

Political and economic upheaval rocks Switzerland – risks and opportunities in the post-crisis era

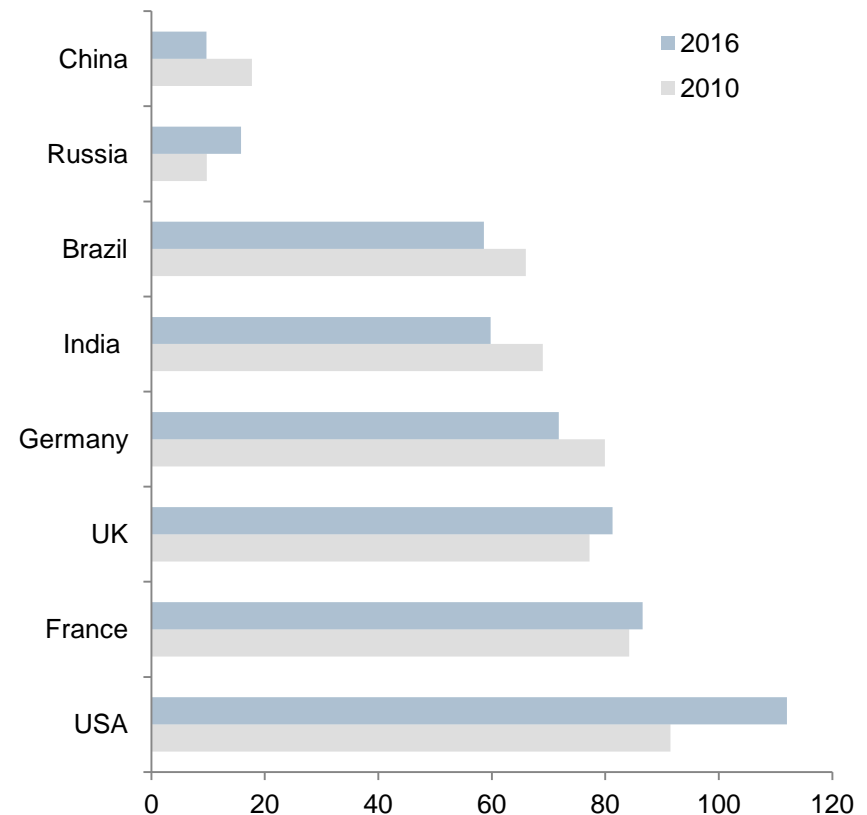
Dr Thomas Borer

Swiss Finance Day, Zurich, 2011/09/15

Unsustainable rise of US and European sovereign debt

- Further pressure on budgets through: demographic developments, high expenditures to avert recession and to maintain social security and health care systems.
- Euro crisis weakened the EU and showed up the limits of integration.
- Public debt has reached critical levels, undermining the ability to act.
- Likelihood of social and political unrest is rising.

Gross government debt (% of GDP)

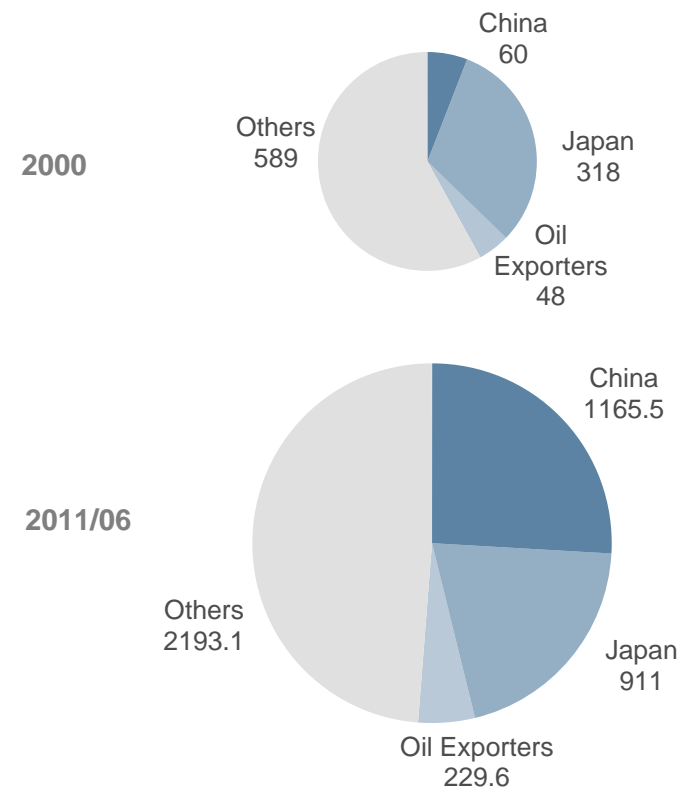


Source: IMF 2011

Broad movement of capital, innovation and economic muscle to China, India and other emerging nations

- Economic growth underpins growing geopolitical clout: emerging economies are much more self-confident and assertive than pre-crisis.
- Geopolitical uncertainty is likely to persist in the years ahead.
- The current order centered around the West will not survive redistribution of power.

