Review of economic developments

1 International developments

1.1 Development of the real economy

Global economy in good shape

The global economy grew strongly in 2000 with inflation remaining low compared with previous boom phases. The US economy provided particularly strong impetus and growth also picked up in European industrialised countries. By contrast, the Japanese economy is lifting itself out of stagnation only gradually. Outside the OECD, the overall economic situation improved significantly and many countries made progress in overcoming structural problems. As a result of the strong growth, the volume of world trade rose considerably.

Broad-based economic growth in OECD countries

Real gross domestic product (GDP) in OECD countries rose by over 4% in 2000, compared with 3% in the previous year. Real growth was well above the long-term average of 2.6%. All demand components, but especially exports of goods and services, contributed to the increase in GDP. Exports rose by almost 12% in real terms in 2000, following growth of 4% in 1999. Capital spending in the corporate sector also gained momentum owing to the favourable economic climate. Consumer spending rose by just under 4%, slightly more than in the previous year and more vigorously in the United States than in Europe and Japan.

Sustained upswing in the United States

There was a further appreciable rise in real GDP in the United States of 5% in 2000, compared with growth rates of over 4% in the three preceding years. The main economic stimulus came from consumer spending but there was also a significant upturn in capital spending in the corporate sector. Exports benefited from the upswing in many Asian countries. The US economy lost momentum in the second half of the year, however, with a tighter monetary policy acting as the main brake. Other factors that dampened economic growth were the drop in share prices and increases in the price of oil.

Strong growth in western Europe …

The western European industrialised countries posted considerably higher growth in 2000 than in preceding years. On average, real GDP in the EU rose by 3.4%, compared with 2.4% in the previous year. While Germany, France, the UK and Italy each reported growth of around 3%, real GDP increased by more than 4% in Spain. Economic growth was also above average in many smaller countries.

… primarily as a result of exports

Growth was mainly export-driven. Rising demand from other parts of the world lifted European exports by about 11% in real terms in 2000, compared with 4% in the previous year. A further decline in the euro exchange rate against the dollar boosted export growth. By contrast, in most countries domestic demand did not expand quite as fast as in the previous year, partly as a result of tighter monetary policy. In addition, a sharp rise in the price of oil products in the second half of the year held back demand in many countries.

Slow recovery in Japan

In Japan, the economic situation improved only slowly over the year. While exports rose strongly by around 14%, domestic demand remained weak. Investment was slightly above the previous year's level but consumer spending continued to suffer from high unemployment. Another adverse factor was the reduction in state measures to stimulate the economy, which had boosted demand considerably in previous years. Real GDP rose by approximately 1%, compared with 0.2% in the previous year.

Higher employment

As a result of the favourable economic conditions, most OECD countries reported a rise in employment. However, the increase was low in the United States because the economy had reached virtually full employment in the previous year. By contrast, there was a perceptible rise in demand for labour in many European countries, especially Germany and France. In Japan, employment declined further as a consequence of continued restructuring in many sectors.

Unemployment declining

The unemployment rate dropped slightly to 4.0% in the United States and declined by nearly one percentage point to 8.2% in the EU. However, this figure masks considerable regional differences: the highest unemployment rates were registered in Spain (over 14%), Greece and Italy (about 11% each). Unemployment was lowest in Luxembourg and the Netherlands (below 3%). The unemployment rate dropped below 10% in Germany and France for the first time in many years. Unemployment in Japan remained unchanged at 4.7%.

Increase in oil prices

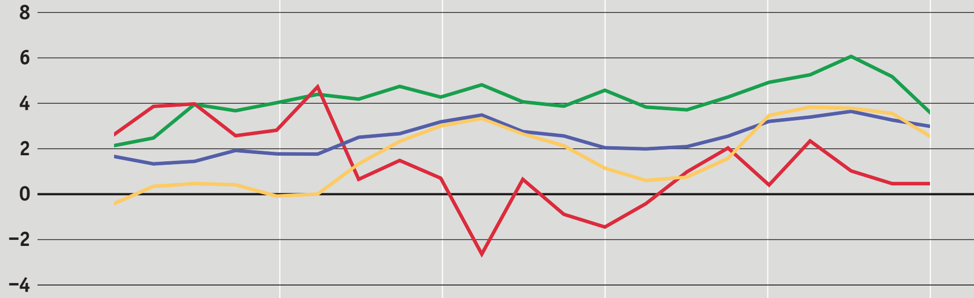
The rise in oil prices, which had started in early 1999, continued into the fourth quarter of 2000. Prices dropped back substantially in December, however. The average world market price per barrel of crude oil was 30 dollars in the fourth quarter, compared with 11 dollars two years before. Such levels were last recorded in the second half of 1990. The rise in the price of oil products led to a perceptible rise in the cost of living in industrialised countries.

1996 1997 1998 1999 2000

Real gross domestic product

United States
Japan
OECD Europe
Switzerland

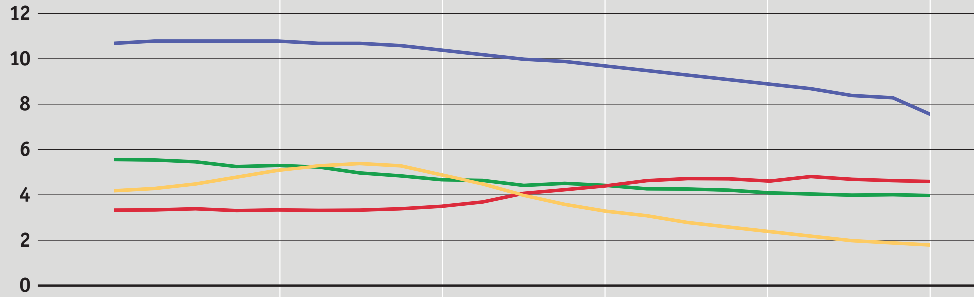
Change in percent
from previous year.
Source: OECD



Unemployment

United States
Japan
OECD Europe
Switzerland

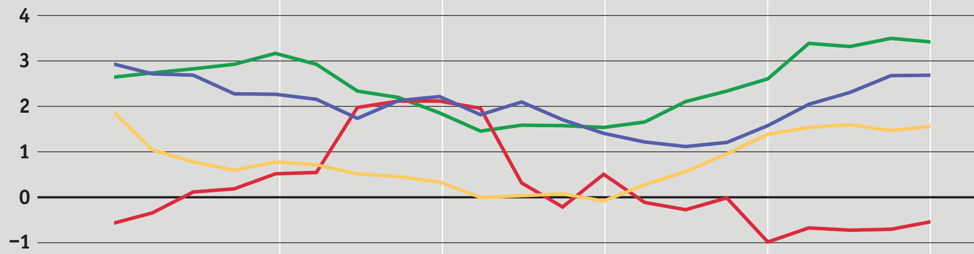
Seasonally-adjusted; in percent.
Source: OECD



