

A strong economic model attracting large capital inflows

General Information



GDP	USD632.194bn (World ranking 19, World Bank 2012)
Population	8 million (World ranking 95, World Bank 2012)
Form of state	Confederation (but similar to a federal republic)
Head of government	Didier BURKHALTER (PRD)
Next elections	2015, legislative



Strengths

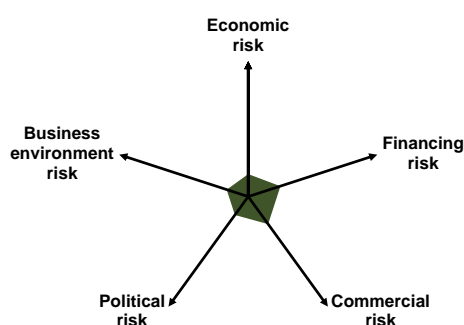
- Sound political institutions
- Specialised in manufacturing of high-quality goods with a relatively inelastic demand during economic crises
- Large current account surpluses
- Very good public finances with fiscal surpluses and low public debt

Weaknesses

- Large inflows of foreign capital led to a strong appreciation of the Swiss franc and has fed deflationary pressures
- International pressures on bank secrecy, populist votes on immigration and an ageing population could affect the currently strong business environment in the medium term
- The banking asset to GDP ratio is amongst the largest in the world at 450% in 2013.

Country Rating

AA1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Germany	21% 1	28% Germany
United States	11% 2	11% Italy
France	8% 3	10% United States
Italy	6% 4	8% France
United Kingdom	5% 5	6% United Kingdom

By product (% of total)

Exports	Rank	Imports
Pharmaceuticals	25% 1	14% Non-Monetary Gold
Clockmaking	10% 2	9% Pharmaceuticals
Basic Organic Chemicals	6% 3	6% Jewellery, Works Of Art
Jewellery, Works Of Art	6% 4	5% Cars And Cycles
Precision Instruments	4% 5	4% Basic Organic Chemicals

Source: Chelem (2012)

Economic Overview

Growth is resilient

Real GDP growth accelerated to +1.9% in 2013 after +1.1% in 2012. Private and public consumption contributed +1.2pp and +0.2pp to 2013 growth, respectively. External trade activity was extremely buoyant with +15.4% export growth, outpacing import growth (+13.6%). Net exports thus contributed a robust +2.7pp to GDP growth. However, inventories subtracted -2.5pp from annual growth.

In 2014, real GDP grew by +0.4% q/q in Q1, followed by +0.3% q/q in Q2 and +0.6% q/q in Q3, resulting in average growth of +2% y/y in the first nine months. For the year as a whole, Euler Hermes expects about +1.9% growth, with slower consumer spending and a shift of net exports to a small negative contribution being compensated for by strong inventory re-stocking. In 2015-2016, annual growth is forecast to edge up slightly to about +2%.

Private consumption is key growth driver

Private consumption has been the main growth driver in the past years, supported by low unemployment, robust wage increases (+10.4% in nominal wages between Q2 2010 and Q2 2014) and a wealth effect coming from rising house prices. The deflation experienced by Switzerland over the past years has neither hurt consumption nor economic growth but rather bolstered real wage growth.

Robust external demand has led to some of the highest current account surpluses in Europe

Swiss trade statistics are highly dependent on gold trade as Switzerland is playing a key role in the international gold market. Gold is usually imported from the UK (60% of Swiss gold imports), melted down and recast into smaller bars in Switzerland before being exported to Asian economies, mainly to Hong Kong (44%) and India (14%). In 2013 total exports in real terms increased by +15.4% and imports by +13.6% but when excluding non-monetary gold, real exports actually decreased by -2.2% and imports by -1.0%. In 2014, in particular in Q2, the opposite pattern was observed, reflected in a large decrease of total exports (mainly linked to the economic slowdown in Asia) while exports of non-monetary gold increased slightly. Non-gold exports are traditionally high value-added and luxury goods, enjoying a relatively inelastic demand, including pharmaceuticals, mechanical engineering and the clock making industry. In 2014, Euler Hermes expects total exports to decrease by -9.4% and imports by -10.9%, due to the large drop in gold trade.

