

Locational quality: Zug just ahead of Basel-City, Geneva closes gap on Zurich

Locational quality 2020 | October 2020



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LQI 2020

**Zug and Basel-City top the rankings,
just ahead of Zurich and an improving
Geneva**

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Zug and Basel-City top the rankings, just ahead of Zurich and an improving Geneva

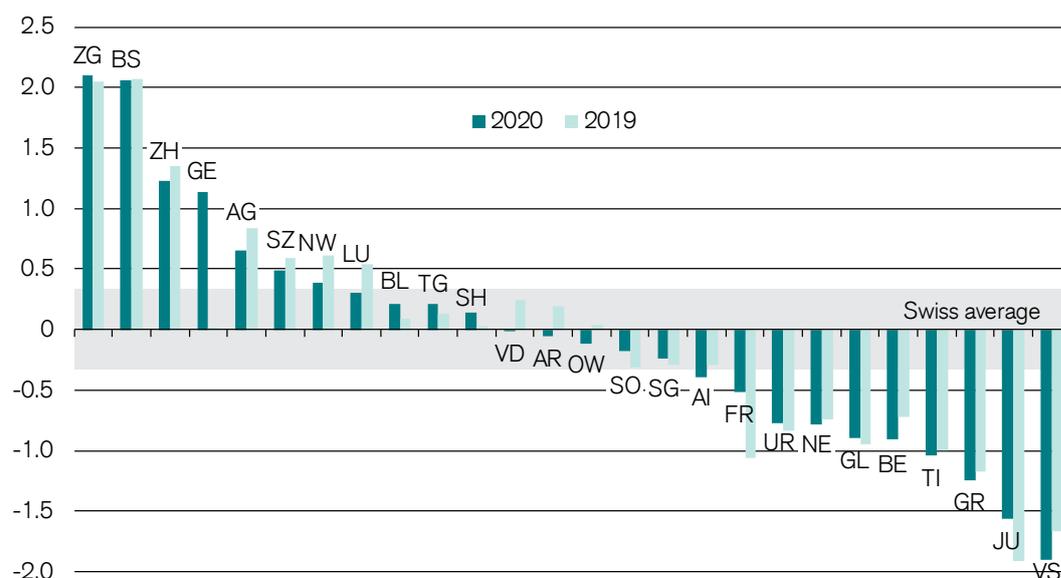
Thanks to its reduction of corporate tax rates, Canton Zug has regained top spot in the cantonal rankings as expected, but Basel-City is barely a whisker behind. Canton Geneva has surged ten positions to 4th place, and is now just behind Zurich, but well ahead of Canton Aargau. Canton Fribourg has risen five places to position 18.

The Locational Quality Indicator by Credit Suisse

The long-term economic potential of the Swiss cantons is largely determined by the overall conditions for business. Firms tend to invest primarily in attractive locations, thus creating jobs and bringing added value and prosperity. Intense competition between different locations forces the Swiss cantons and regions to take steps to optimize their appeal to the greatest extent possible. The annual Credit Suisse Locational Quality Indicator (LQI) measures the attractiveness of the Swiss cantons and regions to business (see appendix for detailed results). Figures between -0.3 and +0.3 can be considered mid-field territory, with higher figures signifying above-average appeal and lower figures less appeal. The LQI is based on the following seven quantitative sub-indicators (see box on page 7): tax burden on legal entities and private individuals¹, availability of specialized labor and highly qualified personnel, population accessibility, employee accessibility, and access to airports. The LQI therefore serves on the one hand as a guide for companies that are in the process of evaluating potential locations, and on the other as a benchmarking tool for the optimization of cantonal or regional location policy.

Locational quality of Swiss cantons

Locational Quality Indicator (LQI), synthetic index, CH = 0



Source: Credit Suisse

¹ The taxation treatment depends on the individual circumstances of each customer and may change over time. This document contains no tax advice of any kind. The general tax-related information contained in these documents in no way replaces comprehensive personal tax advice. Consult a professional tax adviser if you think it is necessary.

