

Country Insight Snapshot Switzerland

August 2017



Written 25 August 2017

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OVERVIEW

OVERALL COUNTRY RISK RATING: DB2b

Low risk: Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns in future.

G

Rating Outlook: Stable

CORE OUTLOOK

+ Although there will be significant changes in the way the financial sector is run, expect Switzerland to remain an important player in the global banking industry.

+ Switzerland has a strong commercial environment and a GDP per capita level of around USD80,000.

- Switzerland's population dependency ratio is set to worsen in the long term, putting more strain on public services (and possibly being paid for through higher taxation).

- The franc serves as a typical safe-haven currency which, in recent years, has led to a significant appreciation of the currency and a loss in international price competitiveness.

KEY DEVELOPMENT

With the Swiss franc depreciating against the euro, order books in the manufacturing and service sectors are full, indicating a strong finish to the year.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a positive impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

G

Trend: Stable

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

G

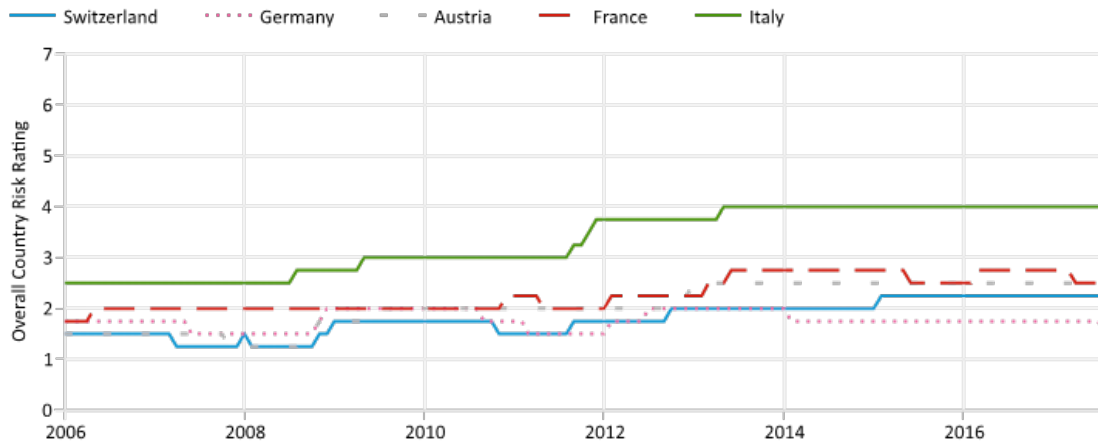
Trend: Stable

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

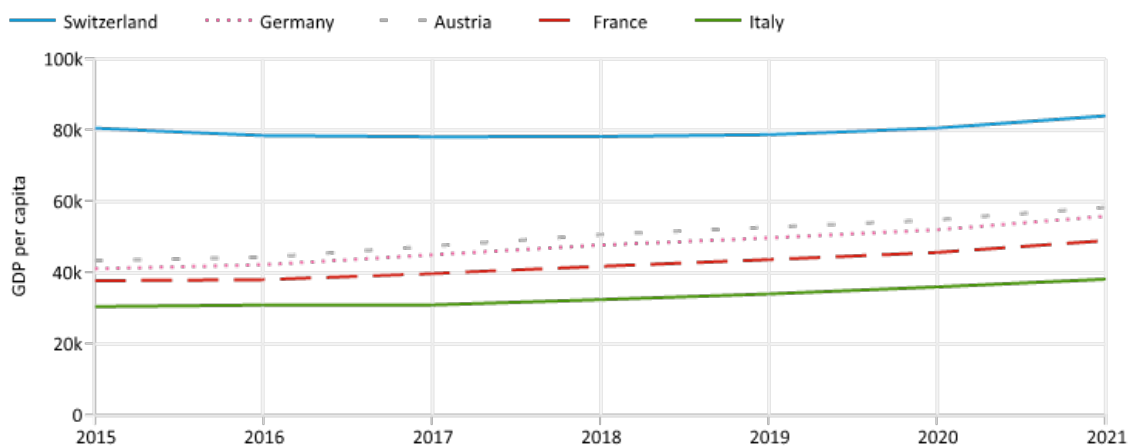
Rating History and Comparison



Source : Dun & Bradstreet

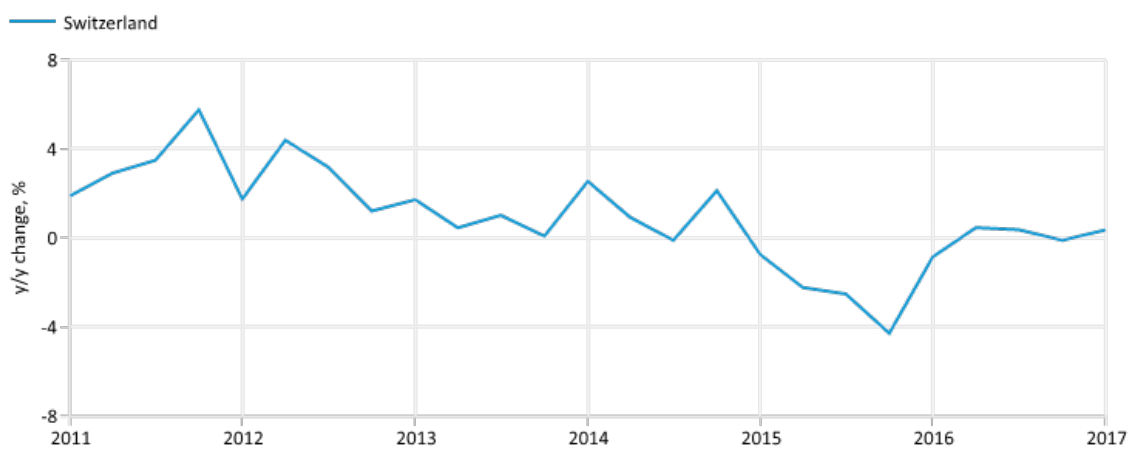
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



Economic Indicators

