INTERNATIONAL MONETARY FUND

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SWITZERLAND

June 2024

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; INFORMATIONAL ANNEX; 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 2024 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 June 10, 2024 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 June 10, 2024, following discussions that ended on March 28, 2024, 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 22, 2024.
- 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

PR24/216

IMF Executive Board Concludes 2024 Article IV Consultation with Switzerland

FOR IMMEDIATE RELEASE

Washington, DC – **June 10, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Switzerland.

Weak external demand and tighter financial conditions lowered growth to 0.8 percent in 2023. The labor market remained resilient, although the unemployment is slowly rising from a historic low. The external current account (CA) surplus declined in 2023, with lower merchanting trade and a lower services trade balance. Fiscal policy has eased while maintaining a surplus. Monetary policy, along with global disinflation, has successfully brought inflation back within the 0-2 percent price stability range. The state-facilitated acquisition of Credit Suisse by UBS in 2023 stabilized financial markets, with limited spillovers to the financial sector and to the economy.

Growth is expected to recover gradually to 1.3 percent (1 percent adjusted for sports events) in 2024 and 1.4 percent (1.7 percent adjusted for sports events) in 2025, but uncertainties remain. Inflation is projected to remain within the price stability range, at 1.5 percent on average in 2024. The current account is projected to remain broadly unchanged, reflecting a gradual recovery in external demand countered by the appreciated currency. Medium-term growth hovers around 1.5 percent but faces headwinds related to adverse demographics trends, skills gaps, and lower trading partner growth.

Risks are broadly balanced amid high uncertainty. In the short term, downside risks arise from intensification of regional conflicts and an abrupt global slowdown, which could result in slower growth and trigger safe haven flows. Downside risks may also arise from the ongoing integration of CS and UBS and the large size of the combined bank, calling for strong financial sector reforms. Over the medium-term, there are looming downside risks include from accelerated geoeconomic fragmentation and possible setbacks in strengthening EU relations. Commitment to free trade and global cooperation, and efforts to expand trade relations can diversify supply chains while limiting trade disruptions.

[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.

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USA

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the Swiss economy's strong fundamentals, resilience, and the envisaged gradual recovery. They considered risks to be balanced, but with uncertainty mainly associated with geoeconomic fragmentation and the intensification of regional conflicts. In this context, they underscored the importance of continued prudent macroeconomic and financial sector policies. Further progress on addressing challenges related to demographic and climate change will also be critical for a robust medium-term outlook.

Directors highlighted that the debt brake rule has anchored fiscal policy well, allowing for a substantial reduction in public debt while incorporating adequate flexibility to address shocks. They considered the current fiscal stance to be broadly appropriate but underlined the importance of closing structural deficits for 2026–27 and developing a comprehensive medium-term plan to address mounting pressures related to aging, climate change, and defense. They welcomed the recent fiscal sustainability report as a basis for formulating policy proposals.

Directors commended the decisive actions of the Swiss National Bank (SNB) that have curbed inflation, and agreed that the March rate cut was appropriate. They concurred that monetary policy should remain data-dependent given uncertainty around the inflation outlook. Directors encouraged the SNB to gradually reduce its balance sheet while building buffers from retained earnings.

Directors welcomed the resilience of the financial sector but noted pockets of vulnerabilities, particularly related to the real estate sector, which require continued vigilance. They stressed the need for strong financial sector reforms, informed by the lessons from the Credit Suisse crisis, and welcomed the authorities' review of the too-big-to-fail regime. Enhancing the macroprudential toolkit to address real estate risks and closing data gaps would be important. Directors welcomed efforts to strengthen the AML/CFT regime and anti-corruption frameworks. They encouraged the authorities to implement the remaining recommendations from the 2019 Financial Sector Assessment Program (FSAP) and noted that the 2025 FSAP would provide updated recommendations.

Directors emphasized that ongoing skills gaps and demographic challenges require continued efforts to incentivize higher participation of women, older workers, and migrants, along with pension reforms. They welcomed recent progress on climate policy and urged additional efforts in this area. They positively noted the resumption of negotiations with the EU on participation in the single market.

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[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 summing up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

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

Switzerland: Selected Economic Indicators, 2021–25

Population (2023): 8.815 million
Quota (February 2024; millions SDRs / % of total): 5,771.1 / 1.21%
Key export markets in 2023: Euro area (46%), US (18%)

	2021	2022	2023	2024 Proj.	2025 Proj.
Output					
Real GDP growth (%)	5.4	2.7	0.8	1.3	1.4
Unemployment					
Unemployment (%)	3.0	2.2	2.0	2.3	2.4
Prices					
Inflation (period average, %)	0.6	2.8	2.1	1.5	1.2
General Government Finances					
Revenue (% GDP)	34.2	33.1	32.5	32.5	32.4
Expenditure (% GDP)	34.5	31.9	32.0	32.0	32.1
Fiscal balance (% GDP)	-0.3	1.2	0.5	0.5	0.2
Public debt (% GDP)	41.0	37.7	38.3	36.7	35.6
Monetary and Credit					
Broad money (% change)	1.4	0.1	-2.0	2.9	2.6
Credit to the private sector (% change)	3.8	2.6	1.8	2.9	2.6
3-month Treasury bill interest rate (%)	-0.8	0.9	1.7	…	…
Balance of Payments					
Current account (% GDP)	6.9	9.4	7.6	8.2	7.6
Net FDI (% GDP)	2.4	-1.6	10.8	…	…
Reserves (end-of-period, billions of US dollars)	1014	852	724	…	…
External debt (% GDP)	293.3	274.7	241.1	…	…
Exchange Rates					
CPI-based REER (% change)	-2.5	0.3	3.1	…	…

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 2024 ARTICLE IV CONSULTATION

May 22, 2024

KEY ISSUES

Context. Growth is recovering gradually (projected at 1.3 percent in 2024) after slowing in 2023 (0.8 percent). A tight monetary stance and disinflation abroad have brought inflation within SNB's 0–2 percent price stability range, and the SNB lowered its policy rate in March 2024, ahead of other major central banks. The external current account has remained in surplus but declined, while the general government surplus declined in 2023. Fiscal fundamentals are strong with low debt levels, but mounting spending pressures and remaining future financing gaps in the pension system, including stemming from the recent vote on a 13th monthly pension payment, need to be addressed. The state-facilitated acquisition of Credit Suisse (CS) by UBS stabilized markets, and the authorities have published reform proposals based on their review of the transaction and the TBTF framework. Negotiations with the EU restarted. Climate policy progressed. Medium-term challenges include labor shortages and skill gaps.

Fiscal. A fiscal surplus is projected at 0.5 percent of GDP in 2024, amid spending pressures arising from defense, infrastructure, and demographics, offset by continuing budget "clean-up measures" since last year (i.e., cuts in lower priority spending). The fiscal stance is appropriate, particularly given the authorities' fiscal framework. A comprehensive fiscal plan is needed to address long-term fiscal pressures.

Monetary. To counter risks of inflation moving to and settling at very low rates, the rate cut ahead of other central banks was appropriate. Going forward, monetary policy should remain responsive to incoming data, while taking into account international monetary policy developments. If inflationary pressures increase, the SNB could keep its current stance, as other central banks lower rates. If inflation continues to surprise on the downside, the SNB should continue to cut rates.

Financial Sector. Banks have strong buffers, but vulnerabilities related to real estate persist. Ample capital buffers should be maintained, the macroprudential toolkit expanded, supply-side actions to stem pressure on the residential housing market advanced and data gaps closed. The CS experience calls for strong financial sector reforms, arming the supervisor with more resources, early intervention powers, and expanded recovery and resolution planning, in line with 2019 FSAP recommendations. The Federal Council proposed a set of measures to strengthen the financial sector

regulation and intends to present two packages for implementation and parliamentary discussion in the first half of 2025. These proposed measures cover important areas, and the strength of reforms will depend on the calibration of measures. A new FSAP will be launched in 2024 and will provide an opportunity to assess the overall financial sector, taking into account of recent developments and the proposed measures, and provide updated recommendations.

Structural. The authorities should continue to promote labor market and pension reforms to incentivize labor force participation of women, older workers, and immigrants and address labor shortages, skills gaps, and potential fiscal imbalances. The revised CO_2 Act clarifies the policy framework for 2025–30 but is less ambitious than initially proposed and might require acquiring more emissions-reduction credits from internationally. Advancing negotiations with the EU and enhancing cooperation with other key partners would mitigate uncertainty and strengthen resilience against geo-economic fragmentation risks.

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

Discussions took place during March 14–28, 2024, in Zürich and Bern. The staff team comprised S. Pelin Berkmen, Tianxiao Zheng, Salvatore Dell'Erba, Zhao Zhang. Gloria Li, Geoffroy Dolphin, Marizielle Evio, Fuda Jiang (all EUR), Ivana Rossi and Yao Deng (LEG) provided assistance from headquarters. Marcel Peter and Cornelius Kuth (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) interim CEO Birgit Rutishauser, other officials from the federal administration, the SNB, FINMA, representatives from the labor unions and business associations, the private sector, and think tanks.

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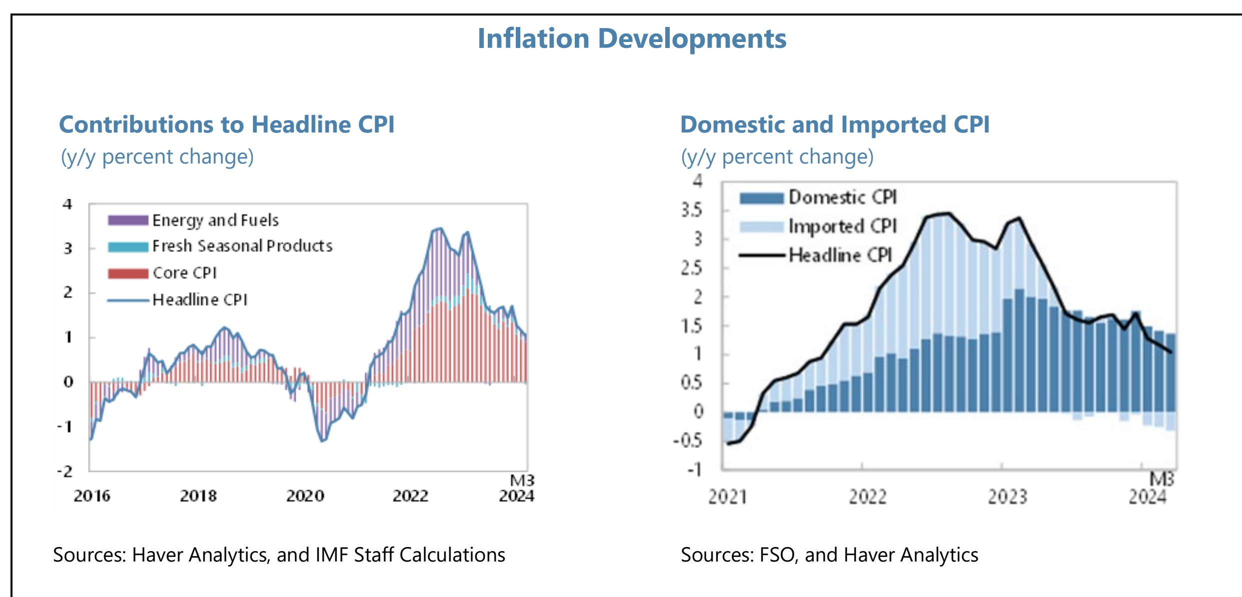
CONTEXT

1. The Swiss economy has been resilient, although it faces challenges. Strong policies and a diversified economy contributed to a swift recovery from the pandemic. However, growth has slowed since Russia's invasion of Ukraine, and economic confidence remains low. The CS crisis has not translated into systemic financial stress, but strong reforms are needed to guarantee financial stability and preserve Switzerland's reputation as a leading financial center.

2. After elections in late 2023, policies have remained broadly unchanged. Negotiations with the EU restarted, a positive development to improve resilience.

RECENT ECONOMIC DEVELOPMENTS

3. Growth has slowed, and inflation is back within the 0–2 percent price stability range. Weak external demand and tighter financial conditions lowered growth to 0.8 percent in 2023, down from 2.7 percent in 2022. Manufacturing contracted but started a slow recovery since late 2023. Services remained strong, but recent data indicate weakening. Monetary tightening and moderating house price growth weighed on equipment and software investment (-1.9 percent y/y in 2023) and construction (-2.1 percent y/y in 2023). Private consumption growth moderated (2.1 percent y/y in 2023) but remained the driver of the economy, despite sluggish real wage growth and weak consumer confidence. The contribution of net exports to growth was slightly negative. Headline inflation declined to 2.1 percent in 2023 and 1.0 percent in March 2024, down from 2.8 percent in 2022, reflecting lower energy prices and imported inflation. Core (1.0 percent in March 2024) and domestic (1.8 percent) inflation also moderated. Inflation expectations are within the SNB's price stability range.



Sources: Haver Analytics, and IMF Staff Calculations

Sources: FSO, and Haver Analytics

4. Labor market resilience persists, with some easing of pressures. Employment growth continued, reaching 2.3 percent in 2023 (2.2 percent for males and 2.5 percent for females). Registered unemployment was 2 percent in 2023, increasing to 2.3 percent in March. The vacancy-to-unemployment ratio declined in 2023 but remains above historical averages. Firms continue to indicate difficulty in recruiting workers in part due to skills shortages. Nominal wages grew slightly below inflation in 2023 (1.7 percent), mitigating risks of second-round inflationary effects.

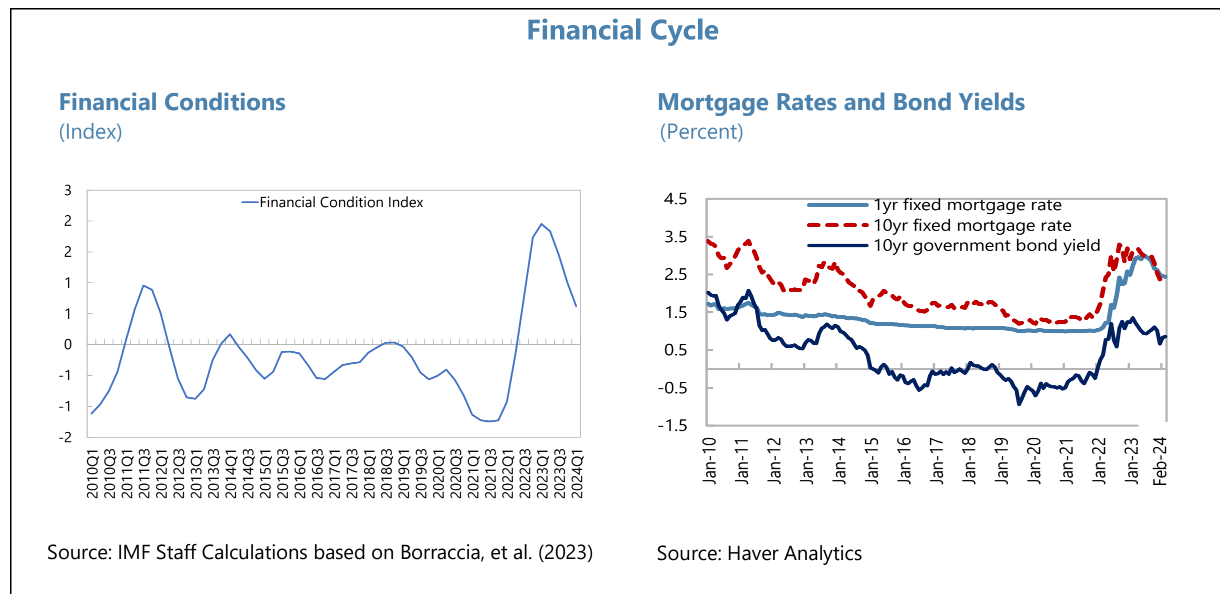
5. Fiscal policy has eased while maintaining a surplus. The general government surplus declined to 0.5 percent of GDP in 2023, from 1.2 percent of GDP in 2022. The positive balance was driven by the cantons and social security funds; the federal government ran a small deficit (-0.1 percent of GDP). Liquidity support to the energy sector was not tapped, and extraordinary expenditures for Ukrainian refugees were below expectations. Federal guarantees to UBS have been terminated. Public debt is moderate at 38.3 percent of GDP. In January 2024, the OECD/G20 minimum tax rate under Pillar Two and first-pillar pension reforms (female retirement-age and VAT-rate increases) came into effect. A referendum on a 13th monthly pension payment was passed in March and will come into effect in 2026.

6. Tighter monetary policy and a decline in imported inflation have facilitated disinflation.[1] After increasing its policy rate from -0.75 percent in 2022 to 1.75 percent in June 2023, the SNB lowered the rate in March 2024 by 25 bps. It sold CHF133 billion of foreign currency (net) in 2023, compared to CHF22 billion in 2022. The franc appreciated by 6.4 percent in nominal terms in 2023 and has depreciated in the more recent period. To facilitate the implementation of monetary policy, while reducing its interest costs, the SNB lowered the remuneration threshold and stopped remunerating minimum reserves as of December 2023; it increased the minimum reserve ratio from 2.5 to 4 percent in April 2024. The SNB reported a loss of CHF3.2 billion in financial year 2023, down from CHF132 billion in 2022; this precludes profit transfers to the government in 2024.

7. Restrictive financial conditions have softened private credit and house-price growth. Higher interest rates moderated mortgage loan growth (85 percent of bank lending) to 2.4 percent in 2023 from 3.5 percent in 2022. Growth in other loans contracted in 2023. Financial conditions have started to ease with the decline in longer-term rates, the policy rate cut in March, and the franc depreciation since early-2024. Real estate prices have adjusted somewhat to tighter financial

[1] See Selected Issues Paper I (2024) on monetary policy transmission.

conditions but differently across sectors. Owner-occupied properties continue to experience moderate price increases, while residential-investment and commercial properties have seen declines. Overall, price adjustments (between -4 and +3 percent across segments) are smaller than elsewhere in Europe.[2]



8. Corporate sector performance was mixed. Survey data indicate robust profit margins, although in manufacturing, margins have come under pressure amid lower capacity utilization due to weak demand and the strong franc. Despite higher financing costs, the share of firms reporting difficulties is in line with historical averages; most describe their liquidity as comfortable.[3] Bankruptcies have increased (+2.9 percent in 2023), partly reflecting post-pandemic normalization. As the growth of newly registered companies has also increased, the share of bankruptcy over the total number of firms has remained broadly constant (below 2 percent).

9. The financial sector remained resilient. Banking sector profitability increased, driven by higher net interest margins and trading income. Insurers benefited from rising premium volumes and income. Non-banks (NBFIs) recorded net financial gains up to 2023Q3, compared to 2022 losses. While NPLs increased, they remain low (0.8 percent of total gross loans). Since the state-facilitated acquisition of Credit-Suisse (CS) by UBS (Box 1), bank share prices have increased, with limited spillovers. The economic impact of the acquisition has so far been muted; announced redundancies (3,000 in Switzerland) are about 3 percent of the domestic banking sector workforce.

[2] See Selected Issues Paper III (2024) on real estate markets.

[3] SNB Quarterly Bulletin March 2024.

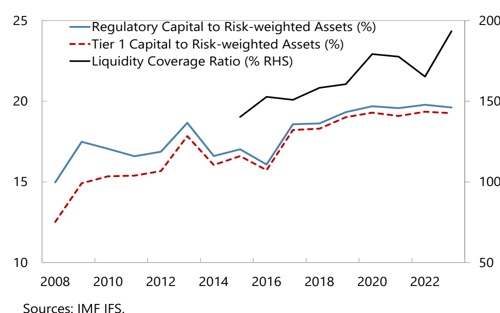
Box 1. Switzerland: Credit Suisse Crisis 1/

After several years of adverse news, the crisis of confidence in CS worsened in March 2023, despite meeting all regulatory requirements. After considering options (acquisition, restructuring, temporary public ownership, bankruptcy, and activation of the Swiss emergency plan), the authorities—the Federal Council, FINMA and SNB—facilitated a take-over of CS by UBS (with UBS paying CHF 3 billion to CS shareholders), providing ample liquidity support, state guarantees to SNB and UBS, and a writing down of Additional Tier-1 instruments (CHF16.5 billion). Measures included: a federal guarantee to SNB for liquidity assistance to CS up to CHF100 billion; a federal loss-protection guarantee to UBS of up to CHF9 billion in the event of a loss of more than CHF5 billion on assets of Credit Suisse that UBS had to take over in the transaction; and SNB liquidity assistance of up to CHF168 billion. The acquisition required emergency legislation, taking place outside of the resolution regime and without shareholders' approval. It was formally completed in June 2023; key legal-entity mergers are expected in 2024, subject to regulatory approvals. Full integration of all businesses is expected to continue through 2026. UBS terminated the CHF9 billion default guarantee and repaid all but CHF38 billion of emergency liquidity assistance as of December 2023. The overall cost of state support was zero; in fact, the authorities earned interest and commitment fees for the use of liquidity support and state guarantees.

1/ See Report of the FC to safeguarding financial stability (2024); SNB Annual Report (2023); FINMA Annual Report (2023).

