

# Swiss Confederation Rating Report



## Credit strengths

- Wealthy and diversified economy
- Institutional strengths
- Very robust public finances
- Excellent external resilience

## Credit challenges

- Financial imbalances, large, concentrated banking sector; transition phase after UBS and Credit Suisse merger
- Uncertainties about future Swiss-EU trade relations

## Rating rationale:

**Wealthy and well-diversified economy:** Switzerland's ratings are supported by a competitive economy, a highly skilled labour force and institutional strengths including a stable, consensus-oriented, effective policy framework, which underpin its economic resilience. The Swiss economy grew robustly in 2022, although growth is slowing due to high inflation driving tighter monetary policy, restricting financial conditions weighing on private consumption and investments.

**Prudent fiscal management and low public debt:** Solid public finances and the authorities' strong commitment to longer-term debt sustainability remain core credit strengths. This is underpinned by stringent, constitutionally anchored budgetary rules and favourable financing conditions.

**Very robust external sector:** Switzerland benefits from a significant net external asset position, highly competitive exporting industries and the safe-haven status of the Swiss franc.

**Rating challenges include:** i) a very large, concentrated banking sector in relation to GDP, posing contingent liability risk to public finances; and ii) imbalances in the real estate market, with high, albeit declining, levels of residential overvaluation, increasing vulnerability to market corrections. Switzerland's withdrawal from negotiations on the institutional framework agreement with the EU prolongs uncertainty over trade relations. A recent announcement by the Federal Council for the potential adoption of a negotiating mandate at the end of the year points towards a constructive stance by the two parties.

## Switzerland's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Qualitative**	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	aaa	CHF [+0]	+1/3	AAA	
Public Finance Risk	20%	aaa		+2/3		
External Economic Risk	10%	aaa		+2/3		
Financial Stability Risk	10%	a+		-2/3		
ESG Risk	Environmental Factors	5%		aaa		0
	Social Factors	7.5%		bb+		+1/3
	Governance Factors	12.5%		aaa		0
<b>Indicative outcome</b>		<b>aaa</b>		<b>+1</b>		
<b>Additional considerations</b>				<b>0</b>		

Note: \*The reserve-currency adjustment applies to currencies in the IMF's SDR basket. \*\*The qualitative-scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

## Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

### Positive rating-change drivers

- N/A

### Negative rating-change drivers

- Financial stability risks materialise with significant negative implications for economic growth and public finances
- Significant worsening of the economic outlook, for example due to a material deterioration in relations with the EU and trade disruptions

## Ratings and Outlook

### Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

### Local currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

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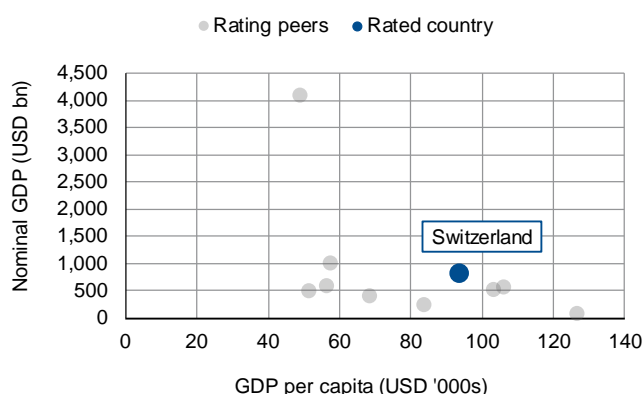
Bloomberg: RESP SCOP

### Domestic Economic Risk

Overview of Scope's qualitative assessments for Switzerland's Domestic Economic Risk

