Chronicle and press releases

1 Chronicle

April

On 5 April 2002, the Federal Department of Finance and the National Bank conclude a new agreement on the distribution of profit by the Swiss National Bank (cf. p. 49).

May

On 2 May, the National Bank lowers the target range for the three-month Libor rate by half a percentage point to 0.75%–1.75% (cf. p. 42f.).

June

On 26 June, the Federal Council passes a Message concerning a total revision of the National Bank Law for consideration by the Federal Parliament (cf. p. 48).

July

On 26 July, the National Bank lowers the target range for the three-month Libor rate by half a percentage point to 0.25%–1.25% (cf. p. 42f.).

September

On 22 September, the Swiss electorate and the cantons reject both the popular initiative “Surplus gold reserves for the Federal Old Age and Survivors Insurance Fund (gold initiative)” and the counter-proposal of the Federal Assembly, “Gold for the Federal Old Age and Survivors Insurance Fund, the cantons and the foundation” (cf. p. 47).

November

With its Message of 20 November 2002, the Federal Council submits the federal decree on the renewal of Switzerland’s participation in the IMF’s General Arrangements to Borrow (GAB) for a further five years to the Federal Parliament (cf. p. 67).

On 20 November, the Federal Council approves a renewal of Switzerland’s participation in the IMF’s New Arrangements to Borrow (NAB) for a further five years (cf. p. 67).

December

On 18 December, the Federal Council dissolves the Fund for needy victims of the Holocaust/Shoa (cf. p. 65).

2 Press releases of the National Bank on monetary policy

21 March

Unchanged monetary policy – target range for the three-month Libor rate remains at 1.25%–2.25%

The National Bank has decided to adhere to its current monetary policy. It is leaving the target range for the three-month Libor rate unchanged at 1.25%–2.25%. For the time being, the three-month Libor is to be kept in the middle of the target range. During the past year, the National Bank has markedly eased its monetary policy, lowering the target range for the three-month Libor by a total of 1.75 percentage points. The last cut – by 0.5 percentage points – came on 7 December 2001. By markedly easing its monetary policy, the National Bank took account of the diminished price pressure and the danger of an excessive Swiss franc appreciation. In the meantime, the risk of a further weakening of economic activity and the associated danger of a deflationary price development in Switzerland have become smaller. There are first signs of an improvement in the world economic situation. The National Bank thus sees no reason at this time to change its monetary policy.

Economic development in Switzerland lost considerable momentum in the first three quarters of 2001. Compared with the previous quarter, the growth rate of real gross domestic product fell, on an annualised basis, from 1.6% in the first quarter to –0.3% in the third quarter of 2001. In the fourth quarter of 2001, the downturn came to a standstill. Consumption continued to pick up, albeit somewhat less markedly than previously. It remains a pillar of the economy. Capital spending exhibited a further strong decline, while building investments expanded slightly in the fourth quarter of 2001. Following two quarters during which exports fell substantially, the fourth quarter again recorded slight growth compared with the third quarter of 2001.

Inflation measured by the national consumer price index (CPI) decreased from 1.5% in the second quarter 2001 to 0.4% in the fourth quarter 2001. In January 2002 inflation amounted to 0.5% and in February to 0.7%. The moderate inflation rate is due mainly to declining prices for foreign goods, notably for oil products. Moreover, seasonal and special effects – such as clearance sales prices for clothing – had a dampening influence on inflation. The actual inflationary pressure is currently underestimated somewhat by the CPI. At 1.8% in February, the price increase for domestic goods is distinctly higher than the CPI increase.

The National Bank bases its assessment of the international economic situation on the assumption that the economy in the United States will start picking up markedly by mid-2002 and then gradually return to its growth potential. For the time being, the European economy will probably show somewhat more restrained development than the US economy. It should, however, gain increasingly in vigour in the second half of the year. As the economy recovers, the price of oil is likely to edge upwards again gradually. The euro/dollar exchange rate should remain more or less at the present level. Based on these assumptions, inflation prospects have changed very little since the forecast of December 2001. The National Bank expects inflation in the next few quarters to be somewhat lower than predicted last December. In particular, it may tend towards zero in the course of the second quarter 2002. This would probably, however, be due exclusively to a basis effect and would not constitute a deflationary development. As from mid-2003 onwards, inflation will again develop in line with the forecast published in December. Economic activity should pick up once more in the second half-year, underpinned by a recovery in exports. The anticipated real growth rate over the entire year 2002 is approximately 1%. Unemployment will still rise slightly, followed by a renewed decline in line with the economic recovery.

