

## SWITZERLAND

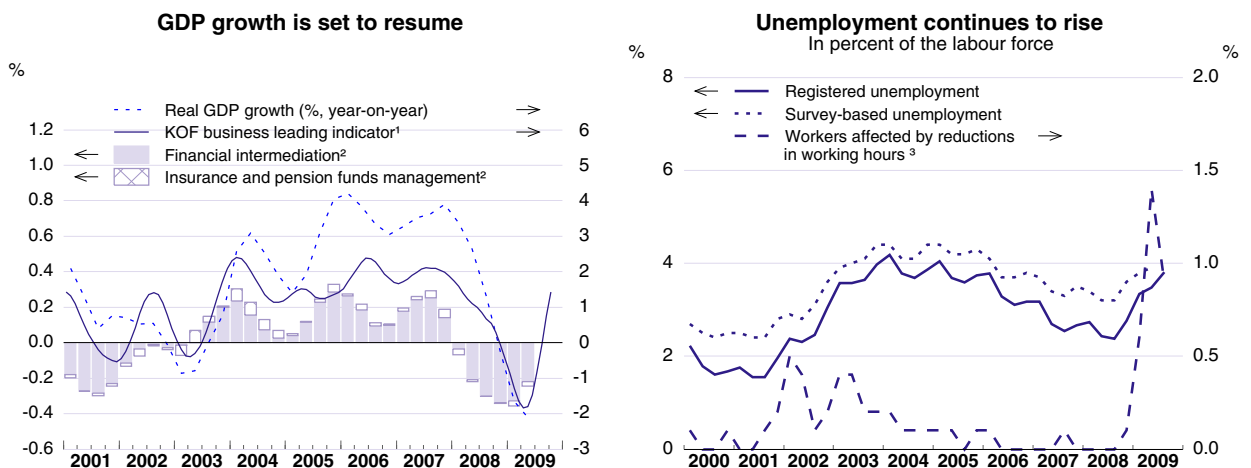
Positive growth is projected to resume from the end of 2009 onward, driven by growing demand from trading partners and improving activity in financial markets. Unemployment may rise to about 5% while inflation is projected to be low but positive.

Once the recovery takes hold, monetary policy stimulus will need to be withdrawn, but care will need to be taken to avoid deflation risk. While fiscal stimulus should be maintained in 2010, spending reductions need to be identified from 2011 onwards to adhere to budgetary rules.

### The decline in economic activity may be coming to an end


GDP growth continued to decline in the second quarter of 2009 albeit at a slower pace than earlier, driven by continued export weakness. The negative growth contribution of financial intermediation diminished as recovering stock markets supported fees and commission income, which account for about 40% of banking services. Firms continued to cut back on investment, notably in machinery and equipment, due to low capacity utilisation, although construction investment rose until mid-2009 reflecting the boost to public construction from fiscal stimulus packages. Private consumption continued to increase although employment declined and the registered unemployment rate rose to 3.9% in September 2009. Leading business cycle indicators have improved markedly in recent months, turning positive from low levels in the second quarter of 2009. Orders in manufacturing have risen to a level indicating expansion in the fourth quarter.

### Switzerland



1. Composite leading indicator of business cycle trends in manufacturing, private consumption, financial services, construction and EU export markets.
2. Contribution to economic growth.
3. Data for 2009 on the number of workers affected by reductions in working hours are still provisional; 3<sup>rd</sup> quarter 2009 data for July only.

Source: FSO; KOF institute; OECD, Economic Outlook 86 and Main Economic Indicators databases; SECO; SNB.