Bank Capital, Liquidity, and Stock Price Developments

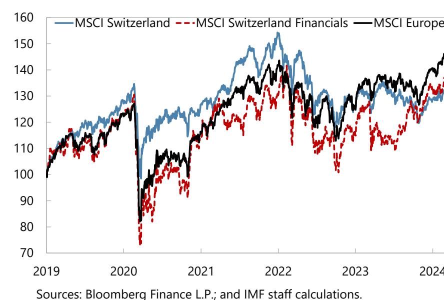
Financial Soundness Indicators



Sources: IMF IFS.

Stock Market Indices

(Index, 2019/1/1 = 100)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.

10. **Switzerland's 2023 external position is assessed as weaker than the level implied by medium-term fundamentals and desirable policies.** The external current account (CA) surplus was 7.6 percent of GDP in 2023, down from 2022 (9.4 percent of GDP) due to a higher deficit in services. The franc appreciated by 3.4 percent in real terms in 2023. On a preliminary basis, after adjusting for cyclical and Switzerland-specific factors, the CA gap is estimated to be -2.8 percent of GDP, suggesting an overvaluation of 5.2 percent of the franc. As in previous years, the assessment is subject to uncertainty (Annex I).

11. **Implementation of past Fund advice has been good in general, with more limited progress on 2019 FSAP recommendations.** Fiscal policies have been adapted to address near-term spending needs. The recently published fiscal sustainability report identifies the effects of aging and climate mitigation measures on public finances and provides a basis for proposals to

address these fiscal pressures. Monetary policy has remained data-dependent, and the SNB has appropriately reduced the size of its balance sheet. There has been some progress implementing FSAP recommendations, but more work is needed in key areas related to strengthening FINMA's autonomy, governance, and accountability, expanding the macroprudential toolkit, and further enhancing, expanding, and expediting recovery and resolution planning, including resolvability. A new FSAP is being launched in 2024. Recently-implemented pension reforms are important steps towards securing Pillar I financing, although more will be needed. The authorities also adopted a revised version of the CO_2 Act.

Authorities' Views

12. The authorities broadly share the assessment of the external position. They noted that a substantial CA surplus is warranted by Switzerland's fundamentals, including the overall level of development, demographics, fiscal policy, and the pension system. They agreed with staff that the assessment of Switzerland's CA balance is subject to substantial uncertainty, given the importance of large and complex multinational enterprises and the various ongoing adjustments to the production of BOP/IIP statistics, including the recent introduction of a new CA survey. They emphasized the importance of properly accounting for measurement issues and that the CA is heavily influenced by global factors, but relatively insensitive to exchange rate movements.

OUTLOOK AND RISKS

13. Growth is projected to recover moderately this year to 1.3 percent. A gradual recovery in external demand, lower inflation, and monetary policy easing are projected to increase growth to 1.3 percent (1 percent adjusted for sports events) in 2024 and 1.4 percent (1.7 percent adjusted for sports events) in 2025, driven by investment. The labor market will remain resilient, although unemployment is projected to increase from historic lows. The trade surplus is projected to remain broadly unchanged, with the gradual recovery in external demand countered by the strong franc. Medium-term growth hovers around 1.5 percent, with headwinds from demographics trends, skills gaps, and lower trading partner growth.

14. Inflation should remain within the price stability range, at 1.5 percent on average in 2024. Upward pressures from rent increases[4] have so far been lower than anticipated, while contributions from higher electricity prices[5] and VAT hikes[6] are projected to be modest. Declining import prices, and cooling labor markets are pulling inflation downwards. On balance, inflation is expected to slightly pick up in the first half of the year but stay within the 0–2 percent range of price stability.

[4] Rent adjustments are tied to the mortgage reference interest rate, which increased from 1.25 to 1.75 percent in 2023, and could lead to rent increases of up to 6 percent.

[5] A medium-sized household will pay 18 percent more in 2024, according to the Federal Electricity Commission.

[6] Starting from January 2024, the standard VAT rate is 8.1 percent, a 0.4 ppt increase.

15. Risks are broadly balanced amid high uncertainty. In the short term, downside risks arise from intensification of regional conflicts and an abrupt global slowdown, which could result in slower growth and safe haven flows. In this scenario, fiscal policy should allow automatic stabilizers to work, while providing targeted support to the most vulnerable. Foreign exchange interventions can be considered in cases of disorderly market conditions or to prevent inflation expectations deanchoring that could result from a large and persistent exchange rate appreciation. Inflationary outcomes will depend on opposing impacts of supply-chain disruptions and commodity prices on the one hand and franc appreciation on the other. On the upside, faster global disinflation could ease financial conditions and support growth. Over the medium-term, downside risks include accelerated geoeconomic fragmentation (Annex III) and setbacks in strengthening EU relations. Continued commitment to free trade and cooperation, as demonstrated by abolition of industrial tariffs in 2024 and efforts to expand trade relations, would help diversify supply chains and limit trade disruptions. Finally, downside risks arise from the ongoing integration of CS and UBS and the large size of the combined bank.

Authorities' Views

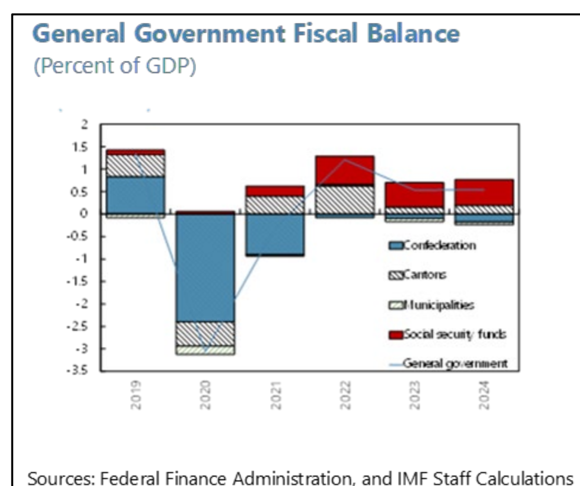
16. The authorities broadly shared staff's assessment on the outlook and risks. The authorities expect growth to recover gradually, supported by lower inflation and recovery of external demand, but with some downside risks. The authorities expect inflation to remain within the price stability range, with risks balanced and some uncertainty around imported-inflation dynamics. Labor markets are expected to remain strong, despite the small increase in the unemployment rate. Switzerland remains committed to free trade and cooperation, as shown by the unilateral abolition of industrial tariffs in 2024 and efforts to expand trade relations, including the recent bilateral agreement with India.

POLICY DISCUSSIONS

A. Fiscal Policy

17. The overall fiscal surplus is projected to remain at 0.5 percent of GDP in 2024. At the confederation level, consolidation measures of CHF 2 billion identified in 2023 will help meet debt-brake rule requirements in 2024. However, national defense, infrastructure, and demographics spending is expected to remain elevated. Extraordinary expenditures of CHF2.4 billion (0.3 percent of GDP) are envisaged in 2024 for aid to Ukrainian refugees (CHF1.2 billion) and capital contributions to the railways (CHF1.2 billion). Slower expenditure growth for the cantons and higher receipts from the VAT hike for social security funds will contribute to

General Government Fiscal Balance
(Percent of GDP)



Sources: Federal Finance Administration, and IMF Staff Calculations

surpluses. Given the authorities' fiscal framework, the broadly unchanged fiscal stance is appropriate as it balances the need to avoid impeding the ongoing modest recovery, while retaining fiscal space to address accumulating spending pressures.

18. The authorities plan to reduce gradually the accumulated balance of the amortization account—which records past extraordinary receipts and expenditures—thereby limiting headwinds to growth. At end-2023, amortization or offsetting needs were CHF27.2 billion (3.4 percent of GDP), mostly from COVID-19 and from the war in Ukraine. The authorities extended the ordinary six-year deadline for amortization—via surpluses or extraordinary receipts—until 2035, with an option for extension until 2039; past surpluses were not allowed for the offsetting. Also, to gradually phase-out the use of extraordinary expenditures, the federal authorities will finance asylum-related expenditures within the ordinary budget by no later than 2028. Staff supports this approach; the authorities should adjust plans, if needed, to limit headwinds from higher surpluses.

19. Mounting spending needs pose challenges. The debt-brake rule, which requires a balanced position over the cycle, has anchored well federal fiscal policy (Box 2). Spending pressures are accumulating, especially from defense and social insurance. Rationalization within the ordinary budget has closed deficits through 2025 (Annex IV), but they remain for 2026–2027 (0.2–0.4 percent of GDP). In addition, the recently-passed referendum on a 13th monthly pension payment might increase the federal government's yearly contribution from 2026. To limit the burden on the federal budget, a proposal is to reduce the federal share of the old-age and survivor's insurance (OASI) cost from 20.2 percent to 18.7 percent.[7] The authorities have initiated an expenditure review with the aim of proposing solutions by this summer.

20. More broadly, a comprehensive medium-term plan is needed to address fiscal pressures, not only on aging and defense, but also on climate change. Spending on national defense is expected to increase to 1 percent of GDP by 2035, up from 0.7 percent of GDP in 2019. According to the recently published 2024 fiscal sustainability report, demographic-related expenditures of general government are expected to increase from 17.2 percent of GDP to 18.8 percent of GDP by 2040 (to 19.8 percent of GDP by 2060). Climate mitigation measures are expected to impact both revenues and spending. Depending on the policy scenario, the general government debt ratio could be 3 to 3.8 percentage points higher by 2040 (8.4 to 11 percentage points higher by 2060). Given the fiscal framework and the magnitude of expenditure pressures, options to create space would likely include a combination of further spending reprioritization and revenue increases (Annex IX). The fiscal sustainability report provides a good basis for policy proposals.

21. Tax reforms are progressing to support public-policy objectives with mixed impacts on revenue. Reforms mainly aim at introducing international initiatives, improving efficiency, removing distortions, and leveling the playing field:

[7] The consultation of the proposal is planned for this summer and to be submitted to the parliament by this fall.

- The Federal Council (FC) has implemented the OECD-led global minimum corporate tax rate of 15 percent (Pillar Two) via a supplementary tax.[8] On Pillar One, the FC will decide on the signing of the Multilateral Convention, following which an ordinary legislative procedure needs to be enacted. The revenue potential of the supplementary tax is estimated to range between CHF1 billion and 2.5 billion.

- The VAT tax hike to support Pillar I pension reforms has come into effect, with additional revenue of CHF1.1 billion in 2024, rising to CHF1.4 billion by 2028.

- Industrial tariffs and tax-exemptions on electric vehicles were removed starting January 2024. The estimated revenue reduction due to tariff abolishment is around CHF600 million per year, while gains from removal of the tax-exemptions are CHF222 million in 2024 and CHF400 million by 2028.

- Progress has been made in individual income taxation reform to reduce labor-market distortions. A "tax-justice initiative" reform proposal was submitted to Parliament in February 2024. The revenue impact is uncertain given the shift of tax burdens among taxpayer groups. Revenue impacts of other personal income tax reforms, including taxation of imputed rental values, deductibility of interest, and deductibility of professional expense, are also uncertain at this stage given data availability and behavioral changes.

Despite public-policy objectives, given accumulating spending needs, the reforms should ideally not lead to overall revenue losses.

Box 2. Switzerland: Debt Brake Rule

The "debt-brake" rule is a mechanism for managing federal spending with the objectives of avoiding a pro-cyclical fiscal stance and sustainable fiscal policy over the long term. Under the rule, federal expenditures are limited to cyclically-adjusted revenues. Deviations from the limit (i.e., a deficit) result in a debit to a notional "compensational account" and must be offset via subsequent surpluses. The debt-brake contains an escape clause that allows for extraordinary expenditures in exceptional situations (e.g., natural disasters, severe recessions, pandemics). Such expenditures are debited to a special "amortization account" and generally must be compensated or offset during the following six years. The rule was formulated in response to chronic deficits and rising public debt and was accepted by 85 percent of voters; it remains popular 20 years after its introduction in 2003.

The rule has led to sustained surpluses and a considerable reduction in public debt, from 56.9 percent of GDP in 2003 to 38.3 percent of GDP in 2023, low by international comparison. In addition, by establishing a connection between spending and cyclically-adjusted revenue, the rule has avoided a pro-cyclical spending bias. In boom years, it has had a disciplinary effect by directing high tax revenues towards accumulating surpluses rather than additional expenditures (Hausner and Simon (2015)). By 2023, surplus of compensation account has reached CHF20.1 billion (2.5 percent of GDP). Finally, the rule was flexible enough to accommodate the large spending needs required during COVID-19 when the Confederation made CHF30 billion available within a very short time to cushion economic impacts.

[8] A federal law is to be submitted to replace the ordinance by the end of 2029.

Authorities' Views

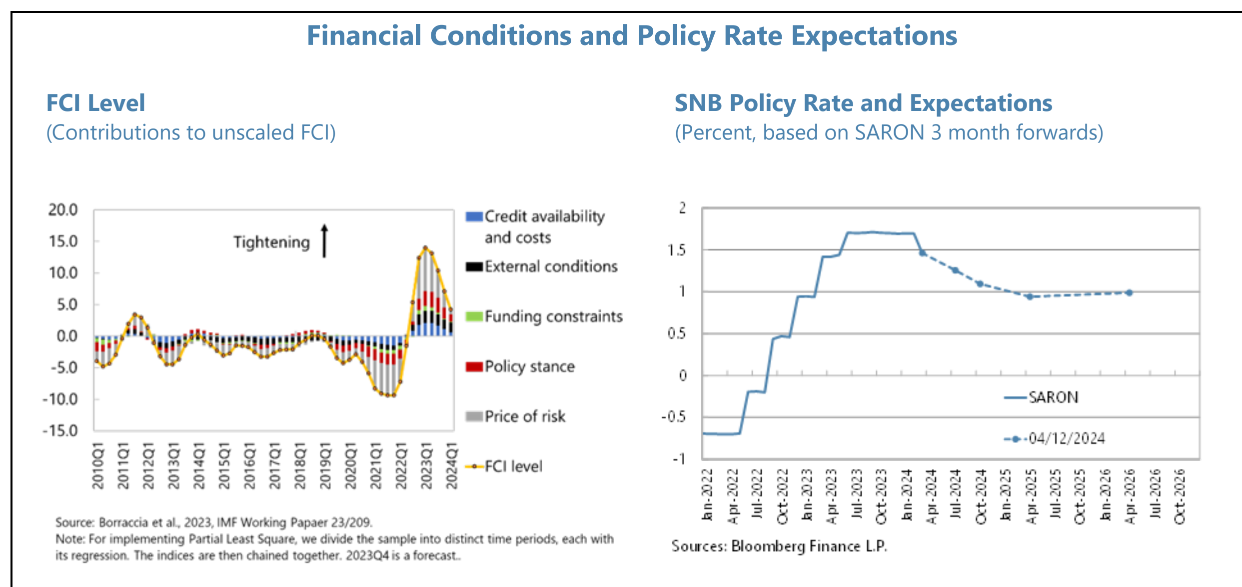
22. The authorities broadly concurred with staff's assessment and recommendations. They stressed that the debt-brake rule has performed well since its introduction in 2003, keeping public finances solid, while allowing for flexibility in case emergency spending is needed. On amortization, they noted that it is still possible to eliminate the shortfall within the specified period, and they stand ready to adjust the amortization plan if needed. The authorities stressed that for many of the tax reforms, public-policy objectives may outweigh revenue considerations, and there are administrative costs associated with certain tax reforms. They noted that efforts are underway to eliminate the remaining projected structural deficits in the federal budget. The authorities agreed that the recently published fiscal sustainability report underlines the need for economic policy reforms and lays the ground for the discussion of policy proposal to address mounting fiscal pressures in the medium to long term.

B. Monetary Policy

23. The SNB's March policy rate cut ahead of other major central banks was appropriate to counter risks of inflation moving to and settling at very low rates. Given Switzerland's status as an open economy with a large financial sector and susceptibility to safe-haven flows, along with swift and significant exchange rate pass-through, the SNB's monetary policy strategy appropriately looks at monetary policy conditions as determined by the level of interest rates and the exchange rate.[9] Financial conditions tightened significantly in 2023, driven by a transmission of the policy rate increases and franc appreciation, including due to interventions. Despite some easing since the beginning of the year owing to declines in long-term rates and a mild franc depreciation, the financial conditions remained tight ahead of the policy meeting in March. With downward inflation surprises and inflation comfortably within the 0–2 percent price stability range, the SNB appropriately cut its policy rate in March to prevent overtightening and inflation possibly moving to and settling at very low rates. Currently, ex-ante short-term real rates are slightly positive, within the wide range of estimates of the neutral rates. The markets price in further rate cuts with terminal rates at around 1 percent. Financial conditions have eased, reflecting a decline in longer-term yields, the policy-rate cut and franc depreciation so far in 2024.

24. Monetary policy should remain responsive to incoming data. Temporary factors (rent increases) are expected to put upward pressures on prices, but inflation is expected remain within the stability range. If renewed increases in energy prices, resilient labor markets, pandemic-related "excess" savings (around 4 percent of GDP), or easing of financial conditions lead to inflationary pressures, the authorities should keep the current policy rate as some other central banks lower rates. If inflation continues to surprise on the downside, given the costs of nearing the zero lower bound or even returning to negative territory, the SNB should continue to cut rates to insure against inflation moving to and settling at very low (or possibly negative) rates.

[9] See Selected Issues Paper I (2024) on monetary policy transmission.



25. The SNB's financial loss in 2023 was sharply lower, but challenges of managing central bank assets close to 100 percent of GDP persist. The 2023 loss, CHF3.2 billion, was driven by negative results on CHF positions (CHF8.5 billion, driven by higher interest payments to banks), which offset profits on its foreign position (CHF4 billion). The SNB, in line with its safeguards policy, allocated CHF10.5 billion as provisions for potential foreign currency losses, drawing from its distribution reserve.[10] Given the SNB's track record of achieving its primary mandate, new losses are unlikely to pose operational or recapitalization risks.[11] Nevertheless, given risks associated with a large balance sheet, the SNB should continue to adopt a prudent risk management approach in its investment strategy, increase provisions as planned, and if the opportunity arises, gradually reduce its large balance sheet.

26. The SNB continue to explore a wholesale central bank digital currency (CBDC). The SNB is conducting a pilot with financial market infrastructure operator SIX Digital Exchange and six commercial banks for a wholesale CBDC as the settlement instrument for digital securities. The SNB is also evaluating other options for settlement of tokenized assets, including a link with the Swiss real-time gross settlement (RTGS) system SIC and use of private, bankruptcy-protected tokenized money backed by central bank reserves. This work aims to enhance preparedness for technological changes and understanding of possible implications of different types of settlement options.

[10] Based on the current rules, the SNB needs to replenish the distribution reserve and increase provisions by 10 percent before any new profit distribution to the government can happen. Provisions for currency reserves stand at CHF113 bn, while the distribution reserve is CHF -52.3 bn, including the 2023 loss. To distribute in 2025, the SNB would need a profit of about CHF66, an ROA of about 8 percent.

[11] See Selected Issues Paper (2023). As of 2024Q1, the SNB reported a profit of CHF 58.8 billion, largely generated by the assets held in foreign currencies.

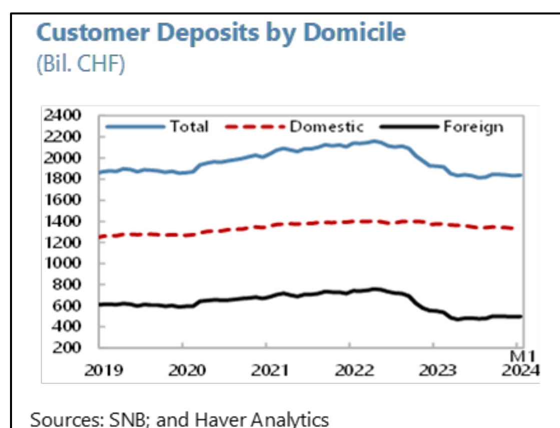
Authorities' Views

27. The authorities agreed on the importance of remaining data-dependent. They noted that monetary conditions were restrictive in 2023, also reflecting the franc appreciation. The decision to cut the policy rate in March 2024 was supported by reduced inflationary pressures, with the intention to ensure appropriate monetary conditions. They noted that the interest rate remains the primary monetary policy instrument, but FX operations are also considered. The SNB recognizes risks related to its large balance sheet, and is thus committed to strengthen its equity position. Investment strategy has not changed and remains guided by monetary policy and capital preservation considerations.

C. Financial Sector

28. The financial system has strong buffers but remains highly exposed to real estate. Bank capital and liquidity positions remain sound and above regulatory minima. Non-life insurers and reinsurers improved solvency-test ratios, indicating stronger regulatory capital positions. The coverage of equity capital requirements of asset management companies is comfortable. Deposit outflows in 2023 were driven by the CS episode and concentrated in FX; banks have since shown a stable deposit base. The impact of higher interest rates on asset quality has so far been muted, and banks have small trading portfolios (6 percent of total assets). Stress tests conducted by the authorities show that domestically-focused banks would incur substantial losses in severe interest-rate shock and real estate-crisis scenarios, with impacts on capital. While some banks would breach capital buffers, most would be able to absorb losses, and the system would remain resilient.[12] Overall, with the correction in mortgage and real estate markets, systemic risks have subsided compared to last year, but vulnerabilities persist due to the large real estate exposure.

