Country Profile Series

Switzerland

In-depth PESTLE insights

REFERENCE CODE: ML00002-028
PUBLICATION DATE: May 2012
WWW.MARKETLINE.COM
MARKETLINE. THIS PROFILE IS A LICENSED PRODUCT AND IS NOT TO BE PHOTOCOPIED

OVERVIEW

Catalyst

This profile analyzes the political, economic, social, technological, legal, and environmental (PESTLE) structure in Switzerland. Each of the PESTLE factors is explored in terms of four parameters: current strengths, current challenges, future prospects, and future risks.

Summary

Key findings

Switzerland has political stability, but has strained bilateral ties with many countries

Following the October 2011 general elections, the political situation in the county has stabilized, with the right-wing Swiss People's Party (*Schweizerische Volkspartei* [SVP]) losing some of its political ground to the Green Liberals and the Conservative Democratic Party of Switzerland (*Bürgerlich-Demokratische Partei Schweiz* [BDP]). In the earlier elections, the SVP gained enough seats to destabilize the consensus among the major parties as well as to employ opposition tactics to scuttle reforms. With Switzerland strongly rooted in a consensus-based political system, having multiple centers of influence has led to political stability in the country.

However, the country's strong bank secrecy laws and low tax rates in some of its cantons are a source of dispute with many Organisation for Economic Co-operation and Development (OECD) nations. With many countries pursuing tax evaders in order to improve their public finances, Switzerland's perception as a tax haven remains a source of friction. In April 2012, the US issued an ultimatum to Switzerland to expedite its position on two agreements, and threatened to revoke a visa waiver for Swiss citizens entering the US. This has strained bilateral ties between the two countries.

The economy has stabilized, but the appreciating Swiss franc remains a concern

The country experienced a downturn during 2008–09, with a GDP contraction of 1.9% in 2009. In 2010, Switzerland held up better than many other European countries and the US, registering GDP growth of 2.7%. However, the government's policies to drive private consumption and capital investment enabled GDP to grow by 1.8% in 2011. According to MarketLine estimates, GDP is set to grow 1.9% in 2012.

However, the Swiss economy faces a threat due to the appreciating Swiss franc. The Swiss franc appreciated around 16% against the euro and 9% against the dollar in 2010. In September 2011, the central bank set a minimum exchange rate target of CHF1.20 to the euro to weaken the franc. The massive overvaluation of the Swiss franc poses an acute threat to the economy and risks deflation.

The aging population exerts budgetary pressures, but education reforms are underway

The financial sustainability of social expenditure programs has become doubtful due to the ever-increasing aged population and rising welfare benefits. According to MarketLine estimates, the percentage of the population above 65 years went up from 15.4% in 2005 to 16.9% in 2011. This is expected to cross 18.0% by 2015. It is estimated that public expenditure will increase by 5.0% of GDP by 2050. The swelling budget for healthcare and pensions will put immense pressure on government finances.

Although education outcomes in Switzerland are strong compared to other countries, its lead in terms of the formal qualifications of its workforce over other OECD nations has slipped considerably. The Swiss parliament is initiating

© MarketLine. This report is a licensed product and is not to be photocopied

education reforms to improve the country's higher education system. A constitutional amendment requires the confederation and the cantons to co-ordinate their policies toward tertiary academic education. The legislation is expected to bring universities and universities of applied science under a common regulatory framework. Besides these moves, raising tuition fees in tertiary academic education and providing government-sponsored loans to students will increase access to tertiary education in the country.

Although the country is a global innovation leader, its reputation as a research and development destination is under threat

Switzerland has a strong capacity for innovation. According to the Innovation Union Scoreboard 2011, the country is considered a global innovation leader. The country's innovation performance is above that of the EU27, what with its excellent achievements in terms of intellectual assets and most of the economic effects indicators. The country also provides strong intellectual property protection. This healthy innovative capacity is evident in the high number of patents granted (1,865) to Switzerland by the US Patent and Trademark Office in 2011.

However, the country's reputation as a research and development (R&D) destination is under threat. Many large multinational companies in the country undertake a significant part of their research activities outside the country through their subsidiaries. Many companies have also shut down their local R&D operations to cut costs. The country has to compete with upcoming R&D destinations across the world. The country has to take efforts, like providing tax incentives, to reverse this trend in order to retain its reputation as an innovation destination.

The legal environment is conducive to investment, but government regulations could act as a deterrent

Switzerland's investment climate is considered favorable for investors, as there are no significant barriers to starting a business in the country. The country's strong placing in the Doing Business 2012 and Index of Economic Freedom 2012 rankings shows that its regulatory environment is conducive to the operation of business and is favorable for attracting more business investment.

However, government regulations in certain sectors are a source of concern, as they act as a deterrent for further investment. Too much government interference will reduce the motivation for companies to invest and expand.

In spite of its high ranking in terms of environmental performance, the country suffers from climate change and loss of biodiversity

Switzerland has been at the forefront of environmental legislation, with an environmental charter as part of its constitution. The country ranked first in the 2012 Environmental Performance Index published by the Yale and Columbia universities in the US, with a score of 76.7 in a range from zero to 100.

However, the government faces the challenges of climate change and loss of biodiversity. Nearly 50% of the country's flora and fauna are in danger of extinction. In April 2012, the Federal Council adopted the Swiss Biodiversity Strategy for the long-term conservation and promotion of biodiversity and ecosystems. Switzerland is struggling to meet its pledges to cut carbon emissions under the Kyoto Protocol.

PESTLE highlights

Political landscape

- Switzerland has remained a high performer on the World Bank's global governance indicators, ranking between 91 and 99.5 in all parameters.

© MarketLine. This report is a licensed product and is not to be photocopied

- In April 2012, an Amnesty International report concluded that Islamic religious symbols like headscarves, beards, and minarets were viewed with hostility, and that Muslims were discriminated against in employment and education in the country.

Economic landscape

- Switzerland ranks as one of the world's most competitive economies, with a real GDP of around $300bn in 2011. With prudent monetary and fiscal policies in place, the country has weathered the economic recession much better than many of its European neighbors.
- Unemployment soared to a 12-year high by Swiss standards to reach 4.4% in 2009 and 4.5% in 2010 due to the impact of the global financial crisis. The unemployment rate remained above 4.0% in 2011, and is expected to touch 4.4% in 2012.

Social landscape

- According to the United Nations Development Programme's (UNDP's) 2011 Human Development Report, the country was ranked 11th out of 187 countries with a score of 0.90. Life expectancy at birth is 81.2 years, which is among the highest in the world.
- Despite high wage levels in the country, there are a considerable number of working poor that fall below the poverty line. MarketLine estimates that 3.5% of the population survived on less than $2 a day in 2011.

Technological landscape

- According to MarketLine estimates, gross domestic expenditure on R&D in 2010 was $11.8bn or 2.3% of GDP. The government is extending higher funding opportunities to private companies and small- and medium-sized enterprises in order to promote innovation.
- The university enrollment rate in the country is lower than many other high innovation nations. According to the UNDP's 2011 Human Development Report, the gross enrollment ratio in tertiary education was 51.2%.

Legal landscape

- Corruption is perceived as being almost nonexistent in Switzerland. The country was ranked eighth out of 183 countries in Transparency International's Corruption Perceptions Index for 2011.
- Although the government has given more power to the Competition Commission, Switzerland's antitrust agency, the independence of the commission has been compromised, and it is unable to act against multinationals that fall outside of Swiss jurisdiction.

Environment landscape

- Under its new energy policy, the country plans to increase the share of renewables in total energy consumption from 16% in 2005 to 24% in 2020. By 2030, the country plans to produce 5,400 gigawatt-hours of electricity annually from renewables.
- Carbon dioxide emissions are high and averaged 45.5 million tons between 2003 and 2006, declining to 43.9 million tons in 2007. However, the figure rose to above 45 million tons in 2008 and 2009, before declining to 43.8 million tons in 2010.

© MarketLine. This report is a licensed product and is not to be photocopied

Key fundamentals

Table 1: Switzerland – key fundamentals

	2010	2011	2012f	2013f	2014f	2015f	2016f
GDP, constant prices ($bn)	294.7	300.1	305.8	311.3	316.9	322.6	328.4
GDP growth rate (%)	2.7	1.8	1.9	1.8	1.8	1.8	1.8
GDP, constant 2000 prices, per capita ($)	37,445.4	38,049.9	38,689.4	39,309.0	39,936.8	40,588.8	41,260.5
Inflation (%)	-0.8	3.3	4.0	4.1	4.2	4.3	3.7
Exports, total as a percentage of GDP	52.3	45.7	43.9	45.4	46.9	48.4	49.8
Imports, total as a percentage of GDP	41.3	36.2	34.5	35.5	36.5	37.4	38.4
Mid-year population, (millions)	7.9	7.9	7.9	7.9	7.9	7.9	8.0
Unemployment rate (%)	4.5	4.1	4.4	4.1	4.1	3.9	3.8
Mobile penetration (per 100 people)	121.0	123.2	124.9	126.2	127.3	128.1	128.8

Source: MarketLine MARKETLINE

© MarketLine. This report is a licensed product and is not to be photocopied

TABLE OF CONTENTS

© MarketLine. This report is a licensed product and is not to be photocopied

© MarketLine. This report is a licensed product and is not to be photocopied

TABLE OF FIGURES

© MarketLine. This report is a licensed product and is not to be photocopied

TABLE OF TABLES

© MarketLine. This report is a licensed product and is not to be photocopied

KEY FACTS AND GEOGRAPHIC LOCATION

Key facts

Table 2: Switzerland – key facts

Country and capital	
Full name	The Swiss Confederation
Capital city	Bern
Government	
Government type	Federal state
Head of state and government	President Eveline Widmer-Schlumpf
Population	7.7 million
Currency	Swiss franc (CHF)
GDP per capita adjusted by purchasing power parity	$43,400
Internet domain	.ch
Demographic details	
Life expectancy	81.17 years (total population) 78.34 years (men) 84.16 years (women)
Ethnic composition (2000)	German (65%), French (18%), Italian (10%), Romansch (1%), other (6%)
Major religion (2000 census)	Roman Catholic (41.8%), Protestant (35.3%), Muslim (4.3%), others (7.5%), none (11.1%)
Country area	41,277 sq km
Language	French, German, Italian, Serbo-Croatian, Albanian, Portuguese, Spanish, English, and Romansch
Exports	Machinery, chemicals, metals, watches, agricultural products
Imports	Machinery, chemicals, vehicles, metals, agricultural products, textiles

Source: Central Intelligence Agency (CIA), The World Factbook **MARKETLINE**

© MarketLine. This report is a licensed product and is not to be photocopied

Geographic location

Switzerland is a landlocked country in central Europe, located east of France and north of Italy.

Figure 1: Map of Switzerland

Source: CIA, The World Factbook MARKETLINE

© MarketLine. This report is a licensed product and is not to be photocopied

PESTLE ANALYSIS

Summary

Switzerland has maintained its neutrality since 1815 and remains outside of the European Union (EU). Its neutral status and unique direct democracy have contributed to its economic and political stability. The "magic formula," a seat-sharing agreement between the four major parties, has long provided a great degree of political stability. In the October 2011 elections, the right-wing Swiss People's Party (SVP) lost some of its political ground to the Green Liberals and the Conservative Democratic Party (BDP), which has led to multiple centers of influence in the political scene and brought about political stability in the country. However, the growing discrimination against Muslims and the straining of bilateral ties with several nations due to Switzerland's strong banking secrecy laws are expected to cause instability on the international front.

The Swiss economy entered a recession in 2008, but has since recovered. The country's economic performance is supported by a well-developed banking sector, capital market, and infrastructure. The current account surplus is growing; however, the economy is challenged by rising unemployment and the strengthening of the Swiss franc that has affected export growth and earnings. With the country's economy highly integrated with its European neighbors, the International Monetary Fund (IMF) has warned that the country could slip into a recession if the euro crisis becomes acute.

Switzerland has excellent human development indicators, but the proportion of working poor is surprisingly high. Additionally, an aging population and a declining birth rate have put immense pressure on the pensions and healthcare systems.

Technological innovation backed by excellent research is the key to the success of the Swiss economy. However, the low tertiary enrollment rate in the country is a cause for concern, as it will affect the development of human resources for the research and development (R&D) sector.

Switzerland placed strongly in the Doing Business 2012 and Index of Economic Freedom 2012 rankings, which shows that the country's regulatory environment is conducive to the operation of business and is favorable for attracting more business investment. However, government regulation in certain sectors is a source of concern, as it acts as a deterrent to further investment.

Switzerland ranked first in the 2012 Environmental Performance Index (EPI). However, nearly 50% of the country's flora and fauna are in danger of extinction and the country is struggling to meet its pledges to cut carbon emissions under the Kyoto Protocol. By 2030, the country plans to produce 5,400 gigawatt-hours of electricity annually from renewables.

© MarketLine. This report is a licensed product and is not to be photocopied

Political analysis

Overview

The Swiss political system is characterized by a high degree of decentralization, with much authority delegated to the 26 states or cantons. This loose federal structure reflects the evolution of the Swiss state since the middle ages, and is shaped in part by Switzerland's high degree of linguistic fragmentation. Frequent referendums concerning major or contentious political questions are the key elements of Switzerland's unique and well-established tradition of "direct democracy." The Swiss system is recognized for its political stability. Since the system of governance is based on consensus, none of the parties can vehemently pursue a single agenda, and diverse ideologies are therefore combined in the process of policymaking. In the October 2011 elections, the right-wing SVP lost some of its political ground to the Green Liberals and the BDP. With the country rooted in a consensus-based political system, having multiple centers of influence in the political scene will support political stability.

Switzerland's policy toward Europe is marked mainly by a dense network of international agreements under a bilateral approach. However, the chances of EU membership in the near future are still remote, with the SVP continuing to vehemently oppose EU membership and the adoption of EU law. The growing discrimination against Muslims and the straining of bilateral ties with several countries due to the country's strong banking secrecy laws are expected to cause instability on the international front.

Table 3: Analysis of Switzerland's political landscape

Current strengths	Current challenges
■ Robust performer on governance indicators ■ Political stability	■ EU membership remains a distant prospect ■ Pursuing policies based on consensus
Future prospects	**Future risks**
■ Bilateral agreements ■ Expanding relations with non-European states	■ Growing discrimination against Muslims ■ Banking secrecy laws and strained bilateral ties

Source: MarketLine MARKETLINE

Current strengths

Robust performer on governance indicators

Switzerland's governance indicators are good, with the country being in the 99.5 percentile on the voice and accountability parameter in 2010. This parameter measures the extent to which citizens of a particular country are able to participate in selecting their government, along with freedom of expression, freedom of association, and the availability of free media. Switzerland has preserved its traditions of direct democracy, where citizens are involved in the framing of important legislation. The country also performs well in terms of regulatory quality and the implementation of the rule of law.

© MarketLine. This report is a licensed product and is not to be photocopied

Political stability

Following the October 2011 general elections, the political situation in the county has stabilized, with the right-wing SVP losing some of its political ground to the Green Liberals and the BDP. In the earlier parliamentary elections, the SVP gained enough seats to destabilize the consensus among the major parties as well as to employ opposition tactics to scuttle reforms. With Switzerland strongly rooted in a consensus-based political system, having multiple centers of influence supports political stability in the country.

Current challenges

EU membership remains a distant prospect

Switzerland is still skeptical about joining the EU. Switzerland's attitude is underpinned by many factors: national identity, reservations on policy matters such as preserving direct democracy and Swiss-style federalism, incompatibility with the principle of neutrality, the requirement to contribute to EU funds, and doubts regarding trade benefits. All of these issues are perceived as a threat to national interests. On the other hand, Switzerland may suffer discrimination as a non-member in some aspects and may lose out on economic opportunities, considering that the Swiss economy is deeply connected with those of its EU neighbors. The EU has demanded, among other things, that mechanisms be set up to adapt agreements to develop community legislation and case law, improve monitoring of implementation, facilitate dispute settlements, co-operate to combat tax evasion, renegotiate the taxation of savings income agreement, and extend the EU code of conduct on company taxation. Although the governing coalition broadly supports EU membership, it is unlikely to push for a vote. The largest party in the country, the SVP, is strongly opposed to EU membership and integration. Although Switzerland continues to get closer to the EU through bilateral accords, joining the union remains a distant prospect.

Pursuing policies based on consensus

In Switzerland, the governance system is based on consensus, and all the parties have representation in the Federal Council. The political system attempts to provide every community with representation and an opportunity to influence decisions, which are sometimes the result of long and complex negotiations to reach a consensus. Although the system imparts stability, the decisions are not always in the best interests of society. Moreover, with the emergence of hardline parties, it is becoming increasingly difficult to work on the basis of consensus. As a result, important policies fail to be implemented due to internal opposition within the government.

Future prospects

Bilateral agreements

Europe remains a central reference point for Swiss foreign policy, as it is Switzerland's most important trading partner, and the nation's security largely depends on developments within the continent. To this end, the country has established a network of international agreements under its bilateral approach. The Schengen/Dublin Association Agreements, which entered into force in 2008, make Switzerland an equal partner in the European freedom of movement and security zone. It now has the right to participate in the development of new legislation and measures for the further refinement of Schengen/Dublin law. In the area of nuclear non-proliferation, Switzerland, in co-operation with other European countries, is working to find a balance between disarmament, non-proliferation, and the peaceful use of nuclear energy under the Treaty on the Non-Proliferation of Nuclear Weapons.

The country has also signed a bilateral agreement with the EU to simplify recruitment from other EU countries, enable free movement of labor, and eliminate quotas for EU15 workers. It began free trade agreement negotiations with China in

© MarketLine. This report is a licensed product and is not to be photocopied

January 2011. In April 2012, the EU approved taxation deals signed by the UK and Germany with Switzerland to tackle tax evasion. Switzerland signed a similar deal with Austria in the same month, and began negotiations with Greece. Switzerland will continue to apply a bilateral approach for the preservation of its national interests, and will continue to sign double taxation agreements with other countries.

Expanding relations with non-European states

The country's foreign policy approved by the Federal Council showed that Switzerland's relations with non-European states are becoming increasingly important, a fact attributable to changes in the global balance of power and increasing global standing of some emerging nations. Although the EU still accounts for a major chunk of exports from the country, the growth of goods and services exported to emerging economies is outstripping that of those exported to the EU. Asia is fast becoming an important market for Swiss exports. According to the central bank, Switzerland witnessed increased demand for exports from non-European states in 2011, especially from Chile (33.9% increase in exports over 2010), China (19.4%), Hong Kong (19.2%), India (15.4%), Taiwan (14.5%), and Malaysia (12.2%).

Future risks

Growing discrimination against Muslims

Switzerland's reputation for tolerance was shattered by a 2009 referendum to ban minarets. In November 2009, a constitutional amendment banning the construction of new minarets was approved by over 57% of Swiss voters. The ban provoked rebukes from within Switzerland, European neighbors, and several Muslim countries. Government action to prohibit the construction of minarets is perceived to constitute discrimination on religious lines and may provoke radical Islamists. Several suits have also been filed at the European Court of Human Rights against the minaret ban.

The country continues to face the risk of protests and boycotts abroad due to the ban on minarets. In April 2012, an Amnesty International report concluded that Islamic religious symbols like headscarves, beards, and minarets were viewed with hostility, and that Muslims were discriminated against in employment and education. According to the President of the Swiss Federal Commission on Racism, Martine Brunschwig Graf, the country's anti-discrimination laws have many gaps. This is only going to increase the growing anti-Muslim sentiment.

Banking secrecy laws and strained bilateral ties

Switzerland is strongly opposed to automatic adoption of EU law and the establishment of an arbitration mechanism for disputes with the EU. This could lead to a deadlock in Swiss-EU bilateral negotiations, and could strain relations with some countries in the EU. The country's strong bank secrecy laws and low tax rates in some of its cantons are a source of dispute with many Organisation for Economic Co-operation and Development (OECD) nations, which are pursuing tax evaders in order to improve their public finances. The perception that Switzerland is a tax haven remains a source of friction with many countries. In April 2012, the US issued an ultimatum to Switzerland to expedite its position on two agreements concerning US access to Swiss fingerprint and DNA databanks to combat serious crime and exchange information on terror suspects. If Switzerland failed to reach an agreement, the US threatened to revoke a visa waiver for Swiss citizens entering the US. The country also has a long-running dispute with the US tax authorities.

© MarketLine. This report is a licensed product and is not to be photocopied

Economic analysis

Overview

Switzerland is considered one of the world's most competitive economies, with a real GDP of around $300bn in 2011. The economy has long been hailed as a success, considering its stable growth and prosperity. Despite a global economic slowdown, the country managed to maintain real GDP growth of 3.6% in 2007. Its economic performance is supported by a well-developed banking sector, capital market, and infrastructure. According to the World Economic Forum's Global Competitiveness Report 2011–12, the country was ranked first for its strong technology and innovation infrastructure and labor market efficiency. The current account surplus is growing, which is a positive for the economy. Inflation is also expected to remain under 0.5% up to 2017.

However, the economy is challenged by growing unemployment and the strengthening of the Swiss franc that has affected export growth and earnings. Erratic foreign direct investment inflows into the country are also cause for concern. Switzerland's economy is highly integrated with its European neighbors, and the sovereign debt crisis in the euro area directly impacts the economy. In May 2012, the IMF warned that the country could slip into a recession if the euro crisis becomes acute.

