Is a strong Swiss franc a curse or a blessing?

Market Performances (as of June 24, 2025 – 13:30 CET)

	CURRENT	CHANGE 1 WEEK	CHANGE YTD		CURRENT	CHANGE 1 WEEK	CHANGE YTD
MSCI USA Equity Index	5'758.20	-0.12%	2.51%	Gold Ounce	3'327.78	-1.78%	26.80%
MSCI Canada Equity Index	3'419.60	0.17%	7.32%	Silver Ounce	36.12	-2.65%	24.98%
MSCI Eurozone Equity Index	1'708.09	0.19%	8.74%	Oil WTI Future	66.49	-7.36%	-7.29%
MSCI Switzerland Equity Index	1'520.37	-1.17%	2.58%	EUR/USD	1.1606	1.10%	12.09%
MSCI Germany Equity Index	208.14	-1.01%	13.40%	EUR/CHF	0.9394	-0.22%	0.07%
MSCI Japan Equity Index	1'681.45	-1.11%	-2.02%	USD/CHF	0.8094	0.85%	-12.11%
MSCI Emerging Markets Equity Index	1'182.25	-1.23%	9.93%	USD/JPY	144.98	0.21%	-8.43%
Yield 10Y US Treasuries	4.332	-0.06	-0.24	CAD/USD	0.7291	0.27%	-4.65%
Yield 10Y German Bund	2.551	0.02	0.19	USD/CNY	7.1733	0.19%	-1.76%

Source: Bloomberg, Vontobel SFA

Does a strong currency harm export growth?
Over the recent months, investors have paid increased attention to global trade dynamics, in which currency movements can play an important role. Countries that maintain relatively weaker currencies may attract scrutiny. A weaker currency can offer a competitive advantage by keeping export prices – when converted into importing countries' currencies – more affordable.

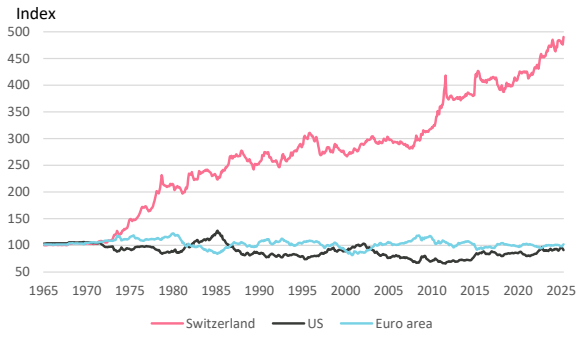
According to a broad study by the International Monetary Fund (IMF), a 10% depreciation in the real effective exchange rate has, on average, been associated with a 1.5% increase in net real exports as a share of the GDP.[1] However, the study spans 60 economies over a 34-year period, and results vary significantly by country and context, with effects ranging from 0.5% to 3.1%. While the relationship is subject to variation, the analysis suggests a general tendency for weaker currencies to support export growth.

That said, pursuing depreciation as a policy tool is not without potential risks. Such an approach may increase the potential for trade tensions and contribute to imported inflation. While currency weakness may provide short-term support for exporters, it does not necessarily contribute to long-term economic resilience.

Switzerland has taken a notably different path. Rather than relying on price competitiveness through currency depreciation, the Swiss economy emphasized quality, innovation, and specialization. This approach has helped Switzerland adapt to a currency that has appreciated significantly over time. Although the strong Swiss franc has influenced the country's economic structure, Switzerland has demonstrated that long-term strength in a currency can co-exist with a resilient and competitive export sector.

The Swiss franc's appreciation
Chart 1 illustrates the nominal effective exchange rate of the Swiss franc, weighted by trade with its major partners. Since the late 1960s, the franc has appreciated by approximately 400%. By comparison, the euro[2] and the U.S. dollar have experienced more limited and cyclical movements, without a consistent long-term trend.

Chart 1: Nominal effective exchange rates



Source: Bank for International Settlements, Vontobel SFA, April 2025

At first glance, the chart may appear unfavorable for Swiss exporters. However, when assessing export competitiveness, it is more informative to consider the real effective exchange rate (REER), which adjusts for inflation differentials. In other words, if an appreciating currency reflects lower inflation at home relative to trading partners, the net price effect may be neutralized.