Customer Deposits by Domicile
(Bil. CHF)



Sources: SNB; and Haver Analytics

- *Residential real estate.* Bank exposure to residential mortgages is large (75 percent of total loans). Credit risk is visible given very high household debt, but risks are mitigated by strong and liquid household balance sheets (Figure 7). House prices remain high, with continued signs of overvaluation, but supported by the tight market because of both demand- and supply-side factors (Box 3). Affordability risk remains elevated. In addition, the proportion of adjustable-rate mortgages has risen, and a proportion of mortgage loans are "Exception-to-Policy",[13] outside

[12] Due to the acquisition of Credit Suisse by UBS, lack of sufficient data did not allow for a comprehensive assessment of the combined bank's resilience in such a forward-looking analysis in 2023.

[13] Mortgage loans are "Exception-to-Policy" when they do not meet a bank's self-imposed lending criteria.

bank lending criteria. Vulnerabilities appear higher in investment-purpose residential properties (IPRP), a quarter of mortgage volume. These include stronger signs of overvaluation,[14] higher price sensitivity to interest rates, and commercial investors' higher inclination of default, and potential for fire sales. NBFI exposures to the real estate market are small compared with the banking sector,[15] and the overall leverage and liquidity risks remain low (IMF, 2023).

- *Commercial real estate (CRE).* There are indications of price correction in CRE, heterogeneous across locations. Exposure of banks to domestic CRE is modest (15 percent of mortgage loans, varying across banks), but CRE loss rates are higher than for other segments, and there are signs of a growing proportion of borrowings by CRE companies becoming not secured by mortgages on properties. NBFI exposures to CRE are relatively limited, however, high for some non-life and health insurers. Higher interest rates have led to some pressures on prices and liquidity of CRE funds. Despite pressures, the average default probability of CRE firms remains low. While direct CRE exposures to appear modest, data gaps limit a comprehensive view of direct and indirect exposures including to cross border markets and interlinkages across financial institutions.

29. Overall, continued vigilance is warranted. Reactivation of the sectoral countercyclical capital buffers (CCyB) at 2.5 percent in 2022 increased resilience. Higher interest rates increased bank profitability, but deposits rates have also gradually increased. As interest rates decline, profitability could fall. Given large real estate exposures and the temporary component of higher bank profitability, banks should be encouraged to conserve a part of profits to strengthen capital buffers. The authorities should also expand the macroprudential toolkit via borrower-based measures such as binding Loan-To-Value (LTV), Debt-to-Income (DTI), and Debt-Service-To-Income (DSTI) requirements.[16] Given that the sectoral CCyB is already at the maximum level, if vulnerabilities increase, the authorities should consider activating the broad-based CCyB. A positive neutral CCyB could also be considered to allow more flexibility to respond to periods of financial stress. To limit risks, it is important to take a forward-looking perspective in the assessment of private bank resilience. Data gaps inhibit a comprehensive view of direct and indirect exposures of the financial sector to domestic and cross-border markets and of interlinkages across financial institutions, including to fintech companies.[17] These gaps should be closed. The authorities' efforts to enhance regulations on investment vehicles, financial infrastructure, fintech, insurance, and sustainable finance will help strengthen Switzerland's position as financial center. Addressing housing affordability concerns by advancing the authorities' action plan is important.

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[14] Financial Stability Report, Swiss National Bank, 2023

[15] Swiss pension funds allocate 8.4 percent of assets into direct holdings of Swiss properties, 3 percent into mortgage loans, 10.5 percent into via real estate funds, and 3.9 percent into real estate abroad. Swiss insurance companies allocate 9 percent of portfolio directly into real estate and 7 percent into mortgage.

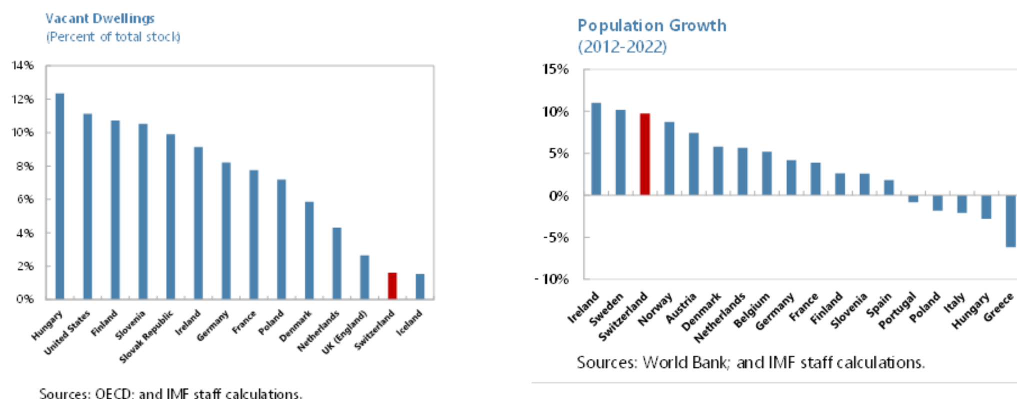
[16] In 2020, requirements of mortgage loans for investment properties were tightened under "self-regulation" guidelines.

[17] Such as financial institutions' indirect exposures to the investment purpose real estate market; interconnections between banks and NBFIs, as well as among NBFIs, including both direct financial interlinkages and potential concentration risks associated with common investment strategies; and banks' and NBFIs' direct and indirect cross-border exposures. Also refer to Selected Issues Paper III (2024) and Selected Issues Paper III (2023).

Box 3. Switzerland: Residential Real Estate Market

Vacant dwellings constituted only 1.2 percent of the total dwelling stock as of 2023, one of the lowest rates among OECD countries. The low vacancy rate stems from sluggish residential construction and substantial population growth. During 2012–22, the population grew by 10 percent, among the highest rates in Europe.

Residential real estate tightness is expected to persist, due to ongoing demand pressure and limited supply. In 2023, Switzerland recorded population growth of 1.6 percent, highest since the 1960s. To address housing affordability concerns, the authorities have developed an action plan, encouraging housing production via densification and planning, streamlining procedures, and emphasizing affordable housing construction.



30. The state-facilitated acquisition of UBS-CS stabilized financial markets, but also poses challenges. The combined bank, with assets of 180 percent of GDP, is the largest G-SIB relative to the size of its host economy. In line with the current Too-Big-To-Fail (TBTF) framework, UBS is required to increase its capital latest by 2030; the authorities' recent TBTF review proposed further capital measures at the parent bank level. The complexity of UBS' combined global operations makes supervision more challenging. In the event of a future crisis, options available during the CS failure may no longer be feasible. This highlights the importance of strengthening the crisis-management framework, ensuring implementability of the bank's recovery plan, conducting a resolvability assessment, and updating UBS's resolution plan. Furthermore, with UBS now constituting ¼ of domestic loans and deposits, competition and concentration risks should be closely monitored.

31. Several new measures were introduced over the past year. New liquidity requirements for SIBs (which must be fully met by end-2024) cover higher or lengthier deposit outflows and risks not covered by the Liquidity Coverage Ratio (such as execution of a liquidation/restructuring). FINMA increased resources dedicated to supervision of UBS and started hiring additional resources for recovery and resolution planning. The SNB extended eligibility of emergency liquidity assistance (ELA) to all banks—previously only available to SIBs—against collateral in the form of mortgages. The authorities have tabled in parliament a law to make the emergency public liquidity backstop (PLB) permanent. Basel III rules were adopted in 2023, and the amended Capital Adequacy Ordinance will enter into force in January 2025.

32. Further strong reforms are needed to enhance the regulatory and supervisory framework, informed by lessons from the CS experience. The authorities' April TBTF review provided insights, lessons, and a reform blueprint (Box 4). Some of the proposed measures are still to be examined and discussed in parliament. A parliamentary investigation committee (PIC) will publish a second report later in 2024, and the Competition Commission will publish a third report. The FC intends to present two packages for implementation in the first half of 2025: one with changes at ordinance level that can be approved by the FC, and the second with legislative amendments to be submitted to parliament. The proposed measures will focus on strengthening the prevention and liquidity regimes and expanding the crisis toolkit. While these measures cover important areas, the strength of reforms will depend on the calibration of measures.

Box 4. Switzerland: Main Recommendations of the TBTF Report 1/

A government review of the CS failure and TBTF framework was published in April. It notes that the magnitude and pace of the failure, the need for state support, the use of emergency legislation, and the even-larger remaining G-SIB called for a comprehensive evaluation. It identified gaps and actions in three areas:

- **Strengthening the *prevention regime*** in the areas of corporate governance and supervision (e.g., through a senior managers' regime and measures on variable remuneration); capital requirements (e.g., through more strict implementation, increasing for foreign participations, and introducing forward-looking elements in the institution-specific capital surcharge); and early intervention and recovery (through strengthening FINMA's options and duties, expanding planned stabilization measures for SIBs, and defining clear criteria to trigger early interventions).

- **Strengthening the *liquidity regime*** by ensuring liquidity in a crisis (e.g., through increasing liquidity requirements for SIBs, reviewing and refining the LoLR legal framework, expanding preparatory measures by the banks, and introducing a PLB).

- **Expanding the *crisis toolkit*** by improving resolution planning and resolvability of SIBs (such as through reducing legal and implementation risks, expanding resolution options, and targeted capital requirements) and strengthening crisis organization and cooperation among the authorities.

1/ Report of the Federal Council to safeguarding financial stability (2024).

33. Recommendations from the 2019 FSAP remain important for the overall stability of the financial system; a 2025 FSAP will provide updated recommendations. The 2019 FSAP highlighted the need to increase powers and resources of FINMA to enable early and effective intervention. Key recommendations included implementing a risk-focused and forward-looking supervisory approach, reducing reliance on external auditors, strengthening recovery and resolution planning and implementability (including powers to require changes to bank structures to resolve banks), enhancing enforcement powers through sanctions, fines, and disclosing of enforcement actions, and reforming the deposit insurance scheme. These recommendations remain important.

The authorities should address these, and also issues related to capital and liquidity requirements and introduce an effective PLB. Following the extension of the ELA eligibility, more work needs to be done to ensure banks' collateral preparedness.

34. Switzerland continues to strengthen its AML/CFT framework with reforms to mitigate ML risks to financial integrity. FINMA has identified shortcomings in ML prevention during on-site supervisory reviews and defined combating ML—particularly related to concealment of the origin of assets through complex legal structures—as a key risk, along with crypto. The authorities should continue to strengthen AML/CFT risk-based supervision of banks, through analysis of cross-border flows, especially from jurisdictions of concern, and enhance their understanding of potential impacts of ML shocks on banking stability. The authorities have drafted a bill for submission to parliament in 2024 to introduce a federal registry of beneficial owners of companies and other legal entities. Planned amendments to the AML/CFT framework would extend due diligence obligations to legal and accounting activities and to cash payments in the real estate and precious metals sectors and include new obligations to prevent breaching international sanctions.

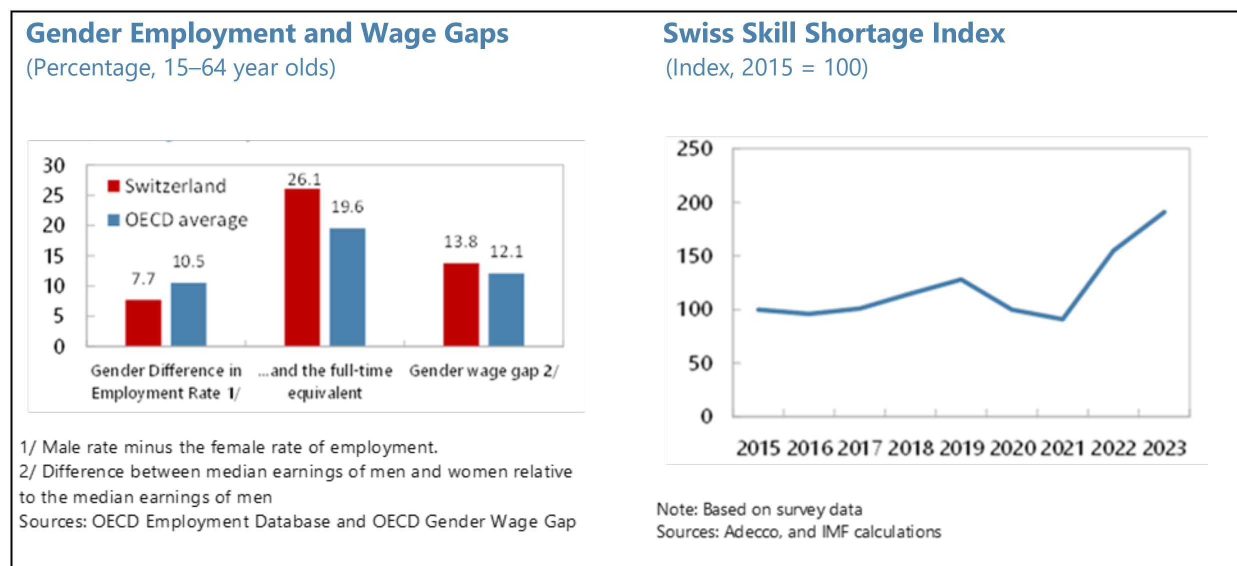
Authorities' Views

35. The authorities broadly agree with staff's assessment and recommendations. They noted that real estate vulnerabilities persist, particularly in the investment-property segment. They noted that CRE exposures are limited but recognize the need to enhance monitoring of exposures and interlinkages, both domestic and cross-border. Steps have been taken to increase regulatory data collection, which will improve also risk monitoring of NBFIs and fintech. The authorities consider the current set of macroprudential measures adequate, but could consider expanding the toolkit if vulnerabilities increase. They highlighted that measures introduced—increasing supervisory resources for UBS; increasing the number of on-site supervision exercises; broader use of stress-testing; new liquidity requirements for SIBs, extension of ELA eligibility against mortgage collateral to all banks, and tabling of the PLB in parliament—will contribute to financial sector resilience. However, as proposed in the TBTF report, further strong reforms are needed to enhance the regulatory and supervisory framework. Moreover, the authorities reiterated their commitment to continue strengthening the effectiveness of the AML/CFT framework. The public consultation for the Bill on new beneficial ownership obligations closed in November 2023 and commentary was largely favorable, with few modifications envisaged- including refinements on discrepancy reporting, access of authorities. The authorities will also continue with the extension of due diligence measures to high-risk activities of lawyers, accountants and fiduciaries in the draft revision to the AML Act despite resistances from some of the affected sectors. Submission of the draft to Parliament is envisaged for end-May 2024.

D. Structural Policies

36. Labor markets continue to perform well but face increasing skill shortages and mismatches amid demographic headwinds. Labor force participation is high, but firms face

increasing skill shortages, particularly in technology, finance, healthcare, and engineering. Economic transformation is leading to a misalignment between workforce skills and employer requirements. Demographic headwinds will increase these challenges.



1/ Male rate minus the female rate of employment.
2/ Difference between median earnings of men and women relative to the median earnings of men
Sources: OECD Employment Database and OECD Gender Wage Gap

Note: Based on survey data
Sources: Adecco, and IMF calculations

37. Incentivizing participation of women, older workers, and immigrants would increase the labor force, mitigate skills shortages, and raise potential growth.

- **Women.** Participation of women is high but reflects a high incidence of part-time workers. Incentivizing full-time participation by women would help address demographic headwinds, foster long-term growth, and promote gender equality. In particular, it would help address skill mismatches and strengthen women's human capital, as part-time workers have limited opportunities for on-the-job training. High childcare cost and tax disincentives discourage women from full-time work. Expanding childcare and providing targeted support, while moving from family- to individual-based taxation would improve participation (OECD, 2024).

- **Older workers.** Increasing participation of older workers would allow for retention of experience and expertise and improve labor dynamics and pension funding. Options include increasing the retirement age and aligning pension incentives (e.g., by reducing progressivity in second-pillar contribution rates), while allowing more flexibility in combining work and pension income (OECD, 2024).

- **Immigrants.** The share of employed persons with migration background has been increasing over time, but the unemployment rate of migrant workers is persistently higher.[18] Continued policies to attract, retain, and integrate migrants into the labor force, including emphasis on vocational and educational training, would address labor shortages (OECD, 2024).

[18] See Selected Issues Paper II (2024).

38. Pension reforms are advancing, but additional actions are needed to close new financing gaps. The increase in the VAT rate and retirement age for women were important steps towards Pillar I pension sustainability through 2030. However, spending pressures will continue. In this context, further reforms are to be submitted in 2026 to stabilize 2030–40 Pillar I financing. In addition, the recently-passed referendum on a 13th monthly pension payment will require additional funding of at least CHF 4.2 billion a year (½ percent of GDP) from 2026. To finance this gap, the FC has proposed two options: i) increasing wage contributions by 0.8 ppts; and ii) combining an increase in wage contributions by 0.5 and of the VAT rate by 0.4 percentage points. The FC also considers two variants to finance the gap due to lower federal contribution: i) some use of the OASI fund; and ii) generating further income either through an increase in wage contributions by 0.2 ppts or a combined increase in wage contributions by 0.1 ppts and the VAT rate by 0.2 ppts. To safeguard the sustainability of the pension system and avoid depletion of the OASI fund, the authorities should decide on measures to provide financing of the 13th monthly pension payment and develop further pension reforms as planned. Reforms under Pillar II, including lowering of the conversion rate and contribution salary threshold, have been approved by parliament and are subject to a referendum in Fall 2024.

39. Switzerland has made further progress on climate policy. A revised version of the CO_2 Act was adopted by Parliament in March 2024, establishing the policy framework for emissions reduction for 2025–2030. In parallel, Switzerland has continued to pursue bilateral agreements with countries to acquire emissions-reduction credits under Article 6.2 of the Paris Agreement (Kenya, Chile). In addition, there are ongoing discussions in Parliament about the possible introduction of a carbon border adjustment similar to the EU CBAM. Switzerland will start the legislative process on the 2031–2040 climate policy framework this year. Some provisions of the revised CO_2 Act are less ambitious than what had been initially proposed. For example, the share of revenue raised by the CO_2 levy to be allocated to the buildings program will remain 0.33 (rather than 0.5, as initially proposed by the FC). In addition, the nominal level of the CO_2 levy will remain CHF120/t CO_2e through 2030, leading to an erosion of its real value and reducing incentives to move away from fossil-fuel based heating and resources available to the buildings program. The Act may not be sufficient to achieve emissions reduction targets in this sector, which may result in the need to acquire more emissions-reduction credits internationally than currently anticipated.

40. The EU and Switzerland have restarted negotiations. Negotiations cover wide-ranging areas, including dynamic adoption of legislation and dispute settlement for the five Swiss-EU market-participation agreements—free movement of labor, industrial standards, agriculture, air, and land transport; Switzerland's participation in EU research and education programs; state-aid; EU cohesion contributions, and new agreements on electricity, food security, and health. The objective of finalizing these discussions by end 2024 is welcome, as a prompt resolution would be beneficial for both sides.

41. Continued efforts are needed to address transnational aspects of corruption.[19]

- **Fighting relatively high foreign bribery risks.** [20] Switzerland is a leading source of FDI and hosts large multinational enterprises. [21] It has made progress in detecting and investigating foreign bribery through, inter alia, awareness raising, whistleblower training, and legal revisions on procurement and mutual legal assistance. The authorities should continue to implement the OECD Phase 4 recommendations, including increasing maximum fines for legal persons, improving whistleblower protection, refining conditions governing appeals by interested persons in the framework of mutual legal assistance, and revising accounting standards.
- **AML/CFT and beneficial ownership reforms would help mitigate concealment of foreign proceeds of corruption** in the financial center and via complex legal structures. The revised AML Act requires all business relationships to be periodically reviewed and updated, which contributes to further compliance with preventive measures related to foreign politically-exposed persons. In addition, the proposed bill to introduce a federal register for identifying beneficial owners for companies could help mitigate risk of corruption-related actors transacting and making investments hiding their true identity. Switzerland also took steps to enhance cooperation with international counterparts, including through the ML Reporting Office (MROS). Further enhancement of these measures could enable better detection and disruption of laundering of foreign proceeds of corruption.

Authorities' Views

42. The authorities noted strong labor market performance, acknowledging shortages and skill gaps. They noted that labor shortages can be addressed via a comprehensive set of policies, but may not be completely solved. The gender gap is being addressed through several initiatives, including the Gender Equality Strategy 2030, federal support for creation of affordable childcare and the proposal to reform individual taxation. The lengthening of older workers' careers is also being addressed via reforms to unemployment insurance. Immigration can help address future declines in the labor force due to demographic headwinds and address skill gaps but depends on social acceptance.

43. The authorities agreed that efforts to improve pension-system sustainability should continue. They noted that swift actions are being taken to secure financing of the 13th monthly

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[19] Switzerland volunteered to have its legal and institutional frameworks assessed in the context of IMF bilateral surveillance to determine whether it: i) criminalizes and prosecutes bribery of foreign public officials; and ii) has an effective AML/CFT system that prevents foreign officials from concealing proceeds of corruption.

[20] Information relating to supply-side corruption in this section of the Report is based on information and data provided by Switzerland. The IMF staff has provided additional views and information. The information in this report has not been verified by the WGB or the OECD Secretariat and does not prejudice the WGB's monitoring of the implementation of the OECD Anti-Bribery Convention.

