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VIEWS FROM THE EFTA STATES

IMPROVING COMPETITIVENESS IN THE LONG RUN – TAKING ON THE CHALLENGES OF DEMOGRAPHICS AND LOW PRODUCTIVITY GROWTH

EFTA–ECOFIN MEETING

5 NOVEMBER 2024

1. Introduction and motivation

Europe is facing daunting challenges that are putting pressure on our economies and how we are using our scarce financial, natural and human resources. Russia's war of aggression in Ukraine is leading to unbearable human suffering and has reshaped our security landscape. Europe must allocate more resources to defence. Simultaneously we are going through a green transition, with the aim of meeting ambitious climate goals in the near future. Furthermore, value chains are being adapted to account for geopolitical risks. European countries, including the EFTA States, must also adapt to demographic changes. The scarcity of labour will increase as the old-age dependency ratio rises.

A strong economy is pivotal to taking on these challenges, and we need to use the resources available to us as efficiently as possible. Most European countries have experienced a significant drop in labour productivity growth over the last 15 to 20 years. Low productivity growth means losing out on higher living standards. Failure to address these trends will also weaken public finances and cause future financing gaps.

These issues are also high on the political agenda in the European Union, with long-term competitiveness and challenging demographic developments a central topic both in the European Council Strategy for 2024 to 2029 and on the incumbent Presidency's agenda. The Draghi[1] and Letta[2] reports highlight these challenges and are also of interest to the EFTA States. Our understanding is that the overarching goal of the EU's competitiveness initiatives is to strengthen the economy.

The EFTA States are highly integrated with the EU's economy, and the EEA EFTA States participate equally in the Single Market on a level playing field with the EU Member States. It is in the interest of both sides that the EU takes into account the role and perspectives of the EFTA States through close and early dialogue when considering new proposals and solutions affecting the Single Market and the EU's economy in a broader sense.

Last year's joint EFTA–ECOFIN discussed industrial policies – a topic which is connected to this year's topic. The EFTA States emphasised the need for collaborative policy efforts to address pressing challenges, underlined the importance of rules-based international trade, and highlighted the potential cross-border spillovers of industrial policy programmes that may be of particular importance to small open economies such as the EFTA States.

This year, the focus is on large structural impediments to growth. This paper discusses what the EFTA States see as the main challenges facing our economies, and appropriate measures to improve competitiveness in the long run. It is worth bearing in mind that challenges and approaches for small and open economies like the EFTA States might differ from those of the EU as a bloc and a customs union.

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[1] Mario Draghi (2024), *The Future of European Competitiveness – A competitiveness strategy for Europe*, September, https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en

[2] Enrico Letta (2024), *Much more than a market – Speed, Security, Solidarity; Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens*, April, https://www.consilium.europa.eu/media/ny3j24sm/much-more-than-a-market-report-by-enrico-letta.pdf

2. Economic developments in the EFTA States

In all EFTA States, inflation increased significantly in 2022 and remained at a high level in the first part of 2023, particularly in Norway and Iceland. Higher energy prices played a more prominent role in Norway than in the other countries, reflecting differences in energy markets and economic structure. Appreciation of the exchange rate dampened imported price inflation in Switzerland and Liechtenstein, whereas a weakening of the exchange rate accentuated consumer price inflation in Norway. Inflation declined in all EFTA States and stabilised on target in Switzerland and Liechtenstein. Inflation is still high in Iceland due to high wage growth and rising house prices, and in Norway inflation is still above target.

Gross domestic product (GDP) swiftly rebounded after the COVID-19 pandemic in all EFTA States. However, the growth abated in 2023 and all countries except Iceland experienced low GDP growth in 2023. Looking ahead, growth is expected to move sideways in Liechtenstein and slightly pick up in the other EFTA States.

Notwithstanding lower GDP growth, labour market developments have been positive. Despite recent upticks, unemployment is low by historical standards and employment levels are high.

The EFTA States enjoy high levels of GDP per capita and are among the most innovative in the world. All EFTA States, especially Liechtenstein and Switzerland, spend significant resources on research and development (R&D) by international comparison. The EFTA States do especially well in labour force participation, with higher levels than in the EU27 and the United States. However, slowing productivity growth (GDP/hour worked) is a significant concern in all EFTA States, as in many other European and OECD countries.

3. Measures to strengthen competitiveness in the long run

The EFTA States think it’s useful to distinguish between the competitiveness of a country and that of an industry. For a country to be competitive, which is what will be discussed in this paper, it must use its resources efficiently and be able to maintain full employment. This also implies pursuing sound monetary, fiscal and structural policies with a view to ensuring stable economic framework conditions.

In order to achieve efficient resource allocation and high welfare, it is key that the economy is able to redeploy resources that become available due to changing market conditions. Under appropriate economic and regulatory framework conditions, some companies will scale back their operations while others can expand in line with evolving economics and business prospects.

The EFTA States continue to believe that the main approach to strengthening competitiveness and increasing innovation capacity should be to adopt sound economic policies and horizontal measures to promote good framework conditions. In this way, policy can support the market-based search for solutions and investment opportunities, which is key to increasing allocative efficiency. This includes adherence to the rules-based trading system, and policies to stimulate competition including strict state aid rules. These are prerequisites for a well-functioning Internal Market that benefits both consumers and businesses and reduces rent-seeking activities in the economy. Prudent regulation is also key, and one should seek to reduce the administrative burden on businesses.

Further integrating financial markets is high on the EU's productivity and competitiveness agenda. Continuing the reforms to unleash private capital to business investments in Europe is welcome. The EFTA States agree that well-designed financial market regulations and effective financial markets are important for the functioning of the real economy. At the same time, it is important to maintain regulation promoting financial stability and the protection of investors, as well as adequate room for national discretion. It should also be noted that growth, productivity and competitiveness are important factors for attracting investments.

Our economies are confronted with an ageing population and decreasing birthrates, which highlights the need to increase labour supply. These demographic challenges are shared by most EU and EFTA States. The scarcity of labour increases with the old-age dependency ratio. In several EFTA States, during the pandemic and its aftermath, lower labour immigration contributed to labour shortages in parts of the economy. Tight labour supply could have a dampening effect on productivity and growth if not addressed properly. We also expect a greater strain on fiscal resources in the future, as demographic changes will slow tax revenues and more resources are needed for pensions, healthcare and defence in addition to the digital and green transition. Tackling these challenges will imply economic and fiscal policy priorities within credible fiscal frameworks.

It is important to look closely at pathways that can lead to increasing labour supply and making better use of scarce labour resources. Achieving higher employment may require structural measures and the coordination of various policy areas. This includes well-designed incentives to keep all labour groups in the workforce longer and integrate more people in the workforce. Among others, there is a need to review pension systems, including retirement age, disability regulations and training programmes to lifelong learning.

The adoption of new technologies, including artificial intelligence (AI) and robotisation, can help address labour shortages. This should also be explored all sectors of the economy, not least in the health sector where the need for resources will be especially great. increase along with ageing. AI has the potential to increase productivity and quality of services. Careful examination should be given to the trade-offs between factors such as privacy concerns and cybersecurity on the one hand, and the goal to foster adaptation and the development of new technologies on the other.

The EFTA States stress that predictable and stable framework conditions, open markets and international trade are key for facilitating private investment, innovation and growth. The EFTA States in general rely on horizontal support programmes for R&D, and emphasise developing high-quality education systems to equip the workforce with the necessary skills.

