

Switzerland Business Forecast Report Q4 2014

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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 and 2015 current account surplus forecasts to 14.9% of GDP and 14.5% from 11.3% and 11.1% respectively.

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CHAPTER 1: POLITICAL OUTLOOK

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Government To Pursue Further Financial Sector Reform
The Swiss government remains under constant pressure to reform the financial services industry, with the country's direct democracy system allowing voters much greater influence on the legislative agenda (compared to other developed countries). Switzerland is well ahead of its counterparts in tackling illicit activities and promoting transparency, but if it treads this path alone the Swiss financial services industry could lose its standing as a major global financial centre.
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While it is still too early to confirm that the inflation print for May will herald the beginning

of a sustainable transition towards positive inflation following two years of deflation, a build-up of demand-side price pressures over the medium term remains our core view. This will be underpinned by robust economic growth, favourable labour market dynamics, ample credit supply and modest Swiss franc depreciation over the medium term.

Balance Of Payments

Bumper C/A Surplus Will Not Last

Switzerland's current account surplus has hit a new high, which has forced us to revise our medium-term forecasts. However, we maintain that an expansion in household demand, weak global trade and the impact of Switzerland's planned immigration curbs, will eat into the surplus over the medium to longer term.

Table: CURRENT ACCOUNT

Exchange Rate Policy

CHF Will Depreciate Over Medium Term

The ongoing conflict between Russia and Ukraine has renewed upside pressure on the Swiss franc on the back of demand for safe haven assets. However, we maintain our view that the Swiss franc will depreciate against the euro over the medium term as the eurozone recovery picks up some momentum and the hunt for yield diminishes the appeal of overvalued Swiss assets.

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Robust Growth Ahead

We hold to a positive outlook for the Swiss banking sector, with total industry assets forecast to grow at a similar clip to broader economic growth over the medium term. Swiss banks will benefit from robust loan demand from households and corporates, with the continued inflow of deposits - both domestic and foreign - allowing the industry to continuing ramping up credit.

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

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