

Jean-Pierre Roth: Monetary policy and credit markets

Summary of a speech by Mr Jean-Pierre Roth, Chairman of the Governing Board of the Swiss National Bank, at the University of St Gallen, St Gallen, 22 January 2004.

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

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The economic slump of the past two years has affected the credit markets. Corporate loans declined, and on the capital market redemptions of shares and bonds of private borrowers exceeded new issues. In this speech, a few general points concerning credit financing and monetary policy will be discussed.

The financing opportunities and, concomitantly, a borrower's expenditure behaviour depend on the value of capital assets eligible as collateral or, more generally, on the borrower's balance sheet structure. Due to the major significance of real estate as security, the situation on the real estate market in turn has a considerable bearing on credit conditions. The Swiss National Bank thus keeps a careful eye on price development in the real estate market.

Monetary policy influences the prices of investments and thus impacts on the economy via the borrowers' balance sheets. This is not the only channel - and certainly not the most important one - through which monetary policy exerts an influence; it may, however, be relevant under certain circumstances. Since corporate balance sheets differ considerably from one enterprise to another, monetary policy has distributive effects. Small and medium-sized enterprises are mainly affected since they are often young firms and have hardly diversified activities and a modest capital base. Enterprises, however, can mitigate this disadvantage to a certain extent by improving information.

Bank balance sheets likewise have an influence on the extension of credit. This applies mainly to small and medium-sized enterprises, whose sole source of external funding are frequently bank loans. Bank regulation should seek to prevent provisions from unnecessarily reinforcing the procyclicality of credit extension. In order to help achieve this, the new Basel Capital Accord (Basel II) provides for some flexibility.