Monetary policy assessment of 14 December 2006

National Bank raises the target range for the three-month Libor by 0.25 percentage points to 1.50-2.50%

The Swiss National Bank (SNB) is raising the target range for the three-month Libor with immediate effect by 0.25 percentage points to 1.50–2.50%. The SNB intends to hold the rate in the middle of the target range for the time being.

Economic activity in Switzerland is very robust. Next year, the economic trend is likely to continue favourable, albeit somewhat less pronounced. This will have a positive effect on the labour market. The National Bank is expecting real GDP to grow by just under 3% in 2006 and by around 2% in 2007.

Declining oil prices have pushed back inflation. Average inflation for 2006 is likely to stand at 1.1%. By lifting the target range, the National Bank ensures that the inflation outlook will remain favourable, even in view of the high level of utilisation of economic resources. On the assumption of an unchanged three-month Libor of 2.00%, it expects annual inflation to reach 0.4% in 2007 and 0.9% in 2008. If the economy performs as expected, the SNB will further pursue its strategy of gradual normalisation of its interest rates.