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Switzerland—2022 Article IV Consultation

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Staff: Horton, EUR; Zakharova, SPR

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CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Switzerland's robust recovery and the authorities' strong, adaptive response to the COVID-19 pandemic. Directors noted that while the recovery is expected to continue, there are challenges linked to the war in Ukraine and to longer-term issues, such as aging and climate change. They stressed that policies should remain agile in responding to the impacts from the war and to foster a green-digital transformation.

Directors agreed that the current fiscal policy stance was appropriate. They emphasized the importance of maintaining flexibility to respond to adverse developments. Noting that the fiscal framework requires the offsetting of extraordinary spending via future surpluses, Directors agreed that extending the offset period for Covid-19-related extraordinary spending was appropriate, given the magnitude of outlays. They emphasized the need for a medium-term fiscal plan to address rising spending pressures, related to aging, climate transition, energy security, and defense. The plan would also help manage potential revenue losses from tax reforms.

Directors underscored the importance of preparing for monetary policy normalization and noted risks related to higher, more persistent inflation. They encouraged the central bank to remain vigilant, review its tools, and adjust policy settings when needed. Directors recognized that policy-rate changes would be the most effective tool, accompanied by foreign exchange intervention to manage excessive volatility, if necessary, and also agreed that there is scope for nominal appreciation to ease inflation pressures. They emphasized that effective communication would help support a smooth transition from a long period of accommodation.

Directors welcomed the continued banking sector resilience and steps taken to strengthen financial stability, including the reactivation of the countercyclical capital buffer for real estate. Noting rising vulnerabilities related to residential real estate and the war, Directors recommended continued close monitoring of risks and further progress on 2019 FSAP recommendations, including early expansion of the macroprudential toolkit. They emphasized the need to build on recent efforts to further strengthen the AML/CFT framework, enhance fintech regulation and supervision, and promote climate reporting and green finance.

Directors welcomed the authorities' efforts to advance emissions reduction and energy security and progress on labor market and pension reforms. They encouraged continued efforts to close skills gaps and improve the efficiency and performance of pension funds. Directors expressed support for efforts to establish strong bilateral arrangements with the EU.

It is expected that the next Article IV consultation with Switzerland will be on the standard 12-month cycle.

EXECUTIVE BOARD ATTENDANCE²

K. Okamura, Acting Chair

Executive Directors

A. Bevilaqua (BR)

Z. Zhang (CC)

P. Moreno (CE)

D. Palotai (EC)

A. Buisse (FF)

J. Stephan (GR)

S. Bhalla (IN)

T. Tanaka (JA)

M. Mohieldin (MI)

A. BinZarah (SA)

E. Shortino (US)

Alternate Executive Directors

G. Basutli (AE), Temporary

R. N'Sonde (AF)

L. Herrera (AG)

A. Grant (AP)

F. O'Brolchain (CO)

M. Massourakis (IT)

S. Ahmed (MD), Temporary

D. Tevdovski (NE), Temporary

A. Ekelund (NO), Temporary

S. Potapov (RU)

F. Mochtar (ST)

M. Peter (SZ)

D. Ronicle (UK)

G. Bauche, Acting Secretary

R. Smith Yee, Summing Up Officer

B. Zhao, Board Operations Officer

M. Eddy, Verbatim Reporting Officer

Also Present

Communications Department: W. Amr, J. De Haro. European Department: M. Horton, S. Maslova, L. Papi, L. Valderrama-Ferrando, L. Zeng. Legal Department: L. Pedersen, A. Rosha. Office of Executive Directors: A. Schmelzer. Strategy, Policy, and Review

² For countries in each constituency, please see the Constituency Codes in the annex.

Department: S. Sgherri, D. Zakharova. Executive Directors: A. Andrianarivelo (AF), H. Hosseini (MD), P. Jennings (CO), R. Lim (ST), I. Mannathoko (AE), M. Poso (NO). Alternate Executive Directors: A. Alhosani (MI), C. Amarasekara (IN), H. Azal (EC), A. Guerra (CE), C. Just (EC), M. Kashima (JA), C. Roman (FF), J. Romero (CE), B. Saraiva (BR), F. Sylla (AF). Senior Advisors to Executive Directors: H. Andrianometiana (AF), E. Cartagena (CE), M. Choueiri (MI), R. Cunningham (CO), J. Garang (AE), R. Gindrat (SZ), V. Grossmann-Wirth (FF), B. Lischinsky (AG), A. Medearis (US), D. Ong (ST), J. Rojas (CE), C. Sassanpour (MD), D. Shestakov (RU), N. Thiruvankadam (IN). Advisors to Executive Directors: T. Abalala (SA), F. Al-Kohlany (MI), P. Al-Riffai (MI), D. Andreicut (UK), A. Arevalo Arroyo (CE), S. Belhaj (MD), L. Cerami (IT), J. Corvalan (AG), R. Fayez (MI), D. Hamzah (MI), P. Khademi (GR), C. Kuth (SZ), V. Lankester Campos (CE), M. Merhi (MI), R. Moral Betere (CE), I. Ogihara (JA), A. Olhaye (AF), Y. Qi (CC), C. Ramos Capaquira (AG), I. Umrzakov (SZ), C. Westphal (US), J. Yoo (AP), J. Barroso (BR), F. Lopez (CE), A. Tola (SZ).

DISCUSSION RECORD³

The Acting Chair (Mr. Okamura):

The 2022 Article IV Consultation with Switzerland was conducted in person in late March and early April, the first in-person consultation since 2019.

Switzerland has continued to be a relative bright spot in the global economy. After a comparatively mild contraction in 2020, the economy recovered strongly in 2021 and early 2022. The pickup in inflation has been significant but less than in other countries.

The authorities have benefited from strong institutions, robust policy frameworks, a substantial and timely response to the pandemic, and a resilient and highly competitive economy.

That said, the discussions focused on important challenges and tasks ahead. On fiscal policy, the discussion considered a shift from pandemic support to addressing spillovers and risks from the war in Ukraine, as well as addressing key medium-term challenges in the context of the debt-brake rule.

On monetary policy, the focus has shifted from dealing with negative or low inflation to risks of higher and persistent inflation and preparation for monetary normalization.

On the external sector, key issues continue on assessing Switzerland's external position—some flagged by the Swiss authorities in their buff and others highlighted by some chairs.

Another focus was on financial stability, including risks from the real estate market, fintech, and spillovers from the war in Ukraine.

Finally, the discussions covered structural and longer-term issues, including climate change and a green transition, energy security, labor markets and pensions, and relations with the European Union.

From Directors' written statements, we should have an interesting discussion, although I should note, as did some chairs, that this might have been an occasion for lapse of time (LOT) consideration.

³ Edited for clarity.

Mr. Peter:

I would like to answer a non-economic but an interesting question asked by a colleague on whether the Swiss democratic model might be too slow to respond to the big structural challenges of our time like climate change and aging in a timely manner.

It is true that decision-making in the Swiss semi-direct democracy often takes a lot of time because there are so many who have a word to say and thus need to be on board, so speed is definitely one of the downsides of this constitutional system. But often in politics, unlike in business, what matters is not so much to be the first but to get things right.

A big advantage of this slow system is, one, we have the time to learn from the mistakes of those who go first and, two, not the slow, cumbersome, consensus building process produces that famous broad ownership among the population that is so important to formulate sustainable, inclusive, and implementable reforms.

If the need and the net benefit of a reform is clear, the Swiss population has repeatedly proven that it is willing to vote yes, even for a nationwide tax increase like in 2009, or if that need or benefit is not clear, to vote no to populous referendum like six weeks of paid vacation for everyone in 2012. By the way, more or less exactly 30 years ago, the Swiss population voted yes in a similar important referendum to join the IMF and the World Bank—to my knowledge the only Fund and World Bank member so far where this decision was taken by the population.

In conclusion of these thoughts, only history will obviously tell whether the Swiss democratic model will be up to the task, but what we can safely say is that this constitutional system has worked rather well over the past 170 years, a period that has been characterized by many equally big structural challenges.

The staff representative from the European Department (Mr. Horton):

I would like to provide a few brief updates and address two questions from the gray statements. As Mr. Peter and Mr. Gindrat noted in their buff statement, headline inflation reached 2.9 percent in May. I would like to add that this compares with 2.5 percent in April. Core inflation was 1.5 percent in May, up slightly from April. Import prices continue to be the main driver, in

particular, prices of energy products. However, inflation of domestic goods and services reached 1.5 percent, the highest rate since 2019. The next monetary policy assessment by the Swiss National Bank is scheduled for next week, June 16.

First quarter growth figures were released on May 31. Growth was 0.5 percent quarter on quarter, compared to 0.2 percent quarterly growth in the fourth quarter of 2021. The recovery was driven by the industrial sector despite much slower growth in chemicals and pharmaceuticals. Strong exports continued, notably in precision instruments, watches, machinery, and metals. Accommodation and food services continue to be hampered by COVID-19, this time by the Omicron variant. Construction investment fell.

The first quarter results do not show any significant spillovers yet from Russia's invasion of Ukraine. Staff had projected growth of 0.1 percent in the first quarter.

Other recent indicators point to a strong labor market performance. In the first quarter, the number of employed persons increased by 1.7 percent compared with a year earlier while hours worked rose by 2.8 percent. The unemployment rate fell by 1.2 percentage points over the year. By national definitions, unemployment was just 2.1 percent in May, down from 2.3 percent in April.

I would also like to provide a brief update on the Federal Council's proposal to lengthen the amortization period for offsetting extraordinary expenditures, which was supported by Directors. On Wednesday, the National Council of Parliament did not support the Federal Council's proposal. Instead, it voted for using half of the accumulated past surpluses to offset about one-third of the extraordinary outlays for COVID and for offsetting the remainder by 2031 rather than by 2035, as in the government's proposal. The vote gained support from nearly all parties and will go to the other chamber shortly. The proposal keeps the time period for offsetting closer to the mandated six years while involving some netting, which the authorities had hoped to limit.

The annual average adjustment required is approximately the same. Calls by some in the Parliament to use all of the accumulated surplus or to earmark all scheduled Swiss National Bank profit transfers did not gain support.

Finally, I would like to note that just earlier today the Swiss authorities announced that they have adopted the sixth package of sanctions by the European Union (EU) against Russia and Belarus. This includes an embargo on crude oil and certain refined petroleum products, prohibition on business services, sanctions on officials, businesspeople, and military personnel, bans on certain export items, as well as actions against four new Russian and Belorussian banks. I will now turn to the questions raised in the gray statements.

Ms. Shortino and Mr. Westphal raised several questions and noted they could not agree with staff's assessment of the 2021 current account surplus as broadly in line with fundamentals. The 2021 surplus of 9.3 percent of gross domestic product (GDP) is indeed large relative to other countries and higher than recent historic averages or staff forecasts. Given Switzerland's economic characteristics, it has a high current account norm and the external sector assessment exercise, one of the highest along with Japan, Korea, and the Netherlands. The norm is estimated in a multilaterally consistent approach. For 2021 norm is 6.7 percent of GDP. This high norm reflects several drivers, notably high net foreign assets, high output per worker, and demographic considerations.

Following cyclical adjustment, there is a large gap shown in Annex VI of the report of 3.1 percent of GDP. Important adjusters applied for COVID-19 and for income balance factors relevant for Switzerland eliminate this gap. Here, I would note that other indicators support staff's assessment, which goes beyond the current account surplus. These include, for example, the net international investment position, the real exchange rate level and change and foreign exchange interventions, which were significantly lower in 2021 than in 2020. This holistic approach led staff to assess the 2020 position as broadly in line with fundamentals and desirable policies, notwithstanding a remaining current account gap that would have suggested an assessment as weaker.

Ms. Shortino and Mr. Westphal asked staff to provide justification for the specific adjustments listed in the staff report and the extent to which those uphold multilateral consistency of the model. I should start by noting that to strip-out transitory factors associated with the COVID pandemic and allow the staff to assess the underlying current account position adjustments to the External Balance Assessment (EBA) model estimates are needed.

These will be explained in the forthcoming External Sector Report (ESR) and were explained in an Informal Board meeting in March. Factors

related to the pandemic explain a large share of the movement of current account balances, implying that without use of these adjusters, external assessments would be distorted and hard to interpret.

Staff also adjust the underlying current account balance for measurement biases in the income account, namely the portfolio equity retained earning bias and inflation bias. These are both important for Switzerland, given high gross assets and liabilities, including portfolio investments and low inflation. Other ESR countries with similar adjusters for measurement biases include the Netherlands on the surplus side and Canada, South Africa, and the U.K. on the deficit side. The adjustments broadly offset one another among these five, thereby meeting multilateral consistency.

The online annex for the 2021 ESR details methods used to apply these adjustments in a multilaterally consistent way and the forthcoming 2022 ESR will also provide such an annex.

I would just like to flag here that we used the terminology “Swiss relevant factors” in paragraph 10 of the report and “specific factors relevant for Switzerland” in Annex IV. These were not ad hoc Swiss adjustments. There were Swiss-specific adjustments for the 2020 assessment related to COVID affected items, for trade in watches and in precious metals, but the adjustments were not ad hoc. They were carefully corroborated with trading-partner data and supported by engagement with the authorities and with economic agents in the two sectors. The adjustments were discussed and agreed with the Research Department and Survey, Policy, and Review Department (SPR), with a view to multilateral consistency. And they proved to be transitory.

Let me turn to a question from Mr. Stephan, Ms. Koh, and Ms. Khademi, who have asked for comments on how far the recent refinements of the EBA model have changed in the assessment of Switzerland’s external position. Here, I would note the following. Switzerland’s 2021 current account norm under the refined model was 6.7 percent. This was half a percentage point higher than when used in the old methodology. This reflects higher contributions to the norm from net foreign assets and from demographics, partially offset by a lower contribution from output per worker.

Switzerland’s 2021 cyclical adjustment was little changed with the EBA refinements, so overall, Switzerland’s external sector assessment would have remained “broadly in line” if the old methodology had been employed.

Ms. Shortino:

I want to start by saying I welcome that Switzerland was not brought forward under lapse of time procedures. Certainly, the Swiss economy has a lot of things going for it. The downturn in the wake of the recession was relatively muted. There is fiscal space to respond to challenges, particularly spillovers from the Russian war against Ukraine. I also do agree that we should leverage lapse of time to make the Board's work more efficient, but Switzerland is a country with a sizable current account surplus that is actively intervening in foreign exchange markets. This to me puts the surveillance of this economy squarely within the Fund's mandate and warranting a discussion in my view. So, while I do think lapse of time is helpful, in this case we are about to probably embark upon a little bit of an interesting discussion today that would not have happened if we had done a lapse-of-time Board.

So, maybe turning to a few specific points on that issue. As we know, Switzerland's current account surplus reached more than 9 percent of GDP last year and, yes, the authorities still purchased on net 23 billion of foreign exchange or 2.8 percent of GDP to limit appreciation pressures on the currency. Staff really need to dig into this.

With regards to the EBA model output and the adjustments, and again, really appreciate Mr. Horton's explanation bilaterally and as well as in this meeting, but I have to say that we just fundamentally disagree with the determination that this massive surplus and the large norm after the adjustments reflects medium-term fundamentals and sound policies.

This is stemming from is a fundamental disagreement with the EBA model's underlying assumption that higher levels of official reserves warrant higher current account balances and then this disagreement is just sort of magnified by the adjustment made in response to the change in value, of large fixed-income holdings due to inflation.

Stepping back from the model, which I recognize we have to start and follow the model, staff should have maybe taken the model's outputs but also stepped back and looked at rather a large and growing set of reserve holdings really makes sense and whether there are any negative implications for other countries and global external imbalances. Of course, we can have this discussion further in the external sector assessment report this summer.

I want to echo staff's concern that despite having fiscal space, the authorities seem to lack the remit to use it. This is also exacerbating a

long-standing surplus bias and it creates a disincentive for long-term investments that could raise potential growth and begin to chip away at these persistently large external current account surpluses. This is another thing that could have been more directly—that linkage could have been made more directly in the report.

Finally, we made a point in our gray statement about terminology. It is important enough to flag it again verbally. Staff need to be very careful in this and other Article IV reports in their phrasing of the war in Ukraine. It is Russia's war against Ukraine. That language was used in the International Monetary and Financial Committee (IMFC) and World Economic Outlook (WEO), and so I just would ask that staff be very careful to keep that language consistent in future Article IV surveillance.

Mr. Bevilaqua:

We issued a detailed gray statement covering the main issues and I will just highlight some points for emphasis.

Switzerland is in relatively good shape despite the most indirect effects of the war in Ukraine and is on track to broad policy normalization from fiscal to macroprudential and hopefully monetary policy.

Output is growing above potential with tight labor markets and inflation above the ceiling of the target range. The indirect exposure to the conflict and safe haven flows have so far protected the Swiss economy from the most adverse consequences from the war.

That said, risks are unusually high and should be carefully monitored. Let me briefly comment on the policy options facing the authorities. First, we continue to support the gradual offsetting of the extraordinary pandemic era fiscal deficits in line with the debt-brake framework.

As in our last meeting, we see value in a gradual approach, preserving the overall framework that has served the country well. We support the open, transparent, and democratic discussion of funding alternatives for structural spending needs in the future, including for public pension and strategic investments.

Second, we see scope for monetary policy normalization in the near future. We are confident that the Swiss National Bank would not miss the timing of normalization like other advanced economy's central banks. We

hope that the Swiss authorities would communicate early on and with sufficient clarity their approach for normalization, including how they plan to calibrate interest rate hikes and foreign exchange interventions, if any. Clear communication is a must, even when not adopting any forward guidance framework.

Third, we commend the authorities for tightening macroprudential policy. That said, financial stability risks from the real estate sector are significant and will probably require further policy action. We support staff's call for policies targeting mortgages and liquidity buffers in financial institutions.

Mr. Tanaka:

We positively note the strong performance of the Swiss economy, but we also take note of staff's views that the risks are to the downside. As we issued a gray statement and broadly support the staff appraisal, we will offer the following three comments.

First, we welcome Switzerland's sound fiscal position thanks to the debt-brake rule and appropriate withdrawal of support measures. As staff noted, the amortization time frame for COVID-19 spending could be flexible while pursuing revenue neutral tax reforms.

Also, regarding the pandemic-spending review, we welcome the authorities' priority on ensuring efficiency, transparency, and accountability. The authorities' efforts on drawing lessons for future crisis is commendable.

