# Executive Summary

## Economic growth has slowed

Switzerland has been resilient through the pandemic and the turmoil in energy markets that followed Russia's war of aggression against Ukraine. Nevertheless, the economy is facing uncertain prospects amid tightened financing conditions and slowing global growth.

**Economic activity has slowed.** Weak foreign demand, tighter financing conditions and heightened uncertainty weigh on the economy. Manufacturing production has stalled and prospects are subdued. Economic sentiment remains low.

**Inflation has returned within the 0-2% target range, but inflation pressures remain.** Import price inflation has retreated, but inflation of domestic goods and services remains elevated. Short-term inflation expectations remain at the upper side of the 0-2% range. The labour market is robust with the unemployment rate around 4% and vacancies at high levels. Real wages continue recording negative growth.

**Real GDP growth is projected to remain below potential in 2024 before picking up in 2025.** A tight monetary policy stance internationally as well as domestically will still weigh on global activity and on domestic demand. Inflation will rise temporarily above 2% over the course of 2024, pushed by expected rent and electricity price increases, before moderating towards the beginning of 2025. Domestic consumption growth will be subdued. The unemployment rate will increase slightly to 4.4% in 2025.

### Table 1. GDP growth will remain subdued

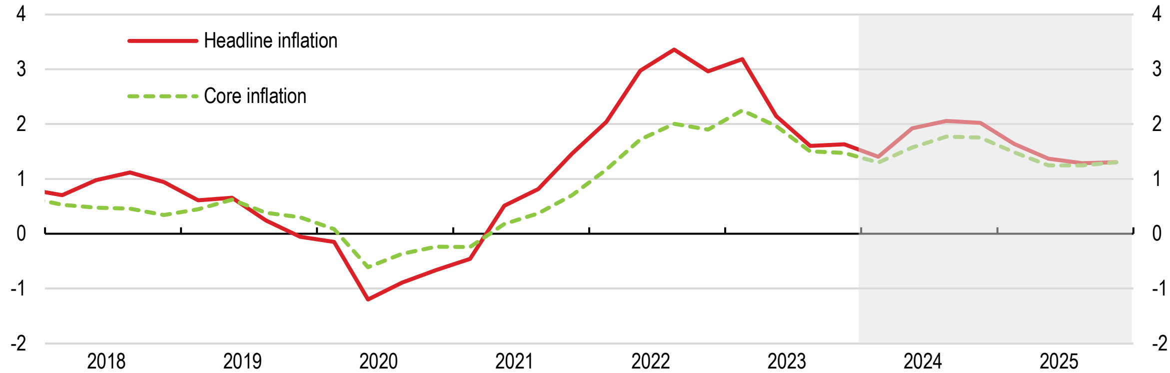
| | 2023 | 2024 | 2025 |
|---|---|---|---|
| Real GDP growth, % | 0.8 | 0.9 | 1.4 |
| Unemployment rate | 4.0 | 4.4 | 4.4 |
| Consumer price index, % | 2.1 | 1.9 | 1.4 |
| Fiscal balance (% of GDP) | 0.9 | 0.7 | 0.6 |

Source: OECD Economic Outlook database.

**Uncertainty surrounding the outlook is high.** Inflation might turn out more persistent than expected, requiring further monetary tightening, with risks surrounding household indebtedness, repricing of real estate and repercussions on financial stability. Energy shortages or renewed energy price spikes could further slow the economy. On the other hand, favourable resolution of geopolitical tensions could result in higher trade, revived confidence and higher growth and stability.

**Figure 1. Inflation pressures remain**

Consumer price index, y-o-y % changes




Source: OECD Economic Outlook database.

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## Keeping monetary policy tight and countering risks to financial stability

Monetary policy has been appropriately tightened. However, inflation is expected to return temporarily above the 0-2% target and inflation expectations remain at the upper end of the target range. Elevated interest rates globally and weak activity heighten risks and vulnerability in the financial system.

**Between June 2022 and June 2023, the Swiss National Bank (SNB) hiked the policy interest rate by 250 basis points, from -0.75% to 1.75%.** To tighten monetary conditions, the SNB has been selling foreign exchange over recent quarters. As a welcome side effect, this has contributed to reducing the outsized balance sheet of the SNB.