Given increased geopolitical risks, the EFTA States acknowledge the need to diversify and de-risk supply chains in order to avoid harmful dependencies. International cooperation and strategic partnerships could be key in this regard. However, as international trade and adherence to the liberal rules-based system promotes the most effective use of global resources, the use of trade-restrictive measures should be avoided.

4. Challenges and solutions across the EFTA States

In **Iceland**, enhancing productivity has long been the government's preferred method of supporting the nation's competitiveness. High labour force participation – including among women – and efficient use of production factors are key to Iceland's favourable productivity ranking. In 2010, the government introduced a specific tax scheme to support R&D, which was open to all sectors and businesses. In 2017, Iceland introduced a tax incentive scheme to attract specialist foreign workers.

The **Liechtenstein** government remains committed to a liberal market economy, with a focus on creating stable framework conditions and a prudent regulatory framework. Current challenges include modest or sideward economic growth and a high need for skilled labour, especially given the increasing old-age dependency ratio. A report commissioned by the government in 2024 highlights potential measures to boost labour force potential and participation rates, including raising the labour force participation rates of women and older individuals, enhancing Liechtenstein's appeal as a work destination for international employees, promoting private investment in technological development and further increasing public investment in education.

In **Norway**, the newly released *Long-term Perspectives* report highlights two main challenges that need to be addressed to promote economic growth and maintain the welfare state: 1) increased scarcity of labour, as caregiving tasks are increasing due to demographic changes; and 2) the need to adapt to geopolitical tensions and take on the green transition when petroleum activity is declining. Good framework conditions are the Norwegian cornerstone for developing the economy. Furthermore, Norway is spending significant resources on horizontal programmes to foster innovation and research.

In **Switzerland**, the federal government regularly monitors eight areas of economic framework conditions that it considers crucial to competitiveness. The latest Report on the Status of the Swiss Economy was published in May 2024. With it, the Federal Council adopted a policy agenda to improve economic framework conditions further. The policy agenda aims to increase labour productivity given the dampening effect of demographic change on growth. The federal government reaffirmed its commitment to its horizontal approach to innovation and growth policy, without favouring specific industries, companies or technologies. Policy priorities include stabilising and furthering Switzerland's relationship with its most important trading partner – the EU – as well as concluding new free trade agreements.

Key points

To summarise: As small, open economies, the EFTA States emphasise the following key points to improve competitiveness in the long run:

- To strengthen our economies and improve our ability to take on the challenges at hand, we must enhance productivity and increase labour supply.
- The main approach to strengthening competitiveness and innovation capacity should be to adopt sound economic policies and horizontal measures to promote good framework conditions.
- Policies to strengthen competition, including strict state aid rules, are a prerequisite for a well-functioning Internal Market that benefits both consumers and businesses.
- It is important to look closely at pathways that can lead to increasing labour supply and skills, including within the social security and the education system.
- International trade and adherence to the liberal rules-based system remain key to addressing the current challenges. Trade restrictive measures should be avoided and carefully assessed.

Iceland: Country Annex

The Icelandic economy has fared well in recent years. GDP growth has averaged around 3.6% over the last decade, despite a contraction of almost 7% in 2020. Strong growth since the pandemic (6.4% average) was driven by real increases in service exports (2023) and private consumption and investment (2022 and 2021). Increased economic activity led to inflation levels not seen since the aftermath of the global financial crisis, as inflation reached 10.2% in February 2023. Interest rates reached a record low during the pandemic, at 0.75%, and then remained at 9.25% until October 2024 when they were lowered to 9%. Monetary policy, along with a contractionary fiscal policy, has had the intended effect, as inflation has come down to 5.4%. Core inflation is down at 2.9%. Most recent estimates show a mild contraction in economic activity in the first two quarters of 2024.

Competitiveness and productivity

Enhancing productivity has long been the Icelandic government's preferred method of supporting the nation's competitiveness. Productivity growth in Iceland since 2000 has surpassed that of other Nordics, Switzerland and even the United States, but was markedly higher in the first half of this period than the second half, as with most other nations. When measuring absolute productivity (GDP/hour worked), despite Iceland taking 23rd place out of 189, it comes behind all the other Nordic countries, Switzerland and many other Western European economies.[3]

There are several contributing factors to higher than average productivity growth in Iceland. An identifying characteristic of the Icelandic economy is a high labour force participation rate. At 88.6%, the overall labour force participation rate (15 to 64 years) in Iceland is the highest among OECD countries. When it comes to those aged 65 years and over, the labour force participation rate in Iceland (32.6%) is the second highest in the OECD, after Korea. The labour force participation rate of women in Iceland (70.1%) is the highest of the OECD countries. In some of Iceland's neighbouring countries, the pandemic has caused what appears to be a long-lasting increase in people outside the labour market due to illness and other factors.[4] This has not been the case in Iceland, where the share of the working age population outside the labour force has not changed substantially in the last two decades.

A further contribution to Iceland's growth in productivity since the turn of the century is more efficient use of production factors. Fisheries are the most productive sector in Iceland, due in part to the Icelandic fishing management system and investments made by businesses to improve profitability in the sector. Although tourism is a low-productivity sector, the fast growth it has seen in the past decade has made it possible to improve the utilisation of existing infrastructure and investments.

Due to the small size of the Icelandic economy, economic development has often been highly influenced by developments in a small sector, and even by decisions of specific firms. Positive shocks, particularly in exports, often have a marked influence on long-term GDP in a small and resource-based economy like Iceland. Currently there are ongoing developments in certain

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[3] Source: International Labour Organization (ILO).
[4] See for instance: Office for Budget Responsibility (2023), *Fiscal risks and sustainability*, July, https://obr.uk/frs/fiscal-risks-and-sustainability-july-2023/

sectors, particularly in fish farming and pharmaceuticals, that could have a similar effect. These two industries, among other emerging industries, have benefited from two policies implemented in recent years to support R&D and the migration of specialist workers to Iceland.

The government introduced a specific tax scheme to support R&D in 2010 that is open to all sectors and businesses. By international comparison, Iceland is quite generous in its government support to business R&D, while conversely business spending on R&D is below the OECD average. For the 14 years in which the policy has been active, value added in Iceland's technology sector has increased by 170% and the number of workers in that sector has increased by 40%. The largest recipients of the R&D tax credit are health-related technology companies, information technology companies, fish farms and food processing technology companies.

In 2017, Iceland introduced a tax incentive scheme to attract specialist foreign workers. For the first three years of their residence in Iceland, qualifying specialists benefit from a 25% reduction in their taxable income. A key qualification is that the specialist has knowledge or training that is scarce in Iceland, and that the job requires that specific knowledge. The popularity of this programme has been growing, and the number of participating specialists more than doubled from 2020 to 2023. The specialists generally come to work in pharmaceuticals, the healthcare sector, universities or healthcare technology companies.

Labour market and changing demographics

Icelandic competitiveness can in part be attributed to its flexible labour market and beneficial old-age dependency ratio (25.5%) – the sixth lowest among OECD countries. First-generation immigrants made up 23% of the total workforce in 2023, up from 5% twenty years ago. In specific sectors the share of immigrants in the workforce is considerably higher: around 43% in tourism, 39% in fishing and 34% in construction. Uniquely, immigrants in Iceland have a slightly higher labour force participation rate than the rest of the population, which illustrates quite clearly that people move to Iceland to work.[5]

As is the case for most other advanced economies, natural population growth is expected to decline over the next decades in Iceland. Despite this decline, natural population growth is still expected to be positive, unlike in many comparison countries. For a while now, forecasts for the long-term development of Icelandic demographics have been similar to those for most other advanced economies: an ageing population with a growing old-age dependency ratio.

