

Recovery of GDP and export growth to continue against the background of a stabilized CHF/EUR exchange rate

General Information



GDP	USD665bn (World ranking 19, World Bank 2015)
Population	8.29mn (World ranking 96, World Bank 2015)
Form of state	Confederation (but similar to a federal republic)
Head of government	Doris LEUTHARD (President of the Swiss Confederation)
Next elections	2019, legislative



Strengths

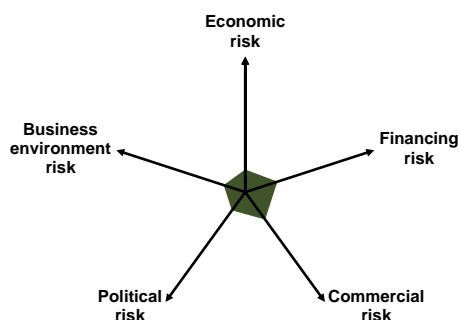
- Sound political institutions
- Specialized in manufacturing of high-quality goods with, however, a relatively inelastic demand during economic crises
- Large current account surpluses
- Very good public finances with fiscal surpluses and low public debt

Weaknesses

- International pressures on bank secrecy, populist votes on immigration, and an aging 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	16% 1	22% Germany
United States	10% 2	13% United Kingdom
Hong Kong	9% 3	8% France
India	7% 4	8% Italy
China	7% 5	7% United States

By product (% of total)

Exports	Rank	Imports
Non-Monetary Gold	25% 1	26% Non-Monetary Gold
Pharmaceuticals	22% 2	9% Pharmaceuticals
Clockmaking	8% 3	8% Jewellery, Works Of Art
Jewellery, Works Of Art	5% 4	4% Cars And Cycles
Basic Organic Chemicals	5% 5	4% Basic Organic Chemicals

Source: Chelem (2015)



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Strong macroeconomic fundamentals

Switzerland is a high-income economy with estimated GNI per capita of USD84,720 in 2015. Macroeconomic fundamentals are very strong, reflected in many years of large current account surpluses and near-balanced fiscal accounts. Public debt is moderate at about 35% of GDP (see Figure 1). If needed, the economy has sufficient buffers to withstand the impact of domestic or external shocks for some time.

Gradual recovery to continue

Real GDP growth weakened somewhat towards the end of 2016, posting +0.1% q/q in Q4 (unchanged from Q3) and +0.6% y/y (+1.4% in Q3). Still, this took full-year 2016 growth to +1.3%, indicating that the impact of the shock from the strong CHF appreciation after the removal of the CHF:EUR cap in January 2015, which cut growth to just +0.8% in 2015, is gradually waning. This is also reflected in external trade figures which show that real exports grew by +4.6% in 2016 (up from +2.2% in 2015). Imports expanded by +2.7% (+4.3% in 2015) so that net exports made a positive contribution of +1.6pp to 2016 growth (-0.9pp in 2015). However, this was offset by strong inventory destocking which subtracted -1.8pp from growth (+0.5pp in 2015). Meanwhile, fixed investment accelerated to +2.5% in 2016 (+1.5% in 2015) while private and government consumption continued to increase at a solid pace, by +1.2% and +1.9% (+1% and +2.2% in 2015) respectively.

Euler Hermes expects the recovery to continue and forecasts full-year GDP to rise by +1.6% in 2017 and +1.7% in 2018. Growth in the next two years is projected to be more balanced between domestic and external demand than in 2015-2016.

Exchange rate of CHF has found a new equilibrium against the EUR

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 the exchange rate cap of CHF1.20/EUR in January 2015. Consequently, Swiss total exports of goods (excluding non-monetary gold and valuables) decreased by -CHF5.4bn in 2015 (exports to the Eurozone -CHF6.4bn). However, the CHF/EUR rate stabilized around an average 1.09 in 2016 (slightly weaker than the average 1.07 in 2015) with low volatility (see Figure 2). As a result, exports rebounded and gained +CHF7.8bn last year (Eurozone +CHF4.6bn). Euler Hermes expects the exchange rate to remain relatively stable around an average CHF1.07 per EUR in 2017.

Deflation, which was exacerbated by the CHF appreciation in 2015-2016, has finally also given way to positive inflation. Consumer prices increased by +0.3% y/y in January 2017 and +0.6% in February. Euler Hermes forecasts average annual inflation of +0.9% in 2017 and +1.3% in 2018.

Figure 1: Key economic forecasts

Switzerland	2015	2016	2017	2018
GDP	0.8	1.3	1.6	1.7
Consumer Spending	1.0	1.2	1.5	1.4
Public Spending	2.2	1.9	1.6	1.6
Investment	1.5	2.5	1.2	1.6
Stocks *	0.5	-1.8	0.0	0.0
Exports	2.2	4.6	4.0	3.7
Imports	4.3	2.7	4.4	4.0
Net exports *	-0.9	1.6	0.3	0.4
Current account (% of GDP)	11.5	11.2	10.9	10.2
Inflation	-1.1	-0.4	0.9	1.3
Fiscal balance (% of GDP)	0.1	-0.1	0.1	0.2
Public debt (% of GDP)	34.0	34.7	34.6	33.7

Change over the period, unless otherwise indicated.

* Contribution to GDP growth.