Inflation

United States
Japan
OECD Europe
Switzerland

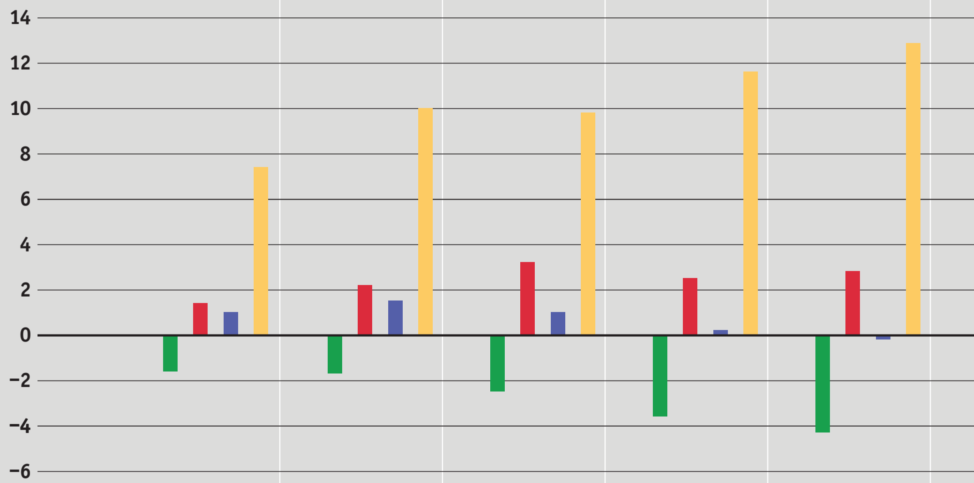
In percent.
Source: OECD



Current account balance

United States
Japan
European Union
Switzerland

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



1996 1997 1998 1999 2000

Summary of economic developments

	1996	1997	1998	1999	2000
Real GDP Change from previous year in percent					
United States	3.6	4.4	4.4	4.2	5.0
Japan	5.1	1.6	−2.5	0.2	1.0
European Union	1.7	2.5	2.7	2.4	3.4
Germany	0.8	1.4	2.1	1.6	3.0
France	1.1	1.9	3.2	2.9	3.3
United Kingdom	2.6	3.5	2.6	2.2	3.0
Italy	1.1	1.8	1.5	1.4	2.8
Switzerland	0.3	1.7	2.3	1.5	3.4
Unemployment in percent					
United States	5.4	4.9	4.5	4.2	4.0
Japan	3.4	3.4	4.1	4.7	4.7
European Union	10.7	10.4	9.8	9.1	8.2
Germany	10.4	11.5	11.0	10.5	9.5
France	12.3	12.4	11.8	11.1	9.7
United Kingdom	7.9	6.5	5.9	6.0	5.5
Italy	11.7	11.8	11.9	11.5	10.8
Switzerland	4.7	5.2	3.9	2.7	2.0
Consumer price inflation in percent					
United States	2.9	2.3	1.6	2.2	3.4
Japan	0.1	1.7	0.7	−0.4	−0.7
European Union	2.4	2.0	1.7	1.2	2.4
Germany	1.2	1.5	0.6	0.6	2.1
France	2.1	1.3	0.7	0.6	1.8
United Kingdom	2.5	3.1	3.4	1.6	2.9
Italy	3.9	1.8	1.7	1.6	2.5
Switzerland	0.8	0.5	0.0	0.8	1.6
Current account balance as percentage of GDP					
United States	−1.6	−1.7	−2.5	−3.6	−4.3
Japan	1.4	2.2	3.2	2.5	2.8
European Union	1.0	1.5	1.0	0.2	−0.2
Germany	−0.3	−0.1	−0.2	−0.9	−0.9
France	1.3	2.7	2.6	2.6	2.3
United Kingdom	−0.1	0.8	−0.0	−1.2	−1.5
Italy	3.2	2.8	1.8	0.6	−0.9
Switzerland	7.4	10.0	9.8	11.6	12.7

Some of the 2000 figures are estimates.
Source: OECD

Higher inflation

Average consumer price inflation in OECD countries rose to 2.5% in 2000, compared with 1.4% in the previous year. Excluding food and energy prices, inflation amounted to 1.9%. The rise in inflation varied from one country to another: in the United States the figure was 3.4% in December, compared with 2.7% the previous year. Alongside oil prices, this increase was caused by an appreciable rise in wage costs. In the euro area, the harmonised consumer price index showed a rise in inflation from 1.8% in December 1999 to 2.8% in September 2000, before it dropped back to 2.6% in December 2000. Inflation was even higher in the UK: 2.9% in December, compared with 1.8% a year earlier. In Japan, the consumer price index declined by 0.7%. In the previous year it had dropped by 0.4%.

Further divergence in current account balances

The US current account deficit increased substantially again in 2000, rising to around $ 430 billion as a result of strong growth in imports. This figure is approximately one-third higher than in the previous year. The deficit totalled 4.3% of GDP, compared with 3.6% the year before. Overall, the EU countries also reported higher current account deficits or declining surpluses. For the EU as a whole, this resulted in a small deficit, compared with a slight surplus in the previous year. By contrast, the current account surplus in Japan rose by 0.3 percentage points to 2.8% of GDP.

Sustained recovery in East Asia

Economic conditions improved in many East Asian countries, especially South Korea, Thailand and Malaysia, in 2000. In addition to sustained strong demand for exports, consumer spending picked up during the year. In June and August respectively, Thailand and South Korea terminated the economic restructuring programmes agreed with the International Monetary Fund (IMF) in the wake of the Asian crisis. South Korea and Malaysia made particularly good headway with reforms in the banking and corporate sectors. Indonesia and the Philippines were still dominated by problems: as a result of inadequate structural reforms and the difficult political situation, the upswing failed to establish itself in either country. The continued rise in oil prices also held back development in East Asia.

Faster growth in central and eastern Europe

Economic growth gained momentum in central and eastern Europe in 2000. For the first time, all transition economies in this region reported a rise in real GDP. This was essentially attributable to higher demand from EU countries. Slovenia, Hungary and Poland, where the transition process is most advanced, posted the highest growth rates. In Hungary and Poland there were mounting signs that the economy was overheating and the central banks raised key interest rates to counter this. While the Hungarian central bank's scope to alter monetary policy was restricted by the fact that the currency is pegged to the euro, the Polish central bank tightened its monetary policy, having floated the exchange rate of its currency in April. The Bulgarian and Slovak economies also grew rapidly, but both countries continued to suffer from very high unemployment. In the Czech Republic, GDP increased in 2000 after three years of recession; however the necessary restructuring of the banking and corporate sectors hampered growth. The economic situation has brightened in Romania, but the country has still made very little headway in the fight against inflation.

Improvement in Russia

The Russian economy picked up after several years in crisis, primarily as a result of the rise in global market prices of oil and natural gas: Russia is a significant exporter of both commodities. Real GDP rose strongly and the inflation rate dropped over the year. The Russian government put forward a proposal for a balanced budget for the first time since the start of the reform process. By contrast, little progress was made with the reform of the banking sector and the tax system.

Further problems in Turkey

The economic problems in Turkey increased during the year, even though the country had agreed on a stability programme with the IMF at the end of 1999. Although inflation dropped, the decline was well short of the target set in the programme. The Turkish central bank endeavoured to counter difficulties in the banking sector in November by injecting liquidity. This resulted in a massive outflow of capital. Additional financial assistance from the IMF and the announcement of further stabilisation measures temporarily brought a degree of calm.

Higher growth momentum in Latin America – crisis in Argentina

In Latin America, economic growth picked up in 2000. Benefiting from strong demand from the United States and rising oil prices, the Mexican economy grew particularly fast. Chile and Brazil, which, in 1999, had still been suffering the after-effects of the previous crises, recovered quickly. By contrast, demand continued to stagnate in Argentina and there was a renewed rise in unemployment. Political uncertainty in this country rose towards the end of the year. Dwindling confidence on the part of investors made it increasingly difficult for Argentina to meet its high borrowing requirements. To support the economy, in December the IMF, the World Bank, the Inter-American Development Bank, Spain and private-sector banks announced an extensive financial aid package for Argentina.

1.2 Monetary policy

Further tightening of monetary policy

Central banks in the OECD countries tightened monetary policy further in 2000 in response to strong economic growth and the risk of a sustained rise in inflation. While the Federal Reserve Board in the United States and the Bank of England raised key interest rates for the last time in May and February respectively, the European Central Bank (ECB) continued to tighten its monetary policy in the second half of the year.

Increase in key interest rates in the US and UK

The Federal Reserve raised its key interest rate, the overnight rate, in three steps from 5.5% to 6.5% in the first half of the year, following a rise of 0.75 percentage points to 5.5% between June and November 1999. The Bank of England raised its base rate in two steps from 5.5% to 6% in January and February, following a total rise of half a percentage point in September and November 1999.

Tighter monetary policy in the euro area …

The ECB raised the key rate for its main refinancing operations (repo transactions) in six steps from 3% to 4.75% in 2000. The repo rate had been lifted for the first time in November 1999 by half a percentage point. The ECB justified the tightening of its monetary policy by citing the generous liquidity supply in the economy and the mounting risk of inflation as a result of exchange rate trends. To support the euro, the ECB and other central banks also intervened in the foreign exchange markets in September and November.

… and in Denmark and Norway

The Danish central bank raised its rates almost in parallel with the ECB. At the end of September, when accession to the third stage of European Economic and Monetary Union was rejected in a referendum, monetary policy was relaxed slightly, reflecting the strength of the Danish krone. During the year, the Norwegian central bank tightened its monetary policy, raising its key interest rate by a total of one percentage point to 6.75%.

Interest rates cut in Greece

The Greek central bank lowered interest rates considerably in the course of 2000 to align them with the level in the euro area. At the start of 2001 Greece became the twelfth of the fifteen EU member states to join the third stage of European Economic and Monetary Union and thus to introduce the euro.

Slight rise in interest rates in Japan

The Bank of Japan ended its zero interest-rate policy in August 2000 and raised the overnight rate to 0.25%. It justified this with the improvement in the economic situation and the lower risk of deflation. In February 1999 the Bank of Japan had started to provide liquidity virtually interest-free to support the weak economy.

1.3 Fiscal policy

Improvement in public finances

In most OECD countries, public finances ended 2000 in better shape than the previous year. As a result, public debt declined. This trend was attributable to a rise in tax revenues as a result of the buoyant economic conditions and to more restrained government spending policies.

Budget surpluses in the UK and US

The United States reported a budget surplus of around 2% of GDP in 2000, compared with 1% in 1999. Public debt dropped from 65% to 60% of GDP. In the UK, too, the budget surplus improved considerably, to 3%, which was almost double the previous year's level. Public debt dropped from 57% to 52%.

