The challenges of Swiss monetary policy

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Just over a year ago, the miracle of the new economy was on everybody's lips. Some pundits never tired of repeating that the world economy had entered into a new growth phase that would do away with the bad old days of cycles. In the meantime, the steep decline in US growth, the stock market corrections and the downward revisions of economic forecasts have reminded us that uncertainty remains one of the essential features of all economic trends.

Ladies and gentlemen, it gives me great pleasure to address you today at the 89th Annual Meeting of the Swiss Bankers Association. My topic is the challenges facing Swiss monetary policy. So I won't be talking about banks or about Switzerland as a financial centre. Please don't see this as disregard for the importance of the banking sector, in terms of value creation or job creation. Nor do I wish to underplay the challenges that you currently face at a time when competition between financial centres has become particularly fierce and varied. I hope I can show you that the Swiss National Bank also operates in an environment that has become more difficult owing to the economic slowdown, the globalisation of markets and the move toward currency integration in Europe. Moreover, it is now entering uncharted waters because the process of amending the legislation governing the SNB is underway and important decisions affecting its currency reserves will soon be taken.

I will approach this analysis by first outlining the risks entailed by the current economic situation. I will then explain how our monetary strategy takes account of this environment. And finally I will explain the means necessary to achieve our goals and the new features in the draft legislation on the Swiss National Bank.

1. The risks

1.1 The international economy

Developments in recent months have reminded us that the international environment can hold out surprises when events that are not obviously connected generate a negative momentum. In the course of 2000, the tightening of US monetary policy, followed by the rise in the price of oil and the deterioration of the earnings outlook in the technology sector brought about a huge reaction in the financial markets. The steep correction in share prices and the widening of spreads cast doubt on growth concepts and expansion plans that had seemed to stand on solid rock. The information technology sector, which appeared to have unlimited potential for development, was particularly hard hit by the turmoil. The deterioration in the economic climate and the rise in the cost of financing forced many companies to run down their inventories. The reaction of the US Federal Reserve Board was rapid and decisive. Nevertheless, growth has been faltering throughout this year, and we have yet to see any tangible signs of a turnaround.

The trend in Europe has been similar. The reasons for the slowdown here have to a large extent been similar to those operating in the United States: growth in the previous year had been particularly strong, the technology sector had also risen to stratospheric heights and the stock markets were trailing in the wake of Wall Street. Moreover, the slowdown in the US economy put the brakes on Europe's exports, while companies that were established in the US felt the full brunt of the downturn. It is therefore not surprising that European growth has stumbled more seriously than had been anticipated at the beginning of the year.

Confronted by the crisis in the technology sector and the slowdown in world growth, the countries of Asia – Japan in particular – have proved most vulnerable of all. Let us not forget that Japan has been trying to lift itself out of a long phase of stagnation. As for the emerging economies, they were still unsettled by the financial crisis that had swept Asia in 1997. The countries in the region were thus hard hit by the downturn in economic activity, especially since they play an important role as producers of electronic components.

1.2 The situation in Switzerland

Obviously, the Swiss economy could not buck this downtrend. The year 2000 had been one of strong growth in our country too. Our GDP had increased by 3.0%, a pace that is higher than what is generally considered to be the economy's long-term potential. The faster rate of expansion soon used up available resources, both technical and human. As the SNB was worried by this trend, it raised the fluctuation band for three-month interest rates by 175 basis points in the first half of last year.

A slowdown was inevitable. It occurred under the combined weight of our more restrictive monetary policy and the downturn in the global economy. It struck the entire industrial sector, in particular the companies active in the electronics industry and those regions of Switzerland where these companies are most strongly represented. Domestic industry and consumer spending were spared. In Switzerland, as in the surrounding countries of Europe and in the United States, consumer behaviour has played – and continues to play – an essential stabilising role. Buoyant consumer spending has prevented growth from faltering even more.

Any attempt to identify the current source of risks for the international economy must attach the greatest importance to consumer behaviour. There is no doubt that, if the general mood of uncertainty were to bring about any change in household spending habits, the growth slowdown could be further exacerbated. And this risk would be even greater since the signs of a turnaround would take some time to manifest.

1.3 The financial risks

The current risks are to be found not only in the interlinking of supply and demand, but also in the financial markets, which are inevitably becoming more volatile as the uncertainty surrounding the economy mounts. What's more, the mechanisms responsible for the spread of risks are now being reinforced by the globalisation of markets. The strong reaction of the stock market indices over the past twelve months and their parallel movement are most revealing on these two counts.

