INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/196

SWITZERLAND

June 2023

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SWITZERLAND

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with Switzerland, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 31, 2023, consideration of the staff report that concluded the Article IV consultation with Switzerland.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 31, 2023 following discussions that ended on April 4, 2023, with the officials of Switzerland on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 10, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Switzerland.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR23/200

IMF Executive Board Concludes 2023 Article IV Consultation with Switzerland

FOR IMMEDIATE RELEASE

Washington, DC – **June 7, 2023:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Switzerland.

Growth slowed in 2022, while inflation became a new challenge after a decade of ultra-low or negative inflation. The labor market is tight, with the unemployment rate at a 20-year low. The external current account (CA) surplus rose further in 2022, thanks to strong merchanting trade and an improved services trade balance. The focus of fiscal policy has shifted from extraordinary, COVID-related support to offsetting extraordinary outlays, while addressing rising medium-term spending needs within the debt-brake rule. Monetary policy has tightened to reduce inflation. Challenges faced by Credit Suisse (CS) led to a state-facilitated acquisition by UBS in March to protect market confidence and financial stability. Otherwise, financial sector buffers remain strong, but risks have increased. Pension reforms, dialogue with the EU, and green/sustainable transition progressed in 2022.

Growth is expected to slow further in 2023—driven by the weak global outlook, tighter monetary policy, and cooling of pent-up demand, before recovering to medium-term potential in 2024. Although the UBS-CS merger may lead to job losses, the impact on growth is expected to be limited in the baseline, given the tight labor market. Inflation is projected to remain above the SNB's 0–2 percent price stability range in 2023 at 2.5 percent, due to the tight labor market, wage pressures, and rent increases linked to higher mortgage rates. The SNB’s policy rate hikes and slowing activity should help lower inflation to 1.9 percent in 2024. The CA surplus is expected to moderate to 7.8 percent of GDP in 2023, and remain near this level in the medium term as lower inflation and strength in key sectors preserve competitiveness. The small positive output gap that opened in 2022 is expected to close in 2023.

Risks are tilted to the downside, with high uncertainty. Two near-term scenarios are noteworthy. First, an abrupt, synchronized global slowdown could take place at the same time as prolonged high inflation in advanced economies, due to monetary policy miscalibration. This could affect Switzerland via spillovers from the global outlook and lead to more persistent inflation. Second, an abrupt correction in housing prices or negative shifts in global financial markets, possibly involving renewed pressures on banks, could lead to financial sector stress and slowdown. Escalation of Russia’s war in Ukraine is also a concern, along with other geopolitical risks. Additionally, a further setback on EU relations could lead to substantial costs over time. In the medium term, delays in addressing climate challenges are downside risks,

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

along with geo-economic fragmentation, given Switzerland's highly-open economy, important global financial and commodity trading sectors, and neutral orientation.

Executive Board Assessment[2]

Executive commended the authorities for their decisive actions to address financial stability concerns and the potential spillovers from the Credit Suisse episode. Acknowledging the current challenges faced by Switzerland, including the subdued and uncertain growth outlook and elevated inflation, Directors underscored the importance of continued prudent macroeconomic and financial policies. Further progress on addressing medium- to long-term challenges will also be critical for boosting competitiveness and growth.

They agreed that the expansionary fiscal stance with a continued surplus is appropriate in the near term. They welcomed the authorities' plans to offset past extraordinary spending and emphasized the importance of allowing automatic stabilizers to operate. Targeted and time-bound support, if downside risks materialize, would also be useful. Directors also stressed the need to address significant longer-term spending needs—for aging, climate, energy, and national security—within the ordinary budget and the fiscal balance rule. They generally noted that the tax reforms underway should carefully balance public policy objectives with revenue considerations.

They welcomed the Swiss National Bank's (SNB) data-driven monetary policy and encouraged continued tightening if second-round effects persist. Noting the current inflationary situation and risks associated with its large balance sheet, they suggested that the SNB continue to reduce FX holdings if facing depreciation pressures. Directors emphasized the desirability of continued reviews by the SNB of its investment strategy and maintaining adequate safeguards.

They stressed the need for close monitoring of the UBS-Credit Suisse merger and carefully reviewing and drawing lessons from the case. They also highlighted the importance of closely monitoring potential vulnerabilities from non-bank financial institutions, and the real estate and fintech sectors. Further efforts to implement recommendations from the 2019 FSAP, especially in improving financial supervision and regulation, and continued strengthening of the AML/CFT framework will also be needed.

They welcomed the authorities' efforts to ensure energy security and reduce emissions, as well as their steps to improve disclosure of climate-related financial information. Passage of the Third CO2 Act and the Climate Protection Act would be important milestones. Directors also underscored the importance of structural reforms and active labor market reforms to boost productivity and labor force participation, and they stressed the need for further actions to strengthen pension sustainability. They also encouraged continued dialogue with the EU regarding accession to the single market.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Switzerland: Selected Economic Indicators, 2020–24

Population (2022): 8.74 million

Quota (April 2023; millions SDRs / % of total): 5,771.1 / 1.21%

Key export markets in 2022: Euro area (46%), US (18%)

	2020	2021	2022	2023 Proj.	2024 Proj.
Output					
Real GDP growth (%)	-2.5	4.2	2.1	0.8	1.8
Unemployment					
Unemployment (%)	3.2	3.0	2.2	2.3	2.4
Prices					
Inflation (period average, %)	-0.7	0.6	2.8	2.5	1.9
General Government Finances					
Revenue (% GDP)	34.1	34.8	32.9	32.5	32.1
Expenditure (% GDP)	37.1	35.1	32.0	32.3	31.9
Fiscal balance (% GDP)	-3.0	-0.3	1.0	0.1	0.2
Public debt (% GDP)	43.3	41.7	41.5	39.9	38.3
Monetary and Credit					
Broad money (% change)	6.5	1.4	0.1	...	...
Credit to the private sector (% change)	2.4	3.8	2.6	...	...
3-month Treasury bill interest rate (%)	-0.7	-0.8	0.9	...	...
Balance of Payments					
Current account (% GDP)	0.4	8.8	10.1	7.8	8.0
Net FDI (% GDP)	18.2	4.4	-2.3	...	...
Reserves (end-of-period, billions of US dollars)	1084	1110	924	...	...
External debt (% GDP)	288.2	295.8	275.3	...	...
Exchange Rates					
CPI-based REER (% change)	4.0	-2.5	-0.8	...	...

Sources: IMF's Information Notice System; Swiss Institute for Business Cycle Research; Swiss National Bank; IMF World Economic Outlook database; and IMF staff estimates and projections.

INTERNATIONAL MONETARY FUND

SWITZERLAND

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

May 10, 2023

KEY ISSUES

Context. Growth slowed in 2022 to 2.1 percent and should decline to 0.8 percent in 2023, with risks on the downside. Inflation was 2.9 percent in March and may remain above 2 percent until 2024, due to wage pressures and rent increases. The current account surplus is expected to moderate to 7.8 percent of GDP in 2023 (global slowdown, normalization of merchanting trade). The focus of fiscal policy has shifted to offsetting extraordinary outlays while addressing medium-term spending needs within the debt-brake rule. Monetary policy is focused on reducing inflation. Credit Suisse challenges led to state-facilitated acquisition by UBS. Otherwise, financial sector buffers remain strong, but risks have increased. Pension reforms and EU dialogue progressed. Challenges are aging and skill gaps, energy security, green transition, and geo-economic fragmentation.

Recommendations. The authorities should implement agile, data-dependent measures to address near-term challenges and take action to tackle longer term, structural issues.

- **Fiscal**. The expansionary stance for 2023, with a continued surplus, is appropriate given the slowing economy and underlying factors. If downside risks materialize, automatic stabilizers should operate, and if needed, targeted, timebound, non-distortionary support should be considered. A clear plan is needed to address longer term spending needs. Tax reforms should not lead to overall revenue losses.

- **Monetary**. The response to higher inflation has been appropriate and should remain data-driven, including further rate hikes if needed. If facing depreciation pressures, the SNB could continue to reduce FX holdings; it should refrain from FXIs to curb appreciation unless due to excessive market volatility. The SNB should continue to review its investment strategy and maintain safeguards, while enhancing monetary policy communications.

- **Financial**. The authorities should monitor progress on the UBS-CS merger, and in time, review and draw lessons. If housing imbalances build, they should activate the broad-based CCyB and urge banks to tighten prudential tools. Expanding the macroprudential toolkit should also be considered. If downside risks materialize, banks should use buffers to absorb losses and maintain credit flow. Further progress on 2019 FSAP recommendations is needed to strengthen resilience.

- **Structural**. Passage and implementation of the revised CO_2 Law are critical to achieving climate targets; more is needed to ensure secure energy supply. Efforts to ease the tight labor market (participation, skill gaps, productivity) should continue. Future pension reforms should focus on sustainability of Pillar 1 beyond 2030 and Pillar 2 changes. The aims to advance EU dialogue and address geoeconomic fragmentation via further diversification are welcome.

Approved By:
Mark Horton (EUR) and Daria Zakharova (SPR)

Discussions took place during March 22–April 4, 2023, in Zürich and Bern. The staff team comprised Pelin S. Berkmen, Geoffroy Dolphin, Fazurin Jamaludin, Yu Shi, and Li Zeng and was assisted by Tianxiao Zheng, Rachelle Vega, and Gloria Li (all EUR). Marcel Peter and Ronald Gindrat (OED) participated in the mission. The team met with Federal Councilor Karin Keller-Sutter, Swiss National Bank (SNB) Chairman Thomas Jordan, Financial Market Supervisory Authority (FINMA) CEO Urban Angehrn, other officials from the federal administration, the SNB, FINMA, and the Zürich cantonal government, and representatives from public utilities and enterprises, the private sector, and think tanks.

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CONTEXT

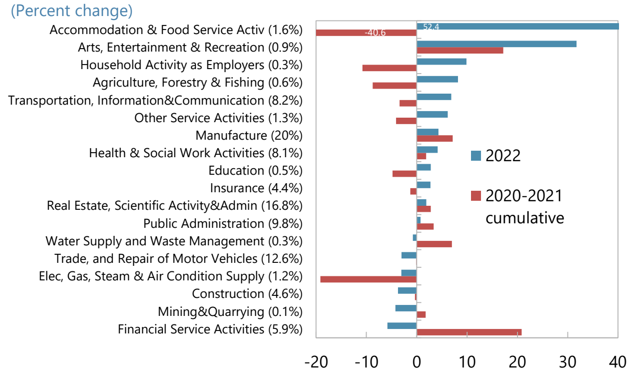
1. **Growth slowed from 4.2 percent in 2021 to 2.1 percent in 2022, still above medium-term potential**. Post-pandemic recovery was impacted by Russia's war in Ukraine, through higher energy prices and inflation and spillovers from the global slowdown (Annex I). Other war-related risk factors, such as financial linkages and commodity trading, were more manageable than expected.[1] Lower net exports were the main driver of the slowdown, while private consumption was strong. Industries affected by COVID-19—hotels, restaurants, culture, transport—performed well in 2022; financial services, construction, trade, and utilities experienced negative growth. A small output gap (+0.4 ppts) opened.

Conribution to Real GDP Growth
(percentage points or percent)

	2020	2021	2022	2023 (proj.)
Private Consumption	-2.2	0.9	2.0	0.9
Public Consumption	0.4	0.4	-0.1	-0.2
Investment	-0.8	1.1	-0.2	0.3
Changes in inventory & discrepancy	2.1	-3.2	-0.6	-0.2
Net foreign balance	-2.0	5.0	1.0	0.0
Real GDP growth	-2.5	4.2	2.1	0.8

Sources: IMF World Economic Outlook, IMF staff calculations.

Real GDP Growth by Sector
(Percent change)



Note: Sector GDP share in 2022 in brackets.
Sources: Haver Analytics.

2. **Following deficits in 2020–21, the fiscal balance surprised on the upside in 2022 with a 1 percent of GDP surplus**. This reflected strong labor markets and related social-security collections. Pandemic-related expenditures dropped from 2.4 percent of GDP in 2021 to 0.5 percent in 2022. Contrary to other countries in the region, Switzerland did not provide energy-bill support to households or firms; earmarked liquidity support to systemic energy providers was not tapped. Public debt declined to 41.4 percent of GDP. First-pillar pension reforms (gradual retirement age increase for women, VAT rate increase for additional financing) passed in a national referendum and will come into effect in 2024.

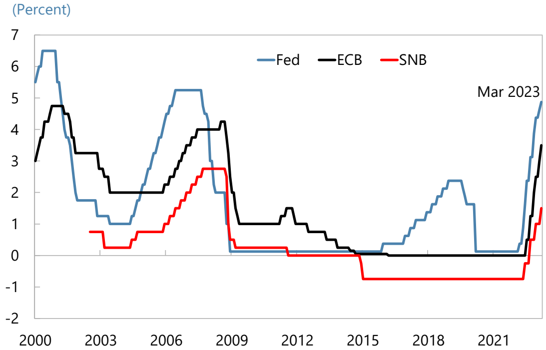
3. **The labor market has tightened further**. The 1.9 percent unemployment rate in recent months was a 20-year low. Vacancies (57k in March) are well above the 10-year average (27k), and total employment in 2022 was 4 percent higher than in 2019. Pressure was partly offset by cross-border commuters (38k in 2022Q4, versus 33.5k in 2019) and net immigration (70k in 2022, versus 49k in 2021). Short-time work program participants fell back to pre-COVID levels (1.6k in January, versus 1.3 million in April 2020). Wage growth remained moderate, averaging only 0.9 percent in 2022.

[1] The list of sanctions adopted by Switzerland following Russia's invasion of Ukraine is available here. An analysis of the global spillovers of sanctions can be found here. In line with the recently revised Institutional View on the liberalization and management of capital flows, some of the sanctions imposed on Russia can be capital flow management measures (CFMs) imposed for national and international security reasons.

4. Inflation has risen—but less than elsewhere—and become more broad-based.[2] Low inflation had been a challenge prior to 2022, addressed by ultra-low interest rates and unsterilized foreign exchange interventions (FXIs). Headline inflation rose to 2.8 percent in 2022 from 0.6 percent in 2021 and was 2.9 percent in March, above the 0–2 percent price stability range defined by the Swiss National Bank (SNB). Imports inflation, especially energy, was initially the main driver (6.7 percent in 2022, versus 1.5 percent in 2021). Domestic inflation also picked up, from 0.3 percent in 2021 to 1.6 percent in 2022, and was 2.7 percent in March. Core inflation averaged 1.7 percent in 2022 and was 2.2 percent in March. Near-term inflation expectations moderated to 2.4 percent in 2023Q1 after spiking to 3.6 percent in 2022Q3; longer-term expectations remain well-anchored at 1.6 percent in 2023Q1.

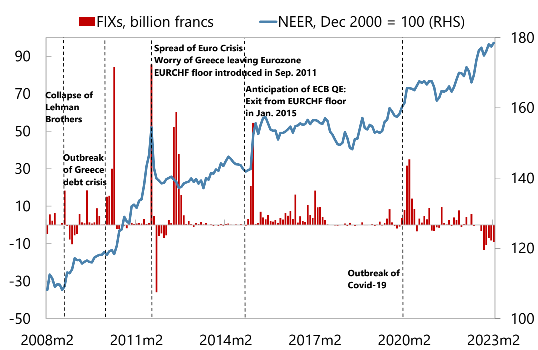
5. Monetary policy has been tightened. The SNB raised its policy rate from -0.75 percent in early 2022 to 1.5 percent (including a 50 bps hike in March), ending a negative-policy-rate era from 2014. It also adjusted the tiering of sight deposits to support interbank transactions, reduced liquidity via repo/bill issuance, and sold FX in recent quarters to support tightening (Box 1). Net SNB FX sales totaled CHF22.3 billion in 2022, versus net purchases of CHF110 billion and CHF21 billion in 2020 and 2021, respectively. The SNB suffered a significant financial loss in 2022 (CHF132 billion or 17 percent of GDP), precluding profit transfers to the government in 2023.

Policy Interest Rates
(Percent)



Sources: Haver Analytics.

Franc NEER and SNB FXIs



Sources: SNB; and IMF staff estimates.

Box 1. SNB Balance Sheet Changes in 2022[1/]

After increasing ten-fold since 2007, the SNB's balance sheet contracted by 17 percent in 2022, driven by reduced FX investments, mainly stemming from losses on FX positions—due to both investment losses and exchange rate valuation changes.[2] The losses caused a significant drop in SNB equity.

[1] See Selected Issues Paper.

[2] The SNB did not purchase domestic government or private sector bonds, but rather nearly CHF1 trillion worth of foreign exchange. Unwinding these purchases, without corresponding strong demand for FX, would lead to a sharp CHF appreciation.

[2] A more favorable energy mix and lower share of energy in the consumer basket, relatively high shares of administered and semi-administered prices, CHF strength, and cooperative relations between business and labor all contributed to lower inflation relative to other European countries.

Box 1. SNB Balance Sheet Changes in 2022 (concluded)

Meanwhile, there was a sizable shift from sight liabilities to repos and bills. This reflected liquidity absorption to ensure money market rates remain close to the policy rate. As the policy rate turned positive, the SNB adjusted the tiering of sight deposits so that the policy rate would be paid to the high tier (those receiving higher rates) of sight deposits, opposite to when the policy rate was negative. The transition—from keeping money market rates close to the low-tier rate through ample/excess liquidity to keeping rates near the high-tier rate by balancing liquidity supply with demand—required a significant reduction of interbank liquidity.

The SNB's Balance Sheet, 2021 versus 2022

CHF billions	December 2021	December 2022	Change		December 2021	December 2022	Change
Assets	1,057	881	*-175*	**Liabilities**	1,057	881	*-175*
FX investments	966	801	*-166*	Sight liabilities	727	539	*-188*
o.w. losses			*-131*	CHF repos & bills	0	165	*165*
CHF repos	3	0	-3	Other liabilities	125	111	-14
Other assets	87	81	-7	Equity	204	66	*-138*

Source: Swiss National Bank.

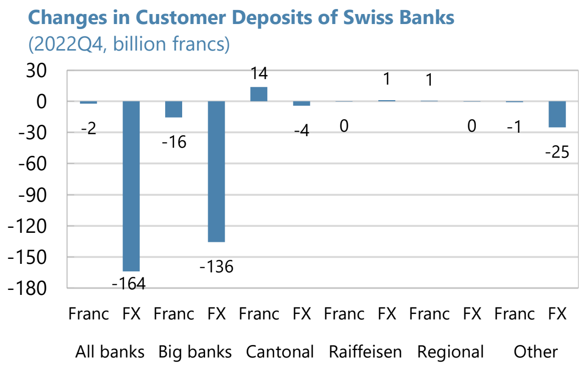
6. In March, the situation at Credit Suisse (CS), a globally-systemically-important bank (G-SIB), deteriorated abruptly, leading to a state-facilitated merger with UBS. This was the result of long-standing weaknesses, such as high-profile corporate governance failures and risk-management setbacks, financial losses, breaches of supervisory law, findings of material weaknesses in internal controls over financial reporting, and in the end, significant deposit outflows, exacerbated by conjunctural developments, including in the U.S. Despite FINMA's interventions, these shortcomings were not addressed effectively. When the situation deteriorated, the authorities took decisive actions to address financial-stability concerns and potential spillovers from CS. The state-facilitated merger that took place outside the resolution regime was enabled by emergency legislation and expedited approval of the transaction, without CS and UBS shareholder voting. In addition to SNB extraordinary emergency liquidity assistance, the authorities announced that the merger would be supported by additional SNB liquidity assistance loans (secured by preferential rights in bankruptcy and partly by federal guarantee), and a CHF9 billion second-loss government guarantee, triggering the full write down of CS's Additional Tier 1 securities before equity. In addition, FINMA will grant a transitional period to build up higher capital buffers that the larger bank requires.

7. Aside from CS, the financial sector has remained resilient, with pockets of vulnerability.

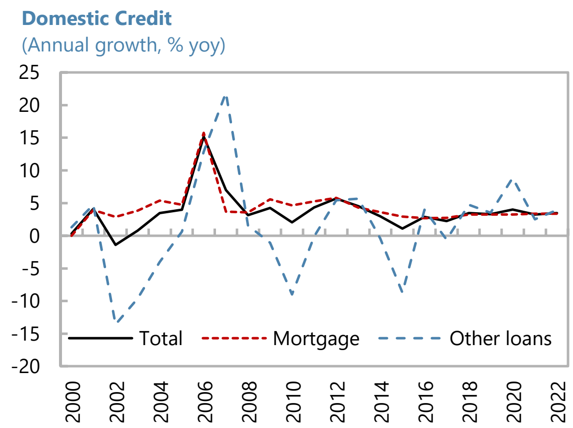
- **Banks** maintained ample capital and liquidity and recorded higher income compared to 2021. NPLs remained at a low level (~0.65 percent of total loans). While CS experienced significant customer deposit outflows in 2022Q4 and in the weeks leading up to its acquisition by UBS, this did not appear to be the case for other Swiss banks.[3] Despite higher interest rates and the

[3] Deposits of some other Swiss banks increased, including as CS customers sought alternatives.

reactivation/rise of the residential-real-estate countercyclical capital buffer (CCyB) from 0 to the 2.5-percent maximum in September 2022, credit—mostly mortgage lending—remained robust, growing by 2.7 percent in 2022 (3.3 pct in 2021, 4.0 pct in 2020).[4] House prices continued to rise, moderating only late in 2022.



Source: Haver Analytics, Swiss National Bank.
Note: At end-2022, Swiss banks' total franc and FX deposits were some CHF1.2 trillion and CHF700 billion, respectively. Big banks shown include UBS Inc., UBS Switzerland AG, Credit Suisse AG and Credit Suisse (Switzerland) Ltd.



Sources: Haver Analytics; IMF staff calculations.

- **Insurers** recorded a moderate increase in premium volumes, with variations across segments. Preliminary data show that insurers and pension funds suffered large investment losses in 2022.[5]
- **Fintech** seemed not severely affected by the global downturn or volatility in 2022. Some large fintech firms reported mild negative impacts and others saw growth in valuation. Start-ups outpaced bankruptcies.

8. **Switzerland's 2022 external position is assessed as broadly in line with the level implied by medium-term fundamentals and desirable policies** (Annex II). The CA surplus increased to 10.1 percent of GDP, from 8.8 percent in 2021, reflecting strong merchanting trade and a narrowed services trade deficit. While the franc appreciated by 4.4 percent in nominal effective terms in 2022, it depreciated by 0.9 percent in CPI-based real effective terms due to inflation differentials. After adjusting for cyclical and Switzerland-specific factors, the CA gap is estimated to be 0.1 percent of GDP, suggesting a slight undervaluation (0.2 percent) of the franc exchange rate.

