I Z A Institute of Labor Economics

Initiated by Deutsche Post Foundation

IZA COVID-19 Crisis Response Monitoring

# Switzerland (June 2020)

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## ABSTRACT

By mid of March (lock-down), published job vacancies on the Swiss labour market dropped by 45%. The collapse of labour demand led to an application of the short-time work scheme at unprecedented levels, covering 37% of the labour force by end of May. The scheme has been extended to also cover fixed-term employment and temp work. The unemployment rate increased comparably modestly to 3.4%, whereby youth was most severely hit. A further substantial rise of unemployment is expected in autumn. The Swiss Confederation has so far activated 72.2 bio CHF to support the economy, 30.8 bio for expenditures on support schemes and 41.4 bio for guarantees securing business loans.



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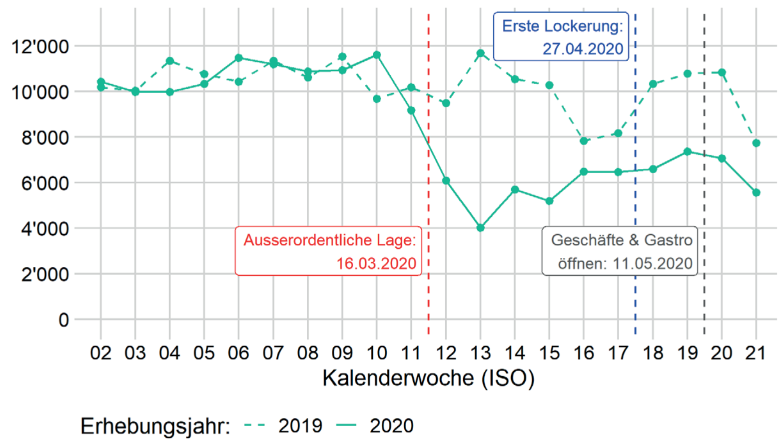
## Labor market impact of COVID-19

According to the last official labor market statistics, the unemployment rate (registered unemployed) rose from 2.5%[1] by end of February to 3.3% by end of April to 3.4% by end of May, implying an increase of 54% compared to May last year [SECO 2020a]. Larger immediate increases have been prevented by the extensive use of the short-time work scheme (see below). However, I expect that unemployment will further increase by a substantial extent. The amount of job vacancies has plummeted substantively. Within two weeks after the launch of the Covid emergency measures and lock-down (March 16th), the number of vacancies posted on job boards have decreased by 26% [Adecco Group Swiss Job Market Index/Stellenmarkt-Monitor University of Zurich]. The newly published vacancies initially fell by 45%. In May the situation slightly recovered, but the amount of new job ads locates still 30% below the comparable pre-year period [Novalytica/x28]. Figure 1 shows the weekly evolution of newly published vacancies in conjunction with the lock-down and re-opening steps. This evolution implies that, by end of May, the total number of posted vacancies (by firms and recruiters) was down to a level of approximately 130K, whereas it has been at 210K in the middle of Q1-2020 [jobradar.ch]. This massive reduction in labor demand, combined with expectedly increasing unemployment durations, gives rise to the prediction that unemployment will continue to substantially increase over the next months.

**Figure 1:** Newly published vacancies in Switzerland, per week
("Ausserordentliche Lage": lock-down and emergency measures by March 16, 2020)