Declining deficits in the euro area

Overall, budgets in the euro area were balanced at the end of 2000, following the previous year's deficit of 1.3 % of GDP. However, there were substantial discrepancies between the various countries. France and Italy again reported deficits of an estimated 1.4% and 1.5% respectively, although these represented improvements on the previous year. Germany posted a surplus of 1.4%, albeit entirely due to extraordinary income from the auction of licences for mobile telecommunications systems. Many smaller states in the euro area also posted surpluses. Overall, public debt in the euro area dropped from 75% to 73%. Public sector debt was highest in Italy (112%) and Belgium (111%) and lowest in Luxembourg (6%).

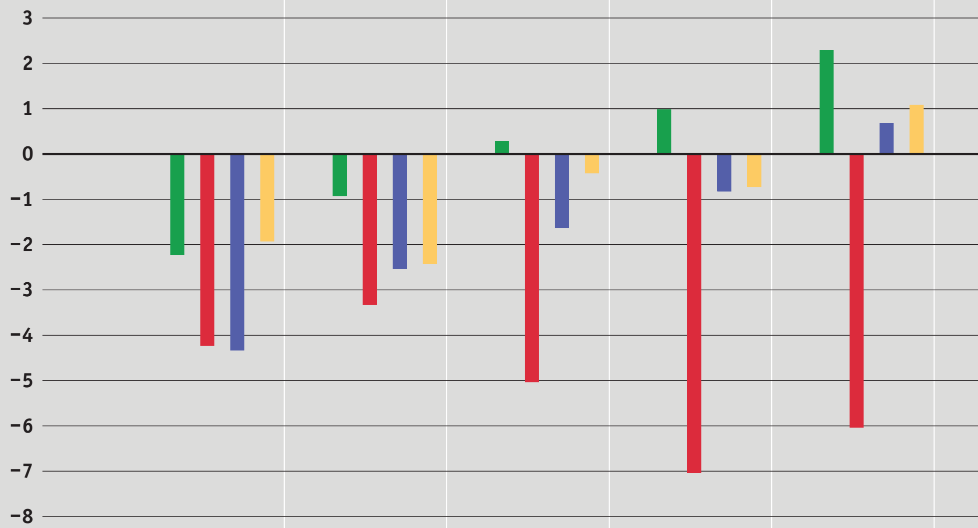
High deficit in Japan

Japan reported a deficit of 6% of GDP in 2000, compared with 7% a year earlier. Public-sector debt rose to 112% of GDP, compared with about 60% in the early nineties. The sharp rise in debt is a consequence of the government's attempts to revive the economy in the nineties through extensive state spending programmes and tax relief.

Public-sector financial balances

United States
Japan
European Union
Switzerland

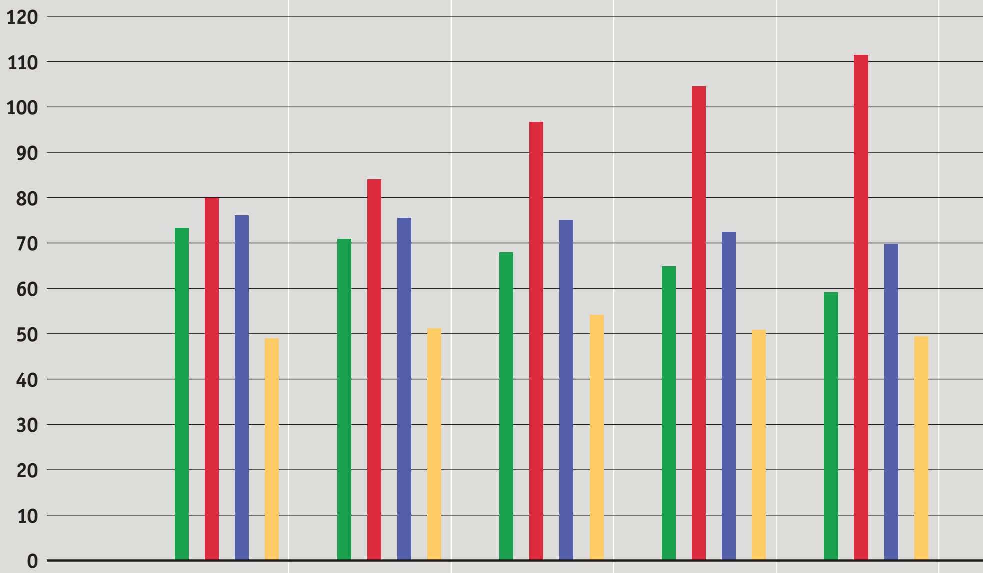
Public-sector financial balances (all levels of government including social insurance) in percent of GDP.
Source: OECD



Government indebtedness

United States
Japan
European Union
Switzerland

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



1.4 Foreign exchange markets

Marked rise in the dollar

Strong economic growth in the United States led to a marked rise in the dollar against all major currencies. A slight weakening mid-year proved merely temporary. In December the dollar dropped appreciably but the monthly average was still up 11.3% year-on-year against the euro and 6.3% against the Swiss franc. In real trade-weighted terms the dollar was 9.1% higher in December 2000 than in December 1999.

Euro remains weak

The euro weakened further in the course of the year although the European economy picked up and the ECB raised interest rates several times. In September and November the ECB intervened on the currency markets to support the euro. As a result, the euro exchange rate had improved slightly to $ 0.90, Sfr 1.51 and £ 0.61 by December. Year-on-year, the euro slipped by 12.8% against the dollar, 5.8% against the Swiss franc and 2.2% against sterling. The real trade-weighted euro exchange rate in December was 4.8% below the previous year's level and 15.9% lower than when the single currency was introduced in January 1999.

Fluctuations in the yen

The yen exchange rate fluctuated considerably over the year. In December it was down 9.6% year-on-year against the dollar, 2.5% lower against the Swiss franc but up 3.1% against the euro. In real trade-weighted terms, the yen was down 5.7% in December compared with the year-back figure.

1.5 Financial markets

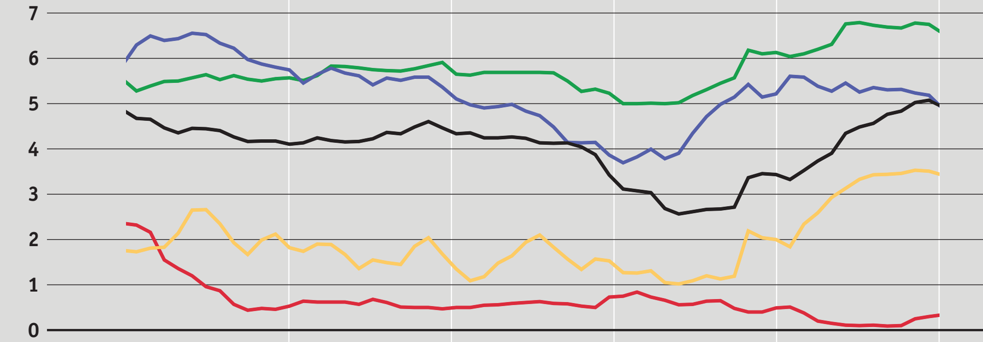
Decline in long-term yields

In industrialised countries, yields on long-term government bonds declined in 2000, following sharp hikes in some countries in the previous year. This decline essentially reflected a reduction in inflation expectations in the wake of of tighter monetary policy. The improvement in budget prospects in some countries also pushed down the yield on long-term government bonds.

Clear decline in US yields

In the United States the yield on ten-year government bonds was 5.2% in December 2000, 1.5 percentage points below the January level. Following the rise in the interest rate for overnight funds to 6.5%, short-term rates exceeded long-term rates in the second half of the year, i.e. the yield curve was inverted. The announcement that the US government would be redeeming some of its debt widened the spread between government and private-sector bonds considerably at the start of the year. Added to this, the spread between private-sector borrowers with good and less good credit ratings widened in the second half of the year because of the anticipated economic slowdown and increased indebtedness of many companies.

Short-term interest rates



Dollar

Yen

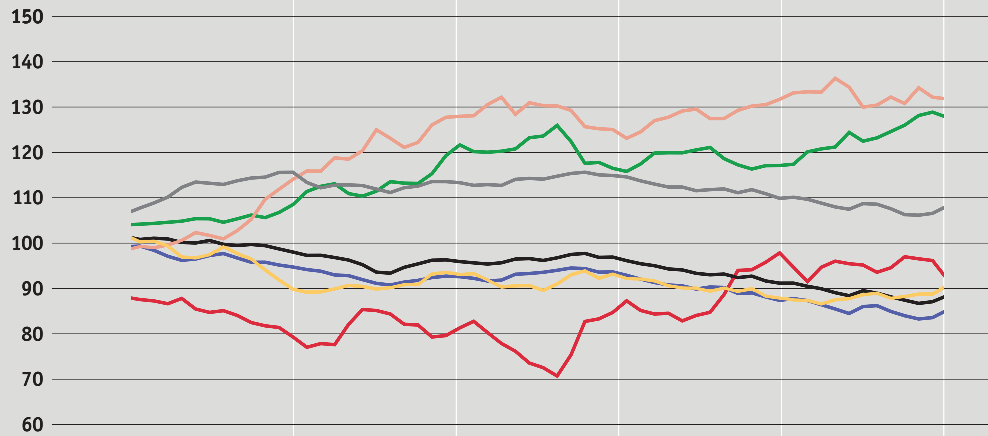
D-mark

Euro

Swiss franc

Three-month
Euromarket rates,
in percent.
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: BIS

Slower decline in European yields

In Europe, the decline in yields on ten-year government bonds was less pronounced than in the United States. In the UK, yields slipped from 5.4% in December 1999 to 4.9% in December 2000 and the yield curve has already been inverted since October 1999. In the euro area, long-term yields – at 5.1% in December 2000 – were down 0.6 percentage points from the January level and thus still remained above short-term rates.

