The Swiss franc and you

What the status of the Swiss franc as a reserve currency means for us

It is just over two years since the Swiss National Bank (SNB) introduced a floor of CHF 1.20 in the Euro/Swiss franc exchange rate. It did this to deter global investors from buying the franc as a safe-haven currency, which propelled it to all-time highs. Concerned by the impact of the strong franc on exports and tourism, political parties on both sides widely applauded the SNB intervention.

Nevertheless, foreign investors remain attracted to reserve-style Swiss franc positions, largely because of the relative stability of the Swiss economy and political environment. While 2013 has been good to Euroland economies by shifting global investment to other more vulnerable economies, the moderate strength of the Euro has not helped. The SNB has failed to significantly to weaken the franc.

The only way to discourage Swiss franc purchasers is to penalize foreign cash holdings. However, given the huge liquidity in the US, Japan and rest of Europe, this pressure is likely to last for some time. It is doubtful whether the SNB will be able to maintain the floor in the long term. Some media have promoted the possibility of lifting this to 1.30 Euro/Swiss franc or beyond. Yet current economic reality and political debate indicate that such a move is unlikely to succeed.

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Swiss exporters, a key element of the country's economy, have been forced to take their own measures. They include improved efficiency and cost adjustments as a means of absorbing negative currency effects. These appear to have done well, considering that the Swiss franc has gained some 25% in the last five years. Today, Swiss exporters continue to thrive, spurring economic growth which in turn attracts new foreign investors and franc purchases.

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To keep customers, Swiss retailers started to pass on the currency exchange gains, a move that effectively countered inflationary pressures.

While consumer goods prices have been kept low, the cost of services and housing has risen. The residential sector represents a major concern to the national bank: Measures to cool rising house prices have fallen short due to low interest rates and high demand in the main economic zones, such as Geneva.

Reports that increasing home loans significantly exceed overall economic growth could lead to dangerous imbalances in the banking sector.

Switzerland has lost some of its attractiveness to foreign companies. Since 2007, costs have risen by at least 50%. This is primarily because of the Swiss franc and the housing market, but also because of tax-related issues and a general move away from globalization to repatriation.

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