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The Swiss High-Price Island

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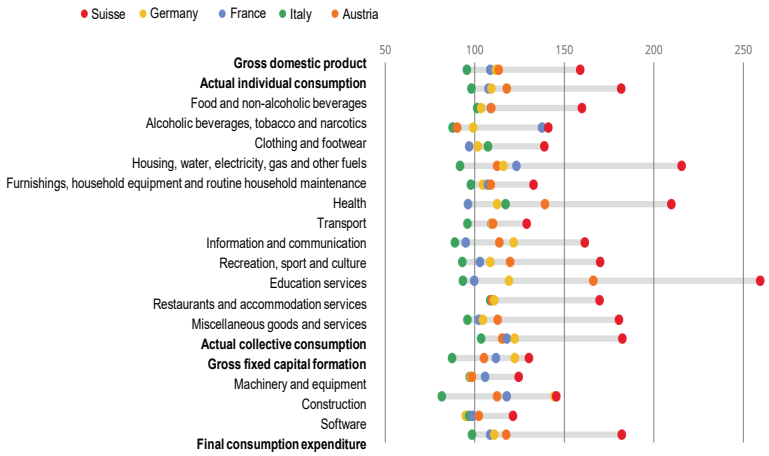
- Switzerland has a reputation for being a particularly expensive country. The GDP price index is roughly 60% higher than the European Union (EU) average, creating what is known as a "high-price island". This high cost of living affects consumption more than investment, and, within consumption, affects services more than goods.
- The high-price island was not caused by recent inflation but rather structural factors dating back to the 1970s. It goes hand in hand with wages that are approximately the double of those in neighbouring countries. Above all, high price levels in Switzerland reveal a dichotomy in its economy.
- While one section of the Swiss economy is heavily outward-facing, and its very high level of productivity has resulted in high wages, another section is focused on the domestic market, particularly the service sector, where there is little competition. To match the high wages in the competitive tradable sector, the less productive domestic sector has to raise its wages, resulting in a rise in the overall prices.
- The Swiss model openly prioritises producers over consumers with an eye to promoting Switzerland's economic and industrial position. The result is that certain sections of the economy are relatively closed off, with high levels of agricultural protectionism and a less demanding competition policy than the one underpinning the EU.
- High income levels allow most of the Swiss population to benefit from very strong purchasing power. While Switzerland is certainly a high-price island, it is first and foremost an island of prosperity, driven by the success of its exports. Paradoxically, there is a lingering doubt as to whether this model is sustainable (i) without the continued support of targeted protection schemes and (ii) lower domestic competition.

Price level indices for Switzerland and neighbouring countries (baseline 100 = EU average, 2024)



Source: Eurostat, Swiss Federal Statistical Office.

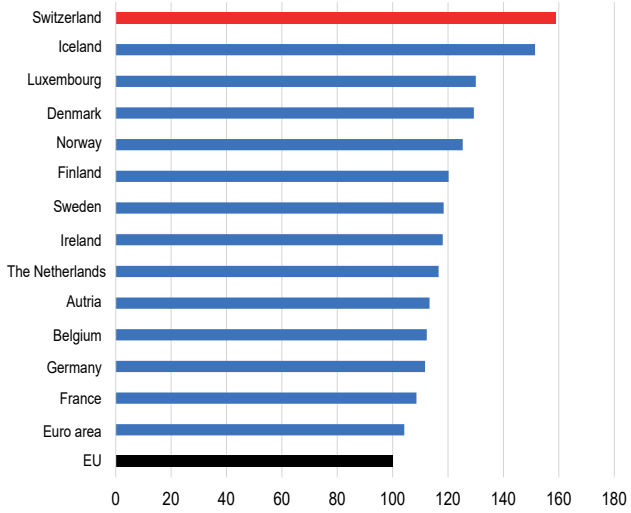
How to read this chart: In 2024, final household consumption prices in Switzerland, converted into a common currency, were 82% higher than the EU average.

1. The Swiss paradox: a competitive economy for exports yet a structurally high cost of living

1.1 A high comparative price level index conceals consumption that is far costlier than investment, and a cost of services exceeding that of goods

Switzerland's cost of living is one of the highest in the world, and its wages are some of the highest too. This has resulted in the Swiss authorities dubbing the country a "high-price island". We calculated Switzerland's cost of living based on the Eurostat price level index which compares price levels between countries or groups of countries (e.g. the EU) using the prices given in national currency and exchange rates (see Box 1). When compared with other countries (see Chart 1), the Swiss GDP price levels in 2024 were 59% higher than the EU average, above Iceland, Luxembourg, Denmark and Norway,[1] making Switzerland the most expensive country in Europe.

