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The **Swiss Confederation**

The Swiss Confederation (hereinafter, Switzerland, or the country) has been assigned the following ratings under the international scale:

- **Long-term** foreign currency credit rating at **AAA** and local currency credit rating at **AAA**;
- **Short-term** foreign currency credit rating at **S1+** and local currency credit rating at **S1+**.

The outlook on the long-term foreign currency credit rating is **Stable** and local currency credit rating is **Stable**.

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

Credit rating rationale

Positive rating assessment factors	• High living standards; developed, diversified, and competitive economy. • Moderate level of public debt due to a balanced budget and fiscal rule. • Low level of external government debt fully covered by international reserves. • Steady flow of foreign investment due to the franc's status as a reserve currency. • Stable financial indicators in the banking sector. • Stable and developed public institutions.
Negative rating assessment factors	• Risk of contingent liabilities materializing due to two factors: the size of the banking sector exceeding the country's GDP, and the high portfolio concentration of a number of large banks lending to the overheated real estate market. • Export-oriented economy that is sensitive to slowdowns in world trade. • Aging population putting pressure on budget expenses.
Stable outlook	• Strong financial indicators in the banking system will reduce the negative effect of high household debt and offset the associated potential problems for the government. • Pension reform and low public debt will mitigate the negative effects of the aging population and corporate taxation reforms. • Uncertainty in relations between Switzerland and the EU will be reconciled.
Potential rating downgrade factors	• Potentially serious financial shock for Switzerland's banking sector associated with a sudden deep price correction in the real estate market.

Sovereign model results

Block	Indicative credit rating for the block	Modifier	Score	Modifier corrections to the indicative credit rating	Final credit rating for the block
Macroeconomic position	AAA	Potential economic growth	-1	+1	AAA
		Sustainability of economic growth	+1		
		Efficacy of structural, economic and monetary policies	+1		
Public finance	AAA	Contingent liabilities and risk of them materializing on the sovereign balance sheet	0	+2	AAA
		Fiscal policy framework and fiscal flexibility	+2		
		Market access and sources of funding	+2		
		Debt sustainability	+1		
External position	AA-	Balance of payments vulnerabilities	+2	+1	AA
		External debt sustainability	0		
		Stability of currency regime	0		
Institutional framework	AAA	Willingness to pay	0	0	AAA
		Default history	0		
		Political instability and recent political decisions	0		
		Involvement in geopolitical conflicts, exposure to geopolitical risks	0		

Assigned credit rating

Indicative credit rating	AAA
Modifier corrections to the indicative credit rating	+2
Final credit rating	AAA
Assigned credit rating	**AAA**

MACROECONOMIC SITUATION AND ECONOMIC POTENTIAL

High living standards allow Switzerland to utilize a broad and stable tax base.

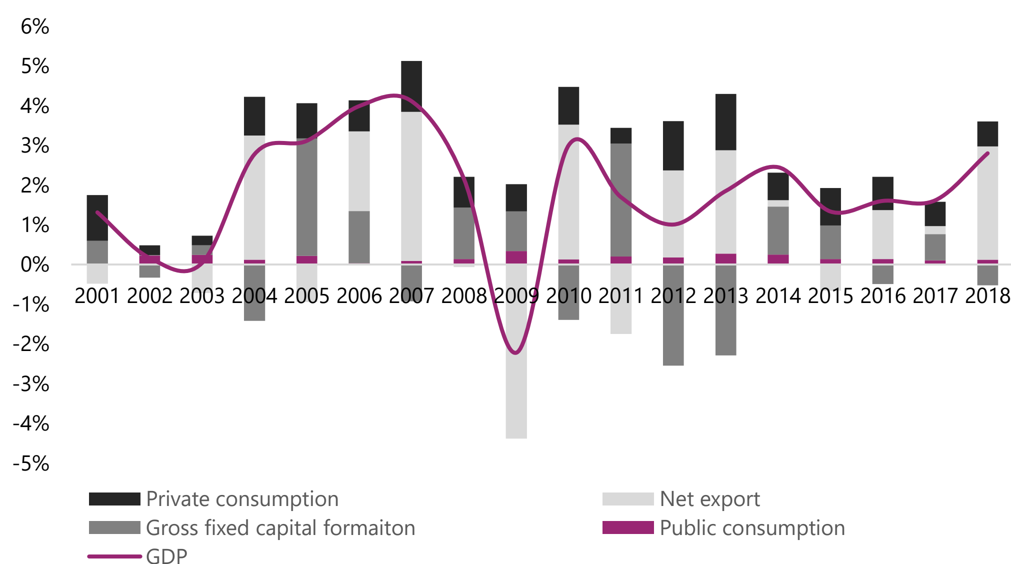
Diversified economy and high living standards. Switzerland has a developed economy (GDP per capita by purchasing power parity is 65,009[1] international dollars) and is one of the ten richest countries in the world. Switzerland is characterized by a high level of economic and financial well-being in the private sector and as such, the country has a broad and stable tax base that it can utilize for debt service. The country's diversified economy enables fairly stable economic growth and therefore keeps budget revenue volatility low. The main segments of Switzerland's economy are the pharmaceutical and electronics industries as well as financial institutions, all of which compete successfully in global markets.

The economic growth recorded in 2018 is likely to slow somewhat in 2019. In 2018, the Swiss economy showed its highest growth since 2010 at +2.8%, while the previous year's growth was 1.9%. Economic growth in 2018 was supported by significant contributions from foreign trade, as well as the cyclical factor associated with significant sporting events; approximately +0.3 pp to real GDP growth according to the International Monetary Fund (IMF).

The slowdown in Switzerland's economic growth is caused by a decrease in the activity of world trade.

In 2019, ACRA predicts a slowdown in Swiss economic growth to about 0.8% in real terms due to a high base for comparison pertaining to the significant economic growth in the previous year and weakened external demand amid reduced activity in world trade. However, ACRA expects Swiss GDP to grow by about 1.5% in 2020 (IMF estimates the potential for economic growth at +1.6% in real terms). The growth of the Swiss economy will be driven mostly by private sector consumption (the main component of GDP growth) with weakening impact of net exports.

Figure 1. Contribution of final consumption to Swiss GDP from 2001 to 2018



Source: IMF

Switzerland has an open economy that is sensitive to the world trade dynamics as well as the dynamics of the franc.

For an open economy like Switzerland, where exports account for about two-thirds of GDP (a share that has remained virtually unchanged since 2010)[2], trends in global trade are significant. For 2019–2020, the IMF predicts further deterioration in world trade dynamics due to escalated tensions between the US and China. This has a negative impact on Switzerland's main trading partners, which include EU countries in addition to the US and China.

ACRA believes that the negative impact of the slowdown in world trade can be partially offset by the extremely expansionary policy of the Swiss National Bank (SNB), which affects the exchange rate of the national currency. As we have seen since 2016, a somewhat

[1] As of 2018.

