Overseas Market Information

Market Survey Report on Switzerland for Medical/Surgical Instruments, Optometry Instruments, X-Ray Equipment and Refined Copper & Copper Alloys, Unwrought

Basic Information

Full Country Name	:	The Swiss Confederation
Country Profile	:	Switzerland
Area	:	41,293 sq. km. (16,000 sq. mi.)
Population	:	7.4 million (2005)
Capital City	:	Berne
People	:	German (64%), French (19%), Italian (8%), Romansch (1%)
Languages	:	Swiss German, French, Italian, Rhaeto-Rumantsch
Religion(s)	:	Roman Catholic (46.1%), Protestant (40%), Muslim (4.3%)
Currency	:	Swiss Franc (SFr)
Major Political Parties	:	Radicals (FDP - [party president] Fulvio Pelli), Christian Democrats (CVP - Christophe Darbellay), Social Democrats (Hans-Jurg Fehr), People's Party (SVP - Ueli Maurer)
Government	:	7 member Federal Council
Political System	:	Federal Republic with strong local Governments (cantons)
President	:	Micheline Calmy-Rey (for 2007)
Foreign Minister	:	Micheline Calmy-Rey (since 2003)
Membership of International Groupings/Organisations	:	Council of Europe, EAPC/PfP, EBRD, EFTA, IBRD, IMF, OECD, OSCE, UN, UNESCO, UNHCR, WTO

Basic Economic Indicator

GDP	: US$ 366.7 bn (2005)
GDP per head	: US$ 50,128 (2005)
Annual Growth	: 2.7% (2006)
Inflation	: 1.2% (2006)
Unemployment	: 3.1% (February 2007)
Major Industries	: Banking and insurance, machine and precision tools, textile machinery, chemicals and pharmaceuticals, watches, telecoms, graphic machinery, food processing and packaging materials, electrical and mechanical engineering.
Major Trading Partners	: Germany, France, US, Italy, UK, Japan, Netherlands, Austria
Exchange Rate	: £1 = Swiss Fr. 2.38 (March 2007)

Switzerland Economy

Switzerland's economy developed as a result of its position on major North-South trading routes. Despite a lack of natural resources it was one of the earliest countries to industrialise. By the end of the 19th century it was one of the most industrialised countries in Europe. It remained neutral in both WWI and WWII, which contributed to its economic stability and created conditions for sustained post-war economic growth. This only came to an end in the 1990s when Switzerland experienced its longest post-war recession and increasing unemployment, in part prompting the rise of the right-wing Swiss People's Party. But underlying prosperity and commitment to the political principles laid out in its Constitution remain.

The proportion of **exports** in Switzerland's Gross Domestic Product (GDP) is high in international comparison. Since Switzerland's domestic market is small, its economy deals less in mass production than in the development and production of high-value individual items.

A first rate education system is one of the foundations of Switzerland's economic competitiveness. Switzerland also has an excellent infrastructure. Political stability, investment in communications and information technology, a reliable decentralised energy supply and its central position in Europe provide **attractive conditions** for businesses. The state only intervenes when this is deemed to be in the general interest.

Strengths in the Provision of Services

The Swiss economy is mainly geared towards the provision of services. While in the 1960s half of all employees were still working in the industrial sector, at the beginning of the 21st century this proportion had sunk to around 25%. At the same time, the proportion of workers in the service sector grew from 39% to over 70%, while less than 4% gained their income from agriculture.

The **agricultural sector** is undergoing changes thanks to an increasing demand for healthy food, more environmentally-friendly production methods and world economic developments. Because of the limited area of arable land and the lack of raw materials, Switzerland has to import many of the agricultural products it needs as well as raw materials for its industry.

Small and Medium-sized Enterprises

The backbone of the Swiss economy is formed by highly specialised and flexible small and medium-sized enterprises (SMEs). SMEs account for 99% of registered companies in Switzerland. Switzerland's long industrial and service traditions and its potential for innovation in the growth areas of the future have led to it to specialise in the production of high quality branded items. Many businesses follow a "niche strategy," successfully concentrating on a small range of top-quality, innovative products.

Exports to the EU

The most important exports, which go mainly to the European Union (EU), are :

- Chemicals
- Machinery
- Precision Instruments
- Clocks and Watches
- Jewellery

The main services include :

- Insurance
- Banking
- Commodities Trading
- Tourism

Introduction

In global terms Switzerland is a political lightweight, but as a trading nation the country is among the ranks of the medium-sized economies.

With no natural resources - except water from glaciers, lakes, and rivers - the Swiss economy is almost totally dependent on exports, which have a high degree of added value.

Apart from a few city states, there are probably no other countries whose prosperity depends so much on export industries. Thus in absolute terms Switzerland is the world's 15th biggest exporter.

The largest Swiss firms, for instance in the pharmaceutical industry, can at best hope to sell two per cent of their output within Switzerland.