**The acquisition of Credit Suisse by UBS effectively safeguarded financial stability but raises new risks and challenges.** UBS – already a global systemically important bank before the merger – has become even larger and it has been given a transition period until 2030 to meet the progressively higher capital requirements of the "too big to fail" (TBTF) regulations. The acquisition was made without making use of the existing TBTF resolution regime, raising questions on optimal regulation and supervision of large banks going forward.

**The housing market has started showing signs of cooling, but vulnerabilities remain.** Growth in prices of real estate has started abating after years of steep growth. Property is estimated to be overvalued by up to 40%. Large interest rate hikes or other shocks could result in steep price corrections, leading to deteriorated mortgage portfolios of banks.

## Addressing pressures from rising public spending

Fiscal policy is facing hard choices, despite low public debt and a return to fiscal surpluses. Population ageing, the need to tackle climate change, an increase in defence spending and rising interest rates on public debt are all putting pressures on public finances. Reforms to rein in public spending and to increase public revenues are needed.

**A broadly neutral fiscal stance is warranted to sustain the moderately growing economy.** Automatic stabilisers should operate freely to cushion the growth slowdown. The decision to extend the amortisation period for reducing the "COVID debt" will avert overly tight fiscal policy over the coming years.

**A substantial pension reform is overdue.** Ageing is putting pressures on age-related costs (pension, healthcare and long-term care) and weighs on employment and growth. A recent reform gradually raises the retirement age of women to 65 and secures higher revenues to the pension fund but this will only temporarily delay pressures. The ratio of retirees to employees is set to soar and pension replacement rates for the mandatory pension system are set to drop significantly over time. Under current policies, time spent in retirement will be longer. Adapting parameters of the pension system to rising longevity can slow the rise in expenditures.

**Strengthening tax revenues can also help to safeguard fiscal sustainability while meeting growing spending needs.** Switzerland relies more on direct taxation, notably personal income tax, than most other OECD countries. VAT revenues are among the lowest in the OECD and revenues from taxation of immovable property are also low.

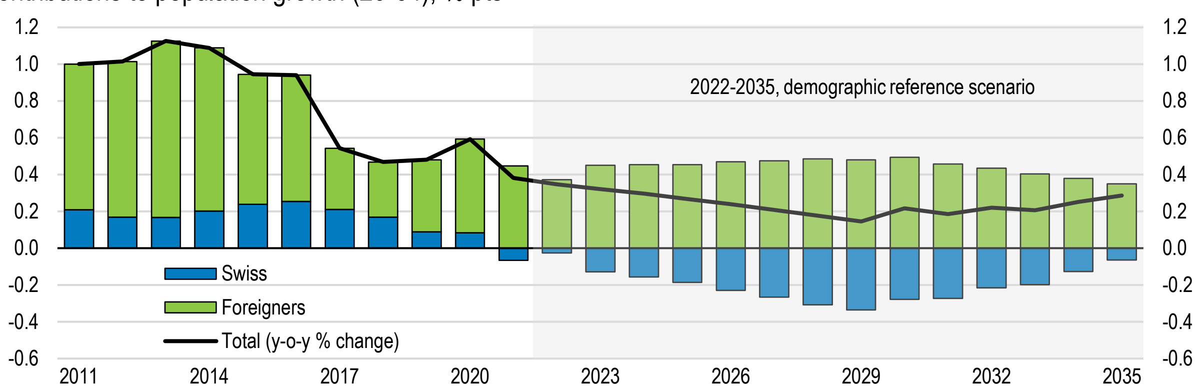
## Tackling labour and skills shortages

The Swiss labour market boasts high employment rates and low unemployment. However, labour and skills shortages are rising and are increasingly becoming a structural issue. Rapid population ageing and a preference shift towards shorter working hours weigh on future economic growth. For some groups, such as mothers and older workers, there is potential to increase participation.

**Bringing more mothers to work full time will help ease shortages and reduce the sizable gender income gap.** A high labour participation rate of women masks a remarkably high incidence of part-time work, among mothers in particular. The interplay between the tax and benefit systems and high costs of childcare result in strong disincentives to work for second earners, notably mothers. Low supply of affordable childcare exacerbates the issue.

### Figure 2. Labour force growth is set to slow

Contributions to population growth (20-64), % pts




Source: FSO, Population scenarios.

