Review of economic developments

1 International developments

1.1 Development of the real economy

Recovery in East Asia gives a lift to the world economy

Following two years shaken by crises in East Asia, Russia and Latin America and by turbulence on the financial markets, the world economic situation brightened in 1999. The emerging market countries of East Asia recovered faster than expected from the previous year's economic downturn. Japan, too, emerged from its recession in the first half of the year. By contrast, many countries in Eastern Europe continued to be adversely affected by the international financial crisis and Russia's continuing economic difficulties. The economic climate in Latin America started to improve after the financial crisis in Brazil had been averted. With economic growth accelerating overall, the volume of world trade picked up appreciably in the course of 1999.

Faster economic growth in OECD countries

The passing of the East Asia crisis had a beneficial effect on the industrialised countries. Exports rose in most countries after a noticeable flattening in the previous year, while capital investment increased significantly. In the OECD countries, real gross domestic product (GDP) rose by an average of 2.8% in 1999 compared with 2.4% in 1998. The upturn was assisted by the recovery in Japan as well as by the brisk business climate in the US.

US economy still booming

In the United States, the economy continued to prosper in 1999. Real GDP rose by more than 4% for the third year running. Buoyed by rising share prices, private consumption grew particularly sharply. An investment boom in the IT sector and an upturn in exports during the year also added to the momentum. By contrast, higher interest rates impacted on the level of building activity.

Recession in Japan comes to an end

In 1999, the Japanese economy registered growth of just under 1% whereas in the previous year it had contracted by 2.6%. Initially, the growth was due mainly to large-scale government stimulus packages aimed at boosting persistently weak demand. In the course of the year, exports and private consumption also picked up. As a result, subdued sentiment in industry gave way to guarded optimism. Far-reaching restructuring measures implemented in a variety of sectors also had a positive impact.

Upswing in Europe

Europe's economic recovery made further progress in 1999. Exports were particularly buoyant, due not least to the considerably weaker euro. The general improvement in the business climate also stimulated domestic demand. In most European countries, capital spending registered a stronger increase and the construction industry emerged from a prolonged period of stagnation. Private consumption remained one of the main driving forces behind the upswing. Owing to slow growth in the first half of the year, real GDP in the EU countries grew less rapidly in 1999 than in the previous year (average of 2.1%, down from 2.7%). While above-average rates of growth were recorded by France, Spain and various smaller countries, the upturn in Germany and Italy was only gradual.

More people employed

Developments on the labour market reflected the considerably uneven business trends in the various OECD countries. Employment rose sharply again in the US, whereas in Japan – due partly to the restructuring process – further jobs were lost. Several European countries – notably Spain, Ireland and the Netherlands – witnessed remarkable growth in the number of persons employed. Demand for labour also grew in France but was muted in Germany and Italy.

EU unemployment still high

In 1999, unemployment in the US declined to 4.2%, the lowest rate since 1970. In the EU, it dropped to an average of 9.2%. Although the trend was pointing downwards, unemployment rates were still above the EU average in Spain, Italy, Greece, France and Belgium. Starkly contrasting unemployment rates within certain countries reflect continuing structural problems: in southern Italy, for example, jobless numbers were roughly four times the North Italian level, and in eastern Germany they were twice as high as in the former Federal Republic.

Slight rise in inflation

Consumer price inflation rose slightly in 1999. In December, the OECD average was 3.6%, i.e. 0.3 percentage points higher than a year previously. The higher inflation figures were due mainly to the sharp rise in oil prices. Factoring out energy and food costs, inflation came to 1.5% and was thus slightly lower than in 1998. In contrast to most other industrial countries, the UK witnessed a decline in inflation in the past year. Inflation in Germany and France was remarkably low (around 0.5%), while in Japan consumer prices were stable.

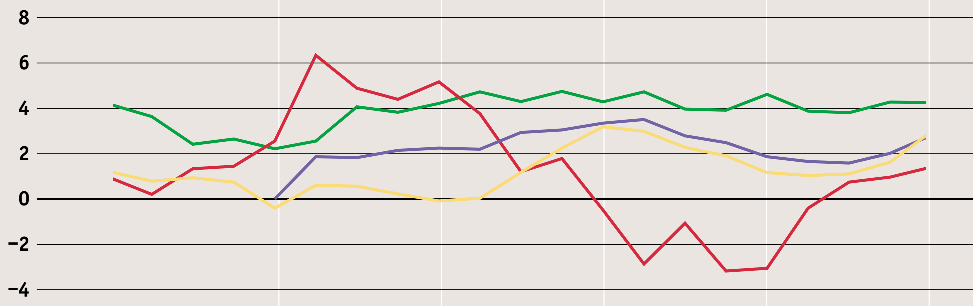
Divergent current account balances

The US current account deficit widened significantly owing to strong import growth, increasing to almost 4% of GDP in 1999. By contrast, Japan's current account surplus narrowed owing to the increasing consumption of foreign goods. The EU's current account was virtually balanced, though with considerable differences between the various countries: France's surplus contrasted with a large UK deficit.

Real gross domestic product

United States
Japan
OECD Europe
Switzerland

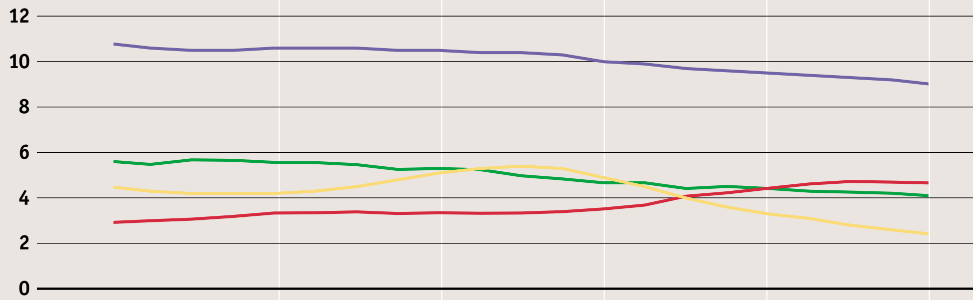
Change in percent
from previous year.
Source: OECD



Unemployment

United States
Japan
OECD Europe
Switzerland

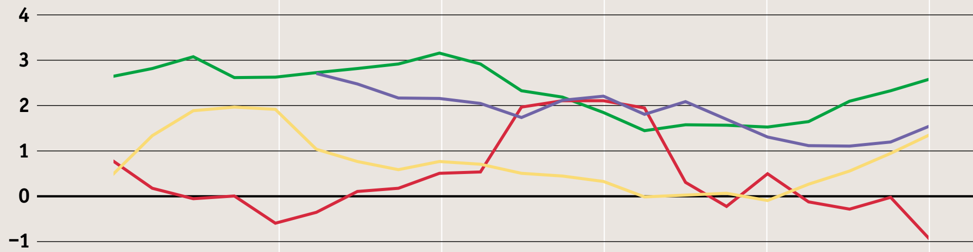
Seasonally-adjusted; in percent.
Source: OECD



