
Exchange Rate Policy

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The SNB and its Watchers
University of Bern, 11 November 2022

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
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Agenda

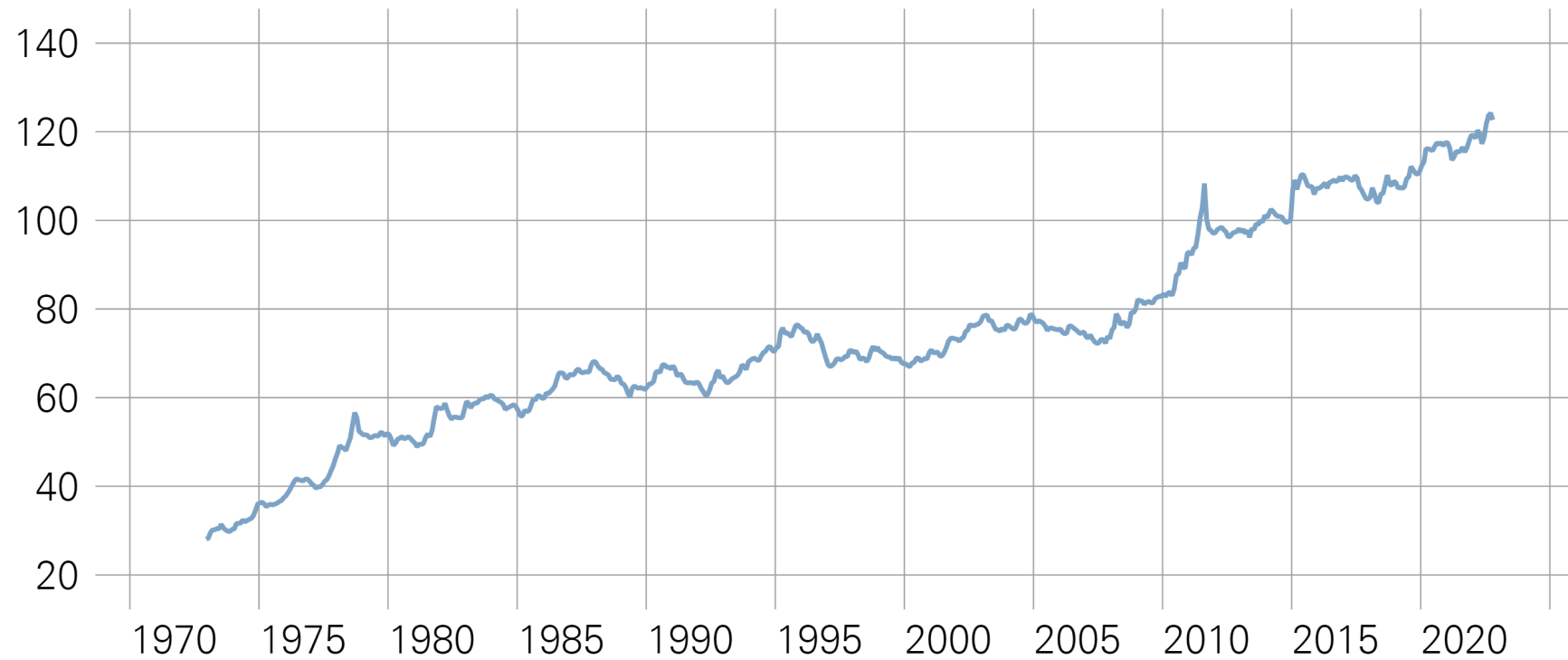
- Flexible exchange rates in Switzerland
- The importance of the Swiss franc for the Swiss economy and inflation
- The role of the exchange rate in Swiss monetary policy
- Summary

Flexible exchange rates in Switzerland

Swiss franc: 50 years of flexible exchange rates

CHF NOMINAL EFFECTIVE EXCHANGE RATE

Index, December 2014 = 100



Source: SNB

Some features of the Swiss economy and the Swiss franc

Switzerland is an open economy:

- Exports to GDP: ~ 60%
- Imports to GDP: ~ 50%
- Imported goods share in CPI basket: ~ 25%

Switzerland has a relevant currency relative to its size:

