Monetary policy assessment at mid-year

National Bank raises the target range for the three-month Libor by 0.25 percentage points to 1.0–2.0%

The Swiss National Bank (SNB) is raising the target range for the three-month Libor with immediate effect by 0.25 percentage points to 1.0–2.0%. It intends to hold the rate in the middle of the target range for the time being.

The economy continues to develop favourably, with economic activity becoming more broad-based and having an increasingly positive effect on the labour market. The National Bank now expects GDP to expand by a little more than 2.5% in 2006. Despite the most recent developments in oil prices, inflation has remained moderate. The SNB forecasts average annual inflation of 1.2%.

By raising the target range, the National Bank is further adjusting its monetary policy stance to economic activity. The SNB’s move ensures that the inflation outlook will remain favourable. On the assumption that the three-month Libor will remain unchanged at 1.5%, annual inflation is expected to reach 1.2% in 2007 and 1.9% in 2008. Notwithstanding the interest rate increase, monetary policy remains expansionary. Should the economy perform as expected, the National Bank will further pursue the gradual adjustment of its monetary policy. If the Swiss franc were to appreciate rapidly, the SNB would respond appropriately.

Swiss National Bank