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**Tariff Shock: How Trump's 39% Duty on
Swiss Exports Threatens Manufacturing,
Banking, and Growth**

By

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20 August 2025

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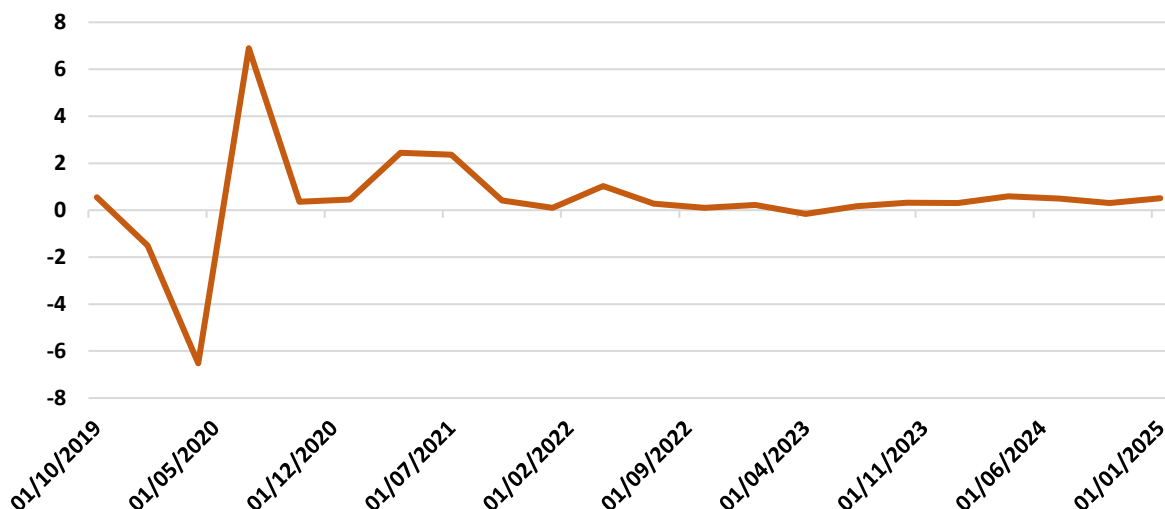
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Executive Summary

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- ✦ President Trump announced a 39% tariff on Swiss exports, more than double the European Union's rate, citing Switzerland's rising trade surplus with the US. The move is one of the steepest tariff hikes Washington has imposed on a major Western economy in recent years.
- ✦ industrial exporters, particularly in precision instruments and medical devices, face immediate cost pressures. High-end watchmakers like Rolex and Swatch, along with premium food producers such as Lindt, face rising costs and potential loss of market share in the US.
- ✦ Swiss pharmaceutical exports, a major driver of the trade surplus, are temporarily exempt but under US investigation for potential higher tariffs. The uncertainty is already weighing on business confidence.
- ✦ Swiss officials believed they were close to securing a 10% tariff compromise in July, but Trump rejected the proposal, accusing Switzerland of a \$40 billion trade deficit.
- ✦ The tariffs are likely to slow investment, exports, and domestic consumption. While immediate recession risk is low, a prolonged trade dispute could prompt the Swiss National Bank to cut interest rates back to zero.
- ✦ The US trade deficit with Switzerland rose to nearly \$48 billion in early 2025, driven by surging gold and pharmaceutical exports.
- ✦ Switzerland's options for retaliation are minimal, with potential measures limited to adjustments in defense procurement and other niche bargaining tools.
- ✦ The dispute intersects with US pharmaceutical pricing policy, which could further disadvantage Swiss firms and accelerate their production shifts to the EU.
- ✦ The trade dispute compounds pressure on Swiss banks already facing tighter domestic capital requirements, threatening competitiveness in global markets.
- ✦ Switzerland's Crypto Valley in Zug hosts over 700 blockchain firms worth nearly \$383 billion, with 2024 funding hitting \$586 million, but rising competition from US crypto-friendly policies and possible domestic regulatory friction could challenge its dominance.

Key Picture: QoQ GDP Growth in Switzerland



Source: FRED

US Tariffs Threaten Swiss Exports and Industry Stability

President Trump has announced a 39% tariff on Swiss exports, the highest rate applied to any developed country and more than double the 15% tariff set for the European Union. The new 39% tariff is higher than the 31% rate President Trump announced on “liberation day” in April. The decision has drawn strong criticism from industry and business groups. Swissmechanic, which represents thousands of small and medium-sized companies, called on the government to take a “[clear line](#)” with Washington. The most likely reason for the move is the sharp increase in Switzerland’s trade surplus with the US in 2024.

