
Economic uncertainty and the design and conduct of monetary policy

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The SNB and its Watchers
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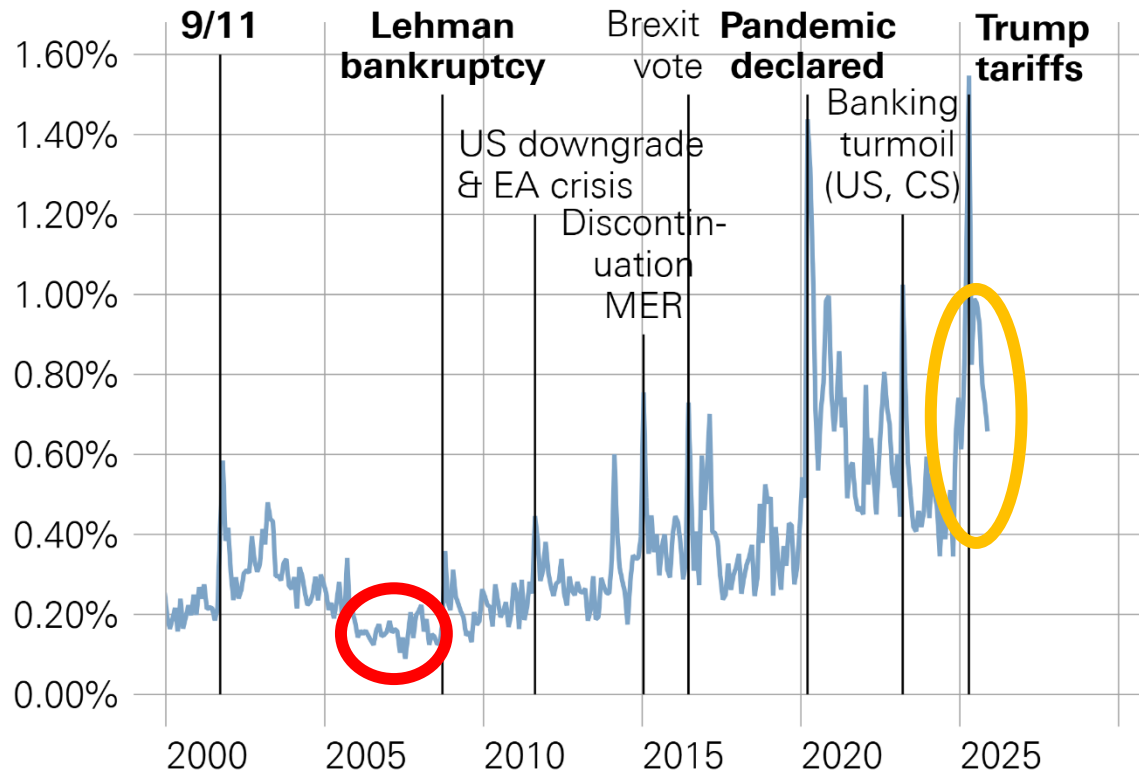