Table 4: Analysis of the Swiss economy

Current strengths	**Current challenges**
■ Well-developed capital market ■ Well-developed infrastructure ■ Growing current account surplus	■ Unemployment ■ Strengthening of the Swiss franc
Future prospects	**Future risks**
■ Low inflation	■ Recession risk due to EU debt crisis

Source: MarketLine MARKETLINE

Current strengths

Well-developed capital market

The Swiss capital market is known for its efficiency, which helped the country to become a leading financial center. The Swiss-franc-denominated foreign bond market is one of the largest markets for foreign borrowers, and Zurich leads as one of the largest gold trading centers in the world. Moreover, there are no restrictions on foreign currency transactions and residents as well as non-residents are free to make "forward transactions" at prevailing market rates. The legal system is also conducive to the transfer of proceeds from export earnings and the repatriation of invested capital is unrestricted. Furthermore, the Swiss credit market does not distinguish between Swiss and foreign investors, and a variety of credit instruments are available to private investors. The market capitalization of the Swiss stock exchange rose from $880bn in 2008 to $1,229.4bn in 2010. The prevalence of such flexibility in credit transactions has imparted strength to the Swiss economy.

© MarketLine. This report is a licensed product and is not to be photocopied

Well-developed infrastructure

According to the World Economic Forum's Global Competitiveness Report 2011–12, the country was ranked first for its strong technology and innovation infrastructure and labor market efficiency. Switzerland boasts strong scientific research institutions and growing collaboration between the academic and business sectors. Public institutions are also very effective and transparent. The country has an efficient rail network and an extensive road network, with the former linking to Northern and Southern Europe through the Gotthard Base Tunnel. In September 2010, the Council of States said that it would provide CHF1.3bn ($1.25bn) for the private railways in 2011 and 2012, CHF59m ($56.6m) more than the Federal Council's requested amount. With its excellent transport network, Switzerland has emerged as a transit country with ever-increasing amounts of freight traffic. It also has two large international airports at Zurich and Geneva, as well as a few smaller airports with international connectivity. The country's telecom penetration and its power network are among the best in Europe. This infrastructure has made Switzerland an attractive destination for investment.

Growing current account surplus

Switzerland has a robust external sector, and its current account surplus is growing. After plummeting from $38.8bn or 9.1% of GDP in 2007 to $11.7bn or 2.4% of GDP in 2008, the current account surplus rose again to $56.6bn or 11.7% of GDP in 2009, as the economy recovered from the recession. Furthermore, exports rose in the first quarter of 2010, driven by the gains made by the watches and metallurgical sector. Although the EU is by far Switzerland's largest trading partner, accounting for more than 50% of exports and imports, Asia was a major growth region in 2010. In 2010, the current account surplus rose to $76.3bn or 14.7% of GDP. According to the central bank, the current account surplus grew to CHF84bn ($95.2bn) or 15.2% of GDP in 2011.

Current challenges

Unemployment

Although the unemployment rate declined from 4.4% in 2005 to 3.4% in 2008, it rose to 4.5% in 2010 due to the impact of the global financial crisis. The unemployment rate remained above 4.0% in 2011 as the number of employed grew by a marginal 0.6% in 2011 to 4.34 million. According to MarketLine forecasts, the unemployment rate is expected to reach 4.4% in 2012. The HR Barometer 2011 survey by Zurich University and the Federal Institute of Technology Zurich showed that around 30% of the people surveyed had concerns about their jobs. Unemployment is a major challenge facing the economy.

Strengthening of the Swiss franc

The Swiss franc has been continually rising against the euro, the dollar, and the British pound. The franc appreciated 16% against the euro and 9% against the dollar in 2010. Although the Swiss National Bank (SNB) bought huge amounts of euros between March 2009 and June 2010 as part of its market intervention to slow down the strengthening of the franc, it failed to prevent the impact on Swiss exporters. The SNB also reported a loss of CHF19.2bn ($18.4bn) for 2010 due to the impact of the strong franc on its foreign currency holdings. Its currency interventions resulted in exchange rate losses of CHF32.7bn ($31.4bn) in 2010. In September 2011, the SNB set a minimum exchange rate target of CHF1.20 to the euro to weaken the franc. In March 2012, the central bank reaffirmed its currency ceiling of CHF1.20 to the euro, stating that the massive overvaluation of the Swiss franc posed an acute threat to the economy and risked deflation in the country.

© MarketLine. This report is a licensed product and is not to be photocopied

Future prospects

Low inflation

The SNB, with its monetary policy aimed at maintaining price stability, successfully kept inflation at an average of less than 1.0% during 2001–07. However, the rise in the price of petrol and oil and the weakness of the Swiss franc pushed inflation to 2.4% in 2008. Inflationary pressures eased off in the latter part of 2008 and in the first four months of 2009. The country witnessed deflation of 0.5% in 2009, before reporting inflation of 0.7% in 2010 and 0.2% in 2011. According to MarketLine estimates, inflation is expected to remain under 0.5% during 2012–17.

Future risks

Recession risk due to EU debt crisis

The Swiss government’s State Secretariat for Economic Affairs has said that uncertainties about the global economy pose certain risks to the nation's economic growth. The global economic recovery faces a number of dangers, including debt problems in EU countries and high oil prices. Additionally, pressure from fiscal consolidation measures could temporarily dampen the economy in many places, including Europe and the US. Switzerland's economy is highly integrated with its European neighbors, and the sovereign debt crisis in the euro area directly impacts the country’s economy. In May 2012, the IMF warned that the Swiss economy is threatened by the eurozone debt crisis. The IMF warned that the country could slip into recession again if the euro crisis becomes more acute.

© MarketLine. This report is a licensed product and is not to be photocopied

Social analysis

Overview

Switzerland has excellent human development indicators. The country has one of the highest wage levels for workers in Europe and a well-developed social security system. The healthcare system is also among the best in the world, and the recent education policy has improved the level of tertiary education.

However, although Switzerland is credited with a high level of wages, its high cost of living negates this to some extent. As a result, the proportion of working poor is surprisingly high. According to the Federal Statistical Office there are around 120,000 working poor in the country. Another challenge Switzerland faces is an increase in the aging population and a declining birth rate; social expenditure will come under immense pressure because of the increasing outlay on pensions and healthcare. Structural reforms are therefore required to ensure the financial sustainability of social programs in the long term.

Table 5: Analysis of the Swiss social system

Current strengths	Current challenges
■ High human development ■ Universal social security system	■ Lack of affordable housing ■ The working poor
Future prospects	**Future risks**
■ Education reforms	■ Aging population

Source: MarketLine MARKETLINE

Current strengths

High human development

Switzerland has performed well on various human development indicators. According to the United Nations Development Programme’s 2011 Human Development Report, the country was ranked 11th out of 187 countries, with a Human Development Index value of 0.90. Life expectancy at birth is 81.2 years, which is among the highest in the world. The country maintains a good healthcare infrastructure for its population and has a literacy rate of almost 100%. The country also fares well in terms of gender equality, ranking fourth with a Gender Inequality Index (GII) value of 0.067 compared to the perfect score of 0.049. The lower the GII score, the higher the gender equality ranking. According to the Central Intelligence Agency's World Factbook, the sex ratio at birth was 1.05 males per female in 2011. Of the total population, females make up 50.7% and males 49.3%. The country’s infant mortality rate in 2011 was 4.1 per 1,000 live births, one of the lowest in the world. These indicate Switzerland’s ability to create a healthy climate for social development.

Universal social security system

Switzerland has an extensive network of social insurance with universal coverage, including old age, survivors', and disability insurance; health and accident insurance; unemployment insurance; and family insurance. The provision of social security benefits is the responsibility of cantons, and its implementation has been successful. Since the 1980s,

© MarketLine. This report is a licensed product and is not to be photocopied

public spending on social welfare has increased more rapidly than GDP in Switzerland. An increase in unemployment insurance along with rising pension and healthcare expenditure for the Swiss elderly have led to an increase in social welfare expenditure.

Current challenges

Lack of affordable housing

Housing costs are considerably higher in Switzerland than in other OECD countries, with high per capita income, especially for households on modest incomes. Restrictions on the setting of new rental prices exist in the Swiss housing sector, and legislation limits rent adjustments to market conditions. The supply of affordable housing seems to be restricted by a relatively low building density in suburban areas. Municipalities are not given enough incentives to develop buildable land. Building regulations in Switzerland should therefore be harmonized to promote competition and to increase the supply of affordable housing. The country's rate of home ownership is below average compared with other European countries. People wishing to buy homes or property have to provide a minimum of 20% of the financing from their own funds. Additionally, homeowners are taxed for a huge fictitious rental value of their property. These factors are affecting the healthy growth of the housing market.

The working poor

Despite high wage levels, there are a considerable number of working poor in Switzerland who fall below the poverty line. Since the Swiss government does not stipulate the provision of a minimum wage, some salaries are insufficient to meet the high cost of living. According to MarketLine estimates for 2011, around 3.5% of the population survived on less than $2 a day. According to the Federal Statistical Office, there are around 120,000 working poor in the country. In January 2012, Switzerland's largest trade union Unia supported a people's initiative (which could enable a constitutional amendment) to fix the monthly minimum wage at CHF4,000 ($4,530). Labor Day demonstrations across the country in May 2012 called for higher salaries. The government has to tackle the issue of the working poor.

Future prospects

Education reforms

According to the OECD Economic Survey report for Switzerland (December 2009), education outcomes in the country are strong compared to other nations. This largely reflects high education attainment among the population, as well as a high per capita income. The vocational education system and universities enjoy a good reputation.

However, Switzerland's lead in formal qualifications over other OECD countries has slipped considerably. A number of indicators show that increasing the supply of higher education graduates could improve economic productivity. In this light, the Swiss parliament is considering introducing legislation to create an independent accreditation agency, the decisions of which will be linked to a quality assessment of universities. The new higher education bill aims to introduce similar quality accreditation requirements for all types of higher education institutions through an independent accreditation council and national agency. The higher education bill is currently not expected to come into effect before 2013. Regional governments are considering measures such as increasing student loans in order to facilitate access to tertiary education. These reforms are expected to further improve the country's higher education system.

Future risks

Aging population

Like most developed countries, Switzerland needs to be careful with healthcare and pensions expenditure to deal with

© MarketLine. This report is a licensed product and is not to be photocopied

the rising costs of an aging society. This problem has become aggravated due to a declining birth rate, which along with continued improvements in life expectancy will result in a much older society. According to MarketLine figures, the percentage of the population above 65 years increased from 15.4% in 2005 to 16.9% in 2011. This figure is expected to pass 18.0% by 2015. By 2030, Swiss residents will have an average age of nearly 48 years, compared to the average age of 41 in 2008. Healthcare spending and pension benefits will increase significantly once the baby boomer generation begins to retire. According to the IMF, public expenditure will increase by 5% of GDP by 2050, largely because of the aging population and the resulting increase in healthcare expenses and pressure on the pension system. The dependency ratio is also expected to double in line with the European average by 2060. An aging population will have an adverse impact on the financial sustainability of social welfare measures.

© MarketLine. This report is a licensed product and is not to be photocopied

Technological analysis

Overview

Technological innovation backed by excellent research is the key to the success of the Swiss economy. According to the Innovation Union Scoreboard 2011, the country is considered a global innovation leader. The private sector has played an active role in the overall development of technology, and the country has become home to a flourishing multinational population thanks to favorable government policies.

However, the low tertiary enrollment rate in the country is a cause for concern, as it will affect the development of human resources for the R&D sector. Switzerland is also slowly losing its edge as an R&D destination, as many companies have shifted or located their R&D operations abroad. Although the government has declared budget increases in the funding support provided to companies and small and medium-sized enterprises (SMEs) to prevent a drop in their R&D spend, more needs to be done to attract R&D investment into the country.

Table 6: Analysis of Switzerland's technology landscape

Current strengths	Current challenges
■ Strong capacity for innovation ■ Private sector participation in R&D	■ Low tertiary enrollment rate
Future prospects	**Future risks**
■ New programs in nanotechnology	■ The country's reputation as an R&D center is under threat

Source: MarketLine **MARKETLINE**

Current strengths

Strong capacity for innovation

Switzerland's economy is characterized by a strong capacity for innovation. According to the Innovation Union Scoreboard 2011, the country is considered a global innovation leader. The country's innovation performance is above that of the EU27, what with its excellent achievements in terms of intellectual assets and most of the economic effects indicators. Its growth rate has also been above the EU27's over the last five years. Strong collaboration between academic and business sectors along with high R&D expenditure have enabled the country to translate its research findings to marketable products and processes. The country also provides strong intellectual property protection. Switzerland has a high rate of patenting at 242.2 per 1 million inhabitants. This healthy innovative capacity is evident in the high number of patents granted (1,865) to Switzerland by the US Patent and Trademark Office in 2011.

Private sector participation in R&D

The private sector in Switzerland plays a leading role in developing the innovation system, contributing more than two thirds of the research budget. Swiss multinational companies also conduct a lot of research in other countries, which has ultimately led to a highly developed domestic innovation practice. There is an enormous amount of research activity in the private sector, particularly in the chemical, pharmaceutical, biotech, food, machinery, and micro-technology

© MarketLine. This report is a licensed product and is not to be photocopied

industries. Moreover, the research system is well-integrated between the private and public sector. According to the 2011 annual report of the Federal Statistical Office, the country spent 3% of its GDP on R&D in 2008, amounting to around CHF16.3bn ($15.2bn). Around 73% of this was in the private sector, 24% was in universities, and the remaining 3% was divided between the Swiss Confederation and various private non-profit organizations.

According to MarketLine estimates, gross domestic expenditure on R&D in 2010 was $11.8bn or 2.3% of GDP. Under the Swiss National Science Foundation (SNSF), the 27 National Centres of Competence in Research (NCCR) work in areas of major strategic importance for the future of Swiss research, economy, and society. The NCCRs have SNSF funding of CHF60m ($68m) for R&D in 2012. The NCCRs are expected to spend a total of around CHF168m ($190m) on R&D during the year. The Swiss government is extending higher funding opportunities to private companies and SMEs. Furthermore, an amendment passed by parliament has granted more autonomy to the agencies charged with promoting innovation. These measures are expected to further boost the innovation potential of the country

Current challenges

Low tertiary enrollment rate

Switzerland is among the top countries in most measures of technological competitiveness at a global level. However, its university enrollment rate is lower than many other high innovation countries. According to the 2011 Human Development Report, the gross enrollment ratio in tertiary education was 51.2%. The country has been engaged in a few discussions to improve its higher education system. Under its bilateral agreement with the EU, Switzerland has taken initiatives for the quality assessment of universities, the widening of student loans, and increased access to vocational programs. The government is expected to continue with reforms to improve tertiary education. Although gaps are currently being filled through immigration, efforts should be made to boost higher education attainment to ensure that there is sufficient national talent.

Future prospects

New programs in nanotechnology

Switzerland has identified nanotechnology as one of the key technologies of the 21st century. The country aims to safeguard its position with the help of interdisciplinary research. To meet this objective, the Commission for Technology and Innovation (CTI) and the SNSF have undertaken many projects. Out of 250 CTI-funded R&D projects, 17% are in the fields of microtechnology and nanotechnology. Two nanotechnology NCCRs, Materials with Novel Electronic Properties in Geneva and Nanoscale Science in Basel, have propelled Switzerland to become a leading country for nanobiology. NCCR Nanoscale Science has led to 23 patents, seven startups, and commercial co-operation with over 20 companies. In addition, the Swiss nano-tera.ch program, which began in 2008, aims to protect both humans and the environment by means of engineering technology and IT. The private sector is also playing an important role in the country's nanotechnology sector, since two thirds of Swiss R&D investment comes from private companies. In May 2011, IBM and Eidgenössische Technische Hochschule (ETH) Zürich opened a new $90m laboratory on the IBM campus in Ruschlikon to jointly explore nanoscience and nanotechnology. Under the 10-year partnership, IBM and ETH Zurich will research nanoscale structures and devices to advance energy and information technologies.

Future risks

The country's reputation as an R&D destination is under threat

Switzerland is slowly losing its edge as an R&D destination for global companies. Many large multinationals in the country undertake a significant part of their research activities outside of Switzerland through their subsidiaries. Many

© MarketLine. This report is a licensed product and is not to be photocopied

companies have also shut down their local R&D operations to cut costs. In January 2012, Japanese pharma major Takeda Pharmaceutical announced plans to cut 2,100 jobs in Europe to consolidate its R&D sites after buying Swiss drug maker Nycomed in 2011 for $13.7bn. In April 2012, German pharma major Merck Serono moved out some of its R&D personnel from Geneva as part of cost-saving measures. The country has to compete with up-and-coming R&D destinations, and must take measures to reverse this trend in order to retain its reputation as an innovation destination.

© MarketLine. This report is a licensed product and is not to be photocopied

Legal analysis

Overview

The Swiss legal framework and policies are part of a highly developed system, in which laws are well-defined and the judiciary is independent of any branch of government. Switzerland's investment climate is considered favorable for investors, as there are no significant barriers to starting a business in the country. The federal government has adopted a relaxed attitude of noninterference toward foreign investment by allowing the 26 cantons to set major policies, as well as giving them the right to create and maintain general conditions favorable to both Swiss and foreign investors. The country placed strongly in the Doing Business 2012 and Index of Economic Freedom 2012 rankings, which show that the country's regulatory environment is conducive to the operation of business and is favorable for attracting more business investment. Additionally, Switzerland is considered to be a low corruption country.

However, government regulations in certain sectors are a source of concern as they act as a deterrent for further investments in the country. Too much government interference will also reduce the motivation for companies to expand. Although the government has vested more powers with the Competition Commission (Comco) to regulate competition law in Switzerland, it will be successful only if implemented across all levels.

Table 7: Analysis of Switzerland's legal landscape

Current strengths	Current challenges
■ Ease of doing business ■ Corruption is almost nonexistent	■ Government regulation in certain sectors
Future prospects	**Future risks**
■ Strengthening the electricity supply law	■ Inadequate administration of competition policy

Source: MarketLine MARKETLINE

Current strengths

Ease of doing business

Under the Doing Business 2012 report of the World Bank and the International Finance Corporation, Switzerland was ranked 22nd out of the 183 countries that were measured for business regulation and protection of property rights. The Swiss regulatory environment guarantees the freedom to start, operate, and close a business. Starting a business in Switzerland takes an average of 18 days, compared to the world average of 28 days. Obtaining construction permits takes less than the world average of 16 procedures and 192 days, and bankruptcy proceedings are also relatively easy to start. Switzerland was listed as the fifth freest economy on the Heritage Foundation's and the Wall Street Journal's 2012 Index of Economic Freedom. The country scored 81.1 out of 100 on the Index of Economic Freedom. Switzerland is recognized as having high levels of investment freedom, trade freedom, financial freedom, property rights, business freedom, and freedom from corruption. These rankings show that the country's regulatory environment is conducive to the operation of business and is favorable for attracting more business investment.

© MarketLine. This report is a licensed product and is not to be photocopied

Corruption is almost nonexistent

Corruption is perceived as being almost nonexistent in Switzerland. The country was ranked eighth out of 183 countries in Transparency International's Corruption Perceptions Index for 2011. This score indicates the perceived level of public sector corruption in a country or territory. With a score of 8.8 on the index, Switzerland is ahead of other European countries such as Germany and the UK. There is strict legislation in place to control corruption and enforcement procedures against domestic corruption are effective: giving or accepting a bribe is subject to criminal and civil penalties, including imprisonment.

Current challenges

Government regulation in certain sectors

Legal reforms to open up hitherto restricted sectors have been moving at a slow pace in Switzerland. Despite liberalization, the Swiss government continues to influence the price of agricultural goods and pharmaceutical products. The agricultural sector has come under heavy government regulation. After scrapping market prices in 1999, the government cancelled export subsidies in 2008 and milk quotas in 2009. The government is also planning to link direct payments to farmers with sustainable farming methods. Furthermore, the pricing of state-owned utility services is influenced through subsidies. Apart from this, hydroelectric power has not been opened up for foreign participation, and domestic air transport operators are required to be domiciled in Switzerland. The prevalence of these restrictions limits the participation of foreign investors.

Future prospects

Strengthening the electricity supply law

The Swiss federal government announced that it would strengthen the 2009 electricity supply law (the StromVG), since it had failed to "achieve the goals of a market driven by competition and secure supply." The grid codes currently stipulated under the StromVG are widely perceived to have failed. Consequently, the government is currently in the process of introducing grid codes after the implementation of the revised electricity regulations, with an incentive-based model to calculate and run the national retail and distribution frameworks. According to the announcement, the government will give the energy regulator ElCom more powers, to enable it to penalize the utilities sector for misconduct. The new regulations could come into force by 2014.

Future risks

Inadequate administration of competition policy

Although the government has vested more powers with Comco to regulate competition law in Switzerland, the independence of the commission is still compromised by the appointment of representatives of other organizations and business associations. Its independence should be ensured by excluding members that represent particular economic interests. Furthermore, the liberalization of the products and services sector has not been fully achieved, due to a lack of implementation at the cantonal level. Comco has been criticized for lacking teeth. In October 2011, Swiss price watchdog Stefan Meierhans said that Comco's hands were tied, as foreign multinationals breaking rules in the country through subsidiaries could not be prosecuted as they were outside of Swiss jurisdiction. Unless the competition policy is implemented at all levels, it will achieve limited success.

© MarketLine. This report is a licensed product and is not to be photocopied

Environmental analysis

Overview

Switzerland has been at the forefront of environmental legislation, with an environmental charter part of its constitution. The country ranked first in the 2012 EPI published by the Yale and Columbia universities in the US, with a score of 76.7 in a range from zero to 100.

