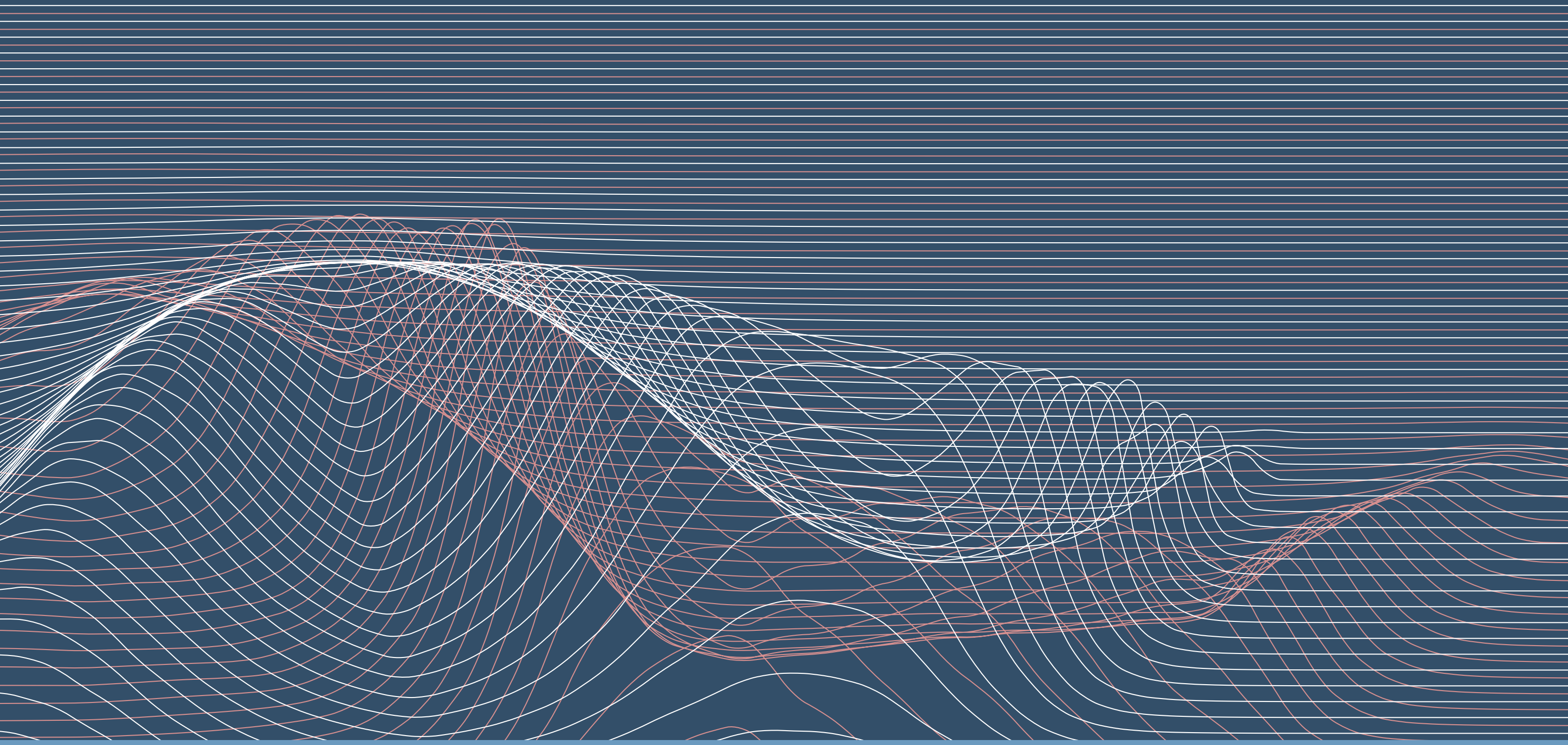


Quarterly Bulletin
1/2023 March

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

Quarterly Bulletin
1/2023 March

Volume 41

Contents

Monetary policy report

Report for the attention of the Governing Board of the Swiss National Bank for its quarterly assessment of March 2023

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 23 March 2023') is an excerpt from the press release published following the assessment.

This report is based on the data and information available as at 23 March 2023. Unless otherwise stated, all rates of change from the previous period are based on seasonally adjusted data and are annualised.

Key points

- On 23 March 2023, the SNB decided to further tighten its monetary policy. It raised the SNB policy rate by 0.5 percentage points to 1.5% to counter the renewed increase in inflationary pressure. The conditional inflation forecast was above that of December over the medium term, and would have been even higher without the rise in the SNB policy rate.

- On 19 March, the SNB announced it would provide substantial liquidity assistance to support the takeover of Credit Suisse by UBS. In so doing, the SNB performs its statutory task to contribute to the stability of the financial system.

- Global growth momentum and the outlook for the coming quarters remain subdued. Inflation has declined somewhat due to lower energy prices, but is still clearly above central banks' targets in many countries. Accordingly, numerous central banks have further tightened their monetary policy. Inflation is likely to remain elevated for the time being.

- After a favourable development at the beginning of the year, economic growth is likely to remain modest in Switzerland, too. For this year, the SNB anticipates GDP growth of around 1%. The level of uncertainty associated with the forecast is still high, due also to the turmoil in the global financial sector.

- Annual CPI inflation rose back to the level recorded last summer, and at 3.4% in February was still significantly above the range consistent with price stability. The short-term inflation expectations derived from surveys remained elevated. The longer-term inflation expectations were still within the range consistent with price stability.

- There was little change in the external value of the Swiss franc, but bond yields and equity prices fluctuated strongly. The increase in real estate prices was less pronounced than in the previous quarter. Most monetary aggregates contracted, whereas lending growth remained robust.

1
Monetary policy decision of 23 March 2023

Swiss National Bank tightens monetary policy further and raises SNB policy rate to 1.5%
The SNB is tightening its monetary policy further and is raising the SNB policy rate by 0.5 percentage points to 1.5%. In doing so, it is countering the renewed increase in inflationary pressure. It cannot be ruled out that additional rises in the SNB policy rate will be necessary to ensure price stability over the medium term. To provide appropriate monetary conditions, the SNB also remains willing to be active in the foreign exchange market as necessary. For some quarters now, the focus has been on selling foreign currency.

The SNB policy rate change applies from 24 March 2023. Banks' sight deposits held at the SNB will be remunerated at the SNB policy rate of 1.5% up to a certain threshold. Sight deposits above this threshold will be remunerated at an interest rate of 1.0%, and thus still at a discount of 0.5 percentage points relative to the SNB policy rate.

The past week has been marked by the events surrounding Credit Suisse. The measures announced on the weekend of 18/19 March by the federal government, FINMA and the SNB have put a halt to the crisis. The SNB is providing large amounts of liquidity assistance in Swiss francs and foreign currencies. These loans are secured and subject to interest.

Inflation has risen again since the beginning of the year, and stood at 3.4% in February. It is therefore still clearly above the range the SNB equates with price stability. The latest rise in inflation is principally due to higher prices for electricity, tourism services and food. However, price increases are now broad-based.

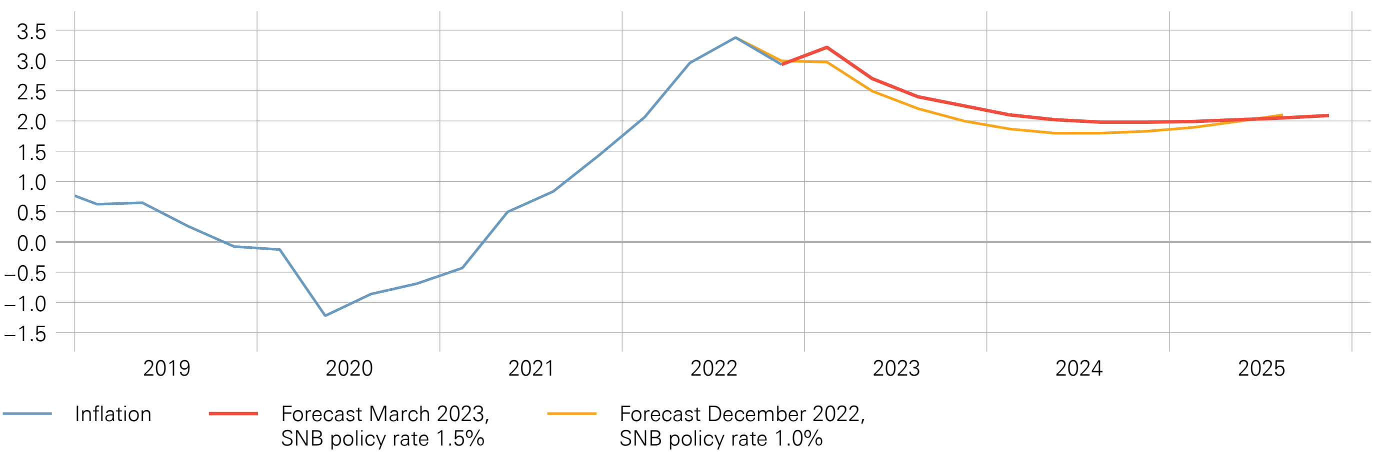
The SNB's new conditional inflation forecast is based on the assumption that the SNB policy rate is 1.5% over the entire forecast horizon (cf. chart 1.1). Stronger second-round effects and the fact that inflationary pressure from abroad has increased again mean that, despite the raising of the SNB policy rate, the new forecast is higher through to mid-2025 than in December. The new forecast puts average annual inflation at 2.6% for 2023, and 2.0% for 2024 and 2025 (cf. table 1.1). At the end of the forecast horizon, inflation stands at 2.1%. Without today's policy rate increase, the inflation forecast would be even higher over the medium term.

The global economy hardly grew in the fourth quarter of 2022, while in many countries inflation remained clearly above central banks' targets. Against this background, numerous central banks have tightened their monetary policy further.

The growth outlook for the global economy in the coming quarters remains subdued. At the same time, inflation is likely to remain elevated worldwide for the time being. Over the medium term, however, it should return to more moderate levels, not least thanks to monetary policy and due to the economic slowdown. This scenario for the global economy is subject to significant risks, in particular due to the recent turmoil in the global financial sector.

Chart 1.1

CONDITIONAL INFLATION FORECAST OF MARCH 2023
Year-on-year change in Swiss consumer price index in percent



Source(s): SFSO, SNB

Swiss GDP stagnated in the fourth quarter of 2022. The services sector lost momentum, and value added in manufacturing declined slightly again. For 2022 as a whole, GDP grew by 2.1%. The labour market remained robust, and overall production capacity has been well utilised.

Despite the slight upturn in economic activity in the first months of 2023, growth is likely to remain modest for the rest of the year. The subdued demand from abroad and the loss of purchasing power due to inflation are having a dampening effect. Overall, GDP is likely to increase by around 1% this year. Unemployment should remain at a low level, and the utilisation of production capacity is likely to decline slightly.

The forecast for Switzerland, as for the global economy, is subject to high uncertainty. In the short term, the main risks are an economic downturn abroad and adverse effects of the turmoil in the global financial sector.

Mortgage growth has remained largely stable in recent months, whereas there are signs of a slowdown in residential real estate prices. The vulnerabilities on the mortgage and real estate markets persist.

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. In addition, the SNB allows inflation to fluctuate somewhat with the economic cycle. Second, the SNB summarises its assessment of inflationary pressure and of the need for monetary policy action in a quarterly inflation forecast. This forecast, which is based on the assumption of a constant SNB policy 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. If necessary, the SNB may also use additional monetary policy measures to influence the exchange rate or the interest rate level.

The SNB comprehensively reviewed its monetary policy strategy in 2022 and concluded that it has fundamentally proved its worth. There was no need to adjust the definition of price stability and the conditional inflation forecast elements. The formulation of how the SNB implements monetary policy by setting the SNB policy rate was adjusted to take into account the increased importance of foreign exchange market interventions and other monetary policy measures (cf. also the SNB's Annual Report 2022, chapter 1.1).

Table 1.1

OBSERVED INFLATION IN MARCH 2023

	2019				2020				2021				2022				2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	0.6	0.6	0.3	−0.1	−0.1	−1.2	−0.9	−0.7	−0.4	0.5	0.8	1.4	2.1	3.0	3.4	2.9	−0.7	0.6	2.8

Source(s): SFSO

CONDITIONAL INFLATION FORECAST OF MARCH 2023

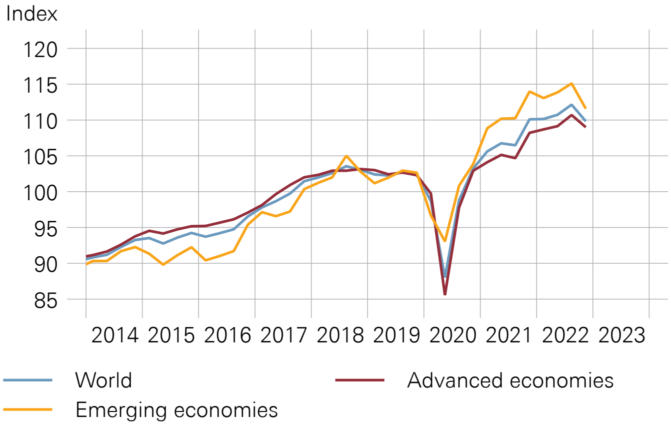
	2022				2023				2024				2025				2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast December 2022, SNB policy rate 1.0%				3.0	3.0	2.5	2.2	2.0	1.9	1.8	1.8	1.8	1.9	2.0	2.1		2.4	1.8	
Forecast March 2023, SNB policy rate 1.5%					3.2	2.7	2.4	2.3	2.1	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.6	2.0	2.0

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 economy hardly grew in the fourth quarter of 2022. Economic development was curbed in particular by the gas scarcity in Europe and a strong pandemic wave in China. The weakened economic activity was reflected in a noticeable decrease in global trade in the fourth quarter (cf. chart 2.1). Nevertheless, Q4 2022 and Q1 2023 will likely be slightly less weak overall than expected in December. In many countries, inflation remains clearly above central banks' targets. Against this background, numerous central banks have tightened their monetary policy further.

The global growth outlook for the coming quarters remains subdued, this being attributable to the still scarce availability of natural gas in Europe, the loss of purchasing power due to inflation, and tighter monetary policy. Inflation is likely to remain elevated for the time being, but should return to more moderate levels over the medium term, not least thanks to monetary policy and due to the economic slowdown.

This scenario for the global economy is subject to significant risks, in particular owing to the recent turmoil in the global financial sector.

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 85 per barrel, compared with USD 94 in the last baseline scenario, and an exchange rate of USD 1.08 to the

Table 2.1

BASELINE SCENARIO FOR GLOBAL ECONOMIC DEVELOPMENTS

					Scenario	
	2019	2020	2021	2022	2023	2024
GDP, year-on-year change in percent						
Global [1]	2.8	−3.0	6.2	3.4	3.3	2.9
US	2.3	−2.8	5.9	2.1	1.2	0.7
Euro area	1.6	−6.3	5.3	3.5	0.7	0.8
Japan	−0.4	−4.3	2.2	1.0	1.0	0.9
China	6.0	2.2	8.4	3.0	5.8	4.9
Oil price in USD per barrel	64.3	41.8	70.7	100.9	84.7	85.0

1 World aggregate as defined by the IMF, PPP-weighted.

Source(s): Refinitiv Datastream, SNB

euro compared with USD 1.01 previously. Both correspond to the 20-day average when the current baseline scenario was drawn up.