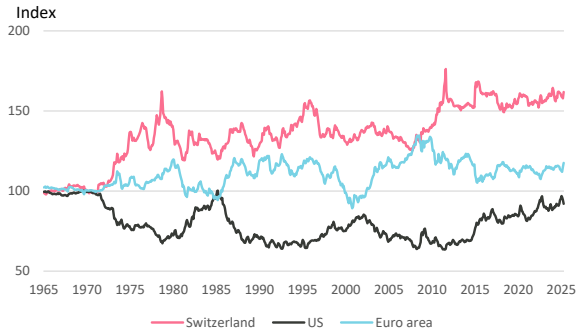
[1] IMF, 2015, World Economic Outlook, Chapter 3 Exchange Rates and Trade Flows: Disconnected?

[2] Before the introduction of the euro in 1999, the calculation is based on national currencies of member states

As a simplified example, if prices in the US rise 1% more than in Switzerland, and the Swiss franc appreciates by 1%, the dollar price of Swiss exports could remain effectively unchanged. Historical data suggests that a large portion of the franc's nominal appreciation can be attributed to Switzerland's lower inflation over time.

Chart 2 displays the real effective appreciation, which has been notably less than the nearly 400% nominal gain shown in in Chart 1).

Chart 2: Real effective exchange rates



Source: Bank for International Settlements, Vontobel SFA, April 2025

Why has the Swiss franc appreciated beyond what inflation differentials alone would suggest? There are likely multiple contributing factors. One possible explanation is the overall economic and financial appeal of the Swiss economy. With a long-standing reputation for political stability, low public debt, high levels of innovation, and a business-friendly fiscal environment, Switzerland has attracted both investment and skilled labor.

The Swiss franc is also widely regarded as a "safe haven" currency, which tends to attract capital flows during periods of global uncertainty. For instance, between the onset of the global financial crisis and the peak of the European sovereign debt crisis (October 2007 to August 2011), the Swiss franc appreciated by 34% in real effective terms. This trend slowed only after the Swiss National Bank (SNB) introduced a minimum exchange rate of 1.20 francs per euro in September 2011 – a policy that remained in effect until January 2015.

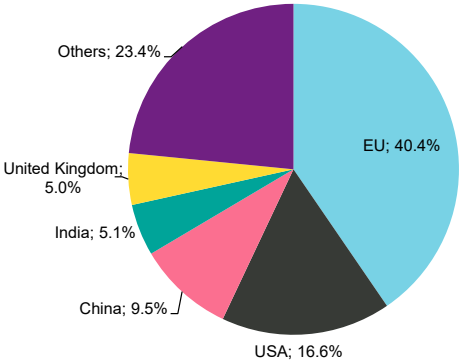
In today's global economy, where supply chains span multiple countries, one might expect currency sensitivity to diminish. Yet a broad-based analysis by the IMF found that export responsiveness to currency changes has remained relatively stable across a wide set of countries despite globalization trends.[3] The IMF concluded that despite this trend, the export sensitivities for currencies have not changed much across a large set of countries.

Currency sensitivity of Swiss exports

As a small, open economy, Switzerland's trade sector is inherently influenced by external economic conditions. Over the past five years, exports of goods and services have averaged 72% of GDP, while imports have averaged 61%. Since the late 1990s, Switzerland has consistently maintained a sizable trade surplus.

Chart 3 highlights the geographical composition of Swiss exports. While Europe remains the dominant trading partner, the US and China are also significant destinations for Swiss goods.