[21] Thirteen of the world's 500 largest multinational enterprises are headquartered in Switzerland, with some operating in high corruption risk sectors. See OECD- UNSD Multinational Enterprise Information Platform, and International Financial Statistics - International Investment Position, Assets, Direct investment (BPM6).

pension. They remain open to various structural measures, including increasing the retirement age and further financing options, to secure Pillar I financing beyond 2030.

44. The authorities expect the CO_2 Act to enter into force in January 2025. In the absence of a referendum on the Act, accompanying ordinances will be drafted as soon as the referendum request window expires. One ordinance will set the level of emissions reduction to be achieved domestically. The authorities expect that the share of emissions reduction to be achieved domestically will be around 2/3 of needed cumulative emissions reduction. They expect the legislative process for the definition of the 2031–2040 policy framework to start this year.

45. The authorities noted the progress on EU engagement and aim to advance as swiftly as possible. They stressed the importance of continued engagement with stakeholders during the process.

46. The authorities welcomed the voluntary assessment of transnational aspects of corruption. For the supply side of corruption, they reiterated their intention to further implement the recommendations of the OECD Phase 4 evaluation. The authorities also agreed to continue enhancing the effectiveness of their AML/CFT framework to tackle foreign proceeds of corruption.

STAFF APPRAISAL

47. The Swiss economy boasts strong fundamentals but faces risks and challenges. After a strong post-pandemic recovery, a weakening in trading-partner growth, coupled with tighter financial conditions, has slowed growth. Growth is expected to recover gradually, driven by recovery in external demand, lower inflation, and monetary policy easing. The labor market remains resilient, although unemployment is projected to increase modestly. The external current account surplus declined to 7.6 percent in 2023 with a higher services deficit, weaker than implied by medium-term fundamentals and desirable policies on a preliminary basis. Inflation is back within the range of price stability and projected to remain within the range. The outlook is marked by uncertainty, while risks remained balanced. As an open economy, Switzerland faces downside risks from the intensification of regional conflicts, deepening geoeconomic fragmentation, or in case of slower-than-expected progress of negotiations with the EU. On the other hand, a faster decline in global inflation and subsequent easing of financial conditions could lead to higher growth. Addressing challenges related to aging and climate change, will also be important to secure robust growth over the medium-term.

48. Given the authorities' fiscal framework, the broadly unchanged fiscal stance is appropriate. The fiscal stance balances the need to avoid impeding the modest recovery, while sustaining fiscal space to address accumulating spending pressures. The authorities' plan to reduce gradually the accumulated balance of the amortization account will limit headwinds to growth.

49. The federal authorities' fiscal framework has anchored fiscal policy well, but challenges are emerging due to accumulating spending pressures. The debt-brake rule has facilitated a considerable reduction in public debt, supported countercyclical fiscal policy, and accommodated emergency spending needs. Going forward, spending pressures are mounting, however, including from defense spending and social insurance. To ensure adherence to the debt-brake rule, the authorities have rationalized budget items, closing structural financing deficits in 2024 and 2025. Additional measures are needed to close federal structural deficits for 2026–27. In this context, the authorities have initiated an expenditure review with the aim of proposing solutions by this summer.

50. Looking further ahead, a comprehensive plan will be needed to address long-term fiscal pressures due to aging, climate change, and defense. Given the fiscal framework, the options will include a combination of further spending reprioritization and revenue increases and not borrowing. In this context, tax reforms, despite their public policy objectives, should ideally not lead to overall revenue losses. The recently published fiscal sustainability report identifies the fiscal costs stemming from demographic-dependent expenditure pressures and climate mitigation measures to reach the net zero target and therefore provides a basis for formulating policy proposals.

51. Monetary policy should remain responsive to incoming data, while taking into account international monetary policy developments. With inflation comfortably within the 0–2 percent price stability range, the SNB appropriately lowered its policy rate in March, ahead of other major central banks, to counter risks of inflation moving to and settling at very low rates. Going forward, if renewed increases in energy prices, resilient labor markets, a pickup of consumption by households from excess savings, or easing of financial conditions lead to inflationary pressures, the SNB could keep its current policy rate, as some other central banks lower rates. If inflation continues to surprise on the downside, the SNB should continue to cut rates to insure against inflation settling at very low (or possibly negative) rates particularly given the costs of nearing the zero lower bound or a return to negative interest rates. Despite a reduction in 2023, the SNB's balance sheet remains large. Given risks associated with a large balance sheet, the SNB should continue to build buffers from retained earnings, and if the opportunity arises, gradually reduce its still-large balance sheet.

52. The financial sector is resilient, but there are vulnerabilities that call for continued vigilance. The higher interest rate environment has broadly benefited the financial sector, leading to higher profitability. Capital buffers are above regulatory requirements, and NPLs have remained low. Real estate prices and mortgage markets have adjusted given higher interest rates, but vulnerabilities remain, including due to affordability risks. While direct CRE exposures of banks are modest, data gaps impede a comprehensive view of direct and indirect exposures of the financial sector to domestic and cross-border markets or interlinkages across different financial institutions. These data gaps should be closed. Given large real estate exposures conserving a part of profits to strengthen capital buffers should be encouraged. The authorities should also consider expanding the macroprudential toolkit to include borrower-based measures, such as binding Loan-To-Value (LTV), Debt-to-Income (DTI), or Debt-Service-To-Income (DSTI) requirements. Given that the sectoral

countercyclical capital buffer (CCyB) is already at the maximum level, if vulnerabilities increase, the authorities should consider activating the broad-based CCyB. Consideration could also be given to a positive neutral CCyB, to allow more flexibility to respond in times of stress. To limit risks, it is also important to take a forward-looking perspective in the assessment of risks and resilience of private banks. More broadly, to better monitor vulnerabilities, the authorities should continue with their efforts to close data gaps. To address housing affordability concerns, the authorities' action plan is welcome.

53. The state-facilitated acquisition of UBS-CS stabilized financial markets and is progressing as planned, but also poses challenges. The combined bank, with assets of 180 percent of GDP, is the largest G-SIB relative to its host economy. The complexity of the combined bank's global operations also makes supervision more challenging. In the event of a future crisis, the previous acquisition options may no longer be feasible. This highlights the importance of ensuring implementability of the bank's recovery plan and conducting a resolvability assessment. Competition and concentration risks should be closely monitored.

54. Strong reforms are needed to enhance the regulatory and supervisory framework, informed by lessons from the CS failure. While measures introduced—such as new liquidity requirements for SIBs, increased resources for supervision of UBS, and extension of ELA eligibility to all banks— will help improve resilience, the CS experience and prospects call for further reforms. The authorities' review of the TBTF regime provides insights, lessons, and a blueprint for reforms to strengthen the prevention and liquidity regimes and expand the crisis toolkit. While these measures cover important areas, the strength of reforms will depend on the calibration of measures.

55. Findings from the 2019 FSAP remain important, and a new FSAP in 2025 will provide updated recommendations. The 2019 FSAP highlighted the need to increase FINMA powers and resources to facilitate early and effective intervention. Key recommendations included implementing a risk-focused and forward-looking supervisory approach, reducing reliance on external auditors, strengthening recovery and resolution planning and implementability (including powers to change bank structures), enhancing enforcement powers via sanctions, fines and disclosure of enforcement actions, and reforming the deposit insurance scheme. Many of these recommendations remain important. Following the extension of the ELA eligibility, more work needs to be done to ensure banks' collateral preparedness. The 2025 FSAP will take stock and provide further guidance.

56. Continued efforts are needed to prepare labor markets for demographic headwinds. The labor market has performed well overall, with a high level of labor force participation and low unemployment. However, despite some easing, recruiting challenges persist, and aging will exacerbate skill shortages in the medium term. Further incentivizing labor-force participation of women, older workers, and migrants would help address widening skill gaps. Reducing childcare costs and easing tax disincentives for dual-earner families would help increase female participation. Consideration should be given to increasing the retirement age and incentives for longer careers to support labor participation and improve pension system sustainability. Continued emphasis on vocational education will also help close emerging skill gaps.

57. Switzerland has made progress on climate policy. The passage of a revised CO_2 Act clarifying the policy framework for 2025–2030 is welcome. However, some provisions of the Act

are less ambitious than initially proposed and might require acquiring more emissions-reduction credits internationally.

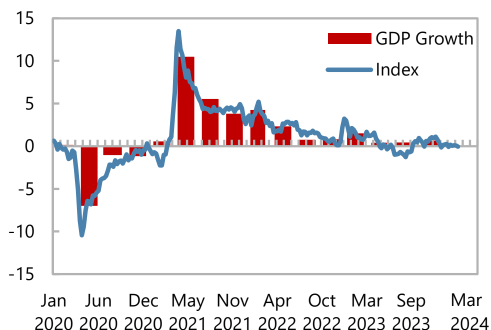
58. The resumption of negotiations with the EU is welcome to strengthen economic partnership, secure participation in the single market, and improve resilience. Overall, continued efforts to expand trade partnerships will help guard against geoeconomic fragmentation risks.

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

Figure 1. Switzerland: High Frequency and Leading Economic Indicators

Growth has weakened…

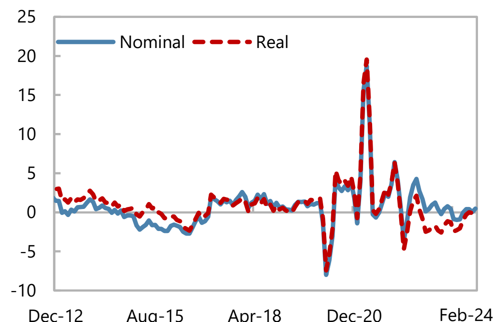
Weekly Economic Activity Index



….and retail sales have contracted.

Retail Sales (3mma) Growth

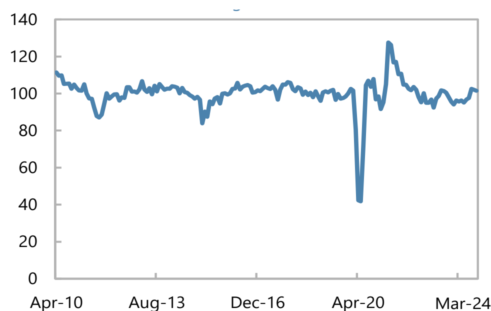
(Annual growth, % yoy)



Economic activity has picked up in recent months….

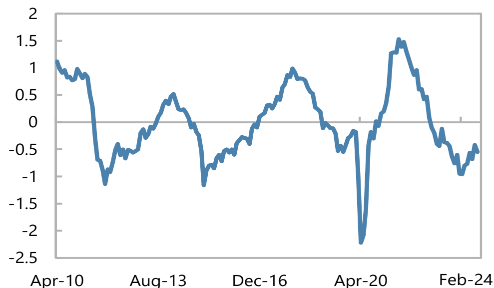
KOF Economic Barometer

(Index, 2009–2018 LT Average = 100)



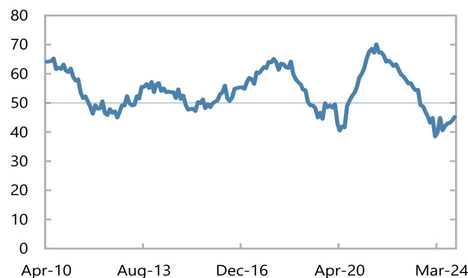
….but confidence remains weak.

Swiss Economic Confidence Indicator (SECO)



Manufacturing activity has bottomed out…

Procure.ch PMI



….while services receded after a period of expansion.

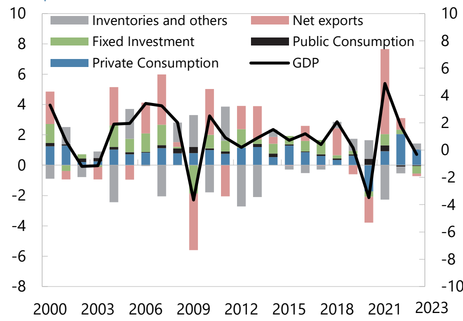
Procure.ch Services PMI

Sources: Haver Analytics; SECO.

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

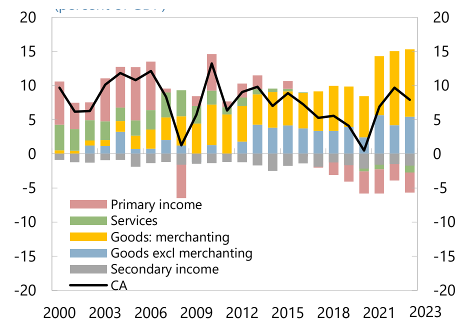
Private consumption was the main contributor to growth.

Contribution to Real GDP Growth
(Percent of GDP)



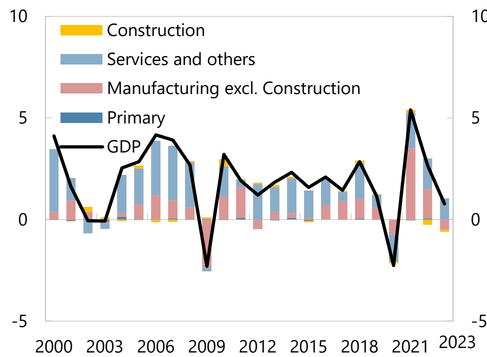
The current account surplus declined but remained sizable in 2023.

Current Account Balance
(Percent of GDP)



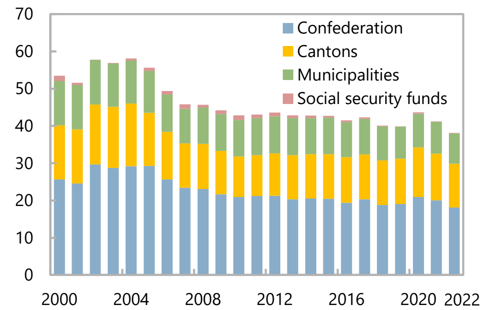
Manufacturing and construction experienced contraction in 2023

Contribution to Real GDP Growth
(Percent of GDP)



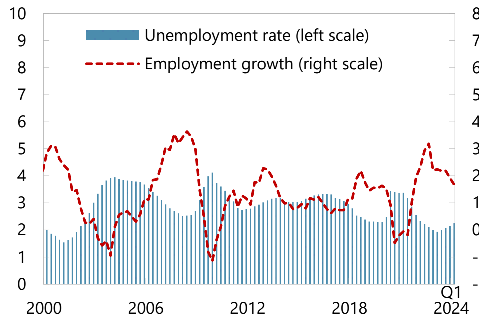
Government debt has decreased.

General Government Debt
(Percent of GDP)



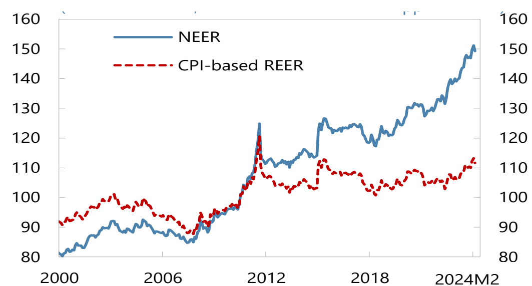
Employment growth remains robust though unemployment is slowly rising from a low level.

Labor Markets
(Percent)



The exchange rate has appreciated in nominal and real terms.

Effective Exchange Rates
(Index 2010 = 100, increases indicate franc appreciations)



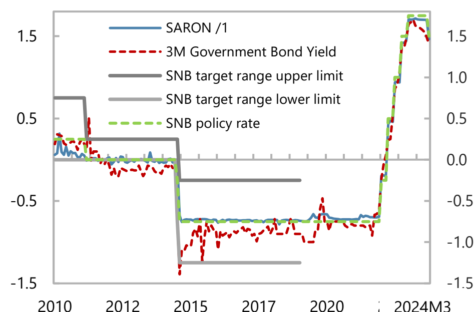
Sources: Haver Analytics; Federal Finance Administration; Information Notice System; State Secretariat for Economic Affairs; and Swiss National Bank.

Figure 3. Switzerland: Monetary Policy, 2007–2024

The SNB cut the policy rate in March and short-term rates moved in lockstep with the policy rate.

Money Market Rates

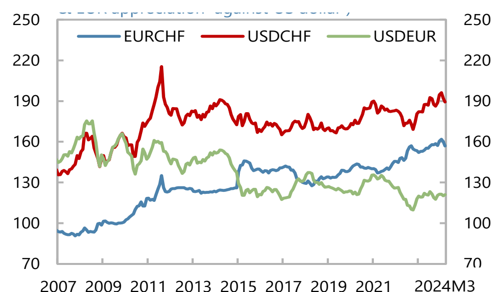
(Percent)



The CHF strengthened in 2023 and has recently depreciated.

Bilateral Exchange Rate

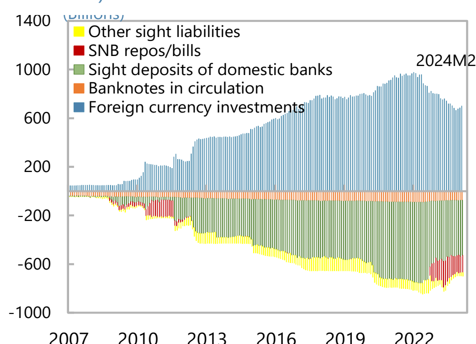
(Index – 1999 January = 100, increase = CHF appreciation & EUR appreciation against US Dollar)



The SNB reduced its holding of FX reserves

Balance Sheet Items of the SNB

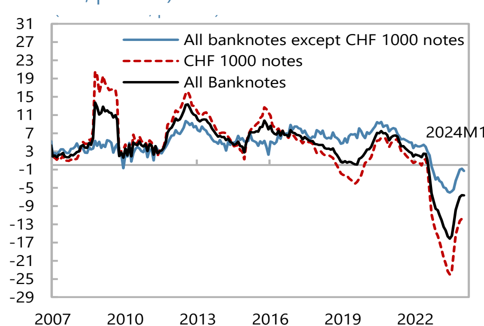
(Billions of CHF)



Cash circulation is still declining, but slowly recovering.

Cash in Circulation

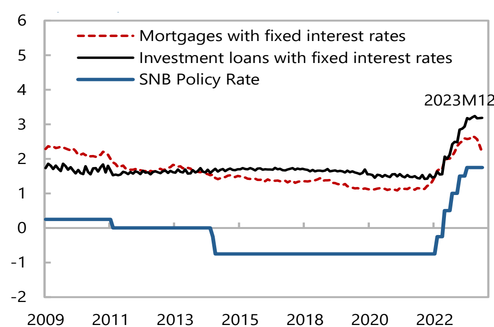
(Growth rate, percent)



The passthrough of the policy rate to lending rates ...

Bank Lending Rates

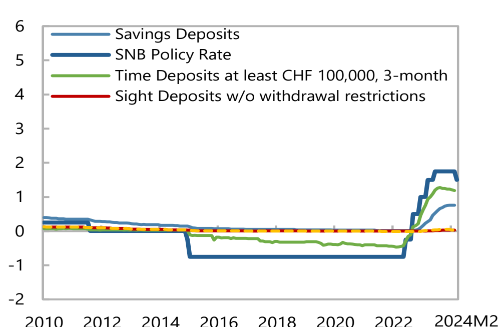
(Percent)



....and deposit rates, was quick and substantial.

Bank Deposit Rates

(Percent)



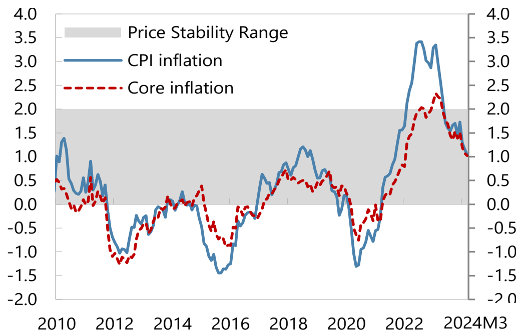
Sources: Swiss National Bank; Bloomberg Finance L.P; Haver Analytics; and IMF staff calculations.
1/ SARON (Swiss Average Rate Overnight) is an overnight average rate referencing the Swiss Franc interbank repo market.

Figure 4. Switzerland: Selected Inflation and Monetary Indicators, 2010–2024

Inflation returned to the stability range….

Inflation

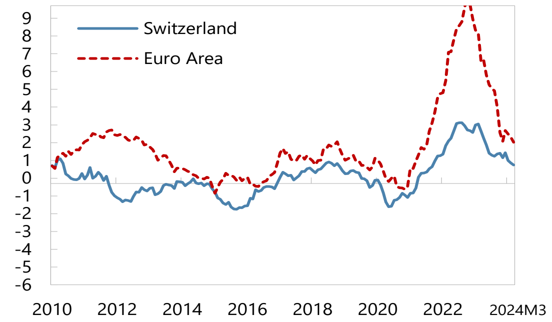
(y/y percent change)



….and remains below the Euro Area average.

Inflation Switzerland vs. Euro Area

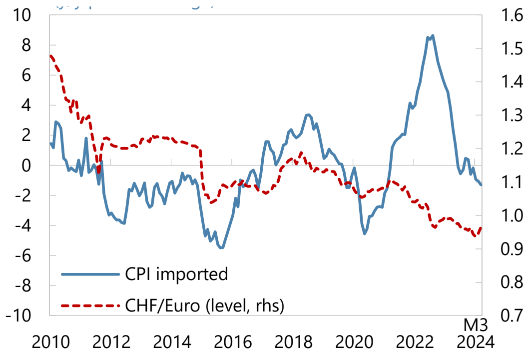
(y/y percent change)



Continued appreciation has facilitated disinflation.