Inflation

United States
Japan
OECD Europe
Switzerland

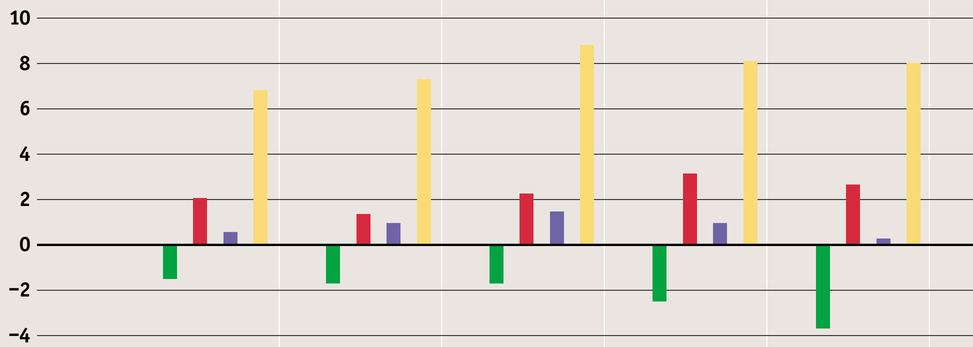
In percent.
Source: OECD



Current account balance

United States
Japan
European Union
Switzerland

Net balance in percent
of gross domestic product.
Source: OECD



Summary economic development

	1995	1996	1997	1998	1999
Real GDP Change from previous year in percent					
United States	2.7	3.7	4.5	4.3	4.1
Japan	1.4	5.2	1.6	−2.6	0.7
European Union	2.4	1.6	2.5	2.7	2.1
Germany	1.8	0.8	1.6	2.0	1.4
France	1.8	1.2	2.0	3.4	2.4
United Kingdom	2.8	2.6	3.5	2.0	1.7
Italy	2.9	0.9	1.5	1.3	1.0
Switzerland	0.5	0.3	1.7	2.1	1.7
Unemployment in percent					
United States	5.6	5.4	4.9	4.5	4.2
Japan	3.2	3.4	3.4	4.1	4.7
European Union	10.8	10.9	10.8	10.1	9.4
Germany	9.5	10.4	11.5	11.0	10.5
France	11.6	12.3	12.5	11.8	11.2
United Kingdom	8.0	7.3	5.5	4.7	4.3
Italy	11.7	11.7	11.8	11.9	11.4
Switzerland	4.2	4.7	5.2	3.9	2.7
Consumer price inflation in percent					
United States	2.8	2.9	2.3	1.6	2.2
Japan	−0.1	0.1	1.7	0.6	−0.1
European Union	3.0	2.4	2.0	1.7	1.2
Germany	1.7	1.4	1.9	1.0	0.6
France	1.8	2.1	1.3	0.7	0.6
United Kingdom	3.4	2.5	3.1	3.4	3.0
Italy	5.4	3.9	1.8	1.7	1.6
Switzerland	1.8	0.8	0.5	0.0	0.8
Current account balance in percent of GDP					
United States	−1.5	−1.7	−1.7	−2.5	−3.7
Japan	2.1	1.4	2.3	3.2	2.7
European Union	0.6	1.0	1.5	1.0	0.3
Germany	−0.8	−0.2	−0.1	−0.2	0.0
France	0.7	1.3	2.7	2.8	2.4
United Kingdom	−0.5	−0.1	0.8	0.0	−1.5
Italy	2.3	3.3	2.9	1.7	0.6
Switzerland	6.9	7.4	8.9	8.2	8.1

Some 1999 figures are estimates.
Source: OECD

East Asia overcomes its crisis

Most countries in East Asia – especially South Korea but also Thailand, Malaysia and the Philippines – in the course of 1999 shook off the effects of the financial crisis which had erupted in mid-1997 and which had ended a prolonged upswing. Driven by expansive fiscal policies, domestic demand began to recover. Meanwhile, sharp currency depreciation improved these countries' international competitiveness. Structural reform and financial assistance from the International Monetary Fund (IMF) also played a major role. The situation in Indonesia improved only marginally: this country still had serious political problems to contend with. In China, which was not directly affected by the financial crisis, economic growth declined owing to mounting structural problems – notably a backlog of restructuring measures at unprofitable state-owned enterprises.

Growth in Eastern Europe slows

Eastern Europe experienced a slowdown in economic growth in 1999. This was mainly because fiscal policies had been tightened in the previous year to counter the threat of a currency crisis. While the slowdown was modest in Hungary, Poland and Slovenia, growth fell off sharply in Slovakia and Bulgaria. The crisis which had been affecting Romania for three years not only continued but, as in Bulgaria, was compounded by the Kosovo war. The Czech economy began to recover from the recession into which it had slid the previous year. As many Eastern European countries had tightened the monetary reins in the preceding years, inflation declined. Anti-inflationary measures proved particularly successful in Bulgaria, whose currency was rigorously pegged to the D-mark in 1997. This pegging did, however, result in a sharp appreciation of the local currency and a corresponding widening of the current account deficit.

Stabilisation in Russia

The economic situation in Russia stabilised in 1999. The depreciation of the rouble came to a halt in the spring, and inflation ceased climbing – though by this time it was already over 100%. Dearer imports made home-produced goods more competitive, leading to a slight increase in industrial output. In July, the IMF approved a stand-by credit for Russia after the country had satisfied a number of conditions relating to reforms in the banking and fiscal areas. Only the first instalment of this credit (which is to be used solely for servicing existing debts due to the IMF) has been paid.

Mixed economic trends in Latin America

The Latin American countries, which had been badly hit by the international financial crisis and falling raw material prices, exhibited mixed economic trends. The Mexican economy benefited from the US boom, and conditions in Chile also improved. By contrast, Brazil was plunged into a currency crisis at the beginning of 1999 and had to cease pegging the real to the dollar. Thanks to the rapid implementation of a stabilisation programme and large-scale international financial assistance, inflation was brought under control and a recovery ushered in. The sharp devaluation of the Brazilian currency helped to push Argentina (whose biggest trading partner is Brazil) into a recession, though here too an improvement was taking shape towards the end of the year.

1.2 Monetary policy

Tightening of reins in the second half-year

In the first six months of the year, the central banks of the US and Europe continued the easy monetary policies they had instituted in autumn 1998 when the international financial crisis had threatened to plunge the world into recession. They tightened the reins again mid-year as the economic climate improved and the danger of inflation increased.

Rise in key US rates

Between June and November, the US Federal Reserve raised its target rate for overnight funds in three steps from 4.75% to 5.5%. By mid-November, the rate was back to where it had been when the international financial crisis broke out in the fall of 1998.

UK policies eased but then tightened up again

The Bank of England cut its base lending rate four times between January and June, lowering the rate from 6.25% to 5%, as the economy had cooled significantly and inflation was declining. Domestic demand surged again later in the year, prompting the bank to raise its key rate by a total of half a point to 5.5% between September and November.

Start of the third stage of EMU

On 1 January 1999, the third stage of European Economic and Monetary Union came into effect in eleven of the fifteen EU countries. The bilateral exchange rates of the eleven participating countries having been fixed in May 1998, the euro was introduced as a currency in its own right. At the same time, control over monetary policy in the euro area passed from the participating countries' central banks to the European Central Bank (ECB).

European Central Bank lowers and then raises key rate

In the first three months of the year, the ECB left its key rate for refinancing transactions (repo rate) unchanged at 3%, i.e. the level to which the euro area's central banks had lowered their rates in a concerted action in December 1998. At the beginning of April, with the economy sluggish and inflation low, the ECB cut its benchmark rate by half a percentage point to 2.5%. An upswing in Europe and fears of a resurgence in inflation prompted the ECB, at the beginning of November 1999, to reverse this cut, bringing its key rate back up to 3%.

Further easing of Japan's monetary stance

In 1999, the Japanese central bank continued its easy monetary policy aimed at bolstering the economy and countering deflationary tendencies. In February it lowered its call money rate from 0.25% to 0.15%, subsequently allowing it to drop almost to 0%.

1.3 Fiscal policy

Public finances improve

The fiscal position improved in many industrial countries in 1999 and public debt as a percentage of GDP declined. The improvement was due both to the more buoyant economy and to the restrictive fiscal policies still being pursued in many countries.

Surpluses in the US and the UK

Owing to the continuing economic boom, the US recorded another large budget surplus in fiscal 1998–99: the figure of $ 123 billion is equivalent to 1.4% of GDP (down from 1.7% in the prior period). The surplus for 1999–2000 is expected to be similarly large in terms of GDP. The United Kingdom also recorded a budget surplus. According to estimates, at 1% of GDP, it topped the previous year's level. Revenues are expected to exceed expenditures again in 2000.

Lower budget deficits in euro area

Government finances in the euro area also improved. The aggregate deficit declined from 2% to 1.2% of GDP. Whereas the deficit in Germany (1.5%) was only slightly lower than in 1998, it decreased in France and Italy by almost one percentage point each to less than 2%. In 2000 the aggregate budget deficit of the euro countries should decline further. A number of countries took steps to further reduce their budget deficits, notably by cutting back government spending. On the revenue side, the shift from direct to indirect taxation continued.

