A study on the swiss economy economics essay

Switzerland's annual GDP in 2009 was 0. 6% which is a substantial improvement compared to -0. 4% in the previous year. It has also performed much better in comparison to its neighboring EU nations which barely grew in the 4th quarter and are expected to grow only by 0. 2 in the 1st and 2nd quarter in 2010.

The Swiss economy experienced low inflation for most parts of 2008 and 2009. It also fell into a recession period in 2009 from which it has now emerged and inflation rates have started to pick up. For stability, the Swiss national bank adopted monetary policies.

Unemployment in Switzerland increased to an unexpected high in 2009 and is expected to continue rising to 5% in 2010. Although unemployment rates have steeply increased in Switzerland, it in a much better state than most of its neighboring nations.

Switzerland has been involved in the world trade with a range of different countries for exports and imports. The major connections have been with Germany followed by United States, Italy and Australia for exports as well imports having one of the strongest relationships in the business world.

The SNB changes its monetary policies to maintain stability of price and inflation. In times of recession they use expansionary policies to speed up the economic activities by increasing money supply. SNB also makes provision to reduce the supply in the money market incase it has been over supplied.

To cope with recession the government of Switzerland had to step in to boost the economy with expansionary fiscal policies. These usually include changing taxation and government spending. As Switzerland's tax rates are already very low in comparison to its neighboring EU nation, government spending was used to stimulate the economy

Switzerland GDP

(TradingEeconomics. com, 2010)

Switzerland GDP growth rate

Year	Mar	Jun	Sep	Dec	Average
2009	-1. 00	0. 40	0. 50	0. 70	0. 15
2008	0. 60	0. 20	-0. 50	-0. 70	-0. 10
2007	1. 10	0. 90	0. 90	1. 00	0. 98

In the last 3 months of 2009 the GDP grew by 0. 6% which showed the first increase of the year. As there was a growth rate of 0. 7% and 0. 5% from the last 2 quarters of 2009 there was a solid increase in house hold spending, there was better support from the government regarding the economy and there was a higher demand for Swiss goods. Fiscal stimulus is the main contributor to rise in Switzerland's GDP. A cut back on monetary stimulus and focus on fiscal policies to improve conditions in intended in future.

Inflation

(TradingEeconomics. com, 2010)

Switzerland Inflation Rate

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	1. 00	0. 90	1. 40									
2009	0. 10	0. 20	-0. 40	-0. 30	-1. 00	-1. 00	-1. 20	-0. 80	-0. 90	-0. 80	0. 00	0. 30
2008	2. 40	2. 40	2. 60	2. 30	2. 90	2. 90	3. 10	2. 90	2. 90	2. 60	1. 50	0. 70
2007	0. 10	0. 00	0. 20	0. 50	0. 50	0. 60	0. 70	0. 40	0. 70	1. 30	1. 80	2. 00

The inflation rate gradually decline from 2. 6% in Oct. to -1. 2% in July. This period of recession corresponds with unemployment rate. According to the Phillip's curve as inflation decreases, unemployment increase which is exactly what happened between October 2008 and July 2009. Although this may be the case, as inflation began to rice in November 2009 the employment rate did not fall. Thus it can be stated that the Phillip's curve is not ideal to plot this situation. In this given period of economic downfall the

Swiss government felt an urge to implement anti-deflation measures including expansionary monetary and fiscal policies.

According to most economists Switzerland's economy has got back on track as the inflation rose in the year 2010 but still according to the Swiss National Bank's Vice Chairman Thomas Jordan it is still too early to raise interest rates which are at 0. 25%. Still, most economists reckon that interest rates will slightly rise in the second half of the year.

