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Autor: [s.n.]
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THE SWISS ECONOMY IN 1979—SITUATION AND PROSPECTS

In 1979, Switzerland's economic situation was a little more favourable than had been expected. The *effective national product*, which had stagnated the previous year, should have increased by 1.5 per cent to 2 per cent by the end of the year, according to the December number of the "Bulletin" published by the Swiss Credit Bank. Three factors are responsible for this improvement. On the one hand, the change from a floating system of exchange rates to an official control system in the autumn of 1978 had the expected positive effects on the economic situation on the world level. Geared as she is to exports, Switzerland obviously benefits from this improvement. In addition, it was possible for the first time in years to avoid a revaluation of the franc. Consequently, the competitiveness of the Swiss economy did not decline; on the contrary it was strengthened owing to the fact that inflation in most other countries was more pronounced than in Switzerland. Finally, the unaccustomed abundance of cheap funds at the beginning of the year favoured *investments*, particularly in the building sector. Together with the recovery of the situation at home and orders from abroad, *consumer demand* also increased; recently, it seems to have been stimulated even further by the more rapid rise in the cost of living, due in part to the soaring price of oil. The evolution of *prices* therefore is the principal dark spot on the Swiss economic scene. According to the cost of living index, the rate of inflation, which to all intents and purposes was nil in November 1978, amounting to no more than 0.6 per cent, rose to 5.2 per cent at the end of November 1979. This increase had led to demands for increased wages, which risks starting up spiralling costs and prices again.

During the first ten months of 1979, the turnover of *foreign trade*, i.e. the sum of imports and exports, increased by 9.2 per cent compared with the same period in 1978, to amount to 75.9 billion francs; but in fact only *imports* increased strongly (13.5 per cent in nominal terms, 10.5 per cent in real terms) to total 39.9 billion francs. This growth reflects the recovery in the situation in Switzerland during the course of the year. In value, *exports* increased by

4.9 per cent (2.1 per cent in real terms) to total 36 billion francs. This growth is not only far smaller than that of imports but also than that of the volume of world trade, estimated at 5 to 6 per cent. For the first time since the year of recession 1975, Switzerland has therefore lost ground, in particular owing to the strong revaluation of the Swiss franc at the end of the summer 1978, which had its repercussions on exports in the first half of 1979. Consequently, the *balance of trade* deficit rose from 810 million to 3.9 billion for the first ten months and is expected to reach some 4.5 billion francs for the year as a whole compared with 520 million in 1978. As for the *balance of services*, the drop in the receipts from tourism will be counterbalanced by the increase in the proceeds from investments abroad due to the rise in interest rates and by the increase in receipts from other sectors, such as insurance and the transit trade. Consequently, the *balance of revenues* surplus which amounted to 7.9 billion francs in 1978, is expected to total no more than 4 to 5 billion in 1979. This surplus will have been more than offset, in 1979, by *exports of capital* which reached record figures. Transactions requiring permits totalled nearly 25 billion francs during the first ten months of the year, exceeding by about one third the level reached the year before. Furthermore, the big difference in interest rates has led to big investments abroad. The resulting tremendous demand for foreign currency not only meant that the *rate of the Swiss franc* did not in fact rise, but even enabled the National Bank to resell the currency it had been obliged to buy at the beginning of the year in order to put a brake on the revaluation of the Swiss franc. The *monetary reserves* of the issuing bank, which reached the all-time high of 43.2 billion francs in January, settled at 35.1 billion at the end of November.

Economic activity in Switzerland, which always follows the evolution of the international situation some six to twelve months later, should still be satisfactory during the first months of 1980. But the negative influence that will undoubtedly come from abroad should become more considerable later. In addition, the slightly more restrictive trend in

monetary policy as well as the fiscal policy will probably act as brakes. Therefore the growth in the *real national product* will be far lower than in 1979. With regard to the different branches, the building sector should still be working to full capacity until the summer; but signs of stagnation will probably appear subsequently, especially in the housing sector. Similarly, foreign demand will weaken. The slowing up of economic activity could also curb the surge in consumer buying, especially as savings tend to increase in periods of insecurity. Under these circumstances, and in view of the trends in economic and monetary policy, it may be considered that the *rise in the cost of living* in 1980 will not exceed the present level of 5.2 per cent, provided however no unforeseen difficulty arises on the international scene; if the efforts of the Swiss authorities, and the fight against inflation abroad are successful, there might even be a slowing up in the rise of prices. With regard more particularly to *foreign trade*, imports may be expected to remain large, at least during the first half of 1980. As exports will probably stagnate owing to the slowing down in the world situation, the deficit in the balance of trade will undoubtedly increase still further. Similarly, the drop in interest rates expected in other countries may reduce the proceeds from Swiss investments abroad. In all likelihood, the *balance of revenues* surplus will therefore continue to drop. But as the balance will still be favourable, the *Swiss franc* will remain a strong currency. If the Swiss currency were to strengthen still further, it could simplify the fight against inflation; but any strengthening would remain moderate and the excitement that reigned on the exchange markets before the autumn of 1978 is unlikely to start up again. It can be said that, in the medium term, the Swiss authorities, in agreement with foreign central banks, will try to keep the real rates of exchange of the Swiss franc—i.e. the nominal rates minus the difference between the rates of inflation in Switzerland and abroad—as stable as possible. Only the future will tell whether the Swiss National Bank will succeed in this difficult task.

INDEX OF PRICES IN SWITZERLAND AT THE END OF DECEMBER 1979

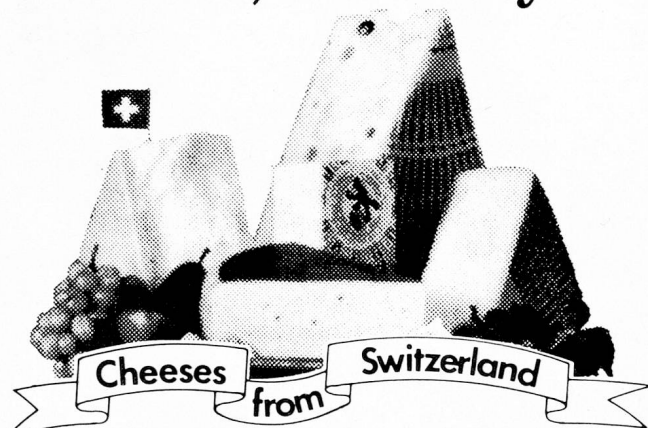
	Wholesale price 1963 = 100	Difference in relation to	Retail price Sept. 1977 = 100	Difference in relation to
End of December 1979	151.9		106.2	
End of November 1979	151.8	+0.1%	106.0	+0.2%
End of December 1978	142.1	+6.9%	101.0	+5.2%
Evolution of the prices of	... raw materials, semi- manufactured products and consumer goods.		... main consumer goods and services included in the family budgets of wage-earners.	

THE SWISS FOREIGN TRADE IN DECEMBER 1979

Switzerland's Balance of Trade

Period	Imports	Exports (in million Sw. francs)	Balance	Value of exports as a % of the value of imports
1978 December	3,388.2	3,672.4	284.2	108.4
1979 November	4,625.4	4,239.5	-385.9	91.7
1979 December	4,191.4	3,774.6	-416.8	90.1
1978 Jan.-Dec.	42,299.9	41,779.5	-520.4	98.8
1979 Jan.-Dec.	48,730.3	44,024.5	-4,705.8	90.3

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