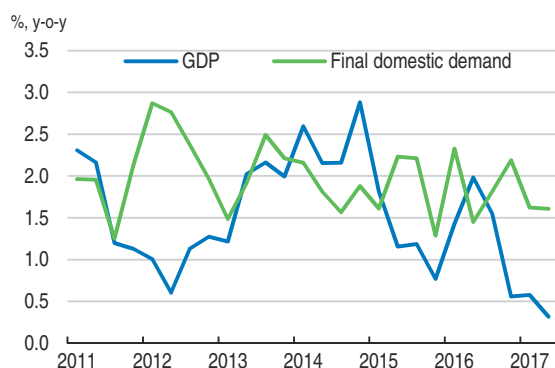


2017 Economic Survey of Switzerland

The economy is growing slowly

Growth in output and domestic demand are modest



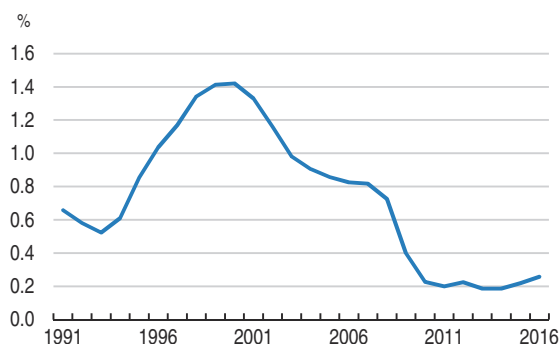
Source: SECO.

StatLink <http://dx.doi.org/10.1787/888933620417>

Switzerland continues to provide its citizens with a high standard of living. The economy has shown considerable resilience, most recently to the exchange rate appreciation in 2015. Nevertheless, growth has been too slow to absorb spare capacity or raise income per capita meaningfully. Unconventional monetary policies have helped return inflation to positive territory, but pose other risks. The current account surplus remains large. Fiscal policy is sound, and the federal fiscal rule has helped lower public indebtedness but it implies that spending priorities must be funded from other areas. Ensuring the sustainability of the pension system and implementing effective policies for extending healthy working lives are becoming increasingly urgent.

Faster productivity growth is needed to raise incomes

Trend labour productivity growth has stalled



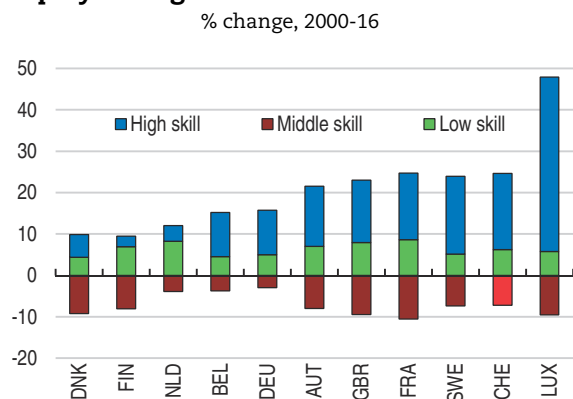
Source: OECD Economic Outlook database.

StatLink <http://dx.doi.org/10.1787/888933620436>

Swiss labour productivity growth has been falling since the late-1990s to be one-third of the OECD average rate in the past decade. Swiss R&D and innovation are top-ranked but need to be more widespread across firms and sectors. Boosting entry by innovative start-ups could reverse the recent divergence between frontier firms and the rest. Improving competition, raising trade in services and investment and lowering administrative burdens could boost the creation of innovative start-ups and revive growth. Higher education institutions can play a role by enhancing entrepreneurship through incubators. And the nation could make more use of its women and immigrants, neither of whom are achieving their potential.

The demand for skilled workers has been strong

Employment growth has been skill-intensive



Source: Eurostat.

StatLink <http://dx.doi.org/10.1787/888933620455>

The Swiss education and training system is well regarded and has contributed to high employment rates. Demand for skilled workers has been strong and is likely to continue so. This, together with far-reaching changes such as digitalisation and the risk of declining immigration, will challenge the education and training system. The supply of tertiary-educated workers will need to be expanded further. Access to lifelong-learning opportunities should be broadened to those outside the labour force and the less well-educated and take-up by older workers encouraged. Tracking in the school system has been reduced but still limits the achievement of those from disadvantaged socio-economic backgrounds.