Switzerland's current account balance has recorded some of the highest surpluses in Europe over the past decade (along with Norway), accounting for +13.5% of GDP in 2013. In line with decreasing exports, the current account surplus is expected to narrow to +10.6% of GDP in 2014. It should then rebound to around +12.5% in both 2015 and 2016.

The strong Swiss franc continues to feed deflationary pressures

The SNB conducts its monetary policy by steering the interest rate level in the Swiss franc money market. Given the difficulty in curbing franc appreciation (from January 2008 to August 2011, the Swiss franc appreciated by +31%), the SNB announced an exchange rate ceiling of CHF1.20 per EUR on September 6, 2011. Nonetheless, large capital inflows to Switzerland have continued as the

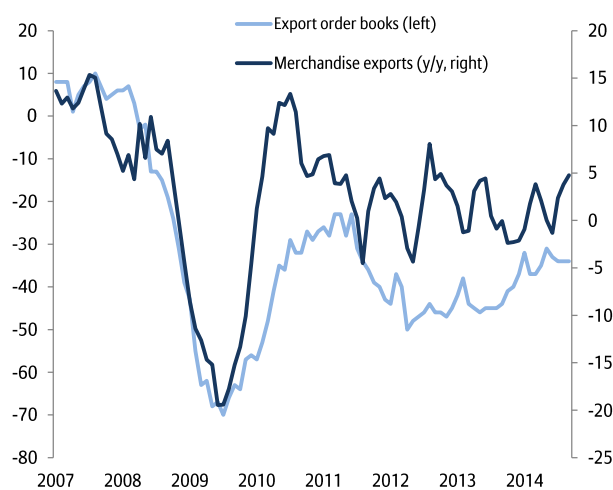
Key economic forecasts

Switzerland		2013	2014	2015	2016
GDP		1.9	1.9	2.0	2.1
Consumer Spending		2.2	1.0	1.6	1.5
Public Spending		1.4	1.1	1.5	1.3
Investment		1.8	0.9	1.1	1.6
Stocks	*	-2.5	1.4	0.2	0.0
Exports		15.4	-9.4	4.0	4.7
Imports		13.6	-10.9	4.0	4.4
Net exports	*	2.7	-0.3	0.5	0.8
Current account	**	86	68	20	20
<i>Current account (% of GDP)</i>		13.5	10.5	3.0	2.8
Employment		-0.3	0.2	1.1	0.7
Unemployment rate		3.1	3.1	3.1	3.1
Wages		0.4	1.0	1.7	1.8
Inflation		-0.2	0.0	0.4	0.6
General government balance	**	0	1	2	1
<i>General government balance (% of GDP)</i>		0.0	0.2	0.3	0.1
Public debt (% of GDP)		34.4	33.6	32.0	30.4
Nominal GDP	**	636	649	675	708

Change over the period, unless otherwise indicated: * contribution to GDP growth ** CHF billions

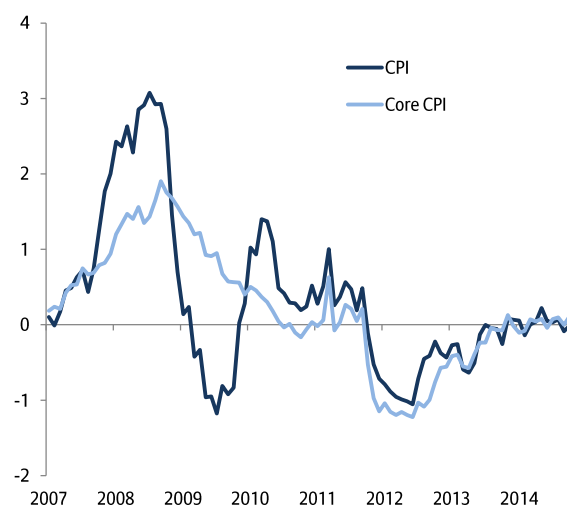
Sources: National sources, IHS, Euler Hermes

Export order books and merchandise exports



Sources: National sources, IHS, Euler Hermes

Inflation and core inflation



Sources: National sources, IHS, Euler Hermes

currency is considered as a safe-haven, notably by European investors.