Zug and Basel-City neck and neck; Geneva leaps ten positions to 4th place

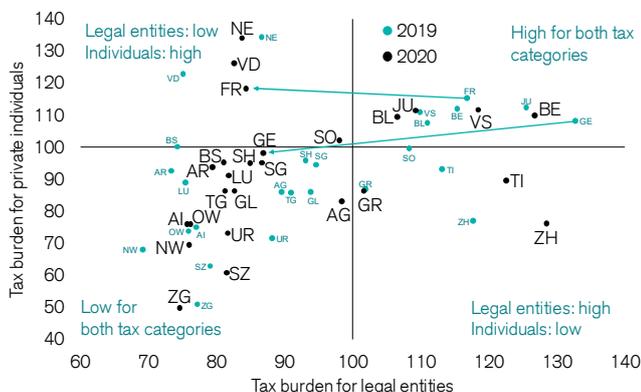
As a result of Canton Zug's reduction of its corporate tax rates, which entered into force at the start of 2020, Canton Basel-City has – as expected – relinquished top spot in the cantonal rankings after just one year (cf. Fig. on previous page).² The gap is very small, however. Both cantons currently offer a highly advantageous combination of appeal factors. The two leaders are followed at some distance by Canton Zurich and the ascendant Canton Geneva, which has risen by an eye-catching ten places. Other cantons with above-average results include Aargau, Schwyz, and Nidwalden. In the mid-table rankings, which are led by Canton Lucerne, three cantons have risen two positions, namely Basel-Country, Schaffhausen, and Solothurn. Thanks to the second-largest rise up the rankings – a full five positions – Canton Fribourg has made a significant move toward mid-table. After years of stability, there has been a change at the bottom end of the rankings: Due to slight improvements, particularly in respect of its fiscal attractiveness for legal entities, Canton Jura has now relegated Valais to last place.

More cantons cut corporate taxes

Tax policy is a key component of location development, and one of the easiest LQI sub-indicators to influence. Just like last year, the most significant changes in the locational quality rankings are primarily attributable to changes in the tax burden on companies. For example, this year's major improvers Geneva and Fribourg have significantly increased their fiscal attractiveness for legal entities (cf. Fig.). Thanks to its reduction in profit tax rates, which entered into force at the start of 2020, Canton Zug now heads the fiscal attractiveness rankings not only for private individuals, but also for legal entities. The effective maximum profit tax rate in the city of Zug now stands at 11.91% (2019: 14.35%). Just behind Zug come the cantons of Appenzell Innerrhoden, Nidwalden, and Obwalden. In the meantime, however, numerous other cantons are likewise offering attractive corporate tax rates as a result of cuts in this area (cf. Fig.) – the relative advantage of low corporate taxation has therefore declined. Owing to gradual adjustments to corporate tax rates that are due to be implemented in many cantons over the coming years, there are likely to be a number of minor shifts in the locational quality rankings going forward.

Geneva and Fribourg increase appeal on corporate tax front and become the top improvers in this year's locational quality rankings

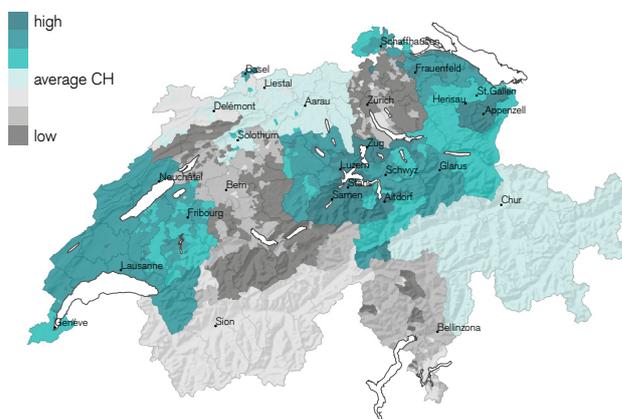
Development of tax burden 2019 to 2020, tax burden on private individuals (income and wealth taxes) and legal entities (profit and capital taxes), synthetic indices, CH = 100



Source: TaxWare, Credit Suisse

Central Switzerland the most attractive region for companies from a tax perspective – but the gap to the rest has narrowed

Fiscal attractiveness for legal entities (profit and capital taxes), 2020



Source: TaxWare, Credit Suisse, Geostat

Availability of highly qualified workers as key resource for Switzerland

The availability of sufficiently qualified personnel is likewise very important to companies when choosing a location. The two sub-indicators “availability of specialized labor” and “availability of highly qualified personnel” encompass not just the residents of the region in question, but also workers commuting from elsewhere (including across national borders). The level of education of the Swiss population has increased significantly over the last few decades. That said, regional differences remain considerable (cf. Fig. p. 5 left): In urban regions, more than 40% of adults – and in the case of Zurich city, as many as 57% of adults – have a degree from a university, university of applied sciences, or other tertiary education institution. By contrast, the equivalent proportion in rural regions is less than 25%.