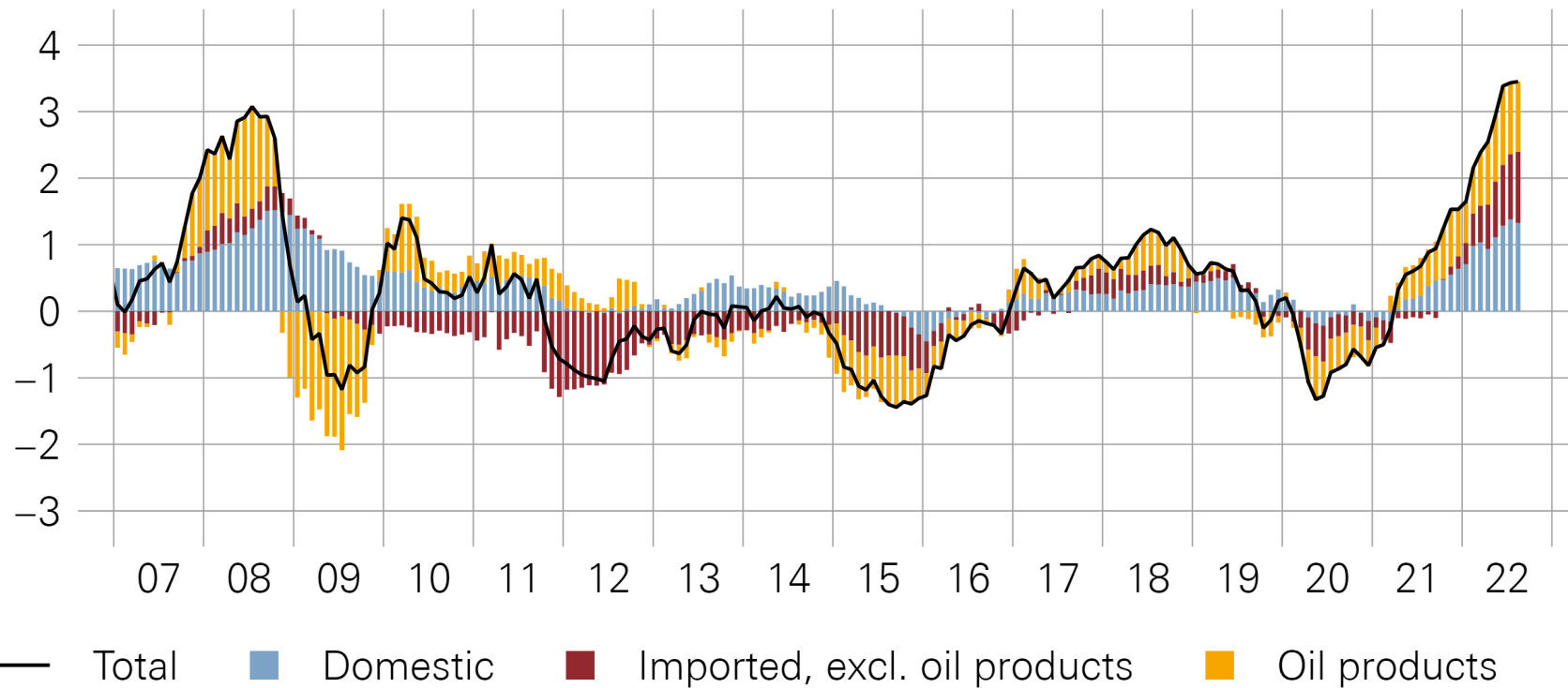
- CHF ranks 8th in global FX turnover
- CHF is a safe haven due to the stability of Swiss institutions

The importance of the Swiss franc for the Swiss economy and inflation

Imported inflation is much more volatile than domestic inflation

CPI: DOMESTIC AND IMPORTED GOODS AND SERVICES

Year-on-year change in CPI in %. Contribution of components in pp.

