

Jean-Pierre Roth: Rising oil prices – a challenge for monetary policy?

Speech by Mr Jean-Pierre Roth, Chairman of the Governing Board of the Swiss National Bank, Déjeuners de la Finance, Geneva, 2 November 2005.

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

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Despite oil prices being at a historically high level, inflation has increased only slightly in recent quarters and growth appears to be robust. Are we to assume, therefore, that oil no longer plays an important role in today's economic environment? What challenges does the current situation pose for monetary policy?

For the first time, the steady rise in energy prices is not the result of a political boycott by oil-producing countries, but of an increase in energy demand, coming in particular from the newly industrialised countries in Asia. In other words, the rise in crude oil prices this time can be attributed to the strong growth in global economic activity.

This does not mean, however, that the role of monetary policy has changed. Although core inflation currently appears to be under control in most countries, a persistent and continuous rise in energy costs could have an effect on all prices and wages in the long run, thereby jeopardising monetary stability. Notwithstanding the low level of inflation (excluding energy prices), it is vital that the monetary authorities maintain a forward-looking stance so as not to put their credibility on the line and to ensure long-term price stability.