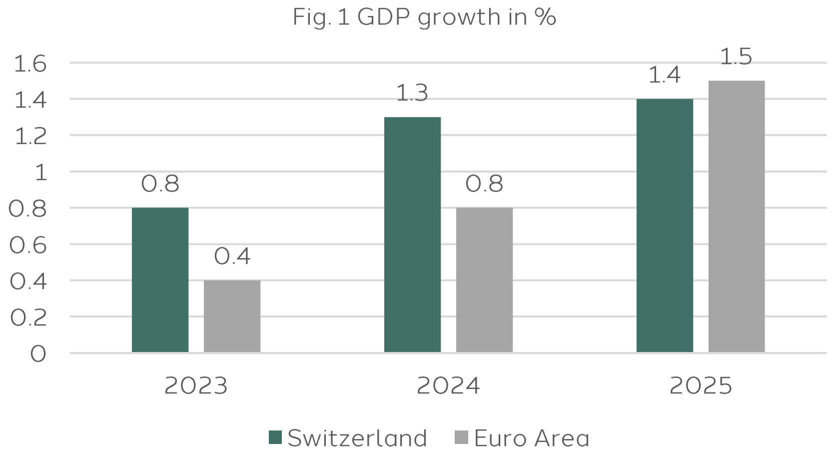
ECONOMICS

GROWTH, INFLATION, PUBLIC DEBT: ADVANTAGE SWITZERLAND

Dr. Jörn Quitzau, 22 April 2024

Last week, the International Monetary Fund (IMF) released its two main publications on the global economy ("World Economic Outlook") and public finances ("Fiscal Monitor"). According to the new economic forecast, the global economy is expected to grow by 3.2% in both 2024 and 2025, the same rate as in 2023. For the developed economies, a slight increase in momentum is expected - from 1.6% last year to 1.7% in the current year and 1.8% in the coming year. In emerging and developing countries, on the other hand, growth momentum is expected to decrease slightly from 4.3% to 4.2%, meaning that the IMF is forecasting stable development for the global economy as a whole.

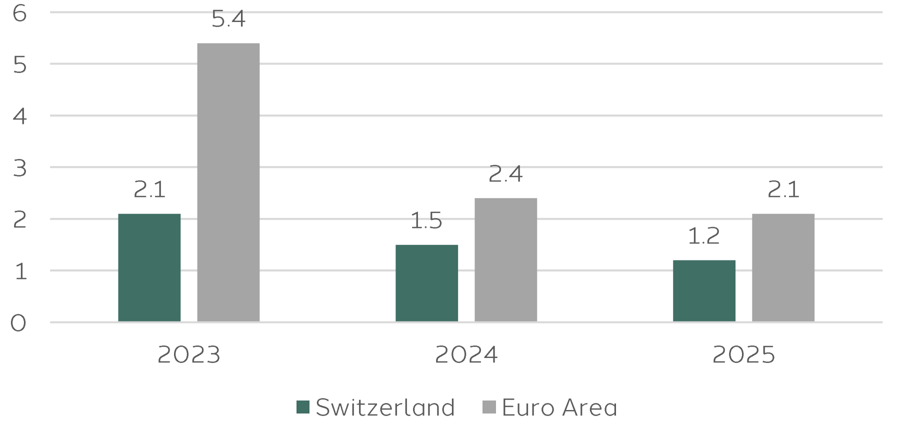
If we look further below the surface, an interesting picture emerges, particularly when comparing Switzerland and the Euro Area. At 1.3%, the IMF is once again forecasting stronger growth for the Swiss economy in 2024 than for the Euro Area at 0.8% (Fig. 1). Germany is the drag on the eurozone: according to the IMF, the largest economy in the monetary union will probably only achieve mini-growth of 0.2% this year. Next year, the Euro Area and Switzerland will be roughly on a par again at 1.5% and 1.4% respectively.



Source: IMF, World Economic Outlook April 2024

Switzerland has an even greater advantage when it comes to inflation. While inflation in the Euro Area is struggling to fall towards the ECB's 2% target (Fig. 2), the inflation rate in Switzerland has been below 2% for many months and is therefore within the target corridor of the Swiss National Bank (SNB). According to the IMF forecast, this is where it should remain: The IMF expects annual average inflation of 1.5% for 2024 and just 1.2% for 2025. Consequently, the SNB was already able to lower the key interest rate in March.

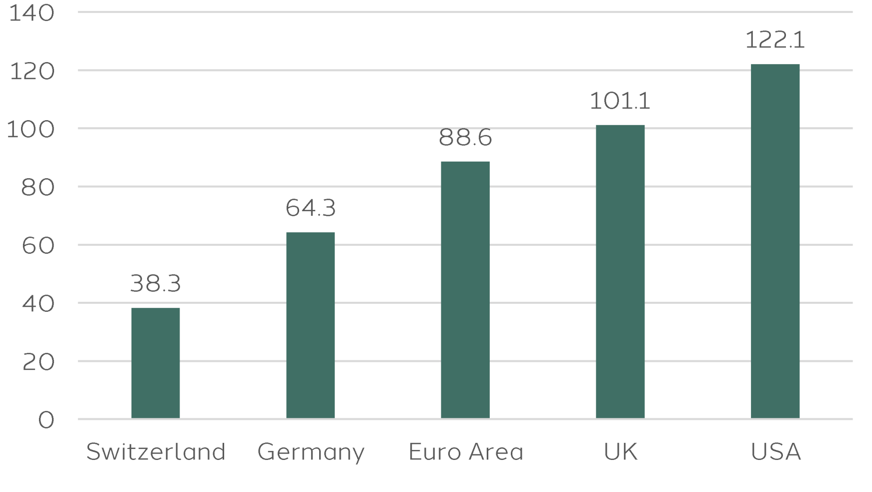
Fig. 2 Inflation in %



Source: IMF, World Economic Outlook April 2024

The "Fiscal Monitor" reveals that Switzerland's national debt is very low by international standards. With a debt ratio of 38.3% of gross domestic product (GDP), Switzerland's public finances are much healthier than those of other major economies, thanks in part to the Swiss debt brake (Fig. 3).

Fig. 3 Public debt 2023, in % of GDP



Source: IMF, Fiscal Monitor April 2024

While some countries in the Euro Area and the US have critical debt levels that will probably require a turnaround in fiscal policy in the medium term, Switzerland is in a solid financial position. With the exception of the pandemic years 2020/21, Switzerland has recorded moderate budget surpluses year after year, meaning that the debt ratio will continue to fall. By way of comparison, the US recorded a budget deficit of over 8% in 2023 and, according to the IMF forecast, budget deficits will remain above 5% until the end of the current decade. Both the strength of the US economy and high US inflation are partly due to debt-financed spending policies.

Switzerland also scores well in other economic indicators. At 27.2%, Switzerland's tax and contribution ratio in 2022 was roughly on a par with the US (27.7%). In the eurozone countries, the tax burden is usually significantly higher (Germany: 39.3%; Austria: 43.1%). However, differences in the calculation must be taken into account here, meaning that the figures are not directly comparable. And in terms of the government spending ratio, which measures the share of government spending in gross domestic product, Switzerland is at an exceptionally low level of around 32% compared to other Western economies (Germany: 48.2%; Austria: 51.4%). Overall, the data shows a noticeably lower influence of the state on economic activity, which speaks for a generally higher dynamic. The comparatively favorable situation in terms of the economy, inflation and public finances is therefore no coincidence.

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