Stable long-term yields in Japan

Yields on ten-year Japanese government bonds stabilised at 1.7% over the year. This was exactly the same as the yield in the previous year.

Drop in share prices

All major stock exchanges except the Swiss Exchange reported a decline in share prices over the year amid significant volatility. US share prices hit a high early in the year, whereas prices on European stock exchanges peaked around mid-year. There was a particularly marked drop in share prices of some telecommunications and computer companies that had surged in the previous year.

Decline in borrowing on the financial markets

Net borrowing on the international financial markets slipped by 6% in 2000, compared with a strong rise in the previous year. Most of the anticipated issues totalling $ 1,138 billion were medium to long-term bonds. Money market instruments again accounted for a low proportion at just $ 122 billion. There was a major shift in issuing currencies: while the proportion of euro-denominated issues dropped from 39% to 34% and the proportion of dollar-denominated issues slipped from 43% to 42%, yen issues rose from 7% to 12%. The market share of the Swiss franc was slightly lower than in the previous years, at 1.4%.

Banks in US and Europe report higher profits

Commercial banks in the United States and Europe reported a renewed rise in profits as a result of the favourable economic trends. The consolidation of the financial services sector continued. In the United States, this was boosted by the revision of the Financial Modernization Act at the end of 1999. In Europe, banks in various EU countries started to cooperate more closely. There were major mergers between banks in Germany and Austria, France and the UK and in Scandinavia.

Continued restructuring of banks in Asia

The restructuring of the Japanese banking sector continued. Despite state support, the capital ratios of many banks remained low. In Hong Kong and Singapore the financial sector succeeded in regaining a sounder footing, but in other countries in East Asia, the high proportion of nonperforming loans could not be scaled back adequately.

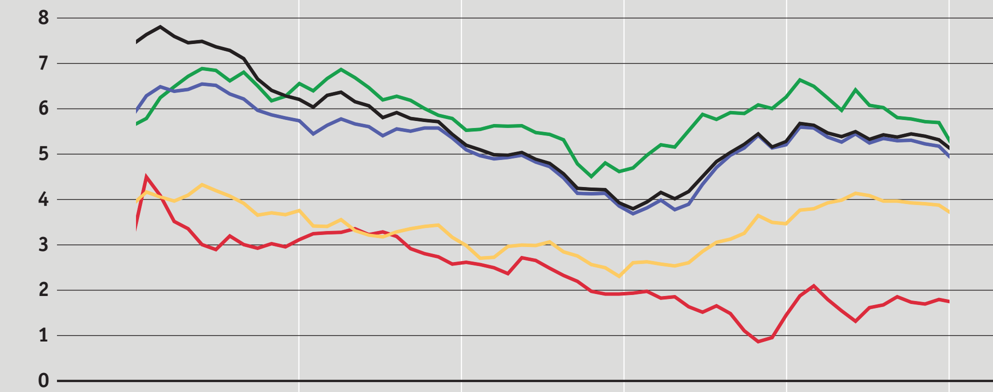
Increased cooperation between European stock exchanges

European stock exchanges endeavoured to step up cooperation in the course of 2000. While the stock exchanges in Amsterdam, Brussels and Paris merged to form Euronext in September, the merger of the Frankfurt and London stock exchanges failed. In conjunction with the British trading platform Tradepoint, Swiss Exchange SWX set up a new exchange, Virt-x, which specialises in European blue chips.

United States
Japan
Germany
Euro area
Switzerland

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

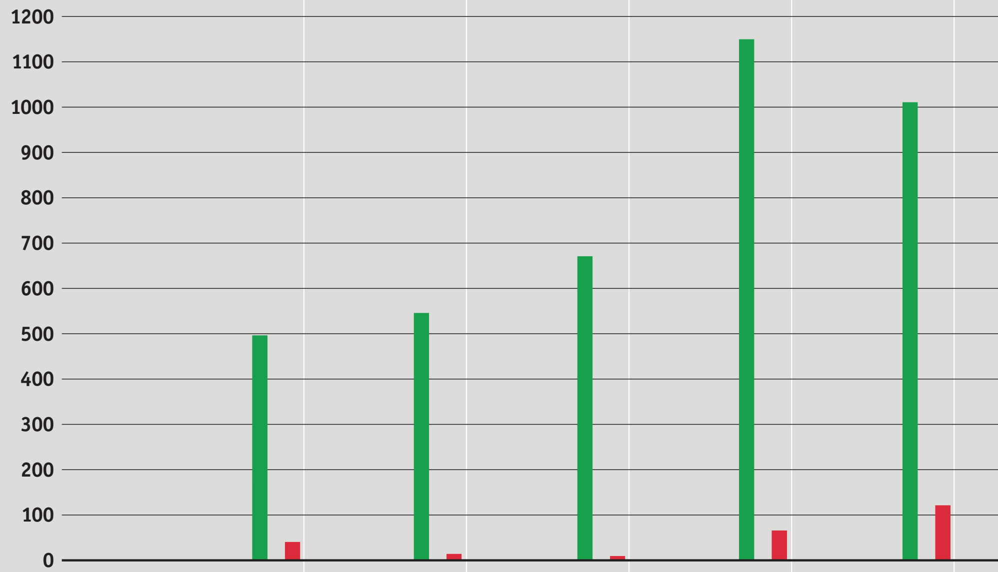
Long-term interest rates



Bonds and medium-term paper
Money market paper

Billions of dollars.
Source: BIS

Net borrowing in international financial markets



2 Switzerland

2.1 Development of the real economy

Strong economic growth

The Swiss economy gained a good deal of momentum in 2000. Positive factors included the upturn in the global economy, low interest rates and the weakening of the Swiss franc versus the dollar. Economic momentum was particularly high in the first half of the year, leading to the virtual disappearance of the output gap that had existed since 1992. At an annual average, real GDP rose by 3.4%, compared with 1.5% in 1999. This represents the biggest rise since 1989. Exports made the greatest contribution to economic growth but domestic demand was another major factor. Additional impetus came from the construction sector.

Better operating conditions for industry

Industrial business trends improved considerably during the year. Following a significant reduction in inventories in 1999, a sharp rise in demand led to strong growth in output. Despite expansion of capacity, the capacity utilisation of technical facilities increased to 84.4% at year-end 2000 compared with 82.0% at year-end 1999. Business trends were particularly favourable in export-oriented sectors. The order inflow rose significantly at the start of the year but then dropped back slightly during the year. Both the export industry and sectors serving the domestic market were, however, optimistic about business prospects throughout the year.

Sound consumer spending

Consumer spending rose by 2% in real terms, roughly in line with the previous year's rise. It thus remained a major source of economic growth. Consumer confidence improved considerably, primarily because of high employment. This benefited the retail sector and other service industries. The trend in domestic tourism was particularly favourable and there was also a marked upturn in the number of foreign visitors following a dip in the two previous years as a result of the Asian crisis. The tourist sector, which had stagnated in 1999, thus had an extremely good year.

