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Statement by Mr. Chodos, Mr. Lischinsky, and Mr. Corvalan Mendoza on Switzerland (Preliminary)
Executive Board Meeting
June 11, 2021

We thank staff for the report and the Selected Issues paper, and the Statement by the Staff Representative on Switzerland, as well as Mr. Peter, Ms. Wehrle, and Mr. Tola for their comprehensive Buff statement. The latter emphasizes that in response to the COVID-19 pandemic "swift, strong, and flexible policy support was key to mitigate its impact. Fiscal and monetary policy acted in a complementary and effective way", and consequently, the authorities were able to soften the contraction, according to the latest data, to a decline of 2.7 percent of GDP in 2020.

Switzerland, even though it was affected by successive waves of infection, has come through the pandemic crisis from the macroeconomic side relatively well. Robust institutions and a strong policy framework minimized potential scarring. Swift, coordinated, and bold policy support protected households and corporations from a wave of bankruptcies, layoffs, losses in productive capacity, and losses for banks. For instance, the Swiss National Bank (SNB) actively deployed a series of monetary tools to accommodate overvaluation pressure of the Swiss franc, which was exacerbated during the pandemic. Since the exit from the 1.2 Swiss francs per euro exchange rate floor in early 2015, the domestic currency continued its appreciation trend against major currencies.

In this regard, the safe-haven status of the currency created a strong demand for the Swiss franc during the COVID-19 pandemic and pushed the central bank to intervene in the FX market. We found the Selected Issues paper of much interest on the topic "Swiss franc-safe haven for whom?" which clearly shows a major shift of foreign private capital flows at the height of the Global Financial Crisis (GFC), and the persistent post-GFC appreciation seems to be driven by domestic Swiss residents. *Nevertheless, we would appreciate staff's further elaboration on the persistent overvaluation of FX and its potential effects on export sector competitiveness and the appropriate policy response to this challenge*.

The banking sector's loss absorption capacity remains largely intact, as banks enjoyed robust capital buffers before the pandemic hit. We welcome the authorities' implementation of the 2019 FSAP recommendations, which include improvements in recovery and resolution planning for financial market infrastructures and the publication of a new ordinance specifying the Financial Market Supervisory Authority (FINMA) powers at the international level and in terms of regulation. At

the same time, continued monitoring of financial sector risks, including due attention to potential domestic risks coming from corporate insolvencies and real estate market correction, are warranted.

Switzerland entered the crisis with a strong fiscal position, which allowed the country to finance record high outlays to minimize a contraction of activity and its scarring effects. The countercyclical design of the debt-brake rule framework worked well, with a pre-crisis general government debt at roughly 40 percent of GDP in 2019, which gave the authorities ample fiscal space to act. In 2021 this ratio inched up to 46 percent of GDP. All in all, the debt-brake rule helped ensure Switzerland's fiscal sustainability and resilience to future shocks, even though we agree with the report that fiscal policy should remain accommodative and an early withdrawal of fiscal support should be avoided.

We understand from the Buff statement by the Res Rep that the Swiss Federal Council would not sign an institutional accord with the European Union. This means that more than 120 bilateral agreements which are now in place could be finished. Even though the economic impact would be difficult to determine, *could staff elaborate on the range of economic impact this decision could have?*

With these comments, we wish the people of Switzerland every success in their future endeavors.