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Lifting the veil on the pandemic savings of Swiss households

Florence Miguet Heimlicher

As observed in many advanced economies during the COVID-19 pandemic, Swiss households accumulated substantial additional savings. This resulted from an unprecedented and involuntary decline in consumption concurrent with fiscal support that compensated households for their loss in income. Households accumulated between CHF 30 and 40 billion in savings in excess of what the pre-pandemic trend would have predicted. These so-called pandemic savings correspond to between 4% and 5% of the annual GDP. In this Economic Note, I show that pandemic savings were primarily invested in equities and, to a lesser extent, debt securities. Since equities and debt securities are typically long-term investments, these pandemic savings appear unlikely to translate into a consumption boom in the near term.

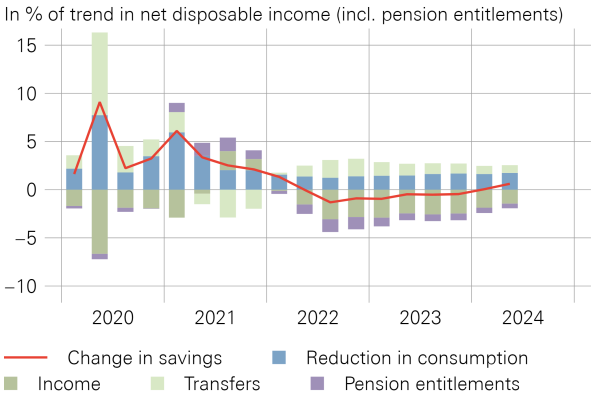
Swiss households accumulated substantial additional savings during the COVID-19 pandemic. This is reflected in the household saving rate, which consists of the disposable income (including pension entitlements) minus consumption spending, expressed as a proportion of the disposable income. Chart 1 shows that the household saving rate rose to unprecedented levels during the pandemic. A similar pattern has also been observed in many advanced economies.

This increase in savings has resulted from two distinct developments. To illustrate this, Chart 2 presents a decomposition of the change in savings relative to the pre-pandemic trend. Households drastically reduced their consumption spending (the blue bars in Chart 2) because of the pandemic. At the same time, households were effectively compensated for their loss in income by timely and substantial fiscal transfers (the light and dark green bars in Chart 2), such as short-time compensation. In this Economic Note, I document these so-called *pandemic savings* and provide evidence of where they have been invested.

CHART 1: SWISS HOUSEHOLD SAVING RATE

Source(s): SECO, SFSO, SNB

CHART 2: CHANGE IN SAVINGS COMPARED TO PRE-PANDEMIC TREND



Source(s): SECO, SFSO, SNB

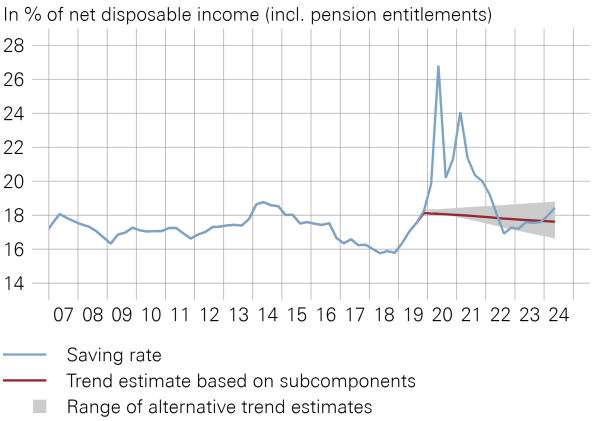
How large were the pandemic savings accumulated by Swiss households?

To quantify the accumulated pandemic savings, it is necessary to make an assumption regarding the level of savings that would have been observed if the pandemic had not occurred. As Chart 1 shows, the household saving rate tended to increase between 1995 and 2007. Thereafter, the trend in the saving rate is unclear. To account for this uncertainty, I estimate a range of trends in the saving rate based on the period *before* the pandemic and project them through the years of the pandemic.[1] Chart 3 shows how the saving rate would have evolved if it had continued to follow these pre-pandemic trends. Between the beginning of the pandemic and mid-2022, the saving rate was significantly higher than would have been expected under normal circumstances. The corresponding range of pandemic savings in terms of level is shown in Chart 4. By mid-2022, the pandemic savings are estimated to have been between CHF 30 billion and 40 billion. This number is large, corresponding to between 4% and 5% of the annual GDP.

Switzerland was not an isolated case. Many advanced economies witnessed a notable increase in household savings during the pandemic (see de Soyres et al., 2023a and 2023b). As in Switzerland, the increase in savings in the Euro area was largely attributable to a reduction in consumption spending, as fiscal transfers mostly offset losses in household income (Battistini and Gareis, 2023). In the US, pandemic savings were accumulated not only through a reduction in consumption spending, but also through fiscal transfers, which more than compensated for the loss in household income (see Aladangady et al., 2022).