Central banks are confronted with
uncertainty in different dimensions

Uncertainty about the future environment

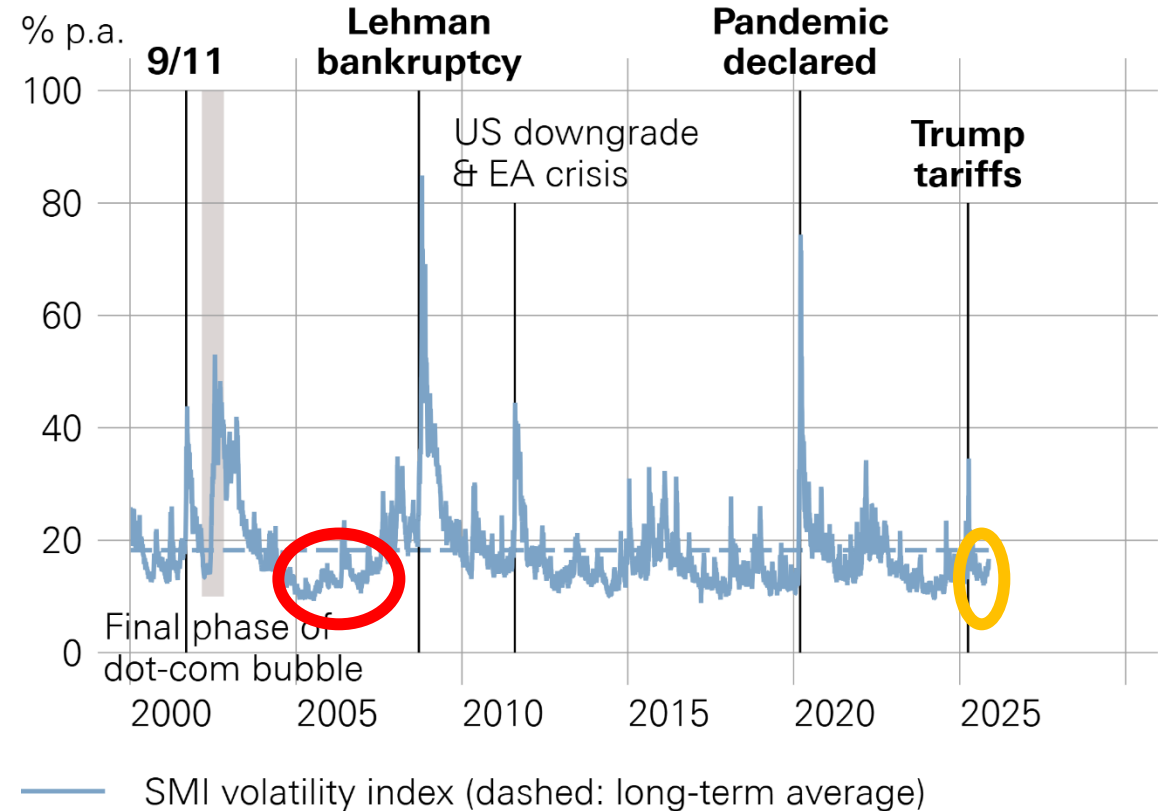
ECONOMIC POLICY UNCERTAINTY: SWITZERLAND

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Source(s): SNB, Swissdox@LiRI