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**A range of disincentives and barriers contribute to early retirement and low uptake of work by older workers.** After the age 65, the employment rate shows a steeper decline than in OECD peers. A significant share of workers retire before 60. Once unemployed, older workers find it more difficult to find a new job. Financial disincentives for employers also weigh on the employment of older workers, as rising pension contribution rates make employing older workers costly. Incentives within the pension system and more flexibility to combine retirement and work can encourage more workers to work longer.

**Immigration is key for Switzerland's economy in terms of labour and skills.** Over the past two decades, net migration has been persistently positive. The foreign-born population represents 30% of the total population, the second highest share in the OECD. Skilled immigrants from non-EU/EFTA countries will become increasingly important to counter declines in the domestic population. Active steps should be taken to maintain Switzerland as a top destination for global talent. Better welcoming skilled migrants and easing the transition to permanent settlement can improve social and labour market integration and ease labour shortages.

## Towards a decarbonised economy

Switzerland as an Alpine country is strongly impacted by climate change. Growth has decoupled from emissions and energy use, but emission reductions will have to accelerate markedly if Switzerland is to meet the net-zero target by 2050. The existing policy mix is comprehensive but needs strengthening to reach net zero.

**Switzerland imposes high carbon prices in international comparison.** However, the $CO_2$ levy and the mineral oil tax, fixed in nominal terms, are set to be eroded in real terms over time, which is not consistent with the need to accelerate emission reductions. Carbon prices are cost effective and efficient instruments to reduce emissions. A higher carbon tax or stronger incentives within an emission trading system could strengthen incentives to lower emissions in buildings, industry and road transport.

**Comprehensive further electrification of the economy will be required to reach climate neutrality.** Production of electricity will have to increase, requiring steep investment into renewables such as solar and wind, whose electricity output should rise 8-fold to 2035. The recently revised Energy Act has secured incentives for investment up to 2035 through pricing instruments and investment support. Reduced red tape and faster approval processes for building new capacity as well as upgrading the electricity grid can boost further the needed investment into renewables.

## Boosting economic resilience and productivity

Geopolitical tensions and a global shift towards protectionism and large-scale industrial policy programmes pose challenges. Industrial policy programmes can be costly, are often ineffective and distort trade, undermining competitive markets. Switzerland should strengthen its resilience and productivity by staying committed to the rules-based trading system, strengthening ties with key trading partners and enhancing domestic competition.

**Switzerland has shown remarkable strength during previous economic downturns.** Its adaptable economy, effective macroeconomic stabilisation tools, and robust fiscal framework have led to shallower recessions, lower impact on household incomes and faster recoveries compared to OECD peers. A comprehensive risk planning and monitoring system, including essential-goods stockpiles to bridge supply disruptions, has proved robust during periods of severe shortages. Having the private sector at the centre-stage in such efforts facilitates adaptability and flexibility.

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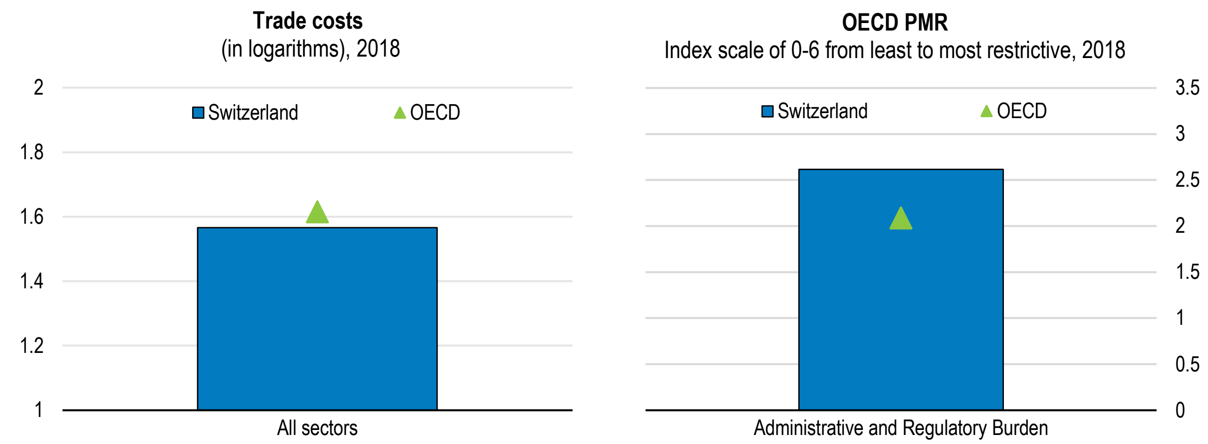
## Figure 3. Lower barriers can spur trade and domestic competition