Secondly, as for monetary policy, we note that inflation in Switzerland remains below other EU countries but risks of more persistent inflation is increasing. Global tightening could pose challenges like rapid inflows in high volatility. The Swiss National Bank (SNB) should be prepared to utilize its policy tools, flexible to tighten its stance as necessary. Clear and effective communication is also essential to anchor inflation expectations and to ensure a smooth policy shift.

Thirdly, on the financial sector, we welcome and further encourage the resilience and the authorities' constant efforts to enhance the regulatory and supervisory framework as a global financial center. We note the potential real estate risks that could significantly affect macrofinancial stability. The reactivation of the sectoral counter-cyclical capital buffer (CCyB) will help

absorb some losses, but further review of the macroprudential toolkit could be considered to address vulnerabilities.

We also welcome the authorities' climate-related agenda in the financial sector, including a strengthened disclosure and green bond issuance framework.

As for the external sector, we thank staff for their informative analysis in the Selected Issues Paper, but as underscored in the authorities' views and the buff statement, the assessment could be improved, such as by considering transitory factors or a net international investment position (NIIP). We also echo the authorities about the methodological limitations regarding the external sector analysis in connection with the current account and exchange rate.

Lastly, on the structural policy agenda, improving labor participation among all ages is critical for some pension systems as well as for equal and inclusive growth.

Mr. O'Brolchain:

We issued a gray statement, and we broadly agree with staff's assessment, so I will make a few points for emphasis.

First, we commend the authorities for their effective handling of the pandemic and for their support for some 50,000 Ukrainian refugees. In this context, we agree with staff that it is important for policy to remain nimble considering the high degree of uncertainty from the Russian invasion of Ukraine, high inflation, and other factors.

Second, we agree that monetary policymakers should stand ready to address inflation pressures, which may be stronger or more persistent than expected. We would emphasize staff's view that the policy interest rate is the best tool to address inflation pressures, while foreign exchange intervention should be used only to address unusual volatility in capital flows.

Third, increasing financial sector risks, particularly in the mortgage sector, are worrying. We welcome that the authorities are closely monitoring these risks and have begun to take action to address them, most notably by increasing the countercyclical buffer.

We encourage the authorities to continue to strengthen the resilience of the banking and financial sectors and to continue to implement the 29 gained Financial Sector Assessment Program (FSAP) recommendations.

On the external balance assessments, like Ms. Shortino, Mr. Stephan, and others, we find the need for large adjustments to the EBA model output for Switzerland's specific factors to be concerning. We note Mr. Horton's explanations today. We welcome staff's analysis in the Selected Issues chapter of Switzerland's balance of payments and international investment position dynamics, which helps to explain some of the observed puzzles.

Further staff advice on how policymakers could address home bias effects or other factors driving the persistent depreciation of the franc may be helpful.

Finally, we concur with Mr. Ronicle that increased use of lapse of time processes, though not necessarily for Switzerland, would be appreciated, given the high demands on staff and Board time.

Mr. Mochtar:

We issued a joint gray statement with Ms. Grant and will limit our intervention to the three topics that management flagged in the main themes in gray statements.

First, on monetary policy, like many others, we call for vigilance about inflation risks. While Swiss inflation has been lower than peers' economies, there could be delay and lumpy effects arising from administrated prices given the broad inflationary environment globally. As staff highlighted in their response, administrated prices could be repriced owing to soft increase in underlying input and bite with longer lags.

Second, on the medium-term fiscal framework, we thank staff for a well-considered response to our query. We look forward to more deep-dive analytical work in each area for future consultations.

Finally, on the external sectors, we highly appreciate staff's work in the Selected Issues analysis on the balance of payments IIP dynamics. In our view, such debt reviews do a better job in identifying underlying drivers behind specific aspects of the economy's external positions. In cooperation, we share Mr. Peter's statement that the broader external sector assessment needs to be interpreted in a more nuanced manner. The impact of transitory

and external factors oftentimes overwhelms the effects of economic policies and fundamentals on external balances.

In Switzerland's case, the current broad-brush assessment also failed to account for the fact that many Swiss exports directing the country's current account surpluses are less sensitive to exchange rate movement.

Mr. Buissé:

I agree with the thrust of staff's appraisal. We have issued a gray statement, and I will make only four brief points for emphasis today.

First, on the extremely interesting debate on the current account, I will leave the discussion on the EBA methodology for another Board meeting, but we clearly are on the side of the chairs. We think a large and growing current account surplus deserves a specific discussion on the underlying policies, which brings me to my second point on fiscal policy. We concur with staff that flexibility is warranted, given the uncertain environment and large fiscal space. Here, the Swiss debt-brake rule is quite stringent in the short-term, and we support the proposal to lengthen the amortization period of the COVID-19 spending to 12 years. Beyond that, flexibility should be maintained to support economic activity in case of the materialization of downside risks to growth. And as highlighted in the report and the buff statement, investment needs will also be high in climate and energy transition in the aging and defense sector. Increasing investment in these sectors may help also to bring down the current account surplus to a lower level.

Third, on the financial sector, we encourage the authorities to continue strengthening regulation, supervision, and the monitoring of evolving risks, such as those relating to the housing market and cryptoassets. We welcome the extensive discussion of these issues in the buff statement, high household indebtedness and housing market dynamics call in particular for close monitoring and adaptation of macroprudential instruments. We also encourage the authorities to continue implementing the outstanding 2019 FSAP advice.

Fourth, on climate, we support the implementation of an alternative but still ambitious climate agenda after the 2021 referendum results, and I was very interested in Mr. Peter's very thoughtful introductory remarks. We welcome the preparation by the authorities of alternative climate measures that would be politically acceptable. They should, in our view, remain very ambitious in terms decarbonization efforts and emissions reductions while combined with targeted support to vulnerable and impacted households.

An increase in low carbon and energy investment would help boost both transition and energy security objectives. Staff advice based on tools such as the carbon pricing assessment tool will be important in this regard.

Mr. Stephan:

I have two questions. The first is on equity.

There is a solid equity base for the Swiss financial sector and large corporations, but due to the COVID-19 pandemic and supply-chain crisis, however, the equity base of smaller and medium enterprises and companies that are more focused on the domestic markets has decreased. My question here to staff is, do they see here a risk of delayed corporate insolvencies in those segments and if so, could this lead to second-round effects for the internal banking system?

My second point is the Swiss economy benefits a lot from innovation. Against this backdrop, I would be interested whether staff has a view on the potential consequences of the recent decision by the authorities to not associate themselves with Horizon Europe, the EU framework program for research.

Mr. Massourakis:

I wish Mr. Peter's historical review on the Swiss way would include lessons to be drawn from avoiding wars for the benefit of other nations as well.

We have issued a comprehensive gray statement so I can be brief and will limit my intervention to a few follow-up remarks on monetary policy and the external sector.

First, we thank staff for the clear description of the three-pillar monetary policy strategy of the SNB. We agree that such framework has demonstrated flexibility and robustness and that it fits well with the integrated policy framework by allowing ample policy maneuvers for coordinating monetary policy and foreign exchange rate interventions. This coordination has proven critical in the low-inflation environment that followed the great financial crisis and will continue to play a key role going forward as the SNB considers how to tighten its monetary policy stance.

Second, we appreciate staff's analysis of the Swiss international investment position in the Selected Issues Paper. This analysis identifies exchange rate evaluation losses and low returns on foreign assets as two important factors for Switzerland's large acquisition accumulation gaps.

As for the foreign exchange, as staff acknowledge, there is not much the authorities can do to counter the long-term appreciation trend of the franc, which largely reflects strong fundamentals and policies. However, we note that staff and the authorities see scope for improving the efficiency and performance of the Swiss Pension Fund and look forward to improvements on this front.

Moreover, we note that staff finds measurement issues as another important factor behind the gaps between current account balances and international investment positions stock changes. Hence, we support further work to improve the accuracy of both.

Mr. Palotai:

Switzerland has been among the very best in class when it comes to the financial sector, a strong economy in general and its fiscal self-discipline; I will not try hard to find the fly in the ointment and be very brief.

Mr. Peter's operative point in his introductory remarks almost made my intervention obsolete, as I was planning to focus on structural reforms against the particularity of the Swiss democratic political model. Mr. Peter is right that it is more important to get things right than to have them done first. Nevertheless, with climate change and a substantial democratic shift at our door, we are still wondering how the necessary reforms will be implemented in a timely manner in such an interesting democratic environment.

After many successful important referenda, allow me to reiterate our regret of the public rejection of the revised carbon dioxide (CO₂) laws, making decarbonization efforts more complicated, while by truly recognizing the achievements in this field so far.

To conclude, Switzerland is in many aspects a role model, and we encourage the authorities to maintain the current fiscal stance, ensuring flexibility, to remain vigilant about deflation risks, to keep strengthening financial sector supervision, to keep an eye on the real estate market, and to cooperate at all levels internationally on anti-money laundering (AML) and combatting the fight against terrorism (CFT).

Switzerland's European neighbors embrace our common interest and certainly stand ready to deepen the bilateral cooperation.

Mr. Potapov:

We have issued a detailed gray and would like to limit ourselves just to a few points today.

First, the Swiss economy stays resilient despite the adverse spillovers from the geopolitical tensions in the region. We commend the authorities for their strong macroeconomic policy framework and for an operative approach to financial stability risks, especially in the real estate.

Second, we note the need for an advanced plan and careful coordination between the expected monetary tightening and FX intervention. We agree with staff that given the risks of high and persistent inflation; some nominal appreciation might be helpful. Although we are not familiar with the estimates of the pass-through effects to the Swiss economy, staff comments on the possible pass-through from the franc appreciation are welcome.

Second, we do not consider problems with the Swiss productivity to be a serious concern and know that the Swiss economy continues to be among the top performers in productivity among Organisation for Economic Co-operation and Development (OECD) countries. We can support the proposals of staff to advance productivities to structural reforms, reduction of administrative burdens, and further digitalization of the public sector.

Finally, we agree with staff that the recommendation from the 2019 FSAP might be better leveraged.

Ms. Basutli:

We issued a supportive gray statement and wish to make the following points.

First, we agree that the challenges for fiscal policy remain high, stemming from expenditure pressure related to defense, climate change, and demographics. Skillful navigation in the context of the debt-brake rule will therefore be crucial with a detailed medium-term plan necessary going forward, especially in light of Mr. Horton's update this morning.

Second, careful monitoring of price developments and their second-round effects will be critical in this environment of high uncertainty. An agile and data-dependent monetary policy response will be necessary and would require the right tools.

While acknowledging the wide array of tools available to the Swiss National Bank, we are of the view that ongoing communication that SIX 2020 expectations of price stability remain important. Like Mr. Bevilaqua, Mr. Saraiva, and Mr. Barroso in their gray statement, we see merit in the Swiss National Bank's signaling of monetary policy normalization, finding it as one important to communicate that responds to our aligned expectations.

Finally, decisive action is required to address long-standing structural challenges, particularly in the pension system. We are, therefore, encouraged by the progress made in implementing the pension reform agenda.

Further, addressing labor market challenges, accelerating support for digital transformation, and climate-change mitigation should be prioritized and pursued actively now.

The staff representative from the European Department (Mr. Horton):

I noted several questions and one or two areas of further interest.

The questions posed by Mr. Stephan are quite important. The first one was related to whether there will be delayed pressures or corporate insolvencies due to COVID-19 and supply-chain-related factors, especially for small and medium enterprises (SMEs). This is a possibility but we do not see it as a significant risk. The firms that were most affected by COVID-19 are not firms that had a very large a borrowing position from local commercial banks. They are concentrated in the services sector and were not important in terms of taking credit.

There could be impacts on other exposed companies due to supply-chain issues or exposure on energy use, but, again, we think that the very solid capital base of banks and careful monitoring should be able to mitigate this risk.

The second question was related to Horizon EU and consequences for Swiss participation in light of the status of discussion between the EU and Switzerland. This is indeed a significant concern for the Swiss authorities and also researchers in Switzerland, both in universities as well as in the private

sector. The Swiss authorities have been concerned about retaining participation in Horizon EU. This is certainly one of the key motivations for their efforts to sustain and strengthen our relations with the EU, so it is an important point to flag. The authorities have been providing additional funding for research.

The next question I would turn to would be observations raised by Mr. Buissé and Ms. Shortino around fiscal policy and the use of fiscal space. I should start by saying that the Swiss authorities would first draw attention to the fact that they have indeed used quite a significant amount of fiscal space over the last 2.5 years in responding to the challenges of the pandemic. Their fiscal framework provides for recourse to extraordinary expenses—these do not need to be offset immediately—and as we noted in the staff report, these have been large and timely, and they are continuing in 2022. If needed, there may well be further extraordinary expenditures to deal with adverse spillovers from Russia’s war in Ukraine. The authorities—and staff—see that the fiscal framework is both robust and flexible.

Looking forward, on the last year’s consultation, staff called for additional spending in the medium-term while highlighting difficulties in changing the debt-brake rule. This year the discussions focused more on the idea that if there are long-term challenges and long-term expenditure pressures in aging, in climate-related areas, or in national defense, those should come into the framework and should be a part of the baseline that would be subject to the debt-brake rule’s overall aim of structural balance over the cycle. A deficit should not be incurred in the medium-term to address such long-term challenges; these should be addressed in the baseline. The Swiss consider that the debt-brake rule has served them well, that it retains the possibility to respond to short-term shocks, and that longer-term fiscal challenges should be addressed within the parameters of the rule.

This led staff to call on the authorities to develop a clear plan on how these challenges would be addressed within the fiscal framework and structural balance over the medium-term, given their size and extended nature. This was one of the key recommendations of this consultation.

We had an observational question from Mr. O’Brochain about how to address home bias of Swiss private investors. As other chairs pointed out, this is difficult for the authorities to do, for example, through regulation or other efforts. One key area is in pension fund operations and pension fund management. Here, the focus is mainly on providing information to participants and to investors—in composition and performance by various

asse classes—rather than to have mandated investment abroad or even guidelines for investment abroad. We see that this home bias will continue to be a challenge. In the written answers, we alluded to other potential mechanisms that other countries have used to address home bias through investments abroad through sovereign wealth funds or investment vehicles. Those appear to be rather complicated in the Swiss environment given the nature of the liabilities associated with the assets of the Swiss National Bank and do not seem to us to be particularly workable or advisable.

Mr. Potapov asked a question about a exchange rate pass-through to inflation. A pass-through is important but not necessarily strong, so the Swiss National Bank has estimated that a 10 percent depreciation of the Swiss franc may lead to higher inflation by around 0.3 to 0.5 percentage points. This is a rather significant depreciation that would lead to some effect on inflation, although not particularly large. Here, one important the consideration is related to the import composition of the consumer basket.

Mr. Peter:

Let me start by expressing my sincere appreciation to colleagues for their thoughtful gray statements and the discussion that we just had. My Swiss authorities and I, we really very much value this exchange.

As our chair is usually one of those who stresses that the Fund should focus on its core mandate, I just want to lead by example and focus my closing remarks on fiscal policy, monetary policy, and the external sector.

First, on fiscal policy, I have two comments. Let me mention that in 2022, we are still engaging in large, extraordinary spending. Our flexible fiscal framework and the fiscal rule enable us to react swiftly when and if risks materialize.

That said, current inflation dynamics call for a prudent approach when stimulating aggregate demand, as we certainly do not want to counteract our monetary policy readiness to respond to further inflation surprises, as actually many colleagues have highlighted this morning.

Going forward, we need to preserve our fiscal framework to maintain fiscal agility, which has proven itself to be extremely valuable during the COVID crisis that we just went through.

Second, we note the large support for a medium-term plan to address the longer-term challenges, such as, in particular, aging and climate change, and also energy security. Here, let me just reiterate the point we made in our buff that our ten-year financial outlook is designed to address precisely this issue and it complements the regular three-year financial plan that is prepared each year with the annual budget.

As you know, we have always championed a longer-term view on fiscal policy and this ten-year financial outlook is a testament to this and will be used in the future precisely to address those challenges.

Second, on monetary policy, I have a couple of remarks. First, we are pleased about the broad support for the SNB's monetary policy. As the report documents, foreign exchange interventions are a necessary instrument for the Swiss National Bank to control monetary conditions in the face of, one, the effective lower bound problem and, two, the at-times large or even overwhelming safe haven inflows.

Remember that at minus 75 basis points, the SNB has had the lowest policy rate worldwide. For several years the SNB's foreign exchange interventions have the purpose to come to deflationary pressures in line with the SNB's mandate to ensure price stability. Inflation was close to zero or negative for many years precisely because of the strengthen of the Swiss franc.

In recent months, we have now observed a strong pickup in inflation at the global level. However, as has been mentioned several times, this phenomenon has been significantly more modest in Switzerland. Core inflation was just 1.3 percent in April, for instance. Mr. Horton has mentioned that in his opening remarks. This, we believe, is a clear indication that Swiss monetary policy has been on the prudent side.

Second, I want to thank staff for the excellent description and assessment of the Swiss monetary policy framework in the written responses to Directors' questions. I believe it is the answer to question number 14, the SNB fully agrees with the team's assessment that the SNB's three-pillar framework, I quote, "The SNB's three pillar framework has demonstrated flexibility and robustness" and that, quote again, "The range of tools available to the SNB are broadly sufficient, although they may need to be adopted or expanded as conditions warrant."

Let me just add to this last “although” clause. Be reassured that the SNB has in the past and will in the future adopt and extend the tools it needs to react to undesired inflationary developments.

Third, on the external sector, I want to briefly highlight four points. First, our authorities agree with the staff’s external-sector assessment, and we note that there is also very broad support for this assessment in the Board.

Second, regarding the adjustments to the current account norm, I just wanted to reiterate what staff wrote in the written response and then Mr. Horton has also now again repeated this morning, that none of these adjustments are made specifically for Switzerland. Instead, the staff calculates them consistently and evenhandedly across all countries.

Third and more generally, we have repeatedly and consistently stressed over the years that assessing a country’s external position exclusively on the basis of the current account is too narrow. We note that several chairs in the gray statements and in today’s discussion support the call for a wider set of indicators and more generally for further reforms to the EBA methodology.

Fourth and last point, on the external sector, we very much welcome the Selected Issues Paper on the balance of payments IIP dynamics. The paper shows that despite repeated current account surpluses, stock imbalances have not increased over the last 20 years, possibly pointing to a mismeasurement of current account surpluses, among other things. More work is clearly needed to confirm the relationship between the net international investment position, the exchange rate, and the home bias of Swiss investors.

Switzerland traditionally maintains a high degree of capital market openness with few, if any, restrictions on cross-border investment.