[2] https://www.seco.admin.ch/seco/en/home/wirtschaftslage---wirtschaftspolitik/Wirtschaftslage.html

weakened franc due to the SNB's policy has had a positive impact on the country's export performance. However, in the event of a crisis in world markets, the franc could strengthen due to its unofficial status as a "safe haven currency," which might have a negative impact on Swiss exporters.

Inflation is consistently low. After several years of negative inflation (or stagnation), the CPI was positive in 2017 and 2018 at 0.5% and 0.9%, respectively. In January–October of 2019, the CPI was 0.7%, which makes it reasonable to expect positive inflation dynamics for the rest of the year. Thus, over the past three years, including 2019, inflation is within the corridor established by the SNB at 0–2%.

In September 2014, inflation turned negative due to a sharp drop in oil prices. In early 2015, the SNB removed the Swiss franc to euro cap (minimum exchange rate), which strengthened the franc and triggered deflationary processes. As a result, annual average inflation was -1.1% in 2015 and dropped to -1.5% in January 2016.

After 2016, Switzerland's inflation dynamics changed amid the regulator's pro-inflation policy. In particular, the key rate was reduced to -0.75% in January 2015 and remained at this level for more than four years, which led to the weakening of the franc. By 2018, the Swiss currency had fallen by 8–9% in real terms relative to its peak in 2015. Rising energy prices in mid-2018 also contributed to headline inflation and the weakening of the national currency.

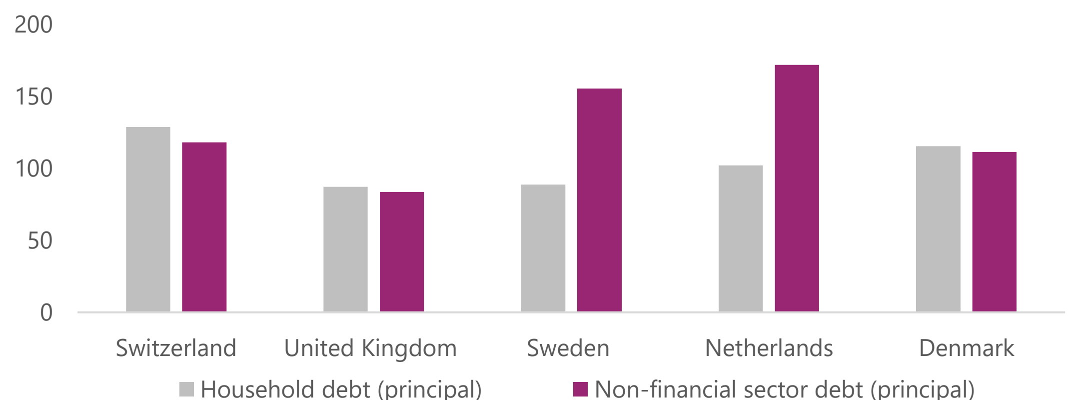
ACRA believes that the SNB will continue to maintain a negative key rate. This is due to uncertainty in the growth prospects of the world economy, as well as potential demand of investors for assets denominated in Swiss francs. Traditionally, this demand increases in times of significant financial stress in the world economy. ACRA estimates that due to this policy, CPI growth in 2019 and 2020 will average between 0.4% and 0.7% per year, meaning it will be within the target range set by the SNB.

Deflation has been replaced by inflation, which remains low.

High levels of household mortgage debt could increase the risk of bad loans. One of the negative side effects of the SNB's overall effective pro-inflation policy has been a gradual increase in lending, especially in the mortgage segment. At the beginning of 2019, mortgage loans amounted to 93% of household liabilities.

From 2016 to 2018, lending grew at a faster pace than GDP (by about 10–13%), and only in the third and fourth quarters of 2018 did it slow to 10–11%.[3] This rapid build-up of credit has led to a high indebtedness in the private sector, whose debt at the end of 2018 amounted to 247% of GDP.[4] It should be noted that in 2018, debt level remained stable in contrast to previous years.

Figure 2. Household and non-financial sector debt at the end of 2018, % GDP



Source: Bank for International Settlements

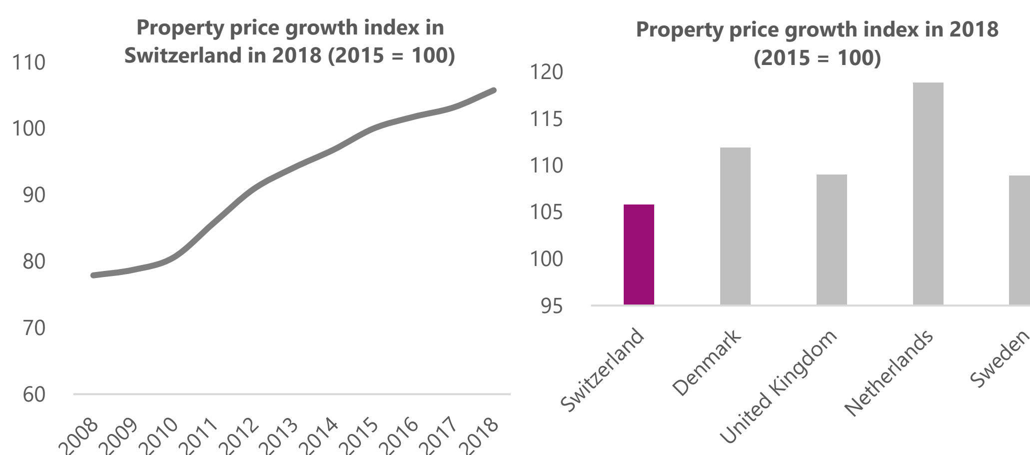
[3] According to the Bank for International Settlements.
[4] According to the Bank for International Settlements (by market cost of debt).

Household debt is growing faster than household income.

The level of private sector debt exceeding the country's GDP by several times is typical not only in Switzerland (*Fig. 2*). Developed economies in Central and Northern Europe have a comparable level of both corporate and household indebtedness. However, Switzerland is characterized by a higher level of household debt even when compared to similar European economies. At the end of 2018, this indicator was 129% of Switzerland's GDP, while in Denmark, the second country in the sample in terms of debt, it stood at 115% (*Fig. 2*). In 2017, the ratio of Swiss household debt to disposable annual income was more than 200%.[5] In addition, the increase in the volume of new mortgage loans relative to the income of borrowers reached record levels in 2017 due to the greater availability of credit funds.

Borrowing was the way for Swiss households to solve housing problems in an environment of historically low interest rates. This has led to a rise in property prices by more than 20% over the past eight years (*Fig. 3*). Although in this respect Switzerland is not ahead of other comparable countries (*Fig. 3*), the ratio of property prices to household income is a concern.