Note: The trade costs are computed as averages across sectors and are expressed as ad-valorem equivalents. OECD is a simple average of OECD countries.
Source: WTO; OECD (2018), Product Market Regulation Database.

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**Sustained trade and economic partnership with the EU remain key.** The Switzerland-EU partnership is at risk of eroding. Negotiations on an encompassing "framework agreement" came to a standstill in 2021. Resuming negotiations is imperative to secure cooperation and ensure continued access to its key trading partner. Failing to find an adequate alternative would be harmful for Switzerland's external trade and competitiveness, with repercussions for productivity and resilience.

**Reduced barriers to cross-border trade and a lower administrative burden can spur competition, productivity growth and raise resilience.** There is room to strengthen trade facilitation measures and reduce costs of trade further. Border processes and procedures can be digitalised and thus become less onerous, lowering the cost of trade. Swiss businesses still face a high administrative burden. Less red tape would boost growth

| Main findings | Key recommendations |
|---|---|
| **Ensuring price and financial stability** | |
| Inflation has retreated within the 0-2% target range. However, short-term inflation expectations remain at the top of the target band. Expected rent and electricity price increases will temporarily push inflation above 2% in 2024. | Keep a tight monetary policy stance until inflation is durably within the 0-2% band. |
| Credit Suisse was a global systemically important bank that met regulatory requirement, yet it destabilised quickly. Although the existing "too big to fail" framework was available, the solution was found outside the resolution regime. | Conduct an in-depth review of the Credit Suisse crisis event and propose measures to strengthen regulation and supervision of systemically important banks and the "too big to fail" framework. |
| Vulnerabilities on the residential real estate market persist. Large interest rate hikes or other shocks could result in steep price corrections, leading to deteriorated mortgage portfolios of banks. | Continue to closely monitor risks on the housing market and ensure that adequate buffers are maintained. |
| **Addressing pressures from rising public spending** | |
| Real GDP growth is projected to remain below potential in 2024 and gather pace in 2025. The unemployment rate will pick up slightly. | Pursue a broadly neutral fiscal stance over the short-term with automatic stabilisers operating freely. |
| Fiscal policy is facing hard choices to meet growing spending needs. Systematic spending reviews can help find fiscal savings. Strengthening tax revenues can also help to safeguard fiscal sustainability. Switzerland relies significantly more on direct taxation while revenues from VAT and from the recurrent tax on immovable property are low. | Conduct systematic reviews of spending and tax expenditures and strengthen tax revenues, including by raising revenues from VAT and the recurrent tax on immovable property. |
| Population is ageing rapidly. With the statutory retirement age at 65, time in retirement will rise steeply. Rising pension expenditures are putting pressures on fiscal sustainability and the adequacy of pension benefits. | Link future rises in the statutory retirement age to increases in life expectancy. |
| **Tackling labour and skills shortages** | |
| The gender income gap is high in Switzerland, in part due to high incidence of part-time employment. The tax and benefit systems and a high cost of childcare contribute to lower working hours and lower labour incomes for women. | Reduce disincentives to work for second earners, by moving from family-based to individual-based taxation or through tax adjustments and slower withdrawal of benefits.<br>Keep expanding the supply of childcare and provide targeted measures (mean-tested fee reductions, childcare benefits or tax credits) to improve affordability. |
| More than a quarter of workers retire before reaching age 60. Employment also falls markedly at the statutory retirement age. From 2027 onwards, workers will be free to choose to retire between the age 63 and 70 and will be able to gradually reduce working hours while claiming a partial pension. | Introduce greater flexibility to combine retirement and work as planned and link the parameters of the flexible retirement system (earliest age of retirement, the conversion factor from accumulated pension entitlements to annual pension) to life expectancy. |
| Attracting skilled migrants from non-EU/EFTA will become increasingly important to boost working-age population and skills. In Switzerland, third-country migrants face lengthy and costly paths to permanent settlement and citizenship. | Streamline administrative processes for highly skilled migrants from non-EU/EFTA countries, including by relaxing permit rules and paths to naturalisation. |
| Some foreign nationals have low skills. They record significantly higher unemployment rate than natives and employment rates are markedly lower, especially for women. | Expand the supply and uptake of upskilling courses and improve recognition of foreign qualifications for non-EU/EFTA citizens.<br>Expand temporary job-placement incentives paid to employers. |