9. **Ongoing dialogue with the EU has yielded progress; federal elections will be held in late 2023**. After multiple rounds of exploratory talks, Switzerland and the EU have agreed to a "package-based approach" for future negotiations.[6] Noting positive momentum in the bilateral

[4] Outstanding mortgages are around 150 percent of GDP, higher than in other countries. While the share of fixed-rate mortgages increased, the relatively short duration (the share of mortgages with remaining maturity over 5 years is around 30 percent) suggests that most mortgages are likely subject to risk of rising interest rates. Another distinctive feature is that Swiss mortgages for up to two-thirds of the property value do not have to be amortized (i.e., only regular interest payments are required).

[5] Preliminary data suggest a mixed financial performance in 2022 for other non-bank financial institutions.

[6] The "package-based approach" means that rather than overarching framework agreement regulating institutional issues (e.g., adoption of EU law developments, supervision, dispute settlement), the elements of a framework agreement will be incorporated into specific market agreements.

dialogue, the Federal Council has requested key parameters for a negotiation mandate with the EU by June. All members of both houses of Parliament will be elected in October, followed by the nomination of a new Federal Council (federal government) in December.

10. Implementation of past Fund advice has been good in general, although progress on 2019 FSAP recommendations has been slow. Fiscal and monetary policies were adapted to address new challenges (e.g., impact of Russia's war in Ukraine, high inflation), while structural reforms (e.g., pension, energy security, green-digital transformation) were advanced (Annex III). There has been progress on implementing 2019 FSAP recommendations, but the take-up has lagged in some key areas, such as further strengthening FINMA's autonomy, governance, and accountability, ensuring that FINMA—rather than banks—contracts and pays directly for supervisory audits, expanding the macroprudential toolkit, and further enhancing, expanding, and expediting recovery and resolution planning, including resolvability. (Annex IV).

Authorities' Views

11. The authorities broadly concurred with the external assessment. They consider the CA surplus as reflecting macroeconomic fundamentals, including the overall development, demographics, and the pension system. They emphasize the importance of properly accounting for measurement issues and recognize the impact of temporary global factors in 2021–22, notably elevated and volatile commodity prices, which led to merchanting income significantly above the historical trend. The authorities do not view the exchange rate as a major driver of the CA. Since June 2022, the SNB's monetary policy assessment statements have not referred to the Swiss franc as highly valued.

OUTLOOK AND RISKS

12. Growth is expected to slow to 0.8 percent in 2023, before recovering to 1.8 percent, close to medium-term potential, in 2024 as shocks subside. The weak global outlook, tighter monetary policy, and cooling of pent-up demand are the main drivers of the slowdown in 2023. Although the UBS-CS merger may lead to job losses, its impact on growth is expected to be limited in the baseline given tight labor markets. Inflation is projected at 2.5 percent in 2023, remaining above the SNB's 0–2 percent price stability range until 2024, due to the tight labor market, wage pressures, and rent increases linked to higher mortgage rates. The SNB's policy rate hikes and slowing activity should help lower inflation to 1.9 percent in 2024. The CA surplus is expected to moderate to 7.8 percent of GDP in 2023 and remain near this level in the medium term, as lower inflation and strength in key sectors (e.g., pharmaceutical) preserve competitiveness. The small positive output gap that opened in 2022 is expected to close in 2023.

13. Risks are tilted to the downside, with high uncertainty (Annex V). Two near-term scenarios are noteworthy. First, an abrupt, global, synchronized slowdown could take place, with prolonged high inflation in advanced economies, possibly caused by monetary policy miscalibration. This would affect Switzerland via spillovers from the global outlook (e.g., lower exports, higher import prices) and lead to more persistent inflation. Second, a sharp correction in housing prices or negative shifts in global financial markets, possibly involving renewed pressures on banks, could lead to financial sector stress. This would affect Switzerland by a decline in credit, equity and real estate prices, and confidence, which would in turn reduce demand, and by a decline in trading partner demand. Tighter financial conditions and decline in real estate prices would also increase credit losses. Asset repricing and changes in risk premia would increase funding costs for banks. These would deteriorate capital ratios and lead to credit tightening. At the same time, shocks originating abroad could lead to appreciation of franc depending on flight to safety effects and the monetary policy stance relative to other advanced economies. In addition to these scenarios, escalation of Russia's war in Ukraine is a concern, along with other geopolitical risks. Additionally, a further setback on EU relations could lead to substantial costs over time. In the medium term, delays in addressing climate challenges are downside risks, along with geo-economic fragmentation, given Switzerland's highly-open economy, important global financial and commodity trading sectors, and neutral orientation.

Authorities' Views

14. The authorities largely shared staff's view on the outlook and risks. They believe that the Federal Expert Group's mid-March growth forecasts (0.8 percent for 2023 and 1.8 percent for 2024) remain valid, given their expectations of limited impact from the UBS-CS merger. The reopening of the Chinese economy and healthy household balance sheets in Europe and the U.S. are seen as positive factors for the near term, while they agree that risks are tilted to the downside. Despite the 50 bps hike in March, the SNB revised up its conditional inflation forecasts to 2.6 and 2.0 percent for 2023 and 2024, respectively. In addition to the robust labor demand, the authorities highlighted structural factors such as demographics, the already high level of labor market participation, and skill gaps as key drivers of labor market tightness, only partially offset by immigration.

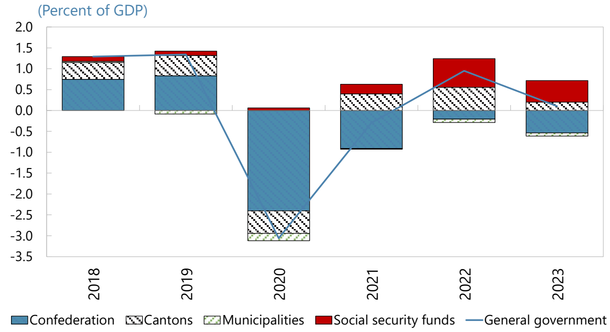
POLICY DISCUSSIONS

Fiscal Policy

15. Despite elevated inflationary pressures, a looser fiscal stance but a continued surplus in 2023 is appropriate given the nature of underlying factors and a slowing economy. After a larger-than expected surplus in 2022, the general government overall balance is expected to moderate to 0.1 percent of GDP in 2023. The lower surplus is mainly due to a drop in revenues due to expected zero SNB profit transfers in 2023—compared with 0.8 percent

General Government Fiscal Balance

(Percent of GDP)



Source: Federal Finance Administration; and IMF staff calculations.

of GDP in 2022—coupled with sustained spending on refugees (Ukraine) and energy and national security. Guarantees connected with the CS-UBS merger will only affect the fiscal position if called. If downside risks to growth materialize, automatic stabilizers should be allowed to operate. Targeted, timebound, and non-distortionary support to affected households and firms could also be considered, if needed, with recourse to extraordinary provisions of the debt-brake rule. The low public debt level provides a buffer against risks stemming from contingent liabilities (Annex VII).

16. Current plans for amortizing past extraordinary spending represent a balanced approach that avoids excessively-sharp adjustment. At end-2022, amortization needs from extraordinary spending were CHF 22.7 billion (3 percent of GDP), of which CHF 3.3 and CHF 0.7 billion represented 2022 outlays for pandemic-related measures and refugees from Ukraine, respectively. A temporary amendment of the Financial Budget Act extended the deadline for eliminating the shortfall in the government's amortization account to 2035, with the option of prolonging to 2039. In addition, parliament has precluded the use of past structural surpluses in offsetting the shortfall and under current projections assumed no extraordinary revenues via SNB profit transfers for amortization. While these conservative assumptions place the burden of amortization squarely on future structural surpluses, the extension strikes the right balance between limiting headwinds from higher surpluses and maintaining the credibility of the existing fiscal framework.

17. Tax reforms are progressing, although their revenue impact is uncertain at this stage. Reforms mainly aim at introducing international initiatives, improving efficiency, removing distortions, and leveling the playing field. First, plans to introduce the OECD-led global minimum corporate tax rate of 15 percent (Pillar 2) are on track with a referendum on a constitutional amendment planned for June 2023.[7] On Pillar 1, Parliament has decided to make the necessary change in the Constitution, and the Federal Council will decide on the signing and ratification of the Multilateral Convention once technical details are worked out.[8] Overall revenue impact of these reforms are uncertain, with Pillar 1 expected to lead to shortfalls and Pillar 2 to gains. Second, the VAT tax hike to support Pillar 1 pension reforms will come into effect in January 2024 (estimated revenue impact of CHF 1.2–1.3 billion). In addition, Parliament is expected to pass various VAT measures aimed at improving tax compliance, streamlining processes, and achieving specific social objectives this year to be implemented in 2025 (with positive estimated revenue impact). Third, the authorities are preparing a proposal for individual taxation reform to reduce distortions and increase equity in the labor market, likely leading to revenue losses. Finally, the abolition of industrial tariffs is progressing as scheduled (entry in force in 2024), and Parliament is in discussions on introduction of a tonnage tax.[9] Overall revenue impact of these reforms is uncertain (data

[7] If passed, the introduced Federal Council could introduce the minimum rate as a temporary ordinance in January 2024 and will be subject to parliamentary review during a six-year window.

[8] Pillar 1 refers to the reallocation of taxing rights with a new profit allocation and nexus rule for market jurisdictions. It will ensure a fairer distribution of profits and taxing rights among countries with respect to the largest MNEs, including digital companies.

[9] The tonnage tax is an internationally-accepted standard of taxation of earnings from maritime shipping activities on a presumptive basis. The presumptive income is then taxed at the ordinary corporate income tax rate.

availability, final form of proposals, behavioral changes). Despite public policy objectives, the reforms should not lead to overall revenue losses, given sizable medium-term spending needs.

18. The authorities need to address significant medium- and long-term spending needs—for aging, climate, energy and national security—within the ordinary budget and the fiscal-balance rule.[10] This will require a clear medium-term plan on how space will be created to maintain structural balance. CHF 2 billion of savings generated through budget "clean-up" measures (Annex VI) aim to ensure a balanced budget for 2024. While proposed rationalization of statutorily earmarked budget items announced in March 2023 will help further reduce spending, additional measures will still be needed to eliminate structural deficits during 2024–26 at the confederation level. More will be needed in the medium and long terms as spending pressures mount. The authorities are updating their public finance sustainability report, including spending needs from demographics; they are also working on identifying spending needs stemming from climate change.

Authorities' Views

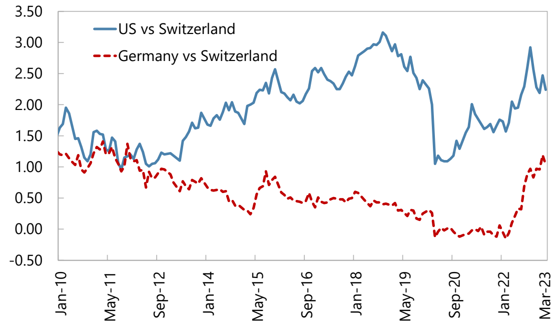
19. The authorities broadly concurred with staff's assessment and recommendations. They recognize that generating savings to close remaining structural budget shortfalls in 2025–26 will be challenging but possible. On amortization, they noted that the conservative assumptions suggest upside potential for quicker offsetting. While acknowledging the need to preserve revenues, they stressed that for many of the tax reforms, public policy objectives may outweigh revenue considerations. The authorities also pointed out that revenue losses and increased administrative burdens due to reforms in the short term could yield efficiency gains that could raise revenues in the long term. To address medium- and long-term spending pressures, they noted that efforts are underway; they highlighted the complexity of estimating climate-related fiscal costs in the medium to long term due to substantial uncertainty.

Monetary and Exchange Policy

20. The policy response of the SNB to the new inflation environment has been appropriate, particularly given broadened inflationary pressures. Policy rate hikes, combined with changes to sight-deposit tiering and repo operations, were effective in pushing up overnight rates, also avoiding emergence of a large spread vis-à-vis the euro and other major currencies. With other central banks tightening more aggressively, the widening foreign-domestic interest rate differentials reduced franc appreciation pressures. Net FX sales in recent quarters contributed to the tightening of monetary policy as well, while also reducing the size, and associated risks, of the SNB's balance sheet (Annex II).

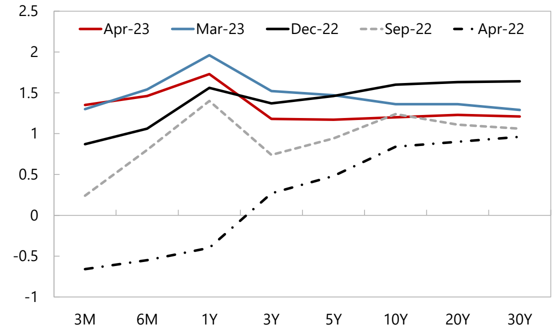
[10] While outlays have not been quantified fully or in detail, demographic-linked outlays are estimated to increase by 3 ppt. by 2050; national defense spending could rise significantly from the current 0.7 percent of GDP. Based on estimates from other OECD countries, the climate costs could add 5–8 percent of GDP by 2050. The authorities are working on refining their estimate of fiscal costs associated with aging, climate change, and other key areas.

Differentials in 10-Year Government Bond Yields
(Percent)



Sources: US Treasury; Refinitiv; and Haver Analytics.

Yield Curves of Government Bonds
(Percent)



Source: SNB.

21. Going forward, given upside risks to inflation, the SNB should proceed in a data-driven manner, continuing to tighten if second-round effects persist. Policy rates will remain a powerful tightening tool. If foreign-domestic interest rate differentials result in depreciation pressures, the SNB could continue to reduce FX holdings. In addition to containing inflation, this would help reduce the size of the SNB's balance sheet and associated risks, contribute to liquidity absorption, and reduce interest expenses. By contrast, if safe-haven inflows repeat, the SNB should refrain from using FXIs to curb franc appreciation, unless necessitated by excess market volatility. Enhanced SNB communications—including more frequent publication of data on FXIs—would be useful in guiding the market and achieving policy objectives. In a downside scenario with more persistent inflation, the SNB should raise rates further to keep expectations anchored. While the tradeoff of price and financial stability is less prominent than elsewhere given lower inflation and interest rates, in a downside scenario such a tradeoff could materialize. If so, monetary policy should continue to focus its on key mandate, with macroprudential tools focusing on financial stability.

22. The SNB's financial loss in 2022 highlighted the risks and communication challenges linked to its large balance sheet.[11] The large loss was partly attributed to the SNB's mark-to-market accounting. It is unlikely to impede monetary operations, and recapitalization risk seems low: The SNB still had CHF76 billion of equity at end-February, and there are no legal requirements that would trigger immediate recapitalization when its equity turns negative. Looking forward, uncertainty on FX investment returns remains and higher interest rates on franc liabilities may lead to lower returns from franc positions. While the SNB has taken measures to strengthen its balance sheet, it should continue regular reviews of its investment strategy, maintain adequate safeguards, and consider FX sales to reduce the balance sheet, thus helping to lower financial risk.

Authorities' Views

23. The authorities broadly agreed with staff's assessment and recommendations. They stressed the need for the SNB to stay vigilant against inflation risks to maintain its credibility, which is critical to the effectiveness of monetary policy in the long run. The SNB agreed with the

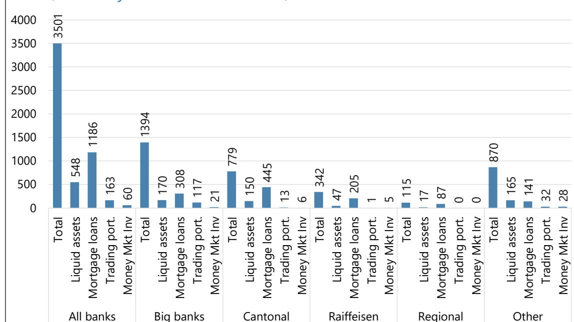
[11] See Selected Issues Paper.

importance of communication, but noted that clear communication does not imply forward guidance, and in some cases, additional information disclosure may involve trade-offs. SNB FX operations are based on monetary policy considerations. The SNB's investment strategy is guided by strict risk controls; it will continue to prioritize robust safeguards going forward.

Financial Sector Policies

24. While buffers remain, financial stability risks have risen. Although higher interest rates may boost income of banks, insurers, and pension funds, slower growth, higher volatility, and greater uncertainty could lead to losses during the transitional period.[12] While NPLs remain low and banks and insurers generally have adequate buffers—with provisions and capital/liquidity or solvency ratios well above regulatory minimums—capital buffers of some institutions may fall short under severe market stress. While urging vulnerable institutions to strengthen buffers, the authorities should also encourage the use of buffers to absorb losses and keep credit flowing in a downside scenario. Non-bank financial institutions (NBFIs) appear broadly sound, but exposures to managed products and interlinkages could create risks in case of a spike of global financial turmoil (Selected Issues Paper). The fintech sector was not severely impacted in 2022, but overall cyber risks are still elevated (Annex V).[13] The authorities should continue to close regulatory data gaps, closely monitor risks, and adapt or strengthen regulations as needed. Considering the innovative, fast-evolving nature of Fintech, regular consultations with key players will be helpful. With elevated global financial stability concerns, authorities should remain vigilant and monitor both bank and NBFI risks, notwithstanding strong buffers.

Selected Types of Assets of Swiss Banks
(February 2023, billion francs)



Source: Haver Analytics, Swiss National Bank.
Note: Big banks include UBS Inc., UBS Switzerland AG, Credit Suisse AG and Credit Suisse (Switzerland) Ltd.

25. Following the abrupt merger in March, effective consolidation of UBS and CS businesses will be critical, including given risks to the public sector. The authorities will need to closely monitor implementation of the acquisition, including the impact on Swiss bank funding costs and credit flows in the near term and on the competitive provision of credit and other financial services to the Swiss market and sub-segments over the medium term.[14] The consolidation will be complex and is expected to take time, with sizable job losses likely. It will be important to conduct a

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[12] Swiss banks' portfolio of financial market investments is relatively small. At end-2022, the trading portfolio (CHF163 billion) and financial investments in the money market (CHF71 billion) together accounted for less than 7 percent of banks' total assets (CHF3.5 trillion). This ratio was even lower for domestically-focused banks. Also, considering the large amount of liquid assets (cash/deposits/postal accounts) held by Swiss banks (CHF540 billion at end-2022), they do not seem particularly vulnerable to risks arising from revaluation of held-to-maturity securities.

[13] After Project Helvetia and Project Jura, the SNB has continued its exploration of design aspects, use cases and policy implications for central bank digital currencies (CBDC), with two pilots (Project Mariana and Project Tourbillon) ongoing.

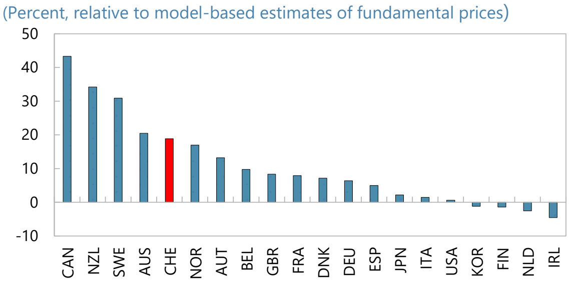
[14] According to the SNB Financial Stability Report 2022, UBS and CS's market shares of domestic deposits were 16 and 14 percent, respectively, in 2021; their shares of domestic loans were 14 and 13 percent, respectively.

resolvability assessment for the merged UBS-CS and revise the resolution plan, as UBS will become a much larger GSIB. In time, a careful review and analysis of the case and lessons learned—both for Switzerland and internationally—are necessary. In this context, there will be various forthcoming reviews conducted by the authorities, FSB peers, and possibly others. A careful analysis of the case and its implications on the Swiss and international supervisory and regulatory frameworks should include the prolonged and ultimately unsuccessful efforts of CS management to address long-standing risk-management failings and the Swiss supervisor's actions (or inaction) based on existing enforcement provisions and resources. The reviews should also analyze the implications of the merger for the Swiss and global TBTF regime, including on supervisory intrusiveness, recovery planning and activation, contingency arrangements and coordination, resolution preparedness and tools, liquidity in resolution, shareholder rights and predictability of creditor treatment and hierarchy, predictability of resolution actions, and communication strategies. For accountability to taxpayers, the cost of the merger and the extent of recoveries, if any, should be disclosed to the public on an ongoing basis.

26. Residential real estate market imbalances remain elevated, although high prices can be partly explained by structural factors. Supply constraints and demographic factors have contributed to rising house prices; recent policy rate increases are expected to pass through to mortgage rates and help cool the market. In case vulnerabilities continue to build, the authorities should urge banks to tighten prudential tools (e.g., raise LTV/DSTI requirements) within the self-regulation framework and consider activating the broad-based CCyB, given that the sectoral CCyB is already at the 2.5-percent maximum. To effectively address rising risks, they should expand the legally-mandated macroprudential toolkit, and advance supply-side actions, including easing constraints (zoning flexibility, infrastructure investment), providing targeted subsidies (e.g., for new construction), and expanding social housing. Commercial real estate (CRE) prices have not declined overall, but developments have varied depending primarily on location. Banks' exposures to CRE mortgages are much smaller than residential mortgages.

House Price Misalignments, 2022Q2

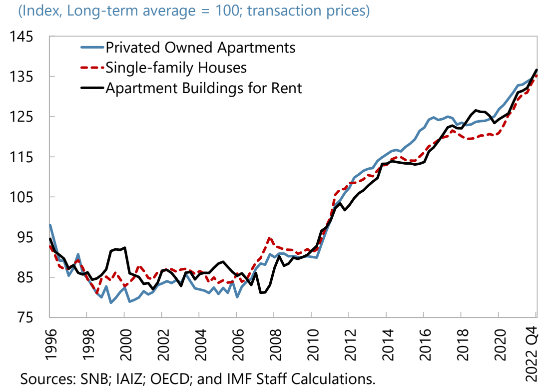
(Percent, relative to model-based estimates of fundamental prices)



Sources: Haver Analytics, OECD, BIS, IMF WEO;and IMF staff calculations.
Note: The misalignments in house prices are estimated using a linear regression model developed by the IMF's Research Department. Fundamental prices are estimated using mainly demand-side variables, including income and populationg growth, credit growth, interest rates, and equity prices.

Price-to-Income Ratio

(Index, Long-term average = 100; transaction prices)



Sources: SNB; IAIZ; OECD; and IMF Staff Calculations.