Figure 3. Property price growth index (2015 = 100)

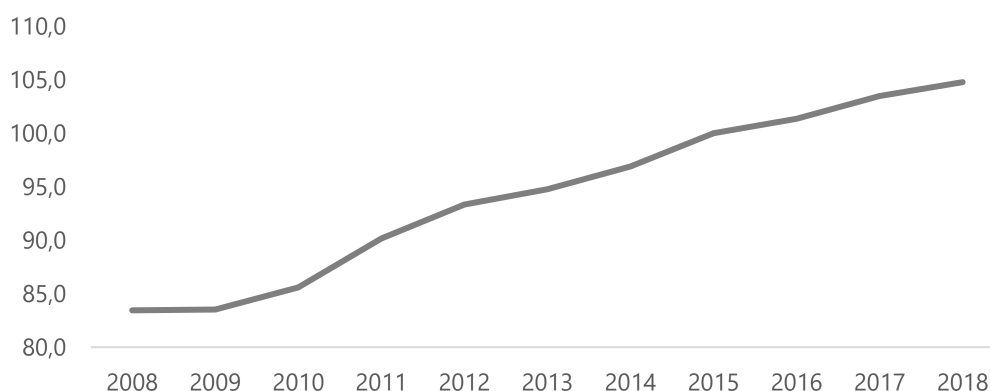


Source: OECD

Higher interest rates on loans could lead to problems for households making debt payments.

Figure 4 reflects the ratio of real estate prices to disposable household incomes, indicating that the constant rise in housing prices has made housing less affordable. From 2008 to 2018, this ratio grew by about 25%, showing that real estate prices are outpacing income dynamics (*Fig. 4*). This points to potential problems that households may face in repaying mortgages. The situation could get worse if the key rate rises and triggers the rise of other interest rates, including mortgages.

Figure 4. Ratio of real estate prices to disposable household incomes (2015 = 100)



Source: OECD

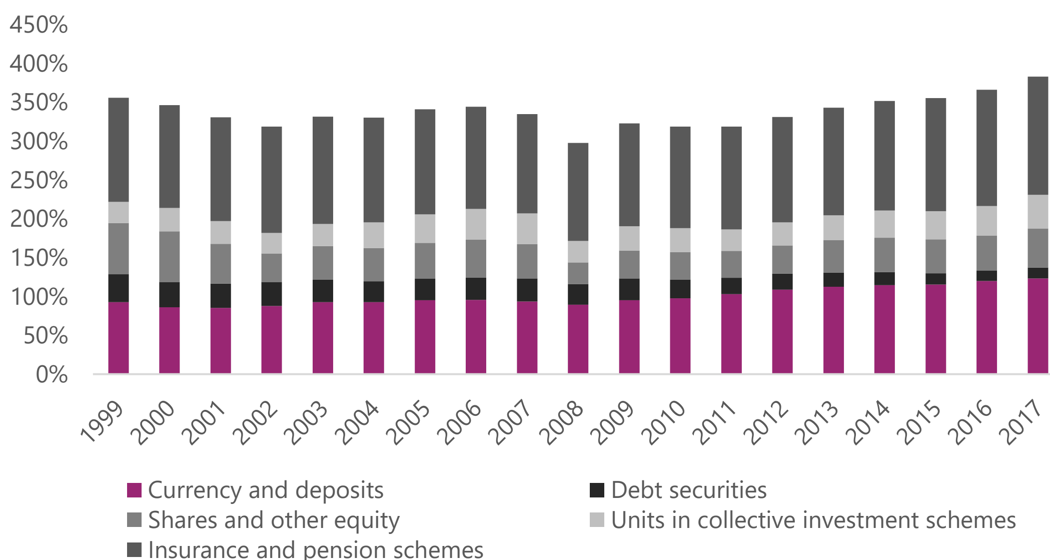
[5] ACRA's calculations based on OECD and SNB data (https://data.oecd.org/hha/household-debt.htm).

Household financial assets act as a buffer against the negative effects of high debt.

The potential problems associated with repaying mortgage debts are partly offset by the high level of household financial assets. At the end of 2017, the financial assets of households and non-governmental organizations (NGOs) were estimated at CHF 4.6 tln, with real estate accounting for only CHF 2 tln. These figures are quite significant given the size of the Swiss economy; the deposit and currency assets of Swiss households and NGOs alone exceed the country's GDP.

If households have problems repaying mortgage debt out of their current income, accumulated assets could be a source of financing. However, the most heavily indebted households (i.e., those with debt above the national average) may not have sufficient financial assets to repay mortgages, especially if interest rates rise.

Figure 5. Swiss household financial assets, % GDP



Source: SNB

More defined relations with the EU will have a positive impact on the business climate in Switzerland.

More defined relations with the EU will have a positive impact on the business climate in Switzerland. Switzerland and the European Union are in the process of negotiating an institutional framework agreement that would replace some 120 bilateral agreements, providing access to the EU market for Swiss producers. Prior to concluding the framework agreement, in 2017 the European Union made it possible to trade the shares of Swiss companies in EU marketplaces, which was not part of the existing 120 agreements. However, the process of signing the agreement was delayed, as the Swiss suggested adjusting certain aspects of the document concerning the free movement of labor and the role of the European Court of Justice.

In a referendum held in Switzerland in 2014, it was decided to restrict the free movement of labor from the European Union to Switzerland. However, the EU is not satisfied with the fact that bilateral agreements between the European Union and Switzerland put the latter in a more privileged position compared to other members of the European Economic Area (EEA). Switzerland also challenges the supremacy of the European Court of Justice over national laws. Switzerland's delay in signing the agreement prompted the European Union to cancel the trading of Swiss shares at EU exchanges. This has had virtually no impact on the country's large banks trading through offices in the EU.

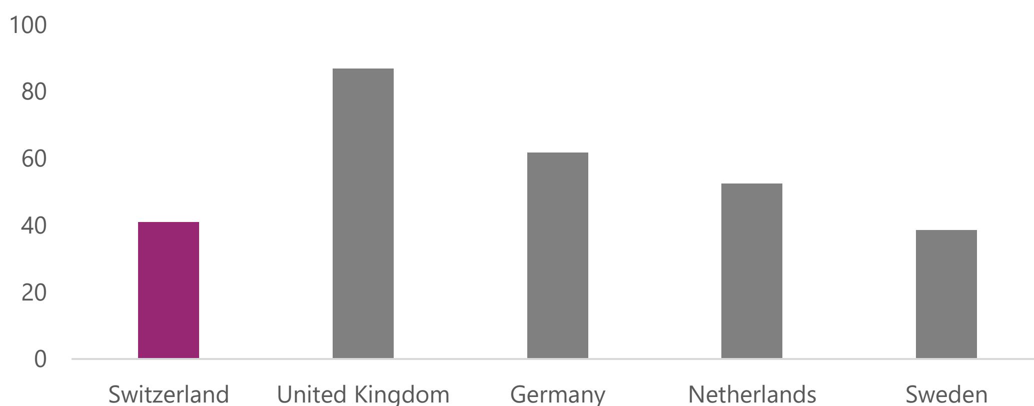
Agreements between the European Union and Switzerland are structured so that the cancellation of one of them entails the automatic cancellation of the entire package. The purpose of this is to prevent the country from choosing which agreements to enter into and which not to. Since many issues in Switzerland can be resolved through a referendum initiated by citizens, cancelling one of the agreements may cost the country the entire package of agreements with the EU.

