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Press release

Monetary policy assessment

Libor target range left unchanged at 0% - 0.75%

In its monetary policy assessment of 18 September 2003 , the Swiss National Bank decided to leave the target range for the three-month Libor rate unchanged at 0.0% to 0.75% and to continue to keep the three-month Libor rate at the lower end of the corridor at 0.25%. Since March 2001, the National Bank has eased its monetary policy substantially, lowering the target range for the three-month Libor in seven steps by a total of 3.25 percentage points. Due to the favourable course of inflation, it was in this way able to react effectively to the decline in economic growth and the upward trends of the Swiss franc. The most recent interest rate reduction of 0.5 percentage points was effected on 6 March 2003 .

Notwithstanding positive signals emanating from the US , global economic development is still subject to risks. In Switzerland , a perceptible economic upswing is only to be expected in the course of 2004. The National Bank is adhering to its expansionary monetary policy. The low interest rates are designed to continue keeping Swiss franc investments fairly unattractive. Price stability is currently not threatened. Assuming that the three-month Libor rate will remain stable at 0.25%, average annual inflation is expected to amount to 0.5% this year, 0.2% next year, and 1.0% in 2005. All in all, the National Bank is expecting a moderate decline in real economic activity for 2003.

Economic activity

In Switzerland , real gross domestic product declined again in line with expectations in the second quarter of 2003, and the situation on the labour market deteriorated further. The unsatisfactory economic situation is primarily the result of the stagnating development in Europe . Despite more favourable exchange rate conditions, Swiss exports again fell in the second quarter. Consumer spending had a stabilising effect while investments continued to decline overall.

The economic situation in Switzerland is still difficult at present; it is, however, set to improve gradually. Orders received and the order backlog in industry still fall short of the desired level, and demand for export goods continues to be modest. Consumer sentiment, too, remains at a low level. Nevertheless, there are signs that the trough was reached in the second quarter and that a gradual revival will set in towards the end of 2003. These positive signs include improved corporate expectations, a pickup in residential construction and the change in sentiment on the financial markets. Since the economic recovery will remain very modest until the end of 2003, a moderate decline in real economic activity is to be expected on average in the current year.

With exports rising gradually, followed by an increase in equipment investment, the economic upswing in Switzerland should take hold next year. Unemployment, however, is likely to rise still higher for the time being, and consumption will therefore remain weak. An improvement in the labour market is expected only in the course of 2004.

Inflation forecast

Year-on-year inflation, as measured by the national consumer price index, dropped to 0.5% in the second quarter of 2003 from 1.0% in the first quarter. In July, it contracted to 0.3% and amounted to 0.5% in August. The declining trend of inflation is due mainly to the weakening of economic activity in Switzerland and abroad. Domestic inflation has eased markedly in the past few months. Notably, inflation in the private service sector has receded. Only rents recorded a slight increase in August. Price rises for foreign goods remain very low and also volatile due not least to the fluctuating oil price. The core inflation rate calculated by the National Bank currently amounts to 0.7%.

The graph shows the inflation forecast of June 2003 (the dash-dotted green curve in the graph) as well as the new forecast of September 2003 (dashed red curve). The assumptions on which the new forecast is based differ in various respects from those in June. For one thing, already in the current year, growth in the US will be higher than expected at the time and, consequently, the production gap of the US economy is likely to close by the end of 2004. For another, Europe will suffer another slight delay in the upswing, which will be less marked overall. The European economy will reach its production potential only in the course of 2005. Besides, in the coming years, inflation in Europe is likely to be lower than previously anticipated. The forecast is, moreover, based on the expectation that the oil price will diminish to approximately $25 per barrel in the course of 2004.

On the assumption that the three-month Libor rate will remain steady at 0.25% during the next three years, average inflation should, according to the new forecast, amount to 0.5% in the current year, drop to 0.2% in 2004 and climb to 1.0% in 2005. It is thus projected to remain below 1% until mid-2005. Subsequently, an acceleration will set in and forecast inflation will reach 2.8% in the second quarter of 2006.

