

Switzerland: IMF Staff Concluding Statement—2025 Article IV Consultation Mission

July 1, 2025

Bern: *Switzerland continues to benefit from strong fundamentals, highly credible institutions, and a skilled labor force, positioning it among the world's most competitive, resilient, and innovative economies. Economic performance has been strong. Nonetheless, Switzerland faces important challenges, including from evolving global economic conditions, rising global trade tensions, and persistent safe-haven pressures and franc appreciation. The ongoing IMF Financial Sector Assessment Program (FSAP) has called for strengthening supervisory, resolution, and crisis management frameworks, including to address gaps exposed during the Credit Suisse crisis, where the authorities are taking action. Navigating these challenges will require broad policy consensus and effective macroeconomic management. Priorities include safeguarding price stability, addressing emerging fiscal pressures, advancing strong financial sector reforms, implementing structural measures to boost productivity and competitiveness, and ratifying the new package of agreements with the EU to enhance external resilience.*

Economic Outlook

With global headwinds, growth is projected to remain somewhat below potential in 2025-26. Growth is expected to reach 1.3 percent in 2025 (sporting events adjusted), up from 1 percent in 2024, driven by private consumption supported by real wage growth and stronger construction activity with easier monetary conditions. While unemployment rates have remained near their natural level, recent labor market indicators suggest some softening, e.g., declines in the vacancy-to-employment ratio. This is in line with moderate slack (0.3 percent of potential GDP) in 2025. Growth is projected at 1.2 percent in 2026, converging to potential (1.5 percent) by 2030, driven by a gradual increase in domestic and external demand; trade tariffs in the baseline reflect those prevailing in June 2025. Switzerland's external position is assessed to be broadly in line with medium-term fundamentals and desirable policies.

With a temporary decline below zero, headline inflation in 2025 will remain subdued; core inflation is expected to stay above zero and within the price stability range. While core inflation through May was 0.5 percent (y/y), reflecting some deceleration in rent inflation, headline inflation declined to -0.1 percent (y/y) driven by franc appreciation, lower electricity tariffs, and softer international oil prices, and is projected to end 2025 at 0.1 percent (y/y). Accommodative monetary policy and higher oil prices are expected to drive headline inflation to 0.6 percent (y/y) by end-2026.

Important risks loom, particularly from external factors. Worsening geopolitical tensions and fragmentation, volatile energy prices, and uncertainty over trade policy and tariff levels could adversely impact confidence, exports, and investment. Sectoral impacts would likely vary. Heightened uncertainty could spark further safe-haven inflows and appreciation pressures with additional challenges for export-oriented and import-competing sectors. If heightened uncertainty extends over the medium term, Switzerland's growth model could be affected if supply chains are disrupted and R&D spending is scaled back, impacting innovation, productivity, and potential growth. On the upside, a positive resolution of tariff negotiations with the U.S., both for Switzerland and the EU, would lead to better growth prospects and alleviate appreciation pressures. Fiscal easing in Germany may also support activity more than expected. Domestic demand may be bolstered by planned pension payment increases.

Monetary Policy: Mitigating Deflationary Pressures

The recent 25 bps policy rate cut was appropriate considering recent declines in inflation, signs of weakening in the labor market, and external uncertainty. This brought the cumulative policy easing

over the past 1½ years to 175 bps and placed the policy rate at zero. Notably, core inflation has remained within the Swiss National Bank's (SNB) 0–2 percent price stability range, and medium-term inflation expectations have stayed anchored around the mid-point of the range. While additional easing may be needed if deflationary pressures materialize, future policy action needs to consider that trade-offs of further easing become more pronounced when policy rates decline below zero. Negative rates may amplify financial sector risks through lower bank profitability and possibly higher real estate exposures. Given the limited space for further policy rate cuts (the SNB's main policy tool), these should be aimed at sharp and (or) persistent deflationary pressures that risk de-anchoring medium-term inflation expectations. Temporarily negative headline inflation should not warrant further easing. While intervention in the foreign exchange market (FXIs) may be needed to smooth the impact of safe-haven financial inflow surges, FXIs should continue to be considered cautiously, also given the SNB's already large balance sheet. To mitigate balance sheet risks, the upcoming review of dividend policy should ensure that robust capital buffers are maintained and refrain from raising distributions.

