

Executive summary

Main findings

Macroeconomic policy faces tensions

Switzerland's economy has performed well in recent years. At the same time, it has faced an extremely strong currency, in large part resulting from safe-haven capital inflows. This has precipitated two years of mild deflation and posed a threat to activity in the Swiss economy. Accordingly, policy interest rates have been reduced essentially to zero. The "minimum exchange rate" (a cap on the value of the Swiss franc against the euro), adopted two years ago, has resulted in a very large expansion of the central bank's balance sheet. House prices have been increasing strongly, especially in a number of hotspots, driven by low interest rates as well as supply constraints and robust demand, especially from recent immigrants. Despite macro-prudential tightening measures, the housing market has shown few signs of cooling. The minimum exchange rate remains in place as inflation is still zero, there are still risks of renewed safe-haven flows, and there is still some slack in the economy. The fiscal balance remains sound both at the federal level and in most cantons, thanks to healthy economic growth and the debt-brake rule, which has restrained expenditure growth through the cycle.

Meeting environmental targets and simultaneously maintaining energy security poses challenges

Switzerland is likely to achieve its Kyoto 2008-12 targets in large part by relying on international offsets. Meeting the 2020 target of a 20% reduction in domestic emissions from 1990 levels will be more challenging. The government's Energy Strategy 2050 sets out the path from nuclear energy, which is to be phased out, to renewable sources. Until 2020, the Strategy relies on support for commercially immature technologies to achieve future supply targets, in combination with ambitious efficiency improvements. Thereafter, this system is to be gradually replaced by energy taxes. Therefore, replacement of the no-longer available nuclear electricity will predominantly be by renewable energies and through the more efficient use of electricity. Remaining demand could be covered by natural gas-fired power plants or electricity imports.

Long-term growth and productivity gains have been weak

Over the past several decades GDP growth has been driven by immigration and since the turn of the century by highly skilled labour from the European Union. Productivity outcomes vis-à-vis other OECD countries have slipped steadily and are now significantly below the best performers. As the population ages and immigration slows, the focus of economic policy will need to shift even more to promoting productivity growth, exploiting underutilised labour resources, in particular women (see below), and further improving the integration of first- and second-generation immigrants, including by lifting their educational performance. While R&D and innovation are strong in the established sectors, entrepreneurship and small business formation are relatively weak, due in part to administrative barriers. The relative productivity of the agricultural sector is among the lowest in the OECD, and the sector relies heavily on direct government payments, which are still not sufficiently linked to environmental and productivity-boosting outcomes.

Women's potential in the economy has been poorly tapped

Swiss women represent 45% of the labour force and about half of tertiary graduates. If better utilised, their human capital could provide a new source of GDP growth. However, a number of obstacles prevent better use of the potential female workforce. One is the paucity and very high cost of childcare and out-of-school-hours care. With high implicit marginal income tax rates and work disincentives in social benefits for second earners, the high female participation rate is coupled with one of the OECD's highest incidences of female part-time work. Another barrier women face is cultural hurdles in the workplace. The result is that women are still significantly underrepresented as managers, directors and entrepreneurs.

Key recommendations

Reconciling macroeconomic policy tensions will involve trade-offs

- When inflation pressures reappear on the horizon and the risks in the world economy are more balanced, the SNB should return to a free float and raise the policy rate.
- Take further macro-prudential measures, such as increasing the counter-cyclical buffer, should imbalances in the mortgage and housing markets increase.
- Within the constraints of the debt brake rule, a re-evaluation of spending priorities may be warranted; in particular, a shift towards productivity enhancing public expenditures would be appropriate in the medium term.

Reaching environmental targets poses challenges

- Put greater emphasis on market mechanisms in the transition from nuclear to renewable energy.
- Implement a CO₂ levy on transport fuels so as to better exploit the low costs of meeting emissions-reductions targets in the transport sector relative to other sectors.
- Further promote private- and public-sector energy-related research, and continue engagement with foreign researchers to facilitate realisation of the Energy Strategy 2050.

Boosting long-term growth and productivity will be challenging

- Accelerate the pace of agricultural sector reform, including moving entirely to direct payments to farmers, and by further integrating the entire food value chain in international trade.
- Address issues with academically weaker students within the integrated school system as part of a comprehensive integration policy. Focus teacher-training programmes more on developing practical remedial teaching skills.
- Examine the roots of, and propose remedies for the poor productivity performance, including by creating a productivity commission.

Expanding women's role in the economy

- Increase women's labour-market options by increasing public spending on childcare and out-of-school-hours care and by setting applicable regulations to enhance the range of available price-quality choices.
- Remove the so-called marriage tax penalty at the federal level by introducing individual, as opposed to family, taxation or some equivalent measure.
- Implement a corporate governance code establishing gender goals to increase women in senior management.
- Increase the proportion of women on company boards by setting ambitious targets combined with the "Comply or Explain" practice or by setting quotas.



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