41. EFTA

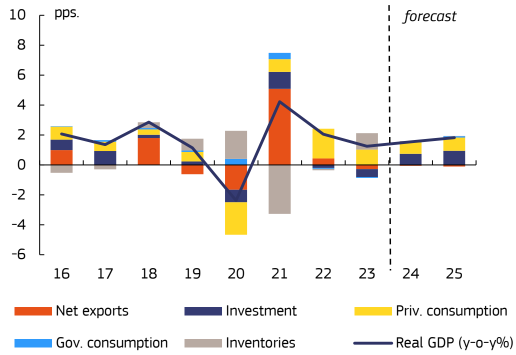
The slowdown in foreign demand and high international prices took their toll also on the EFTA economies. The outlook for the three EFTA countries is for moderate economic growth in 2024 and some acceleration in 2025, reflecting subdued, but strengthening external demand and declining inflation. Public finances are set to remain sound.

Switzerland

Economic growth decelerated during 2023, mainly due to weaker external demand, which had a negative bearing on manufacturing output. Furthermore, persistent geopolitical uncertainties had a negative impact on consumer sentiment, slowing down private consumption growth. Overall, GDP growth decelerated to 1.3%, compared to 2.5% in 2022. Consumer price inflation decelerated to 2.1% in 2023, compared to 2.8% in 2022. Tourism continued to recover. Despite weaker real disposable income growth, private consumption remained solid, among others reflecting a resilient labour market. The exchange rate against the euro continued to appreciate in 2023, and helped to contain import-driven inflationary pressures. The economic impact of the bank run on *Crédit Suisse* in early 2023 and its merger with *UBS*, the country's largest bank, has remained limited.

In 2024, growth dynamics are likely to remain subdued, to a large extent due to still weak support from main trading partners. The main growth driver during the forecast period is expected to be private consumption, benefitting from a resilient labour market and moderating inflation. Investment growth is projected to be negatively affected by reflecting persistent global uncertainties, in particular still in 2024. Export growth is set to remain weak in 2024, reflecting weaker expected growth in important European and Asian export markets and to strengthen only during 2025. Import growth is projected to remain contained in 2024.

Graph II.41.1: **Switzerland - Real GDP growth and contributions**



Annual consumer price inflation is forecast to decelerate further in 2024, mainly thanks to declining international price pressures, but also reflecting base effects from the previous year. Employment growth is expected to moderate in 2024, but to accelerate slightly in 2025, benefiting from the slight pick-up in economic growth. However, it is projected to be too modest to bring unemployment rates to pre-pandemic levels within the forecast horizon, in particular as increased labour demand is often met by migrant workers from neighbouring countries. Switzerland's general government budget balance is expected to register slight surpluses in 2024 and 2025, in line with the country's fiscal rule. The public debt-to-GDP ratio is set to continue declining, reflecting expected budget surpluses and solid nominal output growth.

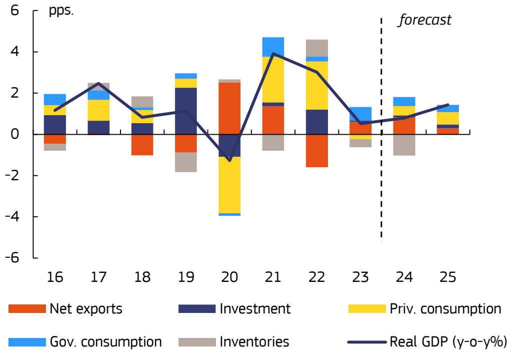
Country-specific risks to the outlook stem from the possibility of more persistently high domestic inflationary expectations, but also the possibility of an exchange rate appreciation, as a result of the currency's 'safe haven' status at times of international turbulences.

Norway

The Norwegian economy lost steam in 2023, with real GDP growth decelerating markedly to 0.5%, from 3.0% in 2022. The key factor behind the slowdown was the slight decrease in private consumption due to the inflation-induced drop in real disposable incomes, negative consumer confidence as well as a slight increase in unemployment. Investment growth decelerated notably compared to 2022, largely on the back of the significant decline in housing investment. The external sector contributed positively to growth as imports grew at a slower rate than exports, reflecting subdued domestic demand.

Economic growth is projected to pick-up marginally in 2024. Private consumption is expected to recover on the back of higher real wages and improved consumer sentiment. Despite the continued rise in oil-sector investment, in line with the delivery of scheduled projects, overall investment growth is expected to be sluggish, affected by higher interest rates and persistently high uncertainty about the economic outlook. House prices fell by 0.5% in 2023, compared to an increase of 5.2% in 2022, while they rose by 1.2% y-o-y in the first quarter of 2024. Residential investment shrank markedly by 15.6% in 2023, and it is projected to continue falling in 2024 due to concurrent headwinds such as higher interest rates and input prices. Net exports are expected to add to growth on the back of higher external demand.

