

Quarterly Bulletin, 2, June 1997

Abstracts

Economic and monetary developments

Economic growth in the OECD countries strengthened in the first quarter of 1997. The chief stimuli again emanated from the Anglo-Saxon countries. While the vigorous growth remained broadly based in the United States, consumer demand was the driving force in the United Kingdom. In Germany and France, as well as in Japan, the economic revival was still mainly propelled by exports. Italy as yet witnessed no signs of a pickup in business activity. The Italian central bank therefore lowered benchmark rates significantly. The Banque de France also slightly reduced interest rates; monetary policy in Germany and Japan, however, remained unchanged. The strong economic expansion induced the Federal Reserve and the Bank of England to raise their key rates.

In Switzerland numerous factors seem to show that the economic decline was arrested in the first quarter. According to available indicators, gross domestic product is likely to remain largely unchanged from the previous period. Unemployment continued to rise on a seasonally-adjusted basis. Nevertheless, there was a slight increase in the number of unfilled jobs. Inflation remained at a low level. The monetary base expanded markedly and continued to exceed the medium-term target path. Sight deposit balances and particularly banknote circulation rose more vigorously than expected. Short- and long-term interest rates declined in the first half of the quarter, only to move up again somewhat in the second half; in April, they averaged 1.8% and 3.6% respectively. The Swiss National Bank reacted to the distinctly stronger Swiss franc in May with a liberal supply of liquidity. Consequently, short-term interest rates receded markedly.

General Meeting of Shareholders

In his speech the President of the Bank Council, Jakob Schönenberger, addressed the question of whether the function of the Bank Council is still defined in keeping with the times. The Bank Council is the National Bank's supervisory authority. The prolonged discussions during the establishment of the National Bank culminated in a regulation of responsibilities which created favourable conditions for a stability-oriented monetary policy. The clear division between management and supervision provides the Governing Board with the necessary leeway for conducting an independent monetary policy and adequately protects the National Bank from political pressures. The large number of members in the Bank Council compared to the private sector, however, seems somewhat outdated.

The Chairman of the Governing Board, Hans Meyer, sees the National Bank confronted with two challenges. On the one hand, it must maintain the price stability it made such great efforts to achieve. Under the threat of deflation, monetary policy was relaxed. Yet the money supply may not be allowed to expand at the present high rate much longer if a new inflation potential is to be avoided. The Bank will react appropriately to any unexpected developments which could prove detrimental to the Swiss economy without losing sight of the goal of price stability. On the other hand, the National Bank is faced with the task of bringing the reform of the Swiss monetary structure to a successful conclusion. Not only is the Constitution to be adapted to the radically changed monetary situation, but the National Bank's position is also to be reinforced by the revision. To end with, Hans Meyer, expressed his full support for the Swiss Foundation for Solidarity.

Yield curves and their information content for the SNB's monetary policy

In this paper, zero-coupon yield curves are estimated for Switzerland. They are then analysed with respect to their information content for monetary policy. Specifically, the question of whether the currently expansionary monetary policy of the Swiss National Bank has led to an increase in inflation expectations is investigated. It is found that the latest movements in the yield curve provide no indication of higher inflation expectations.

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Jakob Schönenberger

Opening speech at the General Meeting of Shareholders of April 18 1997

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Daniel Heller

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Chronicle of monetary events

Message concerning the partial revision of the National Bank Law

On 17 March 1997 the Federal Council submitted a message concerning the partial revision of the National Bank Law to the federal parliament. The revised law will grant the SNB more flexibility in

investing its currency reserves by benefiting from the innovations in the financial markets. It will permit the SNB to achieve higher earnings and thus to distribute higher profits to the Confederation and the cantons.

Currently, the National Bank Law limits the maturities of foreign exchange reserves to one year. If maturity restrictions on marketable investments were lifted, profits on foreign exchange reserves could be significantly increased since, on average, long-term investments produce higher yields than short-term ones. Moreover, the use of derivatives for steering market risks and gold lending are to be allowed in future. The proposed adjustments should permit the SNB to achieve total higher earnings of approximately Sfr 400 million. At present, the SNB's distribution of profits amounts to a maximum of Sfr 600 million annually. Furthermore, the minimum gold coverage of banknote circulation is to be reduced from currently 40% to 25%. Since note circulation has risen constantly over time while gold holdings have remained unchanged, the legal backing regulation is now only just fulfilled. Engaging in gold lending business might therefore mean that the SNB no longer complies with the backing regulation of 40 percent during the lending period. If the coverage rate were lowered to 25%, however, this would create the necessary room for manoeuvre. Finally, the SNB is to be exempted from direct federal tax. This tax is not very meaningful as it only leads to a corresponding reduction in the distribution of profits to the Confederation and the cantons. Overall, the transfer of financial funds to the public sector remains unchanged.