StatLink  <http://dx.doi.org/10.1787/751642067755>


## Switzerland: Demand, output and prices

	2006	2007	2008	2009	2010	2011
	Current prices CHF billion	Percentage changes, volume (2000 prices)				
Private consumption	286.4	2.4	1.7	1.2	1.2	1.4
Government consumption	55.2	0.5	-0.1	2.3	1.1	0.8
Gross fixed capital formation	104.4	5.2	0.4	-2.9	1.1	2.1
Final domestic demand	446.0	2.8	1.1	0.4	1.2	1.5
Stockbuilding <sup>1</sup>	4.0	-1.3	-0.7	1.2	-1.1	0.0
Total domestic demand	450.0	1.3	0.4	1.7	0.0	1.5
Exports of goods and services	257.5	9.5	2.9	-12.5	3.4	6.2
Imports of goods and services	217.0	6.0	0.4	-8.2	2.1	6.3
Net exports <sup>1</sup>	40.5	2.4	1.4	-3.4	0.8	0.5
GDP at market prices	490.5	3.6	1.8	-1.9	0.9	1.9
GDP deflator	—	2.5	2.2	0.3	0.5	0.3
<i>Memorandum items</i>						
Consumer price index	—	0.7	2.4	-0.6	0.6	0.4
Private consumption deflator	—	1.3	2.2	0.1	0.7	0.4
Unemployment rate	—	3.6	3.5	4.3	4.9	4.8
General government financial balance <sup>2</sup>	—	1.6	1.6	-0.7	-1.3	-1.3
Current account balance <sup>2</sup>	—	10.0	2.3	8.7	10.2	10.9

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

2. As a percentage of GDP.

Source: OECD Economic Outlook 86 database.

StatLink  <http://dx.doi.org/10.1787/754107486824>

### Monetary policy is expansionary while fiscal policy will turn restrictive

The Swiss National Bank is likely to continue its expansionary policy by steering the 3 month interbank rate close to zero in 2010 and by using foreign exchange intervention as needed to prevent the Swiss franc from appreciating. For 2009 and 2010, federal and cantonal governments introduced fiscal stimulus packages which are estimated to amount to about 1% of GDP in total, including expenditures on infrastructure, measures to facilitate the exit from unemployment of the young and the long-term unemployed, as well as the earlier than planned disbursement of the 2009 and 2010 revenues from the newly introduced CO<sub>2</sub>-tax. The fiscal stance is hence expected to be expansionary in 2009. In 2010, it is projected to be neutral although the stringent fiscal rules of the cantons could lead to an overall pro-cyclical stance. In 2011, fiscal policy is projected to become slightly restrictive as the stimulus measures are expected to be withdrawn and expenditures to be reduced by about 0.3% of GDP to abide by the budgetary rules. Those measures would more than offset the loss of revenue from income tax reforms (0.15% of GDP) that are effective from 2010 onward.

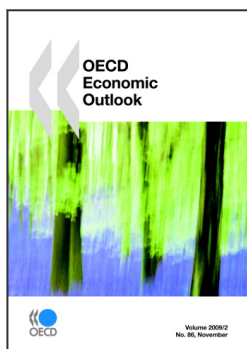
### By end 2009, GDP growth will resume at a slow pace

While GDP growth may remain negative in the third quarter on account of destocking, positive growth is expected to resume from the turn of the year. GDP is expected to grow initially at low rates in 2010, reflecting only a gradual increase in global activity. Growth is expected to pick up in 2011, reaching 2.1% at the end of the year. The upswing will be driven by stronger import demand from trading partners in the euro area

and Asia. Unemployment is expected to rise to about 5% in 2011. The increase in subsidised short-time work, which slowed the rise of unemployment during 2009, is likely to be reversed as the subsidies are withdrawn. Since the output gap is expected to remain substantial, the inflation rate is projected to drop to 0.4% in 2011 after oil price effects have subsided. The general government deficit will be around 1.3% in 2010 and 2011.

***The growth contribution of financial services may be subdued***

Downside risks relate to more persistent unemployment than in the previous business cycle which would dampen consumption growth. Furthermore, owing to recent substantial reductions in the balance sheets of the large domestic banks, the growth contribution of financial intermediation might be weaker than projected. Export performance, on the other hand, could be stronger as a result of trade ties with Germany and Asian economies.



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