



Keynote I

# Global uncertainty and local stability: The Swiss economy in a turbulent environment

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**International Structured Products Forum – Uniting the Industry's Finest**



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# Global Uncertainty and Local Stability: The Swiss Economy in a Turbulent Environment

Keynote at the International Structured Products Forum

Lucerne, September 2, 2025

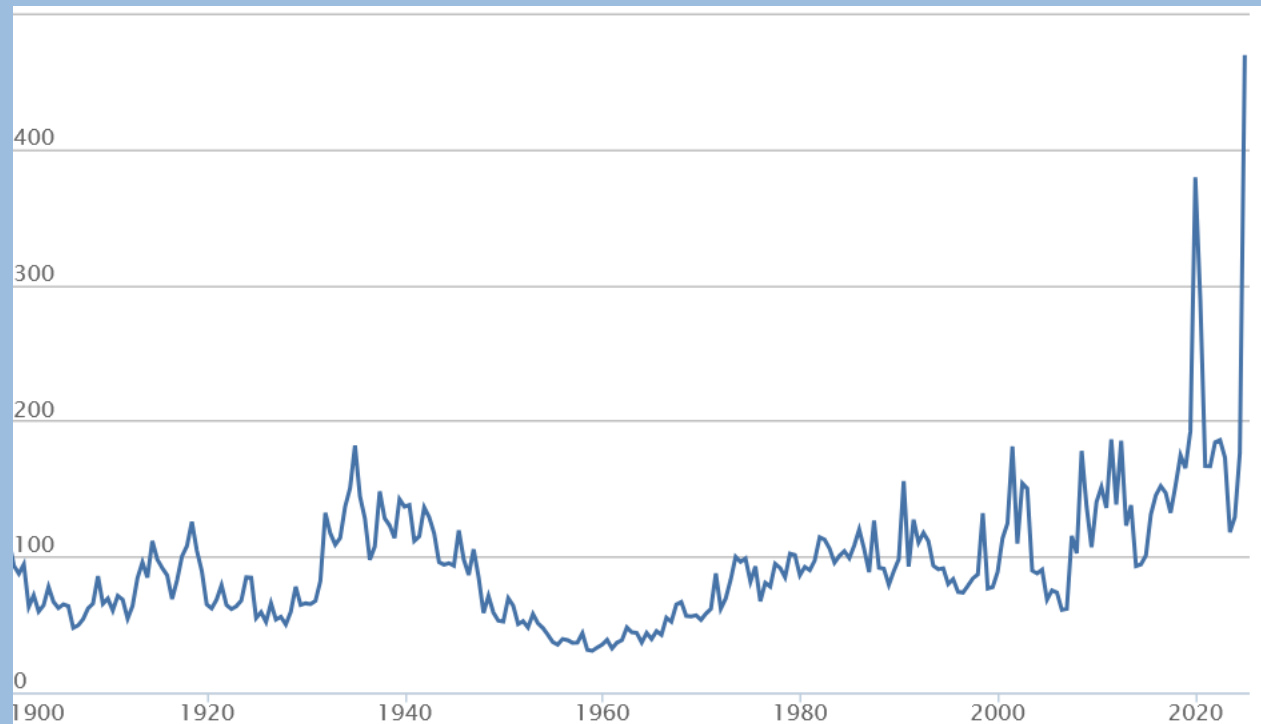
Prof. Aymo Brunetti  
University of Bern

1. The Trump uncertainty and inefficiency shock
2. The resilience of the Swiss economy
3. TBTF as an important resilience issue

# 1. The Trump uncertainty an inefficiency shock

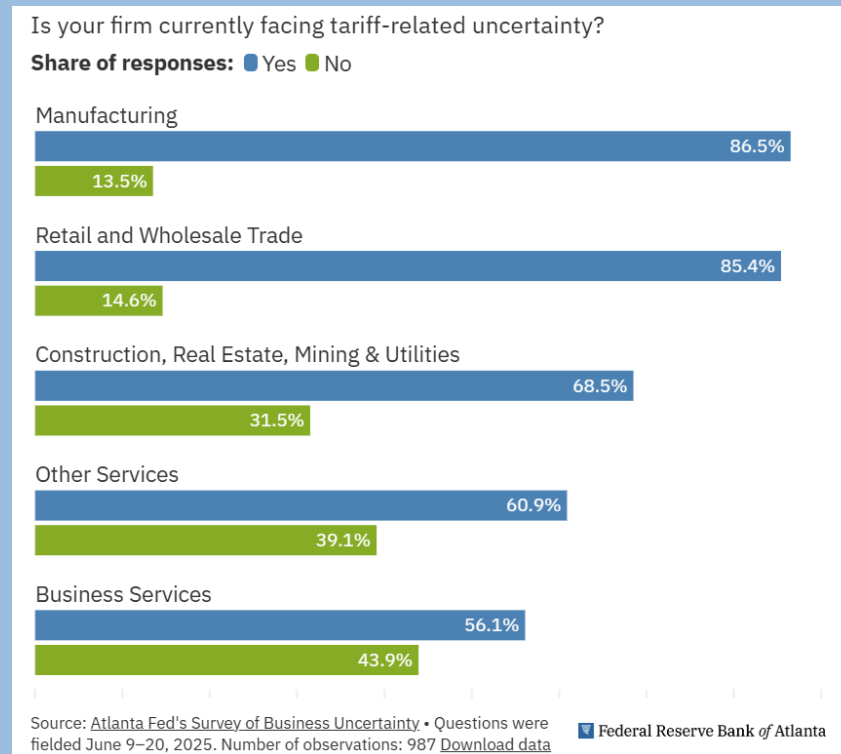
## Massive uncertainty due to chaotic economic policy

