

BAK press release: War in Ukraine - First assessment of economic implications

Putin's actions could reduce Swiss economic growth by about half a percentage point in 2022 and 2023

BAK Economics, 01.03.2022 (Basel/Bern/Lugano/Zurich) - The invasion of Ukraine also has repercussions on the economic outlook: in the current year and in 2023, the increase in Swiss gross domestic product could be reduced by around 0.5 percentage points. This is mainly due to indirect economic effects such as the loss of purchasing power due to inflation, which is expected to be higher than previously forecast.

Russia's attack on Ukraine is a historic event which undoubtedly allows us to discuss a different world between before and after 24.02.2022. Given the political and humanitarian implications of the conflict, it seems almost inappropriate to comment on the economic effects of this war on Switzerland. However, an initial assessment in this area shows that in 2022 the Russian invasion could cost Switzerland's economy about half a percentage point in gross domestic product growth in 2022 and also in 2023. There is no danger of recession, but the recovery from the crisis triggered by the Covid-19 pandemic be severely slowed. Instead of the 3% previously assumed, GDP growth in Switzerland is expected to be around 2.5% in 2022 and around 1.5% in 2023, clearly below potential growth.

The most important reasons for the slowdown in economic growth are of an indirect nature. However, some direct effects must also be considered, mainly due to the economic sanctions imposed on Russia, which exclude it from the world trade and financial system in many sectors.

Swiss inflation, which has already clearly returned to positive territory, will remain high due to rising energy and food prices. Despite this, BAK Economics expects the Swiss inflation rate to remain below 2% on average in 2022, although it will approach this limit. In addition, record high energy and fuel prices are a significant factor affecting consumer confidence. In addition, falling prices on the financial markets and general uncertainty about future developments in the conflict are causing a further indirect dampening effect.

On the other hand, the sanctions imposed on Russia will directly eliminate some business opportunities. It should be noted, however, that Swiss exports of goods to Russia only account for just over 1% of the total (Ukraine's share: 0.2%) and that Russia and Ukraine each account for around 0.1% of imports. Trade relations with both countries are therefore not decisive for Switzerland's economic development. However, in some cases, significant losses are to be expected, for example in the areas of asset management, commodities trading and tourism.

- Almost a third of Russia's private assets are located in Switzerland.
- According to the Economic Report on Russia published by the Swiss Embassy, around 80% of Russia's international trade in commodities is conducted by Swiss financial service providers.
- In terms of overnight stays, the share of Russian guests in Swiss accommodation in 2019 was about 0.9%. However, these guests only spend about 25% more than the median expenditure of all guests.

In addition to the assessment of the immediate economic effects, it is already possible to formulate initial thoughts on medium- and long-term changes. The forthcoming upheavals in the political landscape are likely to have considerable consequences in the economic sphere as well. The reception and integration of (possibly) millions of Ukrainian refugees, the sharp increase in defence expenditure or the restructuring of energy supply facilities and the extraction and processing of raw materials are associated with high costs, which reduce growth potential and will possibly be financed, at least for the time being, by further increases in public debt. Changes in the direction of innovation policy and global cooperation between countries are also likely. Although many aspects remain to be clarified, the economic and social changes triggered by the Russian invasion are likely to have a clearly negative impact on the long-term level of the economy and prosperity.

The development of the conflict is very uncertain

At present, the development of the conflict is still very uncertain and subject to sudden changes not only with regard to the course of the war, but also with regard to economic countermeasures and their effects.

We will therefore be updating our assessment on an ongoing basis and, in particular, quantifying the economic effects more precisely as early as 10 March 2022 as part of our monthly publication of the Swiss economic forecast.

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Your contacts

Martin Eichler
Executive Board, Chief Economist BAK
T + 41 61 279 97 14
martin.eichler@bak-economics.com

Alexis Bill Körber
Head of Macro Forecast
T + 41 61 279 97 20
alexis-koerber@bak-economics.com