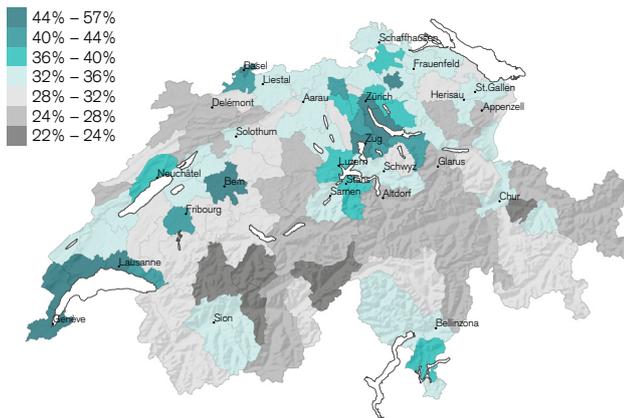
² Cf. “Locational quality: Basel-City temporarily takes over top spot”, Credit Suisse, October 2019.

Peripheral regions can draw on pool of higher-qualified commuters

The illustration on page 5 (right) shows that workers commuting from other regions or across national borders often have a higher level of education than local residents. For example, in many parts of Switzerland the proportion of commuters with a tertiary education degree is more than 10% higher than in the local resident population. Companies in so-called “peripheral regions” in particular draw on a pool of higher-qualified commuters. By contrast, the proportion of highly qualified commuters (including cross-border) in the Mendrisio and Lugano regions of Ticino close to the Italian border is 5% and 8% lower respectively than that of the local population. This difference becomes even more striking when one looks at the proportion of specialized workers who have at least one form of school-leaving qualification, even though the level of education of cross-border commuters has improved overall over the course of time.

Highly qualified personnel clustered in regions with major urban centers

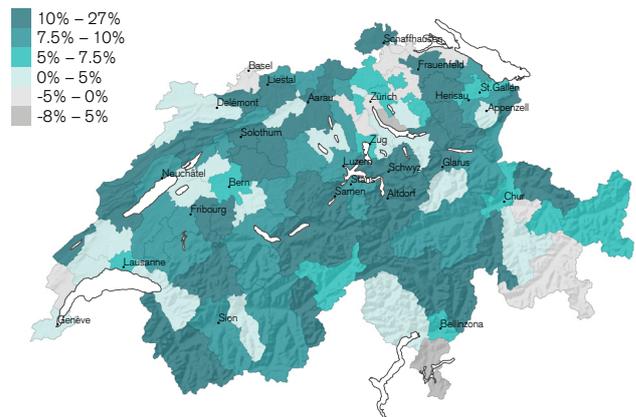
Proportion of persons (local residents, inbound and cross-border commuters) of working age with tertiary education, 2014 to 2018, in %



Source: Swiss Federal Statistical Office, Credit Suisse, Geostat

Inbound and cross-border commuters often better educated than local residents

Difference in level of education between local residents and inbound/cross-border commuters (persons of working age with tertiary education), 2014 to 2018, in %



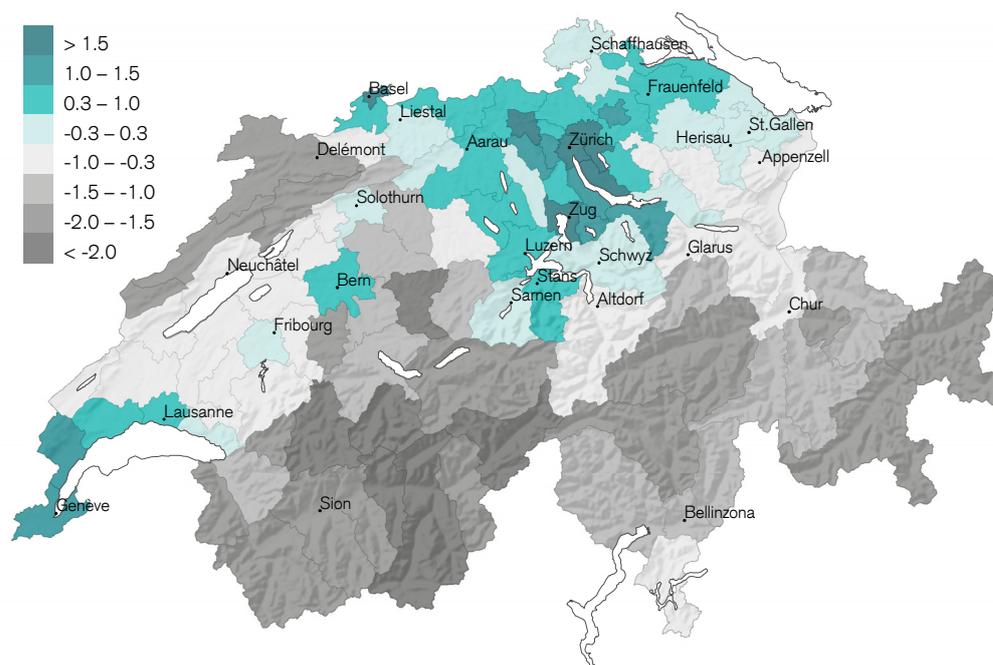
Source: Swiss Federal Statistical Office, Credit Suisse, Geostat

