SWITZERLAND'S ECONOMY

Essential Information **(Edition August 2011)**

Summary

The strong Swiss franc influences Switzerland's economy in 2011 strongly. Where this on one side offers high buying power and ensures low inflation it slows down the Swiss export industry and economic growth. Imports from Britain are remarkably high and rising, helped by the strength of the franc against the Pound sterling and strong Swiss buying power. The country is home to numerous world-class companies, which are major investors in the UK.

Key economic indicators

Population:	7.8 million	Time: CET (UK+1)
GDP (real): CHF 546.6 bn	+2.7% (2010)	[forecast for 2011: +2.1%]
GDP per head (PPP)	US$ 43,320 (2010)	[UK: US$ 34,660]
Public debt (% of GDP)	38.6% (2010 estimate)	[UK: 76% (2010 estimate)]
Inflation:	0.7% (2010)	[forecast for 2011: <1.0%]
Unemployment:	3.9% (2010)	[forecast for 2011: 3.2%]
Exchange rate (August 2011)		GBP 1 to approx CHF 1.3

Major agglomerations: Zurich (pop. 1,102,000), Geneva (493,000), Basel (486,000), Berne (Capital) (349,000).
Switzerland has three main official languages (German 64%, French 20%, Italian 6.5%). Most business is done in German or French, although English is widely spoken. Foreigners account for 22.1% of the Swiss population.

Outlook forecast Q3/Q4 2011

In the first months of 2011, Switzerland's economic growth slowed to a 0.3% quarterly increase of GDP from 0.8% (Q4 2010). However, Switzerland economic growth is expected to remain robust in 2011, despite cooling from 2010, mainly due to global economic uncertainty. GDP growth is estimated to reduce from 2.7% in 2010 to 2.1% in 2011, with 2012 showing 1.5% of growth. Domestic demand will remain firm; exports and imports grow by around 4%. Inflation will remain very low and unemployment is expected to fall to 3.2% in 2011 from 3.9%.

The strong Swiss franc influences Switzerland's economy in 2011 strongly. It is seen as a safe-haven currency and is currently, according to most experts, strongly overvalued. The Swiss franc gained value against all major currencies over the past years.

	2000		2008	2009	2010	2011 (01/08)
USD	1.68		1.08	1.09	1.04	0.79
EUR	1.55		1.58	1.5	1.38	1.13
GBP	2.55		2	1.69	1.61	1.29

Data source: Oanda

Economic background

Historically, Switzerland's economic advantages have included a stable political environment, liquid and sophisticated financial markets, low taxes, strong domestic purchasing power, a well-developed infrastructure and a stable macroeconomic environment. That said Swiss business has higher labour costs than in nearby EU nations and the pace of reform is slowed by lengthy legislative processes.

Switzerland is one of the world's richest countries, with a GDP per capita (current prices) in 2010 of $US 75,836 (USA $48,666, Japan $45,659, Germany $43,205, UK $39,459). It tops the World Economic Forum's Global Competitiveness Report 2010-2011, ahead of the USA, Sweden and Singapore. Three Swiss companies feature among the top 40 companies in the world: Nestlé, Novartis and Roche. In 2010 Zurich was ranked 2nd for Quality of Life in a survey by Mercer Human Resource Consulting, with Geneva 3rd (Vienna came 1st).

Currency Traditionally a currency of safe haven, the Swiss franc [CHF] strengthened significantly in 2010, not least in relation to the pound sterling. This makes the Swiss market interesting for UK exporters as well as Investment seeking organisations. The traditionally high buying power of Swiss companies is even stronger due to the strong Swiss franc.

Inflation Swiss core inflation, historically low, even turned negative in the recession, for the first time in nearly 20 years, as the strong franc dampened price pressures. Though now positive, it is expected to remain below 1%, suggesting that interest rates could stay at ultra-low levels well into 2012.

Consumer & Retail Switzerland has one of the world's highest Purchasing Power Parity indices (PPP), at US$ 41,765 (2010 estimate). By comparison, the UK's was US$ 35,053 and Germany's US$ 35,930. According to results of the quarterly household survey conducted by the State Secretariat for Economic Affairs (Seco), consumer sentiment fell again in the first quarter 2011, due to lower economic confidence and an increase in unemployment. The composite index of consumer sentiment fell to -17 points, down from the preceding quarter, which was at -1 point and from last year 16 points in July 2010.

