6 September 2011 Last updated at 12:43 ET

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The Swiss National Bank (SNB) has set a minimum exchange rate of 1.20 francs to the euro, saying the current value of the franc is a threat to the economy.

The SNB said it would enforce the minimum rate by buying foreign currency in unlimited quantities.

The move had an immediate effect, with the euro rising from about 1.10 francs before the announcement to 1.21 francs.

It is the latest attempt by the central bank to weaken its currency, which has been at export-damaging record highs.

The SNB has previously said that it would increase available deposits to commercial banks, as well as cut interest rates.

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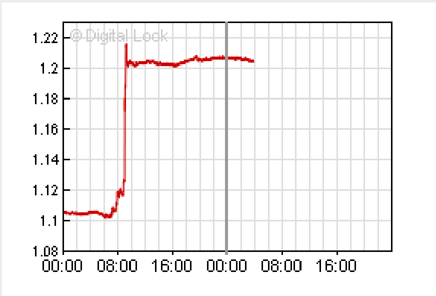

€1 buys	change	%
1.2045	▼ -0.00	▼ -0.20

The Swiss government has also said it would increase its spending by 2bn francs to help boost the domestic economy.

'Utmost determination'

In a statement, the SNB said: "The current massive overvaluation of the Swiss franc poses an acute threat to the Swiss economy and carries the risk of a deflationary development.

"The Swiss National Bank is therefore aiming for a substantial and sustained weakening of the Swiss franc. With immediate effect, it will no longer tolerate a EUR/CHF exchange rate below the minimum rate of CHF 1.20.

"The SNB will enforce this minimum rate with the utmost determination and is prepared to buy foreign currency in unlimited quantities."

The Swiss stock market, the Zurich SMI, rose 4% after the announcement, with exporters the biggest risers.

'Grand scale'

The European Central Bank issued a short statement saying the decision had been taken by the Swiss National Bank "under its own responsibility".

Jeremy Cook, chief economist at World First, said the resulting currency movement was "the single largest foreign exchange move I have ever seen".

Against the franc, the euro climbed 9%, the dollar rose 7.7% and sterling gained 7.8% within minutes of the announcement.

"This dwarfs moves seen post-Lehman Brothers, 7/7, and other major geopolitical events in the past decade," Mr Cook said.

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Imogen Foulkes
BBC News, Geneva

It is a measure of last resort for a country which has worked so hard to stay independent from Europe - but the SNB clearly feels it no longer has a choice.

The move follows months of anxiety here - the franc has risen over 20% against the euro in the last year, threatening Switzerland's export market and its tourism industry.

Earlier attempts to stem the franc's rise had little effect, and predictions just this week of 25,000 job losses clearly convinced the SNB that drastic action was necessary.

But business leaders say a level of 1.20 francs to the euro is still too high - 1.30 or more is their preferred rate, so worries over Switzerland's traditionally strong economy remain.

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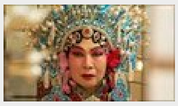

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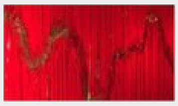

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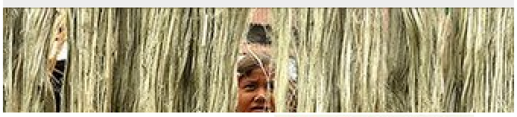

"The Swiss have had enough. This is intervention on a grand scale.

"This turns up the heat on the eurozone and other economies who have benefited from weakening their currency in the past couple of years."

But some analysts feared the move could have damaging consequences for Switzerland.

"If the markets decide to test the SNB's determination, the task of defending the franc will not be easy and there could be some possible, very damaging, effects to the Swiss economy such as a dramatic increase in inflation," said Nuno Fernandes, professor of finance at the Swiss business school IMD.

"Switzerland actually imports more from the EU than it exports and there is a danger that a rising euro will mean imports become more costly than without the cap."

Yen action?

The Swiss franc, seen as a safe investment, particularly in times of uncertainty, has soared over the last month, at one point heading towards parity with the euro.

But the strong currency has been hitting Swiss exporters, making goods more expensive for foreign buyers and hurting their profits when they repatriate their foreign earnings back home.

Japan has been experiencing similar problems, with authorities there taking steps to weaken the strong yen.

The move by Switzerland to peg the franc to the euro has prompted some analysts to speculate that Japan might take further action, particularly if more investors flock to the yen.

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