Monthly index of economic policy uncertainty in the US at an all-time high



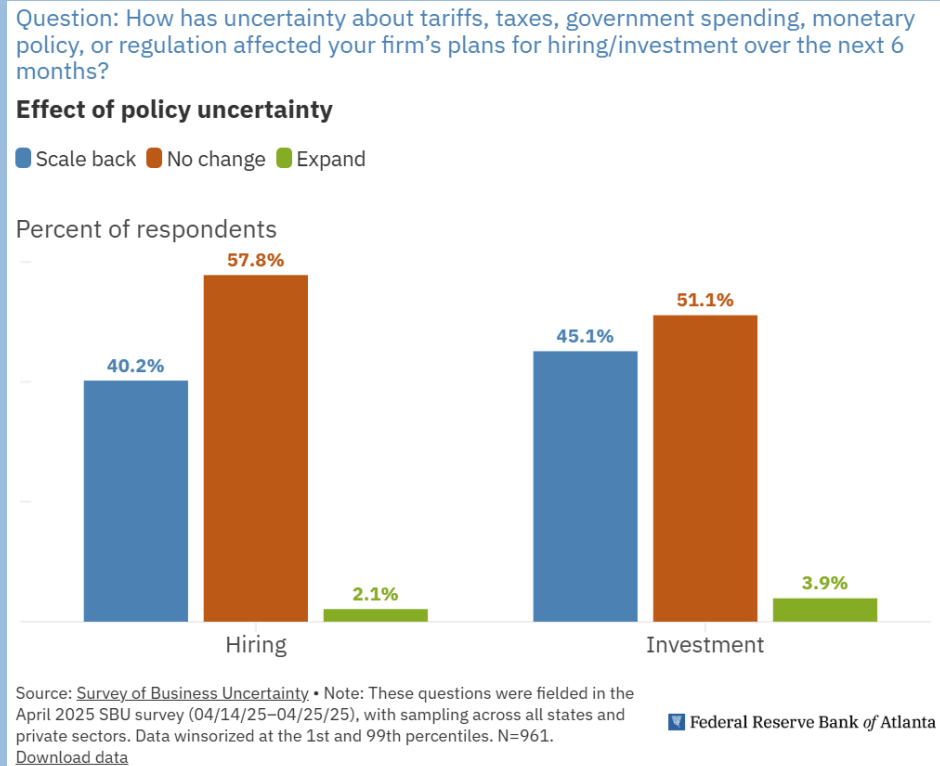
# 1. The Trump uncertainty an inefficiency shock

## US-firms report massive tariff-related uncertainties



# 1. The Trump uncertainty an inefficiency shock

## Uncertainty substantially hurts employment and investment



## 1. The Trump uncertainty an inefficiency shock

**But there are also big question marks regarding inefficiency**

- Foreign trade: Plain protectionism
- National budget: Complete lack of sustainability
- Price stability: Inflationary policy mix