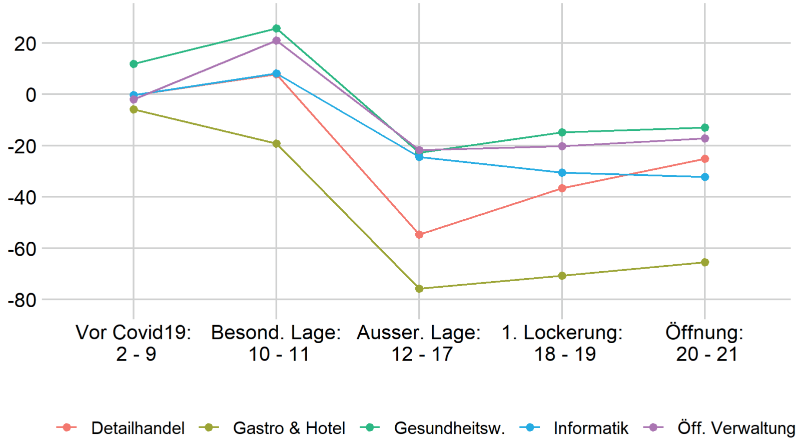



Source: x28/Novalytica

The extent of the labor demand drop differs substantially between sectors. Figure 2 tracks the 5 sectors with the largest amount of job postings (which cover more than 35% of the newly published job ads [Novalytica/x28]). Whereas the catering industry postings dropped by about 75% compared to the pre-year period, and retail by about 55%, the postings in the health and public sectors were much less affected (only about 20%). The most substantial recovery in the demand drop is seen in the retail sector, which most obviously benefitted from the stepwise re-openings in May.

1 These are the official figures for the rate of registered unemployment (i.e., in unemployment insurance), reported by the Swiss State Secretariat of Economic Affairs (SECO). The unemployment rate according to the ILO definition, based on the labour force survey, amounts to 4.5% for Q1-2020 (not yet affected by Covid) [BFS 2020a, Swiss Federal Statistical Office].

**Figure 1:** Newly published vacancies in Switzerland, by top 5 sectors and week, % changes compared to corresponding pre-year week




Source: x28/Novalytica

Relatively mostly affected by increased unemployment are young workers. The number of youth unemployed (< 25 years) by end of May rose by 76.7% as compared to a year ago [SECO 2020a]. The youth unemployment rate started rising to 3.4%[2], undoing the improvements over the last two years; it didn't reach yet the peak level of the financial crisis (5.4%), but a further increase is to be expected in autumn. The impact of the Covid crisis on rising unemployment is broadly spread across industries and jobs. Massively affected is the gastronomy sector, over-proportionally affected are construction and the machine-, watch and metal industries. Areas within Switzerland that heavily rely on tourism tend to show larger increases in the local unemployment rates. Also, areas where export-oriented industries (except pharmaceuticals) and finance are strongly represented tend to suffer relatively more. Interestingly, the unemployment shock affected both of each, women and men, foreigners and Swiss, German-speaking and Latin areas, in about the same extent.

**Figure 3:** Rate of registered youth unemployment (ages 15 to < 25), by month


Source: SECO

By the end of April, about half of the total Swiss workforce (5.1 million workers in Q1-2020, [BFS 2020a]) did rely on some support of one of the main (extended) social insurance/ support schemes, i.e. unemployment insurance, short-time work scheme or the Income Compensation Act (EO, Erwerbsersatzordnung). For more details on the use and evolution of short-time work, see section "Support of dependent workers" below.

2 The youth unemployment rate by ILO definition is at 7.2% in Q1-2020 [BFS 2020a], before Covid. (EU: 15.3%)

## Orientation and targeting of adopted measures

Overall, the set of adopted policies is quite comprehensive and seems to serve well its initial purpose to shield the affected participants of the economy against the short-run impact of the Covid shock. At the core, there are three sets of measures: short-time work (STW) and unemployment insurance (UI); income compensation; loans and guarantees for businesses directly or indirectly affected by the lock-down. The most important set of measures is – in terms of participants and financially – the STW/UI, whereby the vast majority of affected individuals and of the funding is in STW. So far, CHF 20.2 billion of additional federal funding has been transferred into the UI fund [EFV]. Second in terms of importance are the "Covid bridging loans". CHF 41.4 billion have been given out as guarantees by the Swiss Confederation [EFV]. So far, only CHF 1 billion of these potential loans have been booked as losses (due to defaulted loans) by the confederation. It is expected that the credit default rate will remain relatively low; however, this heavily depends on how persistent the ongoing crisis and recession will turn out to be. The booked expenditures for income compensation (EO) amount so far to CHF 5.3 billion, whereby CHF 4 billion is assigned to directly affected self-employed and employees and CHF 1.3 billion to the indirectly affected [EFV]. Thus, the focus of the income compensation scheme is on directly affected self-employed[3] during the lock-down measures.

Initially some target groups among the self-employed, notably the ones indirectly affected by the shut-down measures, were neglected by the income compensation policies. However, this has been adjusted mid of April, through allowing these groups as well access to the Income Compensation scheme (EO) [BSV 2020a]. This coverage is restricted to a maximum duration of two months and terminates latest with the end of the Covid restrictions.