It is important to stress that there have been no significant domestic policy changes in this respect over the last several years. Therefore, the need for foreign exchange interventions, which has emerged since the world economy has been confronted with the effective lower bound problem and the high uncertainty induced by the repeated crisis, these foreign exchange interventions cannot be linked to institutional factors.

In closing, on behalf of our office and the Swiss authorities, I would like to express our sincere gratitude to our Mission Chief, Mark Horton, and his very able team, Ms. Svitlana Maslova, Laura Valderrama, and Li Zeng, for their excellent and fruitful engagement over the past year. We have very much

enjoyed the close dialogue and exchange of views, which in our opinion have once again been very well reflected in the set of reports.

The Acting Chair (Mr. Okamura):

Switzerland is an Article VIII member and no decision is proposed. The 2022 Article IV Consultation with Switzerland is hereby concluded.

Let me conclude by noting again the same point that Mr. Peter pointed out, that this year is a big milestone to Switzerland and the IMF, which is 2022 marks the 30th anniversary of Switzerland joining the Fund and taking an important leadership role, including in its constituency and as a member of the IMF family. Congratulations to the authorities and congratulations, Mr. Peter.

Allow me to take this opportunity to thank and commend the authorities for the continued strong and generous support to wide-ranging IMF initiatives, especially for financing, for concessional lending, and capacity development. We are grateful for this partnership, wish the authorities continued success, and stand ready to accompany them and to support Switzerland on its path.

The Acting Chair (Mr. Okamura) adjourned the discussion.

ANNEX

- Gray Statements
- Staff's Responses to Executive Directors' Technical Questions
- Constituency Codes

Statement by Mr. Peter and Mr. Gindrat on Switzerland
Executive Board Meeting 22/53
June 10, 2022

On behalf of our Swiss authorities, we thank staff for the insightful policy dialogue and the thorough analysis presented in the report. The consultations were appropriately broad in scope and covered the key topical policy challenges. In fact, the global and regional environment has remained highly volatile, necessitating flexible but prudent domestic policy responses. The Swiss economy has proved highly resilient, on account of very strong institutional and macroeconomic frameworks and the ability to mitigate external shocks in a timely manner. The authorities are in broad agreement with the staff's assessment and the thrust of their recommendations. These recommendations will usefully inform their macroeconomic policies under heightened uncertainty as well as further reform steps.

Overall Outlook

Our authorities broadly agree with staff on the outlook and risks. The Swiss economy continues to recover and is set to grow at a significantly above-average rate in 2022. The lifting of most pandemic restrictions bodes well for further recovery in the service sector. Strong employment growth testifies to a robust labor market. So far, the economic impact of the war in Ukraine has been modest. While trade with Russia and Ukraine fell on the back of the sanctions and reduced demand, the overall impact was minor, given the weak trade links. Against this background, staff's growth forecast for 2022 seems to be on the low side.

The main impact of the war on the Swiss economy has been on the price front. The sharp rise in commodity prices increased production costs and inflation, thereby also dampening real income and private consumption. As a result, inflation reached 2.9 percent in May. While the current situation could persist a little longer, the Swiss National Bank (SNB) shares staff's view that the recent increase in inflation above the price stability range is likely to be temporary.

On the exchange rate side, after an initial sharp appreciation towards the beginning of the war, the Swiss franc weakened again to below pre-war levels in nominal effective terms. Nonetheless, the risk of further safe-haven appreciation pressures remains high, should the war escalate and/or global uncertainty rise. While the direct effects of the war on Switzerland's open economy have so far been modest, its indirect effects are subject to high uncertainty and may be severe. Switzerland would be significantly affected if its key trading partners were to suffer a major economic downturn, possibly due to severe production shortfalls. At the same time, a worsening in the already-tight supply of raw materials could lead to a further rise in inflation globally. This would also increase the risk of inflation

dynamics firming as a result of second-round effects. Finally, a renewed deterioration of the pandemic situation cannot be ruled out.

Monetary Policy

The authorities agree with staff that the accommodative monetary policy in 2021 and early 2022 has been appropriate. At the same time, the SNB has emphasized that its framework is robust and flexible to address challenges, and that it would not hesitate to react if inflation was to become more broadly based and persistent. If the SNB were to tighten, it could either raise its policy rate or sell foreign exchange or use a combination of both tools. The exact choice would depend on the circumstances if and when a tightening becomes necessary.

Fiscal Policy

The debt brake is the backbone of Swiss fiscal policy and has proved to be the key anchor for fiscal sustainability. Debt reduction in earlier years in adherence to the fiscal rule enabled Switzerland to tackle the Covid-19 crisis in excellent budgetary conditions. The flexibility of the rule has also allowed the federal authorities to act rapidly and with significant extraordinary spending to support the economy and households. The Federal Council has proposed to lengthen the amortization period of this extraordinary spending to 12 years, which, together with the use of SNB profit distributions and budget underspend, would smoothen the consolidation path required by the debt brake rule. A decision by parliament on an according bill is expected in 2022.

The challenges for fiscal policy remain high, also due to markedly risen spending demands. Expenditure pressures come from defense, the climate/energy transition, and to cover ageing-related costs. Despite low debt and ample fiscal space, reconciling these requests with the debt brake will not be straightforward since the Swiss constitution does not allow persistent deficits. The authorities agree that more mid-term planning for structurally higher expenditures is necessary to credibly comply with the debt brake. This is accommodated by the three-year financial plan that the Federal Council presents to Parliament annually with the annual budget. This financial plan allows to quickly identify negative structural balances and to propose remedial measures. In addition, at the beginning of each four-year legislative period, the Federal Council presents its 10-year financial outlook. The 2023 outlook will serve to project and assess spending priorities and expected revenues through 2033.

External Sector Assessment

The authorities take good note of the IMF's external sector assessment. The estimated current account (CA) gap amounts to -0.9 percent of GDP. On this basis, staff assesses the Swiss franc to be overvalued by almost 2 percent. It should be emphasized that while the surplus increased notably compared to the previous year, this rebound is mainly due to the reversal of

Covid-specific factors, as well as other global factors. In particular, as noted by staff, the increase in commodity prices has led to significantly higher merchanting income. Importantly, the CA increase has been driven neither by a change in Swiss policies and fundamentals, nor by the exchange rate. In view of these developments, the authorities would like to stress three points.

First, it is crucial that staff looks through the transitory global factors driving the Swiss CA surplus in their assessment. This is necessary to ensure consistent assessments over the years. More generally, the Swiss case illustrates that the methodology underlying these assessments would benefit from a deeper and more flexible consideration of temporary factors.

Second, the CA developments over the past two years highlight the limitations of the CA balance as an indicator to assess over- or undervaluation. Large CA fluctuations are often not associated with exchange rate movements. Conversely, large exchange rate movements may have a very limited impact on the CA balance in the short run. This is especially true in the case of Switzerland due to the composition of its CA surplus, which is dominated by industries that are rather insensitive to exchange rate movements.

Third, given those limitations, using a wider set of indicators to assess a country's external sector position would support a more robust assessment. In this regard, we very much welcome the focus on the net international investment position (NIIP) in the special issues paper. The most important takeaway is that cumulated CA surpluses over the years have not been associated with an increase in the NIIP. Instead, the NIIP has remained broadly stable. As staff notes, the gap between CA surpluses and effective NIIP accumulation has been driven not only by exchange rate losses stemming from the nominal appreciation of the Swiss franc, but also by measurement issues in the CA. Further work on the NIIP is certainly warranted. An important avenue would be to investigate how to systematically integrate the analysis of stocks into the EBA methodology.

Financial Sector Policies

The authorities have continued to strengthen regulation, enhance supervisory intensity, and have taken remedial action to address risk control failures. The regulatory and supervisory framework has been adapted and enhanced to reflect new types of risks for financial intermediaries, including from climate change and cyber threats. With the decision to turn the National Cyber Security Centre (NCSC) into a federal office, the Federal Council has reinforced the institutional setup for cyber security. A more formalized cooperation between financial institutions and the authorities is being established through the newly founded Swiss Financial Sector Cybersecurity Centre (Swiss FS-CSC) association. Switzerland has been at the forefront in implementing a systematic and technology-neutral regulatory approach towards distributed ledger technology (DLT) and token-based financial services that leaves room for innovation. The authorities consider technological innovations also as a

source of significant opportunities for the Swiss financial center. These can best unfold and grow on the basis of financial sector regulation that continues to be risk-based, transparent, and predictable.

The Basel III finalization package for banks is on track to be implemented in 2024 and, with regard to substance, in line with the standard. The proposal by the Federal Council to introduce a public liquidity backstop for systemically important banks under resolution will further enhance the credibility of large banks oversight and financial stability. Insurance legislation has been amended to, among other things, allow the restructuring of insolvent insurance companies, thereby better protecting existing contracts and avoiding bankruptcy.

Even with negative interest rates, banks' profitability has held up, also on account of expanded mortgage lending. On the downside, the authorities are aware that risks in the real estate and mortgage markets have risen, reflecting significant increases in property valuations, including of private homes. The reactivation of the sectoral counter-cyclical capital buffer (CCyB) will enhance the banking sector's ability to absorb losses and help maintain and strengthen banking sector resilience. The authorities consider these risks to be manageable, although time-lags add complexity. They agree that the possibilities for a further tightening of banks' self-regulation or an expansion of the legally mandated macroprudential toolkit may not be exhausted, should vulnerabilities in these markets develop further. Legally mandated self-regulation will remain the predominant approach to restrain high credit demand. In this respect, the mortgage stress test performed by staff is appreciated.

Switzerland continues to be committed to ensuring financial sector integrity and firmly implementing its latest revision of the AML/CFT legislation. New fintech/crypto service providers are already covered by the Swiss AML/CFT legislation. Staff's recommendations to remain vigilant and further enhance the framework to combat financial crime and bribery are well noted.

Switzerland has rapidly adopted all EU economic and financial sanctions imposed in relation to the war in Ukraine. The authorities are closely monitoring evolving international developments, continue to ensure the effectiveness of the Swiss sanctions regime, and are actively engaging with international partners, in particular also regarding the enforcement of financial sanctions.

Structural Issues

The Swiss labor market coped well with the disruption caused by the pandemic. Use of short-term work compensation by companies was extensive and prevented larger scale layoffs. This being said, sectors have been affected very differently and targeted support to facilitate the transition into new jobs and (re-) training remain a priority. The authorities agree that further measures to enhance overall labor market participation would be beneficial, not least

to provide relief for a tight labor market. Pension system reform has been high on the political agenda for some time. The government supports further reforms that will, in particular, enhance the financial sustainability of both the first and second pillars. Gradual advances should garner the broad-based political support necessary for securing confirmation by popular vote.

Switzerland remains one of the EU's closest partners. The Federal Council in February 2022 reiterated Switzerland's interest in maintaining and developing the bilateral approach with the EU. Exploratory discussions on a potential negotiation package are now taking place, and Switzerland remains committed to further develop constructively its important relationship with the EU.

Although Switzerland covers around 60 percent of its energy needs through hydropower, it remains reliant on other supply sources and is not shielded from the recent surge in energy prices. Energy security has rapidly emerged as a political priority. Pragmatic, mutually beneficial solutions are being pursued with neighboring countries to enhance resilience to potential energy shortages. The authorities are aware of the significant challenge of reconciling immediate and future energy needs with an ambitious climate strategy in order to achieve the 2050 net-zero greenhouse gas emissions target. They are preparing a revised CO₂ law to replace the interim measures beyond 2024. It should be noted that Switzerland's carbon taxes are already among the highest globally.

The authorities are planning to mandate climate-related disclosures and transition plans based on TCFD starting in 2024. Their aim is to incentivize financial institutions to be more transparent on the compatibility of their commitments, targets, and portfolios with the Paris climate goals. Work is underway to finalize voluntary Swiss Climate Scores that reflect Switzerland's views with respect to best practice transparency on the Paris-alignment of financial products.

**Joint Statement by Ms. Lim, Ms. Grant, Mr. Ong, and Mr. Yoo on Switzerland
Executive Board Meeting 22/53
June 10, 2022**

We thank staff for the comprehensive reports and Mr. Peter and Mr. Gindrat for their helpful Buff statement. Switzerland's economy has demonstrated commendable resilience over the past two years due to the authorities' timely response to the pandemic, robust policy frameworks, well-capitalized banks, and strong industrial competitiveness. Employment has recovered to its pre-crisis level, while the economy is expected to grow at a faster rate than potential. Meanwhile, inflation is expected to remain in check, with annual inflation of around 2 percent this year. We broadly agree with the thrust of the staff appraisal and provide the following comments for emphasis.

Fiscal policy needs to remain supportive given high levels of uncertainty around the pandemic and the war in Ukraine. We commend the authorities for their timely and flexible provisions to support Ukrainian refugees. We see merit in the Federal Council's proposal to lengthen the offset period to mitigate headwinds from an otherwise faster pace of fiscal surplus accumulation. Further, we note that, given the challenges in altering Switzerland's fiscal policy framework to properly address structural challenges, such as population aging and climate transition, staff advocated that the authorities draw up a medium-term plan to examine revenue-raising tax reforms and spending reviews to identify savings. *Could staff share their views on potential priority areas for the authorities to examine both from the revenue and expense perspectives?*

The current monetary policy framework has been robust and flexible to safeguard macroeconomic stability. That said, the Swiss National Bank (SNB) should remain vigilant about inflation risks. We concur with staff that in preparation for possible normalization, the SNB should review its tools, transmission channels, sequencing of steps, and communications, and adjust its stance when needed. Annex III highlighted that, compared to the euro area, Switzerland has a higher share of administered non-energy prices, and that the influence of administered prices may be larger than their weight due to competition and second round effects. *Could staff elaborate on the nature of these administered prices, and whether the broader global inflationary environment could at some juncture result in lumpy adjustments in these administered prices and thereby raise inflationary risks?*

On the financial sector, we agree with staff's recommendation to strengthen macroprudential policy, especially given high household indebtedness and signs of overheating across all sub-segments of the property market. We welcome the reactivation

of the sectoral countercyclical capital (CCyB) buffer at 2.5 percent, effective September 2022. Given the scale and multi-dimensional nature of the issue at hand, more policy tools could be considered. We commend staff for the rigorous analytical work in the *Selected Issues* to model, and augment the case for, the design and calibration of various macroprudential tools in Switzerland, including ‘speed limits’ to also take into account socio-political considerations regarding affordability. Specifically, the authorities should consider borrower-based measures such as caps on loan-to-value / debt-service-to-income ratios, alongside supply-side measures, such as more social housing and zoning flexibility, and reducing tax incentives on mortgage loans. Annex VIII noted that pension funds and insurers account for 2 and 4 percent of the mortgage market, respectively. *Could staff comment on how mortgage lending by these non-banks is being regulated to avoid arbitrage with bank-based policy tightening measures such as the sectoral CCyB and self-regulation rules?*

Turning to the external sector, we note Switzerland’s 2021 external position is assessed as broadly in line with the level implied by medium-term fundamentals and desirable policies. We agree with the authorities’ call for caution against direct interpretation of depreciation of the PPI-based real effective exchange rate (REER), considering that movements were mostly driven by volatile global factors (commodity prices), rather than Swiss fundamentals/policies. In addition, we welcome staff’s detailed analysis in the *Selected Issues* on the reasons driving, and cross-country comparison of, the large gap in Switzerland’s net foreign asset acquisitions and accumulations in its IIP. The in-depth review uncovers the underlying drivers behind the phenomenon, taking into account Swiss specificities, and preliminarily identifies potential actionable follow-ups that the authorities and other economic agents could consider – a good example of how the Fund can value-add meaningfully in its surveillance mandate.

We agree with staff that the authorities should continue to strengthen fintech regulation and address climate risks. As a world leader in blockchain-technology-based fintech, the authorities should be proactive in implementing prudential regulations for crypto assets and addressing risks to digital trading and settlement systems. They should sustain their conservative approach to fintech regulation while promoting innovation. We commend the authorities for making progress in climate-related financial disclosures and encourage continued efforts to help increase private sustainable finance. Last year’s referendum defeat for the authorities’ climate approach clearly demonstrates the need to take socio-political factors into account in countries’ climate change strategies. We look forward to more thorough analysis by the country team, bringing to bear lessons gleaned across the Fund’s near-universal membership, on effective alternative policy measures that are feasible in Switzerland’s context.

**Statement by Mr. Andrianarivelo and Mrs. Raolisoa Andrianometiana on Switzerland
Executive Board Meeting 22/53
June 10, 2022**

We thank staff for the informative set of reports and Mr. Peter and Mr. Gindrat for a helpful Buff statement. We appreciate the focus of discussion based on the key topical policy challenges We broadly agree with staff's analysis and support the completion of the 2022 Art IV consultation.

We welcome the Swiss economy's robust recovery from the pandemic, thanks to an effective vaccination rollout, a timely policy response and a pickup of the global economy. We are pleased to note that Switzerland has weathered well the pandemic, that labor indicators have largely recovered to pre-pandemic levels, and inflation data remains subdued compared to peers. However, this recovery remains uneven, notably in sectors severely impacted by Covid-19, including hospitality and transport. Furthermore, new challenges arising from the spillovers from the war in Ukraine and rising inflation at global level pose significant risks to the outlook. We therefore stress that policies should remain agile and supportive to address these challenges and minimize scarring. Going forward, as envisioned by the authorities, policies should be geared towards promoting green and digital economy and advancing the implementation of structural reforms.

We support the authorities' plan to phase out Covid-19 support in 2022 and accommodate Ukraine-related spending and welcome the convergence of view between the authorities and staff in this regard. Considering the improving pandemic situation, we commend the authorities' efforts to further target emergency fiscal support and provide budgetary outlays in response to the war in Ukraine. Given the large fiscal space, we agree with staff that the authorities should accommodate, when necessary, further adverse spillovers on revenues and spending, including support for refugees as well targeted assistance to vulnerable households and firms. Looking ahead, we concur that fiscal policy should address challenges related to aging, climate, defense, energy security through a careful medium-term fiscal planning under the debt-brake rule framework. In this regard, we share staff's view that tax reforms should bolster revenues and spending reviews should help identify savings.

We agree that monetary policy should continue to be supportive while risk to the financial sectors should be closely monitored. We are encouraged that the banking system has remained liquid and adequately capitalized to meet demand for credit as well as to absorb

potential shocks. Similarly, low level of non-performing loans (NPLs) and strong official reserves are noteworthy. Nevertheless, we encourage the Swiss National Bank (SNB) to remain vigilant against risks to the financial sector stemming from market disruptions, complex exposures, and growing real estate sector vulnerabilities. In this effect, we agree that the SNB should review the effectiveness of its tools and strengthen communication to prepare for a possible normalization. In addition, we commend the authorities for progress towards implementing prudential and risk-based supervision and their plan to provide funding-under-resolution. In particular, the Parliament approval of the revisions of the AML Act as well as the rigorous supervision of AML/CFT risks in fintech are encouraging.