Graph II.41.2: **Norway - Real GDP growth and contributions**



Economic growth is forecast to accelerate slightly in 2025, mainly driven by a further pick-up in private consumption growth, on the back of higher real disposable incomes. Investment is projected to accelerate marginally, supported by the recovery of housing investment. Imports are set to grow at a marginally faster pace than exports, reflecting increased domestic demand. Nevertheless, the external trade is expected to add to growth.

Despite lower global commodity prices, the Krone's depreciation contributed to keeping inflation elevated at 5.5% in 2023 (compared to 5.8% in 2022), thus well above the central bank's target of 2%. On 21 March, the Norges Bank's Executive Board decided to keep the policy rate unchanged at 4.5%, after having lifted it by a cumulative 175 bps. since March 2023.

To avoid creating any further inflationary pressures, the government's budget proposal for 2024 implies a roughly neutral fiscal stance. The structural non-oil fiscal deficit is expected to increase to 10.3% of mainland GDP, with the overall balance remaining firmly in double-digit surplus, and spending of oil revenues equivalent to 2.6% of the sovereign wealth fund's assets.

Domestic risks to the outlook are clearly tilted to the downside. A further depreciation of the Krone could fuel inflationary pressures and eat into private consumption. Uncertainties in the property market and sustained increases in households' debt service burden emanating from higher interest rates could limit domestic demand. Regarding the external environment, the volatility of energy prices presents both upside and downside risks, while a deterioration in growth prospects of Norway's main trading partners would weigh materially on growth.

Iceland

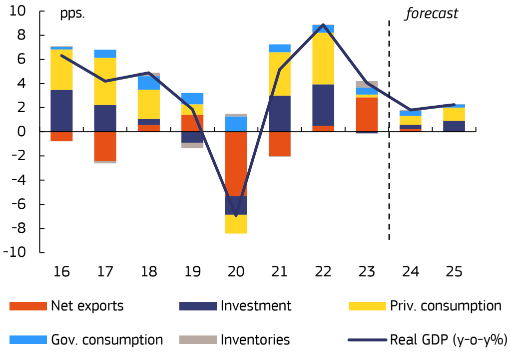
Real GDP expanded by 4.1% in 2023 on the back of exports and public consumption. The solid export performance was driven by a large increase of tourist arrivals, while exports of goods recorded a slight contraction. Contracting imports resulted in a positive contribution of net exports to GDP growth. Following a strong start into the year, private consumption contracted in the second half of 2023 due to tight financial conditions, resulting in a subdued growth of 0.5% in annual terms. The decline in gross fixed capital formation was driven by a drop in housing investment.

The outlook is for a slowdown in 2024, which has already started in the second half of 2023. Moderating but still high inflation together with tight fiscal and monetary policies are set to weigh on private consumption and investment. A mild recovery is expected for 2025. The recent volcanic eruptions and the only gradually recovering external demand are projected to result in slower growth of service exports in 2024. Already high number of visitors, arriving to Iceland after the pandemic, and the government's intention to diversify away from tourism are likely to lead to further decelerating growth of service exports in 2025.

The increase in economic activity in 2023 resulted in strong labour demand that was met with rapidly increasing migration flows and led to a decline in the unemployment rate to 3.5% in 2023. In 2024-2025, it is projected to increase mildly, in line with slower GDP growth.

In response to persistent and widespread domestic price pressures, the Central Bank of Iceland (CBI) increased the key interest rate (the rate on seven-day term deposits) in August 2023 to 9.25%. Inflation eased from 8% year-on-year in November to 6% in April 2024. Going forward, inflation is projected to moderate in 2024-2025 due to tight monetary policy, a stronger ISK and sluggish domestic demand, while the upward price pressure is expected from the rebounding housing market and wage increases.

Graph II.41.3: **Iceland - Real GDP growth and contributions**



Supported by strong GDP growth, the budget deficit declined to 2.0% of GDP in 2023. The forecast assumes further decline in the budget deficit and public debt-to-GDP ratio, in line with announced fiscal strategy. The tight fiscal stance, which was confirmed in the 2024–2028 medium-term fiscal strategy, is set to continue with the aim of reducing public debt and achieving a balanced budget while bringing inflation back to the target of 2.5%. The 2024 budget targets a deficit of 1.1% of GDP. Growth of budget revenue should benefit from a new taxation of cars and reinstating taxes on hotel accommodation and cruises, which were abandoned during the pandemic. Public spending is set to focus on investments in healthcare, education and development of rental apartments, in particular supporting the population which was affected by volcanic eruptions.

