

Philipp Hildebrand: Swiss monetary policy

Summary of a speech by Mr Philipp Hildebrand, Member of the Governing Board of the Swiss National Bank, at the Annual Meeting of the IFZ (Institute for Financial Services Zug), Zug, 1 June 2006.

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

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Having successfully pursued a strategy of money supply targets for around 25 years, the Swiss National Bank (SNB) decided to adopt a fundamentally new monetary policy approach in 1999. Although it integrated some of the important elements of inflation targeting, it did so less strictly, thus allowing greater flexibility. Money stocks and credits continued to play a vital role in the new concept. Unlike the European Central Bank, the SNB chose not to make the monetary analysis a separate pillar in its concept.

An important distinction to inflation targeting is that monetary policy focuses on maintaining price stability in the medium to long term, while inflation targeting is generally oriented towards short-term and, in some cases, variable inflation targets. The SNB's monetary policy uses an inflation forecast as a central indicator and sets its operational goal in the form of a target range for the three-month Libor. A monetary policy that is geared to the medium and long term affords leeway for a certain degree of stabilisation of the real economy.

The new concept has so far proven to be very effective in a turbulent environment, enabling the SNB to react to major shocks independently and flexibly. Moreover, it has strengthened confidence in the successful preservation of monetary stability.

Compared with the SNB's last quarterly assessment in March, many indicators now suggest stronger-than-expected growth. However, high commodity prices, rising capital market interest rates and turbulences in the equity and foreign exchange markets may also present new risks. On the whole, we still consider our strategy of gradual normalisation to be appropriate. Should the environment change, however, the SNB will not hesitate to review its monetary stance and adjust it, if necessary.

The current cyclical boom should not obscure the fact that the Swiss domestic market still needs further structural reforms to ensure sustained economic growth, thus safeguarding our prosperity and preparing the economy for the demographic challenges ahead.