We encourage the authorities to accelerate reform momentum to address structural bottlenecks to increase productivity and promote sustainable growth. In this vein, reforms should aim at improving the labor market and pension, as well as promoting green transition and energy security. While Switzerland performs well in labor and business-environment areas, we welcome their intentions to sustain competitiveness and dynamism. Additionally, it is essential to implement measures to improve pension fund efficiency, governance, and performance. We take note that green transition and energy security rank high priority in the authorities' reform agenda and welcome the extension of current CO2 law measures and targets for 2022–24, the revision of 2025–30 proposals, and the design of policies for 2030–50. Finally, we welcome the Swiss authorities' commitment to further develop constructively its relationship with the EU, and commend their efforts to identify and address existing regulatory differences.

With these remarks, we wish the Swiss authorities all the success in their endeavors.

Statement by Mr. Bevilaqua, Mr. Saraiva, and Mr. Barroso on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for the comprehensive reports and Mr. Peter and Mr. Gindrat for the informative statement. We broadly agree with staff's assessment on the outlook and risks. That said, we highlight the need for monetary policy normalization in the near future and the importance of preserving medium-term policy frameworks that anchor macroeconomic stability.

Switzerland is recovering from the pandemic with a strong position relative to peers despite the headwinds from the war in Ukraine. The Swiss economy is growing above potential, with labor market performance above pre-pandemic levels and inflation above the ceiling of the target range. Fiscal authorities are heading in the right direction and phasing out pandemic era fiscal support, while targeting measures for segments affected by the war in Ukraine. On the other hand, monetary policy is still highly accommodative. On top of existing inflationary pressures, loose monetary conditions are arguably fueling housing and credit market excesses in part addressed by tighter macroprudential policy.

Fiscal policy stance is appropriate and consistent with the fiscal framework that has served well the country. While there is sufficient fiscal space to consider gradual consolidation paths, authorities should continue to rely as possible on the constitutional debt-brake framework and ensure that large deficits are offset in the medium run. We take note of staff's call for more revenue mobilization in the medium run to accommodate structural transformations, including on public pension or climate and digitalization goals. The authorities' strategies and staff's policy advice on specific policies should consider uncertainty in a fully dynamic cost and benefit analysis. In the same vein, we caution against reliance on the Swiss National Bank (SNB) dividends to advance future fiscal goals given the high uncertainty of this source of funding, especially at this juncture. *Staff comments are welcome.*

The SNB should signal impending monetary policy normalization. Labor markets are becoming sufficiently tight to warrant concerns over inflation dynamics and balance of risk going forward. Moreover, the recent experience in other advanced economies clearly shows that lagging monetary policy responses pose risks for anchoring inflation expectations. While we take note that forward guidance is not favored by authorities, it is important to communicate the authorities' response function to help align expectations. We also take note of staff advice of favoring rate hikes as the best instrument, possibly accompanied by FX purchases in case of excessive inflows. *In this respect, we wonder how staff would assess excessive inflows and what role should the Swiss Frank appreciation hold in the monetary policy transmission mechanism.* Regarding financial policy more broadly, we agree with staff that the macroprudential toolkit could be usefully extended, including with regulatory limits on mortgages. Indeed, credit to the real estate sector poses major financial stability risks and downside risks to economic activity. Given the high uncertainty environment, we also

support staff's call for stronger liquidity requirements and public liquidity backstops for financial institutions.

We take note of staff's assessment that Switzerland's external position is broadly in line with fundamentals and desirable policies. We appreciate the complexity of assessing the external sector of a highly open and integrated economy like Switzerland's, with extremely high gross investment positions. Staff's assessment should account for country-specific and global factors, adjusting the EBA mechanical signal, which suggests a weak rather than an overvalued franc, to a more granular analysis. Accordingly, we agree with Messrs. Peter and Gindrat on the need to consider more fully temporary factors. We also welcome the Selected Issues Paper chapter on the net acquisition of financial assets and NIIP accumulation puzzle, which provides some insights on the persistent gap. *Perhaps staff could elaborate on possible ways in which a more robust global diversification by Swiss investors could be achieved.*

With these remarks, we wish the Swiss authorities all success in their endeavors.

Statement by Mr. Herrera and Mr. Corvalan Mendoza on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for the report and Selected Issues Paper (SIP), and Mr. Peter and Mr. Gindrat for their comprehensive Buff statement.

Switzerland recovered well from COVID-19 pandemic, thanks to decisive, agile, and coordinated policy decisions. GDP growth reached 3.7 in 2021 and it is projected to 2.3 percent in 2022. Credible institutions and a strong policy framework minimized potential scarring effects from the pandemic, as much as from potential spillovers derived from war in Ukraine. On the latter, the country does not seem to have direct exposures with the countries in conflict, but indirect transmission mechanisms like commodity prices, supply chain disruptions, and financial linkages would require close monitoring going forward.

Switzerland has a strong fiscal position and ample fiscal space. Current fiscal stance continues to be accommodative, despite the reduction of general government deficit from 3 percent of GDP during the pandemic, to a projected deficit of 0.3 percent of GDP in 2022. The countercyclical design of the debt-brake rule framework worked well; and public debt is projected to decline from 42.6 percent of GDP during the pandemic to 40.1 percent of GDP this year. As we see it, the debt-brake rule helped ensure Switzerland's fiscal sustainability and resilience to shocks.

The Swiss National Bank (SNB) actively deployed a series of monetary tools to accommodate overvaluation pressure of the Swiss franc in the past years. This situation was exacerbated during the COVID-19 pandemic, because of the safe-haven status of its currency. The latter pushed the central bank to set its policy rate in negative territories and to intervene the FX market to avoid an overvaluation of the Swiss franc. All and all, these policies increased the size of the central bank balance sheet. *In the event of a tightening of monetary policy, could staff elaborate on the adequate coordination of monetary tightening and FXI, including the possibility of partially reverting the sizable accumulation of international reserves during the pandemic crisis (~16.5% GDP).*

The banking sector remains largely intact and solvent after the pandemic. We take positive note of the authorities' close monitoring of financial sector risks, including due attention to potential domestic risks from real estate market correction. On the latter, housing prices have risen relative to fundamentals and according to staff, the mortgage markets is sizable at 150 percent of GDP. This market comprises not only banks, but asset managers, pension funds, and insurers. A materialization of real estate risks could drag a significant part of the financial system and therefore affect the real economy. In this regard, the SIP's, "A forward-looking approach to calibrate macroprudential tools in Switzerland" is timely at this juncture. We encourage the authorities to continue with the implementation of the 2019

FSAP recommendations to protect the system, considering its leading role as global financial center. Financial Market Supervisory Authority (FINMA) autonomy and supervisory power are warranted.

Efforts to safeguard the financial integrity of the system are welcome. The Swiss financial sector is highly integrated and systemic; therefore, it can create spillovers to the rest of the world. In this vein, we found Annex X “Anti-Bribery and Anti-Corruption efforts” relevant at this juncture. The Swiss authorities’ close collaboration with other jurisdictions is desirable to protect the integrity of the global financial system. The OECD Working Group on Bribery in International Business Transactions (WGB) highlighted that a significant number of discontinued cases as well as the decrease in the number of newly investigated cases are being recorded in the Office of the Attorney General (OAG) in the past years. We encourage the authorities to continue with their efforts to confiscate illicit assets and generate financial intelligence for cross-border investigations to enhanced to combat financial crimes worldwide, and to disincentivize reckless financial behavior.

Swiss-EU relations are wide and complex. We understand from the staff report that progressive erosion is occurring as agreements expire. But from the authorities’ point of view, they are developing a new “vertical” approach to restart engagement with the EU. *Could staff further elaborate on this situation?*

We take positive note on FINMA approach with the financial industry to embed climate risks, impacts, and risk-management, for large banks and insurers. These steps aim in the right direction to support a much broader plan to promote green transition/energy security strategy. For the latter, the war in Ukraine is pressing the need to seek alternative sources of energy in Europe. The country has a clear advantage in this front understanding that the main contributor of energy supply comes from hydro and nuclear power. *Nevertheless, in view of the 2021 referendum results, could staff elaborate on the main contents of the new CO2 law that was rejected last June, and what are the government's plans to address these issues in the future? How will the rejection of the new CO2 law affect Switzerland's NDC commitments under the Paris Agreement?*

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

Statement by Mr. Ronicle and Ms. Andreicut on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for the helpful reports and Mr. Peter and Mr. Gindrat for their informative buff statement.

Switzerland recorded a strong recovery from COVID-19, but some downside risks are present, including spillovers from the war in Ukraine. Although direct links to the conflict are limited, indirect channels of contagion via commodity prices, financial markets and lower growth exist. We largely share staff's assessment and policy recommendations.

The Swiss authorities provided ample fiscal support when COVID-19 hit and are now phasing out pandemic-related measures. We agree with staff that the COVID-19 phase-down along with the accommodation of Ukraine-related spending are appropriate.

The Swiss National Bank (SNB) maintained an appropriate accommodative stance throughout the pandemic but is now closely monitoring inflation developments, following the recent uptick, in order to ensure a sustainable return to target. We share's staff views on factors to keep in mind when deciding whether to normalize monetary policy, namely domestic inflation and growth prospects, measures taken by other central banks, market reactions and fiscal policy and agree that tightening can be considered if the strong recovery continues along with higher demand-driven inflation. We also welcome staff's detailed analysis in the annex on inflation developments in Switzerland relative to peers. Clear communication to the public on any upcoming monetary policy decision will be essential. We also welcome the SNB's commitment to react if inflation becomes more persistent, as stated in the buff.

While the Swiss financial sector remains in good shape, the authorities should carefully monitor emerging risks. Banks remain resilient, with low NPL ratios and limited exposures to pandemic-affected sectors. We also welcome the authorities' efforts to implement the final Basel III reforms as well as other prudential measures. Nonetheless, vulnerabilities related to potential corrections in the housing market, as well as interest-rate shocks could test the resilience of the banking sector. In this context, we welcome the reactivation of the countercyclical capital buffer which will take effect in September. We also share staff's view that an expansion of the current macroprudential toolkit could be helpful to deal with emerging real estate risks.

We welcome staff analysis on the rise of fintech in the annex, a particularly well-chosen topic given the concentration of distributed-ledger-technology-based fintech firms in Switzerland. Given the increasing share of fintech firms in the Swiss financial sector, we agree with staff that monitoring interconnections with traditional financial institutions is particularly important. We also agree that the authorities should maintain a prudent approach to fintech regulation, balancing the benefits of innovation against emerging financial stability risks, and implement upcoming global prudential standards on cryptoassets.

The authorities are tackling climate change via alternative measures, following the defeat in last year's referendum on the CO2 Act. We note some measures are in place, such as an annual 1.5% emissions reduction target, and that the authorities are preparing a revised CO2 law. We welcome the authorities' plans to make the implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) binding for large companies as of 2024. We also note existing disclosure requirements on large banks and insurers in relation to climate risks, business impacts and risk-management. *We would welcome staff's assessment as to whether the combined climate measures (both fiscal and financial) currently in place are sufficient for Switzerland to reach its Paris targets.*

Finally, we note that this Article IV item was originally proposed on a lapse of time basis. While we are always happy to talk about Switzerland, it strikes us that Switzerland – with its robust recovery, successful reform efforts and strong frameworks – unambiguously meets all the relevant criteria for application of the lapse of time process. Given the intense demands on staff and Board time in this challenging period, we are disappointed not to have proceeded on a lapse of time basis and look forward to the wider application of the lapse of time process in coming months.

Statement by Mr. Massourakis and Ms. Cerami on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for a set of well-written papers and Mr. Peter and Mr. Gindrat for their helpful Buff statement. Benefiting from strong macroeconomic fundamentals and policies, the Swiss economy has enjoyed a strong recovery from the pandemic, which is projected to continue, though at a moderate pace. In line with global developments, the balance of risks to the outlook is tilted to the downside and mitigation requires greater emphasis on monitoring and policy flexibility. We share staff's appraisal and welcome the broad agreement with the authorities. We offer a few remarks:

- **The fiscal stance has appropriately become less expansionary but should remain flexible.** As the economy recovers from the pandemic, fiscal support has been appropriately scaled down and partly redirected to support Ukrainian refugees. Notwithstanding its limited direct exposure to Russia and Ukraine, the Swiss economy can suffer from the fallout of the war indirectly, most notably through disruptions to commodity trading and the global slowdown. Maintaining a flexible policy stance is, hence, paramount. To this end, we support the Federal Council's proposal to extend the offsetting period of extraordinary spending through future surpluses, as required by the Swiss fiscal framework. This extension would also provide room for preparing to address longer-term fiscal challenges related to aging, climate, and energy security.
- **We support the cautious approach of the Swiss National Bank (SNB) to monetary normalization.** Inflation has recently risen above target as in other advanced economies, but it still remains much lower than in peers. We agree that the large inflation differentials leave room for maneuver to help dampen inflationary pressures. However, upside risks to inflation require close monitoring and the SNB should stand ready to respond to risks of higher, persistent, and demand-driven price pressures. Policy normalization will be facilitated by monetary tightening by other major central banks via mitigating the risks of foreign exchange appreciation, which are particularly relevant at a time of high global uncertainty, given the safe-haven role of the Swiss franc.
- **We welcome the resilience of the financial sector also supported by a strengthened regulatory and supervisory framework.** The authorities are making progress in implementing FSAP recommendations, including on the regulation of the fast-developing Fintech sector and on the frameworks for risks related to climate change and cyber security. However, as well documented by staff's analysis, risks related to large exposures to the buoyant real estate sector are significant and cannot be fully addressed by self-regulation. We, hence, welcome the recent reactivation of the sectoral countercyclical capital buffer at the maximum 2.5 percent. We also support staff's advice to introduce macroprudential borrower-based measures.

- **Strong economic ties with the EU remain mutually-beneficial.** We welcome the resumption of discussions on a potential negotiation package based on the authorities' new "vertical" approach to address institutional issues in individual bilateral agreements. Going forward, we encourage the authorities to follow up on their commitment to engage constructively with the EU, as stated in the Buff.
- **Lastly, we note the objection to the proposed lapse-of-time (LOT) procedure.** We believe that the 2022 Article IV Consultation report meets all the criteria for LOT consideration. While we normally consider a Board discussion as preferable, we also believe that the LOT procedure can improve efficiency and help alleviate the seasonal bunching of Board meetings ahead of the summer recess.

Statement by Mr. Tanaka, Ms. Kashima, and Ms. Ogihara on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for the comprehensive report, and Mr. Peter and Mr. Gindrat for their informative Buff statement. We commend the strong performances of the Swiss economy, while noting downside risks due to the war in Ukraine. As underscored in the report, fiscal and monetary policies need to be sufficiently flexible while shifting to normalization, and the authorities should continue their efforts on structural issues including labor market and pension reforms and a green transition. We broadly share staff's assessment and policy advice, and would like to provide the following comments for emphasis.

We agree that the current fiscal stance is appropriate and that the authorities should remain flexible to make adjustments to the fiscal framework as needed. We welcome Switzerland's sound fiscal position thanks to the debt-brake rule and the appropriate withdrawal of support measures. The pace to offset COVID-19 spending should be flexible to meet urgent needs and to accommodate green/digital transition projects. In this regard, we encourage the authorities to carefully consider the amortization schedule for central government's extraordinary spending, while pursuing revenue-neutral tax reforms. Regarding the COVID-19 spending review, we welcome that the authorities put high priority on ensuring efficiency, transparency, and accountability. Drawing lessons from the review would ensure sound and efficient responses to future crises.

In light of the heightened uncertainty, we encourage the SNB to remain vigilant and prepare for possible normalization. The SNB's monetary policy stance remains appropriately accommodative. While inflation has recently picked up, it remains below peer EU countries due to various factors, as highlighted in Annex III. However, given increased risks of more persistent inflation and rate hikes among major central banks, the SNB should be prepared to utilize its policy tools flexibly to tighten its stance if warranted. Clear and effective communication is also essential in order to anchor inflation expectations and to ensure a smooth policy shift.

We welcome the authorities' efforts to enhance FXI transparency, such as quarterly publication of (net) FXI information from 2020, and take positive note of Switzerland's balanced external position. While we find the staff's informative analysis on BOP and IIP in the Selected Issues Paper to be useful, we share the authorities' concern that the analytical approaches and models underlying the external assessment could be improved.

We welcome the financial sector's resilience and the authorities' efforts to monitor risks and update prudential regulations. As a global financial center, we encourage the authorities to continue further upgrading their supervisory and regulatory framework in line with financial sector developments. We note the potential risk of higher property prices that could affect significantly on AMs, pension funds and insurers as well as major banks that could trigger adverse feedback loops to financial markets. The reactivation of the sectoral CCyB in January will help absorb some losses, but further review of the macroprudential

toolkit could be considered to address vulnerabilities. As a global hotspot for Fintech and cryptoassets, close attention is warranted in light of the recent increased risks and vulnerabilities in the cryptoasset market, and we welcome the authority's conservative approach in regulating and supervising the industry. We commend the authorities in implementing the 2019 FSAP recommendations, and encourage further work to address the outstanding recommendations including strengthening data/resource gaps and enhancing supervisory intensity. We also welcome the authorities' climate-related agenda in the financial sector including strengthened disclosure and the green-bond issuance framework.

We encourage the authorities to continue progress on the structural policy agenda to ensure sustainable and inclusive growth. We welcome the authorities' efforts to advance green transition, and agree on the importance of strengthening energy security through the review of the energy strategy and collaboration with neighboring countries, along with a shift to sustainable renewables. While we positively take note of the recent pension reforms and discussions, we agree with staff and the authorities that long-run sustainability hinges on continued implementation of reforms. In this regard, improving labor participation among all ages is critical, and we encourage the authorities to consider further measures including labor market reforms, such as ALMPs to close skill gaps and supportive policies for skilled immigrants. We also welcome the authorities' commitment to address governance issues, and we join staff in encouraging further work on enforcing OECD Anti-Bribery Convention.

**Statement by Mr. Jennings, Mr. O'Brolchain, and Ms. Cunningham on Switzerland
Executive Board Meeting 22/53
June 10, 2022**

We thank staff for the clear and informative report and Mr. Peter and Mr. Gindrat for their helpful Buff statement. We commend authorities for their support for the tens of thousands of incoming refugees from Ukraine.

