

## Box 2

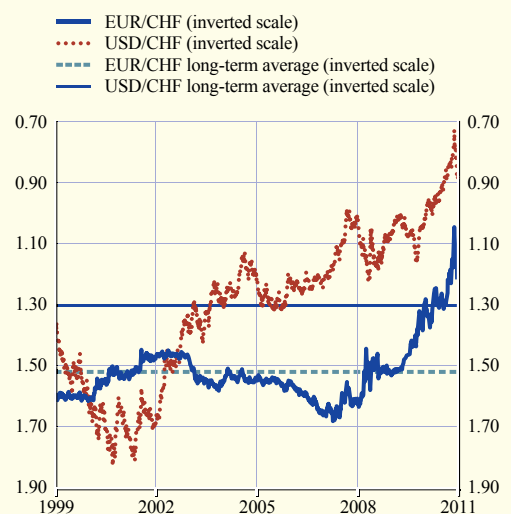
### RECENT DEVELOPMENTS IN THE EXCHANGE RATE OF THE SWISS FRANC AGAINST THE EURO

Since the beginning of the year the Swiss currency has appreciated significantly against the euro as well as other major currencies. Following the peak reached in August, the Swiss franc is currently trading above a minimum exchange rate of CHF 1.20 per euro set by the Swiss National Bank under its own responsibility on 6 September 2011. In early August the exchange rate of the Swiss currency had reached a historical high of about CHF 1.05 per euro and CHF 0.73 per US dollar. This amounted to an appreciation of around 20% against the euro and around 25% against the US dollar since the beginning of the year. Looking at longer-term developments, the exchange rate of the Swiss franc against the euro stood about 35% above its average since 1999.

The sustained appreciation of the Swiss franc during the global financial crisis seems to reflect, to a large extent, its perceived role as a safe-haven currency, amid an environment of elevated risk aversion. Moreover, the relative resilience of the Swiss economy during the crisis, a comparatively benign growth outlook and sound public finances constitute additional

#### Swiss franc exchange rate against the euro and the US dollar

(Swiss franc per currency unit)



Source: ECB.

Note: Latest observation refers to 5 October.

factors potentially accounting for the increased capital inflows observed and the strengthening of the franc. These developments were seemingly further intensified through the narrowing interest rate differential with respect to other major economies as well as expectations of continued currency appreciation.

Since mid-August the Swiss currency has retreated somewhat from its all-time highs. Following the announcement of the Swiss National Bank on 6 September that it would no longer tolerate an exchange rate below CHF 1.20 per euro and that it was prepared to buy foreign currency in unlimited quantities, the Swiss franc depreciated by 8% that day and since then has remained above, but close to, the unilaterally set minimum rate. Prior to that, in early August, the Swiss National Bank had reduced the target range for the three-month Libor interest rate to between 0.00 and 0.25 percentage points, aiming for a rate as close to zero as possible, as it considered exchange rate developments to be threatening the economy and to be increasing the downside risks to price stability. Furthermore, the Swiss National Bank had repeatedly increased the supply of liquidity to the Swiss franc money market by progressively expanding sight deposits of the banking sector with the central bank from CHF 80 billion to CHF 200 billion in mid-August. To this end, reverse repo transactions and central bank bills that fell due were no longer renewed. In addition, outstanding central bank bills were repurchased, and foreign exchange swap transactions as well as repo transactions with negative interest rates were conducted. As a result of these measures, short-term interest rates fell temporarily into negative territory.