However, the government faces the challenges of climate change and loss of biodiversity. Nearly 50% of the country's flora and fauna are in danger of extinction. In April 2012, the Federal Council adopted the Swiss Biodiversity Strategy for the long-term conservation and promotion of biodiversity and ecosystems. Switzerland is struggling to meet its pledges to cut carbon emissions under the Kyoto Protocol. The country produced more carbon dioxide in 2008 than in 2007, despite having agreed under the protocol to reduce emissions by 8% compared to 1990 levels between 2008 and 2012. By 2030, the country plans to produce 5,400 gigawatt-hours of electricity annually from renewables.

Table 8: Analysis of Switzerland's environmental landscape

Current strengths	Current challenges
■ Fulfillment of international environmental commitments ■ Top performer on the EPI	■ Difficulty meeting the Kyoto pledge ■ Biodiversity loss
Future prospects	**Future risks**
■ Growth in the renewable energy sector	■ Lack of integration of sustainable development considerations into sectoral policies

Source: MarketLine MARKETLINE

Current strengths

Fulfillment of international environmental commitments

Switzerland has ratified a number of international environmental treaties and has been making legislative changes to meet international directives. The country has played an active role in the preparation of global agreements on environmental protection and sustainable development, and in the strengthening of international environmental governance. Switzerland is party to a large number of environmental agreements on air pollution, biodiversity, climate change, endangered species, hazardous wastes, and the ozone layer.

Top performer on the EPI

While major industrial economies such as the US and China have dropped on the EPI, Switzerland has emerged as one of the top performers in the management of pollution and natural resources. Switzerland ranked first in the 2012 EPI published by the Yale and Columbia universities in the US, with a score of 76.7 in a range from zero to 100. The EPI ranked 132 countries on 22 performance indicators in environmental health, water (effects on human health), air pollution (effects on human health), air pollution (ecosystem effects), water resources (ecosystem effects), biodiversity and habitat, forests, fisheries, agriculture, and climate change. According to the index, Switzerland has made substantial investments in environmental infrastructure and pollution control, and has policies designed to move toward long-term

© MarketLine. This report is a licensed product and is not to be photocopied

sustainability.

Current challenges

Difficulty meeting the Kyoto pledge

Switzerland is struggling to meet its pledges to cut carbon emissions under the Kyoto Protocol. The country produced more carbon dioxide in 2008 than in 2007, despite having agreed under the protocol to reduce emissions by 8% compared to 1990 levels between 2008 and 2012. Carbon dioxide emissions averaged 45.5 million tons between 2003 and 2006, but declined to 43.9 million tons in 2007. They rose to above 45 million tons in 2008 and 2009, before declining to 43.8 million tons in 2010. Although the Swiss government aims to bring its carbon dioxide policy in line with EU targets and the Kyoto Protocol, emissions from the transport sector have not been addressed, and lag well behind national climate goals.

Biodiversity loss

According to the OECD, more plant and animal species are endangered or have become extinct in Switzerland than in any other country in Europe. In Switzerland, 224 animal and plant species have become or are presumed to have become extinct. As of 2010, almost 34% of flowering plants and ferns, 32% of fungi, 42% of bryophytes, and 41% of lichens had disappeared or were threatened. Taking into account the “nearly threatened” species, almost 50% of the country’s flora and fauna are endangered. In April 2012, the Federal Council adopted the Swiss Biodiversity Strategy for the long-term conservation and promotion of biodiversity and ecosystem. However, until the strategy results in some progress toward protecting the species that are at risk, biodiversity loss remains a key challenge for Switzerland.

Future prospects

Growth in the renewable energy sector

In February 2010, the Swiss federal energy and infrastructure ministry announced that it would relax the country's stringent approval procedures for feed-in tariffs for wind energy, with the aim of speeding up the authority process for new plants. Switzerland has the potential to generate an estimated 1.5–4.0 terawatts per year from wind power. Under its new energy policy, the country plans to increase the share of renewable power in its total energy consumption from 16% in 2005 to 24% in 2020. By 2030, new capacity is expected to be phased in to produce 5,400 gigawatt-hours of electricity annually from renewables. This will consist of an approximately equal share of biomass, wind, and small hydropower, as well as a small amount of input from photovoltaic power.

Future risks

Lack of integration of sustainable development considerations into sectoral policies

Although the government has been focusing on sustainable development in its environmental policies, it has not succeeded in integrating them with other sectoral policies. The consumption of energy (mainly by the transport sector), rapid urbanization, and infrastructural development continue to put immense pressure on the environment. Similarly, taxation on energy, especially gasoline, is still too low and will not reduce consumption at its current levels. The OECD has indicated the need to improve the use and integration of strategic instruments in the areas of transport, energy, the environment, and regional development. Failure to implement such measures will lead to further environmental deterioration.

© MarketLine. This report is a licensed product and is not to be photocopied

POLITICAL LANDSCAPE

Summary

Switzerland's political system is characterized by a high degree of decentralization, with much authority delegated to the 26 states or cantons. This loose federal structure reflects the evolution of the Swiss state since the middle ages and is shaped in part by its high degree of linguistic fragmentation. Frequent referendums concerning major or contentious political questions are the key elements of Switzerland's unique and well-established tradition of "direct democracy." The country's system of referendums is quite old, and is applicable on a national, cantonal, and communal level, providing stability to the political system and giving citizens the ability to influence decisions that will directly affect them.

A coalition of four major political parties has governed Switzerland since 1959. The seven seats in government (the Federal Council) were allocated, until 2003, according to the so-called "magic formula." Accordingly, the Social Democratic Party and the two center-right parties each took two seats while the rightist Swiss People's Party (SVP), traditionally the smallest party, took one seat. However, in the 2003 polls the SVP overtook the Social Democratic Party to become the largest single party in parliament, and demanded a second cabinet seat at the expense of one of the smaller parties. After much political wrangling the other parties acceded to the demand. In the legislative assembly elections of October 2007, the SVP saw repeated success, winning around 29% of the total votes and gaining 62 seats, while the Social Democratic Party only gained 43 seats.

However, the SVP withdrew from the government, as its demand for the inclusion of its party leader Christoph Blocher in the Federal Council was not approved by parliament. This created major political instability, as this was the first time since 1959 that a major party was in opposition. In fact, prior to the 2007 election the SVP had already been engaged in opposition politics by calling for referendums on issues that it opposed. The SVP returned to the Federal Council in 2009, after Ueli Maurer was elected as defense minister. In the October 2011 parliamentary elections, the SVP lost a few seats but remained the largest party. However, the Conservative Democratic Party (BDP), a splinter group of the SVP, made political gains by winning 5.4% of the total votes and nine out of 200 seats. BDP member Eveline Widmer-Schlumpf was elected as president of the federation for 2012. Despite its presence in the Federal Council, the SVP remains underrepresented in the government compared to its parliamentary size. With its hardline stance on European Union (EU) membership, EU law, and foreign criminals, the party may cause instability in the Swiss political system.

Evolution

Pre-1945

The Swiss Confederation was founded in 1291 as a league of cantons in the Holy Roman Empire. The confederation was originally the result of an agreement between three cantons, Uri, Schwyz, and Unterwalden, although it steadily grew as more cantons, towns, and villages joined. In 1499, Switzerland gained its independence from the Holy Roman Empire and the Swiss Confederation became a union of 13 cantons in 1515. The confederation then renounced its expansionary policies and committed itself to the principle of neutrality under the Treaty of Westphalia in 1648. Nevertheless, Napoleon invaded and annexed much of the country during 1797–98. He replaced the federal confederation with a unitary state and a powerful central government, and the country became known as the Helvetic Republic.

After regaining its independence in 1815, the confederation's borders were fixed by the Congress of Vienna. Switzerland's policy of permanent armed neutrality became internationally recognized. In 1848, the federal constitution

© MarketLine. This report is a licensed product and is not to be photocopied

was adopted, which replaced the loose federation with a structured federal state. The constitution vested the majority of power with the cantons but reserved some control for the federal authorities, although the cantons retained their rights of self-determination. Revisions to the constitution in 1874 established a strong central government, while keeping some powers with the cantons.

The country maintained its neutrality in both world wars, which was a key factor in making Geneva the capital of the League of Nations (the predecessor to the United Nations [UN]) and the center of many other international organizations.

1945–2011

Since 1945, domestic policies have been dominated by four political parties: the Social Democrats, the Radical Democrats, the SVP, and the Christian Democratic People's Party. These parties have consistently formed coalition governments. The "magic formula," which became the basis of the seat-sharing agreement between these four parties, imparted political stability to Switzerland for nearly four decades. The seven ministerial posts in the Federal Council were shared between the Free Democrats (two), the Social Democratic Party (two), the Christian Democratic People's Party (two), and the SVP (one). This ratio was upheld irrespective of the number of seats each party had in parliament.

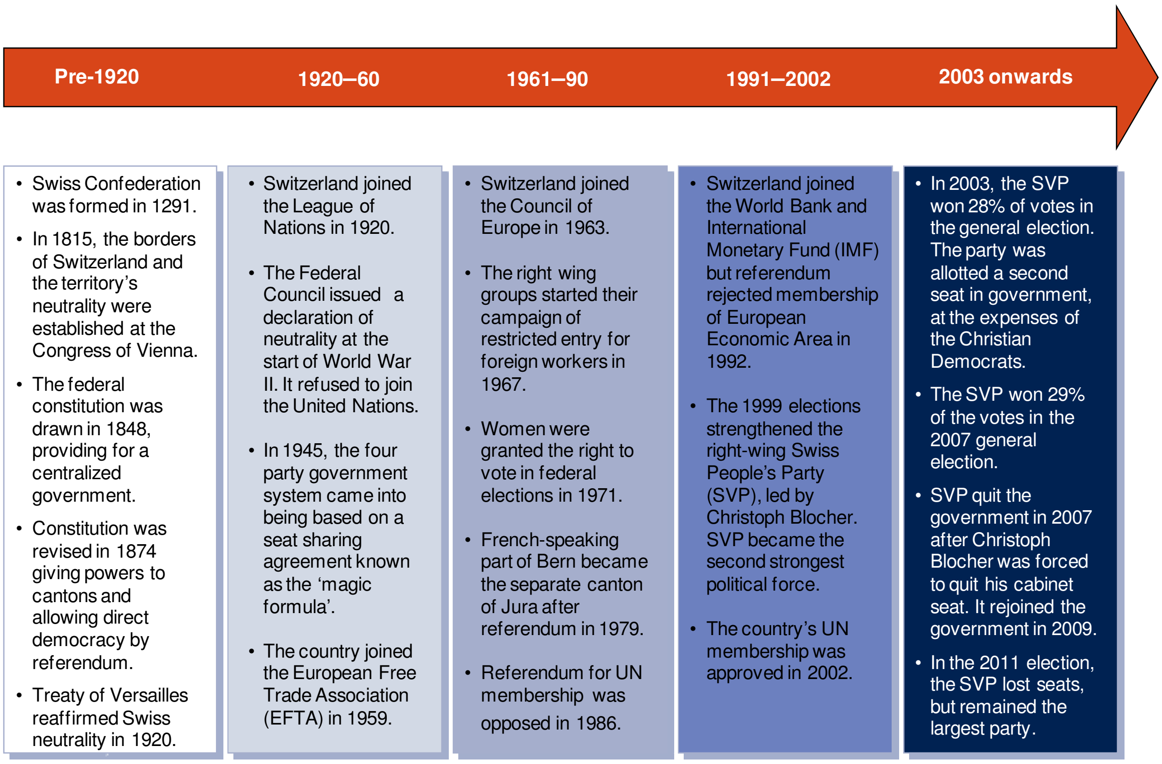
The right-wing SVP made sizable gains during the 1999 elections, and in the 2003 polls it made further gains, overtaking the Social Democratic Party. Having become the largest single party in parliament, the SVP made demands for a second cabinet seat at the expense of one of the smaller parties. After much political wrangling the other parties acceded to the demand. In the legislative assembly elections of October 2007, the SVP saw further success, gaining 29.0% of the vote share and winning 62 seats, while its closest rival the Social Democratic Party won 19.1%.

In December 2007, for the first time in 50 years a lack of consensus was observed in Swiss parliament when the SVP withdrew from the coalition cabinet. The withdrawal was in protest against the parliament's refusal to re-elect its party leader Christoph Blocher to the cabinet. Later on, another SVP representative Eveline Widmer-Schlumpf accepted the position in the council, against the wishes of the party. She was eventually expelled and became part of a new party, the BDP, which is a breakaway group of the SVP. In 2009, Ueli Maurer consolidated the position of the SVP in the Federal Council with his succession as defense minister.

Switzerland became a member of the UN in 2002, indicating the possibility that this insular and determinedly neutral country was perhaps becoming more outward-oriented. However, the resounding "no" to the possibility of opening talks for membership in the EU in a referendum held in 2001 suggests that most Swiss people are not yet ready to open up the country to the world. In an opinion poll undertaken by research firm GfS Bern in January 2011, the SVP had the support of 29.8% of those surveyed, a 0.9% rise over its electoral share of 28.9% achieved in the October 2007 elections. The SVP seems to have struck a chord with the people due to its hardline stance against EU membership. In the October 2011 parliamentary elections, the SVP lost ground but still remained the largest party. In December 2011, the Federal Council elected Eveline Widmer-Schlumpf as president of the federation for 2012.

© MarketLine. This report is a licensed product and is not to be photocopied

Figure 2: Switzerland – key political events timeline



Source: MarketLine MARKETLINE

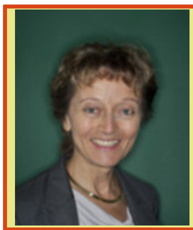
Structure and policies

Key political figures

The key political figure in Switzerland is the president, who is the head of the government. Each year, a different member of the Federal Council occupies the post of federal president on a rotating basis. The status of the head of state is held jointly by all members of the council. However, on foreign trips the president assumes the role of head of state.

© MarketLine. This report is a licensed product and is not to be photocopied

Figure 3: Switzerland – key political figure



Eveline Widmer-Schlumpf is the president of the Swiss Confederation for 2012. She obtained a doctorate from the University of Zurich in 1990. She was a member of the Graubünden Cantonal Parliament from 1994 to 1998. She was elected as president of the Graubünden Cantonal Council in 2001 and 2005. In December 2007, she was elected as federal councillor. In January 2008, she took over as head of the Department of Justice and Police, and changed to the Department of Finance in November 2010. In December 2010, she was elected as vice-president of the Federal Council for 2011. In December 2011, she was elected as president for 2012.

Source: MarketLine MARKETLINE

Structure of government

The Swiss political system is unique in a number of respects. Reflecting the high degree of linguistic diversity and the tradition of local democracy, power is decentralized and much of the decision-making is conducted at a state or canton level. In addition, most important national decisions are undertaken through referenda, leaving the national government with a substantially depoliticized managerial role. As a result, the political system favors consensus over conflict, helping to explain Switzerland's remarkable record of political and social stability but also accounting for the slow pace of its political and economic reforms.

The president is the ceremonial head of government. The parliament (Federal Assembly) has a bicameral structure, comprising the National Council (lower house) with 200 members and the Council of States (upper house) with 46 members. The number of seats per canton in the National Council is proportional to the size of the population, while the Council of States comprises two directly elected representatives from each of the 20 full cantons and one representative from each of the six half-cantons.

Federal government

The federal structure of Switzerland comprises 20 cantons and six half-cantons. The difference between these two forms primarily lies in the size of their population. The half-cantons have only half the votes assigned to normal cantons in federal institutions. The federal constitution defines the federal-canton relationship, giving the federal government responsibility for national issues such as foreign policy, defense, pensions, railways, telecommunications, postal services, and currency. All other regulations – including some economic regulations, education, roads (except national highways), hospitals, and most of the judiciary and policing – are under the purview of the cantons. The cantons are also free to impose taxes. As well as these two levels of government, there is the level of local authorities, which have a high degree of autonomy.

Each of the 26 cantons and half-cantons has a parliament, elected by collective suffrage, and a government, the organization of which varies. In two cantons, the principle of universal sovereignty is exercised directly through the assembly of all voters. The cantons are sovereign in all areas that are not specifically delegated to the federal government.

Key political parties

The main political parties in the country are the SVP, the Social Democratic Party (*Sozialdemokratische Partei der Schweiz* [SPS]), FDP.The Liberals, the Christian Democratic People's Party (*Christlichdemokratische Volkspartei der Schweiz* [CVP]), the Green Party (*Grüne Partei der* Schweiz [GPS]), the Green Liberal Party (*Grünliberale Partei der*

© MarketLine. This report is a licensed product and is not to be photocopied

Schweiz [GLP]), and the BDP. The GPS, the GLP, and the BDP together won 19.2% of the popular vote and 36 of the 200 seats in the 2011 elections. The governance system is based on consensus, and all parties have representation in the Federal Council. Therefore, the parties are normally devoid of any tradition of strong ideology or leadership.

The SVP is the center-right party in the governing coalition of Switzerland. The party is strongest in the German-speaking areas of Switzerland. Since 2003, the SVP has emerged as the single largest party under the leadership of Christoph Blocher. The party has gained tremendous support because of its rightist ideologies and opposition to Swiss membership in the EU, backed by its tough stance on immigration, asylum, and penal laws. With increasing popular support, in 2003 the party gained its second ministerial seat in the Federal Council. In 2007, differences in ideology became apparent between the SVP's right wing, led by Blocher, and the moderate centrist group within the party. In 2008 this breakaway group created the BDP, which follows SVP ideology but with less populist policies. The SVP established a strong presence in the Federal Council in December 2008, after Ueli Maurer replaced Samuel Schmid as defense minister. In the 2011 elections, the SVP won 26.6% of the popular vote and 54 of the 200 seats in the National Council.

The SPS is the second largest party in Switzerland and is one of the four leading coalition political parties. In the 2011 elections, the Social Democratic Party won 18.7% of the popular vote and 46 of the 200 seats.

The center-right Free Democratic Party (FDP), which is opposed to state intervention in economic matters and supports strong social security policies, united with the Liberal Party in 2009 to form FDP.The Liberals. The party is perceived to be close to the large business houses of Switzerland. In the 2011 elections, FDP.The Liberals won 15.1% of the popular vote and 30 of the 200 seats.

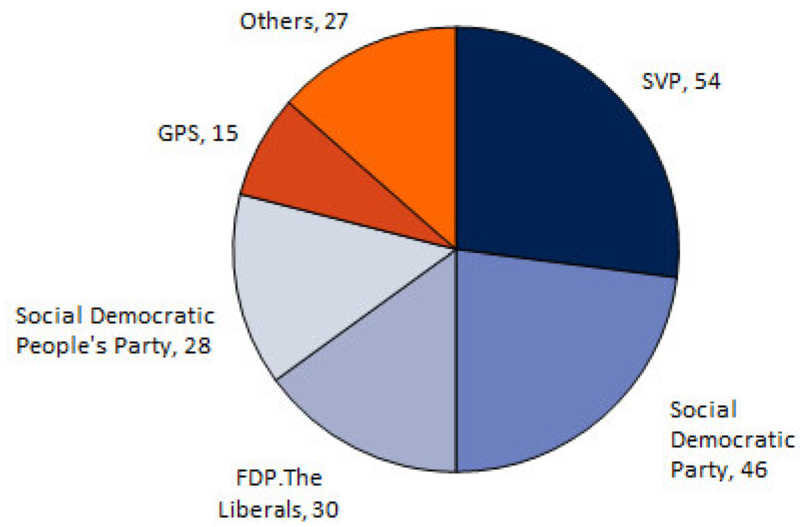
The CVP of Switzerland is a conservative party. Originally, it represented the conservative wing, which was opposed to liberal ideologies. These conservative ideologies have led to the declining popularity of the party. In the 2011 elections, the party won 12.3% of the popular vote and 28 of the 200 seats.

The BDP was founded as a splinter group of the SVP in 2008 after Eveline Widmer-Schlumpf was elected to the Federal Council in defiance of SVP incumbent Christoph Blocher. The party is led by Hans Grunder. In the October 2011 parliamentary elections, the BDP won five out of 200 seats. In December 2011, Ms Widmer-Schlumpf was elected as president of the federation for 2012.

© MarketLine. This report is a licensed product and is not to be photocopied

Composition of government

Figure 4: Swiss National Council composition by number of seats, 2011



Source: The Swiss parliament MARKETLINE

Key policies

There has been continuity regarding policies, largely because of the principle of consensus. Although the SVP has taken a hardline stance on a few issues, it is largely expected that the competition policy (including the opening of utilities, social security reforms, and stronger relations with the EU and emerging nations) will continue to be at the top of the agenda for policymakers.

Economic policies

Since 2009, the Swiss government's economic policies have been dominated by stimulus packages intended to revive the economy. The government has announced stimulus packages worth $4.6bn to increase investments in businesses, boost infrastructure projects and exports, and provide tax relief. The government is focused on improving the structural framework of the economy across various aspects of taxation, competition, and infrastructure, and has stuck to its old agenda of enhancing the growth potential of the economy and reviving competition.

With the international pressure on the country's banking secrecy laws, the financial sector underwent important structural changes in 2010. The government has now pledged to co-operate with foreign countries in pursuing tax evaders, in order to distance itself from its image as a top tax evasion haven.

In an attempt to further control the finance sector, the Swiss government announced measures in April 2010 to tackle salary excesses, in particular the introduction of income tax on bonuses of more than $1.84m. The government also tightened regulations for big banks, while drafting legislation on bonuses and regulation issues. The government has also called upon banks to hold more capital, meet more stringent liquidity requirements, and improve their risk diversification in order to maintain the national economy's systemically important functions in the event of threatened insolvency.

© MarketLine. This report is a licensed product and is not to be photocopied

With respect to its trade regulations, as part of the Doha round of trade negotiations Switzerland reaffirmed its commitment to working toward the long-term goal of arriving at a reasonable and market-oriented trading system in agriculture through primary reforms. The country is campaigning for lower tariffs on industrial products.

