

## SWITZERLAND

Economic activity is picking up after a weak 2017 outturn. An improving external environment and competitiveness gains will revive activity, raising export growth and invigorating investment. Domestic demand should provide additional stimulus as unemployment decreases and incomes rise. Inflation is projected to remain low given excess capacity. The large current account surplus will persist.

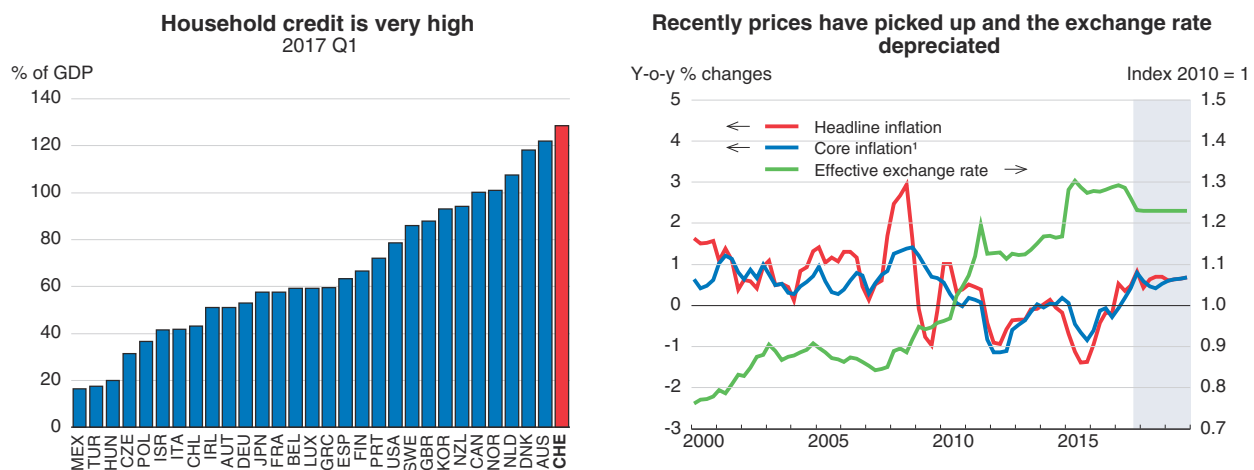
Accommodative monetary policy remains appropriate in the near term. As growth strengthens and deflation risks fade, the central bank will eventually be able to begin interest rate normalisation, probably in 2019. The fiscal stance is broadly neutral. Further efforts should be pursued to remove constraints on women's full participation in the economy, as they overwhelmingly work part-time. In particular, more affordable childcare is needed.

Negative policy rates raise financial-stability risks. The ratio of household debt to GDP is the highest amongst OECD countries, mostly due to the mortgage debt needed to pay for costly housing. A framework should be established for setting mortgage lending limits that incorporates affordability considerations and is enforced. Sizeable net foreign assets imply exposure to interest-rate, credit and exchange-rate risks.

### Activity has been weak

GDP growth is unlikely to have exceeded 0.8% in 2017, even though activity in the European Union picked up significantly. Exports and imports were nearly stagnant. Domestic demand has been weak, and household saving rose to 19% of disposable income. However, recent indicators, notably confidence surveys, point to greater momentum. Headline and core inflation have edged up, away from zero. The effective exchange rate depreciated over the summer after a period of relative stability since mid-2015. During that time, upward pressures on the currency were contained by Swiss National Bank (SNB)

### Switzerland



1. Excluding fresh and seasonal products, energy and fuels.

Source: OECD, Vulnerability Indicators database; OECD Economic Outlook 102 database; and Swiss National Bank.

