SWITZERLAND

Economic growth is rising but will remain moderate as the global outlook remains subdued. The labour market has been resilient, and the recent modest unemployment increase should be reversed by 2018. Interest rates are projected to remain low, helping to revive domestic demand. Deflation is ending as the currency has stabilised. The huge current account surplus will persist.

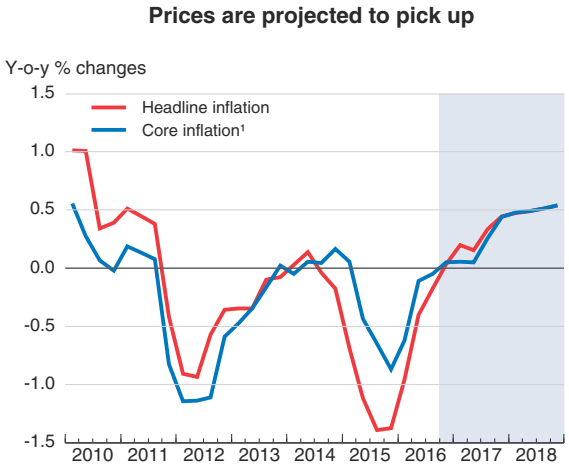
Monetary policy settings are appropriate, but risks from a long period of negative policy rates are rising. Although less buoyant than earlier, the housing market merits continued vigilance. Uncertainties remain regarding the implementation of the immigration quota decided in the 2014 referendum, even though some progress is being made. The ongoing reforms to corporate taxes are welcome. The fiscal position remains solid with the surplus expected to be maintained.

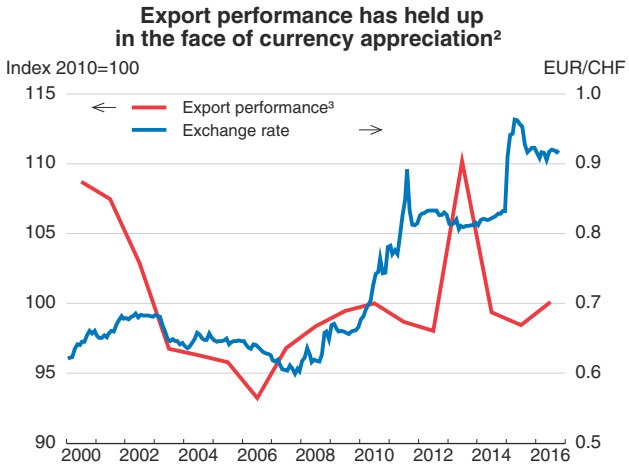
The solid fiscal balance and the low government debt give significant room to boost high-quality spending, notably on public investment, which has been modest in recent years. Government bonds yields are negative up to 10-year maturities. Interest payments have been halved since 2005 to 0.6% of GDP. Projects that would raise productivity and green the economy should be prioritised. Expanding provisions for early childhood education and care would help ensure that growth is more inclusive.

The economy is stabilising

Economic growth is recovering from the 2015 slowdown. The franc has enjoyed a period of relative stability since the sharp currency appreciation in January 2015. This has contributed to some rebound in exports, which have performed well, driven notably by chemical and pharmaceutical products. While domestic demand has been weak for the past two years, recent indicators point to a recovery. Business confidence also points to

Switzerland





1. Excluding fresh and seasonal products, energy and fuels.
2. 2016 is partly based on projections.
3. Volume; export performance is measured as actual growth in exports relative to the growth of the country's export market.

Source: OECD Economic Outlook 100 database; and SNB.

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Switzerland: **Demand, output and prices**

	2013	2014	2015	2016	2017	2018
	Current prices CHF billion	Percentage changes, volume (2010 prices)				
GDP at market prices	635.0	2.0	0.8	1.6	1.7	1.9
Private consumption	344.0	1.2	1.0	1.0	1.6	2.1
Government consumption	70.6	1.5	2.2	2.8	2.5	1.8
Gross fixed capital formation	149.3	2.8	1.5	2.3	1.4	2.0
Final domestic demand	563.9	1.7	1.3	1.6	1.7	2.0
Stockbuilding[1]	- 6.0	0.2	0.5	0.0	0.0	0.0
Total domestic demand	557.8	2.1	1.9	1.4	1.7	2.1
Exports of goods and services	459.4	-6.1	2.2	3.7	4.1	3.6
Imports of goods and services	382.2	-7.9	4.3	4.0	4.5	4.2
Net exports[1]	77.2	0.3	-0.9	0.3	0.2	0.0
Memorandum items						
GDP deflator	_	-0.6	-0.5	-0.9	0.2	0.6
Consumer price index	_	0.0	-1.1	-0.4	0.3	0.5
Private consumption deflator	_	-0.2	-0.8	-0.4	0.1	0.2
Unemployment rate	_	4.5	4.5	4.6	4.6	4.5
General government financial balance[2]	_	-0.3	1.1	1.5	1.3	0.9
General government gross debt[2]	_	45.7	44.6	43.1	41.7	40.6
Current account balance[2]	_	9.1	11.1	9.2	9.2	9.2

Note: In accordance with ESA 2010 national accounts definitions.
1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 100 database.

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higher growth. After a long period of deflation, consumer prices are now stable. The large current account surplus has shrunk somewhat but remains high, at above 9% of GDP.

There is substantial fiscal room for manoeuvre

Monetary policy is appropriately very accommodative, as a sustainable return to positive inflation is still not ensured and the exchange rate remains under upward pressure. Indeed, Swiss foreign currency reserves have increased by more than 15% in the past year. The risks posed by negative interest rates have not materialised so far, although they are rising, notably for the financial sector. However, the possibility of additional central bank stimulus is limited. The authorities should stand ready to reinforce macro-prudential measures, as mortgage rates are very low and debt relatively high.

Conversely, fiscal policy should be employed to absorb the significant remaining slack in the economy, and the debt brake rule allows for such an expansion. Public debt and the fiscal position are sound. Debt servicing costs have fallen from 1.3% of GDP in 2005 to 0.6% in 2015. The fiscal space should be utilised to revive public investment with a view to boosting sustainable and inclusive growth. There is also room to increase the provision of early childhood education and care, especially for migrants. Through 2015-16, income tax receipts have surged as firms and individuals have paid taxes in advance and delayed withdrawing tax credits because of negative interest rates; however, this should be

reversed starting in 2018. In addition, the 2016 corporate tax reform, while welcome, will translate into lower government revenues.

Output growth is projected to recover and inflation will pick up

Private consumption should gradually strengthen in 2017, as the unemployment rate returns to pre-2015 levels and household saving remains stable at a high level. Business investment will also contribute to boost growth, driven by better domestic and external prospects. The contribution from foreign trade will remain modest due to the strong franc, and the current account surplus will remain above 9% of GDP. Positive inflation is set to return as the economy gains momentum, but price rises will stay modest in the coming two years.

An agreement with the European Union on the implementation of the referendum on migration quotas is still pending. This could potentially disrupt trade flows with Switzerland's main partner. Further weakness in Europe would also hurt the economy, both directly and through renewed pressure on the franc. A more pronounced rebound in global trade would be a boost.