Switzerland: Slow exit from the lockdown and severe recession in sight

Swiss authorities have unveiled their plans to slowly exit from the lockdown. This will not prevent a sharp recession in Switzerland in 2020

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A three-phase exit strategy from Covid-19 lockdown

Like most countries in the world, Switzerland had implemented containment measures since the end of March to limit the spread of the coronavirus. The health situation is improving, and the Federal Council decided on 16 April to gradually ease measures against coronavirus with a three-step approach. Moving from one phase to the next depends on there being no significant increase in COVID-19 cases.

1. On 27 April, hospitals will be able to resume all medical procedures, including non-urgent procedures, and outpatient medical practices. Hairdressing salons, massage practices and cosmetic studios will be allowed to reopen. DIY stores, garden centres and florists will also be allowed to reopen. Restrictions on the range of products that can be sold at grocery stores will be lifted.
2. In phase two, which is set to commence on 11 May, it is planned that schools for children of

compulsory-school age, shops and markets will reopen. The Federal Council will decide on whether to proceed with phase two on 29 April.

3. In phase three, set to commence on 8 June, upper secondary schools, vocational schools and higher education institutions will be allowed to resume face-to-face teaching. At the same time, entertainment and leisure establishments such as museums, libraries, botanical gardens and zoos may reopen, and restrictions on gatherings could be relaxed. The Federal Council will take a decision regarding the details of this phase on 27 May.

No decision has been taken yet regarding when large-scale events will again be allowed to go ahead.

A severe recession and a slow recovery are to be expected

The announcement of this gradual deconfinement is good news for the Swiss economy, as it gives companies visibility on the stages and modalities of the business recovery. Nevertheless, it will not prevent a serious recession in Switzerland in 2020. The Minister of Economy, Guy Parmelin, has painted a bleak picture of the consequences of the health measures on the country's economy: unemployment has already risen to 3% (compared with 2.3% in 2019) and could reach 7%. Currently 30% of the workforce (1.5 million people) is on temporary unemployment and production has fallen by an average of 25%. Against this background, the Swiss authorities opened the budgetary floodgates and set up an emergency aid programme for an initial amount of CHF 10 billion on 13 March, which was increased to CHF 60 billion on 3 April. This amount will be used in particular to provide liquidity to businesses, to compensate temporary unemployment and to cover the loss of income of the self-employed.

> *This is the largest aid programme ever launched by the Swiss government.*

The CHF 60 billion is equivalent to 8.5% of GDP. We do not consider this amount to be final, and we think it will probably be increased in the coming weeks. Taking into account the debt brake mechanism, Switzerland has a very low public debt (24% of GDP) and has recorded a budget surplus in previous years. It therefore has the means available to further increase public spending.

However, the aid plans put in place by the authorities may help to combat the second-round effects of the lockdown period (redundancies, bankruptcies, etc) but will not prevent a serious economic recession in Switzerland. Indeed, the containment measures will be lifted very gradually, which implies that the recovery in activity will only be gradual. We can already see from consumer surveys that consumption is likely to take time to recover. Moreover, the Swiss economy is heavily dependent on exports and imports.

> *We see the Swiss economy contracting by 5%+ in 2020 but growing by 3.2% in 2021.*

The global economic recession expected in 2020 is therefore likely to have a strong impact on Switzerland's international trade, even when lockdown completely ends in the country. Therefore, we estimate that GDP is likely to contract by more than 5% in 2020. At this stage, we anticipate a recovery of 3.2% in 2021.

SNB intervenes heavily in the foreign exchange market

The current context of global recession and rising risk aversion has led the Swiss franc to appreciate strongly against the euro and the EURCHF has reached its 2015 record level. In order to avoid an excessive appreciation of the Swiss franc, the Swiss National Bank has been intervening heavily in foreign exchange markets since the beginning of the coronavirus crisis. For the time being, this seems to be sufficient and the SNB has not lowered its key interest rates , with the current level still at -0.75%. The SNB has also launched a refinancing facility to improve companies' access to credit. This makes additional liquidity available to the banking system at any time and for an unlimited amount at a rate of -0.75%, so that they can rapidly and strongly increase the volume of credit they grant to companies. The banks' counter-cyclical capital buffer has also been lowered to 0%.

We believe that the SNB will try to continue its current policy in the coming quarters by intervening on the foreign exchange market and leaving its rate unchanged. Of course, should the situation become more tense, it could ultimately be forced to lower its interest rates. But this is not our base case.

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