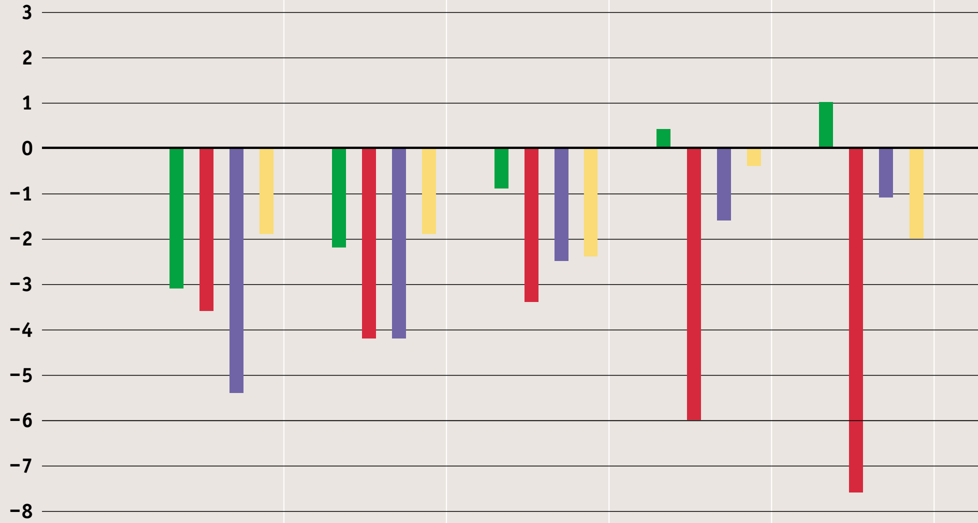
Worsening of government finances in Japan

Japan is the only large industrial country whose public finances deteriorated in 1999. Owing to the government's fiscal stimulus packages and lower revenues in fiscal 1999–2000, the deficit – equivalent to an estimated 10% of GDP – was much higher than in the previous reporting period. Public-sector debt as a percentage of GDP rose by about 8 percentage points to 105%.

Public-sector financial balances

United States
Japan
European Union
Switzerland

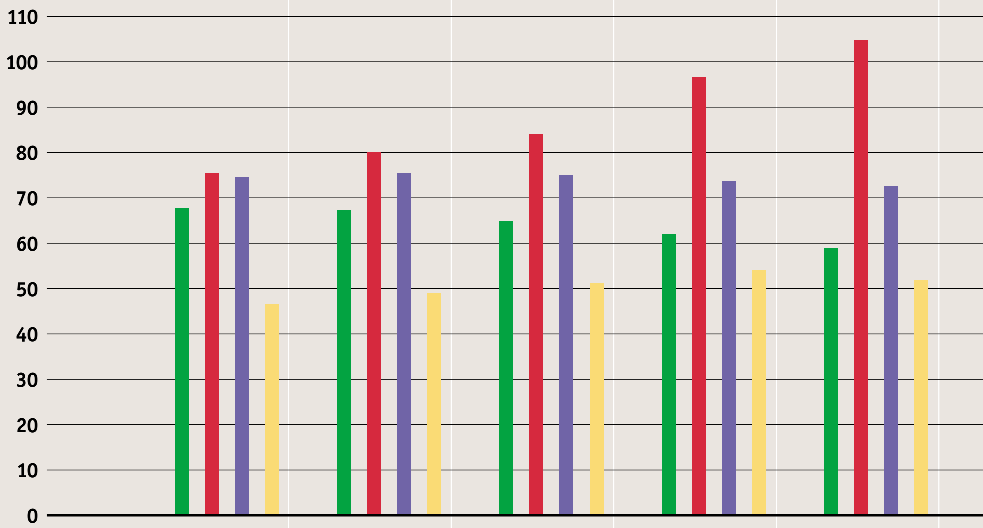
Public-sector financial balances (all levels of government including social insurance) in percent of GDP.
1999: budget forecasts.
Source: OECD



Government indebtedness

United States
Japan
European Union
Switzerland

Aggregate public-sector debt (all levels of government including social insurance) in percent of GDP.
1999: budget forecasts.
Source: OECD



1.4 Foreign exchange markets

Strengthening of the dollar …

Owing to robust economic growth in the US, the dollar appreciated against most other currencies in the first half of 1999. Although it softened initially in the second half of the year, it moved up again sharply in the final quarter. Over the year as a whole, it gained 14.7% against the euro and 16.8% against the Swiss franc. In real, trade-weighted terms, the dollar's exchange rate in December was 3.9% higher than a year previously.

… and the yen

The yen also rose sharply, especially in the second half of 1999. Over the year as a whole, it gained almost 10% against the dollar and about 23% against the euro and the Swiss franc.

Euro weaker

With growth prospects for the euro area looking shaky at the beginning of 1999, the euro lost ground during the first six months of the year. In early January, the euro's exchange rates stood at 1.18 US dollars, 133.3 yen and 0.7 pounds sterling. By June, the euro had fallen to 1.04 dollars. After a brief uptick, it dropped to parity against the dollar by the end of December. In relation to sterling, the euro lost 12.6% in the year under review. In real, trade-weighted terms, the euro's value in December was 11.5% lower than in January. The Swiss franc's rate stayed very close to 1.60 francs per euro throughout the year.

1.5 Financial markets

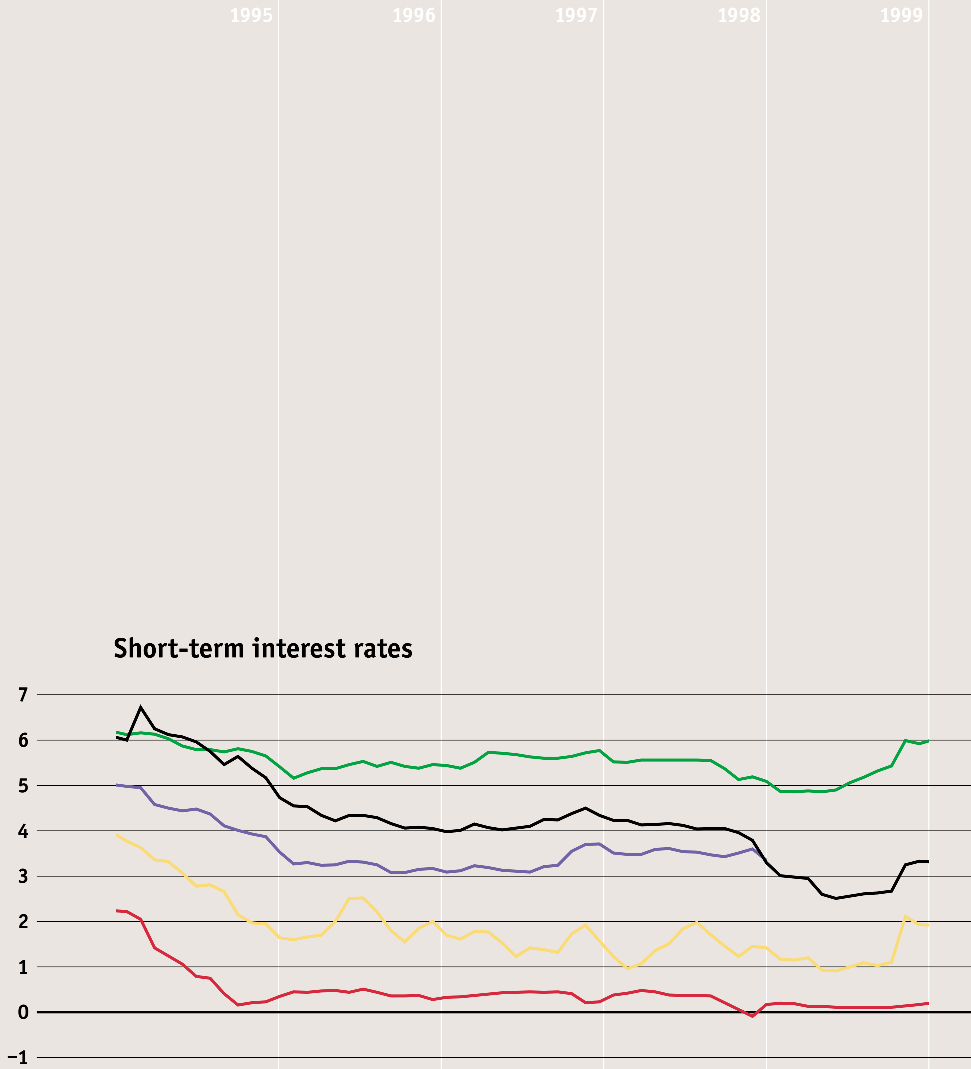
Rise in long-term rates

Interest rates for long-term bonds began to rise in the industrial countries at the end of 1998 after having declined over the preceding four years. This reflected the cyclical upturn in demand for capital as well as growing fears of inflation. As most countries tightened up their monetary policies, the situation on the capital markets became calmer and long-term interest rates stabilised. By the end of 1999, long-term rates in the US had risen by 1.6 percentage points to 6.3% while those in the euro area had gained 1.4 points to an average of 5.3% compared with their position a year earlier. In terms of the yield on long-term government bonds the spread between the highest euro-area yields (i.e. those in Italy) and the lowest (Germany) varied between 0.1 and 0.4 percentage points during the entire year.