The abundance of water was at first used to drive textile mills. An immense quantity of water was also a prerequisite for the dyestuffs industry that was a forerunner of today's pharmaceutical sector in Basel.

About two third of the area of Switzerland is covered with forests, lakes and mountains. Since Switzerland has no mineral resources, it must import, process and resale them as products. "Services" are the most important part of the economy. This includes banking, assurances and tourism.

Farming is also an important part of the economy. But the production of the Swiss farmers does not fulfill the needs of all people, so Switzerland must rely on imported goods from other countries.

Manufacturing

Technological advances in hydro-power generation led to Swiss heavy engineering firms which built power stations, ships' diesels and electric locomotives that were exported all over the world.

And it was the heavy snowfalls in the slack winter months that gave farmers the impulse to try their hand at making timepieces.

A watch is a good example of the added value concept that governs the Swiss economy. Mass production of cheap consumer goods is not an option for Swiss firms because it would call for massive imports of expensive raw materials whose net worth would not be significantly increased on export to competitive world markets.

The raw material cost of a watch sold for SFr 100 or SFr 3,000 does not vary very much. But the work that goes into designing, producing, and marketing the watch makes a huge difference.

The same applies to a tiny Swiss firm that produces lubrication fluid for watch movements. The raw material – oil - is refined to such an extent that the final product, which is sold at most by the glassful, is worth its weight in gold or caviar.

Although Switzerland has numerous major corporations - food giant Nestle, pharmaceutical companies Novartis and Roche, banks UBS and Credit Suisse, and insurers Winterthur and Zurich - these firms are not really representative of the country as a manufacturing nation. In fact two-thirds of the country's economic output is accounted for by the 98 per cent of companies that have fewer than 50 employees.

SMEs or small and medium-sized enterprises employ 1.45 million people, just over half of all employees not working for state-run enterprises. Only about 750 companies have a workforce exceeding 250 people, but they account for 30 per cent of the total workforce.

Engineering

Many of these firms are engaged in the electrical and mechanical engineering field, the number one manufacturing sector in Switzerland. The majority are extremely specialised and export oriented and usually produce goods such as precision machine tools or electronic apparatus which are not household names, but which are exported to mass-producing industries all over the world.

Swiss engineering factories account for over 40 per cent of the value of all exports. Their origins can be found in the mechanisation of textile production.

Swiss weaving and spinning machinery captured a large part of the world market, and even though textile production in Switzerland is in quantity terms negligible, specialised machinery - including electrical control apparatus - still has a major share of the world market. Swiss-designed machinery is also produced under licence in many parts of the world.

Until fairly recently, factories in Switzerland produced much heavy engineering equipment, ranging from Sulzer ships' diesels to complete power stations, as well as some of the most powerful electric locomotives in the world. Even earlier, this country produced top-of-the range motorcars and trucks, which were widely exported.

The heaviest machinery has given way to even more specialised investment goods. Industries where Swiss companies are in the top five of world exporters include textile machines, paper and printing machinery, packaging, machine tools, and weighing and measuring equipment.

Many Swiss products are used in the motor industry around the world : for instance the small pyrotechnic detonators that inflate airbags after a collision, or sophisticated soundproofing sets.

Labour

Although the Swiss economy has been showing low growth for almost a decade, output and performance continue at a high level in international comparison. Working hours in contrast to surrounding countries are long, with few people working less than a 40-hour week.

Public holidays are also relatively sparse, and retirement is rarely much before 60. Another factor is labour relations.

When the federal constitution was introduced in revised form in 2000 it contained, explicitly for the first time, the right to strike. Pessimists feared this would open the floodgates to a wave of strikes, in particular because of the less than rosy employment picture.

However, in 2002 there were only eight strikes in Switzerland, the same number as in the previous high, which occurred in 1994. In the past decade, some 7-8 days per year per 100,000 employees have been lost through strikes, which is at the lower end of the European scale.

The three sectors

The economy in Switzerland is divided into three sectors :

1. *Landwirtschaft* ("agriculture")
2. *Industrie* ("industry")
3. *Dienstleistungen* ("services")

Less than 10% of the population is employed in the *Landwirtschaft* ("agriculture"), also considered the **primary sector**. This sector is strongly supported by the Government.

About 40% of the population are employed in the *Industrie, Gewerbe und Handwerk* ("industry, trade and handicraft"), also considered the **secondary sector**. This sector includes the *Maschinen - und Metallindustrie* ("machine and metal industry"), *Uhrenindustrie* ("watch industry") and the *Textilindustrie* ("textile industry"). All of them export much of their products to foreign countries and suffer a lot because of the expensive Swiss Franc. The fact that Switzerland does not belong to the European Union additionally slows down the Swiss exports.

More than 50% of the population are employed in the *Dienstleistungssektor* ("services"), also considered the **tertiary sector**. This sector includes banking, assurances, tourism and so on. Banking is one of the most important businesses in Switzerland.