Chart 1: GDP price level indices (baseline 100 = EU average, 2024)

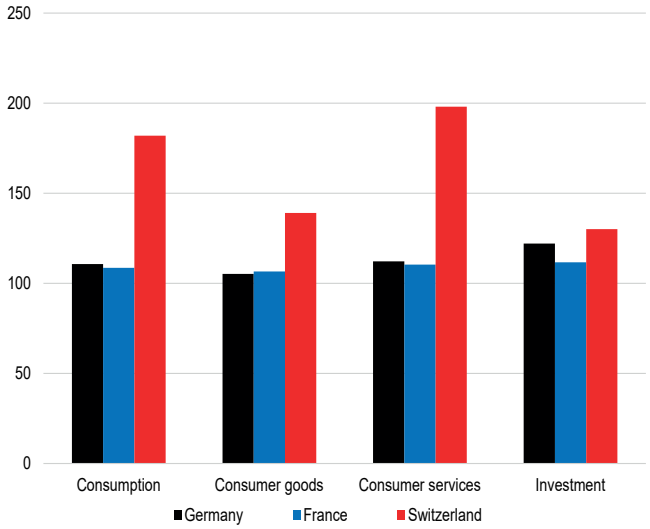


Source: Eurostat.

This reputation for being an expensive country and the top placement in the ranking are nothing new. In recent years, inflation in Switzerland has been remarkably stable, even when global energy prices soared, with a peak of just 2.8% in 2022. The high-price island essentially refers to the prices observed in Switzerland that are consistently at a structurally higher minimum level than that of Switzerland's European neighbours. This unusual aspect is all the more remarkable considering that the economy of Switzerland, a non-EU Member State, is highly integrated into the European Single Market. The 1972 Free Trade Agreement, followed by the 1999 bilateral agreements, laid down the principle of the free movement of many goods and people. The Swiss economy's openness reaches beyond the EU, as demonstrated by its vast network of free trade agreements across the globe.

Just as for GDP, Eurostat sets out the price level indexes by category (using the expenditure approach). This breakdown into categories means that the high-price island can be more accurately defined (see Chart 2). The price differential between Switzerland and the EU is particularly large for final consumption prices compared to investment prices (gross fixed capital formation – GFCF), and, more specifically within the consumption category, for prices of services compared to prices of goods.

Chart 2: Price level indexes by expenditure category (baseline 100 = EU average, 2024)



Source: Eurostat.

(1) As a result of the depreciation of the krone, Norway dropped two places in the ranking between 2022 and 2023.

Box 1: The International Comparison Programme

The price level indexes are established by Eurostat as part of the Eurostat-OECD "purchasing power parities" (PPP) programme, primarily used for GDP comparisons on an international scale. A price level index is calculated using the following formula: (PPP/exchange rate) × 100.

The PPP, the price ratio between two countries in their respective currencies, is determined by first comparing the prices of individual goods and services, then classifying them by category, and finally weighting them based on each country's national accounts. The comparative price level index is then obtained by dividing the PPP by the exchange rate of the national currency to the monetary unit of comparison – the annual average exchange rate is used by Eurostat.

When comparing price levels at international level, the exchange rate – the denominator of the index – matters just as much as the PPP, the numerator. For example, all else being equal, an appreciation of the Swiss franc against the euro increases the Swiss price level index expressed in euros. A mere movement on the foreign exchange market can therefore affect this measurement of price differences between Switzerland and its neighbouring countries. However, in theory, an increase in the Swiss franc must also be passed on to some extent to price levels (through the automatic reduction of the cost of imported goods in Swiss francs), and therefore to PPP. This was the case in Switzerland in recent years with the appreciation of the Swiss franc coupled with lower inflation, particularly for imported energy products, that accounted for the majority of the sharp increase in prices across the rest of Europe; with both PPP and the euro on a downwards trajectory (against the Swiss franc), the Swiss price level index has only slightly changed.[a]

a. Peaking at 161.6 points (EU average = 100) in 2020, the GDP price level index for Switzerland has since fluctuated between153 and 159 points.

