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Abstracts

1. Monetary policy decisions of the Swiss National Bank for 2000

The Swiss National Bank, in agreement with the Federal Government, plans to tighten monetary policy somewhat in the coming year 2000. The National Bank continues to support the economic upswing with its policy, without jeopardising price stability in the long term.

The National Bank will no longer fix money supply targets but will henceforth base its monetary policy decisions mainly on an inflation forecast, which will take all relevant indicators - notably the money stock M3 - into account. As in the past, the National Bank will primarily orient its monetary policy to the preservation of price stability, thereby striving to prevent inflationary or deflationary trends. Price stability is considered to have been achieved with an inflation rate, measured by the national consumer price index, of less than 2% per annum.

In the field of money market steering, the National Bank introduces an innovation in that it fixes a target range for the three-month Swiss franc money market rate. For the time being, it will aim at keeping this rate within a range of 1.25% - 2.25%. It will allow the three-month rate, which - adjusted for the end of month - was at the lower end of the target range in mid-December, to move towards the middle of the band in the coming months. In the year 2000 the National Bank expects real gross domestic product to increase by 1.8%. Inflation will probably rise to 1.5%.

2. Economic and monetary developments

The recovery of the world economy, which was slowly emerging during the first six months of 1999, strengthened in the second half-year. In the OECD countries, economic growth accelerated, particularly also due to the renewed rise in demand from East Asia. The US economy grew vigorously and thus continued to be a major pillar of the world economy. In Europe, too, business activity gained momentum, and in Japan the economic situation brightened.

In Switzerland, real gross domestic product increased by 1.6% in the third quarter from the previous year's level, compared with 1.1% in the second quarter. The two major pillars of the economy were private consumption and exports. Employment levels continued to rise only slowly, nevertheless employment prospects improved. In the wake of markedly increasing oil prices, inflation again moved up somewhat between June and November.

In the third quarter, monetary development in Switzerland was characterised by a moderate expansion of the money supply and rising lending activity. With long-term interest rates already having mounted slightly since June, short-term interest rates likewise began to move up in mid-September. This to some extent reflected the banks' fears of possible liquidity bottlenecks at year-end 1999/2000. At the beginning of November, the National Bank decided against raising Swiss money market rates in tandem with the European Central Bank. Previously Swiss interest rates had exhibited a stronger uptrend than those in

the euro area; in particular, the National Bank had already lifted the refinancing rates somewhat at the end of September, thus taking account of the improved economic situation.

3. Direct investment in 1998

At Sfr 24 billion, capital exports for direct investment abroad fell short by Sfr 2 billion of the year-earlier level in 1998. Capital holdings abroad rose by 4% to Sfr 250 billion, and the labour force expanded by 3% to 1.61 million persons employed. Capital imports for direct investment in Switzerland increased by Sfr 1 billion to Sfr 11 billion. Foreign capital holdings in Switzerland reached Sfr 96 billion, up by 11% from the previous year's level.

4. Switzerland's investment position in 1998

Switzerland's net investment position increased by Sfr 38 billion to Sfr 487 billion in 1998. Foreign assets amounted to Sfr 1640 billion (+12%) and liabilities to Sfr 1153 billion (+13%). The Swiss franc again lost in significance. Approximately 20% of all foreign assets and a little over 60% of liabilities are held in Swiss francs.

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5. Chronicle of monetary events

Increase of the credit ceiling provided for in the Federal Decree on Switzerland's cooperation in international monetary measures enters into force

In June 1999, the Federal Parliament approved the Federal Council's proposal to double the credit limit provided for in the Federal Decree on Switzerland's cooperation in international monetary measures from 1 to 2 billion francs. The term of a credit may not exceed seven years. After no referendum had been sought by the 7 October deadline, the Federal Council put the change into force effective 1 December 1999.

Federal Parliament adopts the federal law on currency and payment instruments

On 5 October 1999, the National Council dealt with the Federal Council's message and draft for a new federal law on currency and payment instruments (cf. page 55 of 2/1999 Quarterly Bulletin, in German and French). The lower chamber left the draft legislation largely unchanged. It was only in the area of coinage where it did not go along with an innovation proposed by the Federal Council, i.e. to do away with the obligation to obtain approval for manufacturing coin-like objects and instead opt for a direct penal provision. In its December session, the Council of States in turn followed the motions submitted by the Federal Council while at the same time enshrining the possibility of privatising the Federal Mint in the law. In the conciliation procedure, the National Council adopted the version of the Council of States in full. On 22 December 1999, in the final vote in the two chambers, the federal law on currency and payment instruments was approved by a large majority.