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info@marketpublishers.com

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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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.

Table: MONETARY POLICY

Exchange Rate Policy

CHF Will Weaken In 2014

Having strained against the tide of foreign capital inflows in recent years, we believe that the pressure on the Swiss National Bank to prevent further franc appreciation will ease in 2014. With the eurozone crisis shifting from an acute to a more chronic phase, the stabilisation in demand will go hand in hand with an improvement in investor sentiment which will reduce demand for safe haven assets. As such, we expect the Swiss franc to depreciate gradually over the medium term, with strong domestic economic growth and a large current account surplus preventing a precipitous currency correction.

Table: Currency Forecast

Table: EXCHANGE RATE

Banking Sector

Banking Sector: Robust Expansion Ahead

The Swiss banking sector continues to expand at a time when eurozone banks still face deleveraging pressures. Asset growth is in line with the rate of growth in the broader economy and we believe that total industry assets can be sustained at around 500% of GDP.

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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CHAPTER 6: BMI GLOBAL ASSUMPTIONS

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