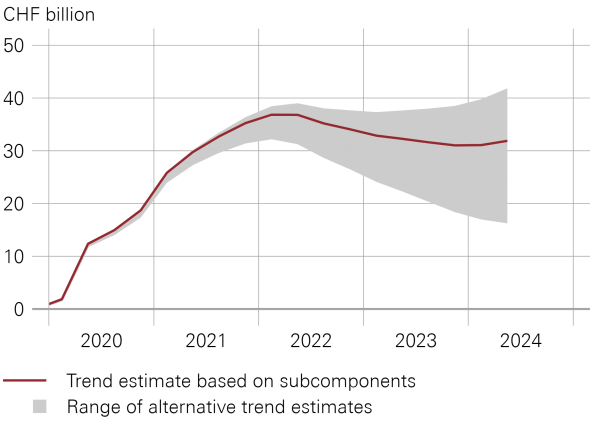
[1] The red line in Chart 3 is an estimated linear trend that sums up those of the subcomponents of the saving rate over a period starting in Q1 2007 and ending in Q4 2019. The grey area in Chart 3 shows a range of saving rate trends obtained by varying the start period of the estimate (between 2005 and 2013), while keeping the end period fixed at Q4 2019.

CHART 3: HOUSEHOLD SAVING RATE AND TRENDS



Source(s): SECO, SFSO, SNB

CHART 4: HOUSEHOLD PANDEMIC SAVINGS



Source(s): SECO, SFSO, SNB

Where did the pandemic savings go?

The impact of pandemic savings on future consumption depends on their allocation to assets. If households choose to hold their savings in the form of cash balances or bank deposits, they can easily and rapidly liquidate them to purchase goods and services. In contrast, if households invest their savings in assets like equities, debt securities or pension schemes, they typically have a longer time horizon in mind for their investment. Financial accounts data permit the identification of net financial asset purchases made by households, as well as the allocation of these purchases among different types of assets.

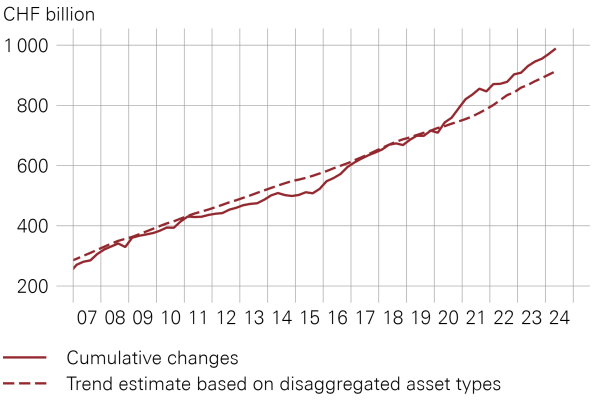
As shown in Chart 5, there was a significant increase in household investment in financial assets during the pandemic.[2] The timing of this increase coincides well with the substantial rise in household savings. To estimate the size of the pandemic-related investment in financial assets, I proceed in the same way as for pandemic savings, namely, by looking at the deviations from the pre-pandemic trend.[3] According to the trend deviations, households had accumulated between CHF 30 billion and 60 billion more financial assets by mid-2022 than would have been expected (see Chart 6). These estimated pandemic-related financial investments closely follow the estimated pandemic savings presented above but are slightly greater. There are at least two possible explanations for this discrepancy. First, there is some evidence that Swiss households have invested less than usual in nonfinancial assets (e.g., housing) since the pandemic and have thus had more liquidity to invest in financial assets. Second, the national and financial accounts do not use the same definition of the household sector.[4]

[2] The increase in household financial assets was barely affected by changes in liabilities (loans).

[3] The dashed red line in Chart 5 is an estimated trend that sums up those of the different types of assets over a period starting in Q1 2007 and ending in Q4 2019. Alternative trend estimates were obtained by varying the start period of the estimate (between 2005 and 2013), while keeping the end period fixed at Q4 2019.

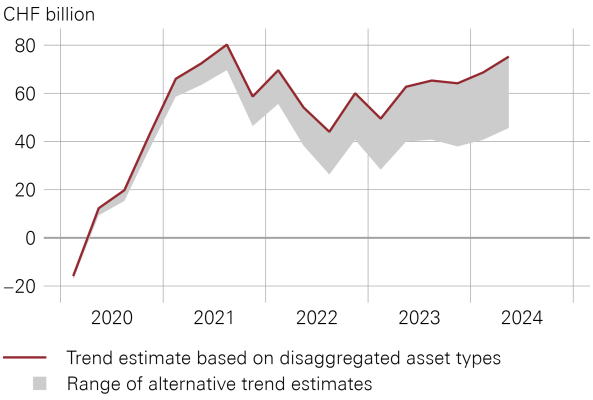
[4] For example, the income of the self-employed is allocated entirely to households in the national accounts, whereas in the financial accounts it is split between households and nonfinancial corporations.

