







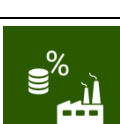
Summary BAK Risk Monitor Edition August 2016

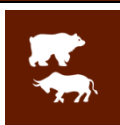

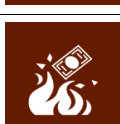

Global risks have continued to rise since the spring, and this applies in particular to the political dimension. Current developments in Turkey have left a further important pillar of geopolitical stability on the brink. The US electoral campaign is being dominated by shrill and extreme words, and a new President Donald Trump with a significantly more protectionist agenda still cannot be ruled out. While the British vote to leave the EU has had only a minimal impact on economic forecasts to date, hard facts on the post-Brexit performance of the economy are not yet available. Above all, however, the forthcoming exit negotiations have enormous disruptive potential, not just for the United Kingdom and the EU, but also for Switzerland. As a direct consequence, the willingness to compromise and discuss the possibility of retaining the Bilateral I arrangements, and simultaneously the likelihood of concessions on the free movement of people currently appear to have fallen to the region of zero. The risk that the EU will make an example of Switzerland in order to teach Britain and other potential exit candidates a lesson, is becoming a very real possibility as 9 February draws closer. A number of risks have become less likely to materialise, and their potential to cause damage has also declined. The first and foremost in this category is the risk of persistently low oil prices for Switzerland, as the stabilisation of the price of oil at about US\$ 50 is acceptable for all market operators. The risks currently in the media spotlight should not disguise the fact that most of the potential risks listed in the Risk Monitor remain as potentially damaging as ever. Alarming news coming out of the Italian banking sector underscores just how quickly problems that in the interim had slipped under the radar can suddenly return to the fore.


Most important changes relative to the April 2016 edition

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| <p><i>New risk factors</i></p> <ul style="list-style-type: none"> • Brexit as " War of the Roses " with the EU • Trump wins US election • USTR III fails | <p><i>Risk factors that have disappeared</i></p> <ul style="list-style-type: none"> • Brexit (the actual risk of voters voting for Brexit) |
| <p><i>Increased likelihood of materialisation</i></p> <ul style="list-style-type: none"> • Loss of bilateral treaties • Breakup of the Eurozone • Geopolitical upheavals • Financial crisis • Terrorism • Persistent strength of Swiss franc | <p><i>Reduced likelihood of materialisation</i></p> <ul style="list-style-type: none"> • TTIP • Collapse in oil prices • Real estate crisis • Hard landing in China |
| <p><i>Shorter-term risks</i></p> <ul style="list-style-type: none"> • Loss of bilateral treaties • Geopolitical upheavals | <p><i>Longer-term risks</i></p> <ul style="list-style-type: none"> • TTIP • Grexit • Collapse in oil prices |
| <p><i>Heightened potential impact</i></p> <ul style="list-style-type: none"> • Loss of bilateral treaties • Geopolitical upheavals | <p><i>Reduced potential impact</i></p> <ul style="list-style-type: none"> • Breakup of the EU (without the impact of the UK) • Collapse in oil prices • Persistent strength of Swiss franc |

Overview and probability of occurrence




| Internal risks, almost completely susceptible to Swiss influence | |
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|  | <p>Loss of Bilateral Agreements Termination bilateral agreements will substantially reduce attractiveness, investments and growth in Switzerland.</p> |
|  | <p>Real Estate crisis The increase in supply in recent years is not consistent with medium-term requirements. Current prices overstated by misallocations and a phase of low interest rates. Bubble bursts.</p> |
|  | <p>Financing of Pension Schemes Low yields (zero interest decade) lead to funding gaps and higher capital shares, savings rate rises, consumption falls.</p> |
|  | <p>Prosperity-trap High level of prosperity leads to low risk tolerance and reduces growth potential.</p> |
|  | <p>Demand for skilled workers Increasing mismatch in the labor market, traditional measures (immigration, qualification) are no longer effective to the required extent.</p> |
|  | <p>Technology opportunities unused Low acceptance/ under-investments in technological progress. Opportunities for new technology remain unused, Switzerland falls behind in technology race.</p> |
|  | <p>Corporate Tax Reform III fails The Corporate Tax Reform III will not be implemented (for example after a referendum), leading to more uncertainty, greater isolation and a loss in attractiveness for Switzerland.</p> |