INTERNATIONAL FINANCIAL AND COMMODITY MARKETS

Since the last monetary policy assessment in December, inflation developments have continued to dominate events in international financial markets. Against this background, many central banks tightened their monetary policy further. The collapse of Silicon Valley Bank in the US led to turmoil in the international financial sector from mid-March, weighing on financial market sentiment and, in particular, also dampening interest rate expectations in the advanced economies.

Yields on ten-year government bonds in advanced economies fluctuated considerably in the period under review. Initially, markets were of the opinion that inflation may have peaked. At the same time, there were growing signs of an economic downturn. Yields subsequently declined. Meanwhile, on the back of unexpectedly robust economic data and persistent inflation, yields temporarily increased again significantly from mid-January. The recent turmoil in the international financial sector following the events surrounding Silicon Valley Bank abruptly curbed these yields, however (cf. charts 2.2 and 2.3).

Although global stock markets initially continued to recover slightly, supported mainly by a decline in recession fears and by the post-pandemic reopening of the Chinese economy, they subsequently relinquished most of their gains from mid-March due to the turmoil in the financial sector. Uncertainty about further price movements thus rose again latterly, as indicated, for instance, by the VIX, the index for the implied volatility of stocks in the US as measured by options prices (cf. chart 2.4).

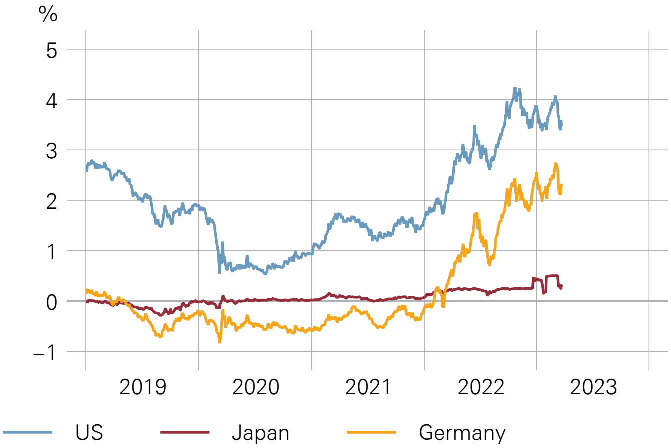
Movements in the foreign exchange market continued to reflect monetary policy expectations. The US dollar and pound sterling fluctuated substantially and, in trade-weighted terms, were recently back near their mid-December levels. Expectations of a stronger tightening of monetary policy in the euro area contributed to the euro's slight trade-weighted appreciation. The yen also strengthened somewhat after the Bank of Japan unexpectedly expanded the target range for yields on Japanese government bonds, and because it has recently been more sought after as a safe haven (cf. chart 2.5).

Commodity prices declined overall. The price of Brent crude initially fluctuated within a narrow range around USD 83 per barrel, but decreased significantly from mid-March, to around USD 77 latterly (cf. chart 2.6).

Chart 2.2

INTERNATIONAL LONG-TERM INTEREST RATES

10-year government instruments

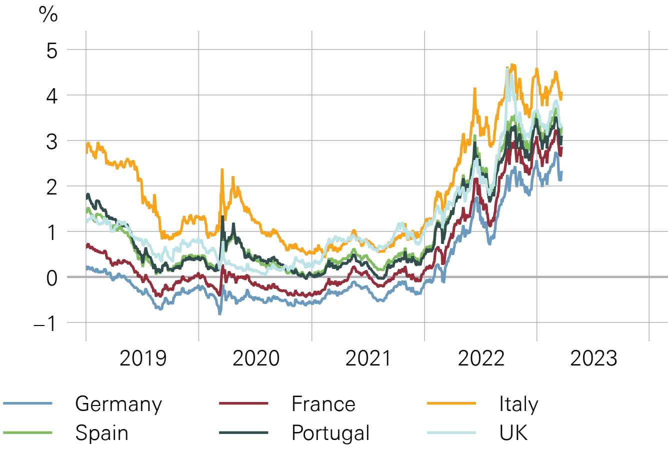


Source(s): Refinitiv Datastream

Chart 2.3

EUROPEAN LONG-TERM INTEREST RATES

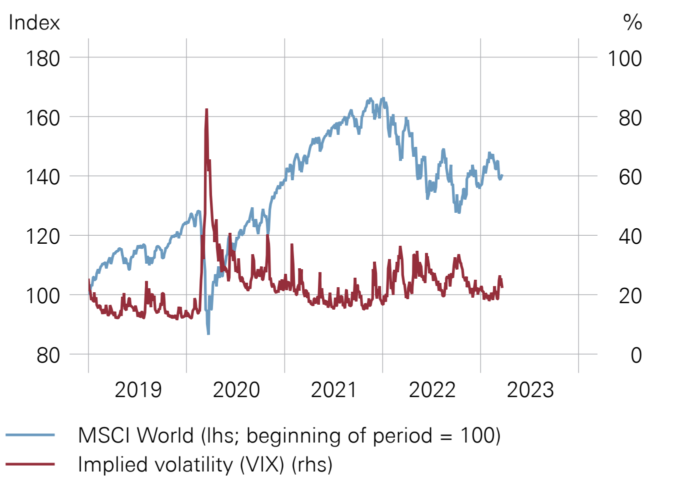
10-year government instruments



Source(s): Refinitiv Datastream

Chart 2.4

STOCK MARKETS

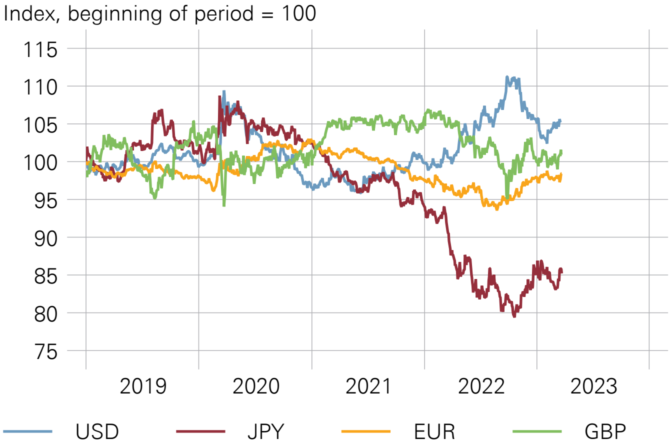


Source(s): Refinitiv Datastream

Chart 2.5

EXCHANGE RATES

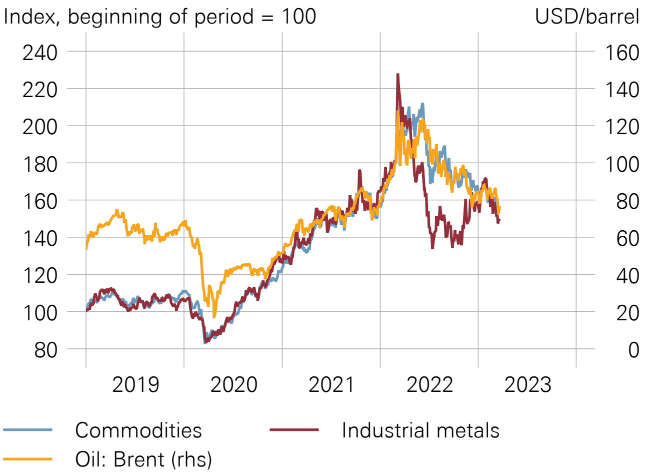
Trade-weighted



Source(s): Refinitiv Datastream

Chart 2.6

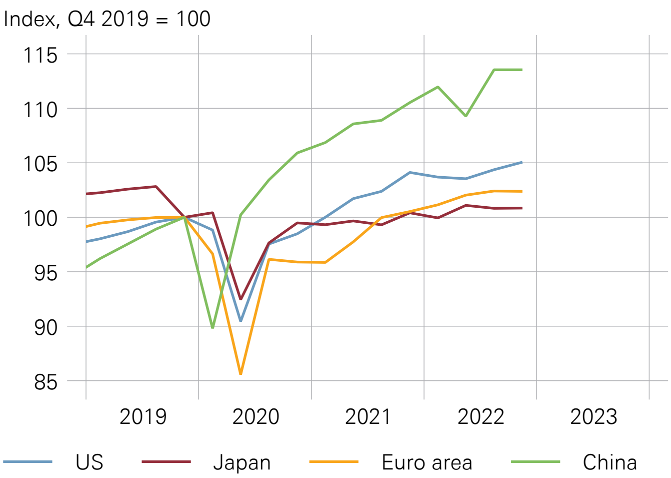
COMMODITY PRICES



Source(s): Refinitiv Datastream

Chart 2.7

REAL GDP



Source(s): Refinitiv Datastream

UNITED STATES

Driven mainly by private consumption and a stronger increase in inventories, GDP in the US expanded by 2.7% in the fourth quarter of 2022 (cf. chart 2.7). Investment, by contrast, saw a renewed decline. For 2022 as a whole, GDP growth amounted to 2.1% (cf. table 2.1).

The labour market remained very well utilised. Employment figures rose once again at an above-average rate, and unemployment was close to its historic low, at 3.6% in February (cf. chart 2.9).

Key economic indicators (such as private consumption and employment) point to a sound development in economic activity at the beginning of the year. Nevertheless, growth momentum is likely to slow markedly over the course of the year, primarily because the high level of inflation is weighing on real incomes and consumption. Added to this are the dampening effects of a tighter monetary policy and a less expansionary fiscal policy. However, in view of the recent sound development, the SNB is raising its 2023 growth forecast compared to December, to 1.2%. For 2024, it expects GDP growth of 0.7% (cf. table 2.1).

Consumer price inflation receded further in recent months and stood at 6.0% in February (cf. chart 2.10). This primarily reflected a decline in energy inflation. Core inflation, by contrast, weakened only slightly to 5.5% (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 – amounted to 5.4% in January, thus remaining significantly above the Fed's target.

Against the background of high inflation and tight labour market conditions, the Fed increased its target range for the federal funds rate by 25 basis points in February, and – despite the recent turmoil in the financial sector – by another 25 basis points in March, to stand latterly at 4.75–5.0% (cf. chart 2.12). The Fed emphasised that some additional monetary policy tightening might be appropriate.

Following the collapse of Silicon Valley Bank in March, the Fed created a new credit facility (Bank Term Funding Program) to secure liquidity in the banking sector. In addition, the Federal Deposit Insurance Corporation and the Department of the Treasury expanded deposit insurance coverage at two affected banks.

EURO AREA

In the euro area, GDP stagnated in the fourth quarter (cf. chart 2.7). With the high level of inflation weighing on demand, activity in the services sector declined overall. In manufacturing, value added registered only a slight increase. The downturn in energy-intensive industries due to high gas prices was especially significant. Meanwhile, some industries benefited from decreasing supply bottlenecks. GDP growth for 2022 amounted to 3.5% (cf. table 2.1).

Labour market developments continued to be positive. Employment figures climbed again, while unemployment, at 6.7% in January, remained close to its all-time low (cf. chart 2.9).

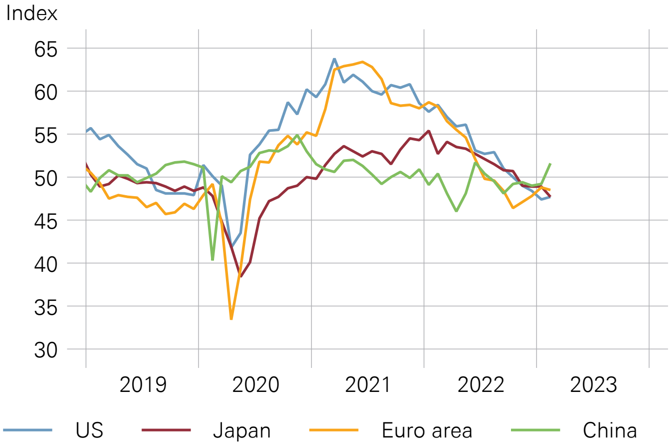
On the whole, economic activity developed somewhat better in recent months than expected in December. Nevertheless, the growth outlook remains muted. In particular, households' loss of purchasing power due to inflation, tighter financing conditions for companies, as well as elevated gas prices, which are pushing up production costs and thus weighing on output, are having a dampening effect. Economic expansion is thus likely to be slow in the coming quarters. Owing to the somewhat more positive development of late, however, the SNB is revising its forecast upwards for this year. It now expects GDP growth of 0.7% for 2023 and 0.8% for 2024 (cf. table 2.1).

Consumer price inflation fell substantially in recent months but, at 8.5% in February, it continued to exceed the ECB target (cf. chart 2.10). The decline in energy prices played a key role. Meanwhile, core inflation continued to climb and latterly stood at 5.6% (cf. chart 2.11). The increase reflected higher prices for both services and various goods, due in part to high energy costs in the past year.

The ECB raised its key interest rates by 50 basis points in February, and again in March. The relevant interest rate in the money market – the deposit facility rate – thus latterly stood at 3.0% (cf. chart 2.12). Given the high level of uncertainty, the ECB said it would base future policy rate decisions on incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission. In March, it began as planned to only partially reinvest maturing securities under its asset purchase programme (APP). The APP portfolio will decline by EUR 15 billion per month on average until mid-year; it will subsequently be reduced further.