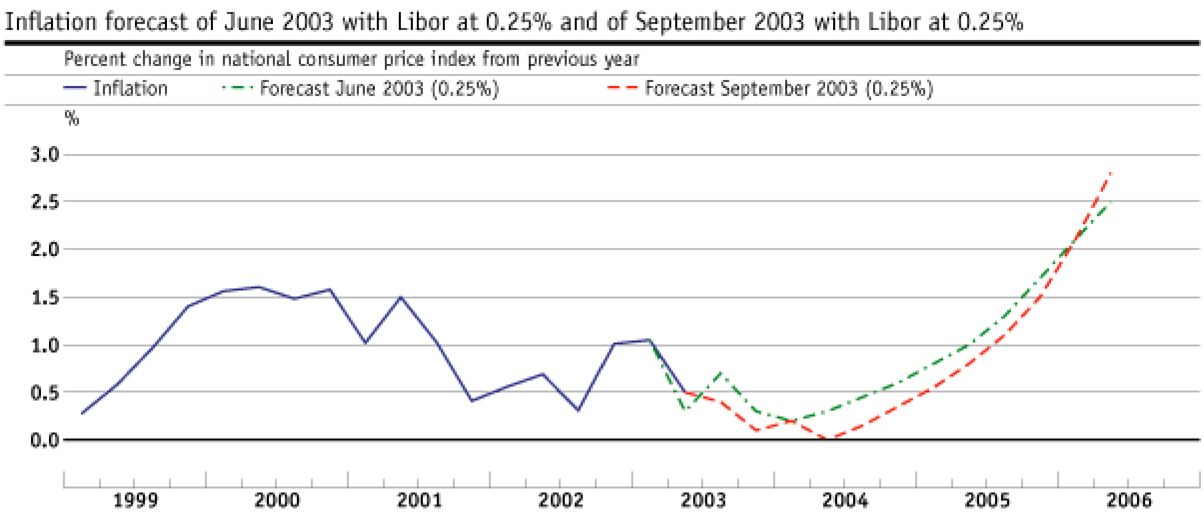
Until the beginning of 2006, the inflation trend according to the new forecast will fall short of that projected in June. In the next few quarters, inflation will drop to close to 0% and might even temporarily be slightly negative. This is the result of the weak economic growth in Switzerland , the generally moderate price pressure abroad and the expected decline in the oil price.

Such a development may not, however, be seen as deflation. The anticipated decline in inflation is very limited as regards both duration and extent. Already from mid-2004 onwards, inflation rates must be expected to rise again. Moreover, falling inflation will not be accompanied by a deterioration in real economic activity; on the contrary, for this period a pickup in growth is to be expected.

Given the considerable time lag with which monetary policy takes effect, the current monetary policy course has little influence on the trend of inflation in the next few quarters. The inflation forecast, however, shows that based on the present expansionary monetary policy, inflation threatens to exhibit a trendlike acceleration from mid-2005 onwards. In 2006, it would no longer be in the range that the National Bank equates with price stability. It should be noted that the forecast is based on the assumption that the key interest rate will remain unchanged over the next three years. Through a tightening of monetary policy at a later stage, the rise in inflation can be slowed. It is also important to understand that the uncertainty of the forecast increases with the duration of the forecasting horizon.

Continuation of expansionary monetary policy

In the past two years, the National Bank has adopted a decidedly expansionary monetary policy. Following the last interest rate reduction in March of this year, the Swiss franc depreciated considerably. Subsequently, monetary conditions were relaxed further. The expansionary monetary policy is also reflected in a marked increase in the money supply. At the same time, there is still considerable uncertainty concerning the economic recovery in Switzerland . The National Bank is watching the expansion of liquidity carefully. Its aim, however, is to prevent a premature changeover to a more restrictive monetary policy, which would endanger the upswing in Switzerland . It will thus continue to conduct an expansionary monetary policy and to support the recovery of the real economy. Investments in Swiss francs must be kept unattractive. As in the past, the National Bank would lead a determined fight against an undesirable tightening of monetary conditions caused by a possible marked appreciation of the Swiss franc vis-à-vis the euro.



Inflation Forecast September 2003 with Libor at 0,25%	2003	2004	2005
Annual average inflation in %	0,5	0,2	1,0

Inflation forecast of September 2003

Swiss National Bank