Important is as well the extension of the short-time work (STW) scheme to fixed-term contract employment and to employees working for temp agencies by March 20. By the same date, the STW was opened as well to persons in an "employer-like status" (mostly partners in small limited liability companies who work as salaried employees in the company), persons in apprenticeship and persons working in the business of the spouse. [Bundesrat 2020a,b]

A potential issue of the adopted policy set is its relatively strong focus on providing loans and guarantees. This liquidity aid in form of "Covid bridging loans" is supposed to be paid back, which may lead to debt issues for substantial numbers of SMEs. However, so far only a smaller part of the credits approved by the banks have been finally taken up by the firms. It seems that (smaller) firms are reluctant to indebting themselves and currently mostly try to survive on their own resources, taking the credit only as a "last resort". Thus, from a policy point of view it is questionable whether the loan and guarantee schemes will be sufficient to support the sustainability of some parts of the economy if the crisis turns out to harm firms over a longer time period. In the case of a longer crisis it may be advisable to extend the measures by possibly turning some loan schemes into cash grants and by adding some additional support for firms through fiscal policy. A further measure of effective additional support is the possible extension of the maximum duration of STW coverage from 6 months to 12 months, which is currently in political debate.

In the course of May, some further complements have been added to the financial support measures. A support scheme for start-up firms has been established by May 7. Start-ups in liquidity problems can apply for government-backed loans of up to CHF 1 million [SECO 2020b]. Furthermore, it has been decided that the Cantons are obliged to

3 The eligibility for income compensation among the employed is restricted to parents who are not able to work due to the closure of the schools or to individuals who have to isolate in quarantine.

reimburse childcare institutions for parental contributions they lost due to the Covid lock-down measures in the period from March 17 to June 17, 2020 [SECO 2020d].

## Immediate liquidity support to businesses

As mentioned in the last section "Orientation and targeting of adopted measures", the amount of potential liquidity support through credit guarantees is large in Switzerland. However, as mentioned, there is a substantial gap between the amount of credit support that firms and self-employed apply for and the amount they really claim. The mentioned reluctance to finally take up bridging loans could lead to some under-supply of liquidity and, relatedly, to some additional layoffs. The extent of this practical issue is currently hard to quantify.

Given the reluctance of firms to claim the loans, the issue of credit misallocation should be rather minor. There is a certain risk of deadweight losses and abuse of the credit schemes – it is argued, however, that screening should be at a good level due to the fact that it is the 'home bank' of the firm which is in charge of assessing the loan application. Moreover, ex-post screenings (and penalties for abuse) are being implemented in the design of the loan schemes.

The delivery and implementation of the different schemes by public agencies and other entities (banks) is seen positively by firms and self-employed according to reports in the media. Both, applications for short-time work (through unemployment insurance agencies) and applications for bridging loans (through banks), were designed to be simple and fast. The banks usually reached the target of assessing a loan application within 24 hours. The public agencies were struggling with the huge amount of short-time work applications but still usually managed to digest them without substantial delay and backlog. As for the extended use of the support scheme provided by the Income Compensation Act (EO), it has been reported that some eligible self-employed ended up touching very small daily allowances due to outdated income information recorded at the social security agency. But as well for this scheme, no broader complaints have been raised so far.

