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Press release

Monetary policy assessment

Libor target range left unchanged at 0%-0.75%

The National Bank has decided to leave the target range for the three-month Libor rate unchanged at 0.0%-0.75%. For the time being, the three-month Libor is to be kept at around 0.25%. The economic recovery in Switzerland is increasingly broad-based. The upswing is not yet assured, though. At the same time, the inflation potential is modest within the short term. The National Bank is therefore adhering to its expansionary monetary policy. In order to ensure price stability also in the medium term, the National Bank will again have to tighten its monetary stance at a later point in time. The National Bank anticipates economic growth to be 1.5% - 2% for 2004. If monetary policy remains unchanged, average annual inflation is likely to amount to 0.4% this year, to 1.0% in 2005 and to 2.3% in 2006.

Economic activity

A turnaround in economic development, which had already become discernible in the third quarter of 2003, was confirmed in the fourth quarter of 2003. Growth of real GDP compared with the previous quarter firmed in the last two quarters. The pickup of the global economy and low interest rates are having a positive impact on the Swiss economy. At the same time, upward pressure on the Swiss franc – with the exception of the exchange rate against the US dollar – has abated. Growth dynamism is currently mostly due to strong export demand and a robust increase in equipment investment.

Economic recovery in Switzerland will probably continue to strengthen in the next few months, and growth should become more broad-based. In addition to a robust increase in exports and in equipment investment, private consumption, too, should continue to strengthen as a result of the more optimistic consumer sentiment. An improvement in the labour market, which is expected to set in starting in the middle of 2004, will help to achieve this. Overall, the National Bank anticipates economic growth to be 1.5% - 2% for 2004. In line with this development, production capacities are likely to be utilised better.

Even though the prospects for an economic upswing in Switzerland have improved in recent months, certain risks jeopardise sustained development. A downturn of the global economy or an unfavourable development on the financial markets are liable to interfere with the revival in economic activity.

Inflation forecast

Annual inflation measured by the national consumer price index (inflation rate compared with the previous year) was very stable in the second half of 2003 and averaged 0.5%. In January 2004 inflation fell to 0.2%. This was primarily due to a sharp sales-induced decline in prices in the “clothing and shoes” goods category and to a statistical effect in the price development of oil products. At 0.1%, inflation remained very low in February. After having averaged 0.6% in the fourth quarter of 2003, the core inflation rate calculated by the National Bank also dropped slightly to 0.4% in January. At 0.5%, core inflation remained low in February.

The graph shows the inflation forecast of December 2003 (the dash-dotted green curve in the graph) as well as the new forecast of March 2004 (dashed red curve). The assumptions on which the new forecast is based are only marginally different from those of the December forecast. This is because the global economy developed in line with expectations. Even though the expansion - driven by fiscal policy measures - has tapered off, economic development in the US is expected to be quite solid in the next three years. In Europe, compared with the December forecast, an earlier-than-expected economic recovery is assumed. As a result of the strong euro, growth dynamism is likely to be limited, however. Inflationary pressure from abroad will remain weak. Moreover, the forecast assumes that the oil price will again fall below USD 30 per barrel in the course of 2004.

The new inflation forecast for the three-month Libor to remain unchanged at 0.25% for the next three years deviates only marginally from the December forecast. The differences only apply to the short term and are attributable to statistical effects and the lower-than-expected inflation in January and February 2004. Inflation is likely to remain at approximately 0.5% until the end of 2004. Moreover, inflation may well be slightly negative in certain months. The inflation forecast shows that – assuming there is no change in monetary policy – inflation threatens to exhibit an upward trend from mid-2005 onwards. In mid-2005, it will reach 1%, in mid-2006 2% and near the end of 2006 a rate of 3%.

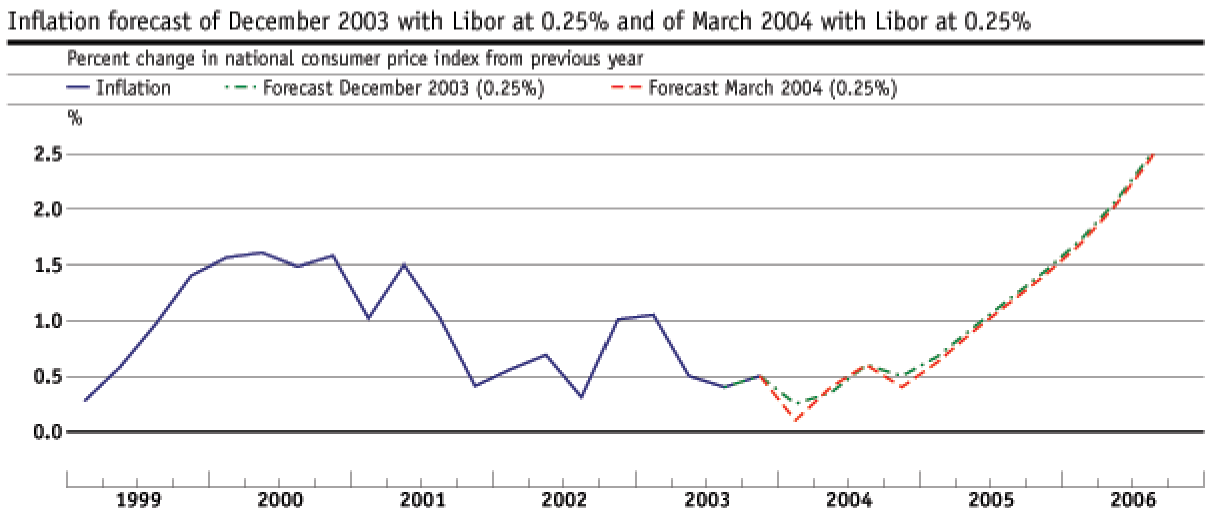
From mid-2006 onwards, forecast inflation will no longer lie within the range that the National Bank equates with price stability. It must, however, be noted that, as always, the forecast is based on an unchanged three-month Libor rate, i.e. on the assumption that monetary policy will remain as expansive as now during the next three years. It is also important to understand that the uncertainty of the forecast increases with the length of the forecasting horizon.

Expansionary monetary policy continues

The National Bank has been conducting a highly expansionary monetary policy for over two years now. It has reacted rapidly and unequivocally to the deterioration in the economic situation and the upward pressure on the Swiss franc. This expansionary policy was possible because inflation prospects showed a very moderate trend during that time.

Owing to favourable monetary conditions and the improved world economy, Swiss economic activity is gradually beginning to gain momentum again. There is still a certain degree of risk, however, as to the sustainability of the economic recovery. The National Bank does not wish to threaten the upswing by increasing interest rates too soon. It therefore adheres to its expansionary monetary policy.

However, the National Bank cannot continue this policy for an indefinite period without jeopardising price stability. While the strong expansion of monetary aggregates can be partly explained by special effects, liquidity in the economy has risen significantly. The National Bank will keep a close watch on this development. It will have to adjust its policy once the signs of an economic recovery are fully confirmed.



Inflation Forecast March 2004 with Libor at 0,25%	2004	2005	2006
Annual average inflation in %	0,4	1,0	2,3

Inflation forecast of March 2004

Swiss National Bank