Economic environment

Despite the political uncertainties, the global economy gathered momentum in 2017. The stock markets exhibited a stable upwards trend accompanied by low volatility. Inflation was restrained while long-term interest rates were stalled at low levels.

International perspectives

Global economy

Throughout the world, the economy in almost all key countries accelerated sharply in 2017. Boosted by consumer spending and also by significantly higher investment activity, global growth was stronger than at any time since 2010. The USA, the euro zone and Japan again reported strong gains. The UK's economy started to feel the uncertainties associated with its decision to leave the EU (Brexit).

Positive signals were received from the larger emerging markets. In Asia, growth on the whole was robust. In China, the pace of economic expansion slowed only slightly even though the monetary impulses were reduced and credit growth decreased. Brazil and Russia experienced a rather halting and hesitant recovery, while in India the recent cash and tax reforms had the effect of a sharp brake on economic momentum.

For 2018 and 2019, the International Monetary Fund (IMF) expects an increase of 3.9 percent in global economic growth with Europe and Asia being the strongest drivers of the current upswing.

USA

The first year of Donald Trump's presidency saw the US economy increase the pace of its expansion. In 2017, according to data from the Department of Trade, it increased by 2.3 percent. The strengthening of the basic economic trend was largely attributable to sharp rises in investments while the robust demand from private households continued unabated.

President Trump plans to boost growth to at least three percent through a radical tax reform, among other measures. The International Monetary Fund expects an increase of 2.7 percent.

Euro zone

The euro zone economy has gained robust momentum. Eurostat, the statistics office, recorded an increase of 2.5 percent in economic performance in 2017. Both consumption and investments continued to grow. The increased investment activity is probably largely attributable to the positive global economic environment and the disappearance of some major risks caused by the Europe-friendly results of elections in France and the Netherlands, as well as stable growth in China. It is noteworthy that, in the meantime, the upswing has commenced in almost all the euro member countries.

Switzerland / Liechtenstein

According to the State Secretariat for Economic Affairs (SECO), the Swiss economy returned to a path of dynamic, broadly-based growth in the third quarter of 2017. The shock caused by the lifting of the minimum exchange rate of Swiss franc to the euro by the Swiss National Bank in January 2015, which caused a rise in the franc of around 20 percent, has in the meantime been largely absorbed. Only the construction sector still shows a tendency to weakness. As a result of international impulses combined with a slight decline in the Swiss franc, exports continued their upward trend.

On account of the weak first half year, growth in gross domestic product for 2017 posted only a moderate rise of one percent. Economists are expecting economic growth of 2.3 percent for 2018. SECO forecasts growth will be 1.9 percent for 2019.

According to the Department for Statistics, for 2017 Liechtenstein reported goods exports totalling CHF 3.4 billion – excluding trade with and via Switzerland. This represents an increase of 0.5 percent compared with 2016. In spite of the positive development in recent years, direct exports are still substantially below the level attained in 2008. Direct imports rose in 2017 to around CHF 2 billion. In comparison with the previous year, they therefore increased by one percent.

The expansion in exports is attributable to the metal and machinery sector. Exports to Asia climbed in particular, followed by those to Europe, which takes 60.9 percent of Liechtenstein's goods exports; 18.9 percent go the USA, and 18.4 percent to Asia.

Interest rates

The differences in monetary policy between the key currency regions have increased again. As expected, in December 2017 the Federal Reserve (the US central bank) raised key base interest rates for the third time in the year to a range of between 1.25 and 1.5 percent. The Fed expects that the economic conditions in 2018 will make three further interest hikes possible. It also expects the employment market to remain robust and inflation to move towards the target rate of two percent.

In comparison, the monetary policy of the Swiss National Bank (SNB), and that of the European Central Bank (ECB), are very expansive. The ECB has kept the base rate in the euro zone at the record low level of zero percent. Banks, which park money at the central bank, must continue to a pay penalty interest of 0.4 percent. The European Central Bank wants to continue its bond purchasing programme until at least September 2018; however, the scope of purchases will be halved to EUR 30 billion per month. Even though economic prospects for the euro zone are looking very positive, the ECB still thinks monetary policy impulses are necessary in order to nudge subdued inflation in the direction of the target value. According to forecasts, inflation should climb only to 1.7 percent by 2020.

In mid-December 2017, the SNB held the target range for three-month LIBOR reference interest rates at between minus 1.25 to minus 0.25 percent. Banks must continue to pay a penalty interest of 0.75 percent for their sight deposits held at the SNB. Furthermore, if necessary, the central bank remains ready to intervene on the foreign exchange market in order to prevent an upward rise in the value of the Swiss franc. With monetary policy remaining expansive, the upper target value of two percent inflation should only be reached in mid-2020. Economists are assuming that the SNB will not act before the ECB and will only raise base interest rates in the middle of 2019.

Currencies

The SNB admits that the over valuation of the Swiss franc has been reduced. At the end of 2017, the exchange rate stood at almost CHF 1.17 per euro. The Swiss franc also declined in value against the US dollar, the British pound Sterling and the Japanese yen. This development is probably largely attributable to increased confidence in the worldwide economic situation, which according to SECO has reduced the Swiss franc's attractiveness as a safe haven.

Following a period of upward revaluation in the middle of the year, the euro stabilised in the third quarter of 2017. For a long period, the strong euro was faced with a weakening US dollar. However, since October the US dollar has again gained ground slightly; its value however remained somewhat below the long-year average.

Equity markets

Thanks to the good global economic prospects and the low yields with fixed-interest bonds, equities are still attractive. The start of the second stage of Brexit negotiations should also support a further rise in European prices. In historical comparison, the volatility indices were at a record low in 2017. The markets regarded the short-time risks as being small or their occurrence as being unlikely.

The worldwide equities barometer, the MSCI World (in CHF) attained a performance of 18.5 percent in 2017. In the USA, equity prices continue to rise. The benchmark S&P 500 index soared by 22 percent to a new record high. The key German equities index, the DAX climbed by 12.5 percent in 2017. The Swiss Performance Index, Switzerland's leading stock market barometer, which depicts the overall market, gained 20 percent in value, while the country's blue chip index, the SMI, achieved a plus of almost 18 percent.