Share prices continue to rise

Share prices rose sharply on most stock exchanges in 1999. The advances were particularly pronounced in Scandinavia, but stock markets in all major industrial countries also recorded sizeable gains. The reasons for the rally were different from one region to another: whereas the Japanese index rose on expectations of an economic upswing, the US gains were due mainly to huge rises in telecommunications and computer shares. The economic upswing helped to drive European share prices upwards, particularly in the second half of the year – by December, these markets had reached an annual high.

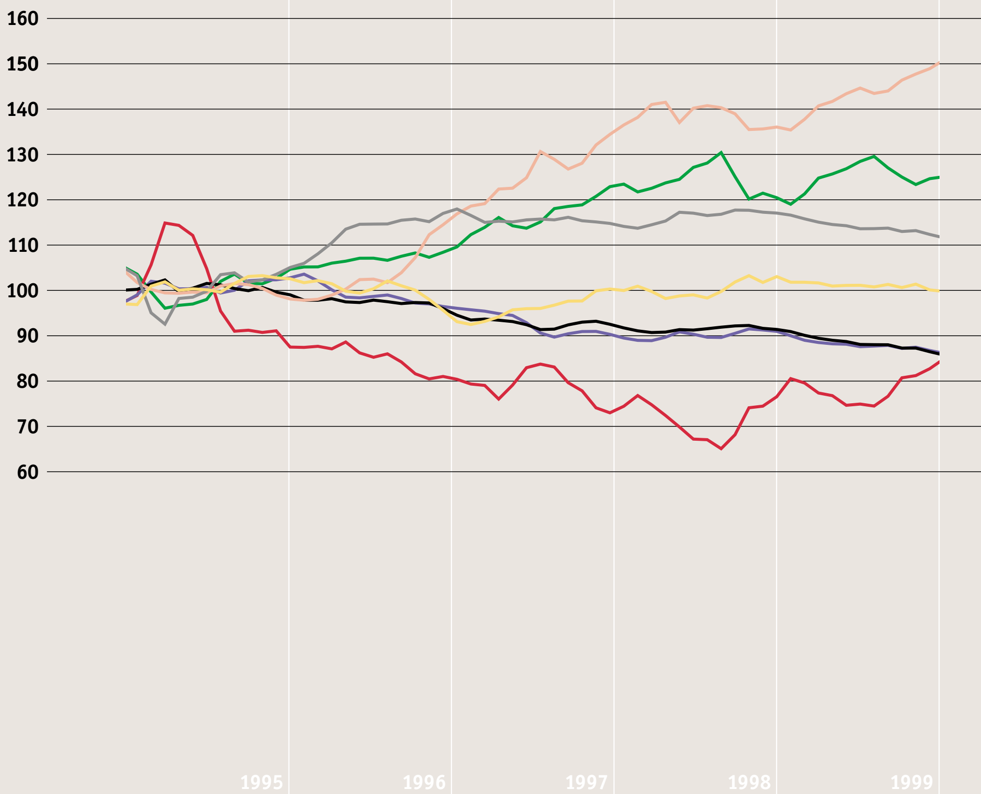
Short-term interest rates



Dollar
Yen
D-mark
Euro
Swiss franc

Three-month Euromarket rates. Source: BIS

Real exchange rates



Dollar
Yen
D-mark
French franc
Pound sterling
Lira
Swiss franc

Trade-weighted real exchange rates; index: 1995 = 100. Source: IMF

Borrowers flock to the financial markets

Net borrowing on the international financial markets rose by more than a third in 1999 to $ 1086 billion. The larger part of this total ($1017 billion) is accounted for by medium- and long-term bonds; the proportion of money market instruments was relatively small again ($ 69 billion). Year-on-year, medium- and long-term bonds were up by 52% and money market instruments by 600%. The euro gained market share from the other issuing currencies: it accounted for 39% of debt issues in 1999 compared with 28% in 1998, while the percentage of issues denominated in dollars and pounds declined from 49% to 43% and from 9% to 7% respectively. The market shares of the yen and the Swiss franc (7% and 2% respectively) were roughly the same as in the previous year.

Bank profits rising in the US and in Europe

After a difficult 1998, the commercial banks posted large earnings gains in 1999. In the US, strong economic growth boosted the profitability of banking transactions while in Europe the German and French banks in particular benefited from higher turnover on the international financial markets. The process of concentration in the banking sector continued: in France, Italy and Spain, large banks merged to form the biggest institutions in each country.

Liberalisation of US banking law

In November 1999, the US Congress approved legislation deregulating the banking sector (Financial Modernization Act). In particular, it dispensed with the regulations which had previously required an almost complete separation of banks, securities houses and insurance. This deregulation means that "one-stop-shop" financial institutions and universal banks will now also be permitted in the US.

Restructuring process in Japan yields first fruits

The restructuring of the Japanese banking sector began to yield results in 1999. Some of the large Japanese banks moved back into the profit zone. By providing public funds, the state assisted the restructuring process. Five regional banks were declared insolvent and put under public management. Several big banks merged or set up joint holding companies, while one bankrupt lending institution was sold to foreign investors.

Recapitalisation in East Asia

In East Asia, the banks' financial results were impacted by a large number of nonperforming loans. This resulted in a large number of mergers and various countries began injecting capital into insolvent banks. Hong Kong and Singapore deregulated their financial markets, increasingly opening them up to foreign competition in order to enhance their international standing as centres of finance.

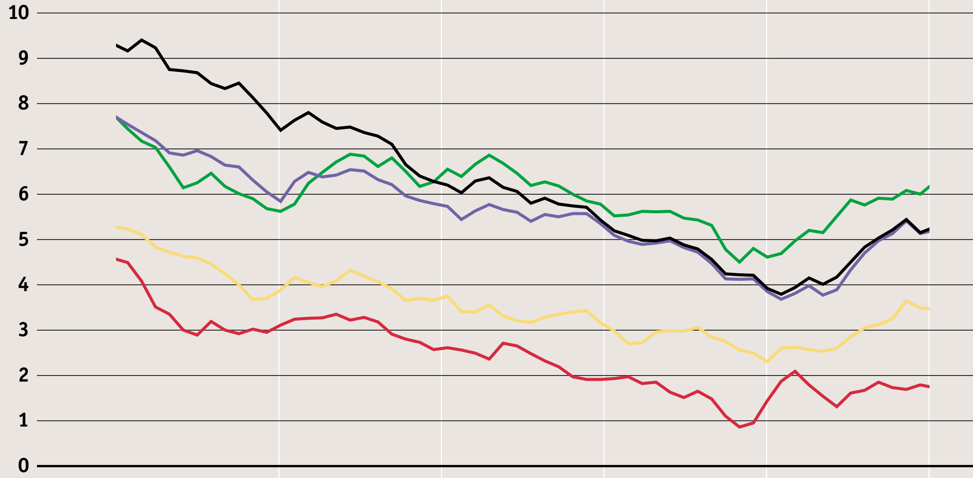
Problems in Russia, restructuring in Eastern Europe

The banking sector in Russia still had to contend with serious problems. The Russian central bank withdrew the operating license of 16 institutions that were unable to meet their obligations. In Eastern Europe, the restructuring process in the banking sector continued. In the Czech Republic and Poland, the financial sector was partially privatised.

