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## The Current Economic Situation

The Geneva Financial Center (GFC) has been conducting an economic survey of banks and independent managers in the financial center since 2002. The results obtained reflect their opinions and perception of the progress of the business environment and the outlook for the Geneva Financial center.

The outcomes of the 2019-2020 economic survey indicate that financial intermediaries are proving highly resilient in the face of a challenging situation, which is putting pressure on their margins.

Several indicators are improving. Assets under management and net fund inflows increased in the first half of 2019, with the Middle East representing a key geographic area. It is therefore hardly surprising that the banking sector remains one of the key drivers of the Geneva economy, contributing 12% of cantonal GDP.

However, the net profit of the majority of banks and independent wealth managers fell in the first half of 2019. Negative interest rates and slightly higher costs were the main factors for the decline in profitability. The “wait and see” approach of some clients who are troubled by geopolitical uncertainties also contributed to this phenomenon.

In private wealth management, one of the three pillars of the Geneva center, together with commercial and retail banking and commodity trade financing, Europe represents the most challenging market. In this context, access to the European market remains a strategic priority, including for institutions with more than 50 employees. 60% of these institutions take the view that the lack of such access might require a change to their business model.

For banking-sector employment, the challenge of market access is already a reality. In the field of wealth management, job creation abroad has increased in the past 10 years, compared with job creation in Switzerland. In the latter, stability prevails, which is nevertheless reassuring news in view of the downturn in operating income and profit. The front office and risk management and legal services departments have experienced the greatest growth in employment. This trend also applies to data processing, in response to the ongoing digital transformation. Other profiles, such as transaction processing, have remained stable. The banking barometer published in 2019 by the Swiss Bankers Association (SBA) reached the same conclusion, pointing to a relatively stable number of employees and a decline in the unemployment rate in Switzerland to 2.3% at the end of 2018.

Financial intermediaries responding to the economic survey were cautious about the prospects for 2020 with regard to both employment and the trend in profits. The main preoccupation is still around managing costs more effectively. However, technological innovation should achieve productivity gains in internal processes, in particular by enabling the abolition of paper forms and allowing customer relations follow-up in real time.

A cutting-edge training offer is a leitmotif for the financial industry, with Switzerland regularly ranking among the leaders in innovation studies. In order to strengthen our center's competitiveness, the banking industry has become well aware of the need to plan for the careers of the future. Both the private and public sectors are therefore working



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together to set up training courses to respond to the three main factors in driving transformation observed at present: regulation, the digital transformation and sustainability.

The economic survey for 2019-2020 reached the following conclusion: financial intermediaries are at a crossroads. Their trajectory will depend, firstly, on future democratic decisions with regard to bilateral relations with the European Union (EU) and, secondly, on the creation of an attractive statutory and fiscal framework, together with training courses that favour the development of digitalization and sustainable finance.

This snapshot of the Geneva financial ecosystem, taken in the summer of 2019, is especially significant in view of the impact of the Covid-19 pandemic on the economy. Some Swiss companies have been shut down for many weeks. This temporary paralysis will inevitably result in lower GDP for one or two half-year periods. The IMF expects Switzerland's GDP to fall from 0.9% in 2019 to -6% in 2020. In mid-March 2020, the State Secretariat for Economic Affairs (SECO) was forecasting a contraction of 1.5%. It revised that figure to -7% or even -10% in a second, more pessimistic scenario. The IMF forecasts a return to growth of 3.8% for Switzerland in 2021 if the pandemic is brought under control.



In fact, Switzerland is well placed to deal with the situation, thanks to ten years of sound management of its public finances and rigorous implementation of the debt brake. The financial sector – the strength of which is illustrated in the economic survey mentioned above – has played an active part in the economic policy measures taken by the Confederation.

On March 25, 2020, the Federal Council, in cooperation with the Swiss Bankers Association (SBA) and the banks themselves, adopted an emergency Ordinance on the necessity of granting credits based on a joint and several guarantee from the Confederation. The aim of the Ordinance was to enable SMEs to access credits rapidly, to mitigate cash flow issues caused by the pandemic.

The Ordinance was initially for CHF 20 billion. On April 3, 2020, the Federal Council decided to increase the overall amount earmarked for guaranteed credits to CHF 40 billion. Two credit facilities were made available: Covid-19 credits for amounts of up to CHF 0.5 million and Covid-19 Plus credits above CHF 0.5 million, up to a maximum of CHF 20 million.

Demand has been very strong: 125,000 COVID-19 credits worth about CHF 15 billion had already been committed. Some 440 applications for COVID-19 Plus credits, with an average sum of around CHF 2.6 million per application, have been filed. Some 123 banks have registered to take part in the programme.

On March 25, 2020, the Swiss National Bank (SNB) introduced the new Covid-19 refinancing facility, which enables banks to obtain liquidity from the SNB secured by credit guarantees backed by the Confederation. The SNB also reduced the countercyclical capital buffer requirement to zero with effect from March 27, 2020.

In addition, on April 1, 2020, the exemption threshold above which negative interest rates will have to be paid was increased for the banks. They are therefore better able to supply credits and cash to the economy. According to the SNB, the Swiss financial system is secure and stable. The banks have strong capital reserves and sufficient cash resources.

In these perilous times, the financial sector has demonstrated its ability to meet the needs of the Swiss economy and population.