27. Further efforts to implement recommendations from the 2019 Financial Sector Assessment Program (FSAP) are necessary to enhance financial resilience (Annex IV). Among other areas, key points include: (i) strengthening FINMA's autonomy, governance, and accountability, preserving the primacy of its prudential mandate; (ii) ensuring FINMA-led, risk-focused, in-depth, forward-looking supervision; (iii) providing an explicit early intervention framework addressing material qualitative supervisory concerns with appropriate triggers and measures; and (iv) improving bank recovery and resolvability, including by increasing resources and enforcement powers for recovery and resolution planning. The authorities have made some progress including: (i) planned full implementation of Basel III by January 2025; (ii) enhanced data collection for credit, insurance, investment funds, and Fintech; and (iii) preparation and emergency adoption of the public liquidity backstop. However, given elevated risks, further and expedited progress is needed to safeguard financial stability, including to ensure an autonomous, fully-resourced supervisor that has the power to conduct in-depth risk-based assessments and enforce its findings. This would help enforce Switzerland's standing as predictable, well-governed, financial center.

Authorities' Views

28. The authorities broadly agreed with staff's assessment of financial sector vulnerabilities and recommendations. They viewed the CS event as idiosyncratic and mostly related to loss of confidence in the bank. The merger was considered as a better solution than resolution or nationalization in restoring market confidence and preventing a crisis. The authorities expect the merger to be concluded in the near term and agreed with staff on the need to closely monitor implementation and impacts on the Swiss economy. They intend to review the TBTF framework (with a focus on recent events) over the coming year and emphasized the importance of comprehensiveness over speed. Like staff, the authorities considered rising house prices as partly supported by structural factors, but also noted vulnerabilities in the residential real estate market. They assessed the current macroprudential measures as sufficient, but agreed to continue monitoring mortgage risks and reviewing whether further measures are necessary. The authorities acknowledged the need to monitor risks related to NBFIs and Fintech. Efforts have been made on improving regulatory data collection in this area. On FSAP recommendations, the authorities highlighted the progress made and noted that some of the areas would be revisited in the planned reviews.

Energy, Climate Change, and Sustainable Finance

29. The authorities took preemptive measures to address energy security in the short term, but further efforts are needed to ensure a secure, low-carbon energy system in the medium and long term. Short-term measures targeted possible gas shortages due to Russia's war in Ukraine, as well as potential electricity shortages during winter peak hours. These will be maintained for the next winter season, as reflected in the budget. Specifically, the authorities procured reserve generation capacity from hydropower plants and commissioned a reserve (gas) power plant. They also passed emergency measures, valid until 2025, to incentivize development of utility-scale solar PV plants in Alpine areas. In the longer term, the authorities aim to further expand renewable capacity and strengthen security of supply through legislation currently under parliament consideration. Specifically, it is considering simplified permitting procedures for renewable power generation. Further consideration should be given to expanding the transmission network to integrate additional generation capacity.

30. Timely passage of the revised proposal for the Third CO_2 Act is critical to emission reductions over 2025–2030. Since 2021, emission reduction has relied on an 'emergency' extension of the CO_2 Act (through 2024). This followed rejection of a previous revision by referendum and avoided a vacuum but only partly substituted—in stringency and policy instruments—for measures that would otherwise have come into force. The revised proposal for the CO_2 Act, now in parliament, aims to provide the framework for emission reductions between 2025–2030. Unlike the previous proposal, it does not include new taxes or revisions to existing environmental taxes or carbon-pricing mechanisms and instead focuses on targeted support for emission-reducing investments in the buildings and transport sectors. The new law also requires regulators to report on climate and associated financial risks; FINMA and SNB must report on risks for Swiss financial institutions.

31. The Climate Protection Act (CPA) would be a welcome step toward a framework for emission reductions beyond 2030, but prompt work on mitigation policies and measures is needed to ensure alignment of sectoral emissions pathways with sector targets through 2040. The CPA specifies intermediate (2040) emissions targets for certain sectors and institutional arrangements (e.g., regulating competencies among the private sector, federal government, and cantons). The law, if supported by a public vote in June 2023, would come into force in 2025. The law is necessary, but not sufficient, to mobilize capital investments this decade needed to achieve the 2050 emissions objectives. Discussion and development of specific measures to be in place beyond 2030 should start as soon as possible.

32. Switzerland has implemented several regulations to align its domestic financial industry with the goals of the Paris Agreement and establish itself as a leading center of sustainable finance. Following similar developments in other jurisdictions (e.g., EU), Switzerland took steps to improve disclosure of climate-related information on financial instruments. In November 2022, the Federal Council adopted an Ordinance on Climate Disclosures to come into force in 2024. Large public companies, banks, and insurance companies will have to report on both the effects that climate change has on them and the impact of their activities on climate change ("double-materiality"). Furthermore, CPA provisions commit Switzerland to ensure that its financial industry contributes to a low-carbon development (Art. 9.1) and authorizes the Federal Council to conclude agreements with the financial industry to align financial flows with climate objectives (Art. 9.2). The authorities have outlined action plans for 2023–25, focusing on ensuring availability of sustainability data from all sectors, increasing transparency in the financial sector, encouraging impact investments and green bonds, supporting global carbon-pricing initiatives, and preventing greenwashing.

Authorities' Views

33. The authorities broadly agree with staff's assessment of Switzerland's mitigation policy and recommendations. They underscored the important role of measures in the proposal for a Third CO_2 Act to achieve 2030 emissions targets and the need to start preparatory work on measures for emission reductions beyond 2030 in a timely manner. They also acknowledged the substantial investment needs to reach the 2050 emission reduction targets, and as a result: (i) the necessity to provide the policy framework to mobilize private capital at a pace and scale consistent with the targets and in the most efficient manner; and (ii) the possibility that additional measures may be needed in the medium term to facilitate transition away from carbon-intensive technologies and processes.

Labor Market and Pension Reforms

34. Easing the tight labor market will be key to keeping inflation in check and preventing labor shortages becoming a competitiveness bottleneck. While in the near-term, cross-border workers and immigration are compensating for demographic challenges, the authorities should continue to promote broader/longer participation, lower early retirement incentives, remove disincentives for hiring/retaining older workers, improve childcare support, and ease tax disincentives for dual-earner families. Active labor market policies should target skill acquisition adapted to demand.

35. The Pillar 1 pension reform package passed in 2022 was an important step towards ensuring sustainability, but further actions will be needed. While the recently approved reforms are expected to ensure sufficient financing for Pillar 1 pensions through 2030, long-term demographic pressures and the need to guard against future shocks call for additional measures. Parliament-mandated plans to develop proposals by 2026 for further Pillar 1 reforms to ensure sustainability beyond 2030 are a step in the right direction. Pillar 2 reforms are also needed. Parliament approved a set of measures in March 2023, but the bill is expected to be subject to a referendum next year. Measures in the bill—including lowering the conversion rate, enrollment age, and the contribution salary threshold—could help improve coverage and sustainability.

Authorities' Views

36. The authorities broadly agree with staff's assessment and recommendations, but stressed that there is no quick fix to these structural challenges. While various labor market reforms have been implemented, the participation rate is already high, and it is difficult to alter work-leisure preferences given the high level of income and ingrained cultural/societal norms. Thus, boosting labor productivity is crucial in the context of likely high, long-term, labor market pressures. The authorities stressed that the Pillar 2 minimum conversion rate affects only the compulsory pension scheme; most pension funds already apply much lower conversion rates. They further highlighted that the complexity of the Pillar 2 reform measures, including the different ways some measures affect different cohorts, may complicate adoption. They indicated that reforms to Survivor's Insurance are being considered.

External Relations

37. Continued engagement with the EU, including political dialogue, exploratory talks, and technical discussions, has yielded progress. The two sides have agreed on a Swiss-proposed "package-based approach" for future negotiations. While open questions remain, notably regarding dynamic alignment with EU laws, the Federal Council has requested preparation of key parameters for a negotiation mandate with the EU by June. Meanwhile, the authorities have continued remedial measures to counteract negative impacts from the current situation—e.g., non-extension of stock exchange equivalence, non-update of mutual recognition for medical devices—including participation in EU programs such as Horizon Europe as a non-associated third country.

38. Recognizing the rising risk of geo-economic fragmentation, the authorities aim to strengthen the economy's resilience through further diversification. This includes not only expansion and modernization of their Free-Trade-Agreement network, but also new forms of bilateral/multilateral cooperation with other countries and partners. These efforts will be complemented by unilateral measures, such as removing import duties on non-agricultural products and maintaining strategic reserves of essential goods.

Authorities' Views

39. The authorities largely agreed with staff's assessment. They hope to advance EU engagement and stressed the importance of involving domestic stakeholders in the process. They emphasized the need for cooperation, not isolation, to strengthen supply chains and are committed to promoting a rules-based international economic and trade system. Following increased discussion on neutrality sparked by Russia's war in Ukraine, the Federal Council released a report providing clarity and guidance on neutrality policy, concluding that the current practice provides sufficient scope to use neutrality as an instrument of Swiss foreign and security policy in the current international context. At the same time, they also noted that Switzerland remains committed to providing aid to Ukraine, including refugee relief, humanitarian assistance, organizing and participating in international forums, and long-term support for future reconstruction. Swiss sanctions on Russia and Belarus are aligned with those of the EU.

Governance and Transnational Aspects of Corruption

40. Reviews of COVID-era support have continued. The Federal Audit Office has played a leading role in examining all major COVID-support measures. Other agencies have also evaluated different aspects of COVID support. The results published so far show that COVID-support measures were appropriate and effective, with room for improvement in some areas, such as transparency, third-party involvement, and due diligence in settlement of COVID testing costs. Instances of misuse have been detected in about 9 percent of cases inspected on site, leading to a return of over CHF150 million.

41. Some progress has been achieved in strengthening AML/CFT, but more needs to be done. An important step in 2022 was the start of work on legislation to establish a central register for beneficial ownership information. The latest revision of the AML/CFT Act, effective January 2023, explicitly requires financial intermediaries to verify the identity of beneficial owners and to update client data regularly. The authorities should further strengthen their framework, notably by refining the conditions governing appeals by interested persons in the framework of mutual legal assistance, and extending the AML provisions to lawyers, notaries, and fiduciaries providing non-financial services.

42. Initiatives to strengthen the framework to combat bribery of foreign officials are encouraging, but they still need to materialize. Regarding the maximum fines for legal persons, the Interdepartmental Working Group on Combatting Corruption is considering possible solutions to increase the ceiling of sanctions applicable to companies and to ensure better enforceability in practice. There is awareness of the need to strengthen whistleblowers protection and on the need of defining the appropriate legal framework. A parliamentary motion has been submitted with this aim, but the discussion is not on the agenda yet. Changes are still pending to ensure external auditors are required to report indications of foreign bribery to company's management (accounting standards).

Authorities' Views

43. The authorities reiterated commitment to sound COVID spending, learning lessons for future crisis management, and further strengthening the AML/CFT and anti-corruption frameworks. They noted that draft legislation is in train, including on transparency of beneficial ownership information and expansion of the AML toolkit to legal professions. The CHF5 million ceiling for fines on legal persons may appear lenient relative to other jurisdictions with higher (or no) caps, but does not apply to confiscation, which is not capped. Solutions based on OECD Working Group on Bribery (WGB) recommendations to increase the ceiling of sanctions applicable to companies and to strengthen whistleblower protection are being considered.

STAFF APPRAISAL

44. Switzerland is facing continuing challenges in 2023. Growth is expected to slow further, inflation is above the price stability range, risks are tilted to the downside, and uncertainty is high. The main drags on growth are the weak global outlook, tighter monetary policy, and cooling of pent-up demand. The tight labor market, wage pressures, and rent increases linked to higher mortgage rates may keep inflation above 2 percent until 2024. The 2022 external position is assessed as broadly in line with medium-term fundamentals and desirable policies. Lower growth and more persistent inflation are important risks, including resulting from an abrupt global slowdown and prolonged high inflation elsewhere; a sharp correction in housing prices or negative shifts in global financial markets could lead to financial stress and economic slowdown. Geopolitical risks, such as potential escalation of Russia's war in Ukraine, and geo-economic fragmentation are also significant concerns.

45. The authorities' expansionary fiscal stance but a continued surplus for 2023 is appropriate given the slowing economy and underlying factors. Expected zero SNB profit transfers result in a significant drop in expected revenues, bringing down the fiscal balance amidst continued spending on energy security and refugees. If downside risks materialize, automatic stabilizers should be allowed to operate, and targeted, timebound, and non-distortionary support to households and firms could be considered. The authorities' plans to amortize past extraordinary spending with extension of the amortization period represent a balanced path to avoid excessively headwinds while maintaining credibility of the existing framework. Credit guarantees in connection with the CS-UBS merger will only affect the fiscal position if called.

46. The authorities need to address significant medium- and long-term spending needs—for aging, climate, energy and national security— without resorting to borrowing or extraordinary spending. Addressing these will require a clear medium-term plan on how space will be created to maintain structural balance. Recent measures to generate savings are expected to balance the budget in 2024, but structural deficits remain for 2025–26, requiring additional measures. Further measures will be needed thereafter. Ongoing tax reforms aim at improving efficiency, removing distortions and introducing international initiatives, but given significant medium-term spending needs, they should preferably not lead to overall revenue losses.

47. The SNB's response to higher inflation has been appropriate and should continue to be data-driven going forward. Policy rate hikes, liquidity absorption via repos/bills, and recent net sales of FX have all contributed to monetary policy tightening. The SNB should continue to tighten if second-round effects persist. If facing depreciation pressures, the SNB could continue to reduce FX holdings to help contain inflation while also reducing the balance sheet and associated risks. It should refrain from using FXIs to curb franc appreciation, unless necessitated by excess market volatility. In the case of more persistent inflation, the SNB should raise rates further to keep expectations anchored. Enhanced communications, including more frequent publication of data on FXIs, would be useful in guiding the market and achieving policy objectives. While the SNB's financial loss in 2022 will not impede monetary operations and recapitalization risk is low, the SNB should maintain regular reviews of its investment strategy and adequate safeguards.

48. The authorities took decisive actions to address financial stability concerns and potential spillovers from challenges faced by Credit Suisse. Effective consolidation of UBS and CS businesses will be critical, including in light of risks to the public sector. The authorities will need to closely monitor the implementation of the merger, including the impact on Swiss bank funding costs and credit flows in the near term, and on the competitive provision of credit and other financial services to the Swiss market and sub-segments over the medium term. It will be important to conduct a resolvability assessment for the merged UBS-CS and update the resolution plan for UBS, as it will become a much larger GSIB. In addition, in time, a careful review and analysis of the case and lessons learned—both for Switzerland and internationally—is necessary. In this context, various forthcoming reviews by the authorities, FSB peers, and possibly others provide a good opportunity. These reviews should focus on the prolonged and ultimately unsuccessful efforts of CS management to address long-standing risk-management failings, the Swiss supervisor's actions based on existing enforcement and early intervention provisions and resources, as well as, supervisory intrusiveness, recovery planning and activation, contingency arrangements and coordination, resolution preparedness to use various resolution tools, liquidity in resolution, shareholder rights and predictability of creditor treatment and hierarchy, predictability of resolution actions, and communication strategies. In addition, the cost of the merger and the extent of recoveries, if any, should be disclosed to the public on an ongoing basis.

49. Aside from CS, banks and NBFIs have sufficient buffers, but risks have risen amidst rising interest rates, slower growth, weaker global confidence, and high real estate prices. Banks and insurers have shown resilience in stress tests, and NPLs are low. NBFIs appear broadly sound, but they face potential risks from exposure to managed products and interlinkages during global financial turmoil. Real estate market imbalances remain elevated, partly driven by structural factors. Higher interest rates are expected to cool the market; but if vulnerabilities continue to build, the authorities should activate the broad-based CCyB and urge banks to tighten prudential tools within the self-regulation framework. The authorities should also consider expanding the macroprudential toolkit with legally-mandated tools, while affordability concerns should be addressed through supply-side measures. If downside risks materialize, banks should be encouraged to use their buffers to absorb losses and to maintain credit flow. Further efforts on closing regulatory data gaps are warranted to better monitor risks.

50. Further efforts on implementing recommendations from the 2019 FSAP are necessary to safeguard financial stability. The authorities have made progress, but further and expedited action is needed, with an overall objective to ensure an autonomous and fully resourced supervisor with the power to conduct in-depth risk-based assessments and enforce its findings, while strengthening resolution and crisis management arrangements. In the context of elevated financial sector risks, this would help enforce Switzerland's standing as predictable, well governed, financial center.

51. Short-term energy security risks have been addressed, but timely actions will be needed to ensure secure supply while emissions are reduced. The authorities have taken steps to ensure energy security and reduce emissions in the short-term. In the medium- and long-term, security of energy supply hinges on measures to avoid infrastructure development bottlenecks, including expansion of the transmission network. Timely passage of the revised proposal for the Third CO_2 Act is also important. Switzerland has also taken important steps to improve disclosure of climate-related financial information, which should facilitate accurate valuation of assets in light of climate risks.

52. The tight labor market highlights the importance of reforms, while further actions are needed to strengthen pension sustainability. Easing the tight labor market will be key to keeping inflation in check and preventing labor shortages from becoming a competitiveness bottleneck. Given demographic trends, boosting productivity will be crucial, along with raising participation and reducing skill gaps. The pension reform package passed in 2022 is expected to ensure sufficient Pillar 1 financing through 2030. Future reforms should focus on sustainability of Pillar 1 beyond 2030 and on Pillar 2.

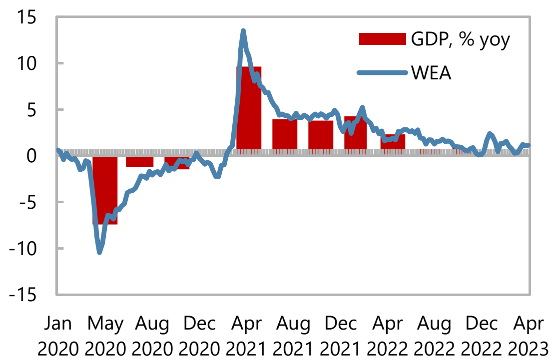
53. Continued dialogue with the EU has yielded progress, and the authorities' strategy to address geo-economic fragmentation risks through diversification is welcomed. The "package-based" approach for future negotiations may lead to outcomes that give clarity on EU relations and Swiss access to the EU single market. The authorities recognize fragmentation risks and aim to strengthen resilience through expanding and modernizing the free-trade-agreement network and other bilateral and multilateral cooperation, supported by removing import duties and maintaining strategic reserves.

54. It is recommended that the next consultation takes place on the regular 12-month cycle.

Figure 1. Switzerland: High Frequency and Leading Economic Indicators

Recovery continued in 2022, with a weakened momentum

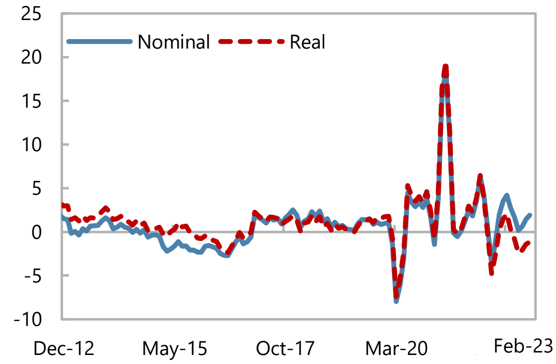
Weekly Economic Activity Index



Retail sales contracted in real terms

Retail Sales (3mma) Growth

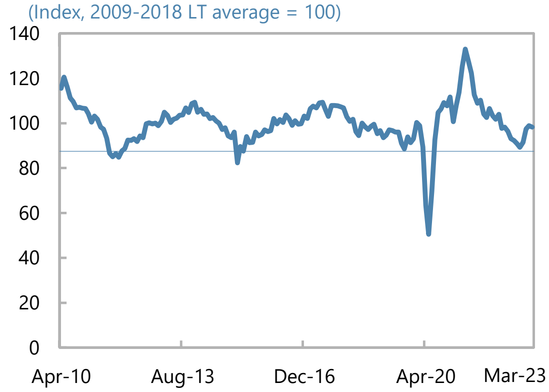
(Annual growth, % yoy)



Activity receded, but picked up slightly in recent months

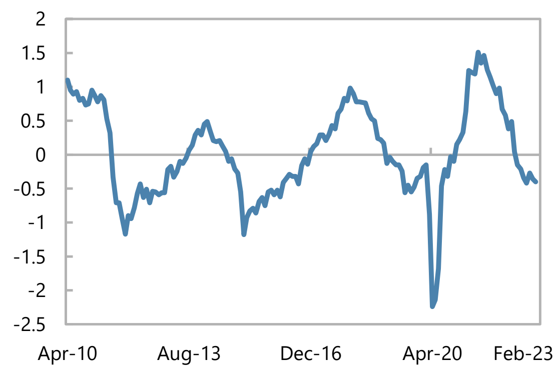
KOF Economic Barometer

(Index, 2009-2018 LT average = 100)



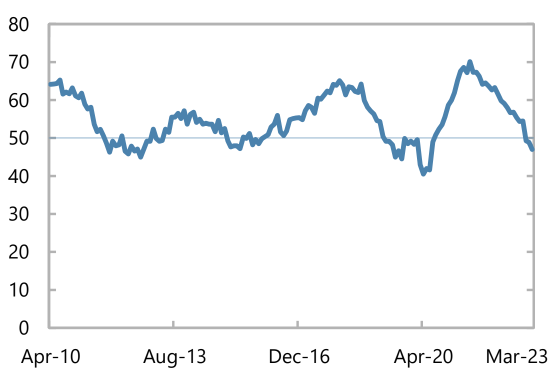
Confidence indicators also have weakened

Swiss Economic Confidence Indicator (SECO)



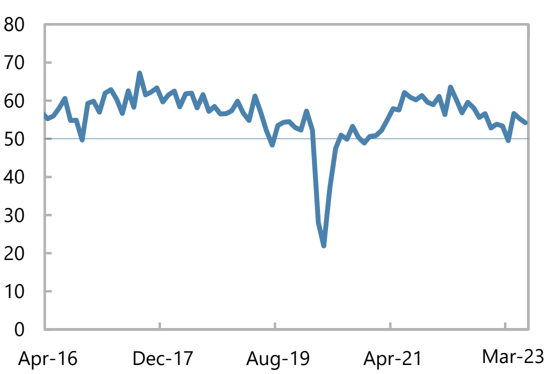
While manufacturing PMI continued to slide…

