

Swiss Confederation

Rating Report

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, in aggregate, underpin its economic resilience. The Swiss economy grew by 1.3% in 2023, supported by strong growth in services and private consumption, with the growth outlook remaining resilient, although external demand has weakened due to weak economic performance of trading partners.

Prudential 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: i) a very large, concentrated banking sector in relation to GDP, posing contingent liability risk to public finances; ii) imbalances in the real estate market, with high, albeit declining, levels of residential overvaluation, increasing vulnerability to market corrections; and iii) uncertainties about future Swiss-EU trade relations, although negotiations have recently resumed.

Figure 1: Switzerland's sovereign rating drivers

Risk pillars		Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating
		Weight	Indicative rating				
Domestic economic risk		35%	aaa	CHF	Switzerland	1/3	AAA
Public finance risk		20%	aaa			2/3	
External economic risk		10%	aaa			2/3	
Financial stability risk		10%	aa-			- 2/3	
ESG risk	Environmental factors	5%	aa	[+0]	[-0]	0	
	Social factors	7.5%	bb			1/3	
	Governance factors	12.5%	aaa			0	
Sovereign Quantitative Model		aaa			+1		
Additional considerations					0		

*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

**The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

***The qualitative scorecard analyst 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.

Foreign currency

Long-term issuer rating/Outlook

AAA/Stable

Senior unsecured debt

AAA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Local currency

Long-term issuer rating/Outlook

AAA/Stable

Senior unsecured debt

AAA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

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Credit strengths and challenges

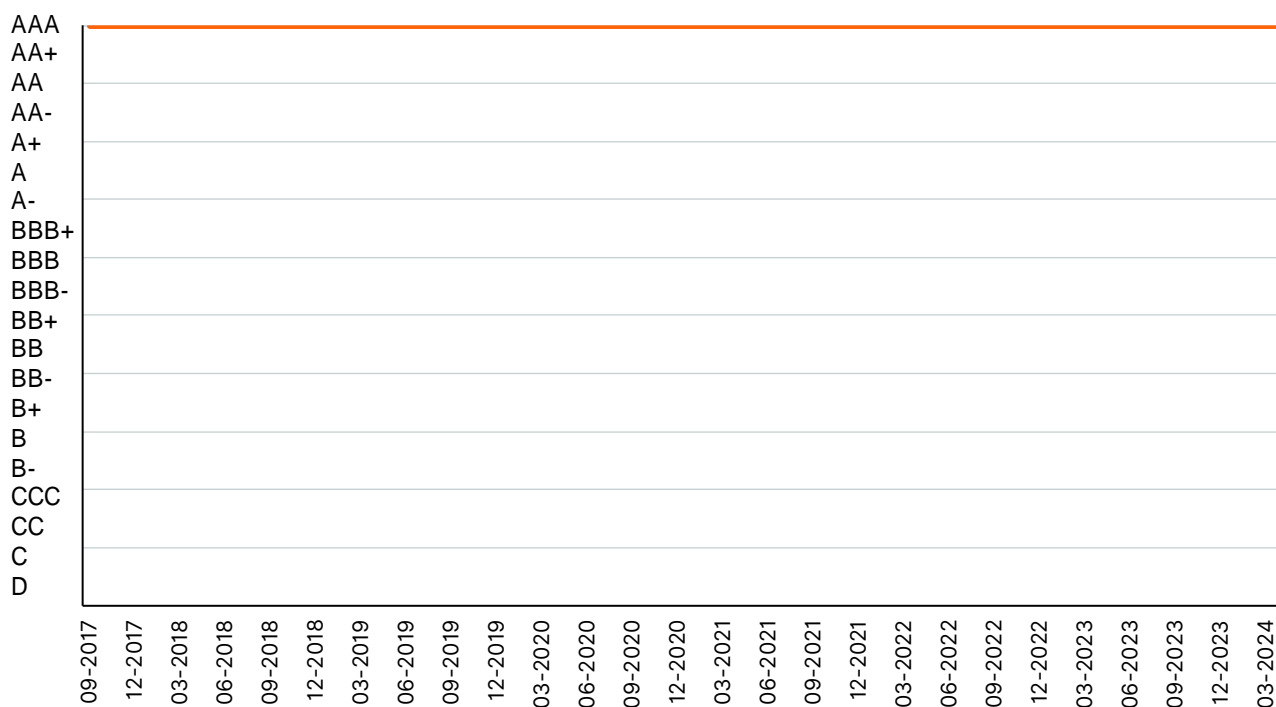
Credit strengths	Credit challenges
<ul style="list-style-type: none"> Wealthy and diversified economy Institutional strengths Very robust public finances Excellent external resilience 	<ul style="list-style-type: none"> Financial imbalances, large, concentrated banking sector; transition phase after UBS and Credit Suisse merger Uncertainties about future Swiss-EU trade relations, although negotiations have resumed

