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Abstracts

1. Monetary policy assessment at year-end

On 7 December 2001, the Swiss National Bank decided to lower the target range for the three-month Libor rate by 0.5 percentage points to 1.25%-2.25%. For the time being, the three-month Libor is to be kept in the middle of the target range. A short time before, the National Bank had already adjusted its monetary policy twice. On 17 and 24 September 2001, it lowered the target range for the three-month Libor rate by 0.5 percentage points each. At the time, the National Bank acted in response to the decrease in inflationary pressures and the undesirable development of the Swiss franc. The economic outlook has since continued to deteriorate around the globe. In Switzerland, there are no signs that price stability might be jeopardised in the medium term. This development made it possible to reduce rates again. Since the beginning of 2001, the National Bank has lowered the target band for the three-month Libor by a total of 1.75 percentage points, thus easing monetary policy considerably. Assuming that the three-month Libor rate will remain stable at 1.75%, inflation is expected to hover between 0.9% and 1.5% in the next three years. The National Bank projects real gross domestic product to increase by 1.5% in 2001. For 2002 it anticipates a growth rate of around 1%.

2. Economic and monetary developments

In the second half of 2001, global economic activity cooled markedly. In the United States, real gross domestic product shrank slightly in the third quarter for the first time in ten years while stagnating in the euro currency area; Japan slipped back into recession. In view of the intensifying weak trend and low inflationary threats, the central banks of the industrialised countries made further cuts to their key interest rates.

In Switzerland real gross domestic product in the third quarter remained at almost the same level as in the previous period, and the jobless rate again edged up slightly through the end of the year. Exports contracted and investment stagnated whereas private consumption remained robust. The terror attacks of 11 September, however, dealt a severe blow to consumer confidence. The industrial sector, in particular, was hard hit by the economic downturn. Capacity utilisation dropped considerably, and businesses were increasingly pessimistic about future prospects. On the back of falling oil prices, annual inflation measured by consumer prices eased significantly. In November it was down to a mere 0.3%.

The loosening of monetary policy in September was reflected in a marked decline in short-term interest rates. The fall in long-term interest rates was less pronounced. The yield on ten-year Confederation bonds averaged 3.1% in November, slipping 0.2 percentage points below the August level.

3. Direct investment in 2000

In 2000 Swiss capital exports for direct investment abroad mounted by Sfr 22 billion to Sfr 72 billion. Capital holdings abroad registered an increase of 20% to Sfr 373 billion, and the number of employees in foreign companies rose by 6% to 1.74 million. Capital imports for direct investment by foreign companies in Switzerland, at Sfr 28 billion, exceeded the year-earlier level by Sfr 10 billion. Foreign capital holdings in Switzerland expanded by 10% to Sfr 134 billion.

4. Switzerland's investment position in 2000

In 2000 Swiss assets abroad grew by 12% to Sfr 2227 billion whereas liabilities abroad soared by 22% to Sfr 1727 billion. The net investment position was down by Sfr 74 billion to Sfr 501 billion from last year's record high. A 13.4% share (previous year: 14.7%) of all foreign assets and 53.0% (53.3%) of liabilities were held in Swiss francs.

5. Effects of the euro's launch on the Swiss economy

On 1 January 2002, euro notes and coins will be introduced, thus completing European Monetary Union. In the summer of 2001, the National Bank consulted more than 100 businesses and associations representing the export industry, the tourism sector and retailers in order to get a clear picture of the effects of the euro on the Swiss economy. Overall, businesses were positive about their experiences gained with the euro so far and felt confident about the introduction of euro cash. The euro is unlikely to supersede the Swiss franc or to establish itself as an actual parallel currency. It will gain in importance, however, with regard to transactions between Swiss and foreigners. The increased use of the euro should not result in any major difficulties for monetary policy.

6. Chronicle of monetary events

Lowering of the target range for the 3-month Libor rate

On 7 December 2001, the National Bank lowered the target range for the three-month Libor rate by 0.5 percentage points to 1.25–2.25% after having reduced it twice already in September by 0.5 percentage points each time. The Bank acted in response to the further deterioration of the economic outlook and to the stable medium-term price development in Switzerland.