



Fed rate action commentary from Swiss Re's chief US economist

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NEW YORK, January 29, 2003 – Following today's announcement that the Federal Reserve Board would hold the target federal funds rate at 1.25 percent, Swiss Re's chief US economist, Kurt Karl said, "The latest economic indicators have been mixed, but the Fed is on hold until the economy deteriorates or strengthens significantly. The Fed also maintained its neutral policy stance, which indicates they believe the risks are balanced between price stability and sustainable economic growth. With this inaction, the Fed is showing confidence in the economic recovery, despite market volatility and weak consumer and business confidence.

"At this time, the economy is expected to improve significantly by the middle of this year," said Karl. "During the second half of the year, the Fed will begin to raise rates. The housing market remains robust, business investment is improving, and consumers are spending. Furthermore, the government is contemplating a hefty tax cut/stimulus package that will boost growth in the short term and increase the need for higher interest rates. By mid-year, oil prices are projected to fall, as the troubles in Venezuela and geopolitical risks recede.

"The European Central Bank appears to be on hold for the time being. Though the European economy is growing at an anemic pace, inflation has been persistent. The ECB is more likely to raise rates next year than this year, delaying any rate hike until the economy improves. The Bank of Canada, on the other hand, will most likely be on hold – the recovery in Canada is on track and much more robust than in the US. Also, short-term rates are currently much higher than in the US."

Advisory: Kurt Karl is available for interviews with reporters and editors to elaborate on his comments:

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Swiss Re is one of the world's leading reinsurers with over 70 offices in more than 30 countries. For 2001, Swiss Re reported a net loss of CHF 165 million, largely due to the 11 September event. Gross premiums in 2001 were CHF 28.5 billion. At the end of June 2002, Swiss Re's shareholders' equity amounted to CHF 18.3 billion and the total balance sheet stood at CHF 168 billion. Swiss Re is rated "AA+" by Standard & Poor's, "Aa1" by Moody's and "A++" by A.M. Best.

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