

## The Swiss central bank remains cautious and dovish

The Swiss National Bank left its key interest rates unchanged at -0.75% and is still willing to intervene in FX markets given the “highly valued” franc. Even with this extremely accommodative monetary policy, inflation is expected to be only 0.6% in 2023. No interest rate changes are therefore to be expected before 2024



Source: Shutterstock

### No change in monetary policy for the Swiss National Bank

The policy rate and interest on sight deposits at the Swiss central bank remains at -0.75%. At the same time, the SNB stands ready to intervene in the foreign exchange market as necessary, given the “highly valued” Swiss franc. The central bank has become slightly more upbeat on the growth outlook and now expects 3.5% GDP growth in 2021, something we also deem feasible.

The upward revision is primarily attributable to the lower-than-expected decline in GDP in the first quarter. In the SNB’s view, Swiss GDP is likely to return to its pre-crisis level by the middle of the year. At the same time, the bank remains very cautious. The global economy thinks that the after-effects of the pandemic will continue to weigh on demand for some time to come. Therefore, the

utilisation of both the global and the Swiss production capacity is likely to only gradually return to normal.

## But still subdued inflation prospects

The inflation forecast for 2021 and 2022 is slightly higher than in March, due to higher prices for oil products and tourism-related services, as well as for goods affected by supply bottlenecks. It now stands at 0.4% for 2021 (0.2% in March) and 0.6% for 2022 (0.4% in March), a still very subdued inflation outlook. Even assuming that the SNB policy rate remains at -0.75% for the next three years, the SNB only expects 0.6% inflation in 2023. SNB Chairman Thomas Jordan remarked that in some countries there has been a rise in longer-term inflation expectations in recent months, but this should only be seen as a return to normal, given that long-term inflation expectations had fallen significantly. He, therefore, doesn't anticipate a strong increase in global inflation in the medium term.

In Switzerland, inflation expectations remained stable despite the pandemic, with survey data showing an expected inflation rate of around 1% for the long term. The only point of worry seems to be asset inflation. As such, mortgage lending and residential property prices have continued to rise strongly in recent quarters, further increasing the vulnerability of the mortgage and real estate markets. The SNB will continue to regularly assess the need for the countercyclical capital buffer to be reactivated.

## Steady as she goes

With the positive, but cautious outlook and inflation remaining below 1% for some time to come a change in monetary policy doesn't seem to be needed anytime soon.

In any case, we don't see the central bank moving before the ECB. As in the Eurozone, a change in interest rates is not expected before 2H23, we don't expect the SNB to raise interest rates before 2024.

### Author

#### Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

[peter.vandenhoute@ing.com](mailto:peter.vandenhoute@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person

for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).