Quarterly Bulletin, 2, June 2001

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Abstracts

1. Monetary policy assessment at mid-year

On 14 June 2001, the National Bank decided to leave the target range for the 3-month Libor rate unchanged at 2.75%–3.75%. For the time being, the 3-month Libor rate is to be kept in the middle of the target range. Monetary policy was last adjusted on 22 March 2001, when the target range was lowered by 0.25 percentage points.

2. Economic and monetary developments

In the first few months of 2001 the global economy cooled off. While the US economy had already lost considerable momentum in the second half of 2000 and again only saw little growth in the first quarter, the economic slowdown in Europe was less pronounced. Accordingly, the European Central Bank only cut its key rates marginally. The Fed, by contrast, reacted swiftly and relaxed the monetary reins.

In Switzerland, as in the previous period, real gross domestic product remained more or less on the long-term growth path in the first quarter, exceeding the year-earlier level by 2.5%. Both domestic and export demand contributed to economic growth. Employment continued to increase, and unemployment again declined slightly. In the coming months, falling orders in the export industry are likely to cause stimuli from abroad to weaken. Annual inflation measured by consumer prices rose to 1.8% until May, following a sharp decrease in February. Inflationary effects emanated mainly from domestic goods and, to a lesser extent, also from the renewed oil price hike. Following the lowering of the target range on 22 March, the National Bank kept the 3-month Libor rate close to the middle of the new target range of 2.75%–3.75%. It thus fell from an average of 3.48% in February to 3.25% in April.

3. Annual General Meeting of Shareholders

The President of the Bank Council of the Swiss National Bank, Eduard Belser, commented the central bank's annual financial statement for 2000 at the Annual General Meeting. The revaluation of the gold holdings at market value effected on 1 May 2000 has led to a precipitous expansion of the National Bank's balance sheet by almost Sfr 28 billion and to an extraordinarily high aggregate income. At the same point in time, the National Bank began with the sale of the gold reserves no longer required for monetary policy purposes. The proceeds – Sfr 2.6 billion by the end of 2000 – were invested, within the scope provided by the National Bank Law, exclusively with Swiss and foreign debtors with an excellent credit rating. Provisions were set aside for the assignment of free assets, thus taking into account the strong likelihood that the National Bank will in due course assign the approximately 1300 tonnes of gold no longer needed for monetary policy purposes, or the proceeds from their sale respectively, to other public purposes.

Jean-Pierre Roth, Chairman of the Governing Board of the Swiss National Bank, analysed the favourable economic development of the past year, which was accompanied by a no more than moderate rise in inflation. The prospects remain good despite the risks inherent in the international environment. Experience with the new monetary policy concept fills the National Bank with confidence. The revision of the National Bank Law is the next undertaking of fundamental importance with which the Bank has to concern itself. Its mandate, which is only loosely defined in the Constitution, will be clearly spelled out in the revised Law: the National Bank must ensure price stability, while duly taking into account the development of economic activity. The National Bank's independence will also be formulated in detail; to counterbalance this, formal accountability will be embodied in the Law. While the distribution of the National Bank's profit was laid down in the present Law, the new draft law now also includes regulations for the calculation of the profit. They are designed to continue to enable the National Bank to set aside adequate currency reserves.

4. The inflation forecast of the Swiss National Bank

Since the beginning of 2000, the National Bank has been implementing a new monetary policy concept in which the inflation forecast has been assigned a key role. The inflation forecast provides the main basis for monetary policy decisions and plays an important role in communication with the public. The paper describes why the National Bank bases its monetary policy on an inflation forecast, how the forecast is made and how the published forecast should be interpreted. Moreover, the various forecasting models which the National Bank uses for drawing up its inflation forecast are briefly sketched.

5. An econometric macro-model for Switzerland

The National Bank uses various indicators and models for analysing the economic situation and preparing its monetary policy decisions. This article describes the largest model currently in use. It shows the basic structure of the model and illustrates its properties with the aid of model simulations. The model has a new-Keynesian pattern and has been estimated with quarterly data.

6. Chronicle of monetary events

Partial revision of the Banking Law - Report of the commission of experts and comments by the SNB

In February 2001, the committee of experts on bank reorganisation, bank liquidation and depositor protection set up by the Federal Department of Finance (Schaerer working group) released its final report. This working group had been set up in the wake of the experiences gained at the closing and subsequent liquidation of the Spar- und Leihkasse Thun and after several advances had been made in parliament relating to this matter. The group of experts proposes to establish new rules for three areas of the Banking Law: (a) reorganisation of banks, (b) bank liquidation and (c) depositor protection. In particular, the draft aims at optimising the harmonisation between the different provisions in these three areas as well as with those of the supervisory law and to bring them in line with the corresponding EU regulations. Furthermore - to the extent possible in the domestic context - the particular problems of international insolvencies ought to be addressed. During the consultation procedure, the National Bank supported the proposals of the group of experts. In particular, it welcomes the drafting of a law governing bank restructuring, which would afford stronger protection against system-relevant repercussions of bank problems.