Retail sales in Switzerland shrunk 0.3% year-on-year in April 2011, according to the latest available Swiss government data. This was significantly less than in last year as retails rose up to 3.8%. Private and public consumption both rose in quarter-on-quarter terms, by 0.2% and 0.4% respectively, but public consumption is now slightly below its year-earlier level.

There is increasing competition in the retail sector with more foreign-owned retail chains opening up e.g. Aldi, Lidl. However, Switzerland retains some restrictions on the import of food products in particular, so prices remain relatively high.

Employment Switzerland's economy has historically maintained a healthy rate of employment, with 4.61 million full-time employees in 2010, up 1% from 2009. Unemployment is estimated to drop by 0.3 – 0.5% in 2011 from its current level of around 4%. Down from a peak in early 2010, weak export markets and a strong Swiss franc have slowed job recovery.

Industry

Famed for its watch-making industry, banking and chocolate, Switzerland is also home to world-class life sciences, medical technology and advanced, precision engineering. Research and innovation form the foundation for Switzerland's reputation for high quality and reliability.

Business investment rose by close to 4% in 2010, after a recession-dogged fall in 2009. The recovery in capital spending is expected to continue in 2011 and 2012 (+4.2% and +3.5%).

Switzerland has the highest density of **medical technology** companies in Europe, with 1,400 companies active in this sector, employing over 48,000 full-time employees - over 10% of the European total. Switzerland is a key international market for **life sciences** companies, with 227 companies employing 20,000 people with a turnover of CHF 9.3 billion and is a key innovative force in the Swiss economy.

The **mechanical engineering, electronics and metals** industries are the largest export branches and most significant industrial employers in Switzerland. Well-known companies include ABB, Schindler, Liebherr and Sulzer. In the first half of 2010, this branch benefited from the improved economic situation in key markets, posting a higher level of domestic (16.7%) and international (14.8%) new orders. Nevertheless, due to the negative sales performance year-on-year (5.0%) and the strong Swiss franc, the situation remains difficult and companies are cautious in their long-term guidance.

Switzerland is also home to other successful companies in sectors such as **chemicals**, **IT and telecommunications, food processing and packaging, architecture and design, watch- and clock making, electrical and aerospace**.

Financial Services

Several Swiss companies in banking, insurance and re-insurance are of global importance:

UBS is Switzerland largest bank, followed closely **by Credit Suisse. Wealth management** is a particular strength of the "big 2" and numerous mostly private banks. Indeed, Credit Suisse now ranks first among European wealth management banks. HSBC is second, while UBS has dropped from first to third after suffering an outflow of funds under management in the credit crisis. Bank Julius Baer made its Top 10 debut at seventh, with Pictet tenth - which gives Switzerland four of the top 10 wealth managers in Europe. The main banking centres are Zurich and Geneva.

Zurich Financial Services and **Swiss Re** are leaders in the world of insurance.

Swiss Trade

Data from the Swiss Federal Customs Administration show that, whereas last year's export increased despite the strong Swiss franc by 7.2% the growth was slowed down the first half 2011 to 4.3%. From January to June 2011, Switzerland exported more goods in all areas of the world. Exports to Asia rose particularly strongly by 14.4% while exports to Europe rose by 1.3%. Exports to the UK dropped in this period by 11.2%. This can be seen as a correction of last year's 40% increase. Swiss exports account for over 30% of GNP.

Imports, **grew in the first half of 2011 by 2.7% globally** - up approximately 4.9% from Europe, nearly 20% from Latin America whilst imports from North America decreased by 9.6% and from Asia by 7%. Demand for raw materials and part-manufactured goods rose by 5.2%, mainly attributable to the watch-making and metal-processing industries. Imports of chemicals rose by 10%. Consumer goods imports decreased by 0.7% after a last year's increase by 14%, most important products in this sector were pharmaceutical products, cars, jewellery and food & drink. Imports of investment goods rose by 0.7%.

Business with UK

Switzerland remains the UK's 3rd largest non-EU market after the USA and China, with **total goods exports** in the first half of 2011 of **GBP 2.6 billion, up more than 10%** on the same period in 2010. This is more than Britain exports to Canada, Japan, India or Russia. In comparison to the same period in 2010, the trade balance between Switzerland and the UK became more balanced. UK Imports from Switzerland decreased more than 15%, whereas UK Exports grew by more than 10%.

