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

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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 be 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