ETH zürich KOF

Press Release

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KOF Economic Forecast for spring 2020:

Switzerland teeters on the brink of a coronavirus recession

The battle to contain the coronavirus pandemic is posing significant challenges for the economy. Economic forecasts are subject to huge uncertainty. KOF is therefore presenting three scenarios that show how business activity could evolve going forward. The baseline scenario sees the Swiss economy sliding into recession in the first half of 2020, after which it should stage a gradual recovery. Under the mild scenario the disruption to business activity would abate more quickly, while in the negative scenario it would be much more severe.

Economic forecasts are currently subject to unusually high levels of uncertainty. New measures aimed at containing the coronavirus pandemic are being announced every day. There is a lack of clarity about the current and future spread of the virus and about government countermeasures and their impact on the economy. Moreover, the crisis has so far hardly appeared in the macroeconomic data that feed through into the usual forecasting models.

Instead of publishing its usual kind of economic forecast, KOF is therefore presenting three scenarios that outline the coronavirus pandemic's potential impact on business activity in Switzerland: a baseline scenario, a mild scenario and a negative scenario. These scenarios differ according to their assumptions and outcomes and in terms of how long and how severely the pandemic is predicted to affect the economy (further information on this topic can be found in the detailed forecast).

Baseline scenario: GDP set to contract in the first and second quarters of 2020

The **baseline scenario** presents what KOF currently believes to be the most likely trajectory for the economy going forward. It assumes that the coronavirus pandemic will seriously disrupt economic activity over the next twelve months. For the next two quarters in particular this scenario is predicting a sharp fall in consumer spending and a widespread drop in corporate investment. Forthcoming events have been cancelled or postponed, and closures of schools and borders will act as a drag on output. However, the countermeasures taken should be able to mitigate the pandemic's economic impact by this summer.

The baseline scenario sees Switzerland sliding into recession in the first half of 2020, with total economic output falling in the first and second quarters of this year. This trend will affect virtually all sectors and, owing to the contraction in global trade, export-led industries in particular. One notable exception will be the healthcare sector, which will expand substantially, supporting growth in gross domestic product (GDP). The sharp drop in economic output will also affect the labour market with a slight delay. However, short-time working and other measures introduced by the Swiss government and the cantons will prevent large-scale job losses, with unemployment rising only modestly. GDP will start to grow again in the third and fourth quarters of this year as a result of pent-up demand. Overall, the recession under this scenario will therefore be sharp but limited to just a few quarters. Because it will not be possible to fully compensate for the output lost, however, GDP over the medium term will be lower than it would have been without the pandemic.

Under the baseline scenario Switzerland will achieve GDP growth of 0.3 per cent in 2020 and 1.4 per cent in 2021.

Mild scenario: disruption limited to the second quarter of this year
Under the **mild scenario** the economic disruption caused by the coronavirus will abate quickly. The impediments to the Swiss economy will essentially be restricted to the second quarter of this year. Most of the output lost will be compensated for in the third quarter. Although employment growth will be dented slightly, it will recover swiftly and return to the growth path that it was on prior to the pandemic. Nonetheless, even the mild scenario is expected to have certain longer-term impacts on Swiss GDP. This is because countries with less efficient healthcare systems, less economic resilience and less headroom in their public finances will be hit harder by the pandemic, which will act as a drag on global trade.

Under the mild scenario Switzerland will report GDP growth of 1.2 per cent in 2020 and 0.9 per cent in 2021 (including sporting events). Excluding sporting events, GDP growth will amount to 0.8 per cent (2020) and 1.3 per cent (2021).

Negative scenario: no GDP recovery in the second half of the year
The **negative scenario** predicts that the coronavirus pandemic will have much more severe short- and medium-term impacts on the Swiss economy. Economic output will fall sharply in the first half of this year. Economic uncertainty, rising household debt, persistent supply problems, widespread liquidity shortages and a stronger Swiss franc will prevent GDP from recovering in the second half of this year and ensure that it continues to contract in the third and fourth quarters. Ailing public finances in some countries coupled with liquidity shortages at individual commercial banks are curbing lending and reducing potential output in the countries concerned, which is placing further restrictions on the fiscal policy headroom of some of Switzerland's key trading partners.

The negative scenario sees Swiss GDP contracting by 2.3 per cent year on year in 2020. GDP will then grow by 1.3 per cent in 2021.

Economic policy recommendations
Clear, targeted and swiftly effective measures could reduce the risk of companies having to make sharp downward adjustments to their medium-term forecasts and their investment and employment plans. The proven instrument of short-time working should certainly be one of the main tools used here, although it would be ineffective for the self-employed and for firms with high overheads and low wage ratios. Temporary tax payment deferrals and uncomplicated government guarantees for bank loans to businesses to compensate for their lost revenues are therefore important additional instruments. It would also make sense to continue to pay wages to the self-employed and temporary workers who are not covered by the short-time working arrangements and to parents who have to stay at home because schools are closed.

A detailed report on these economic scenarios, including tables and charts, can be found on our website:
https://kof.ethz.ch/en/news-and-events/media/press-releases.html →

An overview of KOF's publications on the coronavirus to date – together with the latest facts and figures – can be found here:
https://kof.ethz.ch/en/forecasts-and-indicators/indicators.html →

Contacts:
Jan-Egbert Sturm | phone +41 44 632 42 39 | sturm@kof.ethz.ch
KOF Corporate Communications | phone +41 44 633 99 48 | kofcc@kof.ethz.ch