



SNB abandons the Euro peg: Scenarios on the future development of the Swiss economy

The Swiss National Bank seeks to regain independence from another potential round of monetary easing by the ECB and thus provokes extreme volatility in financial markets. In a surprise move, the peg to the Euro was abandoned and deposit rates were pushed down even more into negative territory in order to render investments in Swiss Francs unattractive. The Swiss Franc appreciated dramatically against Euro and the exchange rate EUR/CHF fluctuated massively. There is also upward pressure on the CHF against all major currencies.

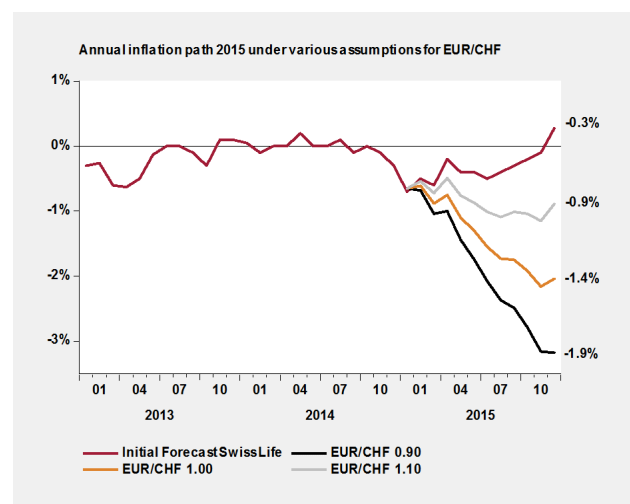
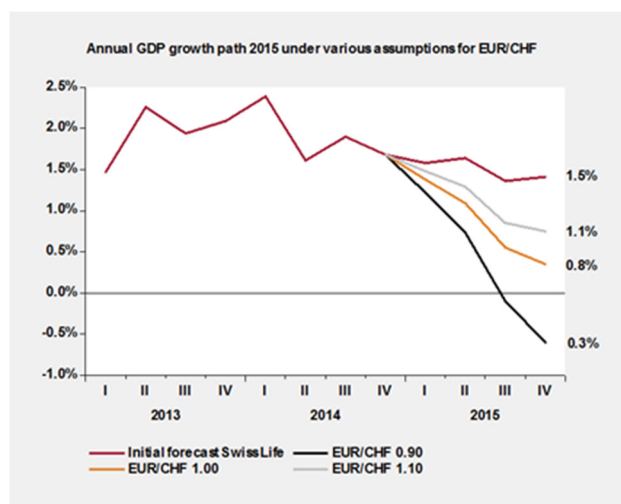
Since it is still unclear on what level the exchange rate will settle in the future, we have gone through our calculations and have drawn up three different scenarios for GDP growth and inflation, based on various exchange rate assumptions for EUR/CHF. While our previous forecasts were based on an exchange rate of 1.20, the new simulations are based on an exchange rate of 0.9, 1.0 and 1.1 respectively.

Growth scenarios for the Swiss economy

As concerns GDP growth, one first has to consider the exchange rate impact on the growth components directly dependent on the external value of the CHF. The focus here is on external trade and the tourism industry. While exports will suffer from the appreciation of CHF, imports become cheaper and may therefore rise, causing further harm to overall growth. Furthermore, one has to consider the adverse currency effect on business investments. However, the lower rate environment is bound to positively support building investments. In none of the scenarios could we stick to our initial forecast for yearly average growth of 1.5% in 2015.

Inflation scenarios for the Swiss economy

The appreciation of the Swiss Franc causes substantial revisions of the average inflation rate for the year 2015 (values on the right hand side of the chart). Imported goods have a weight of 27% in the consumer price index. Furthermore, energy prices already exert extreme deflationary pressure on price levels. As a consequence, our initial forecast for the average inflation rate in 2015 is pushed even more. The initial forecast was already below consensus estimates and we expect it to remain so.



Values on the right hand side: Average of the annual change in 2015. Example GDP: 0.8% at EUR/CHF 1.0 corresponds to the average of the following four annual change figures: Q1 2015 1.4%, Q2 2015 1.1%, Q3 2015 0.6%, Q4 2015 0.3%

Released and approved by the Economics Department, Swiss Life Asset Management AG, Zurich

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