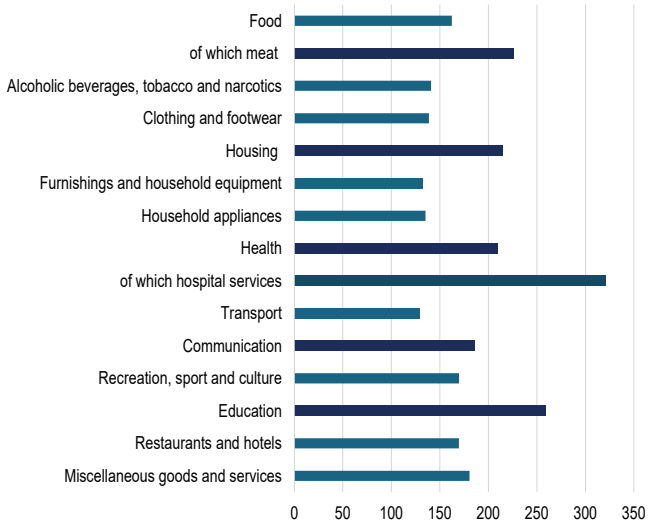
Consumer goods and services are 82% more expensive than the EU average, while price levels for investment are only 30% higher. This difference between goods/services and investment provides a better understanding of one of the Swiss economy's unique characteristics. Companies remain competitive on the international markets, with their investment price levels being almost as low as their European competitors e.g. Germany and France. The main priority for Swiss economic policy, more so than consumer protection, is promoting the country's economic and industrial position. However, this has not resulted in any vertical policies – with Switzerland instead focusing its efforts on improving common framework conditions applicable to all production sectors – or an industry protection policy being put in place. On the contrary, Switzerland – its prosperity being driven by its foreign trade – is constantly on the lookout for opportunities to further open up its industry to foreign markets. One notable example is the scrapping of customs duties on imports of all industrial goods in 2024, which was a method of specifically lowering the costs of imported inputs and investment costs and thereby buttressing the competitiveness of industrial sectors with high value added (pharmaceuticals, technology, luxury goods).

Within the consumption category, services are particularly affected by high price levels in Switzerland – to a greater extent than goods. Services cost twice as much (index: 198.1 points) as the EU average, compared to goods which are 39% more expensive. There are two reasons for this difference: (i) the tradability of goods, unlike services which are non-tradable and thus not exposed to international competition, meaning that Switzerland's openness to foreign trade is beneficial to households, and (ii) high wages, with the production of services being highly labour intensive.

1.2 The sector-specific drivers of Switzerland's high price levels: wages, competition and societal choices

The final consumption categories with the highest price levels in Switzerland compared to the EU average comprise one good – meat – and four services – housing, health (including hospital services), communication and education (see Chart 3).

Chart 3: Swiss comparative price level indices by consumption category (baseline 100 = EU average)



Source: Eurostat.

Each of these five consumption categories illustrates one of the five factors behind the Swiss high-price island (see Table 1). Examples demonstrating a lack of competition (Meat and Communication) are given in section 3.

The high-price island is primarily apparent in the property sector, in which supply and demand are highly imbalanced. In this market with supply shortages for both renting and purchasing housing, price levels are in line with wages, making it an exception in Europe.

Property prices have increased with the rise in wages in market sectors, particularly in cities like Geneva and Zurich, which are attractive to highly-skilled workers. These price levels seem out of reach for lower levels of wealth (and by European standards, as precisely indicated by the Eurostat comparative index). However, the proportion of Swiss household income spent on housing has remained stable, and has even shrunk, demonstrating the link between property prices and local wages.[2]

Secondly, price levels for education in Switzerland are very high compared to the international average. As education is first and foremost a non-profit service, its price levels do not reflect only household expenditure on education but also include the allocated public expenditure.[3] Switzerland has the second highest cost per student in secondary education in the OECD (an annual $19,973, PPP, compared to $11,664, PPP, for the EU average).[4] Expenditure on education is particularly high primarily because of the employee payroll which accounts for 67% of public expenditure on education. Wages for teachers in Switzerland, among some of the highest in the world[5] even after adjusting for purchasing power, keep the profession appealing compared to high-value-added and more lucrative market sectors. Switzerland also prioritises high-quality education, with low pupil-teacher ratios and modern infrastructure in place.

Table 1: The sector-specific factors behind high price levels

High price level factor	Example of consumption category	Price index (100 = EU)
Lack of competition: agricultural protectionism	Meat	225.9
Lack of competition: cartels supporting the imposition of high price levels	Communication	186.1
High wages in tradable sectors: price adjustments on markets with supply shortages	Housing	215.4
High wages in tradable sectors: wage adjustments in labour-intensive non-tradable sectors	Education	259.5
Production choices and high-quality consumption	Health	209.7

Source: DG Trésor.

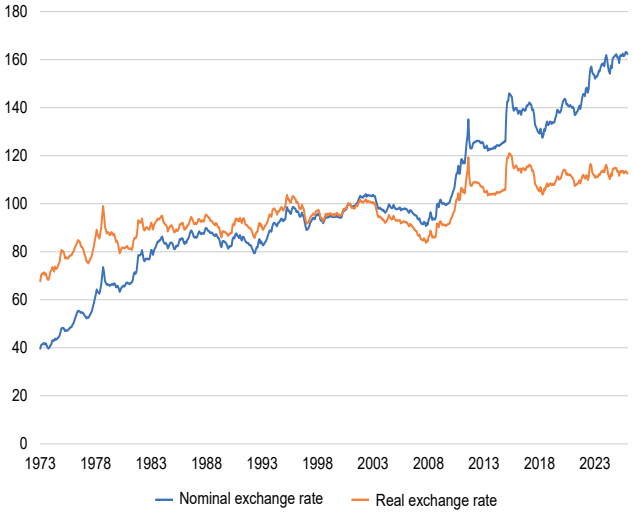
(2) According to the Household Budget Survey by the Federal Statistical Office, the share of gross income allocated to "net rent or interest on mortgage in respect of primary residence" dropped from an average of 11.6% in 2006 to 10.5% in 2023.
(3) Most Swiss pupils and students benefit from free schooling (primary and secondary education) or pay prices that are not considerable for non-market producers. The method used by Eurostat and the OECD to analyse education financing does not distinguish between market and non-market producers. Individual consumption expenditure on education for households, non-profit institutions serving households (NPISH) and general government departments are added together to determine effective individual consumption for education.
(4) OECD (2023), "Education at a Glance 2023".
(5) OECD (2023), "Education at a Glance 2023".

