# Monetary status quo for Swiss National Bank thanks to moderate inflation

The Swiss National Bank has decided to maintain its main interest rate at -0.75% and remains relaxed in the face of the appreciation of the franc, which has the great merit of limiting inflationary pressures in Switzerland. Despite an upward revision of its inflation forecast, the bank is not ready to raise rates in the coming months

Shoppers in Bern, Switzerland

## Limited inflation thanks to the strong franc allows the SNB to wait

As expected, the Swiss National Bank (SNB) maintained its ultra-accommodative monetary policy in March, keeping its key rate at -0.75%, the lowest level in the world. This is in contrast to other central banks in the eurozone, the US and the UK, which are in the process of tightening their monetary policy.

This difference in approach is explained by a fundamentally different inflation situation. Inflation in Switzerland reached 2.2% in February, its highest level since 2008, but still well below the 5.9% in the eurozone and 7.9% in the US. This difference in inflation is explained by the value of the Swiss franc, the traditional safe-haven currency, which has risen sharply. The appreciation of the currency has led to a sharp reduction in imported inflation and thus ultimately has moderated consumer price inflation compared to neighbouring countries.

While the SNB usually intervenes massively on the foreign exchange market to limit the appreciation of the franc, it is now much more relaxed in the face of the strength of the franc because it allows the limiting of inflation in Switzerland. In its statement, the central bank continues to describe the franc as "highly valued", the same wording it has used since September 2017, when the currency hit its highest level against the euro in seven years. The SNB says it is always ready to intervene in the foreign exchange market when it feels it is necessary and to judge this "takes the overall currency situation and the inflation rate differential with other countries into consideration". This is the first time it has explicitly mentioned the inflation differential in its statement, a sign that the strength of the franc is no longer seen solely as a negative factor for the Swiss economy.

## Less intervention, but no rate hikes expected in 2022

The SNB believes that the conflict in Ukraine will lead to higher prices, due to rising oil prices and supply bottlenecks. Its inflation forecast for 2022 has been doubled to 2.1%, which is above its inflation target of 0-2%. Nevertheless, it estimates that inflation will be 1.8% in the fourth quarter of 2022 and thus end the year in line with its target. The SNB has also raised its inflation forecast to 0.9% for 2023, up from 0.6% previously, and expects inflation to be 0.9% in 2024.

Although this is the first time in a long time that the SNB has acknowledged that inflation could accelerate, it does not mean that it is ready to raise interest rates quickly. We remain convinced that the SNB will wait for the European Central Bank (ECB) to make its first rate hike before starting to raise the policy rate in Switzerland. If the ECB raises rates for the first time in December 2022 as we expect, the SNB is likely to follow fairly quickly and start raising rates in March 2023 as it will probably want to seize the opportunity to normalise monetary policy to create room for manoeuvre in the future.

The SNB will probably continue to be relaxed about the value of the franc throughout 2022. It is likely to accept a stronger franc, intervening less on the foreign exchange markets, in order to keep inflation under control without tightening financing conditions. A relatively comfortable situation for the SNB. At the moment, its job seems much easier than that of the other central banks.

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