CHART 5: CUMULATIVE CHANGES IN HOUSEHOLD FINANCIAL ASSETS (EXCL. VALUATION EFFECTS)



Source(s): SNB

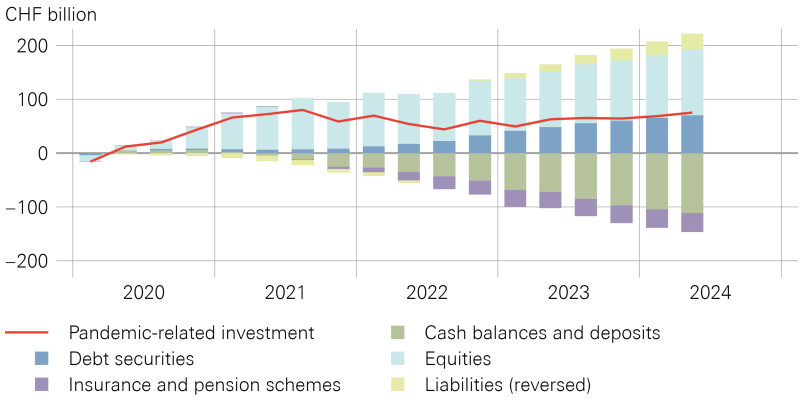
CHART 6: HOUSEHOLD PANDEMIC-RELATED INVESTMENT IN FINANCIAL ASSETS



Source(s): SNB

Chart 7 presents the breakdown of pandemic-related financial investment by type of asset. The chart clearly shows that households primarily invested their pandemic savings in equities (such as shares or collective investment schemes) after the start of the pandemic. Thereafter, with the rise in interest rates in 2022, households shifted their investments from cash and deposits to debt securities. Equities, and to some extent debt securities, are typically considered long-term investments. In line with this, the propensity to consume using money held in equities and debt securities is lower than that to consume using cash and deposits. It therefore appears unlikely that these pandemic savings will translate into a consumption boom in the near future.

CHART 7: CONTRIBUTIONS TO HOUSEHOLD PANDEMIC-RELATED INVESTMENT IN FINANCIAL ASSETS



Source(s): SNB

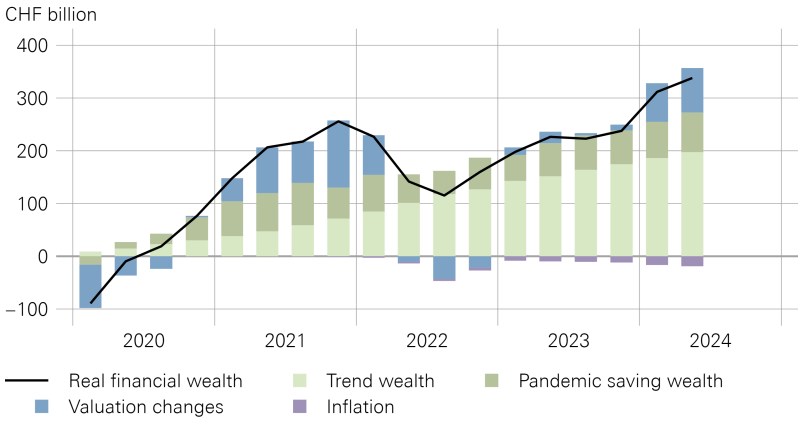
The saving and investment behaviours of households in Switzerland were more similar to those in the Euro area than to those in the US (see Battistini et al., 2023 and Abdelrahman et al., 2024). Households in Switzerland and the Euro area have thus far retained most of their pandemic savings, whereas households in the US have already spent a significant part of their savings. Likewise, households in Switzerland and the Euro area have invested a large share of

their pandemic savings in equities and debt securities, whereas households in the US have kept a larger portion in deposits.

How have pandemic savings affected Swiss household financial wealth?

To put the size of these pandemic savings into perspective, Chart 8 decomposes the real financial wealth of households since Q4 2019 into trend wealth (light green bars), wealth related to pandemic savings (dark green bars), a valuation effect (blue bars), and an inflation effect (proxied by the consumption deflator, violet bars).

CHART 8: CONTRIBUTIONS TO HOUSEHOLD REAL FINANCIAL WEALTH



Source(s): SNB

Between Q4 2019 and Q2 2024, household nominal wealth increased by CHF 340 billion, of which approximately CHF 75 billion resulted from pandemic-related investments and CHF 85 billion from valuation changes. Of course, aggregated data do not provide any insight into the distribution of wealth accumulation across households.

While large in absolute terms, the size of pandemic-related investment appears more muted in relative terms. First, the marked inflation in 2022 and 2023 has reduced real wealth by CHF 15 billion, which offsets up to 25% of the pandemic-related investments. Second, as shown in Chart 8, changes in valuation also significantly affected wealth. For instance, the surge in equity prices in 2021 led to a much larger increase in wealth than did pandemic-related investments.

This Economic Note shed light on the considerable pandemic savings that were observed in Switzerland. Knowing where these pandemic savings have gone is relevant. I provided evidence that the savings were primarily invested in equities and, to a lesser extent, in debt securities. Since equities and debt securities are typically long-term investments, these pandemic savings appear unlikely to translate into a consumption boom in the near term.

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