PUBLIC FINANCE

Low public debt and balanced budget. At the end of 2018, Switzerland's consolidated public debt amounted to 40.9% of GDP, which is significantly lower than its peak in 2002–2004 at 59–60%. After 2004, the national debt gradually decreased. Since then, Switzerland's outstanding debt has been significantly lower than most other developed countries comparable in size and per capita GDP (*Fig. 6*). The outstanding debt was also below the EU average (87%).

Low public debt showing trends of reducing even further.

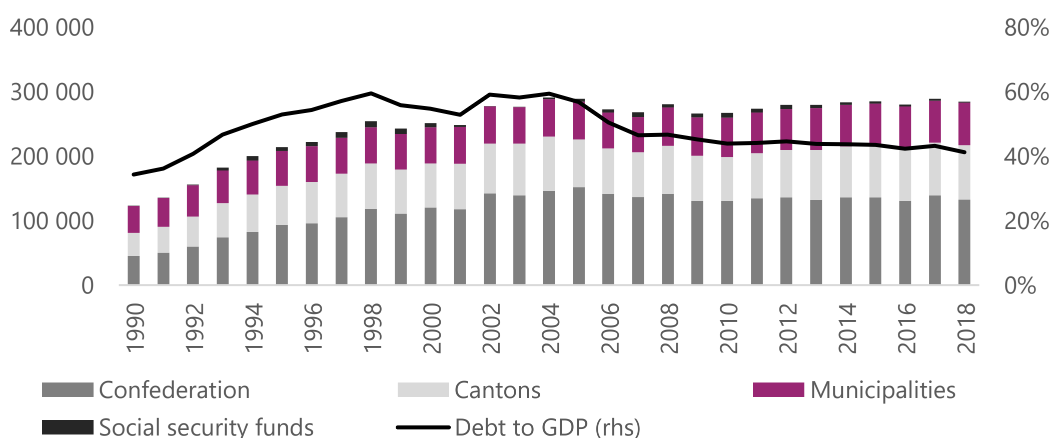
Figure 6. Ratio of consolidated public debt to GDP, %



Sources: IMF, Federal Finance Administration of Switzerland

Switzerland's consolidated debt is distributed in approximately equal shares between the Confederation on the one hand and the municipalities, cantons, and social insurance funds on the other. The composition of the consolidated public debt has remained stable since 2002 (*Fig. 7*).

Figure 7. Composition of Switzerland's consolidated public debt, CHF mln



Sources: Swiss Federal Council, IMF

For the last ten years, Switzerland's balanced budget has made it possible to maintain public debt at a low level. From 2008 to 2018, the budget surplus averaged 0.5%, whereas the deficit did not exceed 0.4% in some years. According to ACRA, the country's fiscal rule has made it possible to maintain budget discipline for such a long period of time.

The fiscal rule makes it possible to contain debt growth. The consistently low debt level relative to the size of the economy has largely been the result of Switzerland's "debt brake" rule, which was enacted in 2003 as a reaction to the country's increased budget deficit and debt growth in the 1990s. The rule mandates balancing the budget throughout the business cycle by allowing for a certain level of deficits during times of recession and mandating surpluses during times of economic growth. Similar rules have been introduced at the cantonal level.

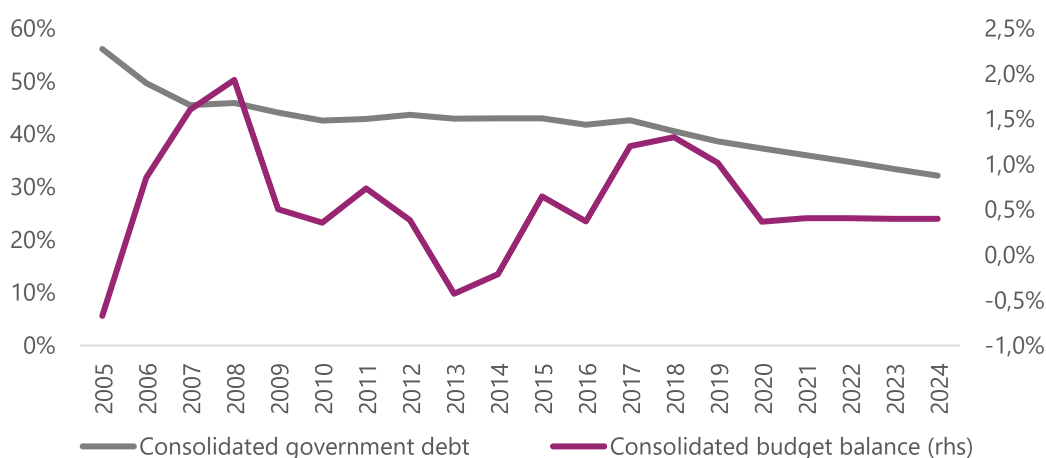
In 2001, 85% of voters supported the introduction of the budget rule at the Confederation level as an amendment to the Constitution. With this in mind, any significant deviation from the current budget policy would imply a breach of public consensus and budget discipline.

Public debt is expected to decline relative to GDP in the future. Since 2005, public debt has stabilized and fallen relative to GDP despite the global crisis of 2008 and the period of deflation from 2012 to 2016. Given rather long and successful practice of using the fiscal rule, there is reason to believe that it can help the government to overcome possible problems in the future.

The fiscal rule determines the fiscal discipline of the government.

Consistent adherence to the fiscal rule allows us to expect that in the next two to three years, Switzerland's consolidated budget balance will remain in the black. The IMF expects Switzerland's state budget surplus to be 1% in 2019 and 0.4% in 2020–2022.

Figure 8. Switzerland's debt and budget balance, % GDP



Source: IMF

The expected small budget surplus along with the growing economy makes it reasonable to expect a gradual reduction in the country's debt to 39% of GDP at the end of 2019 and then by about 1% annually until 2022, when the debt likely to go down to 36%.

In the medium-term, a risk to gradual debt reduction is associated with pension fund deficit and rising healthcare costs. The Swiss government estimates that the proportion of people at retirement age will reach a peak in 2045, after which it will not decline due to a drop in the mortality rate with an expected low birth rate. The 65+ age group should steadily increase, leading to increased pressure on the pension system (*Fig. 9*).

