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**Statement by Mr. Buissé, Mr. Rozan, and Ms. Gilliot on Switzerland
(Preliminary)
Executive Board Meeting
June 11, 2021**

We thank staff for this excellent set of documents and Mr. Peter, Ms. Wehrle, and Mr. Tola for their interesting Buff statement. Switzerland's management of the crisis and its economic and social consequences is commendable. A wide set of targeted measures have appropriately supported liquidity of firms and households' purchasing power while mitigating the impact on unemployment and bankruptcies. The economy is expected to rebound quickly from this downturn in 2021 as vaccination proceeds. We generally share the thrust of the report, including on the need to maintain accommodative fiscal policies (given the high level of uncertainty), and more broadly join staff's call that policies could be rebalanced to provide additional support, especially for green, digital transformation, like peer countries are currently planning to do. We would like to offer the following comments for emphasis.

Accommodative fiscal policy should remain in place until the recovery is firmly in place and could even be expanded given Switzerland's ample fiscal space. The extension of fiscal support in 2021 will translate into a widening of the overall deficit by 0,8pp but will remain below headline budgeted amounts, underlying a risk of underutilization of public spending. Switzerland has sufficient fiscal space for an additional countercyclical discretionary fiscal stimulus to prevent scarring effects and support hard-hit sectors and individuals if needed. Given the asymmetric nature of the debt-brake rule and the low flexibility for carryover of unspent money, improvements in revenue forecasting and limitation of spending underruns would increase the overall efficiency of the framework. In line with the 2019 Article IV recommendations, we believe a reduction of structural overperformance through operational refinements to the debt-brake rule remains necessary. More broadly, we underline the usefulness to use the ample fiscal space to support over the medium term the post-Covid-19 green and digital transformation. We welcome the launch of a comprehensive package of tax reforms and commend the authorities for ongoing reform proposals to the first and second pillars of the pension system.

Monetary policy should remain accommodative but the fiscal, monetary and exchange rate policies need to be further rebalanced, conferring fiscal policy a more predominant role in weathering external shocks. As we underscored in previous Article IV consultations, the intensive use of FXIs by the SNB may not be justified as fundamentals remain strong (including with a substantial current account surplus). We continue to

advocate for a limited and targeted use of FXI in extraordinary adverse circumstances characterized by excessive inflation volatility and output, threatening growth outlook. Accordingly, and given the resilience and strong fundamentals of the Swiss economy, such a significant volume of FXIs does not seem warranted. Expanding fiscal support would be an appropriate way to cope with an unexpected deterioration of the outlook and would limit appreciation pressures on the Swiss Franc. *We would be interested in the way unsterilized FXI are factored in staff's assessment of the REER overvaluation for 2020. Furthermore, FXI are included in the EBA model but not clearly reflected in the EBA CA calculations in the case of Switzerland's External sector Assessment. We would appreciate staff's comments in this regard.* Finally, we encourage the SNB to keep improving transparency of its operations through regular and timely publication of FXI data and we welcome the initiation of quarterly publication of (net) FXI information in 2020 in this regard.

We agree that the financial sector entered the crisis with strong buffers. However, vulnerabilities and risks should be closely monitored as asset quality could rapidly deteriorate once support policies start to be phased-out. Pressures arising from lower for longer interest rate environment and the search-for yield behavior may induce more investments in high-yield assets including crypto assets and higher risks to the financial stability. It will be useful to have an enhanced supervision and regulation of complex cross-border transactions, including commodity trading and an intensified international cooperation, following Credit Suisse's significant losses posted in the wake of the collapse of Archegos and the suspension of funds linked to Greensill. More broadly, advancing on the implementation of the 2019 FSAP will be important. Finally, risk-controls and buffers warrant continued monitoring while banks' risk management framework should continue to be strengthened to allow fast decision-making and appropriate remedial action should risks materialize.

We agree that active labor-market policies should continue to be implemented to address structural rigidities and facilitate swift workers' reallocation. In this regard, labor mobility and flexibility as well as greater women's participation to the labor force should be better promoted through better childcare solutions. The latter would be instrumental in the gradual male-female retirement age harmonization, as proposed by the first-pillar reform in a context where old-age dependency is expected to more than double over the next few decades.

We finally welcome the authorities' new long-term climate strategy (LTCS) including the new Climate Fund. The report points out that gaps and risks need to be addressed. *Could staff specify? Besides, we would appreciate their views on the forecasted impact of the LTCS on CO2 emissions and in particular its effectiveness to achieve the 2050 targets.*