

# Swiss economy: situation and perspectives under the coronavirus crisis

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## 1. Introductory remarks

I am very pleased to address this distinguished group of the Argentina-Swiss Chamber of Commerce today. I recall my numerous visits as Head of the Americas for the Swiss State Secretariat for Economic Affairs to Argentina. I benefited each time from the great hospitality of Alfredo Rodriguez, former president of the Chamber, and Jorge Fassbind. I also had the opportunity to cooperate with Ambassador Heinrich Schellenberg.

“The world lives a crisis like no other with a more severe economic fallout than anticipated”<sup>1</sup>. I quote from the latest World Economic Outlook of the IMF. Switzerland is not spared.

## 2. Impact of COVID-19 on the Swiss economy

- Switzerland has very different characteristics from Argentina. Nevertheless, Switzerland is very **strongly affected** by the COVID-19 crisis.
- Switzerland has faced a very **severe lock down** from March 16 until early June. Service activities were suspended and people worked from home, schools and universities were closed.
- As of July 8, 2020, Switzerland had **32'498** confirmed COVID-19 cases, **1965** casualties and **29'400** recoveries.
- In Switzerland the GDP is expected to fall by **-6.2%** in **2020** (US: -8%; Eurozone: -10.2%; Germany: -7.8%; France: -12.5%) and unemployment will increase from 2% to 3.8% over the year as a whole. (Annex 1: detailed macroeconomic data) This would make it the sharpest economic slump **since 1975**.
- Since March, many companies were forced to **restrict or completely** suspend their business activities, triggering a **sharp fall in GDP** as early as the first quarter of 2020.

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<sup>1</sup> Source : <https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020>

- The **low point** was reached in the second quarter with an even **bigger slump** in economic output.
- For the rest of the year, we expect only a **limited recovery**.
- Households are suffering **losses of income** caused by an increase in **short-time working**, rising unemployment and a decline in employment.
- The considerable economic uncertainty and protective measures to prevent coronavirus infections are likely to further **restrict the consumption expenditure** of private households.
- **Negative international economic development** has also hit the segments of Swiss foreign trade that are **sensitive** to the economic cycle. The global economy has fallen into **recession**. World trade is expected to fall by **11.9%** this year.
- Swiss companies supplying European firms in the **aerospace** and **automobile** industries have suffered significant declines in turnover.
- The economic losses incurred to date as a result of the measures to fight the pandemic are **very severe**, which is slowing economic recovery.
- Overall, we expect international economic activity to mount a **sluggish recovery**, with key trading partners, chiefly the major southern European countries, facing long lasting consequences of the coronavirus crisis.
- Due to the **underutilised production capacity**, the deterioration of businesses' financial situation and the high level of uncertainty, a significant **reduction in investment in equipment** is also likely for 2020 as a whole. This will significantly affect the Swiss **machinery** industry.
- **In 2021**, the Swiss economy should continue its **moderate recovery**.
- GDP is expected to grow by 4.9%, assuming that **no renewed intensification** of the health policy measures becomes necessary, that the second-round economic effects in the form of **lay-offs** and **corporate bankruptcies** remain limited and that demand from abroad returns to **normal levels** little by little.
- Consumption expenditure and spending on investments within Switzerland should then **recover** gradually.
- An improvement to the situation on the **labour market** is expected to be **slow at best**: unemployment is set to rise further to 4.1% in 2021, with employment only likely to see a minimal rise.

## Economic risks

- Depending on the pandemic, the economy could recover **faster** or **slower** than the forecast assumes.
- Forecast **uncertainty** therefore remains **extraordinarily high**.

## Firms

- Government and company **debt is rising** rapidly around the world, increasing the **risk of default on loans** and **insolvencies** of companies.
- This could ultimately threaten the **stability** of the financial system.
- The risk of upheaval on the financial markets and further upward pressure on the **Swiss franc is high**.
- The Swiss National Bank had to **intervene** very vigorously since the beginning of the COVID-19 crisis to counter the appreciation of the Swiss franc. In times of crisis, the Swiss franc regularly plays the role of a **safe-haven** currency.