Chart 2.8

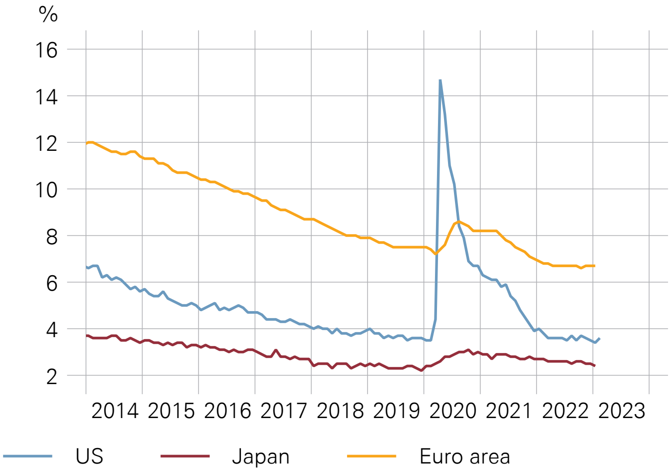
PURCHASING MANAGERS' INDICES (MANUFACTURING)



Source(s): Institute for Supply Management (ISM), S&P Global

Chart 2.9

UNEMPLOYMENT RATES

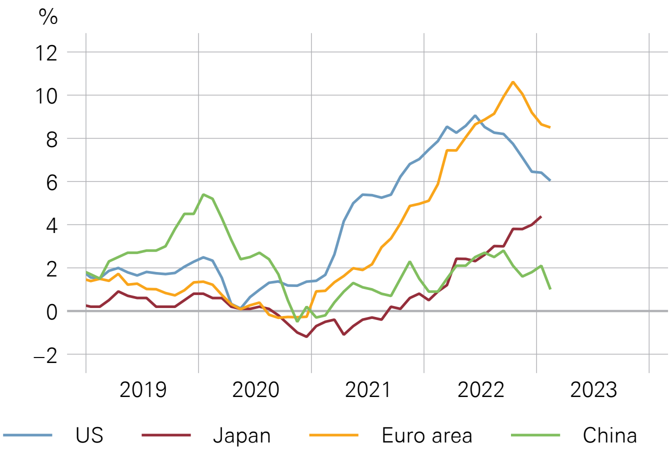


Source(s): Refinitiv Datastream

Chart 2.10

CONSUMER PRICES

Year-on-year change

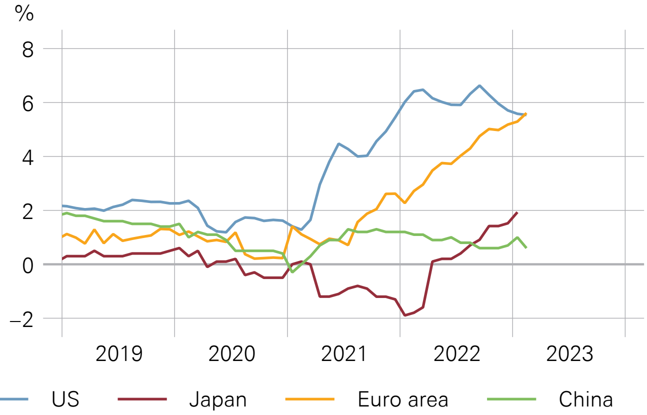


Source(s): Refinitiv Datastream

Chart 2.11

CORE INFLATION RATES [1]

Year-on-year change

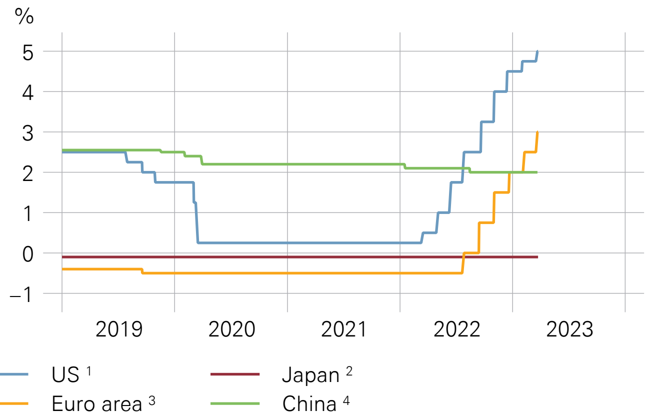


1 Excluding food and energy.

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

Having exhibited volatile growth in the previous quarters, Japan's GDP stagnated in the fourth quarter (cf. chart 2.7). Private consumption recovered somewhat from the effects of the coronavirus wave during the summer months, and exports of services benefited from the gradual return of inbound tourism. Goods and services exports and manufacturing, by contrast, lost momentum as a result of weak demand from China. For the year as a whole, GDP expanded by 1.0% (cf. table 2.1). The economic recovery thus continued at a moderate pace.

Overall, employment figures increased again slightly in recent months, while the unemployment rate was back near its pre-pandemic level, at 2.4% in January (cf. chart 2.9).

In view of the emerging global economic slowdown, Japan's growth prospects continue to be modest. Nevertheless, a number of factors will likely support future growth. These include catch-up effects in private consumption and tourism, a pick-up in demand from China, and an easing of procurement problems in the automotive industry. Added to this are stimulus measures, such as an energy subsidy aimed at reducing the burden on households this year. Overall, the economic outlook has not changed significantly. As a result of data revisions, however, the growth forecast for this year is somewhat lower, at 1.0%. For 2024, the SNB expects growth of 0.9%, thus still slightly above potential (cf. table 2.1).

Influenced by the weak yen and the associated higher import prices, consumer price inflation increased further. It has been above the Bank of Japan's target since April of last year and, in January, stood at 4.3% (cf. chart 2.10), the highest it has been since the early 1980s. Inflation continued to be largely driven by energy and food prices. Core inflation also advanced, latterly to 2.0% (cf. chart 2.11).

The Bank of Japan considers the inflation trend resulting from higher import prices to be temporary and expects inflation to return to below 2% in the 2023 fiscal year, which begins in April. Against this backdrop, it left its targets under the yield curve control programme unchanged. However, it decided last December that it would allow long-term bond yields to fluctuate in a wider band.

CHINA

GDP in China stagnated in the fourth quarter (cf. chart 2.7). Growth was largely held back by a renewed coronavirus wave and the abrupt exit from the country's zero-COVID policy, which resulted in a substantial rise in the number of infections. Against this backdrop, value added varied from one industry to another. While it receded in the industries directly affected by the pandemic (transport and accommodation) as well as in the real estate sector, it increased slightly in manufacturing. For the year as a whole, GDP expanded by 3.0% (cf. table 2.1). Growth thus fell significantly short of the government's target of around 5.5%

The pandemic situation has improved considerably since the beginning of the year. The economy is thus expected to pick up again rapidly. Business confidence improved following the lifting of coronavirus containment measures. Activity thus also picked up. Consumer behaviour is likely to normalise in the current year, resulting in strong growth in consumption. Meanwhile, the crisis in the residential real estate market is expected to still weigh somewhat on economic activity. In March, the government announced that it intends to focus on stable economic and employment growth, and is aiming for GDP expansion of around 5% for this year. In light of the rapid reopening of the economy, the SNB is raising its growth forecast for 2023 to 5.8%, but is lowering it for 2024 to 4.9% (cf. table 2.1).

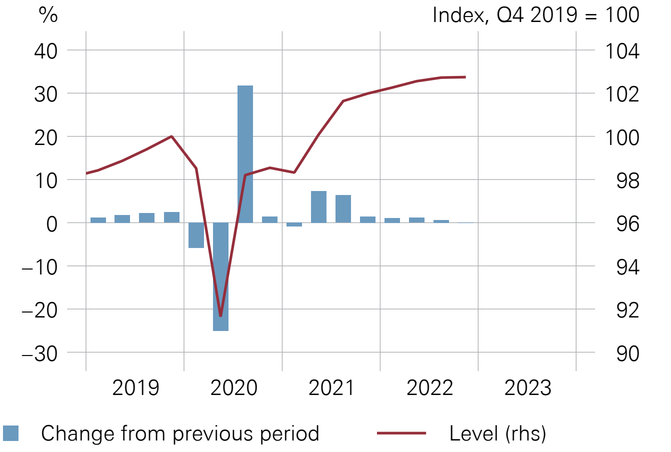
Consumer price inflation decreased to 1.0% in February (cf. chart 2.10), while core inflation remained unchanged at 0.6% (cf. chart 2.11).

The People's Bank of China has left official interest rates unchanged since lowering them in August of last year (cf. chart 2.12). However, it again reduced the minimum reserve ratio for banks in March in order to support economic activity and ensure an appropriate supply of liquidity to the banking system.

Chart 3.1

REAL GDP

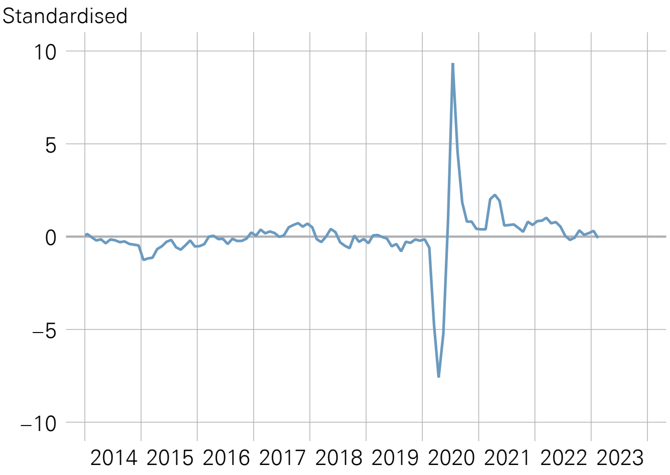
Adjusted for sporting events



Source(s): SECO

Chart 3.2

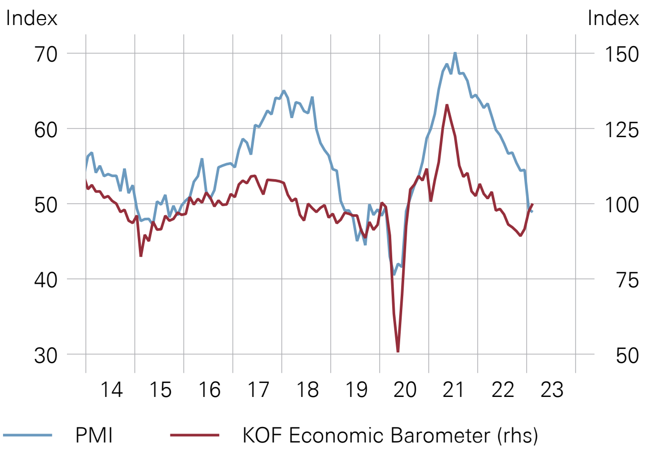
SNB BUSINESS CYCLE INDEX



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

Swiss GDP stagnated in the fourth quarter of 2022.[1] The services sector lost momentum, and value added in manufacturing declined slightly again. For 2022 as a whole, GDP grew by 2.1%. The labour market remained very robust, and overall production capacity has been well utilised.

Despite the slight upturn in economic activity in the first months of 2023, growth is likely to remain modest for the rest of the year. Subdued demand from abroad and the loss of purchasing power due to inflation are having a dampening effect. Overall, GDP is likely to increase by around 1% this year. Unemployment should remain low, and the utilisation of production capacity looks set to decline somewhat.

The forecast for Switzerland, as for the global economy, is subject to high uncertainty. In the short term, the main risks are an economic downturn abroad and adverse effects of the turmoil in the global financial sector.

OUTPUT AND DEMAND

The SNB takes a wide range of information into account when assessing the economic situation. While economic activity appears to have been weak in the fourth quarter, various indicators suggest that momentum picked up again in the first quarter.

GDP stagnates in fourth quarter

According to the initial estimate by the State Secretariat for Economic Affairs (SECO), GDP stagnated in the fourth quarter (0.1%). In line with expectations, economic growth was thus weak (cf. chart 3.1).

1 From Q1 2023 onwards, the GDP figures commented on in the press release and Quarterly Bulletin will be adjusted for sporting events (cf. Glossary).

While value added increased in the pharmaceutical industry, it declined again in the other industries as a result of the slowdown in the global economy. In addition, the services sector lost considerable momentum.

There was also little growth on the demand side, with just equipment investment registering a strong increase. Private consumption saw only moderate growth, while exports and imports declined (cf. table 3.1).

With the fourth-quarter estimate released, initial provisional annual figures for 2022 are available. After the strong recovery in the previous year, GDP growth returned to normal in 2022, at 2.1%. Growth was mainly supported by private consumption, which saw robust expansion following the lifting of coronavirus containment measures. Consumer-related industries such as hospitality benefited particularly from this.

Economic recovery in first quarter of 2023

Many economic indicators suggest that the economy developed more positively in the first quarter than in the preceding quarters.

The SNB's Business Cycle Index and the KOF Economic Barometer aim to depict overall economic momentum. Both indicators point to average economic growth for the first quarter (cf. charts 3.2 and 3.3).

Signals from the purchasing managers' index (PMI) surveys are mixed. In manufacturing, the PMI was slightly below the growth threshold at the beginning of the year (cf. chart 3.3), while in services, survey results indicated sound growth in January and February.

The talks held by the SNB's delegates for regional economic relations with companies also suggest that economic growth will be more positive in the first quarter than in the previous quarters. Although procurement problems and the risk of an energy shortage have diminished considerably, recruitment difficulties continue to be a cause for concern among companies (cf. 'Business cycle signals', pp. 28 et seq.).

Table 3.1

REAL GDP AND COMPONENTS

Growth rates on previous period in percent, seasonally adjusted, annualised

	2019	2020	2021	2022	2021				2022			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Private consumption	1.2	−4.2	1.7	4.0	−13.7	16.5	9.6	1.1	1.4	5.3	2.5	1.1
Government consumption	0.8	3.5	3.5	−0.5	5.8	2.1	2.9	1.0	−4.1	−1.4	0.9	1.2
Investment in fixed assets	0.9	−3.1	4.1	−0.8	0.9	6.6	0.5	10.5	−14.7	2.6	1.4	4.1
Construction	−0.9	−1.0	−3.0	−4.3	−5.5	−3.3	−1.6	−4.5	−4.6	−4.3	−7.6	−1.8
Equipment	1.8	−4.2	8.1	1.1	4.5	12.0	1.5	18.6	−19.1	6.2	6.0	7.0
Domestic final demand	1.1	−2.9	2.7	2.0	−7.0	11.4	5.9	3.8	−4.4	3.6	2.0	2.0
Change in inventories [1]	0.7	−0.1	−1.9	0.5	2.9	−4.3	−9.5	0.8	−2.0	16.8	−11.9	−1.6
Total exports [2,3]	2.0	−4.5	9.9	4.1	10.0	9.2	26.7	0.5	11.4	−25.0	30.9	−3.6
Goods [2]	3.5	−1.2	10.7	1.5	13.0	9.4	23.4	−6.2	20.6	−39.7	44.7	−6.4
Goods excluding merchanting [2]	4.9	−3.6	12.7	5.1	19.4	9.8	13.3	12.4	5.4	−4.6	5.9	−7.3
Services [3]	−0.8	−11.0	8.0	10.5	3.4	8.9	34.6	17.1	−6.9	22.6	5.5	3.2
Total imports [2,3]	2.9	−5.9	4.3	5.7	7.2	8.2	10.3	6.9	0.2	6.1	14.6	−4.3
Goods [2]	2.8	−6.3	4.3	8.0	3.8	0.1	14.1	3.6	21.1	−0.5	8.9	−5.7
Services [3]	3.0	−5.3	4.3	2.4	12.6	20.9	5.1	11.8	−24.8	17.4	23.7	−2.2
Net exports [3,4]	−0.2	0.2	3.4	−0.3	2.2	1.5	10.6	−2.9	6.8	−18.8	10.8	−0.1
GDP [3]	**1.5**	**−2.5**	**3.9**	**2.1**	**−0.9**	**7.3**	**6.4**	**1.4**	**1.1**	**1.2**	**0.7**	**0.1**

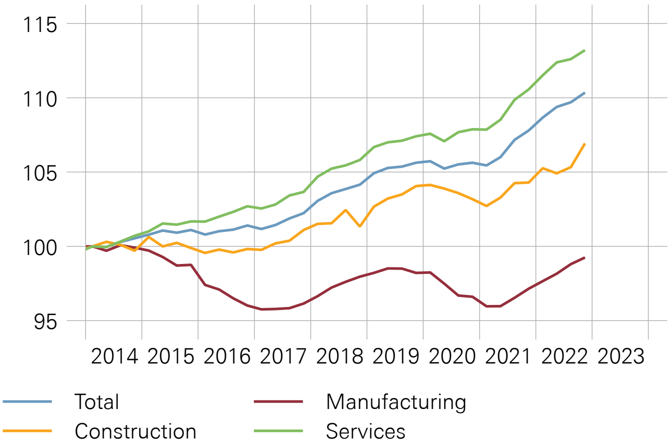
1 Contribution to growth in percentage points (including statistical discrepancy).
2 Excluding valuables (non-monetary gold and other precious metals, precious stones and gems as well as works of art and antiques).
3 Adjusted for sporting events.
4 Contribution to growth in percentage points.