CPI Foreign Inflation and Exchange Rates

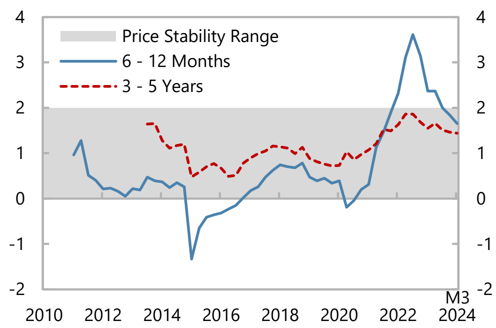
(y/y percent change)



Medium-term inflation expectations remain anchored.

Inflation Expectations

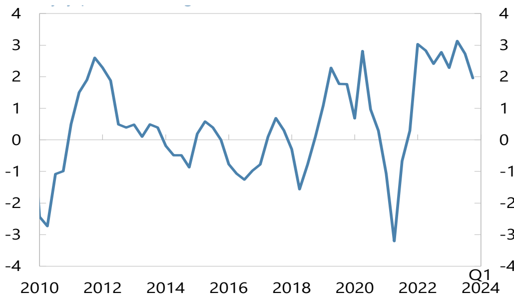
(y/y percent change)



Unit labor costs have risen in line with the rise in nominal wages.

Unit Labor Costs

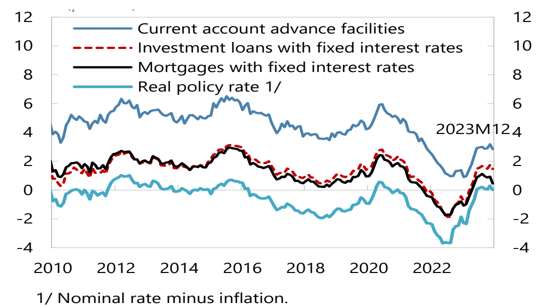
(y/y percent change)



Real interest rates have recently started receding.

Real Interest Rates

(y/y percent change)



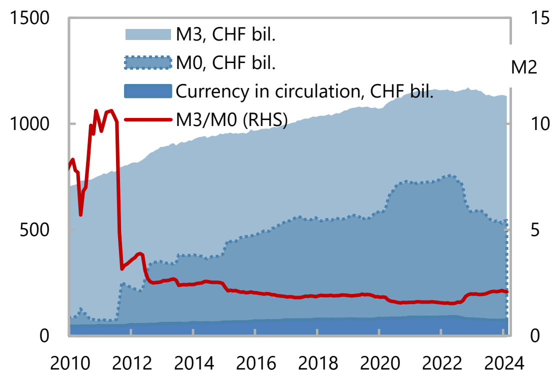
1/ Nominal rate minus inflation.

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

Figure 5. Switzerland: Selected Financial Indicators, 2000–24

The monetary base contracted with liquidity absorption operations.

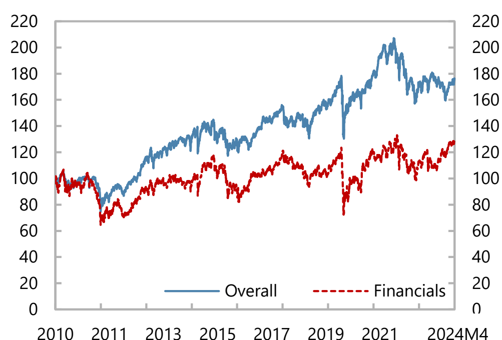
Money Supply and Money Multiplier



Stock prices recovered in 2023, particularly for banks.

Stock Market Indices

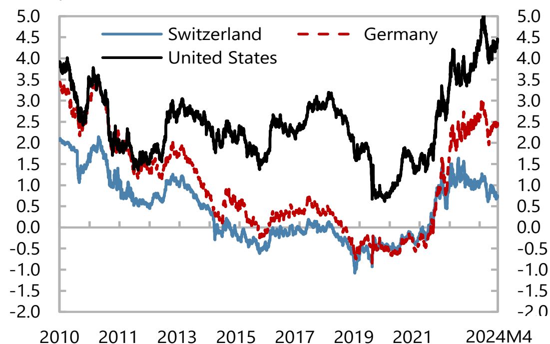
(Index)



Long-term yields declined in late 2023

10-Year Government Bond Yields

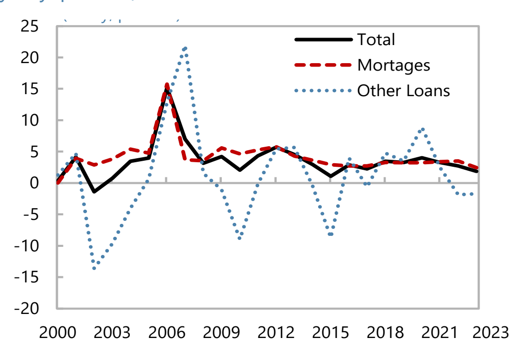
(percent)



Credit growth slowed and contracted for non-mortgage lending.

Domestic Credit Growth

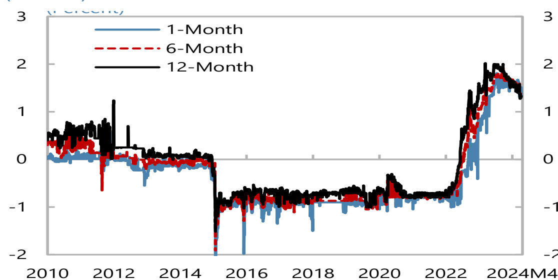
(y-o-y, percent)



Short-term deposit rates have started to decline.

Short-Term Deposit Rates

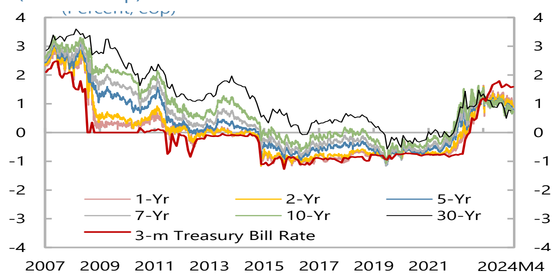
(Percent)



The yield curve has inverted.

Government Bond Yields

(Percent eop)



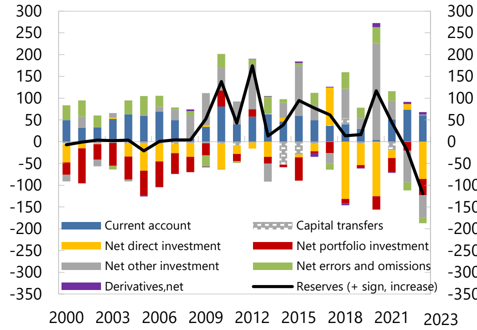
Sources: Thomson Reuters Datastream; Haver; and IMF staff calculations.

Figure 6. Switzerland: External Accounts, 2000–23

The current account declined but remained in surplus….

Balance of Payments

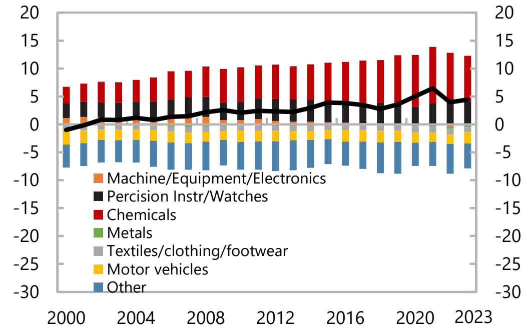
(Billions of CHF)



…supported by exports of chemicals and watches.

Goods Balance by Product

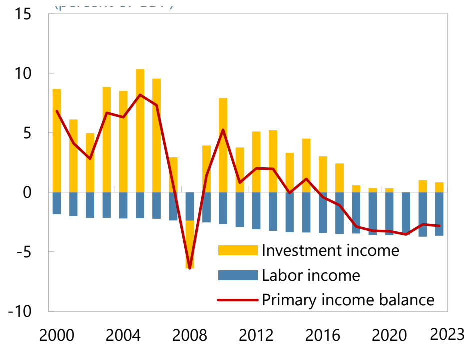
(Percent of GDP)



Labor income has weighed on the primary income balance….

Primary Income Balance

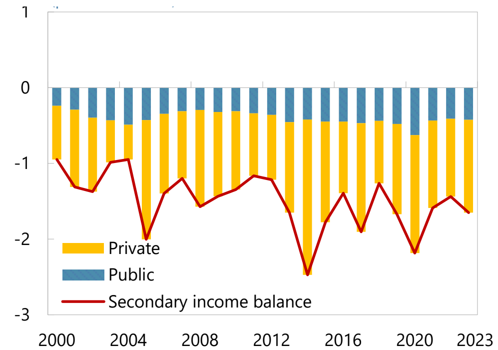
(Percent of GDP)



While secondary income declined.

Secondary Income Balance

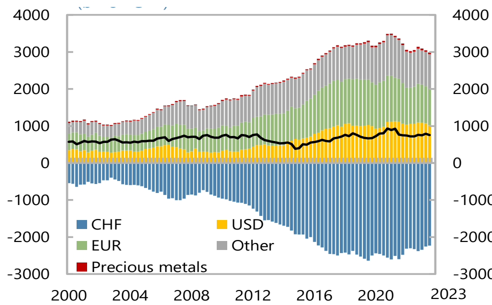
(Percent of GDP)



NIIP positions are balanced across USD and euro

NIIP by Currency, Quarterly

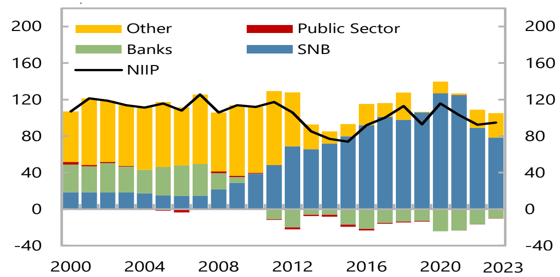
(Billion CHF)



SNB reserves remain the key component of the NIIP.

NIIP by Sector

(Percent of GDP)



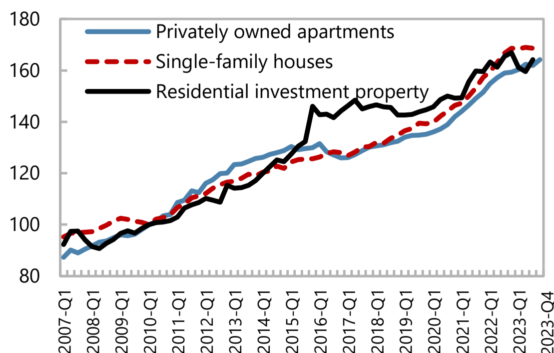
Sources: Swiss National Bank; Federal Customs Administration; and Haver Analytics.

Figure 7. Switzerland: Housing Markets, 1996–2023

Price growth of residential real estate has moderated.

Residential Property Transaction Prices

(Index, 2010Q1 = 100)

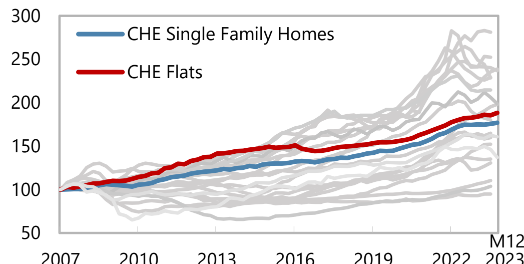


Sources: SNB; Wuest Partner;IAZI; and IMF staff calculations.

Prices have grown in line with other countries, but for some, price correction started earlier than in Switzerland.

House Prices in Advanced Economies

(Index, 2007Q1 = 100)

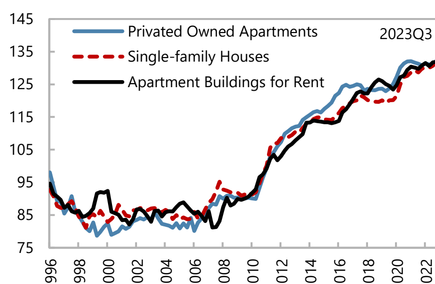


Note: Shown in the chart are selected EU members and other advanced economies, including AUT, AUS, BEL, CAN, CHE, CHE, CYP, DEU, DNK, ESP, FRA, GBR, HRV, HUN, ITA, LTU, LUX, NLD, NZL, SWE, SVN, SVK, and USA.

The price-to-income ratio is historically high

Residential Property Price-to-Income Ratio

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

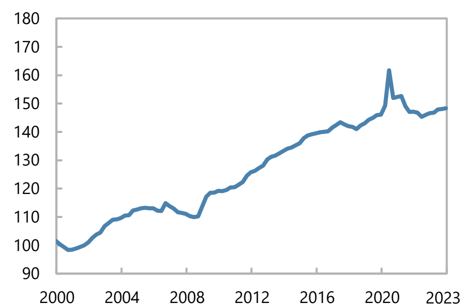


Sources: SNB; IAIZ; OECD; and IMF Staff Calculations.

Growth rate of mortgages slowed, but the mortgage-to-GDP ratio increased slightly in 2023.

Mortgages

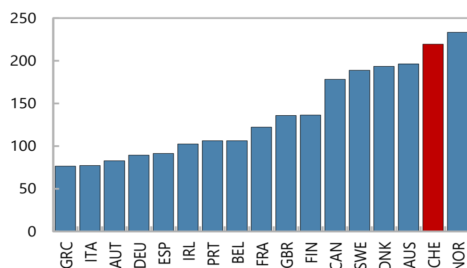
(Percent of GDP)



Household debt remains elevated, ...

Total Household Debt, 2022

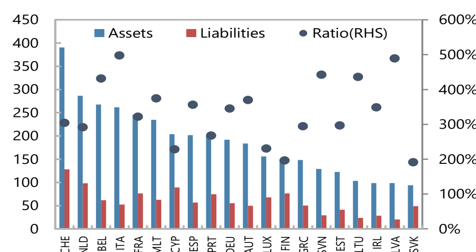
(Percent of gross household disposable income)



... but offset by large and liquid assets.

HH&NPISH Financial Assets and Liabilities, 2022

(Percent of GDP)



Sources: Swiss National Bank; Wuest Partners; IAZI; BIS; OECD; Haver Analytics and IMF staff calculations.

Table 1. Switzerland: Selected Economic Indicators, 2018–29

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
							Staff projections					
Real GDP (Percent Change) 1/	2.9	1.2	-2.3	5.4	2.7	0.8	1.3	1.4	1.8	1.2	1.8	1.2
Total domestic demand	1.2	2.0	-0.2	-0.1	1.9	1.1	0.8	1.3	1.2	1.2	1.2	1.2
Private consumption	0.7	1.2	-3.4	1.8	4.2	2.1	0.9	1.1	1.1	1.1	1.1	1.1
Public consumption	0.8	0.8	3.8	3.3	-0.8	-0.5	0.2	0.6	1.0	1.0	1.0	1.0
Gross fixed investment	0.8	0.9	-1.4	2.8	1.2	-2.0	0.1	2.2	1.5	1.5	1.5	1.5
Inventory accumulation 2/	0.4	0.8	1.4	-2.0	-0.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance 2/	1.8	-0.6	-2.1	5.5	1.1	-0.1	0.7	0.3	0.8	0.2	0.8	0.2
Nominal GDP (billions of Swiss francs)	709.7	717.3	695.8	742.4	781.7	795.3	818.4	839.5	864.7	885.6	912.4	934.1
Savings and Investment (Percent of GDP)												
Gross national saving	31.2	30.4	30.1	33.1	33.9	32.1	32.6	32.3	32.8	32.6	33.1	33.1
Gross domestic investment	25.6	26.3	29.6	26.2	24.5	24.4	24.3	24.7	24.8	25.1	25.1	25.4
Household savings	9.9	11.0	14.7	12.9	12.1	...	...	...	...	...	...	...
Current account balance	5.6	4.1	0.5	6.9	9.4	7.6	8.2	7.6	8.0	7.6	8.0	7.6
Prices and Incomes (Percent Change)												
GDP deflator	0.8	-0.1	-0.7	1.2	2.5	1.0	1.5	1.2	1.2	1.2	1.2	1.2
Consumer price index (period average)	0.9	0.4	-0.7	0.6	2.8	2.1	1.5	1.2	1.2	1.2	1.2	1.2
Consumer price index (end of period)	0.7	0.2	-0.8	1.6	2.9	1.7	1.4	1.2	1.2	1.2	1.2	1.2
Nominal hourly earnings	0.5	0.8	0.9	-0.2	0.9	2.0	2.0	1.5	1.2	1.2	1.2	1.2
Unit labor costs (total economy)	-0.7	1.8	1.1	-1.1	2.7	2.6	1.2	0.4	0.3	0.4	0.4	0.4
Employment and Slack Measures												
Unemployment rate (in percent)	2.5	2.3	3.2	3.0	2.2	2.0	2.3	2.4	2.5	2.5	2.5	2.5
Output gap (in percent of potential)	0.7	0.4	-1.6	-0.4	0.5	0.0	-0.3	-0.1	0.0	0.0	0.0	0.0
Capacity utilization	73.8	74.6	71.8	76.6	77.9	77.5	...	...	...	...	...	...
Potential output growth	1.8	1.8	-0.3	3.8	1.7	1.5	1.5	1.5	1.5	1.5	1.5	1.5
General Government Finances (Percent of GDP)												
Revenue	33.0	33.3	34.0	34.2	33.1	32.5	32.5	32.4	32.4	32.4	32.4	32.4
Expenditure	31.8	32.0	37.0	34.5	31.9	32.0	32.0	32.1	32.2	32.2	32.2	32.2
Balance	1.3	1.3	-3.0	-0.3	1.2	0.5	0.5	0.2	0.2	0.2	0.2	0.2
Cyclically adjusted balance	1.1	1.2	-2.5	-0.2	1.0	0.5	0.6	0.3	0.2	0.2	0.2	0.2
Gross debt 3/	39.8	39.7	43.2	41.0	37.7	38.3	36.7	35.6	34.3	33.3	32.1	31.1
Monetary and Credit (Percent Change, Average)												
Broad money (M3)	3.2	0.8	6.5	1.4	0.1	-2.0	2.9	2.6	3.0	2.4	3.0	2.4
Domestic credit, non-financial	4.0	4.2	2.4	3.8	2.6	1.8	2.9	2.6	3.0	2.4	3.0	2.4
Three-month SFr LIBOR	-0.7	-0.7	-0.7	-0.8	0.8	1.8	...	...	...	...	...	...
Yield on government bonds (7-year)	-0.2	-0.7	-0.6	-0.4	0.6	1.0	...	...	...	...	...	...
Exchange Rates (Levels)												
Swiss francs per U.S. dollar (annual average)	1.0	1.0	0.9	0.9	1.0	0.9	...	...	...	...	...	...
Swiss francs per euro (annual average)	1.2	1.1	1.1	1.1	1.0	1.0	...	...	...	...	...	...
Nominal effective rate (avg., 2000=100)	120.4	123.2	130.2	129.9	135.9	144.5	...	...	...	...	...	...
Real effective rate (avg., 2000=100) 4/	103.2	104.2	108.2	105.5	105.8	109.1	...	...	...	...	...	...

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

1/ The medium-term forecasts reflect the impact on

2/ Contribution to growth. Inventory accumulation also

3/ Reflects new GFSM 2001 method, which values debt

4/ Based on relative consumer prices.

