Quarterly Bulletin, 4, December 2000

Contents

Abstracts

1. Monetary policy assessment at year-end

On 8 December 2000, the Swiss National Bank, in agreement with the Federal Government, 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%-4% since 15 June 2000, unchanged and, for the time being, keep the three-month rate in the middle of the target band. Since there are no discernible signs of a long-term threat to price stability, the National Bank refrains from another tightening of monetary policy. It expects that the economy will continue to expand, though at a slower pace. After a growth rate of 3.3% during the current year, it projects real gross domestic product to increase by 2.2% in 2001. The latest inflation forecast still gives a favourable picture of the future inflation trend. On average, the National Bank expects inflation to rise from 1.6% in 2000 to 2.1% in 2001. In the course of 2002, inflation is likely to drop below 2% again, i.e. to a level which the National Bank equates with price stability. The expected temporary deviation from the target of price stability can be explained by the vigorous acceleration of economic activity during the current year and, above all, by the massive rise in oil prices.

2. Economic and monetary developments

Following a surge of activity in the first half of 2000, the expansive forces in the OECD area weakened somewhat in the second half of the year. The significantly higher oil prices and the tighter monetary policy, with which the central banks of the industrialised countries endeavoured to prevent inflationary overheating, slowed down business activity. In the third quarter, the Swiss economy continued to develop at the more leisurely pace it had adopted in the second quarter. Compared with the previous year, real gross domestic product grew by 3.6% in the third quarter as against 3.8% in the second quarter. The economic upswing remained broadly based. Exports exhibited particularly dynamic development although domestic demand, notably private consumption and plant and equipment expenditure, also contributed to economic growth. Employment continued to rise, and unemployment figures declined once more. Annual inflation measured by consumer prices receded by 0.6 percentage points to 1.3% between July and October. Higher rents and a renewed rise in oil prices caused inflation to move up again to 1.9% in November. The National Bank left the target range for the 3-month Libor rate unchanged at 3%-4% in the third quarter. Swiss money market rates thus remained stable, on the whole. The yields on Confederation bonds with a residual maturity of 10 years also changed only negligibly.

3. Direct investment in 1999

Capital exports for direct investment abroad mounted by Sfr 27.2 billion to Sfr 54 billion in 1999. Capital holdings abroad grew by 21% to Sfr 308 billion. The number of persons employed in foreign subsidiaries and participations was unchanged at 1.61 million. Capital imports for direct investment in Switzerland increased by Sfr 4.1 billion to Sfr 17.1 billion. Foreign capital holdings rose by 25.7% to Sfr 124.6 billion.

4. Switzerland's investment position in 1999

Switzerland's net investment position mounted by Sfr 62 billion to Sfr 556 billion in 1999. Foreign assets expanded by 20% to Sfr 1972 billion. Liabilities increased by 23% to Sfr 1416 billion. Of decisive importance for the strong growth were new investments and the higher valuation of securities. 15% (previous year: 19%) of all foreign assets and 54% (61%) of liabilities were held in Swiss francs.

5. Core inflation in Switzerland

In this paper, two popular measures of core inflation are discussed and calculated using Swiss quarterly data for the 1983:1-2000:1 period. It is shown that the growth rates of the monetary aggregate M3 are in general more tightly correlated with future movements in core inflation than with unadjusted CPI inflation. Further evidence shows that several definitions of core inflation move closer with future CPI inflation than with CPI inflation itself. The most encouraging results are with the trimmed mean measures of core inflation, yet the size of the cut-off tails does not appear to matter for our findings.

6. Chronicle of monetary events

7. Table of contents 2000

— § —

6. Chronicle of monetary events

Unchanged target range for three-month Libor rate

At the media news conference of 8 December 2000, the Swiss National Bank published its inflation forecast for the years 2001-2003. It estimated the medium-term inflation risks to be more or less of the same order as in June 2000. Accordingly, it left the target range for the three-month Libor rate unchanged at 3%-4%.