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Press release

Monetary policy decisions for the 2nd quarter 2000

Further tightening of monetary policy - increase in target range for the three-month Libor rate from 1.75%-2.75% to 2.5%-3.5%

On 23 March 2000, the Swiss National Bank decided to further tighten its monetary policy and to increase the target range for the three-month Libor rate from 1.75%-2.75% to 2.5% -3.5%. This step is in response to the growing inflationary dangers emanating from accelerating economic activity and the development of the exchange rate. The National Bank is aiming at the middle of the target range.

The National Bank had last increased the target range for the three-month Libor rate on 3 February, by a half percentage point to 1.75%-2.75%. Data released after this interest rate adjustment shows that the Swiss economy had gained enormous momentum in the second half of 1999. This unexpectedly strong acceleration in growth was accompanied by a distinct rise in employment and a further decline in unemployment. The vigorous growth is broadly based. On the domestic front, private consumption and notably construction demand picked up. The chief stimuli, however, emanated from exports, which benefited from the international economic upswing and the falling export-weighted exchange rate.

Leading indicators show that the growth of real gross domestic product of close to 2% forecast by the National Bank at the end of 1999 will be clearly surpassed in the current year. The industrial and construction sectors witnessed a marked expansion in both incoming orders and orders on hand. Consumer sentiment is excellent, and there are increasing signs of the labour market tightening. Moreover, inflationary stimuli from abroad are becoming discernible. On the one hand, the decline in the export-weighted exchange rate increases the price of imported goods and, on the other, production costs are rising in the wake of higher raw material prices.

Given the dynamic economic development and the continued weak trend of the Swiss franc vis-à-vis the dollar the inflationary risks have grown significantly. If the National Bank left the interest rates unchanged, inflation measured by consumer prices could climb to over 2% in the medium term. By raising the target range for the three-month Libor rate by ¾ percentage points this danger is to be counteracted.

Swiss National Bank