# 1. The Trump uncertainty an inefficiency shock

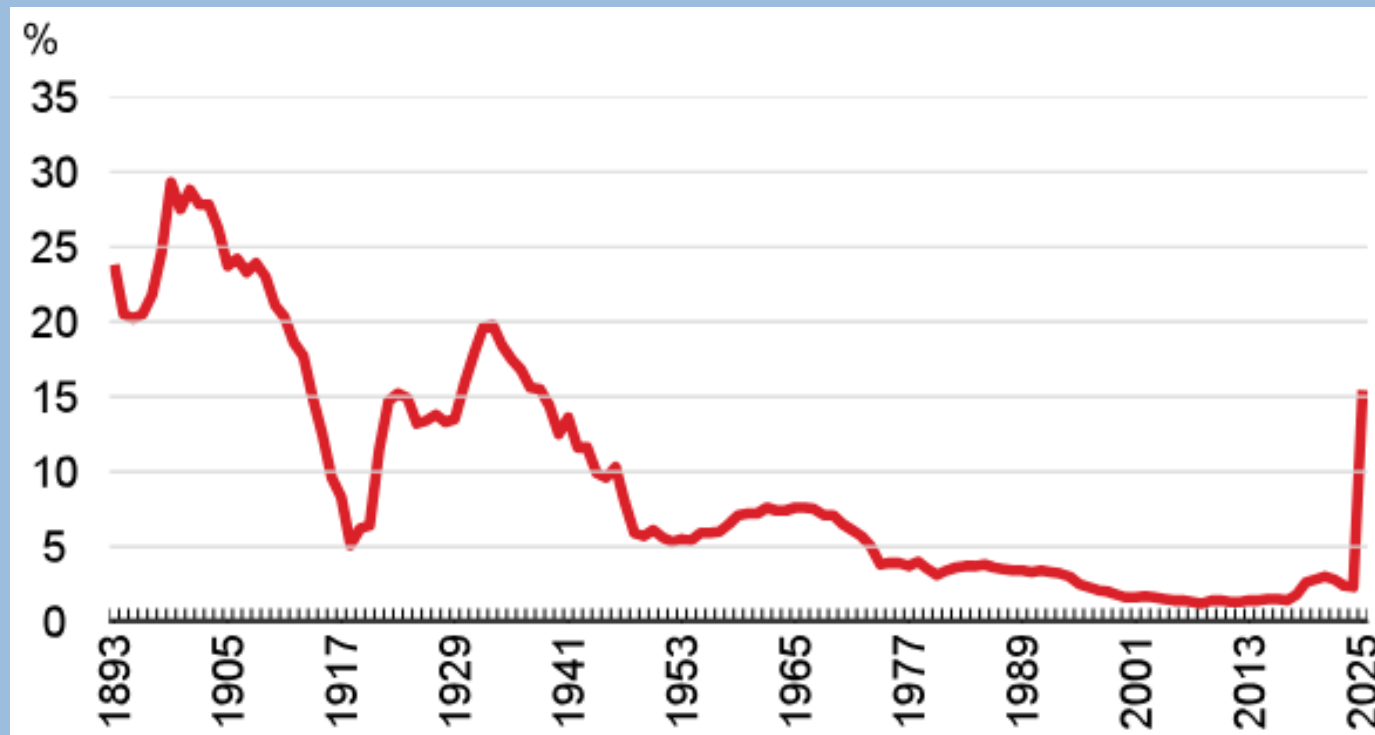
## Foreign trade (i): Misguided thinking leads to protectionism

- Any trade deficit is considered problematic
- Trade is seen as a zero-sum game
- Customs duties are referred to as taxation of foreign countries



## 1. The Trump uncertainty an inefficiency shock

Foreign trade (ii): Historically very high average tariffs

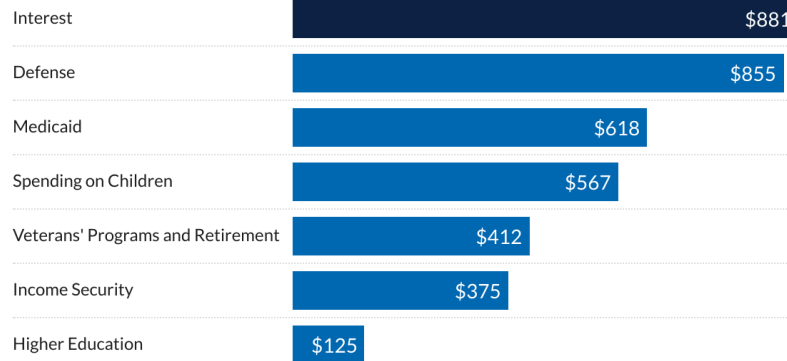


# 1. The Trump uncertainty an inefficiency shock

## Federal budget (i): Further increase in interest burden

### Spending on interest exceeded a number of other budget categories

Federal Spending in Fiscal Year 2024 (Billions of \$)

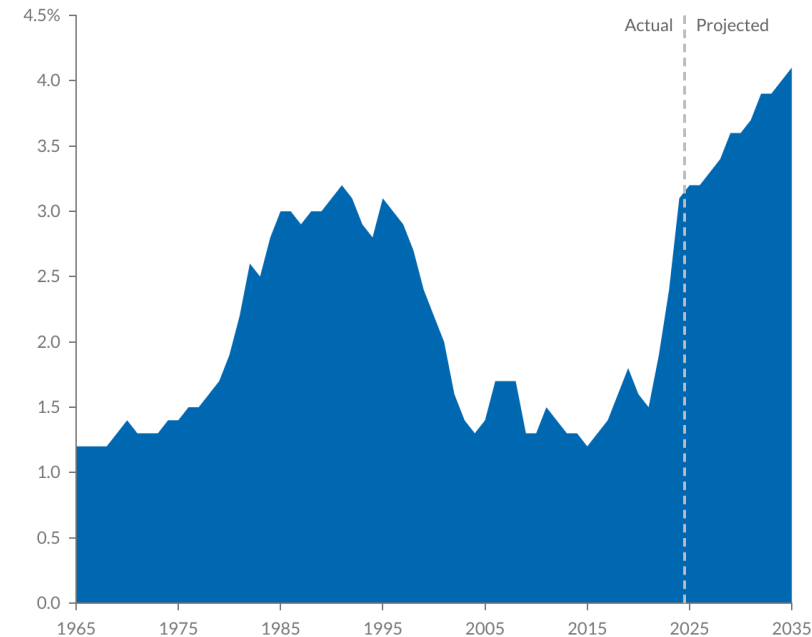


Sources: Congressional Budget Office and The Urban Institute

Notes: Spending on children is for fiscal year 2023. The Urban Institute projects that spending on children was less than interest in 2024.