The National Bank considers the level of the three-month Libor and current monetary conditions as conducive to sustained and inflation-free economic development. In view of the strengthening global economy, a further lowering of the three-month Libor rate would heighten the risks for future price stability. An increase in the three-month Libor rate would not be indicated at present due to the favourable inflation prospects and the uncertainty concerning the pace and duration of the economic upswing in Europe. The international economic situation can change suddenly, however. In the event of an unexpected development in world economic activity, notably in Europe, or in case of exchange rate turbulences the National Bank would move quickly in adjusting its monetary policy.

2 May

Lowering of the interest rate target range by 0.5 percentage points – Continued concern over exchange rate development of the Swiss franc

The Swiss National Bank will lower the target range for the three-month Libor with immediate effect by 0.5 percentage points to 0.75%–1.75%. It intends to keep the three-month Libor rate in the middle of the adjusted target range. With this step, the National Bank is reacting to the rapid appreciation of the Swiss franc against the major currencies, which has led to an undesirable tightening of monetary conditions in Switzerland. This jeopardises the economic recovery, which is taking hold more slowly than anticipated. The outlook for price stability, however, remains favourable. The increase in the Swiss national consumer price index in April was mainly due to special factors.

The rise of the Swiss franc is attributable to special economic and political uncertainties. At present, it is hardly possibly to assess whether this climate will persist. The National Bank will monitor the further development carefully and will make use of its room for manoeuvre in monetary policy if necessary.

14 June

Libor target range left unchanged at 0.75%–1.75%

The Swiss National Bank has decided to leave the target range for the three-month Libor rate unchanged at 0.75%–1.75%. For the time being, the three-month Libor is to be kept in the middle of the target range. Since the last assessment of 21 March 2002, the National Bank has again adjusted its monetary policy. On 2 May 2002 it lowered the target range for the three-month Libor by 0.5 percentage points to the current level. Some time earlier, on 27 March 2002, it had already lowered repo rates by approximately 10 basis points, which led to a corresponding change in the three-month Libor. In both cases, the National Bank acted in response to the appreciation of the Swiss franc, which had led to an undesirable tightening of monetary conditions.

Since March 2001, the National Bank has eased its monetary policy substantially, lowering the target range for the three-month Libor by a total of 2.25 percentage points. After the cyclical downturn in the second half of last year, there are now signs that the world economy is starting to pick up, which will also benefit economic activity in Switzerland. However, uncertainties regarding the upswing persist. For the time being, the National Bank will thus maintain its expansive monetary policy stance. This does not jeopardise price stability. Assuming that the three-month Libor rate will remain stable at 1.25%, average annual inflation is expected to lie between 0.9% and 1.6% in the next three years. For 2002 the National Bank still anticipates a growth rate of around 1%.

26 July

The Swiss National Bank lowers its interest rate target range by 0.5 percentage points to 0.25%–1.25% – Economic recovery slower than expected – Dissatisfaction with the exchange rate

The Swiss National Bank will lower the target range for the three-month Libor rate with immediate effect by 0.5 percentage points to 0.25%–1.25%. For the time being, it intends to keep the three-month Libor rate in the middle of the new target range. By further loosening the monetary reins, the National Bank reacts to increasing signs from Switzerland and abroad pointing to a delay in economic recovery and slower-than-anticipated economic growth in 2002. It now forecasts the average growth for real GDP to fall considerably short of 1% in 2002. Moreover, the further real appreciation of the Swiss franc has led to a tightening of monetary conditions which is clearly undesirable under the current circumstances. The renewed easing of monetary policy will not jeopardise price stability in the short and medium term.

The strengthening of the Swiss franc reflects the sustained economic and political uncertainties, which led to a loss in confidence also on the international stock markets. The turbulence in the stock markets could, however, turn into a risk factor should it persist contrary to expectations. The National Bank will continue to follow the development of the economy very closely.