Table 2. Switzerland: Balance of Payments, 2018–29

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
							Staff projections					
	(In billions of Swiss francs, unless otherwise indicated)											
Current Account	**40**	**30**	**3**	**51**	**74**	**61**	**67**	**64**	**69**	**67**	**73**	**71**
Goods balance	71	71	59	106	115	117	122	123	126	129	132	135
Exports	338	341	331	401	454	443	462	484	511	539	569	601
Imports	267	270	272	295	339	326	340	361	385	411	438	467
Service balance	-2	-6	-18	-17	-9	-21	-19	-18	-15	-18	-14	-17
Net primary income	-20	-23	-23	-26	-21	-22	-23	-27	-27	-28	-29	-30
Net secondary income	-9	-12	-15	-12	-11	-13	-13	-14	-15	-16	-16	-17
Private Capital and Financial Account	**78**	**53**	**40**	**74**	**56**	**48**	**67**	**64**	**69**	**67**	**73**	**71**
Capital transfers	14	-4	-1	-20	0	1	1	1	1	1	1	1
Financial account	92	49	39	54	55	49	68	65	70	68	74	72
Net direct investment	132	50	124	18	-13	86	16	51	34	42	38	40
Net portfolio investment	10	5	30	33	21	37	29	33	31	32	32	32
Net financial derivatives	4	2	-9	2	-5	-6	-5	-6	-6	-6	-6	-6
Net other investment	-68	-24	-223	-43	72	51	28	-14	11	-1	10	5
Change in reserves	13	16	117	44	-21	-120	0	0	0	0	0	0
Net Errors and Omissions	**38**	**24**	**37**	**22**	**-18**	**-13**	**0**	**0**	**0**	**0**	**0**	**0**
	(In percent of GDP, unless otherwise indicated)											
Current Account	**5.6**	**4.1**	**0.5**	**6.9**	**9.4**	**7.6**	**8.2**	**7.6**	**8.0**	**7.6**	**8.0**	**7.6**
Goods balance	10.0	9.9	8.5	14.3	14.7	14.8	14.9	14.6	14.5	14.5	14.4	14.4
Exports	47.6	47.5	47.6	53.9	58.1	55.7	56.4	57.7	59.1	60.9	62.4	64.4
Imports	37.7	37.6	39.0	39.6	43.4	40.9	41.6	43.0	44.5	46.4	48.0	50.0
Service balance	-0.2	-0.9	-2.6	-2.3	-1.1	-2.6	-2.3	-2.1	-1.7	-2.0	-1.5	-1.8
Net primary income	-2.9	-3.2	-3.3	-3.5	-2.7	-2.8	-2.8	-3.2	-3.1	-3.2	-3.1	-3.2
Net secondary income	-1.3	-1.7	-2.2	-1.6	-1.4	-1.7	-1.6	-1.6	-1.7	-1.8	-1.8	-1.8
Private Capital and Financial Account	**10.9**	**7.5**	**5.8**	**9.9**	**7.1**	**6.0**	**8.2**	**7.6**	**8.0**	**7.6**	**8.0**	**7.6**
Capital transfers	2.0	-0.6	-0.2	-2.6	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Financial account	12.9	6.8	5.6	7.3	7.1	6.2	8.3	7.7	8.1	7.7	8.1	7.7
Net direct investment	18.6	6.9	17.9	2.4	-1.6	10.8	2.0	6.1	3.9	4.8	4.2	4.3
Net portfolio investment	1.4	0.8	4.4	4.4	2.7	4.7	3.6	4.0	3.6	3.6	3.5	3.4
Net financial derivatives	0.6	0.3	-1.4	0.2	-0.6	-0.7	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6
Net other investment	-9.5	-3.4	-32.0	-5.7	9.3	6.5	3.4	-1.6	1.2	-0.1	1.0	0.6
Change in reserves	1.9	2.2	16.8	6.0	-2.6	-15.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Errors and Omissions	**5.3**	**3.3**	**5.3**	**3.0**	**-2.3**	**-1.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum Items:												
Net IIP (in percent of GDP)	112.9	92.8	115.7	103.2	92.4	94.7	95.2	98.9	100.6	103.6	105.4	108.5
Official reserves												
(billions of Francs, end-period)	776.5	826.4	954.1	1014.1	852.2	724.4	…	…	…	…	…	…

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

Table 3. Switzerland: SNB Balance Sheet, 2018–23

	2018	2019	2020	2021	2022	2023
	(Millions of Swiss francs; unless otherwise indicated)					
Assets						
Gold	42,237	49,111	55,747	55,691	56,099	57,818
Foreign currency reserves	763,728	794,015	910,001	966,202	800,566	677,396
IMF, international, and monetary assistance loans	5,889	6,026	7,121	14,821	14,395	13,532
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	5,214	11,805	26,159	20,062	10,317	45,898
Total assets	817,069	860,956	999,028	1,056,776	881,377	794,644
Liabilities						
Currency in circulation (banknotes)	82,239	84,450	89,014	90,685	81,697	76,321
Sight deposits	574,827	591,454	702,862	727,162	538,979	472,925
Repo, SNB bills and time liabilities	…	…	9,027	2,174	165,314	148,368
Foreign currency and other liabilities	39,770	17,970	14,175	32,506	29,620	34,446
Provisions and equity capital	120,232	167,083	183,951	204,249	65,768	62,584
Total liabilities	817,069	860,956	999,028	1,056,776	881,377	794,644
Memorandum Items:						
Nominal GDP (billions of Swiss francs)	710	717	697	743	781	795
Balance sheet, percent of GDP	115.2	120.1	143.4	142.2	112.8	99.9
Banknotes, percent of total liabilities	10.1	9.8	8.9	8.6	9.3	9.6
Refinancing operations, percent of total assets	…	…	…	…	…	…
Provisions and equity capital, percent of total assets	14.7	19.4	18.4	19.3	7.5	7.9
Monetary base 1/	549,374	564,161	674,297	725,618	706,823	563,456

Sources: Swiss National Bank; and IMF staff estimates.
1/ Currency in circulation and sight deposits of domestic banks.

Table 4. Switzerland: General Government Finances, 2018–29

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
							Staff projections					
	(In billions of Swiss francs, unless otherwise specified)											
General Government												
Revenue	234	239	237	254	259	259	266	272	280	287	295	302
Expenditure	225	229	258	256	250	255	262	270	278	285	293	300
Net lending/net borrowing	9	10	-21	-2	9	4	4	2	2	2	2	2
Confederation (Federal Government) 1/												
Revenue	78	80	75	86	83	83	86	87	90	92	95	97
Expenditure	73	74	92	93	84	84	87	89	92	94	97	99
Net lending/net borrowing	5	6	-17	-7	-1	-1	-1	-2	-3	-2	-2	-2
Cantons												
Revenue	95	97	100	108	110	110	113	115	119	122	125	128
Expenditure	93	94	104	106	104	109	112	114	117	120	124	127
Net lending/net borrowing	3	3	-4	2	5	1	2	1	1	1	1	1
Communes/Municipalities												
Revenue	49	49	49	51	53	54	56	57	59	60	62	63
Expenditure	49	50	51	51	53	55	56	57	59	60	62	64
Net lending/net borrowing	0	-1	-1	0	0	-1	0	-1	-1	-1	-1	-1
Social Security 2/												
Revenue	64	65	78	74	73	74	76	77	80	82	84	86
Expenditure	63	64	77	73	68	69	71	74	76	78	81	83
Net lending / net borrowing	1	1	1	2	5	4	5	3	3	3	3	3
General Government Gross Debt 3/	282	284	301	305	294	305	301	299	297	295	293	291
Confederation (Federal government) 1/	133	137	145	149	141	149	148	142	141	139	137	136
Cantons	85	87	93	91	92	93	92	91	89	88	87	85
Communes/municipalities	65	62	63	64	63	64	65	65	66	66	67	68
Social security 2/	2	1	3	1	1	1	-4	0	0	1	2	2
	(In percent of GDP)											
General Government Operations												
Revenue	33.0	33.3	34.0	34.2	33.1	32.5	32.5	32.4	32.4	32.4	32.4	32.4
Expenditure	31.8	32.0	37.0	34.5	31.9	32.0	32.0	32.1	32.2	32.2	32.2	32.2
Net lending/net borrowing	1.3	1.3	-3.0	-0.3	1.2	0.5	0.5	0.2	0.2	0.2	0.2	0.2
Confederation (Federal government) 1/	0.7	0.8	-2.5	-0.9	-0.1	-0.1	-0.2	-0.2	-0.3	-0.2	-0.2	-0.2
Cantons	0.4	0.5	-0.5	0.2	0.7	0.2	0.2	0.1	0.2	0.2	0.2	0.1
Communes/municipalities	0.0	-0.1	-0.2	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Social security	0.1	0.1	0.1	0.2	0.6	0.5	0.6	0.4	0.4	0.4	0.3	0.3
General Government Gross Debt 3/	39.8	39.7	43.2	41.0	37.7	38.3	36.7	35.6	34.3	33.3	32.1	31.1
Confederation (Federal government) 1/	18.8	19.1	20.9	20.1	18.1	18.8	18.1	17.0	16.4	15.7	15.0	14.6
Cantons	12.0	12.1	13.3	12.2	11.8	11.7	11.2	10.8	10.3	9.9	9.5	9.1
Communes/municipalities	9.2	8.6	9.1	8.6	8.1	8.1	7.9	7.8	7.6	7.5	7.3	7.2
Social security 2/	0.2	0.1	0.4	0.2	0.1	0.1	-0.5	0.0	0.0	0.1	0.2	0.2
Memorandum Items:												
Nominal GDP (billions of francs)	710	717	697	743	781	795	818	839	865	886	912	934
Output gap (percent)	0.7	0.4	-1.6	-0.4	0.5	0.0	-0.3	-0.1	0.0	0.0	0.0	0.0
General Government cyclically adjusted balance	1.1	1.2	-2.5	-0.2	1.0	0.5	0.6	0.3	0.2	0.2	0.2	0.2

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 Operations, 2013–23

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	(In billions of Swiss francs, unless otherwise specified)										
Revenue	210.3	212.6	220.5	221.5	229.9	234.5	238.9	236.5	254.1	259.1	258.8
Taxes	129.1	130.9	135.9	138.0	144.6	146.9	151.2	145.5	156.0	159.0	158.9
Taxes on income, profits, and capital gains	78.3	79.3	83.7	85.0	89.9	91.9	95.5	89.9	94.6	96.5	96.3
Taxes on goods and services	38.6	38.8	39.1	38.9	40.2	39.9	39.9	39.5	46.7	47.6	47.5
Taxes on property	10.4	10.9	11.2	12.0	12.4	12.8	13.5	13.7	12.5	12.8	12.7
Taxes on international trade and transactions	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.3	1.3	1.3
Social contributions	43.2	43.7	44.5	45.0	45.5	46.3	47.5	49.6	49.8	52.4	53.3
Grants	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Other revenue	37.8	37.7	39.9	38.2	39.5	41.0	40.0	41.2	48.1	47.3	46.3
Of which: property income	7.5	6.5	8.3	7.3	7.9	8.3	8.2	9.9	9.1	9.2	9.2
Expenditure	213.1	214.2	216.9	219.8	222.2	225.3	229.3	257.5	256.3	249.6	254.5
Expense	211.7	212.8	215.0	218.1	219.6	222.3	225.7	253.1	242.3	256.2	260.7
Compensation of employees	47.9	48.7	49.6	50.2	50.9	51.6	52.7	54.1	54.8	58.0	59.0
Purchases/use of goods and services	23.7	24.1	24.3	24.4	24.6	25.3	25.4	25.8	27.1	28.6	29.1
Interest expense	4.0	3.7	3.6	3.2	2.7	2.3	2.1	2.0	2.9	2.8	2.9
Social benefits	71.5	73.0	74.3	76.4	77.5	78.1	79.5	95.9	88.3	93.4	95.0
Expense n.e.c.	64.7	63.2	63.2	64.0	63.8	65.0	66.1	75.3	69.2	73.4	74.6
Net acquisition of nonfinancial assets	1.4	1.4	1.8	1.7	2.6	3.0	3.6	4.4	14.0	-6.6	-6.1
Net Operating Balance	-1.4	-0.2	5.5	3.3	10.3	12.1	13.2	-16.5	11.9	2.9	-1.9
Net Lending/Borrowing	-2.8	-1.6	3.6	1.6	7.7	9.2	9.6	-21.0	-2.2	9.4	4.2
Net acquisition of financial assets	-5.2	42.0	-23.7	14.1	77.5	-10.8	63.0	12.5	17.9	23.3	28.7
Net incurrence of liabilities	-2.4	43.7	-27.3	12.5	69.8	-20.0	53.4	33.5	20.1	13.9	24.5
	(In percent of GDP)										
Revenue	32.1	31.9	33.0	32.7	33.6	33.0	33.3	34.0	34.2	33.1	32.5
Taxes	19.7	19.7	20.4	20.4	21.1	20.7	21.1	20.9	21.0	20.4	20.0
Taxes on income, profits, and capital gains	12.0	11.9	12.5	12.5	13.1	13.0	13.3	12.9	12.7	12.3	12.1
Taxes on goods and services	5.9	5.8	5.9	5.7	5.9	5.6	5.6	5.7	6.3	6.1	6.0
Taxes on property	1.6	1.6	1.7	1.8	1.8	1.8	1.9	2.0	1.7	1.6	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
Social contributions	6.6	6.6	6.7	6.6	6.6	6.5	6.6	7.1	6.7	6.7	6.7
Other revenue	5.8	5.7	6.0	5.6	5.8	5.8	5.6	5.9	6.5	6.1	5.8
Expenditure	32.6	32.2	32.5	32.4	32.5	31.8	32.0	37.0	34.5	31.9	32.0
Expense	32.3	32.0	32.2	32.2	32.1	31.3	31.5	36.3	32.6	32.8	32.8
Compensation of employees	7.3	7.3	7.4	7.4	7.4	7.3	7.3	7.8	7.4	7.4	7.4
Purchases/use of goods and services	3.6	3.6	3.6	3.6	3.6	3.6	3.5	3.7	3.6	3.7	3.7
Interest expense	0.6	0.6	0.5	0.5	0.4	0.3	0.3	0.3	0.4	0.4	0.4
Social benefits	10.9	11.0	11.1	11.3	11.3	11.0	11.1	13.8	11.9	11.9	11.9
Expense n.e.c.	9.9	9.5	9.5	9.4	9.3	9.2	9.2	10.8	9.3	9.4	9.4
Net acquisition of nonfinancial assets	0.2	0.2	0.3	0.3	0.4	0.4	0.5	0.6	1.9	-0.8	-0.8
Net Operating Balance	-0.2	0.0	0.8	0.5	1.5	1.7	1.8	-2.4	1.6	0.4	-0.2
Net Lending/Borrowing	-0.4	-0.2	0.5	0.2	1.1	1.3	1.3	-3.0	-0.3	1.2	0.5
Net acquisition of financial assets	-0.8	6.3	-3.5	2.1	11.3	-1.5	8.8	1.8	2.4	3.0	3.6
Net incurrence of liabilities	-0.4	6.6	-4.1	1.8	10.2	-2.8	7.5	4.8	2.7	1.8	3.1

Source: Federal Ministry of Finance.

Table 6. Switzerland: Bank Soundness Indicators, 2012–2023

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Capital Adequacy												
Regulatory Tier I capital as percent of risk-weighted assets 1/ 2/	15.7	17.8	16.1	16.6	15.7	18.2	18.3	19.0	19.3	19.1	19.4	19.3
Regulatory Tier 1 capital as percent of assets 2/	5.7	6.3	7.0	7.5	7.3	8.3	8.5	8.8	8.7	7.4	7.9	7.8
Non-performing loans net of provisions as percent of Tier I capital	5.0	4.5	3.7	3.8	3.9	3.0	3.2	2.9	3.3	2.9	2.9	3.5
Return on Assets	0.1	0.4	0.3	0.6	0.3	0.4	0.4	0.1	0.4	0.3	0.2	0.4
Liquidity Coverage Ratio 3/	0.0	0.0	0.0	140.3	152.7	150.9	158.3	160.6	179.2	177.6	165.3	193.4
Asset Quality and Exposure												
Non-performing loans as percent of gross loans	0.8	0.8	0.7	0.7	0.7	0.6	0.7	0.6	0.8	0.7	0.7	0.8
Sectoral distribution of bank credit to the private sector (percent)												
Households	66.9	66.2	66.6	67.6	67.4	67.6	67.2	66.9	66.1	66.1	66.1	65.9
Agriculture and food industry	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Mining and Quarry	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Manufacturing	3.0	2.6	2.4	2.2	2.1	2.1	2.1	2.0	2.0	1.9	1.9	1.9
Utilities	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.6	0.6
Construction	1.6	1.6	1.5	1.6	1.5	1.6	1.6	1.6	1.7	1.7	1.7	1.7
Retail	3.0	2.7	2.8	2.5	2.7	2.5	2.6	2.4	2.6	2.7	2.4	2.1
Hotels and restaurants / Hospitality sector	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.9	0.8	0.8	0.7
Transportation & Storage	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.7	0.7	0.7	0.6	0.6
Info & Comm, Real Estate; Professional, Scientific & Admin. Activities	12.6	13.0	13.2	13.2	13.4	13.6	13.9	14.2	14.5	14.8	15.2	15.6
Finance and Insurance	5.2	5.7	5.3	4.8	4.7	4.7	5.0	5.4	5.7	5.8	5.8	5.8
Public Administration and Defence	1.7	2.3	2.3	2.3	2.3	2.0	1.9	1.8	1.7	1.6	1.5	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	1.3	1.3	1.4	1.4	1.5	1.5	1.5	1.4	1.5	1.4	1.4	1.4
Art and Entertainment	1.0	0.9	0.9	0.9	0.9	0.9	1.0	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. External Sector Assessment

Overall Assessment: *On a preliminary basis, Switzerland's external position in 2023 was weaker than the level implied by medium-term fundamentals and desirable policies. External buffers remain strong given surplus on net foreign investment position and sizeable foreign reserves. As in previous years, the assessment is subject to uncertainty due to complex measurement issues and data lags.*[1] *Due to changes in methodology, it is possible that data will be revised more extensively than in past years.*[2] *In addition, more time will be needed to assess the durability of the shift in the current account in 2023. A complete analysis will be provided in the 2024 External Sector Report.*

Potential Policy Responses: Operating within the authorities' debt-brake rule, fiscal policy should balance the need to avoid creating headwinds to growth, while creating fiscal space to address accumulating spending pressures. Reflecting past extraordinary expenditures due to Covid-19 and support for refugees from Ukraine and the sizable accumulated balance of the amortization account, the authorities need to amortize them—via surpluses or extraordinary receipts—until 2035, with an option for extension until 2039. A comprehensive medium-term plan will be needed to address mounting structural spending needs on aging, climate, and defense. Under current inflation and liquidity conditions, the SNB should remain data-dependent in its monetary policy decision making and avoid the risk of inflation settling at very low rates. Macroprudential policies should continue to focus on safeguarding financial stability, taking into consideration the current cyclical position of the economy. Commitment to free trade and cooperation, as shown by abolition of industrial tariffs in 2024 and efforts to expand trade relations, should continue in order to build resilience.

Foreign Asset and Liability Position and Trajectory	**Background**. Switzerland is a major financial center with a large, positive NIIP of 95 percent of GDP and large gross foreign asset and liability positions of 631.4 and 536.7 percent of GDP, respectively, at end-2023. The NIIP reflects both a history of large CA surpluses and valuation changes, and has fluctuated around 100 percent of GDP over the past five years.[3] Compared with 2022, the NIIP increased in 2023 by 2.4 percentage points of GDP, mainly driven by positive net transactions which compensated negative valuation effects due to exchange rate movements. Decline in reserves were partly offset by movements in other investments. Projections of the NIIP in 2024 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.

2023 (% GDP)	NIIP: 95	Gross Assets: 631	Reserve Assets: 91	Gross Liab.: 537	Debt Liab.: 167

Current Account	**Background**. Switzerland's CA surpluses averaged 6.9 percent of GDP during 2012–2022. The CA surplus in 2023 is estimated to be 7.6 percent of GDP, well below the value of 9.4 percent in 2022. This decline was primarily influenced by reductions in merchanting (from 10.6 to 9.5 percent of GDP) and services (from -1.1 to -2.6 percent of GDP). The introduction of a new current account survey, which altered how merchanting-related expenses are reported, reduced the reported decline in net merchanting income but negatively affected the service balance, increasing the import of transportation services. The balance in cross-border goods trade remained largely stable in 2023, despite a significant drop in net exports of pharmaceuticals. This decline could be partly attributed to a normalization following high exports during the pandemic and a temporary effect due to value chain restructuring in one of Switzerland's major pharmaceutical companies, but there is uncertainty around whether this implies a structural change in net trade balance in pharmaceuticals. The CA surplus is expected to slightly increase to 8.2 percent of GDP in 2024 due to a recovery in external demand and moderate toward 8 percent in the medium term supported by the performance of key sectors (pharmaceutical, merchanting). **Assessment**. The EBA CA norm of 6.4 percent of GDP is close to the previous year's norm. Based on a cyclically-adjusted CA surplus of 7.7 percent and the norm, the overall EBA-estimated CA gap equaled 1.3 percent of GDP in 2023.[4] Domestic policy gaps account for -1.7 percentage points (pp) and include change in reserves (-1.8 pp) which more than offsets fiscal underspending (+0.5 pp); policy gaps in the rest of the world contribute +0.7 pp. Adjustments for specific factors relevant for Switzerland that are not treated appropriately in the income account—namely valuation losses on fixed-income securities arising from inflation (-3.3 pp) and retained earnings on portfolio equity investment (-0.8 pp)—lead to a gap of -2.8 percent of GDP (±0.8 percentage points).[5]

2023 (% GDP)	CA: 7.6	Cycl. Adj. CA: 7.7	EBA Norm: 6.4	EBA Gap: 1.3	Other Adj.: -4.1	Staff Gap: -2.8

Real Exchange Rate	**Background**. Relative to 2022, the average NEER appreciated by 6.8 percent, while the CPI-based REER appreciated by 3.4 percent in 2023.The UBS-CS merger did not have a significant impact on the franc exchange rate. From a long-term perspective, the NEER has appreciated by 31 percent since 2011, while the CPI-based REER has depreciated by 2 percent. As of end-March 2024, REER appreciated by 0.8 percent compared to the 2023 average. **Assessment**. The staff CA gap implies REER overvaluation of 5.2 percent in 2023 (applying an elasticity of 0.54). The EBA REER index and level models suggest that the average REER in 2023 was overvalued by 12.7 and 17.5 percent, respectively. The fit of these models does not fully capture trends specific to Switzerland, in particular, a secular improvement in productivity, especially in knowledge-based sectors. Consistent with the staff CA gap, staff assess the REER gap in 2023 to be in the range of 3.7 percent and 6.7 percent with a midpoint of 5.2 percent (overvalued).

