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VIEWS OF THE EFTA COUNTRIES

ADDRESSING THE CORONA CRISIS – HOW TO REBUILD A RESILIENT, SUSTAINABLE AND THRIVING EUROPEAN ECONOMY

EFTA ECOFIN MEETING

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Views and priorities of the EFTA States

The COVID-19 pandemic poses a serious threat to life and health. Disruption caused by the pandemic, extensive containment measures and voluntary social distancing have caused a sharp decline in economic activity worldwide. In Europe, economies were hit by a severe shock during the first half of this year. Without the prompt and strong fiscal and monetary policy response, the contraction in economic output would have been substantially larger.

A partial economic rebound has been underway for some months, supported by the easing of containment measures as well as unprecedented policy responses, but the outlook remains highly uncertain. The recent resurgence in COVID-19 cases in a number of countries suggest that we still are in the phase of fighting the pandemic and that the recovery might be put on hold. While life and health remain paramount, one major challenge the governments are facing is to weigh the economic and social costs of various containment measures against their effect on curbing the pandemic. An effective and widely available vaccine is a prerequisite for the economy to regain full strength. International cooperation on development, supply and distribution is pivotal to this end. European countries have a common interest in finding strategies to rebuild resilient and inclusive societies, and to foster sustainable, climate-friendly economic growth.

The EFTA countries experienced steep declines in export, consumption and investment in the first half of 2020. The GDP contraction from the first to the second quarter was historically large, at 6 to 9%. For 2020 as a whole, GDP in the different EFTA States is projected to fall by between 4 and 8% compared to 2019. The service sector has been particularly hard hit, with tourism at the forefront – an important export sector for several EFTA countries. Also sports and cultural sectors have been badly affected. Unemployment rates have risen significantly.

The EFTA countries have implemented extensive and targeted measures to mitigate the economic effects of the crisis. In the initial phase of the pandemic, fiscal policy focused on temporary measures to support badly affected businesses and citizens with the purpose of maintaining employment, securing household income and avoiding insolvency due to liquidity problems. These discretionary measures came on top of the already strong automatic stabilisers in the economies. The four EFTA countries have in general adopted quite similar approaches, with a focus on liquidity measures (new and extended credit lines, and tax deferrals), some also targeted VAT and tax cuts, household income protection as well as job retention, and support for businesses aimed at the most affected sectors and groups (export and import oriented businesses and service sectors, in particular hospitality, aviation, media, sports and culture). Discretionary fiscal measures and guarantee schemes represent huge fiscal impulses to the EFTA economies.

Monetary and macroprudential policy responses have been accommodative. Central banks rapidly made steep cuts in policy rates and/or extended credit lines. Countercyclical capital buffer requirements were lowered.

The EFTA States find that the crisis measures, supported by automatic stabilisers, have proved effective. They have helped ease the difficulties for households and businesses, prevented bankruptcies and mitigated unemployment to the extent possible. Without them, the drop in economic activity would have been substantially steeper, and the basis for recovery more fragile. The policy response has been largely successful in improving confidence and preserving employer-employee relationships, which is important for the recovery.

There are several questions and challenges associated with finding the best path out of the crisis. The most immediate one is when, how fast, and in which order the temporary measures should be scaled back. Since May, a controlled and gradual lifting of containment measures has been the plan for most European countries. The new wave of infection has forced some countries to alter their plans. The EFTA countries have started to scale back measures, but new, mostly local outbreaks endanger this progress. A more regional, local and/or targeted approach for containment measures has gained importance, and similarly, economic support for especially affected entities may also be better dealt with on a regional basis going forward. Further actions will depend on health and economic developments.

Most COVID-19-related measures are temporary by design, and many of them require significant fiscal support. Going forward, it will be important to weigh the benefits of measures, including furlough schemes, against their cost in terms of potentially keeping unviable businesses afloat and delaying necessary structural adjustment with implications for productivity growth. However, fiscal policy will continue to play an important role in

supporting demand and jobs as long as major business activities are still hindered by health policy measures or until unemployment has started to decline. How long measures should be continued is a delicate question that needs thorough and country-specific considerations.
The pandemic could lead to lasting changes to our societies. Trade and travel patterns are affected in the short term. Social distancing, new habits, more use of digital tools and increased willingness to pay for buffers and diversified supply lines are among factors that may lead to or require structural changes. The EFTA States believe that the crisis is an opportunity to foster structural changes to make economies more resilient to future challenges. Initiatives to increase employment and prevent long-term unemployment, greening the economy, boost innovation and public investment, cutting cost and increasing digitalisation are currently being discussed.

The EFTA countries will continue to stress the importance of open markets and rules-based international trade in defeating the pandemic and especially in view of boosting the recovery in the short term and productivity growth in the medium term.

Open economies are generally more resilient to shocks. Access to world markets opens up wider consumption possibilities, allows for diversification and reduces the risk of interruption in production. Even so, the EFTA countries acknowledge that the pandemic has raised the awareness of vulnerability that comes with trade and global value chains. That could accelerate an ongoing trend of closing markets internationally, with particularly far-reaching consequences for small and open economies. If taken too far, the call for near-shoring or reshoring production could result in value chains that do not take the full advantage of world markets, reducing both productivity and especially resilience.

The huge government take-over of households' and businesses' income loss, both through the automatic stabilisers and new compensation schemes, has its counterpart in a substantial weakening of the public sector financial balance. Going forward, the need for continued stimulus must be delicately balanced against fiscal sustainability. Rising debt levels should be dealt with in the medium to the long run without affecting economic recovery with fiscal consolidation measures and tax increases. However, the EFTA countries underline the importance of sustainable fiscal policies, not least to provide room to mitigate future economic shocks, potentially even in the further evolution of the pandemic.

Annex 1: Iceland

Economic situation and outlook

The COVID-19 pandemic has severely affected the Icelandic economy. Gross domestic product is expected to contract by 8% in 2020. When the crisis hit, growth had already slowed in 2019 due to a slowdown in tourism. In March of this year, Iceland had one of the steepest increases in COVID-19 cases in Northern Europe, prompting containment measures that led to a sharp decline in consumption and rise in unemployment. An effective containment response paved the way for a recovery in domestic demand over the summer. However, the country's large tourism sector is still severely affected by travel restrictions and a decreased willingness to travel internationally.

Public finances have suffered a large hit due to the recession as a result of strong automatic stabilisers and discretionary measures in response to the pandemic. General government net lending was -2% in 2019 but is expected to reach -11% of GDP this year and to remain negative over the next years. Targets for government net lending for the next years have been revised downwards by a revision of the government's Fiscal Policy Statement and a draft 2021-2025 Fiscal Plan.