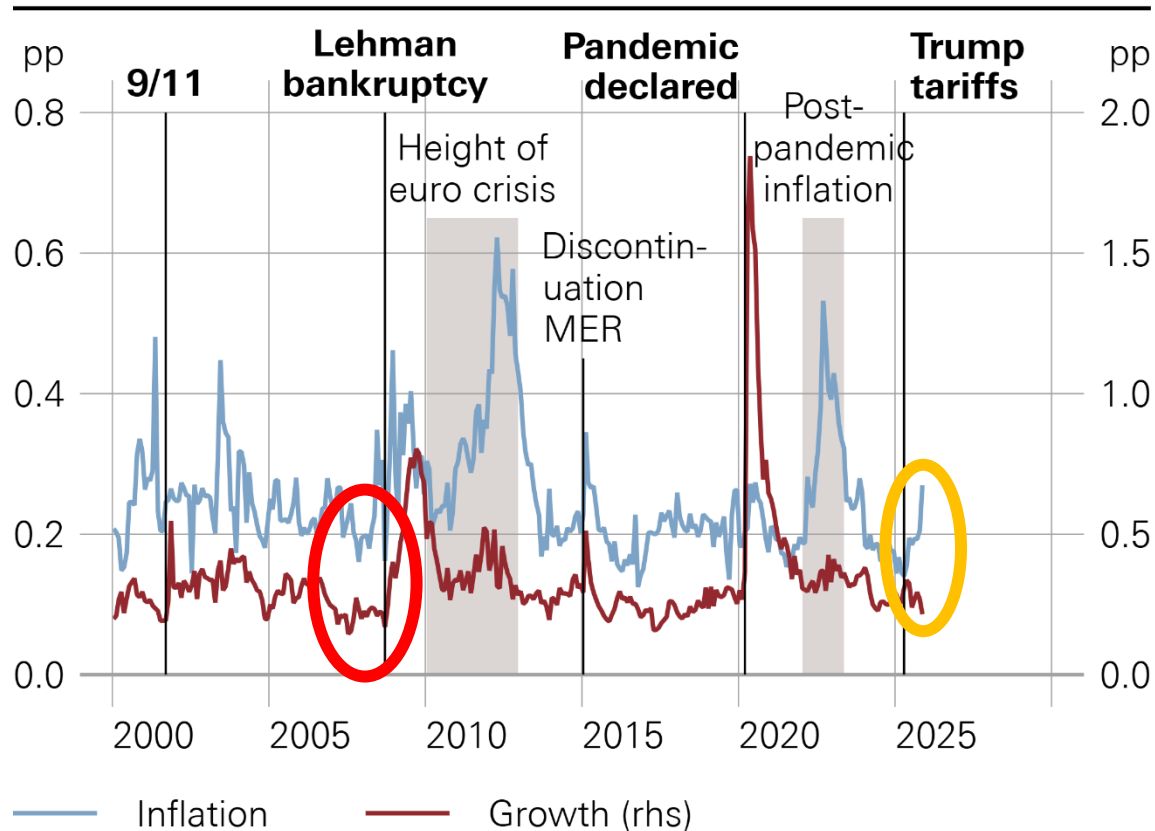
STOCK MARKET VOLATILITY: SWITZERLAND



Source(s): LSEG Datastream

Uncertainty about the future environment

FORECAST DISAGREEMENT: SWITZERLAND



Source(s): Consensus Economics, SNB

– Uncertainty is **not a new phenomenon**

- Monetary policy is decision-making under uncertainty
- Particularly relevant for a small open economy with a safe-haven currency such as Switzerland

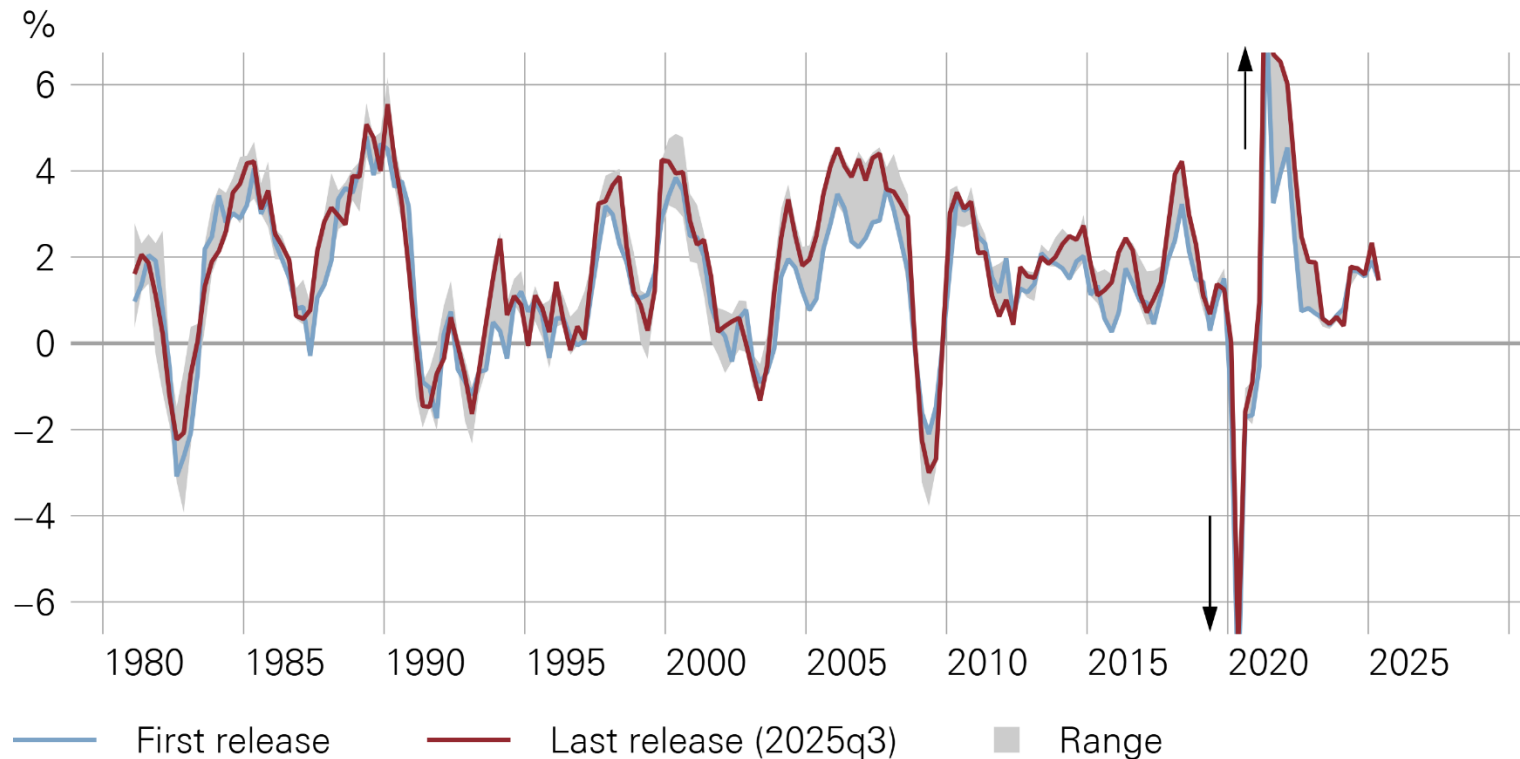
– Central banks **need to be prepared**

- Systematic monitoring and assessment of risks
- Ability to rapidly assess and respond to effects of shocks on the economy
- Robust monetary policy strategy

