ETH zürich KOF

Press release

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KOF economic forecast for summer 2022: robust economy despite international price increases

The Swiss economy will grow by 2.7 per cent this year and by 1.6 per cent next year. The fallout from the COVID-19 pandemic and the war in Ukraine is slowing the global economy. Nevertheless, Switzerland is holding its own thanks to domestic consumption and a relatively low inflation rate compared with other countries.

Coronavirus pandemic, war in Ukraine, and inflation causing global economic slowdown

The aftermath of the COVID-19 pandemic and the war in Ukraine are creating headwinds in the global economy. Just as the global economy was about to recover from the coronavirus crisis, the next setback came in the form of Russia's invasion of Ukraine. In addition, inflation in many countries has reached worrying levels and will put additional pressure on international demand.

Swiss economy growing despite geopolitical crises – mainly thanks to domestic consumption

Despite the current geopolitical crises, the Swiss economy is holding its own. KOF is forecasting that gross domestic product (GDP) adjusted for sporting events will rise by 2.7 per cent this year and by 1.6 per cent next year. Growth in output is being supported by the normalisation of the service sectors and stable growth in industry. Tourism, in particular, should also see better times ahead. The recovery that began after the lifting of the COVID-19 restrictions is likely to continue. It is expected that domestic consumption will support the Swiss economy. Firstly, wage growth has been surprisingly strong, which has provided additional incentives for consumption. And, secondly, the COVID-19 pandemic has forced households to set aside funds which can now be spent.

Inflation in Switzerland is relatively low by international standards

High inflation currently poses one of the biggest economic risks. There are several reasons for the surge in prices. One is excess demand, which can be attributed to the catch-up effects caused by the COVID-19 pandemic. In addition, disruption to supply chains is likely to play a decisive role. Furthermore, the supply insecurity and shortages caused by Russia's invasion of Ukraine have led to sharply rising food and energy prices. As a small open economy, Switzerland is not immune to these international price trends. Nevertheless, the inflation rate in Switzerland is relatively low compared with other countries. KOF expects inflation in Switzerland to be 2.6 per cent this year and 1.5 per cent next year.

KOF expecting to see further interest-rate moves in Switzerland; franc likely to appreciate

Like many central banks around the world, the Swiss National Bank (SNB) decided in its latest assessment to tighten its monetary policy in order to combat rising inflation. In doing so, it raised its key interest rate more than expected, and the Swiss franc appreciated slightly. Its key interest rate rose by 0.5 percentage points to -0.25 per cent. This interest-rate move is likely to be followed by others over the course of the year. In addition, the SNB communicated that it no longer classifies the franc as being 'highly valued'. It also raised the possibility of intervening in the foreign-exchange markets to support the value of the franc. The unusually high inflation differential with other countries at the moment means that a nominally higher appreciation of the franc is to be expected (2 per cent per year).

Employment growing despite Ukraine crisis and heightened inflation fears

The Swiss labour market is undergoing an economic boom. There was a sharp rise in employment during the first quarter of this year. The largest increases were reported in industry and the hospitality sector. KOF expects this positive trend to continue during the current quarter. This growth in employment is not expected to end abruptly in the short term despite the Ukraine crisis and heightened fears of inflation.

Negative scenario sees Switzerland threatened by recession

International inflationary risks are creating a great deal of forecasting uncertainty. The monetary policies required to get high inflation rates under control can vary considerably and lead to different economic scenarios. Against this background, KOF has created a negative scenario that models the risks of excessively high inflation and decisive intervention on the part of monetary policy. This negative scenario assumes that inflation in the euro area and the United States in 2022 will reach levels that are unacceptable to the US Federal Reserve (Fed) and the European Central Bank (ECB) and that central banks will combat high inflation by implementing further rapid and sharp interest-rate rises during the coming winter. From the first quarter of 2023 this will then plunge the global economy into a recession that will last for three quarters in the United States and four quarters in the euro area. Consequently – under this negative scenario – Switzerland will also slide into a recession and a prolonged period of stagnation that will last until the end of the forecasting period. Other potential downside risks include an escalation of the war in Ukraine and a renewed outbreak of the COVID-19 pandemic.

The full report on KOF's economic forecast is available here:
https://kof.ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Publications/2022_2_Sommer_gesamtbericht.pdf

Figures and further information on KOF's economic forecast are available here:
https://kof.ethz.ch/prognosen-indikatoren/prognosen/kof-konjunkturprognosen.html

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