

## **Philipp Hildebrand: Global economic prospects and key challenges for monetary policy**

Summary of a speech by Mr Philipp Hildebrand, Member of the Governing Board of the Swiss National Bank, at the Money Market Event, Zurich, 23 March 2006.

*The complete speech can be found in German on the Swiss National Bank's website ([www.snb.ch](http://www.snb.ch))*

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### **Summary**

Current economic developments are basically in line with the SNB's expectations. Global economic activity is robust and the outlook is bright. The SNB expects broad-based growth of over 2% for 2006 and a moderate rate of inflation of approximately 1%.

In addition to the usual economic risks, monetary policy today is faced with three key challenges. First, the effects of globalisation on inflation must be anticipated. Second, the way in which the interaction between globalisation and an ample supply of liquidity affects the price development of several assets needs to be analysed. The SNB's monetary policy concept enables it to take a long-term view and to recognise possible distortions early on. Third, identifying the neutral interest rate has become more difficult in today's environment. Many factors tend to support a lower neutral interest rate, while others would support a higher neutral rate.

Against this background, the SNB will continue the gradual normalisation of its monetary policy. The scale and timing of this normalisation process will depend on further economic developments. Owing to a favourable inflation trend and well-anchored inflation expectations, we are in a position to cautiously approach a neutral interest rate level.