Most important trade partners

The table below shows the name of the countries and the value of the imported and exported goods in million Swiss Francs (1 million = 1'000'000) for the year 2003.

No.	Country	Import
1.	Germany	41'200
2.	Italy	13'800
3.	France	13'700
4.	Netherlands	6'400
5.	Austria	5'400
	USA	5'400
6.	Great Britain	4'900
7.	Ireland	4'700
8.	Belgium	3'600
9.	Japan	2'600

No.	Country	Export
1.	Germany	27'700
2.	USA	13'800
3.	France	11'500
4.	Italy	11'000
5.	Great Britain	6'200
6.	Japan	5'100
7.	Austria	4'400
	Netherlands	4'400
8.	Belgium	2'600
9.	Ireland	900

3.2 Most important trade goods

The table below shows the value of the imported and exported goods in million Swiss Francs (1 million = 1'000'000) for the year 2002.

No.	Goods	Import
1.	Chemicals	27'256
2.	Machines	25'925
3.	Vehicles	12'843
4.	Agriculture and fishery	9'864
5.	Metals	9'329
6.	Textile, clothing and shoes	8'625
7.	Precision tools, watches, jewellery	8'167
8.	Energy	5'369
9.	Paper	4'740
10.	Other	4'516
11.	Leather, rubber, plastic	4'264
12.	Stone, soil	2'229

No.	Goods	Export
1.	Chemicals	44'846
2.	Machines	31'693
3.	Precision tools, watches, jewellery	22'602
4.	Agriculture and fishery	4'219
5.	Vehicles	3'742
6.	Textile, clothing and shoes	3'726
7.	Leather, rubber, plastic	3'647
8.	Paper	3'275
9.	Other	1'746
10.	Metals	975
11.	Stone, soil	780
12.	Energy	363

Currency

The Swiss currency is called "**Schweizerfranken**" ("Swiss Francs") or short "**Franken**". One hundred "**Rappen**" make up one Swiss Franc. **CHF** is the ISO representation for Swiss Francs; however, the old notation SFr. is still used quite often.

This is a **5 Franken** coin, called a "***Fünfliber***"

The currency is available in the following coins :

- 1 Rappen ("Räppler"), no longer in use
- 2 Rappen ("Zweiräppler"), no longer in use
- 5 Rappen ("Fünfer")
- 10 Rappen ("Zehner")
- 20 Rappen ("Zwanziger")
- ½ Franken ("Fünfziger")
- 1 Franken ("Fränkler")
- 2 Franken ("Zweifränkler")
- 5 Franken ("Fünfliber")

Exchange rates

Nowadays, one US dollar costs approximately CHF 1.25 and the German Mark has been replaced by the Euro (EUR). One Euro corresponds to about CHF 1.55. These ever changing exchange rates are one problem in comparing costs of living.

Investments

While Switzerland imports more goods than it exports, in value terms Switzerland has large net investments abroad.

Present statistics reflect the turbulence of recent years on world stock markets, and also the drop in the value of the dollar. Nevertheless, Swiss direct investments abroad amounted to SFr 426 billion at the end of 2003, while foreign investment in Switzerland reached SFr 190 billion.

Estimates by researchers for IMD's World Competitiveness Yearbook put Swiss investments abroad at about SFr 28 billion in 2004. This is the fourth highest level of investment worldwide as a proportion of gross domestic product.

A third of these investments abroad are in the US, and there are increasing flows into the newly emerging eastern and central European economies such as Poland, the Czech Republic and Hungary.

Traditionally, investments have flowed outwards, but Switzerland does attract foreign capital.

Based on IMD's estimates, Switzerland attracted more than SFr 14 billion in foreign investments in 2004, placing it in 12th position just ahead of Russia and Spain.

Links

- Economics ministry
- Finance ministry
- SWX Swiss Exchange
- Federal Banking Commission
- Swiss National Bank
- Location Switzerland
- Osec - Business Network Switzerland
- State Secretariat for Economic Affairs
- Swiss Bankers Association
- swissworld.org - Economy
- Swiss Business Federation
- Swisslinks - economy
- Business on swissinfo

Indo-Swiss Bilateral Economic and Commercial Relations 60 Years of partnership : 1948-2008

Swiss interest in trade with India dates back to 1856 when Volkhart Brothers established a trading office in India. Several Swiss mercantile and industrial corporations had been active in India even before India's independence, in areas like food processing, pharmaceuticals, engineering, commodity trading etc. The Treaty of Friendship was signed between India and Switzerland on 14 August 1948, the first such Treaty to be signed by independent India. The Treaty provided for the establishment of diplomatic relations between the two countries and laid the foundation for a strong economic content to the bilateral relationship. Article 3 to 6 of this Treaty secured the "most favoured foreign nation treatment" to Swiss nationals and goods. As provided by the Treaty itself, many more comprehensive agreements have been concluded which have further consolidated the "bonds of perpetual peace and unalterable friendship" to which the two countries committed themselves 60 years back. The 60th anniversary celebration marks an important milestone in the annals of our bilateral relationship. There is no doubt that despite phenomenal changes which have taken place in our two countries, and worldwide, our relations have stood the test of time. Bilateral cooperation has taken different forms with encouraging results in different areas. This has been particularly true of bilateral economic and commercial relations which remain healthy and buoyant.