However, the newest forecasts take into consideration the persistence of immigration to Iceland, which changes the outlook considerably. Net immigration to Iceland has been three times higher than the average among OECD countries for the last two decades. Assuming a net immigration rate to Iceland slightly slower than it has been since the turn of the century, forecasts by both the Icelandic authorities and the OECD indicate that the share of the working age population in Iceland will start to increase after the year 2040, unlike almost all other OECD countries. Certainly, these are only forecasts and net immigration in the future could

[5] OECD (2023), *OECD Economic Surveys: Iceland 2023*, OECD Publishing, Paris, p. 83, https://doi.org/10.1787/b3880f1a-en

easily be different from what is expected at the moment due, among other things, to geopolitical developments and climate change.

Iceland is the largest spender among OECD governments on education (4.8% of GDP in 2020), while it has a below average rate of secondary graduation (78.2% in 2020) and the share of the population that has completed tertiary education (43.6%) is around the middle of the OECD countries. PISA assessments[6] in 2023 showed that Icelandic students performed below average on all assessments. What is even more alarming is that, despite results having been on a downward trend for Iceland previously at the 2018 assessment, no other country in the OECD showed a steeper decline in performance between the 2018 assessment and the 2023 assessment than Iceland. These findings are cause for concern with regard to productivity going forward, as quality education is one of the primary drivers behind productivity growth.

Weaponisation of trade and economics

Small open economies are particularly reliant on international trade. Smaller economies cannot meet all the needs of their citizens in modern society through domestic capacity, and nor should they. The specialisation and trade achieved through Iceland's access to the Internal Market since 1994 is no doubt one of the main reasons for its relatively strong productivity growth in the past decades, as trade brings proportionately more benefits to smaller economies and is particularly important to enhance the standard of living in small, open economies like Iceland.

Over 60% of Icelandic trade is with other EEA States. Iceland's access to the Internal Market is instrumental in guarding the Icelandic economy from the effects of international trade conflicts. However, increased tension between the EEA States and other nations could affect trade in Iceland. For instance, Iceland's main trading partners have increased their defence spending due to Russia's war against Ukraine. This defence spending has been funded by reducing other spending or increasing taxes, which in turn has affected demand for Icelandic exports. Moreover, larger fiscal deficits, inter alia due to this development, could cause long-term real interest rates to stay high for longer and crowd out private investment and the sustainability of public debt. These effects have already partially materialised but could have long-lasting consequences, not least if geopolitical tensions increase.

Additionally, Iceland has relatively low stakes in the value chains that have been the subject of trade tensions in the past few years. Iceland has negligible production of minerals and raw materials, no stakes in the semiconductor industry and little international significance in technology that is important for the green transition or reducing the effects of climate change, at least for the moment. This could, however, change with the growth of carbon capture and storage technologies in Iceland. About 85% of the total primary energy supply in Iceland is derived from domestically produced renewable energy sources. This is the highest share of renewable energy in any national total energy budget. Imported energy comes from the country's closest trading allies, and thus the effects of energy shocks or tensions elsewhere in the world are felt to a much smaller degree in Iceland.

[6] The OECD Programme for International Student Assessment measures 15-year-old students' reading, mathematics and science literacy.

Public spending on exigencies

For the past decade or so, public spending on technologies to mitigate climate change and deal with its inevitable consequences has increased considerably worldwide. The International Renewable Energy Agency (IRENA)[7] estimates that global investment in energy transition technologies in 2022 amounted to USD 1.3 trillion, or around 1.3% of world GDP in that same year.[8] According to IRENA, investments would need to at least quadruple until 2030 to limit the rise in global temperatures to 1.5°C above pre-industrial levels.

Public spending on green projects in Iceland made up 2% of all public investments in 2021, according to a fairly strict definition of green investments. The backlash against spending on green technologies has not been as noticeable in Icelandic public discussion as in some other countries in Europe. This is in part due to Iceland's extensive use of domestic, renewable energy which renders the negative effects of accelerating the energy transition in Iceland – before taking into consideration the positive effects of deterring climate change – among the smallest of any country.[9]

A shifting geopolitical landscape has also impelled countries to spend more on defence than they have done previously. Iceland does not have its own military, and thus the share of its national budget that goes into military spending is small. Iceland is, however, one of the founding nations of NATO, and public spending on security and defence has increased by 33% since 2022 due to Iceland's commitments to its allies.

Although geopolitical tensions have not affected the Icelandic national budget to the same extent as in many other nations around the world, other external events have called for government intervention, requiring public funds. Volcanic activity in the Reykjanes peninsula required public funds inter alia to support the building of defences against lava flow, temporarily help businesses keep people employed despite disruptions to economic activity, and purchase homes in an evacuated town most affected by the eruptions.

[7] https://www.en-former.com/en/irena-record-energy-transition-spending-still-falling-short/
[8] https://hbs.unctad.org/gross-domestic-product/
[9] https://www.oecd-ilibrary.org/docserver/153ab87c-en.pdf?expires=1725449749&id=id&accname=guest&checksum=9F02DDD967564243D91462FE07702DC2

Key figures for the Icelandic economy (volume growth from previous year unless otherwise noted)

	2023	2024f	2025f
Private consumption	0.5	0.9	2.4
Public consumption	2.2	1.6	0.9
Gross capital formation	-0.6	1.1	3.0
Exports	4.8	1.3	4.2
Imports	-1.4	1.2	2.9
GDP	4.9	0.9	2.6
Current account balance, % of GDP	1.2	0.5	1.3
Unemployment, % of workforce	3.2	4.0	4.2
Consumer price index	8.7	6.0	3.9
General government net lending, % of GDP	-2.0	-1.9	-1.2
General government Maastricht debt, % of GDP	64.8	N/A	N/A

Note: 2024 and 2025 values are forecasts.
Sources: Statistics Iceland macroeconomic forecast, June 2024; Ministry of Finance and Economic Affairs, Fiscal Plan 2025–2029, June 2024.

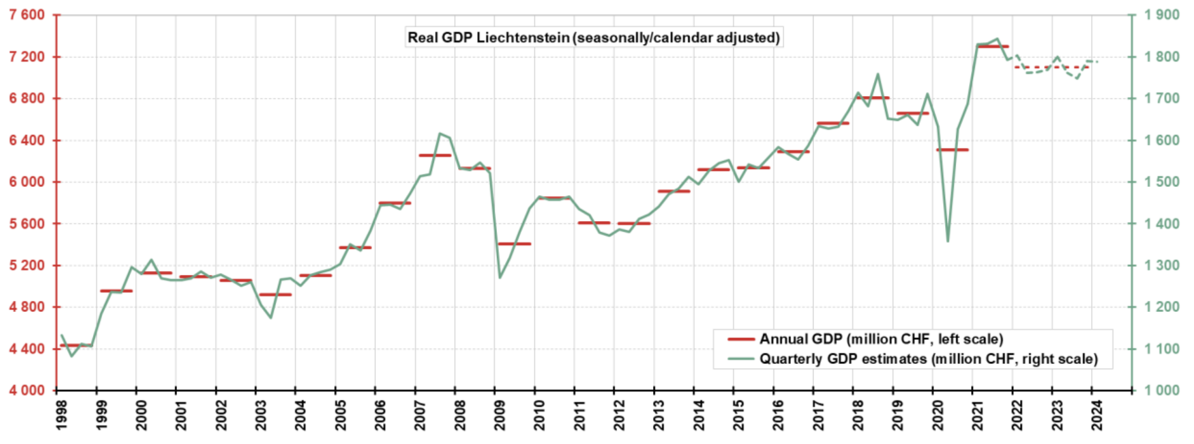
Liechtenstein: Country Annex

Macroeconomic situation and outlook

In 2023 and 2024, Liechtenstein's economy has remained largely stagnant following a strong rebound after the pandemic: the annual real GDP growth rate in 2020 was -5.3%, followed by a strong +15.7% in 2021 driven by catch-up effects, and estimated -3% in 2022 and 0% in 2023. Available cyclical indicators also point to continued stagnation. In the second quarter of 2024, the KonSens, a weighted construction of 16 business cycle indicators by the Liechtenstein-Institut, continued to show a negative business cycle development of -1.2, where a value of zero indicates historically average quarterly growth. GDP estimates for the fourth quarter of 2023 and the first quarter of 2024 slightly exceed the average 2022 and 2023 levels. Inflation in the Swiss franc (CHF) area remains in the target range (1.1% in August 2024).