One of the consequences of an aging population is the inevitable increase in healthcare costs for older persons. In 2018, the budget expenses on healthcare already amounted to 12.2% of GDP[6] and in the coming years they will continue to grow.

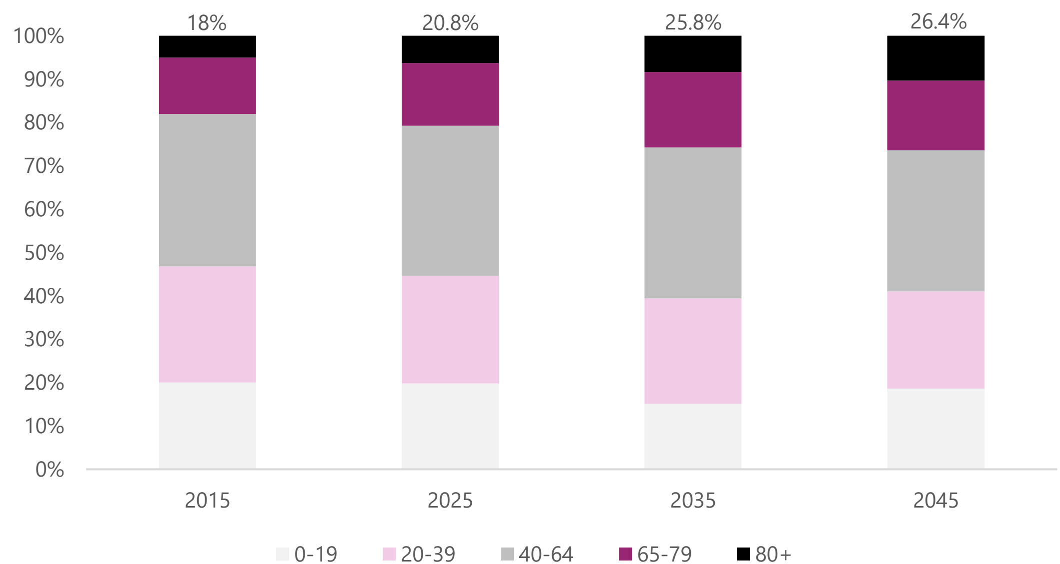
Switzerland is planning to increase contributions to pension funds in order to reduce the pressure on the pension system. In particular, according to the pension reform, overall contributions to the first pillar[7] will grow by CHF 2 bln (0.3% of GDP) per year starting in 2020. This includes an increase in deductions of employer and employee payrolls before tax from 4.2 to 4.35%, as well as an increase in transfers from the federal budget by CHF 0.8 bln.

If the proposed reform is not implemented, the pension system may fall short more than CHF 50 bln in the first pillar insurance contributions by 2030, which is equivalent to 8% of 2018's GDP. However, even the proposed reforms will not fully solve the problem of a potential shortage of funds in the pension system. Despite the proposed increase in contributions to the first pillar, the shortage is estimated at CHF 23 bln. Therefore, additional steps will be required to resolve this issue in the future.

[6] According to the OECD (https://stats.oecd.org/Index.aspx?ThemeTreeId=9).
[7] The Swiss pension system is based on three pillars of insurance contributions.

The costs of an aging population pose risks to the budget.

Figure 9. The 65+ age group will reach its peak by 2045



Sources: Swiss Federal Statistical Office, Swiss Federal Council

In the medium term the other risk to gradual public debt reduction is associated with corporate taxation reform. In a vote held in May 2019, the majority of cantons voted for an abolition of tax privileges for companies operating predominantly internationally, thereby limiting the ability of the cantons to set different income tax rates for local and foreign companies; it is worth noting that the latter rates in most cases were more favorable. Eliminating tax preferences may urge international companies to move their business to other countries, which would reduce the tax base of Switzerland.

The cantons may try to compensate for the loss of taxpayers with a general reduction in tax rates, which in turn may lead to a reduction in budget revenues. At the moment, potential budget losses are estimated at 0.3% of GDP.

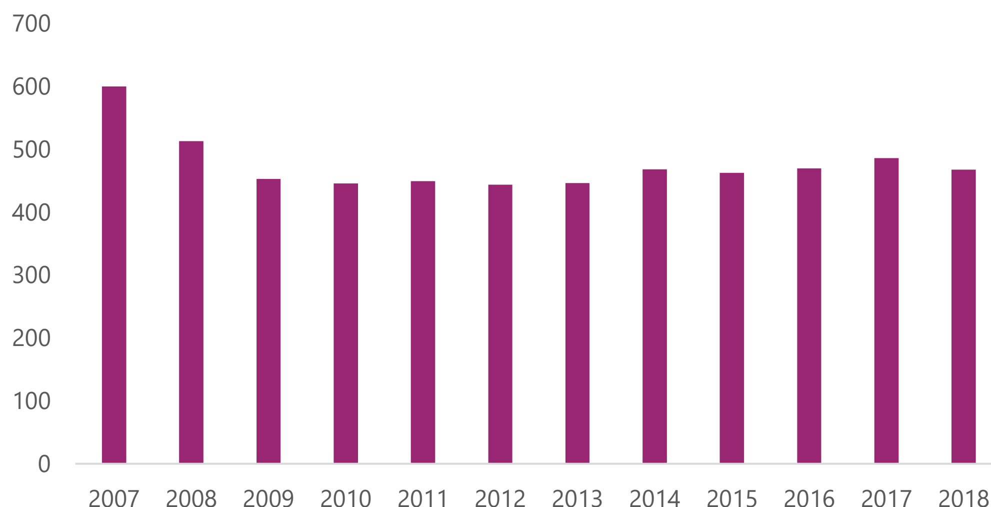
The banking sector is a potential source of contingent liabilities. The size of Switzerland's banking sector, systemic importance of its banks, and their dependence on real estate transactions create potential risks for the sovereign government. The high degree of stability in the Swiss banking system can be considered as a mitigating factor.

At the end of 2018, the total volume of banking sector assets in Switzerland amounted to 468% of GDP. This places Switzerland in the group of countries whose economies are highly dependent on the banking sector. However, it is also worth mentioning that this indicator has fallen since the peak in 2007, indicating a reduction in major banks' loan portfolios.

Switzerland's banking sector can be divided into two groups. The first group is made up of major international banks that are headquartered in Switzerland but operate in the global financial market. Their primary risks are more closely linked to trends in the global economy than the domestic one. The second group includes banks that operate mainly in the domestic market, and therefore their risk profile is primarily determined by trends in the Swiss economy.

The banking sector, which is larger than the country's economy, presents the risk of materialization of contingent liabilities.