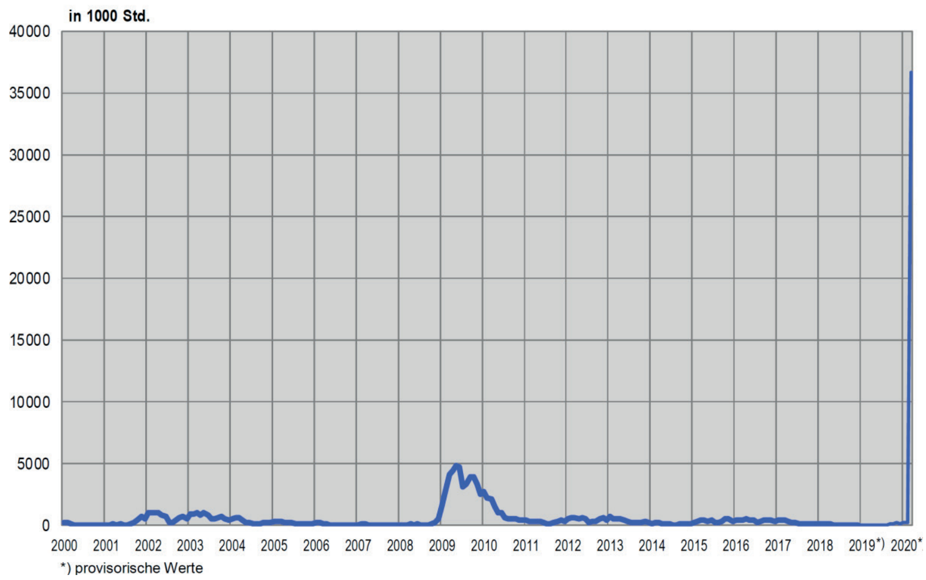
However, the government's decision to terminate the extensions of the STW scheme to persons in an "employer-like status", in apprenticeship and to co-working spouses by the end of May – roughly in time line with the relief of Covid lock-down restrictions in May – has been criticized as being too early. This early termination is indeed problematic, since many of the (small) businesses that relied on this STW extension are still quite far away from returning to levels of economic activities similar to the pre-crisis time; also, some are in practice prevented from restarting their business due to the imposed protective measures (e.g., the event industry). Furthermore, also the income compensation extended to indirectly affected self-employed is running out quite quickly (see section "Orientation and targeting of adopted measures"). Thus, some of these types of businesses may need additional support to avoid insolvencies.

## Support of dependent workers

I assess the effectiveness notably of the short-time work (STW) scheme to avoid additional unemployment in the short run as being high. By 20 May, about 190,000 firms covering about 1.94 million employees have applied for STW [SECO 2020c]. This corresponds to 37% of the Swiss work force. The broad and extended application of the scheme, its simplified administration and the elimination of barriers to getting STW (e.g., no waiting period for the employer anymore) helped avoid larger rates of increase in the unemployment rate.

Data on effectively claimed STW coverage are released with a time lag. In March 2020, the effective claim of STW jumped up to covering 0.782 million employees, 0.778 million more than in February [SECO 2020a]. The number of affected establishments reached about 97,400 by end of March, as compared to a few hundred in the month before. The enormous leap in claimed hours is visible in Figure 4. It reached unprecedented levels, as the comparison with the increase during the Financial Crisis in 2009 documents.

**Figure 4:** STW: Number of reported (claimed) cancelled working hours (in 1000 hours)




Source: SECO

A crucial question for policy and the future evolution of the unemployment rate will be how long the coverage with STW will be sustained. Currently, a time limit of 12 months is stipulated; the political debate to extend this limit to 18 months is ongoing. Moreover, the extension of the STW scheme to persons in an "employer-like status", in apprenticeship and to co-working spouses (see also section "Orientation and targeting of adopted measures ") has already been terminated by end of May. The larger (in terms of number of affected persons) extension of the scheme to fixed-term contract employment and to employees working for temp agencies is still operative. Thus, it will be up to political discussion in the parliament how long the extended use of STW should be sustained and if, in general, the time limit should be extended or not. This will be related to the issue how long the approved additional CHF 20.2 billion for the UI fund (see also section "Orientation and targeting of adopted measures ") will cover the accumulating cost of STW and UI. A possible extension of the time STW time limit will presumably lead to additional financial requirements towards the end of the year. From an economic policy point of view, the key question is to which degree an extension of the STW time limit has an impact on mitigating additional unemployment. At which point is there a risk that longer STW coverage just supports unsustainable structures, i.e. struggling businesses that will have to lay off employees anyway? When this point will occur is difficult to assess and predict. This is crucially dependent on whether and when there will be a second wave, and of which dimension. Particularly in the case of shorter and rather local second waves, which may not that heavily affect the duration of the economic crisis, an extension of the STW time limit may be effective in sustainably avoiding some unemployment incidence. In the case of a more severe second wave that substantially increases the duration of the crisis it will be difficult to mitigate a larger leap in the unemployment rate in the second part of this year or in next winter.

In any case, firms on STW will soon have to assess and revise their prediction concerning their future business prospects. If they are not sufficiently positive, firms may still decide at that point to lay off parts of their work force. This could lead to an additional increase in unemployment in autumn – particularly if it turns out that the dip of the international economic crises is not just short and that it is possibly related to some structural change within the economies.