### Net Interest (% of GDP)



Sources: Congressional Budget Office and Office of Management and Budget



# 1. The Trump uncertainty an inefficiency shock

## Price stability (i): Inflation risk with most measures

Virtually all announced policies drive prices up :

- Customs duties
- Strict migration restrictions
- Tax cuts
- Expensive spending plans
- Attacks on the independence of the Fed

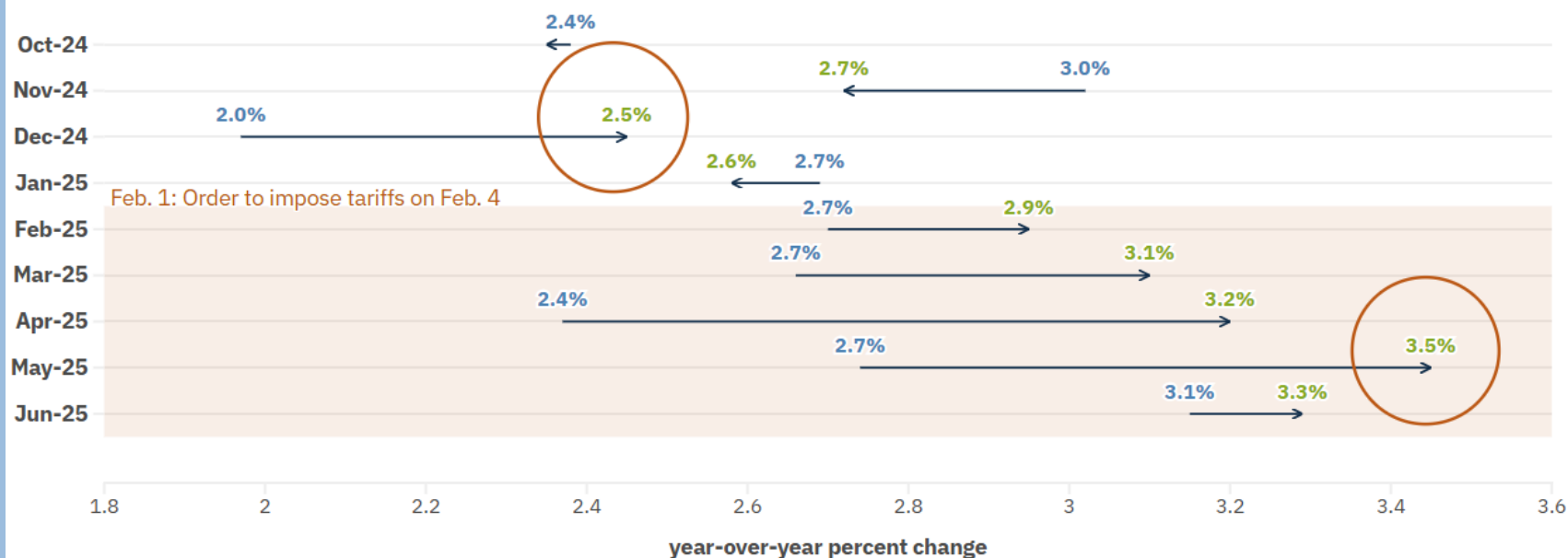
# 1. The Trump uncertainty an inefficiency shock

## Price stability (ii): Realized and expected price growth of US firms

Firms' Realized and Anticipated Price Growth

Mean: **Reported Realized Price Growth** | **Expected Price Growth 12 months Ahead**