Major foreign holders of US treasury securities



Source: Department of the Treasury

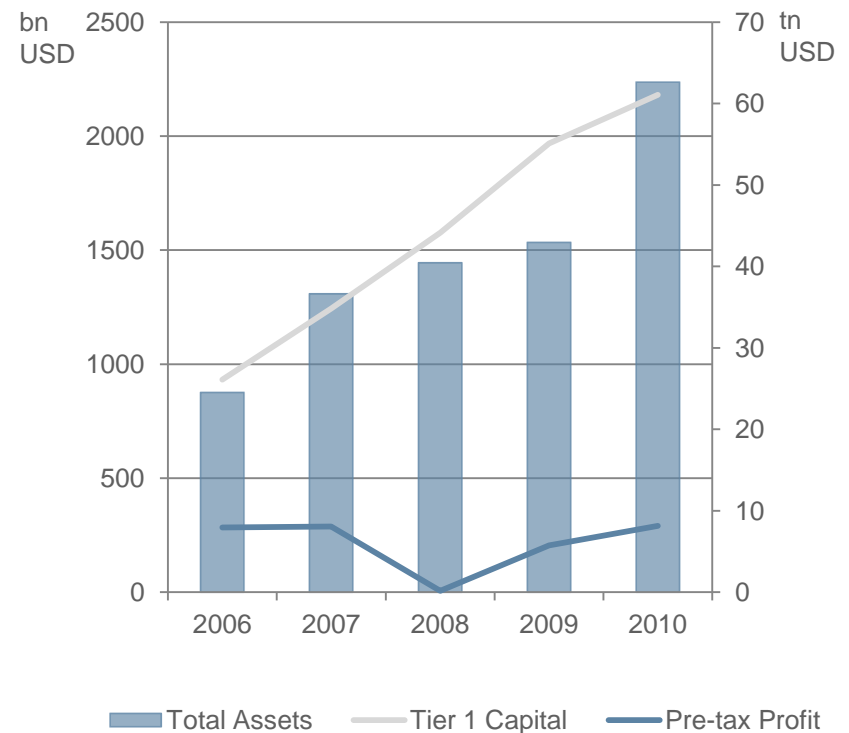
Impact on financial service providers and banks I

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Financial markets feel the pinch

- Overhaul of financial markets regulation: most countries have given up hands-off approach to regulation.
- Doubt whether the amount, speed and quality of financial regulation might not damage the sector.
- Current economic climate: fight against tax evasion dialled up; banks will have to invest in technology to run the new tax assessment programmes.
- Mounting expectations that some governments will have to restructure their debts: banks shed debt issued by financially shaky European governments and move it elsewhere.

Top 25 Global Banks



Source: The Banker

Currencies react to crisis

- Asian currencies have held their value against the dollar rather than suffering a decline as expected.
- However: no other currency has matched the franc's rise.
- SNB has now set up a minimum exchange rate target.
- Countering moves of the SNB only partly successful as long as worries of Eurozone and US sovereign debt persist.
- Negative effects for Swiss export-based economy.

How many dollars a franc buys



Swiss financial sector as key generator of wealth

- The importance to the economy of the financial sector makes Switzerland vulnerable to changes in the sector.
- The banking sector's reputation has suffered in recent years: government concessions on banking secrecy, massive losses by UBS and Credit Suisse.
- Success will continue to draw pressure from abroad.
- No clear strategy to defend the market against foreign influence.

Switzerland: some facts

- Ranks 136th in area worldwide
- Ranks 95th in population
- Ranks 75th in public debt (as % of GDP)
- Ranks 9th in reserves of foreign exchange and gold
- Ranks 17th in GDP per capita
- Ranks No. 1 in the WEF's Global Competitiveness Report 2010-2011

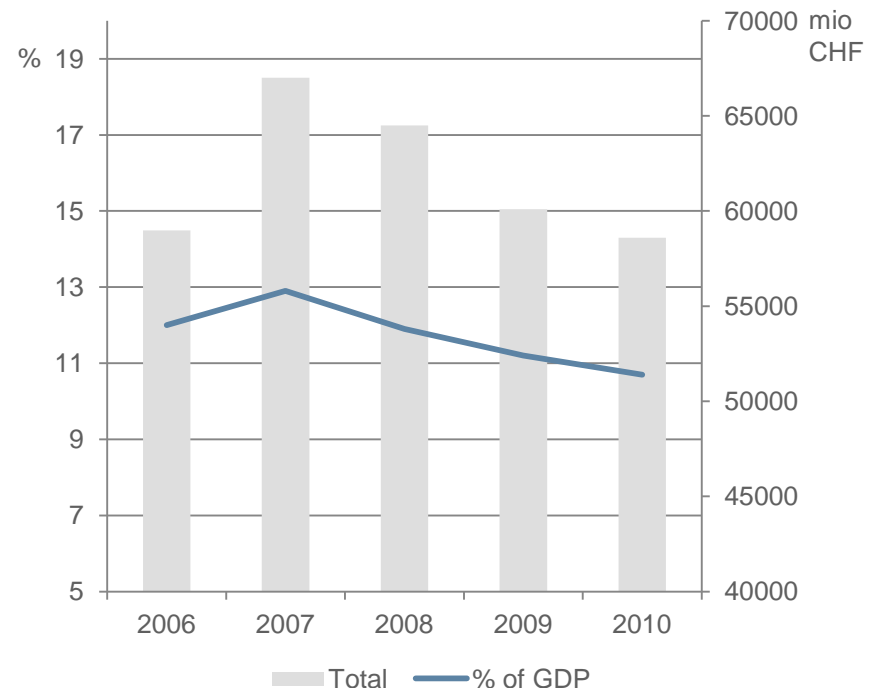
Impact on Switzerland II

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Switzerland can profit from the tectonic shift of the global system

- Swiss politicians and diplomats need to translate our wealth into international influence.
- Develop a sustainable strategy to defend our financial sector against foreign attacks.
- No more hiding behind the excuse of Switzerland being a small country.
- Switzerland offers security and stability: people and capital will continue to flock to us.
- As a reliable, liberal and open economic system, Switzerland stands to benefit from the shift in the balance of power.

Added value of the Swiss financial sector



Source: FDF, SIF