Source(s): SECO

Chart 3.4

FULL-TIME EQUIVALENT JOBS

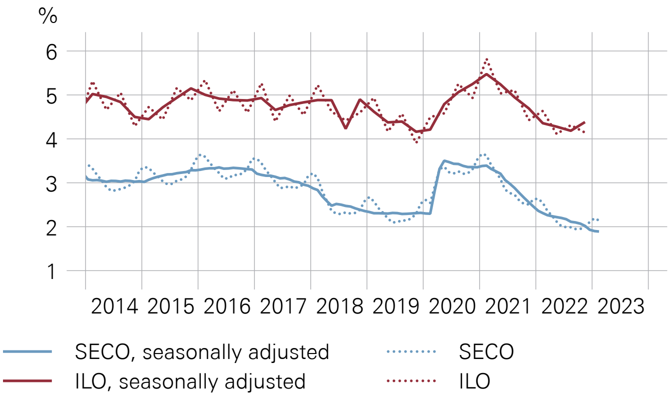
Index, beginning of period = 100



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.

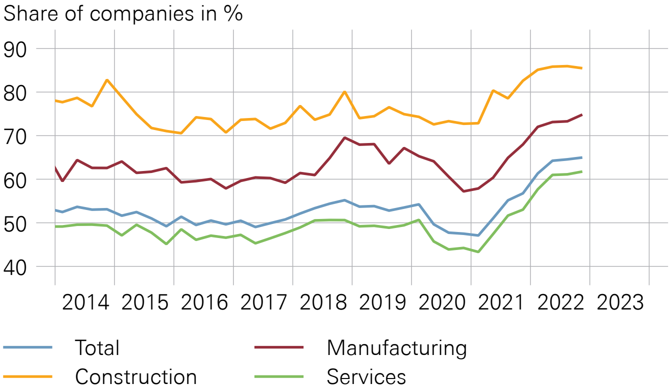
Source(s): SECO, SFSO

Chart 3.6

RECRUITMENT DIFFICULTIES

Qualified workers

Share of companies in %



Estimate based on the national job statistics (JOBSTAT). Only companies that are actively recruiting are taken into account.

Source(s): SFSO, SNB

LABOUR MARKET

The labour market remained in very robust shape. Employment increased again, while unemployment receded further. Companies continued to have difficulty recruiting personnel.

Employment growth in fourth quarter

According to the national job statistics (JOBSTAT), the seasonally adjusted number of full-time equivalent positions rose further in the fourth quarter. New jobs were created in services as well as in manufacturing and construction (cf. chart 3.4). The Employment Statistics (ES) confirmed the positive trend; the seasonally adjusted number of persons employed also increased.

Further decline in unemployment

In recent months, the unemployment rate published by SECO decreased further. Excluding seasonal fluctuations, 87,000 people were registered as unemployed at the end of February, 6,000 fewer than at the end of November. The seasonally adjusted unemployment rate stood at 1.9% at the end of February and was thus the lowest it had been in twenty years.

In addition, the Swiss Federal Statistical Office (SFSO) calculates unemployment figures in line with the International Labour Organization (ILO) definition, based on data provided by the Swiss Labour Force Survey (SLFS), a household survey conducted quarterly. It includes people who are unemployed (although looking for work) but not registered, or no longer registered, with the regional employment offices. The SFSO unemployment rate calculated in accordance with the ILO definition is therefore higher than the one published by SECO. It increased in the fourth quarter for the first time in two years, and, at 4.4% in seasonally adjusted terms, was slightly above its pre-pandemic level (cf. chart 3.5).

Difficulty recruiting personnel

According to JOBSTAT, companies continued to have difficulty recruiting personnel in the fourth quarter. Many vacant positions could not be filled, or only with considerable effort. While the recruitment situation remained virtually unchanged in both services and construction, it deteriorated somewhat in manufacturing (cf. chart 3.6).

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.

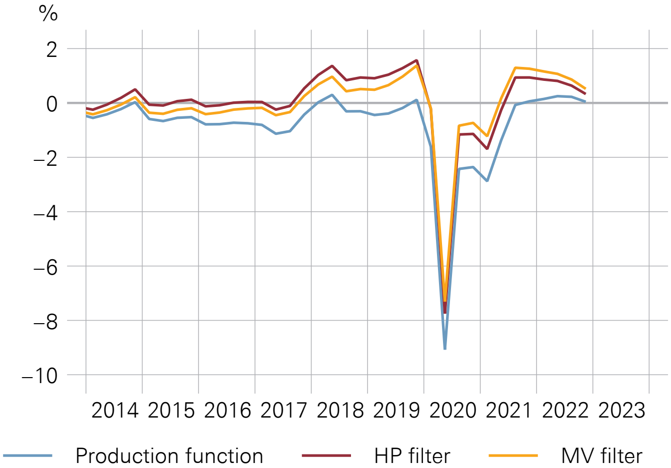
Potential output as estimated by means of a production function shows a closed output gap for the fourth quarter. Other estimation methods indicate a slightly positive gap (cf. chart 3.7).

Well-utilised production capacity
In addition to estimating the aggregate output gap, surveys also play an important role in assessing utilisation levels. The surveys conducted by KOF show that technical capacity was well utilised overall in the fourth quarter. In manufacturing, utilisation was close to its long-term average (cf. chart 3.8). The same applies to services. Utilisation in construction, meanwhile, was high (cf. chart 3.9).

As regards the labour situation, the surveys indicate that staff shortages did not get any worse in the fourth quarter. Nevertheless, staff numbers in most industries were still considered to be low.

Chart 3.7

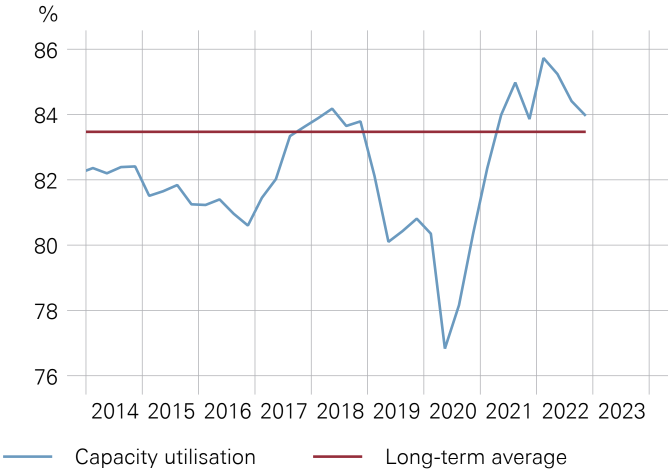
OUTPUT GAP



Source(s): SNB

Chart 3.8

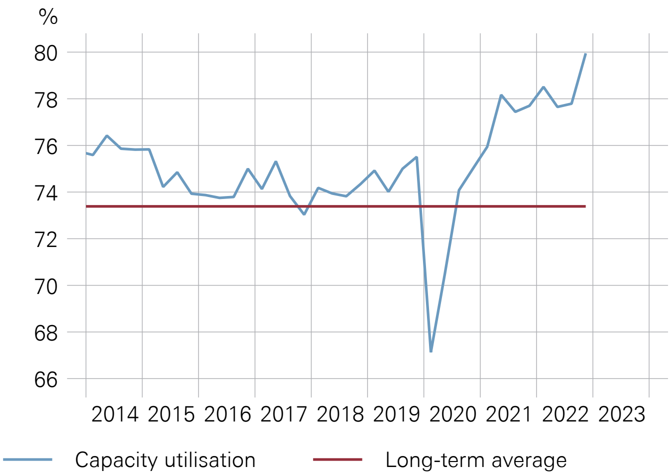
CAPACITY UTILISATION IN MANUFACTURING



Source(s): KOF Swiss Economic Institute

Chart 3.9

CAPACITY UTILISATION IN CONSTRUCTION

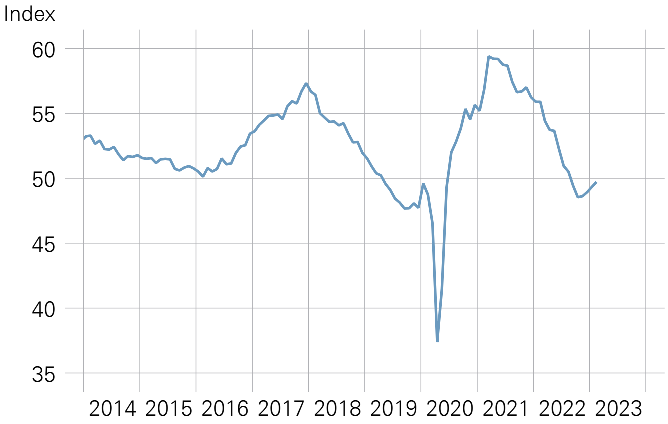


Source(s): KOF Swiss Economic Institute

Chart 3.10

MANUFACTURING PMI ABROAD

Export-weighted, 27 countries

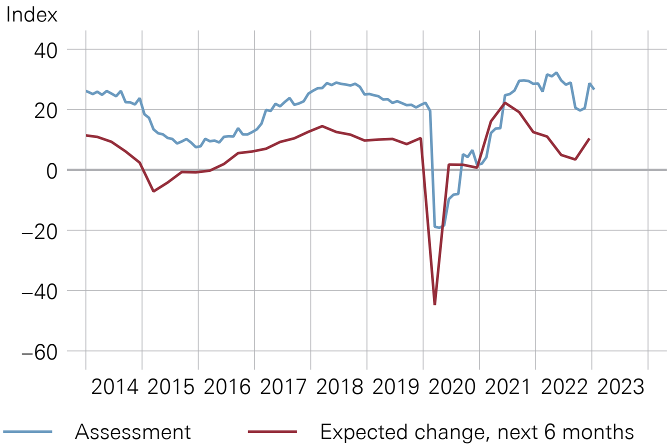


Source(s): International Monetary Fund – Direction of Trade Statistics (IMF – DOTS), Refinitiv Datastream, SNB

Chart 3.11

BUSINESS SITUATION

Average across all KOF surveys

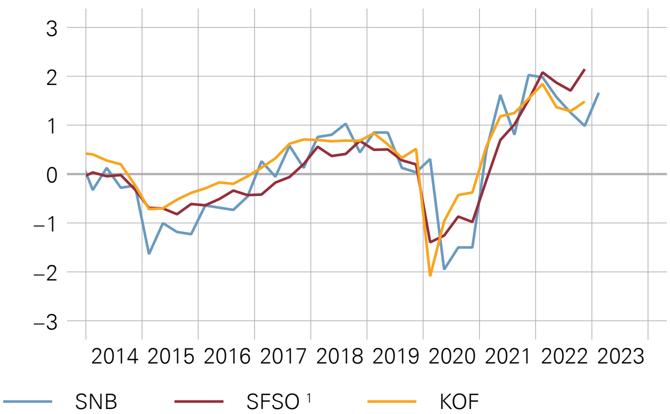


Source(s): KOF Swiss Economic Institute

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 remains muted. As shown by the export-weighted manufacturing PMI, there are signs of weakening from abroad (cf. chart 3.10). Accordingly, manufacturing in Switzerland is likely to remain lacklustre. The outlook in the services sector is somewhat more positive. Overall, expectations among Swiss companies regarding the future business situation have recovered once again (cf. chart 3.11). Conditions on the labour market are likely to remain difficult. The employment outlook remains favourable, despite the fact that survey results recently presented a mixed picture (cf. chart 3.12).

GDP is likely to expand by around 1% this year. The forecast is slightly higher than in December, given that economic growth looks set to be somewhat more positive in the first quarter. The growth outlook for the rest of the year is modest. Foreign demand is unlikely to provide much momentum. In addition, the loss of purchasing power due to inflation will weigh on private consumption. Against this backdrop, the outlook for corporate investment also continues to be subdued. Unemployment is likely to remain low, and the utilisation of production capacity looks set to decline somewhat.

The level of uncertainty associated with the forecast remains high. The main risks are an economic downturn abroad and adverse effects of the turmoil in the global financial sector. Although the risk of an escalation in the energy situation in Europe and a power shortage in Switzerland has abated somewhat in the short term, the situation could deteriorate again over the course of the year.

4

Prices and inflation expectations

The inflation rate as measured by the CPI has risen again since November, returning to the level recorded last summer. It stood at 3.4% in February of this year, thus remaining significantly above the range consistent with price stability, which the SNB equates to a rise in the CPI of less than 2% per year. Both core inflation measures increased, the SFSO1 from 1.9% to 2.4% and the TM15 from 1.9% to 2.3%.

Short-term inflation expectations moved in different directions and remained elevated. Longer-term expectations, by contrast, were virtually unchanged and still within the range consistent with price stability.

CONSUMER PRICES

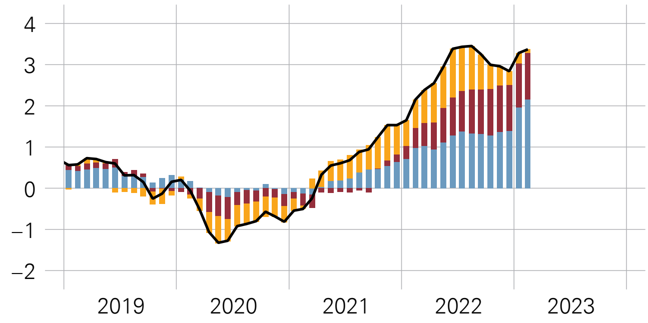
Higher annual inflation rate
Annual CPI inflation stood at 3.4% in February, compared with 3.0% in November (cf. chart 4.1, table 4.1). The renewed rise in annual CPI inflation was primarily attributable to price developments in domestic goods and services, which saw inflation climb from 1.8% in November to 2.9% in February.

Inflation for imported products down further
Inflation for imported goods and services decreased from 6.3% in November to 4.9% in February (cf. table 4.1).

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.