Procure.ch PMI



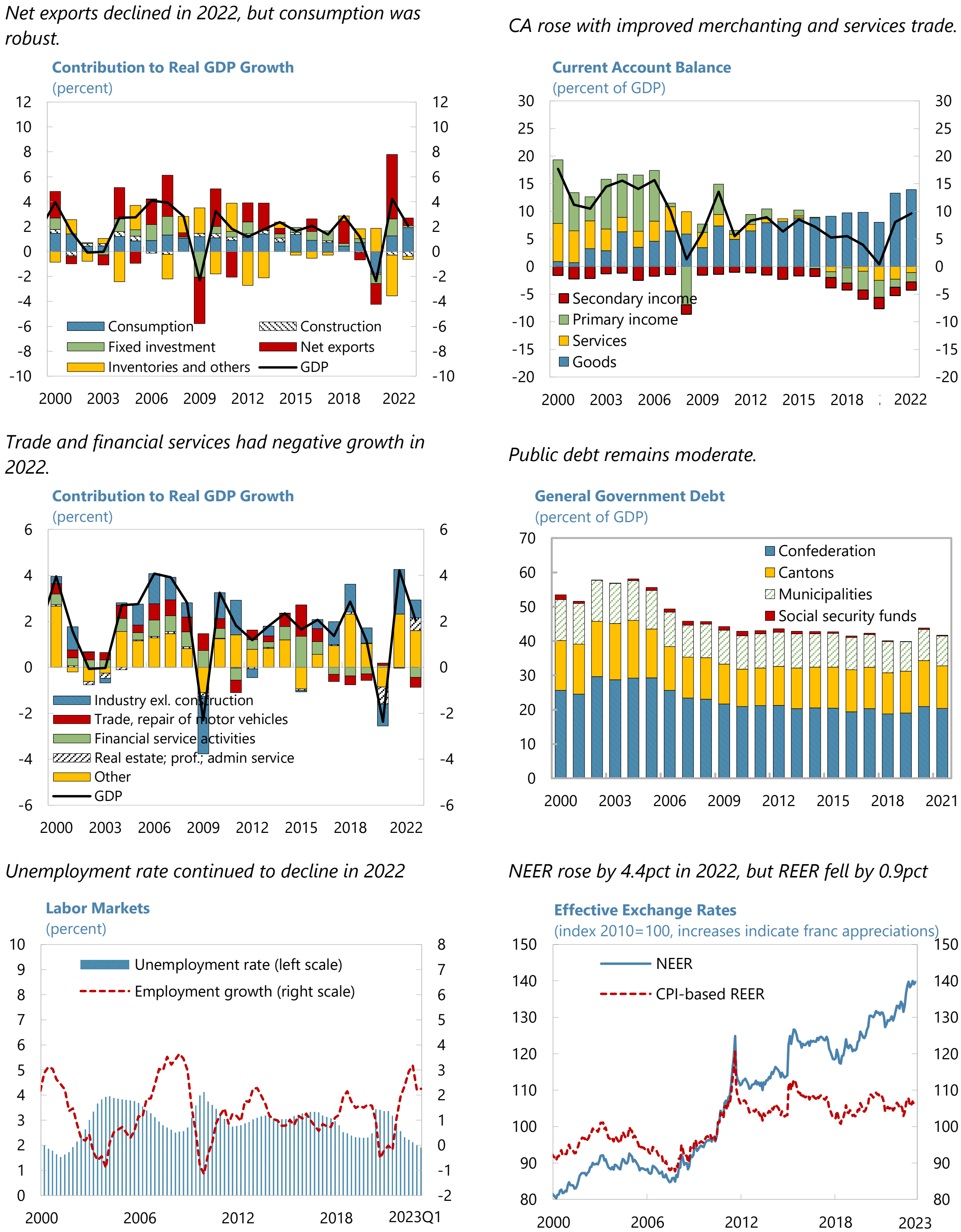
…services PMI saw a rebound

Procure.ch Services PMI



Sources: Haver Analytics; SECO.

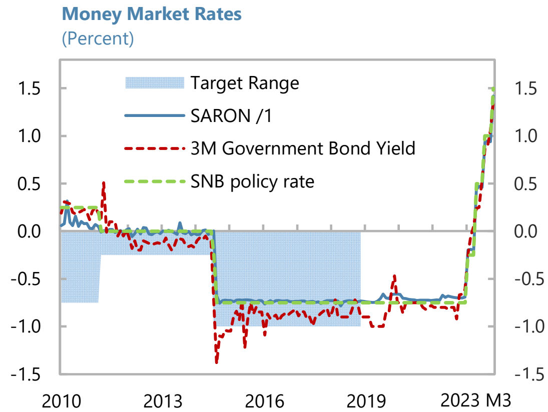
Figure 2. Switzerland: Key Macroeconomic Indicators, 2000–23



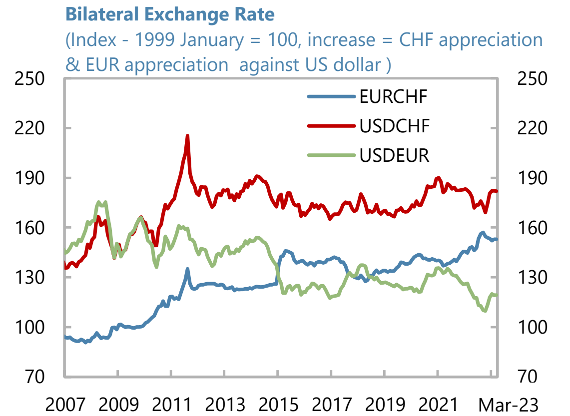
Sources: Haver Analytics; Federal Finance Administration; Information Notice System; State Secretariat for Economic Affairs; and Swiss National Bank.

Figure 3. Switzerland: Monetary Policy, 2007–23

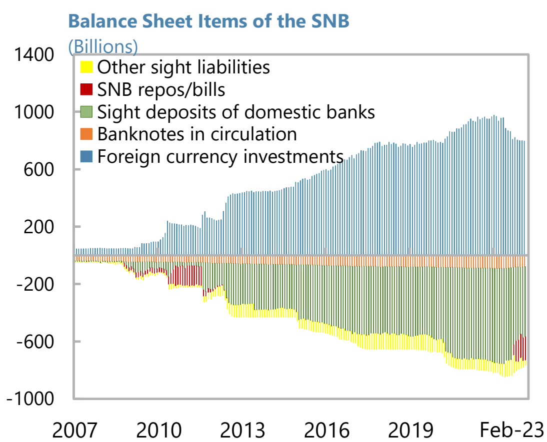
The SNB's policy rate was raised to 1.5 pct.



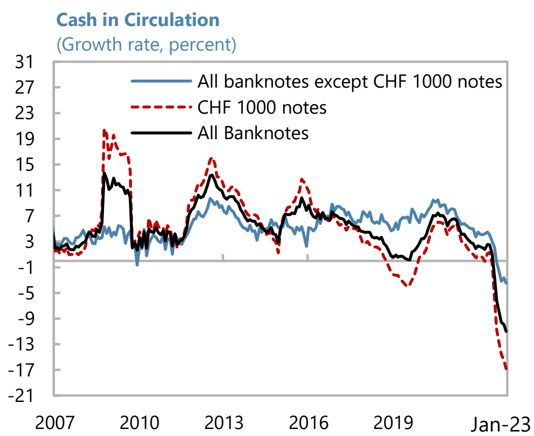
CHF strengthened (weakened) vs. EUR (USD) since 2022.



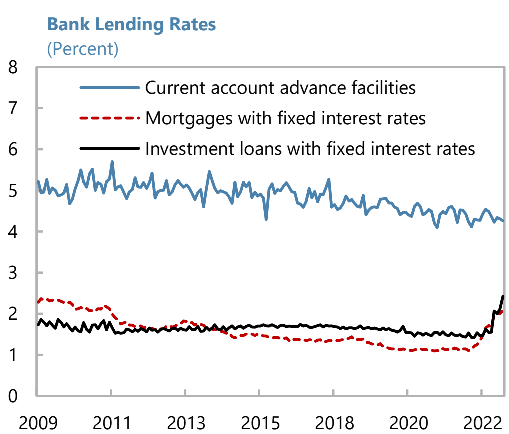
Valuation losses led to a large drop in FX reserves in 2022



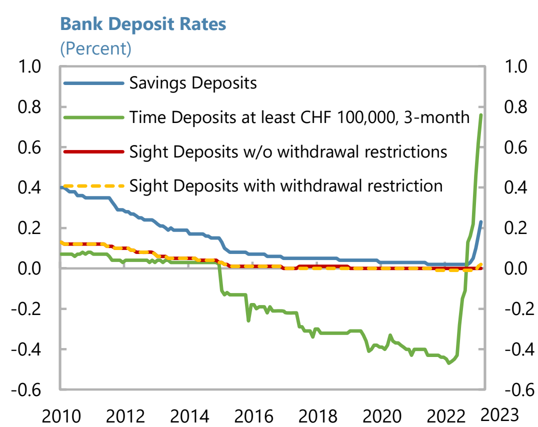
Cash in circulation declined along with interbank liquidity



Mortgage and investment loan rates were pushed higher…



…and rates for large deposits turned positive

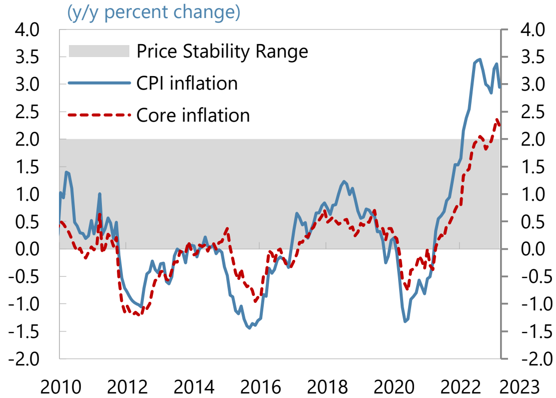


Sources: Swiss National Bank; Bloomberg Finance L.P; Haver Analytics; and IMF staff calculations.
1/ SARON (Swiss Average Rate Overnight) is an overnight average rate referencing the Swiss Franc interbank repo market.

Figure 4. Switzerland: Selected Inflation and Monetary Indicators, 2010–23

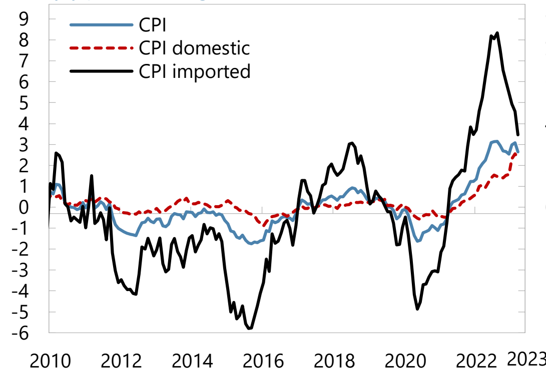
Inflation rose above the SNB's price stability range

Inflation
(y/y percent change)



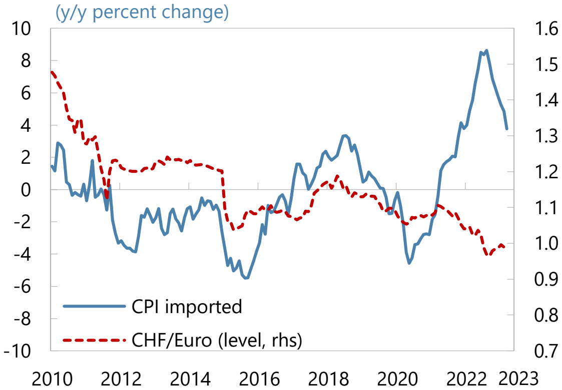
Import prices were initially the main driver, but domestic prices have recently picked up.

Inflation by Component
(y/y percent change)



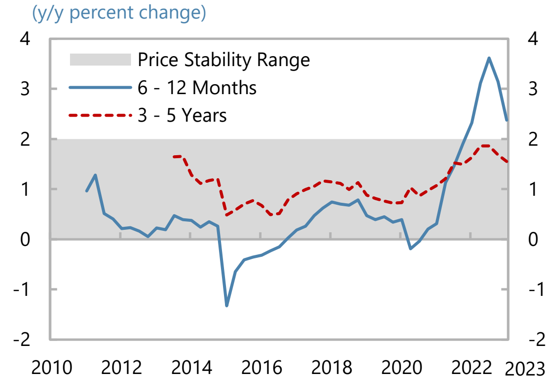
The euro exchange rate was not the main driver.

CPI Foreign Inflation and Exchange Rates
(y/y percent change)



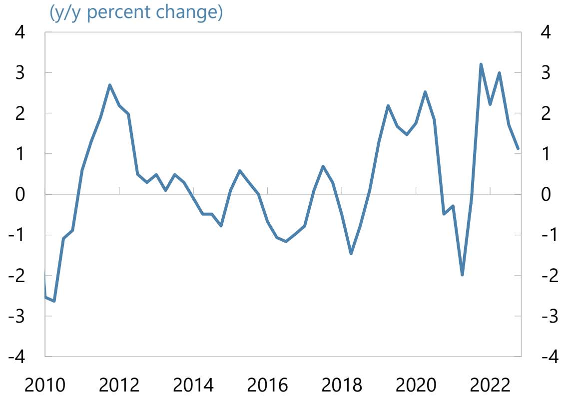
LT inflation expectations remained anchored

Inflation Expectations
(y/y percent change)



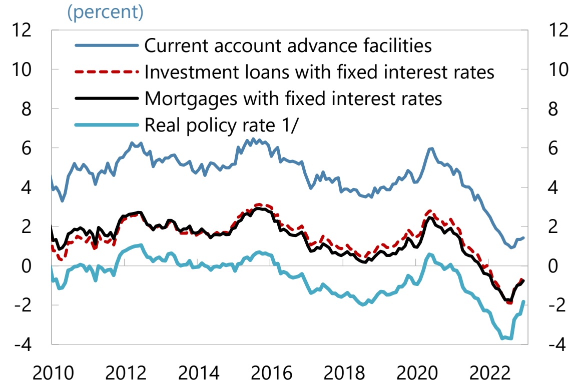
Pressures on labor costs have picked up

Unit Labor Costs
(y/y percent change)



Higher inflation led to smaller increases in real rates

Real Interest Rates
(percent)



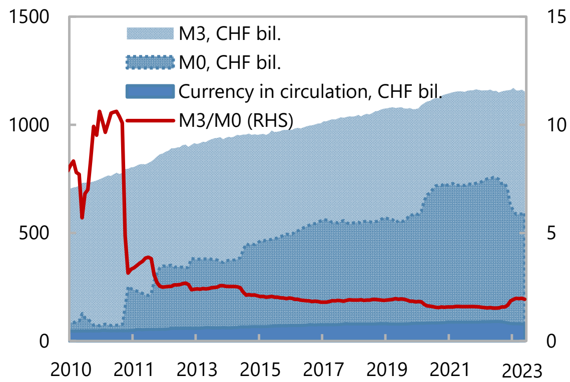
1/ Nominal rate minus inflation.

Sources: Haver Analytics; Swiss Federal Statistics Office; and Swiss National Bank.

Figure 5. Switzerland: Selected Financial Indicators, 2000–23

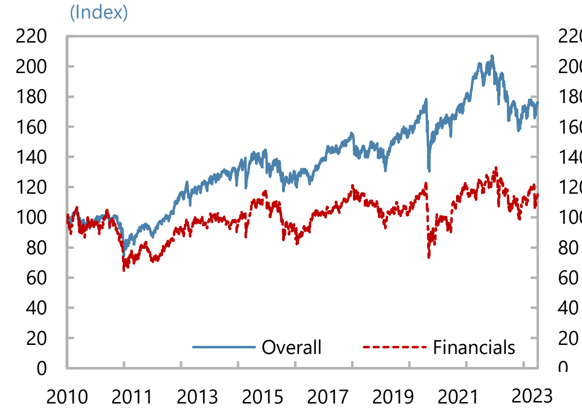
Money multiplier rose in 2022 as monetary base contracted

Money Supply and Money Multiplier



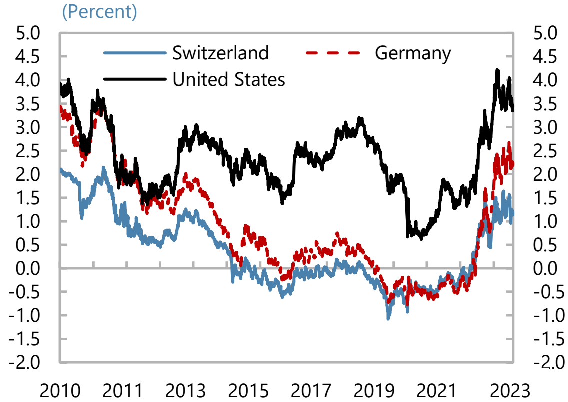
Stock market indices declined in 2022

Stock Market Indices
(Index)



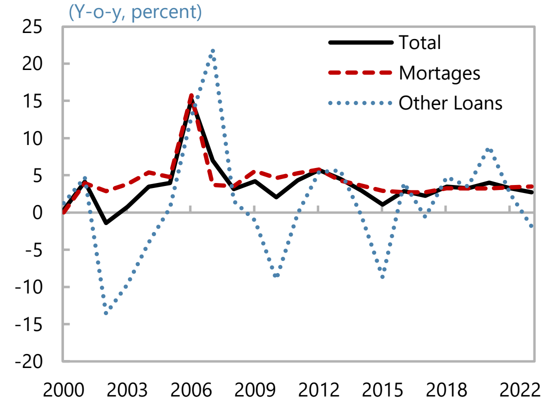
10-yr government bond yields rose to~1.6pct in 2022

10-Year Government Bond Yields
(Percent)



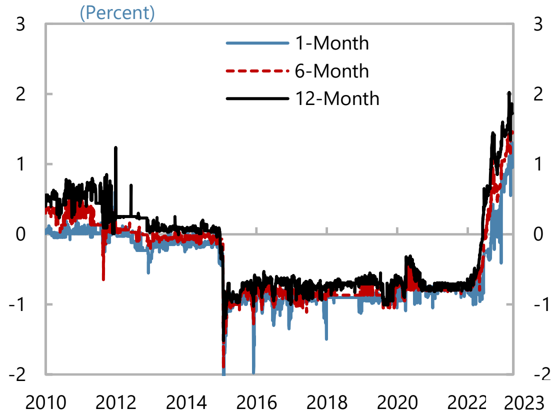
Mortgages growth remained robust

Domestic Credit Growth
(Y-o-y, percent)



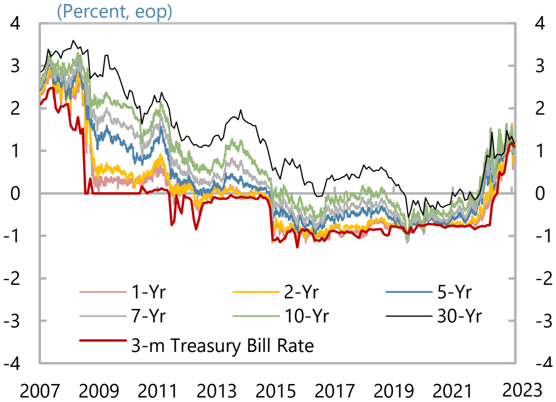
Short-term deposit rates have risen …

Short-Term Deposit Rates
(Percent)



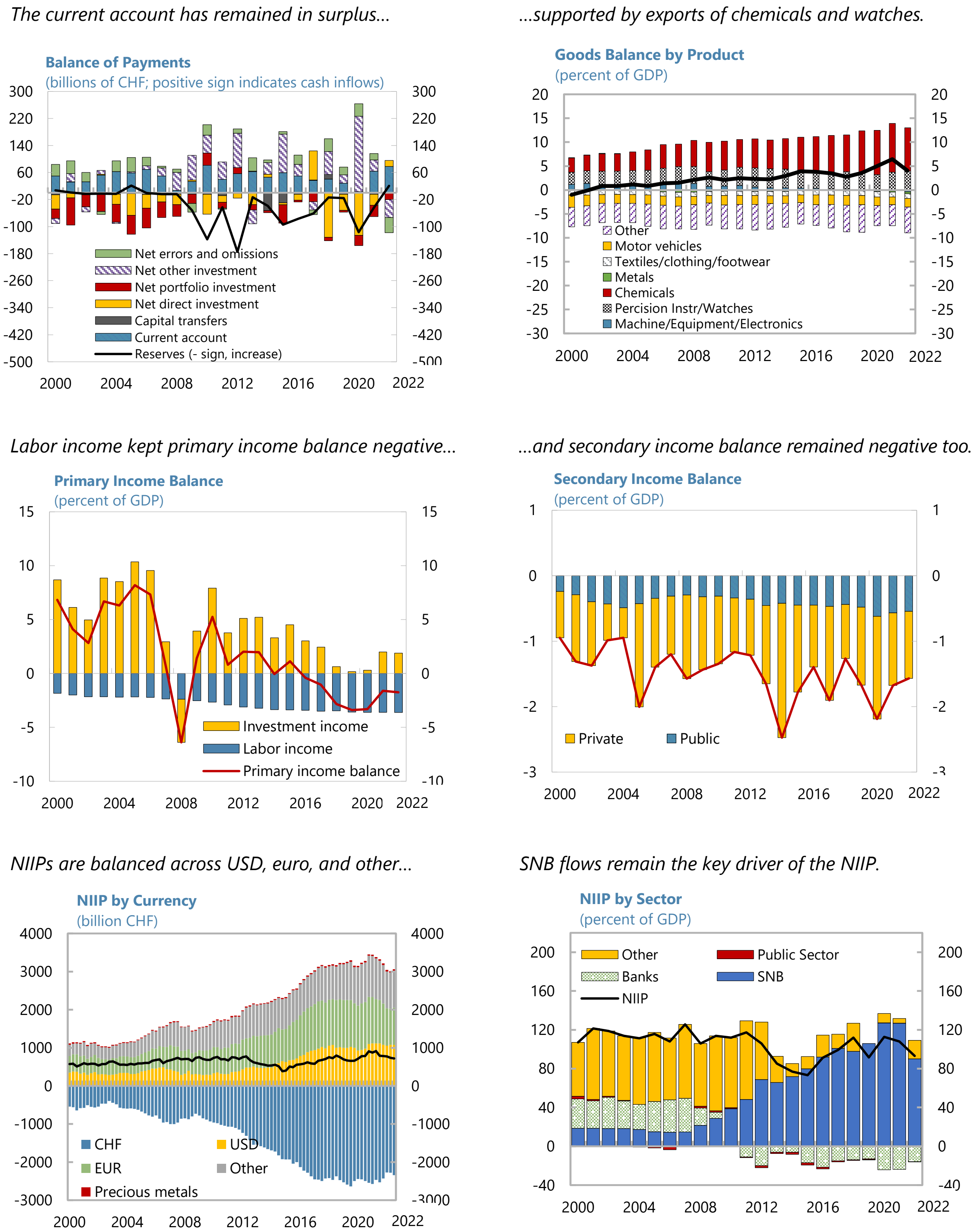
…as well as government bonds yields of all maturities

Government Bond Yields
(Percent, eop)



Sources: Thomson Reuters Datastream; Haver; and IMF staff calculations.