The country has also opened its market to allow certain products produced and marketed in an EU or European Economic Area (EEA) country to be imported under the Cassis de Dijon regulation. The patent was amended to allow parallel imports of products other than medicines from the EEA. In July 2010 the country introduced the Swiss Federal Statute on Product Safety, a new product safety law in line with an EU directive, under which any consumer product can enter the Swiss market only if manufacturers, importers, and distributors continue monitoring product safety even after distribution. The country has free-trade agreements (FTA) with the EU and Japan, and began FTA negotiations with China in January 2011.

Social policies

Switzerland has been undergoing a process of demographic transition, and social expenditure is on the rise. There has been an increase in the proportion of the aging population, while the birth rate is on the decline. The government provides universal coverage for social insurance, which is borne by individuals, but with government subsidies for those who belong to a low income group. The reforms of social programs are therefore centered on slowing down government spending. The government is in discussions over reform of the disability insurance system, which is accumulating a deficit. To control the rise in the number of beneficiaries, there are plans to facilitate the early detection of people at risk of becoming long-term beneficiaries and helping them return to work. Furthermore, healthcare reforms envisage introducing limited competition in the healthcare market to strengthen price control incentives and increase the availability of healthcare.

The government is making significant efforts to upgrade vocational education at the secondary school level, and is creating universities of applied sciences that will make it possible to continue vocational education at the university level. It has also initiated the Bologna reform, which will move the country toward a centralized education system. Parliament is considering introducing legislation to create an independent agency that will make decisions based on the internal quality assessment of universities. Regional governments are debating the possibility of extending student loans to allow access to tertiary education. The country has also signed a bilateral agreement with the EU to simplify recruitment from other EU countries, enable free movement of labor, and eliminate quotas for EU15 workers.

Foreign policies

Swiss citizens voted for UN membership in March 2002, paving the way for Switzerland to become the 190th member of the organization in September of that year. However, the longstanding Swiss tradition of neutrality continues, and the country remains outside of the North Atlantic Treaty Organization and other security organizations. In March 2001, Swiss voters rejected proposals for EU membership. The cabinet has previously indicated that it favors eventual EU membership, although it does not anticipate that the skeptical state of public opinion will permit a "yes" vote in the near future. However, opinion within the ruling coalition varies from the relatively enthusiastic Christian Democrats to the resolutely opposed SVP.

Switzerland is strongly opposed to automatic adoption of EU law and the establishment of an arbitration mechanism for disputes with the EU. This is expected to become a point of contention with the EU and some of its leading member states. This could lead to a deadlock in Swiss-EU bilateral negotiations. Switzerland’s strong bank secrecy laws and low tax rates in some of its cantons are a source of dispute with many Organisation for Economic Co-operation and Development countries, which are pursuing tax evaders in order to improve their public finances. Switzerland’s

© MarketLine. This report is a licensed product and is not to be photocopied

perception as a tax haven remains a source of friction with many nations.

In April 2012, the EU approved taxation deals signed by the UK and Germany with Switzerland to tackle tax evasion. Switzerland signed a similar deal with Austria in the same month, and begun negotiations with Greece. Switzerland also has a long-running dispute with the US tax authorities. America wants 11 Swiss banks to hand over details of their American clients. These issues have strained bilateral relations between the countries.

Switzerland has also taken a strong stance against nuclear proliferation, and has been involved in talks with Iran, the P5+1 group (China, the US, France, Britain, Russia, and Germany) as well as the EU and the International Atomic Energy Agency (IAEA). Switzerland and the US have collaborated on strengthening the international non-proliferation regime within the IAEA, and on banning cluster munitions.

Under its bilateral approach, Switzerland has entered into several international agreements and negotiations. For example, the country ratified an agreement with the EU to combat fraud and other unlawful acts that hamper national financial interests. The agreement involved acceding to the obligation to give a 24-hour advance notice of cross-border shipments in trade with third-party states so as to secure supply chains across the EU. Switzerland became an equal partner in the European freedom of movement and security area with the creation of the Schengen/Dublin Association Agreements, and can now participate in the development of new laws and measures for the further refinement of Schengen/Dublin law.

In June 2010, the UN Security Council imposed additional sanctions against Iran. The measures taken by the EU, which came into force at the end of October 2010, meant that due to its different legal outlook, Switzerland could have been used to evade sanctions on trade in goods and services. The Federal Council's decision was intended to prevent any such evasion, and increases the level of legal certainty for Swiss firms operating internationally. In January 2011, the Federal Council took the decision to impose sanctions against Iran in line with those of Switzerland's most important economic partners. The amendments to the relevant ordinance came into effect on January 20, 2011.

Performance

Governance indicators

The World Bank report on governance used voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption as indicators for 213 countries and territories over 1996–2010. The study was carried out by Daniel Kaufmann of the Brookings Institution, Massimo Mastruzzi of the World Bank Institute, and Aart Kraay of the World Bank Development Economics Research Group. For any country, a percentile score of zero corresponds to the lowest possible rank and a percentile score of 100 corresponds to the highest possible rank.

Switzerland had a high percentile rank of 99.5 on voice and accountability in 2010. This parameter measures the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and the availability of free media. Switzerland has preserved its traditions as a direct democracy, in which citizens are involved in selecting important legislation. In comparative terms, it placed higher than its neighbors, France and Germany, which recorded percentile ranks of 89.1 and 92.9 respectively.

Switzerland also ranked highly on political stability and absence of violence with a score of 91.0 in 2010, which was down from its 2000 ranking of 98.6. The decline is mainly due to the result of a lack of consensus among political parties, which was seen for the first time in half a decade in 2007. Since the SVP has been taking an opposition stance to politics, the political system has been destabilized. In comparative terms, it still placed higher than its neighbors France and

© MarketLine. This report is a licensed product and is not to be photocopied

Germany, which recorded percentile ranks of 70.8 and 74.1 respectively.

In terms of government effectiveness, Switzerland had a high percentile rank of 98.1, which was above both France and Germany, which recorded percentile ranks of 89.5 and 91.9 respectively. Switzerland's performance on this parameter has been continually improving. Government effectiveness measures the quality of public and civil services, the degree of governmental independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

In 2010, Switzerland's percentile ranking in terms of regulatory quality was 94.3. Regulatory quality measures the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Successive governments in Switzerland have diligently pursued investment-friendly policies. Germany and France placed lower than Switzerland on this parameter, with percentile rankings of 91.7 and 87.1 respectively.

Switzerland had a percentile rank of 95.7 on the rule of law index in 2010. Rule of law measures the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence. Other EU nations were not able to match this rating, as indicated by the percentile rankings of Germany and France, which scored 92.4 and 90.5 respectively.

Switzerland's percentile ranking on the control of corruption index was 95.7. This indicates that the country has an effective legal framework to combat corruption, and that such laws are enforced effectively. Switzerland ranked higher than its neighboring countries France and Germany, which recorded percentile rankings of 89.0 and 93.3 respectively.

Outlook

The Swiss government has been recognized for its political stability and neutrality across the world. The "magic formula" system, which forms the basis of seat-sharing agreements between the four major parties, has historically provided political stability. However, the political landscape has changed. Although the SVP lost a few seats in the October 2011 elections, it remains the largest party. The subsequent re-election of the government has failed to correct this political imbalance in the council. In December 2011, parliament refused to grant a second seat to the SVP at the election of the seven-member Federal Council. The SVP's strong position on European integration and immigration could also result in the party differing with the government on certain foreign and economic policies.

On the economic and foreign policy front, the country has taken many initiatives to enable better flow of goods and services. It has begun talks to sign an FTA with China, and has amended its patent act to allow parallel imports of products from the EEA. In its international relations, the country will continue to follow outward-looking policies, deviating from its determinedly neutral stance. Trade agreements with the EU will bring it closer to other European countries; however, many Swiss citizens are reluctant to join the EU as they feel that this would mean giving up their unique identity for a larger global order. The governing coalition, apart from the SVP, broadly supports EU membership, but is unlikely to push for a vote.

© MarketLine. This report is a licensed product and is not to be photocopied

ECONOMIC LANDSCAPE

Summary

With a real GDP of around $300bn in 2011, Switzerland is one of the world's most competitive economies. Although there have been economic slowdowns, the prevalence of a strong financial system has allowed the country to return to growth with ease. Due to its well-developed banking sector and capital market, the country has been recognized as an important investment area by the international financial sector. Its pro-investment policies have also made it a preferred choice for foreign direct investment (FDI).

Its economic performance has been assisted by improving consumer sentiment, higher employment, and a strong showing by the export sector. The country managed to maintain real GDP growth of 3.6% for both 2006 and 2007. However, the global slowdown that began in the latter part of 2007 did not leave the Swiss economy unscathed, and the country experienced a downturn during 2008–09, with a GDP contraction of 1.9% in 2009. However, it still held up better than many other European countries and the US. The Swiss economy recovered in 2010 to register GDP growth of 2.7%. Although trust in Swiss banks has declined since the bailout of UBS, Switzerland has made a strong economic recovery. According to the Swiss National Bank (SNB), the aggregate balance sheet of the banking sector increased by 1.7% to CHF2,715bn ($2,606bn) in 2010. Although the strong Swiss franc hit the profits of exporters and banks, and harmed the growth of exports, the government's policies supported private consumption and capital investment in the country and enabled GDP to grow by 1.8% in 2011. MarketLine estimates that GDP will grow at 1.9% in 2012.

Evolution

Pre-1945

Switzerland's economic history has been dominated by a flourishing manufacturing industry, which developed in the 18th century. Low availability of land initially prompted landless peasants to take up homeworking in the textile and clock-making industries. The pace of industrialization sped up in the 19th century following the mechanization of the textile industry, at which time the machine tool industry and the chemicals industry also came into existence. The foundation of large food companies such as Nestlé took place during the mid-19th century, and the industrial banking system and railway and electricity networks were developed to meet the huge investment needs of industrial expansion. A number of co-operative and savings banks were created to meet the requirements of peasants and craftsmen.

In the early 20th century, there was a move away from agriculture and toward highly skilled specialist industries. The economic prosperity of the nation drew a large number of immigrants. However, during the 1920s and 1930s the Swiss economy suffered an industrial downturn that adversely affected its industries, particularly textiles. This left large numbers of people unemployed, and following this period there was a shift toward the services sector.

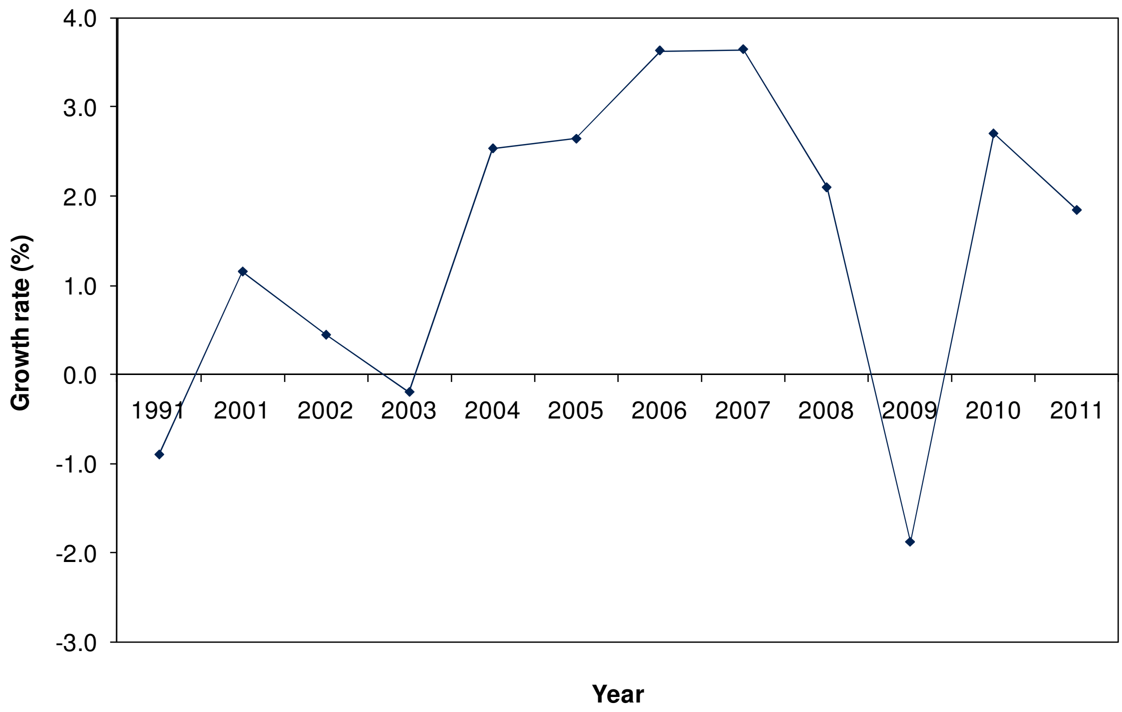
During World War II, the economy benefited because of the increase in exports to Germany and Italy, which accounted for nearly 45% of Switzerland's total exports. The country also traded with allied powers, particularly the US.

1945–90

After World War II, both imports and exports received a boost as a result of economic rebuilding. Switzerland's neutral status during the war made it easier for trade to continue with a number of countries. The manufacturing industry dominated the economy until 1970. However, the services sector overtook it during the 1970s and has maintained its dominance since then. The economy slipped into recession following the oil crisis of the 1970s, although it saw some recovery in the 1980s.

© MarketLine. This report is a licensed product and is not to be photocopied

Figure 5: Switzerland's historical GDP growth, 1991–2011



Source: Country Statistics, MarketLine

MARKETLINE

1991–2011

The 1990s were marked by the emergence of the European Union (EU) and the subsequent integration of Europe, but Switzerland prefers to stay outside the union, and in 1992 Swiss voters narrowly rejected a proposal for membership in the European Economic Area. Subsequently, the government negotiated bilateral agreements with respect to trade in goods and services. The Swiss population ratified the new agreement in 2000.

Following a period of stagnation during the early to mid-1990s, real economic growth accelerated in the range of 1.3–3.6% per year over 1997–2000. However, even this improved performance contrasts poorly with an EU average of around 3% per year over the same period.

The period from 2001–03 was characterized by decreasing economic growth and a contraction in the economy, which recorded growth of 0.4% in 2002. This was due to weakening global conditions, collapsing investment, and a strengthening nominal exchange rate, which combined to limit demand. Although signs of weakness were apparent from the start of 2001, the September 11 attacks on the US markedly exacerbated an already difficult economic situation. The collapse of Swissair, which led to more than 4,000 job losses and entailed a substantial fiscal bailout, was at least in part caused by the downturn in the global aviation market in the wake of the attacks. The large Swiss insurance sector was also hit by the cost of payouts resulting from the attack in New York.

© MarketLine. This report is a licensed product and is not to be photocopied

Growth momentum picked up in 2004, with a figure of 2.5% recorded for the year, and continued to increase through 2005. Rising exports and a growing construction industry served as the driving forces behind this growth, while a proactive monetary policy also contributed.

As the fastest-growing economy in Europe over the first half of 2006, Switzerland showed signs of making a complete recovery. Its economic performance was assisted by improving consumer sentiment, higher employment, and a strong performance by the export sector. The economy also received support from the nation's proactive monetary policy, with the central bank raising the policy rate based on solid signs of future growth. The country managed to maintain real GDP growth of 3.6% for both 2006 and 2007. However, the global economic crisis engulfed the Swiss economy, dragging GDP growth down to 2.1% in 2008. The economy picked up pace in the last quarter of 2009, with GDP rising by 0.7% from the third quarter to the fourth. Switzerland experienced an economic boost in late 2009 with an increase in private consumption and a rise in levels of exports and capital investment. However, on an overall basis the country saw its GDP contracting by 1.9% in 2009. In 2010, the country held up better than many other European countries and the US, and registered GDP growth of 2.7%. Due to the strong Swiss franc, which appreciated 16% over the euro in 2010, the profits of exporters and banks were hit and affected the growth of exports. However, the government's policies to drive private consumption and capital investment in the country enabled GDP to grow by 1.8% in 2011. According to MarketLine estimates, GDP is set to grow marginally in 2012 to 1.9%.

Structure and policies

Financial authorities and regulators

The SNB, established in 1907, is the central bank of Switzerland, and conducts the country's monetary policy. The primary goal of the bank is to ensure price stability while taking due account of economic developments. It oversees the payment and securities settlement systems, and contributes to the regulatory framework of the financial sector. The SNB assists with financial stability by regularly analyzing and monitoring conditions and developments in the financial system, as well as through co-operation with the Swiss Federal Banking Commission (SFBC).

The SFBC is the authority responsible for supervision of the financial sector, and supervises banks, securities dealers, audit firms, stock exchanges and markets, collective investment schemes, mortgage bond businesses, and fund management companies. The body exercises independent power in the supervision of these sectors. Administratively, however, it is integrated with the Federal Department of Finance.

The Federal Office of Private Insurance (FOPI) is the regulatory and supervisory authority of the insurance sector. All insurance undertakings are required to meet the requirements under the Insurance Supervision Act.

Financial market supervision has been integrated into a single authority in Switzerland, the Swiss Financial Market Supervisory Authority (FINMA). The authority regulates the government supervision of banks, insurance undertakings, and other financial intermediaries, and began its operations on January 1, 2009. Switzerland's Federal Act on Financial Market Supervision, which came into effect in February 2008, merged the FOPI, the SFBC, and the Anti-Money Laundering Control Authority into the FINMA.

The regulator's access to both the insurance and banking sectors enable it to spot any discrepancies in one that could create problems for the other.

SIX Swiss Exchange

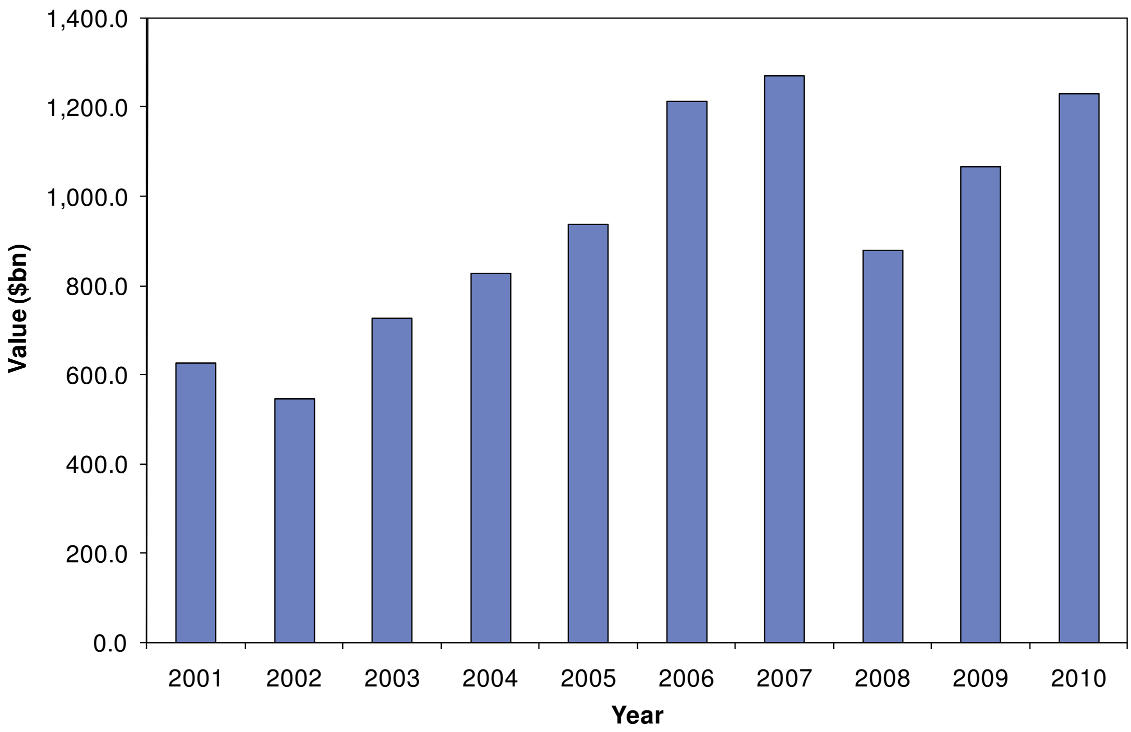
The SIX Swiss Exchange (SWX), formerly the Swiss Stock Exchange, organizes, operates, and regulates key aspects of Switzerland's capital market. The exchange operates the largest market segment in Europe for listed and exchange-

© MarketLine. This report is a licensed product and is not to be photocopied

traded warrants in terms of trading turnover. The shares traded on the SWX are mainly held in the Swiss-based accounts of domestic and international investors. Bonds, exchange-traded funds, exchange-traded structured funds, and other investment funds are also traded on the SWX Platform, while securitized derivatives are traded on Scoach Holding.

The SWX ensures compliance with the regulatory framework for securities issuance and trading, as well as monitoring and enforcing compliance with these regulations. The Federal Act on Stock Exchanges and Securities Trading prescribes the concept of self-regulation, which the SWX follows. As in most European nations, there was a significant fall in the market capitalization of the Swiss exchange in 2008, which declined by 31% to reach a value of $880bn. The figure increased 21% to $1,065bn in 2009, and market capitalization rose to $1,229.4bn in 2010.

