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Abstracts

1. Monetary policy assessment

On September 17 and 24 the Swiss National Bank lowered the target range for the three-month Libor rate by 0.5 percentage points each to 1.75%-2.75%. The first cut followed on the heels of similar moves by the Federal Reserve Board and the European Central Bank. In addition to the risks in the international environment, which had grown considerably in the wake of the devastating terrorist attacks on the World Trade Centre in New York and the Pentagon in Washington on 11 September, declining economic growth in Switzerland also called for an easing of monetary policy. The move of 24 September came as a reaction to the marked and rapid appreciation of the Swiss franc against the euro.

2. Economic and monetary developments

In the summer half-year 2001 the economy continued to weaken in all the three big economic areas, and growth forecasts for the current year were revised downward. Economic activity in the United States and Europe saw only minimal growth rates in the second quarter, and recessionary trends in Japan strengthened. Central banks responded to the economic downturn and easing inflationary threats by relaxing the monetary reins significantly.

The terror attacks of 11 September rocked the financial and capital markets all over the world. In order to counter the increased threat of recession central banks made further cuts in their key interest rates. On 17 September, the Fed lowered the call money rate by another 0.5 percentage points to 3%; the Bank of Canada, the ECB, the SNB and the Swedish central bank followed suit immediately. The following day, the Bank of England as well as the Danish central bank and the Bank of Japan eased monetary policy as well.

The Swiss economy lost momentum in the second quarter. Real gross domestic product grew by 1.7% compared with the previous period (at an annualised rate), which was barely equivalent to the long-term growth trend. While private consumption and building investment remained important engines of growth, capital spending and exports weakened markedly. The economic slowdown, particularly apparent in the industrial sector, also had an impact on the labour market. Employment figures receded for the first time since 1997, and the jobless rate edged up slightly until August. Leading indicators point to a continued slowdown in economic growth through the end of the year. Annual inflation measured by consumer prices receded by 0.7 percentage points to 1.1% between May and August. This decline was in part due to cheaper prices for petrol. After remaining practically constant between April and August, short-term interest rates recorded a slight drop following the lowering of the target range for the three-month Libor on 17 September. Mounting political uncertainties pushed up the Swiss franc substantially against the euro in the second half of September, leading to an undesirable tightening of monetary conditions. As a result, the National Bank undertook another 0.5 percentage rate cut in the target range for the three-month Libor to 1.75-2.75%.

3. Revision of the exchange rate indices

The launch of the euro has prompted the SNB to revise the basis for calculating the export-weighted exchange rate indices. The changes primarily concern the group of countries included in the index and the method of calculation (Törnqvist index). Export-weighted indices will henceforth also be published for Europe, the euro currency area, North America and Asia. The article introduces the new indices and explains the methodical basis.

4. Gearing ratios – A survey

After the 1988 Basel Capital Accord, risk-weighted capital adequacy rules became widespread internationally. Many countries, however, have adopted capital adequacy rules that are based on unweighted assets, expressed by the so-called gearing ratio. The article provides a summary of the theoretical arguments and empirical evidence on the mechanism and the benefits of weighted and unweighted capital adequacy rules. It is shown that based on theoretical considerations, neither one of the two instruments is superior to the other. Empirical literature, however, suggests that an unweighted equity ratio gives a better short-term and medium-term indication of a bank's future standing than a weighted ratio. The article arrives at the conclusion, therefore, that gearing ratios represent a useful, supplementary tool to the established risk-weighted capital adequacy rules.

5. Chronicle of monetary events

Total revision of the National Bank Law – Comments of the SNB

In March 2001, the Federal Department of Finance initiated a consultation procedure on the total revision of the National Bank Law (NBL). The current National Bank Law dates back to 1953 and has been revised only partially since then. Numerous provisions are therefore outdated. Moreover, after the revision of the article on monetary policy in the Federal Constitution (art. 99 FC) adjustments on the legislative level became indispensable. For these reasons, a total revision of the National Bank Law was indicated. The Federal Department of Finance commissioned a group of experts composed of members of the Federal Finance Administration, the Swiss National Bank as well as external experts to draft a reform bill.

In its comments submitted to the Federal Department of Finance, the National Bank supports the planned revision of the National Bank Law. It regards the draft law drawn up by the group of experts as a useful basis for the message to parliament. In particular, the SNB welcomes the proposed detailed formulation of the central bank mandate, a specific definition of independence and the creation of a clear legal basis for setting aside provisions for monetary reserves. It regards the envisaged streamlining of the organisational structure as indispensable for the efficient management of the Bank.

The orientation of monetary policy to the overriding goal of price stability is one of the characteristic features of a modern central bank law. The additional provision in the statutory mandate obliging the SNB to take account of the economic development is sensible and conforms to established practice.

In the opinion of the SNB, its constitutional independence has been appropriately defined in the draft law, which authorises the Bank and its bodies to act without instructions. In addition to functional independence, the SNB's institutional and financial independence must, however, also rest on a solid legal foundation. In this connection, the SNB is in favour of retaining the legal form of a joint-stock company. The SNB also explicitly approves of the accounting and information obligations which are to be laid down in detail in the new National Bank Law.

The abolition, proposed by the group of experts, of central bank instruments no longer needed is fully supported by the SNB. In the case of minimum reserve regulations which are to be substituted for the required cash liquidity of the banks, the SNB would like it to be investigated whether there is a possibility of extending the scope of application by ordinance to issuers of electronic money and other issuers of payment instruments. Given the rapid change in the financial markets, the term "bank" might one day be too narrow to apply to all those enterprises obliged to hold minimum reserves.

Furthermore, the SNB argues in favour of an appropriate definition in the law of the constitutional regulation providing for the setting aside of provisions for building up currency reserves from the National Bank's earnings. As regards the question of who is to decide on the amount of the required provisions, the SNB, unlike the group of experts, is in favour of the Bank Council assuming this responsibility rather than the Governing Board. It is desirable that this significant decision for the calculation of profits be given broader support; this is in conformity with the intention to upgrade the Bank Council as a supervisory authority.

Finally, the SNB supports the streamlining of the organisational structure as provided for in the draft law. It is indispensable for the efficient management of the Bank to reduce the number of bank bodies and to optimise their interaction. An important precondition is the reduction of the Bank Council in terms of number. In this respect, the SNB would like to go yet a step further than the group of experts; it considers a total of 11 (instead of the proposed 15) members for the future Bank Council as appropriate. This would strengthen the responsibility of the individual members of the Bank Council in the decision-making process and enhance the working efficiency of this body.

In the context of the planned streamlining of the organisation, care should be taken to keep the central bank adequately established in the regions. The SNB therefore proposes that it should be clearly visible from the law that it is a major concern of the National Bank to be established in the regions for the purpose of observing, and maintaining relations with, the economy. In particular, the SNB advocates that the observation of economic development in the regions should be attended and supported by advisers in the individual bank offices. These regional advisers would take the place of the present local committees and be appointed by the Bank Council.

Lowering of the target range for the 3-month Libor rate

On 17 September 2001, the National Bank lowered the target range for the 3-month Libor rate by 0.5 percentage points to 2.25%-3.25%. The cut followed on the heels of similar moves by the Federal Reserve Board and the European Central Bank.

On 24 September 2001, the National Bank lowered the target range for the 3-month Libor rate by another 0.5 percentage points to 1.75%-2.75%. With this step, the Bank reacted to the rapid and marked appreciation of the Swiss franc vis-à-vis the euro.