Despite the near zero policy rate and the exchange rate ceiling, the strength of the franc continues to feed deflationary pressures. Inflation averaged -0.7% in 2012 and -0.2% in 2013. It has slightly picked up since the beginning of 2014, reaching an average 0% in the first ten months of the year. Euler Hermes forecasts a gradual acceleration of inflation in 2015-2016 but it should remain below 1%.

Public finances are sound

Since 2006, government revenues have been higher than government expenditures, leading to small budget surpluses (except for a tiny deficit in 2012). In 2014-2016, annual surpluses of +0.1% to +0.3% of GDP are projected.

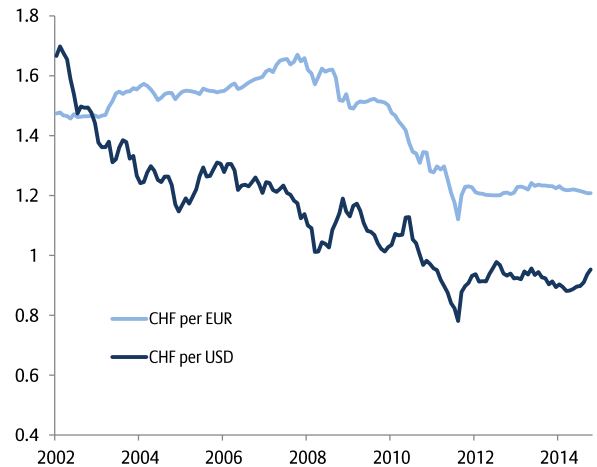
Public debt is low and decreasing. It accounted for 34.4% of GDP in 2013 and is expected to lower to 33.8% of GDP in 2014 and 32.3% in 2015.

Companies enjoy a favorable environment

Switzerland is a business-friendly country, ranked 20th out of 189 economies in the World Bank's Doing Business 2015 survey. The number of corporate insolvencies edged up to 4570 cases in 2013 but is forecast to decrease slightly to 4340 cases in 2014 (-5%) and 4200 cases in 2015 (-3%).

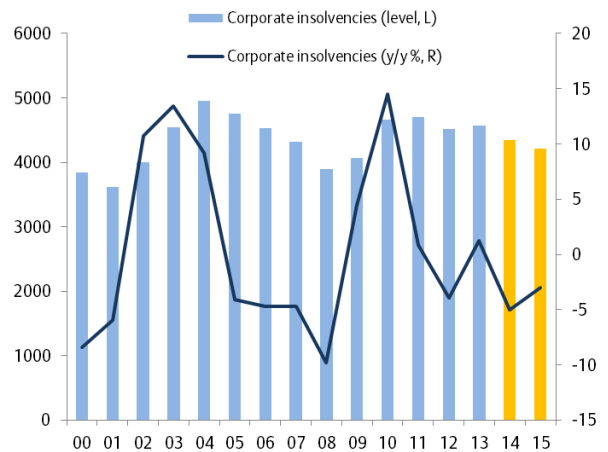
However, the Swiss economic model has been challenged in the past months. Recent international initiatives to address tax evasion and money laundering are eroding bank secrecy and the tax treatment of corporate income on foreign activities is also coming under international scrutiny. In the 2000s, immigration has been an important contributing factor to rapid economic growth but a recent popular vote limiting immigration may challenge enterprises' ability to employ highly skilled employees.

Exchange rate (Swiss franc per USD and EUR)



Sources: National sources, IHS, Euler Hermes

Number of insolvencies and percentage change



Sources: National sources, Euler Hermes

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