

# ***The price of energy is rising -*** is this also fuelling inflation in Switzerland?

01.04.2026

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## At a glance

- Swiss inflation reacts much more weakly to energy price shocks than abroad.
- The main reasons for this are the strong franc, high energy efficiency, higher levies on fossil fuels and delayed electricity tariffs.
- However, the longer the Strait of Hormuz is closed, the more prices will rise in Switzerland too.

The war in the Middle East is shaking the commodity markets. The closure of the Strait of Hormuz and the involvement of other players in the war recently caused prices to rise sharply. The opinion that the war could last much longer than expected is slowly becoming more firmly established. What impact will the war have on price trends in Switzerland? Could the inflation rate also skyrocket here - as it did in the eurozone in 2022?

Let's look back to 2022: the inflation rate rose rapidly after the Russian invasion of Ukraine. In the eurozone, prices rose to 10.6 percent during the year compared to the same month in the previous year. The USA also saw similar price increases. The highest monthly inflation rate there was 9.1 percent. In Switzerland, on the other hand, the inflation rate rose to a comparatively harmless 3.5 percent.

Are there any reasons to assume that Switzerland could only be threatened by a moderate surge in inflation this time as well - at least compared to other countries?

There are five main reasons why the prices on the international oil exchanges are not *tel quel* affecting the Swiss inflation rate:

1. The franc is relatively strong. As a result, we have to pay less for imports than we would if our currency were weak. At an exchange rate of 1.70 to the dollar - as in 2001 - the price increase from 60 to 110 dollars for a barrel of oil would cost Switzerland the equivalent of 85 francs. At an exchange rate of 0.80, on the other hand, it would cost the equivalent of "only" 40 francs. In other words, a strong franc gives us a high level of purchasing power internationally.
2. The Swiss economy is more energy efficient than the USA or Germany, for example. Accordingly, we require less energy to produce goods and services. A comparison with our northern neighbor shows that more than twice as much energy is needed to produce goods and services in Germany than in Switzerland. Fossil fuels still account for a large proportion of energy consumption in Switzerland and Germany. But if we need less energy for our value creation, producer prices in Switzerland also react less strongly to an increase in oil prices than in Germany. An increase in producer prices, in turn, is ultimately reflected in higher consumer prices with a time lag.

3. Consumers in Switzerland spend less on fossil fuels than people in Germany or the USA. High wages and also reasons 1 and 2 (strong franc and higher energy efficiency) are essentially responsible for the fact that fossil fuels account for only a relatively small proportion of all goods and services purchased. The weighting of fossil fuels and heating fuels in the Swiss national consumer price index is only around 3 percent. In Germany, this share is just under 7 percent, in the USA around 5 percent.
4. Fossil fuels are subject to high taxes in Switzerland. However, inflation is measured as a percentage increase in the retail price. When international oil prices rise, the price of heating oil or diesel in Switzerland rises less sharply.
5. The price of electricity for households and many SMEs reacts with a delay to price rises in gas and oil. Most of these customers are in the regulated basic supply and are not free to choose their supplier. The electricity price there is based on cost-based tariffs (production and procurement costs) set annually in advance, not on current exchange prices. As a result, short-term price fluctuations on the European electricity markets - often heavily influenced by the price of gas - are passed on to Swiss end customers with a time delay and smoothed out.

**Example:** A liter of diesel is currently subject to a total tax of 79.6 centimes. At a product price of 50 centimes per liter, this results in a retail price of around 1.40 francs including VAT of 8.1 percent. If the oil price doubles from CHF 0.50 to CHF 1.00, the pump price rises to around CHF 1.94 per liter. The relevant price in the national consumer price index thus increases by just under 40 percent ( $1.94 / 1.40 - 1$ ).

Price increases for oil and gas therefore have less of an impact on the inflation rate in Switzerland than in other countries. Sooner or later, however, they will still make themselves felt. Just like the war in Ukraine, the war in Iran will now also result in a surge in inflation here. So we should not be lulled into a false sense of security. Black gold, as it was once called, will remain important for the global economy in the coming years. It is therefore quite simple: the longer the Strait of Hormuz is closed, the more prices will rise. Just a little less here than abroad.

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