Figure 10. Ratio of banking sector assets to GDP, %



Source: SNB

The first group includes UBS and Credit Suisse, whose assets make up around half of all Swiss banking assets. This category of financial institutions has to comply with new regulations for international banks, which include capital requirements and requirements for the resolution regime. The former require that banks increase capitalization and cut their size of their loan portfolios. As per the resolution regime, banks will have to issue debt instruments that can be converted into shares. This will allow banks to be recapitalized at the expense of bond holders instead of the state.

The second group includes such banks as Raiffeisen, Postfinance and Zuercher Kantonalbank. In 2016–2018, the banks in this group bolstered mortgage lending amid low interest rates. The volume of mortgage portfolios of these banks recorded average annual growth of 4.7% in 2010–2018. This led to a high debt burden of households and the inevitable increase in their expenses to repay and service loans. The ratio of debt service to income amounted to around 50% for those individuals who took new mortgages in 2018. Those individuals who took mortgages for housing used for investment purposes directed around 60%[8] of their income to debt service. The risks of a sudden deep price correction in Switzerland's real estate market could have significant influence on the financial metrics and stability of banks with large mortgage lending portfolios.

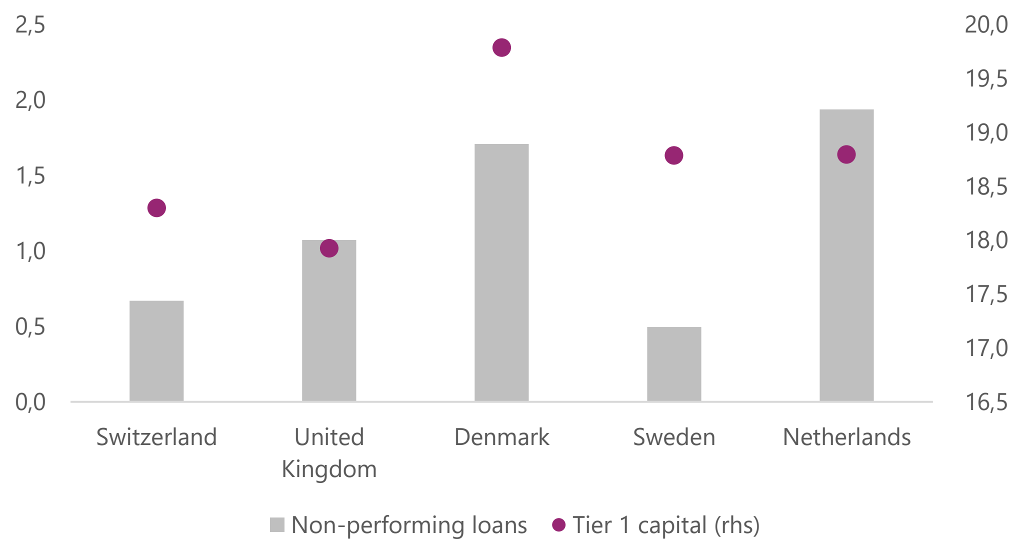
A sudden deep correction of interest rates poses a significant risk to banks that focus on mortgage lending.

The risks of the Swiss banking system are partly offset by the financial stability of the country's banks. The banking system is characterized by a combination of a low level of non-performing loans, adequate capitalization, and a high level of coverage of short-term liabilities by liquid assets. In 2018, the Swiss banking system's overdue loans amounted to 0.7%, which, barring a few exceptions, is lower than the indicator typical for European economies that are highly dependent on the banking sector *(Fig. 11)*.

[8] Three categories of mortgage assets by type of management are used: residential real estate, residential real estate for investment purposes of individual investors, and residential real estate for investment purposes of corporate borrowers.

The Swiss banking system's risks are partly offset by the financial stability of banks.

Figure 11. Banking sector indicators in several EU countries in 2017, %



Source: IMF

In 2018, the tier 1 capital ratio of the Swiss banking sector was 18.3, which generally corresponds to the level of the countries included in the sample. The ratio of liquid assets to the deposits and short-term liabilities of Swiss banks in the specified period amounted to 63.6, while in the group of compared countries it ranged from 37 in the Netherlands to 55.3 in Sweden.

At the same time, the country's banking sector players take an active macroprudential approach by increasing their capitalization and liquidity buffer, which may mitigate risks associated with the real estate and mortgage lending market in the country. This equally applies to both the part of the industry that is focused on the domestic market and the banks that operate in international capital markets and possess systemic importance for the Swiss economy.

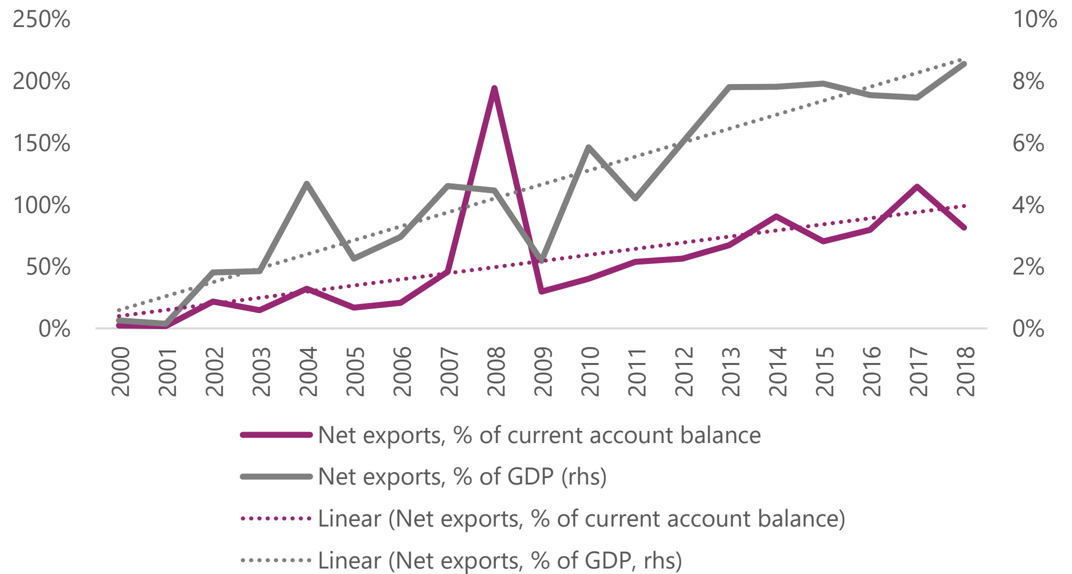
EXTERNAL RISKS

The country's external position is very stable due to its high positive current account and positive net international investment position.