Trade

Economic and Commercial activities between India and Switzerland have intensified in the recent past, particularly after the economic liberalization policies announced by the Indian Government in 1991. Over the ten-year period between 1995 and 2005, the bilateral commodity trade nearly doubled reaching close to CHF 2 billion annually. In 2006, India exported goods worth CHF 739 million while Swiss exports to India reached CHF 1888 million. The trade has thus been growing on a fast clip crossing US$ 2 billion in 2006. During the first four months of 2007, India's exports to Switzerland increased to CHF 333 million representing a growth of 24% and Swiss exports to India grew to CHF 821 million increasing by 54% over the same period in 2006. The total bilateral trade reached a record level of CHF 1151.3 million as compared to CHF 795.4 million in the first four months of 2007, a growth of 44.7%. If this trend continues, the bilateral trade could cross US$ 3 billion by the end of 2007, which would represent an increase of nearly a billion dollar in just one year.

The balance of trade has remained in favour of Switzerland. The main items of Indian exports to Switzerland are textiles and garments, organic chemicals, precious stones and jewellery, dyestuffs, machinery and parts, leather products, shoes and shoe uppers, cotton, plastics, coffee, tea, and hand-knotted carpets. Swiss exports to India consist of machinery and equipment (electrical and mechanical), precision instruments, pharmaceutical products dyes and chemicals. Until recently Indian exports included low unit and traditional items. But this is changing. As component manufacture in India reaches global quality standards, the composition of Indian exports will also undergo a change. Moreover, the impact of invisibles (such as software export, services and contract research) has provided a significant counterbalance in rectifying the adverse commodity trade balance. In fact, if the bullion imports from Switzerland are taken into account, after China and USA, Switzerland ranks third in terms of our overall imports.

Switzerland is one of the countries with the highest contribution of the foreign trade to the gross inland product. The most important trade partners are the so called "industrialized countries". In 2003, 77.2% of the exported goods were shipped to and 89.0% of the imported goods came from those countries. In particular, 60.3% of the goods were shipped to and 81.7% of the imported goods came from countries which belong to the European Union (EU).

Institutional Framework and High Level Exchanges

Switzerland is an important trading partner for India outside the EU. The wide umbrella of bilateral agreements provides a legal framework for Swiss enterprises to avail of opportunities in India. Among the important agreements are Avoidance of Double Taxation (1 November, 1994), Agreement to Promote and Protect Investments (April 1997), Air Service Agreement (2 May, 2001), Indo-Swiss Agreement on Technical and Scientific Cooperation (22 September, 1966) Agreement of Indo-Swiss Cooperation in Science & Technology (November 2003), Agreement on Indo-Swiss Collaboration in Biotechnology (13 September, 1999 renewed in August 2004), Agreement of Indo-Swiss Cooperation in Disaster Management (November 2003). A proposal for an Economic Cooperation Agreement with EFTA is also under consideration. An institutional mechanism to review the whole gamut of economic and commercial relations is provided for under an agreement concluded in 1959 establishing the Joint Economic Commission. The Commission meets periodically. Its last meeting was held in March 2007 in Grindelwald, Switzerland. Recent high-level and official exchanges have provided an opportunity to further both Government-to-Government and private sector contacts. In particular the visit of Pascal Couchepin, President of the Swiss Confederation to India from 6-12 November, 2003 and the return visit of President A. P. J. Abdul Kalam to Switzerland from May 25-29, 2005 have played in important role in promoting bilateral relations between the two countries. There have been ministerial exchanges as well including the latest visits of the Indian Minister of Science & Technology, Mr. Kapil Sibal, to Switzerland in November 2006 and the visit of Commerce & Industry Minister, Mr. Kamal Nath, on March 27-28, 2007 where he participated at the Forum of International Business with its focus on India jointly organised by OSEC Business Network, Switzerland and India Brand Equity Foundation.

The development of bilateral economic and commercial relations has not been the sole domain of the Government alone. Relations have been fortified by multi-dimensional linkages which include Government, private sector and civil society. In this direction, the establishment of the Swiss India Chamber of Commerce on March 25, 1985 in Zurich, Switzerland with its goal to foster trade and investment in both countries was important. The Chamber celebrated its 20th anniversary in 2005. It has played an important role in enhancing the flow of information on investment and trade related issues, supporting the establishment of joint ventures and strategic alliances between enterprises of both countries and offering a networking platform to its membership of about 200 Swiss and Indian companies active in almost all the sectors.