We agree with the thrust of the staff report and offer the following points for emphasis.

The Swiss economy continues to recover with growth projected to be 2.25 percent in 2022 and slow to about its potential growth rate of 1.5 percent in 2023. Staff expect that output gap will remain negative until 2024 as pandemic policy and rebound effects wane and spillover effects from the Russian invasion of Ukraine create headwinds to growth through 2023.

We agree with staff that fiscal support settings are appropriate given ample policy space. As COVID-related programs are rightly being wound down, policy should remain flexible since further support may be needed for refugees, targeted support for households or firms or automatic stabilizers. The authorities' proposed extension of their offset period for the extraordinary fiscal outlays during the pandemic also appears appropriate.

Inflation has increased less than in most other advanced economies but is currently about one percentage point above the central bank's price stability target range. While staff and authorities project inflation to return below 2 percent in 2023, inflation risks are likely to the upside. Monetary policy makers should be ready to withdraw stimulus to ensure inflation expectations stay anchored and inflation pressures are contained. Further appreciation of the exchange rate could help slow inflation. We support staff's emphasis that FX interventions should not be used for normal times, but should be limited to periods of extraordinary volatility, such as during surges of (safe haven) capital inflows. We also concur with staff's view that monetary policy and FX intervention considerations should be accompanied by clear and transparent communications with the public.

Rising financial stability risks, particularly from the large real estate sector, are a key concern. We positively note that the countercyclical buffer has been reactivated and authorities are closely monitoring financial stability risks. Authorities should continue to implement FSAP recommendations regarding prudential and macroprudential tools to enhance the resilience of the banking and financial sectors. They should also continue their efforts to strengthen AML/CFT frameworks and protect against fintech-related risks.

While energy security is necessarily a prominent concern at present, we welcome authorities' continued emphasis on advancing their green transition. We also agree with staff's view that sustainable finance can be a growth opportunity for Switzerland.

Authorities should build on progress made in implementing previous Article IV recommendations to support long-term growth. In particular, structural reforms to close gender and skill gaps and increase mobility in labor markets remain important policy priorities, as does ensuring the sustainability of pensions.

Statement by Mr. Hosseini and Mr. Ahmed on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for a well-articulated report and Mr. Peter and Mr. Gindrat for their helpful Buff statement. We broadly agree with the thrust of the staff appraisal and key recommendations.

The Swiss economy has recovered strongly but growth is uneven across sectors. Noting headwinds from the war in Ukraine, we stress the need to maintain supportive policies responding to impacts of the war. We also underscore the importance of rebalancing the policy mix and fostering green, digital, and inclusive growth. In this context, we welcome the focus of Article IV discussions on transitioning from Covid-19 policies to green-digital transformation, while accounting for challenges from war in Ukraine. We agree that Covid-19 support should be reduced and that the required offsetting period for Covid-19 spending with future surpluses should be extended to limit headwinds.

Fiscal policy is addressing key challenges of aging, climate, energy security, defense, and digital transformation as outlays to encounter these are expected to increase. We welcome tax reforms' focus on implementation of global CIT reforms and capital-market deepening. Some tax reforms—notably, partial abolition of financial-withholding taxes and elimination of industrial tariffs—would help ease tax and administrative burdens and improve capital market functioning but may lower revenues. In this regard, we welcome the authorities' consideration that tax reforms should not lead to revenue losses. We agree with staff that tax reforms should bolster revenues to ensure that aging does not crowd out other areas. We encourage increased spending in support of green, digital investment and emission reduction plans. Since amendment to the fiscal framework requires constitutional change, we agree that a clear medium-term plan would help clarify how spending needs and revenue pressures would be managed, under the debt-brake rule (budget balance over the cycle).

Given increased risks of elevated inflation, we encourage the Swiss National Bank (SNB) to assess modalities for monetary policy normalization. The SNB appropriately maintained an accommodative stance in 2021-early 2022, which reflected inflation returning to the 0–2 percent stability range from below, and still-uncertain pandemic and recovery prospects. However, inflation has now picked up. Headline inflation was 2.9 percent in May, highest since 2008, breaching the target range, suggesting that SNB should prepare for possible normalization. Indeed, normalization would depend on several factors including domestic inflation and growth prospects, actions by other central banks, market responses, and fiscal policy. The SNB consider their monetary policy framework is robust and flexible to address challenges. *In this context, we wonder if staff recommends any specific changes to*

the monetary policy framework and tools, and whether adjusting targets and instruments would help respond to new challenges. Staff comments are welcome.

We welcome the resilience of the banking sector but system-wide materialization of real estate risks could have a significant macrofinancial stability impacts. We highlight the need to monitor asset quality and risks closely, particularly those related to residential and commercial real estate given the large mortgage market at 150 percent of the GDP. We recommend that the authorities review and expand the macroprudential toolkit to enhance its ability to react swiftly to financial stability risks. We look forward to further progress in implementing the 2019 FSAP recommendations. We note positively that the authorities are implementing its latest revision of the AML/CFT legislation and agree with staff's recommendations to further enhance the financial integrity framework to combat financial crime and bribery.

Structural reforms should focus on supporting post-COVID transformation and addressing important long-standing issues. In particular, we encourage continued efforts to promote flexibility and mobility in the labor market, and ambitious reforms of the pension system to better align it with demographic and economic trends. We welcome implementation of the recent pension reforms and agree that more will be needed for long-term sustainability, including further retirement age increases, linked to life expectancy, along with actions to extend 65+ employment through training/upskilling, and wage flexibility. We also call for decisive actions to achieve Switzerland's climate change targets and appreciate the authorities' plans in this regard including to revise CO2 law to replace the interim measures beyond 2024.

With these comments, we wish the Swiss authorities every success in their endeavors.

Statement by Mr. Moreno and Ms. Moral Betere on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for their insightful report and the timely selected issues. We also thank Mr. Peter and Mr. Gindrat for their informative Buff statement. We mainly share staff's analysis and recommendations, which also concurs with that of the authorities', and we would like to add some remarks.

The Swiss's recovery from the pandemic is being undermined by uncertainty and the spillovers from Russia's war against Ukraine. We commend the Swiss authorities for the comprehensive, timely and flexible response to the crisis which had allowed for a strong recovery in 2021, but it is now being curtailed by the war in Ukraine. Going forward, the economic outlook is subject to an unprecedented level of uncertainty mainly associated with the evolution of the conflict and the pandemic. In addition, the risks derived from the progressive loss of access to the Single Internal Market of the EU, after the non-signing of the Institutional Agreement (IA) with the European Union in 2021, as well as the loss of fiscal attractiveness, due to the introduction of the minimum rate in corporate tax agreed at international level, could pay a toll on the Swiss recovery. *We would appreciate if staff could assess the impact of these measures on the external sector and Swiss growth.*

We concur with staff that the fiscal stance remains appropriate, and that flexibility is warranted against this uncertain background given the ample space. We concur with staff that the authorities should accommodate further adverse impacts. In addition, we support the Federal Council proposal to lengthen the amortization period of the extraordinary spending that would smoothen the consolidation path required by the debt brake rule. In this vein, as staff points out, the authorities should overcome their bias towards underestimating public revenues to make their fiscal policy truly expansionary, and given the ample space, increase potential output. Going forward, and given the rigidity of the current framework, we support staff's call for a medium-term plan to accommodate future challenges, like aging and climate transition, that will imply structurally higher expenditures.

The Swiss National Bank (SNB) should closely monitor inflation developments and be ready to act. The SNB has appropriately followed an expansionary approach in 2021 and part of 2022 but, considering recent developments and possible further deterioration of inflation perspectives, the SBN should be ready to act. We concur with staff that in preparation for possible normalization, the SNB should review its tools, transmission channels, and reinforce its communications. In this vein, we feel reassured by the robustness and flexibility of its framework as stated in the Buff.

On the financial sector, we agree with staff's recommendation to strengthen macroprudential policy, especially given high household indebtedness and signs of overheating of the property market. We welcome the reactivation of the sectoral countercyclical capital buffer (CCyB) and would encourage looking at other tools including caps on loan-to-value and/ or debt-service-to-income ratios, as well as supply-side measures, such as more social housing and zoning flexibility. We also gladly note the continued and planned progress on strengthening the regulatory framework, on enhanced supervision intensity, and on the resolution framework, including on liquidity arrangements for SIB's resolution. Nevertheless, we encourage the authorities to implement all outstanding 2019 FSAP recommendations, including on Fintech and crypto oversight and risk monitoring.

Further efforts are needed to address major structural challenges to increase productivity. The pension system reform remains one of Switzerland's main challenges. Despite ongoing modifications, additional endeavors are needed on the retirement age, conversion rates and pension fund performance. Regarding the labor market, we concur with staff that the authorities should concentrate on helping the labor force prepare for and transition to the economic sectors expected to be more dynamic in the longer term, enhancing flexibility and mobility while reducing inequality. We also encourage the authorities to persevere with efforts to strengthen accountability and enhance the AML/CFT framework. We miss in the report any mention to the lower growth in Switzerland's productivity in comparison to the rest of OECD members. *We would appreciate staff's comments and potential causes for this performance.*

We welcome that the green transition and energy security remain a top priority in the authorities' reform agenda. We concur with the authorities that reconciling immediate and future energy needs with an ambitious climate strategy will be challenging. In addition, socio-political factors don't make the challenges easier, as shown by last year's authorities' defeat in the referendum on the CO2 Law. We positively note, however, that the authorities are preparing a revised law to replace the interim measures beyond 2024.

With all these comments, we wish the Swiss Authorities all the best in their future endeavors.

Statement by Mr. Dresse and Mr. Tevdovski on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for the excellent report, as well as the precise, policy-oriented Selected Issues Papers. We also thank Mr. Peter and Mr. Gindrat for their insightful Buff statement. **We broadly concur with the thrust of the staff assessment.** The Swiss economy is recovering strongly from the COVID-19 crisis, reflecting in the well-positioned supportive policies, but rising uncertainty calls for continued attention. We offer the following remarks for emphasis:

The fiscal stance is appropriate, while flexibility is warranted given rising uncertainty. The phasing out of COVID-19 support and the accommodated budget outlays related to the war in Ukraine are welcome. We support staff's view that the authorities should monitor the situation closely and draw on ample space to respond to adverse developments, including targeted, timebound, non-distortionary support to households and firms. The proposed extension of the offset period for extraordinary outlays is appropriate since it provides the necessary flexibility without significantly departing from established arrangements. *Could staff comment on the mid-term implications of the global minimum corporate income tax since it will influence the authorities' tax reforms?*

After a period of warranted accommodative monetary stance, the rate hikes by other central banks may allow the SNB to regain policy space. Although inflation in Switzerland is rising less than in other advanced economies, and it is mostly supply-driven, the risk of persistently higher inflation has increased. We agree with staff that in a situation of continued robust recovery and signs of sustained higher demand-side inflation the SNB should consider tightening. We also thank staff for the well-explained inflation determinants in the appendix.

The financial sector remained resilient through COVID-19 but increasing risks to financial stability call for continued attention. Rising mortgage and real-estate market vulnerabilities and the time needed for policy response call for early expansion of the macroprudential toolkit. We note the authorities' efforts to strengthen the regulatory framework, enhance supervisory intensity, and advance resolution plans and liquidity arrangements for systemic institutions. Additionally, enhancing crypto supervision, further strengthening fintech regulation, and advancing the implementation of the 2019 FSAP advice are warranted.

We welcome that the authorities assign high priority to important structural issues such as green transition, and labor and pension reforms. The war in Ukraine and supply risks provide opportunity for the authorities to promote and enhance the green transition and energy security. Implemented pension reforms are steps in the right direction but the reform process should continue to ensure long-term sustainability. Given the rapidly aging population, promoting longer labor market participation is important. In addition, while Switzerland performs well in labor and business environment areas, there is room to improve equality for women and lower-skilled workers.

We welcome the authorities' restarted engagement with the EU. The EU and Switzerland share common interests and it is important to have strong, stable, and mutually beneficial relations.

With the above remarks, we wish the Swiss authorities success in their endeavors.

Statement by Mr. Stephan, Ms. Koh, and Ms. Khademi on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for an informative set of reports and Mr. Peter and Mr. Gindrat for their helpful Buff statement. We broadly concur with the thrust of staff's assessment. Notwithstanding the recovery from the pandemic, the benign public debt situation and a relatively slower rise in inflation, close monitoring of inflationary developments and repercussions from the war in Ukraine on specific sectors (such as commodity trading) seems important. At the same time, the authorities are encouraged to focus on longer-term challenges from the green and digital transitions while preserving pension system sustainability and housing market stability. Recent steps of rapprochement with the EU are welcome. Putting the relationship back on a more reliable footing would be desirable to help reduce policy uncertainty and preserve uninterrupted exchange with the EU single market.

On fiscal policy, we note that staff expects an almost balanced budget in 2022 and take positive note of the authorities' plans to prolong the offsetting period for extraordinary pandemic expenditures. As staff rightly notes, offsetting as mandated by the fiscal rule would be relatively abrupt, thus potentially creating headwinds while further limiting fiscal space for investment to raise productive capacity. A more flexible offsetting seems to be a sensible option to enable such investment while keeping the debt-rule intact in its current configuration. Upward adjustments to taxes could also be considered to achieve higher public revenues. We further welcome recent reforms of the pension system, but would agree with staff that additional efforts, including measures to increase efficiency, are needed to maintain financial viability beyond 2030. *We would appreciate staff comments on potential additional budgetary challenges from the war in Ukraine (such as through an increasing number of migrants, infrastructure needs etc.) and whether these have been accounted for in the current financial plan of the cantons or the complementary federal fiscal budget. In this context, we note that the current draft of the federal fiscal budget for 2023 does not include the envisaged increase in defense spending.*

We note that inflation increases have been more moderate in Switzerland than in other advanced economies but agree that the Swiss National Bank (SNB) is well advised to closely monitor risks of inflation rising further and being more persistent. While we note lower domestic inflation and the fact that less dependency on fossil fuel imports for electricity production as well as a strong franc are cushioning global price increases for Swiss consumers, staff rightly points out that more broad-based inflation in the rest of the world will likely affect Switzerland as well. Recent increases in medium-term inflation expectations might be read as anticipation of such effects. We also note that demand for wage increases remains moderate at the current juncture but could also become more pronounced should workers continue to expect stronger price pressures. Against this background, the SNB rightly stands ready to act as needed and we agree with staff that policy rate increases would also allow regaining some policy space for future crises while reducing side effects of a prolonged period of negative interest rates.

On a more technical note, we would welcome if staff could elaborate on their assessment in Figure 2 that “[a]ppreciation pressures have moderated”. We acknowledge staff's reasoning that CHF appreciation pressure eased in 2021 with a global recovery and the expectation that major central banks might hike policy rates to tackle high inflation. However, in the meantime, inflation differentials have become much larger which would ceteris paribus suggest more room for nominal appreciation and safe haven flows are more likely in the wake of the war in Ukraine. *Against this*

background, we would welcome if staff could i) provide an assessment of their current views on likely exchange rate pressures going forward and ii) comment in this context on the merits of the SNB's decision to retain the bulk of past profits on huge reserve holdings, given balance-sheet risks (ER, FX investments, interest rates).

The Swiss financial sector remained resilient during the pandemic, while rising house prices in all segments warrant caution and suggest taking macroprudential measures. We welcome in this regard, that the sectoral CCyB for residential real estate has been reactivated recently. We would also see a need for additional measures by (banking) supervisors given capital buffer breaches for some banks in staff's recent stress test.

We note that staff assesses Switzerland's external position as “broadly in line with the level implied by medium-term fundamentals and desirable policies”. We continue to be of the view, that sizable adjustments to the EBA-implied CA gap, especially when they are not applied to all countries in the sample consistently, are not optimal and present extra challenges for the transparency and cross-country comparability of the EBA results. While this shows that it is indeed important to read results from the EBA model carefully and apply judgement, we would think that the need for such large-scale adjustments in the case of Switzerland could also give reason to pause and look for a more parsimonious and humble approach than the current model (less in need of large and constant adjustments). We also note that the norm has changed quite significantly (by more than one percentage point of GDP) compared to last year and the reasons/factors behind this change are not transparently discussed in the report. *Could staff comment on this and on how far recent refinements of the EBA model are changing the assessment of Switzerland's external position vis-à-vis the old methodology/configuration?*

Statement by Mr. Pösö and Ms. Ekelund on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for the insightful report and the topical Selected Issues Papers. We also thank Mr. Peter and Mr. Gindrat for their helpful Buff statement. **We broadly share staff's appraisal** and welcome that the authorities, as noted in the Buff statement, find the recommendations from the consultation useful to inform their macroeconomic policies and further reform steps.

We welcome the strong recovery in the Swiss economy, expected to grow above average rates in 2022 despite the drag from Russia's war in Ukraine. We agree that the current fiscal stance is appropriate but note that fiscal policy will face challenges going forward due the increased spending needs related to aging, climate, energy security, digital transformational and defense expenditures. We support staff's call for a medium-term plan to show how these needs will be addressed.

The Swiss National Bank (SNB) has appropriately pursued an accommodative monetary policy in 2021 and early 2022. We agree that future policy normalization must depend on several factors, and primarily the inflation outlook. We encourage the authorities to remain vigilant and be prepared to react if inflation is to become more broadly based and persistent.

The lack of clarity on EU relations remains a concern and we welcome that the authorities have restarted engagement with the EU. We agree that it would be beneficial to both involved parties, to establish arrangements that bring stable and predictable to relations.

We welcome the authorities' efforts to strengthen regulation and enhance supervisory intensity, including reactivation of the sectoral CCyB for residential real estate. We encourage the authorities to continue the close monitoring of financial stability risks, including from the real estate sector and the war in Ukraine. We support staff's call for the timely consideration of expanding the macroprudential toolkit, as well as the need to accelerate implementation of the FSAP recommendations.

On the external sector assessment, we see merit in several of the points raised in the Buff Statement. We agree that the Swiss case illustrates that the methodology underlying these assessments would benefit from a deeper and more flexible consideration of temporary factors. We also see merit in the argument that these methodological limitations call for using

a wider set of indicators to assess a country's external sector position, which would support a more robust assessment.

With these remarks, we wish the Swiss authorities all success in their policy endeavors.

Statement by Mr. Palotai, Mr. Just, and Mr. Samuda on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for the well written papers and Mr. Peter and Mr. Gindrat for their elaborative Buff statement. Switzerland has managed to navigate the pandemic well and to limit economic scarring while benefiting from a strong and competitive economy with robust policy and institutional frameworks and a sound banking sector. We broadly agree with the thrust of staff's appraisal and offer the following comments for emphasis.