| Towards a decarbonised economy | |
|---|---|
| Carbon prices are cost effective and efficient instruments to reduce emissions. Switzerland imposes high carbon prices in international comparison. However, the CO2 levy and the mineral oil tax are set to be eroded in real terms over time. Various exemptions reduce the efficiency of carbon pricing. | Strengthen effective carbon pricing, by raising the $CO_2$ levy after 2030 or by joining the EU ETS II for transport and buildings. Continue efforts to broaden the base of carbon taxation by reassessing exemptions. |
| Negotiated reduction commitments exempt firms from the CO2 levy if they commit to reduce emissions. The scheme is costly due to foregone carbon tax and monitoring. | Ensure that reduction targets and decarbonisation roadmaps within the negotiated reduction commitments are ambitious enough to exceed the 2040 target for industry. |
| Further electrification will be required to reach climate neutrality. This will require steep investment into renewables, such as solar and wind, whose electricity output (excluding hydropower) should rise 8-fold to 2035. | Continue improving the investment framework for renewables by speeding up planning and authorisation processes for building renewable power plants, as planned. |
| Switzerland benefits from high interconnection with its European neighbours, which allows mutually beneficial electricity trades. However, negotiations on an electricity agreement between Switzerland and the European Union have stalled since 2018. | Increase market and grid integration into the European Electricity System to guarantee security of supply and regional grid stability, by signing an Electricity Agreement with the EU. |
| Strengthening economic resilience and productivity within global value chains | |
| Switzerland has a comprehensive framework for monitoring and planning for various risks, as well as a large compulsory stockpiling system.<br>Stockpiles of critical products can help bridge temporary shortages. However, stockpiling is costly, cannot cover for every contingency and can bring “moral hazard”. | Maintain the comprehensive framework for risk management and stockpiling that centres on the private sector’s responsibility to safeguard the stability of supply.<br>Use the established private-public cooperation – through FONES – to handle severe supply disruptions and abstain from extending the compulsory stockpiles to non-essential goods. |
| Trade restrictions have risen globally and several countries have introduced large-scale industrial subsidies. Yet, open and well-functioning international markets with efficient supply chains are key for productivity and economic resilience. Industrial policy programmes can be costly, are often ineffective and distort trade. | Enhance economic integration with key trading partners and facilitate the diversification of supply chains, by extending and deepening free trade agreements.<br>Refrain from introducing distortive industrial policies. |
| The partnership between Switzerland and the EU is at risk of eroding over time. Ensuring a continued stable economic relationship with the EU would secure access and competitive exposure to the most important trading partner, raising productivity and growth. | Resume negotiations with the EU to safeguard access to the single market and ensure continued economic partnership. |
| Switzerland lags OECD best performers on trade facilitation measures, especially on fees and charges, automation and external co-operation. Simplifying and accelerating customs clearance of goods can help lower costs for companies and alleviate bottlenecks. | Revise the Customs Act to simplify and digitalise processes concerning the collection of fees and controls of goods crossing the border. |
| The administrative burden is higher than on average in the OECD despite small improvements since 2018, with detrimental effects on productivity. | Implement the Corporate Relief Act to reduce the administrative burden on companies.<br>Expand the government one-stop shop (EasyGov.swiss) by integrating cantonal governments’ services. |
| State involvement in the economy is among the highest in the OECD, particularly in network sectors (telecommunications and energy). | Reduce public ownership and keep reducing the competitive distortions due to public ownership. |


**From:**
# OECD Economic Surveys: Switzerland 2024

**Access the complete publication at:**
https://doi.org/10.1787/070d119b-en

**Please cite this chapter as:**

OECD (2024), “Executive Summary”, in *OECD Economic Surveys: Switzerland 2024*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/1707ccae-en