

Jean-Pierre Roth: International monetary policy 2005

Summary of a speech by Mr Jean-Pierre Roth, Chairman of the Governing Board of the Swiss National Bank, at the 19. Internationales Zins-Forum - Zinsen 2005, Frankfurt am Main, 6 December 2004.

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

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The major central banks reacted to the lacklustre global economy in 2002 by relaxing the monetary policy. The low money market rates in 2002 and 2003 were appropriate for a recession. They are not, however, indicated for a sustained and global upswing. This is why several central banks began to steer their monetary policy back to a normal course in 2003 and 2004. The tempo of monetary policy normalisation obviously depends on the progress of economic recovery, which leads to different reactions in each country.

In this rather favourable climate, oil prices began to soar in 2003. However, there is no reason to fear a repeat of the dire consequences witnessed during past oil crises. On the one hand, the rise in oil prices comes at a time when the economic environment is much more stable than it was back then. On the other hand, strong global economic growth drives up oil prices.

In order to ensure price stability, a normalisation of economic activity must be accompanied by a normalisation in the interest rate policy. The latest oil price hike has no bearing on this basic premise. The constellation of a weaker growth dynamic and higher oil prices could, however, delay getting monetary policy back on track. Since central banks are committed to the goal of price stability, a lot will depend on the transmission of oil price increases to inflation expectations. In most industrialised countries, inflation expectations give no cause for concern for the time being. Low inflation expectations and flexible monetary policy concepts allow central bankers to carefully adjust their monetary policy for 2005, provided that it seems appropriate for business cycle reasons.