## Trade with Argentina and Mercosur, January-May 2020

Argentina: Swiss exports, -15.1%; Swiss imports, +4.7%

Mercosur: Swiss exports, -12.1%; Swiss imports, +5.7%

On a positive note, Swiss imports from Argentina and from Mercosur **increased** during the first five months of the year. This could be due to the increase in the price of **gold**.

Total Swiss exports to the world: -7.8%

Total Swiss imports from the world: -14%

## Swiss government economic measures

The Swiss government has released **SFR 60 billion** (9-10% of GDP) for a broad package with two main economic policy instruments:

- a) aid to companies in the form of **liquidity** is intended to **cushion the supply shock** so that existing and - hopefully - still intact **production capacities** can be revived once the crisis has passed;
- b) sharp increase in **compensation for reduced working hours**, to avoid firms laying off workers, while **supporting demand**, and particularly **consumption**.

Early indications are that these measures could prove **effective**, but it is still too early to know whether they will prevent a prolonged recession.

### A. Financing

- Financing of **partial unemployment**.
- Deferral of payment of **social security contributions**

- Extension of **payment deadlines** without interest on arrears in **tax matters** and for federal suppliers; and
- Legal **standstill** in debt collection until 4 April 2020.

#### B. Bridging loans

The following two types of **bridging loans** for emergency were proposed:

- Loans of up to CHF 500'000: These loans are particularly tailored to **SMEs**. The credit shall be paid out **immediately** without any examination by the banks. The Swiss Confederation guarantees the bank **100% of the default risk**. According to the Federal Council, these credit amounts should cover over 90% of the companies affected by COVID-19.
- Loans from CHF 500'000 to CHF 20 million: These loans are to be **85% guaranteed** by the Swiss Confederation. In the spirit of shared responsibility, a brief credit assessment by the bank is required.
- The Federal Council expects bridging loans of up to a total of **CHF 20 billion**. The guarantee program shall build on existing structures of the four Swiss guarantee cooperatives. The applicable interest rates have not yet been fixed, but are expected to be very low.
- With this measure, the Federal Council wishes to provide the economy with the necessary **liquidity** again. When asked about the possibility of à-fonds-perdu measures, the Federal Council stated that the current situation necessitates rapid action and that measures requiring individual assessment are therefore not pursued at this moment.

#### C. Other measures

- *For professional and popular sport*
- CHF 50 million will be made available in the form of **loans to professional sports** organisations that are short of cash and threatened with insolvency. These are mainly organisations that maintain teams in the two highest sports leagues (football and ice hockey) and certain elite sport competitions.
- The same amount will accrue to popular sport in the form of **non-repayable contributions**. Beneficiaries may be associations organising popular sport events.

*The ordinance on culture includes two types of support*

- **Emergency aid**: to help (artists,...) in urgent need of cash.
- **Compensation for financial losses**: subsidiary to all other aid in the economic sector or specific to culture, it covers damage resulting from the cancellation, postponement or holding in a reduced form, due to government regulations, of events during the period from 28 February to 31 October 2020.

- **Museums** may benefit from the support measures through the following means :
- Emergency aid in the form of **interest-free repayable loans** to ensure their liquidity  
This measure expired on 20 May 2020.
- **Compensation** for financial losses incurred as a result of the **cancellation** or postponement of **events** and projects during the period from 28 February to 31 October 2020. The deadline to apply is September 20, 2020.

In addition, all cantons have taken measures to support some economic sectors:

*Canton of Vaud (a few illustrations)*

- The State Council of the **Canton of Vaud** has published an order on assistance to **commercial tenants** in order to mitigate the consequences of measures to combat COVID-19.
- By means of an agreement between the parties signing a commercial lease, the State will pay a one-off, non-refundable aid amounting to a **quarter of the rent** to be paid by **small retailers** and **restaurant owners**.
- The total estimated amount of this aid is **20 million**. The aid covers the months of **May** and June combined and is capped **at 2'500 francs** per lease.
- The State of Vaud is thus responding to a **major fear** expressed by the operators of small shops since the closure of their businesses. It also compensates for the lack of federal support.