United States
Japan
Germany
Euro area
Switzerland

Yield on long-term government bonds, percent per annum.
Source: BIS

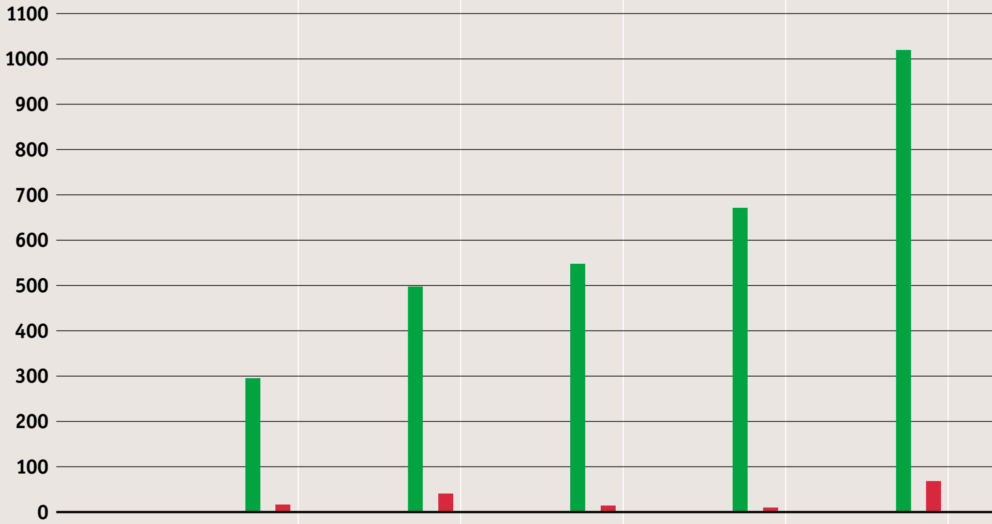
Long-term interest rates



Bonds and medium-term paper
Money market paper

Billions of dollars.
Source: BIS

Net borrowing in the international financial markets



1995 1996 1997 1998 1999

2 Switzerland

2.1 Development of the real economy

Economy gains momentum

After the Asia crisis had resulted in a marked slowdown in the second half of 1998, the Swiss economy picked up momentum again in 1999. Exports were the main driving force. For the first time in four years, the construction sector also contributed to economic growth. Whereas the expansion of capital investment slowed, private consumption remained – as in the previous year – an important engine of growth. Government spending stagnated as efforts to consolidate public finances continued. Owing to slow growth in the first half of the year, real GDP grew less rapidly in 1999 than in the previous year (1.7%, down from 2.1%).

Upturn in industry

In the industrial sector, business picked up perceptibly as the year went on. The upturn was due mainly to a gradual rise in order intake and orders in hand. The turnaround was particularly marked in the strongly export-oriented sectors. Industrial output, which had decreased at the beginning of the year, rose again in the subsequent quarters. Since companies were anxious to scale back excessive inventories, however, the rise in output was modest. At year-end, technical capacity utilisation was 81.6%, as against 84.7% a year previously.

Strong growth in consumer spending

The rise in consumer spending was the same as in 1998, i.e. 2.2%. Although growth in real incomes was lower, the general mood among consumers was brighter. In January 2000, the consumer sentiment index reached its highest level for ten years. The improvement was due mainly to a more optimistic assessment of the economic situation and to growing confidence with regard to job security. As in the previous year, demand for consumer durables grew especially quickly. Domestic tourism also expanded at a healthy pace. Since the number of foreign guests declined, however, the sector's overall result was down on the previous year.

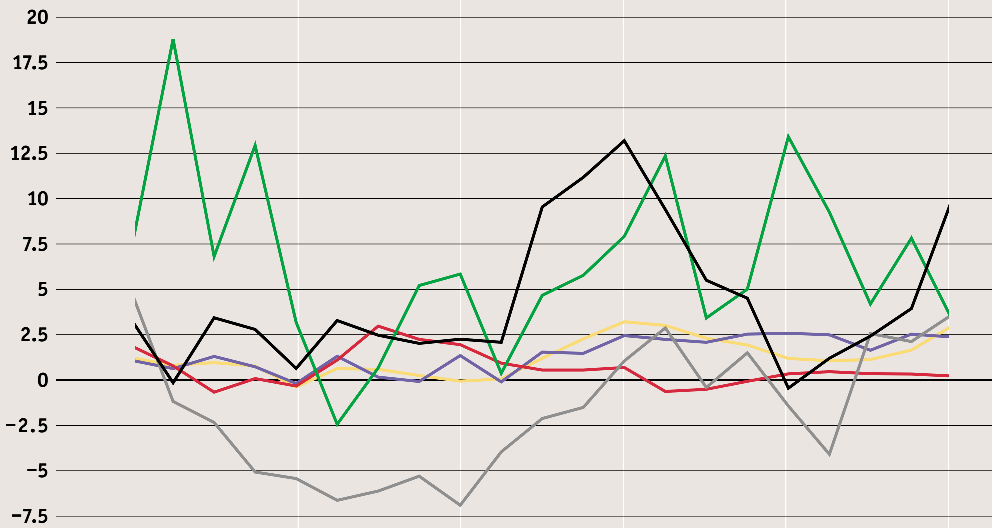
Building investment recovers

After hitting a low in 1998, the Swiss construction industry began to stage a gradual recovery in 1999. Investment in construction rose by 1.5% year-on-year. Demand was boosted in particular by large public civil engineering projects in the transport field (Rail 2000, motorway network) and by the awarding of the first contracts for the new trans-Alpine rail routes (NEAT). The main focus of private construction activity was residential construction, which benefited from the improved earnings situation of many households, low mortgage rates and the dwindling number of vacant properties. Commercial and industrial building investment also recovered, though from a low base. With government finances strained, however, demand for public-sector structural engineering works remained sluggish.

Growth in capital spending slows

Investments in plant and equipment grew less quickly in 1999 than in the previous year (down from 8.6% to 5.9%). While investment by industry was muted, demand in the service sector remained buoyant. Computer purchases showed particularly strong growth, with the impending year 2000 rollover spurring demand.

Gross domestic product and components



Real GDP
Private consumption expenditure
Government consumption expenditure
Building investment
Plant and equipment investment
Exports

Change from previous year
in percent.
Source: seco

Exports pick up

Goods exports picked up during the year in real terms after being stalled by the Asia crisis in 1998. At 4.4%, average growth over the year was almost the same as in 1998. Growth in exports to Asian emerging market economies was particularly dynamic, though shipments to the US (which had tailed off in the previous year) also rose sharply. By contrast, demand from EU countries was slow, due not least to the no more than leisurely upturn in Germany and Italy. Broken down by segment, the biggest rises were witnessed initially by raw materials, semi-manufactures and consumer goods. In the second half-year, demand for investment goods also picked up. Export prices rose slightly after having fallen in the previous year.

Imports rising at a slower pace

At 5.3%, merchandise imports grew more slowly in real terms than in the previous year (9.4%). Imports of investment goods again recorded above-average gains (even factoring out the delivery of three wide-bodied jets, which inflated the import figures). While imports of industrial machinery were moderate, computer shipments to Switzerland grew by double-digit margins. Imports of consumer goods rose at roughly the same rate as in the previous year. Growth of raw materials and semi-manufacture imports was much less marked than in 1998. Import prices declined again year-on-year. In the course of 1999, however, the sharp rise in oil prices put an end to the price slide observable since end-1997.

Slower growth in employment

Owing to the cyclical downturn in the second half of 1998, employment did not rise as sharply in 1999 as in the previous year. Averaged over the year, the increase came to 1.1%, compared with 1.4% in 1998. The number of jobs in industry stagnated overall. As a result of ongoing restructuring, however, several sectors trimmed their workforce while others created jobs. In the service sector, employment rose by 1.4%. Demand for labour was particularly marked in the IT area, the real estate sector, and in the insurance industry. After having declined by roughly 10% since the beginning of the 1990s, the banks' workforce stabilised. Thanks to the economic upturn, the number of people employed in the construction sector rose again and exceeded the year-earlier level by 0.6%.

