

# Switzerland Business Forecast Report Q1 2015

<https://marketpublishers.com/r/S3EC3367141EN.html>

Date: October 2014

Pages: 43

Price: US\$ 1,195.00 (Single User License)

ID: S3EC3367141EN

## Abstracts

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### Core Views

Switzerland's growth trajectory over the medium term will be increasingly powered by consumer spending, with the potential for the government to step in and boost growth in the event that the situation in the eurozone puts a sharp break on Swiss growth.

The Swiss National Bank has set a ceiling on the Swiss franc's value versus the euro in the face of substantial appreciatory pressures resulting from the eurozone sovereign debt crisis. This will help to protect the country's export sector from a severe loss of competitiveness and thereby limit the impact of external turbulence on near-term economic growth. However, the massive scale of the monetary easing involved in such foreign exchange intervention could dramatically inflate property prices if maintained into the medium term.

### Major Forecast Changes

We have revised our 2014 real GDP growth forecast to 1.9% from 2.5% previously.

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Key Risks To Outlook

### CHAPTER 1: POLITICAL OUTLOOK

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BMI Political Risk Ratings  
Domestic Politics  
Caught In The Middle Of Escalating West-Russia Sanctions  
The Swiss government has found itself caught in the middle of the financial stand-off between Russia and the West. As a key financial intermediary for Russian companies and individuals, Switzerland could strengthen the West's hand in preventing a further intensification of the Russia-Ukraine crisis. Although the Swiss government continues to refer to its longstanding position of neutrality, we stress that the risk of further damage to relations with the US and EU (both of which have come under pressure recently) could yet see Switzerland introduce tougher sanctions going forward.  
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### CHAPTER 2: ECONOMIC OUTLOOK

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Eurozone Slowdown Hitting Swiss Growth  
The Swiss economy stalled in the second quarter, suggesting that the slowdown in the eurozone is now starting to take its toll. While we still expect the Swiss economy to outperform the eurozone over the medium term, underpinned by resurgent household spending, we warn that prolonged stagnation in the euro area and the potential threat to Switzerland's access to the EU as result of new immigration control laws, risk impairing the longer-term growth trajectory.  
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The Slow Grind Back To Positive Inflation

Although the Swiss consumer price index has pulled back from deeply deflationary territory, it has still struggled to push decisively back into positive inflation. We continue to believe that positive price growth will return over the medium term on the back of robust economic growth, still loose monetary policy and gradual exchange rate depreciation. However, we highlight the risk posed by contamination from deflationary pressures in the eurozone, as well as the threat of periodic bouts of appreciatory pressure on the franc, which could trigger a Swiss relapse back into deflation.

#### Exchange Rate

##### Current CHF Strength Will Subside Over The Medium Term

The Swiss franc has rallied since the beginning of the year as the ongoing Russia-Ukraine crisis and a slowdown in the eurozone has pushed a new wave of capital into Switzerland. However, we continue to argue that additional monetary easing from the eurozone central bank will provide some relief to the beleaguered euro area, and we still expect the Russia-Ukraine crisis to desescalate. This will ease pressure on the franc currency peg and pave the way for modest depreciation against the euro over the medium term.

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#### Banking Sector

##### Banking Sector: Still On Track For Solid Growth

Growth in Swiss bank assets has slowed in recent months alongside a deterioration in broader economic activity during the second quarter. However, we believe that the slowdown in asset expansion largely reflects statistical base effects, with underlying loan growth still strong. As such, our relatively upbeat industry growth forecasts over the medium term remain in place.

## CHAPTER 3: 10-YEAR FORECAST

### The Swiss Economy To 2023

#### Steady Growth To Prevail Over Long-Term

We expect steady Swiss economic growth over our forecast period despite the global macroeconomic headwinds. We forecast

Switzerland's real economic growth to average 1.8% over our forecast period on account of the solid fundamentals underpinning the domestic economy.

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