Liechtenstein has a small, strongly industrialised and heavily export-oriented economy, as is visible in the high share of GDP contribution of the industrial sector (42% in 2021; EU average 22%) and high export quota (48%, excluding exports to Switzerland in the shared customs area). There are both several globally active, large companies and a high number of SMEs (88.2% of companies had fewer than 10 FTE in 2023). These characteristics imply the high sensitivity of Liechtenstein's economy to global developments, and the current globally weak external demand may explain some of the sideward movement of the economy in 2024. Monthly real goods exports – a key indicator for Liechtenstein's economy due to the country's significant industrial sector – have hovered around their 2023 levels without showing any growth. If the global outlook improves, particularly under a soft-landing scenario, economic recovery in Liechtenstein is expected to follow this modest pace.

Figure 1: Real GDP (seasonally/calendar adjusted)



Data sources: Office of Statistics, Liechtenstein-Institut (price/seasonal/structural breaks adjustments, annual GDP estimate 2023, quarterly GDP estimates 1998–2024).

The financial and insurance sector – an important part of Liechtenstein's economy with an 11% contribution to GDP in 2021 (EU average 5%) – continues to profit from high interest rate environments. Assets under management in the banking sector have continued to grow, reaching new record highs with over CHF 490 billion in the second quarter of 2024. However, profitability in the banking sector has started to decrease, with returns on equity below the EU average. The sector benefits from a number of structural characteristics, including high capital and liquidity reserves, which are important for providing loss absorption capacity and hence stability in times of crisis.

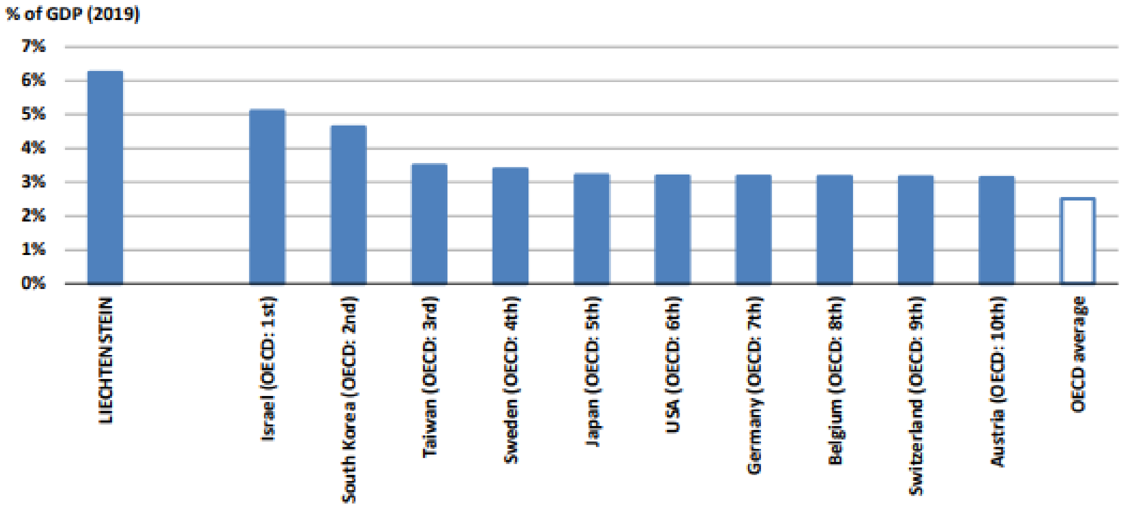
The Liechtenstein government remains committed to a liberal market economy, with a focus on creating stable framework conditions and a prudent regulatory framework. Public spending remains low (21.4% of GDP in 2022). Public finances in Liechtenstein are characterised by virtually zero debt (0.5% debt to GDP in 2022) and substantial financial reserves. Liechtenstein is one of 11 countries who received an AAA rating by the rating agency S&P Global in 2024, accompanied by a stable outlook prediction. The stability and resilience of Liechtenstein's economy will be further increased thanks to the accession of Liechtenstein to the International Monetary Fund, which took place on 21 October 2024.

Taking on the challenges of demographics and productivity

Productivity growth in Liechtenstein has decreased significantly since around 2000, with productivity growth now hovering around 0% over the past years. However, as the important industrial sector has created a large share of its productive capacity outside the country, conventional productivity measures may not capture the entire picture: the substantial investments made by Liechtenstein firms outside the country do not contribute to GDP, yet affect the increases in gross national income recorded over the past years despite the perceived productivity stagnation.

The competitiveness of Liechtenstein's economy can also be seen in measures of its innovativeness: In 2019, a total of CHF 375.4 million, or approximately 5.6% of GDP, was spent on R&D in Liechtenstein, with private companies accounting for 98% of the R&D expenditures (see figure 2). The number of patent applications per capita is also very high by international comparison (11.3 patent applications per 1 000 inhabitants in 2023).

Figure 2: Private R&D spending in relation to GDP (2019)



Source: "Economic and financial data on Liechtenstein", information brochure by the government. Data sources: Office of Statistics, OECD, Federal Statistical Office.

Given the strength of Liechtenstein's economy with respect to its population, Liechtenstein has long recorded low unemployment levels and continues to do so (2023: 1.4% in public statistics; estimated at 2.7% by the Liechtenstein-Institut according to the ILO definition). The number of people employed in Liechtenstein (43 060 on 31 December 2023) continues to be higher than its residential population (39 790).

As in many European countries, demographic developments and an ageing population are expected to pose significant challenges in the future. In Liechtenstein, the old-age dependency ratio has increased to 30% (2023, share of population aged 65+ compared with 16 to 64-year-olds). The labour force participation rate of 77% in 2022 was lower than in the other EFTA States (NO 80%, CH 83%, IS 87%), though slightly higher than the EU27 average (75%). This has created a labour market imbalance, with a high ratio of 2.7 job openings compared with unemployed people in Liechtenstein (June 2024). The labour force participation of older individuals has increased (12.1% of over 65s in 2022), as has the labour force participation of women (69% in 2022), though both categories leave room for further increases. Both of these factors were mentioned in a 2024 report on potential measures to increase labour force potential and labour force participation rates, along with improving the attractiveness of Liechtenstein as a work destination for international employees, increasing the labour market participation of beneficiaries of international protection, and (further) investing in technological development and education.[10]

[10] Bericht der Arbeitsgruppe «Arbeitskräftemangel», «Arbeitsmarkt Liechtenstein: Massnahmen zur Erhöhung des Arbeitskräftepotenzials und der Erwerbsbeteiligung», Mai 2024, im Auftrag der Regierung des Fürstensums Liechtenstein, Ministerium für Inneres, Wirtschaft und Umwelt, bericht-arbeitskraeftemangel-mai-2024-online-638507715192143088.pdf (regierung.li) (only available in German).