Regional view: significant differences within the cantons

For the larger, heterogeneous cantons in particular – such as Bern, Vaud, Ticino, and Graubünden – an analysis solely at cantonal level is too superficial. We therefore also analyze locational quality at the level of Switzerland’s 110 economic regions (cf. Fig. on the following page). The highest degree of attractiveness is exhibited by the centers of Zurich, Zug, Basel, Baden, and Geneva, as well as their wider agglomerations, thanks not least to their transport accessibility. Many of the changes in this year’s regional ranking are the result of changes to cantonal tax burdens. The Geneva region has recorded the greatest improvement compared to last year, rising 26 positions to 12th place. The lower Basel region has jumped ten positions to 18th place. With ranking gains of between 17 and 21 places, the regions of Canton Fribourg have likewise improved significantly: La Sarine now ranks 42nd, while the Sense, Glâne/Veveyse, and La Gruyère regions now occupy positions 60, 67, and 71 respectively. Over in Ticino, the Lugano region and in particular the Mendrisio region exhibit a higher locational quality than their neighboring regions. The regions of the Alpine and Jura arcs are clearly less attractive from the perspective of companies, which can be explained by their topography and the often significant travel time involved to reach the main centers. These different regional characteristics make it difficult for the cantons in question to gear their locational policy optimally around their individual strengths and weaknesses. For example, an above-average tax burden in an urban center is less disadvantageous from a corporate perspective than an equivalent burden in a peripheral region. Why? Because state services and infrastructures are typically more widely available in urban centers, which counterbalances the higher tax burden from a cost/benefit perspective. An overview of the locational quality of Switzerland’s 110 economic regions and the individual location factors can be found in the Appendix starting on page 9.

Locational quality of Swiss economic regions 2020

Locational Quality Indicator (LQI), synthetic index, CH = 0



Source: Credit Suisse, Geostat

The Credit Suisse Locational Quality Indicator (LQI)

Quantitative analysis of the locational quality of Switzerland's cantons and regions has been part of the Credit Suisse research offering since 1997. The LQI is calculated on the basis of current data. Compared with the revision in 2013, however, the methodology remains largely unchanged.

The tax burden on private individuals is calculated on the basis of taxes on income and wealth at federal, cantonal and municipal level, and also takes account of the normal deductions. The tax burden on legal entities examines taxes on profit and capital. The calculations are based on the statutory and municipal tax rates for 2020, where available. The data is taken from TaxWare. Special tax systems such as lump-sum taxation or tax privileges for companies in connection with new tax instruments (license box, additional deductions for research and development, etc.) are not taken into account.

The availability of specialized labor and highly qualified personnel is based on the level of education of the residents, inbound commuters, and cross-border commuters of a region. Specialized labor refers to persons with vocational or higher training, while highly qualified personnel have completed tertiary education at a higher technical college, university of applied sciences, or university. The database is the 2014–2018 structural survey conducted by the Swiss census. The level of education of cross-border commuters is estimated on the basis of the 2018 wage structure survey of the Swiss Federal Statistical Office.

Population accessibility, employee accessibility, and access to airports is based on data for 2016. The indicators are calculated for each populated square kilometer and based on the entire road network and all public transportation connections. The opening of the Gotthard base tunnel is likely to have slightly improved the accessibility of the Gotthard region (Ticino/Uri plus 0.04/0.01 LQI index points). But according to our analysis of the opening of the New Railway Link through the Alps (NRLA), Ticino's score should improve particularly with the opening of the Monte Ceneri tunnel (to coincide with the national timetable change at the end of 2020). We are planning an update of our accessibility calculation in 2021.