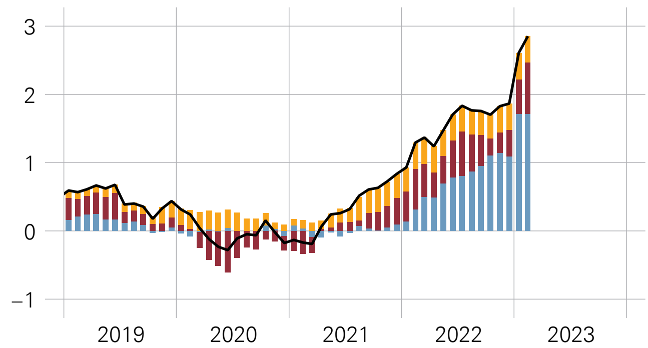


Source(s): SFSO, SNB

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

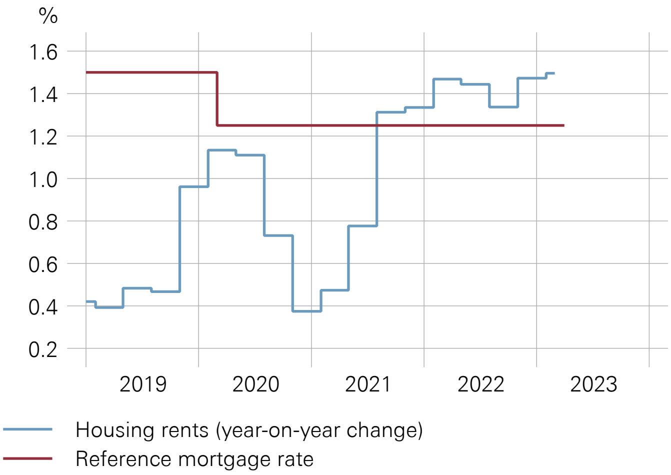
Year-on-year change in percent

	2022	2022 Q1	Q2	Q3	Q4	2022 Nov	Dec	2023 Jan	Feb
Overall CPI	**2.8**	**2.1**	**3.0**	**3.4**	**2.9**	**3.0**	**2.8**	**3.3**	**3.4**
Domestic goods and services	1.6	1.2	1.5	1.8	1.8	1.8	1.9	2.6	2.9
Goods	2.9	1.2	2.5	3.3	4.3	4.4	4.3	7.0	7.1
Services	1.1	1.2	1.1	1.2	0.9	0.9	1.0	1.2	1.5
Private services excluding housing rents	1.1	1.4	1.3	1.3	0.4	0.4	0.7	1.0	1.5
Housing rents	1.4	1.4	1.5	1.4	1.4	1.5	1.5	1.5	1.5
Public services	0.5	0.0	0.0	0.7	1.2	1.2	1.2	1.1	1.3
Imported goods and services	6.7	4.8	7.5	8.3	6.3	6.3	5.8	5.2	4.9
Excluding oil products	3.9	2.1	3.6	4.7	5.0	5.0	4.9	4.7	5.1
Oil products	31.8	28.1	42.5	39.6	18.0	18.1	12.9	9.8	3.4

Source(s): SFSO, SNB

Chart 4.3

HOUSING RENTS

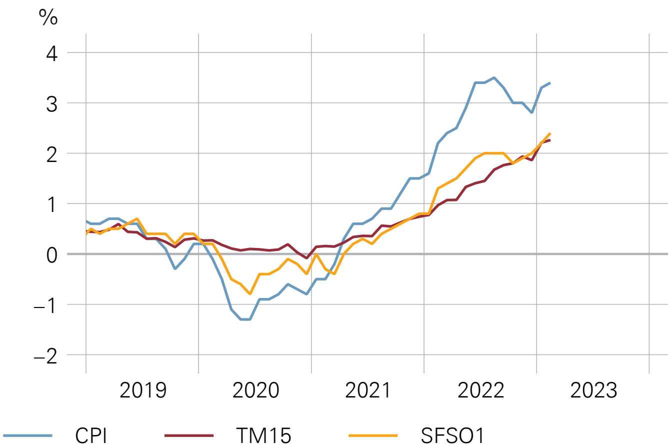


Source(s): Federal Office for Housing (FOH), SFSO

Chart 4.4

CORE INFLATION RATES

Year-on-year change

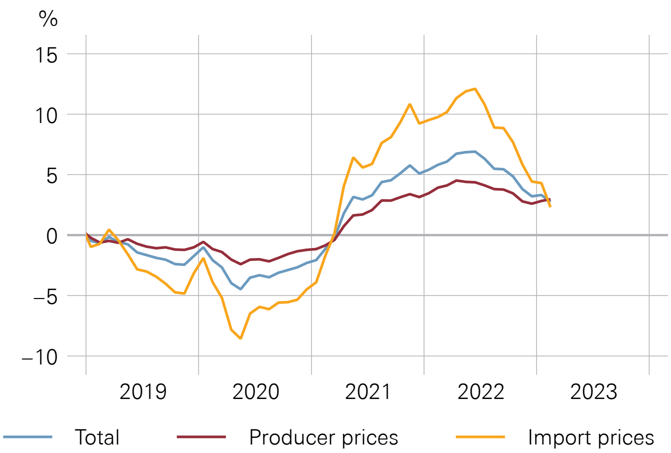


Source(s): SFSO, SNB

Chart 4.5

PRODUCER AND IMPORT PRICES

Year-on-year change



Source(s): SFSO

While inflation for oil products recorded a further marked decline between November and February, inflation for the other imported goods and services rose from 5.0% in November to 5.1% in February.

Higher inflation for domestic products

The considerably higher domestic inflation is due to an increase in inflation for both domestic goods and domestic services (cf. chart 4.2).

Inflation for domestic goods came to 7.1% in February, having stood at 4.4% in November. A key factor behind this rise were the higher average electricity prices for households, applicable from January for the whole of 2023. Inflation for domestic services also increased, from 0.9% in November to 1.5% in February.

Rent inflation unchanged

Housing rent inflation stood at 1.5% in February, unchanged from November (cf. chart 4.3). The reference mortgage rate has remained at 1.25% since the beginning of 2020.

Core inflation up

Core inflation, as measured by the SNB's trimmed mean (TM15), increased from 1.9% in November to 2.3% in February, thus reaching its highest level since 1993. The SFSO core inflation rate 1 (SFSO1), which has been measured since 2000, also reached a new high of 2.4% in February, compared with 1.9% in November (cf. chart 4.4).

PRODUCER AND IMPORT PRICES

Lower inflation for producer and import prices

Inflation for total producer and import prices decreased from 3.8% in November to 2.7% in February (cf. chart 4.5). While import prices saw a significant decline in inflation, producer prices recorded a slight increase. In February, inflation for producer prices was 3.0%, thus exceeding the level for import prices – which stood at 2.3% – for the first time since the beginning of 2021. In the case of producer prices, the inflation contribution made by oil products fell, while the contribution from chemical and pharmaceutical products rose. The decrease in inflation for import prices was primarily driven by the substantial drop in prices for oil products and gas. The prices for goods which are not further processed have remained largely unchanged since November.

INFLATION EXPECTATIONS

Short-term inflation expectations remain elevated
While the short-term inflation expectations were declining in the surveys at the beginning of the quarter, the March survey conducted by Consensus Economics recorded a renewed rise.

The index on the expected development of prices over the next twelve months – which is based on the consumer sentiment survey conducted by SECO – fell (cf. chart 4.6). Nevertheless, the survey conducted in January indicated that around three-quarters of households still anticipate a rise in prices in the short term.

Likewise, the index based on the joint monthly financial market survey by Credit Suisse and the CFA Society Switzerland was latterly at a lower level than the previous quarter (cf. chart 4.6). According to the February survey, almost two-thirds of respondents expected inflation to fall in the next six months.

In the talks conducted by the SNB's delegates for regional economic relations, companies expected inflation to fall further in the short term (cf. chart 10 in 'Business cycle signals'). The expected annual inflation rate for the next six to twelve months decreased from 3.1% in the previous quarter to 2.4%.

The banks and economic institutions participating in the monthly survey conducted by Consensus Economics, by contrast, latterly increased their forecast for expected inflation in 2023, putting it at 2.5% in March (cf. chart 4.7). The panel of experts anticipated a fall in inflation to 1.4% for 2024, but had expected 1.2% in February.

Longer-term inflation expectations largely unchanged
Longer-term inflation expectations remained almost unchanged.

For CS CFA financial market survey respondents, average inflation expectations for a time horizon of three to five years increased slightly from 1.7% in September to 1.8% in December (cf. chart 4.8). Company representatives interviewed by the SNB's delegates put inflation for the same time frame at just 1.5%, compared with 1.7% in the previous quarter.

According to the Consensus Economics survey conducted in January, the long-term inflation expectations of participating banks and economic institutions latterly stood at 1.1%, which was marginally lower than in the previous quarter (1.2%).

Survey results on medium and long-term inflation expectations were thus 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

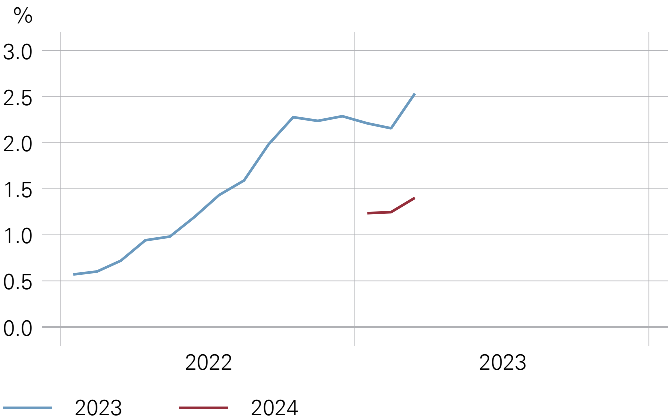
Aggregate responses from SECO survey on consumer sentiment and CS CFA financial market survey

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

Chart 4.7

SHORT-TERM INFLATION EXPECTATIONS FROM CONSENSUS ECONOMICS

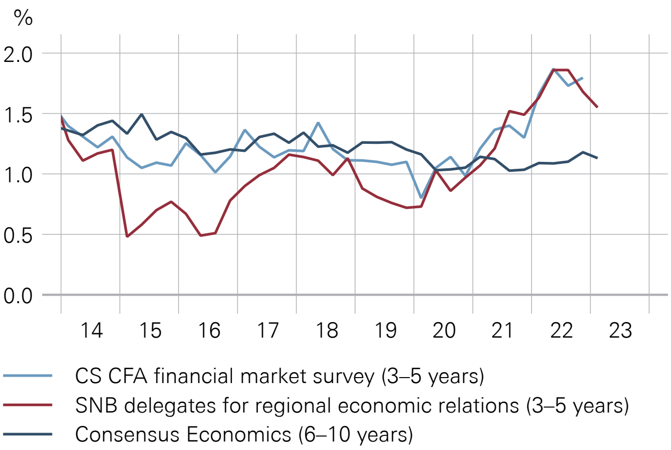
Monthly forecasts for annual inflation



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, persisting global uncertainty about both the course of inflation and the outlook for monetary policy were key factors shaping developments on the financial markets. In March, concerns about the stability of the banking system contributed to additional uncertainty, which abated again somewhat in mid-March owing to the stabilising measures introduced by governments and central banks as well as the takeover of Credit Suisse by UBS.

These developments led to strong fluctuations in both share prices and Confederation bond yields, and also influenced exchange rate dynamics.

In mid-March, the yields on long-term Confederation bonds and prices on the Swiss stock market were somewhat lower than at the time of the December monetary policy assessment, whereas there was little change in the Swiss franc exchange rate against the currencies of major trading partners.

The SNB's liquidity-absorbing measures resulted in a further reduction in the monetary base between November and February. The broad monetary aggregates M1 and M2 contracted, while M3 remained stable. However, growth in bank lending was still robust.

MONETARY POLICY MEASURES SINCE THE ASSESSMENT IN DECEMBER 2022

Monetary policy tightened in December

At its monetary policy assessment of 15 December 2022, the SNB decided to tighten its monetary policy further. In doing so, it was countering increased inflationary pressure and a further spread of inflation. It raised the SNB policy rate by 0.5 percentage points to 1.0%. Furthermore, it confirmed its willingness to be active in the foreign exchange market as necessary so as to provide appropriate monetary conditions.

Remuneration of sight deposits

With the increase in the SNB policy rate, sight deposits up to the threshold have been remunerated since the monetary policy assessment in December at an interest rate of 1.0%. At the same time, in December the SNB also raised the interest rate on sight deposits above the threshold by 0.5 percentage points to 0.5%. A discount of 0.5 percentage points relative to the SNB policy rate thus continued to apply to such sight deposits. Together with the absorption of sight deposits via open market operations, this tiered remuneration of sight deposits ensured that the tighter monetary policy will be passed through efficiently to interest rates in the money market overall.

Absorption of sight deposits via repo transactions and SNB Bills

Since the monetary policy assessment in December 2022, the SNB has continued to absorb sight deposits by way of repo transactions and the issuance of SNB Bills. For this purpose, repo transactions with a term of one week were auctioned daily, while SNB Bills with terms ranging from a week to a year were auctioned on a weekly basis. Furthermore, in the overnight segment, repo transactions were in some cases conducted on a bilateral basis. By absorbing sight deposits, the SNB reduced the liquidity supply in the money market, and thus ensured that the secured short-term money market rates remained close to the SNB policy rate. Since the December monetary policy assessment, outstanding liquidity-absorbing repo transactions have averaged CHF 64.6 billion. In the same period, the average level of outstanding SNB Bills amounted to CHF 99.2 billion.

Reduction in sight deposits at the SNB

After the monetary policy assessment in December, sight deposits held at the SNB initially decreased further before rising again from 16 March 2023 following the liquidity assistance provided to Credit Suisse. In the week ending 17 March 2023 (last calendar week before the assessment of March 2023), they amounted on average to CHF 515.1 billion. This was, however, still lower than in the week ending 9 December 2022, i.e. the last calendar week preceding the December assessment (CHF 542.3 billion). Between these two assessments, they averaged CHF 529.6 billion. Of this amount, CHF 506.3 billion were sight deposits of domestic banks and the remaining CHF 23.3 billion were other sight deposits.

Statutory minimum reserves averaged CHF 23.2 billion between 20 November 2022 and 19 February 2023. Overall, banks still exceeded the minimum reserve requirement by CHF 490.4 billion (previous period: CHF 561.0 billion). Banks' excess reserves thus remained very high.

MONEY AND CAPITAL MARKET INTEREST RATES

SARON close to SNB policy rate
With the increase in the SNB policy rate by 0.5 percentage points to 1.0% at the monetary policy assessment in December, the SNB continued to pursue its course of monetary policy tightening. SARON, the average overnight interest rate on the secured money market, also increased as a result. Having fluctuated for the most part between 0.93% and 0.96% since end-December, it stood somewhat lower at 0.91% in mid-March, latterly supported by fine-tuning operations (cf. chart 5.1).

High volatility in capital market interest rates
In mid-March, the yield on ten-year Confederation bonds stood at just under 1.1%, which was slightly below the level recorded at the December assessment (around 1.2%). Since the last monetary policy assessment, however, yields have fluctuated strongly (cf. chart 5.2). The volatility in Confederation bond yields was largely in line with developments of long-term government bonds in the US and the euro area. It was a reflection of the continued high level of global uncertainty about the course of inflation and the outlook for monetary policy as well as of concerns that arose in March about the turmoil in the global financial sector and the countermeasures introduced by governments and central banks.