Swiss Investments in India

Switzerland remains an important source of foreign investments in India with some 140 joint ventures operative in India in diverse fields such as engineering, industrial equipment, pharmaceutical, precision instruments, textiles etc. An increasing number of small and medium enterprises are now ready to explore India as a destination for investment. Swiss SMEs can bring expertise into India but individually not huge foreign investments. But collectively this sector can contribute to considerable FDI flows and technology transfer. The State Secretariat for Economic Affairs (SECO), the Swiss Organisation for Facilitating Investments (SOFI) acting through their Swiss Business Hub in Mumbai are particularly geared to meet the requirements of Swiss SMEs investing in India.

More and more Swiss companies have found in India not only a viable market but also one where they cannot afford not to be. Leading Swiss companies have been a part of India's journey towards a global economic powerhouse. After years of operation they have invested time and resources to understand local and business conditions. As India's economy grows at nearly double digit, there is immense possibility for the two countries to widen and deepen their relationship and to pool resources so that a new synergy raises their productivity and gives them a competitive advantage in today's global economy.

Switzerland has maintained its position among the top 10 foreign investors in India. Swiss direct investment inflows from August 1991 to December 2006 stood at US$ 683.5 million accounting for almost 1.6% of the total inflows during the period excluding amount of acquisition of existing shares etc. Top sectors attracting FDI approval from August 1991 to December 2006 from Switzerland are fuel (power and oil refinery - 22.51%), telecommunications (12.66%), chemicals (other than fertilizer - 11.13%), services sector (financial and nonfinancial - 10.47%) and metallurgical industry (9.76%). Top sectors attracting FDI inflows from January 2000 to December 2006 from Switzerland are food processing industries (16.78%), services sector (financial and nonfinancial - 14.82%), chemicals (other than fertilizer - 14.71%), rubber goods (11.12%) and hotel & tourism (3.40%). The total technical collaborations during the last fifteen years are about 7,815. Switzerland has been granted 314 technical collaborations (4.02% of total) since 1991. Top five sectors attracting technology transfer from Switzerland are electrical equipments (including computer software and electronics), chemicals (other than fertilizer), industrial machinery, miscellaneous mechanical and engineering industry and drugs & pharmaceuticals.

The success of some of the Swiss companies in India demonstrates that the two economies are complementary. Switzerland is known in the world for its manufacturing technologies and financial services, while India has to its advantage a large domestic market and one of the largest pools of skilled manpower at competitive cost. Since technology is the key to competitiveness, this partnership has created a win-win situation for both. Moreover, Swiss companies have developed India specific market strategies which have been critical to their success in the domestic market and has also acted as a springboard for their expansion in the Asia-Pacific region. Major Swiss companies like Nestle, Novartis, ABB, Alstom, Reiter and Sulzer have been involved in India in the production of processed food, pharmaceutical and chemicals, electrical machinery and engineering items and textile machinery for a long time. Switzerland continues to play an important role in the modernization of Indian textile industry due to its sophisticated technology. Export of textile machinery constitutes an important component of Swiss exports to India. Swiss companies are also playing an important role in the development of infrastructure in India as demonstrated by Unique's involvement in the Green Field airport at Bangalore and Holcim's investment in the cement industry. Considering the vast expansion expected in this sector in the coming years, Swiss companies could explore further opportunities to strengthen their presence in projects in the infrastructure sector – power, roads, railways, ports, telecom.

Science, Technology and Research

India has established itself as a location for knowledge based companies and as a global hub for auto component industry, both traditional Swiss strongholds. In addition, across sectors the focus is on R&D. The innovative technologies developed by the Swiss and cost competitive facilities in India can be combined to draw mutually beneficial tie up in the areas of biotechnology, nano-technology, life sciences, material science and telecommunications.

Switzerland has maintained its competitive edge due to the role of R&D. Expenditure on R&D constitutes 3% of GDP, 70% of which is funded from the private sector. Of this 74% is spent on experimental development and 26% on research. This area is characterised by close linkage between the private sector and the scientific community, second highest active patents per capita, amongst the shortest gestation period between commencement of research on a product and its launch.

In the area of biotechnology high level business delegations have explored each other's capabilities and business opportunities in India. This sector is expected to touch US$ 5 billion in revenue by 2010. Policy support has helped this sector open up and compete with world companies. Switzerland is a natural partner. Switzerland is the sixth largest biotech location in Europe. In per capita terms it has the highest density of the biotech firms in the world. Biotech sector is extremely diversified. Swiss companies are active especially in therapeutics and diagnostics, platform technologies, bio-electronics and bio-informatics, bio- and speciality chemical, plant and agriculture food processing.