The COVID-19 epidemic in Iceland and the containment response have its particularities in comparison with peers. Unlike most European countries, the first wave of the epidemic was virtually eradicated by early May. This allowed economic activity to normalise more quickly than in most of Western Europe. Iceland has relied to a greater extent on extensive testing and contact-tracing, while lockdown measures have been less stringent than in many mainland European countries. Private consumption fell by 8% in the second quarter of 2020, but to a large degree due to a collapse in spending by Icelanders abroad as a result of less travel. A reorientation of consumption towards domestic goods and services has contributed positively to domestic demand.

A sharp decline in exports contributes the most to the contraction in GDP this year. Exports are expected to fall by 30%, mostly due to a 75% drop in tourist arrivals. Tourism led the recent economic expansion in Iceland; its share in GDP more than doubled between 2011 and 2018 to reach 8%. Tourist arrivals had already declined in 2019 as the country's second-biggest airline ceased operations early that year. The decline in tourist arrivals in 2019 along with cost pressures had already brought challenges to tourism before the pandemic hit. In

March, international travel came to a halt and tourist arrivals collapsed completely. In June, travel restrictions were eased and tourist arrivals recovered somewhat, reaching about 20% of 2019 levels in July. Tourism has now been brought nearly to a halt yet again, as new rules regarding quarantine upon entry into Iceland entered into force on August 19 while the pandemic is widespread in our most important markets.

Despite the very large negative shock to Iceland's largest export sector, the current account balance was positive by 1.7% of GDP in the first half of 2020, as imports have also fallen and the country entered the recession with a sizeable current account surplus. The Icelandic króna depreciated by 13% in the first nine months of the year. The real exchange rate had approached historically high levels during the recent economic expansion but is now close to its historical average.

Despite the negative shock to domestic demand, inflation has risen recently due to the depreciation of the króna. It measured 1.7% in January but had risen to 3.5% in September. Both short-term and long-term inflation expectations are close to target, though, as the negative output gap that has formed is expected to weigh against the effect of the depreciation on inflation over the next months and the central bank has ample tools to keep inflation close to target going forward.

Rising unemployment is among the most serious macroeconomic repercussions of the pandemic. Unemployment in Iceland has been low in recent years but was already on the rise before the coronavirus crisis hit, reaching 5.0% in February. It is now expected to reach over 10% at the end of the year. It is also worrying that the share of people of working age who do not participate in the labour market has risen since the crisis hit. Tourism, a labour-intensive sector, has contributed the most to these developments.

Economic policy measures

The government has implemented a broad range of economic policy measures in response to the pandemic. The aim of these measures has been: i) to safeguard to the extent possible the cash flow of firms and households, thus lessening the negative feedback loop between the supply-side shock directly due to the pandemic and the demand side of the economy, ii) to protect vulnerable groups, such as the low-income and marginalised workers most affected by containment measures and the hit to tourism, and iii) to set the ground for a fast, forceful and balanced recovery once the right conditions are in place.

On the fiscal side, strong automatic stabilisers and targeted discretionary measures have eased the hit to businesses and households. Among the main fiscal measures undertaken are part-time unemployment benefits, closure subsidies, government guaranteed loans to companies and a boost to public investment. A part of the fiscal response has been a revision of the Fiscal Policy Statement for 2018-2022, the document setting the frame for fiscal policy in this period, allowing for the increased government deficits that result from the pandemic and related policy measures.

The part-time unemployment scheme has been successful in sustaining businesses' cash position while providing generous income support to households and protecting employer-employee relationships. At its peak in April, around 15% of the workforce were registered in the scheme. It has been extended twice, first through August and then again until the end of the year.

Further measures for households include supplemental child benefits, payment of wages during government-stipulated quarantine, and a temporary allowance to withdraw from third-pillar pension funds. Further support to businesses includes support loans for those companies that have suffered a heavy revenue loss, direct subsidies for those that were made to close operations during the containment measures stipulated by the government, payment of wages during notice period for companies fulfilling certain criteria, deferral of tax payments and netting of income tax. The tourism sector is supported by two further measures: a voucher for Icelanders to travel domestically and a government-sponsored marketing campaign in key markets abroad. Public investment and support for innovation have also been boosted in response to the pandemic with an aim to unlock productivity gains. In total, the direct fiscal cost of COVID-19-related measures so far amounts to around 3% of GDP and the indirect cost is an additional 6.5% of GDP.

The Central Bank of Iceland's monetary and macroprudential policy response has also been wide-ranging. The policy rate was cut by 175 basis points between February and May. In March, the countercyclical capital buffer was cut from 2% to 0%, and further steps were taken to improve the liquidity position of banks and thus put them in a stronger position to support their customers. Finally, the Central Bank of Iceland has for the first time conducted quantitative easing (QE). Its announced envelope for the purchase of government bonds in the secondary market amounts to around 5% of GDP this year; it has only purchased a fraction of this amount so far.

The way forward

The COVID-19 pandemic has put into clear focus the importance of strong macroeconomic buffers, economic diversification and international cooperation, not least on economic affairs. For a small, open economy such as Iceland, this is best ensured with strong trade ties, particularly with our neighbouring European economies. A marked decline in the share of external trade in GDP, mostly due to the decline in tourism, is worrying in this regard and must be reversed.

The macroeconomic outlook for the next years is heavily uncertain, mostly due to the pandemic and its repercussions. It seems likely that the crisis will leave permanent scars on some sectors and on production capacity in general. Macroeconomic policy must now accommodate and adapt to developments. While the policy stance should recognise that some of the damage on production capacity cannot be undone, it must also take into account that under these circumstances, macroeconomic policy has an especially important role in preventing long-term unemployment, supporting investment and thus, ultimately, contributing to potential growth.

Though an effective health and containment response has made the COVID-19 crisis less severe for most of Iceland's population and its economy than in neighbouring countries, the country's large tourism sector is heavily hit. The sector faces a difficult and uncertain path to normality. Nonetheless, tourism will likely play a large role in supporting exports and employment when the pandemic ultimately wanes. The potential of tourism to bring a rapid recovery of jobs once the situation normalises is especially important in order to prevent elevated unemployment from becoming permanent.

A recovery in tourism will not be a panacea, though. While strong macroeconomic buffers have ameliorated the shock of a virtual collapse in Iceland's most important export sector, the crisis has highlighted the vulnerabilities associated with a lack of diversification of exports in a small, open economy. The government will aim to support diversification into other sectors with the potential to harvest long-term productivity growth. Government investment has increased in 2020, will be increased even further in 2021 and sustained at a high level in the medium term. There is a special focus on projects that are labour-intensive and support productivity. Government support for innovation has also been increased significantly.