Flattening of yield curve
The yield curve for Confederation bonds flattened considerably compared to the last monetary policy assessment (cf. chart 5.3). The slight upwards shift at the short end of the yield curve essentially reflects the fact that financial markets were expecting a slightly more pronounced tightening of monetary policy over the short term than at the time of the December assessment. The shift for longer maturities occurred during March when concerns about the banking system were mounting, and partially reflected market expectations of less prolonged monetary policy tightening as well as increased demand for safe investments.

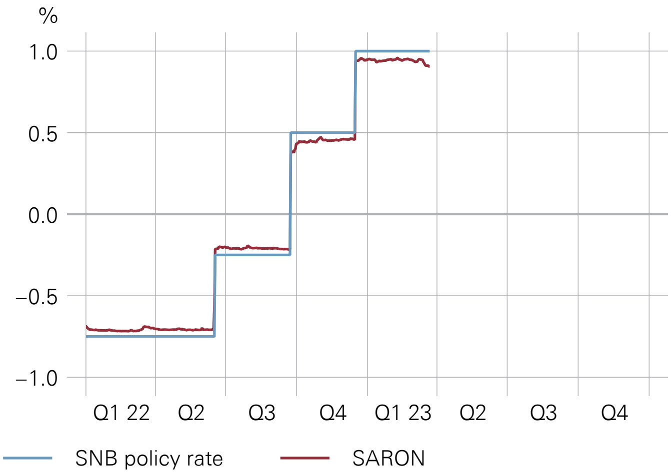
Real interest rates remain historically low
Real interest rates – the difference between nominal interest rates and inflation expectations – are an important factor in the saving and investment decisions of companies and households.

Long-term nominal yields fluctuated substantially over the course of the quarter and in mid-March they stood slightly below the level recorded in mid-December.

As long-term inflation expectations were virtually unchanged (cf. chapter 4), long-term real interest rates remained roughly on par with the previous quarter. By historical standards, the estimated long-term real interest rate was thus still at a low level.

Chart 5.1

SNB POLICY RATE AND SARON



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

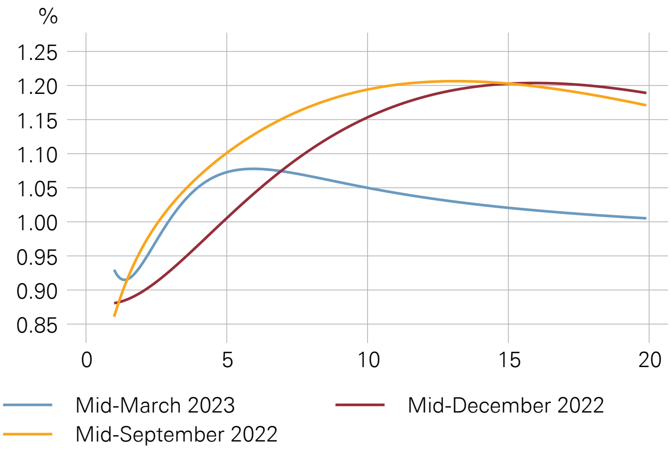
Chart 5.2

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 2022 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

Swiss franc little changed against euro and US dollar

Compared with the last monetary policy assessment in December, the Swiss franc has seen little change against the euro and the US dollar (cf. chart 5.4). Fluctuations in both exchange rates since the December assessment are largely a reflection of changing expectations regarding the monetary policy stances in Switzerland, Europe and the US. Accordingly, the exchange rates of the euro and US dollar in Swiss francs moved roughly in parallel with the interest rate differential between these currencies and the franc, with increases in the interest rate differential being accompanied in each case by a depreciation of the Swiss franc. In March, the emerging turmoil in the global financial sector resulted in exchange rate fluctuations.

After the last monetary policy assessment, the Swiss franc initially trended sideways against the euro. It depreciated slightly in January, so that one euro was briefly worth somewhat more than a franc. Having strengthened marginally at the beginning of February, the franc again weakened somewhat at the end of the month. It then appreciated initially in the wake of the US banking sector problems, before losing value again as the Credit Suisse difficulties shifted into the focus of the market participants. In mid-March one euro was worth around CHF 0.99.

Following a slight appreciation against the US dollar in January, the Swiss franc weakened again somewhat in February. During March, it followed a similar pattern against the US dollar as against the euro, and stood at CHF 0.92 to the dollar in mid-March.

Trade-weighted Swiss franc exchange rate essentially unchanged

For much of the previous quarter, the nominal trade-weighted Swiss franc exchange rate saw little change. Owing to the turbulence in the banking sector, the franc initially appreciated in March against the currencies of most of its trading partners before losing in value again. In mid-March, its trade-weighted exchange rate was at roughly the same level as at the time of the December assessment (cf. chart 5.5).

Real Swiss franc exchange rate relatively stable

At the beginning of 2023, the Swiss franc was, in real terms, back at a level similar to before the outbreak of the coronavirus pandemic in early 2020. This reflects the fact that the significantly higher levels of inflation abroad compared to Switzerland since the beginning of 2020 were roughly offset by the franc's nominal appreciation in the same period (cf. chart 5.6).

SHARE AND REAL ESTATE PRICES

Lower share prices
Having initially fallen after the last monetary policy assessment, share prices rose markedly again in January 2023. They then tracked sideways in February, before declining once more over the course of March (cf. chart 5.7). This dynamic is a reflection of the fact that expectations about global monetary policy remained a key driver on stock markets and that market participants revised these expectations over recent months. In March, concerns about the stability of the banking system also affected the global stock markets. In mid-March, the Swiss Market Index (SMI) was approximately 3% below the level at the time of the monetary policy assessment in December.

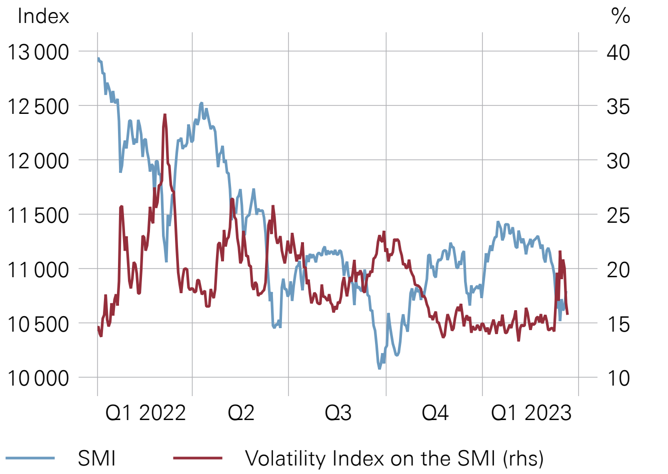
Surge in stock market volatility in March
The volatility index derived from options on SMI futures contracts is an indicator of how investors gauge uncertainty on the stock market (cf. chart 5.7). Having shown little change between the monetary policy assessment in December and the beginning of March, the index subsequently rose sharply amid the growing concerns about the stability of the banking system. Following the takeover of Credit Suisse by UBS, the volatility index declined again and in mid-March was close to the level at the time of the monetary policy assessment in December.

Temporary price recovery in cyclical sectors of Swiss stock market
Chart 5.8 shows the movements of important sector indices in the broad-based Swiss Performance Index (SPI). Since the monetary policy assessment in December and through January, shares in cyclical sectors such as consumer goods, financials and industrials had gained considerably in value on the back of robust economic data, with share prices of financials returning to the levels recorded at the beginning of 2022. Since February, however, share prices in the major sectors of the Swiss stock market have stagnated or fallen once again. As a result of the concerns regarding the stability of the global financial sector in March, shares of financials, in particular, lost considerable value.

Momentum weaker in residential real estate prices
Transaction prices for privately owned apartments and single-family houses increased further in the fourth quarter of 2022, although the rise was less pronounced than in the previous quarter (cf. chart 5.9). The apartment buildings segment – which includes residential investment property of private and institutional investors – also saw prices rise relatively little compared to the previous quarter, after they had even fallen in the second quarter of 2022.

Chart 5.7

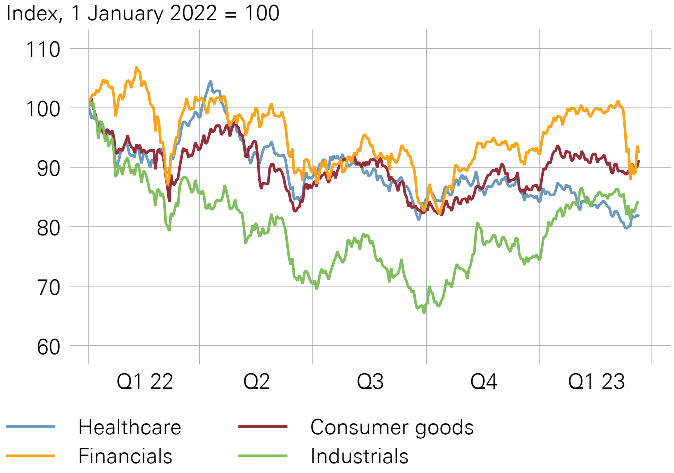
SHARE PRICES AND VOLATILITY



Source(s): SIX Swiss Exchange Ltd

Chart 5.8

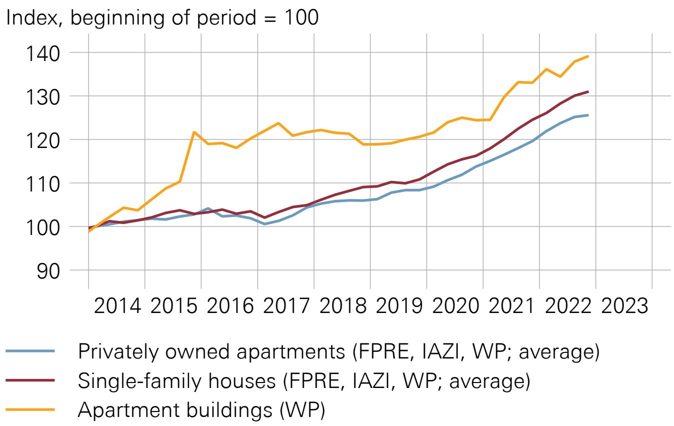
SELECTED SPI SECTORS



Source(s): SIX Swiss Exchange Ltd

Chart 5.9

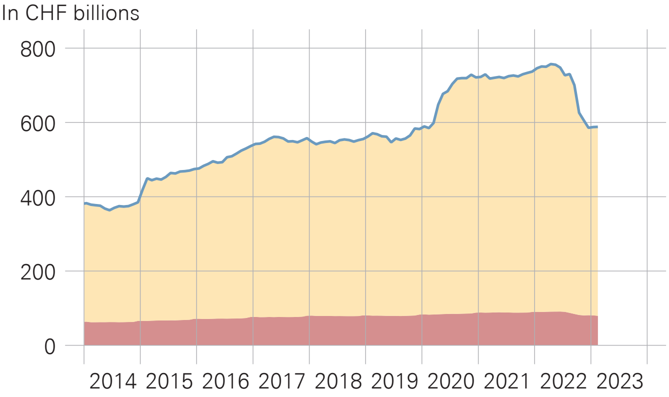
TRANSACTION PRICES FOR RESIDENTIAL REAL ESTATE
Nominal (hedonic)



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

Chart 5.10

MONETARY BASE

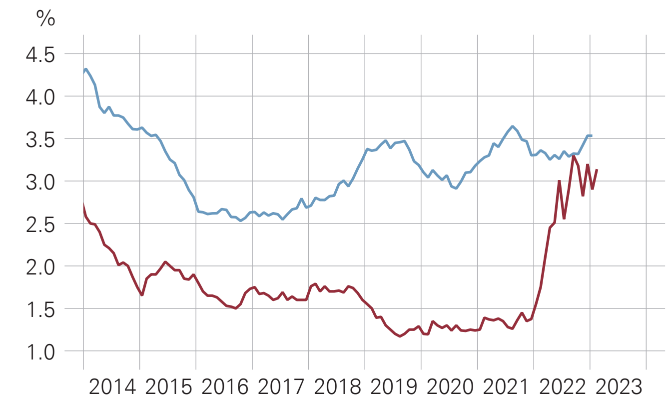


Monetary base
Banknotes in circulation
Sight deposits

Source(s): SNB

Chart 5.11

MORTGAGE CLAIMS AND INTEREST RATES

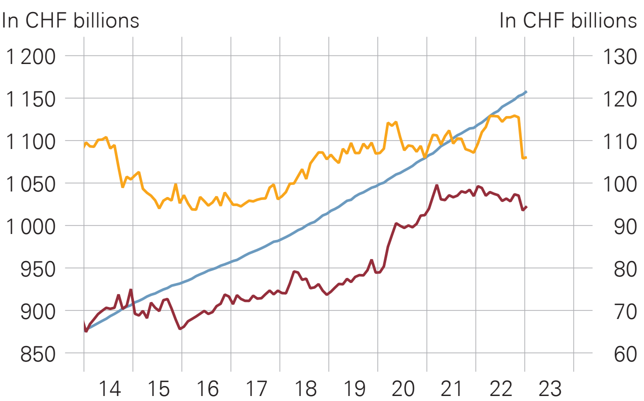


Mortgage claims (year-on-year change)
10-year mortgage rate

Source(s): SNB

Chart 5.12

MORTGAGE CLAIMS AND OTHER LOANS



Mortgage claims
Other loans, secured (rhs)
Other loans, unsecured (rhs)

Source(s): SNB

MONETARY AND CREDIT AGGREGATES

Monetary base continued decline until February

With the transition to the positive SNB policy rate, the monetary base decreased significantly as a result of the liquidity-absorbing operations required. This decline continued at a slower pace from November to February, with the sale of foreign currency in Q4 2022 being a contributing factor. In February, the monetary base averaged CHF 588.1 billion (cf. chart 5.10), and was thus down on November by around CHF 17.5 billion. The substantial liquidity assistance provided by the SNB in March to safeguard financial stability was absorbed by fine-tuning operations in order to continue keeping SARON close to the SNB policy rate.

Weak growth in broad monetary aggregates

In February, the M1 aggregate (currency in circulation, as well as sight deposits and transaction accounts of resident bank customers) fell by 6.7% year-on-year. Meanwhile, M2 (M1 plus savings deposits) contracted in February by 5.5% compared to the previous year, whereas M3 (M2 plus time deposits) was roughly at its year-back level (cf. table 5.1). The largely negative growth rates are primarily due to the fact that higher capital market interest rates reduce the incentive to hold bank deposits at relatively low rates of interest.

Lending growth unchanged

Bank lending by domestic bank offices in all currencies was up 3.1% year-on-year in the fourth quarter of 2022. The growth rate thus remained unchanged compared with the third quarter (cf. table 5.1). 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 2022 (cf. chart 5.11). Growth in mortgage claims picked up slightly due to mortgage lending to private companies. By contrast, growth in lending to households declined slightly in recent months (cf. table 5.1). The annual growth rate of these loans went down from 3.1% in Q1 2022 to 2.9% in Q4 2022. In January 2023 it stood at only 2.7%.