The financial turbulence, however, is not due solely to the current difficulties but also to the rectification of errors committed in the past. This fact, which the banks learned the hard way during the 1990s, is also reflected on the macroeconomic level.

What has happened in recent years in the emerging economies of Asia and Latin America, and in Russia too, clearly shows the financial consequences of poor macroeconomic management. In Asia as in Latin America, the difficulties stem from erroneous exchange rate policies and lax supervision of the banks. In Russia, there was a total absence of governance. Most of these countries have since recovered, though at the cost of tremendous efforts and with the support of huge international loans. Others are still dependent on the support of the International Monetary Fund. Each of these cases shows that, in the final analysis, the situation cannot be put right unless the countries in question have the will to implement policies that will ensure long-term stability.

Another source of risks for the financial markets is the current account deficit that the United States has run up. Last year, this deficit came to 4.5% of the GDP of the United States and absorbed almost 8% of world savings. The flip side of the deficit was the inflow of large amounts of capital from Europe and Asia, particularly in the form of direct investment. This capital inflow was encouraged by the excellent performance and even more exciting prospects of the US economy. The deterioration in the economic climate has obviously altered conditions in this respect. Mounting pessimism could, it is feared, discourage foreign investors from investing their money in the United States and might put pressure on the dollar. A correction has taken place to some extent in recent weeks, but the US dollar is still above its level at the beginning of the year, though there may be further adjustments to come.

And what about Europe? The situation for the balance of payments in Europe is far better than in the United States since the European Union has a balanced current account. Europe, however, is by no means a model of good behaviour. Its weakness is to be found in its structural rigidity and the related high level of unemployment, its poor control over public finances, high tax rates and the crumbling basis of its social security system. All these factors are preventing our continent from playing the role of an economic driver at a time when the US locomotive is running out of steam.

Nevertheless, we cannot deny that Europe is making progress. Major milestones in liberalisation and revitalisation have been reached in recent years. The European environment is now more stable than ever before, especially in the areas of currencies and prices. The benefits of the creation of a single European currency should be stressed. Seen from Switzerland, the first two years of EMU have been a pleasant surprise. The Swiss franc has been more stable against the euro than it was against the German mark. Our currency has not been prey to speculation as had been feared a few years ago.

However, prudence should be our watchword. Monetary union is still finding its feet, and this will take some time because monetary effects are slow to come about. There is a large measure of uncertainty, especially as enlargement of the euro zone is on the cards in the medium term. Given the importance for the Swiss economy of trade with Europe, we must keep a close watch on the potential risks stemming from the fledgling European currency.

2. Monetary policy

What is it reasonable to expect from the monetary policy of a small country in this type of environment?

I should answer this question, firstly, by making one point absolutely clear: since we have such an open economy, it would be unrealistic to expect that monetary policy could shelter it from external turbulence. In the longer term, there can be no such thing as a «special» economic environment in Switzerland. Conditions here are too dependent on what happens on world markets.

Once this fact has been grasped, there is one natural and inevitable conclusion: in this country, monetary policy must aim to create favourable conditions for long-term economic development. Price stability, which is the key to effective spending and investment decisions, makes a positive contribution to the potential growth of the economy.

How can we ensure stability in an international environment where there are so many sources of uncertainty? Our response to this challenge is to adopt a monetary strategy that is both autonomous and transparent.

2.1 Autonomy

Autonomy is reflected, first of all, in the choice of a foreign exchange regime. Since 1973, Switzerland has had no fixed exchange rates. Since then, we have learned how to conduct an autonomous monetary policy. The fact that the Swiss franc is floating enables us to gear our policy to the needs of the Swiss economy. It avoids our having to react to decisions taken by external monetary authorities.

There are people who believe that a good monetary strategy for this country would be to peg the Swiss franc to the euro, in view of our extensive economic relations with our European neighbours. However, to link the Swiss franc to the euro would involve systematic application, by the Swiss National Bank, of monetary decisions taken by the European Central Bank, and thus the internalisation of external monetary conditions, in particular, interest rates. However, as experience over the last few years has shown, the realities of Switzerland and the euro zone are not always necessarily convergent. Our interest rates are also significantly lower than those in the euro zone. Moreover, the common monetary policy creates certain difficulties for countries whose economic performance diverges from the average within the European Union. Lastly, the fact that the process of European construction is not yet complete should lead us to retain some prudent room for manoeuvre. We are not a member of the European Union. Perhaps, in the longer term, we will become a member. For the time being, let us not surrender the advantages of our position outside the EU, unless there is a compelling need to do so.