Pivotal to the swift and bold policy response has been the accumulation of ample policy buffers on all fronts in recent years, including a steep decline in public debt, a significant improvement in the external balance, and the greater anchoring of inflation expectations. A medium-term objective of economic policy is the preservation and, if necessary, restoration of these buffers. This includes an eventual adjustment of fiscal policy to ensure that government debt remains at a level low enough to provide room to mitigate the economic shocks the future might hold. Therefore, while the government debt-to-GDP ratio is forecast to rise in the coming years, an aim is set in the draft 2021-2025 Fiscal Plan to stabilise it no later than in 2025.

Key figures for the Icelandic economy

(Percentage change from previous year unless otherwise noted.)

	2019	2020f	2021f
Private consumption	1.3	-5.0	4.2
Public consumption	4.2	2.8	1.8
Gross capital formation	-6.6	-8.9	5.5
Exports	-4.9	-30.0	17.1
Imports	-10.2	-23.2	17.4
GDP	1.9	-7.6	3.9
Current account balance, % of GDP	6.0	1.8	1.0
Unemployment, % of workforce	3.6	7.8	6.8
Consumer price index	3.0	2.8	2.7
General government net lending, % of GDP	-1.5	-10.6	-9.7

2020 and 2021 values are forecasts.
Sources: Statistics Iceland macroeconomic forecast, October 2020; Ministry of Finance and Economic Affairs.

Annex 2: Liechtenstein

Economic situation and outlook

The outbreak of the COVID-19 pandemic in spring 2020 caused massive international turmoil in economies and financial markets and led to a global recession. There is still a high degree of uncertainty about the duration and extent of its economic consequences. Due to the openness of the economy and the important role of capital goods in the export structure, Liechtenstein faced a severe economic downturn in the first half of 2020. However, in terms of the impact on employment, Liechtenstein appears to remain crisis-resistant so far.

The Liechtenstein economy is characterised by a small domestic market and is therefore heavily reliant on exports. The most important export sectors (averaged over the years 2015-2019) are the metal industry (23.5% of direct exports), mechanical engineering (22.5%), automotive supply (12.2%), precision instruments, watches and jewellery (12.0%) and the chemical-pharmaceutical industry (9.8%). Consequently, capital goods (39.9%), raw materials and semi-finished products (38.9%) dominate the Liechtenstein export structure, while consumer goods (17.4%) play a subordinate role.

Economic growth in Liechtenstein had already slowed down in 2019, before the pandemic hit. Imports (excluding Switzerland) decreased by 1.8% compared to 2018. Exports (excl. Switzerland) increased by 1.1% due to a high number of exports of precious metals and gemstones. Most sectors, however, already experienced a decline in exports in 2019. Consequently, the turnover of companies also declined, especially in the industry sector and for general service providers. In contrast, employment growth remained strong at 2.6%. The average unemployment rate in 2019 could also be kept at a very low level of 1.5% compared to 1.7% in 2018.

In 2020, the worldwide economic downturn caused by the COVID-19 pandemic, with shocks on both the demand and the supply side, also took its toll on Liechtenstein. Exports (excl. Switzerland) plummeted by 24.9% in the first half of 2020 and imports (excl. Switzerland) declined by 17.6%. As of May, 908 companies (18% of all companies) and 3 062 employees (7.5%) were affected by business closures ordered by the government in the context of health policy measures. The Liechtenstein industry is furthermore highly dependent on the smooth functioning of the global value chain. As many countries were in full or partial shutdown, production in Liechtenstein was reduced as well. However, it can be assumed that the negative supply-side effects of the COVID-19 pandemic for Liechtenstein will be rather temporary compared to the demand-side effects. Among the sectors most affected by the crisis are the travel and hotel industry, event organisers, cultural businesses and goods manufacturers.

Although the Liechtenstein labour market has proven to be stable and crisis-resistant in the past, the consequences of the pandemic are clearly reflected in the labour market, with unemployment rising from 1.7% in March to 2.1% in July. Furthermore, open positions in the Liechtenstein job market declined by about 50% relative to the same period last year. It is thus likely that employment growth will be significantly weaker in the current year. However, the increase in unemployment has so far been moderate by regional comparison and stable for weeks. The construction industries and the financial centre are still not showing any negative developments in terms of employment. It is especially encouraging that employment has generally remained stable in large industrial companies and most SMEs. This can be attributed to the well-functioning of the measures in the support package, in particular the extended short-time work scheme. It can also be assumed that hoarding of well-trained workers, even in economically difficult times, has a mitigating effect during the crisis.

The finance and insurance sector has traditionally played an important role for the Liechtenstein economy and contributes around 20% of the country's gross value added. The structural characteristics of the Liechtenstein banking and financial sector are especially important for guaranteeing stability in times of crisis. In this context, Liechtenstein's financial sector benefits from high capital and liquidity buffers that increase the loss absorption capacity during the crisis. Remarkably, the banking sector – highly specialised in the Private Banking business – could even increase its profits in the first half of 2020, mainly in light of higher fee income based on increased trading activity of clients during high volatility episodes. Based on these positive developments, the common equity tier 1 (CET1) ratio of the banking sector even increased in the first half of this year, from 20.0% at end-2019 to 21.3% at end of June. The leverage ratio of the banking sector amounted to 7.6% on an aggregated basis.

The public budget has achieved continuous surpluses since 2014 and the forecast for 2020 is to remain in positive territory, despite the negative fiscal implications of the COVID-19 pandemic. Due to the delayed impact of the economic crisis on tax revenues, the consequences will mainly be reflected in the central government accounts after 2020. Depending on the further course of the pandemic and based on the latest economic trends, a recovery is expected in subsequent years after a significant decline in earnings in 2021.

Standard & Poor's confirmed Liechtenstein's top triple-A sovereign rating with a stable outlook once again in May. The rating is based on a predictable political environment, a strong focus on international cooperation and very high wealth levels. The assessment of a stable outlook is based on the very sound budgetary situation, high political effectiveness and regulatory flexibility.

Economic policy measures addressing the COVID-19 pandemic

To cushion the economic consequences of the COVID-19 pandemic, the government adopted a package of measures amounting to CHF 100 million on March 19. Their primary objective has been to safeguard jobs, secure livelihoods and mitigate the consequences for the economy by bridging liquidity shortages of affected companies. As a result of an extension of the package and additional grants from the municipalities, the total budget for the economic policy measures since April 8, amounts to CHF 130 million (1.93% of GDP).

