News Conference

Berne, 14 June 2001

Introductory remarks by Jean-Pierre Roth

The National Bank has decided to continue its current monetary policy. It is leaving the target range for the three-month Libor rate unchanged at 2.75% to 3.75%. For the time being, the three-month Libor rate is to be kept in the middle of the target range. Monetary policy was last adjusted on 22 March 2001, when the target range was lowered by 0.25 percentage points. Since then, economic prospects in Switzerland have scarcely changed. The National Bank thus sees no reason at present for a further relaxation of its monetary policy. The National Bank is expecting GDP to grow by 2.0% in 2001 and by 2.1% in 2002. In the next three years, inflation should amount to between 1.3% and 1.6%.

The dotted curve in the figure shows our inflation forecast of December 2000. Then we expected inflation in 2001 to temporarily increase to more than 2%, i.e. the upper end of the range which the National Bank equates with price stability. This forecast was made against the background of the strong economic upswing in 2000, and particularly based on the substantially higher oil prices at that time. In December 2000, we assumed that oil prices would only decline gradually in the course of 2001 and would not stabilise until near the end of 2003. Already in our assessment of the economic situation of 22 March we changed our views on the course of inflation, inducing us to lower the Libor rate by a quarter percentage point. Oil prices declined within a very short time, and the US economy weakened more markedly than had still been anticipated at the end of 2000. This has reduced the risk of a temporary rise in inflation in excess of the 2% level in the current year. This assessment is confirmed by the development of the national consumer price index so far this year. Inflation has dropped, compared with the previous year, from 1.6% in the fourth quarter 2000 to 1.0% in the first quarter 2001. Clearance sale prices for clothing were taken into consideration for the first time; since these were particularly low due to the mild winter, however, this had the effect of putting an additional temporary damper on inflation. This effect diminished somewhat in April and May of this year, resulting in a renewed slight increase in measured inflation.

The dashed curve in the figure shows our latest inflation forecast. The table contains the average annual inflation rate according to the new forecast. Based on an unchanged three-month Libor rate of 3.25% during the next three years, inflation should reach 1.4% in 2001, move up slightly to 1.6% in 2002 and fall back to 1.3% in 2003. At the beginning of 2004 we are expecting 1.2% inflation. Inflation is thus likely to remain within the limits which we have defined as price stability during the entire forecasting horizon. The slight increase in the forecast inflation for 2002 is due to the anticipated tighter situation on the real estate market, which will probably lead to higher housing rents, and to the slowdown in the price decline in the field of telecommunications.

In making our forecasts we assumed that the expansion of the US economy will again accelerate somewhat by the end of this year. In Europe, too, we are confident that economic activity will pick up speed next year. We are expecting the US dollar to remain at its current level and are putting the price of oil at around $25 per barrel.

The price development in the first half of 2001 was strongly influenced by the decline in price increases for imported goods. If solely domestic goods and services are taken into account it becomes clear that in this field inflation has moved up compared with December 2000. This is in particular due to the favourable course of economic activity in Switzerland since mid-1999, which impacts on the development of prices for domestic goods with a time lag. The slowdown in growth in the last three quarters, however, shows that currently no long-term inflationary pressure should emanate from economic activity. The expected development of wages and salaries likewise does not give cause for great concern. The money supply $M_{3,}$ which plays an important role in the long-term course of inflation, has been expanding again since the beginning of 2001. However, the development of the money stock M_3 is still in line with the goal of price stability as well. Overall, therefore, at the moment no inflationary threats are discernible for the next three years.

The Swiss economy expanded by 2.5% year-on-year in the first quarter. If annualised growth rates are compared with the previous quarter it becomes evident that real GDP has been growing at a practically unchanged rate of approximately 1.8% since mid-2000. Economic development has thus been near the long-term potential growth level in the past six months. The growth of private consumption again improved somewhat and more or less corresponds to the long-term average. By contrast, the growth of investment, notably expenditure on machinery and equipment, has declined substantially. Exports continue to record very robust growth.

The Swiss economy is set to follow this growth path and to enjoy full employment in the next few quarters. Nevertheless, the level of orders on hand and the development of incoming orders point to a weakening of export growth. Economic activity should, however, be supported by domestic demand. Consumer sentiment continues to be optimistic, and real wage increases are likely to have a positive effect on consumer expenditure of private households.

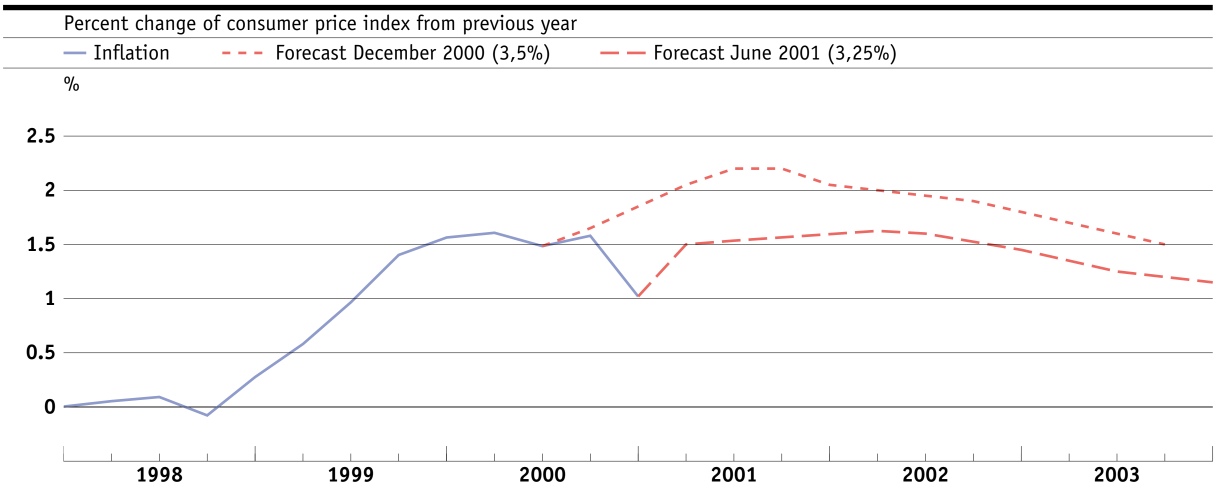
The outlook for the Swiss economy has scarcely changed since March. According to our assessment, the lowering of the target range for the Libor rate by 0.25 percentage points at that time is adequate for keeping the economy on a path of balanced growth. Inflation prospects, however, clearly show that currently a further relaxation of monetary conditions is not indicated. Such a relaxation increases the risk of an excessive demand for resources and in turn affect inflation. The present position of the target range is adequate in the given economic situation.

Like every long-term outlook, our forecast, too, is fraught with some uncertainties. One such uncertain factor is the oil price, which has been exceedingly volatile in the recent past and has again risen slightly. Should the oil price - contrary to our expectations - increase further in the coming months our inflation forecast would be too optimistic. More significant, however, are the risks emanating from the development of US economic activity. If the US economy cools more markedly than expected or if the dollar depreciates excessively, then the National Bank would have to reconsider its monetary policy course.

SNB Inflation Forecast of June 2001

Figure

Inflation Forecast December 2000 with Libor at 3,5% and June 2001 with Libor at 3,25%



Table

Inflation Forecast June 2001 with Libor at 3,25%	2001	2002	2003
Annual average inflation in %	1,4	1,6	1,3