

Philipp M Hildebrand: Economic outlook and monetary policy

Speech by Mr Philipp M Hildebrand, Member of the Governing Board of the Swiss National Bank, Apéritif Marché monétaire, Geneva, 17 November 2005.

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

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The Swiss economy has benefited from a favourable international environment. Activity has remained strong in the US, whereas it has improved in Japan and, more recently, in Europe. In Switzerland also, the latest indicators point towards stronger growth. Exports remain the engine of the recovery but private consumption has also picked up. However, consumer confidence remains fragile in the context of only modestly improving labour market conditions. The SNB expects the economic recovery to continue. A sudden adjustment of the US current account imbalance or a further increase of energy prices are predominant risks.

From a monetary point of view, the current situation is characterised by different counteracting forces. On the one hand, the economic outlook is positive. On the other hand, some risks put this favourable picture into perspective. Furthermore, the increase of energy prices might endanger medium term price stability at a time when monetary conditions remain expansive. Last but not least, globalisation continues to hold down the prices of many goods. In this complex environment, it is important that central banks succeed in preserving their most important monetary asset, namely well anchored inflation expectations. In Switzerland, this means that as long as the economic recovery remains on track, we should not postpone for too long the process of normalising monetary conditions. Otherwise, we would put medium term price stability at risk.