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Abstracts

Economic and monetary developments

Economic activity developed unevenly in the major industrialised countries in the second quarter of 1997. While in the United States and in the United Kingdom the economy grew vigorously and across a broad front, Japan and the European continent witnessed an erratic recovery. In Germany and France exports were a major pillar of the economy; domestic demand, however, on the whole remained sluggish. Italy contrasted with this picture, with economic expansion, still weak as yet, being supported primarily by private consumption. Because the danger of inflation was negligible, the central banks of the United States, Japan, Germany and France left the benchmark rates unchanged in the second quarter. In the United Kingdom the central bank tightened monetary policy in order to prevent overheating of the economy. Italy lowered its key rates. Long-term interest rates were, by and large, on a slight decline. The foreign exchange markets were characterised by the high-flying dollar and a pronounced D-Mark weakness in the second quarter. In July the currencies of various countries in Southeast Asia depreciated, some of them substantially.

In Switzerland, the economic situation improved in the second quarter, largely as a result of increasing exports. Domestic demand remained muted on the whole; while private consumption rose slightly, building investment declined. The latest tests concerning business activity have indicated a further possible amelioration in the second half-year. In the period under review the National Bank provided the banks with abundant liquidity in an attempt to counteract the rise of the Swiss franc. Subsequently money market rates receded. With the danger of inflation almost banished long-term interest rates again fell slightly. The monetary base grew less rapidly than in the previous period, but remained above the medium-term target path.

The implications of the Monetary Union for minimum variance portfolios

The Maastricht Treaty provides for the creation of a Monetary Union (EMU) in 1999, which implies the introduction of a single currency: the euro. The introduction of the euro will affect investors' portfolio choices in two ways. First, the replacement of the national currencies of the member countries by the single currency will narrow the possibilities of diversification. Second, the risk profile of euro investments will not be the same as that of the former investments in the national currencies. This study analyses the implications of these two factors for minimum variance portfolios. The investment possibilities comprise the bond and stock indexes of Europe, Japan and the United States. We estimate the minimum variance portfolio for investors located inside and outside EMU on the basis of three different scenarios: A stable EMU, with a euro having the properties of the former German mark; an unstable EMU, with a euro having the properties of the former Italian lira; a mixed EMU, with a euro having an equal chance of corresponding to the mark or the lira.

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Chronicle of monetary events

Partial revision of the National Bank Law

On 12 June 1997, the National Council passed a bill of the Federal Council for the partial revision of the National Bank Law (cf. Quarterly Bulletin No. 2/1997) without amendments, followed by the Council of States on 20 June 1997. The deadline for a referendum expires on 9 October 1997.

Message concerning the SNB's participation in the Holocaust fund

On 25 June 1997, the Federal Council submitted a message concerning the SNB's participation in the fund for the benefit of needy victims of the Holocaust/Shoah to the federal parliament. By means of a generally binding federal decree the SNB is to be put in a position to pay Sfr 100 million into the fund in favour of needy Holocaust victims, which the Federal Council set up on 26 February 1997. Without prejudice to the assessment of its gold transactions during the Second World War by the Bergier Commission of Experts, the SNB's contribution is intended to express that from today's vantage point the political and moral implications of the monetary strategy of the time were not sufficiently taken into account. The contribution is meant as an immediate measure with which Switzerland officially joins the private sector in its efforts to provide support to Holocaust victims in need.

Prolongation of the ESAF II loan agreement between the SNB and the IMF

At the beginning of September 1997, the loan agreement between the SNB and the IMF concerning participation in the Enhanced Structural Adjustment Facility (ESAF II) was prolonged by two years until 31 December 2001. This adjustment became necessary after the IMF had extended, in autumn 1996, the period during which credit commitments to countries can be made under this facility. Under ESAF, the poorer developing countries are granted credits at reduced interest rates if they agree to implement a stabilisation and structural adjustment programme.