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Why inflation in Switzerland is so much lower than elsewhere

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Switzerland is currently proving to be an island of stability in terms of its currency, the Swiss franc, but also in terms of inflation. Consumer price inflation in Switzerland is the lowest in the entire OECD, the Organisation for Economic Co-operation and Development. Switzerland therefore has the lowest inflation of any industrialised nation worldwide. Why is this? As is often the case, this is down to a combination of factors. Lower inflation, however, also means lower interest rates relative to other countries across the globe. Switzerland thus remains attractive for investments thanks to the combination of a stable currency, relatively low inflation and much lower interest rates compared to other nations. The banking sector, which has recently been hit by turbulence, also accounts for around just 5% of the stocks listed on the Swiss equity index, which is lower than in the Eurozone equity index, where this figure stands at 9%, and also lower than in the US. The Swiss equity index is dominated by less cyclical pharmaceutical and food stocks as well as insurance companies.

The discussion surrounding the increase in consumer prices is intensifying once more. While inflation in the Eurozone and the US stands at 6.9% and 6%, respectively, inflation in Switzerland is far lower at 2.9%. And in terms of so-called core inflation, which does not include energy and food prices, the figure recorded for Switzerland stands at just 2.2% compared to approximately 5.6% in the Eurozone and the US. What is behind this? Why is inflation actually so much lower in Switzerland? As is often the case, the relative stability of the inflation situation in Switzerland can once again be put down to a combination of factors.

The most important reason for the lower inflation and thus lower interest rates than in other countries is the strength of the Swiss franc. The stability of Switzerland's currency has been a well-known trend for many years, decades in fact. This is related to the country's political stability during a time of increasing geopolitical tensions and conflicts, including those seen between the US and China and between the West and Russia, as well as in the still very unpredictable Middle East.

A relatively strong Swiss franc over a period of several years means, for example, that goods imported from the Eurozone tend to become cheaper for Switzerland. This, in turn, keeps inflation lower in Switzerland than within Europe's single currency area or even in the US.

A second reason is the lower weighting of energy prices in the basket of goods that forms the basis of the inflation measurement. In the Eurozone, fossil fuels and electricity make up almost 7% of the consumer index, while in Switzerland they account for only around 3.5%, in other words only half as much as is the case in its neighbouring European countries.

> "The combination of a stable currency, lower inflation and lower interest rates makes Swiss investments attractive relative to other markets."
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> Gérard Piasko, Chief Investment Officer

Thirdly, Switzerland is also more energy efficient than the rest of Europe thanks to its better diversified energy supply. With its many mountains and more than 1,500 lakes, hydro energy or hydropower is an important factor and means that Switzerland is less dependent on energy imports than many countries. The high involvement of the state in the energy supply via electricity companies also makes Switzerland less susceptible to fluctuations and price increases on the international energy markets.

A fourth reason is the stronger price regulation than in neighbouring European countries. Around 30% of core consumer price products are subject to regulation, far more than elsewhere around the world. As at the end of 2022, for example, food prices in Switzerland had risen by just 4% on an annualised basis compared to 12% in the

US, 17% in the UK and 20% in Germany. Further examples can be found in the transport, rental and electricity sectors. The authorities also have the ability to intervene in drug prices and prescribe price reductions. Agricultural prices in Switzerland are traditionally or historically more regulated in any case, meaning that the current fluctuations and price increases on the global food market are having less of an impact than in other parts of the world.

And, last but not least, it should not be forgotten that the Swiss government, the country's parliament and the Swiss National Bank did not drive economic stimulus during the coronavirus crisis in 2020 and 2021 to the same overly excessive extent as seen in the US, in particular, as well as in the Eurozone and the UK. Unlike in many other countries, Switzerland did therefore not experience a completely exaggerated increase in the money supply or monetary liquidity. Switzerland therefore triggered far fewer inflation drivers in 2020 and 2021 than the US, the Eurozone or the UK.

Gérard Piasko

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