Survey

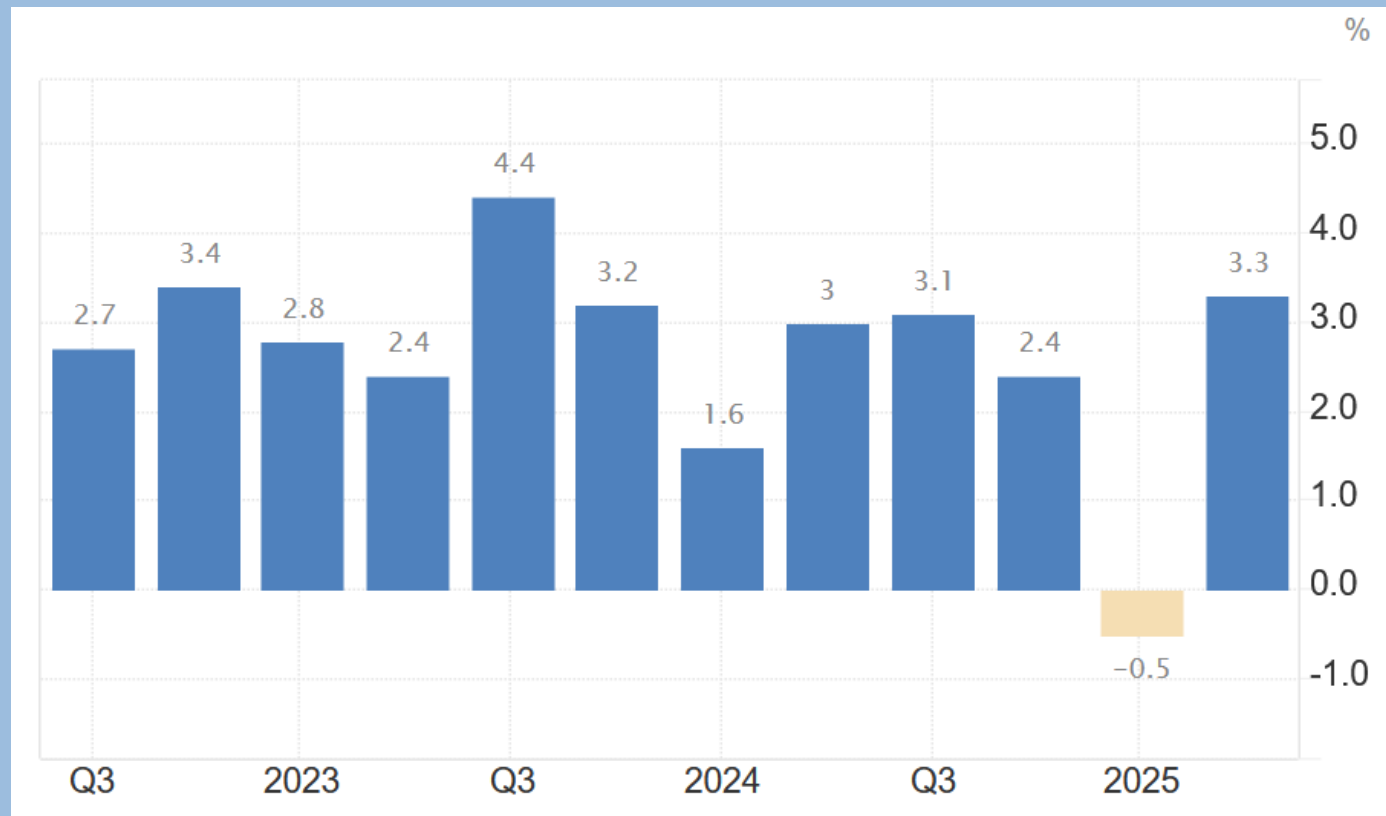


Source: [Survey of Business Uncertainty](#) •  $N_{\text{Expected}} = 3,567$ ,  $N_{\text{Realized}} = 3,609$

