

# End-of-year Media News Conference, Zurich, 11 December 1998

**Introductory Remarks by Hans Meyer,  
Chairman of the Governing Board of the Swiss National Bank**

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We intend, in agreement with the Federal Government, to continue conducting a basically generous monetary policy in 1999. The Swiss economy will thus be granted the monetary leeway necessary for an enduring economic recovery. The problems in East Asia and the slowdown in growth in the United States are likely to lead to a weakening of economic activity in western Europe. The Swiss economy should, however, achieve further satisfactory growth. The intentions of the Governing Board duly take into account the uncertainties associated with the forthcoming launch of the euro.

The Swiss National Bank - as is known - has the task of pursuing a monetary policy serving the interests of the country as a whole. Within the scope of monetary policy, the National Bank must help to create conditions that facilitate balanced - and also sustained - economic development. The best contribution monetary policy can make is to guarantee price stability. The National Bank considers this to be achieved with an annual inflation rate of 1% - 2%.

Once more it must be emphasised that for the National Bank price stability is a means to an end rather than an end in itself. Economic theory shows convincingly that the absence of price stability can lead to a considerable loss of growth, and consequently a loss of welfare. To this must be added that notably the weaker members of the community suffer from inflation. Price stability is therefore an important social issue.

The economic recovery, which got under way in 1997 and was initially supported mainly by exports, spread to every sector of the economy in the current year. Despite the slowdown triggered by the problems in various parts of the world, the real rate of growth of Switzerland's gross domestic product in 1998 is expected to be approximately 2%, in line with the National Bank's forecast. Exports to East Asia contracted considerably. Nevertheless, these losses were offset by a vigorous expansion of exports into the countries of the European Union and the United States and by the revival of domestic demand. Inflation, at 0.1%, is below original expectations.

In the coming year, economic growth is likely to weaken somewhat both in Switzerland and in other countries in continental Europe. In Switzerland, real gross domestic product is still expected to expand by approximately 1.5%. The export sector will come to feel the results of the external disturbances, while domestic demand should continue to act as a welcome pillar of the economy. In view of the moderate real growth, unused production capacities are unlikely to be reduced any further. The pressure on consumer prices will therefore remain insignificant. Inflation will probably rise to 1%, with about half this amount being attributable to the increase in value-added tax.

In the year now drawing to a close the development of the Swiss franc rate was only affected to a minor degree by preparations for the European Monetary Union. Of decisive importance, however, were the turbulences in the international financial markets, which boosted the demand for Swiss francs. The National Bank countered the effects on the exchange rate by repeatedly supplying the money market with generous liquidity. Currently the exchange rate is on an adequate level. Should the introduction of the euro pass without a hitch, no particular difficulties are to be expected for Switzerland. The National Bank and the European Central Bank will pursue similar policies. There is considerable agreement both as regards the goals and the operational framework of monetary policy. This will be conducive to exchange rate stability.

As early as a year ago, we pointed out that the development of the monetary base is becoming more and more difficult to interpret. While the circulation of one-thousand-franc banknotes, which had risen considerably in the previous years, seems to have returned to normal the development of sight deposits exceeded the National Bank's forecasts. In the wake of international financial problems several banks increased their liquid funds. The already mentioned additional supplies of liquidity also contributed to the growth of sight deposits.

The problems of interpretation referred to induced the National Bank to pay closer attention to the course of the broader money stock M3. After having risen markedly in 1996 and at the beginning of 1997, its growth has since levelled off considerably. The moderate development does not point to inflationary risks. In the implementation of the monetary policy intentions for 1999 no marked change in money market rates is to be expected.

There are no indications of an immediate danger of inflation. Nevertheless, it is necessary to be on the alert. It is a well-known fact that monetary policy decisions only have an influence on developments with a time lag of approximately two years.

In future, too, we will watch a number of other indicators. Particular attention is paid to factors pointing to the cyclical development of economic activity and the exchange rate. In the present environment it is difficult to gauge the future economic development. Should it deviate considerably from present perceptions, the Governing Board would, of course, reassess the situation.