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Obviously, this would render many Swiss manufacturing firms uncompetitive in the US market, prompting production to shift to neighbouring EU countries. For example, medical device company [Ypsomed Holding AG plans](#) to shift part of its medical device production to Schwerin, Germany, where tariffs are less than half the Swiss rate and increase manufacturing in the US. Luxury watchmakers, producing non-essential goods, are likely to be hit hardest as buyers may delay purchases in anticipation of lower tariffs in the future. Food products, while essential, also face risks: numerous alternatives from other countries carry lower tariffs and often have lower production costs.

Pharmaceutical products are temporarily excluded from this measure, but the relief may be short-lived. The sector is under a separate Section 232 national security investigation launched earlier this year, which could lead to tariffs of up to 200%—[or even 250%, according to Trump’s comments on CNBC](#). This is a sharp break from decades of practice in which medicines were kept out of trade disputes because of their essential role in public health. The potential impact is significant. Switzerland is a global leader in pharmaceuticals, with life sciences making up 38.5% of its exports [in 2023](#). If the sector is included in future tariffs, it would hit one of the country’s most important industries and disrupt international drug supply chains.

Importantly, [President Trump announced](#) that gold imports will be exempt from tariffs, overturning a US customs ruling that would have applied duties to Swiss gold bars.

Swiss Negotiation Disaster

Until early July, President Keller-Sutter and Vice President Parmelin believed they were on solid ground, banking on Switzerland’s small economy, abolition of industrial tariffs, and investment pledges from Roche and Novartis. In return for modest concessions on agriculture and medical devices, they sought a 10% tariff cap and a pledge to spare Swiss medicines from punitive levies.

By late June, talks led by Treasury Secretary Bessent and USTR Jamieson Greer seemed close to agreement. Relying on US ministers’ assurances, Bern gave its formal approval on July 4 without direct confirmation from Donald Trump. Then, on July 31, Trump blindsided Keller-Sutter in a phone call, accusing Switzerland of “stealing” from the US over a \$40 billion trade deficit. Refusing to compromise on the pre-negotiated draft, she walked away from what now appears to have been a doomed deal.

On August 1 — Switzerland’s national holiday — Keller-Sutter tried to project calm as the US imposed 39% tariffs, more than double the EU’s rate. Behind the scenes, Bern scrambled to offer new concessions, from defense purchases to LNG imports. A last-minute trip to Washington ended with only a courtesy meeting, and the tariffs took effect before her plane landed.

Switzerland’s Economic Outlook

While Switzerland still has options to respond, the new tariffs are expected to weigh on both the economy and individual companies. Tariffs will likely slow investment, exports, and consumption in the second half and rise unemployment, but a recession remains unlikely given the economy’s resilience. If the US tariff shock is not resolved quickly, economic and job losses are likely in the coming months. The tariffs are expected to dampen investment, exports, and private consumption in the second half of the year. This has increased the chances of

the Swiss National Bank (SNB) cutting policy rates into negative territory, but this is not a base case. For now, rising inflation and the SNB's hawkish tone make a September rate cut unlikely, and there is no scope for FX intervention. However, if the 39% US tariff remains in place for an extended period, the probability of a 50bp cut in December would rise.

The country is heavily dependent on pharmaceutical exports, which make up 5.4% of GDP and about 40% of total exports, worth over 100 billion Swiss francs a year. Economic growth has been subdued for some time, with GDP rising just 0.5% in the first quarter of 2025, below the preliminary estimate of 0.7%. Net trade contributed negatively, as imports surged 13.1% (vs 3.4%) while exports grew by less at 10.5% (vs 6.2%). GDP expanded by 2.0% y-o-y, accelerating from a 1.6% growth in Q4 and above the expected 1.5% expansion. Inflation has also remained weak, even slipping into negative territory earlier this year. In July, consumer prices were only 0.2% higher than a year earlier.

US Trade Deficit with Switzerland

America's goods [trade deficit with Switzerland](#) was just over \$38 billion last year and has already climbed to nearly \$48 billion in the first half of this year. Swiss exports to the US are concentrated in a few sectors. Gold refining is the largest—accounting for about two-thirds of exports in recent months. Gold often arrives in Switzerland from London for refining into bars meeting US warehouse standards before being shipped across the Atlantic. Demand surged as Trump's trade policies unsettled markets, boosting Swiss gold shipments and widening the deficit.

Pharmaceuticals are the second-largest export, making up roughly half of non-gold shipments. [In 2024](#), Swiss drugmakers such as Roche and Novartis sent around \$35 billion worth of medicines, cancer treatments, vaccines, and other products to the US. Trump has threatened steep tariffs on global pharmaceuticals unless companies cut US prices and shift production stateside. Other exports include precision machinery (\$12 billion in 2024), luxury watches (over \$5 billion), and popular consumer goods like Swiss chocolate, cheese, and Nespresso coffee pods.