Lastly, healthcare services are very expensive.[6] This is a major issue in Switzerland as financing of the Swiss healthcare system is heavily reliant on consumers through health insurance premiums paid directly by households, with significant out-of-pocket expenditure (22% versus 9% in France,[7] particularly as a result of annual deductibles ranging from CHF 300 to CHF 2,500 for basic health insurance). Hospital services in Switzerland are particularly costly (price level index of 321.3). This is chiefly because of significant use of human capital in hospitals, with Switzerland having the most hospital workers per 1,000 population in the OECD (27 versus 15 for the OECD average, 20 in France and 18 in Germany).[8] The equipment cost is also high because, among other reasons, manufacturers are free to set rates, distributor margins are high and there are not enough financial incentives in place to cut costs. Lastly, the Swiss population pays for the high quality of its healthcare system: for example, doctors treat on average half the number of patients than their counterparts in neighbouring countries, with consultations lasting longer. The hospital network is one of the densest in the world (partly as a result of insufficient inter-canton coordination), and 99.8% of the population live less than 30 minutes away from one of the country's 276 hospitals.[9] The satisfaction rate is among the highest of OECD countries, with 94% of the Swiss population saying that they are satisfied with their access to high-quality services.

2. The high-price island: a money illusion or a reality?

The ratio of Swiss prices to EU prices is in essence the same as the real exchange rate between the Swiss franc and the euro. The real effective exchange rate of the Swiss franc versus the euro has been continuously rising since 1970 (see the orange line in Chart 4). At first glance, this increase may give the impression that Swiss prices have risen at a quicker pace than euro area prices. However, examining the nominal exchange rate (blue line in Chart 4) gives more perspective to this trend: the nominal increase of the Swiss franc was even sharper than that of the real exchange rate. The strong Swiss franc can therefore appear to act as a distorting mirror when comparing at international level, since its high exchange rate automatically increases the cost of Swiss goods and services when examined from the perspective of the rest of Europe.

Chart 4: Effective exchange rate of the Swiss franc versus the euro (baseline 100 = 2000)



Source: Swiss National Bank.

(6) The Eurostat programme compares the price per healthcare service for a representative basket of healthcare consumption, irrespective of the payer (the government, insurers, patients etc.). Therefore, it does not compare the overall cost of the healthcare system, which also depends on the volume consumed, and therefore on other factors too (prevention, ageing etc.).
(7) OECD (2023), "Health at a Glance 2023" (in French only).
(8) OECD (2023), "Health at a Glance 2023" (in French only).
(9) J. Cosandey and S. Estevez (2022), "Encourager la spécialisation des hôpitaux", Avenir Suisse (only available in French and German).

2.1 The Swiss franc, a safe-haven currency: a monetary factor further driving up price levels

The nominal appreciation of the Swiss franc systematically increases the Swiss price index when expressed in euros as a ratio of a given price (in PPP). But since the Swiss franc is traditionally considered a safe-haven currency for investors, it tends to appreciate structurally (the appreciation is also driven by the country's persistent current account surplus). In times of economic or geopolitical uncertainty, demand for the Swiss franc rises, thus increasing its value.[10] The sharp appreciation of the Swiss franc, which began in 2010, following the global financial and sovereign debt crises, caused the exchange rate to go from €1=CHF1.56 on average in 2008 to €1=CHF 1.14 in July 2011 (see the blue line in Chart 4). This appreciation artificially raised price levels in Switzerland when expressed in euros compared to price levels in the euro area (see orange line in Chart 4).[11] Similarly, the discontinuation of the Swiss franc's minimum exchange rate policy against the euro in January 2015,[12] followed by the sharp appreciation of the Swiss franc (€1=CHF 1.07 in 2015 on average), further ramped up the relative price of Swiss goods compared to neighbouring countries.[13]

This monetary analysis emphasises that the cost-of-living differential between Switzerland and Europe has widened as a result of the Swiss franc's overvaluation. However, economic theory underscores the long-run neutrality of money. It could be expected that exchange rate effects would be offset by price level adjustments: in particular, lower price levels for Swiss imports expressed in euros should help narrow the gap between Swiss and euro area prices. However, the rise in the real exchange rate indicates that these adjustments are unable to (fully) offset such effects, pointing to structural changes in the determinants of the real exchange rate.