The support delivered to job seekers is marked by a shift of weights from active to passive labor market policy measures. To avoid larger peaks of benefit exhaustion, the Swiss unemployment insurance (UI) extended maximum entitlement to benefits for all types of job seekers by 120 additional daily allowances. This brings potential benefit duration for a prime-age individual up to 520 work days (about 2 years). On the other hand, the submission of proof of job search efforts is waived during the period of the Covid special regulations. Job seekers are, however, still obliged to search for jobs. [Bundesrat 2020c] How long the additional benefit duration will be granted is not yet determined; this will depend on the timing of the termination of the related Covid ordinance. Since June, the monitoring of job search effort is gradually being re-established. Currently, it is in the discretion of the Cantons to define the practical monitoring intensity, the official wording is that job seekers and Public Employment Service (PES) counselors are "in dialogue" about the proof of regular job search effort.

During the lock-down, activation by ALMPs came to a halt and counseling by caseworkers was reduced to an administrative minimum by telephone. Thus, the active part of labor market policy was – and still is – almost entirely inexistent. Since June 8th, the PES in most Cantons run the important first meeting between job seeker and counselor (initial assessment and strategy definition) again as face-to-face (unless the job seeker belongs to a risk group). Further interactions are mostly by telephone. Officially, it is not forbidden, to my knowledge, to run ALMPs. However, in practice, classical measures like training programs are not operative at the moment (some training operators may work on online solutions). It is interesting, though, to observe that the number of participants in the temporary subsidized employment scheme during UI ("Zwischenverdienst") did not reduce in the last lock-down months. The number of participants turns out to be even slightly higher by end of May (about 40,000) than is has been by end of February 2020 [SECO 2020a].

The full reinstatement of the PES services and of ALMP is, at current state, predicted to happen after the summer break in August. However, this is of course dependent on the evolution of the infection rates. In any case, it is to be expected that some services will resume at lower level and the use of telephone and online channels will remain to be more common than before the crisis. The current focus of the PES is on speedy hiring and educating additional counselors, in order to handle the rising influx of newly unemployed individuals.

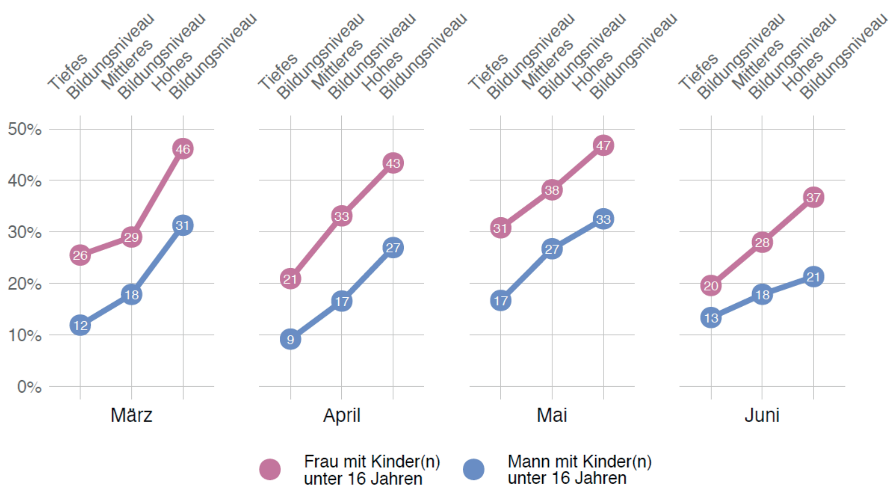
## Working conditions and work organization

To respond to the increased workload demands due to the pandemic, the Swiss government relaxed the working condition rules (according to the labor law) for medical institutions, notably with respect to working and resting times. Moreover, specific exceptions to extend the weekly maximum working hours beyond the usual legal level have been given to the meat industry and to the banks (to handle the bridging loans applications.) [SECO 2020e] These are of course all temporary exceptions. However, particularly employees in the medical sector complained that some employers expect too much flexibility with respect to work arrangements. Notably employees who were not involved in the treatment of the Covid pandemic and were not allowed to work during the infection peak (but weren't on STW either) criticize that some employers require them to compensate now the forgone working time by working overtime.