In order to avoid possible liquidity shortages, companies could apply for a bridging loan up to CHF 300 000 from Liechtensteinische Landesbank (LLB) as early as March 23. Eligible were companies that had run into liquidity shortages due to the pandemic and the related (partial) lockdown. The loans are limited to five years and interest-free until 30 June 2022. For this purpose, the government issued a default guarantee in favour of the Liechtensteinische Landesbank amounting to a maximum of CHF 35 million. The programme ended on 30 September and has provided over CHF 23 million in loans to 267 companies.

Short-time work is one of the most important measures to compensate for the economic consequences of the COVID-19 pandemic. Under the conditions laid down in a special regulation, companies can claim short-time work compensation for their employees if they suffer a loss of working hours as a result of the pandemic and its effects. This measure has been extended until the end of 2020 in order to provide planning security for companies. The government expects that in certain sectors of industry and commerce the effects of the pandemic will only be felt with a delay or, as in the travel and event industry, will last for a long time to come. 969 companies have pre-registered with the Office of Economic Affairs for short-time work for over 11 500 employees. The peak of the actually paid out compensation was recorded in the month of May, when 6 914 employees, which corresponds to around 17% of the workforce, were on short-time work. As of September, CHF 35 million of a total budget of CHF 50 million in short-time work compensation has been paid out.

For self-employed persons and micro-enterprises directly and indirectly affected by the official business closures, a grant programme of the total amount of CHF 25 million was put in place. As of September, a total of over CHF 10 million has been paid to local entrepreneurs through this measure. For cases of particular hardship, Liechtenstein's municipalities have provided additional support amounting to a maximum of CHF 20 million. In addition, officially closed or most severely affected companies entitled to short-time work compensation could apply for an operating grant of up to 50% of the creditable loss of earnings. By September, a total of CHF 3.9 million has been paid out to 233 companies. Companies which were officially closed were also able to apply for a grant to reopen. 118 companies received a total of CHF 1.5 million from this grant. The duration of the various sub-measures varied, but all of them expired by the end of September at the latest.

As an additional measure, companies were allowed to defer VAT charges as well as contributions to the old age and survivor's insurance (OASI). By September, the OASI granted deferrals for a total amount of CHF 2.9 million and VAT deferrals processed by the tax administration amounted to CHF 1.5 million.

The way forward

With the exception of short-time work and daily allowances for persons in quarantine, which have both been extended until the end of the year, all other measures were phased out by 30 September at the latest. The support measures have helped many companies to cope with the consequences of business closures and other official measures. The extended short-time work scheme has been very effective and has so far prevented large waves of layoffs. Although future waves of layoffs or even insolvencies cannot be ruled out, this scenario seems rather unlikely at present. Nevertheless, a high degree of uncertainty remains, of course. Therefore, the further course of the pandemic and the economic development must be monitored closely in order to be able to take further measures if necessary. Since autumn, a second wave of

COVID-19 infections has been spreading in most European countries. The number of cases in Liechtenstein has also risen again sharply since October. The government is relying on increased social distancing and an obligation to wear masks in publicly accessible buildings to contain the virus and announced new measures to this end in mid-October. A renewed, partial shutdown of entire sectors of the economy would have serious economic consequences and can hopefully be avoided through consistent adherence to the rules of social distancing.

For a large number of small and medium-sized companies, the COVID-19 pandemic has led to severe cutbacks, which, at least in some cases, fundamentally calls into question previously proven corporate strategies. Far-reaching home office regulations, web-based learning, online meetings and conferences and continuously automated supply chains, just to name a few areas, have seen a huge boost. A close connection between the degree of digitisation and competitiveness is also becoming increasingly apparent. While the big tech companies have been able to further expand their market power, many traditional companies are facing major problems. As digital business models and the ability to automate are increasingly becoming a decisive competitive advantage, the crisis also presents an opportunity for many companies to move towards digital and more sustainable business models.

Key figures for the Liechtenstein economy

	2017	**2018**	**2019**	**2020 (1st Half)**
Direct exports growth (without Switzerland)*	0.5%	8.5%	1.1%	-24.9%
Direct imports growth (without Switzerland)*	1.1%	0.6%	-1.8%	-17.6%
Gross domestic product (GDP), m CHF	6 452	6 725		
GDP change from previous year	5.0%	4.2%		
Consumer price inflation[1]	0.5%	0.9%	0.4%	-0.9%
Employment growth	3.2%	2.5%	2.6%	
Share of persons employed by economic sectors:				
- Agriculture and forestry	0.6%	0.6%	0.6%	
- Manufacturing	37.5%	37.4%	36.5%	
- Services	61.9%	61.9%	62.9%	
Unemployment rate[2]	1.9%	1.7%	1.5%	2.1%
Unemployed persons under 25[3]	2.6%	2.1%	1.5%	2.0%
Public Surplus/ Deficit (+/-), million CHF	189	200		
Public Surplus/ Deficit (+/-), in % of GDP	3.1%	3.0%		
Public expenditure quota, in % of GDP	20.5%	20.3%		

Source: *Office of Statistics Liechtenstein*
Office of Economic Affairs – Labour Market Service

* Nominal growth rates.
[1] For 2017, 2018 and 2019: Annual average. For 2020: July compared to July of 2019.
[2] For 2017, 2018 and 2019: Annual average For 2020: Rate as of July 31.
[3] For 2017, 2018 and 2019: Rate as of December 31st. For 2020: Rate as of July 31.

Annex 3: Norway

General economic situation

The coronavirus pandemic has caused a setback in the Norwegian economy without precedent since World War II. Economic activity has recovered in line with falling infection levels and easing of the strictest infection control measures, but GDP is still well below the pre-crisis level. A recovery in oil prices after the sharp drop in March and strong consumption growth have also boosted economic activity. Late March saw the highest registered unemployment since World War II. Since then unemployment has declined rapidly. The Ministry of Finance estimates that GDP for mainland Norway (excluding petroleum production and shipping) will decline by 3.1 percent this year, followed by a 4.4 percent increase next year. This will bring the activity level next year above its pre-crisis level, but nonetheless below the levels forecast prior to the coronavirus outbreak.

The strength of the rebound is uncertain and depends on how the pandemic develops. Norway has in recent months seen an increase in outbreaks. New infection control measures have been introduced, primarily in areas with the highest number of new cases per capita. The development increases the risk of a new setback and of unemployment remaining high. The economic forecasts rest on assumptions that there will be no new wave of COVID-19 as severe as witnessed earlier this year and that a vaccine will be widely available during next year.

The unprecedented contraction and the expected slow recovery of the global economy weigh on an open Norwegian economy. Norwegian export firms are likely to be faced with weak demand from abroad for quite some time. On the other hand, the partial rebound of oil prices and the temporary petroleum tax reductions adopted in June, are expected to dampen the negative impact on the Norwegian offshore supply industry.