Looking ahead – ensuring a competitive European Economic Area

With the Single Market shared by Iceland, Liechtenstein, Norway and the EU Member States, 30 European states have created the world's largest integrated market over the past 30 years. The economic as well as strategic importance of this wide-ranging and close cooperation was inter alia highlighted in Enrico Letta's report on competitiveness in May 2024.[11] Thirty years after the creation of the Single Market, Liechtenstein's government and its economic actors remain strongly committed to the shared values of the Single Market and the European Economic Area. Continuing its focus on promoting a stable and secure economic environment, and recognising that open trade is a key success factor in particular for small and open economies, Liechtenstein's economic policy aims to promote the market-based search for solutions to achieve the green and digital transition. Liechtenstein's EEA membership is a core pillar of its economic strategy. Any developments in EU industrial and economic policy will have an impact on the Single Market and all of the EEA States, for whom it is therefore important to take a stance and be heard.

Key figures for the Liechtenstein economy

	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 (Q2)**
Direct exports growth (without Switzerland)*	1.0%	7.6%	-4.6%	-16.4%	22.9%	-7.3%	4.7%	2.9%
Direct imports growth (without Switzerland)*	1.1%	1.7%	-0.9%	-17.0%	12.6%	2.9%	-0.1%	5.7%
GDP, CHF million	6 375	6 545	6 396	6 014	7 046	7 029		
GDP change from previous year (nominal)	3.7%	2.7%	−2.3 %	-5.9%	17.2%	-0.2%		
Consumer price inflation[12]	0.5%	0.9%	0.4%	-0.7%	0.6	2.8%	2.1%	1.3%
Employment growth	3.2%	2.5%	2.4%	-0.7%	2.5%	2.8%	1.3%	
Share of people employed, by economic sector:								

* Nominal growth rates. 2024 is QoQ.
[12] For 2017–2023: Annual average. For 2024: Second quarter 2024: MoM.

	2017	2018	2019	2020	2021	2022	2023	2024 (Q2)
- Agriculture and forestry - Manufacturing - Services	0.6% 37.5% 61.9%	0.6% 37.4% 61.9%	0.6% 36.5 % 62.9 %	0.6% 36.1% 63.2%	0.7% 35.3% 64.1%	0.6% 35.0% 64.4%		
Unemployment rate [13, 14]	1.9%	1.7%	1.5%	1.9%	1.6%	1.3%	1.4%	1.7%
Youth unemployment rate	2.6%	2.1%	1.5%	1.8%	1.5%	1.1%	1.2%	1.2%
Public surplus/deficit (+/-), CHF million	189	200	244	446	177	233		
Public surplus/deficit (+/-), % of GDP	3.1%	3.0%	3.8%	7.4%	2.7%	3.3%		
Public expenditure quota, % of GDP	20.5%	20.3%	21.8 %	26.3%	21.1%	21.4%		

[13] For 2017–2023: Annual average. For 2024: Rate on 31 July.
[14] Registered unemployed.

Norway: Country Annex[15]

Economic outlook

Growth in the Norwegian economy is expected to pick up, while registered unemployment will remain low. Higher real income growth and greater optimism in households is predicted to boost private consumption. Public sector demand for goods and services is expected to increase, partly because of higher defence spending. GDP in mainland Norway is forecast to grow by 0.7% in 2024 and 2.3% in 2025, while inflation is expected to continue to decline.

Unemployment has increased somewhat in 2024 but is still low. The registered unemployment rate was 2.1% of the workforce at the end of September. This is lower than before the pandemic and significantly lower than the average for the last 20 years. Refugees from Ukraine account for close to 40% of the recent increase in registered unemployment. Measured by the labour force survey (AKU), unemployment is close to the average for the last 20 years. Employment increased significantly at the start of 2024 but has since levelled off. Employment is expected to pick up when economic growth gains strength.

The krone exchange rate weakened significantly throughout the first half of 2023 and has since hovered around a lower level than in previous years. A weaker krone exchange rate increases profitability in export-oriented industries, but at the same time contributes to increasing import prices and costs for households and businesses that buy goods and services from abroad.

Financial stability and financial market policy

Norwegian banks are well capitalised. Since the global financial crisis in 2008, Norwegian banks' common equity tier 1 (CET1) capital ratio has more than doubled. Banks recorded healthy profits and return on equity in 2023. Rising interest rates have increased banks' net interest margin in recent years. Norwegian banks are highly digitalised and their cost level is low compared with their European peers. Low costs, limited loan losses and increased net interest income have contributed to bank profitability. High household debt and banks' exposure to commercial real estate are the most important vulnerabilities in the Norwegian financial system. Several measures have been introduced in recent years to limit the risks, including a systemic risk buffer of 4.5%, so-called floors on average risk weights for real estate exposures to prevent unjustifiably low risk weights, and a countercyclical buffer requirement in place for banks set at 2.5%. Moreover, a borrower-based lending regulation includes caps on the loan-to-value ratio and debt-to-income ratio. This regulation is set to expire at the end of 2024. A proposal from the Financial Supervisory Authority to make the regulation permanent was subject to a public consultation that ended on 4 October.

[15] As at 8 October 2024.

Fiscal policy stance

The Norwegian fiscal policy guidelines state that over time, spending from the Government Pension Fund Global must be in line with the expected real return on the Fund, estimated at 3%. At the same time, fiscal policy shall contribute to a stable development in the Norwegian economy in both the short and long term.

In recent years, fiscal policy has been heavily influenced by several external events that have required increased appropriations. Russia's war of aggression in Ukraine has led to increased refugee processing expenditure, increased support for Ukraine through the Nansen Programme, and increased expenditure on defence and emergency preparedness in Norway. The government proposes to use NOK 460 billion from the Fund in its fiscal plan for 2025. This amounts to 10.9% of trend GDP for mainland Norway, up from 10.4% in 2024. The proposed transfer from the Fund to the budget corresponds to 2.5%, close to NOK 100 billion below the expected real return.

The share of State budget expenditure that is financed by the Fund has increased significantly over time, to 23.1% in the proposed budget for 2025. This can make it more challenging to adjust the use of the Fund should its value drop significantly.

Structural challenges

Norway is entering a phase of demographic headwinds. During the last 25 years, the country has benefited from higher employment and lower unemployment than most industrial countries. In a recent white paper, the government put emphasis on longer-term challenges for the Norwegian economy. Going forward, the ageing of the population, and increased demand for healthcare, will have a profound effect on the Norwegian society. Furthermore, the security challenges in Europe means that more resources need to be allocated to defence and security, and the pivotal task of the green transition and expected decline in petroleum extraction will test Norway's ability to allocate resources in a profitable manner between sectors.

From now on, population growth in Norway will primarily be seen in the older age groups. This trend is partly due to the large cohorts born in the decades following World War II, and to the significant increase in life expectancy. Over the next 40 years, there will be 700 000 more individuals aged 67 and older, while the total population may increase by 610 000, according to estimates. The current low fertility rate of 1.4 children per female will also accelerate the ageing of the population. The age group with the highest labour market participation – individuals aged 20 to 66 – is expected to decrease slightly after a long period of strong growth. Immigration could alleviate the increase in the old-age dependency ratio, but at the same time increase the demand for labour through the demand for goods and services.

