The impact of the coronavirus pandemic on the Swiss economy

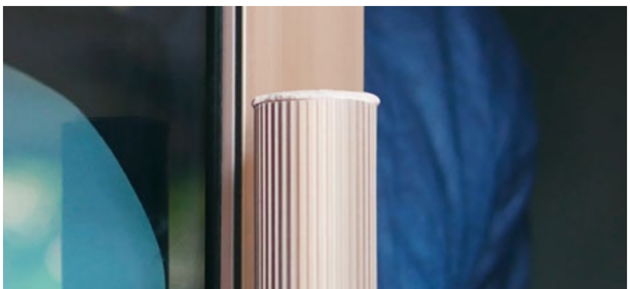
Following ten years of growth in Switzerland, the coronavirus pandemic triggered the country's deepest recession in decades. The first wave in the spring of 2020 saw the domestic economy quite literally collapse, while the situation with key trading partners also deteriorated suddenly, burdening exports significantly. With the relatively early easing of restrictions, at least the economy was able to rebound significantly the middle of the year.

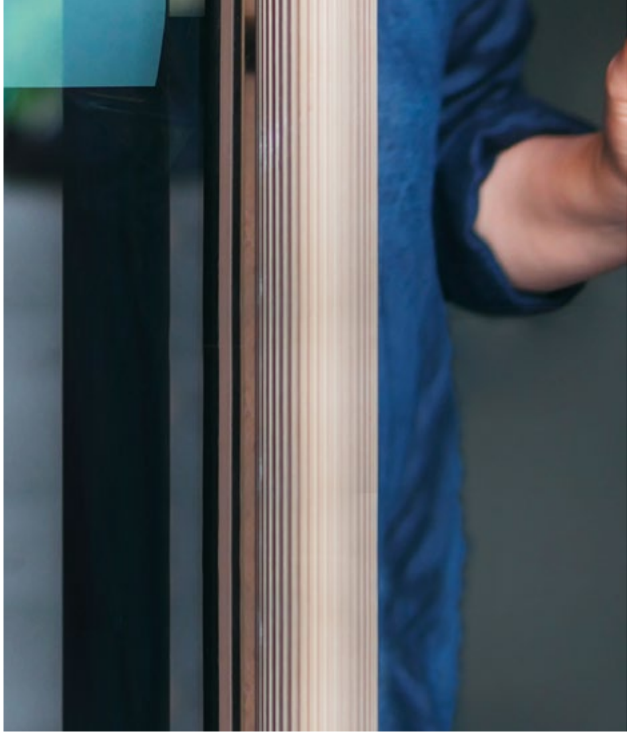
Nonetheless, GDP[1] fell by 2.9% in 2020 – more than during the financial crisis of 2009. As in other countries, Switzerland's service sector was exceptionally hard hit by the crisis. High-contact services, which were disrupted most by measures to contain the spread, reported historic declines in value added. Affected industries included hospitality, transport, events and leisure, and sports. But most other service sectors also performed negatively, including health and social services, which were held back in part by the suspension of non-urgent medical treatments.

Consequently, consumer spending by private households also fell at an unprecedented rate: closed businesses, increased working from home and reduced travel slashed the amount spent on mobility, restaurants and hotels as well as on cultural events and other services. Demand shifted to other areas, however, with food and beverages and electronic devices enjoying positive growth. This bolstered the retail sector, which reported rising sales in 2020.

The export sector was also badly impacted by the crisis. Overall, however, the decline in exports of manufactured products and goods was weaker than during the financial crisis in 2009. This was due in part to the fact that chemical and pharmaceutical products tend to be less sensitive to economic cycles but contribute significantly to industrial value added and goods exports. Investment in capital goods also fell only to a limited extent, at least compared to the sharp drop in GDP.

[1] Gross domestic product





Crisis is also an opportunity to master the challenges of the future even better.

The support packages offered by the federal government and the cantons are also historic. Measures include COVID-19 loans at the beginning of the crisis, short-time work compensation, coronavirus income compensation, numerous sector-specific measures (e.g. in the areas of culture, sports, public transport and media) and, greatly expanded since early 2021, hardship benefits in the form of non-returnable (à-fonds-perdu) contributions. The aim of support packages was to mitigate the risk of decreased purchasing power among the employed and self-employed by preserving jobs and safeguarding wages, and to secure the liquidity of fundamentally solvent companies with good prospects for long-term survival. So far, so good: although unemployment rose in March and April 2020, the figures stabilized from mid-year onwards. A wave of company bankruptcies has failed to materialize to date; in 2020, the number of bankruptcies actually fell short of the prior-year level. However, the challenges facing the economy remain complex, which is why support measures remain in place.