The SNB should continue to assess whether its monetary policy and communication frameworks warrant adjustments. Given the specific challenges facing Swiss monetary policy in a context of elevated uncertainty and low equilibrium interest rates, a review, possibly with external support as in the case of other major central banks, could be useful. The SNB should consider whether providing additional information in the context of monetary policy assessments or between quarterly meetings could support policy guidance. In light of the heightened uncertainty, attention should be given to clarifying the reaction function (including via scenario analysis) and strengthening the formulation of risks to the outlook.

Fiscal Policy: Addressing Long-Term Fiscal Challenges

The moderately looser fiscal stance projected for 2025 is appropriate given some economic slack.

The general government's overall fiscal surplus is projected to decline to 0.3 percent of GDP in 2025 from 0.6 percent of GDP in 2024, largely reflecting a reduction in the surplus of social security funds. The federal government's deficit is projected to remain broadly unchanged vs. 2024 (0.2 percent of GDP), as higher defense and social welfare spending is offset by budget consolidation measures. The proposed Relief Package 2027 aims to cut expenditures by CHF 2–3 billion on a permanent basis from 2027 onwards to comply with the debt brake rule amid spending pressures and uncertain tax reform impacts. Staff note the limited room for maneuver implied by the debt-brake rule and the authorities' choice of spending cuts over tax hikes. If moderate downside risks materialize, automatic stabilizers should operate fully. In the event of severe shocks, targeted transfers may be warranted via extraordinary provisions of the debt brake rule to avoid a deep recession, including one induced by a deflationary spiral. As in the past, staff note that there is a bias toward fiscal surpluses through spending below budget allocations and cautious revenue forecasts; efforts should continue to mitigate this where possible.

Planned increases in pension payments will require additional revenues to preserve the financial strength of social security funds. A new 13th monthly pension payment, planned to start in December 2026, will require additional outlays of CHF 4.2 billion annually (0.5 percent of GDP). To this end, the Federal Council has proposed financing options, including a VAT rate increase of 0.7 ppt. Continued efforts, including stabilizing Pillar I pension finances for 2030–40, are essential to ensure long-term pension system viability amidst changing demographics and rising costs. Timely repayment (or recapitalization) of the disability insurance (IV) debt to the old-age and survivor's insurance (AHV) is critical to safeguarding the structural and financial soundness of both schemes.

Demographic trends, climate change, and defense spending pressures create medium-to-long term fiscal challenges. The 2024 Fiscal Sustainability Report projected demographic-related expenditures rising by 3 percent of GDP by 2060; absent compensatory policy decisions, climate mitigation measures to reach the net zero target could raise public debt by 3–4 ppt of GDP by 2040 and 8–11 ppt by 2060, depending on policy choices (e.g., carbon taxation vs. subsidies) and compared to a business-as-usual scenario. Defense spending is expected to increase significantly by 2032. Given the provisions of the debt brake rule, a comprehensive medium-and-long term plan is needed to identify and ensure that revenue increases and spending reprioritization are sufficient to meet these and other needs. A careful assessment is needed to determine whether pressures will emerge at the federal or cantonal level and whether the division of responsibilities across levels of government may need to be adjusted accordingly.

Financial Sector: Enhancing Systemic Resilience

While Switzerland's financial system demonstrated resilience, systemic risks have remained high due to sizable real estate exposures. Mortgages account for a large share of bank lending and of assets of life insurers and pension funds. Risks are heightened by house price overvaluation, loosening mortgage lending standards, and initiatives to ease affordability criteria for new borrowers. Lower interest rates may further pressure banks, potentially leading to increased risk-taking.

The ongoing FSAP has found the financial sector to be broadly resilient to severe shocks. Systemically-important (SIBs) and most other banks would remain above regulatory capital requirements under stress. Overall, liquidity risks for banks are relatively limited. Insurers also withstand severe solvency and liquidity scenarios. Still, global uncertainty and financial stability risks warrant reinforcing resilience.

The 2023 Credit Suisse (CS) crisis exposed gaps in supervisory, resolution and crisis management frameworks and increased Too-Big-To-Fail (TBTf) risks, which the authorities have begun to address. Drawing on lessons from the CS crisis, the Federal Council has recently proposed several reforms aimed at strengthening the financial sector and thereby reducing the risks for the state, taxpayers and the economy. These would improve the TBTf framework, enhance bank governance, strengthen prevention, early intervention, and crisis preparedness, and expand the powers of FINMA. Staff commends the authorities as these proposals are broadly in line with FSAP recommendations; timely implementation of these bold reforms would further strengthen the long-term stability of the Swiss financial center.