Recovery in construction spending

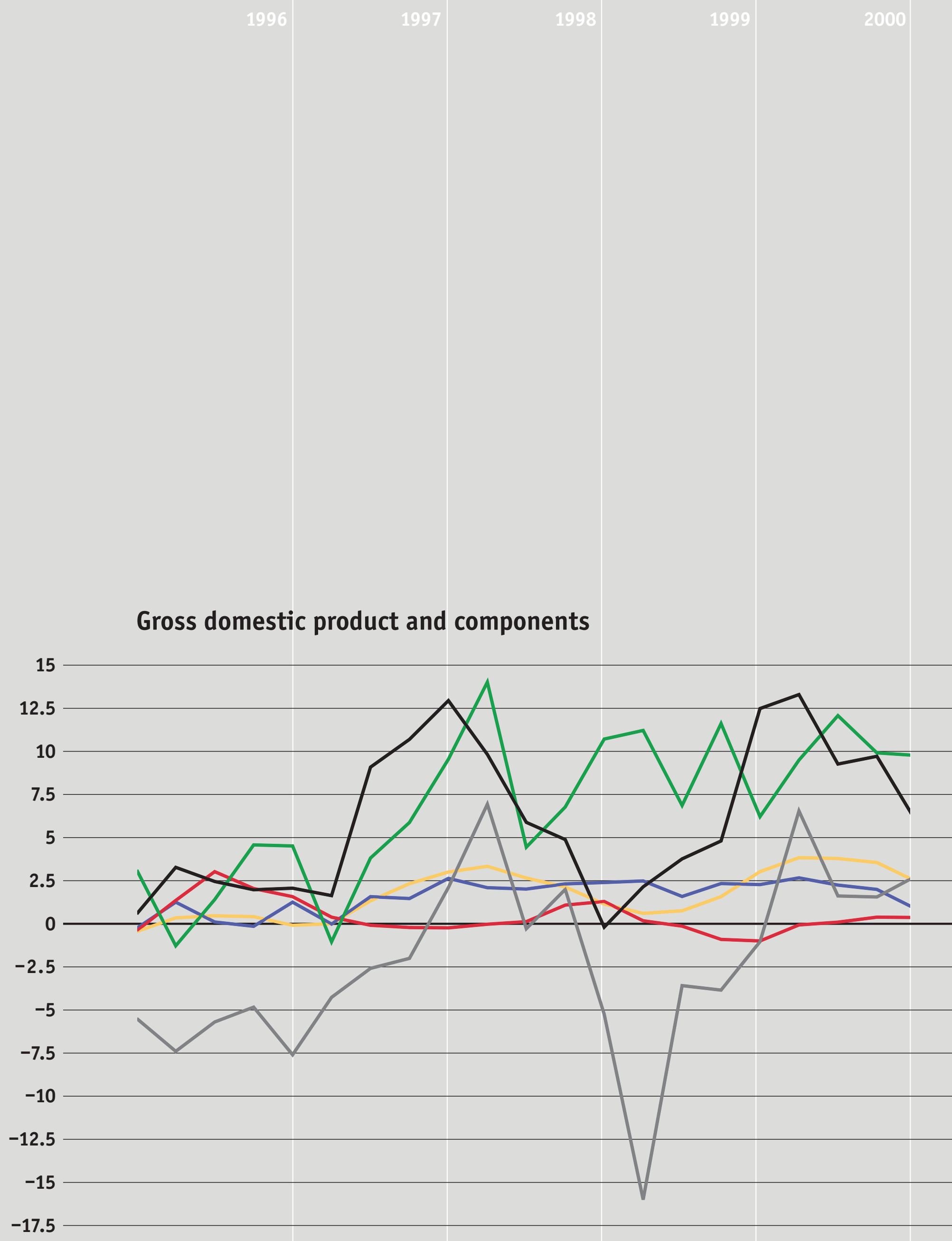
Construction spending rose by 2.7% in real terms in 2000, having fallen by 5.3% in 1999. Expansion of the national road network and major rail projects (NEAT/Bahn 2000) made a significant contribution to the strong rise in civil engineering work. By contrast, growth in residential building was more modest than in 1999. In the commercial and industrial sector, the improvement in industrial business trends and a degree of pent-up demand for building maintenance work led to an increase in construction activity.

Strong growth in capital spending

The strong growth in investment in plant and equipment continued in 2000, with real year-on-year growth of 10.3%, up from around 9% in 1999. As a result of rising capacity utilisation and the improved earnings situation, investment in industry gained momentum. Production rationalisation remained a major driving force behind industrial investment, but spending was also boosted by investments geared to expanding capacity. Since investment in plant and equipment has been growing far faster than investment in construction for some years, its proportion of annual investment rose strongly, bringing it above the 50% mark for the first time ever in 2000.

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

Change from previous year
in percent.
Source: seco



Faster growth in exports …

Exports rose more than twice as fast as in 1999, up 7.1% in real terms, aided by the favourable economic situation in the United States and the EU. The export industry also benefited from the upswing in East Asia, strong demand from oil-exporting countries and the strength of the dollar. (Nominal) exports to the United States were up 13% year-on-year, while exports to the EU increased by 6.7%. A particularly strong increase was registered in shipments of Swiss capital goods, raw materials and semi-manufactures. A breakdown by product group shows that the main rise in exports related to products from the metalworking industry, mechanical engineering, the electrical and electronics sector and precision instruments. The 3.5% rise in export prices was far higher than in the previous year.

… and imports

Buoyant overall demand in Switzerland lifted merchandise imports by 7% in real terms compared with 8.2% in the previous year. Imports of raw materials and semi-finished products picked up particularly fast on the back of good industrial conditions, while imports of consumer goods and capital goods did not rise as rapidly as in the previous year and imports of energy sources declined slightly. Import prices increased perceptibly by 6.4% in 2000, having declined in 1999. Alongside the higher dollar prices for oil and other raw materials, this was caused by the depreciation of the Swiss franc against the dollar.

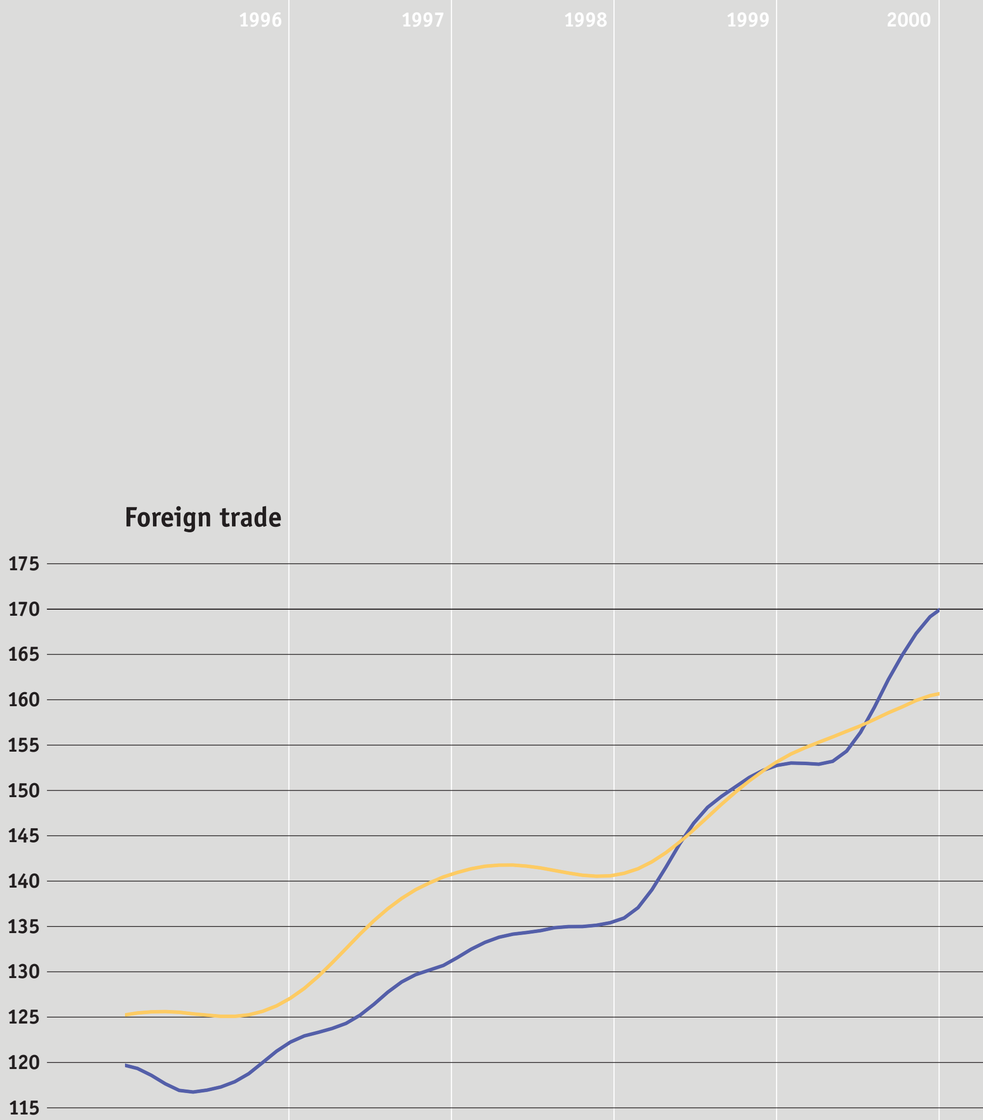
Employment rising more rapidly

There was a strong rise in demand for labour in 2000 as a result of the economic upswing. Employment increased by 2.2%, having risen by 1.6% in 1999. New jobs were created mainly in the service sector (+2.6%); looking at individual sectors, construction, however, reported the greatest rise in employment. There was also higher employment in industry (+1%), following a steady reduction in the workforce during the nineties. The shift in employment to the service sector continued, with employment increasing especially strongly in the retail, banking and IT sectors, in public administration, corporation services, and in education. Trends were less uniform in industry. Here, the rise in employment was concentrated in segments with leading-edge technologies.

