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Press Release

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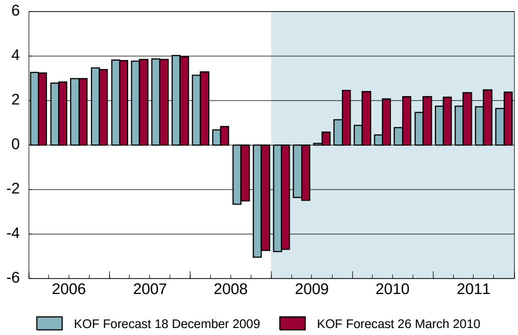
Main Results of the KOF Spring Forecast 2010

Rapid Economic Recovery – Rebound on the Labour Market

Switzerland has gotten over the recession faster than had been expected for a long time. The GDP should be growing by 1.7% already this year. In 2011, the KOF is expecting a GDP growth rate of 2.2%. The upswing will be fuelled by foreign trade and consumption. Investments in equipment will be increasing by 2.4% this year and 10.5% the next. The unemployment rate has already peaked and will average out at 4.1% in 2010. In 2011, the rebound in the labour market will have its fullest impact – the unemployment rate will drop to 3.7%.

Switzerland: Real GDP with Forecast

(Annualised change compared to previous quarter, in %)



The world economy's «Great Recession» seems to be history. The revival of world trade began in mid-2009. After a strong showing in the 3rd quarter, world trade then lost some momentum. Switzerland's most important trading partners have also overcome the crisis, though the European economy is not yet showing a continuous, self-sustaining recovery. At –2.5%, the decline in overall economic output in Switzerland was considerable. But the recession was already overcome by autumn 2009, and the recovery gained momentum around the turn of the year. The demand for Swiss exports grew and the rise of unemployment flattened out. In other words, the feared spillover of the economic crisis onto the domestic sector turned out to be weaker and shorter than expected.

During the forecast period, the private sector is expected to be increasingly generating positive economic impulses. In 2009, the government's stimulus packages reduced the decline in GDP somewhat. The expansion of overall demand will spur investment activity – in spite of the currently low capacity utilisation in the manufacturing industry. As in 2009, construction investments are continuing to grow (2010: 1%). Investments in machinery and equipment are making a major contribution to the increase in private investments as a

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whole. In 2010, they will increase by 2.4% and in 2011 by a vigorous 10.5%. The rising demand should increasingly slow down the current liquidation of stocks.

For Europe, the KOF is expecting an economic setback at the start of the year. This should not last long, meaning that Swiss exports should develop firmly in 2010 (3%) and in 2011 (4.2%). Therefore, the upswing will be driven by foreign trade, as it was in the past. Due to the gradual decline in unemployment, sustained immigration and the declining rate of private savings owing to the somewhat reticent wage development, growth rates for private consumption will be positive: 2.1% this year, 2.0% for next.

The increase in economic activity should not threaten price stability during the forecast period. For 2010, the KOF is expecting inflation to be at 0.9%. The 0.4 percentage point increase of the VAT in 2011 will have a limited one-time impact on prices, but will not represent a long-term inflation trend. In addition, only moderate wage increases are expected during the forecast period (2010: 1.6%, 2011: 0.8%). In 2011, inflation should rise only slightly, by 1.0%. This will leave the Swiss National Bank with a considerable time window to absorb the high liquidity in the money market, which grew from the need to fight the crisis, and to normalise the short-term interest rates.

The forecast upturn in the Swiss economy will void the need for any other buttressing through fiscal policy. During the forecast period, public budgets will feel the past recession on the income side. Since the public debt level in Switzerland continues to be at a low level, any planned budget consolidation should not be launched before a sustained economic upturn. This is because the forecasted recovery continues to face clearly identifiable risks.

Events in the financial and monetary markets may have calmed down, but recent experience has shown that existing problems in individual countries could quickly lead to a general loss of confidence. By the same token, the dramatically increased public deficits and debt in some countries as well as the existing imbalances in world trade could imply risks for the global economy. Switzerland will not be able to avoid them. One important uncertain factor for Switzerland is the development of the real exchange rate. A further rise could endanger the recovery of foreign trade at some point. An increase in volatility of the exchange rates would be a burden on the economy as it could hinder planning of cross-border business transactions.