In line with interest rate movements in the capital market, interest rates for fixed-rate mortgages also rose in recent months (cf. chart 5.11). The ten-year mortgage interest rate climbed from 1.4% in December 2021 to around 3.0% in the second half of last year, thus reaching its highest level in eleven years. Money market mortgage rates have also risen slightly since the end of September 2022, after the SNB raised its policy rate above zero.

From a long-term perspective, mortgage rates remain relatively low, despite the increase in recent months. So far, demand for mortgage loans does not appear to have been affected by the higher interest rates. However, there has been increased demand for mortgage loans with relatively short maturities.

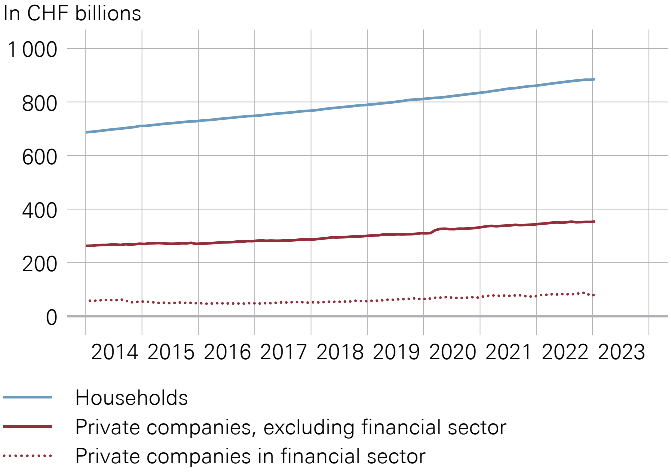
Other loans are considerably more volatile than mortgage loans (cf. chart 5.12). The volume of secured other loans has declined slightly since the beginning of 2022, which is attributable to the first repayments of COVID-19 loans in the amount of roughly CHF 8 billion. The volume of unsecured other loans fell substantially towards the end of 2022, having increased at the start of the year. These strong fluctuations primarily reflect developments in other loans to financial companies.

Lending growth by sector

Bank loans to households as well as to financial and non-financial companies continued to grow on an annual basis (cf. chart 5.13). At the end of January 2023, loans to households recorded a year-on-year increase of CHF 22.8 billion (2.6%) and loans to non-financial companies a rise of CHF 8.9 billion (2.6%). Loans to financial companies rose in the same period by CHF 0.9 billion (1.2%).

Chart 5.13

LOANS TO HOUSEHOLDS AND COMPANIES



Source(s): SNB

Table 5.1

MONETARY AGGREGATES AND BANK LOANS

Year-on-year change in percent

	2022	2022 Q1	Q2	Q3	Q4	2022 Dec	2023 Jan	Feb
M1	**2.2**	**4.1**	**3.3**	**2.1**	**−0.7**	**−2.4**	**−5.1**	**−6.7**
M2	**−0.3**	**0.9**	**0.2**	**−0.1**	**−2.2**	**−3.2**	**−4.7**	**−5.5**
M3	**0.2**	**0.9**	**0.0**	**−0.2**	**0.2**	**0.1**	**−0.1**	**0.1**
Bank loans, total [1,3]	**3.1**	**3.0**	**3.2**	**3.1**	**3.1**	**2.6**	**2.4**	
Mortgage claims [1,3]	3.3	3.3	3.3	3.3	3.4	3.5	3.5	
Households [2,3]	3.0	3.1	3.1	3.0	2.9	2.8	2.7	
Private companies [2,3]	4.2	4.0	3.9	4.1	4.9	5.6	5.7	
Other loans [1,3]	1.9	1.3	2.9	1.8	1.5	−2.3	−3.8	
Secured [1,3]	−0.1	1.6	1.1	−1.3	−1.8	−3.5	−4.8	
Unsecured [1,3]	3.6	0.9	4.4	4.6	4.4	−1.3	−3.0	

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

Source(s): SNB

Business cycle signals

Results of the SNB company talks

First quarter of 2023

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

The appraisals presented here are based on discussions between the SNB's delegates for regional economic relations and members of management at companies throughout Switzerland. In its evaluation, the SNB aggregates and interprets the information received. A total of 221 company talks were conducted between 17 January and 7 March. The announcement of the takeover of Credit Suisse by UBS on 19 March was thus not during the reporting period.

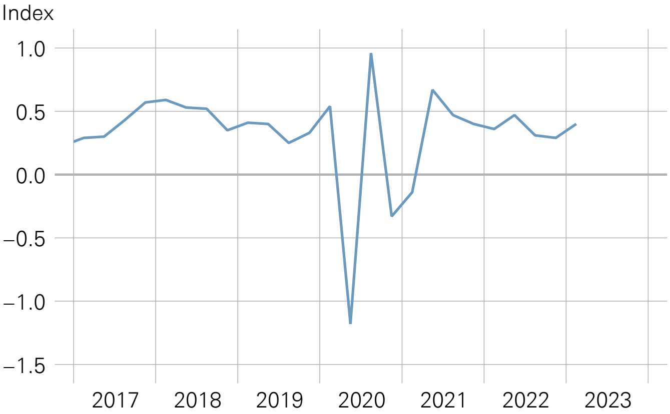
Regions	Delegates
Central Switzerland	Astrid Frey
Eastern Switzerland	Urs Schönholzer
Fribourg/Vaud/Valais	Aline Chabloz
Geneva/Jura/Neuchâtel	Jean-Marc Falter
Italian-speaking Switzerland	Fabio Bossi
Mittelland	Roland Scheurer
Northwestern Switzerland	Daniel Hanimann
Zurich	Marco Huwiler

Key points

- Turnover growth in the first quarter of 2023 was robust overall. While the services sector is displaying somewhat stronger momentum, turnover growth in manufacturing continues to weaken.
- Companies are more confident than in the previous quarter and expect turnover to increase significantly in the coming quarters. The reasons they cite for their growing confidence are reduced concerns about the energy situation, the solid development in new orders, especially in domestic business, and a less pessimistic outlook for the global economy. The crisis surrounding Credit Suisse was not yet to the fore at the time of the talks.
- Recruitment difficulties remain a big challenge for many companies. The tight labour market and the increased rate of inflation are leading to higher wage growth in 2023.
- The supply chain situation continues to ease gradually. While delivery times and prices remain elevated for many goods, in only a few cases are these factors now curbing production.
- Companies expect to see a slowing down in the hitherto strong increases in purchase and sales prices. The expected slowing in growth is somewhat less pronounced for sales prices than for purchase prices, owing mainly to attempts to cushion the existing pressure on margins resulting from past cost developments.

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

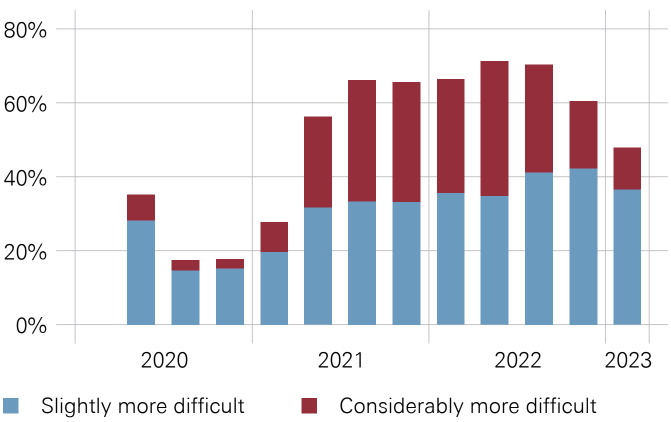
CAPACITY UTILISATION

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

Chart 3

PROCUREMENT SITUATION



Share of companies facing a more difficult procurement situation as compared to a normal situation.

Source(s): SNB

CURRENT SITUATION

Sustained growth in turnover

Real turnover growth, in other words turnover growth adjusted for price changes, increased slightly in the first quarter (cf. chart 1). Especially in the services sector there is somewhat stronger momentum. Growth in construction also remains solid. In manufacturing, by contrast, growth continues to weaken. Manufacturing companies are observing weaker momentum in foreign demand, especially from Europe. Companies often mention that in Germany in particular, declining purchasing power is curbing demand. At the same time, orders from the US and from emerging economies such as those in Latin America and the Middle East remain robust. While the improved procurement situation is also providing support to the manufacturing sector, staff shortages are restricting growth in some cases.

Production capacity and infrastructure utilisation close to normal

Utilisation of companies' technical production capacity and infrastructure has deteriorated slightly, although overall it remains at close to normal levels (cf. chart 2). However, technical capacity in export-oriented manufacturing industries, which are particularly hard hit by the global economic slowdown, is in part underutilised.

Further easing regarding procurement

The procurement situation continues to ease. While around half of companies say they are still having to contend with a difficult procurement situation (cf. chart 3), the proportion reporting considerable supply problems has declined from around one-third in the summer of 2022 to a little over 10%. There are hardly any supply problems any more for raw materials such as steel and timber. The supply situation for high-quality metals, packaging materials and electronic components, by contrast, is still problematic. Many companies have increased their inventories of procured materials to make their production less vulnerable to supply bottlenecks.

Recruitment situation remains tight

The staffing situation is giving many companies cause for concern, with almost half of company representatives describing their staffing levels as too tight. Recruitment difficulties remain pronounced (cf. chart 4) and often hinder a stronger expansion in staffing levels. When it comes to specialists in technical professions, such as engineers, but also specialised manufacturing staff, the shortages have even worsened somewhat recently. This means that manufacturing is particularly hard hit by recruitment difficulties. IT specialists also remain in great demand. Whether the job cuts at international IT companies will lead to an easing in the supply of labour in Switzerland is still difficult to assess at present. Meanwhile, a certain easing can be observed in the recruitment of commercial staff. Recruitment in the construction industry is also somewhat less difficult than in previous quarters.

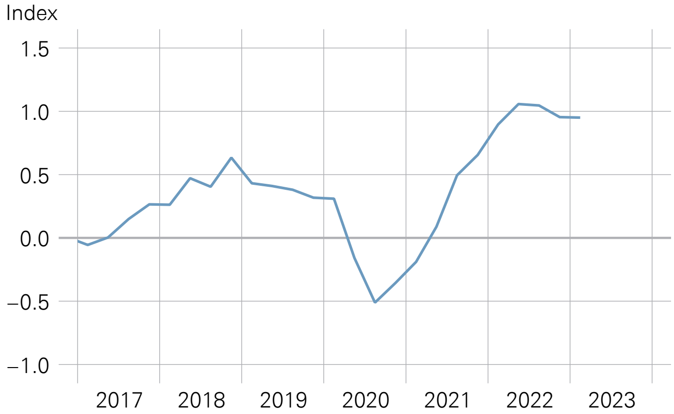
Largely robust profit margins and stable liquidity situation

The margin situation at the majority of companies remains robust (cf. chart 5). However, higher prices for intermediate goods and energy, as well as wage increases, are putting pressure on margins. For this reason, companies are adapting their sales prices to the increased costs. They are also continuing to implement measures to improve efficiency. Some companies say that they intend to use the general increase in prices to improve their margins. Increasingly, however, producers of consumer goods report that dwindling purchasing power is restricting their room to manoeuvre in pricing.

With the development of turnover positive in most cases and the margin situation robust, the liquidity situation also remains comfortable for the vast majority of companies. A few companies report that difficult business development in combination with high investment requirements or the repayment of COVID-19 loans is weighing on their liquidity.

Chart 4

RECRUITMENT DIFFICULTIES

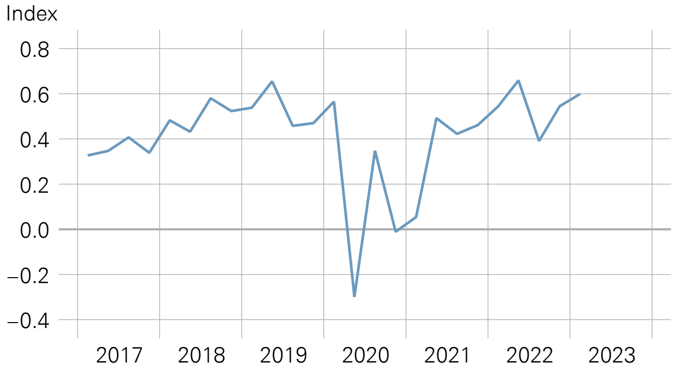


Difficulties in recruiting new staff. Positive (negative) index values signal a worsening (easing).

Source(s): SNB

Chart 5

CHARACTERISATION OF MARGINS



Characterisation of the current margin situation. Negative (positive) index values signal an uncomfortable (comfortable) margin situation.

Source(s): SNB

DEVELOPMENTS IN INDIVIDUAL INDUSTRIES

Little momentum in the trade industry

Volumes in the trade industry are growing modestly overall. Retail companies are noticing a shift in demand from products in higher price segments towards cheaper alternatives. Company representatives suspect that this is due to price increases and lower purchasing power. In addition, the uncertain economic situation is seen as a curbing factor for durable consumer goods. This is also affecting the motor vehicle trade, where prices and leasing rates have been raised significantly recently. Uncertainty about the future development of electricity prices is also leading people to delay decisions to purchase electric vehicles. However, in the wake of an ongoing easing in the supply chain situation a catch-up effect can still be observed, meaning that vehicle sales are still rising quite significantly. Turnover in wholesale and logistics are increasing, albeit to varying degrees depending on the product and sales market. The robust domestic economy, especially construction, is proving to be a support.

Mixed situation in hospitality

Turnover in food services was slightly higher overall than in the previous quarter. In many cases, however, capacity utilisation has not yet returned to pre-pandemic levels. Some establishments have noticed a continued restraint when it comes to company events, and a reduction in business during the day owing to homeworking and the reduced on-site presence of employees.

In the hotel industry, occupancy is increasing significantly thanks to higher numbers of guests from English-speaking countries and the Middle East. While guests from China are still largely absent, tourist regions expect a substantial catch-up effect in the quarters to come. The number of overnight stays by domestic guests remains at a high level. In some cases, however, hotel establishments have noticed that people have become more price-conscious than they were last year. The fact that travelling abroad is now possible again without further complication means that competition is intensifying. In addition, a lack of snow at low altitudes has put pressure on guest numbers in the establishments concerned.

Robust growth in the financial and ICT industries

The financial industry enjoyed sustained growth during the reporting period. This positive development is mainly due to the fact that the interest business is more profitable again. Added to this, solid demand for residential property is underpinning the mortgage market despite higher interest rates. The development of the asset management business has been somewhat subdued. Many clients are acting cautiously in the current environment.

Turnover in the ICT industry has continued to increase strongly. Thanks to digital transformation and the great need for cybersecurity, this industry still has high growth potential.