Outlook and rating triggers

The Stable Outlook reflects Scope’s view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
N/A	<ul style="list-style-type: none"> 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

Figure 2: Rating history¹



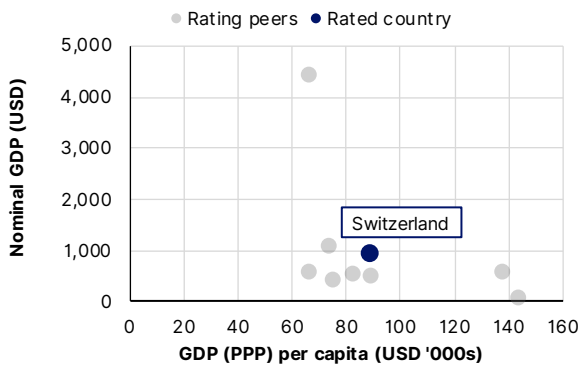
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

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

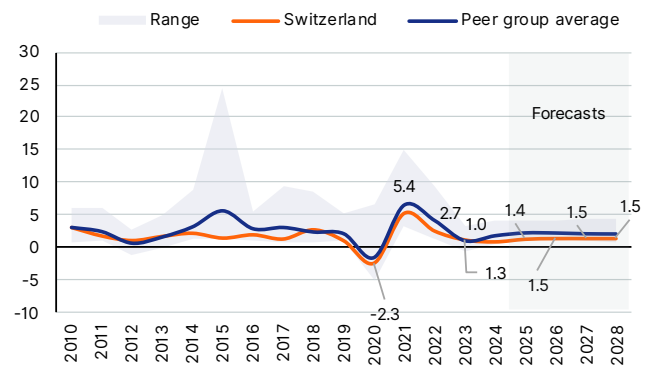
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential and outlook	Neutral	0	Moderate growth potential, in line with peers
	Monetary policy framework	Neutral	0	Swiss National Bank is a credible central bank. Flexibility is relatively constrained due to the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

Figure 3: Nominal GDP and GDP per capita



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

Figure 4: Real GDP growth, %



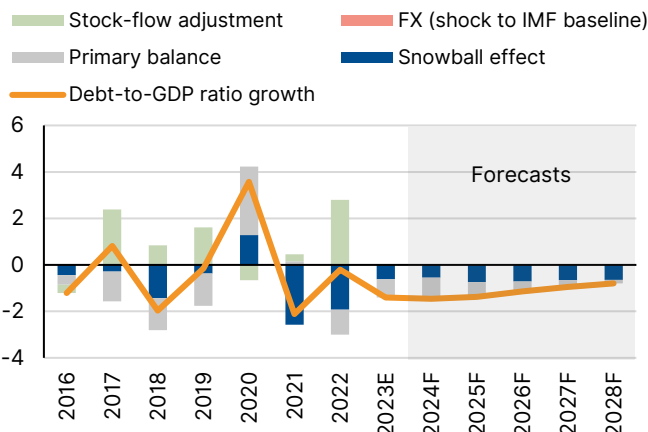
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