We see the need for fiscal policy to continue with its considered and sensible approach in the current global environment of rising food and energy prices and the uncertainty imposed by the war in Ukraine, as well as a possible continuation of the pandemic this fall. The debt brake rule is certainly an efficient tool of fiscal consolidation. Noteworthy is the proposal of the Federal Council to lengthen the amortization period of the extraordinary spending period to 12 years, which would smoothen the consolidation path required by the debt brake rule. *We agree with staff that a medium- to longer- term outlook on the fiscal spending needs would be necessary and small deficits could indeed help meeting longer-term goals. We note the 3-year financial plan and 10-year financial outlook mentioned in the Buff statement. To what extent can these satisfy staff's recommendation on more medium-term planning?*

Some inflationary pressures will also affect Switzerland and the central bank should react if inflation were to remain high and on an upward trend. Since the FED and ECB will keep adjusting their rates upwards, the SNB might have to follow to some degree to avoid imbalances and especially if some of the supply and other shocks were to prove less transitory. The real estate sector will need special attention. Nevertheless, we agree with staff that the accommodative monetary policy has been appropriate so far.

The Swiss financial sector fulfills a prominent role in the Swiss economy. We welcome recent reforms to strengthen regulation and enhance supervision. We acknowledge the ambitious plans on Cyber Security and climate change while maintaining high standards on capital buffers and firm implementation of the AML/CFT legislation. We strongly support staff's recommendation to further enhance the framework to combat financial crime and bribery and encourage the supervisory bodies to keep close track of the developments in the real estate sector.

Structural reforms in Switzerland can be lengthy and follow basic and direct democracy rules. *Against the background of changing demographics and new challenges such as climate change, could the Swiss democratic model bear the risk of preventing the necessary structural reforms from being implemented in a timely manner?*

We note the positive impact of the short-term work compensation scheme. Swiss companies made extensive use of the scheme and large-scale layoffs were prevented. Switzerland, like other European countries, should take this lesson learned and keep adapting

the short-term work scheme to have it ready for future shocks. Further, the authorities' efforts to provide targeted support to re-training and transition into new jobs in sectors most affected, is welcome and should make the economy more resilient and adaptable going forward. The labor market remains tight and work force participation should be addressed with the proper policy framework.

We congratulate the authorities for their progressive stance on climate issues and carbon taxation, being among the highest globally. Close cooperation with European neighbors will be paramount to sustain the energy grid and prevent major blackouts. Moreover, we regret the public rejection of the revised CO2 laws complicating decarbonization efforts.

We would welcome a more proactive stance towards bilateral cooperation with the EU and the mutual recognition of standards and regulations. In this regard, we thank Mr. Peter and Mr. Gindrat for taking a constructive stance in their Buff statement.

Statement by Mr. Mohieldin, Mr. Alhosani, and Ms. Choueiri on Switzerland
Executive Board Meeting 22/53
June 10, 2022

1. We thank staff for the well-written reports and Messrs. Peter and Gindrat for their comprehensive Buff statement. We share the authorities' view, as conveyed in the Buff, that the Swiss economy has proved highly resilient, on account of very strong institutional and macroeconomic frameworks and the ability to mitigate external shocks in a timely manner. As a result, the economy is growing above potential, inflation is above the target range, and labor indicators have recovered to pre-pandemic levels. Nonetheless, similar to other countries, new challenges have emerged, especially from the war in Ukraine. We share the thrust of the staff appraisal and wish to make the following comments:

2. **Outlook.** We note that the overall impact of the conflict in Ukraine has so far been minor, given weak trade links, and it has mainly been reflected in the sharp increase in commodity prices which have increased production costs and inflation. *Against this background, the authorities have more positive views than staff on growth and inflation, and we would welcome staff's views on the extent to which these differences reflect the still partial impact of the Ukraine conflict.* We concur with staff and the authorities that risks are tilted to the downside, with high uncertainty.

3. **Fiscal Policy.** The 2022 fiscal stance is appropriate, with the debt-brake framework having proved to be the key anchor for fiscal sustainability while delivering needed flexibility in response to the COVID-19 pandemic. The Federal Council's proposal to lengthen the amortization period of the COVID-19 spending to twelve years is welcome as it would help to smooth the consolidation path required by the debt brake rule. Going forward, fiscal challenges associated with aging, climate transition, energy security, and defense, remain high. We welcome the authorities' and staff's agreement on the need for a medium-term plan to facilitate increased priority spending in order to credibly comply with the debt brake. *Can staff comment on the authorities' reaction to their proposal that tax changes make the system less distortive and bolster revenues?*

4. **Monetary Policy.** We share staff's view that the accommodative monetary stance in 2021 and early 2022 has been appropriate and we also welcome the SNB's commitment to react if inflation were to become more broadly based and persistent. In light of risks that inflation may rise further and be more persistent, we encourage the SNB to closely monitor developments and prepare for possible normalization. The Buff statement indicates that if the SNB were to tighten monetary policy, it could either raise its policy rate or sell foreign exchange or use a combination of both tools. Staff considers that policy-rate changes are likely the most effective tool, although they may need to be accompanied by foreign exchange purchases, if there is excessive volatility. *Can staff comment on the desirable mix*

of tightening and FX intervention, including when the latter may be warranted? We found the analysis on BOP-IIP Dynamics in the Selected Issues Paper to be interesting, although we share the authorities' concerns about the external assessment methodology. We welcome the finding that the financial sector has remained resilient through COVID-19 and encourage the authorities to be vigilant to real estate sector risks.

5. **Structural Issues.** Efforts to improve labor-market participation and resilience, pension-system sustainability of both the first and second pillars, equality, and the business environment should continue. We appreciate that broad-based support is needed to secure support for the reforms and understand that gradual progress may be necessary in this regard. Switzerland remains one of the EU's closest partners, and we welcome the Federal Council's recent reiterated interest in maintaining and developing the bilateral approach with the EU.

Statement by Mr. Binzarah and Mr. Abalala on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for the informative reports and Mr. Peter and Mr. Gindrat for their helpful Buff statement. In 2021, Switzerland showed green shoots of recovery on the back of early, swift, and strong measures to mitigate the health and economic impact of the pandemic crisis. However, the higher and more persistent global inflation fueled by the outbreak of the geopolitical tensions and the associated sanctions complicated the global recovery and hence new domestic challenges have emerged. We see that the strong macroeconomic fundamentals and policies as well as the ample fiscal space will help the Swiss authorities withstand the headwinds. We are in broad agreement with the staff appraisal and would like to make the following comments.

The fiscal stance continues to be appropriate with the debt-brake rule framework as the key anchor. We echo staff in welcoming the proposed extension of the offset period for extraordinary outlays given that the proposal preserves the thrust of the framework. We agree that the authorities should stand ready to use the ample space to mitigate any further adverse developments during this period of high uncertainty. We are pleased to note that the authorities concur with staff on the importance of a medium-term plan to articulate how increased priority spending and revenue pressures would be addressed and that tax reforms should not lead to revenue losses.

While the end of the accommodative monetary policy era may be forthcoming, we agree that the normalization process may prove complex and hence will require careful attention. The authorities have the necessary tools to address these challenges underpinned by a robust and flexible framework, and we agree that FXI can be used, when needed, if safe-haven inflows surged. We remain to be convinced that inflation will prove temporary given that the underlying drivers may develop further, and the authorities will need to pay close attention to inflation dynamics going forward. Indeed, we encourage the monetary authorities to get ahead of the curve to avoid enduring an unnecessary higher cost of taming inflation if it is more persistent-than-expected.

The financial sector remains resilient with strong buffers, albeit careful attention is warranted to monitor increasing risks including those arising from the real estate and mortgage market. We agree that early consideration of the expansion of the legally-mandated macroprudential toolkit or tightening of bank's self-regulation can be considered to address the rising vulnerabilities. We welcome the authorities' commitment to ensuring financial sector integrity and the implementation of the latest revision of the AML/CFT legislation. We take note of the progress made thus far in addressing the 2019 FSAP recommendations, and encourage the authorities to accelerate implementation.

The impact of external shocks makes it imperative for the authorities to continue their reform efforts with increased momentum to address wide-ranging structural issues. There is a need for policies to support labor market reallocation, while we positively note that pension system reform to improve sustainability and equality is high on the political agenda, as highlighted in the Buff statement. Moreover, we encourage the authorities to ensure that climate policies do not jeopardize domestic energy security for the country to smoothly advance its transition to a greener economy.

With these remarks, we wish the authorities every success

**Statement by Ms. Shortino, Ms. Medearis, and Mr. Westphal on Switzerland
Executive Board Meeting 22/53
June 10, 2022**

We thank staff for this report and Mr. Peter and Mr. Gindrat for the informative Buff statement. Switzerland has navigated COVID-19 and spillovers from Russia's war against Ukraine relatively well, and we commend the authorities for the support they have provided to 50,000 Ukrainian refugees. **Nevertheless, we caution the authorities against premature withdrawal of fiscal support in response to these global shocks, particularly in light of the country's low debt and its high and rising external surpluses. We are also disappointed by staff's cursory coverage of Switzerland's chronically high current account surplus.** We welcome the annex on implications of Russia's war against Ukraine; however, we would ask that this and all other staff reports align with the WEO and use the more accurate language regarding "Russia's invasion of Ukraine."

With output remaining below pre-COVID trends and in light of the large current account surplus, we would have liked to have seen greater focus on the extent to which the authorities should be leveraging fiscal space to support investment in the economy. We appreciate that the authorities are looking to extend the repayment period for offsetting the extraordinary COVID spending. We agree that the authorities have sufficient space to respond to further negative shocks from Russia's war against Ukraine through automatic stabilizers and with targeted support to households. *Beyond staff's reference to operational issues under the fiscal framework, we would welcome staff's views on additional ways to limit underspending and to help ameliorate fiscal surplus bias, as well as more context on the authorities' views regarding the feasibility of these reforms.* We also concur that there should be a medium-term fiscal plan to show the tradeoffs that will be required to stay within the current framework.

We cannot agree with staff's assessment that Switzerland's current account surplus of 9.3 percent of GDP is broadly in line with medium-term fundamentals and desirable policies. This surplus is significantly higher than the average of the past decade (7.2 percent), staff's medium-term forecast for the future (7 percent), and staff's projection for 2021 from Switzerland's Article IV last year (6.7 percent). We understand that staff justified this determination with Swiss-specific adjustments in the income account, without which the current account gap would have been +2.5 percent of GDP. We remain skeptical of ad hoc adjustments to the EBA model outputs; *could staff provide further justification for the specific adjustments listed in the External Sector Assessment and the extent to which these adjustments uphold multilateral consistency of the model?* We also disagree with the EBA model's underlying assumption that higher levels of official reserve holdings make higher current account balances warranted or desirable. Taken together, we remain unconvinced that staff's determination about Switzerland's large current account surplus appropriately reflects

the fundamentals of the Swiss economy, particularly when it has fared relatively well during the pandemic, which in our view should have supported demand more than exports. We echo staff that there is room for nominal currency appreciation to ease inflation pressures. While the Swiss National Bank (SNB) decreased its net foreign exchange intervention (FXI) in 2021, its FXI remained high as a percent of GDP, and we agree with staff that the authorities should refrain from using FXI to curb appreciation pressure.

We welcome staff's in-depth analysis of Switzerland's international investment position in the selected issues paper and note that staff judge there to be a self-reinforcing loop between Swiss investors' home bias and the appreciation of the franc. While we agree with the measures that staff outline to help Switzerland reduce its acquisition-accumulation gap, we note that most of the recommendations rely on individuals taking action rather than specifying measures the authorities could take. *Apart from FXI, which should be limited to attenuating significant FX inflow surges, what measures can the authorities take to interrupt the loop?*

We agree that that the mortgage sector is an area of potential financial sector vulnerability and that the authorities should continue to take steps to address weaknesses in the regulatory framework. We welcome the authorities' decision to increase the countercyclical capital buffer to 2.5 percent given the risk to financial stability from a potential housing price correction. We call on the authorities to implement the recommendations from the 2019 FSAP, particularly to strengthen FINMA's autonomy, governance, and accountability. We also encourage the authorities to introduce civil monetary penalties for AML/CFT violations to discourage non-compliance with the AML/CFT Act and other relevant laws.

**Statement by Mr. Buissé, Mr. Roman, and Mr. Grossmann-Wirth on Switzerland
Executive Board Meeting 22/53
June 10, 2022**

We thank staff for an insightful report, including the rich set of Annexes and Selected issues. We also thank Mr. Peter and Mr. Gindrat for their informative Buff statement. We agree with the thrust of staff's appraisal and policy recommendations and would like to make the following remarks for emphasis:

- **The Swiss economy continues to recover well, helped by domestic and neighboring countries support measures, but uncertainty remains high.** The emergency measures implemented by the authorities were effective and complemented by the positive economic spillover of other European countries fiscal supports. The recovery was also helped by the swift increase in vaccination rate, which at 70% (43% boosted) remains however below those of neighboring countries. Current account surplus also increased sharply in 2021 on the back of strong export performance of pharmaceutical and watches sectors in particular; while we note and largely share the authorities' argument on the temporary component of these dynamics, we nonetheless consider that there is room to tilt Switzerland economic measures towards supporting higher domestic demand.
- **We concur with staff that flexibility in the fiscal policy stance is warranted given the uncertain environment and large fiscal space.** As staff, we support the Federal Council proposal to lengthen the amortization period of the Covid-19 spending to 12 years to smoothen the consolidation path required by the debt brake rule. Flexibility should also be maintained to support economic activity in case of the materialization of downside risks to growth, or additional need to support vulnerable households. Furthermore, investment needs are high given strong priority items such as climate/energy transition, ageing-related costs and defense. Further medium-term planning and tax reforms adjustments could indeed be needed, as suggested by staff and recognized by the authorities to make these outlays consistent with the debt-brake rule mandate, beyond current flexibilities.
- **We encourage the authorities to continue strengthening regulation, supervision and the monitoring of evolving risks, such as those related to the housing market and cryptoassets.** We share staff's analysis on these issues and welcome the

extensive discussion of the latter in Mr. Peter and Mr. Gindrat Buff statement. High household indebtedness and housing market dynamics call in particular for close monitoring and adaptation of macroprudential instruments; we support in this regard the reactivation of the countercyclical buffer. We also encourage the authorities to continue implementing outstanding 2019 FSAP advice.

- **We also encourage the authorities to implement an alternative but still ambitious climate agenda.** After the 2021 referendum result, we welcome the preparation by the authorities of alternative climate measures that would be politically acceptable; they should in our view remain very ambitious in terms of decarbonization efforts and emissions reductions, while combined with targeted support to vulnerable and impacted households. An increase in low-carbon energy investments will also help both green transition and energy security objectives.

Statement by Mr. Bhalla and Mr. Natarajan on Switzerland
Executive Board Meeting 22/53
June 10, 2022

1. We thank the staff for the detailed report and Mr. Peter and Mr. Gindrat for the comprehensive Buff. After rebounding strongly in 2021, the Swiss economy is expected to slow down in the near term due to the spillovers of conflict in the region. The diverse and strong economy provides ample resilience and fiscal space to manage the challenges. We concur with the staff that the policies should remain agile and encourage the authorities to closely monitor the uncertainties and respond to the shocks in a timely manner. We encourage the authorities to address structural challenges including pensions, skill gaps, green transition, and energy security to achieve sustainable long-term growth.

2. The economy which contracted by about 2.5 percent in 2020 witnessed a strong growth of about 3.7 percent in 2021. This was primarily due to strong exports in pharmaceuticals and watches, and revival of hospitality sector. The near-term outlook has dampened due to the spillovers affecting energy and commodity supplies, financial exposure, and lower growth in the region. Headline inflation has increased from an average 0.6 percent in 2021 to 2.5 percent in April 2022. Current account surplus is expected to decrease in 2022 due to rise in imports.

3. Fiscal deficit is expected to taper down and become surplus in the next two years. We take note of the fiscal policy challenges arising due to aging, climate energy security and digital transformation which are structural challenges and long-term risks confronted by the Swiss economy. The debt-brake rule for balancing budget over cycle could be lengthened due to higher expenditure and requires measures to enhance revenue and rationalize spending.

4. The monetary policy measures depend on several factors including growth prospects, domestic inflation, action by other central banks and market responses. The authorities see the inflation as temporary and the existing large inflation differential to limit price pressures. *In the context of policy normalization undertaken by countries in the region, could the staff provide an assessment of the robustness of the current monetary policy framework and potential policy implications?*

5. We commend the authorities for progress in implementing prudential and risk-based supervision. The banking sector is witnessing strong credit growth, low NPLs and profitability. The real estate sector is facing an increase in affordability risks

which could have significant impact on the financial system. We welcome the measures taken to strengthen the regulatory framework and actions to address risk control failures. We encourage appropriate additional measures for monitoring of risks and measures to prevent them. We welcome the efforts to strengthen governance including AML/CFT.

6. We take note of the alternate approaches explored by the authorities to address climate change by way of regulation, incentives, and investment, in lieu of carbon pricing mechanism. We welcome the authorities' efforts to improve labor market resilience and the business environment.

7. Finally, we wish the authorities the best in their endeavors.

Statement by Mr. Zhang and Ms. Qi on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for the well-written set of reports and Mr. Peter and Mr. Gindrat for their helpful Buff statement. We commend the authorities for leading Switzerland in navigating the pandemic well as shown by the strong recovery in 2021/early 2022, yet risks are still tilted to the downside with high uncertainty. However, the spillovers of the Ukraine conflict, including the combined Swiss-EU sanctions, would put downward pressure on Switzerland's growth and push inflation higher. Calibrated policy responses are critical to supporting sustainable growth and macroeconomic stability. We broadly agree with staff's appraisal and would like to offer the following comments for emphasis.

Near-term fiscal policy should accommodate outlays in response to the Ukraine conflict, while consolidations to address key structural challenges are warranted in the medium term. We welcome staff's analysis on the impact of the sanctions and note with regret that these sanctions have increased compliance and financial-integrity risks which is important for Switzerland as an international center. Given ample fiscal space and continuing uncertainty, we agree with staff that targeted, time-bound, and non-distortionary support could ease the pressure on households and firms from the spillovers of the Ukraine conflict and sanctions. We welcome the Federal Council to extend the amortization period of the extraordinary spending to 12 years while preserving the debt brake rule, which anchors the fiscal policy sustainability. Meanwhile, more expenditures are necessary to address aging, climate, energy security, digital transformation, and other key challenges pertaining to the longer term. We take positive note that under the binding debt brake rule, the authorities would accommodate the medium-term structural expenditure with the financial plans so that the negative structural balances would be compensated quickly.

