FOR AGENDA

SM/13/97
Correction 1

May 7, 2013

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Switzerland—Selected Issues**

The attached corrections to SM/13/97 (4/24/13) have been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 7, Figure 1, title for the second graph panel: for "Breakdown by Borrower Category (Percent of total)" read "Breakdown by Borrower and Issuer Category (Percent of total)"

Page 23, paragraph 8, (i), line 6: for "mortgages must be paid down to two thirds of the lending value within a maximum of 20 years." read "mortgages must be paid down to two thirds of the collateral value within a maximum of 20 years."

Questions may be referred to Ms. Xiao (ext. 38679) and Mr. Tchaidze (ext. 36603) in EUR, and Mr. Lundback, MCM (ext. 36612).

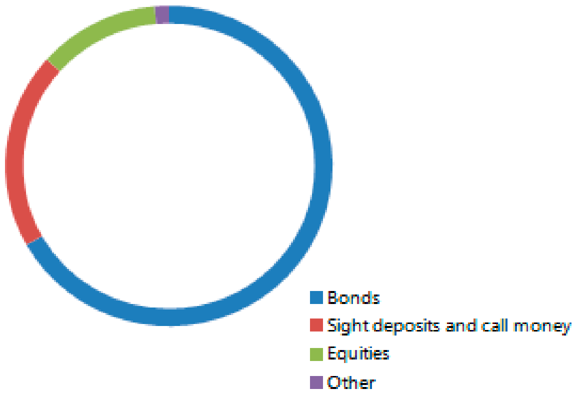
This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (2)

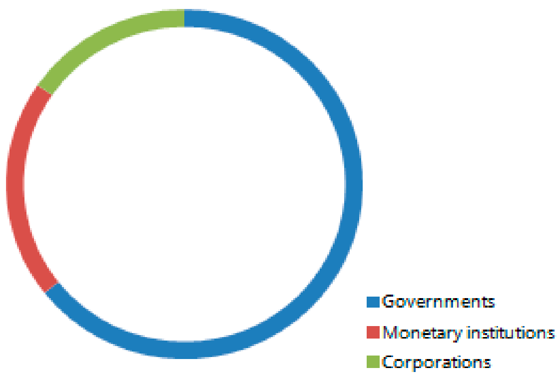
Other Distribution:
Department Heads

Figure 1. Switzerland: Foreign Currency Investments

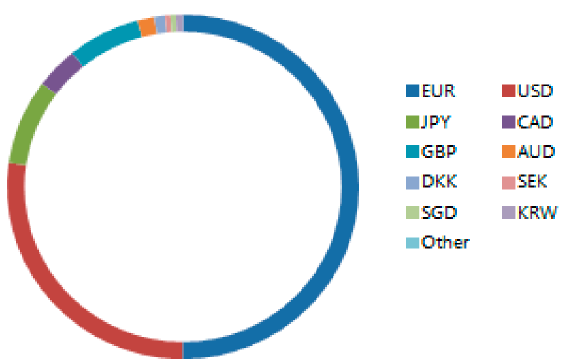
Breakdown by Investment Type
(Percent of total)



Breakdown by Borrower and Issuer Category
(Percent of total)