Autonomy also has an internal aspect, generally referred to as «independence»—that is, the central bank's freedom to take decisions on monetary policy. We are fortunate to have the benefit of such independence and, indeed, this regime is clearly enshrined in the Federal Constitution which stipulates, in article 99, that the conduct of monetary policy is the responsibility of an independent central bank.

This independence is not absolute; it is limited to performance of the mandate conferred on us. Currently, the Federal Constitution states that we must conduct monetary policy in the overall interests of the country. The draft law concerning the Swiss National Bank defines our mandate more precisely. Its article 5 is couched in the following terms: «The National Bank conducts monetary policy in the overall interests of the country. It ensures price stability. In so doing, it takes account of economic trends.» This wording covers the Swiss reality perfectly and constitutes an excellent point of reference for our policy. I am delighted to note that it has received widespread support during the consultation process which has just ended.

2.2 Transparency

Autonomy to carry out a public mandate requires transparency of action. We are absolutely convinced of this. It is both a political and an economic imperative.

On a political level, the corollary of autonomous decision-making is the duty to report. The draft law provides for the Bank to supply regular information on its activity to the Federal Council, parliamentary commissions and the general public. Transparency thus guarantees the democratic legitimacy of the Bank's autonomy.

As regards the economy, transparency enables the various participants in the financial markets to understand our behaviour and to incorporate its essential parameters in their projections for future trends. Transparency thus has a stabilising effect on markets: it cuts down the element of surprise, since the central bank's motives are well understood. There are people who become upset when they see that our decisions are sometimes nothing more than the confirmation of what is already widely expected by market players. They are wrong to be upset. Contrary to widespread belief, good monetary policy is not necessarily a succession of surprises. Surprises can only occur if the central bank has privileged information on the state of the economy, which is rarely the case. If its action is coherent and transparent, its decisions are, to a large extent, predictable. This should not be cause for embarrassment to a central banker.

2.3 Our approach to monetary policy management

Our concern for openness is clearly shown by the approach we have taken in conducting monetary policy since the start of last year. This new procedure revolves around three aspects:

The first is a definition of what we mean by price stability. We consider that conditions of price stability exist if the increase in the retail price index does not exceed 2% per annum. Thus, everyone can see whether we have succeeded or failed in achieving our aim.

The second component is the establishment of an inflation forecast. This forecast, which we publish twice a year, is the result of our internal analysis work. It shows the probable trend of the rise in prices over the next three years. If the trend diverges from the objective of price stability, corrective action has to be taken. We do not act in a purely mechanical way. Decisions concerning monetary policy rely on an assessment of both the overall economic situation and the risks prevalent at the time.

The third component in our approach to managing monetary policy is an operational one. Our policy is implemented by variations in interest rates. More specifically, we establish a fluctuation band within which we try to maintain the three month Libor rate. In order to achieve this, we intervene by means of securities repurchase agreements, also referred to as «repos».

To date, experience of our new approach to managing monetary policy has been positive. The markets have grown accustomed to regarding the Libor fluctuation band as the technical expression of our policy; they are not continually looking for signals in the operations we carry out daily. The inflation forecast sets a rational framework for our decisions and enables the public to understand the logic of our action. It also gives reassurance to those people who fear that our assessments do not pay sufficient heed to economic trends and exchange rates tendencies. In our new approach, the situation of the economy, and of the Swiss franc, are essential inputs for the establishment of our inflation forecast. The monetary aggregates which, in the past, used to play a central role in the presentation of our policy are now merely one amongst a range of factors that we bear in mind in assessing the future trend of prices. Studying them gives particularly useful indications on the medium term trend of inflation.

There is nothing revolutionary in this new approach to managing monetary policy. Already in the past, our decisions were based on a range of factors, including analyses of the economic cycle, markets and liquidity. The inflation forecast now enables us to rationalise our approach and communicate our decisions better.

Thus, our progress as regards transparency has been significant. However, certain observers claim that we are still not doing enough, as we do not publish the minutes of our Governing Board meetings. These observers are not critical of our decisions, which are always communicated promptly. Rather they question the fact that the positions taken individually by members of the Governing Board, in the discussions on monetary policy, are not made public. In my view, this demand goes too far. To divulge the individual positions of the members of the Governing Board would not improve the quality of our monetary policy, but it would run the risk of seriously disrupting our decision-making process. Our internal debate is frank and open, with each member forming his views on the basis of the information available at the time. The calmness and quality of this dialogue would certainly suffer if our deliberations had to take place in the full glare of public opinion. I realise that certain countries use this approach. However, no proof has been forthcoming that it is better than ours and, in particular, that it improves the level of public understanding of monetary issues. I believe it would be imprudent to pursue that route.

