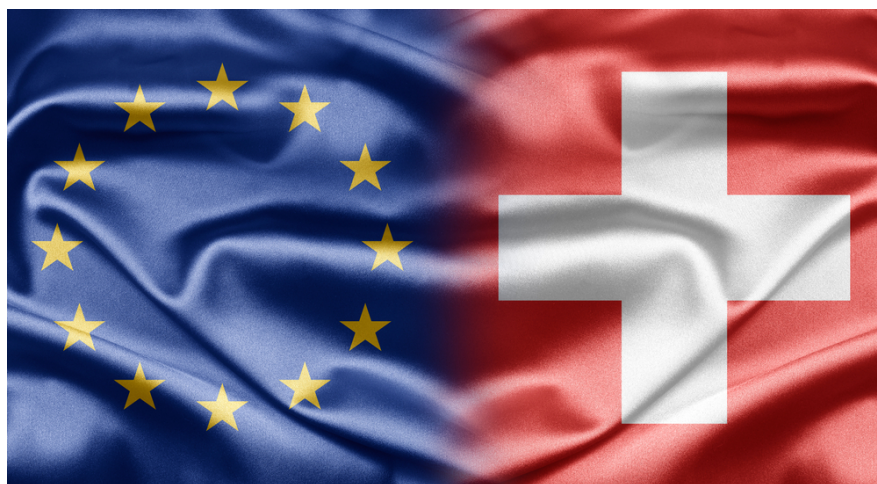


Switzerland: 'Self-determination' vote may have major impact on markets

A referendum in Switzerland on Sunday could complicate current negotiations with the EU and the economic and financial consequences could be significant



Switzerland and the EU

Source: ING

Referendum on 'self-determination'

Switzerland goes to the polls this Sunday to decide whether Swiss law should take precedence over international treaties. Supporters of the initiative, which was launched by the country's biggest party, the ultra-conservative and eurosceptic Swiss People's Party (SVP or UDC), say global agreements should be renegotiated or cancelled if they clash with the results of a domestic referendum.

The vote is a consequence of a previous referendum on immigration almost five years ago when a majority of Swiss citizens voted against mass immigration and asked for the introduction of immigration quotas. Such quotas would have been in direct opposition to the international treaties that existed between Switzerland and the European Union. And so after long discussions, and contrary to what was required by the Constitution, the initiative never became law. Instead, the government pushed through regulations giving priority to Swiss-based workers in certain sectors of the economy with the highest unemployment rates.

The SVP argues that the Swiss Constitution, which normally requires parliament to turn

referendum results into law, has been overruled by international law, and it wants to stop this from happening again.

Negotiations for the “framework agreement” could be affected

This vote really arrives at the worst possible moment because the Swiss and the EU are currently renegotiating their relations for the coming years. The EU wants a "framework agreement" to formalise relations and replace the 120 existing treaties. The purpose of this agreement is to force Swiss legislation to automatically align with European rules in certain areas. The framework agreement would also give the European Court of Justice an important role in conflict resolution. The initiative on Sunday has no direct link with these negotiations but it could certainly influence the process because a 'Yes' vote would make a framework agreement difficult to defend politically.

Negotiations between the EU and Switzerland have become bogged down lately and it is difficult to see how a framework agreement could be concluded quickly. The EU is putting pressure on Switzerland because it doesn't want to set an example for Brexiteers. It has decided to link the progress of the negotiations with the recognition of the Swiss stock market rules that allow cross-border trading.

Essentially, this means that in December 2018, without sufficient progress in the negotiations, Europe's access to the Swiss stock exchange and securities listed in Switzerland could be under threat. Without equivalence, Switzerland would probably apply the same measure to the EU and no longer recognise European stock exchanges. Needless to say, this threat is extremely significant for a global stock market such as Switzerland.

What are the possible consequences of Sunday's vote?

A 'yes' vote in Sunday's referendum could further complicate negotiations between Switzerland and the EU. We believe this outcome could completely block the negotiations, which are already suffering from strong domestic opposition. In turn, this could impact the granting of equivalence and endanger the entire Swiss stock market.

For now, polls indicate that a 'no' vote will prevail. But even so, the whole initiative could make Swiss politicians nervous, especially if there is some popular support for it. They might want to wait for Brexit to be resolved before starting discussions again.

Still, time is running out because the renewal of the European Parliament in May 2019 could further complicate the negotiations. And Switzerland will have elections in October 2019 which could frustrate negotiations even more as the Eurosceptic Swiss party (SVP) intends to make the fight against the framework agreement its electoral battle horse to gain even more seats in parliament.

Although we think that the EU will probably give Switzerland temporary stock exchange equivalence for 2019, this Sunday's vote could be the trigger for a total halt to the negotiations in 2019. If talks end and equivalence is not granted, the economic and financial consequences for Switzerland could be significant, putting pressure on the Swiss franc.

Author

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.