

International Monetary Stability and Central Bank Cooperation

Cemla, 60th Anniversary Conference,
Mexico City
July 2012

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Structure of the presentation

- Academic literature
- Central bank cooperation during the crisis
- Monetary policy challenges of the SNB

Academic literature

- Hamada (1976): Non-cooperative solutions are not efficient
- Rogoff (1985): Benefits of central bank cooperation are small, if not negative
- Policy consensus:
every central bank should keep „its house in order“, i.e.
target low levels of inflation.

Central bank cooperation during the crisis

- October 8, 2008:
BoC, BoE, ECB, Fed, Riksbank and SNB lower policy rates
- December 12, 2007:
ECB, Fed and SNB announce USD swap lines for non US banks
- End 2008:
Fed establishes USD swap lines with 14 central banks



Challenges of the SNB

Figure 1: Central banks' total assets

— SNB — ECB — BoE — FED

Index 100 = 1.2007



Sources: SNB Markets Analysis Platform, ISDA

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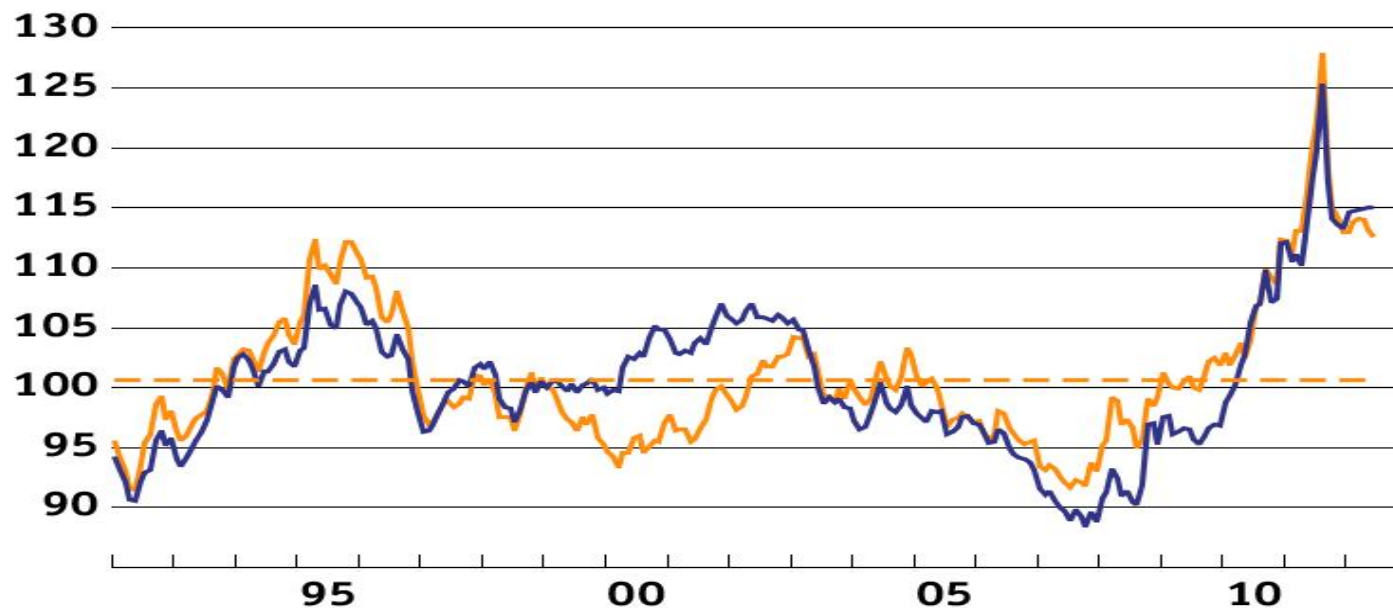
EA debt crisis leads to overvaluation of CHF