Unemployment recedes

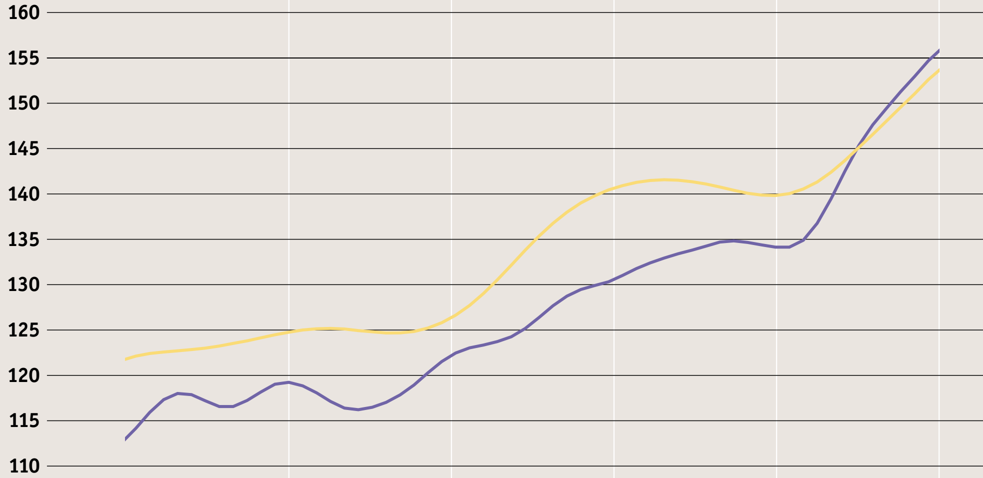
With the labour market recovering, unemployment continued to recede in 1999. In contrast to the two preceding years, the number of job-seekers dropped faster than the jobless numbers. In addition to unemployed persons, job-seekers include people who are looking for casual jobs, are participating in a work creation scheme or are training or retraining. In December 1999, there were 149,400 job-seekers compared with 197,200 a year previously. In the same period, the number of people registered as unemployed fell from 116,600 to 85,400 (in seasonally-adjusted terms). The unemployment rate declined from 3.2% to 2.4%. Meanwhile, the number of job-seekers as a percentage of the total workforce declined from 5.4% to 4.1% year-on-year.

Imports

Exports

Volume, adjusted for seasonal
and exceptional factors.
Index: 1988 = 100.
Source: General Directorate
of Customs

Foreign trade



Consumer prices

Consumer prices for domestic goods

Consumer prices for imported goods

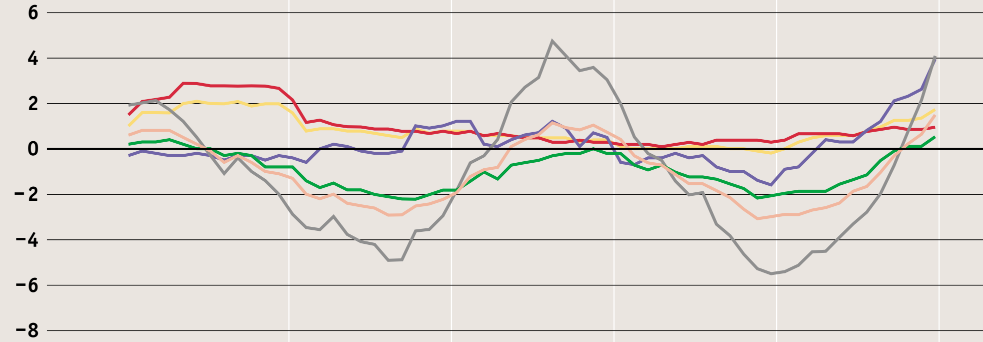
Producer and import prices

Producer prices

Import prices

Index: May 1993 = 100,
percent change from
previous year.
Source: Federal Statistics Office

Price developments



Nominal

Real

Wage and salary earnings
of employed persons,
percent change from previous
year (1999: estimate).
Source: Federal Statistics Office

Wages and salaries

Many unemployed persons stop receiving benefits

In 1998 and 1999 approximately 50,000 and 40,000 people respectively reached the end of the period of eligibility for drawing unemployment benefits. There are two reasons why so many people ceased to receive unemployment benefits. First, there is a time-lag of about two years following the peaking of the unemployment trend (which took place in mid-1997). Second, with greater use being made of the government's training, retraining and work creation programmes, some unemployed people were able to extend the period during which they received benefits. Experience shows that, two months after ceasing to receive unemployment benefits, only about half the unemployed continue to sign on at regional employment offices while a further 15% have found a new job. The remaining 35% or so do not re-register even though they are still jobless. As a result, the decline in the number of people who are unemployed or looking for a job is overstated.

Regional differences less pronounced

The unemployment rate declined more markedly in Ticino than in German- or French-speaking Switzerland. Over the year, unemployment averaged 4.4% in Ticino, 4.0% in French-speaking Switzerland and 2.2% in German-speaking Switzerland. Foreign nationals continued to make up an above-average percentage of the unemployed (48%).

Employment figures rising

According to the results of the "SAKE" Swiss labour force survey, which is conducted once a year (in the second quarter), the growth in employment slowed down more markedly than the employment statistics would suggest. In the second quarter of 1999, the workforce grew by 0.8% year-on-year, compared with a 1.8% rise a year previously. The number of persons in full-time employment declined by 0.5% after having risen by 1.4% the year before. At 3.8%, however, the rise in part-time employment was slightly more pronounced than in 1998. The percentage of part-time workers in the overall workforce rose to 29.4%. Although the proportion of men working part-time increased slightly, women still account for 82% of the part-time workforce. While in the past ten years the percentage of the potential labour force in gainful employment declined from 91.1% to 89.6% for men, the equivalent figure for women rose from 70.6% to 74.5%. For men, this percentage was still higher in Switzerland than in the EU countries. The figure for women exceeded the EU average but was lower than in the Scandinavian countries.

Employment and unemployment

	1995	1996	1997	1998	1999
Full-time employment[1] change in percent	−0.5	−1.0	−1.8	0.8	0.4
Full- and part-time employment[1] change in percent	0.1	−0.3	−1.6	1.4	1.1
Persons in employment[2] change in percent	1.5	0.5	−0.4	1.8	0.8
Unemployment rate in percent	4.2	4.7	5.2	3.9	2.7
Number of unemployed thousands	153.3	168.6	188.3	139.7	98.6
Number on short working hours thousands	9.9	13.1	6.6	3.1	2.9
"Manpower job offer index"[3] change in percent	19.7	−19.9	2.4	36.0	26.4

1 according to employment statistics

2 according to SAKE

3 space occupied by job advertisements in Swiss newspapers.

Sources: Federal Statistics Office, State Secretariat for Economics (seco), Manpower Index

Inflation, as measured by the national consumer price index, was 0.8% in 1999 compared with 0.5% and 0.0% in the two preceding years. According to Federal Statistics Office estimates, about 0.3 percentage points of the annual inflation figure resulted from the increase in value added tax (VAT) from 6.5% to 7.5% which took effect in January. The cost of services rose by 0.9%, compared with 0.3% in the previous year. Prices of goods increased by 0.7% year-on-year, as against a 0.3% decline in 1998. This was due not only to the higher VAT rate but to sharp rises in oil prices.

Moderate rise in consumer prices

Prices of goods produced in Switzerland rose by 0.7%, as against 0.3% in the previous year. Prices of foreign goods and services declined at the beginning of the year but increased significantly in the second half: by the end of the year, they were 1.0% higher on average than a year previously.

Bigger price rises for imported goods

At 1.4%, the fall in the total supply index was slightly less pronounced than in the previous year. Producer prices declined by 1.0% and import prices by 2.2%. The steepest drop – despite the higher oil prices – was in raw materials, followed by semi-manufactures. By contrast, prices of investment goods showed little change while consumer goods prices rose slightly on average.

