

Philipp M Hildebrand: From monetarism to the inflation forecast - 30 years of Swiss monetary policy

Public lecture by Dr Philipp M Hildebrand, Member of the Governing Board of the Swiss National Bank, at the University of Berne, Berne, 23 November 2004.

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

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Following the collapse of the Bretton Woods system, the Swiss National Bank, in 1974, was one of the first central banks to adopt a monetary policy with monetary aggregates as intermediate targets. The monetarist phase of the National Bank lasted until 1999. During this phase, the National Bank repeatedly changed its monetary targets. In the course of time, it adopted an increasingly pragmatic monetary policy and paid more attention to the development of the exchange rate. In December 1999, the SNB introduced its current monetary policy concept, which uses an inflation forecast as the basis for monetary policy decisions.

On the whole, monetarist ideas had a positive influence on Switzerland's monetary policy. They brought the realisation that price stability is important, thus furthering the process of disinflation in the 1970s and 1980s. Moreover, monetarism caused the SNB to make its monetary policy more transparent and rule-based. The use of monetary aggregates as intermediate targets, however, was more problematic. With money demand proving to be too instable, simply controlling money supply growth was not sufficient to achieve price stability. In addition, the monetary situation of a small and open economy - like the Swiss economy - depends heavily on the development of the exchange rate. The crisis of 1978 and the overheating at the end of the 1980s showed clearly that a pragmatic monetary policy approach that takes exchange rate developments into account is better suited to Switzerland.

As in the monetarist phase, the National Bank today also considers price stability as the primary goal of monetary policy. To achieve this goal, the current concept provides a systematic scheme of analysis. The advantage of this concept (as compared with the monetarist strategy) is that it considers all factors which can influence the development of prices in the medium term and that it allows greater flexibility in the implementation.