2.2 The real appreciation of the Swiss franc: the result of the economy's dualism and the high productivity of exporting sectors

Several studies[14] seek to explain differences in price levels between various countries with the Balassa-Samuelson effect (see Box 2), which describes a mechanism that leads to an appreciation of the real exchange rate. In this framework, the long-term equilibrium real exchange rate for the currency of a given country is determined by the relative productivity of the sector exposed to international competition compared to the protected sector within that country, relative to the same relative productivity abroad. Countries with a high productivity differential (whose exporting sectors are particularly productive compared to sectors geared to the domestic market) see their price levels increase faster than in countries whose productivity differential is lower.

For example, Switzerland has chosen to focus its manufacturing industry on high value-added, technology-intensive sectors, in a shift from traditional industries with low margins, such as textiles and heavy industry, to pharmaceuticals, watches, machinery, high-precision instruments, etc. The productivity differential between the export-oriented sector and the sector geared to the domestic market – which is less competitive – is therefore higher than in the rest of Europe.[15] As a result, all wages increase thereby raising the domestic market's consumer prices. Given this, the observed increase in the real effective exchange rate for the Swiss franc correlates with the Balassa-Samuelson effect.

(10) P. Kugler and B. Weder di Mauro (2005), "Why are returns on Swiss franc assets so low? Rare events may solve the puzzle".
(11) According to Eurostat, Switzerland's GDP price level index rose from 128 points in 2009 to 139 points in 2010 and then 150 points in 2011 (baseline 100 = EU average).
(12) The Swiss franc's minimum exchange rate was set by the Swiss National Bank at CHF 1.20 for €1 as from 2011. This mechanism was designed to prevent excessive appreciation of the Swiss franc against the euro so as to safeguard the Swiss economy, particularly exports and tourism, in the face of an erosion of the purchasing power of the rest of Europe for Swiss goods and services.
(13) The price level index rose again from 143 points in 2014 to 154 points in 2015, and this has remained unchanged since then.
(14) See for example the survey published by S. Edwards and M. Savastano (1999), "Exchange Rates in Emerging Economies: What do we know? What do we need to know?".
(15) For example, for France, see A. Carbonne and C. Gianella (2019), "What lessons can be drawn from Switzerland's high standard of living?", French Treasury, *Tresor Economics*, No. 246.

Box 2: The Balassa-Samuelson effect

The Balassa-Samuelson effect, that was put forward by Béla Balassa and Paul Samuelson (1964),[a] refers to the distortion in relative prices between different countries due to relative international differences in productivity between the tradable and non-tradable sectors.

Under this model, each economy can be broken up into two sectors: one exposed to international competition and the other uninvolved in foreign trade. For example, the industrial goods sector is exposed to international competition whereas the personal service sector is not. The key assumption is that prices are primarily set on international markets in the tradable sector, in which productivity increases quicker than in the non-tradable sector. The productivity level in the tradable sector also determines the wage levels across the whole economy due to labour mobility. The non-tradable sector, in which productivity gains are smaller, can only offset most of the wage level increase by raising prices, triggering inflation without eroding the productivity of the tradable sector. In developed economies, the cumulative Balassa-Samuelson effect over several years is observed in overall prices, particularly prices for services which are higher in countries where industry is significantly more productive.

a. B. Balassa (1964), "The purchasing power parity: a reappraisal", *Journal of Political Economy* and P. Samuelson (1964), "Theoretical notes on trade problems", *The Review of Economic and Statistics*.

The Balassa-Samuelson effect also explains why service price levels are higher than consumer goods price levels. In Switzerland, the non-tradable goods sector (services and agricultural goods protected by customs tariffs) has effectively had to offset the attractiveness of high-end sectors with wage increases, even though it has not experienced the same productivity gains as the export-oriented sectors.

