SWITZERLAND

Growth is projected to become more broad-based during the projection period as the weak domestic economy gradually accelerates. The worldwide recovery will continue to support exports. Inflation will remain subdued and is projected to exceed 1% only at the end of 2019. The large current account surplus will persist.

Monetary policy remains accommodative. With rising consumer price inflation, currently negative policy rates are projected to start to be raised in 2019. The fiscal surplus will gradually decrease as exceptional revenues unwind. Pension reform is becoming increasingly urgent to ensure the system's financial sustainability. Increasing childcare affordability and availability would remove some constraints on women's full participation in the economy.

The manufacturing sector has supported the recovery

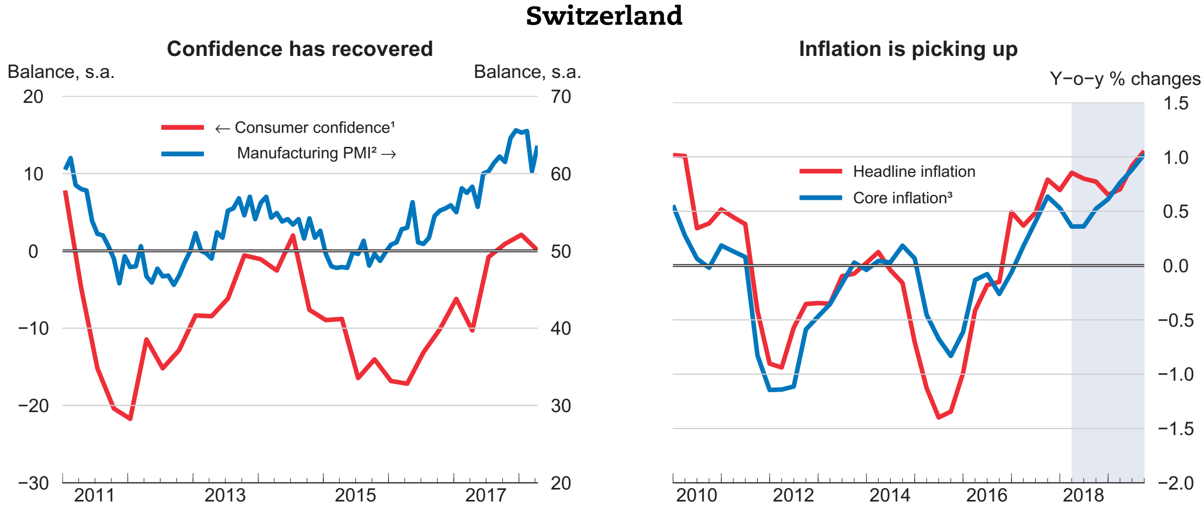
After years of subdued growth, the manufacturing sector gained momentum in 2017. The rebound in global growth, especially in the European Union, contributed to the recovery. Exporters also benefited from the ongoing depreciation of the exchange rate. Business and consumer confidence are high relative to recent years.

Inflation has risen following energy price increases, but the core measure continues to point to modest underlying price pressures. The unemployment rate has barely decreased, which has prevented household saving from falling from its currently high level. Real employee earnings have declined, weighing on private consumption. The current account surplus reached nearly 10% of GDP in 2017, boosted by investment income gains.

Finding the right policy mix is key to ensuring economic stability

The Swiss National Bank has maintained negative policy interest rates since December 2014. The resulting search for yield can affect resource allocation, generating

Switzerland



1. The balance is the difference between positive and negative answers and is centred around 0.
2. The manufacturing Purchasing Managers Index is a survey-based leading indicator. An index above 50 indicates an overall increase and below 50 an overall decrease.
3. Excluding fresh and seasonal food products, energy and fuels.

Source: OECD Main Economic Indicators database; Thomson Reuters; and OECD Economic Outlook 103 database.

StatLink http://dx.doi.org/10.1787/888933730617

Switzerland: **Demand, output and prices**

	2014	2015	2016	2017	2018	2019
	Current prices CHF billion	Percentage changes, volume (2010 prices)				
GDP at market prices	649.8	1.2	1.4	1.1	2.3	1.9
Private consumption	345.1	1.8	1.5	1.2	1.3	1.6
Government consumption	77.8	1.2	1.6	1.0	1.1	1.1
Gross fixed capital formation	155.1	2.3	3.0	3.1	3.0	3.4
Final domestic demand	577.9	1.8	1.9	1.7	1.7	2.0
Stockbuilding[1]	- 4.6	0.5	-1.3	-1.3	-0.3	0.1
Total domestic demand	573.3	2.4	0.3	0.2	1.3	2.2
Exports of goods and services	418.1	2.3	6.6	-0.7	4.7	4.0
Imports of goods and services	341.6	4.6	6.0	-2.5	3.7	4.8
Net exports[1]	76.5	-0.9	1.0	0.9	1.1	0.0
Memorandum items						
GDP deflator	_	-0.6	-0.6	0.3	0.6	1.0
Consumer price index	_	-1.1	-0.4	0.5	0.9	0.9
Core inflation index[2]	_	-0.5	-0.3	0.3	0.4	0.8
Unemployment rate (% of labour force)	_	4.8	4.9	4.8	4.6	4.5
Household saving ratio, net (% of disposable income)	_	17.6	18.8	18.7	18.5	18.2
General government financial balance (% of GDP)	_	0.6	0.3	1.1	0.7	0.5
General government gross debt (% of GDP)	_	43.3	42.6	41.5	40.8	40.4
Current account balance (% of GDP)	_	10.9	9.4	9.8	10.7	10.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 103 database.

StatLink http://dx.doi.org/10.1787/888933731529

risks of financial distortions. Moreover, house prices have started to rise again, and mortgage loan growth by some bank categories is increasing. Higher inflation will allow the central bank to raise interest rates, and it is projected to begin doing so in mid-2019. A plan for the gradual withdrawal of stimulus should be communicated well in advance to avoid a potentially disruptive market surprise.

Public debt is low, and some fiscal easing in 2018 and 2019 will help smooth the transition away from unconventional monetary policy. Budget revenue has surprised on the upside, public spending has come in slightly below target, and Switzerland has long recorded a budget surplus. However, the latter will gradually shrink as exceptional revenues wane. Because the population is ageing and the pension system's financial position is deteriorating, a pension reform is becoming urgent, notably by removing disincentives to work longer, thereby increasing the effective retirement age.

To meet long-term challenges, productivity needs to accelerate, including by improving inclusiveness. Reinforcing competition and lowering restrictions on trade, notably for agricultural products, would help sustain high living standards. Facilitating immigration from non-EU countries and increasing the participation of women and immigrants in the labour force would help satisfy labour market needs. In particular, full-time female employment would be facilitated by increased childcare affordability and availability.

Domestic demand is expected to expand more strongly

Growth is projected to pick up strongly in 2018 largely due to buoyant activity at the turn of the year. Exports will continue to support growth in the context of the recent exchange rate depreciation and renewed momentum in global growth. In addition, domestic demand will pick up, broadening sources of economic growth. Private consumption will recover as unemployment edges down and real wages increase again. Heightened geopolitical tensions could be particularly damaging to Switzerland's very open economy if the Swiss franc were to appreciate sharply. Domestic tensions around the finalisation of the corporate tax reform, which is expected to be implemented in 2020 but could be subject to a referendum, could exacerbate uncertainty, depressing investment. Conversely, households' optimism may lead to a more substantial decline in their saving ratio and higher consumption growth, narrowing the current account surplus.