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News Release

UBS Outlook Switzerland: Uncertainty prevails

Efforts to contain the coronavirus are plunging the Swiss economy into a deep recession. The Federal Council has adopted the efficient instrument of short-time working, together with the novel instrument of bridging loans, in a bid to bring about a recovery by the end of the year. Monetary policy via exchange rate management is currently playing a less important role than in recent years, and is likely to remain that way in future. Our survey of exporters and importers shows that they are in the process of adapting to a strong franc.

Zurich, 27 April 2020 – The Swiss economy is facing a more uncertain outlook than almost ever before. "The fight against the spread of coronavirus has produced the first state-mandated recession in modern economic history," says Daniel Kalt, Chief Economist at UBS Switzerland, in the newest edition of the UBS Outlook Switzerland. He expects Swiss gross domestic product (GDP) to fall by 4.6 percent in 2020.

Economic policy must now focus on laying the groundwork for a rapid recovery. If this is successful, it will make up for some of the economic harm currently being suffered. If not, the long-term damage will likely be considerable. Damage of this kind is not normally caused by short, deep recessions, but by persistent, long-term crises. While Switzerland was quick to recover from the financial crisis in 2009, the real estate crisis of the early 1990s led to a lost decade in economic terms. Future judgements on the present recession will depend crucially on the economic policy response. With the extension of compensation for short-time working and the bridging loans granted through banks to thousands of SMEs, the federal government has adopted effective instruments and paved the way for economic recovery in the second half of the year.

Walking a tightrope between keeping a lid on the epidemic and not delaying too long
However, the Federal Council still faces its most challenging task. If it is too quick to reverse the measures taken to contain the virus, it risks a second wave of the epidemic. If it waits too long, many companies are unlikely to survive the crisis, even with bridging loans. In a country where dialogue between businesses, society and politics is part of the DNA, this balancing act can succeed. "If any country can overcome this crisis, it is Switzerland. We expect the Swiss economic recovery to begin in the second half of the year and the upswing to lead to 3.9 percent GDP growth in 2021," says Daniel Kalt.

Kalt also considers prospects for the period beyond 2021: "The coronavirus crisis is unlikely to create new trends; rather it will reinforce existing developments – it may act as an accelerator for structural change." The most successful industries of recent years – pharmaceuticals, the healthcare sector and IT – are barely suffering at all from the crisis. The opposite is true for certain sectors that were already beset by problems, namely tourism, gastronomy and retail, which are hurt deeply by the recession. The structural shift in the Swiss economy is therefore likely to gain considerable momentum in the coming years.

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Companies are getting used to a strong franc

The swift and strong fiscal policy response has pushed monetary policy into the background. The Swiss National Bank (SNB) is currently supporting the commercial banks in granting bridging loans through an array of measures. "An interest rate cut would be of little help here," explains UBS economist Alessandro Bee. "Unless the ECB unexpectedly lowers interest rates or the euro tends towards parity, the SNB is likely to keep its key interest rate at -0.75 percent in the coming quarters."

The outlook for the SNB looks uncertain in the longer-term: the question is whether its monetary policy will regain the dominant role that it has played in Swiss economic policy over the past decade, via exchange rate management. Interventions in the foreign exchange markets could lead the US Treasury Department to accuse the SNB of currency manipulation. In addition, the existing monetary policy is slowly but surely reaching its limits, seeing as there is little room for interest rate cuts.

The newest edition of the UBS Outlook Switzerland, for which 811 companies in Switzerland were surveyed, shows that firms engaged in foreign trade have found ways to live with a strong franc to some extent, for example through natural hedging. As Alessandro Bee explains, "The battle against the strong franc will remain a focus topic for the SNB in the coming decade – but probably not as important as in the last one."

One major drawback remains: the business survey also shows that the performance of foreign economies is more important to companies than the exchange rate. While the SNB can defend itself against appreciation of the franc, it is powerless against a global economic slump. And that is precisely what we are experiencing today.

UBS Swiss economic forecasts

% change yoy (real terms), adjusted for seasonal & calendar effects						Forecasts UBS	
	Level*	**2016**	**2017**	**2018**	**2019**	**2020F**	**2021F**
Gross domestic product	710.4	1.7	1.9	2.7	0.9	-4.6	3.9
Private consumption	374.6	1.4	1.3	1.0	1.1	-5.5	2.5
Government spending	80.2	1.3	1.2	0.3	1.3	2.0	2.0
Capital spending	171.8	2.6	3.6	1.1	0.7	-4.8	2.3
Construction	61.2	-0.2	1.5	1.4	0.5	-3.0	1.0
Equipment	110.6	4.2	4.8	1.0	0.9	-5.8	3.0
Exports**	431.7	6.6	4.0	4.4	2.6	-10.2	7.3
Imports**	327.8	4.4	4.5	2.5	1.3	-12.8	4.8
Inflation		-0.4	0.5	0.9	0.4	-0.6	0.5
Unemployment rate***		3.3	3.2	2.6	2.3	4.0	3.9

*Year 2019 (in CHF bn, seasonally adjusted) ** excluding valuables ***annual average
F: Forecasts UBS

Sources: Seco, UBS

In developing the UBS CIO GWM economic forecasts, UBS CIO GWM economists worked in collaboration with economists employed by UBS Investment Research. Forecasts and estimates are current only as of the date of this publication and may change without notice.

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