There is no broader evidence yet for Switzerland on the question how working practice changed as a consequence of the Covid shock. A smaller survey (n=1500) run by [Deloitte] in April documents that 48% of the Swiss employees worked during the Covid period in home office arrangements; before the crisis only about 25% of the employees worked at least once a week at home. Of course, during the Covid crisis period, the proportion of those among the home office workers who worked 100% at home has increased substantively. The responses on whether individuals are more or less productive at home and on whether they believe to continue to partially work at home after the crisis are highly heterogenous. However, about 34% of the respondents indicated that they plan to regularly work from home after the crisis. All in all, it seems realistic to predict that the share of employees who work (partially) at home will remain on a higher level after the crisis than before.

The additional workload generated by the combination of home office and home childcare was not evenly distributed between the genders. As an analysis of four waves of the SRG Corona-Monitor shows (with n=30,000 approx. by wave), women were substantially more charged by the additional childcare necessities than men. Depending on the education level, 21 to 43% of the female respondents declared in April that they incurred reduced capacity for working in paid employment, whereas this was the case for 9 to 27% of the male respondents. Similar patterns are visible in the months before and thereafter, as documented in Figure 5. Thus, it is clearly shown that highly educated women suffered mostly from this double load situation. One driver of this gender difference is the current structure of labor force participation in Switzerland: more than 80 percent of women are employed – but often in a part-time position. Thus, already in normal times women tend to spend more time on household work than men; this pattern has rather been reinforced in the crisis times.

**Figure 5:** Reduced capacity for gainful employment due to child care, by education level




«Wie hat sich Ihre berufliche Arbeitsbelastung im Vergleich zum Februar verändert?» «Weniger Kapazitäten aufgrund von Betreuungspflichten, Homeschooling usw.». Bildungsniveau: «Tiefes» = obgl. Schule, Berufsschule, «Mittleres» = Höhere Berufsbildung, Mittelschule, «Hohes» = Fachhochschule, Universität, ETH.

Source: sotomo

The expected higher level of work at home arrangements and, relatedly, more flexible work organization in general will boost the political discussion about the appropriate regulation of such arrangements, I think. Many related questions are not systematically discussed and regulated so far. For instance, who pays for equipment and office space at home? How can appropriate supervision be implemented without invading the individual privacy sphere? Should employers contribute more to childcare costs if employees work at home more often? How can the employee's private life be protected against the inherent risk of being absorbed by 'permanent availability for work' at home? Etc. I would expect that some of these questions may become more salient in the political debate in the closer future.

## New labor market entrants

The challenge to find a job or an apprenticeship after school or university is and will clearly be bigger than under normal conditions. The uncertainty among firms has led large amounts of hiring processes to be temporarily suspended during the lock-down period, with no clear expectation yet when (and if) they will be relaunched. This difficult situation particularly affects new labor market entrants who are not yet much experienced in job search and who often have a less clearly defined profile than older job seekers. These challenges are reflected in the mentioned rising youth unemployment rate (see section "Labor market impact of COVID-19"). The issue of less defined profiles among young job seekers is aggravated by the fact that some (parts of) final exams are not held. In vocational education (apprenticeship plus part-time school), where the majority of new labor market entrants is enrolled in Switzerland, only the practical exams are held where possible but not the theoretical ones. Whether high school (Gymnasium) final exams are held or not is heterogenous, as it is decided regionally (by Canton). In both cases the partially missing exam outcomes will potentially weaken the signal and profiling information about new labor market (or university) entrants, which may affect the hiring chances and the choice options negatively. How severe this issue will be depends crucially on the firms' reactions in adjusting their hiring procedures to the post-lock-down situation.

A positive sign of stability in the apprenticeship market is that traditionally the majority of all offered apprenticeship positions are already filled (particularly in the German-speaking area of the country). This has been the case as well for the current hiring round, 66% (or 58K) of all the available apprenticeship positions have been filled already by March/April [Nahtstellenbarometer gfs.bern]. By end of May, about 48K apprenticeship contracts have been signed so far, 4% less than last year at the same time. In general, the Cantons report "stable conditions" on the apprenticeship market. The lock-down had more impact in the Latin areas of the country because there traditionally the recruitment of apprentices is done later and has now been substantially delayed due to the situation. Luckily, only very few cancellations of new apprenticeship contracts have been reported across Switzerland. [SBFI 2020]