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

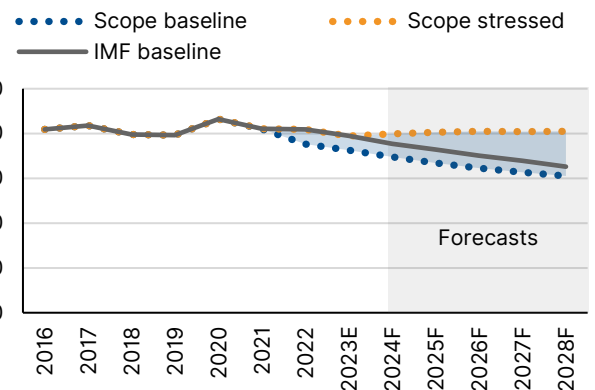
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Strong	+1/3	Stringent, constitutionally anchored fiscal rules, track record of prudent and stable fiscal policies
	Long-term debt trajectory	Neutral	0	Moderate public debt levels, strong commitment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

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

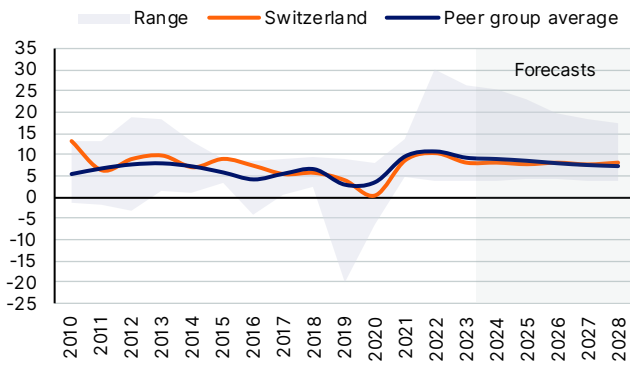
*Sovereign Quantitative Model.

External economic risk

Overview of Scope's assessments of Switzerland's External Economic Risk

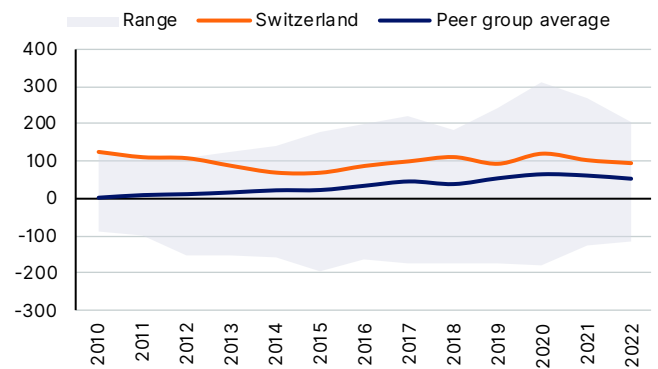
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Strong	+1/3	Persistent current account surpluses, reflecting a competitive external sector and a substantial share of price-intensive exports
	External debt structure	Neutral	0	Large net external 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-heaven currency status underpin external-sector resilience

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



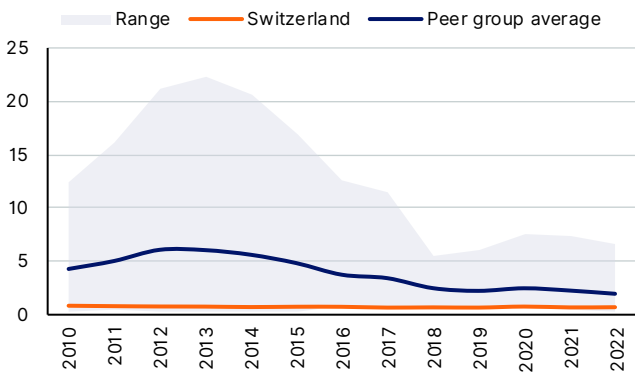
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Switzerland's Financial Stability Risk

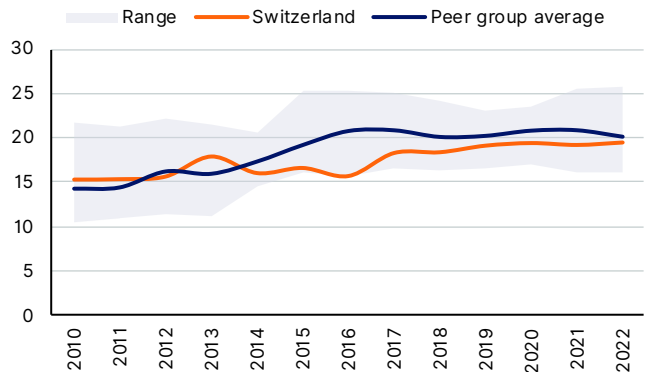
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Banking sector performance	Weak	-1/3	Well-capitalised and liquid banking sector with strong asset quality although highly concentrated. Bank profitability remains structurally constrained. The Credit Suisse crisis highlights contingency risks
	Financial sector oversight and governance	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