Figure 6: Market capitalization of the SIX Swiss Exchange, 2001–10



Source: World Federation of Exchanges

MARKETLINE

Banking sector

There are 320 banks in Switzerland, the largest of which are UBS AG and the Credit Suisse Group. These two banks account for around 55% of the balance sheet total of all banks in Switzerland, although both were rocked heavily by the crisis of 2008. There are a total of 24 cantonal banks in Switzerland's 26 cantons and half-cantons; cantonal banks are semi-governmental organizations with a state guarantee. Despite their close connection to the state, cantonal banks must comply with commercial principles in their business activities. Regional banks and savings banks are smaller universal institutions with a thrust on lending and deposit businesses, which voluntarily restrict their activities to one

© MarketLine. This report is a licensed product and is not to be photocopied

region. Raiffeisen Group, another big bank, has the largest branch network in Switzerland. It is structured as a co-operative and is one of Switzerland's leading retail banks. Raiffeisen has positioned and established itself as the third largest bank group in Switzerland, and has 3.6 million Swiss citizens in its customer base. Of these, some 1.7 million are members of the co-operative and are hence co-owners of the bank.

Consumer credit institutions specialize in small loans to private individuals and industry. Although they operate mainly in their respective home cantons, they are linked to the National Cantonal Banks Group. These banks account for nearly one third of banking business in Switzerland. In addition, there is a wide network of co-operative banks, with 537 branches, mainly in smaller towns and villages.

The first Islamic private bank, the Faisal Bank, opened in Geneva in 2006, targeting petrodollar remittances from the Gulf region. Most of the big Swiss banks have branches in the Middle East, offering services compatible with Islamic banking practices.

Performance

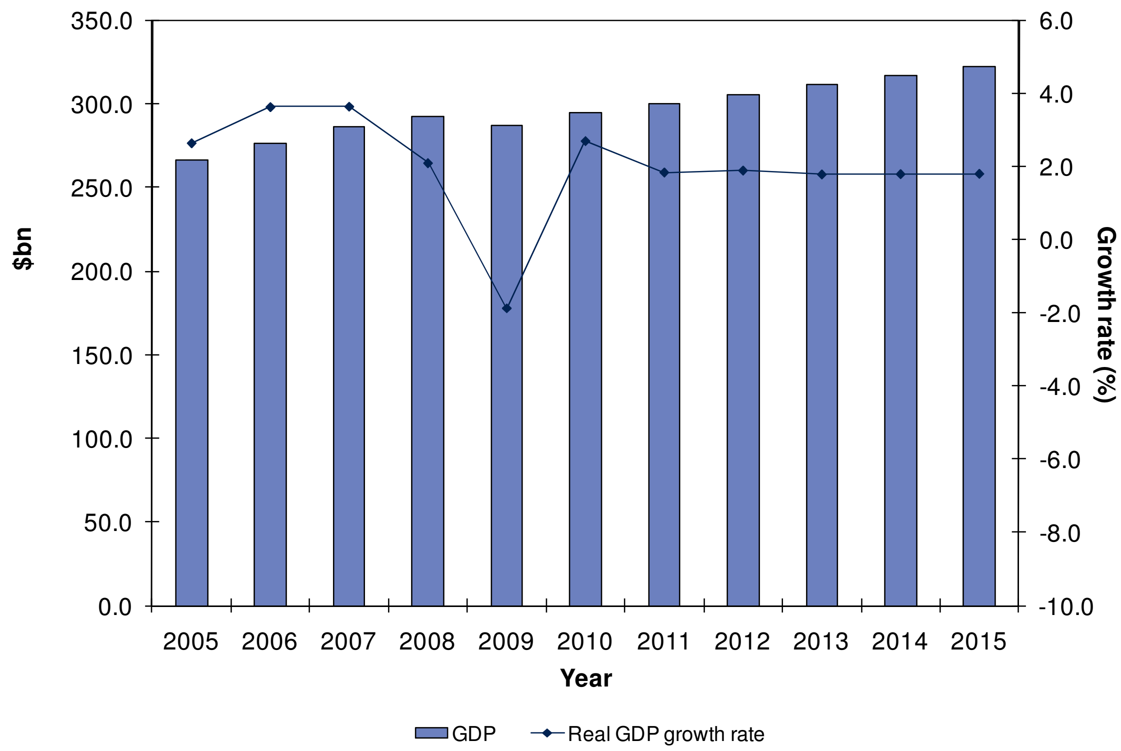
GDP and growth rate

The Swiss economy has long been characterized by stability, which allows citizens a remarkably high standard of living. However, the first half of the 1990s saw a poor economic performance. Although the latter part of the decade saw a pick-up in growth, it remained well below the EU average. Over 2001–03 the economy further stagnated, with negative growth recorded over much of 2001 and the economy slipping back into recession in 2003, following negligible growth during 2002. The SNB responded proactively to the poor economic growth, cutting the key policy interest rate by more than 300 basis points over the course of 2001–04. This policy activism appeared to have an impact, with economic activity picking up over 2005 and 2006. GDP grew 2.6% in 2005 and 3.6% in 2006. This rebound was the result of an increase in exports, domestic consumption, and capital investments.

The economy maintained its strong performance in 2007, recording growth of 3.6%. Capacity utilization during the year was above the long-term average, and the improvement in the labor market was substantial. Favorable global conditions along with a weak Swiss franc also contributed to export growth. However, the global economic downturn adversely affected the Swiss economy, which recorded a low growth rate of 2.1% in 2008. Government stimulus packages, an improving labor market, and an increase in export levels contributed to GDP growth of 0.7% in the fourth quarter of 2009. However, the economy as a whole shrank by 1.9% for the year. In 2010, the country held up better than many other European countries and the US, and registered GDP growth of 2.7%. The strong Swiss franc, which appreciated 16% over the euro in 2010, hit the profits of exporters and banks and damaged the growth of exports. However, the government's policies boosted private consumption and capital investment in the country, and GDP grew 1.8% in 2011. According to MarketLine estimates, GDP is set to grow 1.9% in 2012.

© MarketLine. This report is a licensed product and is not to be photocopied

Figure 7: GDP and growth rate in Switzerland, 2005–15



Source: Country Statistics, MarketLine

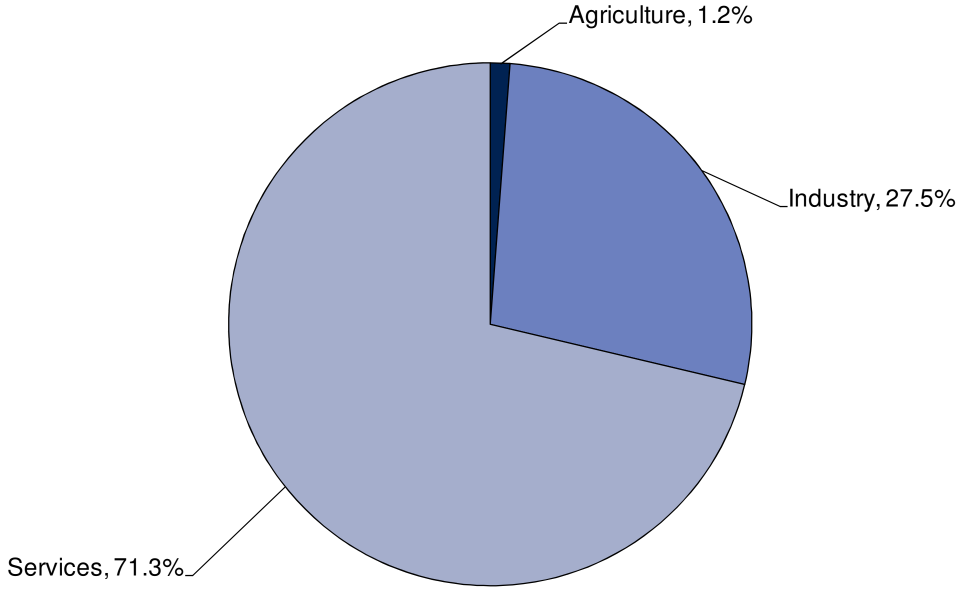
MARKETLINE

GDP composition by sector

The Swiss economy is largely dependent on the services sector, which contributed 71.3% of GDP in 2011, compared to contributions of 27.5% and 1.2% from the industrial and agriculture sectors respectively, according to the Central Intelligence Agency's World Factbook. With its manufacturing prowess, the country is greatly dependent on foreign trade, with exports as a percentage of GDP at around 46% in 2011.

© MarketLine. This report is a licensed product and is not to be photocopied

Figure 8: GDP composition by sector, 2011



Source: CIA, The World Factbook

MARKETLINE

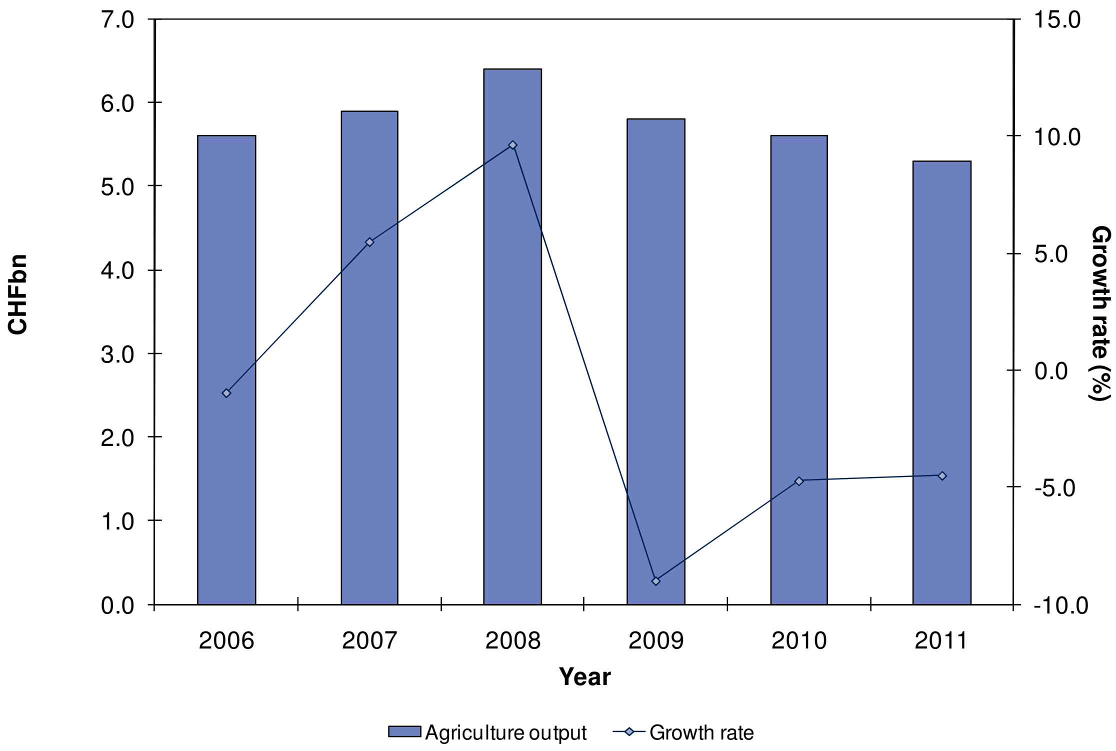
Agriculture

Agricultural activity is not significant in Switzerland, due to the country's limited natural resources and poor soil conditions. As of 2010, there were around 59,100 peasant farms, but on average they are less than 18 hectares in size. The total agricultural land in the country was 1.06 million hectares, with more than 70% as pasture land, with the remainder used for cropping, orchards, and vineyards. Dairy products contribute significantly to agricultural revenue. Switzerland is said to be 60% self-sufficient in this sector.

Agriculture has ceased to be of national significance, and rural workers are dependent on government subsidies, which accounted for nearly 70% of the average farmer's income in 2010. The practice of government support for agriculture, which started after World War II, continues to this day. In 2010, the country spent CHF3.7bn ($3.6bn) on food and agriculture. Under the government's agricultural policy, the sector receives support more as direct payments and less as market support (production and sales). Agricultural output declined by an average of 0.7% during 2006–11 to reach CHF5.3bn ($6.4bn) in 2011.

© MarketLine. This report is a licensed product and is not to be photocopied

Figure 9: Agricultural output of Switzerland, 2006–11



Source: Country Statistics, MarketLine **MARKETLINE**

Note: local currency reported due to US dollar fluctuations.

Industry

Switzerland was one of the first nations to go through the process of industrialization, which began with the formation of small production units for clocks, machine tools, and textiles. The country is known for the production of specialized goods such as chemicals, pharmaceuticals, motors, and turbines.

The Swiss manufacturing industry underwent major restructuring in the 1990s, a process that included mergers and the acquisition of smaller firms. A number of companies engaged in low value-added activities closed down, while others upgraded their technology. Small and medium-sized enterprises continue to play an important role in the Swiss economy by generating large-scale employment.

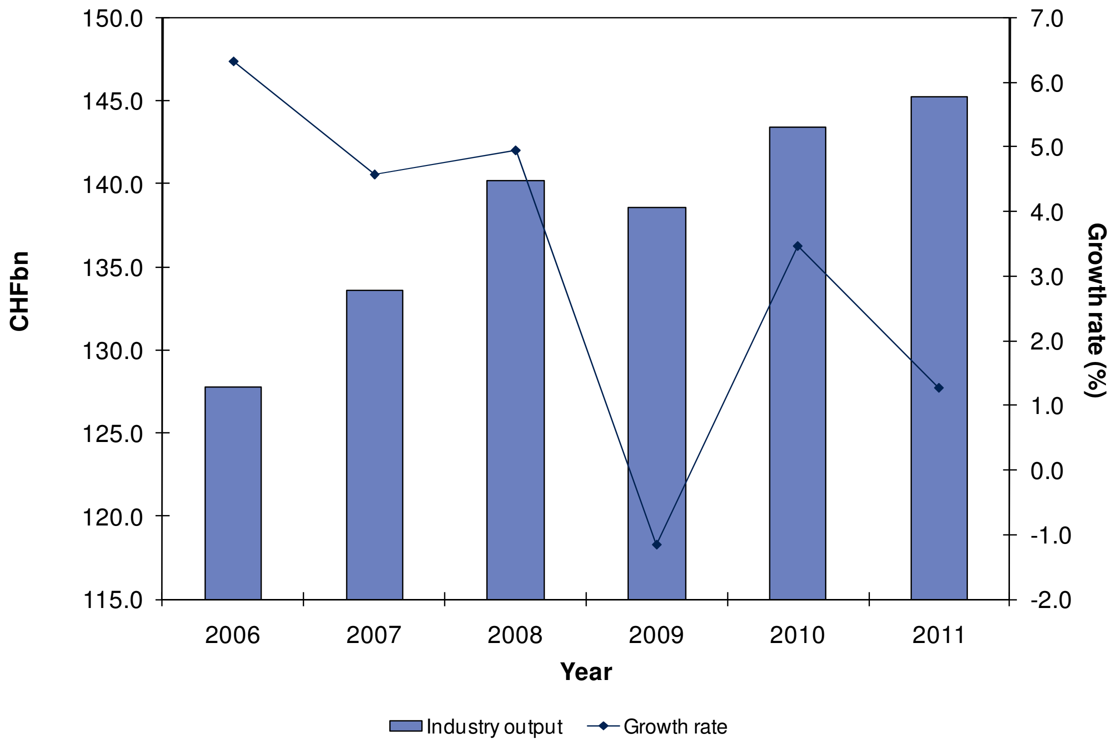
Industrial activity picked up in 2001 after a slump of several years. European integration opened up a large exports market for Switzerland, which provided a boost to its economic activities; however, there was a further slump in 2003. Manufacturing activities picked up in 2005, registering growth of 5.9%. The same trend continued in 2006 and 2007, as capacity utilization was above the long-term average and equipment investment continued to rise. This advancement was encouraged by favorable conditions such as low interest rates, a sound economic outlook, and rising corporate profits.

Despite favorable industrial activity in 2007, the turbulence in the financial markets in the second half of the year led to gloomy economic conditions in 2008. A slackening in the pace of equipment investment and exports combined with the

© MarketLine. This report is a licensed product and is not to be photocopied

persistence of a relatively high level of imports had a negative impact on GDP. Industrial output grew by an average of 3.2% during 2006–11 to reach CHF145.2bn ($164.5bn) in 2011.

Figure 10: Industrial output of Switzerland, 2006–11



Source: Country Statistics, MarketLine MARKETLINE

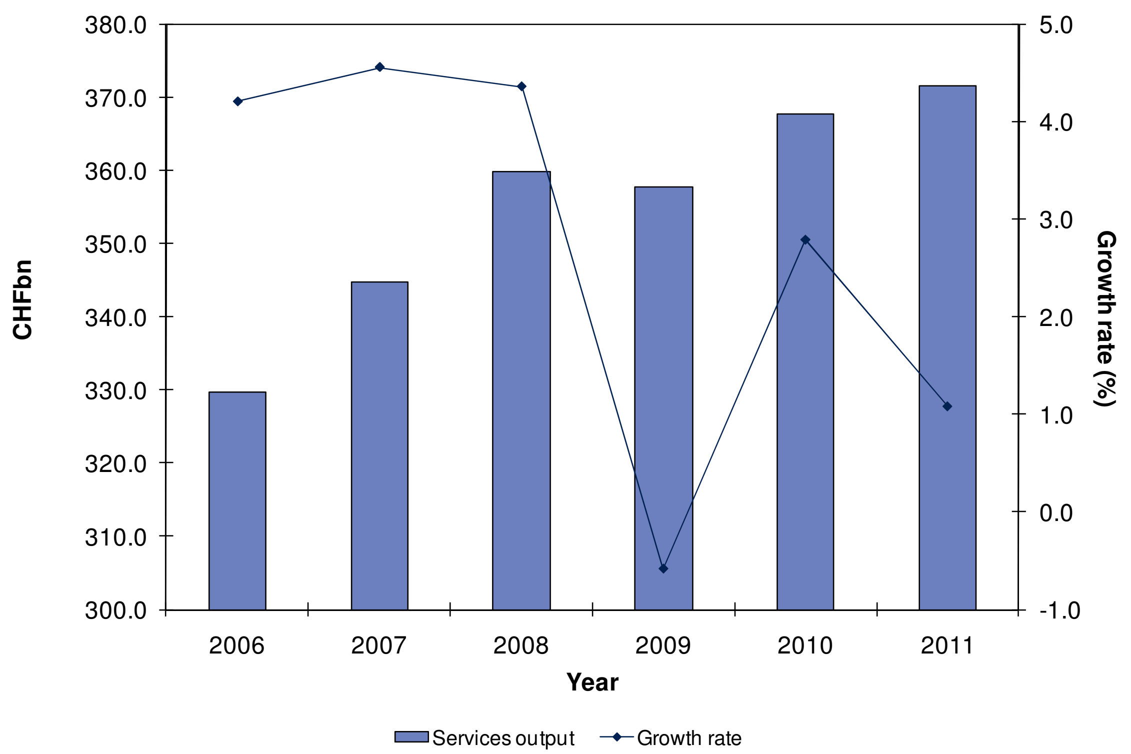
Note: local currency reported due to US dollar fluctuations.

© MarketLine. This report is a licensed product and is not to be photocopied

Services

The services segment, led by financial services, is the most significant sector of the Swiss economy, with other important areas including tourism, retail, shipping, and logistics. Services sector output has experienced a similar trend to the manufacturing sector, although services were responsible for bailing the economy out of recession at the beginning of 2000. Services output grew at an average of 2.7% during 2006–11 to reach CHF371.6bn ($421bn) in 2011.

Figure 11: Service output of Switzerland, 2006–11



Source: Country Statistics, MarketLine MARKETLINE

Note: local currency reported due to US dollar fluctuations.

Fiscal situation

The Swiss government has been one of the few countries to implement prudent fiscal measures, which has resulted in the retention of a budgetary surplus since 2006. According to an economic assessment of Switzerland conducted by the International Monetary Fund, tight expenditure control and buoyant revenues allowed the government to achieve a further surplus of 2.2% of GDP in 2007. Surpluses at the federal level were supplemented by a balanced budget in social security accounts, along with surpluses at the cantonal and communal levels. The budgetary surplus was then used to cut public debt, which stood at 25.1% of GDP in 2007.

However, the tough fiscal situation in 2008 – mainly due to the state's rescue plan for its biggest bank, UBS – led to a smaller surplus of 1.4% of GDP. Public debt as a percentage of GDP stood at 22.3% of GDP in 2009. Fiscal policies in 2009 served the country well, considering the heavy potential liabilities related to the banking sector and the effects of an

© MarketLine. This report is a licensed product and is not to be photocopied

aging population. The government undertook fiscal measures worth about 0.8% of GDP without tipping the balance into a huge deficit. According to MarketLine estimates there was a budget surplus of 1.0% in 2010 as a result of stimulus programs. Public debt as a percentage of GDP stood at 22.6% in 2010. In February 2012, the government announced a budget surplus of CHF1.9bn ($2.2bn) or 0.3% of GDP in 2011.

Current account

Switzerland's current account surplus increased from 8.2% of GDP in 2001 to around 15.0% in 2006. Although this surplus can be attributed to a depreciation of the Swiss franc, the large amount of surplus on the services account has remained an important factor. The surplus declined in 2007–08, largely due to the lower yield on foreign assets. Weaker goods exports and slower financial services turnover led to lower income from financial services. The exports of goods and services in 2008 took a hit in the fourth quarter of 2008 because of the considerable appreciation of the Swiss franc. The current account surplus plummeted to $11.7bn or 2.4% of GDP in 2008, compared to $38.8bn or 9.1% of GDP in 2007. In 2009, it rose again to $56.6bn or 11.7% of GDP as the economy recovered from the recession. Furthermore, exports rose in 2010, driven by the gains made by the watches and metallurgical sector. Although the EU is by far Switzerland's largest trading partner, accounting for more than 50% of exports and imports, Asia was a major growth region in 2010. In 2010, the current account surplus rose to $76.3bn, or 14.7% of GDP. According to the central bank, the current account surplus in 2011 was CHF84bn ($95.2bn), or 15.2% of GDP.