Autonomy and transparency are therefore two fundamental aspects of our approach to the management of monetary issues. In an uncertain international environment, autonomy requires us to focus on the essentials: development of the Swiss economy and, in particular, the stability of its monetary framework. In a world of deeply integrated markets, transparency makes it possible for market players to understand our actions, which also contributes to stability.

3. The means used

After discussing the risks within which our policy is framed, and the principles on which our monetary strategy is based, I now come naturally to the issue of the means needed to implement our action.

3.1 Securities repurchase operations

Over recent years, we have, amongst other things, set about updating the instruments we use for the management of market liquidity. Partial amendment of the law governing the SNB back in 1997 enabled us to replace traditional swaps with an instrument that was more suited to the current situation of the money markets: securities repurchases, in other words operations by which the SNB buys securities held by banks and then re-sells them forward to the banks. During the course of the operation, the counterparty banks have a loan, on which they pay interest to us.

The repo market has developed well. Since the beginning of last year, this is the only instrument we have used for the management of market liquidity. Thanks to repos, our operations have also become more transparent and more in keeping with the principles of free competition, since they are the subject of a daily auction. During the day, according to the prevailing situation in the market, very short term, or even intra-day securities repurchases are also possible. To enable operations to be executed quickly and efficiently, a purpose-built IT system has been developed. Numerous banks, both in Switzerland and abroad, are now our partners on this market, thus representing a welcome extension of the circle of our counterparties. In the past, currency swaps against the Swiss franc were transacted with only a small number of banks.

Loans made against securities repurchase operations amounted to 24 billion Swiss francs at the end of 2000. Together with our portfolio of bonds issued by Swiss borrowers, these constituted the Swiss franc denominated portion of our balance sheet, representing an amount of some 30 billion Swiss francs. The balance, invested in gold, foreign currencies or international loans, constitutes what is referred to as the monetary reserves.

3.2 Monetary reserves

While repos are instruments used for liquidity management on the Swiss money market, and consequently for the daily implementation of monetary policy, monetary reserves constitute the means for making international payments. They are freely available and may be used in operations to defend the Swiss franc or the country’s external payments capability. At the end of last year, freely available reserves represented slightly less than twice the portfolio of assets denominated in Swiss francs, or around 55 billion Swiss francs. This figure does not take account of reserves that are already earmarked for distribution, namely the proceeds of the sale of 1,300 tonnes of gold, as well as the surplus provisions, whose distribution will be determined when the agreement signed with the Confederation, relating to the distribution of profits of the Swiss National Bank, is renewed in 2003.

The question of the optimum level of monetary reserves has already been the subject of interminable discussion, with the debate frequently heated and sometimes pseudo-scientific. The problem in this discussion arises from the fact that there is no objective yardstick to measure the optimum level of monetary reserves, just as there is no objective measurement for the amount of capital required to support an insurance for risks which are statistically unquantifiable. This question therefore leaves substantial scope for subjective interpretation. We consider that a small economy like ours, which is open to the outside world, deeply integrated in financial markets and not a member of any monetary zone, must hold substantial monetary reserves. If we compare our situation with that of other countries, it can be seen that we have larger reserves than other small European states, which is to be expected in view of our monetary independence and the size of our financial sector, but that other markets—in particular Singapore and Hong Kong—are well ahead of us.

A group of experts that debated the issue of the level of reserves estimated that half the stock of gold, namely 1,300 tonnes, could be used for purposes other than monetary policy. Parliament is currently debating the allocation of the proceeds from the sale of this gold. Subsequently, the nation will be asked to decide. The Swiss National Bank does not intend to become involved in the debate concerning the allocation of the proceeds of gold sales, but it does have a keen interest in ensuring that this transfer takes place in a manner that does not compromise its position on the markets.

