Chronicle and press releases

1 Chronicle

March

On 16 March, the Federal Department of Finance initiates the consultation procedure on the total revision of the National Bank Law (cf. page 47).

On 22 March, the National Bank lowers the target range for the three-month Libor rate by 0.25 percentage points to 2.75%–3.75% (cf. page 42).

September

On 17 September, the National Bank lowers the target range for the three-month Libor rate by 0.5 percentage points to 2.25%–3.25% (cf. page 42).

On 24 September, the National Bank lowers the target range for the three-month Libor rate by 0.5 percentage points to 1.75%–2.75% (cf. page 44).

December

On 7 December, the National Bank lowers the target range for the three-month Libor rate by 0.5 percentage points to 1.25%–2.25% (cf. page 44).

2 Press releases of the National Bank on monetary policy

22 March

Slightly relaxed monetary policy course – target range for the three-month Libor rate lowered by 0.25% to 2.75%–3.75%

The National Bank has decided to lower the target range for the three-month Libor rate by 0.25% to 2.75%–3.75%. Compared with the end of last year, the pressure on prices has eased slightly. Moreover, currently there is no indication that price stability might be threatened in the medium term, thus permitting a slight lowering of the interest rate. Economic development in Switzerland has slowed down somewhat; nevertheless, the outlook remains favourable. The risks in the international environment have increased, however. The National Bank intends to keep the three-month Libor rate in the middle of the target range for the time being. Monetary policy was last adjusted on 15 June 2000, when the target range was raised by half a percentage point to the present level.

In the first quarter of 2000, the development of economic activity passed its peak in Switzerland. Between the first and the fourth quarter 2000 the growth of real gross domestic product declined from 3.9% to 2.5% year-on-year. It also became evident, however, that economic growth stabilised in the second half of the year. Compared with the previous period, it amounted to just under 2% in the third and fourth quarters, in line with the trend in growth in the Swiss economy. While capital spending continued to increase vigorously and exports exhibited further remarkable growth, private consumption and construction investment lost some of their momentum.

Annual inflation measured by the national consumer price index dropped to 1.3% in January and to 0.8% in February after having averaged 1.6% in the fourth quarter of 2000. This decline was due to the fall in oil prices and to the clearance sale prices for clothing, which were included for the first time. Domestic inflation, notably price increases in the private service sector, however, rose slightly in the past few months.

Cyclical risks have risen since the end of 2000. Even though the export industry has so far benefited from the robust state of the European economy, the unexpectedly rapid and marked cooling of the US economy and the slowdown in Asia will put a brake on the growth of Swiss exports. Domestic demand is, however, likely to remain a pillar of economic activity. Optimistic consumer sentiment, recent wage increases and the gratifying situation on the labour market should have a favourable effect on private consumption and contribute to the stability of economic development. Moreover, positive stimuli are likely to continue emanating from investment activity. Nevertheless, the National Bank expects the Swiss economy to grow somewhat more slowly in 2001 than had still been forecast in December 2000.

At the time, the National Bank had pointed out that inflation is liable to exceed, in the course of 2001, the 2% level which the National Bank equates with price stability. The main reasons for this assumption were the increase in the oil price and the marked economic upswing. The new evaluation of the monetary policy situation at the end of the first quarter 2001 leads to a modified assessment of inflation prospects. In particular two aspects are of decisive importance:

First, oil prices have declined much more rapidly than expected. As recently as December, the National Bank still had to assume that the oil price would only decline gradually and not return to a level of $25 per barrel before 2002. In the event, the decrease has taken place within a very short space of time. Second, as already stated above, the slowdown of the US economy has been more pronounced than seemed likely only last December. These factors have led the National Bank to assume that there is less danger of the inflation rate exceeding a level of 2% in the current year. The long-term price development, however, will not be affected. The expected economic trend and the development of the money stock M_3 indicate no increased inflationary threat in the next three years. After a brief uptick, inflation is likely to diminish again gradually to approximately 1.5% by the end of 2003.

The National Bank considers a slight relaxation of its monetary policy course to be appropriate given the reduced risks for price stability and the increased economic uncertainty.

14 June

Unchanged monetary policy course – target range for the three-month Libor rate to be kept at 2.75%–3.75%

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 not changed. The National Bank thus sees no reason at the time for a further relaxation of its monetary policy. The cyclical prospects of the Swiss economy remain favourable, and the inflation rate in the next three years should be in a range that the National Bank equates with price stability.

Real economic growth stabilised at the beginning of this year. In the coming months, the Swiss economy should continue to develop close to its potential growth level. The National Bank is expecting GDP to grow by 2.0% in 2001 and by 2.1% in 2002.

The latest inflation forecast is based on the assumption that inflation will remain below the 2% level in the next three years. On average, the National Bank expects a slight rise in inflation of 1.4% in 2001 to 1.6% in 2002. The average inflation rate for the year 2003 will presumably amount to 1.3%. The anticipated temporary rise in inflation is due to two factors. For one thing, the tight real estate market in the large urban areas and surroundings is likely to lead to higher rents even though the mortgage rates have declined somewhat. For another, the price decline in the field of telecommunications will slow down considerably.

