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Abstracts

Economic and monetary developments

Business activity continued to improve in the OECD countries in the fourth quarter of 1996. In the United States, the pace of economic growth accelerated. Supported by strong domestic demand, the British economy exhibited further vigorous expansion. In continental Europe and Japan, by contrast, the economic stimuli emanated predominantly from exports, while domestic demand remained muted. Given lacklustre growth, the central banks of France and Italy again relaxed their monetary policies. In the United States, in Japan and in Germany benchmark rates were left unchanged. The British monetary authorities slightly lifted the benchmark rate at the end of October.

In Switzerland, real gross domestic product again fell short of the previous year's level in the fourth quarter. Domestic demand weakened significantly. Major factors were the steady decline of building investments and the substantial reduction of stocks. By contrast, exports of goods and services expanded slightly compared to a year earlier. The situation on the labour market deteriorated markedly. The unemployment rate rose by more than a percentage point from the previous year's level. Measured by consumer prices, inflation increased slightly owing to the decline of the Swiss franc. The seasonally-adjusted monetary base rose vigorously in the fourth quarter, removing it further from the medium-term target path. Both sight deposits at the SNB as well as bank note circulation expanded to an unexpected degree. Money market rates continued to fall. The growing interest rate advantage of DM and dollar investments contributed to the marked depreciation of the Swiss franc.

A Monetary Conditions Index for Switzerland

The Monetary Conditions Index (MCI) - a combination of interest rates and exchange rates - has been in use in Canada as a short-term guideline for monetary policy for several years and has, in the meantime, also attracted the attention of other central banks. In this paper, an MCI for Switzerland is developed, and its suitability as a guideline for monetary policy is compared to that of the monetary aggregates. We conclude that the MCI is not as useful as a monetary policy indicator as the monetary aggregates.

Swiss franc bonds in 1996

Since 1 February 1996, the banks have been obliged, under Article 7 of the Banking Law, to report the issue of Swiss franc bonds to the Swiss National Bank. In 1996, the gross volume of new issues of Swiss franc bonds shrank by 9% to Sfr 57.6 billion. Four-fifths of this amount were accounted for by straights. Borrowing declined both in the Swiss and foreign sectors, partly due to a considerable weakening of the Swiss franc during the year under review. In contrast to developments in Switzerland, borrowing on the international financial markets showed a marked increase. The market share of the Swiss franc in 1996 is thus likely to have reached a historically low level.

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Chronicle of monetary events

Message concerning the reform of the Federal Constitution

On 20 November 1996 the Federal Council passed the revised draft of a new Federal Constitution with the relevant message. The inclusion of an article on the monetary structure is an important element of the reform project. Article 89 of the draft Constitution replaces the former provisions in Art. 38 (coinage clause) and Art. 39 (central bank clause) of the Federal Constitution. The concisely worded article on monetary policy closes the gap between the monetary order in its written form and its practical application. The legal link between the Swiss franc and gold will be severed, clear evidence that the transition to flexible exchange rates has been accepted as a reality. At the same time, this move takes due account of Switzerland's international law commitments within the IMF. The Swiss National Bank's independence will be embodied in the Constitution, and the National Bank will be obligated to create adequate foreign currency reserves from its earnings. The obligation to create adequate foreign currency reserves replaces the constitutional obligation to provide cover for banknotes in circulation in gold and foreign exchange.