variant at the beginning of the year and the associated rise in uncertainty led to a decline in guest bookings. International travel is picking up only slowly, and is also likely to be curbed again by the war in Ukraine.

In the financial sector, business volumes have grown further despite declining stock market prices in the course of the quarter. Banks are seeing sustained growth in mortgage volumes. They view the low interest rate environment, and increasingly the hiring of specialist staff, as a challenge.

The ICT industry continues to gain momentum after what was already a positive development in the previous quarters. The most important driver is still digitalisation, with persistent growth in demand for efficient, stable IT infrastructure, often in conjunction with cloud solutions. Also increasingly relevant in this regard are demand for cybersecurity and connections for working from home, as well as online commerce.

Business in many manufacturing industries, too, is developing positively. Manufacturing is profiting on a broad basis from growing demand from abroad. The development of turnover in the chemical and pharmaceutical industry is particularly dynamic. The positive dynamic in the mechanical engineering, electrical engineering and metals industries also continues, thanks among other things to orders from the defence and medical technology industries, as well as to developments in the area of electric vehicles. Supply chain bottlenecks are slowing growth in some industries. Hard hit are companies reliant on electronics components, as well as the packaging industry. To counter supply bottlenecks, manufacturing companies are endeavouring to increase their inventories on a broad base.

In the construction sector, turnover has continued to rise. Construction companies, as well as architecture, engineering and planning firms, are profiting from a high level of investment in the residential segment. Companies operating in civil engineering and the finishing trade, by contrast, report a slight levelling off, albeit at a high level. Owing to continued increases in the prices of raw materials, supply bottlenecks, challenges in logistics and what is still described as intense competition, construction companies' margins remain slightly below what is considered normal. Furthermore, a growing number of construction companies are pointing out that the market for specialist labour is increasingly drying up.

OUTLOOK

Companies remain confident despite high level of uncertainty

Companies expect turnover to continue to rise in the next two quarters (cf. chart 6) despite ongoing challenges in hiring staff and procuring intermediate products. This confidence is based on the positive development of the global economy and sustained robust domestic demand, supported by the lifting of most of the measures to contain the pandemic. The war in Ukraine is exacerbating the uncertainty in many respects, although the concrete effects are still difficult for companies to assess.

In keeping with expectations of higher turnover, company representatives expect utilisation of their technical production capacity and infrastructure to increase. Against this backdrop, companies' appetite for investment continues to grow. By comparison with 2021, companies in the manufacturing and services sectors are planning appreciably higher capital expenditure on both equipment and buildings over the next twelve months. Construction companies are expecting the level of investment to rise slightly.

Increased demand for personnel and moderate increases in wages

Significant increases in staff numbers are planned in the next two quarters (cf. chart 7), owing to business prospects remaining favourable and to many companies still considering current staffing levels to be too low. The following industries are planning particularly pronounced increases in staff numbers: information and communications technology, the chemical, pharmaceutical, mechanical engineering, electrical engineering and metals industries, insurance and financial services, and architecture and engineering firms. Added to this, companies in wholesale, logistics and food services plan to increase staff levels. Against a backdrop of muted wage developments last year, growing inflation and an increasingly tight labour market, companies expect growth in wages to pick up somewhat this year. Companies are raising wages by an average of 1.6% after increases of 0.8% last year. Similar to the situation in the more recent past, the most pronounced rises in wages are for particularly sought-after specialists in IT, finance and manufacturing. As a result of the increasingly acute hiring difficulties, wage rises in hospitality are also markedly higher than in previous years.

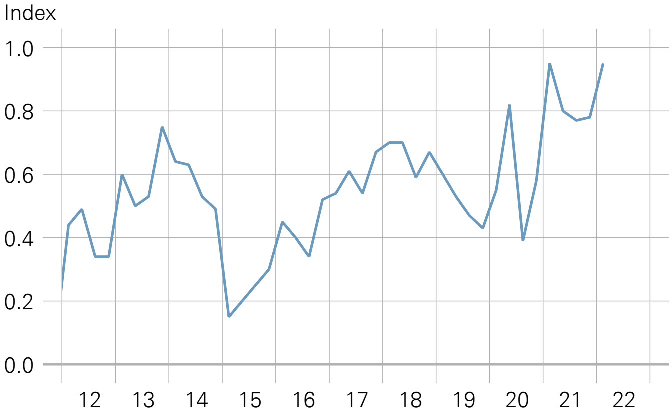
Sustained upward pressure on purchase and sales prices

Given sustained robust demand, the continuing tight supply situation and higher transport costs, company representatives anticipate further increases in the purchase prices of a broad range of products in the next two quarters. In particular, the scarcity of electronic components will result in a further rise in their prices. While there were certain signs at the beginning of the year that developments in energy and raw material prices were flattening off, the war in Ukraine, however, put an abrupt stop to this incipient return to normal.

At the same time, companies expect sales prices to rise. Companies in manufacturing, and especially in the trade industry, are passing increases in purchase prices through to their sales prices. In addition to this, prices in the tourism industry, which has been hard hit by the pandemic, are expected to return to normal as demand recovers.