Limited Options for Switzerland

As mentioned, the US goods trade deficit with Switzerland totaled just over \$38 billion last year but surged to nearly \$48 billion in the first half of this year, driven largely by gold and pharmaceutical exports. This spike was amplified by stockpiling earlier in the year, which temporarily distorted the figures. In fact, US data shows the bilateral balance briefly shifted to a US surplus in April and May as companies scaled back emergency inventories. President Trump has criticized the deficit both publicly and privately, making it a focal point in his trade rhetoric.

Switzerland's ability to respond is limited. Unlike the EU or Japan, it lacks the market size to impose retaliatory tariffs that would meaningfully affect the US economy. Nor can it leverage defense cooperation or energy market integration as bargaining tools. Its adherence to a long-standing economic model—while a strength in stability—has left Bern with few clear options for breaking the current deadlock.

In today's trade conflicts, tariffs often serve as leverage in broader negotiations. The US can impose steep duties, prompting targeted countries to offer concessions—such as committing to purchase US liquefied natural gas (LNG) or increasing defense spending—in exchange for tariff reductions. For Switzerland, these options are limited. Expanding LNG imports is largely impractical: the country has no import infrastructure and uses minimal natural gas, making any such pledge largely symbolic.

Defense procurement offers a more viable bargaining chip. Switzerland has already committed to purchasing F-35 fighter jets from the US, and adjusting the scale of that order could be used as leverage in talks. [Some Swiss politicians](#), frustrated by the tariff decision, have even floated cancelling the more than \$9 billion deal as a negotiating tactic.

Pharma at the Heart of the Tariff Dispute

Trump has pledged to lower US healthcare costs, either by increasing domestic drug production or reducing import prices for pharmaceuticals. Any trade deal that cuts Switzerland's tariff below 39% would likely involve the pharma sector. In return, Trump may expect the Swiss government to make concessions—such as allowing higher drug prices or loosening regulations in Switzerland—to help pharmaceutical companies offset the lower prices they would need to charge in the US.

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[The White House issued an ultimatum](#) to 17 major pharmaceutical companies—including Roche, Novartis, Pfizer, and GSK—demanding “Most Favored Nation” pricing across Medicare, Medicaid, and private insurers, as well as direct sales to patients that bypass pharmacy benefit managers (PBMs). This approach would link US drug prices to the lowest rates available in other developed markets, aiming to cut costs and increase transparency.

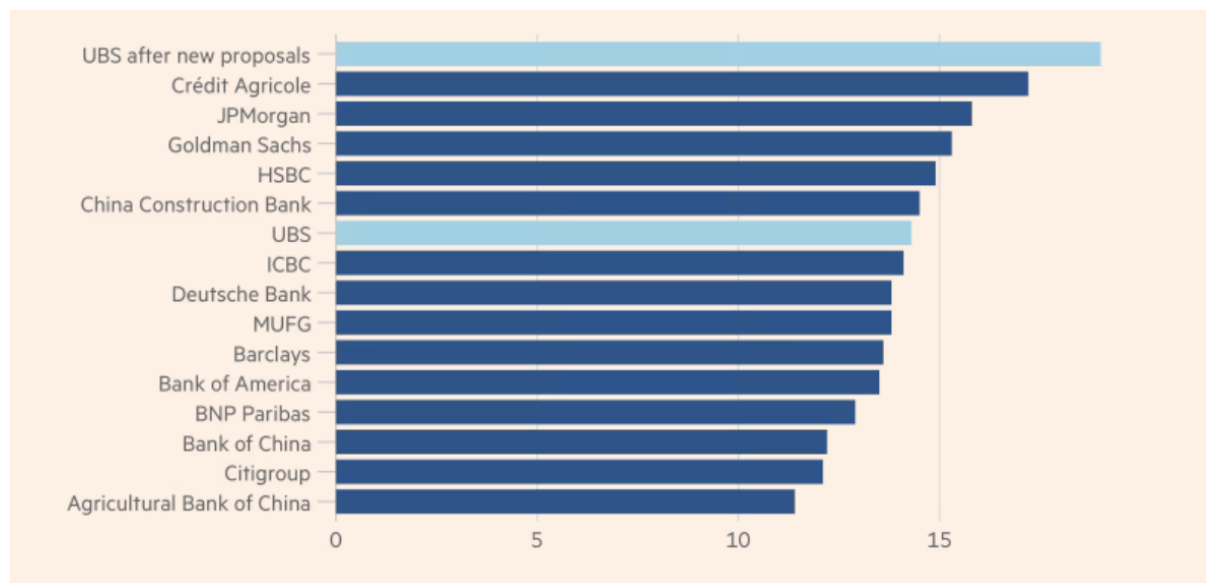
Thus, Switzerland's difficulty in securing a better outcome with Washington may stem less from its own negotiating approach and more from the broader pressures facing the global pharmaceutical industry, one of its most important and profitable sectors. The 39% tariff decision aligns closely with President Trump's push to overhaul US drug pricing.