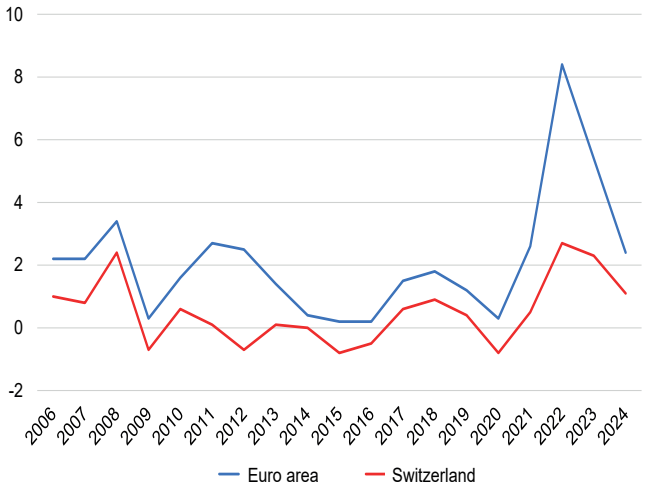
Supplementing the Balassa-Samuelson effect, the Baumol-Bowen effect (1966)[16] – also known as Baumol's cost disease – explains the structural increase in public service costs and prices such as education and healthcare. In sectors in which productivity is sluggish, wages still increase to match those in sectors with strong productivity gains, triggering a sharp increase in costs and price levels as more labour is needed to produce as many – if not more – services. With the income elasticity[17] of demand for "high-quality" services such as recreation, education and healthcare being higher than the income elasticity of demand for goods, the proportion of services in overall consumption increases throughout the development process, despite price increases. This is the case for Switzerland, which has reached such a high standard of living that consumption is now for the most part service-based.

Demand effects also play a role in changes in the real exchange rate for the Swiss franc,[18] particularly through the structure of Swiss exports, half of which come from the pharmaceutical and chemical industries compared to just a quarter thirty years ago. These goods, typically having high export prices (but a very low price elasticity),[19] have high income elasticity (demand for them increases over-proportionally to the income of importing companies). Amid global growth, this set-up allows for a margin for real appreciation of the Swiss franc: the demand for these products increases, despite their high price levels, and this bolsters the external value of the Swiss franc. Improving the terms of trade, i.e. the relative increase of Swiss export prices compared to import prices, is thus considered a driver for the real appreciation of the Swiss franc. The combination of the low price elasticity and the high income elasticity of international demand for Swiss tradable goods, particularly pharmaceuticals, is therefore a major factor behind this momentum.

(16) W.J. Baumol and W.G. Bowen (1965), "On the Performing Arts: The Anatomy of Their Economic Problems", *The American Economic Review*.
(17) Income elasticity measures the responsiveness of demand for a product/service due to an increase or decrease in household income.
(18) See J. De Gregorio and H.C. Wolf (1994), "Terms of Trade, Productivity, and the Real Exchange Rate", *NBER Working Paper 4807, Cambridge: National Bureau of Economic Research* and C. Sax and R. Weder (2009), "How to explain the high prices in Switzerland?", *Swiss Journal of Economics and Statistics.*
(19) Price elasticity measures the responsiveness of demand for a good/service due to an increase or decrease in its price. For example, the lack of alternatives to innovative drugs has resulted in a price increase that does not lower consumption.

In short, the relative increase in price levels in Switzerland is a trend dating back at least to the 1970s that is particularly associated with the abandonment of the Bretton Woods system of fixed exchange rates in favour of floating exchange rates in 1971. The resulting appreciation of the Swiss franc, a trend that continues to this day, increases the price of Swiss goods and services for foreigners. This monetary appreciation was offset , albeit only partially, by a very recent price adjustment in Switzerland, with an imported goods inflation differential, including energy products, between Switzerland and the rest of Europe (see Chart 5)), albeit only partially. Indeed, real factors relating to Switzerland's specialisation in high value-added goods, particularly raised the prices of services; the long-term improvement of the terms of trade, while still beneficial, is, from this perspective, a driving factor behind the high-price island.

Chart 5: Average annual inflation rate (HICP, %)



Source: Eurostat.

3. Despite some complaints about insufficient competition on the domestic market, the high-price island – a reflection of an "island of prosperity" – has the Swiss population's approval

Openness to trade has been an undeniable factor behind Switzerland's prosperity, and is ultimately behind relatively high price levels, with the success of its export-oriented sector. Switzerland is strongly embedded within the globalisation movement, and has set up a dense network of free trade agreements which it continues to build. However, certain sectors of the economy remain very closed off. The secondary sector, which is very exposed to international competition and boasts a highly qualified workforce, operates alongside the primary and tertiary sectors which are more closed off to competition, less technology intensive and with a lower-skilled workforce.