Declining unemployment

Unemployment declined further. In December the seasonally-adjusted number of job-seekers totalled 111,300 compared with 148,500 the year before. This figure covers the unemployed and people looking for casual jobs, taking part in work creation schemes and attending training or retraining courses. The number of registered unemployed fell from 84,300 to 66,000 within twelve months, bringing the unemployment rate down from 2.3% to 1.8%, while the proportion of job-seekers dropped from 4.1% to 3.1%. This latter downtrend slowed during the year. As a result of the widening gap between the qualifications of unemployed persons and the qualifications required for vacant positions, companies hired an increasing number of highly qualified staff from abroad. There was a particularly sharp rise in the number of people commuting to work in Switzerland from neighbouring countries and in the number of one-year work permits.

Foreign trade

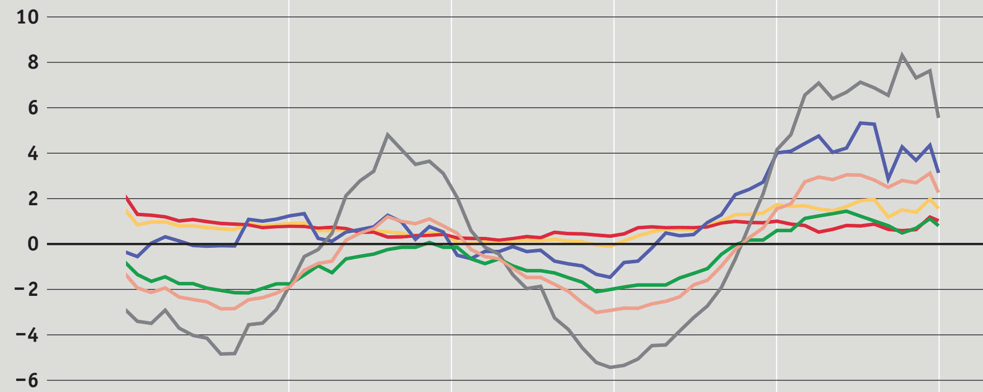


Imports

Exports

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

Price developments



Consumer prices

Consumer prices for domestic goods

Consumer prices for imported goods

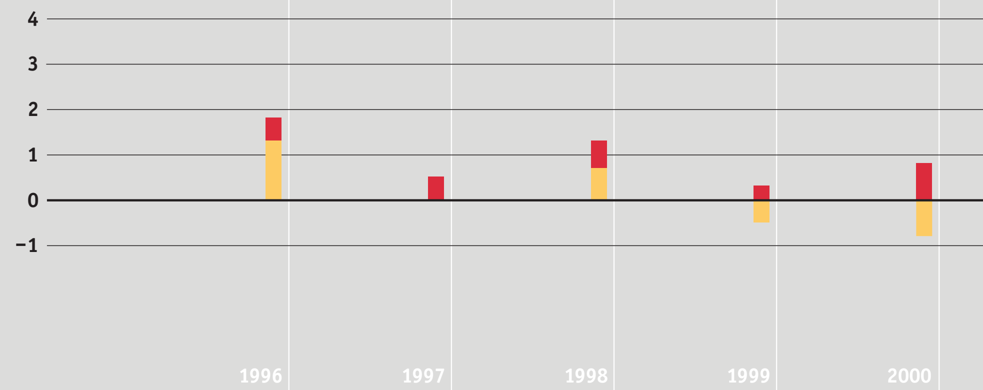
Import prices

Producer prices

Producer and import prices

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

Wages and salaries



Nominal

Real

Wage and salary earnings of employed persons,
percent change from previous year (2000: estimate).
Source: Federal Statistics Office

Fewer long-term jobless

The decline in unemployment was accompanied by a drop in the number of long-term unemployed, i.e. persons who have been out of work for a year or more. In 2000 the number of long-term unemployed dropped from 22.5% to 18.5% of the total registered as unemployed. The problem of unemployed persons no longer entitled to claim unemployment benefit also abated: approximately 10,000 persons reached the end of the period of eligibility, compared with 39,300 in 1999.

Regional differences

Unemployment varied regionally. The average unemployment rate was 3.3% in Ticino, 3% in French-speaking cantons and 1.6% in German-speaking areas.

Slower growth in employment

According to the Swiss labour force survey (SAKE), which is conducted in the second quarter of every year, the growth in employment was only 0.4% in 2000, just half the level in 1999. While the number of persons in full-time employment increased by 0.5% and the number working between 50% and 90% rose by 2.3%, there was a 1.7% decline in the number of persons working 50% or less of the standard working week. Unlike the situation in previous years, there was a renewed rise in the number of women working full-time and fewer working part-time. By contrast, there was a sharp rise in the number of men working part-time. However, women still account for 80% of part-time working. The employment ratio was 89.4% for men and 73.9% for women.

Employment and unemployment

	1996	1997	1998	1999	2000
Full-time employment[1] change in percent	−2.2	−1.9	−0.4	−0.2	1.0
Full and part-time employment[1] change in percent	−1.2	−1.3	0.7	1.6	2.2
Persons in employment[2] change in percent	0.5	−0.4	1.8	0.8	0.4
Unemployment rate in percent	4.7	5.2	3.9	2.7	2.0
Number of unemployed in thousands	168.6	188.3	139.7	98.6	72.0
Number on short working hours in thousands	13.1	6.6	3.1	2.9	0.7
“Manpower job offer index”[3] change in percent	−19.9	2.5	35.9	26.5	24.5

1 according to employment statistics

2 according to SAKE

3 space occupied by job advertisements in Swiss newspapers

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

Higher consumer price inflation

In 2000 the national consumer price index showed inflation of 1.6%, compared with 0.8% in 1999. About one percentage point of annual inflation was due to the rise in the price of oil products. The price of merchandise rose by 3.1% year-on-year compared with 0.7% in 1999. In the service sector, inflation dropped from 0.9% in the previous year to 0.4%, with the decline in the price of telecommunications services again having a major impact.

Rise in prices of goods of foreign origin

Prices of goods of foreign origin increased by an average of 4.1% compared with 1.0% in the previous year mainly because of the rise in oil prices. By contrast, as in the previous year, the price of goods produced in Switzerland increased by only 0.7%.

Having declined in the previous two years, the total supply price index rose by 2.7% year-on-year in 2000. The inflation rate was 6.7% on imports and 0.9% on Swiss-produced goods. Prices of raw materials rose particularly fast, while prices of semi-manufactures and consumer goods increased only moderately. The price of capital goods remained at the previous year's level.

Increase in prices of total supply

The current account surplus rose by Sfr 7.4 billion to Sfr 52.4 billion in 2000. This is equivalent to 12.9% of GDP, compared with 11.6% in the previous year. In terms of value, exports and imports of goods (special trade) increased by 10.6% and 13.4% respectively, giving a deficit of Sfr 2.1 billion on the balance of trade, compared with a surplus of Sfr 1 billion in 1999. Total trade in goods (special trade plus primarily precious metals, precious stones and gemstones, works of art, antiques and electricity) ended the year with a deficit of Sfr 4.8 billion. The surplus on the invisible trade balance rose by Sfr 2.8 billion to Sfr. 22.6 billion. Income from tourism and international transport was well above the previous year's level and commission income in the banking sector also increased substantially. The surplus on employee compensation and investment income advanced by Sfr 8.3 billion to Sfr 40.2 billion as net income from direct investment and portfolio investments increased. The deficit on current transfers was Sfr 5.5 billion, a decline of Sfr 0.7 billion compared with the previous year.

Higher current account surplus

Current external transactions account

balances in billions of Swiss francs

	1996	1997	1998 revised	1999 provisional	2000 estimate
Goods trade	1.1	−0.5	−2.3	−0.4	−4.8
special trade	2.2	2.0	2.2	1.0	−2.1
electrical energy	0.5	0.7	0.7	0.6	0.4
other goods trade	−1.5	−3.2	−5.2	−2.1	−3.1
Services	15.4	18.9	19.6	19.8	22.6
of which personal travel	1.6	1.4	1.7	1.4	1.7
of which private insurance	1.7	2.0	2.2	2.7	2.8
of which transport	0.4	1.2	1.5	1.8	1.9
of which bank commission	7.8	8.8	9.2	11.1	13.3
Labour income and investment income	15.6	23.4	25.5	31.9	40.2
labour income	−6.9	−6.5	−6.4	−6.5	−7.0
investment income	22.4	30.0	32.0	38.4	47.1
Current transfers	−4.9	−4.9	−5.3	−6.2	−5.5
Total current account	27.2	37.0	37.5	45.0	52.4

2.2 Fiscal policy

Significant federal budget surplus

The Federal Government posted a significant surplus of Sfr 4.6 billion or 1.1% of GDP in 2000 compared with a budgeted deficit of Sfr 1.8 billion. Notably revenues were massively higher than budgeted. Additional revenue was attributable, on the one hand, to the economic upswing, which was stronger than anticipated and which had a favourable impact in particular on withholding tax, direct federal tax and stamp duty. On the other hand, special revenues – such as proceeds from the auctioning of wireless licences – contributed to the gratifying results. Federal spending was below the budgeted amount in 2000. Notably expenditure relating to social security, agriculture and traffic was lower than budgeted.