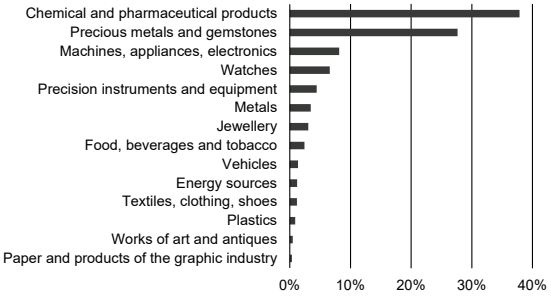
Chart 3: Swiss export composition by destination in 2024



Source: Swiss Federal Office for Customs and Border Security, Vontobel SFA, April 2025

Looking at export composition by industry, chemical and pharmaceutical products represent the largest segment, accounting for close to 40% of total exports in 2024 (see Chart 4). This reflects a long-term shift in Switzerland's export structure According to data from the Swiss Federal Office for Customs and Border Security, the sector's share was just 20.9% in 1990.

Chart 4: Swiss export Composition by Sector (2024)



Source: Swiss Federal Office for Customs and Border Security, Vontobel SFA, April 2025

The net export surplus of Switzerland can largely be attributed to the pharmaceutical sector. Chart 5 shows that, excluding the chemicals and pharmaceutical sectors, other goods sectors consistently run a trade deficit. Within that group, four sectors appear to have run a surplus: precious metals and gemstones, jewelry, precision instruments and equipment, and watches.

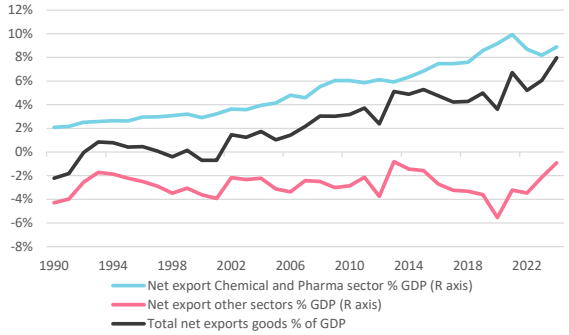
As noted in Sauré (2015)[4], trade balances in the pharmaceutical sector can be relatively persistent. The research and development (R&D) and therapeutic development processes for new medications can be lengthy and capital intensive. During such periods, capital may flow into countries with strong pharmaceutical activity, and a trade

[3] IMF, 2015, World Economic Outlook, Chapter 3 Exchange Rates and Trade Flows: Disconnected?

[4] See also Philip Sauré, the resilient trade surplus, the pharmaceutical sector, and exchange rate assessments in Switzerland. Peterson Institute for International Economics. Working paper number 15-11, July 2015. which showed that exports of the pharmaceutical sector were quite stable in the 1960s and 1970s but start to rise from the 1980s and especially from the 1990s.

deficit may be observed. Once these medications are commercialized, they can contribute to a notable trade surplus. The products, due in part to patent protection, tend to be relatively price insensitive and less affected by currency appreciation. That said, in context of global supply chains, there may be a disconnect between where the R&D is performed and where the production of the medicine takes place. In both cases, factors such as talent availability, infrastructure and tax considerations can influence the outcome.

Chart 5: Net export balance as % of GDP



Source: Swiss Federal Office for Customs and Border Security, Vontobel SFA, April 2025

The relative rise of the pharmaceutical sector in Switzerland may reflect the long-term strength of the Swiss franc, but also the country's broader innovation focus. Due to the current sector composition of exports, Switzerland's overall export basket appears relatively less sensitive to Swiss franc appreciation. Thorbecke and Kato found that, based on sectoral complexity, Switzerland has one of the most sophisticated export profiles globally – driven by the pharmaceutical and the watch sectors. On another metric, R&D spending as a share of value-added manufacturing is estimated to be 2 to 5 times higher than G7 countries. In 2024, approximately 53% of Swiss exports were classified as high-technology goods.[5]

For highly sophisticated sectors, currency developments generally have a limited effect on pricing (in Swiss franc), demand, and corporate earnings. However, specialized machinery, mid-tech tools, and industrial goods tend to be more exposed to exchange rate movements. On an aggregate level, the high concentration of high-tech goods in Swiss exports suggests a relatively limited impact of currency fluctuations on volumes, prices, and margins – particularly when compared to other countries. This may also contribute to reduced sensitivity of the Swiss equity market to currency movements. When measured in US-dollars, a Swiss franc appreciation has historically been a positive factor for Swiss equity investments.

