

## Switzerland: Modest export restart in 2016 while survey signals further growing export risks

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### Executive summary

- Risks to export business have risen for Swiss companies over the past year. Currency risk was the major hazard for exporters in 2015, affecting 96% of companies surveyed by the *Berner Fachhochschule* and Euler Hermes (up from 88% a year ago). Going forward, 22% of firms expect currency pressures to increase further in 2016. However, rising commercial risk and political risk are set to become the major concerns as that 35% and 31% of the surveyed companies expect these to increase in 2016, respectively.
- In particular, export risks have risen in many emerging markets, reflected in rising payment defaults and insolvencies and related liquidity shortages as well as lost orders due to political events. The need for safeguarding has grown for Swiss companies.
- Nonetheless, 2016 should see a moderate recovery of total Swiss exports which are forecast to increase by +CHF2.5bn, making up for nearly half of the losses in 2015. Notably, export to the Eurozone will rebound as the one-off negative impact of the lifting of the exchange rate cap in 2015 has faded.

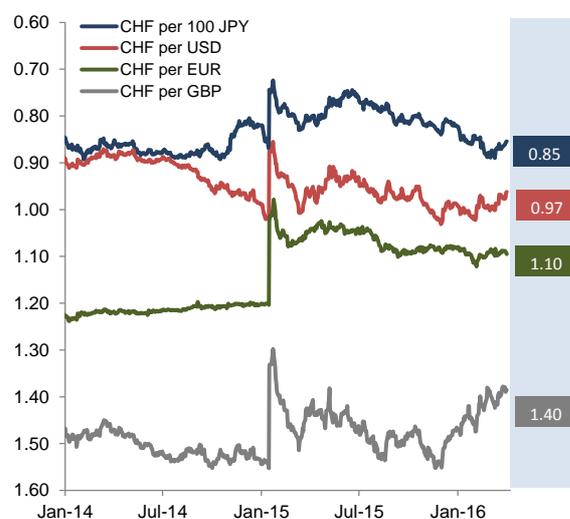
### Readjustment of risk types, but overall export risk is rising

#### Currency risk is declining but remains a key concern

The year 2015 was affected by global currency turbulences and, in particular for Swiss companies, the decision of the Swiss National Bank (SNB) to end of the exchange rate cap of CHF1.20/EUR in January 2015. As a result, total Swiss exports decreased by -CHF5.5bn. Accordingly, currency risk was the major issue for Swiss exporters last year. In a survey conducted by the *Berner Fachhochschule* and Euler Hermes in February 2016, 95% of companies stated that they were affected by currency risks in the last 12 months (55% strongly and 40% fairly), an increase from 88% in the survey a year ago. And 65% of the surveyed companies reported lost export orders due to the strong CHF (up from 56% last year).

After the initial knee-jerk 20% appreciation against the EUR following the SNB decision, the CHF

Figure 1: CHF against currencies of major export destinations, with year 2016 average forecasts

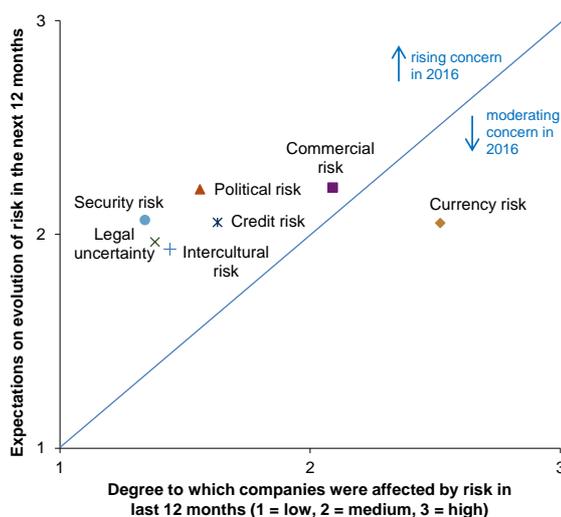


Sources: IHS, Euler Hermes

settled around an average CHF1.07 per EUR for 2015 as a whole, 14% stronger than in 2014, as expected by Euler Hermes. Consequently, Swiss exports to the Eurozone decreased by -7% (-CHF6.3bn) in 2015. However, that negative impact was mitigated by increasing exports to the U.S. (+6% or +CHF1.5bn) and markets with currencies linked to the USD as the CHF depreciated by -5% against the USD which strengthened on the back of (the announcement of) tighter monetary policy in the U.S. Significant gains in exports were also recorded to the UK (+16% or +CHF1.7bn).