Total supply index

Switzerland's current account surplus widened by Sfr 9.3 billion to Sfr 43.9 billion in 1999. This equates an expansion to 11.3% of GDP, compared with 9.1% in 1998. In value terms, exports of goods rose more sharply (by 5.9%) than imports, which increased by just 3.6% owing to falling prices. The balance of trade ("special trade" – i.e. merchandise with some exceptions, mainly electricity) exhibited a surplus of Sfr 0.7 billion, following a deficit of Sfr 1.8 billion in the previous year. The surplus from services expanded by Sfr 2.3 billion. While revenues from international transport and bank commissions continued rising, earnings from tourism declined slightly. The surplus from employee compensation and investment income widened by Sfr 5 billion. This expansion was accounted for by considerably higher net earnings on portfolio investment and direct investment. In the case of direct investment, interest and dividends from abroad mounted while payments of interest and dividends to other countries diminished markedly. At Sfr 5.4 billion, the deficit from current transfers equalled the previous year's figure.

Higher current account surplus

Current external transactions account

balances in billions of Swiss francs

	1995	1996	1997 revised	1998 provisional	1999 estimated
Goods trade	1.0	1.1	−0.5	−2.2	−0.2
of which special trade	1.8	1.9	0.3	−1.8	0.7
Services	15.2	15.4	18.9	19.0	21.3
of which personal travel	2.4	1.6	1.4	1.0	0.6
Employee compensation and investment income	13.9	15.6	24.0	23.2	28.2
of which investment income	20.8	22.4	30.6	29.7	34.8
Current transfers	−5.0	−4.9	−4.9	−5.4	−5.4
Total current account	25.2	27.2	37.6	34.6	43.9

2.2 Fiscal policy

Federal deficit persists

The Federal Government posted a deficit of Sfr 2.7 billion or 0.7% of GDP for 1999 after a small surplus had been recorded in the previous year owing to a number of extraordinary factors. The deficit was thus Sfr 1.2 billion below budget. On the revenue side, it was especially the income from direct federal tax that exceeded the budgeted amount. Income from customs duties, mineral oil and tobacco taxes, repayments of loans as well as dividend payments from Swisscom were also higher than budgeted. Together, revenues yielded Sfr 0.6 billion more than forecast. On the expenditures side, the credit lines earmarked for transport and defence were not fully utilised. Furthermore, credit interest was lower than planned. Overall, expenditures were Sfr 0.6 billion lower than the figure in the 1999 budget. For 2000, a deficit of Sfr 1.7 billion or 0.4% of GDP is budgeted. While expenditures are rising at a slower rate than the rate of economic expansion (2.3%), the Federal Government expects a 7.7% increase in revenue.

Finances difficult to assess at the cantonal level …

As in previous years, it was difficult to obtain an overview of trends in cantonal finances, as the definitive data only become available after a considerable time-lag and generally differ substantially from the interim figures. The latest data available indicate that the cantons posted an aggregate deficit of Sfr 1.5 billion in 1999, Sfr 0.3 billion less than in the previous year. At the cantonal level, too, tax revenues are likely to have risen faster than budgeted owing to the economic upswing. On the expenditures side, staff costs, investment spending and interest payments are all set to be lower than budgeted.

… and at the communal level

Figures available to date indicate that the communes' aggregate deficit will be nearly twice that of the previous year (Sfr 0.5 billion). The finances of most communes are sound, though the major cities are again running large deficits.

Declining debt ratio

The debt ratio (i. e. total debts of the Confederation, cantons and communes, excluding social insurance, expressed as a percentage of GDP) fell by 2.4 percentage points to 52% in 1999. This is the first decline recorded since the nineties. Just over half the debts were attributable to the Federal Government, 30% to the cantons and just under 20% to the communes.

Implementation of stabilisation programme

In 1998, after the statutory period for instituting a referendum had expired, the Federal Council implemented the stabilisation programme that had been negotiated by representatives of the cantons, the coalition partners, industry and employee associations. The legislation, which is designed to lighten the Federal budget by about Sfr 2 billion on a permanent basis, is an important instrument for achieving the 2001 budget target which had been incorporated in the Federal Constitution in 1998. With its deficit of Sfr 2.7 billion, the Federal Government was well within its 1999 target, which had set the maximum deficit at Sfr 5 billion.

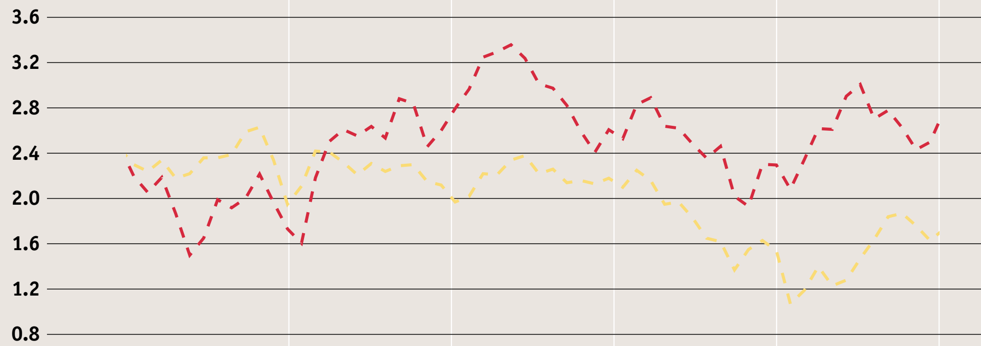
White paper on fiscal policy

The Federal Council drafted a white paper on future fiscal policy aimed at ensuring the long-term health of the Federal Government's finances and fulfilling the constitutional requirement of a balanced budget. The white paper sets out the objectives, principles and instruments for a sustainable fiscal policy. By keeping taxes at a moderate level, balancing the budget and reducing debts, this solid fiscal policy is intended to promote economic growth and enhance Switzerland's appeal as a location for business.

Spreads for long-term interest rates

Germany – Switzerland
United States – Switzerland

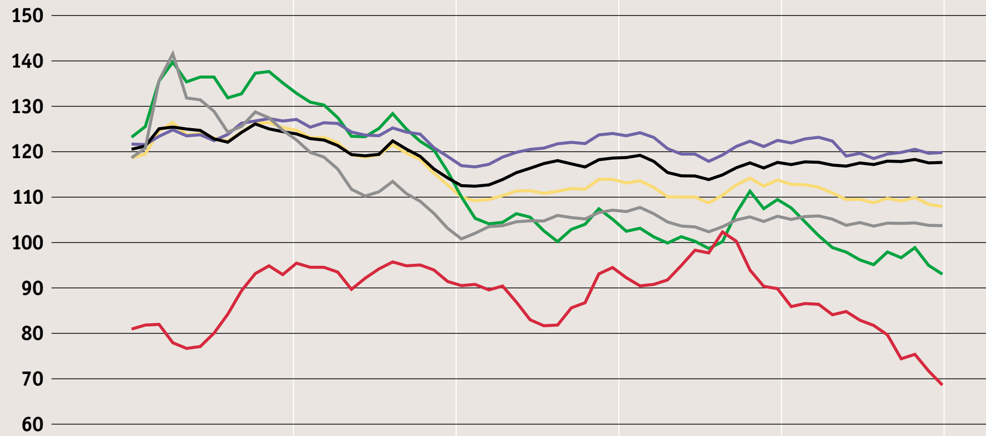
Spread in percentage points.
Source: BIS