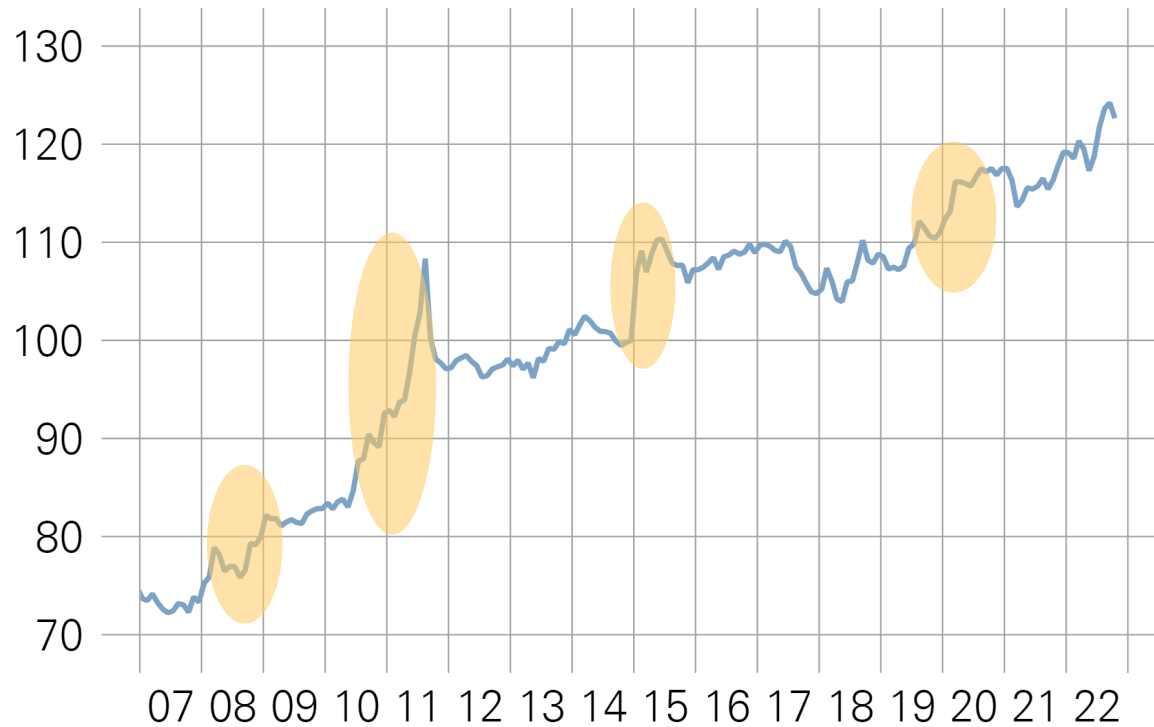


Source(s): SFSO, SNB

Strong appreciations of the Swiss franc resulted in negative inflation

CHF NOMINAL EFFECTIVE EXCHANGE RATE

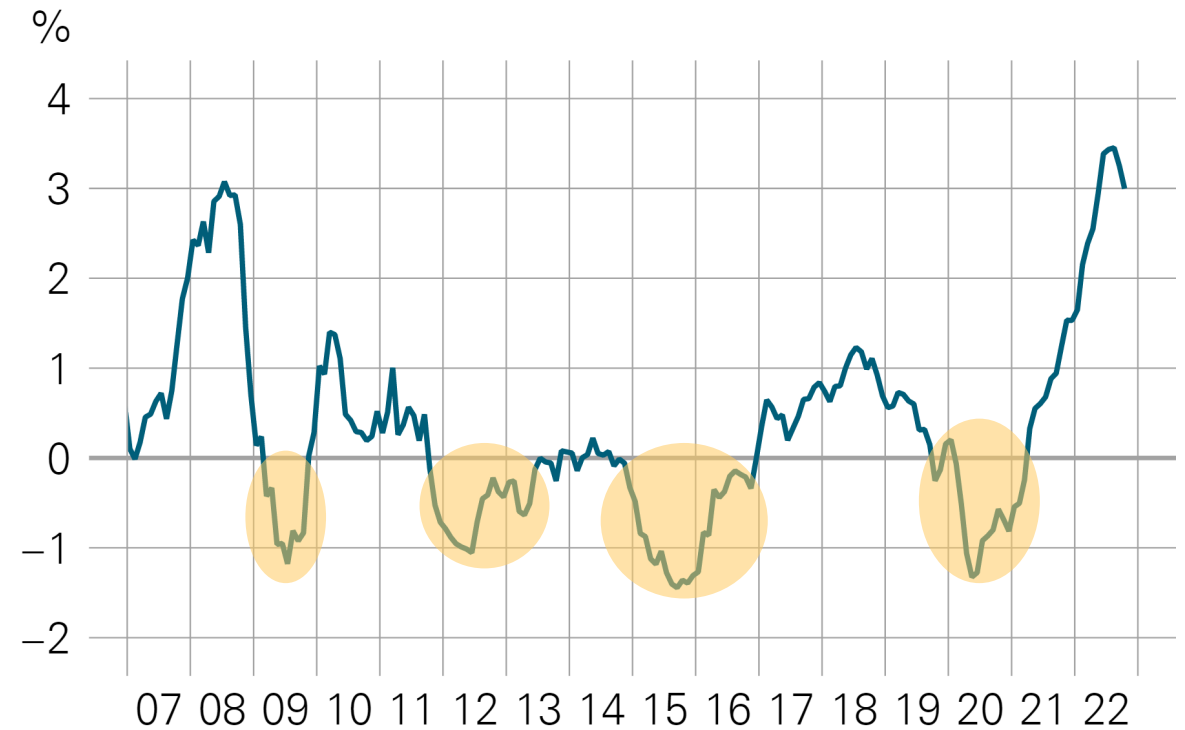
Index, December 2014 = 100



Source: SNB