SITC		Total Imports				Total Exports			
		Q1/2 2011	Q1/2 2010	Delta	%	Q1/2 2011	Q1/2 2010	Delta	%
0	FOOD & LIVE ANIMALS	54	57	- 4	-6.4	43	33	9	27.7
1	BEVERAGES & TOBACCO	20	13	7	57.9	25	24	2	6.6
2	CRUDE MATERIALS, INEDIBLE, EXCEPT FUELS	61	21	40	190.6	21	8	13	154.0
3	MINERAL FUELS, LUBRICANTS & RELATED MATERIALS	7	2	4	186.9	3	3	1	31.0
4	ANIMAL & VEGETABLE OILS, FATS & WAXES				67.2				7.2
5	CHEMICALS & RELATED PRODUCTS, NES	1,204	1,204	1	0.0	555	471	84	17.8
6	MANUFACTURED GOODS CLASSIFIED CHIEFLY BY MATERIAL	865	1,492	- 627	-42.0	296	251	45	17.9
7	MACHINERY & TRANSPORT EQUIPMENT	646	1,029	- 382	-37.2	738	570	168	29.4
8	MISCELLANEOUS MANUFACTURED ARTICLES	1,150	915	235	25.7	942	1,004	- 62	-6.2
9	COMMODITIES/TRANSACTIONS NOT CLASS'D ELSEWHERE IN	8	21	- 13	-63.3	2	2		-21.7
	Total	**4,014**	**4,754**	**- 740**	**-15.6**	**2,626**	**2,367**	**259**	**10.9**

Data source: uktradeinfo - figures in million £

UK - SWITZERLAND TOP 10 EXPORTS JANUARY - JUNE 2011(in £ thousands)		
896	WORKS OF ART, COLLECTORS' PIECES AND ANTIQUES	425,476
897	JEWELLERY, GOLDSMITHS' & SILVERSMITHS' WARES, AND OTHER ARTICLES OF PRECIOUS OR SEMI-PRECIOUS MATERIALS, NES	292,084
781	MOTOR CARS & OTHER M/VEHICLES PRINCIPALLY DESIGNEDFOR TRANSPORT OF PERSONS (O/T PUBLIC-TRANSPORT VEHICLES)	228,927
542	MEDICAMENTS (INCLUDING VETERINARY MEDICAMENTS)	202,739
667	PEARLS, PRECIOUS AND SEMI-PRECIOUS STONES, UNWORKED OR WORKED	183,295
515	ORGANO-INORGANIC COMPOUNDS, HETEROCYCLIC COMPOUNDS,NUCLEIC ACIDS AND THEIR SALTS AND SULPHONAMIDES	152,121
792	AIRCRAFT & ASSOCIATED EQP; SPACECRAFT (INCLUDING SATELLITES) & SPACECRAFT LAUNCH VEHICLES	148,170
714	ENGINES AND MOTORS, NON-ELE (O/T THOSE OF GROUPS 712, 713, & 718); PARTS, NES, OF THESE ENGINES AND MOTORS	61,464
764	TELECOMMUNICATIONS EQUIPMENT, NES; AND PARTS, NES,AND ACCESSORIES OF APPARATUS FALLING WITHIN DIVISION 76	48,167
885	WATCHES AND CLOCKS	47,120
874	MEASURING, CHECKING, ANALYSING AND CONTROLLING INSTRUMENTS AND APPARATUS, NES	36,276

Data source: uktradeinfo – only 3 digits SITC products listed

Swiss government data show a growth in imports from the UK of 10% in the first 7 months of 2010 in relation to the same period last year, consolidating Britain's seventh position in Europe behind Switzerland's four neighbours, the USA and the Netherlands.

Switzerland also offers major export opportunities for **aid-funded business**. The United Nations Office in Geneva (UNOG) is the UN's largest duty stations outside of its HQ in New York, with 46 organisations represented there, of which 22 are headquarter offices. Geneva is a significant centre for **UN procurement of products and services**, particularly for health, emergency relief and rehabilitation after a crisis - procurement by UN offices worldwide was **worth US$13.9 billion** in 2009 (latest data available).

Switzerland is the **seventh largest foreign direct investor in the UK,** with a total stock value of GBP 27.8 billion, making up 4% of all FDI into the UK. The top 30 Swiss companies (operating turnover of over US$ 500,000) provide close to 200,000 jobs in the UK. Overall, some 2,000 Swiss companies are estimated to operate in the UK. Swiss government figures record the UK as Switzerland's fourth largest destination for outward investment after Germany, Italy and France.