Non-compliant companies face the threat of regulatory measures, while foreign producers risk higher tariffs. For Switzerland, this connects the 39% tariff directly to US pharma policy. The gap with the EU's 15% rate could leave Swiss-based firms at a competitive disadvantage, potentially accelerating investment and manufacturing relocations within Europe.

Swiss Banks Face Stricter Rules

In June, [the Swiss government unveiled proposals](#) to tighten capital rules for UBS following its takeover of Credit Suisse, potentially requiring the bank to hold an additional \$26 billion in core capital. The main change would oblige UBS to fully capitalise its foreign subsidiaries, up from the current 60%, with six to eight years to comply (**Figure 1**). The plan would also allow UBS to cut its Additional Tier 1 (AT1) bond holdings by \$8 billion. However, the bank criticised the measures as “extreme” and out of step internationally, warning they could erode its competitiveness and Switzerland's standing as a financial centre.

Figure 1: Core Equity Tier 1 (CET1) Capital Ratios



Source: [Financial Times](#)

The tougher rules follow the political fallout from Credit Suisse's 2023 collapse, with Finance Minister and current Swiss President Karin Keller-Sutter pledging reforms to safeguard taxpayers. The proposals will now face extended political debate in the federal council. With Swiss politicians concerned about the economy, the bank's warnings that new capital rules would hurt competitiveness may carry more weight.

[UBS CEO Sergio Ermotti is pushing back against](#) new regulations that he says would undermine the bank's ability to compete globally. The proposed capital rules, requiring UBS to fully capitalise its foreign subsidiaries, would likely deter Swiss banks from investing in the US and other overseas markets. This gives Ermotti additional leverage when arguing against the measures. He has cautioned that the bank may have to cut jobs, noting that UBS generated roughly \$3 billion in sales from its US operations during the same period. Additionally, UBS cannot ignore that exporters hit by tariffs are also its clients, and any slowdown could add to disinflationary pressures pushing rates back to zero.

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Switzerland's Crypto Valley

Switzerland has long been a pioneer in blockchain and distributed ledger technology (DLT), boasting more than 1,000 companies and one of the world's most innovation-friendly regulatory frameworks. In August 2021, it became one of the first nations to formally introduce legal rules for blockchain, offering businesses much-needed certainty and fueling the industry's rapid growth.

At the heart of this success is Zug, a town of just 30,000 people that has transformed into the world's largest crypto hub — "Crypto Valley." Over 700 blockchain firms now operate there, collectively worth nearly \$383 billion. Zug's appeal is no accident: ultra-low corporate tax rates, zero capital gains tax for qualifying private investors, minimal wealth taxes, and a local government willing to embrace new technology. As early as 2016, the municipality accepted Bitcoin for public payments, while the Swiss financial regulator FINMA laid out clear compliance guidelines. These moves, combined with the support of major financial players such as UBS, Credit Suisse, SEBA, and Sygnum, gave the sector deep banking links for custody, trading, and compliance. Industry pioneers like Bitcoin Suisse helped raise funds for Ethereum's early development and now manage billions in assets.

The growth story is backed by strong financing numbers. [In 2024 alone](#), Crypto Valley secured \$586 million across 56 deals — an 8% rise from the previous year, easily outpacing the global blockchain growth rate of 3%. The region's share of global blockchain funding rose by 5.2%, while the average deal size jumped 70% to \$5.6 million, well above the \$4 million global median. Zug led the country with 42% of all blockchain funding (\$245.9 million), followed by Zurich (34.7%) and Liechtenstein (17.1%).

Crypto advocates have recently launched a [referendum campaign](#) calling for the SNB to diversify its reserves by adding Bitcoin alongside gold, arguing that US tariff turbulence makes such diversification urgent. SNB Chairman Martin Schlegel rejected the proposal, citing Bitcoin's volatility and limited liquidity, saying the central bank must be able to buy and sell reserves at any time without exposure to destabilizing price swings.

But beneath the surface, signs of strain are emerging. The concern is heightened by developments abroad: in the US, President Trump's second-term agenda includes crypto-friendly reforms, national Bitcoin reserves, expanded mining capacity, and promotion of stablecoins. Such policies could pull companies and investment away from Switzerland, especially if regulatory friction at home grows. However, with Crypto Valley's top-50 firms valued at \$593 billion, Switzerland still holds a commanding position.

In Lieu of a Conclusion

The 39% US tariff marks a significant escalation in US-Swiss trade tensions, threatening key export sectors, weakening Switzerland's competitive edge, and complicating its economic outlook. With limited retaliatory options and rising regulatory pressures at home, Switzerland's industries, from manufacturing to banking and crypto, face heightened uncertainty in an increasingly hostile global environment.