

Communications

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Geneva, 19 June 2008

Monetary policy assessment of 19 June 2008

Swiss National Bank leaves the target range for the three-month Libor unchanged at 2.25–3.25%

The Swiss National Bank (SNB) is leaving the target range for the Swiss franc three-month Libor unchanged at 2.25–3.25%. It intends to hold the rate in the middle of the target range for the time being.

Despite a slowdown in economic activity, the global economy remains robust and the price of oil has continued to climb. This has led to a general increase in inflation. The situation on the financial markets is still uncertain, but less turbulent than it was a few months ago. Although the Swiss economy has also grown at a slower pace, the SNB has not changed its forecast of real GDP growth of between 1.5% and 2% for 2008. However, it has increased its inflation forecast and is now expecting an average rate of 2.7% in 2008. Nevertheless, assuming that the Libor remains unchanged at 2.75%, inflation should edge back down to 1.7% in 2009 and 1.3% in 2010, as a result of the expected economic downturn.

Considerable risks are attached to this inflation forecast. Stronger price increases are likely, should energy prices rise again or the Swiss franc depreciate on the foreign exchange market. A more significant slowdown in the global economy might ease inflationary pressure.

Given these conditions, the SNB is maintaining its cautious stance and leaving its monetary policy strategy unchanged. In view of the medium-term inflation outlook, it can afford to do so for the time being. After all, there is enough reason to suggest that the current inflationary trend is of a transitory nature. The SNB will keep a close watch on the price of oil, movements in the Swiss franc, the economy, and developments in the financial markets, so as to assess their impact on the inflation outlook and react swiftly, in order to maintain price stability in the medium term.