Switzerland Caps Franc

LONDON—The Swiss National Bank on Tuesday set a minimum exchange rate for the euro against the Swiss franc, in a bid to contain a rise in the franc that it says poses a threat to Switzerland’s economy.

The central bank said it will no longer tolerate an exchange rate below 1.20 francs per euro. "The SNB will enforce this minimum rate with the utmost determination and is prepared to buy foreign currency in unlimited quantities," it said in a statement.

The franc’s overvaluation was an “acute threat to the Swiss economy and carries the risk of a deflationary development,” the SNB said.

The Swiss franc weakened sharply against the euro and dollar following the announcement. The euro soared to as high as 1.2180 francs before retreating slightly, while the greenback rose to 0.8579 franc.

The move also pushed the single currency as high as $1.4286, while the safe-haven Japanese yen fell sharply against the dollar.

In 1978, the SNB fought successfully to make the franc fall against the Deutsche mark, which was slumpng at the time, by selling francs for U.S. dollars. The franc fell 20% against the mark within three weeks.

"It took a couple of days to show that the SNB was serious about its unlimited intervention, but then the strategy worked fine," said Tobias Straumann, an economic historian and professor at the University of Zurich.

Foreign-exchange markets were much smaller then, and in pushing the franc lower against the Deutsche mark, the SNB was only dealing with the currency of one country, rather than with the euro, which represents half of Europe.

—Jessica Mead, Anita Greil and Goran Mijuk contributed to this article.