| Risks, only partially susceptible to Swiss influence | |
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|  | <p>Financial Crisis - 2009 "light" Strong turbulences in financial markets. Possible triggers are: unadjusted problems in the European banking system, the monetary policy turn-around, capital flight from emerging markets, loan defaults in companies</p> |
|  | <p>Sustained strong Swiss franc Swiss Franc remains strong/economic impacts stronger than expected</p> |
|  | <p>Monetary policy Expansionary monetary policy has reached an extent in which the damage caused by the taken measures is greater than their benefits.</p> |
|  | <p>Increasing pressure for migration Crisis-related geopolitical migration and waves of refugees from emerging economies destabilize European societies.</p> |

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|  | <p>Excessive reactions to terrorism Excessive reactions to terrorist threats . Counter measures such as sealing of borders harmful to the economy.</p> |
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External risks, almost entirely beyond the influence of Switzerland

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|  | <p>Collapse of the European Union BREXIT is only the beginning. National interests will lead to irreconcilable differences and finally cause the collapse of the EU</p> |
|  | <p>Climate protection objectives fail International agreements prove to be insufficient, unstoppable climate change, migration flows and extreme weather conditions affect economic development.</p> |
|  | <p>Collapse of the Euro Zone Construction design faults are not overcome, the costs to bypass economic divergences become unbearable.</p> |
|  | <p>Hard Landing of China Necessary corrections of the Chinese growth model, which is driven by strong public guidance, borrowings and investments, are bigger than expected; bubble bursts; strong economic distortions.</p> |
|  | <p>Ratification TTIP – Switzerland is left out Free Trade Agreement between the EU and the USA, relative deterioration in market access, Switzerland loses preferential treatment over USA in Europe and will be disadvantaged in the USA, compared to Europe.</p> |
|  | <p>BREXIT as „War of the Roses“ Current estimates of the BREXIT prove to be too harmless. UK economy collapses and drags down the EU; strong turbulences on the global financial markets and an increasing upward pressure on the Swiss franc.</p> |
|  | <p>Trump wins US elections High uncertainties and stock market turmoil after election victory, tough protectionist course of the US, strong throwbacks for international trade.</p> |
|  | <p>Volatility in global demand Increase in economic fluctuations on international markets. Upward trend in the emerging market less reliable, increasing frustration concerning structural (long-term) growth cycles.</p> |
|  | <p>Geopolitical distortions Increasing global trouble spots in Turkey, Russia/ Ukraine, Syria, East China Sea etc. hamper international trade and foment uncertainty</p> |
|  | <p>Destabilizing low crude oil price Low prices globally no longer stimulating but damaging. Credit losses and redundancies in the US energy sector, slump in demand on the part of commodity exporters.</p> |

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|  | Terrorism High uncertainty in the short-term, restricted consumption and tourism. |
|  | Grexit Action plan not effective (lack of acceptance, wrong recipes) |
|  | Increasing Cyber Attacks Significant disruption of communication infrastructures and integration. Strong impairment of production processes. |

Orientation in uncertain times

More information is available at your fingertips today than ever before in human history. Simultaneously, this information clutter leads to disorientation. In our current turbulent times we need to focus on intelligent understanding, interpretation and the assessment of relevant information and not simply on the amount of available information.

The BAK Swiss Risk Monitor allows an overview of the risks relevant for Switzerland's economy. BAKBASEL continuously analyses the latest developments and trends, reduces their complexity and prioritizes and assesses possible risks. The BAK Swiss Risk Monitor ensures that "old" or "known" risks are not lost out of sight and that "new" risks – which are suddenly focused upon by a media hype – can be classified correctly.

See also our website under the the following link:

<http://consult.bakbasel.com/risikomonitor/>

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