Unemployment has declined since the beginning of April. Still, a high number of workers remain furloughed. By mid-October, the registered unemployment rate was 3.6 percent of the labour force, down from 10.6 percent in March. At the same time employment has fallen. In Q2, employment was down 1.7 per cent compared to the same quarter last year. The latest forecast is that unemployment will increase from 2.2 percent in 2019 to 4.9 percent this year.

Wage growth is set to be moderate this year. On 21 August, the parties in key industries exposed to international competition agreed on a norm for wage growth of 1.7 percent. At the same time, depreciation of the Norwegian krone over several years has served to improve cost competitiveness. Subsequent wage bargaining has resulted in settlements within the norm. Exceptionally low electricity prices have reduced consumer price inflation. Consequently, household purchasing power should increase this year in spite of low wage growth. Electricity prices are expected to normalise next year, thereby allowing for the prospect of negative real wage growth.

Housing prices increased moderately through 2018 and 2019. After the outbreak of the COVID-19 pandemic, house prices fell in March and April, but the price fall was recovered already in May. Prices have continued to increase through the summer. Low mortgage rates are probably the most important factor behind the rapid recovery in the housing market. Growth in household debt has levelled off somewhat in the last years, but the debt level is historically high and is a source of vulnerability for the Norwegian economy. High debt means that even minor changes in interest rates, income or house prices may cause households to rein in consumption, which would reduce economic growth.

Although lower than six months ago, uncertainty about future developments in the Norwegian economy remains significantly higher than normal. Economic activity may fall again in the event that authorities are forced to reinstate strict infection control measures.

Macroeconomic policy framework

The Norwegian fiscal policy framework underpins stability in an economy with large and fluctuating petroleum revenues. By transferring all government revenues from petroleum activities to the Government Pension Fund Global (GPFG) and over time aligning withdrawals with the expected real return on the Fund (estimated at 3%), the fiscal budget is better protected from fluctuations in petroleum revenues. It also ensures that current spending of petroleum income over the budget can be sustained.

The fiscal guidelines place emphasis on stabilising economic fluctuations. Importantly, the automatic stabilisers are allowed to function, since petroleum revenue spending is measured by means of the structural, rather than actual, non-oil deficit. The guidelines also allow the fiscal budget to be used actively to stabilise the economy. In any given year, fiscal policy shall be tailored to the cyclical situation, and spending of petroleum revenue can thereby deviate from 3% of the Fund’s market value. Further, the guidelines specify that the spending impact of major changes to the Fund capital or the structural deficit shall be evened out over several years.

As a result of the large fiscal measures that have been introduced after the outbreak of the corona virus, the petroleum revenue spending in 2020 is historically high. The structural non-oil fiscal deficit is calculated to increase by 4.5% of Mainland Norway trend GDP from 2019 to 2020, compared with 0.4% from 2018 to 2019 (the fiscal policy indicator), and to correspond to 3.9% of the Fund’s market value at the beginning of 2020.

The Government’s budget proposal for 2021 implies petroleum revenue spending corresponding to 3.0% of the Fund’s market value. The structural non-oil fiscal deficit is expected to decrease by 2.9% of Mainland Norway trend GDP from 2020 to 2021, as temporary COVID-19 measures are phased out. The real growth in underlying fiscal budget expenditure is estimates at minus 4.6% in 2021, down from plus 10.1% in 2020. Overall, the budgets for 2020 and 2021 have a strong expansionary effect on economic activity in mainland Norway.

The operational target of monetary policy is annual consumer price inflation of close to 2% over time. Norges Bank operates a forward-looking and flexible inflation-targeting regime, to contribute to high and stable output and employment and to counteracting the build-up of financial imbalances. Norges Bank has lowered the key policy rate three times since March 2020, to 0.00%.

Financial stability and financial market policy

Since the global financial crisis in 2008, Norwegian banks’ common equity tier 1 (CET1) capital ratio has more than doubled. At the end of Q2 2020, the banks’ CET1 capital ratio was 17.6% and the leverage ratio stood at 7.5%. Norwegian banks have also become less dependent on short-term market funding in recent years, and have built up considerable liquidity buffers in line with the liquidity coverage requirement (LCR) introduced in the wake of the financial crisis. At the end of Q2 2020, the banks held liquidity buffers corresponding to around 144% of the requirement.

Norwegian insurers generally maintain a sound margin to the Solvency II requirements. The life insurers' overall solvency coverage ratio, i.e. the ratio of eligible own funds to the solvency capital requirement (SCR), was 228% at the end of Q2 2020. Life insurers and pension funds have managed to cut costs and adjust their risk-taking, e.g. by refocusing the sale to contracts where the insured carries more of the risk. From January 2019, pension funds are subject to a simplified version of the Solvency II regime. The funds' overall solvency coverage ratio was 184% at the end of Q2 2020.

The non-life insurance market is characterised by a relatively diverse supply side, including both Norwegian and foreign companies, combined with strong earnings. Norwegian non-life insurers' overall solvency coverage ratio was 238% at the end of Q2 2020.

Norwegian households' debt burden has been increasing steadily for a long period. Average debt is now more than two times disposable income. The credit growth has dampened somewhat in recent years and is now at approximately the same level as the growth in disposable income. Elevated real estate prices and high household debt are among the most important vulnerabilities in the Norwegian financial system, as also highlighted by the ESRB, the IMF and the OECD. According to Norges Bank, financial imbalances are approximately unchanged since the outbreak of COVID-19. However, owing to persistently high house price inflation and rising household credit growth, financial imbalances may build up further.

A number of measures have been introduced in recent years to limit the risk posed by household indebtedness. In addition to the general strengthening of capital requirements for banks, the capital requirements for residential mortgages have been raised further. Moreover, the countercyclical capital buffer requirement, which is intended to strengthen banks' resilience to absorb loan losses, was increased to 2.5% from 31 December 2019. In March it was reduced to 1% to increase banks' lending capacity as a response to the COVID-19 pandemic. To promote a more sustainable residential mortgage market, regulation on new lending secured by a residential mortgage was introduced in 2015, and later renewed and somewhat tightened. The regulation was temporarily loosened in Q2 and Q3 2020 in response to the COVID-19 pandemic. The Ministry of Finance will make a decision on whether to retain and amend the regulation before the current regulation expires at the end of this year.

As a consequence of the EEA Agreement, Norwegian financial market regulation is developed in line with new EU requirements. Nevertheless, there is a backlog of legal acts not yet incorporated into the EEA, due to structural factors as well as capacity limitations. Norwegian authorities put much effort into the incorporation of outstanding acquis into the EEA.