In a reference scenario for the Norwegian economy presented in the white paper, roughly 180 000 more workers are needed in healthcare towards 2060. This renders the assumed increase in overall employment of about 75 000 people small by comparison. The expected decline in petroleum-related industries and increased demand for healthcare services in the same period give rise to a need for large adjustments in the labour market in the next decades.

For Norway to be among the countries with the highest employment rates in Europe, the government has set a goal to increase the employment rate in the age group of 20 to 64 years from 80.5% in 2023 to 82% in 2030, with a further increase to 83% by 2035. Achieving higher employment may require structural measures and the coordination of various policy areas.

To address the structural challenges ahead, higher labour supply is key. The government, together with the social partners, aims to reduce sick leave and prevent people from dropping out of the labour market. Addressing the needs of disabled individuals is crucial. A worrying trend is the rise in the number of young recipients of disability pensions over the past 20 years, and efforts should be made to help young recipients of benefits into jobs or education. At the same time, better support should be provided for disabled individuals who are able to participate in the workforce, based on their health conditions and needs. Work incentives within the pension system reform must be safeguarded so that older individuals can utilise their experience and skills, thereby remaining in the workforce for longer. Increased labour force participation among immigrants is essential, and new immigrants should integrate quickly into employment. Furthermore, efforts will be made to enable more part-time workers to transition to full-time employment. This is particularly important given the increased demand for labour in the healthcare and caregiving sector.

With labour scarcity, making the most of hours worked is crucial. In this respect, the low growth in labour productivity in Norway over the past decade is worrying. By working smarter and introducing new technologies that can economise on the use of labour, future challenges will be easier to handle, both when it comes to labour shortages and when dealing with the expected gap between public expenditures and revenues.

Over time, the demand for skilled labour is likely to increase. The education system must be better aligned and dimensioned to match the demands of those who are seeking education with those of the labour market. To this end, the government has established the Norwegian Committee on Skill Needs to provide the best possible evidence-based assessment of Norway's future skill needs. The government will also work to help students progress more quickly through their programmes, including by implementing a new admission system for higher education.

Policies for a competitive and productive economy

For a small country like Norway, rules-based and open international trade is important. Openness to trade has contributed to more efficient resource allocation, and the technological frontier outside its borders is a key determinant of improvements in productivity and welfare. Over time, Norway's labour productivity has been on a par with that of its trading partners.

Still, policy is important to ensure efficient use of resources. The government aims to provide conditions for a productive and innovative business sector throughout the country by ensuring favourable, sustainable and predictable framework conditions and efficient use of resources. This effort is supported by various policy areas, including tax policy, competition policy, education and skills policy, labour market policy, targeted business policy and investment in R&D. The fiscal guidelines put emphasis on the competitiveness of the sectors exposed to international competition and macroeconomic stability. In the Norwegian model for wage negotiations, the sectors exposed to international competition negotiate first, and the outcome in those sectors sets the norm for negotiations in the other sectors of the economy. Labour force participation and labour productivity can also be improved through labour market and competence policies. Whenever there is a trade-off between high employment and high average productivity, the former should prevail. If all those who can work participate in the labour market, for instance if people move from welfare schemes to work, value added increases per person even though labour productivity can be reduced.

Research, development and innovation are crucial for Norwegian companies to compete internationally and to achieve ambitious climate objectives. New solutions and technologies developed in the private sector also contribute to innovation in the public sector.

Norway's 2030 target is to reduce emissions by at least 55 per cent by 2030 compared to 1990. Norway's intention is to fulfil this target in cooperation with the EU, including participation in the EU Emissions Trading System. Given limited resources, greenhouse gases should be reduced in a cost-efficient manner. Around 85 pct. of Norway's emissions are subject to a carbon price. Additionally, the government employs measures such as regulations and support programmes to curb emissions. Efforts to reduce greenhouse gasses must be fair and take social, geographical, and economic consequences into consideration.

The Government will continue its efforts to ensure efficient market regulation, responsible and sustainable land management, a robust tax system and the responsible management of natural resources.

Key figures for the Norwegian economy (percentage change from previous year, unless otherwise stated)

	NOK billion[1]				
	2023	**2023**	**2024**	**2025**	**2026**
Private sector consumption	1 922.9	-0.8	1.2	2.6	2.5
Public sector consumption[2]	1 121.9	3.4	2.2	2.1	1.2
Gross fixed capital formation	1 196.5	0.0	-2.8	1.9	1.8
Of which:					
Petroleum extraction and pipeline transportation	216.1	10.6	11.0	-1.0	-7.0
Businesses in mainland Norway	499.3	4.0	-6.2	0.9	0.8
Housing	207.7	-15.6	-17.0	12.1	13.7
Public administration	262.0	3.0	3.9	-0.3	2.3
Mainland Norway demand[3]	4 013.8	0.3	-0.2	2.5	2.4
Public sector demand[2]	1 383.8	3.3	2.5	1.6	1.4
Exports	2 419.6	1.4	2.7	2.5	1.0
Of which:					
Crude oil and natural gas	1 194.1	-1.1	2.7	1.5	-2.3

	NOK billion[1]				
	2023	**2023**	**2024**	**2025**	**2026**
Goods and services from mainland Norway	1 045.9	6.4	1.4	3.4	4.4
Imports	1 664.4	0.7	1.0	3.0	2.9
GDP	5 126.5	0.5	1.1	2.1	1.2
Of which: mainland Norway	3 855.4	0.7	0.7	2.3	2.1
Other key figures:					
Employment		1.3	0.5	0.7	0.6
Unemployment rate, registered (level)		1.8	2.0	2.2	2.2
Unemployment rate, LFS (level)		3.6	4.0	4.1	4.1
Annual wages		5.2	5.2	4.5	4.3
CPI		5.5	3.7	3.0	2.5
CPI-ATE		6.2	4.1	3.2	2.7
Crude oil price, USD per barrel (current prices)		82	83	79	75
Gas price, USD per MMBtu (current prices)		13.6	10.3	11.5	9.7
Three-month money market rate (level)		4.2	4.7	4.3	3.5
Import-weighted Norwegian krone exchange rate[4]		7.9	1.0	1.3	0.0

[1] Provisional national accounts figures for 2023 in current prices. Growth rates from this level are stated in volumes. Sources: Statistics Norway, Norges Bank, Norwegian Labour and Welfare Administration, Reuters, ICE, Macrobond and the Ministry of Finance.
[2] For 2026, the public sector consumption and gross capital formation projections are based on demographic trends, as well as the long-term plan for the Norwegian Armed Forces published in spring 2024.
[3] Excluding inventory changes.
[4] A positive number indicates Norwegian kroner depreciation.

Switzerland: Country Annex[16]

Macroeconomic situation and outlook

In the second quarter of 2024, Switzerland's economy grew considerably, mainly driven by the chemical-pharmaceutical industry and robust goods exports. In contrast, the remaining industrial sector and domestic demand developed weakly. The Swiss economy is expected to grow moderately in the near future.

GDP adjusted for sporting events is currently expected to grow at a below-average rate of 1.3% in 2024 as a whole.

In 2025, the cyclically sensitive areas of the Swiss export industry are likely to gain momentum as the global economy normalises, while the conditions for growth in the less-cyclical chemical-pharmaceutical sector should remain in place. Domestically, consumer spending in particular is likely to support growth. GDP adjusted for sporting events is expected to grow only slightly below average by 1,6% in 2025.

Inflation is expected to fall more rapidly than previously thought.