Figure 2: Export-weighted real exchange rate of Swiss

Monthly data

— 40 countries — Euro area - - - Long-term average

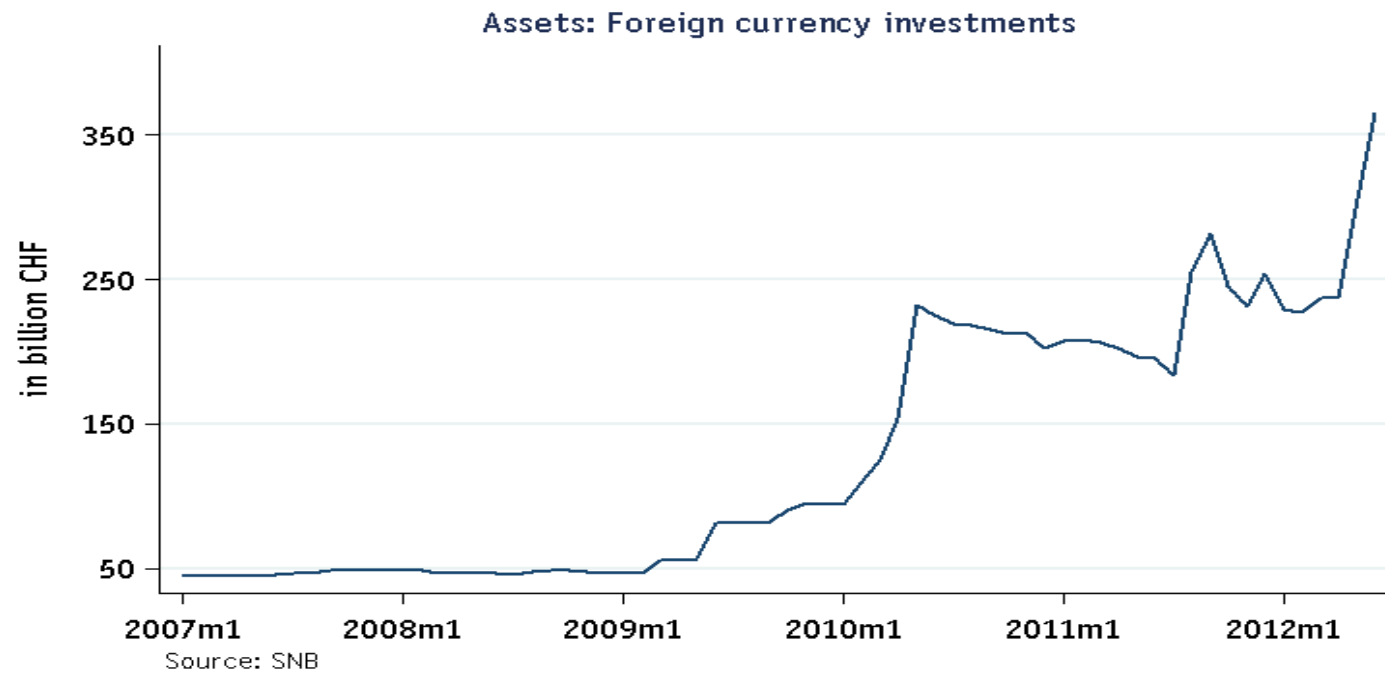
Index Jan. 1999 = 100





SNB intervenes in FX market

Figure 3: FX Reserves of SNB





SNB introduces CHF/EUR floor in Sept 11

Figure 4: CHF-EUR Exchange Rate



Sources: SNB Markets Analysis Platform, Bloomberg

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Assessment

- Exchange rate floor is in line with international guidelines
- IMF Statute:
 - members are obligated to “avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members”
- IMF 2012 Art. IV:
 - „the introduction of the exchange rate floor was an appropriate policy response to the risk of economic contraction and deflation”

Conclusions

- Financial crisis intensified central bank cooperation
- Floating exchange rates can in extreme cases pose a severe risk to the domestic economy
- Policy measures are required, but not risk-free.