General pandemic situation

In Norway, the infection spread started in early March 2020. The total number of confirmed COVID-19 deaths in Norway is 278 per 20 October. The cumulative curve of deaths related to the coronavirus outbreak has been relatively flat since mid-May. The hospitals have had good capacity throughout the pandemic. According to the Norwegian institute of public health, transmission was still at a relatively low level as of week 41, even though there were local outbreaks and clusters that require contact tracing in some municipalities.

Norwegian authorities introduced strict containment measures on March 12, which shut down large parts of the economy. The measures were particularly comprehensive until April 26, when schools, day-care centres, universities, offices and sports centres, etc. were temporarily closed. Thereafter the authorities gradually reversed the infection prevention measures.

Macroeconomic policies in response to the virus outbreak

Norwegian authorities introduced a broad range of economic policy measures to reduce the economic cost to society and to ease the forthcoming economic downturn. Fiscal as well as monetary and financial policy tool were used. Norges Bank lowered the key interest rate rapidly from 1.5 percent in March 2020 to zero in May 2020, and introduced extraordinary liquidity measures to support the functioning of financial markets. The Ministry of Finance reduced the countercyclical buffer requirement from 2.5 to 1 percent in March in order to increase banks' lending capacity.

A broad set of fiscal measures are implemented, including:

- A temporary change in the scheme for furloughed workers, including higher compensation for workers and lower financing responsibility for employers.
- Higher compensation for recipients of unemployment benefits.
- Compensation scheme for self-employed

- A state guarantee scheme for new bank loans to all-sized enterprises.
- Direct grants for voluntary organisations, sports, cultural arrangements, cultural institutions and the travel industry.
- Direct grants for start-ups and new businesses.
- Direct grants and government support to taxable enterprises with at least a 30 percent drop in revenue. The scheme was applicable from March to August.
- A temporary scheme of tax relief, postponed tax payments and a reduction in the low rate of VAT, which includes passenger transport, accommodation and parts of the cultural sector.
- Direct grants for enterprises and organisations that take back their temporarily dismissed workers.
- Higher transfers to municipalities and higher spending on health services.

Several of the economic measures were developed in close contact with the social partners, including the Norwegian Confederation of Trade Unions (LO) and the Confederation of Norwegian Enterprise (NHO). This collaboration was crucial for achieving an effective response and a rapid implementation of the measures.

The effect of the measures in response to the virus outbreak

The relatively fast upturn in the Norwegian economy indicates that the economic policy in response to the virus outbreak has been effective. The central government has incurred a large proportion of the income loss of households and the businesses, both through the automatic stabilisers and through direct compensation schemes.

Appropriations for fiscal measures (excluding loans and guarantees) add up to NOK 126.3 billion or 4,2 % of mainland GDP (see table below). Reduced tax revenues and higher expenses due to the economic downturn (automatic stabilisers) weaken the budget further by about NOK 40 billion. In total, the corona outbreak weakens the oil-adjusted budget balance in 2020 by about NOK 165 billion or 5,5 % of mainland GDP. These estimates are based on the technical assumption that the most acute phase of the crisis lasts for three months, and that the economy recovers quickly.

Economic measures for 2020 adopted or proposed in response to the pandemic

NOK billion

	Appropriation 2020
Measures targeting businesses	66.1
Counter income shortfall for businesses, etc.[1]	*34.8*
Compensation scheme for businesses suffering large sales reductions	*7.0*
Aviation sector, incl. loss provision for guarantee scheme	*14.3*
Loss provision, government loan guarantee scheme via banks	*10.0*
Expansion of income support schemes for individuals	16.5
Other compensation schemes[2]	11.1
Measures for sectors with duties of critical importance to society[3]	25.4
Other measures	7.2
TOTAL Economic measures	**126.3**

[1] Includes, inter alia, a reduced obligation for employers to pay wages upon furloughing, reduced employer liability for care benefit and coronavirus-related sickness absence, temporary tax reductions and the support scheme for getting furloughed employees back to work.
[2] Includes, inter alia, compensation for cultural events, charities and sports, and compensation for national road ferries, trail transport and other public transport.
[3] Includes, inter alia, appropriations for the health sector, local government, the police and the Norwegian Labour and Welfare Administration.

Source: Ministry of Finance.

At the beginning of October 2020, the temporary compensation scheme for the business sector had paid out around 6.3 billion NOK. The accommodation, restaurant and service industry is the largest receiver within this support scheme. The scheme was terminated in August 2020.

The way forward

The Norwegian Government has introduced measures in three phases. The first phase involved acute measures to avoid unnecessary bankruptcies and to secure liquidity. The second phase involved specific measures and compensation schemes for sectors, households and industries that were hit particularly hard. The third phase occurs when containment measures are scaled back, social activity is normalised and economic activity can recover. In the third phase, the focus will be on stimulating activity and employment.

For the way forward, the Norwegian Government will base its policy on five pillars: (i) initiatives to increase employment, (ii) initiatives to secure a sound and broad economic foundation, (iii) initiatives to create a green future, (iv) initiatives to increase skills and expertise, (v) initiatives to improve social inclusion.

The long-term economic effects of the coronavirus crisis are uncertain, and it is too early to make highly specific predictions. To support its assessments, the Government appointed, in May this year, a public commission to examine the basis for economic growth, production, employment and welfare after the pandemic. The Commission will submit its final report in the first quarter of 2021, but has been mandated by the Ministry of Finance to also submit interim reports along the way, as input for the preparation of the National Budget and the white paper on Long-term Perspectives on the Norwegian Economy.

Key figures for the Norwegian economy

(% volume change from previous year)

	2019[1] NOK bn	2019	2020	2021
Private consumption	1591.3	1.5	-6.0	7.8
Public consumption	866,7	1.7	2.2	1.1
Gross fixed investments	926.5	6.1	-5.0	1.0
Petroleum sector	178.4	12.8	-2.2	-11.5
Non-oil business sector	335.8	6.8	6.2	3.4
Exports	1311.5	1.5	-2.1	4.3
Crude oil and natural gas	463.7	-4.3	9.0	6.3
Goods from mainland Norway	432.3	4.9	-4.4	3.5
Imports	1249.3	5.2	-10.6	4.7
GDP	3549.4	1.2	-1.5	4.5
GDP mainland Norway[2]	3038.6	2.3	-3.1	4.4
Consumer price inflation (CPI)		2.2	1.1	3.5
Underlying inflation (CPI-ATE)		2.2	2.7	2.2
Wage growth		3.5	1.7	2.2
Employment growth[3]		1.6	-1.6	0.6
Unemployment rate (LFS)[4]		3.7	4.7	4.4
Crude oil per barrel, NOK, current prices		564	408	424
General government net lending[5]	288.7	8.2	6.8	6.6
Structural, non-oil fiscal deficit[6]	242.6	7.9	12.3	9.4

[1] Current prices
[2] Excluding petroleum production and shipping
[3] % change in the number of employed persons
[4] % of workforce
[5] as % of GDP
[6] as % of mainland trend GDP

Sources: Statistics Norway and Ministry of Finance (National Budget 2021, October 2020)

Annex 4: Switzerland

Economic situation and outlook

In the first half of 2020, Switzerland experienced its largest decline in GDP in decades, with a 1.9% drop in the 1^{st} quarter and an 7.3% drop in the 2^{nd} quarter. Services were the largest contributing factor to this decline, since they were most affected by business closures and various restrictions. Hotels, restaurants as well as tourism and the health sector were particularly impacted. The value added of the manufacturing sector declined by 10.3% in the 2^{nd} quarter.