Average inflation for 2024 is expected to be 1.2%. In 2025, this figure is likely to fall further to 0.7%. GDP adjusted for sporting events is expected to grow only slightly below average by 1.6% in 2025. On the labour market, the moderate economic momentum will lead to a slight increase in unemployment. On average, the unemployment rate should be 2.4% in 2024 and 2.6% in 2025.

Geopolitical risks stemmning from armed conflicts in Ukraine and the Middle East persist, maintaining the risk of inflationary spillovers. Slower than expected monetary easing in major currency areas could exacerbate existing risks to global debt, financial institutions' balance sheets, and real estate and financial markets.

Weak development in global demand, for example due to even weaker than expected development in German industry or a sharper than expected slowdown in the US and Chinese economies, could have a direct impact on the Swiss currency and the economy as a whole.

Fiscal policy stance

While overall general government finances in Switzerland have stabilised since the pandemic, the situation of federal finances remains challenging. The 2025 budget estimates ordinary and extraordinary revenues totalling CHF 85.7 billion (+3.2%, mainly due to growing revenues from personal income taxes and corporate taxes), against planned overall expenditures of CHF 86.4 billion.

In order to comply with the debt brake, expenditure cutbacks of CHF 2.5 billion (-3% of the original ordinary expenditure) have been necessary, particularly by reducing federal

[16] As at 30 September 2024.

contributions to the unemployment insurance fund and to the railway infrastructure fund, as well as targeted cuts in subsidies and cross-sectional savings. As in previous years, part of the expenditures for Ukrainian refugees is requested under extraordinary budgeting. Overall, the budget for 2025 complies with the debt brake, with a small structural surplus of CHF 0.1 billion.

Key budget figures, Confederation 2023–2028

	CHF bn	FinStat 2023	Expect 2024	Budget 2025	FinPlan 2026	FinPlan 2027	FinPlan 2028
1	**Ordinary receipts**	**79.3**	**82.2**	**85.3**	**89.1**	**91.0**	**93.1**
2	Cyclical factor	1.003	1.009	1.006	1.002	1.001	1.000
3	**Expenditure ceiling**	**79.5**	**83.0**	**85.8**	**89.3**	**91.1**	**93.1**
4	**Ordinary expenditure**	**80.0**	**82.7**	**85.7**	**89.8**	**93.6**	**95.7**
5	**Ordinary fiscal balance [= 1 - 4]**	**-0.7**	**-0.4**	**-0.4**	**-0.7**	**-2.6**	**-2.6**
	Surplus required / deficit permitted cyclically [= 1 - 3]	-0.2	-0.7	-0.5	-0.2	-0.1	0.0
6	**Structural balance [debt brake: room for manoeuvre]**	**-0.4**	**0.3**	**0.1**	**-0.5**	**-2.5**	**-2.6**
	Extraordinary receipts	0.3	0.2	0.4	0.0	0.0	0.0
	Extraordinary expenditure	1.1	1.4	0.7	0.6	0.0	0.0
	Overall fiscal balance	**-1.4**	**-1.6**	**-0.7**	**-1.2**	**-2.5**	**-2.5**

State: 26 June 2024

Growing structural deficits in the medium term

At the federal level, substantial structural deficits are looming for the years 2027 to 2028. While revenues are likely to grow roughly in line with GDP, additional expenditure is expected to weigh on the structural balance, such as in the areas of national defence, climate change, childcare or new agreements with the EU (cohesion, Horizon Europe). Moreover, the constitutional amendment approved by a popular vote in spring 2024 for a 13th monthly pension payment by the Old-Age and Survivors' Insurance (OASI) implies further pressure as of 2026. The additional costs for the insurance fund are proposed to be covered by an increase of 0.7 percentage points in VAT, while the federal contribution to the fund will also be modified.

Fiscal policy challenges

Fiscal adjustment programme

In spring 2024, the Federal Council announced the need for fiscal adjustment in order to eliminate the estimated annual structural deficits of up to CHF 4 billion over the coming years. This fiscal adjustment programme is informed by a high-level expert group report that systematically reviewed federal tasks and subsidies based on the criteria of efficiency, optimal task-sharing between levels of government and degree of earmarking.

The report was presented at the beginning of September 2024 and contained around 60 measures almost exclusively on the expenditure side, covering all government functions. On the basis of the report, the Federal Council recently proposed an adjustment programme that includes spending cuts (CHF 4.3 billion annually) and the abolition of certain tax breaks (CHF 0.3 billion) by 2030. As a next step, the measures will be discussed at roundtables with the cantons, political parties and social partners. The public consultation with all interested parties is expected to start by the end of January 2025. The measures shall be implemented between 2027 and 2030.

Fiscal sustainability challenges in the long term

The fiscal sustainability report 2024 analyses the long-term development of public finances (Confederation, cantons, municipalities and social security funds). It analyses the impact on public finances of ageing and, in a pilot study, of climate change mitigation to reach net zero in 2050.

The projections show that fiscal pressure will increase due to ageing. If no measures are taken, government debt will increase substantially by 2060. At the federal level, there is a need for reform primarily in old-age insurance, while cantonal finances will come under pressure due to rising healthcare expenditure. According to the pilot study, the climate change mitigation measures needed to reach the net-zero target will increase pressure on public finances. As climate change mitigation is projected to dampen economic growth, revenues at all government levels will grow at a slower pace. Further policy scenario analysis shows that a climate policy mix relying more heavily on subsidies will further increase pressure on public finances. Moreover, the pilot study highlights the importance of replacement levies in the mobility sector to secure public infrastructure financing during the transition to net zero.

How to improve competitiveness in the long term

Switzerland’s economy continues to perform well by international comparison, and the country places well in most global competitiveness and innovation rankings. The federal government regularly monitors eight areas of economic framework conditions that it considers crucial for competitiveness, and in May 2024 it adopted a policy agenda (outlined below) to improve them further.

Improving framework conditions further with the aim of increasing labour productivity isall the more important given the expected dampening effect of demographic change on growth. The federal government is pursuing a horizontal approach without favouring specific industries, companies or technologies.

1. Education and the labour market

The Swiss labour market is characterised by a high labour force participation rate, stable employment relationships, a high wage level and relatively balanced wage distribution. The employment rate of 84.1% is among the highest in the OECD, while the unemployment rate averaged 4.3% in the period 1991–2023 (OECD average: 6.8%).

Agenda:

- Maintain and further promote high utilisation of the workforce potential
- Improve the availability of qualified specialists
- Maintain a high-quality and permeable education system

2. Ability to innovate

The Swiss innovation system depends on the availability of skilled workers, an investment-friendly tax system, a high level of protection for intellectual property rights, competitive markets, a reliable infrastructure and good regulatory quality. Public R&D funding is also relevant.. With a share of 0.98% of GDP is extensive by international standards.

Agenda:

- Strengthen the research funding landscape and international links for Switzerland as a research location
- Improve framework conditions for start-ups, and remove barriers to innovation

3. High quality regulation and low administrative burden

Switzerland performs well in the majority of indicators focusing on the quality and efficiency of government. The OECD Indicators for Regulatory Policy and Governance (IREG) paint a largely positive picture of Switzerland. However, these rankings contrast with assessments of the administrative burden in Switzerland. For example, according to the OECD's index on product market regulation, Switzerland sets high requirements (and corresponding administrative burdens) for the formation of limited liability companies by international comparison.

