

Jean-Pierre Roth: What to expect from monetary policy?

Summary of a speech by Mr Jean-Pierre Roth, Chairman of the Governing Board of the Swiss National Bank, at the International Center for Monetary and Banking Studies (ICMB), Geneva, 25 November 2003.

The complete speech can be found in French on the Swiss National Bank's website (www.snb.ch).

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A number of current issues, such as the weakness of the economy and the new National Bank Law, raise the question as to what we can expect from monetary policy.

With regard to the stability of consumer prices, the answer is relatively simple. The goal of price stability is at the very top of the Swiss National Bank's priority list. Since both inflation and deflation are monetary phenomena over the long term, the SNB can and will guarantee price stability in future too.

Expectations of monetary policy are considerably lower when it comes to regulating economic activity. Economic activity in Switzerland is strongly dependent on growth abroad. Inflation does not bring about long-term economic growth. Stable prices, however, are the best precondition for sustained growth. A goal of price stability automatically ensures a degree of stability in the economy. Because of uncertainty and time lags, however, fine-tuning the economy is an impossible task.

Speculative bubbles in the real estate and equity markets have been an increasing source of macroeconomic instability during the past two decades. Although equity and property prices serve as important indicators for the future development of economic activity, they are not a goal of monetary policy. Many reasons militate against a direct monetary-policy response to changes in asset prices. The question nevertheless arises as to whether monetary policy could not do more to prevent any speculative bubbles from forming in the first place.