

# Quarterly Bulletin, 1, March 2001

## Contents

Abstracts

Monetary policy decisions

Economic and monetary policy developments

Yvan Lengwiler: MoPoS – A monetary policy simulation game

Chronicle of monetary events

## Abstracts

### 1. Monetary policy decisions

The National Bank decided on 22 March 2001 to lower the target range for the 3-month Libor rate by 0.25 percentage points to 2.75%-3.75%. Compared with the end of last year, the pressure on prices has eased slightly. Moreover, currently there is no indication that price stability might be threatened in the medium term, thus permitting a slight lowering of the interest rate. Economic development in Switzerland has slowed down; nevertheless, the outlook remains favourable. The risks in the international environment have increased, however. The National Bank intends to keep the interest rate in the middle of the target range for the time being. Monetary policy was last adjusted on 15 June 2000, when the National Bank raised the target range for the 3-month Libor rate by half a percentage point to 3%-4%.

### 2. Economic and monetary developments

In the second half of 2000, economic activity in the US cooled markedly. In January and March, the Fed countered this development by lowering its key interest rates by a total of 1.5 percentage points to 5%. The economic downturn in the US increased worldwide the uncertainty of future economic growth. Particularly in Japan, there was a growing danger of another downswing. In Europe, too, the forces of economic recovery abated, albeit less markedly than in the United States. Prospects in Europe, however, continue to be assessed optimistically.

In Switzerland, the economic situation remained healthy in the fourth quarter. At just under 2%, the growth of real gross domestic product was approximately in line with the long-term growth trend. Both domestic and export demand continued to rise and unemployment figures again receded slightly. According to the available indicators, domestic demand and exports are likely to have again developed favourably in the first quarter. In the export sector, however, there were signs of a slowdown in the months ahead. In the period from November to February, annual inflation measured by consumer prices receded from 1.9% to 0.8%. This unexpected decline in inflation was mainly due to the significant fall in prices for heating oil and petrol. Domestic inflation, by contrast, edged up slightly from 1.1% to 1.3%. The National Bank left the 3-month Libor rate in the middle of the target range of 3%-4% from October to February. The yield on Confederation bonds with a maturity of 10 years fell by 0.3 percentage points to 3.6% between October and February. From November to February, the export-weighted external value of the Swiss franc rose slightly in nominal terms. In real terms, however, it remained almost unchanged.

### 3. MoPoS - A monetary policy simulation game

MoPoS is a computer game in which users can assume the role of a central bank and simulate monetary policy in a simple virtual economy. The computer program was created to sensitise users to the potential and the difficulties of monetary policy. It does not require any special previous knowledge and is aimed at both interested lay persons and students. Since model specifications can be changed and set any way the user wishes (monetary policy reaction function, parameter values, the properties of shocks), there are numerous possibilities to use the game. The software can be obtained from the Swiss National Bank.

#### **4. Chronicle of monetary events**

##### **Lowering of the target range for the three-month Libor rate**

On 22 March 2001 the National Bank lowered the target range for the 3-month Libor rate by 0.25 percentage points to 2.75%-3.75%. With this step, the Bank reacted to an easing of the inflationary threat and growing economic risks.

##### **Total revision of the National Bank Law - consultation procedure opened**

On 16 March 2001, the Federal Council opened the consultation procedure on the total revision of the National Bank Law on the basis of the draft law and the report submitted by the group of experts Reform of the monetary order. Major points of reform in the draft submitted for the consultation procedure are a detailed definition of the central bank mandate and of the SNB's independence, as well as the introduction of accountability vis-à-vis the Federal Council, the two chambers of parliament and the public. In addition, the central bank instruments are given more flexible and up-to-date definitions. Provisions concerning the calculation and distribution of the SNB's profits are also to be laid down in detail in the law. Finally, the organisational structure of the National Bank will be streamlined. The period for the consultation procedure ends on 15 July 2001.