

# Quarterly Bulletin, 2, June 2002

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## Overview

### 1. Monetary policy assessment at mid-year

On 14 June 2002, the Swiss National Bank decided to leave the target range for the three-month Libor rate unchanged at 0.75%-1.75%. For the time being, the three-month Libor is to be kept in the middle of the target range. Monetary policy was last adjusted on 2 May 2002, when the target range was lowered by 0.5 percentage points.

### 2. Economic and monetary developments

In the first half of 2002, there were growing signs worldwide of an economic recovery. The upswing in the three major economic areas developed at a different pace, however, and was not yet broad-based. While real GDP in the United States increased vigorously, growth in Europe remained modest. In view of the generally still fragile economic situation and low inflationary threats, the central banks of the major industrialised countries left their short-term interest rates unchanged.

In Switzerland, too, real GDP rose only slightly in the first quarter. Positive momentum was created mainly by private consumption. Equipment investment and exports, however, continued to shrink. With employment still on the decline, the jobless rate rose further until May. The annual inflation rate as measured by the national consumer price index fell to 0.6% in May after having climbed to 1.1% in April largely due to higher oil prices.

Monetary conditions in Switzerland were characterised by the appreciation of the Swiss franc. To counter a tightening of monetary policy, the National Bank lowered the target range for the three-month Libor rate by half a percentage point to 0.75%-1.75% on 2 May. While short-term money market rates fell significantly as a result, the yield on ten-year Confederation bonds remained at 3.5%.

### 3. Annual General Meeting of Shareholders

At the Annual General Meeting of Shareholders of 26 April, the retiring president of the Bank Council of the Swiss National Bank, Eduard Belser, elaborated on the Bank's annual financial statements for 2001 and on the new profit distribution agreement with the Confederation. In addition, he presented the Study Centre Gerzensee and discussed issues of international cooperation. In conformity with the new agreement between the Federal Department of Finance and the National Bank, annual profit distribution is to be increased in future from currently Sfr 1.5 billion to Sfr 2.5 billion. The agreement is valid for a period of ten years, with the Confederation and the cantons receiving a higher distribution as early as from spring 2003.

The chairman of the Governing Board of the National Bank, Jean-Pierre Roth, commented on the economic development and on monetary policy. In 2001, economic activity declined markedly both in Switzerland and abroad. The National Bank eased monetary policy significantly in the course of 2001. The purpose of this easing was to create monetary conditions conducive to a renewed economic

upswing, sustained growth and stable employment levels. In the last part of his speech, Jean-Pierre Roth informed the General Meeting about the total revision of the National Bank Law and dealt with some aspects of the new profit distribution agreement with the Confederation.

#### **4. Terms-of-trade changes and real GDP: Evidence from Switzerland**

In most international comparisons, Switzerland is found to be lagging in terms of real growth, and yet to be among the lead nations when it comes to standards of living. This paper shows that this paradox is due, at least in part, to a measurement problem. The conventional measure of real GDP does not properly account for terms-of-trade changes. Over the past 20 years, the Swiss terms of trade have improved very substantially. As a consequence, the increase in real GDP has underestimated the Swiss growth performance by nearly 0.6 percentage points annually on average.

#### **5. On the calculation of bond yields in the SNB's Monthly Statistical Bulletin**

For some time now, the Swiss National Bank has published yields on synthetic zero-coupon bonds (spot interest rates) instead of the average yields to maturity of a fixed bond basket. The spot interest rates permit clear conclusions about the relationship between the maturity and the interest rate (interest rate curve). Since almost no zero-coupon bonds are issued in the Swiss capital market, spot interest rates have to be estimated based on the prices and other features of the coupon bonds traded in the market. This essay elaborates the fundamentals of the spot interest rates calculated by the National Bank and illustrates the differences between observed and estimated values.

#### **6. Chronicle of monetary events**

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

On 2 May 2002, the National Bank lowered the target range for the three-month Libor rate by half a percentage point to 0.75%-1.25%. With this move, the National Bank reacted to the rapid appreciation of the Swiss franc against the major currencies, which had led to an undesirable tightening of monetary policy.

##### **News conference of 14 June**

The National Bank decided to leave the target range for the three-month Libor rate unchanged at 0.75%-1.75%. It will thus maintain its expansive monetary policy stance for the time being, as uncertainties regarding the upswing in Switzerland persist.

##### **Total revision of the National Bank Law**

##### **Passage of message and draft law**

On 26 June 2002, the message on the total revision of the National Bank Law (NBL) was passed by the Federal Council and submitted to the Federal Assembly. In essence, the new NBL defines the constitutional mandate and the independence of the central bank and introduces, as a supplement to central bank independence, an accountability obligation of the Swiss National Bank. Moreover, the SNB's scope of business and its sovereign instruments are adjusted to today's requirements. With regard to the National Bank's profits, the revised NBL adopts the profit distribution rule already stipulated in the Constitution (1/3 for the Confederation, 2/3 for the cantons). At the same time, the calculation of profits is laid down in more detail. Finally, the organisational structure of the SNB is streamlined.