Easing of monetary policy – target range for the three-month Libor lowered by 0.5 percentage points to 2.25%–3.25%

17 September

The Swiss National Bank has decided to lower the target range for the three-month Libor rate by 0.5 percentage points to 2.25%–3.25%. For the time being, the three-month Libor is to be kept in the middle of the target range. In order to counter any insecurity in the financial markets the National Bank carried out its assessment today, ahead of the planned date of 20 September 2001. The target range was last adjusted on 22 March 2001, when the National Bank lowered it by 0.25 percentage points.

Since the last policy assessment in June, price pressures in Switzerland have diminished. There is no indication that price stability might be jeopardised in the medium term. This outlook has permitted the National Bank to further loosen the monetary reins. Economic development in Switzerland has continued to slow down but still remains favourable in an international comparison. The risks in the international environment, however, have increased markedly causing growing uncertainty as to the further development in Switzerland.

The Swiss economy expanded by 2.0% year-on-year in the second quarter of 2001. Growth dynamism continued to wane. Annualised growth was down to 1.7% from the previous quarter, compared with 2.0% in the first quarter. Investment and exports are the main factors accounting for the slowdown, while consumption has continued to rise significantly. The pace of economic growth could slow further in the third and fourth quarters in the wake of stagnating exports. The domestic economy will presumably continue to be consumption-driven and lose less momentum than the export industry. The situation on the labour market is not likely to undergo any sustained changes, and the unemployment rate should rise only slightly. Overall, the economy is expected to recover again in the course of the next year.

The annual inflation rate as measured by the national consumer price index climbed from 1.0% in the first quarter of 2001 to 1.5% in the second quarter. Annual inflation dropped to 1.1% in August from the 1.4% recorded in July. This decline, however, is partly due to special factors, notably the strong influence of clearance sales prices for clothing. The overall price trend is thus likely to slightly exceed the inflation rate as measured by the national consumer price index. The private service sector and rents are currently undergoing some upward price trends. There is hardly any pressure on prices of domestic goods. The increased weight of fluctuating oil prices and the inclusion of clearance sales prices in the new national consumer price index tend to render inflation more volatile from one month to another.

The National Bank still considers the medium-term inflation prospects to be favourable. The slowdown of the global economy and of the Swiss economy has a dampening influence on price developments. Taking into account the effect of this latest interest rate cut, the National Bank adheres to its inflation forecast for the next three years which it had published in its assessment in June 2001. Inflation is likely to remain clearly below the 2% level, and thus within the limits of price stability, during the entire forecasting horizon. The National Bank expects the economy in the United States and in Europe to pick up in the first half of 2002. Moreover, it assumes that the dollar will hover around its current level against the euro and that the oil price will be about $25 per barrel.

The National Bank considers the new interest rate level to be appropriate to ensure price stability in the medium term and to allow balanced economic growth. However, the risks facing the development of the global economy are currently substantial. A recession in the United States or a sustained depreciation of the dollar could have a deflationary impact in Europe and Switzerland. In this case, the National Bank would have to review its monetary policy stance. However, the recent accelerated increase in the money stock M_3 shows that a possible further easing of monetary policy should be approached cautiously so as not to threaten price stability in the medium term.

24 September

Swiss National Bank lowers interest target range – Concern over euro/Swiss franc exchange rate

The Swiss National Bank will lower the target range for the three-month Libor with immediate effect by 0.5 percentage points to 1.75%–2.75%. This step has been taken in reaction to the marked and rapid appreciation of the Swiss franc vis-à-vis the euro witnessed in the past few days. The rise of the Swiss franc rate against the euro at a time of declining economic growth fills the National Bank with great concern. Should the Swiss franc rate remain at the present level, this would lead to an undesirably restrictive monetary policy.

The appreciation of the Swiss franc reflects the increased political uncertainties. At the present time it cannot be predicted how long these will last. The National Bank will follow further developments on the foreign exchange market very carefully. It will make use of its room for manoeuvre in monetary policy if necessary.

7 December

Further easing of monetary policy – target range for the three-month Libor lowered by 0.5 percentage points to 1.25%–2.25%

The Swiss National Bank has decided to lower the target range for the three-month Libor rate by 0.5 percentage points to 1.25%–2.25%. For the time being, the three-month Libor is to be kept in the middle of the target range. Recently, the National Bank has adjusted its monetary policy twice already. On 17 and 24 September 2001, it lowered the target range for the three-month Libor rate by 0.5 percentage points each. At the time, the National Bank acted in response to the decrease in inflationary pressures and the undesirable development of the Swiss franc exchange rate. The economic outlook has since continued to deteriorate around the globe. In Switzerland, there are no signs that price stability might be jeopardised in the medium term. This development makes it possible to reduce rates again. Accordingly, since the beginning of 2001, the National Bank has lowered the target band for the three-month Libor by a total of 1.75 percentage points, thus easing monetary policy considerably. Assuming that the three-month Libor rate will remain stable at 1.75%, inflation is expected to hover between 0.9% and 1.5% in the next three years. The National Bank projects real gross domestic product to increase by 1.5% in 2001. For 2002 it anticipates a growth rate of around 1%.