

Thomas Jordan: Current monetary policy and its significance for the real economy

Summary of a speech by Mr Thomas Jordan, Vice-Chairman of the Governing Board of the Swiss National Bank, at the General Meeting of the Aargauische Industrie- und Handelskammer, Wettingen, 20 May 2010.

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

* * *

In the current situation, the challenges for the SNB's monetary policy remain formidable. On the one hand, against the backdrop of the economic recovery we have witnessed since mid-2009, there is a danger of inflationary tendencies and the renewed formation of a bubble. This is because the current monetary policy is too expansionary in the long term. On the other hand, downside risks are still present or are again reappearing, and should not be underestimated. They relate, in particular, to the further development of the debt crisis in Europe. A deterioration of this situation entails the danger for Switzerland of renewed deflation and recession as well as the risk of another destabilisation of the global financial system. Between these opposing risks the SNB must walk a fine line, moving in terrain that is constantly and rapidly changing, depending on which risk gains the upper hand. With a monetary policy strategy aimed at maintaining price stability, the SNB is well equipped to face these challenges.

What are the short and medium-term consequences for the real economy of addressing these challenges? It is always true that monetary policy is too restrictive for certain segments of the economy and too expansionary for others. Since there can only be one monetary policy for Switzerland, it must be geared to the economy as a whole. Ensuring price stability in the medium and long term is the guiding principle. The SNB's monetary policy strategy, however, is sufficiently flexible to react in an optimal way to uncertainties related to business cycle developments or the situation on the financial and currency markets. In implementing this policy, the SNB must be able to maintain its credibility at all times. Only then can it effectively – in the long term – fulfil its constitutional and statutory mandate of pursuing a monetary policy in the interests of the country as a whole.