The situation on the labour market deteriorated rapidly: first and foremost, companies responded to the crisis by resorting heavily to short-time work compensation (STWC). In April about 1.3 million employees (24% of the workforce) received STWC. In June, 0.5 million employees (9% of the workforce) were still supported by STWC according to provisional figures. Massive use of short-time working has cushioned the decline in employment as well as the rise in unemployment. Seasonally adjusted employment in full time equivalents fell by 0.7 percent in the 2^{nd} quarter and by 0.6% in the 3^{rd} quarter. The unemployment rate (Swiss definition based on registered job seekers), which stood at 2.5% in February, rose to 3.4% at the end of May, but decreased again to 3.2% at the end of September. The impacts varied among sectors. The hotel, restaurant, construction and tourism sectors recorded the highest increases in STWC and unemployment, while the banking and insurance sector experienced only minor short-term effects. The widespread use of short-time work compensation prevented further job losses and substantially supported household incomes.

Internal demand, traditionally being a stabilising factor in the Swiss economy, decreased by a record low of 10.2% in the 2^{nd} quarter. The mobility of the population as well as internal goods trade started increasing again after the end of April, when restriction measures started to be gradually lifted, and led to catch-up effects, for example in the retail sector. Consumption and investment demand in the 2^{nd} quarter performed better than expected, as well as foreign demand.

According to the October forecast, the GDP decline for 2020 is expected to be –3.8% (June forecast: -6.2%) at an annual average unemployment rate of 3.2% (June forecast: 3.8%). GDP growth in 2021 is forecast at 4.2%. This is based on the important assumption that the pandemic can be controlled by targeted and local health policy measures without further tightening, that second-round economic effects such as redundancies of employees and company bankruptcies remain limited, and that foreign demand gradually returns to normal. As the past weeks and again increasing new infection cases show, the pandemic situation evolves quickly.

Despite the rather optimistic predicting indicators for this summer, the crisis has not yet been overcome and forecast risks remain substantial. The declines in income and consumption in the first half of 2020 will likely not be fully compensated by the catch-up effects. Falling business investments will weigh on economic growth in the medium term. Further, some health policy measures continue to restrict business activities in certain sectors, for example tourism. Finally, the uncertainty regarding the future evolution of the pandemic remains important. New infection cases have been increasing rapidly in October, which made the second wave evident. On October 19, the government has introduced new health policy rules, including expanding the obligation to wear masks, limiting public gatherings of people and recommending telework.

Budgetary situation

Due to the COVID-19 crisis, the general government fiscal balance will show a sharp deficit in 2020. At the federal level, the extrapolation made in June shows that the ordinary fiscal balance is currently expected to show a deficit of 3.1 billion francs in 2020 rather than the budgeted 0.3 billion franc surplus. Reduced revenues (-5.2 billion francs), particularly from VAT and federal income tax, will only be partially offset by lower expenditures (-1.8 billion francs), mainly the lower tax share paid to the cantons and to social insurances. In addition, COVID-19 extraordinary expenditures are estimated at 17.8 billion francs (nearly 25% of the ordinary budget) although Parliament has approved up to 31 billion francs. Much lower than expected at first are mainly the need for the short-time work compensation (12.2 billion francs instead of 20.2 billion francs) and for the COVID loss of income compensation (2.3 billion francs instead of 5.3 billion).

The extraordinary expenditures will have to be compensated for in the future. The government intends to make a decision on how to do this at the end of the year. Both chambers of Parliament have argued that the compensation should not lead to a savings program or a tax increase. The debt brake, having brought about a reduction of public debt since its introduction in 2003, is at the origin of a strong fiscal position that allowed it to respond with the largest public sector support program in Swiss economic history. These expenditures consisted mainly in transfers to those benefitting from the STWC scheme, the unemployed and the self-employed, as well as in purchases of medical equipment, expected losses on government guarantees of the COVID bridge loans and other measures. The budget for 2021 expects a deficit of 2.5 billion francs, but according to the Swiss debt brake, which takes into account the current economic situation, this corresponds to a structural surplus. COVID-19 measures amounting to about 3 billion francs are foreseen in the ordinary budget. There is some uncertainty about how tax revenue will evolve: due to the temporary suspension of interest on arrears in 2020, some of the tax revenues will be shifted to 2021 and onwards. The financial plan also expects deficits for 2022 – 2024, all of which constitute structural surpluses except for the one in 2024.

Economic Policy – Recent Developments

Switzerland and the EU have negotiated an institutional agreement with the aim of consolidating and further developing their relationship, strengthening legal certainty and ensuring a better functioning of the bilateral market access agreements. On 7 June 2019, the Federal Council gave a positive signal in view of the conclusion of the agreement, confirming that the current outcome of the negotiations was largely in Switzerland's interests. However, as consultations of the most important political and economic stakeholders showed, three points need to be clarified before the agreement can be concluded. These are state aid provisions, wage protection as well as the EU Citizens Rights Directive (CRD). The Federal Council is currently working out solutions with sufficiently broad political support in close cooperation with social partners and cantons. It will define the Swiss position in the coming weeks and start discussions with the EU on the outstanding issues.

Economic policy measures addressing the COVID-19 crisis

In Switzerland, health policy measures in order to contain the pandemic started in March. On 16th March, the government declared the ‘extraordinary situation’ in terms of the Epidemics Act. A large number of businesses (shops and restaurants, for example) had to shut down their operations between mid-March and the end of April or even later as part of the containment measures. The Swiss government reacted swiftly by implementing economic policy measures in order to attenuate the economic consequences of the containment measures. The mitigating measures focused on maintaining employment, securing salaries and household revenues and avoiding insolvency due to liquidity problems.

In order to mitigate the economic consequences of unemployment during the pandemic and to maintain purchasing power, the government extended the duration of unemployment insurance benefits for unemployment spells which fell in the period 1st March to 31st August. Thanks to this measure, unemployed persons could receive up to a maximum of 120 additional daily allowances and the exhaustion of the maximum entitlement period was prevented for all unemployed persons for a phase of six months.