CPI INFLATION

Year-on-year change

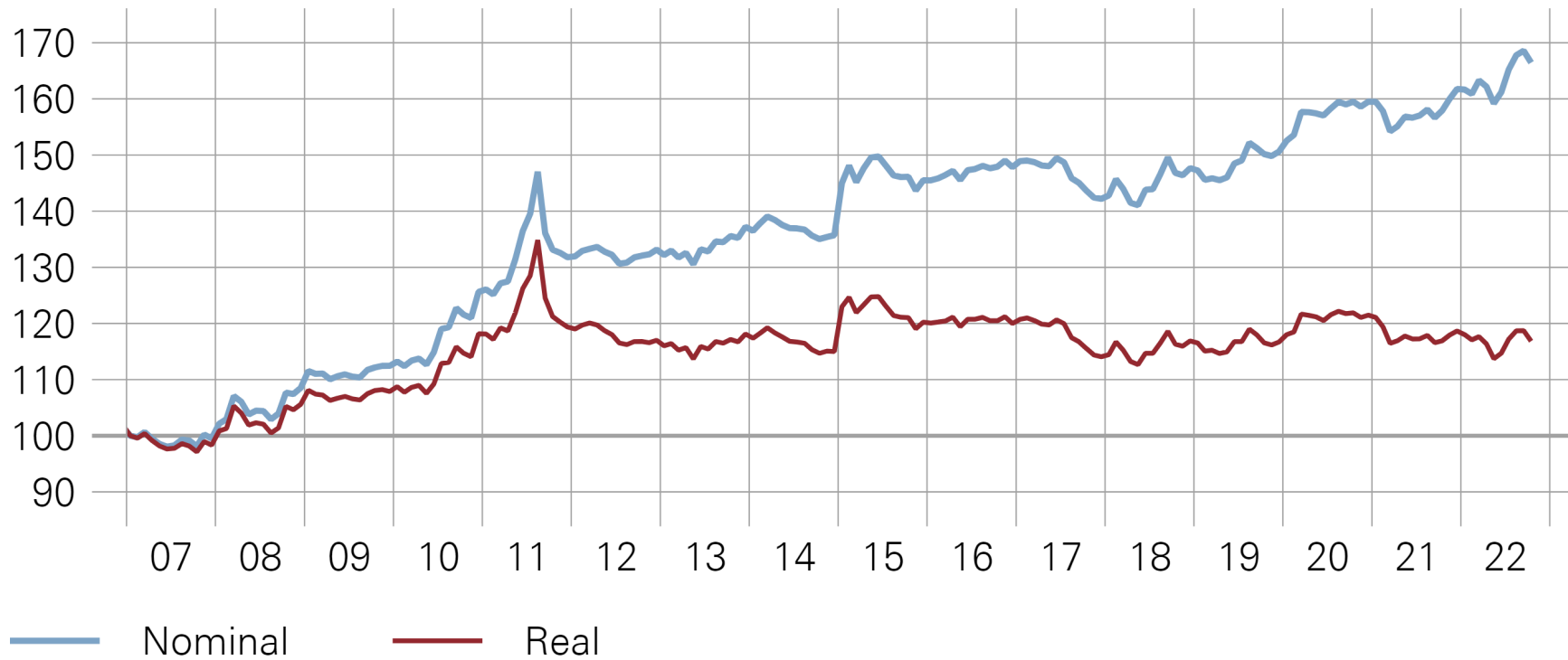


Source: SFSO

Real exchange rate relatively stable after 2011

SWISS FRANC EFFECTIVE EXCHANGE RATES

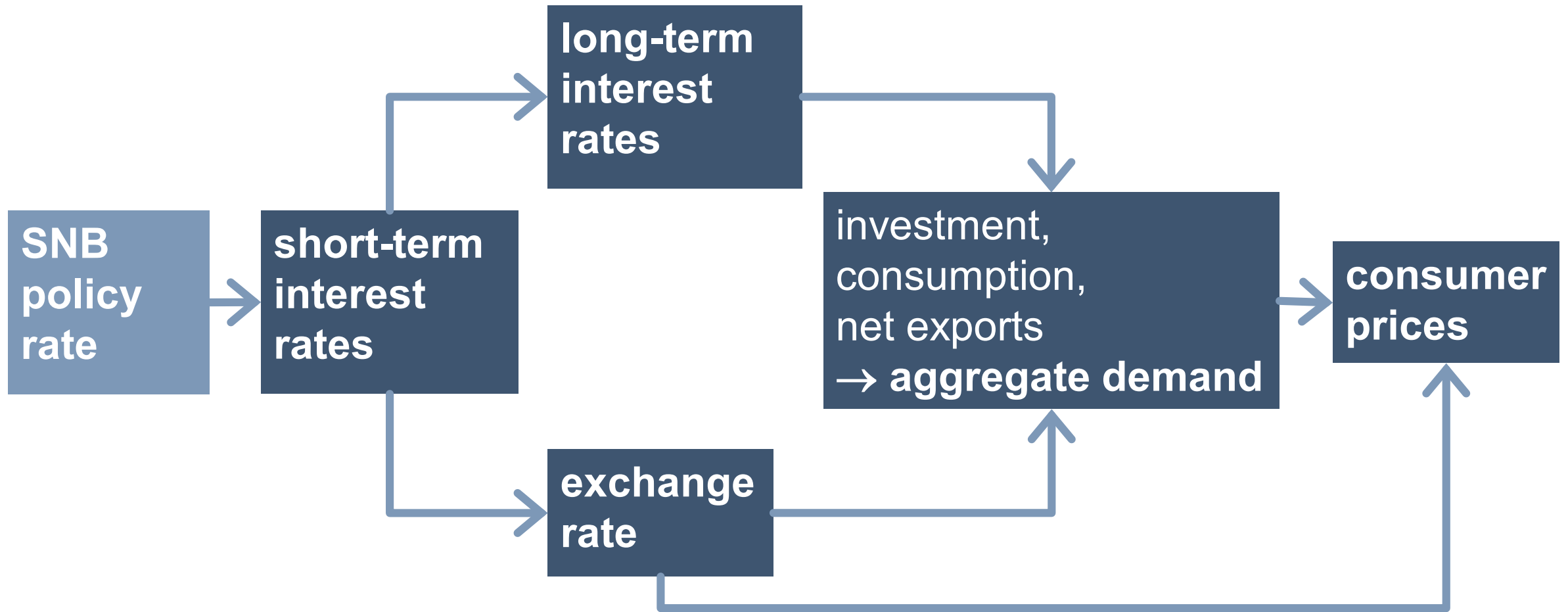
Index, Jan 2007 = 100



