Jean-Pierre Roth: Economic prospects for 2005 in a subdued European environment

Summary of a speech by Mr Jean-Pierre Roth, Chairman of the Governing Board of the Swiss National Bank, at the “Les Rencontres au Château” meeting, Sierre, 22 February 2005.

The complete speech can be found in French on the Swiss National Bank’s website (www.snb.ch).

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Although the Swiss economy expanded by almost 2% in 2004, this was not sufficient to reduce unemployment significantly. Hopes for an improvement in this respect are thus focused on this year. However, they might unfortunately remain unfulfilled once again. At the end of 2004, there were already signs of a slowdown in growth caused by the weak dollar and persistently high oil prices. These factors also played a key role in the National Bank's decision to leave interest rates unchanged.

Overall, the international economy developed in line with expectations during the first two months of 2005: the US and Asia saw further growth, while Europe was confronted with increased difficulties. The US economy is burdened with high budget deficits and the current account deficit. In Asia, the Chinese economy is booming, whereas Japan is still struggling to find its way back to the growth path. The monetary situation in Asia, too, appears less than stable.

In Europe, the economic environment presents a rather dim picture. Germany, Italy and the Netherlands are expected to see rather modest growth, while the outlook for France is more upbeat. The UK is the exception: since the mid-1990s, the country has emerged as the growth model for Europe.

For Switzerland, the sluggish development in Europe is especially regrettable, as the Swiss export sector usually serves as the engine for economic recovery. All in all, Switzerland's export industry is well positioned to benefit from higher demand from abroad. Switzerland has been able to reduce its production costs per unit in the past few years, and the Swiss franc even depreciated slightly versus the euro since the launch of the single currency. As regards domestic demand, consumer sentiment remains satisfactory overall, but this should not be expected to stimulate growth decisively. While construction activity is robust, it has lost some of its momentum. Investment in equipment is still brisk, and the recent modest slowdown should not last too long.

On the whole, the Swiss economy is still on its growth trajectory, but it lacks stimuli from abroad. This situation is the same as the one underlying the National Bank's interest rate decision of December 2004. Even though Switzerland is particularly affected by the lacklustre performance of the European economy, overall prospects are not gloomy. Growth in the rest of the world remains dynamic, and this is expected to benefit Europe in due course. For Switzerland, a growth rate of 1.5-2% is still realistic. With the Swiss economy thus continuing to grow below its potential, the labour market will not see any sustained improvement.