Media news conference

SCHWEIZERISCHE NATIONALBANK
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SWISS NATIONAL BANK

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Thomas Jordan

Introductory remarks by Thomas Jordan

Ladies and gentlemen

Thank you for accepting our invitation to this press conference at such short notice. I will begin by briefly presenting the monetary policy measure announced this morning, and its objectives. Afterwards I will be happy to take your questions.

Introduction of negative interest rates at the SNB

The Governing Board of the Swiss National Bank (SNB) has decided to introduce negative interest on sight deposit account balances at the SNB. This will affect accounts kept by the SNB for banks and other financial market participants. An interest rate of –0.25% will apply to sight deposit account balances that exceed a given exemption threshold. By introducing negative interest on sight deposit account balances, we aim to take the three-month Libor into negative territory. We are therefore expanding the target range for the three-month Libor from –0.75% to +0.25%. It is thus back to its usual width of 1 percentage point.

Objective of the measure

What is the objective of this measure? The Swiss franc has been experiencing renewed upward pressure vis-à-vis the euro in the last few days. Rapidly mounting uncertainty on the financial markets has substantially increased demand for safe investments. The worsening of the crisis in Russia was a major contributory factor in this development. Against this background, we were obliged to ensure the minimum exchange rate of CHF 1.20 per euro by intervening on the foreign exchange market. Let me immediately state here: The SNB remains committed to purchasing unlimited quantities of foreign currency to enforce the minimum exchange rate with the utmost determination. The minimum exchange rate is still the key instrument to avoid an undesirable tightening of monetary conditions and to maintain price stability.

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We are introducing negative interest on sight deposits at the SNB in order to support the minimum exchange rate. This measure will lead to a further decline in the interest earned on Swiss-franc investments, making them less attractive, and thereby easing the upward pressure on the Swiss franc.

Exemption threshold

I mentioned at the beginning of my remarks that negative interest will only be imposed on sight deposit account balances that exceed an exemption threshold. This amount will be set individually for each account holder and communicated by letter. For banks that are subject to minimum reserve requirements, the exemption threshold is currently 20 times the statutory minimum reserve requirement. Holders of sight deposits that are not subject to minimum reserve requirements will be granted an exemption threshold of CHF 10 million. Balances held at the SNB by domestic authorities are not subject to negative interest for the time being.

The introduction of negative interest rates raises the cost of holding liquidity by 0.25 percentage points for banks. The exemption threshold ensures that the banking system does not have to carry the full burden associated with the current high level of sight deposits. Should sight deposit balances increase further, however, the amount subject to negative interest will go up as well. This will further increase the cost of holding liquidity in Swiss francs.

Implementation

The National Bank Act (NBA) authorises the SNB to keep interest-bearing and non-interest-bearing accounts (SNB sight deposit accounts) for banks and other financial market participants. To date, the SNB's Terms of Business have stipulated that these accounts do not bear interest. Negative interest will be levied from 22 January 2015, once the amended Terms of Business have entered into effect.

Significance for the general public

What does the introduction of negative interest mean for the general public? Firstly, let me point out that negative interest imposed by the SNB only directly applies to sight deposit accounts of banks and financial institutions at the SNB. The level of interest on customer deposits is a matter for the commercial banks, and the SNB does not exert any influence on their business decisions. In this regard, the introduction of negative interest is no different from any other interest rate cuts by a central bank. In such cases, too, banks must consider how they will adjust their lending and deposit conditions to changes in money market interest rates.

Enforcement of minimum exchange rate remains key

To conclude my remarks, let me repeat what I stressed at the beginning of my presentation. The minimum exchange rate remains key to ensuring appropriate monetary conditions in Switzerland. This is why we remain committed to enforcing the minimum exchange rate with the utmost determination. To this end, we are prepared to purchase foreign currency in unlimited quantities and to take further measures, if required. Without the minimum exchange rate, price stability in Switzerland would be seriously compromised. The introduction of negative interest will support the enforcement of the minimum exchange rate.

Thank you very much for your attention. I will now be happy to answer your questions.