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Abstracts

Monetary policy in 1998
The Governing Board of the Swiss National Bank, in agreement with the Federal Government, does not envisage a tightening of monetary policy in 1998. It retains the option of deviating from its monetary course in the event of disruptions in the financial markets.

Economic and monetary developments
In the third quarter of 1997, the economic upswing in the OECD countries strengthened. In the United States and the United Kingdom the economy again expanded vigorously, and on the European continent the recovery gained momentum and became more widespread. In Japan, by contrast, the economic recovery suffered a severe setback. The Bank of England tightened the monetary reins in order to prevent overheating of the economy. The German Bundesbank and five other European central banks also lifted interest rates somewhat. The Bank of Japan, on the other hand, adhered to its expansionary monetary course.

In Switzerland, real gross domestic product continued to rise in the third quarter. The chief stimuli emanated from exports but domestic demand also picked up. A slowdown in the decline of employment levels and the rise in the "Manpower" job offer index were evidence of a gradual improvement in the labour market. Inflation remained at a constantly low level. As economic activity continued to improve, the SNB allowed money market rates to rise somewhat in October. The monetary base still clearly exceeded the medium-term target path, while expanding at a slower rate.

The Architecture of Real Time Gross Settlement Systems
Real Time Gross Settlement Systems (RTGS) are now standard practice for the transfer of interbank payments. This contribution analyses various models on which international opinion is divided. The discussion is based on a concrete example, Swiss Interbank Clearing (SIC), which has been in operation since 1987. The study deals with information flows between banks and the central bank, backing regulations for payment orders, queuing arrangements and issues of cost structure.

Central bank independence and the cost of disinflation
Empirical studies show that countries with independent central banks have higher sacrifice ratios, i.e. larger output losses for a percentage point reduction in inflation. This paper presents an overview of the literature and discusses the reasons for the empirical relationship. The paper shows that countries with independent central banks do not suffer larger output losses during a period of disinflation, but that instead inflation is reduced less markedly. This suggests that the high sacrifice ratio exhibited by countries with independent central banks stems from their lower inflation rates. It is also shown that the empirical relationship is sample dependent; in particular it depends on whether Germany is included or excluded.

Direct investment in 1996
Capital exports for direct investment abroad increased by Sfr 6 billion in 1996, while capital holdings rose from the previous year's level by approximately 20% to Sfr 196 billion. Capital imports for direct investment in Switzerland grew by Sfr 0.8 billion to Sfr 3.4 billion compared with a year earlier. Foreign capital holdings expanded from Sfr 66 billion to Sfr 72 billion.

Switzerland's investment position in 1996
Both Switzerland's foreign assets and foreign liabilities rose markedly in 1996. More than half of the increase is accounted for by investment activity in 1996. The net investment position expanded by 18% to Sfr 412 billion.

Chronicle of monetary events

Report of the group of experts "Reform of the monetary order"
On 24 October 1997, the group of experts dealing with "Reform of the monetary order" presented its report to the public. The group of experts, which included academics as well as representatives of the Federal Finance Department and the Swiss National Bank, was set up on 18 April 1997 by the head of

the Federal Finance Department. The new article of the Constitution on "Money and currency" drafted by the group of experts severs the legal bond between the Swiss franc and gold, a tie that in actual practice has long since lost its relevance. The group of experts further suggested that the central bank's mandate, which has been defined in rather broad terms, should be laid down in more detail in the Constitution by obligating the National Bank to orient its policy primarily to the goal of price stability. As far as is possible without jeopardising this goal, the National Bank is to support the government's general economic policy. This direct obligation of the central bank to maintain the purchasing power of the Swiss currency is intended as a first form of compensation for relinquishing the link with gold. As a second form of compensation for abandoning the gold standard, the group of experts proposed that the National Bank's independence should be embodied in the Constitution. In compliance with its mandate, the group of experts also investigated what level of monetary reserves was required for implementing monetary policy if the gold reserves, which have always been immobilised, are to become normal and marketable central bank assets. When the National Bank's current foreign exchange reserves are compared with those of central banks in other countries of a similar structure and size as Switzerland, unhedged foreign exchange reserves of approximately Sfr 30 billion seem adequate in relation to gross domestic product. In order to make an effective contribution to the stability of the Swiss financial centre, the group of experts considered additional foreign exchange reserves of Sfr 10 billion or more to be necessary. Based on a careful valuation, this would be equivalent to total gold holdings of approximately 1,200 tonnes. The group of experts proposed that the National Bank show 1,400 tonnes of fine gold separately from its balance sheet in order to make this national wealth available for other public purposes. In this way conflicts of interest between the National Bank as monetary authority, on the one hand, and as asset manager, on the other, can be avoided.

Participation of the SNB in the Holocaust Fund

At its meeting of 31 October 1997, the Bank Council of the SNB approved a payment of Sfr 100 million by the Swiss National Bank into the fund for needy victims of the Holocaust/Shoah. In so doing, it followed a proposal by the Bank Committee and the Governing Board. The amount was credited to the Fund's account on 3 November. The National Bank had already expressed its willingness to make such a humanitarian gesture in spring 1997. When parliament decided to deny the motion submitted by the Federal Council to create a special legal basis for this payment, it was made possible for the National Bank to act on its own responsibility.

Message concerning General Arrangements to Borrow (GAB)

With its message of 12 November 1997 the Federal Council submitted the Federal Decree on the extension of Switzerland's participation in the General Arrangements to Borrow (GAB) of the IMF to the federal parliament. Switzerland has been associated with the GAB since 1964 and has been a participant since 1984; the Swiss National Bank is the participating institution. In the event that the IMF finds itself short of funds, the GAB permit it to borrow additional funds to the amount of 17 billion SDRs for the purpose of warding off or resolving an extraordinary crisis threatening the international monetary system. The loan commitment of the National Bank amounts to 1 020 million SDRs. The GAB are valid for five-year periods; in keeping with this, any extension of Switzerland's paricipation has so far been decided by the federal parliament every five years. In future, this will be the responsibility of the Federal Council, with the prior agreement of the National Bank. The GAB currently in force are due to expire at the end of 1998.

Switzerland's adherence to the New Arrangements to Borrow (NAB)

On 9 October 1997, the Council of States approved Switzerland's adherence to the New Arrangements to Borrow (NAB), followed by the National Council on 18 December 1997. At the beginning of 1997, the Executive Board of the IMF had approved the NAB, which constitute parallel agreements to the GAB. With its message of 14 May 1997, the Federal Council submitted a proposal for Switzerland's adherence to the NAB to the federal parliament. The NAB have the objective of doubling the amount of currency available to the IMF under the GAB to respond to financial emergencies from SDRs 17 billion to SDRs 34 billion. In addition to the participants in the GAB, fourteen new participants (industrial countries and NICs) are to adhere to the NAB. The credit arrangement of the National Bank, which is also to be the participating institution in the NAB, will amount to 1 557 million SDRs. At the same time. this amount is the upper limit of commitments under the GAB and the NAB since these two facilities cannot be drawn on with cumulative effect. Like the GAB, the NAB are concluded for five-year periods and can be renewed. On a national level, the same regulations shall apply to renewal as are also envisaged for the GAB in future.