Further information: "Locational quality: Basel-City set to overtake Canton Zurich", Credit Suisse, September 2016.

Regional locational quality: Clients of Credit Suisse can order **fact sheets on individual economic regions** from their client advisor.

LQI 2020 results in detail

Factors of locational quality at cantonal level

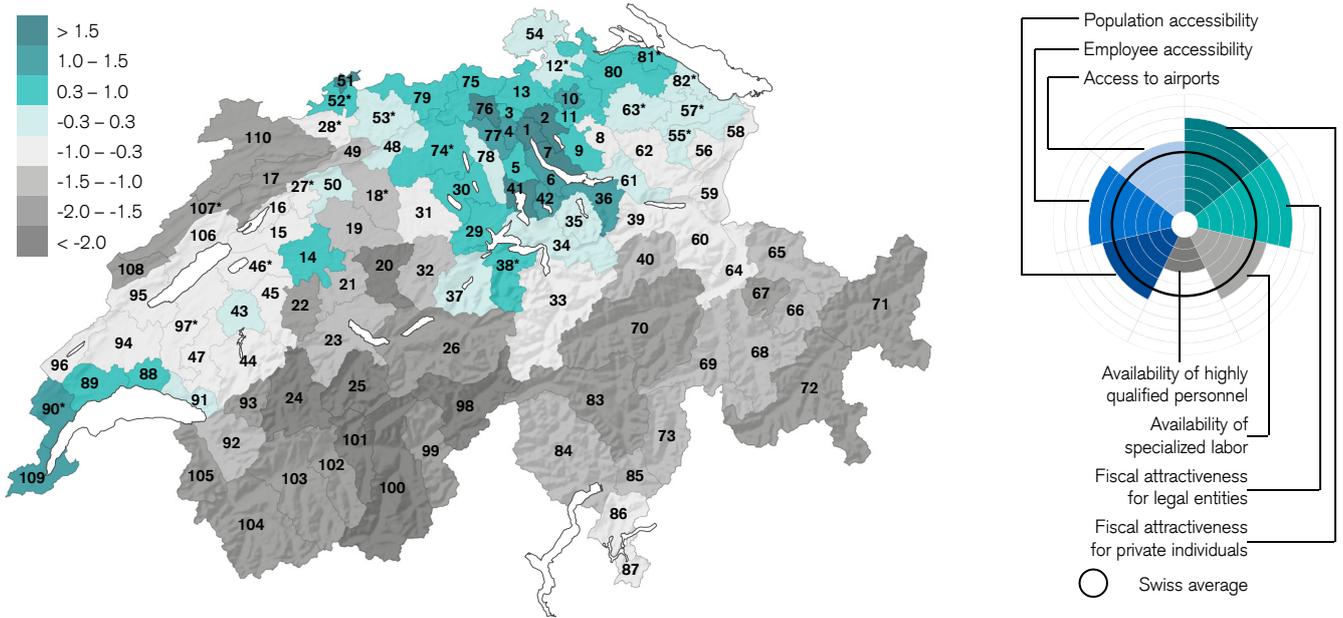
Ordered by rank, + / ++ more attractive than the Swiss average; - / -- less attractive than the Swiss average; = CH average

