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Press release

Monetary policy decisions of 22 March 2001

Slightly relaxed monetary policy course - target range for the 3-month Libor rate lowered by 0.25% to 2.75%-3.75%

The National Bank has decided to lower the target range for the 3-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 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.

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 M3 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.

Swiss National Bank