Figure 6. Switzerland: External Accounts, 2000–22

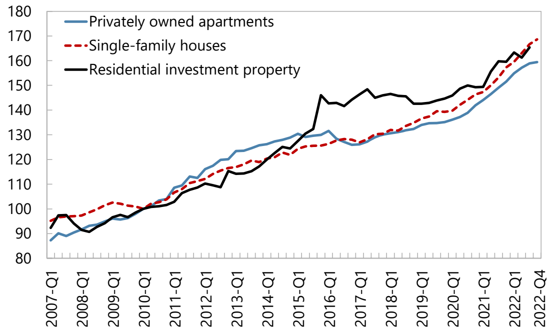


Sources: Swiss National Bank; Federal Customs Administration; and Haver Analytics.

Figure 7. Switzerland: Housing Markets, 1996–22

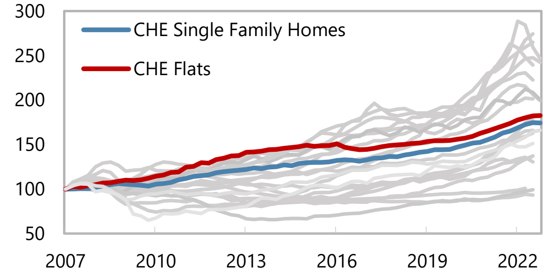
Prices continue to rise in all segments.

Residential Property Transaction Prices
(Index, 2010 Q1=100)



Some locales have stronger growth, others weaker

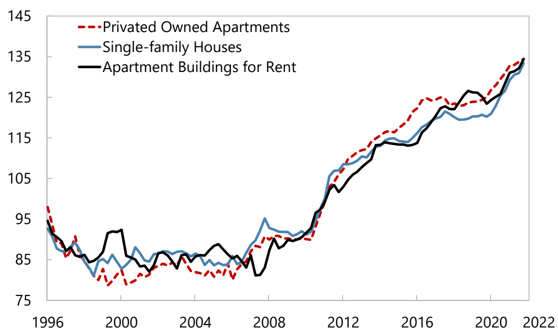
House Prices In Advanced Economies
(Index, 2007Q1=100)



Note: Shown in the chart are selected EU members and other advanced economies, including AUT, AUS, BEL, CAN, CHE, CHE, CYP, DEU, DNK, ESP, FRA, GBR, HRV, HUN, ITA, LTU, LUX, NLD, NZL, SWE, SVN, SVK, and USA.

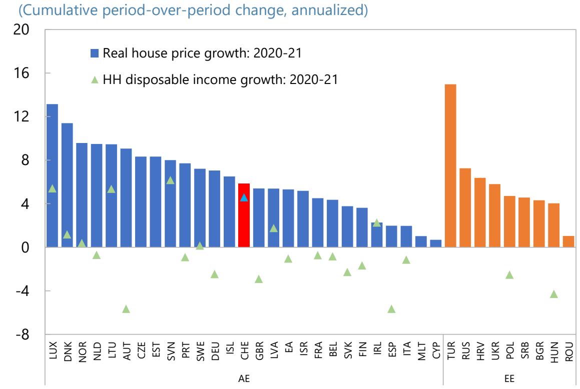
PTI ratios now ~35pct higher than historical averages.

Price-to-Income Ratio
(Index, Long-term average = 100; transaction prices)



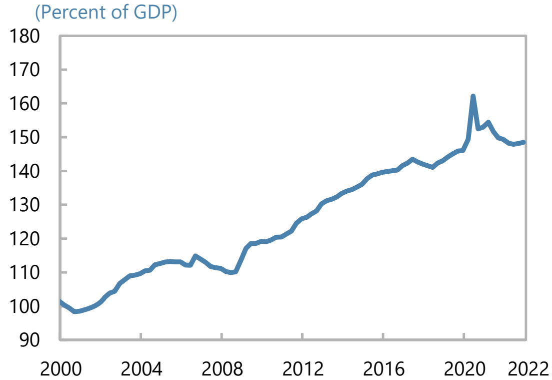
Switzerland shares RE risks with other European countries

Real House Price and Real HH Income Growth in Europe
(Cumulative period-over-period change, annualized)



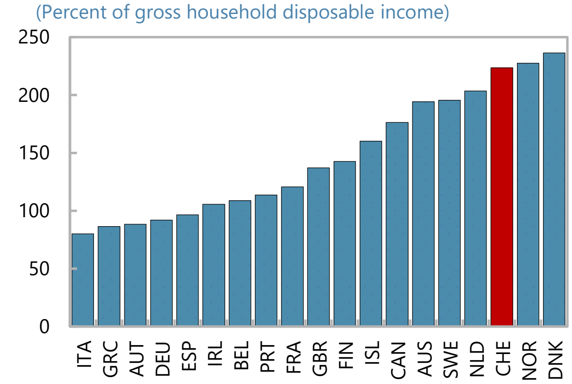
The mortgage-to-GDP declined somewhat since COVID

Mortgages
(Percent of GDP)



Household debt is high by international standards[1)].

Total Household Debt, 2021
(Percent of gross household disposable income)



Sources: Swiss National Bank; Wuest Partners; IAZI; BIS; OECD; Haver Analytics and IMF staff calculations. 1) While per capita household financial assets in Switzerland are two to three times higher than in neighbouring countries, per capita liabilities are three to four times higher.

Table 1. Switzerland: Selected Economic Indicators, 2017–27

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
							Staff projections				
Real GDP (Percent Change) 1/	1.4	2.9	1.2	-2.5	4.2	2.1	0.8	1.8	1.2	1.8	1.2
Total domestic demand	1.5	1.2	2.0	-0.5	-0.9	1.3	1.0	1.8	1.2	1.2	1.2
Private consumption	1.2	0.6	1.2	-4.2	1.7	4.0	1.8	1.2	1.1	1.1	1.1
Public consumption	1.0	0.8	0.8	3.5	3.5	-0.5	-1.0	-0.8	1.0	1.0	1.0
Gross fixed investment	3.6	0.8	0.9	-3.1	4.1	-0.7	1.0	1.4	1.5	1.5	1.5
Inventory accumulation 2/	-0.3	0.4	0.8	2.1	-3.0	-0.3	-0.5	0.7	-0.1	0.0	-0.1
Foreign balance 2/	0.1	1.8	-0.6	-2.0	5.0	1.0	0.0	0.3	0.2	0.8	0.2
Nominal GDP (billions of Swiss francs)	684.6	709.7	717.3	693.9	730.8	770.9	798.8	827.0	849.5	877.8	901.6
Savings and Investment (Percent of GDP)											
Gross national saving	31.2	31.2	30.2	30.3	35.0	35.6	33.9	34.6	33.9	34.1	33.6
Gross domestic investment	25.9	25.6	26.3	29.8	26.2	25.5	26.2	26.6	26.3	26.1	26.0
Household savings	10.5	9.9	11.0	15.0	14.0	...	...	...	...	...	...
Current account balance	5.4	5.6	3.9	0.4	8.8	10.1	7.8	8.0	7.6	8.0	7.6
Prices and Incomes (Percent Change)											
GDP deflator	-0.4	0.8	-0.1	-0.8	1.1	3.3	2.8	1.7	1.5	1.5	1.5
Consumer price index (period average)	0.5	0.9	0.4	-0.7	0.6	2.8	2.5	1.9	1.7	1.5	1.5
Consumer price index (end of period)	0.9	0.7	0.2	-0.8	1.6	2.9	2.2	1.9	1.7	1.5	1.5
Nominal hourly earnings	0.4	0.5	0.8	0.9	-0.2	1.8	3.0	1.2	1.0	1.0	1.0
Unit labor costs (total economy)	0.1	-0.7	1.6	1.6	-0.5	0.5	2.5	0.1	0.5	-0.1	0.5
Employment and Slack Measures											
Unemployment rate (in percent)	3.1	2.5	2.3	3.2	3.0	2.2	2.3	2.4	2.4	2.4	2.4
Output gap (in percent of potential)	-0.1	0.7	0.3	-1.7	-0.5	0.4	0.0	0.0	0.0	0.0	0.0
Capacity utilization	74.6	73.8	74.6	71.8	76.6	77.9	...	...	...	...	...
Potential output growth	1.8	1.8	1.8	-0.5	2.7	1.2	1.5	1.5	1.5	1.5	1.5
General Government Finances (Percent of GDP)											
Revenue	33.6	33.0	33.3	34.1	34.7	32.9	32.5	32.1	32.0	32.0	32.0
Expenditure	32.5	31.8	32.0	37.1	35.0	32.0	32.3	31.9	31.8	31.9	31.9
Balance	1.1	1.3	1.3	-3.0	-0.3	1.0	0.1	0.2	0.1	0.1	0.1
Cyclically adjusted balance	1.2	1.1	1.2	-2.4	-0.1	0.8	0.1	0.2	0.1	0.1	0.1
Gross debt 3/	41.8	39.8	39.7	43.3	41.7	41.4	39.9	38.3	37.2	35.9	34.9
Monetary and Credit (Percent Change, Average)											
Broad money (M3)	3.5	3.2	0.8	6.5	1.4	0.1	3.6	...	...	...	...
Domestic credit, non-financial	2.7	4.0	4.2	2.4	3.8	2.6	...	...	...	...	...
Three-month SFr LIBOR	-0.7	-0.7	-0.7	-0.7	-0.8	0.9	2.0	...	...	...	...
Yield on government bonds (7-year)	-0.3	-0.2	-0.7	-0.6	-0.4	0.6	1.7	...	...	...	...
Exchange Rates (Levels)											
Swiss francs per U.S. dollar (annual average)	1.0	1.0	1.0	0.9	0.9	1.0	...	...	...	...	...
Swiss francs per euro (annual average)	1.1	1.2	1.1	1.1	1.1	1.0	...	...	...	...	...
Nominal effective rate (avg., 2000=100)	122.4	120.4	123.2	130.2	129.9	135.9	...	...	...	...	...
Real effective rate (avg., 2000=100) 4/	106.1	103.2	104.2	108.2	105.5	105.8	...	...	...	...	...

Sources: Haver Analytics; IMF's Information Notice System; Swiss National Bank; and IMF staff estimates.

1/ The medium-term forecasts reflect the impact on Swiss GDP of major international sporting events, such as the Olympic Games, FIFA World Cup and UEFA European Championship.

2/ Contribution to growth. Inventory accumulation also includes statistical discrepancies and net acquisitions of valuables.

3/ Reflects new GFSM 2001 method, which values debt at market prices. Calculated as the sum of Federal, Cantonal, Municipal and Social security gross debts.

4/ Based on relative consumer prices.

Table 2. Switzerland: Balance of Payments, 2017–27

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
							Staff projections				
	(In billions of Swiss francs, unless otherwise indicated)										
Current Account	**37**	**40**	**28**	**3**	**64**	**78**	**62**	**66**	**64**	**70**	**69**
Goods balance	63	71	71	59	107	112	114	121	130	139	150
Exports	324	338	341	331	401	451	479	513	544	576	610
Imports	260	267	270	272	294	338	365	392	414	437	461
Service balance	-7	-2	-6	-18	-18	-9	-12	-15	-19	-19	-24
Net primary income	-7	-20	-24	-23	-12	-13	-26	-26	-32	-35	-42
Net secondary income	-13	-9	-12	-15	-12	-12	-14	-13	-14	-15	-15
Private Capital and Financial Account	**23**	**78**	**51**	**40**	**84**	**33**	**62**	**66**	**64**	**70**	**69**
Capital transfers	1	14	-4	1	-4	0	-2	-1	-2	-1	-2
Financial account	24	92	47	41	79	33	60	65	63	69	67
Net direct investment	-87	132	48	126	32	-18	-23	-40	-31	-36	-34
Net portfolio investment	26	10	5	30	34	20	27	23	25	24	25
Net financial derivatives	-1	4	2	-9	1	-2	0	-1	-1	-1	-1
Net other investment	24	-68	-24	-223	-32	53	56	83	70	81	77
Change in reserves	61	13	16	117	44	-21	0	0	0	0	0
Net Errors and Omissions	**-14**	**38**	**23**	**37**	**19**	**-45**	**0**	**0**	**0**	**0**	**0**
	(In percent of GDP, unless otherwise indicated)										
Current Account	**5.4**	**5.6**	**3.9**	**0.4**	**8.8**	**10.1**	**7.8**	**8.0**	**7.6**	**8.0**	**7.6**
Goods balance	9.3	10.0	9.9	8.6	14.6	14.6	14.2	14.6	15.3	15.8	16.6
Exports	47.3	47.6	47.5	47.7	54.8	58.4	59.9	62.0	64.0	65.6	67.7
Imports	38.0	37.7	37.6	39.1	40.2	43.9	45.7	47.4	48.7	49.8	51.1
Service balance	-1.0	-0.2	-0.9	-2.6	-2.5	-1.2	-1.5	-1.8	-2.3	-2.1	-2.6
Net primary income	-1.1	-2.8	-3.4	-3.3	-1.6	-1.7	-3.2	-3.2	-3.8	-4.0	-4.6
Net secondary income	-1.9	-1.3	-1.7	-2.2	-1.7	-1.6	-1.7	-1.6	-1.7	-1.7	-1.7
Private Capital and Financial Account	**3.3**	**11.0**	**7.2**	**5.8**	**11.4**	**4.3**	**7.8**	**8.0**	**7.6**	**8.0**	**7.6**
Capital transfers	0.2	2.0	-0.6	0.1	-0.6	0.0	-0.3	-0.1	-0.2	-0.2	-0.2
Financial account	3.5	13.0	6.6	5.9	10.8	4.3	7.5	7.8	7.4	7.8	7.5
Net direct investment	-12.7	18.6	6.6	18.1	4.4	-2.3	-2.8	-4.9	-3.7	-4.1	-3.7
Net portfolio investment	3.8	1.4	0.8	4.4	4.6	2.6	3.4	2.8	3.0	2.8	2.7
Net financial derivatives	-0.2	0.6	0.3	-1.4	0.2	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1
Net other investment	3.5	-9.5	-3.4	-32.1	-4.4	6.9	7.0	10.0	8.2	9.3	8.5
Change in reserves	9.0	1.9	2.2	16.8	6.1	-2.7	0.0	0.0	0.0	0.0	0.0
Net Errors and Omissions	**-2.0**	**5.3**	**3.2**	**5.4**	**2.6**	**-5.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:											
Net IIP (in percent of GDP)	99.3	111.9	91.6	112.8	108.0	93.3	91.6	93.3	95.7	97.1	99.5
Official reserves											
(billions of Francs, end-period)	792.1	776.5	826.4	954.1	1014.1	…	…	…	…	…	…

Sources: Haver Analytics; Swiss National Bank; and IMF staff estimates.

Table 3. Switzerland: SNB Balance Sheet, 2012–22

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(Millions of Swiss francs; unless otherwise indicated)										
Assets											
Gold	50,772	35,565	39,630	35,467	39,400	42,494	42,237	49,111	55,747	55,691	56,099
Foreign currency reserves	432,209	443,275	510,062	593,234	696,104	790,125	763,728	794,015	910,001	966,202	800,566
IMF, international, and monetary assistance loans	7,332	6,834	6,664	6,486	5,903	5,577	5,889	6,026	7,121	14,821	14,395
Swiss franc repos	…	…	…	…	…	…	…	6,529	550	3,216	…
U.S. dollar repos	…	…	…	…	…	…	…	…	8,842	2,147	…
Swaps against Swiss francs	…	…	…	…	…	…	…	…	…	…	…
Money market, Swiss franc securities, other	9,121	4,709	4,845	4,965	5,095	5,110	5,214	11,805	26,159	20,062	10,317
Total assets	499,434	490,382	561,202	640,152	746,502	843,306	817,069	860,956	999,028	1,056,776	881,377
Liabilities											
Currency in circulation (banknotes)	61,801	65,766	67,596	72,882	78,084	81,639	82,239	84,450	89,014	90,685	81,697
Sight deposits	369,732	363,910	387,666	469,034	530,049	573,679	574,827	591,454	702,862	727,162	538,979
Repo, SNB bills and time liabilities	…	…	…	…	…	…	…	…	9,027	2,174	165,314
Foreign currency and other liabilities	9,825	12,682	19,635	37,183	53,841	50,821	39,770	17,970	14,175	32,506	29,620
Provisions and equity capital	58,075	48,023	86,305	61,053	84,527	137,168	120,232	167,083	183,951	204,249	65,768
Total liabilities	499,434	490,382	561,202	640,152	746,502	843,306	817,069	860,956	999,028	1,056,776	881,377
Memorandum Items:											
Nominal GDP (billions of Swiss francs)	644	655	666	668	678	685	710	717	695	732	771
Balance sheet, percent of GDP	77.6	74.9	84.3	95.8	110.1	123.2	115.2	120.1	143.8	144.4	114.3
Banknotes, percent of total liabilities	12.4	13.4	12.0	11.4	10.5	9.7	10.1	9.8	8.9	8.6	9.3
Refinancing operations, percent of total assets	…	…	…	…	…	…	…	…	…	…	…
Provisions and equity capital, percent of total assets	11.6	9.8	15.4	9.5	11.3	16.3	14.7	19.4	18.4	19.3	7.5
Monetary base 1/	284,381	360,765	375,305	455,863	504,140	551,849	549,374	564,161	674,297	725,618	706,823

Sources: Swiss National Bank; and IMF staff estimates.

1/ Currency in circulation and sight deposits of domestic banks.

Table 4. Switzerland: General Government Finances, 2018–27

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
						Staff projections				
	(In billions of Swiss francs, unless otherwise specified)									
General Government										
Revenue	234	239	237	254	254	259	266	272	281	288
Expenditure	225	229	258	256	246	258	264	271	280	288
Net lending/net borrowing	9	10	-21	-2	7	1	2	1	1	1
Confederation (Federal Government) 1/										
Revenue	78	80	75	86	83	84	87	88	91	94
Expenditure	73	74	92	93	84	88	89	91	94	96
Net lending/net borrowing	5	6	-17	-7	-2	-4	-3	-3	-3	-2
Cantons										
Revenue	95	97	100	108	106	109	111	114	118	121
Expenditure	93	94	104	106	102	107	110	112	116	119
Net lending/net borrowing	3	3	-4	2	4	2	2	2	2	2
Communes/Municipalities										
Revenue	49	49	49	51	52	53	54	55	57	59
Expenditure	49	50	51	51	52	53	54	55	57	59
Net lending/net borrowing	0	-1	-1	0	-1	0	0	0	0	0
Social Security 2/										
Revenue	64	65	78	74	72	74	76	77	80	82
Expenditure	63	64	77	73	67	71	73	75	78	81
Net lending / net borrowing	1	1	1	2	5	3	3	2	2	1
General Government Gross Debt 3/	282	284	301	305	320	319	317	316	315	315
Confederation (Federal government) 1/	133	137	145	149	163	166	169	164	165	165
Cantons	85	87	93	91	92	90	89	87	85	83
Communes/municipalities	65	62	63	64	65	65	65	65	65	65
Social security 2/	2	1	3	1	1	-3	-5	0	0	1
	(In percent of GDP)									
General Government Operations										
Revenue	33.0	33.3	34.1	34.7	32.9	32.5	32.1	32.0	32.0	32.0
Expenditure	31.8	32.0	37.1	35.0	32.0	32.3	31.9	31.8	31.9	31.9
Net lending/net borrowing	1.3	1.3	-3.0	-0.3	1.0	0.1	0.2	0.1	0.1	0.1
Confederation (Federal government) 1/	0.7	0.8	-2.5	-0.9	-0.2	-0.5	-0.4	-0.3	-0.3	-0.2
Cantons	0.4	0.5	-0.5	0.2	0.6	0.2	0.2	0.2	0.2	0.2
Communes/municipalities	0.0	-0.1	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Social security	0.1	0.1	0.1	0.2	0.7	0.4	0.4	0.3	0.2	0.1
General Government Gross Debt 3/	39.8	39.7	43.3	41.7	41.4	39.9	38.3	37.2	35.9	34.9
Confederation (Federal government) 1/	18.8	19.1	20.9	20.4	21.2	20.8	20.4	19.3	18.8	18.3
Cantons	12.0	12.1	13.4	12.4	11.9	11.3	10.7	10.2	9.7	9.2
Communes/municipalities	9.2	8.6	9.1	8.7	8.4	8.1	7.8	7.6	7.4	7.2
Social security 2/	0.2	0.1	0.4	0.2	0.1	-0.3	-0.7	0.0	0.0	0.1
Memorandum Items:										
Nominal GDP (billions of francs)	710	717	695	732	771	799	827	849	878	902
Output gap (percent)	1.4	1.3	-2.6	-0.3	0.4	0.1	0.1	0.1	0.1	0.1
General Government cyclically adjusted balance	1.1	1.2	-2.4	-0.1	0.8	0.1	0.2	0.1	0.0	0.0

Sources: Federal Ministry of Finance; and IMF staff estimates.

1/ Includes the balance of the Confederation and extrabudgetary funds (Public Transport Fund, ETH, Infrastructure Fund, Federal Pension Fund).

2/ Includes old age, disability, survivors protection scheme as well unemployment and income loss insurance.

3/ Forcasted.

