SWITZERLAND

GDP growth is projected to rise gradually, which will reduce unemployment. The low interest rate environment is set to continue, helping to revive domestic demand. Deflation seems to have been overcome, but inflation is projected to remain low through 2018. The large current account surplus will persist.

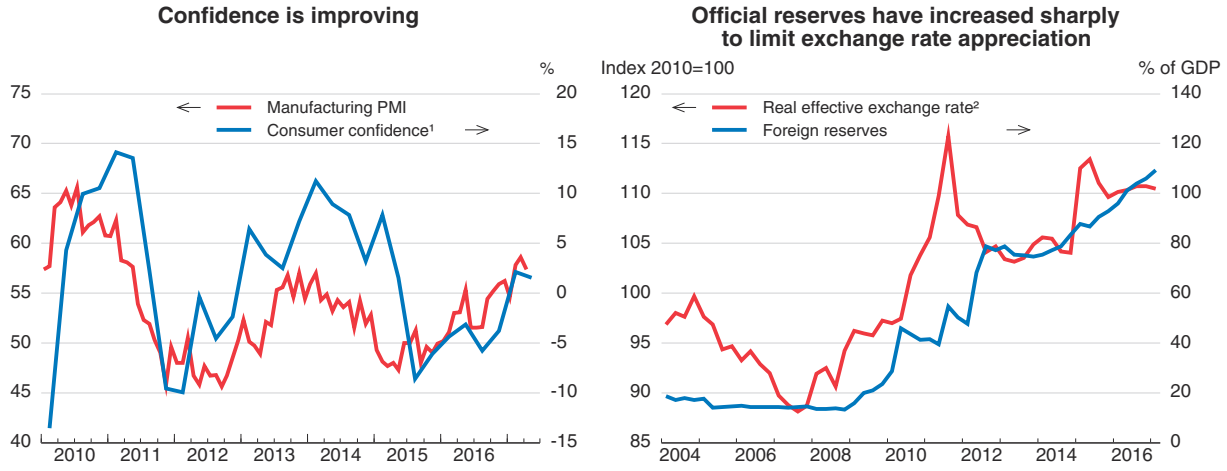
A continuation of the policy of negative rates is justified by low inflation and weak growth. Nevertheless, as growth picks up, policy interest rates are projected to begin to rise in late 2018. As persistent very low rates can give rise to major financial distortions, close monitoring and tight prudential regulation should also be retained. Small budget surpluses are expected, and public debt will continue to decline. Available fiscal space should be exploited to support the recovery.

As the economy increasingly opens to Europe and the rest of the world, Switzerland should be able to maintain its enviable economic position. In particular, it has managed to develop several leading global industries. However, well-being would be enhanced if barriers to trade in services were lowered to deepen participation in global value chains. Sizeable immigration has brought increases in skilled labour but has also proved to be challenging, calling for continued focus on integrating new migrants.

The recovery is gradual

GDP grew by 1.3% in 2016, a marked improvement on 2015. Nevertheless, growth remains modest and leaves significant slack in the economy. Recent indicators point to some strengthening. The Swiss franc depreciated in real terms in 2016 and early 2017 after a large appreciation in 2015, but upward pressures remain, which have led to sizeable interventions by the Swiss National Bank (SNB). The large current account surplus has persisted. Modest inflation is returning, partly driven by rising commodity prices.

Switzerland



1. Difference from long-term average.
2. Based on consumer price inflation.

Source: OECD Economic Outlook 101 database; Thomson Reuters; and Markit.

StatLink http://dx.doi.org/10.1787/888933503738

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	1.3	1.5	1.9
Private consumption	343.9	1.2	1.0	1.2	1.8	1.9
Government consumption	70.6	1.5	2.2	1.9	1.4	1.7
Gross fixed capital formation	149.3	2.8	1.5	2.5	1.7	2.4
Final domestic demand	563.8	1.7	1.3	1.6	1.8	2.0
Stockbuilding[1]	- 6.0	0.2	0.5	-1.6	-0.6	0.0
Total domestic demand	557.8	2.1	1.9	-0.4	1.1	2.1
Exports of goods and services	459.4	-6.1	2.2	4.6	5.8	4.0
Imports of goods and services	382.3	-7.8	4.3	2.7	6.2	4.8
Net exports[1]	77.2	0.3	-0.9	1.5	0.5	0.1
Memorandum items						
GDP deflator	_	-0.6	-0.5	-0.6	0.4	0.5
Consumer price index	_	0.0	-1.1	-0.4	0.5	0.4
Private consumption deflator	_	-0.2	-0.8	-0.4	0.4	0.1
Unemployment rate	_	4.5	4.5	4.6	4.5	4.3
General government financial balance[2]	_	-0.3	1.1	0.6	0.5	0.5
General government gross debt[2]	_	45.7	45.4	44.7	44.1	43.5
Current account balance[2]	_	8.8	11.5	10.7	11.3	11.4

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 101 database.

StatLink http://dx.doi.org/10.1787/888933506170

Policy settings are appropriate for now

Inflation remains very low and the SNB should therefore maintain its negative interest rate. As the economy gradually strengthens and interest rates rise in major economies, it would be appropriate to start removing extraordinary policy stimulus in late 2018. This would also help to reduce the risk of financial imbalances accumulating. The budget balance is projected to show a continued small surplus, implying further declines in public debt in relation to GDP. However, fiscal space is available, and using it would both support economic growth and take some of the pressure off monetary policy.

Globalisation has provided prosperity, and inequality remains low, but policymakers should focus on supporting those with disadvantaged backgrounds, especially at pre-primary and university levels, where they tend to underperform. The parliament has passed a reform responding to the 2014 referendum that demanded limits on immigration; the final reform aims to help workers in regions and sectors with high unemployment and appears flexible enough not to damp economic activity. Increasing childcare facilities and switching to individual personal taxation would facilitate full-time female employment for those who so choose.

Growth is projected to pick up somewhat in the context of global improvements

Domestic demand will be supported by negative interest rates, a confidence-enhancing decrease in unemployment, and better external market conditions. Consumer

prices should edge up after several years of deflation, mostly driven by global commodity prices. The current account surplus will persist, even as somewhat stronger domestic demand boosts imports.

External risks dominate the projections. The recent improvement in the euro area economy could prove stronger than projected, bolstering exports. While negative rates help growth, imbalances may develop in financial and housing markets. A rise in global protectionism or a renewal of turbulence in the euro area could weigh on the economy.