Enhanced legal powers and resources for FINMA are critical to strengthening the effectiveness of supervision. FINMA's legal powers should be expanded to include a full suite of early intervention powers, immediately enforceable, including the ability to preemptively restrict banks' business activities, require capital conservation measures, address governance failures, and rectify deficiencies in risk management. FINMA should be able to conduct onsite inspections as necessary, require forward-looking Pillar 2 capital add-on, impose administrative fines, and have broader ability to prescribe binding supervisory standards. FINMA should reduce reliance on external auditors. Enhanced market monitoring and reporting and better mechanisms for market abuse prevention, detection, and enforcement would benefit securities supervision. Overall, more supervisory resources are needed, including for direct supervision in corporate governance, risk management, market conduct, AML/CFT, cyber risk, and recovery and resolution. FINMA needs to be proactive and direct in its engagement with supervised firms across sectors (banks, insurance, securities).

Systemic real estate risks call for expanding the macroprudential toolkit. The FSAP recommends introducing a debt-service-to-income (DSTI) cap in addition to the existing loan-to-value (LTV) cap and a sectoral capital-based instrument, separate from the sectoral countercyclical buffer (CCyB), which already stands at the 2.5 percent maximum. It would be also helpful to establish a formal Systemic Risk Council,

comprised of SNB, FINMA, and Federal Department of Finance (FDF) representatives to regularly assess and communicate on systemic risk and decide on necessary policy measures.

Switzerland's financial safety net should be cast wider to better secure financial stability. Resolution planning should also cover Category 3 banks, which include some large and complex market participants, as well as designated insurance groups, and financial market infrastructures. FINMA, SNB, and FDF need to develop, and practice coordinated crisis response plans. The cap on deposit insurance contributions should be removed, and deposit insurance gradually aligned with international best practices. SNB efforts to establish and communicate a comprehensive emergency liquidity assistance framework—expanding support to all banks and making drawing conditions more flexible—are an important reinforcement of the safety net. The introduction of a Public Liquidity Backstop for SIBs, with the possibility of extending it to non-SIBs that might be systemic in failure, would provide an instrument allowing additional room for maneuver in a crisis.

To protect the resilience and integrity of the Swiss financial center, enhanced vigilance on cyber, AML/CFT, crypto, and fintech risks is paramount. The cyber resilience framework should be broadened to all financial sector entities and external service providers. Progress in rolling out the Registry of Beneficial Ownership should continue, and the legal framework expanded to gatekeepers, including lawyers, accountants, trust, and company service providers. Crypto exposures, which are increasing, should be assessed comprehensively and the related Basel standards implemented in a timely manner. The concentrated and increasingly complex FMI structure warrants closer oversight and enhanced collaboration with foreign authorities, particularly in shared risk management platforms, recovery, and resolution.

Structural Policies: Supporting Productivity Growth and Resilience to Global Shocks

Switzerland enjoys high labor productivity—on par with the U.S. and above European peers. This has been supported by strong R&D, a high-quality education system, and deep global integration that fosters competition and innovation. Multinational corporations in high-value-added manufacturing have driven much of this performance. Labor productivity in small firms and services has lagged, constrained by low R&D intensity, limited access to funding, small markets, and expensive skilled labor. To sustain its competitive edge, Switzerland would benefit from policies that reduce administrative burdens, improve access to equity and R&D financing, strengthen ties to larger markets, and address labor shortages through upskilling and an open labor market. The ongoing revision of the Vocational Training Act is a welcome step, reinforcing Switzerland's strength in workforce development and skills adaptation in a changing economy.

The conclusion of negotiations with the EU resulted in a broad package of sectoral agreements aimed at stabilizing and developing bilateral relations. These agreements—covering areas such as electricity, food safety, and participation in EU programs—will require ratification by both sides, for which the necessary procedures have been launched. Continued engagement with the EU and other partners remains important to reduce uncertainty, safeguard access to critical markets, and strengthen resilience in the face of rising geo-economic fragmentation.

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