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News Release

UBS company survey: harmful impact of negative interest rates

Only a handful of Swiss corporations believe the Swiss National Bank's current negative interest rate policy clearly benefits their company, according to the latest UBS company survey. Nearly two-thirds of respondents said that the cost of negative interest rates for the economy outweighed their benefits overall. Company representatives were particularly concerned about the financial situation of occupational pension schemes and the low interest rates paid on savings deposits and their liquid assets.

Zurich, 07 November 2019 – After five years since the Swiss National Bank (SNB) introduced negative interest rates to weaken the franc exchange rate, there are no signs that this phase of monetary policy is ending any time soon. Therefore, UBS has made this issue the focal point of its semi-annual company survey, asking 2,500 business owners and managers about the impacts of negative interest rates on their company and the Swiss economy. The results show that most companies are not directly affected by negative interest rates; only a minority pay negative interest rates on cash held in bank accounts.

Few companies dependent on exchange rate
Four-fifths of the companies surveyed exclusively serve the domestic market or generate less than 10 percent of their business with exports and so are not directly impacted by the EURCHF and USDCHF exchange rate. A weak franc benefits relatively few companies and adversely affects importing companies in particular. Moreover, very few companies benefit from lower interest rates on loans or mortgages since most Swiss SMEs are either debt-free or have not taken out additional loans in the past five years.

Costs outweigh the benefits for the overall economy
When asked about the costs and benefits of negative interest rates for their company, most survey respondents said they were indifferent or that the costs and benefits balanced each other out. "The effects of negative interest rates on their own business are not what concern companies most," said Daniel Kalt, UBS Chief Investment Officer Switzerland. "What is remarkable, however, is that a majority of companies who generate over 50 percent of their business from exports believe that negative interest rates are harmful to the Swiss economy overall – especially because no end is in sight with regard to the situation at hand." Companies are most worried about the deteriorating financial situation for occupational pension schemes and the extremely low interest rates paid on savings. Rising real estate prices prompted some concern as well.

Is a recession coming? Gloomy outlook for the Swiss economy
Political risks are pushing the world economy to the brink of recession. However, it might be possible – with help from central banks – to prevent it from falling over the edge. Increase risks have worsened the outlook for the Swiss economy, too. The robust job market will help to fend off a recession, but it is still too weak to propel the domestic economy to a rapid recovery. UBS analysts expect a low GDP growth of 0.7 percent this year and 0.9 percent next year.

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Risks of a recession have mobilized the central banks. The Federal Reserve and the European Central Bank (ECB) already lowered their target rates this year and will likely continue cutting rates in the quarters to come. As a result, the franc gained against the euro. The SNB responded to the latest franc appreciation by intervening in currency markets but not by further reducing interest rates. Rate cuts are not off the table, though. The ECB will likely lower interest rates again next year as the European economy cools down. The SNB will probably follow suit in order to prevent the franc from strengthening. UBS therefore expects the EURCHF exchange rate to stay flat at 1.10 over the next twelve months.

UBS Swiss economic forecasts

Change yoy (real terms), adjusted for seasonal and calendar effects in %					Forecasts UBS	
	Level*	**2016**	**2017**	**2018**	**2019F**	**2020F**
Gross domestic product	704.0	1.7	1.9	2.8	0.7	0.9
Private consumption	370.7	1.4	1.3	1.0	1.1	1.3
Government spending	79.2	1.3	1.2	0.3	1.0	0.6
Capital spending	170.6	2.6	3.6	1.1	0.0	0.3
Construction	60.9	-0.2	1.5	1.4	0.4	0.4
Equipment	109.7	4.2	4.8	1.0	-0.2	0.3
Exports**	357.6	6.6	4.0	4.4	2.9	2.1
Imports**	261.9	4.4	4.5	2.5	0.8	3.0
Inflation		-0.4	0.5	0.9	0.4	0.5
Unemployment rate***		3.3	3.2	2.6	2.5	2.5

*Year 2018 (in CHF bn at current prices, seasonally adjusted) ** excluding non-monetary gold and 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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