The Swiss National Bank should be prepared for the policy normalization with a wide range of tools, depending on the circumstances. We agree with staff that the accommodative monetary policy in 2021 and early 2022 has been appropriate, given its subdued inflation development. However, the inflationary pressure has risen in Switzerland, albeit comparatively moderately so far. It leaves room for the franc to be stronger in nominal terms. We welcome the authorities' intention to act when inflation is more spread and persistent. The act should be based on a comprehensive review of the effectiveness and sequencing of the SNB policy tools.

While the financial sector has weathered the pandemic well so far, a closer monitoring and regulatory act are needed to mitigate the mortgage risk. With a scale of 150 percent of GDP and rising exposure of pension funds and insurance companies, the mortgage market is too big to fail. A sharp tightening of financing conditions could trigger the price correction,

leading to loan defaults and bank losses. We welcome the reactivated sectoral CCyB to be effective this September and encourage the authorities to consider supply-side actions to play a synergetic role.

Effective structural reforms are key to promoting green-digital transformation. We commend the authorities for further developing sustainable finance, including establishing binding large-company implementation of the TCFD recommendations with a dual-materiality principle. We look forward to the green-bond issuance framework and a sustainable finance taxonomy coming in the near term. We take positive note of the authorities' considerations on issuing CBDC based on continuing analysis of its benefits and risks. In addition, we welcome the authorities' efforts to continuously strengthen its AML/CFT framework.

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

Statement by Mr. Potapov and Mr. Shestakov on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for a set of the informative reports and Mr. Peter and Mr. Gindrat for the helpful Buff statement. We broadly agree with the staff appraisal. The Swiss economy has shown resilience during the COVID-19 crisis and continues to perform strongly, despite the adverse spillovers from the geopolitical tensions. The authorities are well-positioned to adjust the economic policy mix to the recent shocks and to monitor the risks that might emerge in the financial sector.

Loosening of the fiscal stance might provide the funds necessary to address the long-term challenges. Over the medium term, the requirement to offset extraordinary spending via future surpluses might slow down the pace of economic recovery, and we see merit in the proposal calling for a pace of fiscal consolidation more gradual than it is assumed in the fiscal rule. Over the long term, Switzerland has ample fiscal space to address the macro-critical issues of digital transformation and climate resilience. We acknowledge the difficulties in modifying the fiscal framework needed to unlock this fiscal space, which would require constitutional change, and agree with staff's recommendation to start research on the size of financial needs to be covered and potential benefits and positive spillovers from the additional spending.

Monetary policy tightening should proceed gradually in a data-driven manner.

Inflationary pressures are manifesting in the Swiss economy as well as in the region more generally. Staff rightly highlighted the risk of elevated inflation in the report. Further tightening in the form of interest rate hikes might be appropriate in the event of strong demand growth and will also help to regain monetary policy space. While we understand that at this point the SNB still sees the inflation pickup to be mostly driven by temporary supply-side factors, a prolonged period of above the target inflation might pose a risk of inflation expectations de-anchoring. *Are the recommendations of the mix of monetary tightening and FX interventions presented in the report consistent with the Integrated Policy Framework analysis?*

The financial sector remains in good shape, but the real estate risks might have a system-wide impact. We share staff's conclusion that house prices have risen high relative to fundamentals, which creates vulnerability for the whole financial system through contagion and possible adverse feedback loops. We welcome the decision of the macroprudential authorities to activate sectoral CCyB to support the sector's resilience. Still some banks would breach capital buffers in staff's stress test scenario. There is a need to strengthen the macroprudential regulatory framework, monitor AML/CFT risks, and address control failures.

Structural reforms should facilitate adjustments in the labor market. Aging population requires broader or longer participation, and there are large gains to be realized from improved equality for women and lower-skilled workers. We take positive note of the implemented pension reforms, which might be advanced further to improve the pension fund efficiency and investment performance, as well as its long-term sustainability after 2030.

What are the current plans of the Swiss authorities to address the financing gaps in pensions?

Statement by Ms. Mannathoko and Ms. Basutli on Switzerland
Executive Board Meeting 22/53
June 10, 2022

We thank staff for the comprehensive set of reports and Mr. Peter and Mr. Gindrat for their insightful Buff statement. We broadly concur with the staff appraisal and policy recommendations and offer the following observations.

The resilience of the Swiss economy is evidenced by the strong recovery in 2021, reflecting the economy's global competitiveness, the effectiveness of its health system and COVID policies that facilitated an efficient response to the pandemic, and the agility of its highly skilled workforce, alongside strong policy frameworks and a stable financial sector with well-capitalized banks. Strong macroeconomic fundamentals, a swift policy response and a solid vaccination drive allowed the Swiss economy to reopen fairly quickly, setting the stage for a strong rebound in 2021, although not yet to pre-pandemic trends.

However, the war in Ukraine has dampened the growth momentum, with output growth projected to slow in 2022 and beyond, as global demand decelerates, and the growth of exports and investment is tempered. Nevertheless, growth is still expected to remain above potential. While inflation is relatively contained compared to some peers, rising energy prices are also expected to push headline inflation above the Swiss central bank's target range in 2022, before it returns within range in 2023. Thus the phasing out of COVID-19 support to enable outlays for the response to the war in Ukraine, and a data driven monetary policy stance to curb inflation, are appropriate. The authorities should at the same time aim for a medium-term policy mix that protects the vulnerable, improves labor markets and facilitates sustainable growth, while ensuring monetary and financial stability. Other structural reforms should lift barriers to competition, enhance energy security and improve climate policies.

Fiscal policy: The fiscal policy stance is appropriate. Measured and targeted phasing out of COVID-19 support should balance support dealing with the spillovers from the war in Ukraine, while remaining committed to the debt brake rule. The authorities' proposed extension of the period for offsetting extraordinary spending (beyond the usual 6 years) is likely necessary to reduce pressure on the fiscus. Thus we look forward to Parliament's decision, expected in 2022. However, in the medium term, it would be important to clarify how expenditure needs will be accommodated. Enhancing revenues and streamlining tax reforms should remain a priority going forward. In addition, the need for coordinated efforts to ensure cohesion across cantonments when undertaking reforms should also rank high among authorities' priorities. *Staff's insights into elements of the authorities' plan to address expenditure pressures and enhance revenues in the medium term are welcome.*

Monetary and exchange rate policies: The Swiss National Bank's efforts to maintain an accommodative monetary policy stance, while standing ready to ensure inflation reverts into the stability range, are noted. Increased inflationary pressures and their likely persistence, necessitate careful monitoring of second-round effects and consideration of the possible need for tightening, depending on how the data evolve. Monetary policy should remain agile and data-dependent, and in that regard, we concur with staff that policy toolkit readiness should be ensured and that when warranted, the right tool for policy tightening be deployed. At the

same time, ongoing communications that seek to entrench expectations of price stability are also important. We note that foreign exchange interventions have been appropriately used, declining in 2021. We urge continued restraint in their use, noting that should safe haven inflows surge, such interventions would be needed.

Financial sector policies: Rising vulnerabilities in the real estate market and other emerging risks from the war in Ukraine and as pandemic support is lifted, warrant close monitoring. We welcome the resilience of the financial system and currently low NPLs, while at the same time encouraging vigilance and continued strengthening of supervisory and regulatory frameworks. Developments in the housing market raise concerns. Given the size of the mortgage sector and exposures across the financial sector, including in the non-bank sector, the risks around affordability of mortgages and imbalances could have wide-ranging macro-financial implications, undermining stability should price corrections occur. To this end, we welcome the reinstating of the residential real estate countercyclical capital buffer (CCyB) which will be able to absorb 25 percent of losses, but note that even with this, some banks would still breach capital buffers under staff stress tests. Going forward, strengthening the macroprudential toolkit and, as reflected in the selected issues paper, introducing caps on mortgages with high loan-to-value and debt service-to-income (LTV-DSTI) ratios, or requiring more substantial mortgage repayments would contain possible losses and help to safeguard stability. Beyond this, vigilance with respect to cyber and AML/CFT risks will be especially important for financial integrity in the current global environment and we therefore welcome progress made in the revision of the AML Act.

Structural reforms: Policies in the labor market should focus on re-skilling and upskilling the unemployed and facilitating the efforts of displaced workers to find new jobs. In addition, accelerating support for digital transformation under the Digital Switzerland Strategy, addressing pension challenges, tackling energy security via the green transition, and climate change mitigation, should all be pursued actively now, as important goals. On climate change, it is encouraging that notwithstanding the June 2021 referendum defeat, the authorities have nevertheless found other means to advance climate change reforms. We are also encouraged by the progress made in implementing the pension reform agenda and urge the authorities to advance further reforms that will ensure long term sustainability. On EU relations, we positively note that the authorities' engagement with the EU has resumed, and urge progress on this front, to ensure stable and mutually beneficial relations, and to chart a clearer path forward.

Switzerland

Responses to Technical Questions Posed by Executive Directors in Advance of
EBM/22/53—June 10, 2022

Staff's responses to all but one of the technical questions are below. A question on the external assessment will be addressed in staff's oral intervention at the Board meeting.

Outlook / Risks

1. **Could staff elaborate on the nature of administered prices, and whether the broader global inflationary environment could at some juncture result in lumpy adjustments and thereby raise inflationary risks?**

Administered and semi-administered prices in Switzerland mainly cover energy, healthcare (medical, hospital), and other public services (transport, postal etc.). See the text table.

Switzerland: Breakdown of Administered and Semi-administered Prices in the CPI Basket, 2016

Total	100.000
Administered and semi-administered prices	23.043
Administered prices	7.030
Taxes for provision of the apartment	0.333
Gas	0.506
Electricity	1.880
Remote heating	0.088
Other services in respect of personal transport equipment	0.523
Public transport services by rail and road	1.861
Postal services	0.086
Entries in sport facilities	0.565
Fees for radio and tv reception	0.615
Social protection services	0.573
Semi-administered prices	16.013
Medicines	2.314
Medical services	6.340
Other medical services	1.128
Hospital services	3.864
Taxi	0.067
Basic academic and vocational education	0.252
Higher vocational education and universities	0.348
Insurance	1.700
Non-administered prices	76.957

Source: Federal Statistical Office, Switzerland.

If overall inflation is high and persistent, administered prices will likely need to be adjusted to catch up—otherwise, there may be financial losses for service providers or an additional fiscal burden. These adjustments will add to inflationary pressures. Adjustments may indeed be lumpy, if there are sharp increases in the prices of some of the underlying components or inputs (e.g., fuel costs for electricity

producers or for taxi service providers), or if the changes in underlying prices are relatively small, but the pass-through to the administered price is with a long lag—e.g., annual adjustment—requiring a sizeable change (e.g., fuel costs for electricity, hospital and medical services).

2. Risks from progressive loss of access to the EU Single Internal Market or loss of fiscal attractiveness from introduction of a minimum corporate income tax (CIT) rate could take a toll on the Swiss recovery. Could staff assess impacts on the external sector and Swiss growth?

It is not simple to quantify the impact of the potential progressive loss of preferential single-market access, due to the high degree of uncertainty in the process, including prospects for continued exports to the EU despite the erosion and/or mitigation measures that Swiss firms and their partners or the Swiss authorities may take. But this is an important risk and potential drag. EU imports from Switzerland were €124 billion in 2021, 18 percent of GDP. Accordingly, higher costs related to less favorable access or lower margins or export sales could have important impacts.

The global minimum corporate income tax (CIT) reform will affect the combined CIT rates at the federal (8.5 percent), cantonal, and communal (municipal) levels. The average combined rate across Switzerland is now 14.9 percent, close to the proposed global minimum rate of 15 percent. However, there is significant variation across cantons, with combined rates ranging from 11.9 percent in Zug canton to 21 percent in Bern (differences could be even larger for individual companies, given exemptions). Accordingly, some cantons are expected to increase rates. There may be downsizing or relocation of some firms that have benefited from low tax rates, affecting employment and growth. The external accounts may also be affected if surpluses of these firms are accounted for in different locales. However, the federal and cantonal authorities have indicated their intentions to sustain Switzerland's competitiveness and tax rates are only one factor in location decisions/attractiveness.

3. We would appreciate staff comments on the lower growth in Switzerland's productivity in comparison to other OECD members and potential explanations for this performance.

This year's Article IV consultation focused on specific structural reforms that would help boost productivity and growth, in particular labor market reforms, including how to further increase labor participation and reduce skills gaps.

The [2022 OECD Economic Surveys on Switzerland](#) studied the issue of productivity. The OECD observed that labor productivity growth has slowed over the past three decades, although Switzerland remains one of the top OECD performers. The OECD noted that competition in the domestic market is hampered by cantonal borders, while Switzerland's "merger control framework" is "permissive"; civil action against cartels is affected by complexity and short prescriptive periods. The report also suggested that the administrative burden on start-ups is higher in Switzerland than in the top performers, while resolving commercial disputes takes longer and is costlier. Finally, barriers to trade in services are higher than in other OECD countries. Switzerland also imposes constraints on inward foreign direct investments (FDI) mainly through equity restrictions; agriculture is heavily shielded from foreign competition, and it receives high direct support payments. To raise productivity and growth, the OECD recommended the authorities to fully implement the Internal Market Act to ensure equal access to markets in all cantons, reduce the administrative burden on start-ups, and lower restrictions

on trade in both goods and services, notably in agriculture and with respect to FDI. The OECD also called on the authorities to expand the government “one-stop shop” (EasyGov.swiss) by integrating cantonal government services.

4. The authorities have more positive views than staff on growth and inflation, and we would welcome staff’s views on the extent to which these differences reflect the still-partial impact of the Ukraine conflict.

On inflation, the difference between staff’s and the authorities’ forecasts was mostly driven by different expectations on the impact of the war. Compared to staff’s projections, the authorities expected smaller increases in energy and other commodity prices, and therefore a more moderate pickup of inflation in 2022. While the outlook is still highly uncertain, the latest inflation developments appear to be more in line with staff forecasts.

On growth, differing assessments of how the Swiss economy was affected by the Omicron wave of the pandemic explain much of the difference between projections by staff and the authorities. Both sides were cautious on possible impacts of the war, but the authorities considered that negative growth impacts from Omicron were more limited. The preliminary 2022Q1 GDP numbers support the authorities’ perspective, and staff will consider upward revisions to GDP growth estimates for 2022-23, recognizing continued uncertainties and downside risks.

Fiscal Policy

5. Could staff share views on potential priority areas for the authorities to examine both from the revenue and expense perspectives?

Also: Staff’s insights into elements of the authorities’ plan to address expenditure pressures and enhance revenues in the medium term would be welcome.

- Over the medium term, fiscal policy is expected to encounter several challenges. First, there is a need to offset pandemic-related extraordinary outlays with surpluses. Second, on the expenditure side, a large share of legally mandated spending constrains the scope for adjustment, while outlays are expected to increase in several areas over the medium term (aging- and climate-related spending, defense). Third, on the revenue side, some of the ongoing tax reforms may lead to revenue losses. In addition to tax reforms described in the staff report, a recently proposed change in individual income taxation may lead to annual revenue losses of CHF 1 billion (authorities’ estimate). Revenue losses may be affected by the outcome of public referenda on the various reforms. For example, a popular vote on the partial abolition of the withholding tax is now scheduled to take place in September.
- A comprehensive review of expenditures and revenues would be beneficial for developing a medium-term fiscal plan. Many challenges on the spending side are slow-moving, which gives some time for a careful design of the plan and adjustment. As for areas for potential savings, projects in spending areas that have exhibited strong growth in recent years (e.g., infrastructure and education) could be reassessed, although these would need to be carefully

targeted to limit cuts in areas important for emissions reduction or labor participation and productivity gains. Health spending in Switzerland is high relative to peers, although this reflects a public-private approach. Subsidies could be reviewed and reduced, although these are in politically sensitive areas (agriculture).

- Measures to increase the *efficiency* of spending and revenues should be assessed; there may be significant gains in both areas from streamlining and enhancing administration. If the above-mentioned measures are not sufficient to meet the requirements of the debt-brake rule, tax increases may need to be considered. Switzerland's headline VAT rate is relatively low in comparison with other advanced economies. Other tax instruments (rates, bases) would need to be reviewed.

6. Staff comments are welcome on reliance on SNB dividends to advance fiscal goals given high uncertainty of funding, especially at this juncture.

Staff sees limited risk of reliance by the federal (1/3 share) and cantonal governments (2/3) on SNB dividends. While profits have been sizable in recent years, as noted in the staff report (footnote 14), significant uncertainty and risks related to profits distribution may be seen in the large losses of the SNB of CHF 32.8 billion in Q1:2022.

The Swiss authorities have been cautious on possible reliance on SNB profits for fiscal policy purposes and have built a robust framework to address this. They have expressed a strong preference for a relatively small but stable and predictable transfers, despite calls by some for larger or earmarked distributions. These have been resisted, and there is broad support for the authorities' approach.

Based on a recent [agreement](#) between the Federal Department of Finance and the SNB, distributions are expected to range between CHF 2-6 billion, depending on net profits. The agreement covers 2020-25 and stipulates that net profits comprise the distributable annual profit and a balance sheet item "distribution reserve." The distribution reserve serves as a fluctuation reserve to enable smoothing of profit distributions. It corresponds to a profit/loss carried forward. The non-distributed amount of the annual result is allocated to this reserve, and any shortfall for a distribution is drawn from it. A net profit must be shown for distribution to be made; in the event of a net loss, no distribution is made. The distribution reserve at end-2021 was CHF 90-102 billion (depending on how it is defined; see [here](#)). The agreement replaced a previous accord from 2016.

7. Could staff comment on medium-term implications of the global minimum corporate income tax since it will influence the authorities' tax reforms?

Assessment of the impact of global minimum corporate income tax reform on Swiss public finances is challenging, giving uncertainty over the exact design of the reform, distribution of revenues, and possible compensatory measures. It is further complicated by differences in levels of the CIT across cantons and other tax reforms discussed in the staff report. The CIT is levied not only at the federal level, but also at the cantonal level; other tax reforms largely affect central government finances. In 2021, the average CIT rate in Switzerland was 14.9 percent, slightly below the minimum rate under

the global CIT reform. The authorities estimate possible moderate revenues gains, if there are no major company relocations or other changes to their operations/activity.