19 September

Unchanged monetary policy – target range for the three-month Libor rate remains at 0.25%–1.25%

The National Bank has decided to leave the target range for the three-month Libor rate unchanged at 0.25%–1.25%. For the time being, the three-month Libor is to be kept in the middle of the target range. The National Bank last adjusted its monetary policy on 26 July 2002, when it lowered the target range by 50 basis points. In so doing, it reacted to the sluggish pace of the economic recovery in Switzerland, which already became apparent at that time, as well as to the Swiss franc's renewed upward trend. The National Bank took advantage of the leeway afforded by the favourable price development. Since March 2001, the National Bank has eased its monetary policy substantially, lowering the target range for the three-month Libor by a total of 2.75 percentage points. The anticipated recovery of the global economy is taking hold only gradually and a perceptible upswing is not expected until the spring of 2003. This will also have an impact on the economic development in our country. The National Bank, therefore, will continue its relaxed monetary stance. Price stability is not threatened.

The Swiss economy's performance was below the National Bank's expectations during the first half year of 2002. Business activity continues to suffer from the difficult economic climate worldwide and the strong Swiss franc. In the second quarter 2002, real GDP was slightly below last year's level, but did not contract again compared with the previous quarter. Unemployment registered another slight increase.

Private and government consumption remain the most important pillars of the economy. The decline in capital spending accelerated again during the previous quarters, while construction investment saw stagnating figures. By contrast, both exports and imports picked up in the second quarter 2002 vis-à-vis the previous quarter. The development of orders received, however, does not yet point to a sustained recovery of exports.

Annual inflation measured by the national consumer price index (CPI) increased from 0.4% in January to 1.1% in April. It subsequently receded and hit a low point of –0.1% in July 2002. In August, it climbed to 0.5%. The negative inflation rate in July is mainly attributable to a change in data collection on clearance sales prices for clothing. Irrespective of this special effect, inflationary pressure remains low, which is again due largely to lower prices for imported goods. Inflation in the domestic goods sector always exceeded the 1% mark this year. Core inflation, computed by the National Bank as the trimmed mean, likewise amounts to approximately 1%. Consequently, the modest inflation is not a sign of a deflationary development in Switzerland.

The National Bank views the prospects for the global economy more cautiously than it did only three months ago. Economic growth in the US is unlikely to pick up speed before the spring of 2003; after that it should gradually regain its potential. The same applies to the European economy.

According to the National Bank's assessment, the Swiss economy will see only moderate growth rates until mid-2003. After that, the economy is set to rebound. Private and government consumption are expected to continue to underpin economic activity. What the economy needs to recover, however, is for exports to pick up. Such an increase strongly depends on the development of the global economy, particularly on the demand for capital goods. With rising exports, equipment investment in Switzerland is also likely to go up again. Based on the recently revised figures from the system of national accounts, the National Bank now expects that on average real GDP will almost stagnate in 2002. Growth will probably resume in 2003. Unemployment will rise further this year. As a result of the delayed economic rebound inflation is likely to remain low during the next quarters and is not expected to rise again until 2004.

Reacting to the strong franc and the lacklustre economy, the National Bank has made significant interest rate cuts, thereby considerably relaxing the monetary conditions. For the time being, it will maintain its expansionary monetary course so as to support the economic rebound and to keep Swiss franc investments a fairly unattractive option. Low interest rates and the relatively significant growth of monetary aggregates do not jeopardise price stability under the current circumstances. The National Bank considers the present level of the three-month Libor appropriate.

There are still considerable uncertainties in the current climate, however. Should the global economy slide into another recession or the Swiss franc experience another upward trend – especially vis-à-vis the euro – economic recovery in Switzerland might be at risk again. The National Bank will step in quickly should circumstances change.

13 December

Expansionary monetary policy to be continued – target range for the three-month Libor rate unchanged at 0.25%–1.25%.

The Swiss National Bank has decided to leave the target range for the three-month Libor rate unchanged at 0.25%–1.25%. For the time being, the three-month Libor is to be kept in the middle of the target range. Owing to the low level of inflation, the National Bank has been able to ease monetary policy substantially since March 2001, having since then lowered the target range for the three-month Libor by a total of 2.75 percentage points. The National Bank took decisive steps in response to declining economic growth and the upward trend of the Swiss franc. Interest rates were last lowered on 26 July of this year.

The imponderables with respect to the development of the global economy remain considerable, and a sustained economic upswing in Switzerland is not likely until some time in the second half of 2003. The National Bank is therefore maintaining its expansionary monetary policy and will keep the attractiveness of Swiss franc investments low. This does not jeopardise price stability. Assuming that the three-month Libor rate will remain stable at 0.75%, average annual inflation is expected to lie between 0.7% and 1.6% in the next three years. For 2003 the National Bank is anticipating economic growth of just over 1%, while zero growth is to be expected in the current year.