On this issue, two mistakes must be avoided:

In the first place, it would be dangerous, as in the case of the popular initiative «for the payment of excess gold reserves of the Swiss National Bank to the Swiss old-age pension fund» (the Gold Initiative), not to specify exactly the amount of gold to be transferred. This initiative does not quantify the amount of excess gold. It leaves it to the law—and consequently to Parliament—to decide on the details. A provision of this nature is a Damocles sword for our reserves of precious metals and a major source of uncertainty for the gold market. How could we reach any credible agreements with other central banks if our gold sales depended on parliamentary decisions that were liable to be revised in the light of changing needs? How would the gold market react to parliamentary debates on this issue? Moreover, what would be the credibility of a central bank that could find itself deprived of part of its monetary reserves according to political circumstances?

The Council of States recently adopted a plan which will shortly be submitted to the National Council and which aims to divide the proceeds of sale of 1,300 tonnes of gold into three parts. Unlike the old-age pension initiative, this plan creates a perfectly clear framework and leaves no scope for future «slippage».

A second aspect, which concerns our excess reserves, is, in our view, important: contrary to the wishes of certain people, the Swiss National Bank cannot accept the responsibility of managing the assets representing the excess reserves. Why are we unable to accept this? Out of a concern for transparency and effectiveness: we wish to avoid any ambiguity as to the reasons for our actions in the markets. Let us take an example: if the euro weakened against the dollar and Swiss franc, would it be judicious for us to sell euros against dollars in order to limit potential losses on the assets under management, but at the risk of increasing pressure on the Swiss franc? Moreover, as it is also probable that these sums will be invested in Swiss securities, would it be possible for us to avoid problems of insider information, due to the fact that we would be taking important decisions concerning interest rates? And even if it were possible, how could we convince those watching us in the markets that we were not acting on the basis of this information?

If we were given the responsibility of managing the excess reserves, we would be faced with situations involving a conflict of interest. «No man can serve two masters at once» as the Scriptures say. This also applies to monetary policy. The central bank must deploy its resources exclusively in the service of its monetary mandate. Any diversification of its responsibilities damages the transparency of its actions and only serves to weaken it.

The idea of creating a separate fund, with responsibility for managing the proceeds from the sale of the 1,300 tonnes of gold, is thus a good solution.

The second widely debated question is the issue of our profits. In this area, our position is clear: once our operating costs have been covered and the provisions necessary to fund our monetary reserves have been raised, our profit is fully distributable. We see no difficulty on this point, as distribution has no impact on the conduct of monetary policy. The agreement on profits signed with the Confederation merely sets out the practical aspects of distribution. Thereafter, it is the responsibility of the Confederation and cantons to decide on allocation of these funds, within the framework of their budget. The Swiss National Bank is not prepared to give any advice on this point.

It is also essential that distribution of our profits should not be at the mercy of any political considerations. This would occur if the decision were taken to allocate part of our profits to the direct funding of some specific objective—financing the Swiss old-age pension scheme has been mentioned—instead of absorbing our profits into public budgets. Here again, our fear is that the action of the Bank might lack transparency: is the Bank conducting its operations with a view to ensuring a high yield on its assets, since funding of the old-age pension scheme depends on it, or is it giving priority to monetary policy? The same ambiguity exists as would be the case if the Swiss National Bank were responsible for managing excess reserves.

The draft law governing the Swiss National Bank creates an explicit legal basis for the definition of issues relating to the calculation and distribution of our profits. It provides for the SNB to raise provisions and thus maintain its monetary reserves at an adequate level. Since this question is of prime political importance, we proposed, during the consultation procedure, that our Bank Council—and not the Governing Board—should be the body empowered to approve the Bank’s provisioning policy. As regards the rules for distribution, these are unaltered since they are already clearly set out in the Constitution: two thirds of our profits are to go to the cantons, one third to the Confederation.

3.3 Amendment of the law governing the SNB

The draft amendment of the law governing the Swiss National Bank also envisages a certain number of further adaptations.

First and foremost, a welcome modernisation is included with regard to the Bank's available avenues for investment. Today, article 14 of our law defines very specifically which operations the bank can undertake in pursuance of its monetary policy. This article is somewhat old-fashioned and delightfully reminiscent of cheques, bills of exchange and rediscount. We are often far removed from the present-day reality of the markets and financial products. The draft law no longer sets out an exhaustive list of authorised operations, but instead gives the SNB the ability to act using the full panoply of market instruments. This approach will enhance our ability both to regulate market liquidity and invest assets, as well as to manage our risks.

The extension of our range also implies increased responsibility. We shall have to use these instruments without losing sight of the traditional principles of liquidity and safety, which are characteristics of the management of our assets. There can be no question of viewing the enlargement of our range of instruments as a convenient way of achieving higher returns, without taking account of the constraints of monetary policy.