3.1 A targeted protectionist policy

Compared to manufactured goods, the agri-food market is significantly less integrated into global markets. Customs protection continues to be high compared to the EU, a combination of subsidies for tariff barriers and very restrictive import quotas on foreign products. Tariffs on imported agricultural goods stand on average at 21%, while this figure is 8% in the EU.[20] For example, in the meat sector, the Swiss market is still almost totally cut off from European and global markets: tariffs in this industry on average stand at 132% (EU: 38%).[21]

Likewise in the service sector, high price levels in Switzerland are partly attributable to barriers to market access, restricting competition in certain industries. These barriers include restrictive canton-specific regulations hindering professional mobility and inter-regional competition. For example, professional certifications specific to each canton can make it difficult to carry on certain professions at national level, thereby reducing competition and keeping price levels high. The free movement of persons with the EU is also regulated. To prevent any pressure on wages, Switzerland set up a comprehensive labour market

(20) According to the World Trade Organization, in 2024, based on the tariffs applied (trade weighted average) to the most favoured nation with ad valorem equivalents of quotas.
(21) As well as commercial imports, customs restrictions (quotas and tariffs) also affect private imports. They have even become stricter: Since 2014, individuals are only allowed to import 1 kg of meat per day, per person duty free. Before that, different types of meat of up to 4 kg could be imported.

monitoring system; it includes targeted inspections on companies posting workers to Switzerland, as well as checks of the status of self-employed service providers subject to the notification requirement who are only permitted to render services in Switzerland for a maximum of 90 days.

3.2 Domestic market structures and regulations fail to promote competition

For several decades the Swiss economy has suffered from a lack of competition. According to a study from the State Secretariat for Economic Affairs (SECO),[22] in the early 2000s, 44% of the additional cost of Swiss prices was due to insufficient competition. It is the main reason for high prices at a microeconomic level, after environmental and social regulations (49%). Price discrimination is attributable to market segmentation strategies but is also the result of monopolistic and oligopolistic structures set up in certain sectors of the economy.

For example, oligopolies exist in the mobile telephony sectors: the three main operators control 99% of the market, with the incumbent operator Swisscom holding over half the market share.[23] While new more affordable operators have emerged, their subscription numbers are still low and they are merely distributors of offerings from the three main operators. Swisscom is still the go-to cable and landline service provider.

Similarly, the mass retail sector is formed of a long-standing duopoly,[24] with the arrival of discounters only having had a marginal impact on the market. This dominant position significantly hampers competition and results in high prices for foodstuffs. In this respect, a study[25] showed that, for several food items, the stages of processing and distribution are the key factors determining the final prices in Switzerland, which are higher than in neighbouring countries, more so than the producer price and customs tariffs.

Lastly, imports of certain goods are still subject to restrictions that curb competition. Certain foreign suppliers, breaking down their markets into geographical sub-regions, overcharge Swiss distributors; such practices are encouraged by the exclusive importer system in certain sectors (e.g. medical equipment, and agri-food distribution) which was originally designed to secure supplies, but which now enables abuse of a dominant position or vertical agreements. According to a study for the Swiss Retail Federation,[26] the international sourcing costs are for example 34% higher on average for the Swiss retail trade than for neighbouring countries. These costs on the domestic market are 41% higher.

3.3 Little opposition to the high-price island, which is first and foremost an island of prosperity

Structures designed to protect national producers, occasionally at the expense of competition and consumer prices, underscore the stark contrast between the socio-economic models of Switzerland and of the EU. The EU model was built around the principle of a single internal market, with a focus on competition policy that aims to protect consumers by guaranteeing fair conditions and preventing market distortion, with rigorous monitoring in place for agreements and abuses of a dominant position to guarantee fair competition. The Swiss model on the other hand is designed to primarily protect producers to ultimately guarantee stable and resilient industries. It took until 1963 for Switzerland to adopt its first law on cartels, aimed less at promoting competition and more at allowing any business to enter a cartel.

With no major change made to the system, public opposition emerged out of direct democracy in the form of the popular initiative "Stop the high-price island – for fair prices" which was submitted in 2017 and received over 107,000 signatures. The initiative aimed to enshrine the concept of relative market power in the Act

(22) R. Iten, M. Peter, A. Vettori and S. Menegale (2003), "Hohe Preise in der Schweiz: Ursachen und Wirkung", SECO (in German only).
(23) According to the Federal Communications Commission, in late 2024, Swisscom accounted for 54% of all prepaid subscriptions, Sunrise 27.5% and Salt 17%.
(24) According to the Federal Statistical Office, Migros and Coop generate a total of CHF 34bn in turnover out of an overall total of CHF 100bn generated by the entire retail sector.
(25) K. Logatcheva, M. van Galen, B. Janssens, M.-L. Rau, W. Baltussen, S. van Berkum, S. Mann, A. Ferjani and M. Cerca (2019), "Factors driving up prices along the food value chain in Switzerland – Case studies on bread, yoghurt, and cured ham", SECO.
(26) BAK Economics (2017), "Les coûts du commerce de détail suisse en comparaison internationale" (in French and German only).

on Cartels and guarantee non-discriminatory access to e-commerce.[27] Opposition has also manifested itself in the border regions where the price differences with neighbouring countries are most marked: shopping tourism, up 10% since 2022, totals nearly CHF 10bn per year, accounting for 2% to 3% of all final household consumption.[28] To counter this trend, and fulfil a long-standing request made by the Swiss retail sector, the Federal Council halved the tax-free limit for VAT, previously set at CHF 300, to CHF 150 per person purchasing goods in France or Germany.