Agreement on Indo-Swiss Collaboration in Biotechnology was signed for 5 years on 13th September, 1999 and was renewed in August, 2004 and would be expiring in 2007. The Association of Biotechnology Led Enterprises (ABLE) of Switzerland visited India from May 1-7, 2005 as a follow up to a Seminar on 'New Business Opportunities in the Indian Biotechnology Sector' which was jointly organized by the Swiss Organization for Facilitating Investments (SOFI), CII and the Embassy in October, 2004 at Zurich. Next few years should see a substantial increase of Swiss interest in cooperating with India in this area which has been identified as a focus area for cooperation.

The Federal Institute of Technology Lausanne has been designated the leading house on the Swiss side for the next steps for strengthening bilateral cooperation in the area of science technology and research. The willingness of the Swiss to strengthen cooperation in this area is evident by the fact that the Swiss Government has earmarked CHF 8-10 million for the implementation of the new strategic framework for the next four years for bilateral cooperation in science and technology. Both sides have agreed to enhance cooperation in industrial R&D, to create two centres of excellence in micro engineering and micro electronics and to facilitate fellowships for academic exchanges as a horizontal instrument. In the areas of genomics and IT applications, out of the 12 joint research projects agreed in December 2005 (8 in IT and 4 in genomics) 11 have been launched.

Opportunities in other areas such as environmental technology and waste management also exist. Switzerland is among the leading countries in this area. Swiss approach of cooperation between Government, business and private industry is a model that is being studied by many developing countries in areas such as waste water treatment, technologies to prevent harmful emissions, solar energy technologies etc. During the visit of the Indian Minister of Science & Technology to Switzerland in November 2006 and the follow up visit of the Swiss State Secretary for Education and Research from 27 April, -1 May, 2007, it was agreed to explore cooperation in areas such as urban water management, solar energy and photovoltaic cells with a view to determine how Swiss technology could be beneficial to India's developmental needs.

Indian Companies in Switzerland

As corporate India begins to look for opportunities to invest abroad, Switzerland, too has opened its doors. Despite the fact that it is an expensive base for operations in Europe, already more than a dozen Indian companies have their operations in Switzerland including Tatas, Birlas, Infosys, Wipro, Dr. Reddy's Laboratories, TCS, Mindtree and Devi's Laboratories. Indian IT companies are using Switzerland as the hub for European operations. The major Indian player in this field is Tata Consultancy Services (TCS). TCS started their business through their joint venture in Switzerland, TKS-.Teknosoft. Recently Tatas have acquired 100% stake in this joint venture. Other Indian companies like L&T, Ramco, Infosys, Datamatics, Wipro, Sathyam, Polaris, PIT Solutions etc. are also operating software export business in collaboration with Swiss based companies or independently. A number of Swiss software companies have set up their off-shore operations in India. Swiss multi-nationals, such as Novartis, Nestlé, the Swiss National Bank, Credit Suisse, Union Bank of Switzerland (UBS), the European Broadcasting Corporation, La-Suisse Insurance, Swiss Post, Swiss Airline, etc. are some of the Swiss firms using Indian software specialists. Apart from the IT sector, there is also interest to promote Switzerland as a destination for investment by Indian companies in the hi-tech manufacturing sectors. Location Switzerland is focusing on promoting Indian investments in Switzerland. The visit of Ambassador Monika Ruhl to Bangalore and Hyderabad in February 2007, sought to inform potential Indian investors on investment opportunities in Switzerland. In addition, Cantonal authorities have also been active in promotional projects in India along the same lines.

Economy

Swiss economy on healthy growth track

The Swiss economy picked up pace again in the first quarter of 2007, and the indicators continue to point to robust momentum. We therefore forecast impressive growth of 2.6% for this year.

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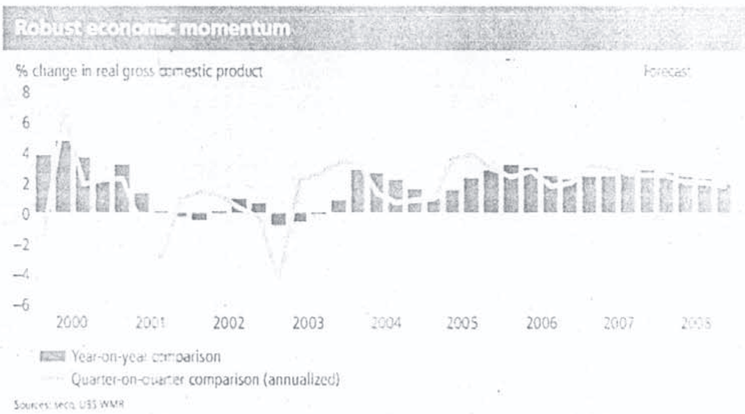
"The favourable economic environment should largely remain intact in 2008."