Unemployment

Switzerland Unemployment Rate

(TradingEeconomics. com, 2010)

Switzerland Unemployment rate (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	4. 10	4. 10	4. 10									
2009	3. 00	3. 10	3. 30	3. 40	3. 50	3. 80	3. 90	4. 00	4. 10	4. 10	4. 10	4. 20
2008	2. 60	2. 50	2. 50	2. 50	2. 50	2. 50	2. 50	2. 50	2. 60	2. 60	2. 70	2. 80
2007	3. 00	3. 00	2. 90	2. 90	2. 80	2. 70	2. 70	2. 70	2. 70	2. 60	2. 60	2. 60

“ Unemployment isn’t likely to soar in 2009, with the unemployment rate seen at 2. 7 percent.” (M. Neff, 2008)

The Swiss government did not expect unemployment rates to peak at an 11 year high of 4. 2% in last month of 2009. Thou the Swiss economist did not expect to be hit by global recession; its neighboring countries were greatly affected by it. Recession caused demand of Swiss exports to fall. The domestic market of Switzerland is very small compared to it foreign market. Due to low demand for Swiss exports many companies decided to cut cost by making labour redundant. This may be one of the causes for the hike in unemployment rates. Another cause may be the fall Switzerland’s GDP from 3. 9% in 2007 to -0. 4% in 2008 and 0. 6% in 2009. Low growth causes lesser demand for labour and thus more unemployment.

Majority of the unemployed were youngster from the age of 15 – 25 years and immigrants. Although such high unemployment rate is a matter of concern to the Swiss government, Switzerland fares much better than its neighboring European countries that have unemployment rates of as high as 9. 9% in the year 2009. To tackle the spike in unemployment rates the government decided to introduce stimulus packages to relieve the pressure. These are discussed under Fiscal policies.

International Trade

Swiss companies are exceedingly competitive in world markets as their exports are way higher than their imports which give them a benefit of earning in foreign currency. The famous commodities they export are watches, cheese and chocolates, and for a fact chemicals, mechanical and electrical engineering together were responsible for more than half Swiss export revenues.

Switzerland has been involved in the world trade with a range of different countries for exports and imports. The major connections have been with Germany followed by United States, Italy and Australia for exports as well imports having one of the strongest relationships in the business world.

The table below shows the trade patterns, both import and export with china:

Figure 2: Trade composition between Switzerland and China

The table above shows that imports from china are higher than exports are higher and that each product's imports are significantly higher than exports except for Precision instruments, machine/apparatus/electronics and chemicals/pharmaceuticals.

There are two acceptable methods of measuring international trade; the first being measuring the value of trade and second being the volume of trade.

The graph above shows the trade between Australia and Switzerland for the following years. It clearly shows that Australia has imported more in comparison to their exports from Switzerland which means Switzerland has exported more which gives them a benefit of high GDP per capita and foreign currency as mentioned above.

The major trades between the two countries with the accurate figures from year 2008 to 2009 were Switzerland exported goods such as Medicaments (incl veterinary) -600A$m, Watches and Clock – 230A$m, Orthopedic appliances -195A$m and Pharm products (excl medicaments) -151A$m

The goods imported by Switzerland from Australia were comparatively less to their exports n they were Gold -340A$m, Medicaments (incl veterinary) -67A$m, Meet (beef excl) -40A$m and Pharm products (excl medicaments) -33A$m.

The reasons which would determine the country to trade would be lack of skills or scarce materials to make efficient use of the resources. In this case Switzerland’s economy is purely based on highly qualified labor force performing highly skilled work. The economy would be keen in international trade as they would produce goods with an minimal cost due to specialized workforce n would want to export in foreign countries.

Switzerland’s weighted average tariff rate was 0 percent in 2008. The economy has always believed on the policy of free trade, with low import duties and nearly no import quotas. The following are the list of documents which are required and are mandatory when goods are imported to the country:

REQUIRED DOCUMENTS

- Bill of Lading and/or Airway Bill
- Commercial Invoice
- Certificate of Origin, established or recognized by the country of origin’s competent authorities
- Packing List (not mandatory, but may facilitate clearance of goods)
- Pro-Forma Invoice

- Certificate of Analysis (for wine)

The financial crisis has had an impact on the Swiss economy at a large scale. A vast amount of assets have been destroyed during the financial crisis. Premium tourists, the target group for Switzerland as a vacation destination are severely affected. The most well known export items of Switzerland, Watches and Swiss chocolate, have reduced dramatically. We go into detail on each commodity:-

Swiss watch exports

Switzerland is known for its famous branded watches, some include Chopard, Cartier, Rolex etc. They are known for their heritage, quality, and uniqueness and so on. Swiss watch exports endured a difficult year in 2009. The world economic crisis caused a slump in demand that the sector was unable to shake off. After five successive years of gradual continues growth, results were down sharply from the first months of 2009. The end of the year was more encouraging, although still showing a decline which affected all markets and segments.

