

Press Release

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KOF Economic Forecast: Swiss economy recovering; coronavirus continues to set the tone

Coronavirus will continue to set the tone for economic activity around the world, across Europe and in Switzerland this year. According to the KOF Economic Forecast, the economy in Switzerland will gradually recover and return to its pre-crisis levels in the third quarter. Under its baseline scenario KOF expects gross domestic product to grow by 3.0 per cent this year and 2.8 per cent next year.

Hospitality hit hard while industrial firms show resilience

The restrictions imposed at the end of December and tightened in January did not leave the Swiss economy unscathed. Under its baseline scenario KOF expects gross domestic product (GDP) to decline in the first quarter of this year. The hospitality industry is likely to be hit particularly hard once again. However, industrial companies are proving resilient and will actually be able to increase their production in the first quarter. Even though the differences between and within sectors are significant, the economy as a whole is being less severely affected by the second wave of the pandemic than was previously feared.

General economic recovery starting in the second quarter

KOF expects to see a general economic recovery from the second quarter onwards. This should also boost the labour market and lead to an increase in employment. KOF expects to see GDP growth of 3.0 per cent for this year. It is therefore revising its forecast update from February 2021 upwards by just under one percentage point. The strongest growth stimulus will come from industry, the public sector and consumer-related services. KOF expects to see GDP growth of 2.8 per cent for 2022, which equates to a downward revision of just under one percentage point. Under the baseline scenario Swiss GDP will have returned to its pre-crisis level in the third quarter of this year.

Global economy picks up thanks to successful vaccination campaigns and government support

KOF expects to see a slight downward trend in the global economy in the first quarter of 2021. While the positive stimulus coming from East Asia and the United States was a determining factor for global GDP in the fourth quarter of last year, KOF is forecasting in its baseline scenario that the negative growth of the euro area will dominate the international environment from a Swiss perspective in the first quarter of this year. From the second quarter onwards the vaccination campaigns that have been launched in many countries should lead to an easing of non-pharmaceutical measures and, supported by fiscal stimulus programmes, trigger a global economic recovery.

Inflation remains moderate while public debt rises

KOF's inflation forecast has been revised upwards owing to the higher oil price, the slightly weaker Swiss franc exchange rate and a slightly more favourable assessment of the economic situation. KOF expects to see average inflation of 0.3 per cent this year and 0.4 per cent next year. Government debt as a percentage of GDP is expected to rise to just over 30 per cent this year (according to the Maastricht criteria), which is roughly the same as the debt ratio ten years ago. Compared with other countries, however, Switzerland's debt ratio is still quite low.

Private consumption and investment in equipment gain momentum over the course of the year

Private consumption remained in a weakened state at the beginning of this year. Consumption will only begin to recover from the second quarter onwards, reaching pre-crisis levels by the end of 2021. Government consumption will remain at a high level this year owing to additional pandemic-related spending and thus contribute positively to growth. Next year, however, a renewed reduction in government spending is expected. After experiencing sharp, pandemic-related volatility last year, equipment investment is likely to receive a boost again in the current year. Although the restrictions and uncertainty about how the pandemic will evolve in the first half of the current year are still hampering firms' investment activity, investment in equipment will increase again from the second half of the year onwards. KOF also reckons that Switzerland's foreign trade in goods and services will pick up again.

Three alternative scenarios

There is still a great deal of uncertainty about the progress of the pandemic, which is having an impact on the current economic forecasts. KOF has therefore presented three alternative scenarios for the Swiss economy in addition to its baseline scenario.

For the international negative scenario, fiscal multipliers that are lower than under the baseline scenario pose a downside risk. Under this scenario, global GDP is expected to stagnate in the first half of 2021 and then to stage a sluggish recovery starting in the third quarter. A less encouraging performance by the international economy will also have an impact on the Swiss economy. Here it is expected that export-led industry will be hit particularly hard. Under this negative scenario KOF expects GDP in Switzerland to rise by 2.4 per cent this year, i.e. 0.6 percentage points below the baseline scenario. This results in a loss of CHF 4.2 billion in value added compared with the baseline scenario. Next year, GDP growth is likely to remain below the growth assumed for the baseline scenario, which will incur additional costs of CHF 7.4 billion.

In addition, KOF presents two scenarios that focus on events in Switzerland. The trends in the international environment are similar to those under the baseline scenario. Under the positive scenario it is assumed that the non-pharmaceutical measures will be reduced to the level of summer 2020 more quickly than under the baseline scenario. Although the case numbers are increasing, they are not exploding and thus do not require any renewed measures. As a result, the economy is less constrained under this scenario than under the baseline scenario. KOF expects to see GDP growth of 3.1 per cent under this scenario for the current year, which is slightly above the figure for the baseline scenario.

By contrast, the numbers of infections under the Swiss negative scenario rise so sharply compared with the baseline scenario that, without further action, the healthcare system is overwhelmed. This can be attributed to a combination of the swift easing of restrictions and the rapid spread of the more infectious virus variants. For the Swiss economy this means an annual growth rate of 2.7 per cent, i.e. 0.3 percentage points below the baseline scenario, which would equate to a loss of CHF 2.2 billion in value added.

Forecasting risks

The performance of the economy going forward will be strongly influenced by the progress of the COVID-19 pandemic, which represents the greatest source of risk for the forecast. In addition to the developments described under the scenarios, renewed restrictions could lead to a wave of bankruptcies, which could have short- and medium-term effects on the economy. A new virus variant that is even more contagious than the viruses known in the past poses a further risk. An upside risk to this forecast could be the swifter and more efficient production and distribution of vaccines than expected.

The full report on the KOF Economic Forecast (in German) can be found here:

https://www.kof.ethz.ch/content/dam/ethz/special-interest/dual/kof-dam/documents/Prognose/KOF_Analysen_Frühjahr_2021.pdf →

Contacts:

Swiss economy: Yngve Abrahamsen | abrahamsen@kof.ethz.ch
International economy: Heiner Mikosch | mikosch@kof.ethz.ch
KOF Corporate Communications | phone +41 44 632 40 61 | kofcc@kof.ethz.ch