Swiss franc real exchange rates

Total (15 countries)
Dollar
D-mark
Yen
French franc
Lira

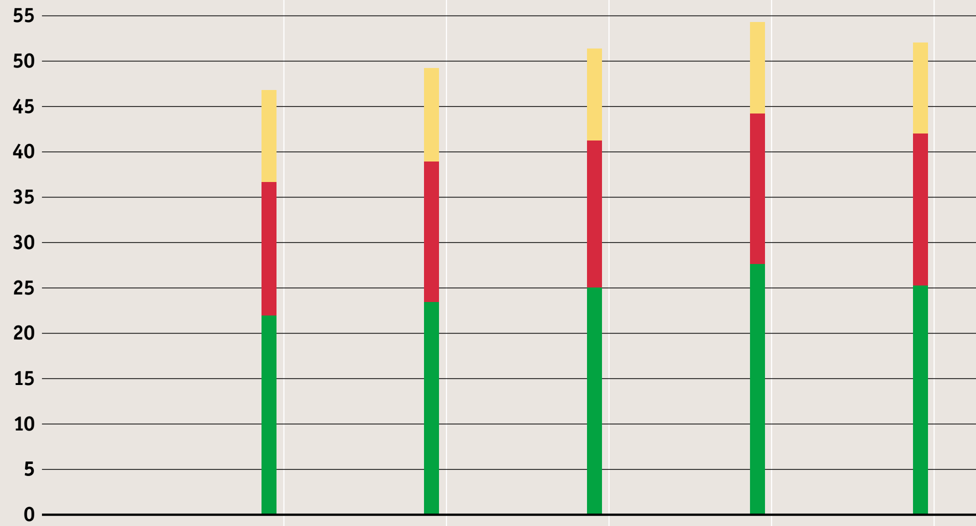
Consumer-price deflated real value of the Swiss franc in foreign currencies.
Total: export-weighted.
Index: November 1977 = 100



Public-sector indebtedness

Communes
Cantons
Confederation

In percent of GDP (1999: estimate).
Source: Federal Finance Administration



Plans to overhaul the fiscal equalisation system

The Federal Government has submitted a new draft law on fiscal equalisation to the consultation process. This is intended to replace an existing interregional financial adjustment system dating back to 1959. The principal aims of the new law are to strengthen federal structures and reorganise the various spheres of responsibility within the Confederation.

2.3 Financial markets

Slight rise in interest rates

The downtrend in interest rates that had persisted since 1995 came to an end in 1999. Rates stabilised at a low level in the first half and then started rising. The average yield on Confederation bonds climbed from 2.6% in May to 3.6% in October. It edged down again before the end of the year closing 1.1 percentage points higher (at 3.5%) in December than 12 months earlier. The rise in short-term interest rates was less pronounced. In April, the yield on three-month money market debt register claims issued by the Confederation dropped to a low of 0.8%. It then leapt to 2.0% at the beginning of the fourth quarter; in December it amounted to 1.9%.

Capital market borrowing lower

Borrowing on the Swiss capital market was considerably lower in 1999 than in the previous year. Net borrowing (i.e. new issues less redemptions) amounted to Sfr 34.8 billion as against Sfr 47.3 billion in the previous year. While domestic borrowing declined from Sfr 22.0 billion in 1998 to Sfr 12.0 billion, capital market borrowing by foreign issuers decreased from Sfr 25.3 billion to Sfr 22.7 billion. Just under one-fifth of domestic borrowing was effected through the equity market and over four-fifths through the bond market.

Comparatively modest rise in share prices

In 1999, Switzerland's SPI share index rose less steeply than the majority of indices abroad. At the close of the year it was 11.7% higher than a year previously. The SPI hardly changed in the first three quarters of the year. However, it took off in the fourth quarter and reached a high of 5,023 points by end-December. While the subindices for small and medium-sized companies soared during the year, large corporations recorded modest price gains on the whole. The index for service-sector shares posted faster growth than the industrials index, though the performance of individual sectors varied widely. Particularly strong rises were recorded by electrical and mechanical engineering stocks as well as by construction companies, retailers and banks. Chemical companies posted only modest gains, and food-sector and insurance shares actually declined.

Selected bank interest rates

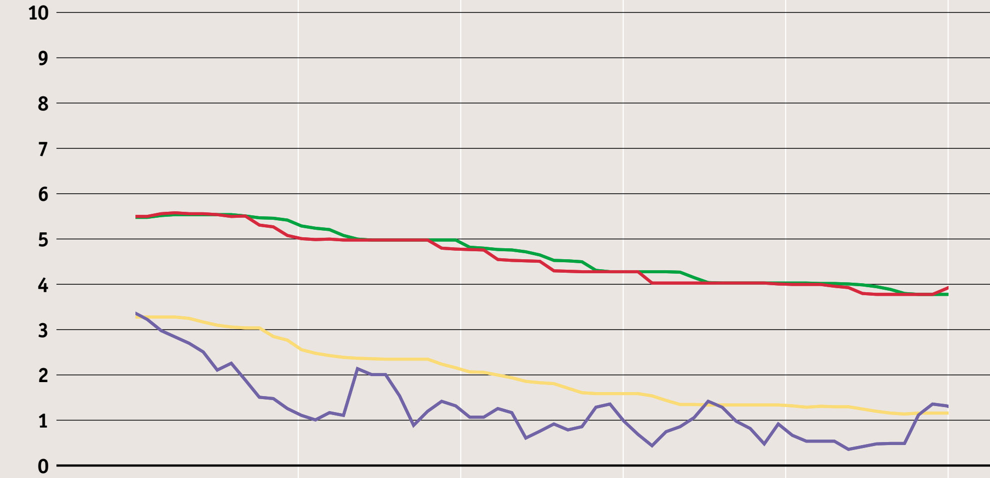
Existing mortgages
at cantonal banks

New mortgages
at cantonal banks

Savings deposits
at cantonal banks

Three-month time deposits
at big banks

Quarterly averages,
percent per annum.



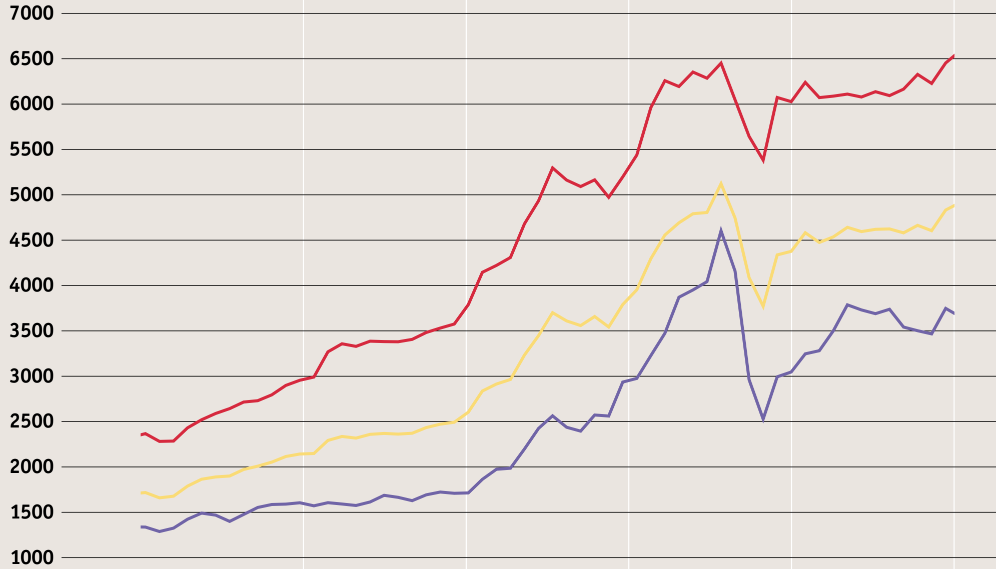
Share prices

Total

Banks

Industry

Swiss Performance Index.
Source: Swiss Stock Exchange



Growth in lending

As the economy recovered, the banks' domestic lending business revived. Non mortgage-secured loans – an area in which the big banks were particularly active – posted above-average growth. The other banking groups were active mainly in the mortgage business, which also exhibited substantial growth. Classic savings instruments – i.e. customer deposits in the form of savings accounts and other similar instruments, plus medium-term notes – declined once again. This further accentuated the disparity between lending business and the accrual of the longer-term savings traditionally used for financing loans. Banks with a high proportion of mortgages in their balance sheets therefore had to resort increasingly to the interbank and capital markets for funding.

Banks' results improve

The banks' annual results were influenced positively by operating profits – especially from their retail banking business around the world. Owing to the economic upswing, the total volume of nonperforming loans decreased.

Cantonal banks redefined

On 1 October 1999, the revised banking law came into force. Since then, a state guarantee has no longer been a necessary characteristic of a cantonal bank. It is now sufficient for the canton to hold more than one-third of the bank's equity and voting rights. All cantonal banks are subject to supervision by the Federal Banking Commission (FBC). Cantonal banks that have a 100% state guarantee continue to benefit from lower equity requirements. This may have the effect of distorting competition.