Switzerland should maintain a high positive current account balance in the near future due to the strong competitive positions of Swiss companies and stable demand for their products generated by non-residents. The significant current account surplus is formed mainly by the positive external trade balance and balance of services — around 11% of GDP in 2018. The positive current account balance slightly decreased to 10.5% of GDP in 2018 due to a negative secondary income balance. Switzerland is a net creditor to the rest of the world. The country's net international investment position was around 128% of GDP at the end of 2018.

Over the past two decades, Switzerland's trade balance has grown in nominal terms and relative to the size of the economy and the current account balance (*Fig. 12*). ACRA expects this trend to continue in the short- and medium-terms.

Figure 12. Net exports are growing at high rates



Source: SNB

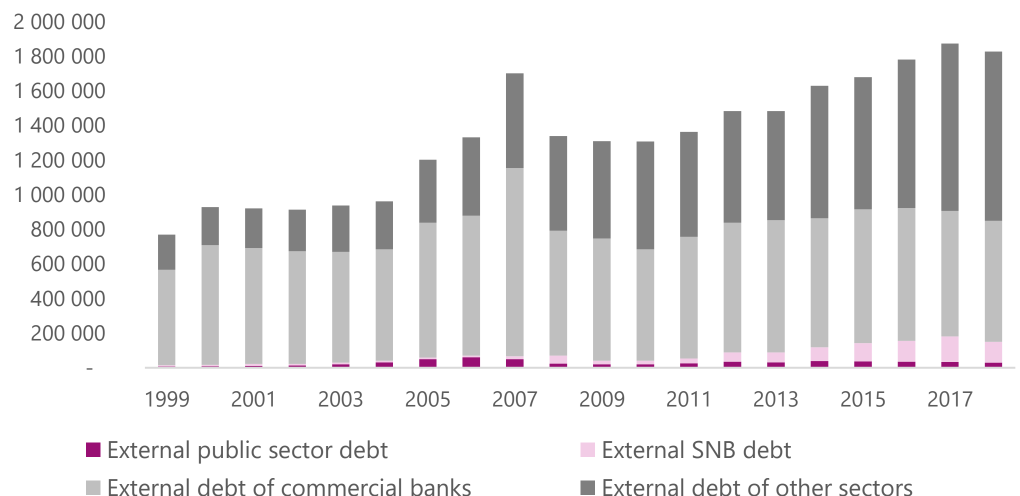
In 2019–2021, the nominal growth of the positive current account balance should match the growth of the Swiss economy (9–10% of GDP). ACRA is of the opinion that the positive current account balance and stability of its components are credit positive factors.

The Swiss government's external debt is insignificant and the lion's share of the country's external debt is concentrated in the private sector. The country's external debt amounted to 265% of GDP at the end of 2018. Over 92% of Switzerland's external liabilities was held by commercial banks, corporations and households, while the external debt of the[9] government amounted to 8% of GDP at the end of 2018 (*Fig. 13*).

The government's external debt is insignificant and fully covered by reserves.

The share of banks in the external debt of the private sector has been steadily declining since 2015, whereas the share of households and companies has grown. This is due to a decrease in the size of banks' loan portfolios and increased borrowings by companies and households (primarily as mortgages). In addition, the share of short-term debt in external debt of companies and households (50% of the total indicator at the end of 2018) is increasing, indicating higher refinancing needs.

Figure 13. Structure of Switzerland's external debt by type of borrower, CHF mln



Source: SNB

[9] Including external debt of the SNB.

ACRA estimates that the volume of Switzerland's external debt should not change significantly in 2019–2021 compared to 2018 due to expected economic growth rates of 1.1–1.6% in real terms.

The high level of Swiss external liabilities is partly offset by significant international reserves and private sector assets. At the end of 2018, the international reserves covered 42.5% of the country's total external debt, provided for 25 months of import cover, and amounted to 112% of GDP. ACRA assesses Switzerland's external position as very stable in view of the high coverage of external liabilities and imports and taking into account the Swiss franc's reserve currency status.

Reserves have recorded significant growth over the past ten years due to periods of sharp appreciation of the franc amid major inflows of foreign currency into Switzerland. In addition, the SNB has provided the market with additional injections of the national currency to stimulate consumer price growth and accumulated foreign currency liquidity as part of its measures to minimize deflationary risk.

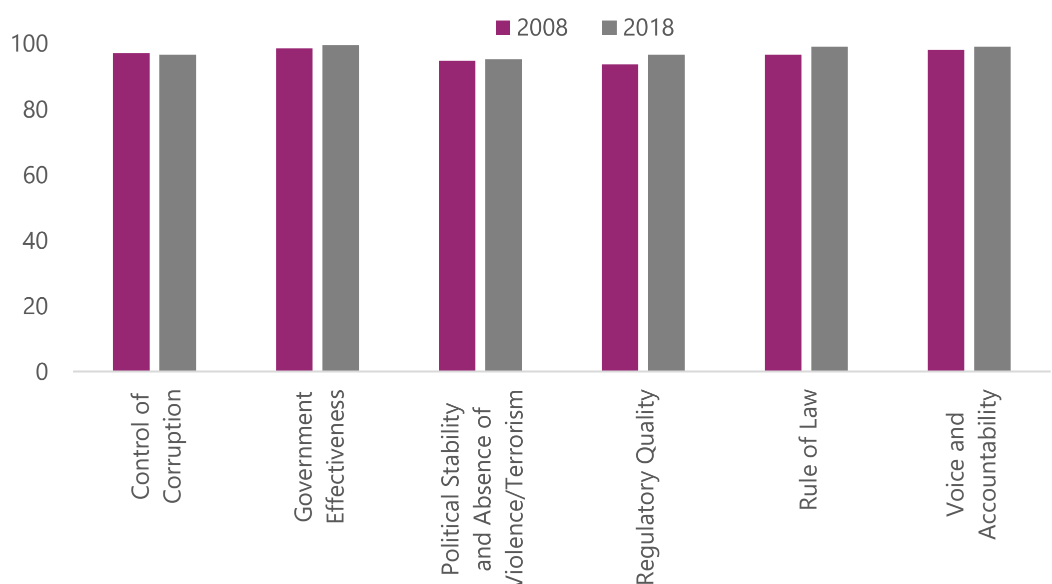
Switzerland has some of the highest WGIs in the world.

INSTITUTIONAL FACTORS

The high quality of the country's institutions supports its credit rating. Over the past ten years, Switzerland has had some of the highest and most stable World Governance Indicators (WGIs) as measured by the World Bank. This is a reflection of the high quality of institutional governance and the very favorable environment for allocating resources within the economy. The only exception was the Political Stability and Absence of Violence index, which fell slightly in 2017.

Other organizations besides the World Bank have confirmed Switzerland's standing as one of the most advanced countries in terms of the quality of institutional environment. For example, a Eurostat survey held in 2013 placed Switzerland first among 35 European countries in terms of the level of the population's trust in the political system, second for the level of trust in law enforcement and the legal system, and third for the corruption perception index. In ACRA's view, Switzerland can be considered a "safe haven" due to the highest level of trust in public institutions and the authorities and high quality of public governance.