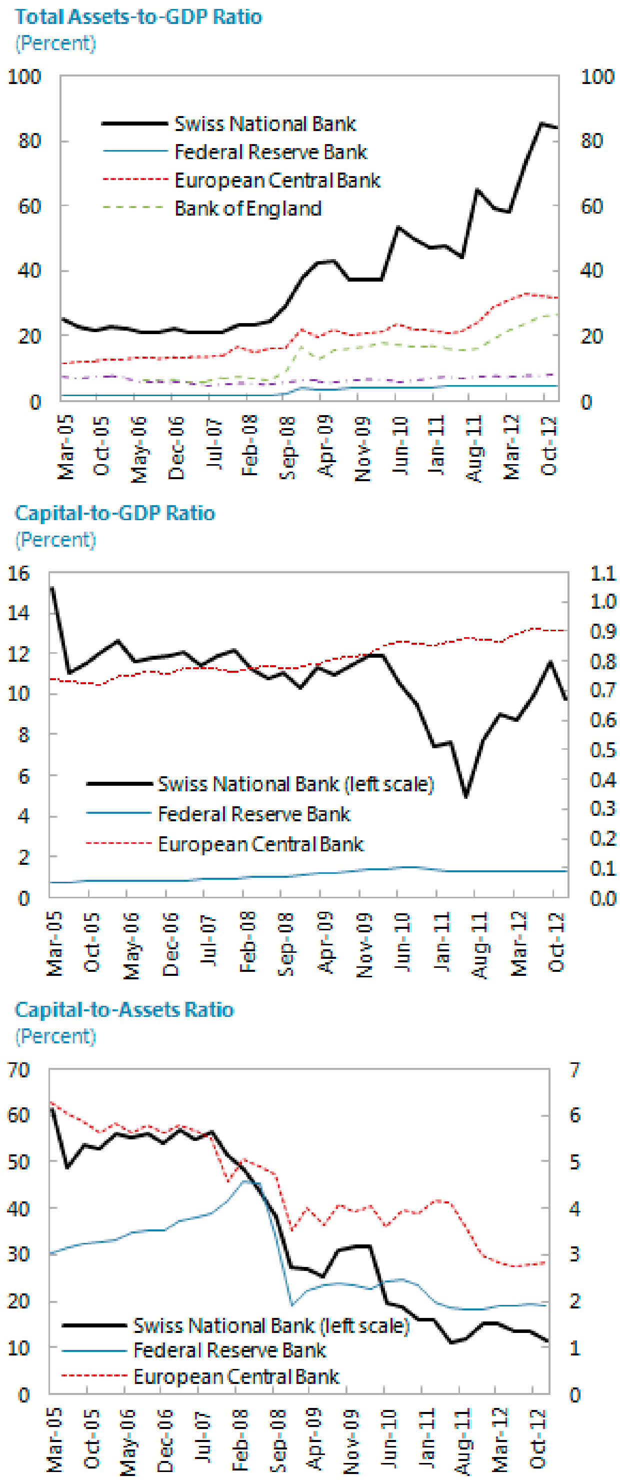


Breakdown by Currency
(Percent of total)

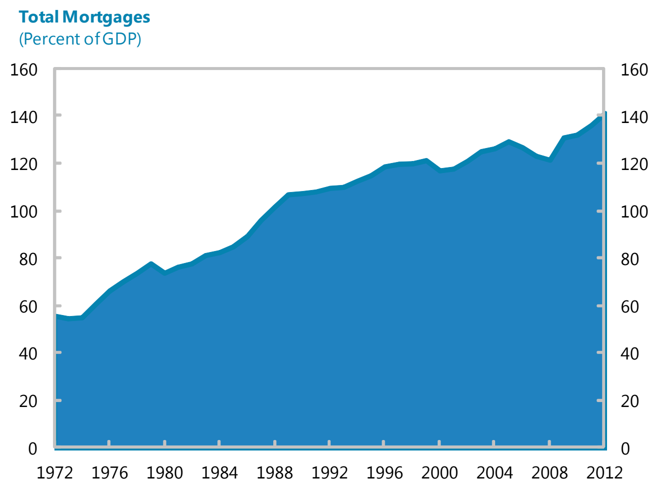


Source: Swiss National Bank.

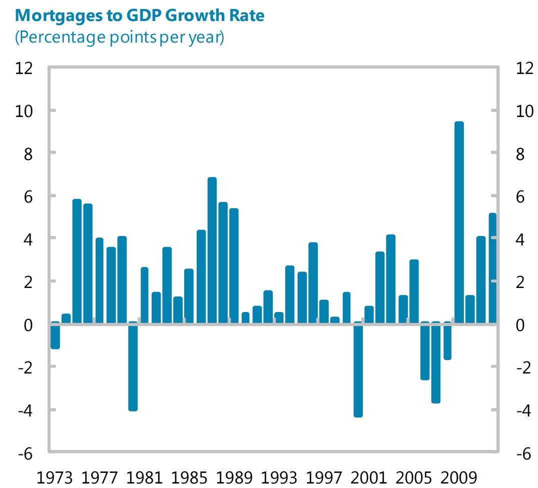
Figure 2. Switzerland: Comparision of Central Banks



Sources: Haver Analytics; and IMF staff calculations.



Sources: IFS; SNB; WEO; and IMF staff estimates.



Sources: IFS; SNB; WEO; and IMF staff estimates.

The authorities have taken measures and consider further action

8. The Swiss authorities see the developments in the housing and mortgage markets as risky and have recently introduced measures to address these concerns:

(i) New requirements for mortgage financing were drawn up by the Swiss Bankers Association as minimum regulatory standards and were approved by FINMA, the microprudential supervisor. The standards consist of: (i) a minimum down payment of 10 percent of the lending value of the property from the borrower's own funds, which may not be obtained by pledging or early withdrawal of Pillar 2 pension assets; and (ii) mortgages must be paid down to two thirds of the collateral value within a maximum of 20 years.

(ii) Banks will be required to apply a risk weight of 100 percent for mortgages which do not comply with the new minimum standards.