Going forward, currency pressures are moderating. While 22% of the surveyed companies expect currency risk to increase in the next 12 months (69% thought so a year ago), 55% expect it to remain unchanged and 17% think it will decline. This moves currency risk down to rank 3 (after commercial and political risk) with regard to future concerns (see Figure 2). This is broadly in line with Euler Hermes forecasts which, in 2016, see the CHF slightly depreciating on average against the EUR (-3%), the USD (-1%) and the JPY (-6%) while appreciating against the overall weakening GBP (+5%). This should help Swiss exports to the Eurozone to recover somewhat while exports to the UK may face headwinds.

**Figure 2: Company assessment and expectations of risks, by type**



Sources: Berner Fachhochschule, Euler Hermes

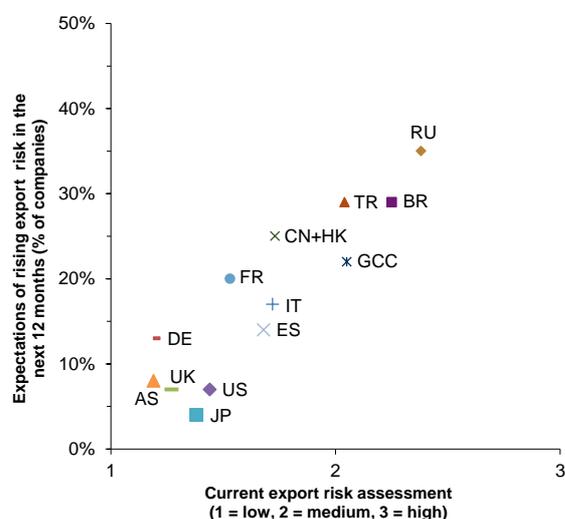
### Commercial and political risk set to become the major concerns

Some 83% of the surveyed companies were affected by commercial risk either strongly or fairly in the last 12 months, while 47% of companies were impacted by political risk. And 33% of export companies report lost orders due to political developments in an export market (up from 27% in last year's survey). The risks are likely to remain a concern in the future, with both commercial and political risk being expected to rise by 35% and 31% of the companies, respectively.

Russia and Brazil are good examples. Both

countries have been identified as posting the highest export risk currently by the surveyed companies, reflecting to a large extent both commercial risk (both faced deep recessions in 2015, with real GDP contracting by nearly -4%) and political risk (sanctions in Russia; increasing political and policy uncertainty in Brazil). Swiss exports to Russia dropped by -22% in 2015 (after -11% in 2014) while those to Brazil fell by -2% in 2015 (-6% in 2014). Euler Hermes expects the recessions to continue, with GDP declining by -0.9% in Russia and by -3.5% in Brazil, so that Swiss exports to these two will also fall further. In line with that, 35% of the surveyed companies expect export risk to rise further in Russia, followed by Brazil (29%), Turkey (29%), China and Hong Kong (25%) and the GCC states (22%), all countries that are currently faced with significant economic and/or political problems which have translated into rising payment defaults and insolvencies (see figure 3).

