

Communications

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Monetary policy assessment of 19 June 2014

Swiss National Bank reaffirms minimum exchange rate

The Swiss National Bank (SNB) is maintaining its minimum exchange rate of CHF 1.20 per euro. The Swiss franc is still high. With a three-month Libor close to zero, the minimum exchange rate continues to be the right tool to avoid an undesirable tightening of monetary conditions in the event of renewed upward pressure on the Swiss franc. The SNB will continue to enforce the minimum exchange rate with the utmost determination. If necessary, it is prepared to purchase foreign currency in unlimited quantities for this purpose, and to take further measures as required. In addition, it is leaving the target range for the three-month Libor unchanged at 0.0–0.25%.

The path of the SNB's conditional inflation forecast of June points to lower inflationary pressure in the medium term. The inflation forecast for the coming quarters is actually slightly higher than in March, given the fact that inflation was somewhat higher in May than expected and the departure point for the forecast has moved upwards as a result. Nevertheless from mid-2015 onwards, inflation will be lower than forecast in the previous quarter. This is due to the modest global economic outlook and unexpectedly low inflation in the euro area. At 0.1%, the inflation forecast for the current year is 0.1 percentage points higher than in March. For 2015 and 2016, the new forecast – of 0.3% for 2015 and 0.9% for 2016 – is 0.1 percentage points lower, in each case, than at the previous monetary policy assessment. As in the previous quarter, the forecast is based on a three-month Libor of 0.0% for the next three years and expects that the Swiss franc will weaken over the forecast horizon. Consequently, there are no signs of any inflation risks in Switzerland in the foreseeable future.

Global economic recovery remains hesitant, and growth was weaker than expected in the first quarter of 2014. The global economy should firm over the coming quarters, but economic developments will remain subdued by historical standards.

As expected, growth in Switzerland picked up somewhat in the first quarter, after having been relatively weak in the previous quarter. Nevertheless, production capacities are still not fully

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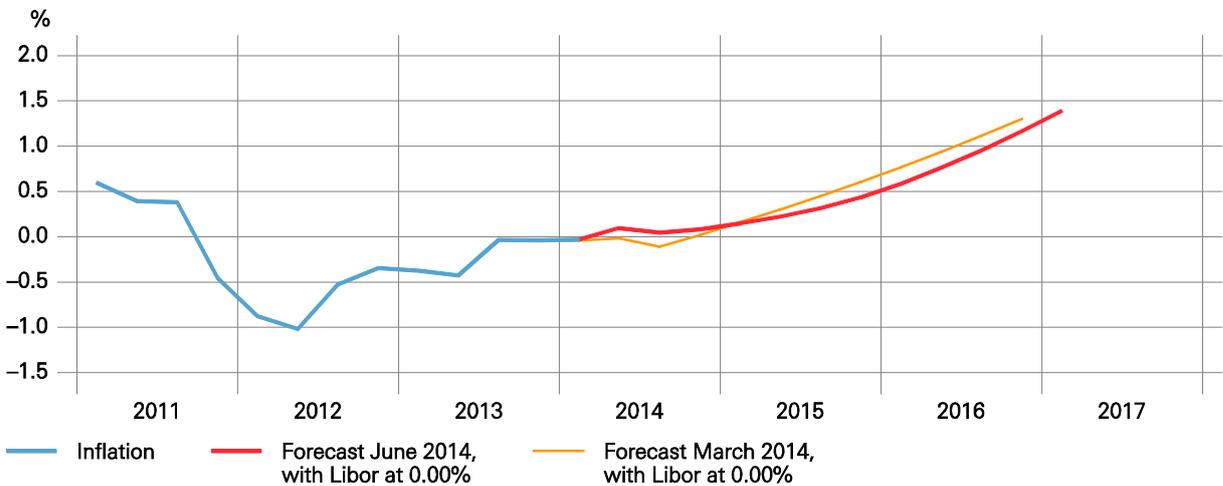
utilised overall. The SNB expects the moderate recovery to continue in the coming quarters. For 2014, it again expects a growth rate of around 2.0%.

Downside risks remain substantial, however. Weaker global economic activity would also be detrimental to economic growth in Switzerland. The current geopolitical conflicts, pressure to consolidate public sector finances in the euro area, and structural problems in different countries might dampen the global recovery more seriously than expected. Since the major currency areas are in different phases of the monetary policy cycle, there is a danger of greater volatility in the financial and foreign exchange markets. Surveys of companies have shown that uncertainty about economic conditions has recently increased at home as well.

Starting 30 June 2014, higher capital requirements for mortgage loans financing residential property in Switzerland will apply as a result of the increased sectoral countercyclical capital buffer (CCB). Despite the slightly weaker momentum on the mortgage and real estate markets, there is no evidence of any sustainable easing. The SNB is monitoring the situation on the mortgage and real estate markets closely, and regularly reassesses the need for an adjustment of the CCB.

CONDITIONAL INFLATION FORECAST OF JUNE 2014

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



OBSERVED INFLATION IN JUNE 2014

	2011				2012				2013				2014				2011	2012	2013
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Inflation	0.6	0.4	0.4	-0.5	-0.9	-1.0	-0.5	-0.3	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.2	-0.7	-0.2

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CONDITIONAL INFLATION FORECAST OF JUNE 2014

	2014				2015				2016				2017				2014	2015	2016
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Forecast March 2014, with Libor at 0.00%	0.0	0.0	-0.1	0.0	0.2	0.3	0.4	0.6	0.8	0.9	1.1	1.3					0.0	0.4	1.0
Forecast June 2014, with Libor at 0.00%		0.1	0.0	0.1	0.1	0.2	0.3	0.4	0.6	0.8	1.0	1.2	1.4				0.1	0.3	0.9