Table 5. Switzerland: General Government Finances, 2011–22

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(In billions of Swiss francs, unless otherwise specified)											
Revenue	204.2	205.3	210.3	212.6	220.5	221.5	229.9	234.5	238.9	236.5	254.1	253.8
Taxes	125.5	126.1	129.1	130.9	135.9	138.0	144.6	146.9	151.2	145.5	156.0	155.8
Taxes on income, profits, and capital gains	75.7	76.2	78.3	79.3	83.7	85.0	89.9	91.9	95.5	89.9	94.6	94.5
Taxes on goods and services	38.3	38.3	38.6	38.8	39.1	38.9	40.2	39.9	39.9	39.5	46.7	46.6
Taxes on property	9.8	9.9	10.4	10.9	11.2	12.0	12.4	12.8	13.5	13.7	12.5	12.5
Taxes on international trade and transactions	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.3	1.3
Social contributions	41.3	42.3	43.2	43.7	44.5	45.0	45.5	46.3	47.5	49.6	49.0	51.7
Grants	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Other revenue	37.2	36.7	37.8	37.7	39.9	38.2	39.5	41.0	40.0	41.2	48.9	46.0
Of which: property income	8.7	7.1	7.5	6.5	8.3	7.3	7.9	8.3	8.2	9.9	9.1	9.0
Expenditure	199.9	203.8	213.1	214.2	216.9	219.8	222.2	225.3	229.3	257.5	256.3	246.4
Expense	198.5	201.9	211.7	212.8	215.0	218.1	219.6	222.3	225.7	253.1	238.5	252.6
Compensation of employees	45.9	47.0	47.9	48.7	49.6	50.2	50.9	51.6	52.7	54.1	53.9	57.2
Purchases/use of goods and services	22.1	22.8	23.7	24.1	24.3	24.4	24.6	25.3	25.4	25.8	26.7	28.2
Interest expense	4.7	4.4	4.0	3.7	3.6	3.2	2.7	2.3	2.1	2.0	2.9	3.1
Social benefits	67.6	69.3	71.5	73.0	74.3	76.4	77.5	78.1	79.5	95.9	86.9	92.1
Expense n.e.c.	58.1	58.4	64.7	63.2	63.2	64.0	63.8	65.0	66.1	75.3	68.0	72.1
Net acquisition of nonfinancial assets	1.4	1.9	1.4	1.4	1.8	1.7	2.6	3.0	3.6	4.4	17.8	-6.2
Net Operating Balance	5.7	3.4	-1.4	-0.2	5.5	3.3	10.3	12.1	13.2	-16.5	15.7	1.1
Net Lending/Borrowing	4.3	1.5	-2.8	-1.6	3.6	1.6	7.7	9.2	9.6	-21.0	-2.2	7.3
Net acquisition of financial assets	12.3	21.6	-5.2	42.0	-23.7	14.1	77.5	-10.8	63.0	12.5	17.9	23.3
Net incurrence of liabilities	7.9	20.1	-2.4	43.7	-27.3	12.5	69.8	-20.0	53.4	33.5	20.1	16.0
	(In percent of GDP)											
Revenue	32.1	31.9	32.1	31.9	33.0	32.7	33.6	33.0	33.3	34.1	34.7	32.9
Taxes	19.7	19.6	19.7	19.7	20.4	20.4	21.1	20.7	21.1	20.9	21.3	20.2
Taxes on income, profits, and capital gains	11.9	11.8	12.0	11.9	12.5	12.5	13.1	13.0	13.3	12.9	12.9	12.3
Taxes on goods and services	6.0	6.0	5.9	5.8	5.9	5.7	5.9	5.6	5.6	5.7	6.4	6.0
Taxes on property	1.5	1.5	1.6	1.6	1.7	1.8	1.8	1.8	1.9	2.0	1.7	1.6
Taxes on international trade and transactions	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Social contributions	6.5	6.6	6.6	6.6	6.7	6.6	6.6	6.5	6.6	7.1	6.7	6.7
Other revenue	5.8	5.7	5.8	5.7	6.0	5.6	5.8	5.8	5.6	5.9	6.7	6.0
Expenditure	31.4	31.7	32.6	32.2	32.5	32.4	32.5	31.8	32.0	37.1	35.0	32.0
Expense	31.2	31.4	32.3	32.0	32.2	32.2	32.1	31.3	31.5	36.4	32.6	32.8
Compensation of employees	7.2	7.3	7.3	7.3	7.4	7.4	7.4	7.3	7.3	7.8	7.4	7.4
Purchases/use of goods and services	3.5	3.5	3.6	3.6	3.6	3.6	3.6	3.6	3.5	3.7	3.6	3.7
Interest expense	0.7	0.7	0.6	0.6	0.5	0.5	0.4	0.3	0.3	0.3	0.4	0.4
Social benefits	10.6	10.8	10.9	11.0	11.1	11.3	11.3	11.0	11.1	13.8	11.9	11.9
Expense n.e.c.	9.1	9.1	9.9	9.5	9.5	9.4	9.3	9.2	9.2	10.8	9.3	9.4
Net acquisition of nonfinancial assets	0.2	0.3	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.6	2.4	-0.8
Net Operating Balance	0.9	0.5	-0.2	0.0	0.8	0.5	1.5	1.7	1.8	-2.4	2.1	0.1
Net Lending/Borrowing	0.7	0.2	-0.4	-0.2	0.5	0.2	1.1	1.3	1.3	-3.0	-0.3	1.0
Net acquisition of financial assets	1.9	3.4	-0.8	6.3	-3.5	2.1	11.3	-1.5	8.8	1.8	2.4	3.0
Net incurrence of liabilities	1.2	3.1	-0.4	6.6	-4.1	1.8	10.2	-2.8	7.5	4.8	2.7	2.1

Source: Federal Ministry of Finance.

Table 6. Switzerland: Bank Soundness Indicators, 2011–22

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Capital Adequacy												
Regulatory Tier I capital as percent of risk-weighted assets 1/ 2/	15.4	15.7	17.8	16.1	16.6	15.7	18.2	18.3	19.0	19.3	19.1	19.4
Regulatory Tier 1 capital as percent of assets 2/	5.5	5.5	6.1	6.9	7.3	7.1	8.0	8.3	8.6	8.1	7.7	8.4
Non-performing Loans												
Non-performing loans net of provisions as percent of tier I capital	5.4	5.0	4.5	3.7	3.8	3.9	3.0	3.2	3.0	3.4	2.9	2.9
Non-performing loans as percent of total gross loans	0.8	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.6	0.8	0.7	0.6
Return on Assets	…	0.1	0.3	0.1	0.2	0.3	0.3	0.4	-0.1	0.4	0.3	0.6
Liquidity Coverage Ratio 3/	33.9	35.4	47.4	47.4	140.3	152.7	150.9	158.3	160.6	179.2	177.6	165.3
Asset Quality and Exposure												
Non-performing loans as percent of gross loans	0.8	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.6	0.8	0.7	0.6
Sectoral distribution of bank credit to the private sector (percent)												
Households	67.3	66.9	66.2	66.6	67.6	67.4	67.6	67.2	66.9	66.1	66.1	66.1
Agriculture and food industry	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8
Mining and Quarry	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.1	0.1	0.1
Manufacturing	3.2	3.0	2.6	2.4	2.2	2.1	2.1	2.1	2.0	2.0	1.9	1.9
Utilities	0.6	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.6
Construction	1.6	1.6	1.6	1.5	1.6	1.5	1.6	1.6	1.6	1.7	1.7	1.7
Retail	3.1	3.0	2.7	2.8	2.5	2.7	2.5	2.6	2.4	2.6	2.7	2.4
Hotels and restaurants / Hospitality sector	1.0	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.9	0.8	0.8
Transportation & Storage	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.7	0.7	0.7	0.6
Info & Comm, Real Estate; Professional, Scientific & Admin. Activities	12.2	12.6	13.0	13.2	13.2	13.4	13.6	13.9	14.2	14.5	14.8	15.2
Finance and Insurance	5.0	5.2	5.7	5.3	4.8	4.7	4.7	5.0	5.4	5.7	5.8	5.8
Public Administration and Defence	1.7	1.7	2.3	2.3	2.3	2.3	2.0	1.9	1.8	1.7	1.6	1.5
Education	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Health & Social services	1.2	1.3	1.3	1.4	1.4	1.5	1.5	1.5	1.4	1.5	1.4	1.4
Art and Entertainment	1.0	1.0	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Extraterritorial Organization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Swiss National Bank.

1/ Based on parent company consolidation. This consolidation basis equals the CBDI approach defined in FSI compilation guide plus foreign bank branches operating in Switzerland, and minus overseas deposit-taking subsidiaries.

2/ The reported figures comply with the definitions in the Capital Adequacy Ordinance and in FINMA's institution-specific 'too big to fail' (TBTF) decrees, and take into consideration the Basel III transitional provisions for 2013 to 2018. The figures have only limited comparability over this period, since the capital definitions in the transition phase became stricter with each year.

3/ The 'Liquidity Coverage Ratio' indicator was introduced as of Q1 2015. Data from the old 'Liquid Assets to Short-Term Liabilities' indicator are shown prior to that time.

Annex I. Impact of Russia's War in Ukraine on the Swiss Economy

1. **Switzerland's post-pandemic recovery was impacted by Russia's war in Ukraine, through energy prices and inflation and spillovers from the global slowdown**. In 2022, energy prices in the CPI basket rose on average by 22.4 percent (8.6 percent in 2021, -8.2 percent in 2020), a key driver that pushed inflation to 2.8 percent, above the SNB's 0–2 percent price stability range. In addition, the slowdown of the global economy—in part driven by Russia's war in Ukraine, also put a significant drag on Switzerland. While net exports contributed 5.0 percentage points (pp) to GDP growth in 2021, the contribution was 1.0 pp in 2022.

2. **On the other hand, some risk factors turned out more manageable than expected**. First, other than energy products and higher import prices overall, the impact from disruptions to the global supply chain was relatively mild for Switzerland, thanks to the high competitiveness and diversity of the economy and its extensive supply chain network.[1] Secondly, merchanting trade was strong in 2022—the surplus increased by CHF13.6 billion or 1.8 percent of GDP compared to 2021, already a record year. Finally, the impact on the financial industry from the sanctions on Russia and Belarus was mainly confined to those target assets and institutions. There was no widespread spillover to the rest of the financial sector.[2]

3. **The authorities took numerous measures to mitigate the fallout from the war**.

- **One critical objective was to secure the supply of essential goods (food, energy)**. To tackle possible gas and winter electricity shortages, the authorities implemented a series of measures, including reducing energy consumption, setting up backup power stations and hydro reservoirs, and drafting emergency plans (Box A1). The government also reduced the compulsory fuel stocks several times to stabilize supply and curb price volatility, and established a credit envelope to provide liquidity support to power suppliers of systemic importance. In agricultural policy, the authorities reduced border protection and increased import quotas to counter food, feed, and fertilizer price increases and shortages.

- **The government has been regularly evaluating the impact of elevated food and energy prices on firms and households**. However, apart from increasing old-age pension and disability insurance benefits, no support measures have been rolled out so far.

- **The government also supported refugees from Ukraine**. A special migration status was activated with no quota limit, and a taskforce was created to facilitate accommodation, schooling, health care, and job opportunities. Switzerland received about 75,000 Ukrainian refugees in 2022; the fiscal cost for the federal government was CHF1.2 billion. CHF1.7 billion of extraordinary expenditure is planned for 2023. The spending was treated as extraordinary expenditure, like most COVID-related expenses, therefore did not necessitate immediate tax

[1] See the Foreign Economic Policy Report 2022, the Swiss Federal Council.

[2] Also, Switzerland's exports to Russia (~0.4 percent of total exports) have fallen less than those of EU countries due to substantial trade in medicines and immunological products, which were not sanctioned.

hikes or cuts in other budget areas. However, it will need to be offset over the medium term under the debt-brake rule.

4. In the long run, Russia's war in Ukraine could have far-reaching implications for the Swiss economy, even if it does not escalate further. Geo-economic fragmentation brought to light by the war are likely to persist. This has prompted discussions about more spending on national defense. For businesses, it may tilt the balance between cost reduction and security when building or expanding supply chains, leading to higher costs and lower efficiency. On the other hand, the war seemed to have reinforced the consensus that the transition to green energy should be expedited.

Annex I. Box1. Switzerland: Measures to Strengthen Energy Supply in 2022

Measures to Ensure Near-term Natural Gas Supply:

- March/May: Requirement for the gas industry to secure storage capacities in neighboring countries and develop additional options for gas supplies.
- August/September: A voluntary target of gas consumption savings of 15 percent (through information campaign, recommendation to switch dual-fuel systems from gas to oil, temporary relaxation CO_2 emission requirements for affected consumers).
- November: Preparation of ordinances on gas usage bans/restrictions and on quota systems.

Measures to Secure Electricity Supply for the Winter of 2022/23:

- February/September: Decision/legislation to establish a hydropower reserve.
- August/September/December: Decision/legislation/contract negotiation to set up reserve power plants.
- October: Temporary increase of the voltage on two major power lines.
- November: Consultations on power shortage management measures, including usage restrictions and bans, immediate quotas for large consumers, a quota system for large consumers and grid shutdowns.

Measures to Boost Green Transition and Long-term Electricity Security:

- Dispatch on the Federal Act on a Secure Electricity Supply from Renewable Sources (submitted to Parliament in June 2021, still being debated/considered by the parliament).
- Proposal to streamline construction authorizations by having only one appeal procedure, which could significantly reduce approval times for large wind and hydropower plants.

Other Measures:

- Temporary releases of compulsory fuel stocks to stabilize supply and curb price volatility.
- Framework credit for liquidity support to electricity providers of systemic importance.

Source: The Foreign Economic Policy Report 2022, SECO.

Annex II. External Sector Assessment

<table>
<tr><td colspan="8">Overall Assessment: On a preliminary basis, Switzerland's external position in 2022 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies. However, complex measurement issues and data lags complicate the assessment.[1] A final assessment will be presented in the 2023 External Sector Report.

Potential Policy Responses: To maintain a broadly balanced external position, fiscal policy should remain in line with the authorities' debt-brake rule framework in the near term, while accommodating additional spending related to Russia's war in Ukraine (e.g., support for refugees). In the medium-term, as inflation pressures ease, small fiscal deficits would help expand spending space to support necessary expenditures. Under the current inflation and liquidity conditions, if facing depreciation pressures, the SNB could continue to reduce FX holdings; it should refrain from using FXIs to curb franc appreciation, unless necessitated by excess market volatility. Macroprudential policies should continue to focus on safeguarding financial stability, taking into consideration the current cyclical position of the economy. Medium-term policies should be geared to ensuring balanced domestic and external contributions to growth.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="7">Background. Switzerland is a major financial center with a large, positive NIIP of 93 percent of GDP and large gross foreign asset and liability positions of 681 and 587 percent of GDP, respectively, at end-2022. The NIIP reflects both a history of large CA surpluses and valuation changes.[2] Compared with 2021, the NIIP declined in 2022 by 14.7 percentage points of GDP, mainly driven by negative valuation effects due both to exchange rate movements and price changes. Projections of the NIIP in 2023 and beyond are complicated by the large gross positions and compositional differences among assets and liabilities.

Assessment. Switzerland's large gross liability position and the volatility of financial flows and investment returns present some risk, but this is mitigated by the large gross asset position and the CHF denomination of about two-thirds of external liabilities.</td></tr>
<tr><td>2022 (% GDP)</td><td>NIIP: 93.3</td><td colspan="2">Gross Assets: 680.8</td><td colspan="2">Reserve Assets: 110.6</td><td>Gross Liab.: 587.5</td><td>Debt Liab.: 198.5</td></tr>
<tr><td>Current Account</td><td colspan="7">Background. Switzerland's CA surpluses averaged 6.6 percent of GDP during 2012–2021. The CA surplus increased in 2022 to 10.1 percent of GDP, from 8.8 percent in 2021. This was driven by strong merchanting and a narrowed services trade deficit, more than offsetting a larger trade deficit (by 0.8 percent of GDP) in fuels and gas due to Russia's war in Ukraine. The CA surplus is expected to moderate to 7.8 percent of GDP in 2023, and remain near this level in the medium term as lower inflation and strength in key sectors (e.g., pharmaceutical, commodity trading) preserve competitiveness.

Assessment. The EBA CA norm of 6.4 percent of GDP is close to last year's norm. Based on a cyclically-adjusted CA surplus of 10.6 percent and the norm, the overall EBA-estimated CA gap equaled 4.2 percent of GDP in 2022.[3] Domestic policy gaps account for -1.0 percentage points (pp) and include excessive private sector credit -1.2 pp and fiscal underspending +0.3 pp; policy gaps in the rest of the world contribute +0.8 pp. Adjustments for: (i) specific factors relevant for Switzerland that are not treated appropriately in the income account—namely valuation losses on fixed-income securities arising from inflation (-3.6 pp) and retained earnings on portfolio equity investment (-0.4 pp), and (ii) transitory impacts of the COVID-19 pandemic (-0.1pp), reduced the gap to +0.1 percent of GDP (±0.8 percentage points).[4]</td></tr>
<tr><td>2022 (% GDP)</td><td>CA: 10.1</td><td>Cycl. Adj. CA: 10.6</td><td>EBA Norm: 6.4</td><td>EBA Gap: 4.2</td><td>COVID-19 Adj.: -0.1</td><td>Other Adj.: -4.0</td><td>Staff Gap: 0.1</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="7">Background. Relative to 2021, the average NEER appreciated by 4.4 percent, while the CPI- and PPI-based REERs depreciated by 0.8 and 11.2 percent, respectively.[5] In the first quarter of 2023, while the NEER and CPI-based REER appreciated by 0.9 and 0.7 percent, respectively, the PPI-based REER depreciated by 1.2 percent. It appears that the UBS-CS merger has not had a significant impact on the franc exchange rate thus far. From a long-term perspective, the NEER has appreciated by 44 percent since 2010, while the CPI- and PPI-based REERs have appreciated by 5.3 percent and depreciated by 12.9 percent, respectively.

Assessment. The staff CA gap implies REER undervaluation of 0.2 percent in 2022 (applying an elasticity of 0.55). The EBA REER index and level models suggest that the average REER in 2022 was overvalued by 11.9 and 17.6 percent, respectively, with policy gaps accounting for a small amount of the total gap. This finding largely reflects a "reversion to trend" property of the empirical model in the context of prior rapid appreciation episodes. However, due to measurement issues, the results may not fully capture a secular improvement in productivity. Consistent with the staff CA gap, staff assess the REER gap in 2022 to be in the range of -1.6 percent (undervalued) and 1.3 percent (overvalued), with a midpoint of -0.2 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="7">Background. Net financial outflows totaled 4.5 percent of GDP in 2022, including private outflows of 7.2 percent of GDP and a decrease in SNB reserve assets of 2.7 percent of GDP. During 2009–2021, net private inflows averaged 2.2 percent of GDP, while the average annual increase in SNB reserves was 10.3 percent of GDP.

Assessment. Financial flows are large and volatile, reflecting Switzerland's status as a financial center and safe haven. From a long-term perspective, sizable net private financial outflows prior to the global financial crisis declined and, on average, turned into net capital inflows between 2009 and 2020, adding to appreciation pressures. In 2022, partly driven by widened foreign-domestic interest rate differentials, net private outflows increased from 4.6 percent of GDP in 2021 to 7.2 percent, while the SNB reduced reserve assets on a net basis through transactions for the first time since 2005.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="7">Background. Official reserve assets (including gold) amounted to CHF852 billion (or USD924 billion, 111 percent of GDP) at end-2022, down CHF162 billion (or USD186 billion) from end-2021, mostly driven by valuation changes due both to investment losses (CHF131 billion) and exchange rate movements. The SNB sold CHF22.3 billion of FX (net) through FXIs in 2022, against net purchases of CHF110 billion and CHF21 billion in 2020 and 2021, respectively.</td></tr>
<tr><td></td><td colspan="7">Assessment. Reserves are large relative to GDP, but more moderate in comparison with short-term foreign liabilities. Considering the reserve currency status of the franc, the adequacy of FX reserves is not a pressing concern for Switzerland. On the other hand, the large financial loss incurred by the SNB in 2022 and the volatility of its income indicate a high level of risk associated with its vast balance sheet.</td></tr>
</table>

[1] Due to large revisions to historical BOP and IIP data, particular caution is needed when comparing the ESA results for different periods. For example, after the initial release in March 2022, the 2021 financial account net balance was subsequently revised up from CHF27.5 billion to CHF79.2 billion (a revision of 7.1 percent of 2021 GDP), driven by sizable revisions to both net acquisition of financial assets and net incurrence of liabilities.

[2] Valuation changes reflect fluctuations of exchange rates (ERs) and prices of securities and precious metals that interact with differences among assets and liabilities in terms of currencies and instruments. As a result, an appreciation (depreciation) of the Swiss franc has a negative (positive) effect on the NIIP. Other stock-flow adjustments include changes in statistical sources, such as changes in the number of entities surveyed and items covered.

[3] Part of the positive EBA CA gap may reflect institutional pension features, such as replacement and coverage rates, in Switzerland rather than other economic policy gaps.

[4] The underlying CA is adjusted for Switzerland-specific factors in the income account : (1) retained earnings on portfolio equity investment that are not recorded in the income balance of the CA (or, the PE RE bias) under the sixth edition of the IMF *Balance of Payments and International Investment Position Manual (BPM6)*, and (2) recording of nominal interest on fixed income securities under the *Balance of Payments Manual* framework, which compensates for expected valuation losses (due to inflation and/or nominal exchange rate movements), even though this stream compensates for the (anticipated) erosion in the real value of debt assets and liabilities. The PE RE bias was estimated using the "stock method" and "flow method" as explained in "*The Measurement of External Accounts*" (IMF Working Paper 19/132), and it is similar in size to estimates based on the SNB's pilot *BPM7* data.

In addition, the CA balance is also adjusted for transitory impacts of the COVID-19 pandemic on trade of goods and services, including adjustors for tourism (0.0 ppts) and transport (-0.1 ppts). Adjusting for these COVID-19 related effects, the underlying CA would need to be reduced by about 0.1 percent of GDP.

[5] Prices of energy products, especially gas prices, were a main driver underlying the PPI inflation differentials between Switzerland and other advanced economies such as the euro area and the U.S. If core PPIs excluding energy products were used, the depreciation of the PPI-based franc REER in 2021 and 2022 would be smaller.