Exports and imports

The economy of Switzerland has posted a positive balance of payments since 2001. Exports declined from $276.9bn in 2008 to $244.8bn in 2009, before recovering to $271.7bn in 2010 and increasing to $297bn in 2011. Imports declined from $220bn in 2008 to $194.2bn in 2009, before recovering to $214.6bn in 2010 and increasing to $235bn in 2011.

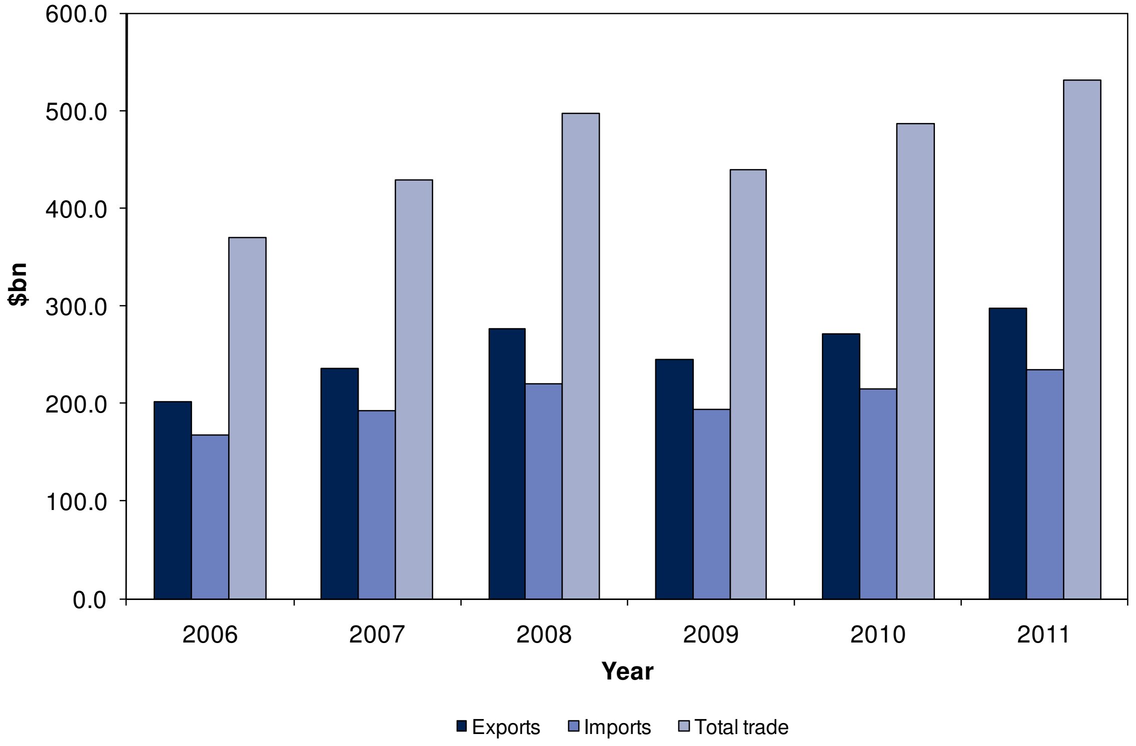
As the EU is Switzerland’s biggest trading partner, relations with the union are critical to its economic performance. Swiss merchandise exports to EU member states account for around 56.9% of total exports. Among the EU countries, Germany ranked the highest, with an export share of 20.1% in 2011, followed by Italy (8.0%) and France (7.3%). The US’s share stood at 10.1%. The best-known Swiss export items are watches, chocolate, and cheese, but mechanical and electrical engineering products and chemicals account for over half of the country's export revenues.

In terms of imports, the dominance of the EU market is even more pronounced. In 2010, nearly 80% of imports to the country were from the EU. In 2011, Germany had an import share of 33.6%, followed by Italy (10.9%) and France (8.9%).

Asia is fast becoming an important market for Swiss exports. According to the central bank, Switzerland witnessed increased demand for exports from non-European states in 2011, especially from Chile (33.9% increase in exports over 2010), China (19.4%), Hong Kong (19.2%), India (15.4%), Taiwan (14.5%), and Malaysia (12.2%).

© MarketLine. This report is a licensed product and is not to be photocopied

Figure 12: External trade of Switzerland, 2006–11



Source: Country Statistics, MarketLine MARKETLINE

International investment position

Foreign direct and portfolio investments

Switzerland has an open climate that encourages foreign investments, with the cantons able to put forward regulations aimed at encouraging FDI. The country's low corporate tax rates, good infrastructure, and skilled workforce all contribute toward its status as a preferred investment destination. FDI inflow in Switzerland remained erratic over 2000–06, declining from $19.3bn in 2000 to $8.9bn the following year, only to recover in 2003. There was a return to negative growth in 2005, but a boost in 2006 brought inflows up to $43.7bn. In 2007, FDI inflows stood at $32.4bn. However, FDI inflows have slowed down since 2007, and recorded negative growth in 2010. Switzerland is a more active player in outward investment. According to the United Nations Conference on Trade and Development's World Investment Report 2011, FDI inflow and outflow stood at -$6.6bn and $58.3bn respectively in 2010.

Credit rating

In November 2011, Standard & Poor's affirmed the AAA long-term and A-1+ short-term sovereign ratings with a "stable" outlook for Switzerland. According to the credit rating agency, the stable outlook reflects the country's large external creditor position, strong monetary and fiscal frameworks, and sustained current account surpluses.

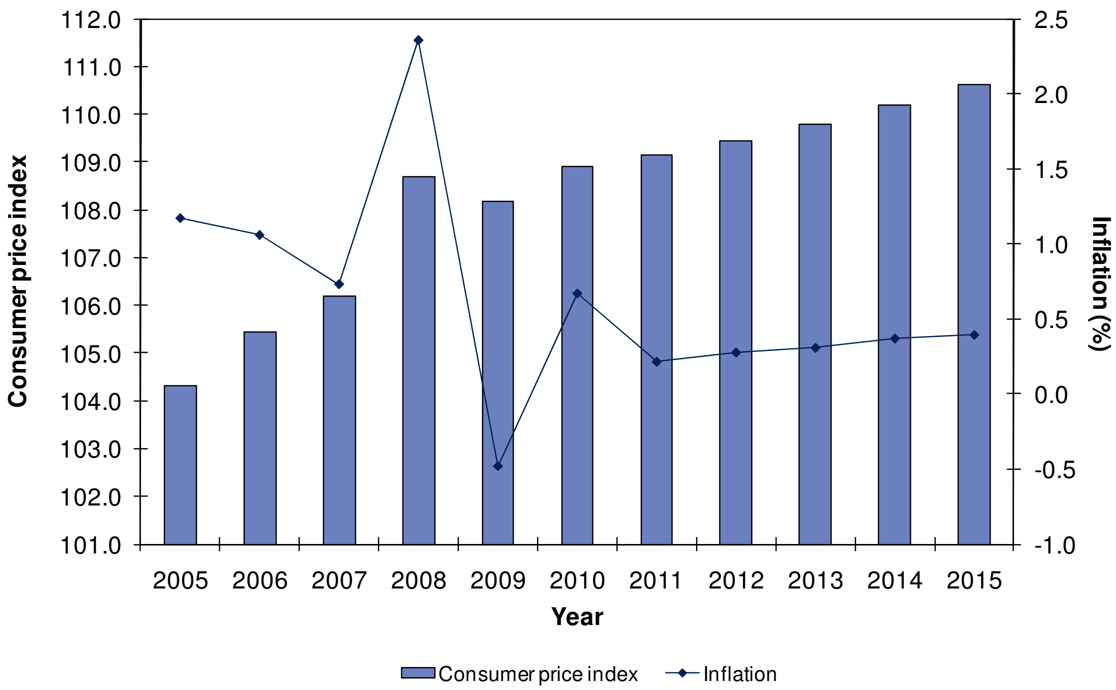
© MarketLine. This report is a licensed product and is not to be photocopied

Monetary situation: key monetary indicators

Inflation

The SNB, with its monetary policy aimed at maintaining price stability, successfully kept inflation at an average of less than 1.0% during 2001–07. However, the rise in the price of petrol and oil – and the weakness of the Swiss franc against the euro – pushed up the price of imports, while the price of services also increased. Inflationary pressures worsened in 2008, with rising food and oil prices in the first half of the year. The annual inflation level in 2008 stood at around 2.4%. However, inflationary pressure eased off in the later part of 2008 and in the first four months of 2009. The country witnessed deflation of 0.5% in 2009, before recording inflation of 0.7% in 2010 and 0.2% in 2011.

Figure 13: Consumer price index and consumer price index-based inflation in Switzerland, 2005–15



Source: Country Statistics, MarketLine MARKETLINE

Banking sector

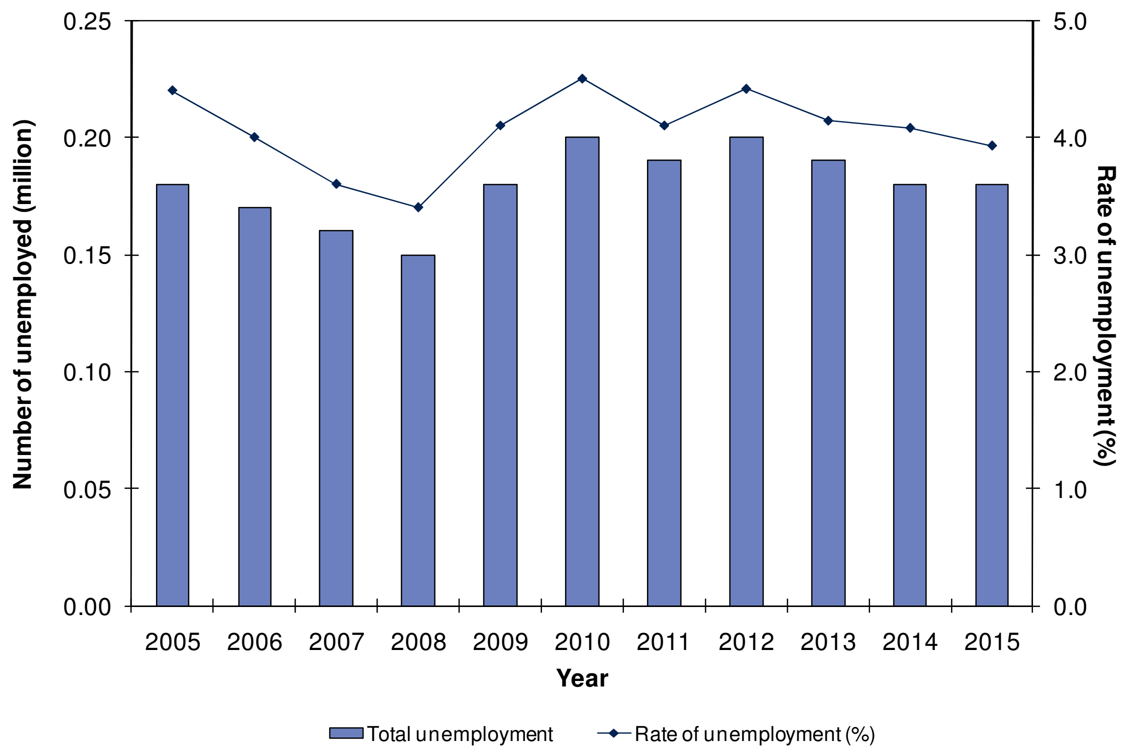
According to the SNB, the aggregate balance sheet of the banking sector increased by 1.7% to CHF2,715bn ($2,606bn) in 2010. While assets increased by 5.2% to CHF1,263bn ($1,212.5bn), liabilities increased by 3.0% to CHF1,289bn ($1,237.4bn). In 2010, the dollar depreciated 9% and the euro depreciated 16% against the Swiss franc. Domestic mortgage claims went up by 4.6% to CHF758.2bn ($728bn) in 2010, compared to a 5.2% increase in 2009. Of the 320 banks in the country, 267 recorded an annual profit while 53 recorded an annual loss in 2010.

© MarketLine. This report is a licensed product and is not to be photocopied

Employment

According to MarketLine estimates, the tertiary sector continues to employ the majority of the working population, with a share of 74% in 2011, followed by the secondary and primary sectors with shares of 22.1% and 3.9% respectively. Although the unemployment rate declined from 4.4% in 2005 to 3.4% in 2008, it rose to 4.5% in 2010 due to the impact of the global financial crisis. It declined to 4.1% in 2011 as the number of employed grew 0.6% in 2011 to 4.34 million. According to MarketLine forecasts, the unemployment rate is expected to be 4.4% in 2012.

Figure 14: Unemployment rate in Switzerland, 2005–15



Source: Country Statistics, MarketLine MARKETLINE

Outlook

The strong appreciation of the Swiss franc against the dollar and the euro is expected to impede export growth in the near term. The slowdown in international trade is expected to drive the slowdown in economic growth in 2012. According to MarketLine estimates, the country's economy is forecast to grow by 1.9% in 2012, and by 1.8% during 2013–17.

Although the unemployment rate rose to 4.5% in 2010, it began to ease in 2011, and the unemployment rate fell to 4.1%. However, MarketLine forecasts that the unemployment rate will be 4.4% in 2012, as employment is expected to show negative growth of 0.3%. Inflation is forecast to remain under 0.3% in 2012, but will reach 0.4% by 2015.

In the challenging economic scenario caused by EU debt and the Japanese crisis, a strong franc could affect Swiss firms, particularly those in the machinery, electrical engineering, and metals sectors, due to exchange rate deterioration,

© MarketLine. This report is a licensed product and is not to be photocopied

compression of profit margins, and loss of competitive positions against foreign rivals. Although employment is increasing, economic growth is likely to be lower in the coming years, mainly because of the slowdown in international economic momentum and the appreciation of the Swiss franc.

© MarketLine. This report is a licensed product and is not to be photocopied

SOCIAL LANDSCAPE

Summary

Switzerland, with its excellent human development indicators, ranked 11th out of 187 countries according to the United Nations Development Programme's (UNDP's) 2011 Human Development Report. The country has a well-developed social security system and high wage levels, but the cost of living remains high. Social policies have been decentralized, with responsibility for legislation and implementation lying with the cantons. The healthcare system is among the best in the world, and the nation's education policy has improved the level of tertiary education.

Despite these developments, Switzerland is grappling with an increasing elderly population and a declining birth rate. The birth rate declined from 10.1 in 2001 to 9.5 in 2011. Social expenditure will come under immense pressure because of increasing outlays on pensions and healthcare, which will strain the federal budget in the long run.

Evolution

The social evolution of Switzerland was similar to those of other European nations that witnessed early industrialization. There was a gradual shift from manufacturing to the services industries, and rapid urbanization took place in a few pockets of growth. After the end of World War II, Switzerland experienced a rapid rise in birth rates, and the 1960s were marked by large-scale immigration. Immigration rates declined in the following decade as a result of restrictive policies, although these policies also lowered labor supply growth, and the government once again encouraged immigrants to enter the workforce during the 1980s. Overall, sizable labor supply growth combined with lower fertility rates created a period of high workforce participation in Switzerland. This led to a decrease in total dependency rates of about 19% between 1970 and 2000, and a drop of 41% in youth dependency over this period. Social security policies were strengthened to meet the needs of this labor force; however, the trend has now begun to see a reversal, with a larger elderly population. Brought about by low fertility and improving life expectancy, this demographic change has necessitated social reforms.

Structure and policies

Demographic composition

Age and gender composition

Age structure for 2011 indicates that 67.8% of the population are in the 15–64 age group, 15.2% of the population are aged 0–14, and 16.9% of the population are above 65 years old. With this age structure, Switzerland reflects a similar demographic trend to the rest of Europe, where the aging population is increasing and fewer people are entering the workforce. The birth rate declined from 10.1 per 1,000 population in 2001 to 9.5 per 1,000 population in 2011. Population growth in 2011 was estimated at 0.22%. According to the Central Intelligence Agency's (CIA's) World Factbook, the sex ratio at birth was 1.05 males per female in 2011. However, of the total population females make up 50.7% and males 49.3%. Life expectancy for the male population is 78.3 years and for the female population is 84.2 years. The country's infant mortality rate in 2011 was 4.1 per 1,000 live births, one of the lowest in the world.

Urban/rural composition and migration

The population of Switzerland is unevenly distributed, with 90% living on the Swiss Plateau. According to population estimates in 2011, 73.7% of the population is classified as urban, but most people live in small towns. Swiss nationals account for around 78.0% of the population, with the remainder belonging to Italy, Germany, Portugal, Serbia, France,

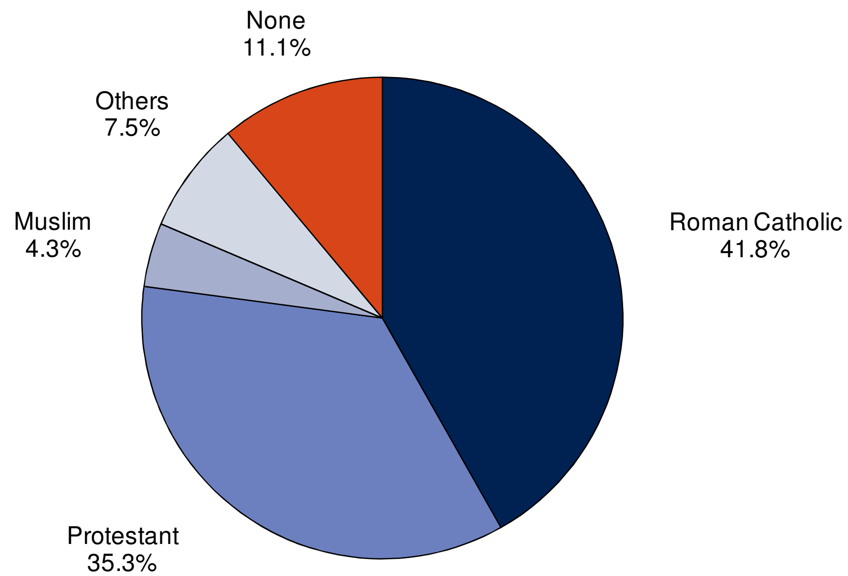
© MarketLine. This report is a licensed product and is not to be photocopied

Turkey, Spain, and other European, African, Asian, and American countries. According to estimates for 2011, net migration stood at 7,888 people. The Swiss government relaxed its immigration laws in 2007, allowing more workers from Western European nations to be employed within the country. The new rules will allow citizens from European Free Trade Association countries including Norway, Liechtenstein, and Iceland unlimited access to the Swiss labor market. While the Swiss economy has benefited from the presence of foreign workers, labor unions fear that migrant workers will drive down wages.

Religious composition

In Switzerland, 41.8% of the population is Roman Catholic and around 35.3% is Protestant, while there is a small Muslim community (4.3% of the total population). Freedom of worship is guaranteed by the Swiss constitution.

Figure 15: Major religions of Switzerland (2000 census)



Source: CIA, The World Factbook MARKETLINE

Education

Basic education is compulsory in Switzerland, and the education system is decentralized, with cantons and half-cantons taking responsibility for education policy and financing. Each canton has its own head of education, all of whom make up the Swiss Conference of Cantonal Ministers of Education. This organization plays an important role in co-ordinating education policy across cantons. Although there is no federal minister of education, some organizational aspects – such as the duration of the school year and the number of years of compulsory schooling – apply across the country.

Switzerland divides its education system into primary, secondary, and tertiary levels. The primary and secondary levels

© MarketLine. This report is a licensed product and is not to be photocopied

are the two stages of compulsory schooling, which lasts for nine years. Following this is a further secondary level, which is known as the post-compulsory stage. However, more than 50% of young people choose practical vocational training instead, which lasts up to four years.

The tertiary stage includes universities and higher vocational training institutes. Universities provide general education as well as training for applied sciences, while higher vocational training is provided by technical schools, leading to vocational certificates and higher vocational diplomas. In 2006, the Swiss voters approved a proposal to improve co-ordination between the cantons in matters of education policy. As a result, projects are underway to harmonize teaching in such areas as foreign languages, mathematics, and science.

University education follows the bachelor-master system. To make movement between universities easier, Switzerland signed the Bologna Declaration in 1999. As was envisaged in the declaration, the European Higher Education Area (EHEA) was launched in March 2010. The EHEA aims to achieve autonomy and accountability of higher education institutions and increase efforts to provide equal education opportunities. Being a signatory to the declaration, Switzerland will benefit by incorporating the guidelines of the Bologna process into its own higher education system.

Under a bilateral agreement with the European Union (EU), Switzerland is extending its support for education, vocational training, and youth programs. As per the agreement, Swiss citizens will be given rights of access to all program activities on an equal basis by its EU partners. This development is expected to increase Swiss involvement in student and academic exchanges and facilitate a rise in the number of traineeships.

Healthcare

Healthcare services

Switzerland has one of the most advanced healthcare systems in the world. Health insurance has been made compulsory for all residents of Switzerland, as provided by the Federal Health Insurance Act. In addition, individuals are free to opt for private complementary insurance policies, which allow for extensive coverage of treatments that basic insurance does not cover. Moreover, the insurance system in Switzerland is not linked to income but rather to the individual's health risks. Contrary to other European nations, health plans are selected by individuals rather than by their employers or the government. There is a subsidy for those in low income groups, as they are less able to afford insurance policies.

Social welfare

Social welfare policies

In Switzerland social welfare policies are comprehensive and insurance measures are universal in coverage. Social insurance includes old age, survivors', and disability insurance; health and accident insurance; unemployment insurance; and family insurance. Only family benefits paid to farmers fall under the jurisdiction of the confederation, with all other family benefits regulated by the cantons.