Tips on business etiquette in Switzerland

- Swiss diaries fill up early. Seek appointments in good time.
- It is important to make clear in advance the purpose of any meeting.
- Punctuality is important. It is best to arrive early.
- Most senior business people in Switzerland speak English, but it is wise to check.
- All correspondence should be typewritten.
- Usual office hours are 08:00-17:00, with a long lunch break.

Political background

Founded in 1848 (1291), the Swiss Confederation now comprises 26 autonomous, self-governing cantons. Although Berne (pop. 349,000) is the federal and administrative capital, greater Zurich (pop. 1,102,000) is very much the financial and commercial centre. Other major cities and areas include Geneva (pop. 493,000), Basel (pop. 486,000) and Lausanne (pop. 114,000).

Swiss politics are characterised by consensus and stability, voters have a large say in the political and administrative life through a long-standing tradition of referenda. The government has for many years been a "grand coalition" of four main parties, all represented in the Federal Council (cabinet). National elections are held every four years, most recently on 21 October 2007. The next national election will be on 23 October 2011. There are two chambers: the States Council (46 cantonal representatives) and the National Council (246 councillors). The office of President of the Confederation rotates annually between the Federal Councillors. Switzerland's Foreign Minister, Micheline Calmy-Rey, assumed the Presidency on 1 January 2011.

Switzerland has been a member of the European Free Trade Association (EFTA) since 1959 and a member of the World Trade Organisation (WTO) since 1995. Largely because of its long tradition of neutrality, Switzerland is not a member of the EU, EEA or NATO. Whilst the political debate on EU membership continues, **a series of bilateral agreements between Switzerland and the EU** covering for example, land and air transport and free movement of persons, came into force on 1 June 2002.

Recently, the EU has increased pressure on Switzerland, as these bilateral agreements do not allow for automatic adoption of EU legislation changes and are becoming a large administrative burden on the EU. On 12 December 2008, **Switzerland became a member of the EU Schengen Group**.

After having been put on the OECD grey list of tax havens in 2009, Switzerland began to sign a number of bilateral double taxation agreements (DTAs) with other states allowing international compliance and transparency. Switzerland has announced that it intends to adopt the OECD standard on administrative assistance in tax matters in accordance with the OECD convention. A series of bilateral DTAs were ratified in 2010, and in addition, Switzerland signed agreements with the UK and Germany on further negotiation on tax matters. After a series of events involving stolen Swiss bank client data having been sold to surrounding countries such as Germany, France and Spain foreign clients of Swiss banks have turned themselves into their local tax authorities.

Switzerland is trying to keep its banking secrecy while at the same time increasingly agreeing to exchange information with other countries in cases of tax fraud. The Swiss financial sector is paramount to Swiss economy, which is why international tax negotiations and the regulation of the financial sector – dominated by the two large banks UBS and Credit Suisse who are on the G-20 list of the 20 global strategic banks -

are amongst the highest priorities in Switzerland. After the conclusion of a tax agreement between Switzerland and Germany the UK are expected to be next country to settle tax disputes with Switzerland.

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Sources:

Swiss National Bank; Economist Intelligence Unit - Country Reports - Switzerland; Swiss State Secretariat for the Economy (SECO): Federal Statistical Office; Federal Customs Administration; WEF world competitiveness report; Medtech Switzerland report; Financial Times; OSEC; UBS, CS and OECD economic outlook.

http://www.osec.ch/internet/osec/en/home.html
OSEC is Switzerland's economic promotion agency
http://www.economiesuisse.ch/web/en/pages/default.aspx
Economiesuisse is the largest umbrella organization representing the Swiss economy
http://www.snb.ch/de/iabout/stat/statpub/fdi/stats/fdi
Swiss National Bank - statistics
http://www.ubs.com/1/g/wealthmanagement/wealth_management_research/publicly_available_material.html
UBS Economic Data and economic outlook reports
http://www.gfmag.com/gdp-data-country-reports/152-the-united-kingdom-gdp-country-report.html#axzz1BxRUpxl2
Global Data on comparative purchasing power parity per GDP
https://www.eiu.com/public/signup.aspx
Economist Intelligence Unit global rankings
http://www.seco.admin.ch/dokumentation/publikation/00007/00021/04527/index.html?lang=de
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