

## Communications

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## Monetary policy assessment of 14 June 2007

### Swiss National Bank raises the target range for the three-month Libor by 0.25 percentage points to 2.00–3.00%

The Swiss National Bank is raising the target range for the three-month Libor with immediate effect by 0.25 percentage points to 2.00–3.00%. With this move, the National Bank is ensuring that inflation prospects remain favourable. The SNB intends to hold the rate in the middle of the target range for the time being.

Switzerland's economy is in excellent shape. Indeed, the economy is developing even better than expected back in March. For 2007, the National Bank now expects real GDP to grow at a rate of close to 2.5%. The healthy economy in the neighbouring countries and exchange rate developments have been contributing factors. Together with a renewed rise in oil prices, this has led to a slight deterioration in inflation prospects – even after today's increase in the interest rate. Assuming that the three-month Libor remains unchanged at 2.50%, the National Bank expects an average annual inflation rate of 0.8% in 2007, 1.5% in 2008, and 1.7% in 2009. Consequently, forecast inflation continues to rise.

However, at present there is considerable uncertainty with regard to assessment of the inflation outlook. On the one hand, structural changes in the economy still have a dampening effect on prices. On the other hand, given the high level of capacity utilisation and movements in the exchange rate, there is a danger that higher production costs will increasingly be passed on to prices. Should economic momentum remain unchanged or should movements in the Swiss franc result in a further relaxation in monetary conditions, further increases in the interest rate are likely in the months ahead.