Annex III. Status of Previous Article IV Recommendations

2022 Article IV Recommendations	Policy Actions
Overall Policy Recommendation	
Policies should remain agile and data-dependent, responding to impacts of Russia's war in Ukraine, while continuing exit from pandemic support and fostering green-digital transformation.	Fiscal and monetary policies were adapted to address new challenges (e.g., impact of Russia's war in Ukraine, high inflation), while structural reforms (e.g., strengthen energy security, boost green-digital transformation) were advanced.
Fiscal Policy	
Accommodate adverse spillovers from Russia's war in Ukraine. If needed, provide targeted, timebound, non-distortionary support to households and firms.	Numerous measures have been taken in response to Russia's war in Ukraine. See Box A1, "Measures to Strengthen Energy Supply in 2022," and Annex I, "Impact of Russia's war in Ukraine on the Swiss Economy."
Carefully consider the pace/magnitude of cost-cutting/fee hikes at public firms hard hit during the pandemic, to avoid undermining service provision.	The Federal Council adjusted SBB's financial stabilization measures and started consultation on legislative changes to strengthen SBB financing and ensure expansion of railway infrastructure, which will be unaffected by the proposal to reduce the Railway Infrastructure Fund deposit over the next three years.
Consider a medium-term plan to help clarify actions to address spending needs and possible losses from tax reforms.	A CHF 2 bn budget "clean-up" plan has been adopted and the confederation budget for 2024 is now balanced. Additional tweaks to statutorily earmarked items have been proposed to further reduce 2025–26 structural deficits, but additional measures are needed. Tax reforms are progressing but implementation varies across measures.
Monetary Policy	
Adjust policy mix (policy rate, FXIs) according to inflation and macroeconomic conditions.	The SNB has raised the policy rate from -0.75 percent in early 2022 to 1.5 percent. It also shifted from net FX purchases in 2022Q1 to net FX sales in recent quarters.
Review policy tools, their effectiveness, sequencing, and challenges to prepare for normalization.	The SNB has continued to review its policy framework and tools, making adjustments as needed (e.g., new tiering of sight deposits, liquidity absorption via repos/bills).
Financial Sector Policy	
Closely monitor financial sector risks (real estate, spillover from Russia's war in Ukraine, etc.). Consider an early expansion of macroprudential toolkit. Continue to prepare for cyber-attacks, enhance crypto supervision, further strengthen fintech regulation, advance implementation of 2019 FSAP advice.	New mandated macroprudential tools were not introduced, but adjustments will be considered in the context of Basel III implementation, expected to finalize by Jan. 1, 2025. Data collection related to credit, insurance, investment funds, and Fintech has improved, and more resources have been allocated to Fintech and crypto supervision. A "public liquidity backstop" for SIBs were initiated in 2022 and adopted under an emergency ordinance for 6 months in March 2023. Measures (e.g., a new National Cyber Strategy) have been adopted to strengthen cyber security.
Structural Reforms	
Pension reforms should continue, along with measures to boost labor participation and skills, and efforts to clarify and enhance climate policies, EU relations, and energy security.	The Pillar 1 reform package was passed in 2022, which harmonized the retirement age for men and women at 65 and increased financing with a 0.4pp VAT increase. The impulse program to promote extra-family childcare was extended until the end of 2024, while the law replacing it is being drafted. Vocational training offers are being continuously reviewed (44 professions revised or newly introduced in Jan 2023). The "Charter of Wage Equality in the Public Sector" was signed. Numerous measures were taken in 2022 to address energy bottlenecks and boost green transition (Box A1). The authorities have also proposed a revised CO2 law for 2025–30, and outlined action plans on sustainable finance for 2022–25. Engagements with the EU have continued and yielded progress. The two sides have agreed on a "package-based approach" for future negotiations. The Federal Council has requested key parameters for a negotiation mandate with the EU by June.

Source: IMF staff.

Annex IV. Implementation of FSAP (2019) Recommendations

The authorities are continuing to implement 2019 FSAP advice, but progress has been slow. In the context of elevated financial sector risks, further and expedited progress is needed. In particular, FINMA should make further progress in ensuring risk-focused, in-depth, forward-looking supervision, filling resource gaps, and enhancing its enforcement powers. Continued progress in system-wide analysis of fast-moving activities in fintech, asset management, and financial market infrastructures will also enhance NBFI stability. The authorities should strengthen the macroprudential framework by broadening the toolkit to address rising vulnerabilities in the real estate and mortgage markets. They should further reform the deposit insurance scheme, develop effective resolution funding arrangements, and fill gaps in recovery and resolution planning of systemically important institutions, including FMIs (particularly after the launch of SDX), and better monitor and manage asset management concentration risk and pension fund systemic risks.

	Recommendation and Responsible Authority	Timing*	Implementation[1]
1.	Strengthen FINMA's autonomy, governance, and accountability, and preserve the primacy of its prudential mandate. (FDF/FINMA; ¶32–34)	C	Partly taken into account in the 2020 Ordinance to the Financial Market Supervision Act, which is being fully implemented and applied. Steps are needed to strengthen FINMA autonomy, governance, and accountability.
2.	Increase resources for high-quality data gathering and analysis of financial system risks, especially for the fast-moving fintech sector, and to advance recovery and resolution planning. (SNB/FINMA/OAK BV; ¶15, ¶29, ¶36 ¶41, ¶51, ¶54, ¶58, ¶63)	MT	Progress has been made in some areas (fintech, asset management, recovery and resolution planning, FMIs), but gaps remain.
Financial Stability Policy Framework			
Macroprudential			
3.	Expand the macroprudential toolkit with mandated supply- and demand-side tools, and strengthen accountability and expectations to act in decision-making. (SNB/FINMA/FDF; ¶35–36)	ST	New mandated tools have not been introduced in the macroprudential toolkit, but adjustments will be considered in the context of Basel III implementation.
Banking			
4.	Ensure that FINMA—rather than banks—contracts and pays directly for supervisory audits using 'audit-level' practices in critical areas. (FDF/FINMA; ¶38)	ST	FINMA can directly contract for supervisory audits (mandated audits), but the bank pays the bill. On audit depth, for risks rated very high, FINMA performs 'audit level' reviews. An ex-post analysis of changes in the auditing approach is being carried out and expected to be published in 2023. No additional progress has been made.

	Recommendation and Responsible Authority	Timing*	Implementation[1]
5.	Focus supervisory audits and increase FINMA's risk-based on-site inspections. (FINMA; ¶38)	ST	FINMA has adjusted its supervisory approach by guiding external auditors to follow a more risk-focused approach, working more closely with external auditors, and increasing the number of on-site inspections (supervisory reviews and deep dives).
6.	Strengthen assessments of key risk management and control practices. (FINMA; ¶39)	MT	Progress has been made by integrating measures identified in FINMA Risk Barometer into the supervisory planning process, by formalizing the internal risk assessment process through a 'risk inventory', and by influencing bank remediation plans. Additional measures are needed to strengthen *ex ante* governance assessments and feed them into supervisory action.
Financial Market Infrastructures			
7.	Strengthen recovery and resolution planning for financial market infrastructures (FMIs). (FINMA/SNB/SIX; ¶49)	I	FINMA assesses recovery plans for SIX x-clear and SIX SIS on a yearly basis. After the first-time approvals of these plans in 2021, FINMA approved both plans again in 2022 as said conditions have been addressed and fulfilled. The preferred resolution strategy for SIX x-clear has been defined and resolution planning efforts for SIX SIS continued, but overall development of resolution strategies is still ongoing.
8.	Improve independence of FMIs governance arrangements. (SNB/SIX; ¶48)	ST	Limited progress has been made in the context of consolidated supervision to ensure FMIs governance and autonomy in risk management in crisis situations. Analysis and discussions are ongoing.
Asset Management			
9.	Better monitor and manage concentration risk of regulated funds, and empower FINMA to impose administrative fines. (FDF/FINMA; ¶52–53)	ST	Legislation with additional requirements for risk monitoring has been approved by Parliament. Discussions on additional monitoring, including of concentration risks, are ongoing. The authorities do not intend to empower FINMA to impose fines.
Fintech and Crypto-Assets			
10.	Enhance the monitoring of activities and address regulatory gaps. (FDF/FINMA; ¶58–59)	ST	The authorities have stepped up supervision and monitoring of fintech and crypto activities and increased resources allocated to these sectors. The DLT Act entered into force in 2021 making Switzerland a pioneer in DLT

	Recommendation and Responsible Authority	Timing*	Implementation[1]
			trading by recognizing transfer of ledger-based securities as legally valid without physical transfer or book-entry, and by allowing DLT-based FMIs to admit non-financial intermediaries to trade DLT securities. The law provides legal certainty in insolvency law by regulation the segregation of crypto-assets in the event of bankruptcy.
Financial Safety Net and Crisis Management			
11.	Enhance, expand, and expedite recovery and resolution planning, including resolvability. (FDF/FINMA; ¶63–66)	ST	Partial progress made. FINMA approved G-SIB recovery plans, and banks made further progress on their global resolvability. A new regulation on liquidity requirements for SIBs came into force in 2022, and the Federal Council (FC) established new rules on incentive setting related to resolvability. A "public liquidity backstop" that covers SIBs was initiated in 2022 and adopted under an emergency ordinance for 6 months in March 2023. Emergency plans to guarantee the resolvability are not ready for two domestic SIBs. Non-SIBs currently are not included in resolution planning. For insurers, the FC is expected to set new legislation into force as of beginning 2024, including RRP requirements for insurers with a balance sheet exceeding 5 billion CHF.
12.	Thoroughly reform the DIS with a public DIA that is included in the crisis management framework, ex-ante DIS funding, and the authority to use deposit insurance funds for resolution funding, subject to safeguards. (FDF; ¶67–68)	MT	Current reforms fall short of international norms regarding a public DIA, *ex ante* DIS funding, and use of deposit insurance funds for resolution funding. The authorities do not intend to overhaul the DIS as recommended.

* C = Continuous; I = Immediate (within one year); ST = Short Term (within 1–2 years); MT = Medium Term (within 3–5 years).

[1] Based on information provided by the Swiss authorities.

Annex V. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Global Risks				
Intensification of regional conflict(s). Escalation of regional conflict(s) and economic sanctions resulting from them exacerbate disruptions in trade (e.g., energy, food, and/or critical supply chain components), remittances, tourism, and financial flows.	High	ST	**Medium / High** While the competitiveness and diversity of the Swiss economy offer some cushion to such shocks, disruptions to international trade and the global supply chain could still have severe impact on its production and other economic activities.	Encourage businesses to adapt their strategies to account for potential risks (e.g., diversify supply network). Ensure supply of essential goods (e.g., food, energy). Expand and enhance cooperation with other countries/partners to further strengthen the resilience of the Swiss economy. Fiscal support to vulnerable households, if needed.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand weakness causes recurrent commodity price volatility, fiscal pressures, and social and economic instability.	Medium	ST	**Medium** The impact on the Swiss economy could be multifold, including higher production costs for firms, higher household living costs, liquidity/solvency risk for energy providers, and financial risk for commodity traders, etc.	Ensure supply of essential goods (e.g., food, energy). Protect vulnerable groups. Support energy providers with systemic importance, if needed; and strengthen regulations. Help firms and/or households to cushion rising energy costs, if necessary.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices. **Europe**: Intensifying fallout from Russia's war in Ukraine, worsening energy crisis and supply disruptions amid monetary tightening exacerbate economic downturns and housing market corrections.	High High	ST	**High** A worsening external environment would put a drag on growth. Heightened risk and volatility could also lead to large safe-haven capital inflows.	Consider fiscal support in case of a severe growth downturn. Carefully calibrate the pace of further monetary tightening and consider a pause, or even reverse, if necessitated by inflation conditions.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. ST is 12–18 months.

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Global Risks				
Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	**Medium**	**ST**	**Medium** Several factors have kept inflation in Switzerland lower/less volatile than in other European countries, including a more favorable energy mix, a lower share of energy in the consumer basket, relatively high shares of administered and semi-administered prices, the long-term franc appreciation trend, and cooperative relations between business and labor.	The SNB should continue to tighten monetary policy, but proceed with a calibrated pace, including carefully considering labor market and energy price developments and moves by other central banks; if needed, tighten further to keep inflation expectation anchored. The SNB should refrain from curbing franc appreciation using FXIs, unless necessitated by excess volatility.
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	**Medium**	**ST**	**Medium / High** Switzerland is a global financial center and the merger of the two GSIBs is ongoing. In the event of a severe financial crisis, Swiss banks and other financial institutions could face significant losses, which may in turn lead to a credit crunch and slower economic growth or recession.	Strengthen regulation and supervision of bank and nonbank financial sectors to increase resilience. Consider fiscal support in case of a severe growth downturn. Carefully calibrate the pace of further monetary tightening and consider a pause, or even reverse, if allowed by inflation conditions. Consider FXIs if safe-haven capital inflows lead to excess volatility.
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation accelerate deglobalization, leading to a more rapid reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	**High**	**ST, MT**	**Medium / High** The Swiss economy is highly open and integrated with the global economy through trade and financial channels. Deepening geo-economic fragmentation would add pressure on inflation and growth in the near term, and lower potential in the long run.	Expand and enhance cooperation with other countries/partners to mitigate the risk of de-globalization. Increase diversification of supply chain network. Strengthen regulation and supervision of bank and nonbank financial sectors to increase resilience.
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) triggering financial and economic instability.	**Medium**	**ST, MT**	**Medium** Switzerland is a leader in cross-border asset management and fintech, prone to cyberattacks. Successful attacks can lead to outages of information and communication technology systems and jeopardize the protective goals of availability, confidentiality, and integrity.	Raise awareness and enhance monitoring of cyberthreats. Urge businesses/institutions to have robust cyber defenses and business continuity plan. Stand ready to provide support to critical infrastructure or institutions in case of attacks. If effects are widespread, consider fiscal and liquidity support.

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Global Risks				
Extreme events caused by climate change. More frequent extreme climate events deal increasingly severe damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing medium-term growth.	Medium	ST, MT	Medium As an Alpine country, Switzerland is particularly exposed to climate change. Related extreme events have become more frequent over the past century, often causing significant economic losses. Such developments also bring challenges to insurance and reinsurance companies.	Strengthen preparedness for natural disasters and other climate-related extreme events. Promote green transition along with other sustainable development goals (SDGs).
Switzerland-Specific Risks				
Sharp correction in residential real estate market. The imbalances in residential real estate market likely deteriorated in 2022, as housing prices continued to rise. While the response of housing prices to higher interest rates remained relatively muted so far, further steep increase in interest rates, along with other negative shocks (e.g., slowing growth, higher living costs), could potentially trigger major adjustments in housing prices.	Medium	ST, MT	High The Swiss economy has a very large exposure to the property market. An abrupt correction in housing prices could potentially lead to asset quality deterioration for banks, lower returns or losses for investors, shrinking wealth for households, and a contraction in construction and other related activities, posing risks to economic and financial sector stability.	Reduce imbalances of the housing market through both demand-side (e.g., enhance macroprudential framework and measures) and supply-side (e.g., more social housing, zoning adjustments) actions. Strengthen bank buffers. Assess risks to NBFIs and in the construction sector. Consider changes to portfolio allocation limits for insurers and pension funds (indicative). In a sharp downturn, ensure banks use their buffers to absorb losses and keep credit flowing.
UBS-CS merger: While the state-facilitated merger of the two G-SIBs has restored market confidence and stabilized the financial markets, risks and uncertainty remain also in the context of elevated global financial stability concerns.	Medium	ST	Medium / High Swiss bank funding costs might increase and credit flows to certain segments can be interrupted in the near term. Over the medium term competitive provision of credit and other financial services to the Swiss market and sub-segments might be affected. Integration of the two banks may also lead to sizable job losses. If risks materialize, spillovers to the rest of the financial sector and the economy could be significant.	The authorities should closely monitor implementation of the merger. In time, a careful review and analysis of the case and lessons learned is also necessary. In addition, they should accelerate the implementation of 2019 FSAP recommendations to enhance financial resilience.
Political developments further negatively affect Swiss-EU relations. Bilateral talks in 2022 have made good progress. But there are still some important differences to resolve before formal negotiations can start.	Low	ST, MT	Medium Beyond the baseline of disruptions progressively undermining trade, investment, research partnership, and labor relations with the EU, further negative challenges could emerge.	Seek to limit economic fallout by implementing remedial measures and by preserving efficient flows of goods, labor, and financial services with the EU. Continue discussions with the European authorities on a way forward.

Annex VI. Budget Clean-Up Plan

1. **Medium-term fiscal policy will need to address challenges posed by demographics, climate, and energy security, while ensuring compliance with debt-brake rule**. The rule will likely come under strain in coming years and the authorities have indicated a strong preference to maintain the current structural-balance framework. Ordinary expenditures are expected to rise sharply, and the permissible level of financing deficits will fall, resulting in structural pressures. The adjustment required is estimated to be around CHF 2.0 billion in 2024, rising to as much as CHF 3.0 billion in 2025. Spending pressures in key areas will further increase in the medium term and more work needs to be done to assess and offset associated fiscal costs. An updated study on demographics-linked outlays is underway together with an analysis to quantify climate change-related spending needs. A medium-term fiscal plan is needed to address key long-term structural challenges and ensure that structural deficits do not arise.

2. **Budget space could be created by setting priorities through cutting expenditures, implementing major reforms to relieve the budget, or generating additional income**. However, raising additional revenue through tax increases will be politically difficult and take time to implement. Major reforms of non-discretionary spending would also need legislative changes or constitutional approval. In the short term, the Federal Council (FC) has identified discretionary expenditures that could be cut to secure potential saving areas.

3. **In early 2023, the FC adopted a CHF 2 billion budget clean-up plan to comply with the debt-brake rule and eliminate the structural deficit for 2024**. Measures mainly focus on spending and serve as the first step towards a full-scale medium-term fiscal plan:

- Deletion of mandatory contribution CHF 0.6 billion to Horizon Europe. Switzerland was refused association for the latest cycle of the EU research funding program Horizon Europe. The FC is still striving for association. If it succeeds, the contribution will be re-applied.
- Savings of CHF 0.3 billion from military spending growth path flattening out. Military spending is now expected to grow more slowly than previously envisaged in 2024–2026.
- Additional tax contribution of CHF 0.2 billion from removal of a tax promotion on electric vehicles. EVs are to be subject to automobile tax from 2024. The consultation on the necessary amendment to the ordinance is to be opened in spring 2023.
- Financial needs in migration classified as extraordinary expenditure. The FC will apply again an extraordinary payment regime for migration spending in 2024 in accordance with Art. 15 FHG.
- Cuts in discretionary expenditure in all departments of 1 to 2 percent.

4. **Proposed tweaks to strictly earmarked items announced in March 2023 are expected to yield CHF 600–700 million in further savings**. This includes: (i) lowering the federal contribution to unemployment insurance: (ii) adjusting the provision and financing of childcare outside the family; (iii) reducing the deposit in the railway infrastructure fund; and (iv) rationalizing survivors' pensions. Additional measures are still needed to eliminate the structural deficits in 2025 and 2026. The FC in March 2023 approved parameters for the multi-year financing decisions for 2024–28 that set upper limits on the nominal growth rate of priority items, taking into account the increasing strains on the budget.

Annex VII. Debt Sustainability Analysis

Annex VII. Figure 1. Switzerland: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting a relatively low level of vulnerability in the near-term and medium-term, and moderate level of vulnerability in the long-term horizons.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low reflecting the strength of the debt-brake rule in guiding fiscal policy.
Fanchart	Low	...	
GFN	Low	...	
Stress test	...	...	
Long term	...	Moderate	Long-term risks are moderate as long-term structural spending needs, including aging-related expenditures on health and social security, spending on climate change, national and energy security, feed into debt dynamics.
Sustainability assessment 2/		Sustainable	The projected debt path is expected to stabilize and GFNs will remain at manageable levels. Therefore debt is assessed as sustainable.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Switzerland is at a low overall risk of sovereign stress and debt is sustainable. Debt is expected to slightly come down in the next several years in line with the authorities' debt-brake rule framework. Medium-term liquidity risks as analyzed by the GFN Financeability Module are low. Over the longer run, Switzerland should continue with structural reforms and closely monitor challenges from population aging, green transition, and digitalization that may feed into debt dynamics. The authorities' planned measures and fiscal plan will help contain the long-run risks.

Source: Fund staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex VII. Figure 2. Switzerland: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

				#	Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	
CPS	NFPS	GG: expected	CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS	NFPS	GG: expected	CG	3	Social security funds (SSFs)	Yes	
CPS	NFPS	GG: expected		4	State governments	Yes	
CPS	NFPS	GG: expected		5	Local governments	Yes	
CPS	NFPS			6	Public nonfinancial corporations	No	
CPS				7	Central bank	No	
CPS				8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

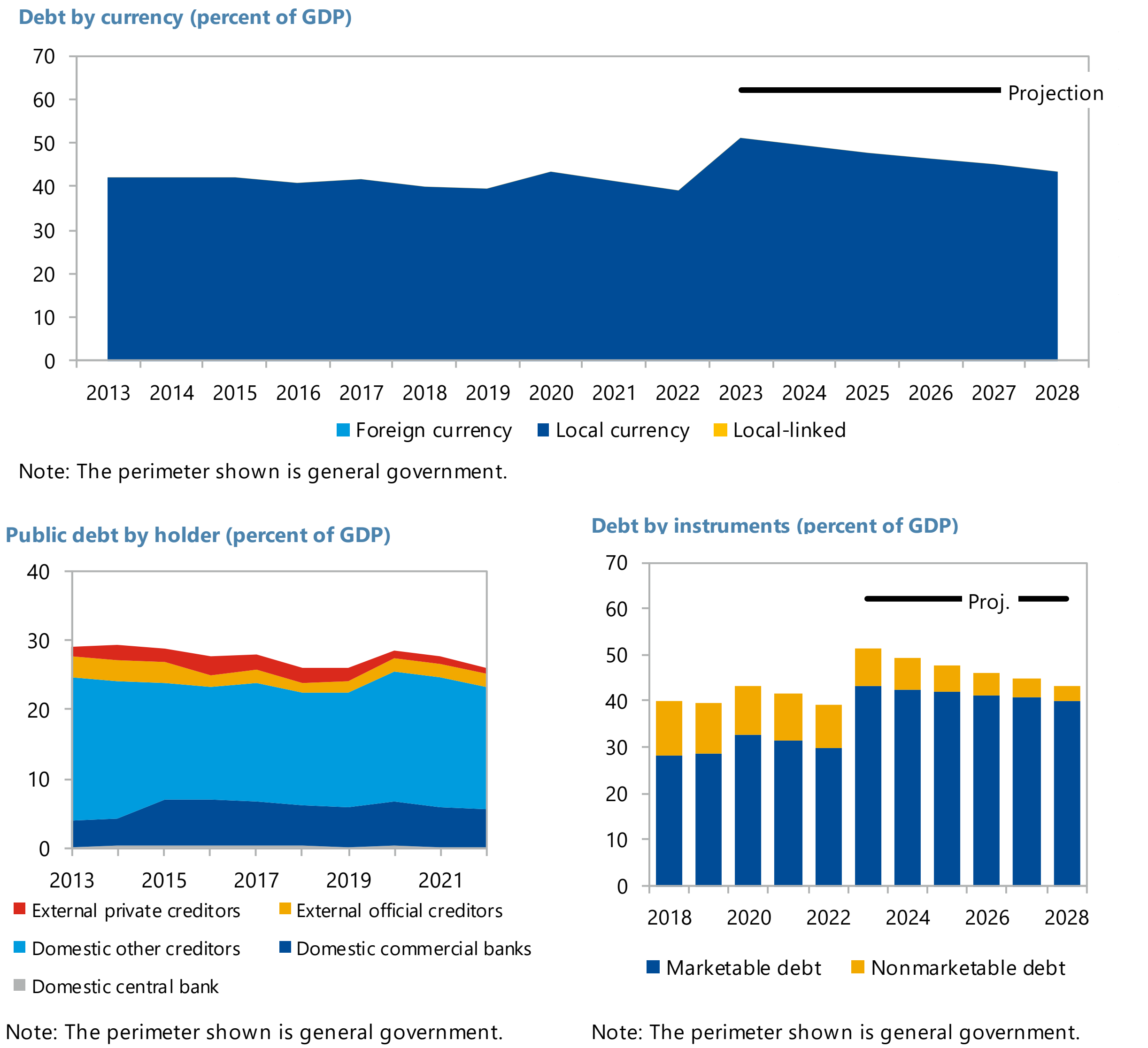
Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on intra-government debt holdings