An increasing number of social demands have called into question the prioritisation of businesses at the expense of the consumer-citizen. This was how the 13th monthly pension was approved in a referendum by a large margin in 2024. These popular initiatives, which up until now have been sporadic, could become more frequent: the introduction of minimum wages in five cantons a few years ago and other recent initiatives aimed at curbing soaring healthcare costs are proof of this.

Nevertheless, two positive factors, that are poorly quantified by statistical price indexes, result from the high-price island:

- An almost-constant guarantee of high-quality local goods and services produced and provided according to high manufacturing and quality control standards. In other words, high quality has a price – a price that the Swiss people, enjoying one of the highest levels of prosperity in the world, can afford to pay. For example, public transport is objectively expensive (the Swiss Federal Railways SBB is the third most expensive rail operator in Europe),[29] but provides an exemplary level of service, setting the standards for punctuality with regular trains. This is achieved despite major geographical restrictions requiring very costly infrastructure (such as the Gotthard Base Tunnel, the longest in the world, constructed to supplement the service provided by the original Gotthard tunnel to further shorten the time taken crossing the Alps).
- Switzerland's structurally high price levels, particularly due to a strong Swiss franc, paradoxically providing a buffer from inflation. Recent cases of severe inflationary pressure (during the post-COVID-19 recovery period and the surge in energy prices triggered by the war in Ukraine) have seen numerous Swiss products take the hit for inflation with a reduction in margins, in addition to the Swiss franc providing protection against imported inflation. As a result, food prices have remained remarkably stable over the period, helping to build up consumer trust in local production.

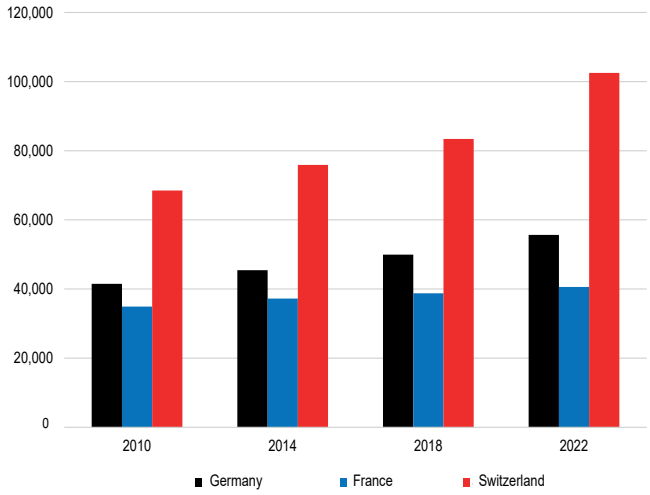
Generally speaking, and from a more subjective standpoint, citizens tend to consider themselves "co-owners" of their country rather than feeling that their country owes them in some way. This mentality reflects a strong sense of patriotism, expressed in citizens' purchasing patterns as well as in production. While consumer habits are sometimes exploited by distributors to carry out abusive practices by increasing their margins – knowing that consumers will accept it – this patriotism in "buying Swiss" has been accepted by society to a certain degree. The Swiss are willing to pay high prices for a given service, considering its inherent quality and also for reasons tied in with their country's identity (the importance of the "Swiss made" label) and to social and ecological concerns.

While the price levels in Switzerland, once converted to euros, may seem excessively high to visitors or citizens from other European countries, they are primarily justified by the success of the Swiss economic model, centred on excellence and productivity. Switzerland has exporting sectors with very high value-added, generating substantial income and bolstering the Swiss franc's strength. However, this momentum can

(27) The popular initiative proposes to introduce, in line with previous decisions made within the EU, a ban on the principle of geo-blocking, which involves blocking or restricting access to e-commerce interfaces for customers from other Member States.
(28) T. Rudolph, N. Kralle and T.-F. Gerlach (2025), "Einkaufstourismus Schweiz 2025", *Institut für Handelsmanagement an der Universität St.Gallen* (IRM-HSG) (in German only).
(29) Transport & Environment (2024), "Mind the gap! Europe's Rail Operators: A Comparative Ranking".

also be seen outside of export-oriented sectors: the entire Swiss economy, including the service sector and domestic trade, is driven by a qualified workforce and high-quality standards, resulting in some of the highest production cost and wage levels in the world. Because of this, the average wage in Switzerland is significantly higher than in France and Germany (see Chart 6), more than compensating for the high cost of living for residents. In other words, what can be seen as a “high-price island” is also an “island of prosperity”, formed by a virtuous cycle in which competitiveness, innovation and earned income balance each other out to more or less provide safeguarded purchasing power and an enviable quality of life.

Chart 6: Average wage in euros (market sectors excl. agriculture, full-time employees)



Source: Eurostat.

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