

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

10 AUGUST 2004, NEW YORK

Following today's announcement that the Federal Reserve Board would raise the target federal funds rate 25 basis points to 1.50 percent, Swiss Re chief economist Kurt Karl said, "Despite some softness in the economy, the Fed revealed its resolve today to raise interest rates at a 'measured' pace. To restrain a potential increase in inflation, the Fed needs to raise the federal funds rate to about two percentage points above inflation, close to 4.0 percent, by the end of 2005.

"Unless the economy weakens sharply, the Fed will proceed to raise rates by 25 basis points at each of the next 10 or so Federal Open Market Committee meetings," added Karl. "By historical standards this is a fairly gradual pace and should not derail the recovery. However, if that risk rises sharply, the Fed will most likely skip raising rates for one or two meetings. Given the age and strength of the recovery so far, the Fed needs to raise rates above inflation. Of course, if the economy picks up substantial steam next year, the Fed has indicated it will get more aggressive. With this forecast rise in short-term rates, the yield on the 10-year Treasury note will also increase, reaching 5.0 percent to 5.5 percent by year-end and close to 5.5 percent by the end of next year. The Fed's strategy of gradually raising interest rates is likely to succeed â€" real GDP growth will slow down next year and inflation will remain close to 2.0 percent.

"The European economy continues to improve, but at an anemic pace, putting the European Central Bank on hold through the end of 2004," Karl said. "In Japan, the economic news has generally been very favorable and inflation appears to be making a comeback. However, the Bank of Japan must wait until inflation becomes firmly entrenched - perhaps in 2006 - before raising rates. The Bank of England, on the other hand, continues to raise rates - its policy rate is projected to be 5.25 percent by year-end. The Canadian economy is strengthening and rate hikes will come later this year - probably about 50 basis points by end-2004."

### Notes to editors

Swiss Re is one of the world's leading reinsurers and the world's largest life and health reinsurer. The company operates through more than 70 offices in over 30 countries. Swiss Re has been in the reinsurance business since its foundation in Zurich, Switzerland, in 1863. Through its three business groups Property, Casualty, Life, Health and Financial Services, Swiss Re offers a wide variety of products to manage capital and risk. Traditional reinsurance products, including a broad range of property and casualty as well as life and health covers and related services, are complemented by insurance-based corporate finance solutions and supplementary services for comprehensive risk management. Swiss Re is rated "AA" by Standard, Poor's, "Aa2" by Moody's and "A+" by A.M. Best.

### ANY QUESTIONS?

MEDIA RELATIONS  
ZURICH: +41 43 285 7171  
NEW YORK: +1 914 828 6511  
SINGAPORE: +65 6232 3459

**OTHER SWISS RE CONTACTS**  
SWITCHBOARD: +41 43 285 2121  
INVESTOR RELATIONS: +41 43 285 4444  
SHARE REGISTER +41 43 285 6810

[Send an e-mail](#)

[Our Leadership](#)  
[News releases](#)  
[Media events](#)  
[Contact us](#)  
[Electronic press kit](#)  
[News archive](#)

### SUBSCRIPTION SERVICES

[Subscribe to News releases](#)



Contact



Subscribe



Follow