Indicator	2014	2015	2016	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	8.7	11.5	10.7	9.5	9.0	8.5	7.8	7.2
Govt balance, % GDP	0.0	0.4	0.2	1.1	1.2	1.0	0.9	1.0
Inflation, annual avge %	0.0	-1.1	-0.4	0.3	0.9	1.2	1.7	1.6
Real GDP Growth, %	2.0	0.8	1.3	1.6	2.1	2.2	2.3	2.4
Unemployment, %	3.0	3.2	3.3	3.2	3.0	2.8	2.7	2.8

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Switzerland is ranked 31st out of 189 countries in the World Bank's *Doing Business 2017* report, down from 29th in the previous edition. On the downside, getting a construction permit takes around five months, while starting a business is much faster (ten days) but, at more than 25% of income per capita (which stands at around USD80,000), the minimum capital required for setting up a business is high. The country also fell five positions in the protecting minority investors sub-index in the 2017 report, and is now ranked only 106th. Positively, Switzerland scores well in the fields of getting electricity (7th) and registering property (16th). Contrary to the regional pattern, paying taxes in Switzerland is straightforward (the country is ranked 18th), requiring only 19 payments and taking 63 hours per year. Moreover, at 28.8% of all profits, the total tax rate is unusually low.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: OA

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: OA

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 0-30 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

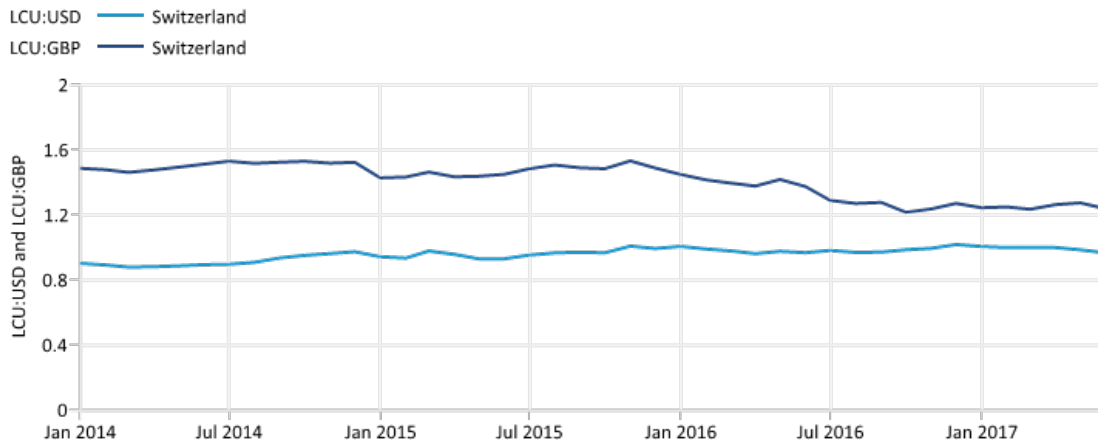
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