The draft law also includes provisions giving us additional instruments for the supervision of payments systems. Significantly, it confers on us a mandate to facilitate and supervise non-cash payments. The SNB would, in particular, have the authority to impose operational conditions on the most important non-cash payment mechanisms. What was established between ourselves and the banks on a contractual basis at the time of the creation of SIC could soon become part of our regulatory remit.

In the consultation procedure, it appeared that this supervisory function should be extended to include settlement systems for securities operations. We are ready to make our contribution in this area and are currently drawing up, in collaboration with the Federal Banking Commission, a draft article covering this issue. Moreover, with a view to ensuring clarity in our mandate, we have proposed that a provision, requiring the SNB to contribute to the stability of the financial system, be included in the law. This stipulation will not only cover the specific responsibilities we shall have in the area of supervision of payment and settlement systems, but also our participation in the work of the Basel Committee alongside the Federal Banking Commission.

However, please do not imagine we are seeking wider powers! Giving us wider responsibility in the supervision of payment and settlement systems is merely a consequence of the fact that these systems have become essential elements in the smooth running of financial markets. The central bank, which has to ensure overall stability, cannot therefore ignore them.

I could not conclude this overview of the areas in which the draft law on the SNB envisages modernisation without mentioning the reform of our governing and supervisory bodies. Here, the objective is greater effectiveness rather than revolutionary change. As regards monetary policy, decisions will continue to be taken in future by a Governing Board body of three members. A number of central banks are organised rather differently. For instance, the FOMC and the Council of the European Central Bank are significantly larger bodies on which the regions are represented. The Bank of England's Monetary Policy Committee is made up of 9 members, of whom 4 are outside experts. With our college of three departmental managers, we are indeed a case apart. Our limited number enables us to conduct our business effectively and to communicate in a convincing way while protecting the diversity of internal opinions. The draft law does not propose any change in this respect.

On the other hand, a thorough reform of our Bank Council is envisaged. From its present complement of 40 members, our Bank Council is expected to reduce its membership to between 10 and 15, depending on the version that is finally adopted. This reduction in size is accompanied by reinforcement of the powers of the Bank Council in the area of supervision of the Bank's operations. In addition to its powers in the areas of appointments, counterparty credit assessment and risk supervision, the Bank Council will also have powers to determine provisioning policy, an essential determinant of profit distribution, as I have already mentioned. Our own preference is for a Council of 11 members, the majority of whom should be appointed by the Federal Council. A smaller Bank Council reinforces the commitment of its members and, we strongly believe, permits greater effectiveness.

4. Conclusions

The Swiss economy had an excellent year in 2000. Unemployment declined , growth was strong and company profits, for all sectors combined, reached record levels. 2001 has been marked by a fall-off in activity.

The economic slowdown has revealed the fragility of the world economy: signs of an upturn in the cycle are not yet discernible in the US, and the dollar remains under threat; Japan is unable to emerge from a long phase of stagnation and its financial sector is unsteady; emerging countries are suffering from the results of declining activity more acutely than other markets; European growth has slowed and the euro zone will soon be entering a crucial phase of its construction. These are all sources of uncertainty for an economy like ours which is not part of any monetary bloc and whose well-being depends, to a large extent, on its external trade.

In this environment, we are implementing an independent monetary strategy, with great emphasis on transparency, and whose goal is to preserve monetary stability in Switzerland. In this way we can give the Swiss economy the best chance of development over the medium term.

Preservation of the stability which Switzerland has acquired is a continuous struggle and one which requires us to have adequate means of intervention at our disposal. We are well placed in this respect. Development of the repo market will enable us to manage liquidity in the money market effectively, and we shall have substantial monetary reserves, even after disposal of half our holdings of precious metals.

When times are relatively easy, it is not always apparent why it is so useful for the central bank to be well endowed with instruments for intervention. There are quite enough uncertainties in international monetary relations to urge us to be prudent. We should bear in mind that a good level of monetary reserves is a safety cushion for the economy.

The draft law on the Swiss National Bank includes numerous technical improvements. As regards the mandate, it locks in our monetary system to price stability and clearly gives us new responsibilities in the area of supervision of payment systems. It is even planned to include supervision of systems for the settlement of securities transactions. By protecting the monetary stability of the country, and ensuring the stability of payment and settlement systems, the Swiss National Bank contributes to the country’s financial soundness. This contribution is of prime importance for the banks, but is just as essential for the development of the other sectors of the Swiss economy. Over the longer term, a stable financial environment underpins growth and employment.