The Cantons address the complex situation on the apprenticeship market by reinforcing existing sets of support activities: additional marketing for apprenticeships, intensified occupational counselling, "bridging" offers (e.g., additional year of school) and individual coaching of young labor market entrants. Some Cantons plan "last minute apprenticeship markets" in cooperation with the local economy to improve the matching on the market, or they allow for an extension of the apprenticeship contract conclusion deadline into autumn. Beyond these activities, a new funding mechanism for innovative projects to support the apprenticeship market has been introduced by the responsible ministry (SBFI) by end of May. First projects have been approved by the SBFI. They focus on measures like coaching and training in occupation and apprenticeship choice as well as in application skills, or the launch of virtual apprenticeship market platforms operated by local stakeholders. [SBFI 2020]

It remains to be seen whether these supportive activities by the stakeholders are sufficient to achieve a final matching level on the apprenticeship market which is comparable to the last years. However, the rising youth unemployment is not only related to the finding of apprenticeship positions. Increased difficulties for young labor market entrants to find a first job, as discussed above, are salient as well beyond the apprenticeship market. So far, I have not seen specific policy innovations to cope with these additional challenges in other parts of the labor market for entrants. It is well conceivable that this may change if the youth unemployment rate continues to substantially rise in the coming months.

## Policy innovations and labor market trends

It is too early to identify clear trends of (structural) changes in employment so far. I expect that the extensive use of the STW scheme in Switzerland will slow down the speed of change caused by this crisis. STW provides the firms more time to assess their situation and business perspectives and to wait to decide on potential changes in the composition of their workforce.

There are some, currently rather anecdotal, signs indicating possible (accelerated) structural changes. The transportation sector as well as tourism operators expect lower client flows for several years to come. It is thus probable that these industries will reduce hiring and employment for a longer time. In the case of tourism this will affect many short-term contracts and seasonal positions at a first stage and then possibly more 'structural' positions in a second stage. Given the rising awareness of the importance and valuation of health-related occupations, I would expect that the already ongoing discussion about shortages in this area will become more salient. The political intention to promote and invest in health-related occupations may increase. A current decision in the parliament to invest in education in nursing tends to support this prediction. Next year a more pronounced proposal on this issue will come to a vote – this will document to which degree the willingness to invest in health-related occupations really increased.

Furthermore, I would expect that the currently massive increase in use of online tools and services will have a sustainable impact on the labor market. Switzerland and its workforce are comparably well equipped with internet and computing infrastructure and related skills. This supports my expectation that this unintended 'online experiment' which we are running currently will indeed move the use of online services to a permanently higher level. This would have positive impacts on labor demand in jobs related to online services, including logistics. It opens the door as well to new innovations through creating new online services. I also think it will accelerate the digital transition in how we search for and match jobs. Groups of employees and ages who were not yet that familiar with operating all the exchanges on the labor market digitally were now suddenly included in this transition wave. I think quite many of such immediate transitions of the functioning of the labor market towards online operations will remain in use after the crisis. Notably because many operators – firms, recruiters, public employment services – are now driven into (additionally) investing in new online processes and platform solutions.

First discussions on reshoring some activities back to Switzerland have appeared. The current focus is mostly on ensuring the local availability and production of "essential goods" in crisis periods - notably goods related to health and hygiene. For example, a broad set of firms have begun producing face masks and developing new technologies to improve these masks. Also, the discussion about ensuring local (Swiss or European) production of key (components of) pharmaceuticals has been fueled. Switzerland is in principle in a good position for the reshoring of such mentioned products, because of the existence of a highly competitive pharmaceutical industry and a specialized textile technology industry in the country. Clearly, all these plans of reshoring will be grounded in heavily automated production strategies. This is the only approach how a high wage country like Switzerland can reshore comparably low-priced products. The country has a high potential for reshoring production through accelerated automation due to its highly developed tech industries and universities. Such structural developments, if they are really boosted by the crisis at the end, will mostly generate additional demand for high skilled labor. Thus, permanent investment in skill development within the labor force will be essential.

## Next steps and fiscal viability

In Switzerland the economy has been reopened essentially in two steps: a first one by May 11, including the retail shopping sector and most restaurants and cafés, and a second one by June 8, where a large part of the touristic infrastructure, cinemas and public transport have been reopened. By June 22, the government has broadly abolished and simplified the Covid-related restrictions. Also, the recommendation to work in home office has been discontinued. A remaining restriction is that large gatherings and events (beyond 1,000 people) are still banned until end of August. The preventive rules have been generalized and simplified: all the public places are required to implement a protection concept, social distancing and hand hygiene have to be maintained and registering (or tracking) a/o the wearing of face masks should be imposed where sufficient distance is not possible. The imposition of these principles currently relies on self-responsibility of citizens and businesses, rather than legal enforcement.