Uncertainty about the current state of the economy (data uncertainty)

REAL GDP GROWTH: RANGE OF DATA RELEASES

Switzerland, seas.-adj., yoy growth, data vintages since May 2000

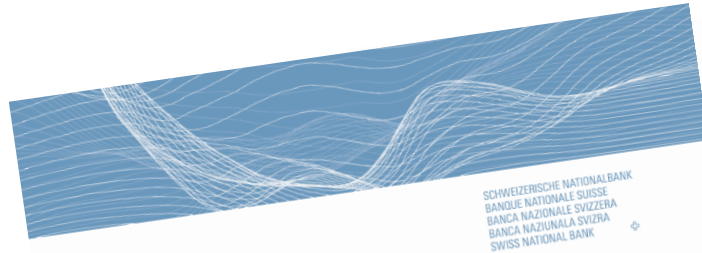


Source(s): SECO

Uncertainty about how the economy operates (model uncertainty)

- **«True» model of the economy is not known**
 - Overall structure
 - Functional form and parameter values
- **Central banks need to rely on broad-based assessments**
 - Employ range of models
 - Involve several economists with different perspectives
 - Cross-check with external perspectives (markets etc.)
 - Granular understanding of economy (key variables, transmission)

Granular understanding of economy: an example



SNB Economic Note No. 13/2025

Robust bank lending in a changing credit market environment

Romain Baeriswyl, Andreas Freitag and Maja Ganarin

The Swiss credit market environment has changed significantly since 2022. Interest rates have risen for the first time in 15 years, UBS has acquired Credit Suisse, and regulatory requirements have been tightened. The latter includes the introduction of the "Basel III Final" banking regulation and more stringent liquidity requirements for systemically important banks. Despite these changes, credit volumes have increased robustly in Switzerland, and bank lending has adjusted to both the tightening and subsequent loosening of monetary policy, as expected.

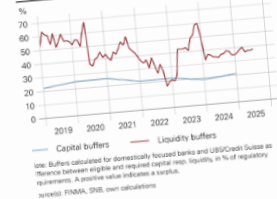
The credit market environment in Switzerland has undergone significant changes over the past three years. Four notable changes have occurred. First, after 15 years of near-zero or negative interest rates, the SNB raised its policy rate by 250 basis points between June 2022 and June 2023. Chart 1 shows that the peak target rate of 1.75% in 2023 was significantly lower than that in previous tightening cycles. Since mid-2023, long-term interest rates have fallen as expectations of monetary easing grew. In March 2024, the SNB began lowering its policy rate, which currently stands at 0%.

Second, the acquisition of Credit Suisse by UBS in 2023 changed the Swiss credit market by eliminating an important actor. This development compelled many companies and households previously served by Credit Suisse to seek new credit relationships with UBS or other banks.

Third, the implementation of the "Basel III Final" banking regulation in January 2025 introduced several changes to the amount of capital that banks are required to hold. Chart 2 shows that in recent years, Swiss banks have consistently maintained a relatively stable margin of capital above the regulatory requirements. The so-called capital buffers depicted on the chart stood at slightly more than 20% at the end of 2024. The new regulation makes capital requirements for credit exposures more risk sensitive, thereby creating incentives for risk reduction. Capital requirements increased for riskier loan segments (e.g., building loans),

is (e.g., owner-occupied housing loans). Overall, capital requirements for lending and is therefore banks. However, greater risk sensitivity may lead to different loan types – if the loans are priced to reflect intended variations in lending conditions due to changes in prices in response to the new

CHART 2: CAPITAL AND LIQUIDITY BUFFERS



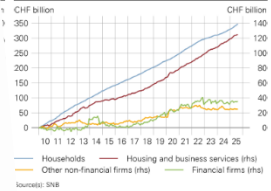
has become more challenging. On the one hand, the decrease in sight deposits in 2022 has led to a decrease in sight deposits on the other hand, regulatory liquidity requirements in 2024, these requirements for systemically important banks in July 2024, aiming to improve liquidity. While sight deposits of banks held with the SNB (MiRe), those earmarked to fulfil the MiRe regulatory liquidity requirement, namely, adjustments, overall liquidity remains robust. Chart 2 shows, Swiss banks currently hold 40% above their regulatory requirements.

changing environment?