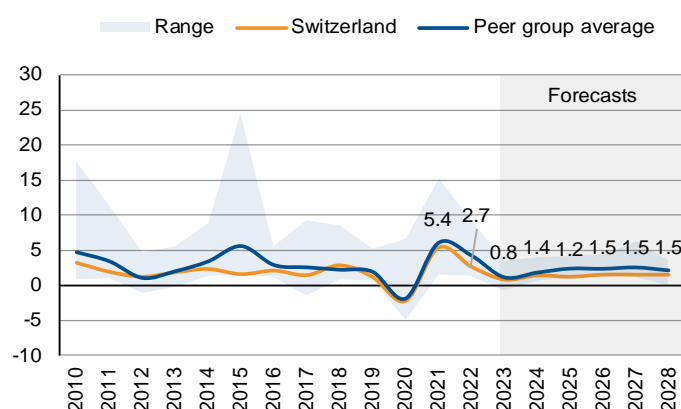
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Neutral	0	Moderate growth potential, in line with peers
	Monetary policy framework	Neutral	0	Swiss National Bank is a credible central bank. Flexibility is relatively constrained due to the sensitivity to FX developments
	Macro-economic stability and sustainability	Strong	+1/3	Very competitive and diversified economy, highly skilled labour force, well-developed infrastructure

#### Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

#### Real GDP growth, %



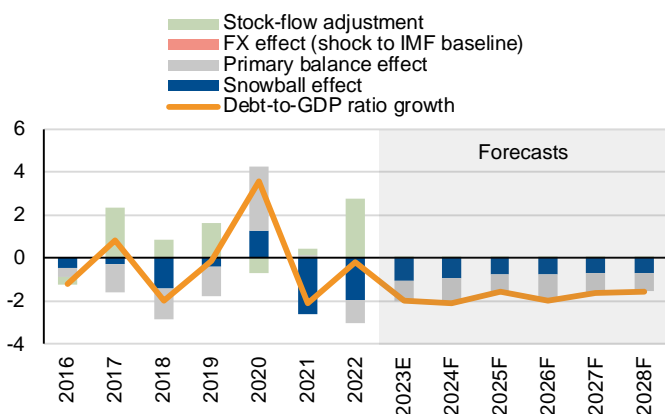
Source: IMF WEO, Scope Ratings forecasts

### Public Finance Risk

Overview of Scope's qualitative assessments for Switzerland's Public Finance Risk

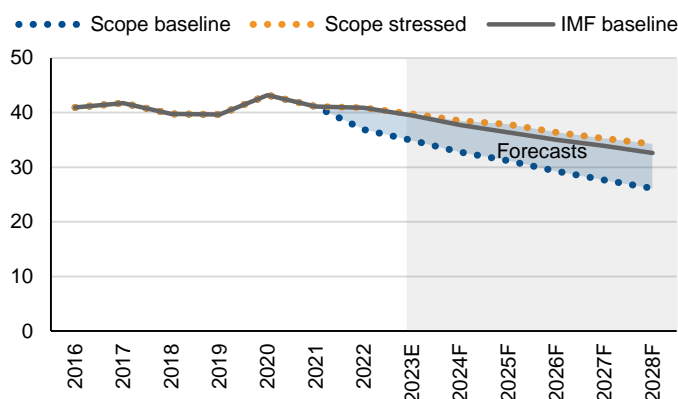
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Strong	+1/3	Stringent, constitutionally anchored fiscal rules, track record of prudent and stable fiscal policies
	Debt sustainability	Neutral	0	Moderate public debt levels, strong commitment to longer-term debt sustainability
	Debt profile and market access	Strong	+1/3	Highly developed and liquid capital markets supported by Swiss franc's safe-haven status, favourable debt financing costs, long debt maturity

#### Contributions to changes in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

#### Debt-to-GDP forecasts, % of GDP



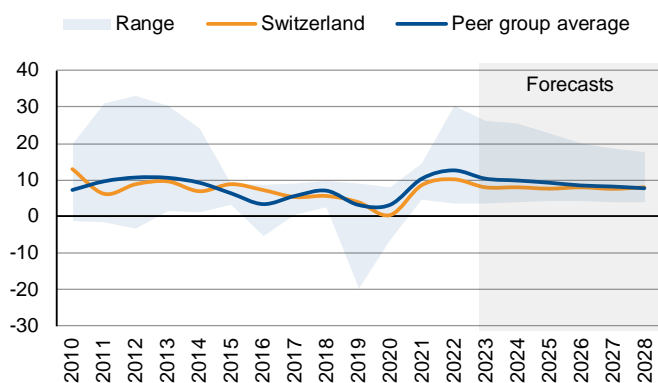
Source: IMF WEO, Scope Ratings forecasts