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



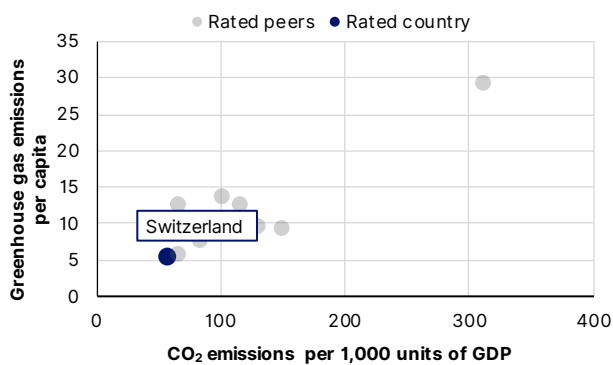
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Switzerland's ESG Risk

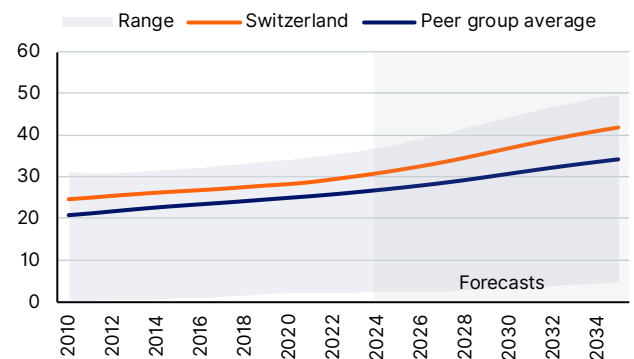
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Environmental factors	Neutral	0	Transition risk mitigated by a robust regulatory framework, including a carbon levy of CHF 120 per tonne of CO ₂ and considerable public expenditure
	Social factors	Strong	+1/3	Very high 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; uncertainty over future EU-Swiss relationships is partially mitigated by resumption of negotiations between the two counterparties in March 2024

Figure 11: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

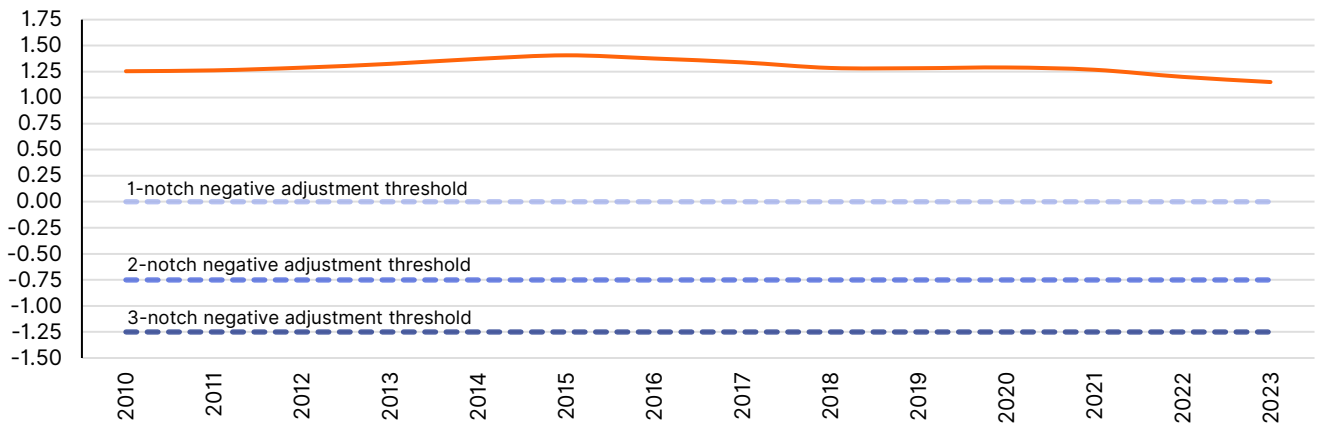
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Switzerland, 3-year moving average