MAIN FINDINGS	KEY RECOMMENDATIONS
Entrenching the expansion and sustaining high living standards	
<p>Monetary policy is supporting growth and the return to price stability. There is limited scope for further monetary accommodation, and financial stability risks are rising. The fiscal position is sound.</p> <p>House price growth has slowed, but imbalances remain. Parts of the banking system are highly exposed to housing. Guarantees provided by cantons to their public banks are a fiscal risk and distort competition. Bank lending standards may be declining.</p> <p>Ageing-related spending represents a fiscal burden that may crowd out other expenditure. Workers face increased uncertainty about their retirement incomes and working lives. Precautionary household saving resulting from uncertainty about the future and the need to finance costly housing purchases may be contributing to the large current account surplus.</p>	<p>Avoid persistent budget underspending through better co-ordinating procedures at federal and sub-national levels. Reduce agricultural subsidies and pursue efficiency gains in public spending to free up funds for measures that enhance growth and inclusiveness.</p> <p>Eliminate remaining explicit cantonal government guarantees to their public banks. Establish a formal framework for setting mortgage lending limits that takes affordability into account and is enforced on a comply-or-explain basis.</p> <p>Fix the retirement age at 65 for both sexes, and thereafter link it to life expectancy. Increase financial incentives to work longer before retirement. Promote programmes to lengthen healthy working lives, including preventative health programmes. Promote lifelong training, career planning and tailored job-search assistance to enhance workers' resilience to change.</p>
Boosting productivity for long-term growth	
<p>Government involvement in sectors such as energy, telecommunications and transport is significant and competition weak. The competition authority's board includes representatives of economic associations, harming its perceived independence. Market access between cantons is difficult for several occupations.</p> <p>Restrictions on services trade and agricultural imports are substantial, especially regarding the movement of persons. New free-trade agreements provide an opportunity to increase market size, achieve scale economies and boost productivity.</p> <p>The entrepreneurship rate is low for younger age groups. The administrative burden is high. Fragmented delivery reduces the effectiveness of government support.</p> <p>Parts of the population, notably women, are not achieving their potential. Child-rearing responsibilities fall disproportionately on mothers, and the tax system discourages second earners. Slowing immigration may worsen skill shortages.</p>	<p>Increase private ownership and remove barriers to entry, including restrictions on the number of competitors, in energy, telecommunications and transport. Remove representatives of economic associations from the board of the competition authority.</p> <p>Lower restrictions on trade in both goods and services, notably in highly protected agricultural products. Complete the negotiations for free-trade agreements that are underway with Asian nations and MERCOSUR.</p> <p>Finalise the virtual one-stop shop for administrative affairs. Establish cantonal physical contact points to improve delivery of advisory services and public financing programmes.</p> <p>Increase childcare affordability. Shift income taxation to individual rather than household incomes, or implement equivalent measures. Facilitate high-skilled immigration from non-EU countries to meet labour market needs.</p>
Ensuring a dynamic skills-training and life-long learning system	
<p>Jobs requiring tertiary education are expanding, and vacancy rates in skilled sectors are high. Separating students into vocational and general streams after lower secondary school weakens intergenerational mobility.</p> <p>The vocational system relies on apprenticeships, but small firms tend not to participate. The system has generally been responsive to changes in labour market conditions, but the school-based model is less connected to firms.</p> <p>Participation in continuing education and training is high but not broad-based. Public spending is low and the framework complex.</p>	<p>Collect more detailed data on skills to facilitate adjustments to education in response to changing labour market needs. Increase the effectiveness of pathways between vocational and general streams by increasing the academic component of the vocational curriculum and vice-versa.</p> <p>Encourage small firms to participate more in apprenticeships by promoting sharing of apprenticeship places between firms and training centres that undertake part of the training. Strengthen linkages between the vocational education and training system and employer associations in school-based vocational training.</p> <p>Use subsidies to encourage participation in continuing education and training for groups with low participation rates.</p>