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Switzerland Business Forecast Report Q2 2014

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Abstracts

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

There are no major forecast changes this wave.

Key Risks To Outlook

Upside Risks To Real Growth Forecasts: With the eurozone crisis on the backburner, the risks to our forecasts have tilted to the upside. The recovery in international trade and stabilisation in the eurozone could precipitate a stronger acceleration in Swiss growth than we currently anticipate.

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Having been a major beneficiary of the last wave of globalisation, Switzerland's position as a highly competitive economy are coming under threat from both internal and external political pressures. Indeed, an upcoming vote on whether to introduce immigration quotas, coupled with the ongoing transition towards tighter regulation of the banking industry and executive pay, risk denting the appeal of Switzerland's business environment.

The Swiss economy is on track to once again outperform the eurozone in 2014. The combination of a robust current account surplus which supports growth when external demand is strong, coupled with a healthy increase in consumer spending, will translate into a 2.0% expansion in real GDP this year and an average 1.6% rate of growth over the course of 2014-2018. Moreover, assuming that the eurozone recovery secures a firmer footing in 2014, the risks to our Swiss economic growth forecasts will lie to the upside.

Switzerland's current account will continue to post large surpluses over the medium term, underpinned by a robust surplus in the goods and services accounts. This will

help to drive up economic growth as international trade recovers, as well as keeping a lid on unemployment. That said, we expect to see some moderation in the size of the surplus relative to the economy, given our view that consumer spending and fixed investment will pick up over the medium term.
Monetary Policy
Monetary Policy Will Remain Loose
In contrast to the US Federal Reserve and Bank of England which have loosened monetary policy to combat tight credit conditions, the Swiss National Bank has had to loosen policy in response to a surge in capital inflows. Even though we expect pressure from foreign capital to subside as the eurozone recovery shifts up a gear, we expect the SNB to continue targeting rates at zero and will not drop its pledge to prevent a destabilising appreciation of the franc by purchasing foreign currency.
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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

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In addition to increasing health insurance premiums to meet the demands for hospital care and medicines, the Swiss government will need to realise efficiencies in the healthcare sector in order to maintain high levels of healthcare provision and meet the growing demands and changes in the types of healthcare that patients need. According to OECD figures, the Swiss visit doctors as often as people in comparable countries (around four times a year) and the average length of a hospital stay for acute care stands at just under eight days, compared to under five days in Sweden and under six days in the Netherlands.

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