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Press release

Monetary policy assessment

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 one-percent 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 the 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.

Swiss National Bank