Capital and Financial Accounts: Flows and Policy Measures	**Background**. Net financial outflows totaled 6.8 percent of GDP in 2023, including private outflows of 21 percent of GDP (related to the collapse of Credit Suisse) and a decrease in SNB reserve assets of 15 percent of GDP (due to interventions). During 2010–2022, net private inflows averaged 1.1 percent of GDP, while the average annual increase in SNB reserves was 9.4 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 2010 and 2020, adding to appreciation pressures. In 2023, driven by Credit Suisse related events and interest rate differentials, net private outflows increased from to 25 percent, while the SNB reduced reserve assets on a net basis.
FX Intervention and Reserves Level	**Background**. Official reserve assets (including gold) amounted to CHF724 billion (USD864 billion, 91 percent of GDP) at end-2023, down CHF128 billion (USD59 billion) from end-2022. The SNB sold CHF133 billion (17 percent of GDP) of FX (net) through FXIs in 2023, while in the recent past interventions have curbed excessive appreciation due to safe-haven inflows. **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 financial losses incurred by the SNB in 2022 and 2023, and the volatility of its income, indicate risks associated with its large balance sheet.

[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, based on the latest information from the annual surveys on cross-border capital linkages, the current account has been revised in 2023 downwards by CHF 15 billion (2 percent of GDP) for 2021 and by CHF 4 billion (0.5 percent of GDP) for 2022, driven by higher expenses for dividends paid to non-resident investors for their equity participations in resident enterprises.

[2] As flagged by the SNB (press release on *Swiss balance of payments and international investment position 2023 and 2023Q4*, March 2024).

[3] 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.

[4] 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.

[5] 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.

Annex II. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Global Risks				
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee 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). Continue to expand and enhance cooperation with other countries/partners to further strengthen the resilience of the Swiss economy.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	**High**	**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. Provide targeted support to the most vulnerable if needed. Adjust monetary policy if shocks are long-lasting and could create second-round effects. Consider FXIs in case of disorderly market conditions or de-anchoring of inflation expectations.
Abrupt global slowdown. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs. **Europe:** Intensifying fallout from Russia's war in Ukraine, supply disruptions, tight financial conditions, and real estate market corrections exacerbate economic downturn.	**Medium** **Medium**	**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. Continue data dependent approach for monetary policy depending on inflationary impact. Consider FXIs in case of disorderly market conditions or de-anchoring of inflation expectations.

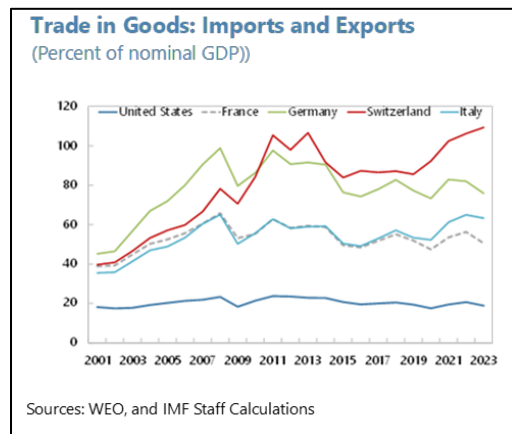
[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, 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. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline.

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Monetary policy miscalibration. Amid high economic uncertainty, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks.	**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.	Continue data dependent approach depending on inflationary impact, taking into account international monetary policy developments. Adjust policy stance if needed. Consider FXIs in case of disorderly market conditions or de-anchoring of inflation expectations.
Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	**Medium**	**ST**	**Medium / High** Switzerland is a global financial center. 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. Heightened risk/volatility may also trigger large safe-haven capital inflows.	Strengthen regulation and supervision of bank and nonbank financial sectors to increase resilience. Consider fiscal support in case of a severe growth downturn. Continue data dependent approach for monetary policy depending on inflationary impact and adjust policy stance if needed. Consider FXIs if safe-haven capital inflows lead to excess volatility or de-anchoring of inflation expectations.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower 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 physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger 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
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium**	**ST, MT**	**Medium** As an Alpine country, Switzerland is affected by 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 continue, as house prices remain high. While there has been some correction in house prices, in response to higher interest rates, steep increase in interest rates, along with other negative shocks (e.g., lower growth, higher living costs, cross border linkages), 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 NBFIs risks and in the construction sector. In a sharp downturn, ensure banks use their buffers to absorb losses and keep credit flowing.
Risks stemming from ongoing merger of CS-UBS and very large G-SIB. Although the acquisition has progressed successfully so far, implementation risks remain until the merger is complete. The large size of the merged bank poses risks during stress periods.	**Medium**	**MT**	**Medium** Although the financial sector has significant buffers, the large size of the bank poses systemic risks. There may also be implications on the competition landscape of the financial sector.	Strengthen crisis management, supervisory and regulatory frameworks.
Slower-than-expected progress of negotiations with the EU. Negotiations resumed and there are support from both sides to reach a new bilateral agreement on a package of measures. However, challenges remain in some tracks	**Medium**	**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 services with the EU. Continue negotiations with the European authorities as planned.

Annex III. Exposure to Geoeconomic Fragmentation

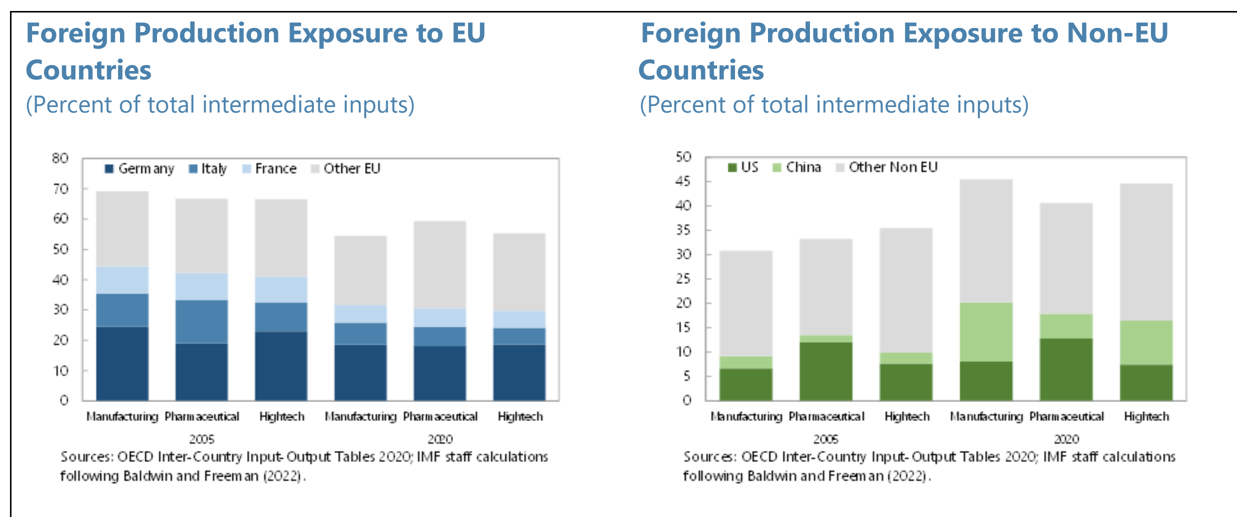
1. The share of Switzerland's gross trade to nominal GDP is high compared to major trade partners and has increased since the pandemic. Switzerland's economy relies heavily on exports, particularly in industries such as pharmaceuticals and machinery. Switzerland's economy also heavily depends on foreign demand and imports, with major trade connections with neighboring European countries, the United States, and China.



Trade in Goods: Imports and Exports
(Percent of nominal GDP))

Sources: WEO, and IMF Staff Calculations

2. Switzerland is deeply involved in Global Value Chains, and thus exposed to risks posed by geoeconomic fragmentation. According to the Foreign Production Exposure (FPE) metric developed by Baldwin et al. (2022),[1] Switzerland's reliance on the EU is still significant, but has decreased over time in favor of the US and especially China. These trends are common across key sectors, like chemicals and high-technology. Switzerland's FPE to Chinese inputs has seen a significant surge over the past two decades across industries, with China becoming more important to the high-tech sector than the US.



Foreign Production Exposure to EU Countries
(Percent of total intermediate inputs)

Sources: OECD Inter-Country Input-Output Tables 2020; IMF staff calculations following Baldwin and Freeman (2022).

Foreign Production Exposure to Non-EU Countries
(Percent of total intermediate inputs)

Sources: OECD Inter-Country Input-Output Tables 2020; IMF staff calculations following Baldwin and Freeman (2022).

[1] The metric represents the required amount of total gross output from any source-country to produce an additional $1 in any sector of the destination-country. See Vidahazy, V., and S. R. Yousefi, "Geoeconomic Fragmentation and Trade in Europe," forthcoming WP.

Annex IV. Budget Clean-Up Plan

1. Spending pressures are rising (military, pension, health care, and support for Ukraine), resulting in structural deficits in the coming years. Since ordinary revenue growth will not be sufficient to finance these additional needs and the debt-brake rule (Box 1) does not allow any further new borrowing, there is a need for prioritization of spending in the budget. Classifying new expenditures as extraordinary spending serves as a temporary outlet, but only in situations deemed exceptional. In this context, since early 2023, the Federal Council (FC) has identified and adopted a series of "budget clean-up plans" to eliminate structural deficits and to comply with the debt-brake rule.

2. The FC started with measures within its own area of competence, i.e., discretionary expenditures without the need for legislation—and adopted the following targeted measures:

- Defense spending is to increase but grow more slowly. The spending level of 1 percent of GDP is expected to be reached in 2035 instead of 2030. The flattening of the growth path of defense spending will result in an annual reduction of around CHF300 to 800 million, depending on the year.
- Electric vehicles will be subject to an automobile tax from 2024 (4 percent of the vehicle value upon import). The removal of tax exemption is expected to generate additional revenue of CHF 222 million in 2024. By 2030, the additional income is expected to accumulate to CHF 2 to 2.7 billion.[1]
- The deposit into the railway infrastructure fund was reduced by CHF 15 million in 2024 budget and is to be reduced by CHF 300 million in 2025 and CHF 150 million in 2026.[2]
- The contribution to the regional development fund is to be eliminated in 2025 and halved in 2026 and 2027.
- The contribution to Federal Institute of Technology Zurich (ETH) is to be reduced by a one-off amount of CHF 100 million in 2025].
- The tobacco tax is to be increased, which will generate additional income of CHF 35 million.[3]

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[1] The automobile tax on EV is entirely earmarked for contributions to the national road and urban transport fund (NAF). However, the contribution to the NAF from the mineral oil tax will be reduced by CHF130 to150 million per year in return for the new revenue.

[2] The measure will be lifted if the fund reserve falls below CHF 300 million.

[3] The existing law gives the FC the necessary leeway to increase tax on individual product categories. The economic commissions should still be consulted about the measure.

3. The FC has decided that from 2025 the non-discretionary area should also contribute to streamlining the financial plan, as it has been growing above average, particularly in social welfare. Changes require legislative action, and in June 2023, the FC submitted to Parliament relief measures that require changes to the law.

- The federal contribution to unemployment insurance (ALV) would be reduced by CHF250 million per year, for a limited period of five years.[4]
- A reduction in the canton's share of direct federal tax by 0.7 percentage points to 20.5 percent. This would lead to additional federal income of around CHF200 million annually.[5]
- Reforms are to be introduced in widowers' pensions. The aim of the reforms is to eliminate the unequal treatment of widowers and reduce expenditure for the OASI of at least CHF500 million and for the federal government of at least CHF 100 million.[6]

4. These decisions (both discretionary and non-discretionary expenditures) should reduce the burden on federal budget by over CHF 2 billion a year—0.3 percent of GDP. However, even after these measures, the FC is reckoning on structural financing deficits of between CHF 1.5 billion and CHF 3.1 billion (0.2–0.4 percent of GDP) for 2026–27. A fundamental review of the federal government's tasks and subsidies for the medium-term is underway, and a proposal of measures to close these financing gaps is to be submitted to the FC in late summer 2024. Further measures will be needed after 2027.

[4] The federal government's contributions of CHF16 billion during Covid-19 contributed to ALV not having to incur debt despite the strong expansion of short-time work compensation. Given tight labor markets, the equity capital of the ALV is likely to increase continuously in the coming years. An escape clause ensures that the ALV should not incur financial difficulties in the event of a sharp increase in unemployment.

[5] This will only take place if the proposal on the Support of Supplementary Family Childcare is adopted by Parliament, which will add a burden of over CHF770 million to the federal budget upon introduction.

[6] To eliminate the unequal treatment of widowers compared to widows, it is proposed that widows' pensions should be limited in line with the current regulations for widowers, i.e., widows and widowers should only be entitled to a pension until the youngest child is 25 years old.

Annex V. Debt Sustainability Analysis

Figure V.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. Medium-term spending needs on structural issues—aging, climate, and national defense—are assumed to be addressed within the debt-brake rule in the baseline, reflecting the strength of the rule in guiding fiscal policy.
Fanchart	**Low**	...	
GFN	**Low**	...	
Stress test	...	...	
Long Term	...	**Low**	Long-term risks are low given low debt levels, despite structural spending needs—demographics, green transition, digitalization, national and energy security. That said large spending needs might pose challenges to the debt-brake rule, and a comprehensive fiscal plan is needed to address these challenges. Overall, the authorities have good track record in observing the rule and adjusting spending to address emerging challenges.
Sustainability Assessment 2/		Sustainable	The projected debt path is expected to decline 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 come down in the next several years anchored by 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. Planned measures guided by the debt-brake rule would 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.

Figure V.2. Switzerland: Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	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:						

Sector	#	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/

4. Accounting principles:

Basis of recording		Valuation of debt stock		
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

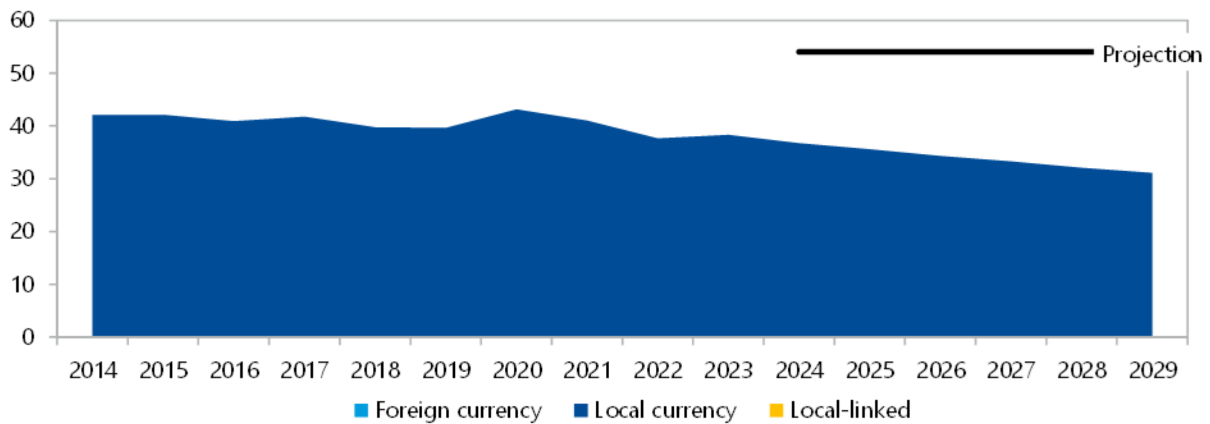
Reporting on Intra-Government Debt Holdings

#	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.

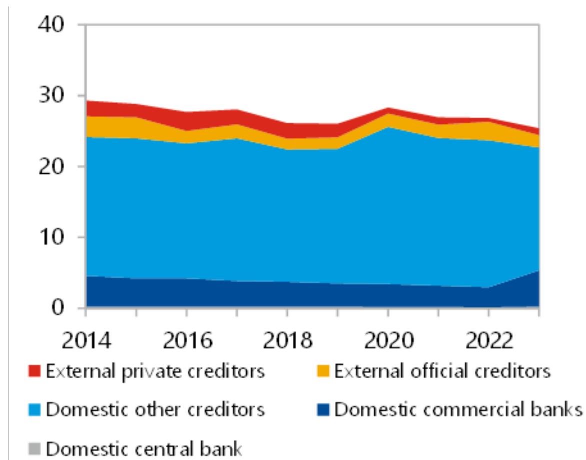
Figure V.3. Switzerland: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



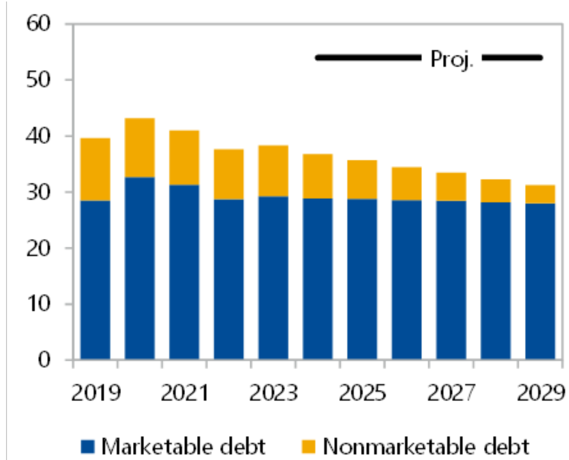
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

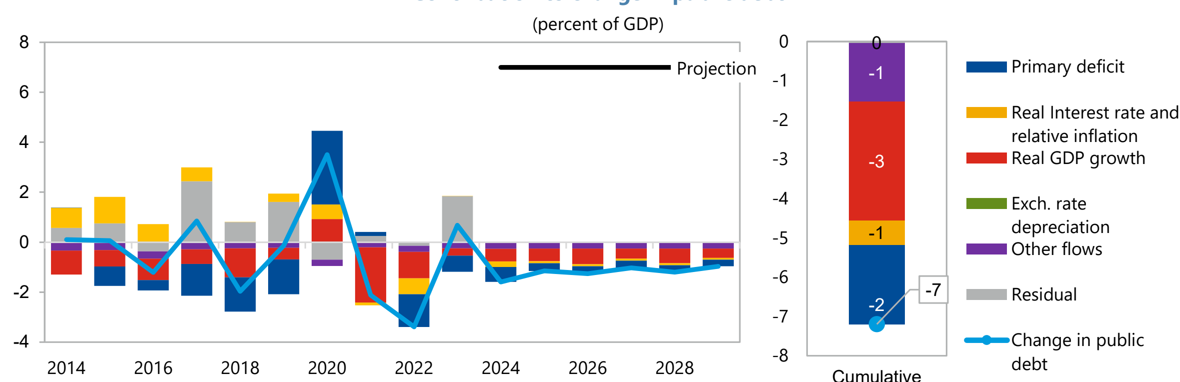
Figure V.4. Switzerland: Baseline Scenario

(percent of GDP unless indicated otherwise)

	Actual	Medium-term projection					
	2023	2024	2025	2026	2027	2028	2029
Public debt	38.3	36.7	35.6	34.3	33.3	32.1	31.1
Change in public debt	0.7	-1.6	-1.2	-1.3	-1.0	-1.2	-1.0
Contribution of identified flows	-1.2	-1.6	-1.1	-1.3	-1.0	-1.2	-1.0
Primary deficit	-0.6	-0.6	-0.3	-0.3	-0.3	-0.3	-0.3
Noninterest revenues	32.3	32.3	32.1	32.1	32.1	32.1	32.1
Noninterest expenditures	31.6	31.7	31.8	31.8	31.8	31.8	31.9
Automatic debt dynamics	-0.3	-0.7	-0.6	-0.7	-0.5	-0.7	-0.4
Real interest rate and relative inflation	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Real interest rate	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-0.3	-0.5	-0.5	-0.6	-0.4	-0.6	-0.4
Real exchange rate	0.0	…	…	…	…	…	…
Other identified flows	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Contribution of residual	1.8	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	3.3	3.2	3.3	3.8	4.3	4.9	5.6
of which: debt service	4.2	4.0	3.9	4.4	4.9	5.4	6.1
Local currency	4.2	4.0	3.9	4.4	4.9	5.4	6.1
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:							
Real GDP growth (percent)	0.8	1.3	1.4	1.8	1.2	1.8	1.2
Inflation (GDP deflator; percent)	1.0	1.5	1.2	1.2	1.2	1.2	1.2
Nominal GDP growth (percent)	1.7	2.9	2.6	3.0	2.4	3.0	2.4
Effective interest rate (percent)	1.0	0.9	1.0	1.0	1.0	1.0	0.9

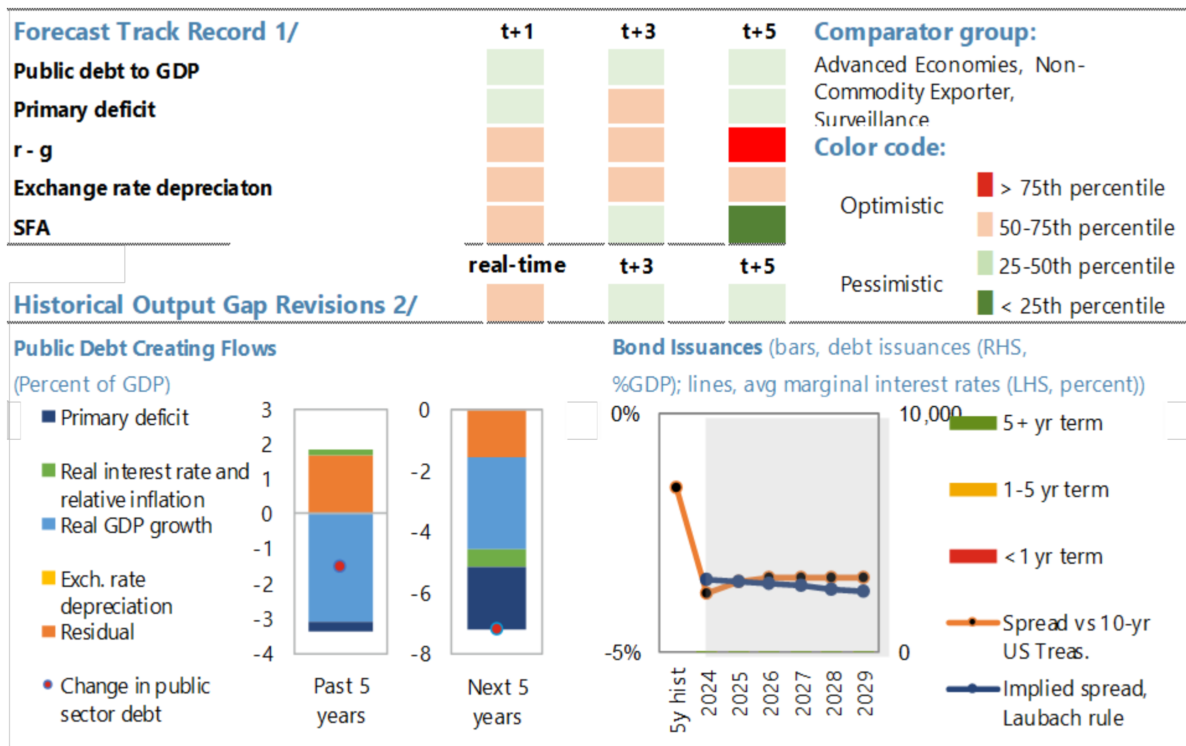
Contribution to change in public debt

(percent of GDP)



Staff commentary: All government guarantee credits to SNB and UBS have been terminated in 2023 and hence are not included in the public debt. Spending needs, on aging, climate change, and defense, are increasing in the medium term. The recently published fiscal sustainability report identifies effects of aging and climate mitigation measures on public finance. It is assumed in the baseline that the authorities will address these pressures under the current fiscal rule without additional borrowing. Public debt level is expected to remain low over the years, reflecting the strength of the fiscal rule and sustained strong fiscal performance.