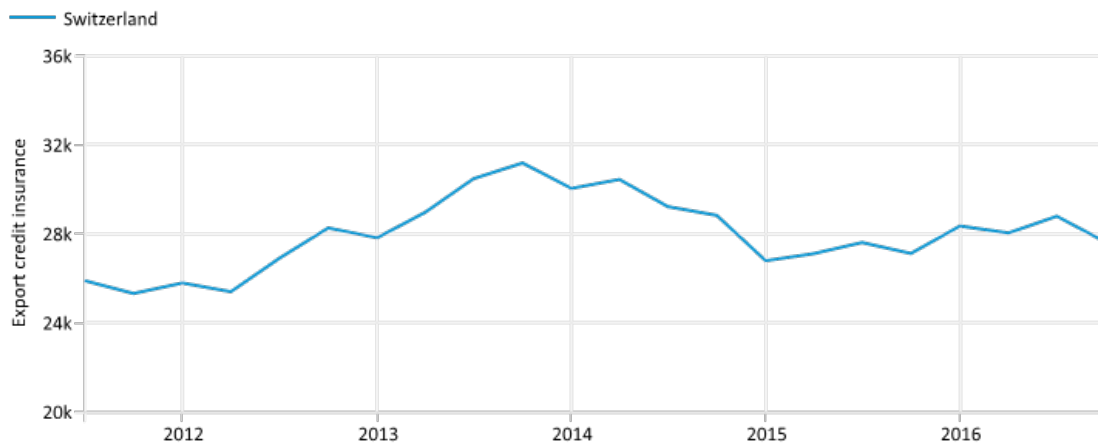
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Swiss franc

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Order books are full

Positively for the country's short-term economic outlook, the order books of Switzerland-based companies in the manufacturing and the services sectors are full, and forward-looking indicators point towards a strong finish to 2017 and a good start of 2018. In the manufacturing sector, the Purchasing Managers' Index (PMI, compiled by procure.ch and Credit Suisse) came in at 60.9 points in July, up from June's 60.1 and a sizeable 9.4 points higher than the July 2016 reading. Not only is the latest value comfortably above the neutral 50-points line that divides expansion in sectoral activity from contraction, it is also above the long-term average of 53.8 points - and represents the highest reading since 2011. Positively, the order books sub-index climbed from an already high 59.9 points in June to 65.2, the best reading in seven years, indicating rising production levels over the next months.

The picture is similar in the services sector. The PMI came in comfortably above the 50-points line, although the 58.6 points recorded in July were down from the 63.0 value seen in June. Encouragingly, new order inflow rose to a very high 68.5 (+4.3 points) and output also grew, but output prices decreased in July, indicating increasing pressure on profit margins in the service sector, especially as survey respondents highlighted rising prices for input products. All in all, Dun & Bradstreet believes the both sectors are on track for a strong finish to the year and a good start in 2018.

FX Risk

Franc depreciating against the euro

While domestic factors such as a very low unemployment rate and sound consumer confidence also contribute to the improving economic outlook, a depreciating Swiss franc is having additional beneficial effects. In the twelve months to mid-August, the franc has lost 4.6% against the euro, the currency of its most important export market, the euro zone. Currently trading at EUR0.88:CHF, the franc is down from levels around EUR0.94:CHF in early 2017. With political risk in the euro zone likely to drop further and the ECB expected to normalise monetary policy in 2018-19, there is room for a further strengthening of the euro, thereby improving the price competitiveness of Swiss companies when selling to the euro area. Also positively, the recent depreciation of the franc will also help to remove deflationary pressures, as it will have a stimulating effect on Switzerland's anaemic inflation rate.