StatLink <http://dx.doi.org/10.1787/888933632178>


Switzerland: **Demand, output and prices**

|  | 2014                          | 2015  | 2016 | 2017 | 2018 | 2019 |
|--|-------------------------------|---|------|------|------|------|
|  | Current prices<br>CHF billion | Percentage changes, volume<br>(2010 prices) |      |      |      |      |
| <b>GDP at market prices</b>                          | 649.8                         | 1.2   | 1.4  | 0.8  | 1.7  | 1.8  |
| Private consumption                                  | 345.1                         | 1.8   | 1.5  | 1.3  | 1.4  | 1.6  |
| Government consumption                               | 77.8                          | 1.2   | 1.6  | 1.4  | 1.1  | 1.2  |
| Gross fixed capital formation                        | 155.1                         | 2.3   | 3.0  | 2.1  | 2.4  | 2.6  |
| Final domestic demand                                | 577.9                         | 1.8   | 1.9  | 1.5  | 1.6  | 1.8  |
| Stockbuilding <sup>1</sup>                           | - 4.7                         | 0.5   | -1.4 | -1.3 | -0.3 | 0.0  |
| Total domestic demand                                | 573.3                         | 2.4   | 0.2  | 0.1  | 1.3  | 1.9  |
| Exports of goods and services                        | 418.1                         | 2.2   | 6.5  | 0.5  | 5.3  | 4.0  |
| Imports of goods and services                        | 341.6                         | 4.5   | 6.0  | -0.7 | 5.5  | 4.6  |
| Net exports <sup>1</sup>                             | 76.5                          | -0.9  | 1.0  | 0.7  | 0.5  | 0.1  |
| <i>Memorandum items</i>                              |                               |   |      |      |      |      |
| GDP deflator   | —                             | -0.6  | -0.5 | 0.4  | 0.7  | 0.8  |
| Consumer price index                                 | —                             | -1.1  | -0.4 | 0.6  | 0.6  | 0.6  |
| Core inflation index <sup>2</sup>                    | —                             | -0.5  | -0.3 | 0.3  | 0.5  | 0.6  |
| Unemployment rate (% of labour force)                | —                             | 4.8   | 4.9  | 4.8  | 4.5  | 4.4  |
| Household saving ratio, net (% of disposable income) | —                             | 17.6  | 18.8 | 19.1 | 19.1 | 18.9 |
| General government financial balance (% of GDP)      | —                             | 0.6   | 0.3  | 0.3  | 0.4  | 0.4  |
| General government gross debt (% of GDP)             | —                             | 44.8  | 44.4 | 44.1 | 43.6 | 43.1 |
| Current account balance (% of GDP)                   | —                             | 11.2  | 9.8  | 10.2 | 10.7 | 10.9 |

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 102 database.

StatLink  <http://dx.doi.org/10.1787/888933633090>

interventions, resulting in sizeable increases in already ample foreign reserves. The large current account surplus has persisted.

### **Monetary policy is supporting the economy**

With inflation still very low, the SNB should maintain its accommodative stance. But as the economy strengthens, it would be appropriate to start removing extraordinary policy stimulus. Accordingly, this process is not likely to begin until early 2019. The budget balance is projected to show a continued small surplus, but efforts should be pursued to avoid underspending and to better co-ordinate procedures at federal and sub-national levels. To meet long-term challenges, productivity needs to accelerate, including through improving inclusiveness. More efficient public spending could free resources for more affordable childcare to boost full-time employment of women. Lower restrictions on trade in goods and services would improve competition and productivity. Reform of the pension system is also needed to ensure the system's sustainability.

The financial sector, including banks and pension funds, remains under pressure after nearly three years of negative rates that have weighed on profitability and returns. The housing market still needs vigilance, given high levels of mortgage debt and the recent revival of house price growth. High household saving rates explain the persistence of the current account surplus. One consequence is that net foreign assets of the private sector are enormous and exposed to external risks, as is the SNB's balance sheet.

**Growth is projected to pick up**

A return to nominal wage increases, the confidence-enhancing decrease in unemployment and the continuation of negative interest rates will boost private consumption and lower the household saving ratio. Investment will also gain some momentum through the projection period. The recent currency depreciation together with stronger growth in the United States and Europe will boost exports. Consumer price inflation will remain low. The current account surplus will increase slightly, driven by rising interest rates on foreign assets, even though imports are expected to gain some traction from buoyant domestic demand.

The Swiss economy depends heavily on growth outcomes in the rest of the world, especially in Europe. There might be positive or negative risks from the euro area. If geopolitical risks were to trigger safe-haven capital inflows, they would push up the exchange rate substantially, weighing on growth and inflation. On the positive side, a return to long-term average household saving rates would boost private consumption and revive growth.