According to Thorbecke and Kato, this contrasts with Japan. Although the Japanese Yen also tends to appreciate during times of market stress, Japan's export mix is more concentrated in medium- to high- technology sectors – such as electronics – that tend to be more sensitive to currency fluctuations. In such cases, a stronger currency can compress margins and weigh on stock prices. As a result, an appreciating Yen has not typically resulted in stronger USD-denominated returns for Japanese equities.

Whether an appreciating currency leads to overall falling export volumes for Swiss medium- to high- technology sectors may depend on multiple factors. A University of Basel study[6] examined both exchange rate appreciation and demand dynamics. In high-tech sectors, which often have high pricing power and are protected by patent or positioned at the high-end of the market, the destination of exports appears to matter less. The study found that elasticities in these sectors tend to exceed the negative effects of currency appreciation. It also noted regional variation: for example, European export destinations, such as Germany, showed greater sensitivity to currency shifts than the US, UK and Canada.

Exports in the medium- to high- technology segments continued to grow in recent years, supported by increased demand from emerging markets, even as the Swiss franc appreciated in real terms. That said, the share of these sectors within the total Swiss exports declined due to faster growth in pharmaceutical and chemical sectors. This may indicate that, over time, Swiss exports have become less sensitive to currency movements.

Focus on innovation and economic performance in Switzerland

An open question remains whether the strength of the Swiss franc is a result of Switzerland's strong economic and financial fundamentals, or whether the currency's strength has itself prompted a shift toward innovation. It is likely that both factors interact. What seems evident is that the Swiss economy has adapted to a strong currency environment and, in many respects, appears to have benefited from it.

On a sector level, a strong franc may have created challenges for certain industries, but it may also have contributed to a reallocation of capital toward high-value-added, technology-intensive sectors. In this regard, Switzerland is competing more on quality than price.

The Swiss economy scores high in rankings on both innovation and competitiveness, such as the IMD World Competitiveness Ranking. Financial conditions remain, supported by low inflation and low government debt, which have contributed to a low-interest rate environment. This, in turn, supported capital expenditures at relatively low financing costs. Not only the government benefits from these conditions, but many businesses do as well – particularly in the context of supportive tax policies[7].

[5] Thorbecke and Kato, 2018, Exchange rates and the Swiss economy. Journal of policy modeling, volume 40, issue 6, 1182-1199

[6] Grossmann, Lein and Schmidt, 2016, Exchange rate and foreign GDP elasticities of Swiss exports across sectors and destination countries, Applied economics, volume 48, issue 57

[7] Based on data from Tax Foundation (www.taxfoundation.org) Switzerland scored in the top 10 in 2024 in a country ranking on corporate, individual and cross-border tax with an overall ranking of 4

Data presented is based on historical information and is not a guarantee of future performance. Illustrative examples are provided for educational purposes and may not reflect actual results in current or future market environments.

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Conclusion
Since the late 1960s the Swiss franc has appreciated by nearly 400% versus its trading partners. Most of that can be explained by the lower inflation rate, but even correcting for that the franc has still increased by 50%.

Where a weaker currency is often associated with better (short-term) export growth, the appreciating currency does not seem to have harmed the Swiss economic performance.

Opting for a depreciating or cheaper currency can give exporters a price advantage and its effectively an instrument to compete on price. Switzerland is focusing, possibly out of necessity, on quality. Swiss export growth has changed significantly over time and has become more high-tech and innovation driven and has been beneficial for those export sectors, like chemical and pharmaceutical products and watch manufacturing, that are not that particularly sensitive to an appreciating currency. These companies have pricing power and a unique product. The lessons from this are, certainly in the case of Switzerland, an expensive currency seems more a blessing than a curse and has probably been both the result and the driver of innovation leading to lower inflation, high productivity growth and lower interest rates. At the macro level, the stronger Swiss franc has not been a persistent headwind for equity markets. In fact, when measured in U.S. dollars, currency appreciation has at times supported Swiss equity returns.

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