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## Fed rate action commentary from Swiss Re chief US economist

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**Contact:**

**Group Media Relations, Zurich**  
Telephone +41 43 285 7171

**Investor Relations**  
Telephone +41 43 285 4444

**Corporate Communications, New York**  
Telephone +1 212 317 5640

Swiss Reinsurance Company  
Mythenquai 50/60  
P.O. Box  
CH-8022 Zurich

Telephone +41 43 285 2121  
Fax +41 43 285 2999  
[www.swissre.com](http://www.swissre.com)

**New York, 6 May 2003 - Following today's announcement that the Federal Reserve Board would hold the target federal funds rate at 1.25 percent, Swiss Re chief economist Kurt Karl said, "Though the Fed is on hold for now, given the deteriorating economic environment in recent months it has shifted its bias to easing. We expect the Fed to cut rates by October, because the economy is unlikely to grow rapidly in the near future.**

'The Iraq situation, rising oil and natural gas prices, and cold weather combined to weaken growth significantly in the first quarter and reduced momentum into the current quarter,' said Karl. 'The rate of growth is now sufficiently weak to warrant another cut in interest rates. Inflation is not a problem and unemployment is rising - classic signals for a Fed cut. Though the Iraqi conflict clouded the economic situation for a time, job losses of over a half million in three months should convince the Fed that monetary easing is required. The likelihood of a double-dip recession, though down slightly, is still high - about 25 percent.'

Europe is currently economically weaker than the US and the appreciation of the euro is not helping its fragile recovery,' Karl added. 'Hence, the European Central Bank is likely to lower interest rates again in the near future, particularly since inflation is not much of a threat. The Bank of Canada will continue to raise interest rates, despite the US weakness, because of strong growth and increasing inflationary pressures.'

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