# End-of-year Media News Conference, Zurich, 8 December 2000

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

The Swiss National Bank, in agreement with the Federal Government, has decided to adhere to its current monetary policy. It will leave the target range for the three-month Libor rate, which has stood at 3.0% - 4.0% since 15 June 2000, unchanged. For the time being, the three-month Libor rate is to be kept in the middle of the target range. Since there are no discernible signs of a long-term threat to price stability, the National Bank will refrain from another tightening of monetary policy.

The latest inflation forecast shown in the graph still gives a favourable picture of the future inflation trend. In essence, it corresponds to the inflation development forecast in June 2000. The adjustment to the national consumer price index made a few days ago has not influenced our forecast significantly. At an unchanged target range for the three-month Libor, inflation is likely to increase to slightly above 2% by the middle of 2001 and to fall below this level again in the course of the year 2002. On average, we expect inflation to rise from 1.6% in 2000 to 2.1% in 2001 and to drop again to 1.7% by 2003. As is known, a rate of inflation of 2% per annum is considered to be the upper limit of the range which we equate with price stability. The expected temporary deviation from this target can be explained by the vigorous development of economic activity during the current year and, above all, by the massive rise in oil prices. We anticipate that they will fall again during the course of 2001 or will at least stabilise on the current, albeit high level.

It may come as a surprise that the upward pressure on prices has remained moderate in spite of the favourable economic situation in Switzerland. Nevertheless, the continued strong real growth we have been experiencing since the middle of 1999 manifests itself in a shortage of skilled labour and rising labour costs. Partly as a result of the latest increase in mortgage rates, housing rents are going up as well. Despite this, there is no inflationary push on the horizon.

In the short term, inflation will presumably depend largely on economic and exchange rate movements as well as on the further development of oil prices. We expect that the economy will continue to expand, though at a slower pace. After a growth rate of 3.3% during the current year, we forecast an increase in real gross domestic product of approximately 2.2% in 2001. In 2002, real growth is expected to continue levelling off to 1.6%. This corresponds approximately to the average of the forecasts by the Swiss forecasting institutes. With the anticipated slowdown in growth, the threat of inflationary overheating of the Swiss economy is likely to pass. The projected development of real growth is mainly the consequence of an expected loss of momentum of economic activity in the United States and the European Union, which will in all likelihood put a damper on the dynamic Swiss export industry. The gradual tightening of Swiss monetary policy between autumn 1999 and summer 2000 will also help to prevent economic overheating. A similar effect emanates from the export-weighted real exchange rate of the Swiss franc, which has firmed since the spring of 2000, notably vis-à-vis the euro. In the long term, the course of Swiss inflation depends to a large degree on the development of the monetary aggregates. The course of the money stock M3 also gives no indication of any future threats to price stability. Bank loans, which tend to go up only insignificantly, convey the same message.

A year ago, on the occasion of our news conference, we presented various adjustments to our monetary policy concept. What is fundamentally new is that our monetary policy decisions are based on an inflation forecast. The experience gained with the adjusted monetary policy concept has been positive so far. The obligation to make an inflation forecast on a regular basis provides an incentive to examine all the relevant factors affecting future price developments carefully. Furthermore, it leads to greater transparency of monetary policy. It is our desire to disclose, as much as possible, the analyses on which we base our inflation forecast. Consequently, we intend to publish various studies in the near future which will explain our forecasting activities in some detail. We use several methods to forecast inflation and real growth. The results are discussed internally and are subsequently integrated in a consensus forecast.

Forecasting inflation for the ensuing three years is a difficult undertaking. It is inevitable, therefore, that occasional forecast errors occur. We do not claim to be infallible when we make forecasts. The purpose of our inflation forecasts is to explain to the public what the considerations are on which we base our monetary policy decisions. Forecast errors can serve as valuable indicators for economic developments requiring an adjustment of monetary policy. Each central bank is confronted with the same basic problem: the monetary transmission mechanism entails considerable time lags. If we are to preserve price stability, therefore, we must act in a forward-looking manner.