

Press Release

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KOF Economic Forecast for May 2020:

COVID-19 pandemic triggers deep recession in Switzerland; tax revenues expected to fall by over CHF 5.5 billion this year

Economic activity should bounce back in the summer once the current lockdown restrictions are eased. Nevertheless, KOF expects value added to decline by a significant 5.5 per cent for 2020 as a whole. GDP growth should then rebound to 5.4 per cent in 2021. Spending on social security will rise sharply this year. At the same time, the federal government, municipalities and cantons must expect tax revenues to fall by a total of more than CHF 25 billion this year and the next years.

The COVID-19 pandemic has caused economic activity to fall sharply. Entire sectors of the economy have been affected. Because the federal government was quick to provide income support for households and liquidity for companies, drastic increases in unemployment and bankruptcies have so far been avoided.

Although these measures have prevented or mitigated the loss of income, they have hardly managed to prevent or mitigate the corresponding loss of output. The decline in value added in the second quarter of 2020 is therefore dramatic: KOF estimates it to be almost 10 per cent compared with the previous quarter (an annualised 33 per cent). In contrast to previous recessions, during which exporters in particular have suffered, this time domestically oriented sectors are also being heavily affected – especially services. The hospitality industry too has been hit extremely hard.

The gradual easing of the lockdown restrictions should enable economic activity to bounce back in the summer. Nevertheless, KOF expects value added for the Swiss economy to decline by 5.5 per cent in the current year. Gross domestic product (GDP) is forecast to grow by 5.4 per cent in 2021. The registered unemployment rate will continue to rise in the current year, reaching 4.7 per cent by the end of the year and an annual average of 3.8 per cent. KOF is expecting an average unemployment rate of 4.3 per cent next year. The internationally comparable rates according to the International Labour Organisation (ILO) are likely to be 5.3 per cent (2020) and 6.0 per cent (2021). The economic forecast here is largely in line with the short-term scenario published by KOF in April.

Spending on unemployment benefits rises sharply; tax revenues decline significantly

The measures taken to mitigate the economic impact of the pandemic will have a severely negative impact on the public finances. In particular, the additional expenditure on social security will be a major factor. The increase in unemployment and the income support paid for short-time working are expected to push up spending on unemployment benefits to around CHF 20 billion this year, with income support for short-time working accounting for around 75 per cent of this amount. Although this expenditure will decrease significantly in 2021, it will remain above average owing to the higher unemployment rate.

This additional expenditure will be exacerbated by a shortfall in revenue. For example, employee contributions to the state social security system are expected to fall by around CHF 1 billion this year. Tax revenues will also be significantly lower in many cases.

Overall, the federal government, municipalities and cantons must expect tax revenues to fall by over CHF 25 billion as a result of the adverse economic impact of the coronavirus crisis. Delays in the preparation of the

final tax accounts will mean that only just over CHF 5.5 billion of this total is forecast to affect this year's tax take. The sharpest drop in tax revenues is expected to occur in 2021, with the loss of a further CHF 8 billion. Although tax revenues are then forecast to rise in 2022, they will still be CHF 8 billion lower than they would have been without the economic crisis.

A detailed report on the Economic Forecast, including tables and charts, can be found on our website:
<https://kof.ethz.ch/en/news-and-events/media/press-releases.html> →

An overview of KOF's publications on the coronavirus to date – together with the latest facts and figures – can be found here:
<https://kof.ethz.ch/prognosen-indikatoren/indikatoeren.html> →

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