MIRABAUD 1819

PANEL DISCUSSION

8 APRIL 2016

SWITZERLAND AND ITS PARTNERS : DEPENDENCY OR INDEPENDENCE ? PANEL DISCUSSION

Geneva, 8 April 2016. Over a year after the CHF/EUR exchange rate floor was abolished, it was time to take stock. Two distinguished guests discussed whether we are now part of a system of total dependency or have retained some degree of Swiss independence.

Mirabaud invited two speakers to analyse economic developments and the evolution of Switzerland's relationships with partner countries, particularly in Europe, in the context of the strong Swiss franc. Christian Lüscher is a member of the Swiss National Council and a lawyer, along with Jean-François de Saussure who is CEO of Caran d'Ache, the Geneva-based company whose pens and coloured pencils are famous the world over. Over 150 participants attended the panel discussion chaired by Yves Mirabaud, Senior Managing Partner of Mirabaud SCA.

From left to right : Jean-François de Saussure, Yves Mirabaud, Christian Lüscher and Gero Jung

In his introductory remarks, Gero Jung, Chief Economist at Mirabaud Asset Management, commented that the Swiss National Bank's decision has had a "significant but not disastrous" impact on the economy. The decision has not triggered a recession, but the country's economic growth did slow to 0.9% in 2015, compared with 2% in 2014. Switzerland has also entered a period of deflation (1.1% in 2015). The Swiss franc has remained strong against the euro. Gero Jung stressed the importance of this exchange rate, given that "one Swiss franc in two is earned abroad and exports bring in almost CHF 300 billion, with half of all exports going to the eurozone."

The impact of the decision to remove the exchange rate floor was felt immediately among Swiss exporters such as Caran d'Ache. "We responded very quickly, reducing our budgetary targets, freezing recruitment and postponing some development projects, but also cutting our margins in order to offer an intermediate exchange rate to distributors in export markets, which allowed us to generate export growth," reported Jean-François de Saussure.

Alongside the Swiss franc, two other factors play a crucial role in the Swiss economy. One is the bilateral relationship with the European Union, and the other is Corporate Tax Reform III (CTR III).

Implementing the result of the Swiss referendum on mass immigration, which was held in February 2014, could potentially invalidate the agreement on the free movement of persons and therefore damage relations between Switzerland and the European Union. As a member of the National Council, Christian Lüscher is convinced that Switzerland and the European Union will be able to come up with a pragmatic solution that is consistent with the referendum result while also maintaining the agreement on the free movement of persons. He argues that "the economic relationship may be essential to Switzerland, but it is to Europe too." This issue demonstrates the complexities involved in retaining some kind of independence while also maintaining our relationship with our European counterparts.

The other issue that will affect the Swiss economy is CTR III, which aims to remove the possibility for multinationals to be allowed reduced tax rates, in order to align with new international standards. "In this instance, external pressure, notably from the OECD, will bring about something very beneficial for Switzerland," Christian Lüscher believes. Following in the footsteps of the Canton of Vaud, the Canton of Geneva is about to introduce the same tax rates for local and multinational companies. The rates for multinationals will actually increase slightly, but there will be a significant reduction for local companies. "We are really looking forward to the new rates," explains a contented Jean-François de Saussure. "Industry is booming."

Geneva's new corporate tax rate should be set at a level that prevents an exodus of multinationals. "These companies account for nearly 75,000 jobs in our canton," Yves Mirabaud reminded participants. "We need to protect those jobs."

Maintaining an independent monetary policy, preserving the Swiss democratic system, which is based on referendums, and retaining our special position at the heart of Europe yet outside the European Union were other factors mentioned by the speakers. All of these points underline the need to maintain the delicate balance between economic dependency and preserving Switzerland's special brand of independence.

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