The balance of risks is tilted to the downside. Key risks stem from uncertainty of further volcanic eruptions and larger than expected wage increases, which could fuel a wage-price spiral.

Table II.41.1:

Main features of country forecast - EFTA

		Iceland				Norway				Switzerland			
(Annual percentage change)		**2022**	**2023**	**2024**	**2025**	**2022**	**2023**	**2024**	**2025**	**2022**	**2023**	**2024**	**2025**
GDP		8.9	**4.1**	**1.8**	**2.3**	3.0	**0.5**	**0.8**	**1.4**	2.1	**1.3**	**1.5**	**1.8**
Private Consumption		8.3	**0.5**	**1.5**	**2.2**	6.2	**-0.7**	**1.2**	**1.6**	4.0	**2.0**	**1.5**	**1.7**
Public Consumption		2.3	**2.2**	**1.7**	**1.0**	1.1	**3.6**	**2.0**	**1.6**	-0.5	**-0.5**	**0.4**	**0.8**
Gross fixed capital formation		15.1	**-0.6**	**1.5**	**3.8**	5.2	**0.3**	**0.4**	**0.8**	-0.8	**-2.0**	**2.9**	**3.5**
Exports (good and services)		22.3	**4.8**	**3.2**	**2.9**	4.5	**1.4**	**3.0**	**2.5**	5.5	**4.4**	**2.6**	**3.5**
Imports (goods and services)		20.0	**-1.4**	**2.7**	**3.0**	12.5	**0.7**	**1.8**	**2.8**	5.9	**5.8**	**3.3**	**4.3**
GNI (GDP deflator)		7.5	**4.1**	**1.8**	**2.3**	3.8	**2.7**	**0.8**	**1.4**	1.6	**1.2**	**1.5**	**1.8**
Contribution to GDP growth:	Domestic demand	8.4	**0.7**	**1.5**	**2.3**	3.8	**0.5**	**1.0**	**1.1**	1.7	**0.4**	**1.6**	**1.9**
	Inventories	0.0	**0.5**	**0.1**	**0.0**	0.8	**-0.4**	**-1.0**	**0.0**	-0.1	**1.1**	**0.0**	**0.0**
	Net exports	0.5	**2.9**	**0.2**	**0.0**	-1.6	**0.6**	**0.8**	**0.3**	0.4	**-0.3**	**-0.1**	**-0.1**
Employment		7.1	**4.9**	**1.0**	**1.1**	3.9	**1.3**	**0.2**	**0.4** ·	1.5	**2.3**	**1.0**	**1.4**
Unemployment rate (a)		3.8	**3.5**	**4.2**	**4.5**	3.2	**3.6**	**3.9**	**4.0**	4.3	**4.0**	**4.1**	**4.1**
Compensation of employee/head		9.0	**6.7**	**6.4**	**4.9**	4.2	**6.4**	**4.2**	**4.1**	4.0	**0.7**	**1.2**	**0.9**
Unit labour cost whole economy		7.2	**7.6**	**5.5**	**3.6**	5.1	**7.2**	**3.6**	**3.0**	3.4	**1.8**	**0.7**	**0.4**
Saving rate of households (b)		9.0	**8.8**	**8.6**	**8.7**	24.6	**22.8**	**23.7**	**24.7**	:	:	:	:
GDP deflator		8.9	**5.9**	**5.4**	**3.5**	28.2	**-10.6**	**2.3**	**2.3**	3.0	**0.5**	**2.1**	**2.1**
National index of consumer prices		8.3	**8.7**	**5.5**	**3.7**	5.8	**5.5**	**3.7**	**2.6**	2.8	**2.1**	**1.7**	**1.5**
Terms of trade goods		6.6	**-11.7**	**0.1**	**-0.1**	53.6	**-34.3**	**0.0**	**0.0**	1.5	**-0.7**	**-0.1**	**-0.1**
Trade balance (goods) (c)		-5.2	**-6.8**	**-6.6**	**-7.1**	28.5	**15.9**	**16.5**	**16.6**	14.7	**14.9**	**14.7**	**14.5**
Current account balance ©		-1.9	**-2.8**	**-3.1**	**-3.6**	29.5	**15.9**	**16.8**	**17.0**	9.2	**7.7**	**7.3**	**6.9**
General government balance (c)		-4.0	**-2.0**	**-1.1**	**-0.9**	25.6	**16.3**	**15.0**	**13.5**	1.2	**1.1**	**1.2**	**1.4**
General government gross debt (c)		67.4	**59.3**	**56.3**	**54.1**	36.5	**44.3**	**42.0**	**40.5**	27.9	**26.2**	**24.0**	**22.0**

(a) as % of total labour force. (b) gross saving divided by adjustd gross disposable income. (c)as a % of GDP.