An almost balanced budget for 2001

The government budgeted a slight surplus of Sfr 18 million for 2001. Growth in revenue is expected to return to normal according to the budget, notably in case of withholding tax, while the rise in expenditure should be slightly below nominal economic growth.

Fulfilment of the constitutional budget requirements

The budget surplus of Sfr 4.6 billion fulfilled the constitutional target set in 1998 for 2001. The constitutional requirements stipulated a maximum deficit of Sfr 2.5 billion for 2000.

Surpluses at cantonal and communal levels

As a result of the favourable economic situation most cantons and communes reported a budget surplus in 2000 as well. According to available data, the cantons' aggregate surplus totalled approximately Sfr 500 million, that of the communes approximately Sfr 250 million. Deficits totalling Sfr 1.3 billion and Sfr 500 million respectively had been budgeted.

Declining debt ratio

The debt ratio (total debts expressed as a percentage of GDP) of the Confederation, cantons and communes dropped further from 51.4% to below 50%. Half of the debt was attributable to the Federal Government, 30% to the cantons and 20% to the communes.

Consultation process on fiscal equalisation system

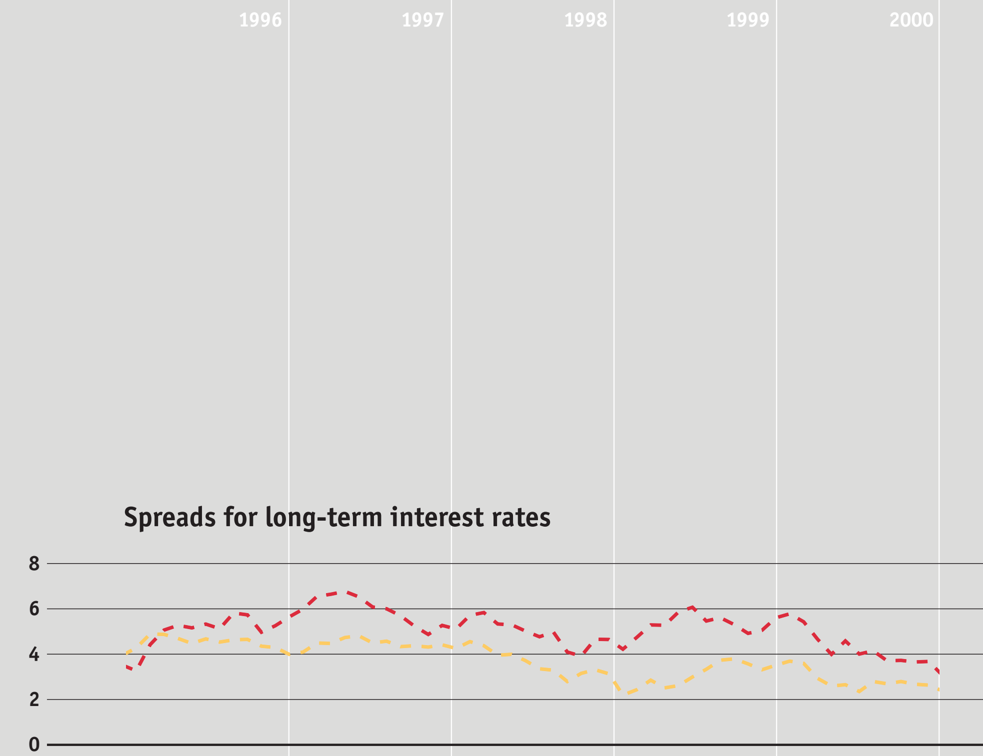
The consultation process on a revision of the law levelling the differences between financially strong and financially weak cantons, which had commenced in 1999, was completed. The principal aims of the revision are to strengthen federal structures and reorganise authorities and responsibilities between the Confederation and the cantons. Following further modifications, the Federal Administration will probably put the draft law before the Federal Council in 2001.

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

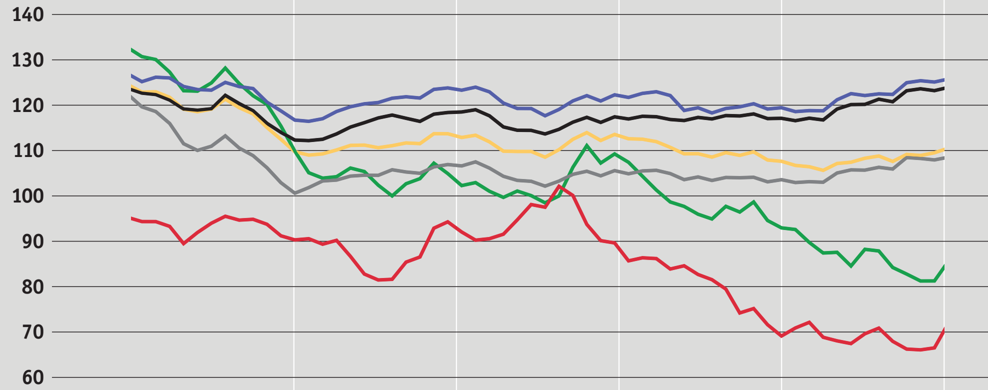
D-mark

Yen

French franc

Lira

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



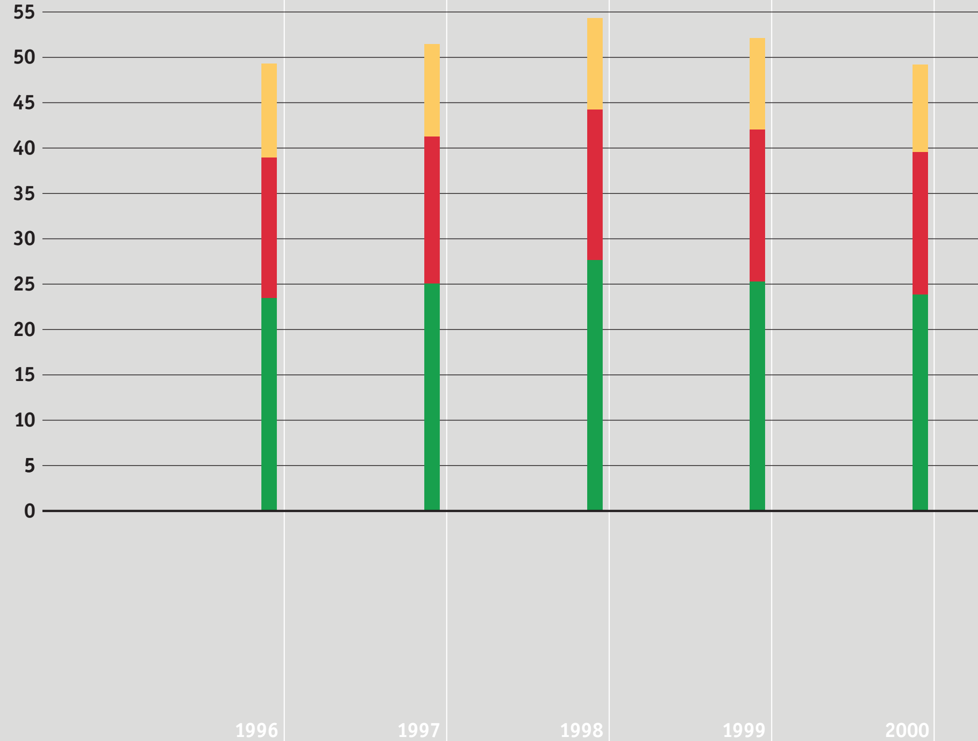
Public-sector indebtedness

Communes

Cantons

Confederation

In percent of GDP (2000: estimate).
Source: Federal Department of Economic Affairs



2.3 Financial markets

Rising interest rates in the first half of the year

The rise in interest rates that started in the second half of 1999 continued in the first six months of 2000. Since short-term interest rates rose far faster than long-term rates, the yield curve flattened. The average yield on Confederation bonds rose to 4.3% by May before slipping back to 3.7% by December. Yields on three-month money market debt register claims rose from 1.7% in January to 3.3% in November, but dropped slightly to 3.2% in December. The yield spread between Confederation bonds and money market debt register claims was thus still 0.5 percentage points in December, compared with 2.1 percentage points in January.