Federal Reserve Bank of Atlanta

## 1. The Trump uncertainty an inefficiency shock

... and in the first semester of 2025: Slowdown in US growth



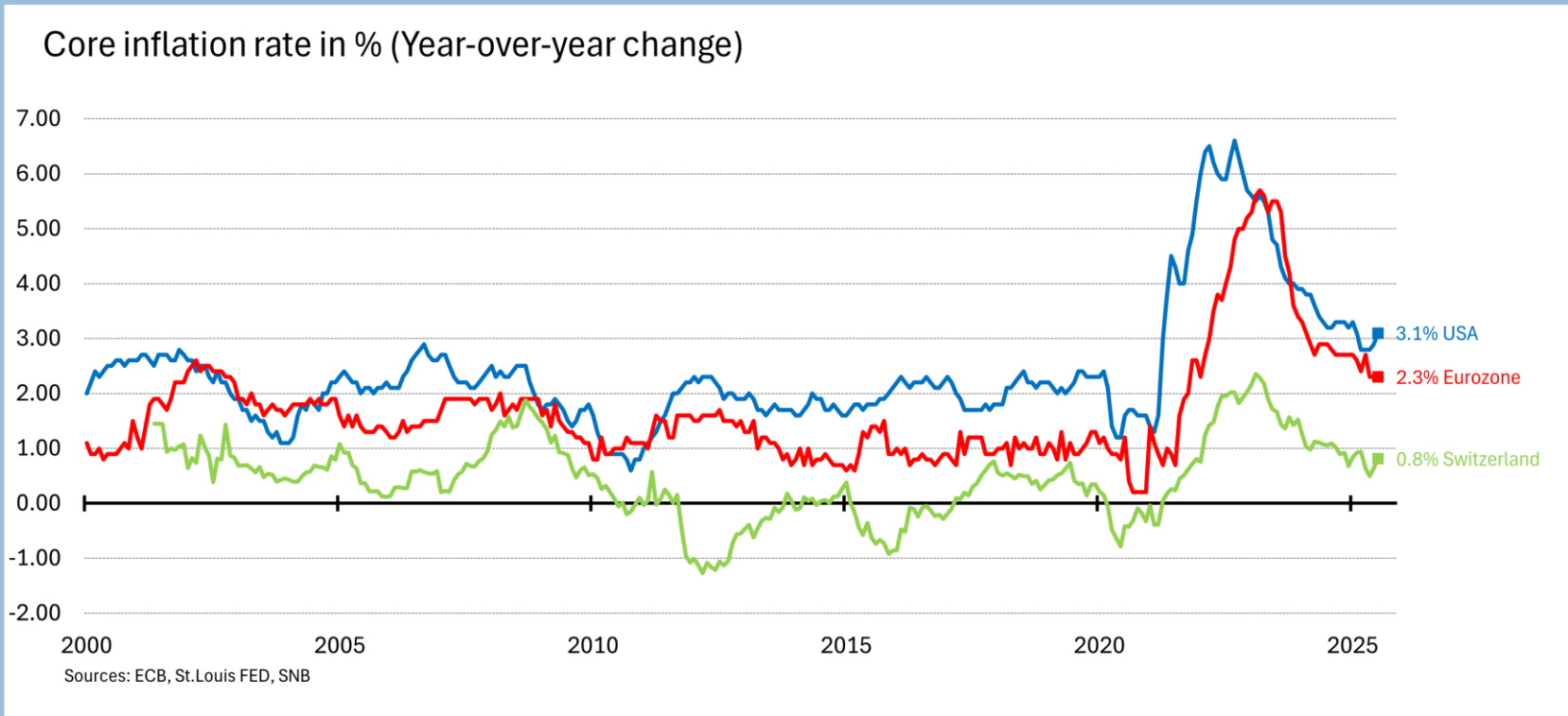
## 2. The resilience of the Swiss economy

### Example: Resilience in the recent inflation crisis

- Swiss inflation significantly lower than in comparable countries

## 2. The resilience of the Swiss economy

### Core inflation rates



## 2. The resilience of the Swiss economy

### Example: Resilience in the recent inflation crisis

- Swiss inflation significantly lower than in comparable countries
- Key explanation: Appreciation of the Swiss franc dampens inflation
- Despite its appreciation against the euro, the Swiss franc is not overvalued!



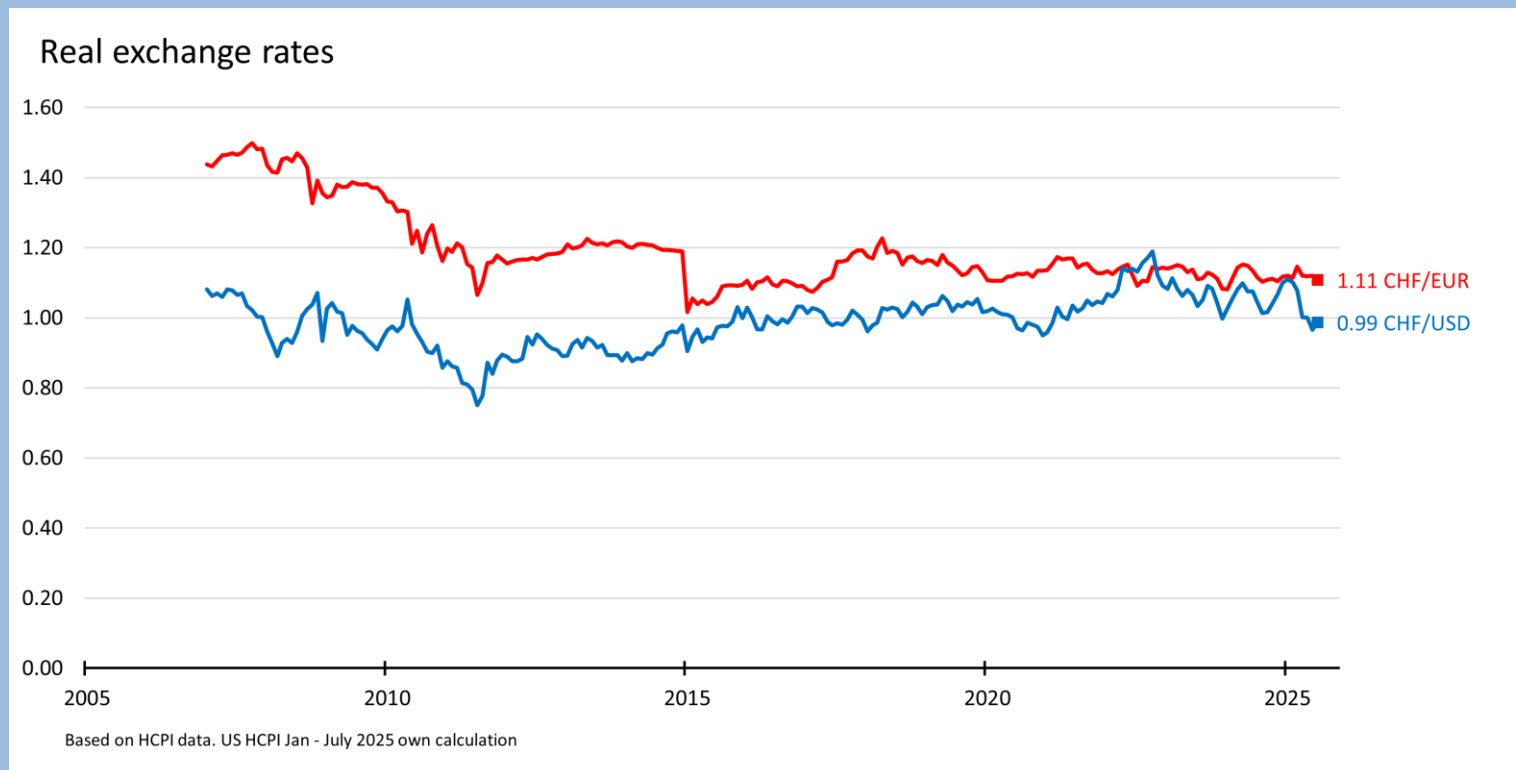
## 2. The resilience of the Swiss economy

