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## **The impact of international spillovers on Swiss inflation and the exchange rate**

Opening remarks by Thomas J. Jordan, Chairman of the Governing Board, Swiss National Bank, at the 5th annual SNB conference on international economics

Thomas J. Jordan<sup>1</sup>

### **Abstract:**

Understanding the effects and transmission of international spillovers is key to ensuring that the best possible decisions are reached by central banks – particularly those of small open economies. This paper analyses the impact of international spillovers on Swiss inflation and the exchange rate, and examines the response of the Swiss National Bank (SNB) to these phenomena. In doing so, the paper compares the recent crisis period starting in mid-2008 with earlier decades. While the exchange rate absorbed a sizeable share of global inflationary pressure before the crisis, spillover effects transmitted through the exchange rate have been the principal cause of the significant decline in Swiss inflation since 2008. The SNB has therefore repeatedly adjusted its monetary policy – and resorted to some unconventional measures – in order to contain these spillover effects. These actions have so far kept the adverse effects of international spillovers on Swiss inflation at bay. However, as Switzerland's experience since the onset of the financial crisis shows, controlling inflation may occasionally become more difficult for small open economies.

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New insights into the effects and transmission of international spillovers are of particular interest to the central banking world and are especially relevant to the Swiss National Bank (SNB) as the central bank of a small open economy. Given that the SNB's economic forecasts are based on an international scenario, refining the understanding of international spillovers certainly enhances the quality of monetary policy assessments. This is key to ensuring that the best possible decisions are reached. As Switzerland has been on the receiving end of international spillovers in the recent past, my remarks focus on the importance of their effects on Swiss consumer prices and the exchange rate.

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<sup>1</sup> This article is based on opening remarks at the 5th annual Swiss National Bank conference on international economics.

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