Canton	Fiscal attractiveness		Availability		Accessibility			Locational quality 2020		
	Private individuals	Legal entities	Specialized labor	Highly qualified personnel	Population	Employees	Airports	LQI 2020		Rank 2020 (vs. 2019)
ZG	++	++	++	++	+	+	+	2.10	++	1 (+1)
BS	=	+	+	++	++	++	+	2.06	++	2 (-1)
ZH	++	--	+	+	++	++	++	1.23	++	3 (=)
GE	=	+	--	++	+	=	++	1.14	++	4 (+10)
AG	+	=	+	-	+	++	+	0.66	+	5 (-1)
SZ	++	+	=	-	=	=	=	0.49	+	6 (=)
NW	++	++	+	-	-	=	-	0.38	+	7 (-2)
LU	+	+	+	-	=	=	=	0.30	+	8 (-1)
BL	-	-	+	=	+	++	=	0.22	=	9 (+2)
TG	+	+	=	--	=	+	=	0.21	=	10 (=)
SH	=	+	+	-	=	=	=	0.14	=	11 (+2)
VD	--	+	--	+	=	-	=	-0.01	=	12 (-4)
AR	+	++	+	-	-	=	-	-0.05	=	13 (-4)
OW	++	++	=	-	-	-	-	-0.11	=	14 (-2)
SO	=	=	=	--	+	+	=	-0.18	=	15 (+2)
VG	=	+	=	--	=	=	=	-0.24	=	16 (-1)
AI	++	++	=	--	-	-	-	-0.40	-	17 (-1)
FR	-	+	--	-	=	-	-	-0.52	-	18 (+5)
UR	++	+	-	--	--	-	-	-0.78	-	19 (+1)
NE	--	+	--	-	-	-	-	-0.79	-	20 (-1)
GL	+	+	--	--	-	-	-	-0.89	-	21 (=)
BE	-	--	+	-	=	=	-	-0.91	-	22 (-4)
TI	+	--	--	-	-	-	-	-1.04	--	23 (-1)
GR	+	=	=	--	--	--	-	-1.24	--	24 (=)
JU	-	-	--	--	-	-	-	-1.56	--	25 (+1)
VS	-	-	--	--	--	--	-	-1.91	--	26 (-1)

Source: Credit Suisse

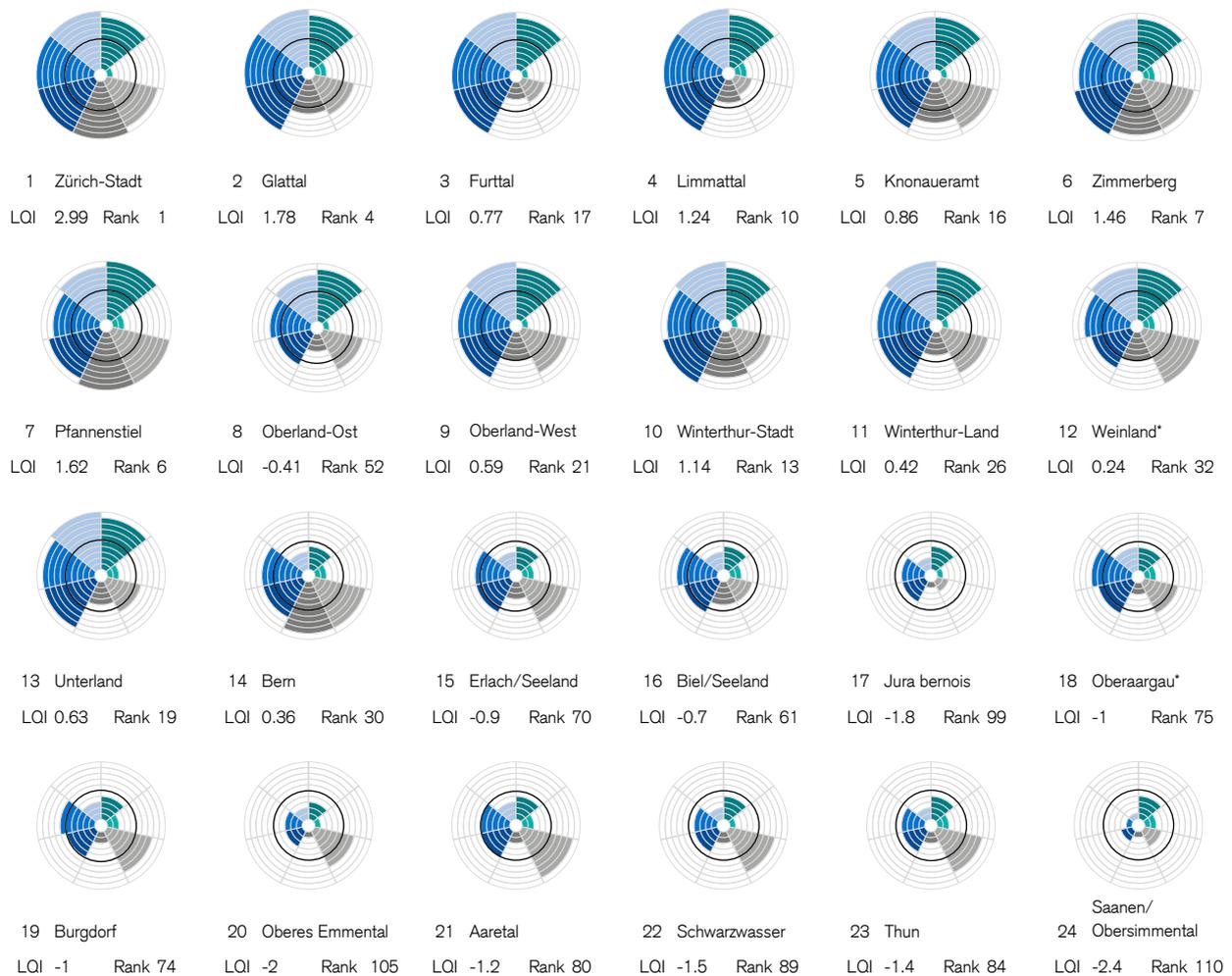
Locational quality of Swiss economic regions*, 2020