Social welfare is mainly a public system, organized at the federal level and partially financed by an insurance system involving direct contributions by residents. Health coverage, which is obligatory, is decentralized among hundreds of insurance companies. Since the 1980s, public spending for social welfare has increased more rapidly than GDP. An increase in unemployment insurance, along with rising pension and healthcare expenditure for the Swiss elderly, has led to overall growth in social welfare expenditure.

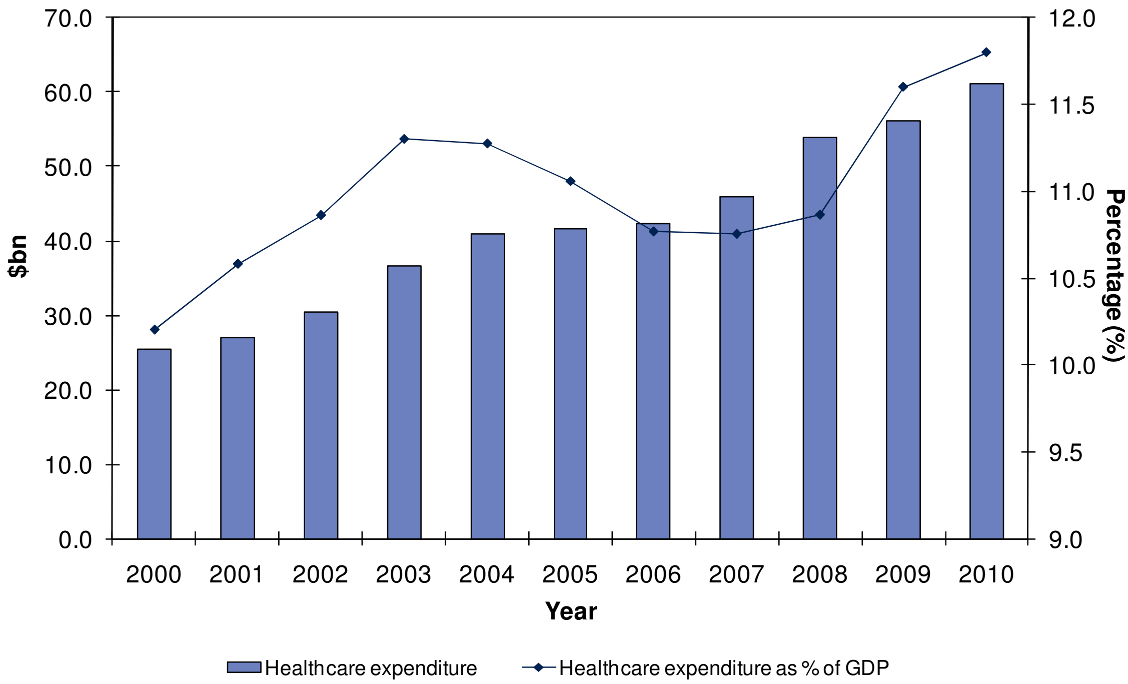
© MarketLine. This report is a licensed product and is not to be photocopied

Performance

Healthcare

In 2010, national health expenditure stood at $61.2bn (11.8% of GDP). According to the review on healthcare in Switzerland (2011) conducted by the Organisation for Economic Co-operation and Development (OECD) and the World Health Organization, the country's healthcare system will be challenged by increasing costs of healthcare and a rising number of patients with chronic diseases; its recommended focus was primary healthcare and preventive measures. The review highlighted the need for training more healthcare personnel and improving human resource management in hospitals. The aging of the population, coupled with the higher cost of new healthcare technologies, is creating concerns about the financial sustainability of the system.

Figure 16: Expenditure on healthcare in Switzerland, 2000–10



Source: Country Statistics, MarketLine MARKETLINE

Income distribution

According to the UNDP's 2011 Human Development Report, the country was ranked 11th out of 187 nations. Despite its economic prosperity, Switzerland has done little to increase income equality within its society. Income distribution as measured on the Gini index was 29.5 in 2010. According to MarketLine estimates for 2010, the percentage of the population earning less than $5,000 was around 2.0%, while 12.2% of the population earned between $5,000 and $10,000. Nearly 86.0% of the population earned above $10,000. The percentage of the population in the first quintile was 8.4%, with an average income per head of $17,289. The percentage of the population in the fifth quintile was 38.7%, with

© MarketLine. This report is a licensed product and is not to be photocopied

an average income per head of $79,652. Despite high wage levels in the country, there are a considerable number of working poor who fall below the poverty line. According to MarketLine estimates for 2011, around 3.5% of the population survived on less than $2 a day.

Education

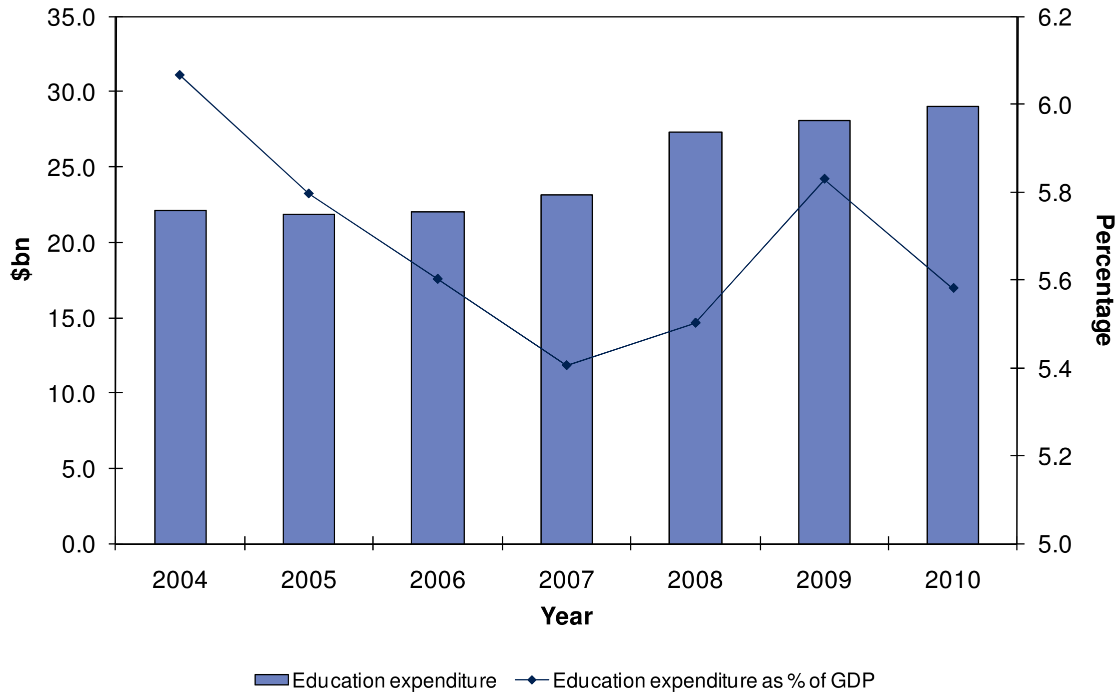
The Swiss population has an almost 100% literacy rate, and public expenditure on education as a percentage of GDP averaged 5.9% between 2002 and 2006. There was a decline in spending as a percentage of GDP in 2007, when it fell to 5.4%. However, it increased to 5.5% in 2008 and 5.8% in 2009. The cantons have financed the bulk of the cost; they are estimated to have funded around 85% of education expenditure, with the confederation contributing the rest. In 2010, there was a decline in public spending on education as a percentage of GDP at 5.6%.

According to the UNDP's 2011 Human Development Report, the gross enrollment ratios in primary and secondary education during 2001–10 were 103.4% and 96.0% respectively. However, the tertiary gross enrollment ratio was 51.2%. The Swiss education system compares well with other OECD countries in terms of graduation rates in upper secondary education, with nearly 90% of the population receiving a diploma at this level. This is mainly due to the attractiveness of vocational education, since 59% of all diplomas awarded are of that type.

A February 2011 OECD working paper showed that around 90% of 25 to 34 year olds have obtained an upper secondary degree, considerably more than the OECD average. However, a constitutional amendment requires the confederation and the cantons to co-ordinate their policies toward tertiary academic education. The legislation is expected to bring universities and universities of applied science under a common regulatory framework. Besides these, raising tuition fees in tertiary academic education and providing government-sponsored loans to students will increase access to tertiary education in the country. Switzerland’s total expenditure on education was $31.7bn in 2010 or 6.1% of GDP.

© MarketLine. This report is a licensed product and is not to be photocopied

Figure 17: Government expenditure on education in Switzerland, 2004–10



Source: Country Statistics, MarketLine

MARKETLINE

Outlook

Although Switzerland is credited with having high wages, its high cost of living negates the net benefit. As a result, there has been an increase in the number of working poor. According to the Federal Statistical Office, there are around 120,000 working poor in the country. In January 2012, Switzerland's largest trade union Unia supported a people's initiative (which could enable a constitutional amendment) to fix the monthly minimum wage at CHF4,000 ($4,530). Labor Day demonstrations across the country in May 2012 called for higher salaries. However, higher wages would only push the cost of living up, as the prices of essential commodities would also rise.

Housing costs in Switzerland are also considerably higher than in other OECD countries due to legal restrictions on the setting of new rental prices and a relatively low building density in suburban areas. Besides this, public expenditure is predicted to increase by 5% of GDP by 2050 as a result of aging. The next five to 10 years will also see a surge in health expenditure and a deficit in the pension system. The Swiss government is discussing further reform in this area.

The country has been engaged in discussions to improve its higher education system. Under its bilateral agreement with the EU, Switzerland has taken initiatives for the quality assessment of universities, the widening of student loans, and increased access to vocational programs. The government is expected to continue with reforms to increase the efficiency of the healthcare system and improve tertiary education.

© MarketLine. This report is a licensed product and is not to be photocopied

TECHNOLOGICAL LANDSCAPE

Summary

Technological innovations backed by excellent research are the key to the success of the Swiss economy. State-of-the-art technologies are boosting sectors such as biotechnology, life sciences, medical technology, ICT, shared services, micro-technology, nanotechnology, and environmental technologies. Research and development (R&D)-intensive industries account for more than half of all industrial production in Switzerland.

According to the Innovation Union Scoreboard 2011, the country is considered a global innovation leader. It has the potential to turn research findings into marketable products and to become the leader in the areas of biotech and IT. The government undertakes many research initiatives as part of R&D development, setting up new centers and welcoming foreign investment.

Evolution

The innovation system of Switzerland can be traced back to the process of industrialization, which began in the 18th century. Large-scale industries such as textiles were mechanized, while the clock-making industry brought about the beginning of electronics. During the 19th century and the beginning of the 20th century, the country made progress in R&D activities and developed an export-oriented manufacturing industry. However, after World War II there was a move toward service, and the focus of the country shifted to technology-intensive industries. The country's outward-looking investment policies made it an ideal location for investment, and it became home to a number of multinational corporations, which flourished because of favorable government policies. Nevertheless, the recent economic slowdown is having an adverse impact on R&D expenditure in the country.

Structure and policies

Switzerland puts great emphasis on R&D for initiating world class technologies. The cantonal governments guide and monitor the Swiss research system as well as the universities. The Federal Institute of Technology comprises Eidgenössische Technische Hochschule Zürich, EPF Lausanne, and four other research institutions: the Paul Scherrer Institute; the Swiss Federal Institute for Forest, Snow and Landscape Research; the Swiss Federal Laboratory for Material Testing and Research; and the Swiss Federal Institute for Environmental Science and Technology. The federal government oversees these institutions as well as the universities of applied sciences.

Basic research in Switzerland is promoted through scientific institutions, which are defined in Articles 6 and 16 of the Federal Law on Research. The Swiss Institute for Bioinformatics comes under this category. The Council of Swiss Scientific Academies, consisting of four scientific academies (namely the Swiss Academy of Humanities and Social Sciences, the Swiss Academy of Medical Sciences, the Swiss Academy of Sciences, and the Swiss Academy of Engineering Sciences) is also within this group.

Intellectual property

Switzerland has well-established intellectual property rights (IPR) laws, which effectively protect and facilitate the acquisition and disposition of all property rights. IPR protection is accorded equally to foreign and domestic rights holders. The country is a member of both the European Patent Convention and the Patent Co-operation Treaty (PCT), making it possible for inventors to file a single patent application in a PCT member country and receive protection in Switzerland.

© MarketLine. This report is a licensed product and is not to be photocopied

According to the Innovation Union Scoreboard 2011, the country is considered a global innovation leader. The country's innovation performance was above that of the EU27, what with its excellent achievements in terms of intellectual assets and most of the economic effects indicators. Its growth rate has been above the EU27's over the last five years. The innovation leaders, led by Switzerland, show a strong performance in firm investments and intellectual assets, and to a lesser extent in human resources, finance and support, linkages and entrepreneurship, and economic effects.

Although there was a decline in the number of patents received by Switzerland after 2004 due to the economic slowdown of the 1990s, the figure rose back to 1,889 patents in 2010 and 1,865 in 2011.

Table 9: Patents received by the US Patent and Trademark Office, 2002–11

Year	Switzerland	France	Germany	Japan	US
2002	1,532	4,421	11,957	36,339	97,125
2003	1,433	4,126	12,140	37,248	98,590
2004	1,405	3,686	11,367	37,032	94,129
2005	1,106	3,106	9,575	31,834	82,586
2006	1,388	3,856	10,889	39,411	102,267
2007	1,280	3,720	10,012	35,941	93,690
2008	1,403	3,813	10,085	36,679	92,001
2009	1,454	3,805	10,352	38,066	95,037
2010	1,889	5,100	13,633	46,978	121,179
2011	1,865	5,022	12,968	48,256	121,261

Source: US Patent and Trademark Office MARKETLINE

Research and development

In Switzerland, to a great extent both the education and research infrastructure (cantonal universities) are decentralized, and are the responsibility of cantonal authorities. However, overall innovation policy is designed and carried out by the federal government or federal institutions. The recent initiatives of the federal government include the formulation of a coherent regional policy for 2008–15, which includes elements of an innovation-promoting strategy for some structurally weak regions.

The main elements of this new innovation policy are the upgrading of the regional infrastructure and improvement of the regional knowledge system. The cantonal governments have primarily used measures such as favorable taxes and the promotion of "brownfield" investments to boost innovative startups. Some of the cantons have pursued a regional policy of improvement for the diffusion of innovation-relevant information by developing techno parks and clusters, mostly based on private-public initiatives and co-operation.

Government spending on innovation in 2009 was enhanced by special budget allocations and new incentives. The government is mainly targeting companies to prevent a reduction of their R&D. To this effect, the government has increased the budget of funding agencies for applied research. Furthermore, small and medium-sized enterprises (SMEs) are encouraged to engage in technology transfers. The Swiss government announced that it would spend CHF30m ($28.8m) a year from 2010–13 to fund eight new university-based research centers.

The country has fostered research, innovation, and co-operation at the national and the international level through public

© MarketLine. This report is a licensed product and is not to be photocopied

research funding. Its main funding agencies are the Commission for Technology and Innovation and the Swiss National Science Foundation. As of 2009, the agencies were integrated into the Federal Office for Professional Education and Technology (OPET). OPET's budget for 2012 stands at around CHF1.37bn ($1.6bn), out of which CHF15m ($17m) has been earmarked for international co-operation in research and innovation.

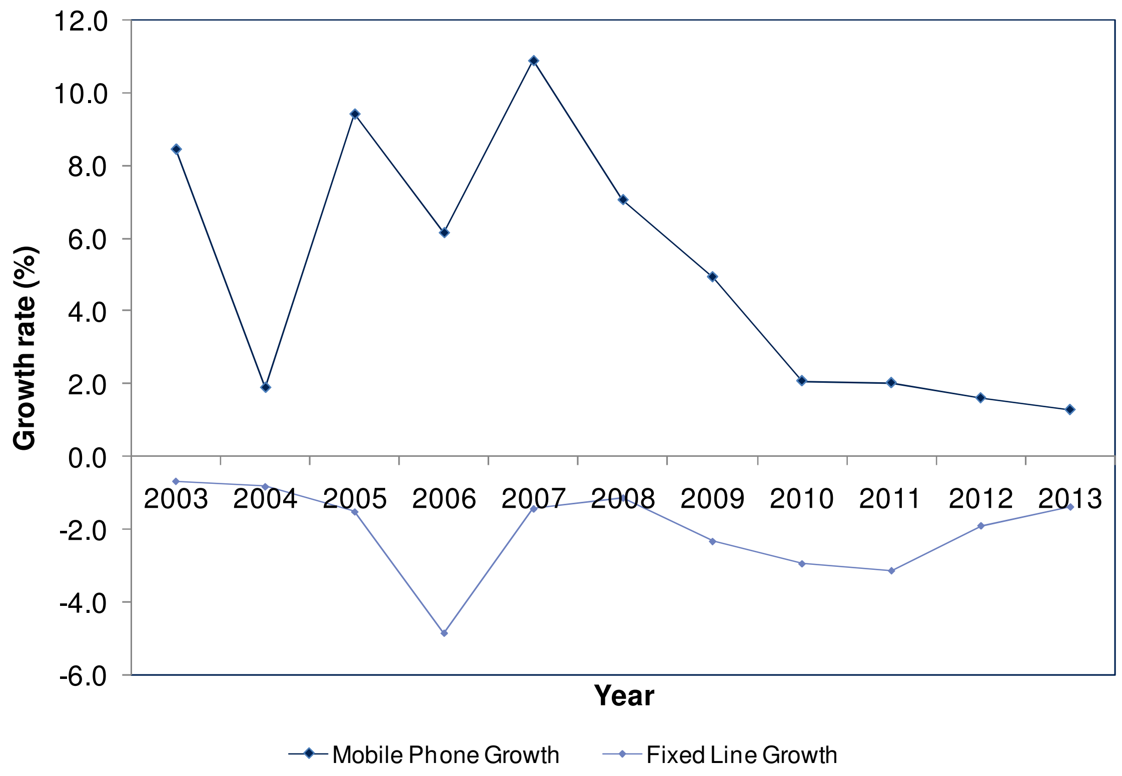
Performance

Telecommunications

Switzerland has one of the most well-developed telecommunications markets in Europe. As in most other developed nations, the Swiss market for fixed lines is witnessing negative growth. Moreover, the growth rate for mobile subscription declined to 10.9% in 2007, after registering its peak growth rate of 80.3% in 1999. Internet subscription, one of the key drivers of the market, registered growth of around 8.5% during 2001–09 to reach 5.7 million in 2009. According to MarketLine estimates there were 4.5 million fixed line subscribers and 9.7 million mobile users in 2011. The mobile penetration rate in the country grew from 64.7 per 100 people in 2000 to around 120 per 100 people in 2011.

Mobile market growth has been on the decline since 2007, growing by just 2.0% in 2011 and forecast to decline further to 1.6% in 2012.

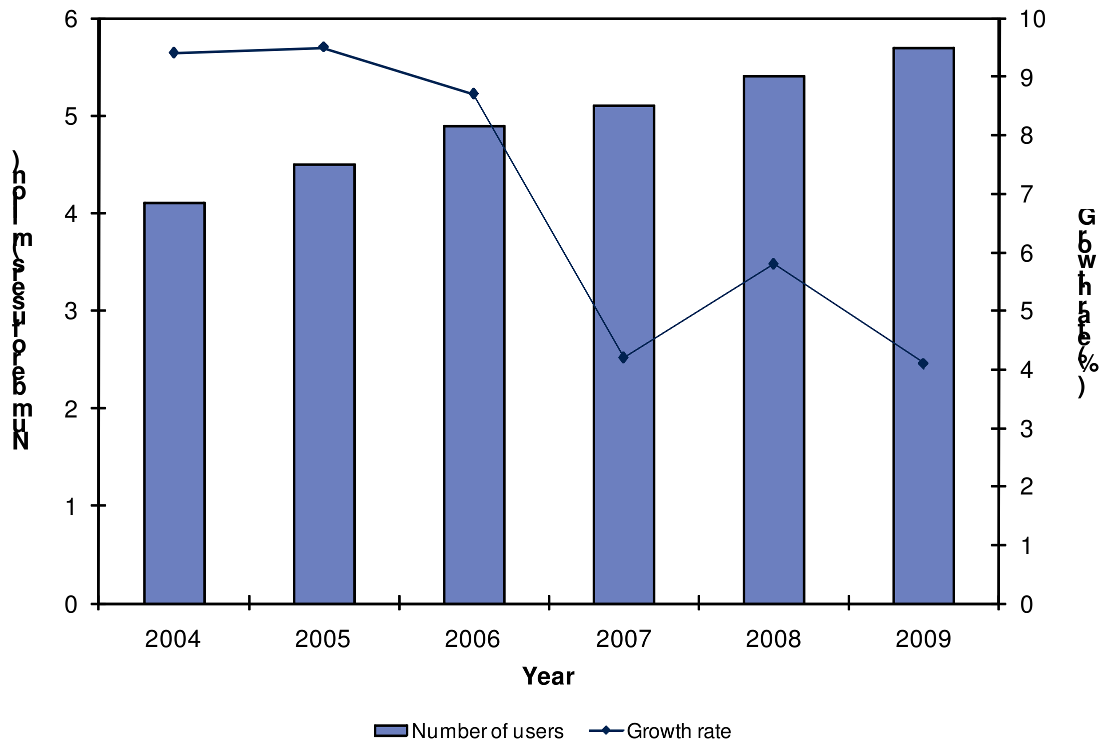
Figure 18: Growth rate of mobile and fixed line subscribers in Switzerland, 2003–13



Source: Country Statistics, MarketLine MARKETLINE

© MarketLine. This report is a licensed product and is not to be photocopied

Figure 19: Internet users and growth rate in Switzerland, 2004–09



Source: Country Statistics, MarketLine MARKETLINE

R&D expenditure

In Switzerland, the level of R&D expenditure as a percentage of GDP has been on a declining trend since 2000, although there has been a marginal increase in R&D expenditure in absolute terms. In 2007, expenditure on R&D as a percentage of GDP stood at 2.9%, while in 2008 it was 2.8%. In addition to the wide range of research activities undertaken by Swiss universities and institutes, there is an enormous amount of research activity in the private sector, particularly in the chemical, pharmaceutical, biotech, food, machinery, and micro-technology industries. The Swiss manufacturing industry is heavily export-oriented and depends upon the latest technology to retain its competitiveness in the world market. Therefore, state-of-the-art R&D remains a top priority in the country. The tertiary education system has proved to be instrumental in the growth of the number of R&D personnel. According to MarketLine estimates, the gross domestic expenditure on R&D in 2010 was $11.8bn or 2.3% of GDP.