The government has also extended and facilitated the short-time work compensation (STWC) scheme to compensate for a temporary drop in activity and to maintain jobs. The application processing was simplified (until December 31st). Employees in fixed-term employment, temporary workers, on call workers (until August 31st), apprentices and employer-like employees (until May 31st) were exceptionally entitled to STWC. The Federal Council has suspended the 10 days waiting period (until May 31st) and companies' co-payment for recourse to short-time work compensation (until August 31st). The most extensive use of short-time working was in April, with 1.3 million employees (24% of the workforce) from around 150 000 companies. By 31st August, CHF 6.7 billion was paid for short-time work compensation.

A loss of income compensation scheme was established for self-employed persons, for quarantined workers and for parents with unforeseen care needs (“Corona Erwerbsersatz”): Self-employed persons who suffer a loss of income due to the closure of a business or the ban on events ordered under federal law are entitled to compensation (until September 16th). All other self-employed persons who are only indirectly affected by the measures but who nevertheless suffer a loss of earnings are also entitled to compensation if their income is at least CHF 10 000 per year, but does not exceed CHF 90 000 per year (hardship rule until September 16th). Up till 6th September, CHF 1.7 billion was paid for the new loss of income compensation scheme.

Companies affected by the COVID-19 crisis were able to apply for bridging loans partly guaranteed by the federal government between 26 March and 31 July 2020 to ensure their liquidity. This immediate aid in the form of specific transitional loans through a guarantee program of CHF 40 billion aimed at ensuring that affected SMEs (sole proprietorships, partnerships and legal persons) obtain credits through banks. Those loans have been made easily accessible to SMEs thanks to simplified and standardised procedures. Companies could apply to their banks for bridging loan facilities representing a maximum of 10% of their annual turnover and no more than CHF 20 million. Loans of up to CHF 500 000 will be fully secured by the Confederation at an interest rate of zero percent initially. Loans that exceed CHF 500 000 will be secured by the Confederation for 85% of their value; interest rates are set at 0.5 percent p.a. initially. Both loans are to be paid back within a five year period, extendable once for two years. By 13 August 2020 136 000 loan agreements with a total amount of CHF 16.79 billion have been signed. This corresponds to nearly one quarter of all SMEs in Switzerland. On 22 April 2020, the Federal Council approved a guarantee system, in cooperation with the cantons, in order to also support promising start-ups with liquidity problems due to the coronavirus.

Further measures have been taken, such as specific measures to support public transportation, the cultural and the sports sector, the possibility of extending payment deadlines for direct federal tax, VAT and other taxes without default interest and deferred payment of social security contributions. The Swiss National Bank and the Financial Market Supervisory Authority FINMA introduced temporary measures to support the provision of liquidity to the real economy.

The measures taken to counter the economic downturn correspond to an important fiscal stimulus. The Federal Council has approved expenses for the discussed measures amounting to CHF 31 billion as well as expenses on sureties and guaranties amounting to CHF 40 billion. The total authorised funds thus amount to approximately CHF 71 billion, representing up to 11% of the estimated GDP in 2020. However, it currently appears that the expenditure approved to date will not be fully utilised. Based on the available information, the effective burden of expenses should be much lower, at around CHF 17.8 billion. The total amount of COVID-loans that is held by Swiss companies (excl. airlines, sports, etc.) is around CHF 16.7 billion.

How to further proceed

Switzerland has an effective system of automatic stabilisers, which contribute to overcoming this crisis: short-time work compensation, unemployment benefits and cantonal transfers (including social assistance) absorb a large part of the income shock. They help to maintain the purchasing power of households, thereby enabling the economy to recover quickly. Some of these instruments have been extended during the crisis. Although many of these additional measures have been lifted already or will be lifted by the end of this year, the automatic stabilisers will remain effective.

The measures taken to counter the economic downturn correspond to an unprecedented fiscal stimulus (up to 11% of GDP, including credits). However, as mentioned above, current estimates show that not all of the authorised funds will be needed. To date, the re-opening of the economy has driven economic recovery. Further focus is set on controlling the pandemic by health policy measures. Further, and in addition to the mentioned economic policy measures, the Swiss National Bank contributes to providing a stable environment for the economy. The need of additional measures in case of economic risks materialising is currently examined and discussed. Additional measures in order to stabilise the economy would have to be targeted, timely and temporary. Potential economic risks include the remaining restrictions by hygiene and distance rules for businesses, which increase their production costs, as well as a persistent weak demand, which could damage long-term growth. At present, there are no signs of such persistent demand weakness.

The declaration of the ‘extraordinary situation’ in terms of the Swiss Epidemics Act allowed the government to order the introduction of uniform measures in all cantons and based on the Constitution to rule by emergency ordinances which have to be limited in time (six months). Many measures have been lifted in the meantime. However, the parliament adopted a law formalising some measures that should be continued until the end of 2021 and allowing for some additional competences for the government in order to fight the pandemic. This COVID-19 law entered into force on 26 September 2020. While decisions in this first phase of reacting to the pandemic have been centrally organised, the competence for measures containing the pandemic as well as for measures mitigating negative impacts of imposed restrictions has been handed over to the cantons, following the subsidiarity principle in Switzerland. Regional approaches for containment have gained in importance and economic support for especially affected entities also requires regional knowledge and experience. With the second wave currently materialising, the cantons and the government work closely together in order to decide on new health policy measures aimed at controlling the pandemic.

Key figures for the Swiss economy

(% volume change from previous year)

	2019[1] **CHF bn**	**2018**	**2019**	**2020**	**2021**
Private consumption*	378	0.8	1.4	-4.4	5.3
Public consumption*	81	0.9	0.9	1.8	1.8
Construction investments*	67	0.0	-0.5	-1.5	0.0
Capital investments*	119	1.2	2.2	-6.0	3.0
Exports*	412	5.0	2.1	-6.6	7.0
Imports*	325	3.3	2.5	-9.9	7.3
GDP*	727	3.0	1.1	-3.8	4.2
Inflation (Consumer Price Index)	-	0.9	0.4	-0.7	-0.1
Unemployment rate (ILO definition), % of labour force	-	4.7	4.4	-	-
Financial balance of the government sector in % of GDP	-	1.3	1.4	-3.7	-1.2
Government debt in % of GDP	-	25.8	25.8	29.1	28.7

* *National accounting data are expressed as the y-t-y percentage change in prices of the preceding year (real values)*

1 *Level at current prices*

Sources: State Secretariat for Economic Affairs (SECO), Federal Statistical Office (FSO), Federal Department of Finance (FDF). The grey shaded values are forecasts.