Source(s): SNB

The role of the exchange rate in Swiss monetary policy

Transmission channels of monetary policy



The SNB's monetary policy strategy

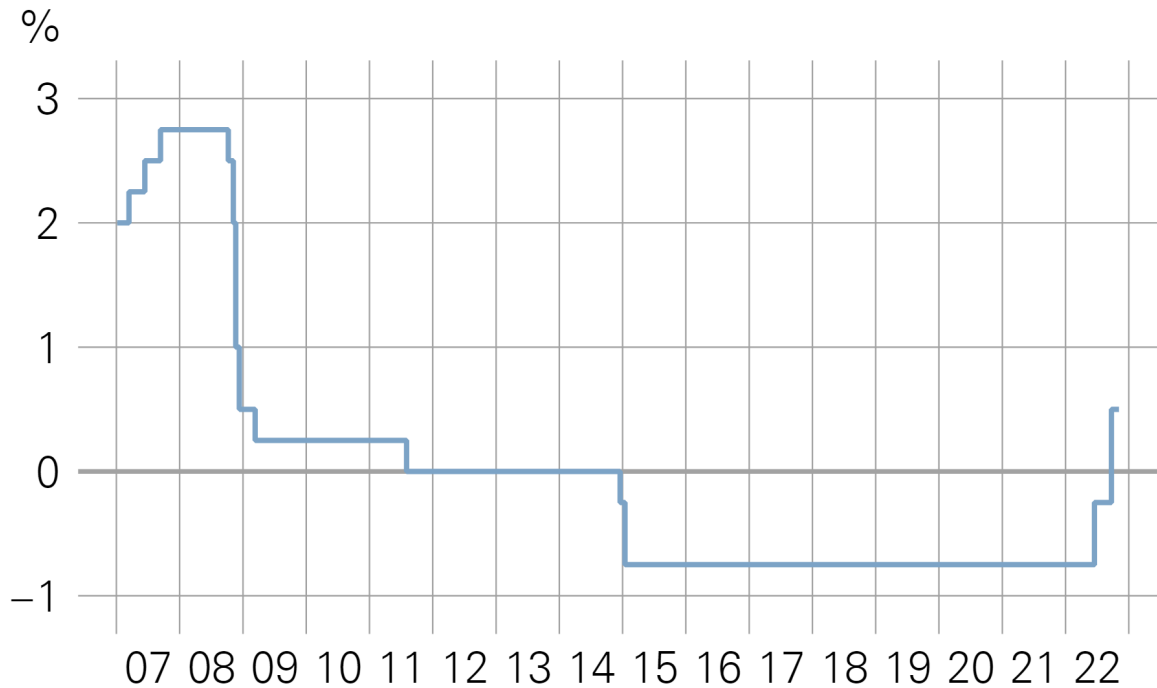
Definition of price stability: Swiss CPI inflation between 0 and 2%.