Share price rally

The Swiss SPI share index gained 12% in 2000. In fact, it rose by 15% to nearly 5,800 between the start of January and mid-August, before slipping back to around 5,300 in October. It subsequently recovered to close the year at around 5,600. Share prices of large corporations were 9% higher, which was well below the uptrend registered by small (+36%) and medium-sized companies (+22%). Share prices in the service sector rose by an average of 11%, which was almost exactly in line with the rise in industrial share prices. However, there were major differences between the various sectors. Strong gains were posted by the food and beverage industry (+30%), insurance (+21%) and banks (+16%), while the retail sector (−7%), transportation (−9%) and construction (−7%) posted a decline. The New Market Index, which is composed of shares from the telecommunications, biotechnology and information technology sectors, rose sharply at the start of the year but slumped in the spring and subsequently proved extremely volatile. In December it was 7.4% above the January level.

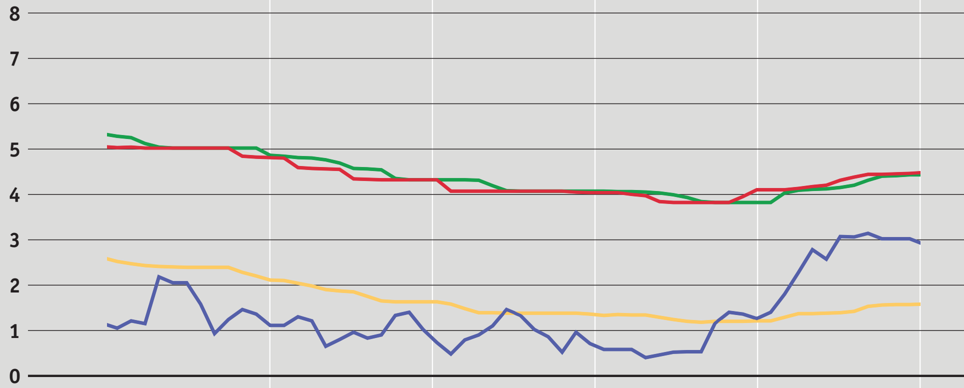
Lower net borrowing on the capital market

Borrowing on the Swiss capital markets in 2000 was again lower than in the previous year. Net borrowing (new issues less redemptions) was Sfr 28.8 billion in 2000, compared with Sfr 34.8 billion in 1999. Although domestic borrowing rose from Sfr 12 billion to Sfr 17.3 billion, borrowing by foreign issuers dropped significantly to Sfr 11.5 billion, down from Sfr 22.8 billion. Nearly five-sixths of domestic borrowing was effected through the bond market and just over one-sixth via the equity market.

Slower growth in lending

Growth in domestic lending business slowed. Non mortgage-secured loans to domestic customers rose only half as fast as in 1999. The big banks cut back lending in this segment while the cantonal banks reported double-digit growth. Mortgage-backed loans remained at around the previous year's level. Mortgage lending declined slightly at the big banks and cantonal banks whereas the regional banks and Raiffeisen banks (regional credit cooperatives) reported a rise in mortgage business. Classic savings instruments, i.e. customer deposits in savings accounts and similar investments plus medium-term notes, declined again in 2000. Banks therefore had to resort increasingly to the interbank market and the capital market to refinance loans and mortgages.

Selected bank interest rates



Existing mortgages at cantonal banks

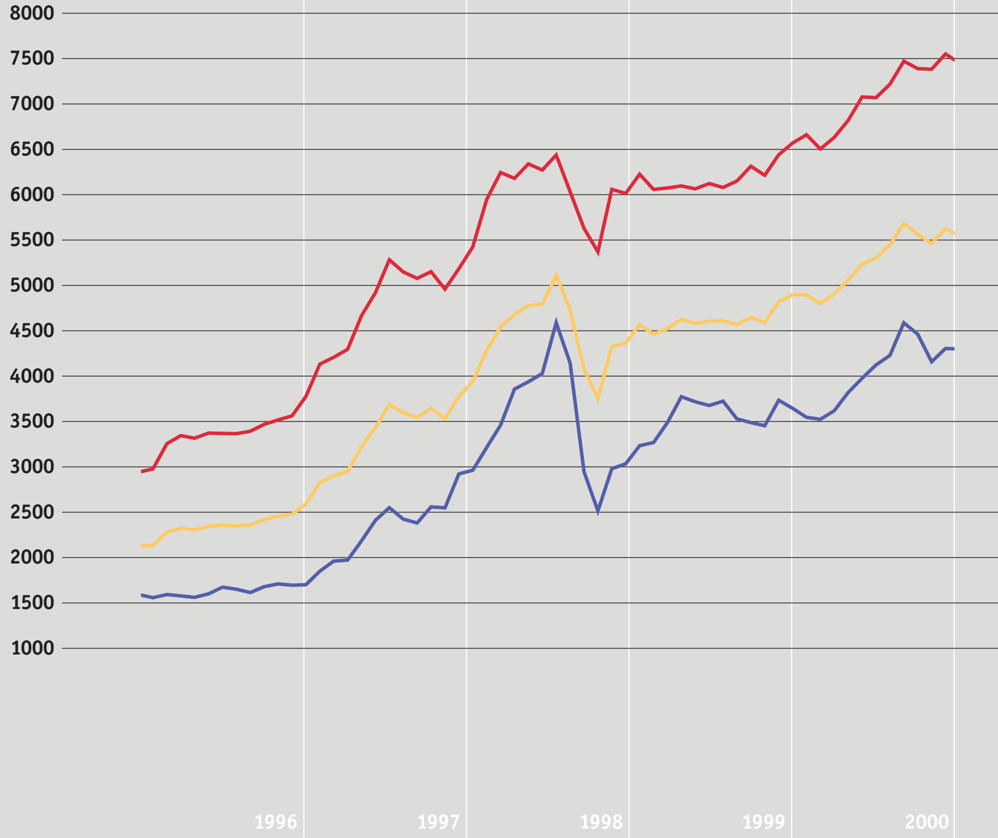
New mortgages at cantonal banks

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

Restructuring of Geneva cantonal bank

The Banque Cantonale de Genève transferred approximately Sfr 5 billion in non-performing loans to a special management company. This transfer required a capital increase from Sfr 225 million to Sfr 360 million. The majority shareholders are the City and Canton of Geneva and the Geneva communes. The management company benefits from a full state guarantee, whereas the cantonal bank itself only has a limited state guarantee.

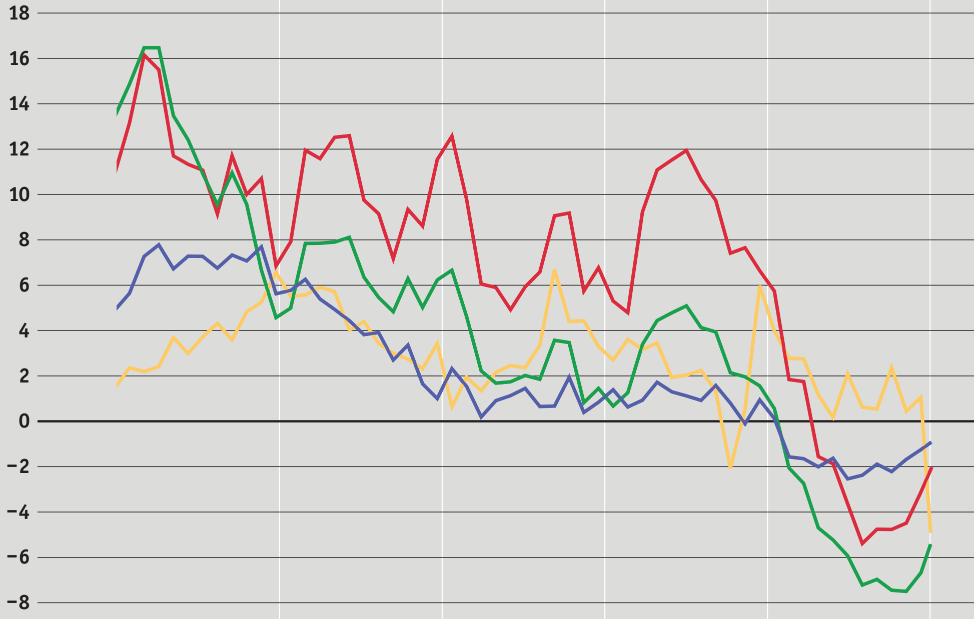
US acquisitions by major Swiss banks

UBS AG and Credit Suisse Group both acquired financial institutions in the United States in 2000. UBS AG acquired the US asset management company PaineWebber for Sfr 20.8 billion, and the CS Group acquired the investment bank Donaldson, Lufkin & Jenrette (DLJ) for Sfr 19.6 billion. With these acquisitions in the United States the two big banks aimed at strengthening their investment banking and asset management.

Higher profits in the banking sector

In an international environment characterised by increasing uncertainty the two big banks reported exceedingly high profits. The majority of the other banks also exhibited better results.

Monetary aggregates



Money and capital market rates