Swiss watch manufacturers exported goods worth 13. 2 billion francs in 2009. This level is below that recorded in 2006. The annual decline compared to 2008 was -22. 3%, i. e. a deficit of 3. 8 billion francs. (FHS, Swiss Watches)

On an international level, Switzerland was the highest exporter of watches in 2009; it dispatched goods worth 12. 3 Billion dollars, a steep decline of 22. 3% from 2008. Although it maintained its position as the highest exporter of watches, a clear illustration of a downturn can be seen.

Swiss Chocolate

The Swiss chocolate industry was doing extremely well for six consecutive years until the year 2009 where it faced a downturn. It was the first time the industry was unable to beat its previous year's results, and that the chocolate manufacturers had to absorb losses. In a year-to-year comparison, sales went down 5. 9 % to 174, 109 tonnes while turnover across the industry dropped by 6. 4 % to reach CHF 1, 702 million. The decline in sales turnover as opposed to the change in sales quantity indicates a shift in demand towards lower-priced products due to consumers purchasing cheaper alternatives.

A fall in the number of tourists also had a negative effect on the sale of chocolate products. Domestic sales of the Swiss manufacturers amounted to 68, 375 tonnes, which was 6. 9 % lower than the previous year. As for value, domestic sales dropped to CHF 870 million (down 2. 7 %). The share of imported chocolate consumed on the home market rose to 33. 6 %, compared to the previous year's figure of 30. 9 %. Low-price import products played an influential role in this increase. (Sacci. com, Swiss – Australia business)

Exchange rate

The exchange rate mechanism is the single most important factor influencing tourism and trade in Switzerland. A stronger Swiss franc compared to other currencies, especially the euro, the British pound, as well as all other currencies makes vacation, business trips and conventions/professional congresses in Switzerland more expensive.

Balance of Payments 2009

Switzerland registered a downturn in foreign trade in commodities and services. Revenue from exports of commodities and services were 12% lower then of 2008. This recorded deficit was the lowest since 1947 when annual economical records first started in Switzerland.

Costs for the import of goods and services declined by 13%. The surplus of proceeds from trade in the commodities and services sector declined by CHF 7 billion to CHF 58 billion. Regarding income from investments, revenue from international investments plunged by CHF 21 billion to CHF 69 billion. Expenses relating to foreign investments internationally also dropped sharply from CHF 62 billion to CHF 55 billion. This resulted in a CHF 14 billion surplus of receipts over expenses, whereas a CHF 26 billion surplus of expenses over receipts had been recorded in the previous year.

Goods

Trade in merchandise showed a considerable downturn in both revenue from exports and expenses for imports (-13% and -14% respectively). Looking at exports, the mechanical industry recorded a sharp decline of 23%, while exports of luxury goods such as, watches and jewellery constricted by 15% year-on-year basis. Only the chemical industry was able to maintain export volumes at the previous year’s level.

On the import side, expenditure for energy sources revealed the most prominent decline -32%. This was due to a significant drop in prices. Imports of products and semi-manufactured goods also declined substantially by 23%. Imports of capital goods and of consumer goods also contracted year-on-year (-15% and -4%). The surplus of takings from trade in goods amounted to CHF 20 billion (2008: CHF 19 billion).

Services

Revenue from trade in services was down by 9%. Banks’ receipts from financial services also declined significantly (-16%), this reflected lower income from asset management etc. Due to lower share prices, the value of assets under management dropped considerably. Tourism receipts were down 3%. Expenses for services from abroad fell by 1%, Expenses for foreign travel (tourism) also dropped, and this had a large impact as tourism is a major factor in Switzerland’s economy. Overall, trade in services resulted in a surplus of receipts amounting to CHF 42 billion

(2008: CHF 50 billion).

