

## Press release

Zurich, 21 March 2023, 9 am

### **KOF Economic Forecast for spring 2023: mild winter calming fears of recession**

**According to KOF's economic forecast, Swiss gross domestic product (GDP) adjusted for sporting events will rise by 1.1 per cent in real terms this year and by 1.7 per cent next year. Thanks to the mild winter, the energy crisis has had less of an impact on the economy than was feared and has calmed fears of a recession. However, persistently high inflation and rising interest rates are slowing economic growth. In addition, the turbulences in the banking sector surrounding the Silicon Valley Bank and Credit Suisse are causing uncertainty worldwide.**

#### **KOF's economic forecasts for Switzerland revised slightly upwards**

The energy crisis has been less severe than was feared – partly thanks to the mild winter. KOF has therefore revised its economic forecast for Switzerland slightly upwards compared with its winter forecast. According to the latest forecast, real gross domestic product in Switzerland will rise by 0.8 per cent in 2023 and by 2.1 per cent in 2024 (or by 1.1 per cent and 1.7 per cent, respectively, adjusted for international sporting events).

KOF expects to see economic recovery throughout Europe during the current year. However, the energy crisis, which has not yet run its course, and monetary tightening continue to have a dampening effect on the economic performance of some European countries. According to KOF's estimates, Swiss-export-weighted world GDP will rise by 1.4 per cent in the current year. KOF is forecasting growth of 2.1 per cent for 2024.

#### **Inflation will remain high in 2023, with interest rates rising in the US, the euro area and Switzerland**

Another factor slowing economic growth is continued high inflation. KOF predicts average annual inflation of 2.6 per cent this year and 1.5 per cent next year in Switzerland. This trend will still not put inflation within the range that the Swiss National Bank (SNB) equates with price stability. KOF therefore expects the SNB to raise its key interest rate in several stages over the course of this year from its current level of 1 per cent to 2 per cent and to leave it there until the end of the forecasting period. KOF expects inflation to remain high and interest rates to rise in the US and the euro area as well. Interest rates are likely to peak in the summer.

#### **Employment in Switzerland expected to rise**

The Swiss labour market performed exceptionally well last year. KOF expects employment to continue to rise during the current year. The leading indicators for the labour market, such as the KOF Employment Indicator, remain at a high level. KOF also expects total employment to grow in 2024, albeit at a slightly lower rate than in previous years. The unemployment rate as defined by Switzerland's State Secretariat for Economic Affairs (SECO) is expected to fall further to 1.9 per cent on average in the current year before rising slightly to 2.2 per cent in 2024. The International Labour Organization's (ILO) unemployment rate, which is suitable for international comparisons, will be consistently higher and is expected to average 4.1 per cent in 2023 and 4.2 per cent next year.

## **Chemicals and pharmaceuticals buoying the manufacturing sector**

Manufacturing is expected to grow on the back of the chemicals and pharmaceuticals sub-sectors over the coming quarters while the other sectors will tend to flatline. The hospitality industry will benefit from the increasing return of foreign guests from overseas markets in the first half of the year. KOF expects growth in real private consumption this year to be in line with the average for recent years.

## **Concerns about the banking sector – but there are also upside risks**

The bankruptcy of the Silicon Valley Bank has caused considerable uncertainty among investors, sent numerous bank shares plummeting worldwide and led to the takeover of Credit Suisse by UBS. If the crisis deepens and spills over to other banks and countries, this will pose a considerable downside risk. Other downside risks include a renewed intensification of the real-estate crisis in China and a further escalation of geopolitical tensions in connection with the war in Ukraine.

On the other hand, there are also upside risks, as the reduction of supply-chain problems could boost the economy more than expected. Furthermore, the risk of renewed production shutdowns and port closures in China affecting international supply chains has fallen dramatically. In addition, there is a possibility that the current geopolitical conflicts will de-escalate and no longer concern economic actors, which would increase the propensity to invest and consume.

**The full report (in German) on the KOF Economic Forecast is available here:**

[https://kof.ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Medienmitteilungen/Prognosen/2023/2023\\_1\\_Frühjahr\\_gesamtbericht\\_KA.pdf](https://kof.ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Medienmitteilungen/Prognosen/2023/2023_1_Frühjahr_gesamtbericht_KA.pdf)

**Figures and further information on the KOF Economic Forecast are available here:**

<https://kof.ethz.ch/en/forecasts-and-indicators/forecasts/kof-economic-forecast.html>

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