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June 9, 2021

**Statement by Mr. Jin and Ms. Zhao on Switzerland
(Preliminary)
Executive Board Meeting
June 11, 2021**

We thank staff for the comprehensive reports and Mr. Peter, Ms. Wehrle, and Mr. Tola for their helpful Buff statement. We take positive note that Switzerland has navigated the pandemic well, thanks to early and strong policy response, yet risks still remain high. In this context, accommodative fiscal and monetary policy should continue to minimize scarring and support growth. Going forward, close monitoring of the financial sector and structural challenges in the labor market and pension system would be key to safeguarding financial system and retaining competitiveness. We broadly agree with staff's appraisal and would like to offer the following comments for emphasis.

On the fiscal policy front, we commend the authorities for their timely and strong fiscal response to the pandemic, which has helped the economy contract less than its peers. Given available fiscal space and continuing uncertainty, we agree that the authorities should expand near-term support if needed. Going forward, the pace of normalization should be calibrated to COVID-19 and economic conditions. In the medium term, we support staff's recommendation to rebalance the policy mix by increasing the role of fiscal policy to ease pressures on monetary policy, while providing additional support for a green and digital transformation.

On the monetary and financial policy front, we agree that the central bank is rightly keeping monetary policy accommodative. We take note of staff's recommendation that unsterilized FXI should continue, if needed, to lean against particularly strong appreciation pressure that would worsen deflation, but not to prevent a continued appreciation trend. *Could staff elaborate on how to achieve this very precise and delicate target?* We agree with staff that the appreciation pressure of the franc and the reluctance of residents to invest abroad are self-reinforcing. We hope that staff will adopt a similar position regarding a member country's FXI in other country cases to ensure evenhandedness. We also encourage

the authorities to ease appreciation pressures by allowing the exchange rate to go to its market determined equilibrium timely. *We also note the authorities' concern with greater FX exposure and would like to hear staff's advice on this issue.* While the financial sector has weathered negative interest rate well so far, close monitoring is needed to mitigate the banks' seeking higher returns with higher risks.

On the structural policy front, we agree that labor market policies should remain protective in the near term to prevent scarring and inequality. We welcome the authorities' recent proposals in pensions reform, and encourage them to continue increasing the retirement age given that the length of time in retirement in Switzerland is one of the longest among OECD countries. We take positive note of the new long-term climate strategy that was approved earlier this year, and welcome new investment in energy, transportation, and buildings. In addition, we welcome the authorities' commitments in ensuring sound pandemic spending and improving its AML/CFT framework.

With these remarks, we wish the authorities every success in their policy efforts.