Bank lending has increased robustly. Chart 3 shows that since 2010, the development of credit growth has differentiated. Noticeably, secured credit growth, e.g., COVID-19 loan programme that was introduced in 2020, has remained

robust repayment of COVID-19 loans. In contrast, unsecured credit growth has slowed down since 2022. This is due to households and firms in the housing and business sectors since 2010 (see Chart 4). Lending to other firms has slowed down since 2021. In addition, there is a need for the economy. For instance, non-financial firms has remained stable in recent

CHART 4: LOANS BY SECTORS



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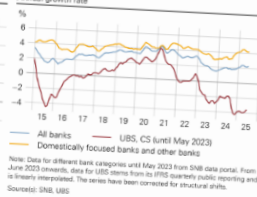
The Swiss credit market has adjusted to the rise in interest rates. First, lending growth slowed down in 2022, as expected under the normal transmission mechanism. However, lending growth has picked up in 2024.

Second, by UBS in 2023, the number of clients in the Swiss credit market is likely to increase. This development is likely reflected in a need for credit on the client side, as well as the introduction of new products for Swiss customers, as indicated in UBS's 2023 annual report. Third, credit growth at domestically focused banks and other banks had

1. "In addition, over the next three years, Credit Suisse's core business will sacrifice some reported profitability and growth in the short-term trajectory [...]"; and for the Q2 2024 results: "We also [...] with loan pricing reflecting a more appropriate cost of

robust demand. The substantial capital and liquidity buffers, in particular, have played a key role in enabling the credit market to adjust without impacting the availability of credit.

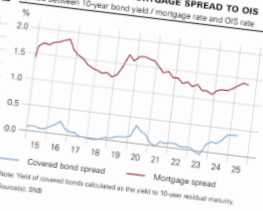
CHART 6: LOANS BY BANK GROUPS



for banks to raise funding in the capital market. The substantial capital and liquidity buffers, in particular, have played a key role in enabling the credit market to adjust without impacting the availability of credit.

market have been partially passed on to the client. The increase in the spread between lending and deposit rates has been observed since the end of 2023. Nevertheless, the spread remains higher than historical averages. Although the introduction of OIS rates to lending rates to some extent has led to a decrease in interest rates, as was shown in

CHART 8: BOND AND MORTGAGE SPREAD TO OIS



Swiss credit market

In a changing market environment, bank lending remained robust. While certain adjustment costs for banks are to be expected in view of the changing market conditions, the market overall has been resilient. The SNB will continue to monitor its implications for the Swiss credit market.

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13 results. Speeches by Sergio Ermotti and Todd

gs, and conclusions of the authors. They

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How the SNB navigates uncertainty

SNB follows risk-management approach

- **Consistency:** firm commitment to price stability and medium-term orientation
- **Pragmatism:** choose policies that deliver good outcomes in many scenarios
- **Determination:** must be ready to take decisive action when necessary – uncertainty must not mean indecision

SNB follows risk-management approach: more on pragmatism

- High uncertainty and large shocks **increase premium on flexibility** to be able to respond to rapidly changing conditions
- Typically **abstain from forward guidance**
- **Definition of price stability** in terms of range and over medium term (cannot fine-tune inflation)
- SNB maintains appropriate monetary conditions, determined by interest rate and exchange rate
 - **SNB policy rate** as main instrument
 - If necessary, **additional monetary policy measures** may also be used to influence exchange rate or interest rate (e.g. FX market interventions)
 - Different measures might have different value under certain amount and duration of uncertainty
 - Permanent **cost-benefit analysis**
- Pragmatism is **not synonymous with unbound discretion** and lack of discipline

Monetary policy decisions under uncertainty require case-by-case evaluation

- Appropriate monetary policy **response depends on type of uncertainty**, so that case-by-case evaluation required
 - Optimal response **might be more or less aggressive**
 - Uncertainty about the *state of the economy or the transmission of policy*: more **attenuated response** typically required à la Brainard (1967; see also Svensson and Woodford, 2002)
 - Uncertainty about the *persistence of inflation*: **stronger response** called for (see Söderström, 2002, or Giannoni, 2002)

Conclusion

- **Uncertainty is and always was key characteristic** of conduct of monetary policy
 - Particularly in **small open economy** with **safe-haven currency** such as Switzerland, which is frequently exposed to large shocks
- Need monetary policy strategy that accounts for and is robust to changes in uncertainty
 - SNB follows **risk-management approach** based on consistency, pragmatism and determination
- Operating in environment of **high uncertainty and large shocks increases premium on flexibility**, but does **not mean lack of discipline**
- Monetary policy decisions under **uncertainty require case-by-case evaluation**

Thank you for your attention!

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