Analysis of the economy of switzerland economics essay

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

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.

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.

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)

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)

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.