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Press release

Monetary policy assessment

Unchanged monetary policy – target range for the three-month Libor rate remains at 1.25%-2.25%

The National Bank has decided to adhere to its current monetary policy. It is leaving the target range for the three-month Libor rate unchanged at 1.25% to 2.25%. For the time being, the three-month Libor is to be kept in the middle of the target range. During the past year, the National Bank has markedly eased its monetary policy, lowering the target range for the three-month Libor by a total of 1.75 percentage points. The last cut – by 0.5 percentage points – came on 7 December 2001. By markedly easing its monetary policy, the National Bank took account of the diminished price pressure and the danger of an excessive Swiss franc appreciation. In the meantime, the risk of a further weakening of economic activity and the associated danger of a deflationary price development in Switzerland have become smaller. There are first signs of an improvement in the world economic situation. The National Bank thus sees no reason at this time to change its monetary policy.

Economic development in Switzerland lost considerable momentum in the first three quarters of 2001. Compared with the previous quarter, the growth rate of real gross domestic product fell, on an annualised basis, from 1.6% in the first quarter to -0.3% in the third quarter of 2001. In the fourth quarter of 2001, the downturn came to a standstill. Consumption continued to pick up, albeit somewhat less markedly than previously. It remains a pillar of the economy. Capital spending exhibited a further strong decline, while building investments expanded slightly in the fourth quarter of 2001. Following two quarters during which exports fell substantially, the fourth quarter again recorded slight growth compared with the third quarter of 2001.

Inflation measured by the national consumer price index (CPI) decreased from 1.5% in the second quarter 2001 to 0.4% in the fourth quarter 2001. In January 2002 inflation amounted to 0.5% and in February to 0.7%. The moderate inflation rate is due mainly to declining prices for foreign goods, notably for oil products. Moreover, seasonal and special effects – such as clearance sales prices for clothing – had a dampening influence on inflation. The actual inflationary pressure is currently underestimated somewhat by the CPI. At 1.8% in February, the price increase for domestic goods is distinctly higher than the CPI increase.

The National Bank bases its assessment of the international economic situation on the assumption that the economy in the United States will start picking up markedly by mid-2002 and then gradually return to its growth potential. For the time being, the European economy will probably show somewhat more restrained development than the US economy. It should, however, gain increasingly in vigour in the second half of the year. As the economy recovers, the price of oil is likely to edge upwards again gradually. The euro/dollar exchange rate should remain more or less at the present level. Based on these assumptions, inflation prospects have changed very little since the forecast of December 2001. The National Bank expects inflation in the next few quarters to be somewhat lower than predicted last December. In particular, it may tend towards zero in the course of the second quarter 2002. This would probably, however, be due exclusively to a basis effect and would not constitute a deflationary development. As from mid-2003 onwards, inflation will again develop in line with the forecast published in December. Real economic activity should pick up once more in the second half-year, underpinned by a recovery in exports. The anticipated real growth rate over the entire year 2002 is approximately 1%. Unemployment will still rise slightly, followed by a renewed decline in line with the economic recovery.

The National Bank considers the level of the three-month Libor and current monetary conditions as conducive to sustained and inflation-free economic development. In view of the strengthening global economy, a further lowering of the three-month Libor rate would heighten the risks for future price stability. An increase in the three-month Libor rate would not be indicated at present due to the favourable inflation prospects and the uncertainty concerning the pace and duration of the economic upswing in Europe. The international economic situation can change suddenly, however. In the event of an unexpected development in world economic activity, notably in Europe, or in case of exchange rate turbulences the National Bank would move quickly in adjusting its monetary policy.

Swiss National Bank