Investment income

Revenue from Swiss investments internationally were well above the corresponding expenses, resulting in a receipts surplus of CHF 14 billion, compared with an unusual expense surplus of CHF 26 billion in the previous year. This was because of the resulting losses by banks’ foreign subsidiaries, which greatly reduced banks’ income from foreign investments and henceforth a surplus of expenses in direct investment occurred. In 2009, by contrast, there was a surplus of receipts from direct investment. Income from portfolio investment and banks’ interest business, which are included in income from other investment, were dominated by lower interest rates. Both income and expenses were therefore far lower than a year earlier.

Currency

CHF-2 year chart since Apr 2008 till Apr 2010

LIBOR is London Interbank Offer Rate

This rate determines interest rates charged by banks to its prime customers. All banks add a certain spread in addition to the LIBOR based on the risk of each client. The SNB uses the 3 month LIBOR

Market Outlook of CHF

The Swiss National Bank remains much more reluctant to intervene to restrain CHF strength, as euro selling on sovereign risk pushed EURCHF to all time lows in March 2010. The Swiss National Bank remains more tolerant of general currency strength in their inflation forecast.

Switzerland has nearly no inflationary problems and as the financial markets are trying to test the Swiss National Bank's commitment of appreciating the Swiss Franc to the Euro the interest rates will have to be on hold. As of a meeting on 11th of March the interest rate target is at 0. 25% and it will tend to be the same till September and it is very much possible that the interest rate might be the same till December.

Switzerland

	2008	2009	2010 F	2011 F	2010 F Q 1	2010 F Q2	2010 F Q3	2010 F Q4	2011 F Q1	2011 F Q2	2011 F Q3
EURCHF	1. 49	1. 48	1. 42	1. 45	1. 42	1. 41	1. 40	1. 42	1. 43	1. 44	1. 45
USDCHF	1.	1.	1. 03	1. 00	1. 05	1. 07	1. 04	1. 03	1. 01	1. 00	1. 00

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Political Issues

The Swiss political system tends to limit the likelihood of fundamental policy changes. The policy-making dynamics of the coalition government, a constitutional dependence on referenda and a rise in nationalist sentiment serve as constraints on domestic reform. EU membership is not on the agenda, as there is considerable popular skepticism regarding the merits of further integration. In the aftermath of the most recent rounds of EU enlargement, there has been rising hostility within the country towards granting the right of free labour mobility to the newest EU member countries. At the same time, progress has been evident in such areas as cooperation in addressing tax evasion and fraud problems, albeit at some loss of much-cherished bank secrecy. Local tax relief incentives available to foreign firms that relocate to Switzerland remain a contentious issue with Brussels.

Monetary Policies

Change of interest rates is the key feature of Switzerland's countries monetary policy, although the also use other monetary methods to control the supply of money in the market.

(TradingEeconomics. com, 2010)

Switzerland Interest rate

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec

2010	0.25	0.25	0.25	0.25								
2009	0.50	0.50	0.35	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
2008	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.55	1.73	0.69
2007	2.00	2.00	2.14	2.25	2.25	2.39	2.50	2.50	2.65	2.75	2.75	2.75

According to the Swiss National Bank its monetary policy strategies since the year 2000 consist of – a definition of price stability, a medium term inflation forecast, and a target range for the three month LIBOR for Swiss Franc.

Swiss National Bank tries to maintain price stability with a rise in the CSI of less than 2% per annum. Furthermore, inflation forecast are the main indicators for the interest rate decision. The Swiss National Bank tends to loosen or tighten its monetary policies in the long term to meet the inflation rate requirements. Although, it is realized that it is not necessary to change monetary policies in every situation were the inflation rate is not in control as this may be due to other factors such as fluctuation in global oil prices which was a major concern in the year 2008. The Swiss National Bank measured inflation in terms of CPI to amount to 2. 4% in 2008. This figure is an increase of 1. 7% over the figure of 2007. It is concluded that the abrupt change in oil prices in the respective year is the key reason to more than half of this increase.