Agenda:

- Reduce the administrative burden on companies through implementation of the Business Relief Act
- Digital and more efficient government services

4. International openness

Internationally active companies depend on being able to produce for global markets and participate in international value chains. This allows them to specialise and achieve economies of scale. At the same time, openness also contributes significantly to competitive dynamics in the domestic market and thus to favourable upstream services for the domestic economy and consumers.

Agenda:

- Stabilise and further develop Switzerland's relationship with its most important trading partner: the EU
    - Conclude negotiations on the package to stabilise and further develop Swiss–EU relations
- Reduce market access barriers through free trade agreements with India, Kosovo, Malaysia, Mercosur, Moldova, Thailand and Vietnam
    - Facilitate the use of existing free trade agreements
    - Digitalisation and simplification of customs processes
    - Dispatch on the Agreement on Mutual Recognition in the Area of Financial Services ("Berne Financial Services Agreement") with the United Kingdom.

5. Public finance and taxation

Sound public finances are not only a prerequisite for the government to be able to provide its services in the long term, but also give the State the necessary policy leeway in the event of serious crises. By international comparison, the overall government debt ratio (25% of GDP in 2024) is relatively low, both before and after the COVID-19 crisis. In the current legislative period, the budget balance will come under pressure and the financial planning years will be challenging with structural deficits.

Agenda:

- Compliance with the debt brake
- Strengthening of the principle of equivalence in federalism with a disentanglement of tasks between the Confederation and the cantons
- A tax system that promotes growth by introducing individual taxation and extending the loss carryforward from seven years to ten

6. Environmental quality, climate and energy policy

Switzerland is generally considered to have a high environmental quality. However, taking into account the environmental impact associated with imported raw materials and goods, Switzerland has an above-average environmental footprint by international standards due to its high level of consumption. Complex challenges lie ahead in the coming years and decades. These include cost-efficient decarbonisation, a secure and economical energy supply, combating the loss of biodiversity and reducing the country's environmental impact by lowering resource consumption through greater resource efficiency and strengthening of the circular economy.

Agenda:

- Decarbonisation: Implementation of the new Climate Protection and Innovation Act and implementation of the revised CO2 Act
- Resilient, economical and low greenhouse gas electricity supply: Implementation of the new Federal Act on a Secure Electricity Supply with Renewable Energies
- An improvement in environmental quality, and a reduction in biodiversity loss and resource consumption

7. Competitive dynamics

Framework conditions that promote competition are a key prerequisite for companies to remain innovative and make efficient use of limited resources. The government can strengthen competition in the market by designing regulations and creating the necessary conditions through antitrust law so that competition is not prevented or significantly impaired by private players.

Agenda:

- Implementing the partially revised Cartel Act and reforming the competition authorities
- Ensuring more competition-friendly regulation and strengthening the competitive neutrality of State-owned companies
- Implementing the Corporate Relief Act
- Analysing the impact of the CS–UBS merger on the intensity of competition

8. Transportation and telecommunications infrastructure and healthcare

Finally, good framework conditions also include efficient, cost-effective transport and telecommunications infrastructure and a high-quality and reliable healthcare system. By international comparison, Switzerland's infrastructure continues to be considered one of its strengths as a business location.

Agenda:

- Sustainable financing and more efficient use of transport infrastructure (payment framework for rail infrastructure 2025–2028 and motorways 2024–2027, as well as the expansion steps for rail infrastructure (STEP) and motorways 2027)
- Cost-effective and high-quality telecommunications and postal infrastructure
    - Modernisation of Swiss Post's universal service mandate as part of an amendment to the Postal Act
- Cost-effective and high-quality healthcare system
    - Revision of the Federal Act on the Electronic Patient Record to strengthen its dissemination
    - Digitalisation of the healthcare system thanks to the dispatch on financing the programme to promote digital transformation in the healthcare sector (DigiSanté)

The challenge of demographic change

In the coming years, the policy agenda will be influenced by the three key structural trends of i) demographic change, ii) digitalisation and iii) climate change. Demographic change will have a variety of effects. From an economic perspective, the focus is on the impact on the labour market, old-age provision and public finances in general, the healthcare system and finally immigration.

Ageing as measured by the old-age dependency ratio (ratio of people aged 65 and over to people aged 20 to 64) has so far been much less pronounced in Switzerland than in other European countries. However, the trend has accentuated in recent years and will become even more pronounced as the baby boomers reach retirement age.

The number of people entering retirement has been rising sharply since 2020. While around 91 000 people retired each year between 2010 and 2020, this figure is expected to rise to an average of around 114 000 people each year between 2020 and 2030. This will cause the old-age dependency ratio to rise from 31.1% to 38.8% in 2030. According to Eurostat's baseline scenarios, a similarly strong or even stronger increase in percentage points can be expected in most European countries.

Immigration has contributed to the continued growth of the 20 to 64-year-old population in absolute terms in recent years. As the average age of the immigrant population between 2002 and 2021 was 30 at the time of immigration – around 12 years below the average age of the

Swiss population – immigration also made a significant contribution to the comparatively low increase in the old-age dependency ratio. The growth of the 20 to 64-year-old population since 2020 would be negative without immigration.

Demographic change impacts the development of labour input per capita and thus GDP per capita. Ageing has a direct impact on the proportion of the working-age population as part of the total population. While the share of the working-age population in the total population still increased slightly in the period 2002 to 2010 and thus had a positive effect on labour input per capita, it has been falling continuously since 2011 despite the influx of people of working age, thus contributing to the decline in labour input per capita.

The average number of working hours per employed person also decreased steadily over both periods, which was mainly due to a greater prevalence of part-time employment. This negative effect could still be compensated for in the period 2001 to 2010 by the higher employment rate of the working-age population. The positive effect of a higher employment rate was even stronger in the period 2011 to 2022 than in the previous decade, but was no longer able to offset the negative effects of demographic change.

As labour market participation in Switzerland is already very high, it is unlikely that the accentuation of demographic ageing can be fully compensated for by a further significant increase in labour market participation of the working-age population. The labour input per capita is likely to shrink by around -0.3% per year between 2022 and 2030 due to demographic ageing, among other things. This will translate into lower growth in GDP.

Economic and fiscal indicators for Switzerland

Unless otherwise stated: changes in % and contributions in percentage points.

GDP and components: real, seasonally adjusted.

	2022	2023	2024*	2025*
GDP and components (sporting event adjusted)				
GDP	2.9	1.2	1.2	1.6
Private consumption	4.3	1.5	1.5	1.5
Government consumption	-1.2	1.7	1.5	1.1
Investment in construction	-6.9	-2.7	0.5	1.9
Investment in equipment	3.4	1.4	-2.0	3.1
Exports of goods	4.1	2.8	5.1	2.9
Exports of services	6.1	-0.6	2.3	3.5
Imports of goods	7.6	0.9	2.8	3.5
Imports of services	3.3	9.2	3.9	4.0
Contributions to GDP growth (sporting event adjusted)				
Domestic final demand	2.0	1.0	0.6	1.6
Foreign trade	0.1	-0.9	1.0	0.0
Labour market and prices				
Employment in full-time equivalents	2.8	2.1	1.4	1.2
Unemployment rate, %	2.2	2.0	2.4	2.6
Consumer price index	2.8	2.1	1.2	0.7
Fiscal Indicators**				
Revenue, % of GDP	32.8	32.2	32.4	32.6
Expenditure, % of GDP	31.6	32.0	31.9	31.9
Deficit/surplus, % of GDP	1.3	0.2	0.5	0.7
Debt, % of GDP (Maastricht criteria)	25.9	26.0	25.4	24.9

* Forecasts
** General government (confederation, cantons, municipalities, social security funds)