Easing economic restrictions

More extensive non-pharmaceutical interventions have been back in force in Switzerland since the beginning of 2021, which severely restrict economic activities. This is interrupting recovery, and economic activity declined significantly at the beginning of the year. Compared with spring 2020, however, the containment measures are more targeted and less restrictive, meaning that we have, so far, been spared a slump of the magnitude seen last year. Companies and households are also somewhat better equipped today to deal with the restrictions. How the economy develops now will depend largely on further epidemiological events and political responses. We assume that most of the risk groups will have been vaccinated during the second quarter, allowing economic restrictions to be eased to a large extent. This will enable the economy as a whole to bounce back in the course of 2021, and potentially even reach pre-crisis GDP levels in the second half of the year.

At the same time, the recession in the wake of the COVID-19 pandemic will leave its mark for some time to come. Investment activity nosedived as a result of the pandemic despite stabilization measures taken by the federal government to cushion the effects. However, the impacts of the crisis are putting a damper on prospects for recovery in terms of both investment and the labor market. Potential growth will therefore be suppressed in the medium term.

Even if investment picks up to some extent, it is unlikely that we will return to the growth trajectory predicted before the crisis. The labor market may also be affected beyond the short term. For example, job seekers nearing retirement age may be discouraged from re-entering the market. Such a trend could further cloud existing concerns about long-term economic development. Even before the pandemic, demographic shifts were expected to hamper potential growth: an aging population means a falling contribution from labor input. Overall, then, potential growth in the next ten years is likely to remain noticeably lower than in the past decade.

Switzerland strong in an international comparison

There is all the more reason to strengthen productivity growth, then. If demographic change puts a stop to the increase in labor market participation for the population as a whole, the only alternative is to increase productivity. Since the end of the 1990s, however, average productivity growth in Switzerland has declined successively. The phenomenon can also be observed in other OECD countries, but is particularly pronounced in Switzerland.

To achieve strong, long-term recovery, improving economic conditions and strengthening investment and innovation even further will be crucial. Switzerland already compares favorably to its international peers in general. Swiss economic strengths include the high quality of infrastructure, moderate taxes and, for the most part, the highly qualified workforce. Swiss advantages have traditionally also included a large degree of international openness, high labor market participation and healthy public finances.

The importance of robust national coffers can hardly be overestimated. In Switzerland, they have enabled the government to provide support measures on a historic scale. However, the billion-franc deficit that has resulted will squeeze any future financial leeway of the government, even if the current plan is to reduce it without increasing taxes or cutting spending. Demographic shifts and the impact on old-age provisions pose an additional financial challenge. By 2045, the number of people of retirement age is expected to increase by around one million. As a result, former strengths are rapidly becoming potential challenges. This also applies to foreign economic openness, or efforts to maintain and expand it, not least in light of the unresolved question of future relations with the EU. Even if Switzerland has a head-start on other countries given the relatively small decline in GDP to date, this does not diminish the challenges.

The importance of healthy public finances can hardly be overestimated.

Against this backdrop, various tasks already launched by the Federal Council are of particular importance. They include the proposed abolition of industrial tariffs – an important signal in strengthening the openness of the Swiss economy. The proposal would relieve the burden on companies and consumers by around CHF 500 million at the stroke of a pen, while also massively simplifying administrative processes for customs clearance. Further expansion of the network of free trade agreements will also be of great relevance to foreign trade. There are plans to submit the agreement between the EFTA and MERCOSUR states to Parliament this year. The Federal Council will also renew its foreign economic strategy – last updated in 2004 – in response to a changing economic, social and technological environment.

Other important projects are aimed at reducing the administrative burden on companies. Finally, with its proposal to privatize PostFinance, the Federal Council has signalized that it takes the risk of unfair competition by state-owned enterprises seriously and intends to address them. All in all, we are reminded: a crisis is not just something to overcome; it is also an opportunity to master the challenges of the future even better.

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[2] European Free Trade Association
[3] Argentina, Brazil, Paraguay and Uruguay

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