Development in manufacturing subdued

The development of business in manufacturing is subdued overall. Especially at export-oriented companies, order intake is weakening and companies are working off a solid order backlog. Manufacturers of metal products, electronic devices and chemical products, for example, are seeing momentum slow appreciably. Order volumes from the German automotive industry in particular are subdued. Food producers attribute the muted development in their volumes to a decline in purchasing power in many countries. In the watchmaking industry, too, extremely strong demand has given way to a slight decline. Turnover in the life sciences industry is returning to normal following extraordinary business activity during the pandemic.

Domestically oriented companies, by contrast, are seeing robust growth. The level of new orders for suppliers to the construction industry, for example, remains gratifyingly high. Building renovation and services related to higher energy efficiency continue to be in particularly high demand.

Order situation in the construction industry remains good

Companies in the construction industry are seeing hardly any signs of a slowdown. They point to a persistently high order backlog in infrastructure projects and lively demand in residential construction. A supporting factor is strong demand for energy-efficient renovations. It is still difficult for companies to assess how higher interest rates on the one hand and robust population growth on the other will affect construction activity on balance. The availability of building land and obstacles when it comes to obtaining building permits are also cited as limiting factors.

OUTLOOK

Growing confidence
Companies expect robust turnover growth in the next two quarters and are thus more confident than at the end of last year (cf. chart 6). Their growing confidence is based in most cases on a solid order book. It is evident that domestic demand is developing robustly, a situation that the majority of companies expect to continue in the coming quarters. In addition to this, export-oriented companies' concerns about the development of the global economy have eased somewhat and business is expected to pick up. In particular, demand from China is expected to increase following the lifting of the zero-COVID policy. However, this opening is also likely to be accompanied by growing competition in procurement and sales markets.

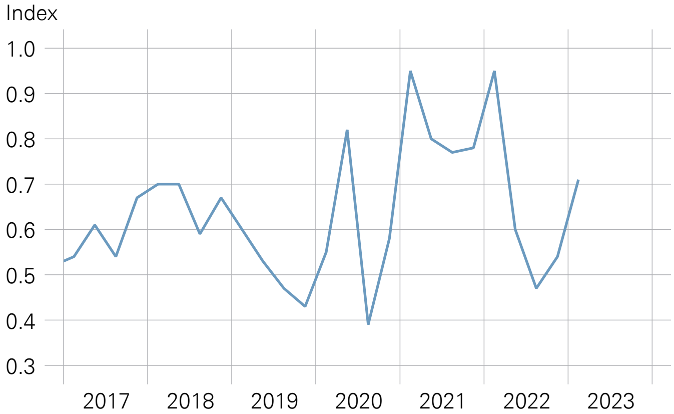
In line with the positive outlook and the strained personnel resources at many companies, there are plans to further expand staff numbers (cf. chart 7). Owing to the tight recruitment situation and higher inflation, companies have decided to increase wages by an average of 2.6% this year. In many cases they are raising lower wages by a higher percentage than high wages in order to specifically counteract the decline in purchasing power. For 2024, they expect wage growth to fall back below 2%. However, companies often point out that the development of their business and inflation measured at the time of wage negotiations will have a significant influence.

Companies expect investment activity to be somewhat higher overall in the coming 12 months than it was last year. They are favouring investment in automation and IT infrastructure as a means of countering shortages of staff. Some companies are stepping up measures to reduce their energy costs. For some time now, for example, there has been a growing trend to install solar panels on the roofs of buildings.

Slowed increase in purchase and sales prices
Thanks to an easing in the supply chain situation and lower wholesale prices for raw materials and energy, companies now expect increases in purchase prices to be significantly lower (cf. chart 8). In many cases representatives of companies in manufacturing and construction even expect purchase prices to fall. This applies in particular to raw materials such as timber and steel. The services sector, by contrast, expects purchase prices to rise further, albeit moderately, citing higher wage and energy costs at suppliers.

Chart 6

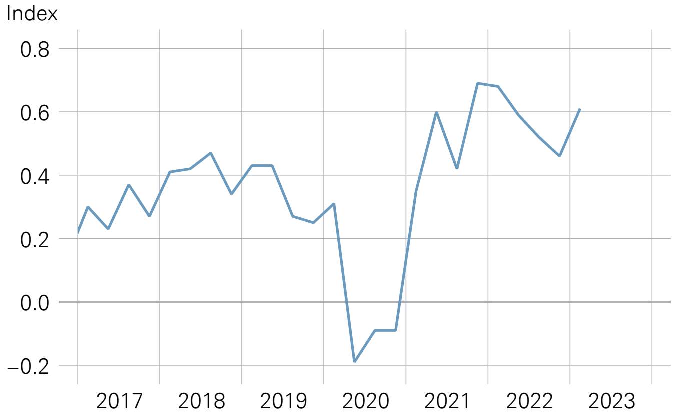
EXPECTED TURNOVER



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

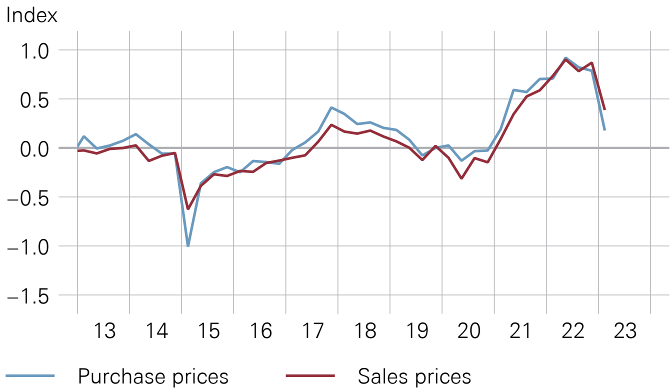
EXPECTED EMPLOYMENT



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

Chart 8

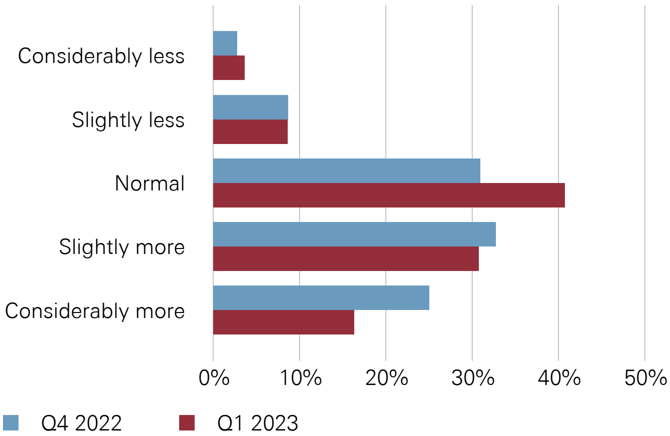
EXPECTED CHANGE IN PURCHASE AND SALES PRICES



Expected price development for the next 12 months. Positive (negative) index values indicate higher (lower) prices are expected.
Source(s): SNB

Chart 9

UNCERTAINTY



Uncertainty about development of business over the next two quarters.

Source(s): SNB

There are also signs of a certain easing in sales price increases. However, the anticipated increases in sales prices are higher than for purchase prices, and remain above the long-term average. Companies say the reason for the planned increases in sales prices is that so far it has not been possible to fully pass on the higher costs and that there is thus a need to catch up. A few companies report that they are planning price increases in order to improve their margins.

Uncertainty decreases

Uncertainty about the future course of business is still seen as high, but not quite as pronounced as last year. There has been an appreciable decline in the proportion of companies that are less able than usual to assess the development of turnover in the next two quarters (cf. chart 9). However, the crisis surrounding Credit Suisse was not yet to the forefront of discussions during the reporting period.

The reduced uncertainty was mainly due to the fact that the risk of immediate electricity shortages has receded into the background and the procurement of intermediate goods is causing fewer difficulties. Added to this, the solid development of orders in the domestic economy in particular is making it easier to plan.

The development of the international economy also tends to be viewed as somewhat less uncertain. However, it remains difficult for companies to assess the impact of high inflation and rising interest rates. Geopolitical imponderables are also still contributing to the uncertainty even though their impact has not worsened any further.

Staff shortages are frequently cited as a risk factor. Some companies doubt that it will be possible to implement the planned increases in staff numbers. The shortage of labour is increasingly seen as more than just a short-term challenge. As society ages, more and more people are going into retirement, and the trend will accelerate further. Companies are therefore trying to make themselves more attractive as employers. They are also stepping up investment in digitalised or automated business processes to mitigate the effects of staff shortages.

The majority of companies see digitalisation as an opportunity, but dealing with cyber risks remains an ongoing challenge. The trend towards sustainability is similar. Many companies are benefiting from the investments they have made and are identifying new areas of business. At the same time, regulations related to sustainability and, above all, changing customer preferences, are forcing companies to adapt their business models.

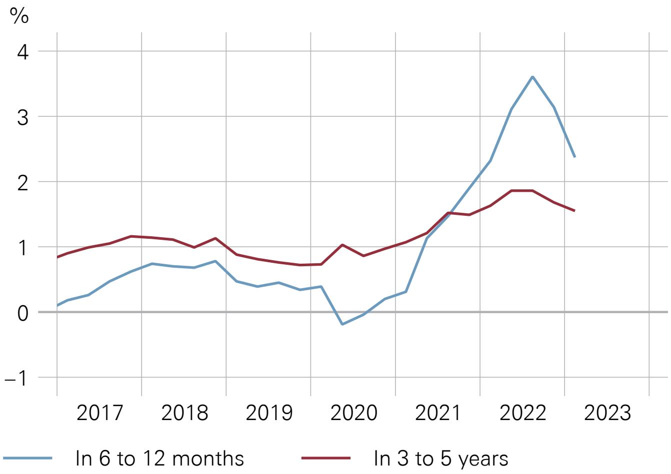
INFLATION EXPECTATIONS

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

There has been a further decline in short-term inflation expectations as measured by the consumer price index: The average for the next 6 to 12 months (cf. chart 10) is 2.4%, compared with 3.1% in the previous quarter. This significant decline can be explained by the fall in energy and raw material prices in recent months. In the medium term, company representatives expect inflation to level off to within the range that the SNB equates with price stability. Their inflation expectations over a three to five-year horizon are 1.5%, a somewhat lower figure than the previous quarter. Company representatives emphasise the important role of the central banks in ensuring price stability in the medium term.

Chart 10

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.

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 2023

At its quarterly assessment of 23 March, the SNB tightens its monetary policy further and raises the SNB policy rate by 0.5 percentage points to 1.5%. In doing so, it is countering the renewed increase in inflationary pressure. To provide appropriate monetary conditions, the SNB also remains willing to be active in the foreign exchange market as necessary. Banks' sight deposits held at the SNB are remunerated at the SNB policy rate up to a certain threshold. Sight deposits above this threshold are remunerated at an interest rate of 1.0%. With this tiered remuneration of sight deposits and open market operations, the SNB is ensuring that the secured short-term money market rates are close to the SNB policy rate.

On 19 March, the SNB announces it will provide substantial liquidity assistance to support the implementation of the takeover of Credit Suisse by UBS. In so doing, the SNB performs its statutory task to contribute to the stability of the financial system. With the takeover of Credit Suisse by UBS, supported by the federal government, the Swiss Financial Market Supervisory Authority (FINMA) and the SNB, a solution has been found to secure financial stability and protect the Swiss economy in an exceptional situation. Previously, on 15 March, the SNB had offered Credit Suisse liquidity assistance if needed.

December 2022

At its quarterly assessment of 15 December, the SNB tightens its monetary policy further and raises the SNB policy rate by 0.5 percentage points to 1.0%. In doing so, it is countering increased inflationary pressure and a further spread of inflation. To provide appropriate monetary conditions, the SNB is also willing to be active in the foreign exchange market as necessary. Banks' sight deposits held at the SNB are remunerated at the SNB policy rate up to a certain threshold. Sight deposits above this threshold are remunerated at an interest rate of 0.5%. With this tiered remuneration of sight deposits and open market operations, the SNB is ensuring that the secured short-term money market rates are close to the SNB policy rate.

September 2022

At its quarterly assessment of 22 September, the SNB tightens its monetary policy further and raises the SNB policy rate by 0.75 percentage points to 0.5%. In doing so, it seeks to counter the rise in inflationary pressure and a broad spread of inflation to goods and services. To ensure appropriate monetary conditions, the SNB is also willing to be active in the foreign exchange market as necessary. Moreover, the SNB adjusts the implementation of its monetary policy to the positive interest rate environment. This ensures that the secured short-term money market rates remain close to the SNB policy rate. Banks' sight deposits held at the SNB are remunerated at the SNB policy rate up to a certain threshold. Sight deposits above this threshold are remunerated at an interest rate of zero percent.

June 2022

At its quarterly assessment of 16 June, the SNB tightens its monetary policy and raises the SNB policy rate by half a percentage point to –0.25%. In doing so, it seeks to counter increased inflationary pressure and prevent inflation from spreading more broadly to goods and services. To ensure appropriate monetary conditions, the SNB is also willing to be active in the foreign exchange market as necessary. With effect from 1 July 2022, the SNB also adjusts the threshold factor used to calculate the level of banks' sight deposits at the SNB exempt from negative interest. The factor will be lowered from 30 to 28. This will ensure that the secured short-term Swiss franc money market rates are close to the SNB policy rate.

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.
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 goods. → 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.
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 → thresholds for the domestic banks.
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 use 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 2000, consists of three elements: the definition of → price stability, the conditional → inflation forecast over the subsequent three years, and the implementation of monetary policy by means of the → SNB policy rate and, if needed, additional measures.
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	Between January 2015 and September 2022, the SNB charged negative interest on sight deposits above a certain → exemption threshold. The negative interest rate corresponded 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 all domestic and foreign goods and services consumed by households. Unlike the → 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. It can provide liquidity or, using a reverse repo, absorb liquidity.
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 Bills	SNB Bills are interest-bearing debt certificates issued by the SNB and denominated in Swiss francs. They were first issued in autumn 2008. The SNB uses this instrument to temporarily absorb → liquidity from the market. The amount of the SNB Bill is withdrawn from the counterparty's sight deposit at the SNB, and the SNB increases the liability item SNB debt certificates. SNB Bills have a maximum term of 12 months. They are eligible as → collateral in → repo transactions with the SNB.
SNB policy rate	The SNB implements its → monetary policy by setting the SNB policy rate. It seeks to keep the secured short-term Swiss franc money market rates close to the SNB policy rate. → SARON is the most representative of these rates.
Sporting-event adjustment	Adjustment for sporting events smooths the data associated with such events symmetrically throughout the year in which the event takes place. This involves the → gross domestic product, the → value added by the entertainment industry, and the import and export of services. Adjusted for sporting events, the data provide a clearer picture of the economic situation as they are no longer affected by the fluctuations caused by major events.
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 consumed by households in Switzerland. The CPI is calculated every month based on a → basket of goods representative of household consumption.
Threshold	If the → SNB policy rate is zero percent or positive, → sight deposits at the SNB up to a certain threshold are subject to interest (or 'remuneration') at the SNB policy rate. Sight deposits above this threshold are remunerated at the SNB policy rate minus a discount. The threshold per sight deposit account holder is at least zero. For domestic banks, the threshold corresponds to the three-year average of the → minimum reserve requirements, multiplied by the applicable threshold factor.
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.

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