

## Communications

P.O. Box, CH-8022 Zurich  
Telephone +41 1 631 31 11  
Telefax +41 1 631 39 10  
www.snb.ch  
snb@snb.ch

Zurich, 16 September 2004

### Press release

# Monetary policy assessment

## Swiss National Bank increases the target range for the three-month Libor rate by 0.25% to 0.25%-1.25%

The Swiss National Bank is increasing the target range for the three-month Libor with immediate effect by 0.25 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 target range at 0.75%.

Economic activity in Switzerland is developing in line with the National Bank's expectations. The National Bank still anticipates economic growth to be close to 2% in 2004. Utilisation of the economy's output capacities is expected to improve steadily. Notwithstanding the price increase for oil, the National Bank expects an average annual inflation rate of a mere 0.7% this year. On the assumption that the three-month Libor rate will remain unchanged at 0.75%, the National Bank anticipates an annual inflation rate of 1% in the coming year and 1.7% in 2006. The monetary policy of the National Bank will remain expansionary and support the upswing. The second interest rate rise by 25 basis points now announced will reverse the interest rate cut of March 2003, which was made under extraordinary circumstances. Should the Swiss franc appreciate markedly as a result of unexpected developments, the National Bank will react appropriately.

### Inflation forecast

The National Bank's inflation forecasts are embedded in a worldwide economic scenario. This scenario is considered to be the most likely development at the time. The National Bank assumes that the world economic upswing will continue.

The new inflation forecast (dashed red line) for a three-month Libor of 0.75% extends from the third quarter of 2004 until the second quarter of 2007. The dash-dotted green line shows the inflation forecast of June based on a three-month Libor of 0.5%. Until the second quarter of 2005, the current forecast exceeds the June forecast. Following 0.8% in the third quarter of 2004, it will reach a peak of 1.2% in the first quarter of 2005, only to fall back to 0.8% in the third quarter of 2005. From the third quarter of 2005 onward, the forecast lies below the last forecast. At the end of the forecasting horizon, the current forecast will reach 2.9%.

### Development of oil prices

The SNB still assumes that the recent oil price increases will be temporary. Compared with the June forecast, the oil price to be assumed in the short term was raised. The new inflation forecast has therefore moved upward in the short term. The assumed decline in oil prices as from the first quarter of 2005 will have a dampening effect on consumer prices.

### Economic outlook

As up to now, the National Bank expects a real GDP growth of close to 2% in 2004. For the two following years, a further increase in exports, a rise in equipment investment, robust private consumption and sustained economic growth are anticipated. Accordingly, economic production capacities will be steadily better utilised, while unemployment will gradually decline. With the improved utilisation rate of the economy, inflationary pressure will increase in the medium term.

### Monetary development

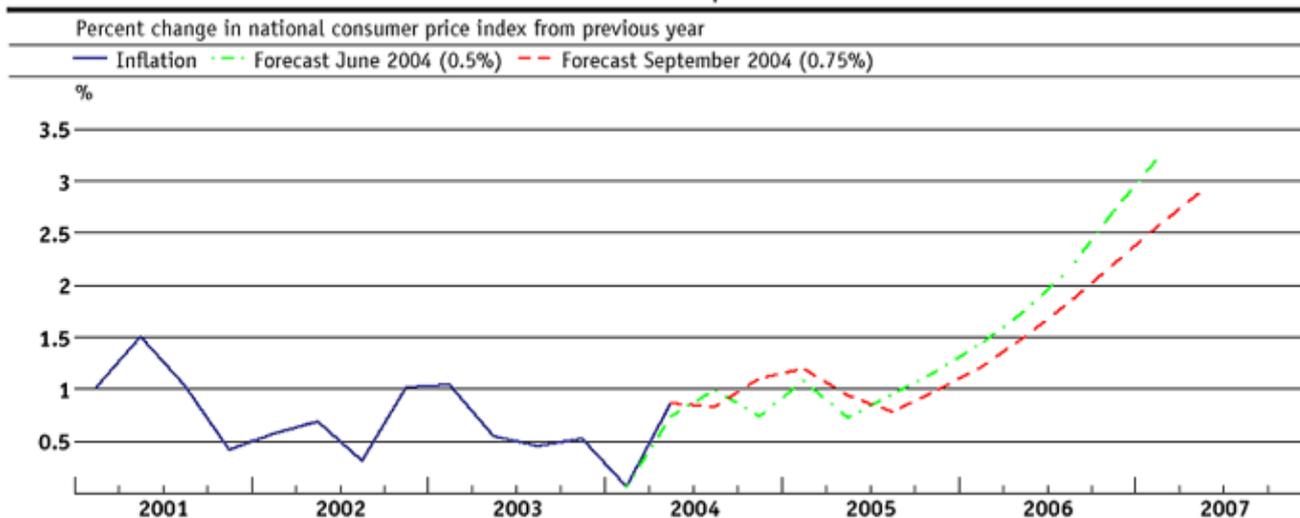
The high growth rates of the monetary aggregates have led to a money overhang since the beginning of 2003. The expansion of the monetary aggregates has declined recently. For the first time since the first quarter of 2003, the M3 money overhang again receded in the second quarter. Accordingly, the long-term inflation risk declined slightly due to the moderate tightening of monetary policy in June.

### Continuation of expansionary monetary policy

The three-month Libor was lowered, in March 2003, from 0.75% to 0.25% against the backdrop of an international

environment with deflationary trends. When the three-month rate was increased to 0.5% on 17 June 2004, interest rates were again raised for the first time after having remained at an historically low level for more than a year. The renewed interest rate rise by 25 basis points now announced will reverse the interest rate reduction of March 2003, which had been made under extraordinary circumstances. The interest rate increase is evidence of the National Bank's confidence in a continued upswing. The monetary conditions will remain expansionary.

### Inflation forecast of June 2004 with Libor at 0.5% and of September 2004 with Libor at 0.75%



### Observed inflation September 2004

	2001				2002				2003				2004			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Inflation	1.02	1.50	1.03	0.41	0.56	0.69	0.31	1.01	1.05	0.54	0.45	0.52	0.06	0.87		

### Inflation forecast of June 2004 with Libor at 0.5% and of September 2004 with Libor at 0.75%

	2004				2005				2006				2007			
	Q1	Q2	Q3	Q4												
Forecast June 2004, Libor at 0.5%	0.06	0.73	0.99	0.74	1.07	0.73	0.95	1.18	1.43	1.75	2.15	2.70	3.20			
Forecast September 2004, Libor at 0.75%					0.87	0.83	1.10	1.20	0.93	0.78	0.98	1.21	1.50	1.84	2.20	2.55

### Inflation forecast of September 2004

Swiss National Bank