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Press release

Monetary policy assessment

Easing of monetary policy – target range for the three-month Libor lowered by 0.5 percentage points to 2.25%-3.25%

The Swiss National Bank has decided to lower the target range for the three-month Libor rate by 0.5 percentage points to 2.25%-3.25%. For the time being, the three-month Libor is to be kept in the middle of the target range. In order to counter any insecurity in the financial markets the National Bank carried out its assessment today, ahead of the planned date of 20 September 2001. The target range was last adjusted on 22 March 2001, when the National Bank lowered it by 0.25 percentage points.

Since the last policy assessment in June, price pressures in Switzerland have diminished. There is no indication that price stability might be jeopardised in the medium term. This outlook has permitted the National Bank to further loosen the monetary reins. Economic development in Switzerland has continued to slow down but still remains favourable in an international comparison. The risks in the international environment, however, have increased markedly causing growing uncertainty as to the further development in Switzerland.

The Swiss economy expanded by 2.0% year-on-year in the second quarter of 2001. Growth dynamism continued to wane. Annualised growth was down to 1.7% from the previous quarter, compared with 2.0% in the first quarter. Investment and exports are the main factors accounting for the slowdown, while consumption has continued to rise significantly. The pace of economic growth could slow further in the third and fourth quarters in the wake of stagnating exports. The domestic economy will presumably continue to be consumption-driven and lose less momentum than the export industry. The situation on the labour market is not likely to undergo any sustained changes, and the unemployment rate should rise only slightly. Overall, the economy is expected to recover again in the course of the next year.

The annual inflation rate as measured by the national consumer price index climbed from 1.0% in the first quarter of 2001 to 1.5% in the second quarter. Annual inflation dropped to 1.1% in August from the 1.4% recorded in July. This decline, however, is partly due to special factors, notably the strong influence of clearance sales prices for clothing. The overall price trend is thus likely to slightly exceed the inflation rate as measured by the national consumer price index. The private service sector and rents are currently undergoing some upward price trends. There is hardly any pressure on prices of domestic goods. The increased weight of fluctuating oil prices and the inclusion of clearance sales prices in the new national consumer price index tend to render inflation more volatile from one month to another.

The National Bank still considers the medium-term inflation prospects to be favourable. The slowdown of the global economy and of the Swiss economy has a dampening influence on price developments. Taking into account the effect of this latest interest rate cut, the National Bank adheres to its inflation forecast for the next three years which it had published in its assessment in June 2001. Inflation is likely to remain clearly below the 2% level, and thus within the limits of price stability, during the entire forecasting horizon. The National Bank expects the economy in the United States and in Europe to pick up in the first half of 2002. Moreover, it assumes that the dollar will hover around its current level against the euro and that the oil price will be about $ 25 per barrel.

The National Bank considers the new interest rate level to be appropriate to ensure price stability in the medium term and to allow balanced economic growth. However, the risks facing the development of the global economy are currently substantial. A recession in the United States or a sustained depreciation of the dollar could have a deflationary impact in Europe and Switzerland. In this case, the National Bank would have to review its monetary policy stance. However, the recent accelerated increase in the money stock M3 shows that a possible further easing of monetary policy should be approached cautiously so as not to threaten price stability in the medium term.

Swiss National Bank