### Example: Resilience in the recent inflation crisis

- Swiss inflation significantly lower than in comparable countries
- Key explanation: Appreciation of the Swiss franc dampens inflation
- Despite its appreciation against the euro, the Swiss franc is not overvalued!
- The reason for this is significantly higher inflation in the eurozone and the US

## 2. The resilience of the Swiss economy

Accordingly, despite nominal appreciation, the relevant real exchange rates have remained constant for a long time



## 2. The resilience of the Swiss economy

**In general: Remarkable resilience over the last two decades**

The Swiss economy was less severely affected by the two “crises of the century”, but for completely different reasons:

- ⇒ Great Financial Crisis: Stabilizing domestic economy
- ⇒ Great Pandemic: Stabilizing foreign trade

## 2. The resilience of the Swiss economy

### **Result: Switzerland is perceived as an island of stability**

- Remarkably increased shock resistance, especially in comparison with the economically difficult 1990s
- Economic policy reforms such as the debt brake rule and bilateral agreements with the EU were important
- Today, Switzerland is one of the most economically stable countries in the world
- Remaining challenges tend to be structural, in particular:
  - Financing retirement institutions
  - Future of bilateral agreements with the EU
  - Solution to the Too big to fail (TBTF) problem

### 3. TBTF as an important resilience issue

#### **TBTF is a really big challenge for Switzerland**

- Two recent existential crises at major Swiss banks
  - UBS 2008
  - Credit Suisse 2023
- In both cases, major risks for taxpayers and emergency legislation to resolve the situation
- UBS is now so big that a serious crisis could lead to the collapse of public finances
- This is a decisive risk to resilience that must be significantly reduced

### 3. TBTF as an important resilience issue

#### **A credible resolution regime is essential for Switzerland**

- If UBS fails, only two options remain for the future:
  - Resolution under the orderly resolution regime
  - Government bailout (ultimately nationalization)
- Nationalization would entail such unforeseeable financial and regulatory risks that, in my opinion, it is an absolute “no go”
- If a resolution is deemed unfeasible, Switzerland cannot be the host country for a major global bank

### 3. TBTF as an important resilience issue

Aim of the reforms: Avoiding a forced nationalization of UBS during the crisis, i.e., eliminating the implicit government guarantee

In my opinion, the most important reform areas are:

- Priority: Substantial strengthening of the resolution regime
  - Since the CS crisis, the perceived probability that resolution would be chosen in the event of a crisis is probably no higher than 10% (credibility problem!)
  - This probability should be increased to at least 80%
- Also important: Strengthening stabilization options, because
  - a resolution will always be disruptive and therefore the “last resort”,
  - the probability of a successful resolution can hardly ever be increased to 100%

### 3. TBTF as an important resilience issue

#### Priority: Measures to improve the resolution regime

Two points are of primary importance here:

- i. Increased access to liquidity in a resolution
- ii. Significant increase in credibility of the regime



### 3. TBTF as an important resilience issue

#### i. Increase in liquidity access in the resolution

Without sufficient liquidity, a resolution will result in a devastating bank run. Therefore, the following is essential:

- Introduction of the planned public liquidity backstops (PLB)
- This insurance requires substantial ex ante premium payments from the major banks
- Without adequate premiums, this creates a TBTF-subsidy via liquidity support