Issuer / Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central gov									0
2 Extra-budget. funds									0
3 Social security fund:									0
4 State govt.									0
5 Local govt.									0
6 Nonfin pub. corp.									0
7 Central bank									0
8 Oth. pub. fin. corp									0
Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Annex VII. Figure 3. Switzerland: Public Debt Structure Indicators



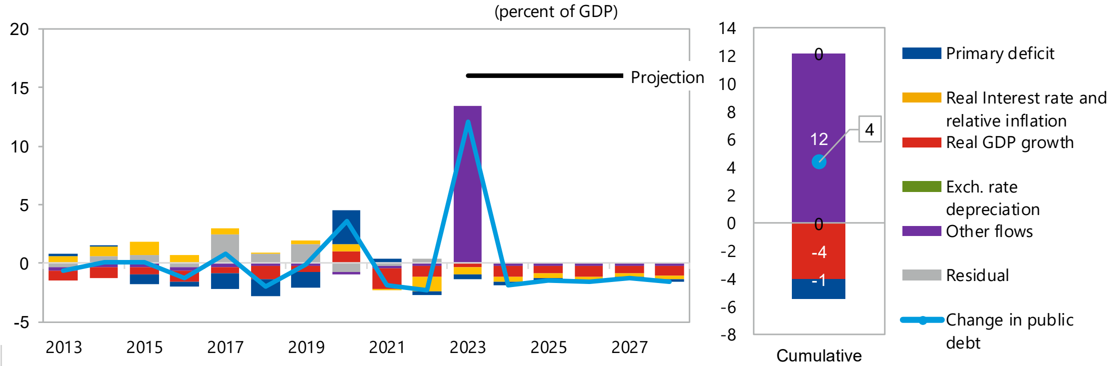
Annex VII. Figure 4. Switzerland: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection					
	2022	2023	2024	2025	2026	2027	2028
Public debt	39.1	51.2	49.4	47.9	46.3	45.0	43.5
Change in public debt	-2.3	12.1	-1.8	-1.5	-1.6	-1.3	-1.5
Contribution of identified flows	-2.7	12.1	-1.8	-1.4	-1.6	-1.3	-1.5
Primary deficit	-0.3	-0.5	-0.3	-0.2	-0.1	-0.1	-0.1
Noninterest revenues	33.5	33.1	32.8	32.6	32.6	32.6	32.6
Noninterest expenditures	33.2	32.6	32.5	32.4	32.4	32.5	32.5
Automatic debt dynamics	-2.2	-0.9	-1.3	-1.0	-1.2	-0.9	-1.1
Real interest rate and relative inflation	-1.3	-0.6	-0.4	-0.4	-0.4	-0.4	-0.3
Real interest rate	-1.3	-0.6	-0.4	-0.4	-0.4	-0.4	-0.3
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-0.9	-0.3	-0.9	-0.6	-0.8	-0.5	-0.8
Real exchange rate	0.0	...	...	...	...	...	...
Other identified flows	-0.2	13.4	-0.2	-0.2	-0.2	-0.2	-0.2
Contingent liabilities	0.0	13.7	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Contribution of residual	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	3.3	17.1	3.4	6.6	7.1	8.1	9.2
of which: debt service	3.9	4.1	4.0	7.1	7.5	8.5	9.5
Local currency	3.9	4.1	4.0	7.1	7.5	8.5	9.5
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:							
Real GDP growth (percent)	2.1	0.8	1.8	1.2	1.8	1.2	1.8
Inflation (GDP deflator; percent)	3.3	2.5	1.5	1.5	1.5	1.5	1.5
Nominal GDP growth (percent)	5.4	3.3	3.3	2.7	3.3	2.7	3.3
Effective interest rate (percent)	0.0	0.9	0.7	0.7	0.7	0.7	0.7

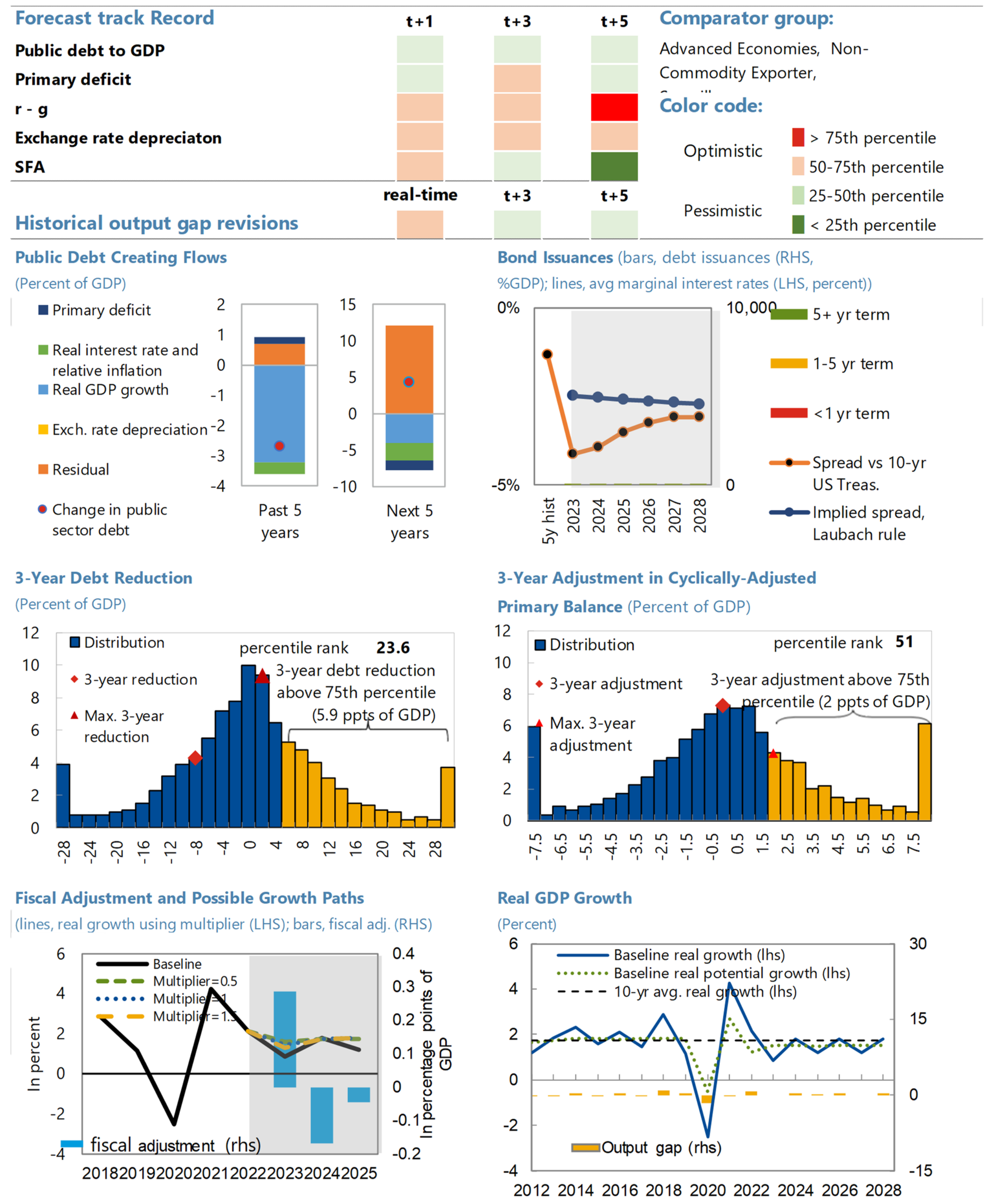
Contribution to change in public debt

(percent of GDP)



Staff commentary: Public debt is assumed to rise in 2023 reflecting contingent liability of CHF 109 billion from government guarantee credits to SNB and UBS. This scenario represents an upper bound of the debt/GDP ratio as the government may recognize the contingent liability gradually over time. The low public debt level also provides a buffer against uncertainties stemming from the contingent liabilities. Public debt will gradually stabilize over the years, reflecting the strength of the fiscal rule and expectations of stable economic performance.

Annex VII. Figure 5. Switzerland: Realism of Baseline Assumptions



SWITZERLAND

May 10, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | European Department

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FUND RELATIONS

(As of April 30, 2023)

Membership Status: Joined May 29, 1992; Article VIII.

General Resources Account:

	SDR Million	Percent of Quota
Quota	5,771.10	100.00
Fund holdings of currency	4,054.15	70.25
Reserve position in Fund	1,717.03	29.75
New arrangements to borrow	43.41	

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	8,819.38	100.00
Holdings	9,105.87	103.25

Outstanding Purchases and Loans: None

Financial Arrangements: None

Projected Payments to Fund[1]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2023	2024	2025	2026	2027
Principal					
Interest		0.12	0.12	0.12	0.12
Total		0.12	0.12	0.12	0.12

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangement:

The de jure exchange rate arrangement is free floating. The exchange rate of the Swiss franc is determined by market forces in the foreign exchange market, and all settlements are made at free market rates. However, the SNB reserves the right to intervene in the foreign exchange market. The SNB publishes quarterly information regarding its foreign exchange transactions on the SNB data portal, starting with data for Q1:2020.[1] The de facto exchange rate regime was reclassified from crawl-like to floating, effective January 7, 2022.

Switzerland has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system that is free of multiple currency practices and restrictions on the making of

[1] Annual information for previous years was published by the SNB in its annual accountability report.

payments and transfers for current international transactions except for restrictions in place for security reasons notified to the Fund pursuant to Decision No. 144-(52/51).

On April 24, 2023, Switzerland notified the IMF of the exchange restrictions that have been imposed against certain countries, individuals, and entities, in accordance with relevant UN Security Council resolutions and EU regulations. More information on the restrictions can be found at the Swiss State Secretariat for Economic Affairs (SECO) site.

Latest Article IV Consultation: The last Article IV consultation was concluded on June 10, 2022, with the staff report published on June 20, 2022. Switzerland is on the standard 12-month consultation cycle.

Technical Assistance (TA):
A joint Monetary and Capital Markets (MCM) and European (EUR) Department TA mission, started in November 2022, has conducted an external review of the SNB's banking stress test models.

Switzerland is a major financial supporter of IMF externally-financed capacity development (TA and training), including country-specific and region-wide projects globally as well as IMF's multi partner vehicles (regional and thematic trust funds and capacity development centers). Switzerland has also been a supporter of other IMF initiatives, including financing for low-income countries via the Poverty Reduction and Growth Trust, the Catastrophe Containment and Relief Trust (CCRT), and support for debt relief to Somalia and Sudan.

Resident Representatives: None

Financial System Stability Assessment Update and ROSCs:

- Missions for the 2019 FSAP were held in November 2018 and January 2019. The findings were discussed with the authorities during Article IV consultation discussions in March 2019 and were presented to the Executive Board for discussion alongside the Article IV staff report on June 17, 2019. The report for the previous FSAP update was issued on May 28, 2014.

- Reports on the Observance of Standards and Codes (Basel core principles, IAIS core principles, and IOSCO objectives and principles) were conducted in 2013–14, and the report was issued on May 28, 2014.

STATISTICAL ISSUES

(As of May 8, 2023)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is adequate for Fund surveillance. Switzerland publishes timely economic statistics and posts most of the data and the underlying documentation on the internet.
National Accounts: National accounts are timely (including the expenditure, production, and income approaches). GDP by canton are published with a significant lag, however, with 2020 data being released in October 2022. Responsibility for national accounts compilation is split between two different agencies: quarterly national accounts are published by the State Secretariat for Economic Affairs, and annual national accounts are published by the Federal Statistics Office.
Price Statistics: Consumer price indices (CPI) and producer price indices (PPI) for agricultural and industrial activities are disseminated monthly by the Federal Statistical Office. The weights for the CPI are updated every year, based on the results of the household budget survey. The weights for the agricultural and industrial PPI are currently based on the average value of production in 2017 and 2018. These weights are updated every five years, which is in line with best practice. A quarterly residential property price index is compiled based on price data from mortgage lenders.
Government Finance Statistics: General government finance statistics are compiled by the Federal Finance Administration. Data for general government are released with one quarter lag, but finalized with a longer delay mainly due to fiscal accounts at the level of cantons and communes. The concept and methodology of every account, including the most recent addition of financial transactions in financial assets and liabilities and other economic flows, have been fully reconciled with the Swiss system of national accounts of the Federal Statistical Office with the publication of September 28, 2020. The Swiss National Bank (SNB) publishes statistics on outstanding and new bond issues by the Swiss Confederation.
Monetary and Financial Statistics: The SNB reports monetary statistics for the monetary authorities, deposit money banks, and other banking institutions for publication in the IMF's *International Financial Statistics (IFS).* However, data are reported with a long lag, using report forms that are not consistent with the Standardized Report Forms (SRFs) developed based on the IMF's *Monetary and Financial Statistics Manual and Compilation Guide, 2016*. To improve data reporting, the SNB has worked on migration to the SRFs. As a result, the SRFs 1SR for central bank and 2SR for other depository corporations have been compiled and reported for dissemination. STA is working with the authorities to fix the remaining issues on 1SR, 2SR, and 5SR. The SNB reports data on some key series and indicators of the Financial Access Survey, including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals.
Financial Sector Surveillance: Switzerland reports 10 core Financial Soundness Indicators (FSIs), six additional FSIs for deposit takers, and two additional FSIs for real estate markets on a quarterly basis. Two core and two additional FSIs for deposit takers are reported semi-annually, and two additional FSIs on real estate market on an annual basis. The FSI data and metadata have been posted on the IMF's FSI website.

External Sector Statistics: Balance of Payments (BOP) and international investment position (IIP) statistics are published based on the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (BPM6). Official data in BPM6 format are available from 1999 onwards. Switzerland reports to the IMF annual data on the Coordinated Direct Investment Survey (CDIS); semi-annual and annual data on the Coordinated Portfolio Investment Survey CPIS); monthly data on the International Reserves and Foreign Currency Liquidity; and annual and quarterly balance of payments and IIP data for Special Purpose Entities. Switzerland is also reporting quarterly external debt data to the World Bank database.
II. Data Standards and Quality
In January 2021, Switzerland adhered to the IMF's Special Data Dissemination Standard (SDDS) Plus—the highest tier of the Data Standards Initiatives, having been an SDDS subscriber since 1996 and maintaining SDDS flexibility options on dissemination of production index data (for periodicity and timeliness) and of wages/earnings data (for periodicity). Switzerland's SDDS Plus data are accessible through the *Dissemination Standards Bulletin Board*.

Table 1. Switzerland: Common Indicators Required for Surveillance

(As of May 8, 2023)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Same day	Same day	D and M	M and M	D and M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Mar 23	Apr 23	M	M	M
Reserve/Base Money	Mar 23	Apr 23	M	M	M
Broad Money	Mar 23	Apr 23	M	M	M
Central Bank Balance Sheet	Mar 23	Apr 23	M	M	M
Consolidated Balance Sheet of the Banking System	Feb 23	Apr 23	M	M	M
Interest Rates[2]	Same day	Same day	D and M	M and M	D and M
Consumer Price Index	April 23	May 23	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Q4/22	Mar 23	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Q4/22	Mar 23	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q4/22	Mar 23	Q	Q	Q
External Current Account Balance	Q4/22	Mar 23	Q	Q	Q
Exports and Imports of Goods and Services	Q4/22	Mar 23	Q	Q	Q
GDP/GNP	Q4/22	Mar 23	Q	Q	Q
Gross External Debt	Q4/22	Mar 23	Q	Q	Q
International Investment Position[6]	Q4/22	Mar 23	Q	Q	Q

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

Statement by Mr. Peter and Mr. Gindrat on Switzerland
May 31, 2023

On behalf of our Swiss authorities, we thank staff for the insightful policy discussions and the thorough analysis presented in their report. The report covers the key policy challenges, and the authorities are in broad agreement with the staff's appraisal and the thrust of their recommendations. These recommendations will be useful in guiding the policies and further reform steps of our authorities.

Globally Active Banks

The authorities took decisive action under extraordinary circumstances on March 19, 2023, to enable the acquisition of Credit Suisse by UBS. Without a credible solution, Credit Suisse risked failing on Monday, March 20. The Swiss government, together with the Swiss National Bank (SNB) and the Swiss Financial Market Supervisory Authority (FINMA), acted quickly and decisively to (i) restore trust and calm, thus contributing to the stability of the Swiss and the international financial system; (ii) ensure the well-functioning of financial markets in Switzerland and internationally; and (iii) protect Swiss taxpayers. To achieve these goals, the authorities assessed several alternatives. A resolution plan, including a full bail-in, had been prepared and was carefully considered. However, given the global and specific circumstances, notably extraordinarily fragile financial markets and the widespread loss of trust in Credit Suisse, the solution of combining a private sector takeover with supporting measures by the authorities (in particular in the area of liquidity provision) was deemed most effective. The functioning of the services of the financial sector was guaranteed at all times and without interruption. The implementation of the acquisition is progressing well. It is the authorities' key priority that the takeover be completed in a timely manner.

The authorities agree with staff on the importance to conduct a thorough analysis of the case and lessons learned. They will undertake a broad review of the Too-Big-to-Fail (TBTF) regulatory regime by end-March 2024. This review will address a broad range of issues, covering recovery and resolution planning; capital and liquidity requirements; FINMA's competencies (including the power to impose fines); the rules governing compensation practices, auditing, and responsibilities of senior management; the provision of emergency liquidity assistance; and the deposit insurance system.

Economic Outlook

The authorities broadly agree with staff on the outlook and risks.

While Switzerland's GDP grew by 2.1 percent in 2022, growth was flat in Q4. The current economic indicators point to a more solid performance in Q1 2023. In relative terms, inflation has increased strongly, but its level remains much lower than in most other advanced economies.

The level of uncertainty associated with the outlook for the Swiss economy remains high. The further course depends to a large extent on global economic developments and the energy supply situation. The main risks stem from an economic downturn abroad, more persistent inflationary pressures, and the potential adverse effects of uncertainties in the global financial sector.

Against this backdrop, Swiss GDP is expected to expand by around 1 percent in 2023, significantly below average. This forecast assumes that there will be no energy shortages with widespread production outages next winter. At the same time, gas and electricity prices are expected to remain high by historical standards. The economic slowdown is likely to affect the labor market, albeit with a lag. Following an average of 2 percent in 2023, the unemployment rate is projected to sightly increase in 2024.

The impact of UBS's acquisition of Credit Suisse on the Swiss economy is expected to remain limited. The very low level of unemployment and continuing strong demand for labor should help cushion the expected negative impact of job cuts.

Monetary Policy

Inflation has decreased from a high of 3.5 percent in August 2022 to 2.6 percent in April 2023, with the latest decline driven by energy and food products. According to the SNB's conditional inflation forecast published in March, inflation is set to decrease further and reach 2 percent by the end of the year. Nevertheless, it cannot be ruled out that further policy rate hikes will be necessary to bring inflation back to the 0–2 percent range that the SNB equates with price stability. While policy rate changes are the main tool to ensure appropriate monetary conditions, sales of foreign currency are currently useful for dampening depreciation pressure, and thus imported inflation. The SNB also remains willing to buy foreign currency again, should excessive appreciation pressures materialize.

Fiscal Policy

The fiscal rule at the central government level—or debt brake—has served Switzerland well, maintaining credibility of the fiscal framework and ensuring fiscal sustainability, while allowing for extraordinary spending during past crises. As mentioned in the report, guarantees related to UBS's acquisition of Credit Suisse will only affect the fiscal position if called. Meanwhile, these guarantees are generating interest revenue for the central government.

Current plans for amortizing past extraordinary spending may be affected by the drop in future profit transfers from the SNB. At the same time, as noted by staff, the current projection of no profit transfers from the SNB until 2026 is a conservative assumption. Also, the authorities highlight (i) the extension of the deadline for eliminating the shortfall of the amortization account to 2035, with the option for a further prolongation to 2039, and (ii) the use of future structural surpluses, which will facilitate the compensation of extraordinary spending even without profit transfers from the SNB.

The authorities agree with staff that medium- and long-term spending needs for ageing, climate, energy, and national security will have to be addressed.

External Sector Assessment

The authorities agree with the staff's external sector assessment that Switzerland's current account surplus is broadly in line with fundamentals. While staff indicate that this assessment will be finalized in the upcoming External Sector Report, the authorities do not expect a significant change.

Measurement issues continue to significantly inflate the Swiss current account balance, and the authorities welcome that staff have considered these issues by adjusting the External Balance Assessment (EBA) current account gap accordingly. However, the authorities stress that, even though staff refer to this adjustment as Switzerland-specific, adjustments due to measurement issues are an integral part of the EBA methodology and, thus, systematically applied to other countries as well. Measurement issues help explain discrepancies between cumulated current account balances and the net international investment position (NIIP). Such discrepancies are not specific to Switzerland and should generally continue to be carefully analyzed by staff.

Other Financial Sector Issues

The authorities share staff's view that the vulnerabilities in the residential real estate market remain elevated, although high prices can partially be explained by structural factors, such as the tight supply of single-family houses and apartments. The authorities will continue to monitor these risks and review whether further measures are necessary, including an expansion of the macroprudential toolkit with legally mandated tools. The authorities also concur on the need to monitor risks related to non-bank financial institutions (NBFIs) and fintech firms to enhance resilience and mitigate downside risks.

Switzerland has a robust AML/CFT framework. The latest amendments to the AML Act and the AML Ordinance came into effect at the beginning of this year. Work is currently underway on draft legislation on a central register for beneficial ownership of legal entities. The authorities are also working on extending AML provisions to the legal professions, notably the provisions on due diligence, reporting obligations, as well as supervision and sanctioning. Draft legislation will be submitted to public consultation in August.

Switzerland continues to implement the EU financial and economic sanctions against Russia. The authorities are in close contact with international partners, including on the enforcement of financial sanctions.

Structural Issues

The authorities agree that the timely passage of the revised proposal for the Third CO2 Act is critical to emission reductions over 2025–2030. Substantial investments will be needed to reach 2050 emission reduction targets, and Switzerland recognizes the necessity to provide the policy framework to mobilize private capital at a pace and a scale consistent with the targets and in the most efficient manner.