**Figure 3: Risk assessment and expectations, by country**



Sources: Berner Fachhochschule, Euler Hermes

### Credit risk is rising, too

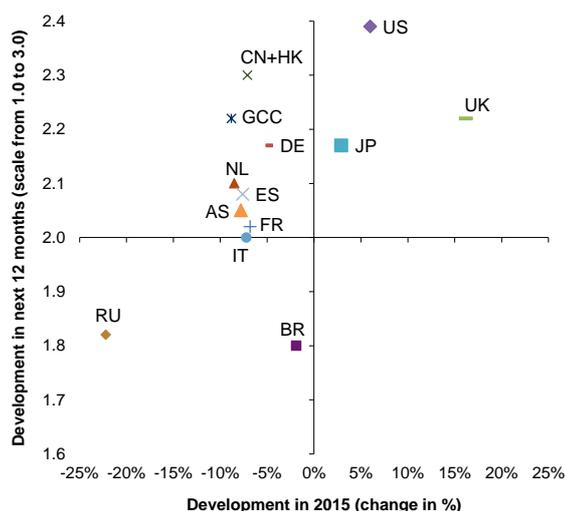
Some 57% of the companies in the survey report being impacted by a strong or a medium degree of credit risk in the last 12 months (up from 55% in the previous survey), and 17% expect this to increase. Credit risk may stem from different sources. On a global scale, Days Sales Outstanding (DSO) stood at 65 days on average in 2015, the same as in 2014 and slightly up from 62 days in 2007. However, this stability masks two opposite trends: emerging markets' DSO (67 in 2015) were 5 days above that of advanced economies rather than 11 days below as in 2007, indicating that it is increasingly used as a financing tool in riskier export markets. Especially DSO in China and Russia have increased markedly from 2007 to 2015, by +23 and +15 days respectively, and are forecast to rise further in 2016. Not surprisingly, global insolvencies are expected to increase by +2% in 2016, the first rise in seven years, and still remain 6% above the pre-crisis level in 2007.

## Diversification of export destinations to take a break in 2016

As expected the export diversification increased in 2015. The share of Swiss exports to the Eurozone fell to 44% of total exports (46% in 2014; 52% in 2008), while those to North America rose to 15% (14%; 11%). The share of Asia stagnated at 17% in 2015 (14% in 2008) as exports to China and Hong Kong declined on the back of weakening growth.

In 2016, the diversification of export destinations is likely to take a break and the Eurozone may even regain some market share. The majority of the surveyed Swiss exporters expect an increase of exports to Europe: 32% expect exports to Germany to rise (vs. 15% expecting a decline), 21% for France (vs. 19%), 20% for Italy (vs. 20%), 22% for other Eurozone countries (vs. 16%) and 35% for the UK (vs. 13%). Expectations are also positive for the U.S. (48% vs. 9%), China and Hong Kong (43% vs. 15%), Japan (29% vs. 14%) and the GCC states (41% vs. 19%). Expectations are only downwardly skewed for Russia (20% vs. 38%) and Brazil (19% vs. 39%), two countries that remain in a protracted recession.

**Figure 4: Development of exports in 2015 and expectations for the next 12 months**



Sources: Berner Fachhochschule, Euler Hermes

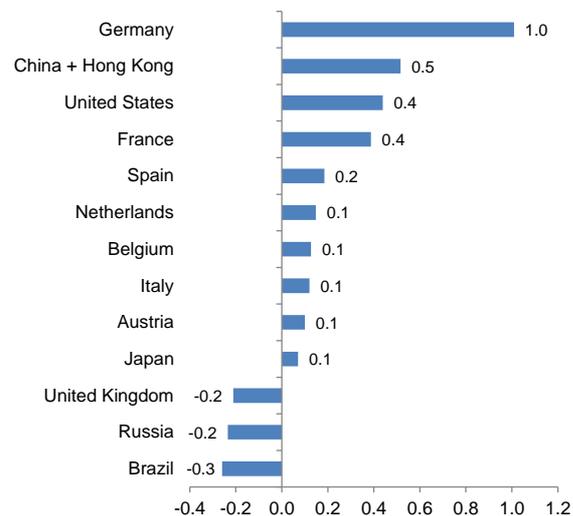
## Exports to increase in value by +CHF2.5bn

Overall, the stabilization of the CHF and a moderate pickup in global trade (+2.7% in volume terms) should support a modest restart of Swiss exports this year. Euler Hermes forecasts that exports will rise by +3.8% in 2016 by volume. In value terms, 2016 exports are expected to increase by +CHF2.5bn, i.e. nearly half of the losses in 2015 will be recovered this year.

Among Switzerland's top 14 export markets, exports to all Eurozone countries are projected to rebound. Demand from Germany, accounting for 18% of Switzerland's exports last year, is expected to rise by +CHF1bn, followed by France (+CHF0.4bn) and Spain (+CHF0.2bn). Export gains from the Eurozone as a whole are estimated at

+CHF2.1bn. Outside Europe, the largest export gains should come from China and Hong Kong (+CHF0.5bn) and the U.S. (+CHF0.4bn). On the other hand, substantial export losses are expected from the crisis-ridden economies of Brazil (-CHF0.3bn) and Russia (-CHF0.2bn). Moreover, in contrast to the expectations of the surveyed Swiss exporters, Euler Hermes forecasts exports to the UK to decrease by -CHF0.2bn in 2016, a result of the markedly weakened GBP (see Figure 5).