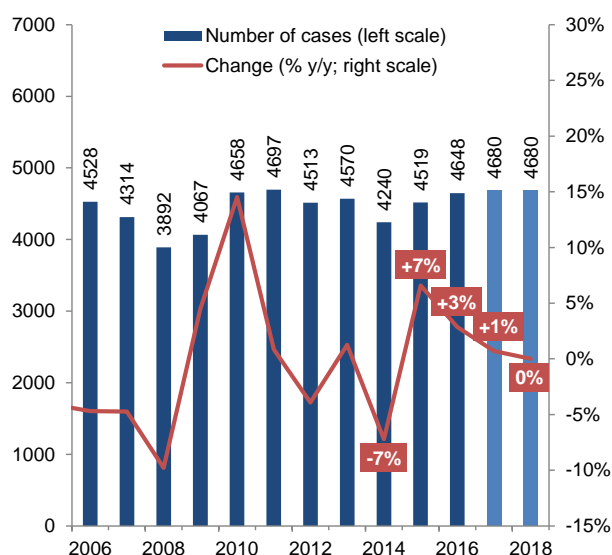
Sources: National statistics, IHS, Euler Hermes

Figure 2: CHF against currencies of major export destinations, with year 2017 average forecasts



Sources: IHS, Euler Hermes

Figure 3: Corporate insolvencies



Sources: National sources, Euler Hermes

Downtrend in insolvencies continues

The sharp CHF appreciation and the implied growth slowdown caused the number of corporate insolvencies to rise by +7% in 2015, as expected by Euler Hermes. The uptrend moderated to +3% in 2016, in line with the improving economy. Euler Hermes expects a +1% increase in insolvencies in 2017 and a stabilization in 2018 (see Figure 3).

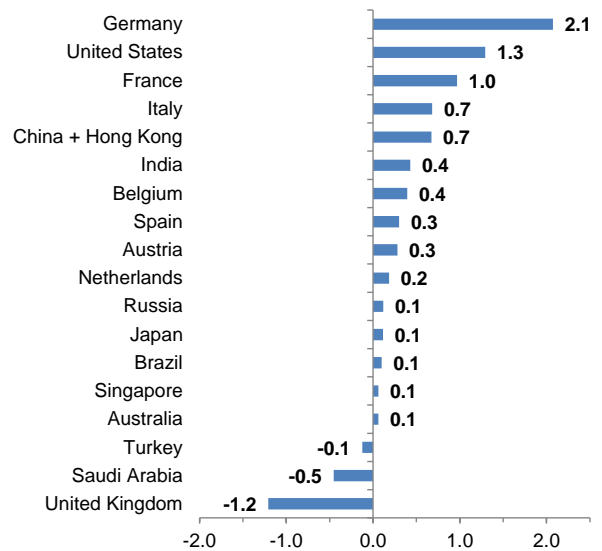
Exports to increase in value by +CHF7bn

The expected ongoing stability of the CHF and a moderate pickup in global trade (about +3.3% in volume terms) should support Swiss exports this year. Euler Hermes forecasts that exports will rise by +4% in 2016 by volume. In value terms, 2017 exports of goods (excluding non-monetary gold and valuables) are expected to increase by +CHF7bn. The slight decrease from the gains achieved in 2016 (+CHF7.8bn) is mainly explained by base effects.

Among Switzerland's top export markets, exports to all Eurozone countries are projected to continue to increase. Demand from Germany, accounting for 19% of Switzerland's exports last year, is expected to rise by +CHF2.1bn, followed by France (+CHF1.0bn) and Italy (+CHF0.7bn). Export gains from the Eurozone as a whole are estimated at +CHF4.7bn. Outside Europe, the largest export gains should come from the U.S. (+CHF1.3bn), China and Hong Kong (+CHF0.7bn) and India (+CHF0.4bn). On the other hand, substantial export losses are expected from economies that are currently facing economic difficulties, such as Saudi Arabia (-CHF0.5bn) and Turkey (-CHF0.1bn). Moreover, exports to the UK are expected to suffer the largest losses in 2017, at -CHF1.2bn (after -CHF0.2bn in 2016), a result of the markedly weakened GBP and expected economic slowdown in that country. Meanwhile, Swiss exports to both Russia and Brazil which shrank three years in a row are forecast to achieve a modest turnaround (+CHF0.1bn each) in 2017 as the recessions in both countries should give way to moderate recoveries (see Figure 4).

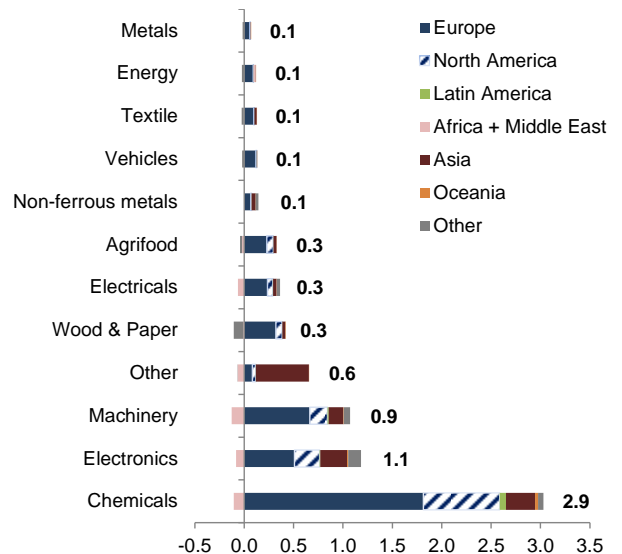
The continued recovery of exports to Europe also translates into overall export gains on a sector level. Euler Hermes expects chemicals exports to increase by +CHF2.9bn, followed by electronics (+CHF1.1bn) and machinery (+CHF0.9bn). The wood and paper, electricals and agrifood sectors should gain +CHF0.3bn in additional exports each (see Figure 5).

Figure 4: Potential 2017 export gains and losses for top trading partners (CHF bn)



Sources: Chelem, IMF, Euler Hermes

Figure 5: Potential 2017 export gains by sector and region (CHF bn)



Sources: Chelem, IMF, Euler Hermes

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