Chart 6

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 7

EXPECTED EMPLOYMENT

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

Source(s): SNB

ENVIRONMENT AND RISKS

War in Ukraine causing uncertainty
Companies describe the war in Ukraine as a substantial risk to what is in itself a positive business outlook. Besides the situation on the energy and raw materials markets, a key concern is the generally uncertain development of the global economy. Representatives also talked about the appreciation of the Swiss franc. This is worrying a number of companies, and they see further appreciation of the Swiss franc as a risk. At the same time, they note that the strong development of prices and wages abroad somewhat mitigates the effects of the appreciation.

The direct effects of the war are deemed to be moderate. For instance, only a small proportion of the companies maintain trading relations with Russia or Ukraine or have production facilities in the region. An exception to this is commodities traders, who could be affected by potential declines in trading volumes and, in some cases, by difficulties with financing or payments. Furthermore, the tourism industry fears that the uncertain situation will reduce the desire to travel to Europe, particularly among Asian and American tourists. This is happening just as the easing of many of the restrictions connected with the coronavirus pandemic was leading to signs of a gradual recovery in many countries all over the world.

Hiring and procurement situation still major challenge
Many companies see the greatest challenge not in declining demand, but on the supply side: in the timely manufacture of products and provision of the services offered. Staff shortages are frequently cited as the most significant concern. Some companies report that they are unable to accept all orders. Since the market for specialist labour is said have dried out, the majority of companies do not expect the situation to ease in the coming quarters. Against this backdrop, a certain degree of uncertainty prevails as to whether plans to increase staff numbers at many companies can be fully realised.

The majority of companies still also see procurement as a risk. A lack of freight capacity is making this more difficult in general. Delays in the supply of electronic components are also increasingly affecting production. To be able to continue ensuring the ability to deliver in the coming quarters, companies are endeavouring to expand their inventories.

Digitalisation and sustainability trend as opportunity and risk
The majority of companies see ongoing digitalisation as an opportunity to make production processes more efficient. At the same time, closer interconnectedness – including via online sales channels – means that cybersecurity is becoming a key challenge.

With a somewhat longer forecast horizon, climate change and the trend to sustainability are also seen by many companies as opportunities for new business models. This particularly applies to the broad field of energy efficiency. Providers of products perceived as being less sustainable, however, view the same trend as a risk, and see their business activities increasingly affected by regulations. Some representatives express concerns regarding security of supply in connection with the transition to renewable energy.

INFLATION EXPECTATIONS

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

There has been a further increase in short-term inflation expectations as measured by the consumer price index: The average for the next six to twelve months (cf. chart 8) is 2.3%, compared with 1.9% in the previous quarter. A reason frequently given for this is observed increases in producer prices, which, according to representatives, will gradually be reflected in consumer prices. Expectations are additionally influenced by the rise in inflation observed abroad in the recent past.

There is growing expectation that after rising in the short term, inflation will not immediately level off again and that it will remain slightly higher. Inflation expectations over a three to five-year horizon have thus risen from 1.5% to 1.6%.

Chart 8

EXPECTED INFLATION

Source(s): SNB

About this report

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

Over 200 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, relevance should be attached to their overall development, rather than to their numeric level or individual changes.

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

Glossary

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 calendar 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. The Swiss Federal Statistical Office therefore takes neither energy and fuel nor unprocessed food and seasonal goods and services into account when calculating the SFSO1 core inflation rate. The TM15, as calculated by the SNB, excludes the 15% of goods and services with the lowest annual rates of change in prices, and the 15% with the highest every month.
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, 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.
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.
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.
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.
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.
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 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.
Yield curve control	Yield curve control involves a central bank setting a target for the yield of government bonds with a specific maturity, typically longer-term, and using bond purchases to ensure that the actual yield is close to the target.

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

March 2022

At its quarterly assessment of 24 March, the SNB leaves its policy rate and the interest rate on sight deposits with the SNB at –0.75%. In light of the highly valued Swiss franc, it is willing to intervene in the foreign exchange market as necessary. In so doing, it takes the overall currency situation and the inflation rate differential with other countries into consideration. Russia's invasion of Ukraine has led to a strong increase in uncertainty worldwide. Against this backdrop, the SNB with its expansive monetary policy is ensuring price stability and supporting the Swiss economy.

December 2021

At its quarterly assessment of 16 December, the SNB leaves its policy rate and the interest rate on sight deposits with the SNB at –0.75%. In light of the highly valued Swiss franc, it remains willing to intervene in the foreign exchange market as necessary. In so doing, it takes the overall currency situation into account. The SNB's expansionary monetary policy thus ensures price stability and supports the Swiss economy in its recovery from the impact of the coronavirus pandemic.

September 2021

At its quarterly assessment of 23 September, the SNB leaves its policy rate and the interest rate on sight deposits with the SNB at –0.75%. In light of the highly valued Swiss franc, it remains willing to intervene in the foreign exchange market as necessary. In so doing, it takes the overall currency situation into account. The SNB's expansionary monetary policy serves to ensure price stability and provide support to the Swiss economy in its recovery from the impact of the coronavirus pandemic.

June 2021

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 currency 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.

April 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 US 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.

March 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 currency 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.

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