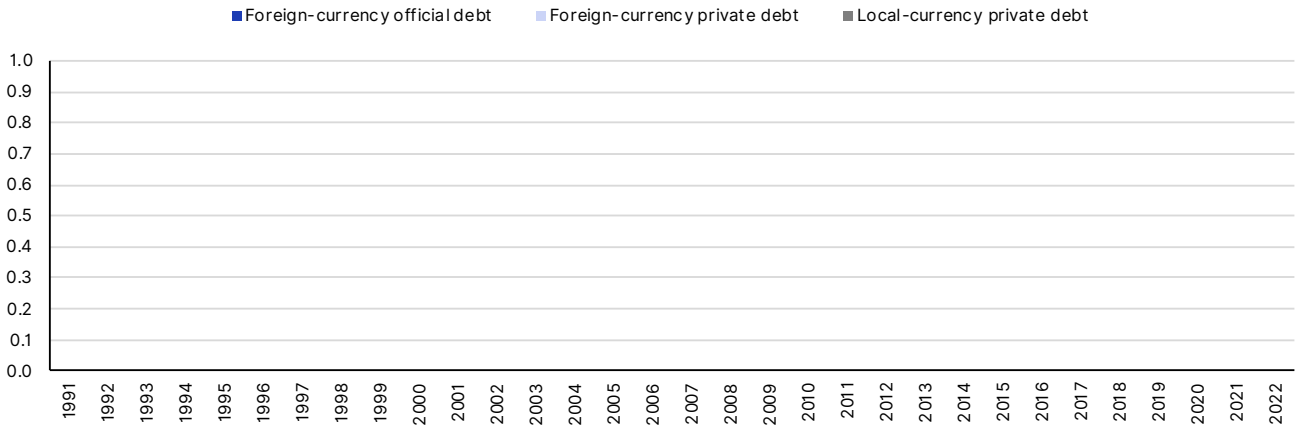
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).
 Source: [Bank of Canada-Bank of England Sovereign Default Database](#), Scope Ratings.

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 sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Denmark
Germany
Luxembourg
Netherlands
Norway
Sweden

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

Appendix III. Economic development and default indicators

IMF Development Classification

Advanced economy

5y USD CDS spread (bp) as of 18 April 2024

10

Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, 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	2023
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	72.0	73.7	72.4	79.1	86.3	89.5
	Nominal GDP, USD bn	IMF	726	722	741	812	818	906
	Real growth, %	IMF	2.9	1.2	-2.3	5.4	2.7	0.9
	CPI inflation, %	IMF	0.9	0.4	-0.7	0.6	2.8	2.2
	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	39.5
	Net interest payment, % of government revenue	IMF	0.3	0.2	0.2	0.4	0.4	0.4
	Primary balance, % of GDP	IMF	1.4	1.4	-2.9	-0.2	1.1	0.2
External Economic	Current-account balance, % of GDP	IMF	5.6	3.9	0.4	8.6	10.2	8.0
	Total reserves, months of imports	WB	15.3	16.7	21.8	20.1	15.7	-
	NIIP, % of GDP	IMF	111.1	94.0	119.9	103.3	95.5	-
Financial Stability	NPL ratio, % of total loans	IMF	0.7	0.6	0.8	0.7	0.7	-
	Tier 1 ratio, % of risk-weighted assets	IMF	18.2	18.6	17.8	18.4	18.8	18.4
	Credit to the private sector, % of GDP	WB	244.0	265.4	276.0	277.3	270.6	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	64.9	64.0	61.3	60.0	58.0	-
	Income share of bottom 50%, %	WID	22.6	22.1	22.2	22.3	22.3	-
	Labour-force participation rate, %	WB	84.1	84.1	83.9	83.6	-	-
	Old-age dependency ratio, %	UN	27.5	27.9	28.3	28.7	29.4	30.1
	Composite governance indicators*	WB	1.8	1.8	1.8	1.8	1.8	-
	Political stability, index	WB	1.3	1.3	1.2	1.1	1.2	-

*Average of the following five World Bank Worldwide Governance Indicators: Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.

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