8. We would appreciate staff comments on potential additional budgetary challenges from the war in Ukraine (e.g., migrants, infrastructure needs) and whether these have been accounted for in the current financial plan of the cantons or the complementary federal fiscal budget. In this context, we note that the current draft of the federal fiscal budget for 2023 does not include the envisaged increase in defense spending.

As of June 8, nearly 56 thousand refugees from Ukraine had been registered in Switzerland. Inflows have moderated in recent weeks. Provision by the authorities of 0.2 percent of GDP appears to be sufficient so far. However, there may be a need for additional outlays, in the case of more refugees or a prolonged stay. Cantons may need more funding for accommodation, schooling, and health care support. Last week, the Parliament supported a gradual increase in defense spending through 2030. This will need to be incorporated in upcoming budget documents.

9. To what extent can the 3-year financial plan and 10-year financial outlook mentioned in the Buff statement satisfy staff's recommendation on more medium-term planning?

Yes, these are important documents for planning and communications and would, in principle, be vehicles by which the staff's recommendation could be addressed. The content of the three-year plan and 10-year outlook will be important; the documents should contain an explicit and credible strategic overview describing the various challenges and how they will be managed within the debt-brake framework.

10. Please comment on the authorities' reaction to the proposal that tax changes should make the system less distortive and bolster revenues?

The authorities agreed that tax changes should make the system less distortive—this is a key element in their efforts to sustain and bolster Switzerland's attractiveness and competitiveness as well as fairness/inclusiveness of the tax system. They acknowledged that some tax reforms may lead to revenue losses, at least in the near term. They recognize the stipulations of the debt-brake rule, which requires a balanced budget over the cycle. Accordingly, they are concerned that revenue losses may complicate fiscal policy, given expenditure pressures (climate, aging, defense, etc.). They recognized the desirability of revenue-neutral tax reforms, as well as the potential need for additional revenues. However, tax revenue increases may prove challenging. The authorities therefore agreed that it would be important to discuss all of these elements in a credible medium-term plan.

11. We would welcome staff's views on additional ways to limit underspending and to help ameliorate fiscal surplus bias, as well as more context on the authorities' views regarding the feasibility of these reforms.

We would like to start by noting that the fiscal framework makes provision for extraordinary expenditures, and these have been very sizable in 2020-22 and may well continue, depending on the pandemic and other factors (e.g., spillovers from Russia's invasion of Ukraine). The authorities are

also putting in place an extended amortization or offsetting period for the extraordinary Covid-19-related outlays to mitigate headwinds from required adjustment.

Setting aside provisions for extraordinary spending, better-than-budgeted fiscal outcomes reflect both some overperformance of revenues relative to targets and some underperformance of expenditures. The authorities have implemented measures to alleviate both. These include simplification of procedures for supplementary budgets (to reduce incentives for administrative units to include a “safety margin” in their budgets) and improvements to revenue forecasting. Other measures could include allowing some head-room margins or buffers, making targets more flexible across units or across time, or making them more contingent on developments. Other modifications could target provisions for carry forward or “make up” or compensation in subsequent years.

The authorities consider that the debt-brake framework, including the provisions for extraordinary outlays, has served Switzerland well. They are interested in these further reforms, and they recognize that underspending vis-a-vis legislatively approved spending allocations are common in any budget system. It is important that changes should not affect key financial management discipline or practices, especially transparency and accountability.

Monetary and Exchange Policy

12. How does staff assess excessive inflows and the role Swiss franc appreciation should hold in the monetary policy transmission mechanism?

Very substantial volume and concentration in time are important (capital flows may be excessively large, overwhelming a country’s capacity to safely manage them, or volatile, posing risks of costly reversals. These risks may be heightened in the presence of domestic and international frictions). A few key factors may be considered in assessing whether capital inflows are excessive. First, have the inflows been associated with higher-than-usual volatility of the exchange rate? Second, has appreciation of the franc exceeded significantly the movement implied by long-term historical trends? While the first factor may also be applied to other economies in general, the second may be more specific to Switzerland, given the set of challenges that Switzerland faced after the GFC and until the early stage of the pandemic. These included persistent low inflation pressures, effective zero lower bound considerations, and limited domestic assets for QE purchase. The SNB worked to cope with low or negative inflation for several years; franc appreciation threatened to place further downward pressures on inflation. As inflation risks have changed from deflation/low inflation to higher and possibly more persistent inflation, particularly in key trading partners, the second factor may be revisited. Accordingly, as noted in the staff report, there may be scope for some further franc appreciation to ease inflationary pressures going forward.

Franc appreciation and FXIs may affect the Swiss economy through several channels, including: (i) export competitiveness, (ii) liquidity, and (iii) inflation (via import prices). For most of the time since the GFC, the most relevant channel has been inflation, notably as the nature of Swiss exports (merchandise, precious metals, pharmaceutical products, luxury watches) has meant that the exchange rate has been less important for export competitiveness than in other countries.

13. Could staff elaborate on the adequate coordination of monetary tightening and FXI, including the possibility of partially reversing the sizable accumulation of international reserves during the pandemic crisis (~16.5% GDP).

Also: can staff comment on the desirable mix of tightening and FX intervention, including when the latter may be warranted?

And: are the recommendations of the mix of monetary tightening and FX interventions presented in the report consistent with the Integrated Policy Framework analysis?

In the context of monetary normalization, FXI might be based on several considerations:

- *Tightening effect.* Given sizeable excess liquidity in the banking system, tightening effects from FX sales may well be modest, although there may be signaling effects to market participants.
- *Inflation.* Given the rising risks of high, persistent inflation and the large domestic-foreign inflation differential, some nominal appreciation of the franc may be helpful. From this perspective, the SNB could refrain from buying in the FX market to curb appreciation pressures and might consider FX sales if conditions permit.
- *Exchange rate volatility.* The SNB might intervene in the FX market in case of heightened exchange rate volatility, which could be triggered by geopolitical or market events or possibly by SNB moves. Sterilization could be considered. While concerns are often related to inflows, the SNB might also consider intervening in the (unlikely) event of large, abrupt outflows.
- *SNB balance sheet.* FX operations will affect the size of the SNB balance sheet. This is a relevant consideration, although the others may be more important.

Staff's recommendations are consistent with the [Integrated Policy Framework](#) (IPF) analysis. A key finding from the IPF analysis is that difficult tradeoffs faced by policymakers (especially stemming from volatile capital flows as global financial conditions change) warrant use of multiple tools under certain conditions. Optimal policy combinations depend on the nature of shocks, country characteristics, and initial conditions and do not take the form of complete reliance, for example, on exchange rate flexibility, under all circumstances for all countries. This is the approach recommended by staff and also taken by the SNB. The experience during the Covid-19 pandemic is a good example of use of multiple tools (liquidity support, specific Covid-linked measures, other macroprudential measures, FXIs, etc.). Also, the IPF and its tools and analysis should not be used to support or justify a misaligned exchange rate. As discussed in the staff report, Switzerland's 2021 external position is assessed as broadly in line with the level implied by medium-term fundamentals and desirable policies.

14. Could the staff provide an assessment of the robustness of the current monetary policy framework and potential policy implications?

Also: Does staff recommend any specific changes to the monetary policy framework and tools? Would adjusting targets and instruments would help respond to new challenges. Staff comments are welcome.

As a starting point, it is useful to describe briefly the monetary policy framework. At the core of the SNB's framework are three pillars:

- a definition of price stability—a rise in the CPI of less than 2 percent per annum. This 0-2 percent stability range is not a binding target, and there is no preference for any specific level—e.g., midpoint, upper end—within this range.
- a conditional medium-term inflation forecast. The conditional inflation forecast—with the policy rate held constant—serves as the main indicator for monetary policy decisions and plays a key role in communicating policy to the public.
- the SNB policy rate, which replaced a target range for the 3-month CHF LIBOR rate in 2019.

When the SNB emphasizes the robustness and flexibility of its monetary policy framework, it refers to this 3-pillar monetary policy strategy. A broad view of the policy framework could include elements such as instruments (e.g., open market operations, standing facilities), operational targets (e.g., SARON), transmission channels (e.g., other market interest rates, money supply and credit growth, etc.), and mandates of the central bank (e.g., “ensure price stability, and in so doing, to take due account of economic development”). Under this broader definition, for example, the introduction of the exchange rate floor against the euro and its later removal may be seen as resulting from continuous review and adjustment of the policy framework without changing its core (the 3 pillars). Rather, these adjustments reflected the flexibility of the framework.

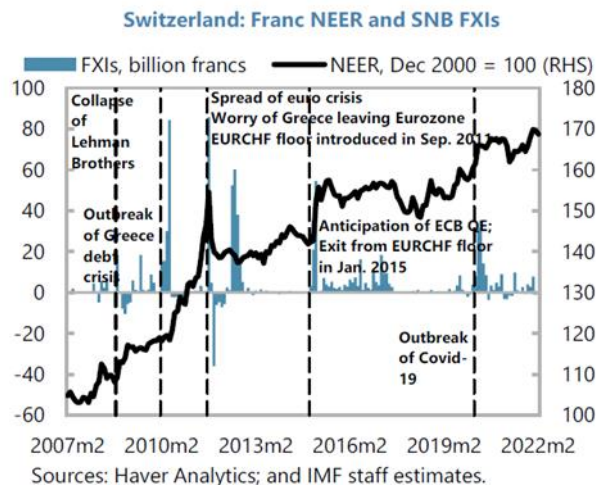
In staff's view, the SNB's 3-pillar framework has demonstrated flexibility and robustness. With just one important adjustment since introduction of the strategy in 2000—replacing the target range for the 3-month CHF LIBOR rate with the SNB policy rate in 2019— the SNB has largely fulfilled its mandate. As challenges facing the SNB evolve, the broadly defined framework and tools should be subject to periodic review. In this regard, the SNB shares staff's view and has emphasized that their assessment is conducted on a continuous basis. The SNB also follows closely developments in other central banks, for example, the recent monetary policy strategy reviews of the Bank of England, the U.S. Federal Reserve, and the European Central Bank. While other central banks have moved to more symmetry around a single inflation target, the SNB's stability range has afforded sufficient flexibility, so that this has not been pursued.

Staff consider the range of tools available to the SNB to be broadly sufficient, although they may need to be adapted or extended as conditions warrant. Different tools and instruments may play a more prominent role at different times, depending on conditions. Also, there are some challenges; for example, as noted in the staff report, CHF-denominated assets for policy operations are relatively

limited, although the SNB may use repos or its own securities. The SNB uses a range of channels to communicate with the public and market participants, including press statements, publication of forecasts, interviews and speeches by senior management.

15. We would staff's assessment of likely exchange rate pressures going forward and comments on the merits of the SNB's decision to retain the bulk of past profits on huge reserve holdings, given balance-sheet risks (ER, FX investments, interest rates).

In the near term, considering the growth and inflation outlooks and likely policy actions by other central banks under the current baseline scenario, staff do not expect the franc to face appreciation pressures similar to those experienced during episodes highlighted in the chart below, although risks of market events triggering substantial amounts of capital inflows cannot be ignored. In staff's view, the risk of abrupt large capital outflows is low for Switzerland. From a *long-term* perspective, the fundamentals underlying the franc's gradual appreciation trend (e.g., strong current account, robust growth, prudent macroeconomic policies, and stable social and political environment, etc.) are expected to remain. Therefore, in the baseline scenario, staff also expect the long-term appreciation trend of the franc to continue.



On the second question, staff supports the authorities' prudent, framework-based profit distributions (see also Question #6 above). With the substantial increase of the SNB's total assets since the GFC, its earnings potential has increased in absolute terms, but so has the risk of losses. For example, in the first quarter of 2022, the SNB reported a loss of CHF32.8 billion, mainly due to the adjustment of international prices of interest-bearing paper and other instruments ([link](#)). Sizable reserves ([link](#)) and prudent distribution plans are therefore necessary to ensure the SNB's capital adequacy and smooth profit payments over time. At the beginning of 2021, a new 5-year profit distribution agreement was concluded with the Federal Department of Finance. The plan considered both the marked growth in the SNB's balance sheet and the pronounced increase in the distribution reserve. The rule-based agreement not only makes the SNB's profit distribution process transparent, but also helps to maintain the independence of the SNB by shielding it from potential interference by various interest groups.

External Sector

16. Could staff comment on this and on how far recent refinements of the EBA model are changing the assessment of Switzerland’s external position vis-à-vis the old methodology/configuration?

This question will be addressed orally.

17. Could staff provide further justification for the specific adjustments listed in the External Sector Assessment and the extent to which these adjustments uphold multilateral consistency of the model?

There are no specific adjustments for Switzerland for 2021. There were Swiss-specific adjustments for the 2020 assessment related to Covid-19—for watches and for precious metals.

Additional discussion orally.

18. Apart from FXI, what measures can the authorities take to interrupt the self-reinforcing loop of investor home bias and appreciation of the franc?

Also: could staff elaborate on possible ways in which a more robust global diversification by Swiss investors could be achieved?

We would start by noting that in the absence of major exogenous developments that would significantly change investor perceptions, it is likely to be challenging via macroeconomic or macrofinancial policies to change current market dynamics and the self-reinforcing component and establish a new equilibrium. This can be seen from how Switzerland has shifted from its pre-GFC equilibrium to the more recent dynamics: the global economy experienced two major economic shocks (GFC and the euro area debt crisis); also led to important changes in financial regulation.

That said, staff and the authorities have discussed experiences of other economies. In some countries (Norway, Singapore) investment entities or sovereign wealth funds have played a role. These approaches are complex and appear impractical for Switzerland case, for example, given the considerable differences in the nature of the liabilities related to flows and central bank reserves. Other countries have external asset allocations for pension funds—either as guidelines or mandated. Once again, these do not appear to be a good fit for Switzerland.

Staff and the authorities consider that there is scope for improved efficiency and performance by Swiss pension funds (PF), as well as prospects for enhanced communications, information, and transparency for PF participants, including on Swiss and international asset performance and prospects and the importance of robust diversification.

The SNB has attempted to address the “self-reinforcing loop” in the past, for example, by instituting an exchange rate floor vis-a-vis the euro. These options all face important questions, challenges, and trade-offs.

Financial Sector Policy

19. Could staff comment on how mortgage lending by non-banks (pension funds, insurers) is regulated to avoid arbitrage with bank-based policy tightening measures (CCyB, self-regulation rules)?

Macroprudential policies (e.g., sectoral CCyB) are designed to mitigate risks to systemic stability. Currently, the volume of mortgage lending by insurers and pension funds is limited and considered to be non-systemic. Given rising vulnerabilities in the mortgage and residential real estate market, the Federal Council reactivated the CCyB buffer at 2.5 percent in January 2022 (effective in September). This implies that banks must hold additional capital for residential mortgages to address the increasing risks on the mortgage and real estate markets.

FINMA also recognizes self-regulation rules of banks, insurers, securities dealers, asset managers, and other financial institutions as minimum standards. Insurance firms must abide by investment rules under FINMA Circular 1016/5. They are legally obliged to guarantee claims from insurance contracts by establishing tied assets. Investments in real estate are subject to strict limits. Only real estate objects which are easily realizable with a clear market valuation can be allocated to tied assets and are subject to tight constraints to limit their exposure (i.e., real estate and mortgages are subject to a combined limit of 35 percent of each individual set of tied assets). This ensures prudent mortgage lending standards by insurers.

Pension funds tend to offer mortgages mainly to their participants. When they offer mortgages to non-participants, they are subject to geographical limitations that are stricter than those for banks and insurance firms. They are also more restrictive with regards to LTV values and the type of residences that they finance; they offer long-tenor fixed rate mortgages to match the duration of their liabilities. Like banks and insurance firms, Swiss pension funds require affordability criteria to grant mortgages; these tend to be stricter with regards to the creditworthiness of the borrower.

Other Policy Areas

20. Could staff elaborate on the authorities' new "vertical" approach to restart engagement with the EU?

In February 2022, the Federal Council set out the new [vertical approach](#) to guide negotiations with the EU on engagement. The approach means that institutional issues such as dispute settlement and dynamic updating of bilateral agreements would be embedded in individual market agreements rather than in an overarching institutional framework accord. From news reports, technical discussions between the European Commission and the Swiss authorities are underway. The talks are reportedly at an explanatory stage, including recent provision of written responses by the Swiss authorities to EC questions on the new approach.

21. Could staff elaborate on the main contents of the CO2 law that was rejected last June, and what are the government's plans to address these issues in the future? How will the rejection of the new CO2 law affect Switzerland's NDC commitments under the Paris Agreement?

Also: we would welcome staff's assessment as to whether the combined climate measures (both fiscal and financial) currently in place are sufficient for Switzerland to reach its Paris targets.

The revised law that would have put in place new, more stringent emissions reduction targets for 2030, higher ceilings for carbon taxes, new carbon levies (e.g., on air tickets), and a new Climate Fund to invest in mitigation and adaptation. Please see Box 3 of [Country Report 2021/130](#) for more details. The vote was 51.6 to 48.4 percent with a turnout of 59.7 percent. Turnout and the margin of rejection were particularly high in rural areas. In the wake of rejection of the law, the Swiss authorities have stepped up efforts to create supportive enabling environment to achieve the Paris Agreement's long-term temperature goal. The approach is summarized in ¶29 of the staff report.

On the financial sector, the Federal Department of Finance is working on a draft legislation/ordinance planned to come into force in January 2023 that will make the Task Force on Climate-related Financial Disclosures (TCFD) mandatory for large companies across all sectors of the economy. Switzerland is one of the eight jurisdictions that have announced plans to mandate TCFD-aligned disclosures as of end 2021. The disclosures in Switzerland will exceed TCFD recommendations by enacting a dual materiality principle (it will cover not only climate-related risks but also ask firms to disclose the climate impact of their activities).

Staff is hopeful that these actions will help the authorities meet their commitments and targets under the Paris agreement, although this will be challenging, including given the attention to energy security and lack of traction/support in some areas like transport/motor fuels and agriculture. That said, there is a well-elaborated and functioning offset mechanism for motor fuel importers that will be helpful. Very significant investments will be needed in building renovation and renewable energy.

22. What are the current plans of the Swiss authorities to address the financing gaps in pensions?

Financing gaps in the pension system are being addressed through 2030 by recent measures including a phased increase of the retirement age for women and additional financing from VAT rate increases. See ¶35 of the staff report for further discussion. For the period after 2030, further reforms to achieve sustainability of the first-pillar pension will be necessary. These would ideally include additional retirement age increases (along with measures to promote employment/participation by older workers). Further tax increases may also be needed, if other actions are not sufficient. At present, the authorities are not planning further reforms to the second-pillar pension system.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States