SWITZERLAND

EXPANSIONARY POLICIES TO AVERT DISASTER

After the deepest recession in recent history, economic activity is turning up again due to the gradual easing of the lockdown measures in Switzerland and the neighbouring countries. The exceptionally accommodative monetary and fiscal policy stances are also contributing to the recovery. SMEs have made use of the special loan programme and employees have benefitted from the short-time work scheme. Nevertheless, the recovery is likely to be slow, and economic activity is unlikely to return to pre-crisis levels before end 2022. The government is confident that the Covid-related debt can be repaid without raising taxes.

RECESSION BOTTOMED OUT IN APRIL

The coronavirus and the measures to contain the pandemic have resulted in the worst recession in recent history. Large sections of the economy were paralysed because of the lockdown measures. Even though these came into force only in March, GDP was 2.6% lower in Q1 2020 than in the previous quarter. The worst hit were the consumer-related industries directly affected by the mandatory closures such as the hospitality sector and part of the retail sector. The recession deepened in Q2. The KOF Economic Barometer reached an all-time low in April, as economic activity was about 20-30% below its usual level. As lockdown measures were gradually eased from the end of April onwards, the Barometer regained some ground in the following months, suggesting that the worst was behind. Nevertheless, the business situation in manufacturing continued to deteriorate because of contracting order books.

AN EXCEPTIONAL EXPANSIONARY MACROECONOMIC POLICY

As the country went into lockdown in March, the Federal Council acted quickly by adopting an emergency package worth CHF 72.2 bn (10.4% of 2019 GDP) of which CHF 41.4 bn in sureties and guarantees, mainly for SME loans. To obtain a guaranteed loan SMEs simply apply at their main bank. Small loans enjoy a complete state guarantee, while larger ones are guaranteed up to 85%. The latter are subjected to an examination by the banks, which guarantee the remaining 15%. In order to expand bank lending rapidly, the Swiss National Bank has set up the COVID-19 refinancing facility (CRF). The facility allows banks to obtain liquidity from the SNB, which is secured by the federally guaranteed loans

The Federal Council also broadened access to the short-time working schemes by to include also fixed-term contract workers, temporary workers, apprentices, and self-employed. In addition, the waiting period before having access to the scheme have been abolished and administrative procedures simplified. In early July, the Federal Council extended short-time work benefits by another six months. The federal contribution to the unemployment insurance scheme was increased by 20.2 billion. Since April, 190k enterprises have applied for Kurzarbeit for 1.9 mn workers, which is around 36% of all employees.

Given the economic weakness and the fall in prices, monetary policy should remain very expansionary. The SNB is expected to keep the policy rate at -0.75%. The bank has also announced its willingness to intervene in the foreign exchange market to prevent an appreciation of the CHF.

GROWTH AND INFLATION (%)

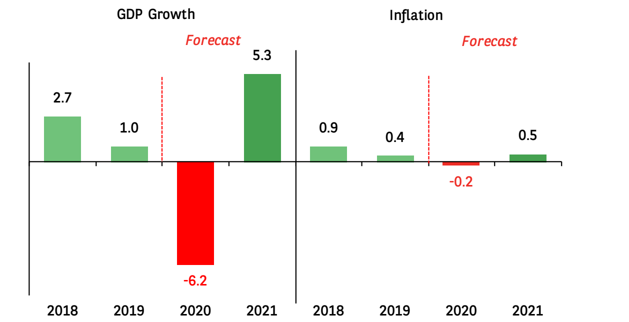

CHART 1 SOURCE: NATIONAL ACCOUNTS, BNP PARIBAS

A LONG ROAD TO RECOVERY

Thanks to the very accommodative policies and the further loosening of lockdown measures in Switzerland and the neighbouring countries, economic activity is likely to rebound strongly in Q3. As a result, the fall in GDP might be limited to around 6%. Nevertheless, the recovery is likely to be slow and it may take until 2022 before the economy is back at its pre-crisis level.

The crisis has also led to a serious deterioration of government finances. The Federal Council is reckoning on a tax receipt shortfall of more than CHF 5 bn this year, partly due to tax deferrals. The overall government deficit is estimated at around 5% in 2020. The Federal Council projects the state budget to remain in deficit up to 2024. However, Finance Minister Ueli Maurer is confident that the pandemic-related debt can be repaid without tax increases.

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