As for fiscal viability: Switzerland is in a comparably good position to sustain financial support of the participants of the economy for a relatively long time. The state has passed a decade of steady debt reduction, and the current debt rate is lower than in most other European countries. However, the additional spending of CHF 30.8 billion and loan guarantees for CHF 41.4 billion as registered by the [EFV] will essentially undo the whole debt reduction achieved over about the last decade. Moreover, projections by KOF-ETH [2020a] predict that the state will face a reduction of tax income at all levels (confederation, cantons, municipalities) of more than CHF 5.5 billion this year. Next year this reduction will expectedly more than double, due to the current measure of deferred invoicing of taxes. For the social insurances it is predicted that they will earn about CHF 1 billion less in contributions this year. KOF-ETH expects that the rate of registered unemployment further increases to 4.7% by the end of 2020 and will remain relatively high with an average rate of 4.3% (6.0% by ILO definition) for 2021. In a historic comparison, these are high unemployment rates for Switzerland, higher as well than in the financial crisis 2009/10.

To sustain the financial stability notably of the social insurance system, political decisions on additional support are required now and next year. Most of the emergency ordinances introduced by the Swiss government will run out by end of August latest. They require ex-post approval by the parliament, which mostly has been given in June. The KOF-ETH projection quantifies the additional financial needs of the unemployment insurance including the STW scheme to about CHF 20 billion (75% going into STW). SECO [2020c] estimates that the unemployment insurance fund will accumulate debts of about

CHF 16 billion by end of 2020, predominantly because of the STW scheme. On May 20, the government proposed to spend another CHF 14.2 billion on the UI fund; bringing the extraordinary injections into the UI fund to CHF 20.2 billion in total (as mentioned in section "Orientation and targeting of adopted measures"). This large support funding has been approved by the parliament in June. Through this act it could be avoided that the UI contributions which employers and employees pay on the wage bill need to be increased.

In addition to the financial challenges for UI and STW, the Income Compensation Act (EO) scheme will require additional funding as well in the medium run. Which amounts of the loan and guarantee schemes will finally be claimed, defaulted or possibly turned into cash grants is hard to predict. However, to support the survival and avoid larger debt problems for small SMEs and self-employed, it may be necessary as one next step to indeed turn loan guarantees into cash grants for such targeted groups of small businesses in need (subject to a sustainable business plan).

All these additional funding challenges seem viable, due to the mentioned good condition of the public finance in Switzerland. The Swiss confederation has implemented a "debt brake" since the nineties. However, the case of exceptional crises has been included in the regulation of the debt brake, allowing for exceptions to the usual speed of debt repayment. Moreover, the Swiss government bonds and central bank operate with negative interest rates – thus, at the current state, increasing debt even pays off. Still, I expect – and it is already the case – that the political debates on approving future spending plans will become tougher.

Possible next steps to reanimate the economic activity and the labor market would be to relaunch and readjust the active labor market policies (ALMPs). 'Corona-proof' versions of active job seeker support need to be developed and implemented. The ALMP programs should be adjusted and more focused to support skill acquisition and job finding in areas that are still relatively highly demanded, with good expectations after the crisis.

In a slightly longer run, as soon as patterns of possible structural changes become visible, it may be advisable to set up targeted investment programs in further education and start-up subsidies. The goal could be to support occupational switches towards sectors that develop favorably after the crisis and to support job creation in such areas. I would advise rather against using tax reductions (e.g., VAT) for heavily affected industries like gastronomy and tourism. This would in tendency only support structural problems (of over-supply) in these industries, and it is moreover an inefficient measure which cannot be targeted. If additional support is required in these areas, then specific investments in useful touristic infrastructure and in promising start-ups would be more advisable. More generally, beyond the short-run survival support, it seems more promising to invest in targeted programs that specifically support some risk groups – like young unemployed or employers and employees in structurally weak industries – in their skill acquisition and transition towards more 'future-proof' jobs and business models.

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