*Key differences between Switzerland and Argentina*

- It is important to point out that the situation in Switzerland and Argentina **differs** significantly.
- First, for several years now, the Confederation as well as most cantons and municipalities has been recording **budget surpluses** ,their **debt level** is relatively low and they can borrow at very or even negative **interest rates** with a long repayment period.
- Second, the means of social security are much more important in Switzerland with the possibility of financing **partial unemployment** up to 80% of the salary for non-working hours for several months.
- The **cantons** and **municipalities** have also developed programmes to relieve the economic sectors most affected by the crisis.
- The canton of Fribourg, for example, will pay until the end of the year to **newspapers**, **radio** and **television stations** 50% of the advertising and publicity revenue not received due to the COVID-19 crisis, based on 2019 revenue. This will enable some newspapers to avoid bankruptcy.

## ANNEX

## Overview

<b>Selected forecasts, Swiss economy</b>				
Comparison of forecasts of June 20 and April 20				
Year-to-year variation in %, quotas				
forecasts for:	2020		2021	
date of forecasts:	June 20	April 20	June 20	April 20
GDP sport event adjusted <sup>1</sup>	-6.2%	-6.7%	4.9%	5.2%
GDP <sup>1</sup>	-6.2%	-6.7%	5.3%	5.6%
Consumption expenditure:				
Personal Consumption	-7.2%	-7.5%	6.5%	6.5%
Government Consumption	2.2%	2.0%	0.7%	0.7%
Construction Investment	-1.5%	-1.5%	0.0%	0.0%
Investment in Equipment and software	-14.0%	-16.0%	3.0%	3.0%
Exports <sup>2</sup>	-8.6%	-10.7%	7.2%	9.6%
Imports <sup>2</sup>	-10.1%	-12.7%	6.0%	8.4%
Employment (full time equivalents)	-1.5%	-1.5%	0.2%	0.2%
Rate of unemployment	3.8%	3.9%	4.1%	4.1%
Consumer price index	-0.9%	-1.0%	-0.3%	-0.5%

<sup>1</sup> Forecasts, seasonally and calendar adjusted

<sup>2</sup> Without valuables

Source: Federal Expert Group on Business Cycles

### Exogenous assumptions

	2019	2020	2021
GDP <sup>3</sup>			
USA	2.3%	-5.6%	4.6%
Euro area	1.2%	-8.9%	5.5%
Germany	0.6%	-6.2%	4.6%
Japan	0.7%	-5.3%	3.0%
BRIC-Countries <sup>4</sup>	5.0%	-0.6%	8.0%
China	6.1%	0.2%	9.2%
Price of crude oil (\$/barrel Brent)	64.3	37.8	38.3

<sup>3</sup> 2020-2021: assumptions, seasonally and calendar adjusted

<sup>4</sup> Weighted average of Brazil, Russia, India and China (GDP at PPP, according to IMF)

Source: Federal Expert Group on Business Cycles

### Monetary assumptions

	2019	2020	2021
Three month LIBOR interest rate	-0.7%	-0.7%	-0.7%
Return on Swiss federal bonds (10 years)	-0.5%	-0.5%	-0.4%
Real exchange rate index, trade weighted	0.5%	2.9%	0.0%
Consumer price index	0.4%	-0.9%	-0.3%

Source: Federal Expert Group on Business Cycles

### Labor market forecasts

	2019	2020	2021
Employment (full time equivalents) <sup>5</sup>	1.2%	-1.5%	0.2%
Rate of unemployment	2.3%	3.8%	4.1%

<sup>5</sup> Without sector 1

Source: Federal Expert Group on Business Cycles