Thomas Jordan: Monetary policy – achieving a balance between inflation and growth

Summary of a speech by Mr Thomas Jordan, Member of the Governing Board of the Swiss National Bank, at the annual meeting of the Swiss Venture Club, Berne, 2 September 2008.

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

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Following several settled years, the international downturn in the economy, high commodity prices and the ongoing financial market crisis is challenging central banks on a number of fronts simultaneously. By comparison with other countries, Switzerland is in a relatively good position thanks to the continued strength of consumption, full order books, full employment, low inflation by international standards and few excesses in the real estate market.

However, the global economic decline is likely to reach Switzerland, albeit with a certain lag. In particular, the economic slowdown now becoming apparent in Europe could have a considerable impact on the Swiss business cycle by reducing the demand for our exports. Moreover, the pessimistic mood in the financial markets is not likely to be conducive to the creation of value in the financial sector. However, the relative stability of the Swiss franc should continue to support our exports.

The recent rise in the Swiss rate of inflation to over 3% is mainly attributable to first round effects, i.e. to the direct results of the increase in oil prices. If, as expected, second round effects remain contained, the rate of inflation should drop back below 2% during the course of 2009, and long-term inflation expectations should remain low. Based on these assumptions, current monetary policy is appropriate. However, if inflation does not fall back due to second round effects as expected, the SNB would need to counter this development in order to anchor price stability.