SNB to stay on hold at 0%

Swiss economy

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- We expect the SNB to maintain its policy rate at 0% at the upcoming meeting, as the trade agreement with the US reduces downside growth risks and Swiss franc strength has recently faded.
- We also expect the SNB to keep the rate steady at 0% throughout 2026. Subdued inflation and ongoing global growth risks justify an expansionary policy, while decreasing medium-term deflation risks and fading Swiss franc strength argue against a negative SNB rate.
- We expect EURCHF to rise modestly over the next 12 months, while USDCHF should stabilize slightly below the 0.80 mark. Swiss government bond yields are likely to remain below long-term averages, but could edge higher as we see inflation picking up in 2H26.

Source: Getty Images

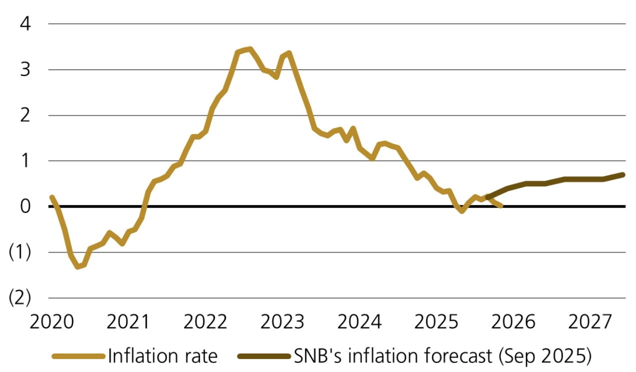
Following six consecutive meetings of rate cuts and a total easing of 175 basis points, the Swiss National Bank (SNB) left its policy rate unchanged at 0% in September. The SNB justified this decision by citing the high threshold for a return to negative interest rates. While the growth outlook deteriorated after the introduction of 39% US tariffs on Swiss goods in August, inflation edged slightly higher to 0.2% y/y over the summer months.

Lower inflation but reduced growth risks

Since then, inflation inched down to 0.0% y/y in November, tracking below the SNB's expectation of 0.4% for the fourth quarter of 2025. Growth disappointed, with the Swiss economy contracting by 0.5% in 3Q25. However, this decline was primarily driven by the unwinding of front-loading in Swiss pharmaceutical exports. Since September, the growth outlook has somewhat improved, with US tariffs on Swiss exports set to fall to 15%. While inflation has come in lower than expected in recent months, the trade agreement with the US reduces risks to growth and thus medium-term deflation risks.

Figure 1 - Inflation is tracking below the SNB's September forecast

Swiss inflation rate, y/y, in %



Source: Macrobond, UBS, as of December 2025

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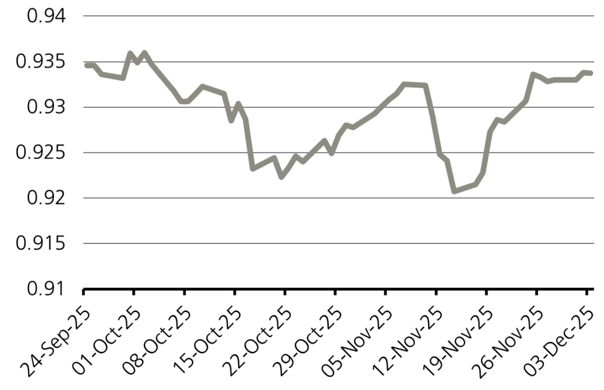
In both October and November, the Swiss franc appreciated against the euro, with EURCHF reaching a decade low following Switzerland's trade agreement with the US in mid-November. The SNB's balance sheet for October suggests no intervention to counter CHF appreciation. While we do not rule out sporadic FX purchases from the central bank, we see this as a sign that the SNB is not overly concerned about CHF strength. Moreover, the Swiss franc now trades at similar levels to those before the September meeting against the euro and on a trade-weighted basis. Against this backdrop, we expect the SNB to keep its policy rate unchanged at 0% in December.

Figure 2 - EURCHF has rebounded from its lows
EURCHF spot since the SNB September meeting



Source: Macrobond, UBS, as of December 2025

What's next for the SNB?

Looking ahead to 2026, we do not expect the SNB to return to negative policy rates. First, we project inflation remaining in positive territory over the coming months. We have revised our 2026 inflation forecast down to 0.3% from 0.5% previously, but still expect an increase over the course of 2026. Second, the Swiss economy is likely to rebound during the year. We anticipate Swiss GDP growth of around 1% next year, with the rollout of the German fiscal package potentially boosting German investment, thereby supporting Swiss manufacturing and possibly lifting the euro against the Swiss franc.

Conversely, we do not expect the SNB to hike its policy rate. Inflation should remain at the lower end of the SNB's target range of 0-2%. Negative monthly readings cannot be ruled out. Furthermore, Swiss GDP growth is likely to stay below trend, while global growth risks remain tilted to the downside. We therefore believe an expansionary policy stance remains appropriate and expect the SNB to keep its policy rate steady at 0% through December 2026.

With the SNB's policy rate anchored at 0%, we expect Swiss government bond yields to remain at low levels. However, as we expect inflation to accelerate over the course of 2026, the risk of negative inflation prints should diminish and the concerns about deflation fade. This should support higher Swiss government bond yields. We expect 10-year yields to edge up to 0.5%, with 2- and 5-year yields rising back into positive territory but remaining close to 0%.

EURCHF slightly higher, USDCHF to stabilize below 0.80

Since spring 2025, EURCHF has remained under pressure due to political uncertainty and growth concerns. Next year, fiscal policy in Germany should support a European recovery and the euro. The European Central Bank (ECB) has also likely completed its rate-cutting cycle. We expect EURCHF to rise to 0.95 over the next 12 months. That said, continued uncertainty on the economic and political fronts should limit the potential for Swiss franc depreciation.

Following the sharp decline of USDCHF in 1H25 from 0.91 to below 0.80, the pair has recently stabilized above the 0.80 mark. Softer US data and expected Federal Reserve rate cuts should weaken the dollar over the coming months. However, as we expect "safe-haven" demand to decrease in 2026, the Swiss franc's appeal is likely to be reduced. Therefore, we expect USDCHF to stabilize at 0.79 over the next 12 months.

Downside scenario: Negative rates

The SNB continues to stress that the hurdle for a negative policy rate remains high. However, if the medium-term inflation outlook worsens significantly, we believe the SNB would be ready to act. With inflation already low, further Swiss franc appreciation could push inflation into negative territory. Should such appreciation result from more persistent pressures—such as a global growth slump, renewed ECB rate cuts, and significantly more easing by the Federal Reserve—we believe a negative SNB policy rate would be the most appropriate response. In this scenario, EURCHF could fall to 0.88-0.92 and USDCHF to 0.68-0.72, with further declines in Swiss yields.

Upside scenario: Rate hikes in late 2026

Alternatively, stronger-than-expected Eurozone growth, supported by expansionary fiscal policy, could lift inflation and prompt the ECB to consider raising rates. If this reduces appreciation pressure on the Swiss franc, the SNB may raise its policy rate, possibly before 2027. In this scenario, we think EURCHF could trade in a 0.95-1.00 range and USDCHF in a 0.83-0.87 range, with Swiss government bond yields likely to rise across the curve.

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Neutral – We do not expect outsized returns or losses. Hold longer-term exposure.
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Appendix

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