Switzerland, that pole of stability

At the end of an eventful year, the Swiss economy has lived up to its reputation as the European continent's pole of stability in 2023. When the rest of Europe went into recession, Switzerland saw only a moderate slowdown in activity. While inflation in the eurozone reached levels not seen for decades, the pace of price increases in the Swiss Confederation remained largely contained.

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As a result, the SNB did not have to raise its key rate as aggressively as other central banks, helped, in all fairness, by the strengthening of the Swiss franc. And even the collapse of the country's second-largest bank was not the systemic shock that might have been feared. All this against a backdrop in which public finances were back in balance by 2022, unlike other European economies that are still struggling to normalise their budget after the profligacy of the Covid period.

This stability is logically reflected in the financial markets: the Swiss franc is at its highest against the euro and remains strong overall. The SNB's change of direction on currency management in 2022 is certainly part of the explanation since foreign currency reserves have since been reduced by 30% (a drop of CHF 280 billion!). And the large current account surplus is still a major structural support for the franc. But the stability shown by the economy in an environment of high global uncertainty has also been a powerful pull factor for the Swiss franc.

Switzerland also stood out on the interest rate front. After orchestrating a cycle of rate hikes that was far less extensive than those of its peers, the SNB was the first of the major central banks to put an end to it after June, while the Fed and the ECB continued to tighten monetary conditions during the summer. In fact, Swiss inflation had already returned to the level targeted by the SNB, which was not lost on the bond market. Long-term rates in CHF had already begun to fall since the start of the year, while rates in USD and EUR were extending their upward trend from 2022. The Swiss Confederation's 10-year rate thus returned to around 0.75%, below the symbolic level of 1% and a long way from the levels of 10-year rates in euros or dollars, even if these are now also falling at the end of the year.

These are the factors to bear in mind as we look ahead to 2024. Global growth is set to slow next year, with the US economy deprived of the support of fiscal policy. Against this backdrop, global inflationary pressures look set to dissipate gradually, allowing most central banks to loosen their monetary grip and long-term interest rates to fall. However, it is not certain that Switzerland, its currency, and its interest rates will play much part in this movement! Growth is expected to stabilise, inflation is already low and market rates have already anticipated this. The very prospect of a rate cut by the SNB remains uncertain, even if the ECB or the Fed were to cut theirs. Indeed, Swiss monetary policy does not appear to be as excessively restrictive as those of its counterparts. While the Swiss economy, which is very open to foreign trade, will of course not be insensitive to developments in the rest of the world, it nevertheless has everything it takes to remain a pole of stability in 2024 at the heart of a continent beset by political, geopolitical, and economic uncertainties.

For further information

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