### External Economic Risk

#### Overview of Scope's qualitative assessments for Switzerland's *External Economic Risk*

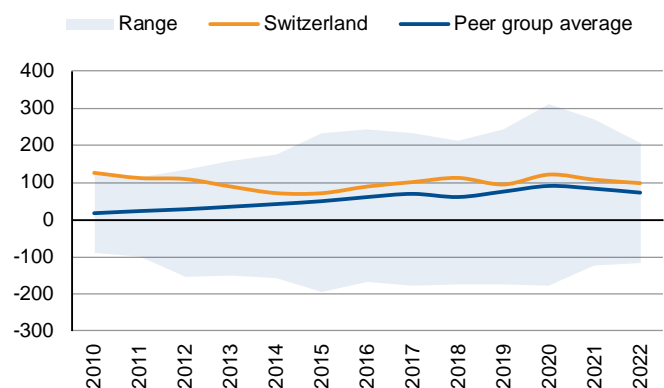
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Strong	+1/3	Persistent current account surpluses, reflecting a competitive external sector and a substantial share of price-intensive exports
	External debt structure	Neutral	0	Large net external asset position, around two thirds of external liabilities and denominated in local currency
	Resilience to short-term external shocks	Strong	+1/3	Large net external asset position and Swiss franc's safe-haven currency status underpin external-sector resilience

#### Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

#### Net international investment position (NIIP), % of GDP



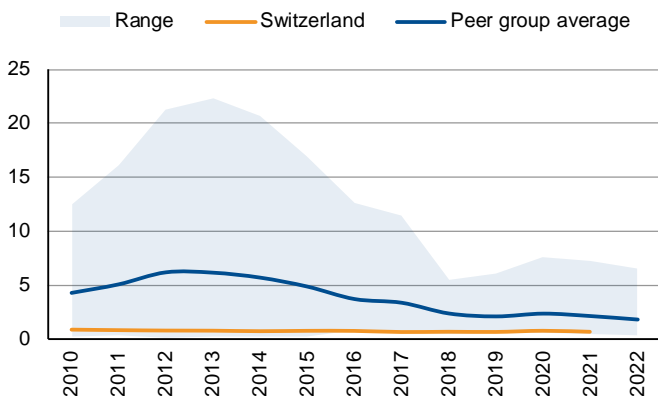
Source: IMF, Scope Ratings

### Financial Stability Risk

#### Overview of Scope's qualitative assessments for Switzerland's *Financial Stability Risk*

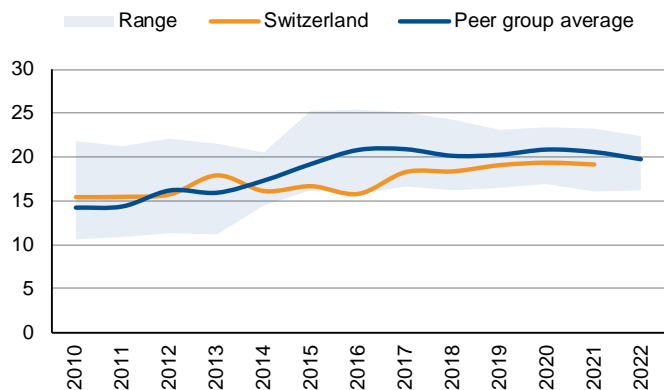
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Banking sector performance	Weak	-1/3	Well-capitalised and liquid banking sector with strong asset quality although highly concentrated. Bank profitability remains structurally constrained. The Credit Suisse crisis highlights contingency risks
	Banking sector oversight	Neutral	0	Effective financial policymaking and stringent regulatory financing requirements mitigates financial system risk
	Financial imbalances	Weak	-1/3	A very large banking sector represents a risk of contingent liabilities; persistent risk of correction in the real estate market

#### Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

#### Tier 1 capital, % of risk-weighted assets



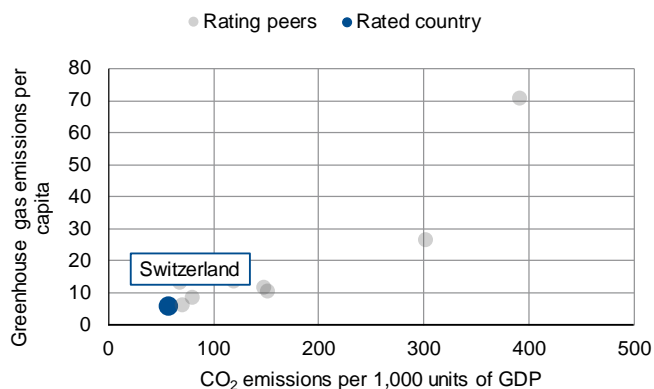
Source: IMF, Scope Ratings

### Environmental, Social and Governance (ESG) Risk

#### Overview of Scope's qualitative assessments for Switzerland's ESG Risk

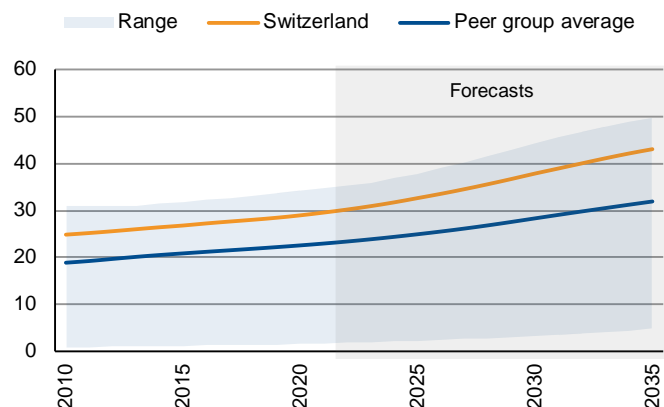
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Environmental factors	Neutral	0	Transition risk mitigated by a robust regulatory framework, including a carbon levy of CHF 120 per tonne and considerable public expenditure
	Social factors	Strong	+1/3	Very high human development and employment rate, significant R&D expenditure, high labour market flexibility
	Governance factors	Neutral	0	Stable political environment, institutional effectiveness and a consensus-oriented policy framework; failure to reach institutional framework agreement with the EU creates uncertainty over future EU-Swiss relationship

CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



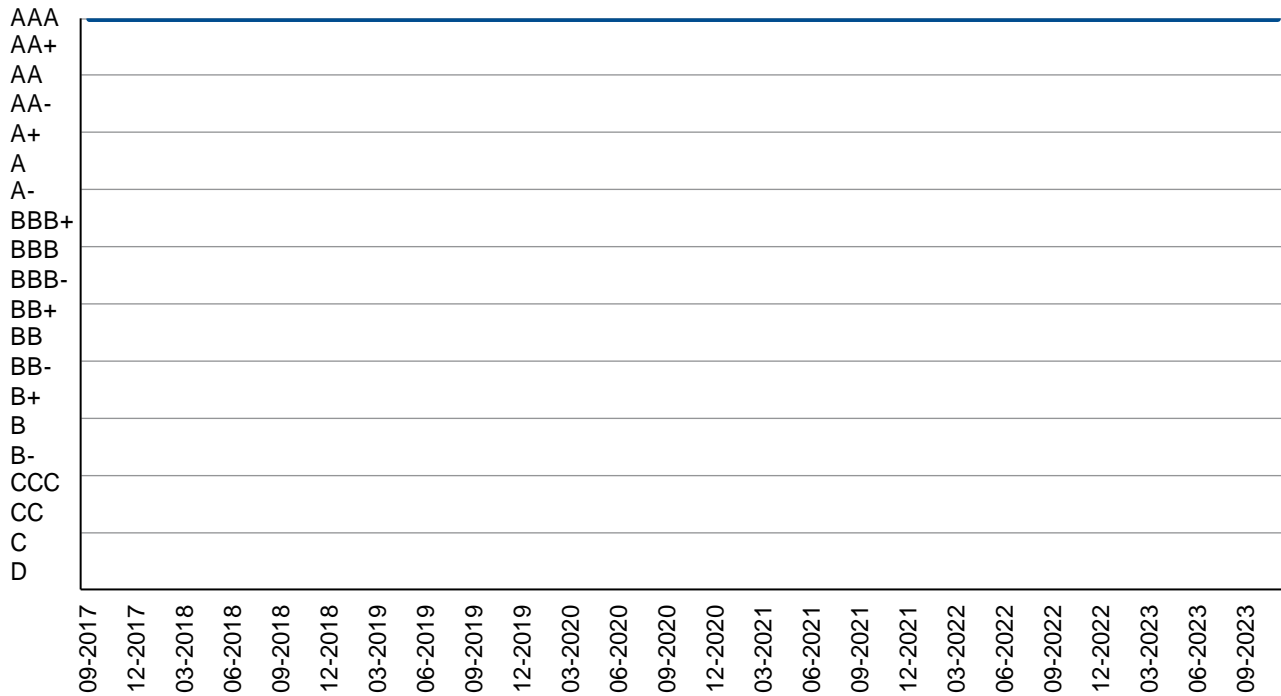
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

### Appendix I. Rating history (foreign-currency long-term issuer rating)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

### Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
Denmark
Germany
Ireland
Luxembourg
Netherlands
Norway
Sweden

Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

### Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	85.5	84.5	86.1	93.7	93.7
	Nominal GDP, USD bn	IMF	725.8	721.8	741.1	812.4	818.5
	Real growth, %	IMF	2.9	1.2	-2.3	5.4	2.7
	CPI inflation, %	IMF	0.9	0.4	-0.7	0.6	2.8
	Unemployment rate, %	WB	4.7	4.4	4.8	5.1	4.2
Public Finance	Public debt, % of GDP	IMF	39.8	39.6	43.2	41.1	40.9
	Net interest payment, % of revenue	IMF	0.3	0.2	0.2	0.4	0.4
	Primary balance, % of GDP	IMF	1.4	1.4	-2.9	-0.2	1.1
External Economic	Current-account balance, % of GDP	IMF	5.6	3.9	0.4	8.6	10.2
	Total reserves, months of imports	WB	15.3	16.7	21.8	20.1	15.9
	NIIP, % of GDP	IMF	111.1	94.0	119.9	106.4	97.4
Financial Stability	NPL ratio, % of total loans	IMF	0.7	0.6	0.8	0.7	-
	Tier 1 ratio, % of risk-weighted assets	IMF	18.2	18.6	17.8	18.4	18.8
	Credit to the private sector, % of GDP	BIS	243.9	264.6	276.2	280.2	273.8
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	64.4	63.4	57.6	57.0	-
	Income share of bottom 50%, %	WID	23.1	23.3	23.5	23.5	-
	Labour-force participation rate, %	WB	84.1	84.1	83.9	83.6	-
	Old-age dependency ratio, %	UN	28.0	28.4	29.0	29.6	30.2
	Composite governance indicators*	WB	1.8	1.7	1.7	1.7	1.7

\* Average of the six World Bank Worldwide Governance Indicators.

### Appendix IV. Economic development and default indicators

IMF Development Classification

5y USD CDS spread (bps) as of 7 December 2023

Emerging market and developing economy

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