On the downside, however, the weaker franc will reduce import demand for products from the euro zone, reducing opportunities for exporters located in the euro area. Against the US dollar the picture is slightly different, as the franc has held steady against the dollar over the past twelve months (and is likely to do so over the next quarters). This means that US-based companies are maintaining their international price competitiveness when selling to the Swiss market (where real GDP per capita is among the highest in the world).



COUNTRY PROFILE AND STATISTICS

Overview

Switzerland is a small, landlocked country in Western Europe, bordering France, Germany, Italy, Lichtenstein and Austria. Located at a cultural and linguistic crossroads, Switzerland has four official languages: German, French, Italian and Romansh.

Switzerland became a federal state in 1848, but has a history as a loose confederation of cantons dating back to 1291. The 26 cantons retain wide-ranging competencies, and important policy decisions often require the approval of the electorate in referendums. Switzerland has a long history of strict neutrality: it was not involved in either of the twentieth century's two world wars, has remained outside the EU, and only joined the UN in 2002.

High levels of political stability, as well as liberal economic policies, have helped Switzerland to become one of the wealthiest countries in the world, with traditionally low unemployment. Pharmaceuticals, machinery and precision instruments, banking and insurance, and tourism are key sectors of the economy.

Key Facts

Key Fact	Detail
Head of state	Federal President Doris LEUTHARD
Capital	Bern
Timezone	GMT +01-00
Official languages	German, French, Italian, Romansh
Population (millions)	8.4
GDP (USD billions)	660.2
GDP per capita (USD)	78,582
Life expectancy (years)	82.9
Literacy (% of adult pop.)	99.9
Surface area (sq km)	41,280

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2012	2013	2014	2015	2016
Real GDP growth (%)	1.1	1.8	2.0	0.8	1.3
Nominal GDP in USDbn	665	685	703	671	660
Nominal GDP in local currency (bn)	623	635	644	645	650
GDP per Capita in USD	82,785	84,244	85,389	80,608	78,582
Population (year-end, m)	8.0	8.1	8.2	8.3	8.4
Exchange rate (yr avge, USD-LCU)	0.9	0.9	0.9	1.0	1.0
Current Account in USDbn	69.7	78.7	61.4	77.4	70.6
Current Account (% of GDP)	10.5	11.5	8.7	11.5	10.7
FX reserves (year-end, USDbn)	475.7	496.0	505.5	567.0	640.6
Import Cover (months)	15.1	14.4	16.2	19.8	21.3
Inflation (annual avge, %)	-0.7	-0.2	0.0	-1.1	-0.4
Govt Balance (% GDP)	0.3	0.4	0.0	0.4	0.2

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	1.6	2.1	2.2	2.3	2.4
Nominal GDP in USDbn	663	669	679	699	734
Nominal GDP in local currency (bn)	663	682	706	734	764
GDP per Capita in USD	78,215	78,309	78,821	80,645	84,090
Population (year-end, m)	8.5	8.5	8.6	8.7	8.7
Exchange rate (yr avge, USD-LCU)	1.0	1.0	1.0	1.1	1.0
Current Account in USDbn	63.0	60.2	57.7	54.5	52.9
Current Account (% of GDP)	9.5	9.0	8.5	7.8	7.2
FX reserves (year-end, USDbn)	666.6	693.7	721.8	751.1	775.0
Import Cover (months)	21.0	20.0	21.0	20.0	20.5
Inflation (annual avge, %)	0.3	0.9	1.2	1.7	1.6
Govt Balance (% GDP)	1.1	1.2	1.0	0.9	1.0

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Switzerland	Germany	Austria	France	Italy
Income per Capita (USD)	78,215	45,052	47,483	39,798	30,968
Country Population (m)	8.5	82.1	8.7	65.0	59.8
Internet users (% of population)	88.0	87.6	83.9	84.7	65.6
Real GDP Growth (% p.a., 2017 - 2026)	1.0 - 2.5	1.8 - 3.0	1.5 - 2.8	1.3 - 2.5	0.5 - 2.0

Source : Various sources/Dun & Bradstreet



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