Conditional inflation forecast: main indicator for the monetary policy decision and communication device.

SNB policy rate: set at policy meetings - monetary policy is implemented by keeping money market rates close to the SNB policy rate.

SNB's monetary policy instruments

SNB POLICY RATE

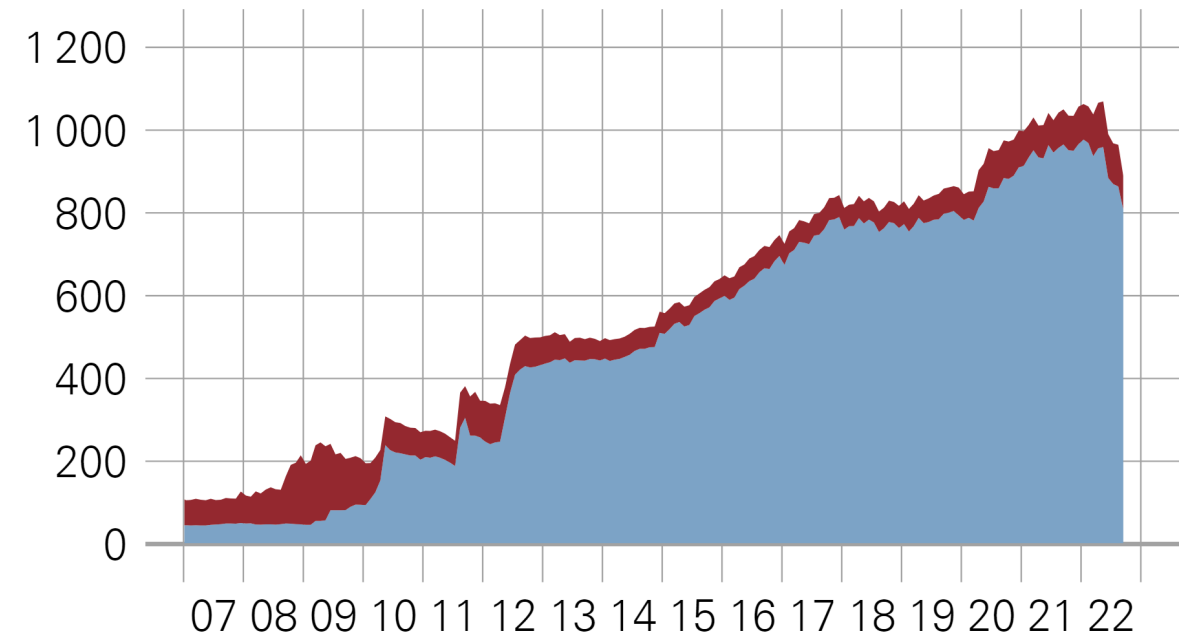


— SNB

Source: SNB

THE SNB'S BALANCE SHEET

In CHF billions



■ Foreign currency investments

■ Other assets

Source: SNB

Summary

Summing up

The flexible exchange rate of the Swiss franc allows the SNB to pursue an independent monetary policy geared towards price stability.

Given the Swiss economy's size and openness the exchange rate is a crucial determinant of economic conditions and inflation.

The SNB sets monetary policy through the SNB policy rate. Under certain circumstances, it can also influence monetary conditions using FX interventions.

Thank you for your attention!

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