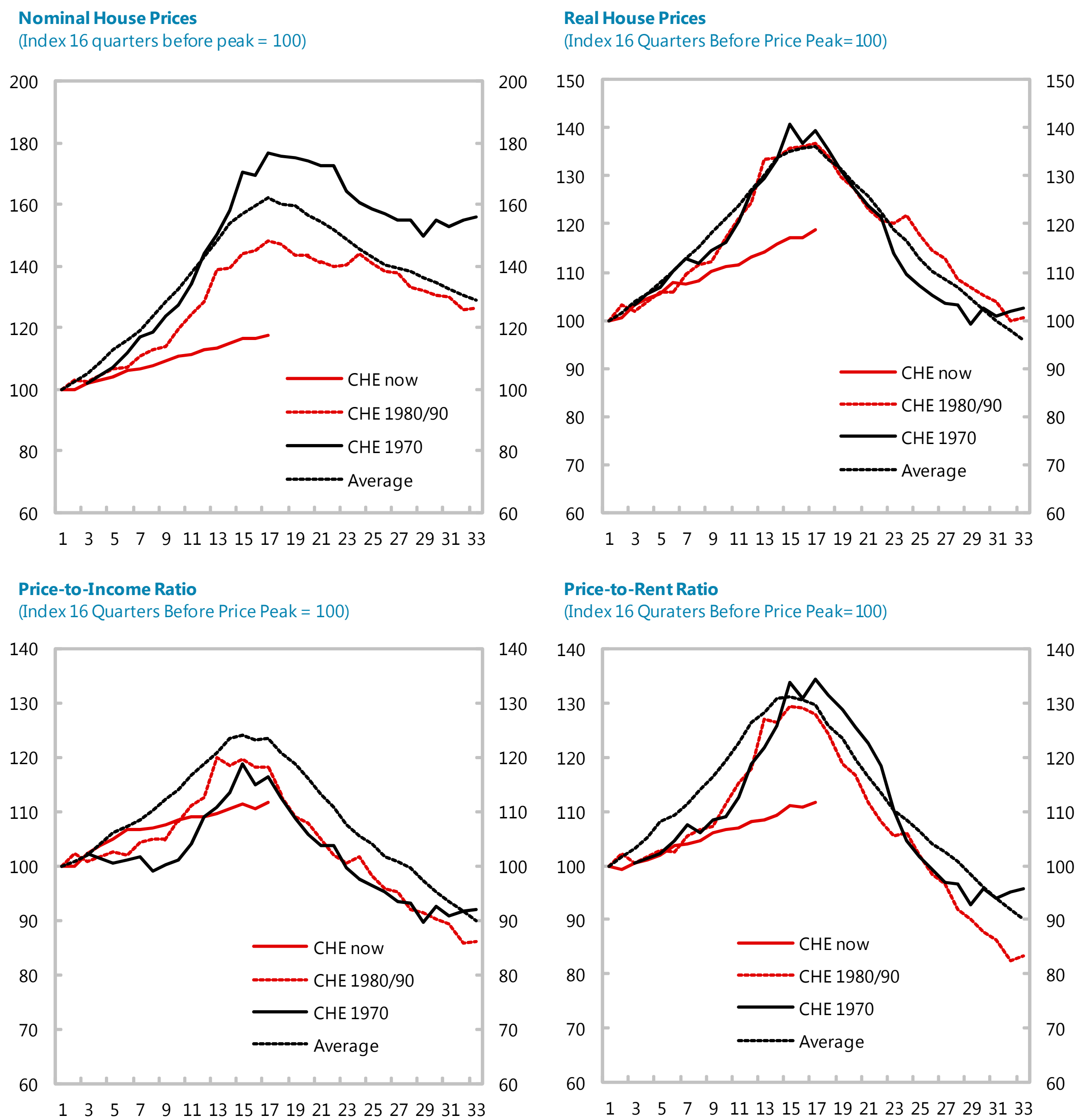
(iii) Mortgages exceeding 80 percent of the property value will have a risk weight of 100 percent applied to the part of the loan exceeding the 80 percent threshold.

(iv) Banks using an internal ratings-based approach have to apply a bank-specific multiplier when calculating risk-weighted assets for Swiss residential mortgages. The multiplier is to be applied to new and renewed mortgages.

(v) Banks will have to hold a countercyclical capital buffer (CCB) of 1 percent of their risk-weighted, direct or indirect, mortgage-backed positions secured by residential property in Switzerland starting September 30, 2013.

The first two measures have been phased in since mid-2012, and the third and fourth measures went into effect at the beginning of 2013, while the CCB was activated on February 13, 2013.

Figure 1. House Price Indicators During Boom and Bust Episodes



Sources: OECD; and IMF staff calculations.