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Abstracts

1. Conclusions for monetary policy

The National Bank sees no reason to change the present course of monetary policy in the near future. Even though the Swiss economy is showing favourable development still existing excess capacities are only being reduced gradually. The livelier demand is therefore unlikely to threaten price stability nor does the development of the monetary base and of the money stock M3 call for a tightening of monetary policy. Should the Swiss franc come under strong upward pressure we retain the option of taking appropriate countermeasures.

2. Economic and monetary policy developments

Monetary developments in Switzerland in the fourth quarter of 1997 were characterised by a slowdown in the expansion of the money supply and steady and moderate credit growth. While this trend remained unchanged for the broadly defined monetary aggregates at the beginning of the new year, the monetary base increased more rapidly in January and February. This reflected the generous supply of liquidity with which the National Bank counteracted the appreciation of the Swiss franc. Short-term interest rates, which had still risen slightly in October, receded markedly until mid-February. The Swiss franc rate, which had come under renewed upward pressure in January notably against the D-mark, subsequently weakened somewhat.

The economic situation continued to improve in the fourth quarter. Real gross domestic product rose by 2% compared with the previous year. The growth was again driven mainly by exports. These benefited from the favourable economic development in the OECD countries. The crisis in East Asia certainly cast a shadow on growth prospects but it hardly poses a serious threat to a further strengthening of business activity.

Stimuli also increasingly emanated from domestic demand, creating a broader base for the economic upswing. Private consumption picked up, and the recessionary trends in the building sector weakened. The slight rise in the employment level and the decline in jobless figures are signs of a gradual improvement in the labour market.

3. On monetary policy in 1998

In a paper delivered at the University of St Gallen on 14 January 1998, Hans Meyer, Chairman of the Governing Board of the Swiss National Bank, dealt with the characteristics of M3 as a monetary policy indicator. At its press conference in December 1997, the National Bank had announced that it would in future attach more weight to this monetary aggregate since the monetary base, on which it had principally relied in the past, had lost much of its indicator value. The money stock M3 shows a fairly stable relation to the price level in the long term. In the short term, however, the course of inflation cannot automatically be extrapolated from the aggregate's performance. The money stock M3 also reacts to the development of interest rates, albeit to a lesser extent than M1 and M2. This interest rate sensitivity is liable to make the money supply more difficult to interpret. The National Bank therefore needs to consult other indicators for assessing its monetary policy in the short term. These include, in particular, the development of the output gap, supply and demand levels in the labour market, exchange rates and long-term interest rates.

4. The financial relations between the SNB and the IMF

Switzerland became a member of the International Monetary Fund (IMF) in 1992, with the "Federal Law on Switzerland's cooperation in the institutions of Bretton Woods" constituting the legal basis. In terms of this law, the SNB is responsible for financial contributions to, and performing financial transactions with, the IMF. At the same time, the National Bank maintains the Swiss franc accounts of the IMF. This paper deals with the respective positions in the National Bank's balance sheet and the associated transactions and their effects on the National Bank's income statement.

5. Mobility of capital in the EU

This study investigates the extent of mobility of capital within the European Union by using the method of Feldstein and Horioka. The results suggest that the mobility of capital of all the national economies within the EU is still not satisfactory. In particular, the capital mobility of the nineties seems to show no improvement over that of the eighties. With respect to the planned monetary union, this implies that any asymmetric shocks can only be inadequately cushioned by capital flows. However, the introduction of a common currency may well lead to greater mobility of capital so that the results obtained here do not necessarily apply to the future.

6. Chronicle of monetary events

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1. Conclusions for monetary policy at the end of March 1998

In the past six months economic development in Switzerland was favourable and came up to our expectations. The main support of economic activity derived from exports, which benefited from the continuing upswing of the world economy. Increasing stimuli, however, also emanated from domestic demand, particularly private consumption. This positive development was accompanied by price stability. In January and February the consumer price index stood at the same levels as a year before, with the slight price rise for domestic goods just being offset by a moderate price fall for imported goods.

The situation on the labour market is showing gradual improvement. Job levels were maintained, and the prospects for employment are finally viewed more optimistically. In the months ahead private consumption is likely to receive a further boost from the brighter outlook. At the same time, the signs are increasing that investment activity is on the rise and that the construction slump is approaching bottom.

The broader base of the economic upswing reduces the danger of disruptions from abroad seriously jeopardising the recovery. For the past few months the renewed strength of the Swiss franc and the crisis in East Asia have been a cause for concern. Though Switzerland's economic involvement in East Asia is relatively modest, some sectors are likely to be hit by declining demand from this region. By and large, however, Switzerland's export prospects remain favourable. The vigorous economic growth in the English-speaking countries is expected to continue and the upswing on the European continent to gain momentum.

Swiss monetary policy is faced with the challenge of supporting the economic upswing and at the same time maintaining a high degree of price stability.

Between November 1997 and February of this year the National Bank eased its monetary policy. We counteracted, with a generous supply of liquidity, the appreciation of the Swiss franc set off partly by the crisis in East Asia and partly by the approaching European Monetary Union. This took account of the fact that the economic recovery still depended heavily on exports and was threatened by an appreciation of the Swiss franc.

While interest rates receded perceptibly in the past few months, the real export-weighted Swiss franc exchange rate was stronger than a year earlier. Despite the easing of monetary policy, monetary conditions were thus somewhat less expansionary than a year ago. The development of the monetary aggregates confirms this picture. The monetary base showed a slight decline in the fourth quarter, and the growth of the money stock M3 was reduced. While M3 continued to develop along the same lines at the beginning of the new year, the monetary base increased more rapidly in January and February. This reflected, mainly the abundant supply of liquidity by the National Bank, but partly also, the higher demand for banknotes.

In the coming months the National Bank expects a stronger expansion of the money stock M3, stimulated by lower interest rates, notably the decline in the average yield on federal government bonds. The seasonally-adjusted monetary base is forecasted to reach a level of Sfr 33.1 billion in the second quarter of 1998. Compared with the previous quarter and the fourth quarter of 1997, the monetary base will thus record only a slight increase. Its distance from the medium-term target path, which has temporarily risen in the first quarter, is likely to diminish. The quarterly forecast of the monetary base is, however, still fraught with considerable uncertainty as the demand for banknotes has been subject to strong fluctuations for quite some time. The introduction of a new one-thousand franc note moreover should temporarily increase these uncertainties.

The National Bank sees no reason for changing its present monetary policy stance in the near future. If, as expected, economic activity proceeds at a similar pace as in the recent quarters, the still existing excess capacities in the economy will only be reduced gradually. Moreover, deregulation in some sectors, particularly in telecommunications, and the resulting more intense competition are having a dampening effect on prices. There is thus no danger that the more vigorous demand will threaten price stability. The development of the monetary aggregates also does not call for a tightening of monetary policy. We are continuing to keep a close eye on the development of exchange rates. Should the Swiss franc come under strong upward pressure, we retain the option of taking appropriate countermeasures.

6. Chronicle of monetary events

No new measures in the field of monetary policy were introduced in the period under review.