Chronicle and press releases on monetary policy

1 Chronicle

March

On 6 March, the National Bank lowers the target range for the three-month Libor rate by half a percentage point to 0%–0.75% (cf. p. 40f.).

May

On 21 May, the Federal Council passes the Message concerning the Federal law on international monetary assistance and a Federal decree with the same name for consideration by the Federal Parliament (cf. p. 46).

June

On 12 June, the Federal Department of Finance and the National Bank conclude a supplementary agreement on the distribution of income on the free assets (cf. p. 48).

On 20 June, the Federal Parliament approves a renewal of Switzerland's membership in the IMF's General Arrangements to Borrow (GAB) until the end of 2008 (cf. p. 65).

August

On 20 August, the Message on the use of 1,300 tonnes of National Bank gold and on the people's initiative "National Bank profits for the Old Age and Survivors' Insurance (AHV)" is passed by the Federal Council and submitted to the Federal Parliament (cf. p. 47).

October

On 3 October, the Federal Assembly approves the total revision of the National Bank Law (cf. p. 45).

2 Press releases on monetary policy

6 March

Swiss National Bank lowers the target range for the three-month Libor rate by 0.5 percentage points to 0%–0.75%

With immediate effect, the Swiss National Bank is lowering its target range for the three-month Libor rate by 0.5 percentage points to 0%–0.75%. The temporary narrowing of the target range from 100 to 75 basis points brought about by this move is due to technical factors. For the time being, the National Bank intends to keep the three-month Libor rate at around 0.25%, i.e. at the lower end of the new target range.

The global economic and political uncertainties are persisting. This is adversely affecting the business climate in Switzerland and could delay the economic upturn that was expected to materialise in 2003. Given this difficult situation, the National Bank wishes to ward off a tightening of monetary conditions that would arise from an appreciation of the Swiss franc. The easing of monetary policy does not pose a threat to price stability in Switzerland.

As planned, the National Bank will present its detailed monetary policy assessment, including the inflation forecast, on Thursday, 20 March 2003.

20 March

Monetary policy assessment

The National Bank has not made any further change to its monetary policy in its assessment of 20 March 2003. It cut the target range for the three-month Libor by 0.5 percentage points to 0%–0.75% on 6 March 2003 and announced that the rate is to be kept in the lower part of the new target range, at 0.25%, for the time being. The temporary narrowing of the target band from 100 to 75 basis points was prompted by technical factors.

After the outbreak of the Iraq conflict, the economic and political environment remains extremely uncertain. The economic recovery in Switzerland expected for 2003 may be delayed. Given this difficult situation, the National Bank wishes decisively to counter the tightening of monetary conditions that would arise from an appreciation of the Swiss franc. Low inflation has meant that the National Bank has been able to relax its monetary policy significantly over the last two years. Since March 2001, it has cut the target band for the three-month Libor rate in a total of seven stages by 3.25 percentage points to its current level. At the present time, this expansive monetary policy does not pose any risk to price stability in Switzerland. Assuming that the three-month Libor rate will remain stable at 0.25%, average annual inflation is expected to lie between 0.7% and 1.9% in the next three years. The National Bank now anticipates that economic growth will be just under 1% for 2003.

13 June

Monetary policy assessment at mid-year
Libor target range left unchanged at 0.0%–0.75%

The Swiss 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 the lower end of the target range at 0.25%. In the past two years, the National Bank took decisive steps in response to declining economic growth and to the upward trend of the Swiss franc. Owing to the low inflationary pressure, the National Bank has lowered the target corridor for the three-month Libor by a total of 3.25 percentage points since March 2001. Interest rates were last lowered on 6 March of this year.

The recovery of the global economy is likely to be delayed still further so that in Switzerland, too, any perceptible economic upswing can only be expected to materialise during the course of 2004. The National Bank is therefore maintaining its expansionary monetary policy and shall 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 0.25%, average annual inflation is expected to amount to 0.6% this year, 0.4% next year, and 1.2% in 2005. For 2003 the National Bank anticipates real economic activity to stagnate overall.

Monetary policy assessment
Libor target range left unchanged at 0%–0.75%

18 September

In its monetary policy assessment of 18 September 2003, the Swiss National Bank decided to leave the target range for the three-month Libor rate unchanged at 0.0%–0.75% and to continue to keep the three-month Libor rate at the lower end of the corridor at 0.25%. Since March 2001, the National Bank has eased its monetary policy substantially, lowering the target range for the three-month Libor in seven steps by a total of 3.25 percentage points. Due to the favourable course of inflation, it was in this way able to react effectively to the decline in economic growth and the upward trends of the Swiss franc. The most recent interest rate reduction of 0.5 percentage points was effected on 6 March 2003.

Notwithstanding positive signals emanating from the US, global economic development is still subject to risks. In Switzerland, a perceptible economic upswing is only to be expected in the course of 2004. The National Bank is adhering to its expansionary monetary policy. The low interest rates are designed to continue keeping Swiss franc investments fairly unattractive. Price stability is currently not threatened. Assuming that the three-month Libor rate will remain stable at 0.25%, average annual inflation is expected to amount to 0.5% this year, 0.2% next year, and 1.0% in 2005. All in all, the National Bank is expecting a moderate decline in real economic activity for 2003.

Monetary policy assessment at year-end
Libor target range left unchanged at 0%–0.75%

12 December

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 around 0.25%. In the past two years, the National Bank reacted to the decline in economic activity and the upward trend of the Swiss franc by considerably relaxing its monetary policy. Now the signs of an economic recovery in Switzerland are gradually intensifying. The upswing is not yet assured, though. At the same time, the inflation potential is small. For this reason, the National Bank is adhering to its expansionary monetary policy and is keeping down the attractiveness of Swiss franc investments.

The National Bank assumes that the economy will grow by slightly over 1.5% in 2004, while a moderate decline in economic activity is expected for the current year. If monetary policy remains unchanged, average annual inflation is likely to amount to 0.4% in the coming year, to 1.0% in 2005 and to 2.3% in 2006. The National Bank is of the opinion that price stability can be maintained by tightening monetary policy at a later point in time.