Outlook

Switzerland is a global innovation leader. The Swiss government is extending higher funding opportunities to private companies and SMEs to boost their innovation expenditure. Furthermore, an amendment passed by parliament has granted more autonomy to the agencies charged with promoting innovation. These measures are expected to further boost the innovation potential of the country. Federal research agency OPET has a budget of CHF1.37bn ($1.6bn) for 2012, which will also include international co-operation in research and innovation.

© MarketLine. This report is a licensed product and is not to be photocopied

The country has solid prospects for growth in the areas of e-commerce and nanotechnology. However, there is a great amount of progress to be made in areas such as the deregulation of product markets. The government needs to take steps in this direction to enhance the overall investment climate of the country. The government should also provide more tax incentives for taking up R&D activities, as many companies have consistently shifted their R&D operations to foreign locations.

© MarketLine. This report is a licensed product and is not to be photocopied

LEGAL LANDSCAPE

Summary

The Swiss legal framework is based on a highly developed system in which laws are well-defined and the judiciary is independent of any branch of government. Switzerland has an independent judicial system, which is responsible for not only maintaining law and order but also ensuring the uniform application of federal law. Business taxation is different at cantonal levels, while the Federal Council fixes value-added tax (VAT) and corporate taxes.

Switzerland's investment climate is considered favorable for investors, with few significant barriers in place. The federal government has adopted a relaxed attitude of non-interference toward foreign investment, allowing the 26 cantons to set their own policies. Switzerland was listed as the fifth freest economy on the Wall Street Journal's and the Heritage Foundation's 2012 Index of Economic Freedom, with a score of 81.1 out of 100. The country is recognized as having high levels of investment freedom, trade freedom, financial freedom, property rights, business freedom, and freedom from corruption. Under the Doing Business 2012 report of the World Bank and the International Finance Corporation, Switzerland was ranked 22nd out of the 183 countries that were measured for business regulation and protection of property rights. The legal issues associated with starting a business are less complicated and time-consuming than in other countries, and Switzerland is also considered to have a low level of corruption.

Evolution

The constitution of 1848 provided the legal foundation for the current setup, after the federation of autonomous cantons was replaced by a true constitutional democracy with a federal structure and an independent judiciary. The first federal constitution of 1848 was soon replaced by a second one in 1874. In 1891, a constitutional amendment was made allowing for the “right of initiative," under which a certain number of voters could request an alteration in an article of the constitution. The constitution was fully revised again in the 1990s and, on April 18, 1999, the people and the cantons accepted a new federal constitution that entered into force on January 1, 2000. Over time, canton laws have borrowed heavily from international and federal laws to arrive at their current form.

Structure and policies

Judicial system

Structure of the system

The federal constitution of Switzerland provides for the organization of the courts, while jurisdiction in civil and criminal matters is vested with the cantons. The cantons have a considerable degree of authority to make laws. Accordingly, the organization of the courts and their procedure is primarily a matter for the cantons to regulate. The Swiss court system is traditionally divided into civil, criminal, and administrative departments. Generally, each canton has two court levels: the courts of first instance and the courts of appeal, although for civil cases some cantons also provide a court of cassation, which can cancel judgments issued by lower courts.

The federal Supreme Court, located in Lausanne, is primarily a court of last resort, but there are no lower federal courts. Since the country follows the procedure of direct democracy through referendum, the constitution does not offer any provision pertaining to review of constitutional laws, with popular votes approving or disapproving such laws. The procedural law applied by the cantonal courts is thus primarily state law, with various incursions of federal and public international law.

© MarketLine. This report is a licensed product and is not to be photocopied

Legislation affecting business

Business entities are required to follow the respective laws of cantons while doing business. However, there is a federal statute on debt enforcement and bankruptcy, which governs the enforcement of money claims, as well as claims for the furnishing of security against private individuals and legal entities of private law. The enforcement of non-monetary claims is governed by cantonal law.

Structure for doing business

The legal climate in Switzerland is favorable for foreign investment, and companies can form a partnership basis with varying degrees of ownership and responsibility. The federal government maintains a policy of non-interference in foreign investment, and the cantons are allowed to set major policies to encourage both domestic and foreign investment. Business enterprises can be created in various formats, such as civil partnerships, corporations, limited liability companies, general partnerships, or limited partnerships.

In recent years, the most common business form adopted by foreign enterprises is the share corporation format. However, limited liability companies are increasingly common as they are less regulated.

Taxation

Individual income tax

Individual income tax is imposed on worldwide income from all sources. The federal and cantonal rates are progressive, and cantonal rates vary. The tax system is complicated because the cantons and the communes levy their own taxes.

The top federal income tax rate is 11.5%, but the combined individual income tax rate (federal and sub-federal) can be as high as 42.3%. In addition, employees are also required to pay old age pension payments at the rate of 10.3% of gross salary, with the employer sharing 50% of these payments.

Corporate tax

Corporate income tax is levied on a resident company's worldwide profit, other than those attributed to a permanent establishment or real estate abroad. The federal tax rate is 8.5%, while cantonal rates are mostly progressive and usually depend on the company's profit, and vary between 12% and 22%.

Capital tax

This is a cantonal tax levied on the company's tax adjusted net equity at the end of the accounting year concerned based on relevant tax legislation.

Withholding tax

A 35% withholding tax is levied on the dividends and interest payable on company securities and interest credited by a bank to its clients. The 35% withholding tax can be reduced to between 0% and 10% under tax treaties with investor countries. Withholding tax on pensions is 15% and insurance is 8%.

Stamp duty

Stamp duty is levied on shares issued at a rate of 1.0% of their value. Bonds are issued at the rate of 0.6–1.2% for each year of their term, and insurance premiums are issued at the rate of between 2.5% and 5%.

VAT

VAT is levied at the federal level on the sale of goods and services supplied in or imported to Switzerland. The standard tax rate has been 8% since January 2011. However, a special rate of 3.8% applies to accommodation and directly

© MarketLine. This report is a licensed product and is not to be photocopied

related supplemental services, and a reduced rate of 2.5% applies to certain other goods and services, including foodstuffs, agricultural products (meats, cereals, plants, seed, and flowers), medicine and drugs, newspapers, magazines, books and other printed materials, and TV and radio services. Domestically produced goods are subject to the same VAT rates.

Labor laws

Employment relationships are regulated by collective bargaining agreements and the provisions of the Swiss code of obligations on employment contracts. The code is in compliance with International Labor Organization conventions. Government regulations cover maximum work hours, minimum length of holidays, sick leave and compulsory military service, contract termination, and other requirements. However, there is no minimum wage law.

Trade regulations

Swiss duties are "specific" rather than "ad valorem" (according to value). Customs duty varies according to the item imported; the Swiss customs tariff uses the harmonized system for the classification of goods. Customs duties are levied per 100kg of gross weight, unless another method of calculation is specified in the tariff.

Although Switzerland generally meets its commitments under World Trade Organization and bilateral agreements, there are strict packaging and labeling requirements that exporters must adhere to. In addition, there are significant tariff and quota barriers for many agricultural products.

Corporate governance

Switzerland has a well-established corporate governance system. Traditional self-regulation in the country underwent significant reforms in 2005 with the passing of a revised company and insurance supervisory law. These developments were influenced by events in the US (the Sarbanes-Oxley Act) and in the European Union.

The Swiss reforms enacted in 2005 have also incorporated global corporate governance standards with respect to external audit and auditor supervision, internal control, risk management, and transparency requirements. Most of the reforms concern all types of industries. The new regulations on audit and auditor supervision concern all types of companies, independent of their legal form. The government has also introduced the principle of economic importance; all companies exceeding a certain size are considered economically important and are therefore subject to a regular audit requirement.

Performance

Effectiveness of the legal system

Switzerland was listed as the fifth freest economy on the Heritage Foundation's and the Wall Street Journal's 2012 Index of Economic Freedom. It scored 81.1 out of 100 on the index. Switzerland ranked first out of 43 countries in the European region, and its overall score is much higher than the world average. The country is recognized as having high levels of investment freedom, trade freedom, financial freedom, property rights, business freedom, and freedom from corruption. It also ranked eighth out of 183 countries in Transparency International's Corruption Perceptions Index for 2011. There is strict legislation in place to control corruption and enforcement procedures against domestic corruption are effective: giving or accepting a bribe is subject to criminal and civil penalties, including imprisonment. The country's labor regulations are relatively flexible, and generally labor management relations are cordial. Under the Doing Business 2012 report of the World Bank and the International Finance Corporation, Switzerland was ranked 22nd out of the 183 countries measured for business regulation and protection of property rights.

© MarketLine. This report is a licensed product and is not to be photocopied

Outlook

Switzerland presents an impressive investment climate with favorable business policies. The country has done well in terms of encouraging foreign investment in different sectors, and has maintained its status as one of the world's most competitive economies. Nevertheless, there is limited competition in some parts of the services sector, such as retail and telecoms. The agricultural sector has come under heavy government regulation. After scrapping market prices in 1999, the government cancelled export subsidies in 2008 and milk quotas in 2009. The government is also planning to link direct payments to farmers with sustainable farming methods. Removing these barriers will enhance the competitiveness of the country and will integrate it more closely with the global economy.

Swiss financial regulations are expected to undergo significant changes, as there has been increasing demand for banking transparency and tighter regulations.

Switzerland continues to improve its corporate governance standards with respect to external audit and auditor supervision. Private companies are also being encouraged to adopt the proper legal form of joint stock companies. Improvements in the corporate governance of private companies will bring more transparency and benefit individual companies as well as the economy as a whole. The empowerment of the federal Competition Commission, the country's anti-trust agency, to act independently against anti-competitive practices will further help to create fair competition in the market.

© MarketLine. This report is a licensed product and is not to be photocopied

ENVIRONMENTAL LANDSCAPE

Summary

Switzerland has been at the forefront of formulating and implementing environmental legislation, with an environmental chapter as part of its constitution. While the federal government is responsible for environmental legislation, its implementation has remained the responsibility of cantons and communes. Safety, health, biodiversity, and sustainable development form the cornerstone of Swiss environmental policy, and the country has been party to important regional and international environmental agreements. Worldwide, Switzerland ranked first in the 2012 Environmental Performance Index (EPI) published by the Yale and Columbia universities in the US, with a score of 76.7 in a range from zero to 100.

While the country has made considerable progress in controlling pollutants, it faces challenges in the form of climate change and loss of biodiversity. Greenhouse gas emissions have not been brought under control, and there is a need to integrate sustainable development more closely in sectoral policies, while working toward better enforcement of such policies at cantonal level.

Evolution

The environment started to get policymakers' attention in the 1970s, and the cantons passed wide-ranging regulations in the 1970s and the 1980s. The policies promoted by the confederation were implemented by the cantons and municipalities, and most policies are focused on substantial government funding and raising public awareness.

Since the beginning of the 1990s, environmental policies have focused on the prevention of damage to the environment by following the polluter pays principle and collaborating with the business community to implement regulations. There has been a gradual move toward considering the requirements of sustainable development in all sectoral policies, notably those affecting energy, transport, and agriculture. Since 2000, Switzerland has revised its environmental laws to move toward a set of regulatory, economic, and voluntary measures.

Structure and policies

Environmental regulations

The Federal Office for the Environment (FOEN) is the authorized ministry with responsibility for implementing regulations concerning the sustainable use of natural resources, the protection of human beings from natural hazards, and the protection of the environment from excessive pollution. Most environmental laws are made at the level of the federal government, although protected areas are usually managed by individual cantons. The tasks of the FOEN include assessing the state of the environment, preparing the scientific basis for legislation, and supporting the enforcement of environmental law. For the application of laws, the FOEN works in close collaboration with the Swiss cantons.

The country's CO2 Act, its principal legal framework to achieve its Kyoto Protocol target, has set a goal of reducing the emissions covered by it by 10% compared with 1990 levels in the first commitment period of the Kyoto Protocol. This reduction target is higher than the target defined by the Kyoto Protocol (an 8% reduction in greenhouse gas emissions during 2008–12 compared with 1990 levels), and is intended to offset the effect of the expected stable emission levels in the sectors other than CO2 emissions from fossil fuel use for transport and heating (these other sectors contribute about 20% of total national emissions).

© MarketLine. This report is a licensed product and is not to be photocopied

Policy

Swiss environmental policy works on four central topics: safety, health, natural diversity, and the basis for production. While safety refers to the protection of human beings and other important resources from natural hazards, health refers to the protection of human beings from excessive pollution by noise, harmful organisms and substances, and non-ionizing radiation and air pollutants. Natural diversity refers to the conservation of the diversity of plant and animal species and of their natural habitats, while the basis for production refers to the conservation and sustainable use of natural resources and high value residential areas.

Participation in global efforts, agreements, and pacts

Switzerland is party to a large number of environmental agreements on the following: air pollution, biodiversity, climate change, desertification, endangered species, hazardous wastes, environmental modification, marine dumping, marine life conservation, and ozone layer protection. Switzerland has also signed the Antarctic Treaty and the Kyoto Protocol, and has signed but not ratified the Law of the Sea. It plays an active role in the protection of the Alps.

Performance

Environmental impact

Worldwide, Switzerland ranked first in the 2012 EPI published by the Yale and Columbia universities in the US, with a score of 76.7 in a range from zero to 100.

Carbon dioxide emissions averaged 45.5 million tons between 2003 and 2006, but declined to 43.9 million tons in 2007. However, they rose to above 45 million tons in 2008 and 2009, before declining to 43.8 million tons in 2010.

Between 1970 and 2005 the average temperature in Switzerland increased by 1.5°C. Similarly, emissions of ozone precursors and of particulate matter, which lead to winter and summer smog, are high. Switzerland signed and ratified the Kyoto Protocol and is bound by a target to reduce its greenhouse gas emissions by 8% by 2008–12. However, the country is currently failing to achieve this target. Additionally, Switzerland has the fifth largest carbon footprint in the world per capita, if carbon dioxide emissions associated with imports are also taken into account. The country has committed itself to the Goteborg Protocol, which calls for setting up new air pollution limits. The reduction in pollution levels should come from stricter air control measures and voluntary compliance by companies and individuals.

Switzerland gives high priority to and supports research and development in energy. Following the Federal Energy Research Framework Programme 2008–11, which defines goals including reducing energy consumption per capita by half by the second half of this century and increasing the use of renewable energy sources, about CHF20m ($19.4m) per year is allocated for 22 different research programs on energy efficiency and renewable energies. In addition, public authorities spend about CHF160m ($155.2m) annually on energy research.

The environment is also faced with loss of biodiversity, as around 50% of indigenous species are said to be under threat. Fragmentation of the landscape and of animal habitats has continued to increase.

The United Nations Framework Convention on Climate Change

The United Nations Framework Convention on Climate Change (UNFCCC) sets an overall framework for intergovernmental efforts to tackle the challenges posed by climate change. It recognizes that the climate system is a shared resource, the stability of which can be affected by industrial and other emissions of greenhouse gases. The convention has a universal membership, with 192 countries having ratified the convention. The UNFCCC has issued emission allowances to member countries on the basis of their emission reduction commitments under the Kyoto

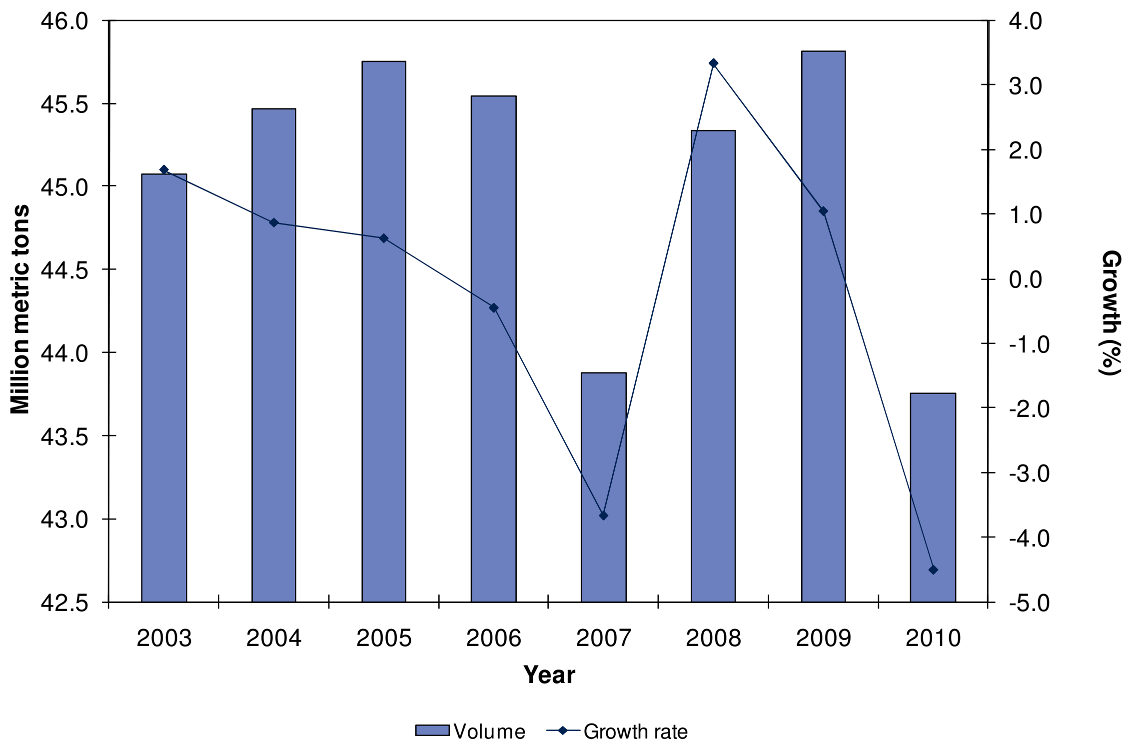
© MarketLine. This report is a licensed product and is not to be photocopied

Protocol. In Switzerland, these allowances are directly allocated to private sector companies that are exempted from the CO2 tax.

The country set up a national emissions trading scheme (ETS) for 2008–12, which covers about 400 large companies that wished to gain exemption from the CO2 levy and thus committed to a binding emission cap under the national ETS. Each state wishing to take part in the project-based mechanisms and international emissions trading is required to operate a web-based national registry, in which each participant in the market must maintain an account. The Swiss emission allowances and the registry are managed by the Climate Division of the FOEN.

Switzerland and the European Union (EU) have entered into negotiations to link their systems to trade CO2 emissions allowances. An agreement in this regard will provide Swiss companies with access to European emission allowances, which will help them to meet their emissions targets.

Figure 20: Carbon dioxide emissions in Switzerland, 2003–10



Source: Country Statistics, MarketLine MARKETLINE

Outlook

Switzerland has been attempting to tackle various environmental problems with an array of policies. Switzerland's commitment to the Goteborg Protocol will be instrumental in reducing air pollution levels. Moreover, the government is also preparing an ordinance for a Pollutant Release and Transfer Register, to meet the requirements of the EU

© MarketLine. This report is a licensed product and is not to be photocopied

Commission. Under the program, industrial establishments have to report any release of pollutants and the transfer of hazardous wastes. Such measures are expected to increase compliance levels.

As per the Kyoto Protocol, Switzerland is bound by a target to reduce its greenhouse gas emissions by 8% by 2008–12. However, the country is so far failing to meet this target. At the current level of implementation, it is unlikely that the country will be able to achieve major success with respect to completely integrating sustainable development in its consumption policies, including its energy, transport, and agricultural policies. However, Switzerland is making efforts to increase its use of renewable energy, which will help to cut emissions by the end of 2012. Under its new energy policy, the country plans to increase the share of renewable power in total energy consumption from 16% in 2005 to 24% in 2020. By 2030, new capacity is expected to be phased in to produce 5,400 gigawatt-hours of electricity annually from renewables. This is expected to consist of an approximately equal share of biomass, wind, and small hydropower, as well as a small portion of solar energy.

© MarketLine. This report is a licensed product and is not to be photocopied

APPENDIX

Ask the analyst

MarketLine's Country Analysis Practice consists of a team of economists, analysts, and researchers, all with expertise in their given fields. For any questions or comments about this report you can contact the author directly at reachus@marketline.com

Disclaimer

All Rights Reserved.

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publisher, MarketLine.

The facts of this report are believed to be correct at the time of publication but cannot be guaranteed. Please note that the findings, conclusions and recommendations that MarketLine delivers will be based on information gathered in good faith from both primary and secondary sources, whose accuracy we are not always in a position to guarantee. As such MarketLine can accept no liability whatever for actions taken based on any information that may subsequently prove to be incorrect.

MARKETLINE | 119 FARRINGDON ROAD | LONDON | UNITED KINGDOM |
EC1R 3DA
T: +44 20 7551 9565 | F: +44 20 7551 9343
E: REACHUS@MARKETLINE.COM

MarketLine