The Swiss economy continued to soar in the first three months of 2007. Real gross domestic product (GDP) grew at an annualized rate of 3.2% – the strongest spurt in growth since the third quarter of 2005 and way above the historical average. The fact that economic activity is not just strong but also broadly based gives grounds for optimism. Most economic indicators point to continued positive momentum. The recovery on the job market, for example, is in full swing and likely to continue in the coming months. The resulting boost in employment levels and the real wage increases that can be expected in such an environment are having a positive impact on household disposable incomes. Hence, we are confident that private consumption will continue to lend support to the economy. Capital spending on equipment should also surge noticeably over the next few quarters, given the very high levels of capacity utilization in industry as well as the healthy orders and earnings situation. Net exports will probably generate positive impetus, too, thanks to the persistently vigorous growth in the global economy and especially in the European countries that are key trading partners, coupled with the further improvement in Swiss competitiveness thanks to the franc's depreciation. Overall, therefore, we forecast real GDP growth of 2.6% for this year. Besides the risk of the franc appreciating, not much will change next year as regards the broadly positive economic picture. With an estimated real growth rate of 2.3%, we expect 2008 to be another good year for the Swiss economy.

Private consumption buoyed by job market

Consumer spending by private households rose 0.7% quarter-on-quarter and 2.5% year-on-year in the first quarter. The upward momentum recorded in recent quarters thus continued to pick up steam, thanks mainly to the widespread recovery on the job market. Whereas employment growth was still restricted exclusively to industry back in 2005, the services sector also underwent a revival in the course of last year. The seasonally-adjusted unemployment rate fell from 3.8% to 2.8% in May 2007. Moreover, the positive effects of growth in employment have been accompanied by an uptrend in wages. As a result, confidence on the part of private households in the sustainability of the economic upswing has firmed up, as shown by consumer sentiment hitting a six-year high. Consumers' willingness to purchase big-ticket items in particular seems to have increased. This is evidenced not only by the sharp surge in real retail sales in the "other goods" category, mainly comprising durable goods, but also in the slight rebound in new car registrations since mid-2006. Our June survey suggests that the out-

The Swiss economy's expansion rate accelerated again in the first quarter. We expect momentum to remain high in the coming quarters, albeit with a slight decline over time.



look for higher retail sales over the rest of the year is good. We also expect the recovery on the job market to continue in the coming months, which should lead to further growth in both employment and wages. Overall, therefore, we see private consumption rising by 2.5% this year – nearly one percentage point more than the average for the last ten years.

Above-average capacity utilization

Companies' real capital spending on equipment contributed substantially to the overall economic trend in 2006. The 0.3% quarter-on-quarter drop in the first three months of this year failed to confirm this impetus, but extraordinarily high production capacity utilization, persistently full order books and still very favourable corporate earnings indicate that this was more of a blip than a real downtrend. In addition, the continuing rapid pace of technological progress and intense competitive pressure are likely to trigger a renewed boost in spending on plant and machinery in the further course of the year. Strong growth in residential construction, on the other hand, seems to be a thing of the past. In view of the moderate rise in interest rates, slightly higher vacancy rates and signs of oversupply on the market for owner-occupied apartments, we do not expect to see any significant additional momentum here. In contrast, industrial/commercial construction activity should continue to profit from the generally favourable economic environment and from employment growth. Investments in public infrastructure projects will do little to support the economy going forward due to cost-cutting plans.

Positive impetus from foreign trade

Foreign trade is still in excellent shape, as evidenced by the May trade figures. Goods exports were up 10.6% year-on-year in real terms in the period from January to May. Since imports grew by a somewhat less pronounced 9.4% in the same period, the trade surplus rose further by almost 30%, passing well above the CHF 1 billion threshold in May. This is all the more encouraging given that 2006 was already an outstanding year for exports. The fact that the strong momentum does not appear to be flagging is partly attributable to the continuing robust growth in the global economy, despite some interim weakness in the US. The improved economic situation in Europe, the destination for some 60% of Swiss exports, is helping most of all here. Moreover, the depreciating franc has further strengthened the competitiveness of Swiss companies, although the weak euro/franc exchange rate also harbours a certain risk. At 1.667 in June, the exchange rate has never been so far off its fundamentally justified course, which we put at EURCHF 1.47. Export growth could be badly hit in the event of a substantial franc appreciation (see pages 16ff and 28ff). Nevertheless, since we do not anticipate such a scenario, we are confident that the high level of momentum can be sustained in the months ahead. While the forecast 7.1% export growth for 2007 is some way short of the 2006 figure of 10.1%, we expect foreign trade to make a positive contribution to Swiss GDP growth again this year, since imports should grow at a somewhat slower pace of 6.6%.

