Swiss National Bank cuts interest rates to 0.25% with a pause likely in June

The Swiss National Bank has cut its key rate by 25bp to 0.25%

Martin Schlegel, Chairman of the Governing Board of the Swiss National Bank, at today's press conference

As expected, the Swiss National Bank (SNB) has reduced its key interest rate by 25bp to 0.25%. It has indicated that it is willing to intervene in the foreign exchange market as necessary. This decision comes amid low inflationary pressures. Inflation fell to 0.3% in February, down from 0.4% in January and 0.7% in November 2024, primarily due to lower electricity prices. Currently, inflation in Switzerland is mainly driven by the services sector.

The SNB expects inflation to remain low over the next few quarters. Assuming the key interest rate remains unchanged, it forecasts an average inflation rate of 0.3% in the second quarter and 0.4% for 2025 overall. For 2026 and 2027, the SNB projects an average inflation rate of 0.8%. Despite these modest forecasts, this is the first time in a long while that the SNB has not had to significantly revise its inflation forecasts downward at its monetary policy meeting. Inflation is expected to stay within the SNB's price stability band, defined as between 0% and 2%.

In its communication, the SNB emphasised the uncertainties affecting the global economy and, consequently, Swiss economic prospects. This suggests that future meetings could bring unexpected decisions. The Swiss franc's movement, influenced by global market risk sentiment, will continue to significantly impact Swiss inflation, particularly for imported goods. With headline inflation at 0.3%, there is a tangible risk of it slipping into negative territory. Global market developments, tariffs, geopolitics, and the economic situations in the US and Germany will all play crucial roles in shaping the Swiss inflation outlooks and the SNB's decisions at upcoming meetings.

Given our global economic forecasts, the SNB's current stance, and the already very low interest rates, it is most likely that the SNB will keep interest rates unchanged at its next meeting in June. If the inflation outlook remains at 0.8% for the next few years, the SNB is unlikely to cut rates to 0%, avoiding proximity to negative territory. However, if the global environment deteriorates and inflation forecasts are revised downward, the SNB may be compelled to cut rates to 0%. While this is a close call, we believe a prolonged pause is the most probable outcome at this stage.

Author

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com