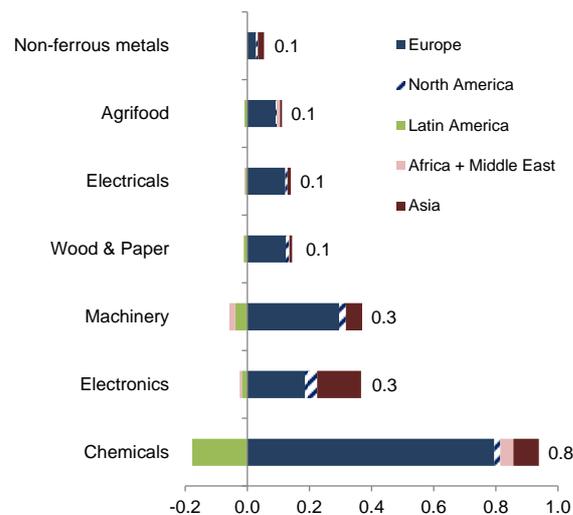
**Figure 5: Potential 2016 export gains and losses for top 14 trading partners (CHF bn)**



Sources: Chelem, IMF, Euler Hermes

The recovery of exports to Europe also translates into overall export gains on a sector level, with last year's main "losers" likely to see the largest gains in 2016. Euler Hermes expects chemicals exports to increase by +CHF0.8bn and exports of electronics and machinery to rise by +CHF0.3bn each. The wood and paper, electricals, agrifood and non-ferrous metals sectors should gain +CHF0.1bn in additional exports each (see Figure 6).

**Figure 6: Potential 2016 export gains by sector**



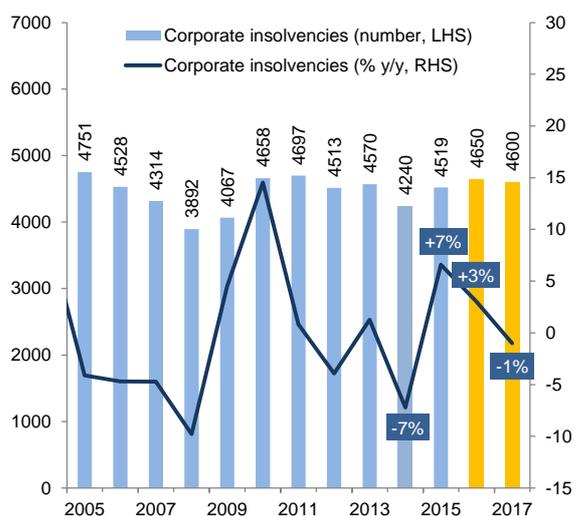
Sources: Chelem, IMF, Euler Hermes

## Rising insolvencies imply further need to improve risk management

As export risks have risen for Swiss companies over the past year, risk awareness has also increased. According to the survey, one in four exporting companies used credit insurance in the last year – this is up from one in five in the 2015 survey. Blind spots in companies' safeguarding have also declined but remain considerable: 17% of the surveyed companies are currently not protected against political risk (down from 32% in 2015), 14% do nothing against commercial risk (23% in 2015) and 8% are unprotected against credit risk (13% in 2015). However, currency risk remains well acknowledged across companies as 97% of them apply some measure to reduce exchange rate risk (95% in 2015).

The survey suggests that Swiss companies should continue to improve their risk management. For example, 65% of the surveyed exporting companies report lost orders in the last year due to the strong CHF (56% in 2015) and 33% due to political events (27%). Moreover, 31% of companies encountered outstanding accounts (27% in 2015) and 12% have faced own liquidity problems (10%). As expected by Euler Hermes, the number of corporate insolvencies rose in 2015, by +7%, and a further increase by +3% is forecast in 2016 as the impact of last year's CHF appreciation continues to feed through while geopolitical risks remain on the cards (see Figure 7).

Figure 7: Corporate insolvencies



Sources: National sources, Euler Hermes

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