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**Statement by Mr. Massourakis and Ms. Cerami on Switzerland
(Preliminary)
Executive Board Meeting
May 31, 2023**

We thank staff for the insightful papers and Mr. Peter and Mr. Gindrat for their helpful Buff statement. The Swiss economy has demonstrated resilience against the fallout of Russia's war in Ukraine, with growth projected to moderate further this year but to return to about its potential in 2024, while inflation would decline towards the policy target. Continued prudent macroeconomic and financial policies are needed to shield the outlook from the risks of a global slowdown, tightening financial conditions, and a sharp correction in housing prices. Further progress on addressing long-term challenges related to aging, labor market tightness, energy security, and climate change will be key to preserving competitiveness. We share staff's appraisal and offer a few remarks:

- **The current fiscal stance is appropriate but maintaining a structural balance over the medium term will be challenging.** Staff projects a fiscal surplus despite the expected shortfall of profits transfer from the central bank and sustained spending on refugees. The authorities' balanced approach to offset the extraordinary spending with future surpluses, broadly in line with staff's recommendations, will support compliance with the Swiss fiscal framework. However, going forward additional measures might be needed, especially if the overall impact of the ongoing tax reforms results in a revenue shortfall or the guarantees related to the UBS-Credit Suisse merger are called in. We, thus, support the authorities' work to identify and incorporate spending needs related to demographics and the green transition in their medium-term fiscal framework.
- **The approach of the Swiss National Bank (SNB) to monetary policy normalization has been effective.** The transition away from the negative interest rates framework, engineered through a series of interest rate hikes, changes to sight-deposit tiering, repos, and foreign exchange sales, has been smooth. Moreover, the widening interest rate differentials with other advanced economies has contributed to further tightening through the foreign exchange channel. Close monitoring of price

developments is warranted amid risks of second round effects, given the tight labor markets. We appreciate staff's analysis of the SNB' balance sheet changes in 2022 and agree with the main conclusion that both large profits and losses create communication challenges.

- **The rescue of Credit Suisse appears to have contained spillovers but rising risks to financial stability require close vigilance.** We commend the authorities for the prompt response to the episode of Credit Suisse, which helped contain contagion in the financial sector. However, tightening financial conditions might expose pockets of vulnerabilities in a context of high real estate prices and increased interconnectedness within the financial sector. We, thus, invite the authorities to continue implementing FSAP recommendations and improving the collection of data on financial linkages between banks and non-banks financial institutions (NBFI), as well as across NBFI, as suggested by staff in a Selected Issues paper.

We welcome the emphasis on energy security and climate change challenges. The authorities have addressed short term risks to energy security with positive spillovers to the transition to renewable energy. However, further measures are needed to achieve the authorities' climate goals for 2030 and even more to reach zero emissions by 2050. While the adoption of the pending CO2 Act and Climate Protection Act will be critical to meeting climate objectives, we agree with staff that there is scope for additional measures, especially at the sectoral level, to accelerate the green transition. Above all, we share staff's view that clear climate policies are needed to attract green investments with a long-term horizon and support the development of green technologies and financial markets. *We note that a large share of Swiss carbon emissions targets depends on emissions compensation projects abroad and would appreciate some information on the progress of these projects, if available. Also, could staff comment on the size of Switzerland's international compensation projects compared to peers?*