Considering the economic situation, global and national, the SNB took a monetary decision to target the LIBOR of 1% in the 4th quarter of the year and then closing at 0. 66%, which was a substantial decrease to 3% LIBOR in the previous quarters. These monetary decisions may be taken to ease the tension in the money market. Such a monetary decision is expansionary i. e. it is used to increase the money supply in the market. Although expansionary policies were adopted they did not have a great impact on the inflation rate which continued to drop 2009. The graph below demonstrates the rightward shift in the LM schedule due to the expansionary monetary policy.(SNB, 2008)

In the year 2009 the SNB further lowered the rate of LIBOR from 0% – 1% in December 2008 to 0% – 0. 75% in March 2009. Furthermore it started acquiring Swiss Fran bonds issued by the private sector borrowers to keep money supply in the market. SNB also tried to maintain the position on the Swiss Franc in the international market by purchasing foreign currency to ease the Franc international money market.

SNB did realize that it was necessary to regulate the supply of money in the market thus it issued Insurance of SNB Bills. These bills were first auctioned on October 2008 and its sole purpose was to reabsorb large amounts of liquidity incase the money market is over supplied. This is a type of contraction monetary policy that would shift the LM curve to the left and slow the economy down. (SNB, 2009)

At the monetary policy assessment of 11 March 2010, SNB decided to continue its expansionary monetary policies. Also SNB continues to aim for a

LIBOR of 0. 25%. It has also stated that it would prevent any excessive appreciation of the Swiss Franc against the Euro. Although Switzerland has realized signs of economic recovery, along with the rest of the world, in its domestic and foreign market it is still uncertain of future development thus want to continue taking protective measures to ensure that economy prepared for any external shocks. (SNB, 2010)

Fiscal Policies

To cope with recession the government of Switzerland had to step in to boost the economy with expansionary fiscal policies. These usually include changing taxation and government spending. As Switzerland's tax rates are already very low in comparison to its neighboring EU nation, government spending was used to stimulate the economy. The parliament of Switzerland approved of 3 different stimulus packages of $1. 26 b, $615 mil and $322. 4 mil respectively.

The first package was approved on November 12 2008 to stimulate the economy as it was still uncertain as thou how long would the crisis last. The sum of $1. 26 b was announced to be invested in various things including defense, police, justice, economics ministry, protection against natural disasters, infrastructure, energy and various construction and renovation projects. This sum was voluntarily paid by 650 companies into a fund that gave them tax benefits. (swissinfo, 2008)

The second stimulus package was approved on March 11 2009 and was approved unanimously by the senate. It was destined to be invested in the transport sector, energy, environment research and tourism. Although the fund was approved, it was criticized of being not enough to have any sustainable impact on the Swiss economy. It was then realized that the package ($615 mil) was nothing more than a " symbolic gesture" with some physiological effect. (swissinfo, 2009)

The third stimulus package was approved on September 24 2008. This package focused on help those who were unemployed for a long period and young people without jobs. The parliament approved of the $322. 4 mil due to the persuasion of Economics Minister Doris Leuthard. " This is the most serious crisis in 30 years, unemployment has never been so high and you don't won't to do anything?" was her question to the parliament while she pleeded for the approval of the package. (swissinfo, 2009)

Conclusion

Although economic activity in Switzerland is beginning to recover, it is still dealing with the repercussions of the turmoil in the global financial sector and the world-wide economic slowdown. A contraction in output will be recorded in 2009 and we anticipate only sub-par growth in 2010. Economic policies will remain consensus-driven, though the current composition of the coalition government suggests a slower, more challenging policymaking path. The financial sector will remain focused on rebuilding in the aftermath of massive write-downs stemming from the US led global financial crisis and it must now cope with some easing in secrecy provisions that have been so beneficial to Swiss banking. The heavy reliance on this sector as a key economic driver leaves the nation's recovery highly dependent on the normalization of global credit conditions.

The slow process of regulatory harmonization with the European Union (EU) will continue, but membership is improbable over the medium term.

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