### 3. TBTF as an important resilience issue

#### ii. Significant increase in the credibility of a resolution

Ensure that a swift resolution (“over a weekend”) is internationally accepted and that politicians trust it

- Regular international stress tests based on plausible crisis scenarios
- Assurance from affected national regulators that they will play along
- Clear explanation for the public and for responsible politicians on how a resolution works

### 3. TBTF as an important resilience issue

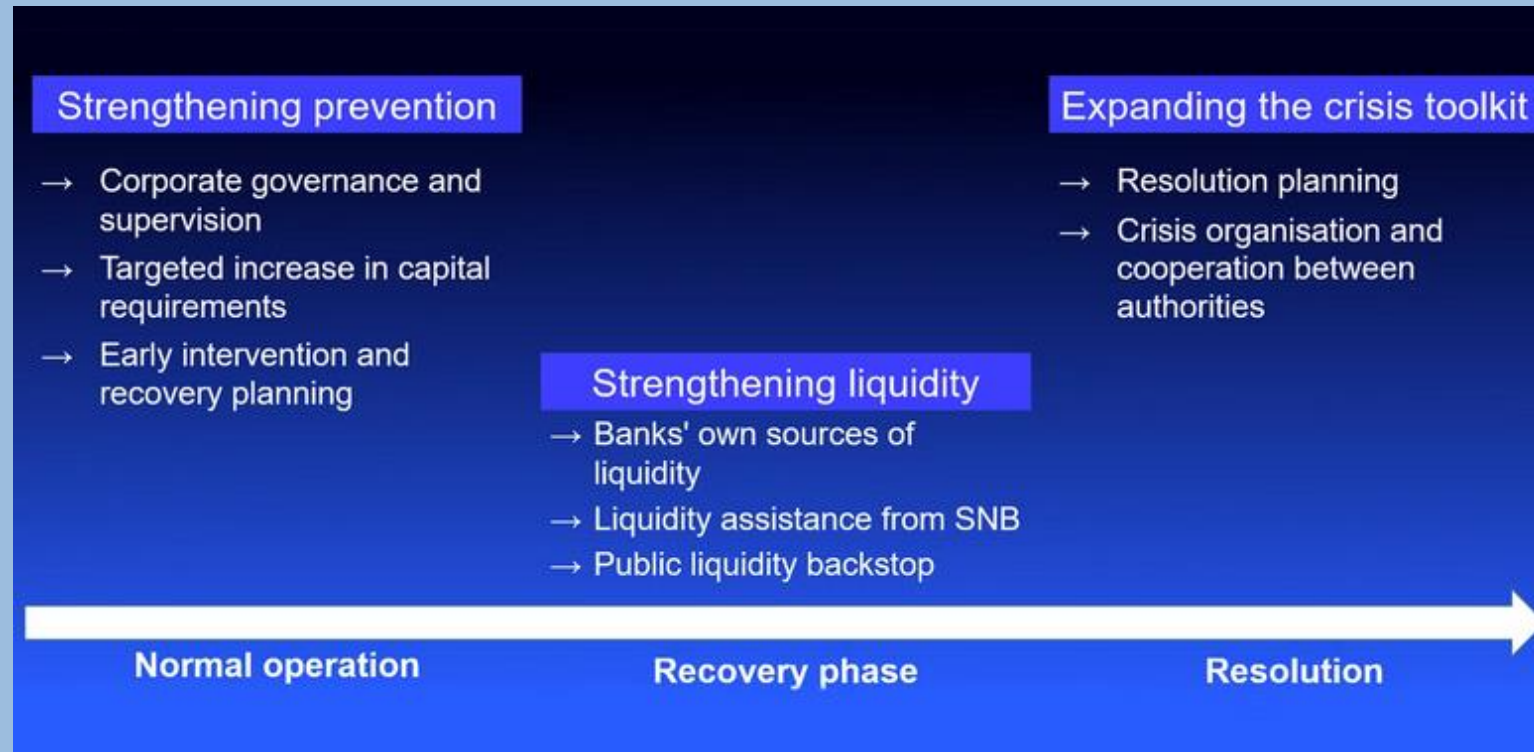
#### **Also important: strengthening stabilization options**

Capital requirements must be met in full at all levels of the group (parent-bank and subsidiaries):

- This prevents the parent-bank from becoming undercapitalized in the event of a crisis
- This does not correspond to an increase in general capital requirements

### 3. TBTF as an important resilience issue

#### The Federal Council's package of measures addresses key issues



### 3. TBTF as an important resilience issue

**In my opinion, key measures of the Federal Council's proposal are**

- Prevention: Foreign subsidiaries of UBS must be 100% backed by equity capital
- Resolution: Introduction of a Public Liquidity Backstop
- Resolution:
  - Increasing transparency regarding stress tests,
  - stronger cooperation between authorities,
  - regular information for the Federal Council and Parliament