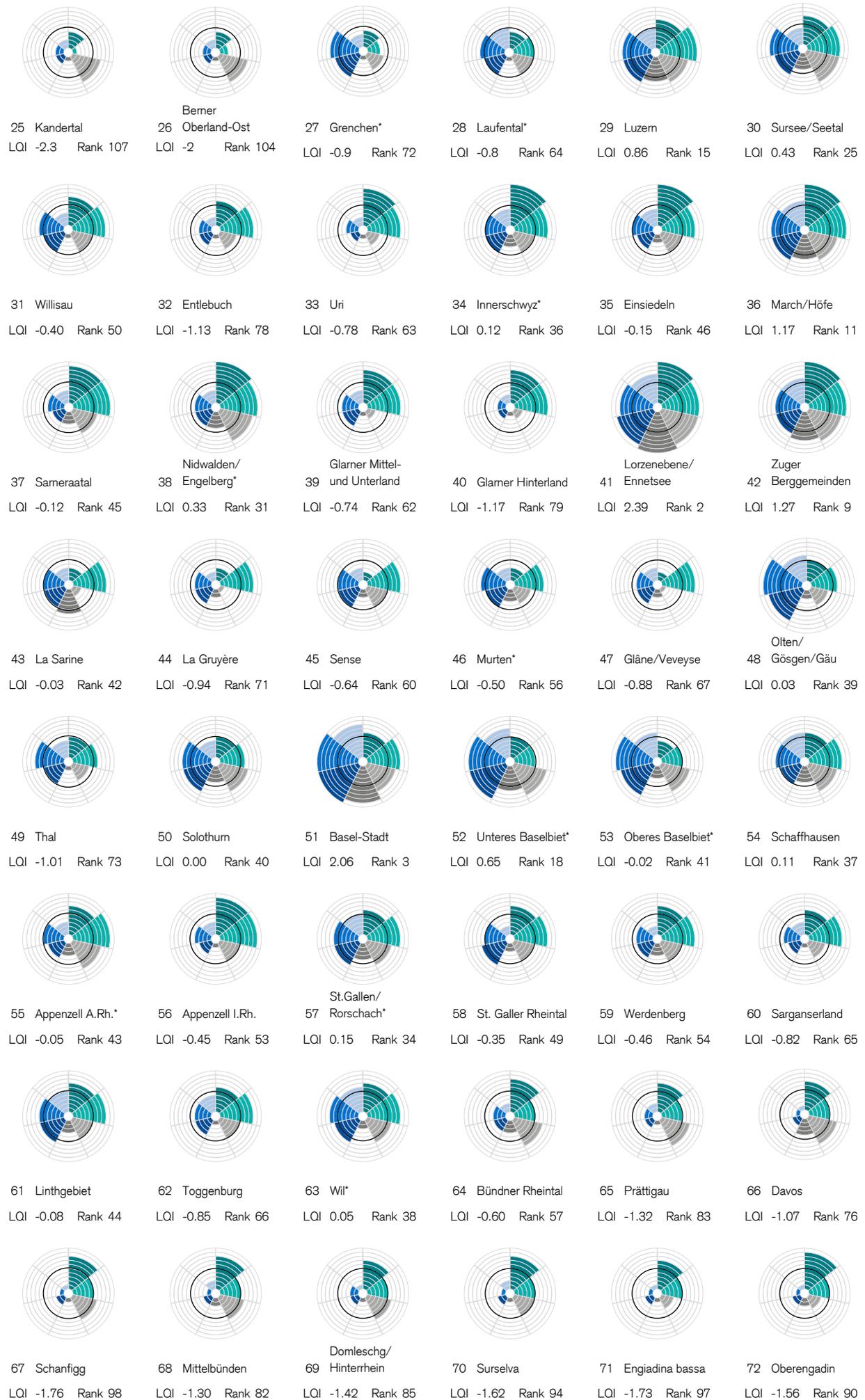
Locational Quality Indicator (LQI), synthetic index, CH = 0; use the identification number to view the detailed profile (see chart at right) of each economic region below