Figure 14. Switzerland's scores for WGI categories*



* The percentiles of WGI categories are given.

Source: World Bank

Appendix 1. Comparative analysis of Switzerland and the sample group

Comparison of macroeconomic and institutional indicators for 2018

		Switzerland	Denmark	Germany	Netherlands	Sweden	UK
Macroeconomics	GDP per capita (USD)	82,839	60,596	48,196	52,978	54,112	42,491
	Real GDP growth (%)	2.8	1.5	1.5	2.6	2.3	1.4
	CPI (% y-o-y)	0.9	0.8	1.7	1.7	2.0	2.3
	Openness of economy (% of GDP) *	120	104	88.7	157.6	89	61.3
	Unemployment (ILO assessment)	4.9	5.0	3.4	3.9	6.4	4.0
Public finance	Consolidated government debt (% of GDP)	40.9	34.3	59.8	54.4	39.0	86.9
	External consolidated government debt (% of GDP)	4.4	10.3	30.4	23.3	12.5	29.1
	Consolidated government budget balance (% of GDP)	0.3	-0.1	1.7	1.1	0.8	-1.4
	Private sector debt (% of GDP) *	247 **	275.6	147.6	308.2	247.4	229.4
External position	Current account (% of GDP)	10.5	5.8	7.3	10.8	1.9	-3.8
	Real effective exchange rate (base: 2010)	103.1	97.2	97.0	99.4	89.2	98.8
	External debt position (% of GDP)	265	142	145	485	170	297
	Short-term external debt to total external debt (%)	55.0	34.9	37.4	22.1	34.0	64.9
	Export diversification index ****	0.6	0.4	0.3	0.3	0.4	0.3
Institutional framework * **	Political stability and absence of violence *	1.21	0.87	0.58	0.92	0.98	0.26
	Government effectiveness *	2.06	1.80	1.72	1.85	1.84	1.41
	Rule of law **	1.93	1.83	1.63	1.82	1.9	1.64

* 2017
** 2018
*** Assessment of effectiveness ranges from -2.5 (weak) to 2.5 (strong).
**** Indicates the extent of differences between the country's trade structure and the average world indicator and ranges from 0 (weak differences) to 1 (strong differences).

Sources: IMF, World Bank, United Nations Conference on Trade and Development, International Labor Organization

Appendix 2. Key indicators

Balance of payments, CHF mln

	2015	2016	2017	2018
Balance of trade	**51,704**	**49,760**	**49,158**	**56,619**
Exports	292,023	312,223	310,958	324,606
Imports	-240,319	-262,463	-261,799	-267,987
Balance of services	**18,754**	**20,077**	**18,079**	**20,380**
Exports	109,571	117,172	119,889	121,513
Imports	-90,817	- 97,095	-101,810	-101,133
Balance of income	**3,064**	**-7,527**	**-22,578**	**-6,426**
Income receivable	181,129	188,654	201,221	187,331
Income payable	-178,065	-196,181	-223,799	-193,756
including interest payments	*-104,528*	*-118,945*	*-137,011*	*-115,529*
Current account	**73,522**	**62,309**	**44,659**	**70,573**
Current account, % of GDP	11.2	9.4	6.7	10.5
International reserves at the end of the period	601,349	690,501	792,134	776,513

Source: SNB

External position (assets and liabilities), CHF bln

	2013	2014	2015	2016	2017	2018
External debt	**1,483**	**1,629**	**1,678**	**1,781**	**1,873**	**1,827**
long-term	37%	42%	40%	40%	43%	45%
short-term (up to 1 year)	63%	58%	60%	60%	57%	55%
External liabilities	**1,483**	**1,629**	**1,678**	**1,781**	**1,873**	**1,827**
Sovereign issuer, including	89	119	142	155	181	149
monetary authorities	*58*	*79*	*104*	*120*	*148*	*119*
general government	*31*	*39*	*38*	*36*	*33*	*30*
Banks	763	745	774	768	726	699
Other sectors	632	765	762	858	966	980
including intra-corporate loans		*197*	*194*	*217*	*281*	*272*
External assets, excluding shares*	**2,292**	**2,558**	**2,599**	**2,831**	**2,960**	**2,888**
Sovereign issuer, including	498	571	649	756	852	825
international reserves	*477*	*541*	*601*	*691*	*792*	*777*
other external assets	*21*	*30*	*48*	*66*	*60*	*48*
Banks	636	632	594	539	543	519
Other sectors**	1,157	1,355	1,356	1,536	1 565	1,544
Net debt	**-808**	**-929**	**-921**	**-1,050**	**-1,087**	**-1,060**
Sovereign issuer	-409	-453	-507	-601	-671	-676
Banks	127	113	180	229	183	179
Other sectors	-526	-590	-594	-678	-599	-564
International investment position (net),% of GDP	102	99	91	112	118	128
External debt, % of GDP	232	251	256	270	280	265

* Includes other investments consisting of currencies and deposits, loans, insurance, pension and standard guarantee schemes, trade loans and advances, and special drawing rights and other receivables (payables).
** Includes debt instruments that are part of direct investments.

Sources: IMF, SNB

Budget indicators, % of GDP

General government	2015	2016	2017	2018	2019F	2020F
Income	33.5	33.3	34.2	33.7	no data	no data
Expenses	32.8	33.0	33.0	32.5	no data	no data
including debt servicing expenses	0.6	0.5	0.4	no data	no data	no data
Primary budget balance	1.2	0.9	1.6	no data	no data	no data
Overall budget balance	0.6	0.4	1.2	1.3	1.0	0.4
General government debt	43.0	41.8	42.7	40.9	39.3	38.0
% of income	*128.4*	*125.5*	*124.9*	*120.2*	*116.7*	*114.7*
Central government						
Income	11.0	10.8	11.5	11.2	11.0	11.0
Expenses	10.6	10.7	10.8	10.4	10.6	10.8
including debt servicing expenses	0.3	0.3	0.2	no data	no data	no data
Primary budget balance	0.7	0.4	1.0	no data	no data	no data
Overall budget balance	0.4	0.1	0.8	0.9	0.4	0.2
Central government debt	20.9	19.8	20.8	19.3	18.4	17.6
% of income	*190.3*	*182.5*	*180.6*	*172.4*	*166.6*	*159.4*
Note: nominal GDP, CHF mln	654,258	660,393	668,572	689,898	701,626	717,764

Source: Swiss Department of Finance

Rating history

None.

Regulatory disclosure

The sovereign credit ratings have been assigned to the Swiss Confederation under the international scale based on the Methodology for Credit Rating Assignment to Sovereign Entities under the International Scale and the Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities.

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