Inflation under control

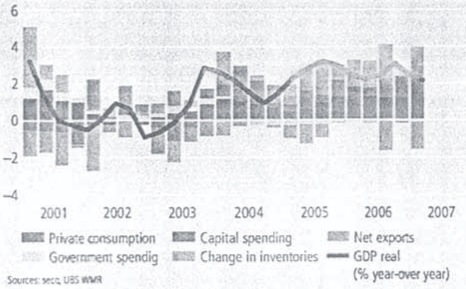
Despite the economy's current strength and the franc's weakness versus the euro, the medium-term outlook for low inflation rates remains intact. Structural factors in particular – such as stepped-up competition on the Swiss domestic market and the further opening up of the labour market to EU citizens – favour this assessment. Overall, therefore, we expect consumer prices to increase by 0.4% in 2007 and 0.8% in 2008. In light of the strong growth in the domestic economy, the Swiss National Bank will probably continue with its gradual normalization of monetary policy. We forecast two further rate hikes of 25 basis points each in September and December, which would raise the middle of the target range for the three-month CHF LIBOR to 3.0% by the end of 2007. ■

Economy

Swiss forecasts at a glance

Broadly based growth

Contributions of GDP components to overall growth (percentage points)



Sources: seco, UBS WMR

The Swiss economy continued to soar in the first quarter of 2007. Real gross domestic product (GDP) grew at a rate of 2.4% year-on-year, underpinned primarily by private consumption and foreign trade.

Swiss economic indicators

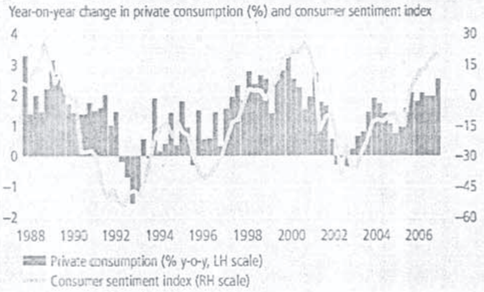
% change yoy in real terms

	Level*	2004	2005	2006	2007F	2008F
Gross domestic product	455.6	2.3	1.9	2.7	2.6	2.3
Private consumption	274.8	1.5	1.3	1.9	2.5	2.1
Government spending	52.0	-0.8	-1.6	-0.5	0.7	1.5
Capital spending	97.7	4.5	3.2	3.7	2.8	2.1
Construction	45.8	3.9	3.5	0.1	1.0	0.7
Equipment	51.9	4.9	2.9	6.9	4.0	3.1
Exports	218.1	8.4	6.4	10.1	7.1	5.6
Imports	187.3	7.4	5.3	9.8	6.6	5.2
Number of unemployed (1,000)		153.1	148.5	131.5	110.0	100.0
Unemployment rate in %		3.9	3.8	3.3	2.8	2.5
Inflation		0.8	1.2	1.1	0.4	0.8

Sources: SFSO, seco; F: Forecasts UBS WMR *Year 2005 in CHF bn at current prices

Consumer confidence continues to improve

Year-on-year change in private consumption (%) and consumer sentiment index



Sources: seco, UBS WMR

Buoyed by the recovery on the job market, consumer confidence in the sustainability of the economic upswing continued to firm up, as shown by the consumer sentiment index hitting its highest level since 2001 in April.

Interest and exchange rates

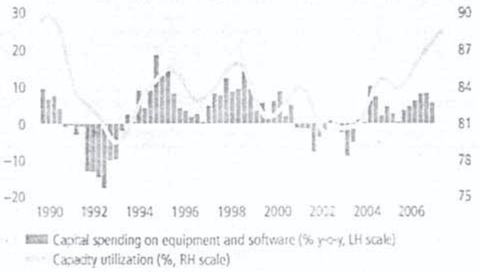
End of year	2004	2005	2006	2007F	2008F
3-month deposits	0.7	1.0	2.0	3.0	3.0
10-year government bond yield	2.3	1.9	2.5	3.1	3.3
Exchange rates CHF:					PPP*
USD	1.14	1.32	1.22	1.20	1.25
EUR	1.54	1.56	1.61	1.66	1.47
JPY	1.10	1.12	1.03	1.01	1.33
GBP	2.18	2.27	2.39	2.33	2.07

Source: Bloomberg; F: Forecasts UBS WMR *Purchasing power parity

The latest forecasts for the Swiss economy are available at www.ubs.com/economicresearch

Production capacity close to reaching limits

Year-on-year change in capital spending on equipment (%) and capacity utilization (%)



Sources: seco, KOF, UBS WMR

High production capacity utilization, persistently full order books and very favourable corporate earnings will push capital spending on equipment up sharply again in the remainder of the year.

Inflation remains under control

Year-on-year change in consumer prices (%)

Sources: SFSO, UBS WMR

Despite the current economic momentum and the franc's weakness versus the euro, the outlook for low inflation rates remains intact. Structural factors such as stepped-up competition on the Swiss domestic market and further opening up of the labour market favour this assessment.

UBS outlook 3/2007

(Source : EEPC Net)

To be continued at next issue