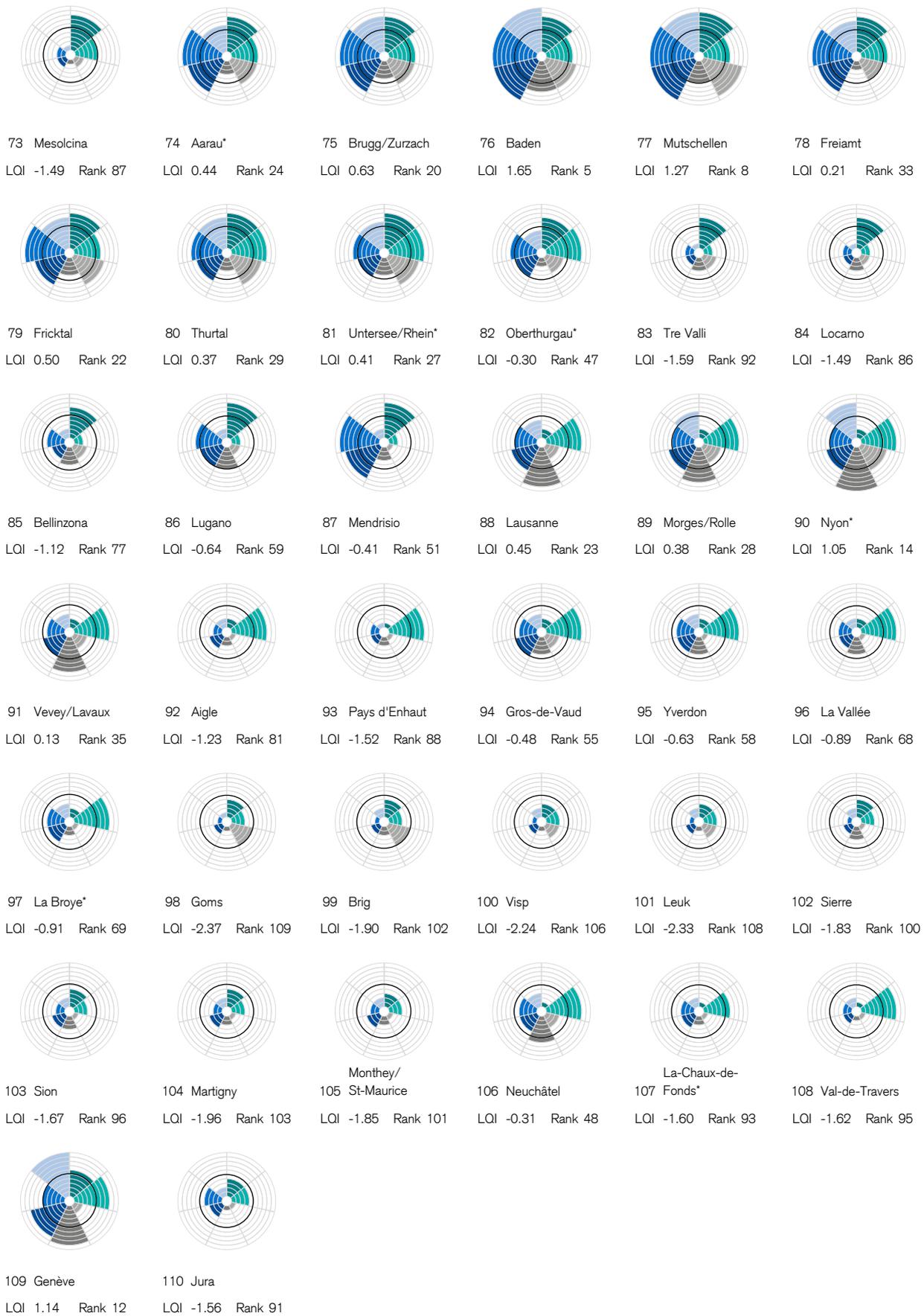


Source: Credit Suisse, Geostat

* The 110 Swiss economic regions reflect the economic conditions in the best possible way and do not always follow political borders. Cross-cantonal economic regions are designated by an asterisk.







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