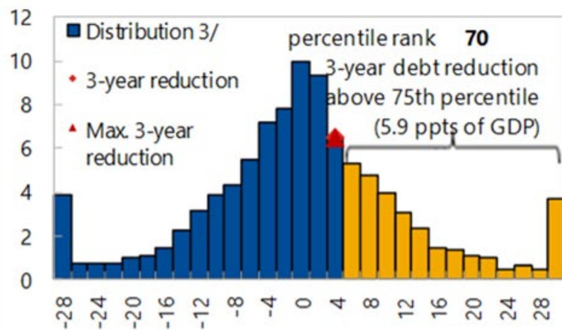
Figure V.5. Switzerland: Realism of Baseline Assumptions



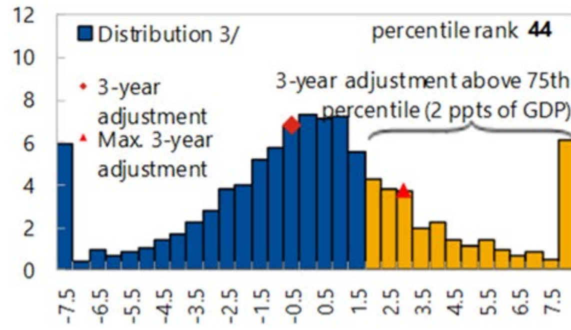
Source : IMF Staff.
1/ Projections made in the October and April WEO vintage.
2/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

Figure V.5. Switzerland: Realism of Baseline Assumption (Concluded)

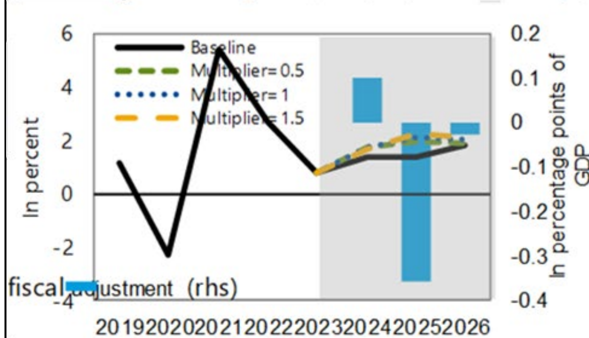
3-Year Debt Reduction
(Percent of GDP)



3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



Fiscal Adjustment and Possible Growth Paths
(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS



Real GDP Growth
(Percent)

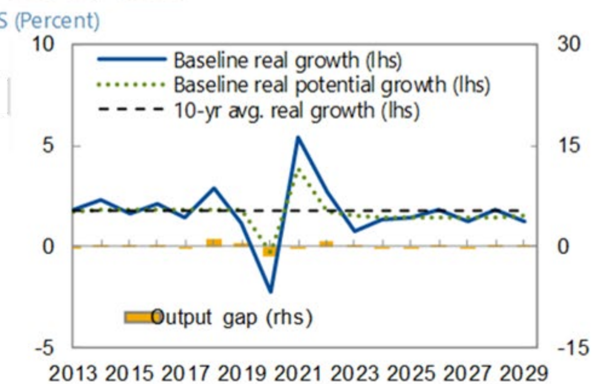


Figure V.6. Switzerland: Medium-Term Risk Analysis

Debt Fanchart and GFN Financeability Indexes

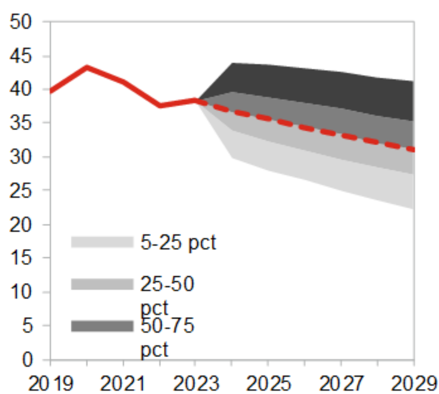
(percent of GDP unless otherwise indicated)

Module	Indicator	Value	Risk index	Risk signal
Debt fanchart module	Fanchart width	19.2	0.3	...
	Probability of debt not stabilizing (pct)	1.5	0.0	...
	Terminal debt level x institutions index	3.0	0.1	...
	Debt fanchart index	**...**	**0.4**	**Low**
GFN finance-ability module	Average GFN in baseline	4.2	1.4	...
	Bank claims on government (pct bank assets)	4.6	1.5	...
	Chg. in claims on govt. in stress (pct bank asset	0.1	0.0	...
	GFN financeability index	**...**	**2.9**	**Low**

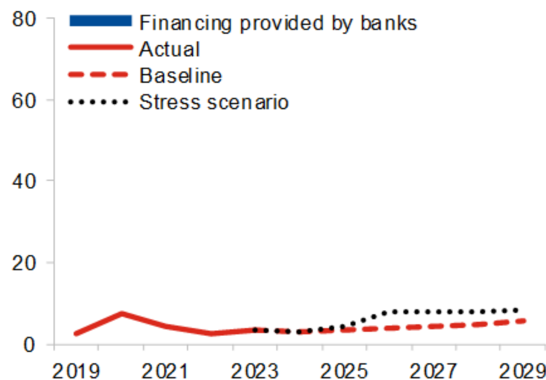
Adv. Econ., Non-Com. Exp, Program: 0, 25, 50, 75, 100

Legend: Interquartile range; Switzerland

Final Fanchart (pct of GDP)



Gross Financing Needs (pct of GDP)



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Risk Analysis

	Low risk threshold	High risk threhsold	Weight in MTI	Normalized level
Debt fanchart index	1.1	2.1	0.5	0.1
GFN finaceability index	7.6	17.9	0.5	0.1
Medium-term index (MTI)	0.3	0.4	...	0.1, Low

Prob. of missed crisis, 2024-2029 (if stress not predicted): 0.0 pct.

Prob. of false alarm, 2024-2029 (if stress predicted): 95.5 pct.

Commentary: Of the two medium-term tools, both the Debt Fanchart Module and the GFN Financeability Module point to low level of risk.

Annex VI. Status of Previous Article IV Recommendations

2023 Article IV Recommendations	Policy Actions
Overall Policy Recommendation	
Policies should remain agile and data-dependent, responding to near-term challenges and take action to tackle longer term, structural issues.	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 pension sustainability and boost green transformation) were advanced.
Fiscal Policy	
If downside risks materialize, automatic stabilizers should operate. If needed, provide targeted, timebound, non-distortionary support to households and firms.	Liquidity support to the energy sector was provided but not tapped, and extraordinary expenditures related to the support to Ukraine refugees were provided but not fully used.
Consider a medium-term plan to help clarify actions to address spending needs.	The authorities are considering various measures to address exceptional spending needs, including rationalization of lower-priority spending (Annex IV). A total of CHF 2 billion consolidation measures has been taken for 2024 budget and additional measures are under planning for future years. The fiscal sustainability report provides an estimate of the fiscal costs stemming from demographic-related expenditure pressures and climate mitigation measures to reach the net zero target.
Pursue a balanced path to amortize accumulated extraordinary spendings that avoids excessively sharp adjustments.	A temporary amendment of the Financial Budget Act extended the deadline for amortizing amortization the balance to 2035, with the option of prolonging to 2039.
Monetary Policy	
The response to higher inflation should remain data-driven, including further rate hikes if needed.	In 2023, the SNB raised the policy rate from 1.0 percent in 2022 to 1.75 percent in June 2023, and lowered the policy rate to 1.5 percent in March 2024 as the headline inflation declined to 1.0 percent in March and stayed within the price stability range of 0–2 percent.
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 sold CHF133 billion of foreign currency (net) in 2023 compared to net sale of CHF22 billion in 2022, reducing its balance sheet. Overall, the franc appreciated by 6.4 percent in nominal terms in 2023.
The SNB should continue to review its investment strategy and maintain safeguards, while enhancing monetary policy communications.	The SNB, in line with its safeguards policy, allocated CHF10.5 billion as provisions for potential foreign currency losses. The SNB has continued to review its policy framework and tools, adjusting as needed (e.g., stop remunerating minimum reserves as of December 2023).
Financial Sector Policy	
Closely monitor progress on the UBS-CS merger, and in time, review and draw lessons.	The state-facilitated acquisition of CS by UBS stabilized financial markets. A report by the authorities on the review of the TBTF regime and proposed reform measures was published in April and a parliamentary investigation committee (PIC) will publish a second report on the events by the end of this year. Several domestic bodies, including the supervisor (FINMA) and the SNB, have also provided insights on the lessons learned.

2023 Article IV Recommendations	Policy Actions
Financial Sector Policy	
Closely monitor financial sector risks. Consider 1) activating the broad-based CCyB and urge banks to tighten prudential tools, if housing imbalances build and 2) expanding the macroprudential toolkit. Further progress on 2019 FSAP recommendations is needed to strengthen resilience.	To facilitate the acquisition of CS by UBS, the authorities made available 1) CHF 100 billion in additional liquidity assistance loans (ELA+) to Credit Suisse and UBS, secured by preferential rights in bankruptcy proceedings, 2) CHF 100 billion in secured liquidity assistance (PLB), secured by preferential rights in bankruptcy and by a state guarantee from the Confederation, and 3) a state guarantee of a maximum of CHF 9 billion for UBS. New liquidity requirements for systemically important banks came into force in 2022 and must be fully met by end-2024. The SNB has extended emergency liquidity assistance to all banks against collateral in the form of mortgages.
Structural Reforms	
Pension reforms should continue, along with measures to ease the tight labor market (participation, skills gaps, productivity), and efforts to clarify and enhance EU relations, energy security and climate target.	In January 2024, the first-pillar pension reforms (increases in retirement age for women at 65 and in the VAT rate by 0.4 pp) came into effect. Parliament plans to submit in 2026 a reform to stabilize 2030–40 Pillar I financing. The FC has proposed measures to close the financing gap stemming from 13th pension payment. The consultation of the proposal is underway and will be submitted to the parliament by this fall. Pillar II reforms approved by parliament in 2023 are subject to a referendum this year. The negotiations to deepen bilateral relations between the EU and Switzerland have restarted in March 2024. The authorities adopted a revised version of the CO2 Act in March 2024.

Source: IMF staff.

Annex VII. Implementation of FSAP Recommendations

The authorities continue to implement 2019 FSAP advice, but progress has been slow. A new FSAP in 2025 will examine financial sector risks and assess the oversight and crisis management frameworks, taking into account recent developments and the authorities' proposed reform measures. The authorities' TBTF review proposes measures in important areas, but the strength of reforms and their implementation will depend on calibration of the measures. The Federal Council (FC) intends to present two packages for implementation in the first half of 2025: one with changes at ordinance level which can be approved by the FC, and the other with the legislative amendments which will be submitted to Parliament.

Broadly, there is a need to increase the powers and resources of the supervisor to enable early and effective intervention. Further progress is also needed in implementing a risk-focused and forward-looking supervisory approach, reducing reliance on external auditors, strengthening recovery, resolution planning and implementability, introducing enforcement powers through sanctions, fines and disclosing of enforcement actions, and reforming the deposit insurance scheme. The authorities should introduce an effective PLB. They should strengthen the macroprudential framework by broadening the toolkit to mitigate vulnerabilities in the real estate market. They should further reform the deposit insurance scheme, and better monitor and manage asset management concentration risk and pension fund systemic risks. Continued progress in filling data gaps and system-wide analysis of fast-moving activities in fintech, asset management, and financial market infrastructures will also enhance NBFI stability.

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 needed to strengthen FINMA autonomy, governance, and accountability are under review.
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. The SNB and FINMA decided to introduce a supervisory loan-by-loan dataset on banks' exposures to non-banks, with more than 90 percent coverage (as only the smallest banks in Switzerland are exempted). The dataset will replace existing credit surveys and fill existing gaps in the context of banks' credit risk exposures. The first data release is expected in 2026.

Recommendation and Responsible Authority		Timing*	Implementation[1]
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 are 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 published the results of the analysis "Ex-post evaluation of the revision of the "Auditing" Circular) in May 2023 (see below). The authorities' TBTF review proposes to examine the use of audit firms.
5.	Focus supervisory audits and increase FINMA's risk-based on-site inspections. (FINMA; ¶38)		FINMA has revised its supervisory approach by guiding external auditors to follow a more risk-focused approach under FINMA guidance and work in closer consultation with FINMA. Results over three years have been analyzed as part of an ex-post analysis in 2022, and a comprehensive assessment was published in 2023. This confirmed increased benefits for FINMA as well as improved efficiency and reduced costs in regulatory auditing. Resource savings from the revised supervisory approach have been re-invested to increase effectiveness of on-site inspections of both specific risk areas (particular focus on interest rate risk, cyber and IT risks, and climate risk), supervision of large banks and by establishing dedicated on-site teams, as well as strengthening the authorization and licensing process. FINMA's internal policy on on-site inspections has also been revised to reflect the changes made to its organization and processes.

	Recommendation and Responsible Authority	Timing*	Implementation[1]
Banking			
6.	Strengthen assessments of key risk management and control practices. (FINMA; ¶39)	MT	Measures identified by the FINMA Risk Barometer process are integrated into the supervisory planning process. Its findings also feed into Assessment Letters. A FINMA governance barometer was introduced. Furthermore, in some specific cases, FINMA has, based on critical findings on risk management controls and practices, influenced banks' remediation plans. A supervisory concept for corporate governance was established and the assessment resulting from the Corporate Governance Questionnaires influences the supervisory assessment of the relevant firms and the supervisory intensity on a risk-based approach (i.e., supervision is intensified when the assessment is negative). FINMA has further formalized its internal risk assessment process for both large banks and has developed a risk inventory, where supervision and the support functions are identifying risks/track supervisory measures. The inventory and the corresponding supervisory actions are discussed between the head of banks, head risk management and the heads of the supervisory teams.
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. FINMA approved both plans, with a few remaining noncritical expectations, in December 2022. Both FMIs have addressed and fulfilled these expectations in 2023, resulting in an approval of both plans in December 2023. For SIX x-clear, the preferred resolution strategy and preferred resolution tool set has been defined and discussed with the CMG of SIX x-clear. The necessary legal basis for some preferred resolution tools has been addressed by FINMA as part of the evaluation of the Swiss Financial Market Infrastructure Act (FMIA). However, entry into force of FMIA is not expected before 2027/2028. Identified challenges regarding its implementation are further assessed and addressed.

	Recommendation and Responsible Authority	Timing*	Implementation[1]
Financial Market Infrastructures			
8.	Improve independence of FMIs governance arrangements. (SNB/SIX; ¶48)	ST	As part of the redesign of consolidated supervision, significant adjustments were negotiated and implemented to FMI's governance and its autonomy in risk management and independence from Group support in crisis situations.
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. There are currently no plans to increase the monitoring of concentration risks of regulated funds. Further, the opportunity to empower FINMA to impose administrative fines is being examined.
Fintech and Crypto-Assets			
10.	Enhance the monitoring of activities and address regulatory gaps. (FDF/FINMA; ¶58–59)	ST	FINMA has among other things increased its resources dedicated to analyzing fintech-projects presented to the authority in order to give feedback regarding regulatory implications to market participants. Furthermore, investigations on suspected unauthorised activities of fintech firms remain a priority issue. In 2023 FINMA established a reporting for banks regarding crypto assets they hold on balance sheet as well as crypto assets held in custody. The Federal Council Report on digital finance of 2022 identified a need for action in different areas. Several follow-ups to this report are currently underway. One of them concerns the revision of the Swiss Fintech-license. The Swiss authorities are supervising and monitoring, and will continue to do so, activities in the Fintech and crypto-assets space. Going forward, FINMA will particularly focus on improving the data quality of the reporting.

	Recommendation and Responsible Authority	Timing*	Implementation[1]
Financial Safety Net and Crisis Management			
11.	Enhance, expand, and expedite recovery and resolution planning, including resolvability. (FDF/FINMA; ¶63–66)	ST	A "public liquidity backstop" that covers SIBs was initiated in 2022 and adopted under an emergency ordinance for 6 months in March 2023, and then the Federal Council adopted a dispatch in September 2023 and is under legislative review (with discussions postponed until after the publication of the report of the PIC). In June 2023, the Federal Council approved the amendments to the Insurance Oversight Ordinance (IOO) and brought both the revised Ordinance and the revised Insurance Oversight Act (IOA) into force with effect from January 1, 2024.
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	The Federal Council has brought amendments to the Banking Act and Banking Ordinance into force with effect from January 1, 2023. The reform improves the DIS while not relying on a public DIA, an ex-ante DIS funding, or the use of deposit insurance funds for resolution funding. Various changes in the area of deposit protection came into force on January 1, 2023. FINMA approved the self-regulation of the Swiss Deposit Insurance Scheme esisuisse.
* 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 VIII. Data Issues

Table 1. Switzerland: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	B	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	B	A	B		
Granularity 3/	A		A	A	A		
			B		B		
Consistency			A	B		A	
Frequency and Timeliness	A	A	A	A	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

Rating	Description
A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. 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. There are gaps with respect to the publication of monetary and financial statistics in standard reporting format (SRF) following the methodology of the Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG). While Switzerland currently publishes selected series of Depository Corporations Survey and the Central Bank Survey in the National Summary Data Page, the data is not very granular. There are gaps also in the publication of financial soundness indicators, where publication of indicators for other financial corporations should be enhanced. The data on public debt breakdown is not sufficiently granular and there are gaps on arrears, guarantees, and other contingent liabilities in the debt statistics.

Changes since the last Article IV consultation. The SNB introduced a new current account survey in order to better record the global production of multinational enterprises whose production and trade processes are distributed across various countries in Switzerland's balance of payments statistics.

Corrective actions and capacity development priorities.

Use of data and/or estimates different from official statistics in the Article IV consultation. Staff also uses international resources (such as BIS and FSB) and commercial data (such as Bloomberg) to supplement its analysis of the financial sector and cross-country comparisons.

Other data gaps. The initiative to collect loan-by-loan data will enhance financial monitoring and surveillance, by allowing a more granular analysis of banks' credit exposures; data on non-banks' investment activities and interlinkages would be needed.

Table 2. Switzerland: Data Standards Initiatives

Switzerland adheres to the Special Data Dissemination Standard (SDDS) Plus since January 2021 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table 3. Switzerland: Table of Common Indicators Required for Surveillance

As of April 19th, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Switzerland[8]	Expected Timeliness[6,7]	Switzerland[8]
Exchange Rates	19-Apr-24	19-Apr-24	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb-24	Apr-24	M	M	M	M	1W	2W
Reserve/Base Money	Feb-24	Mar-24	M	M	M	M	2W	2W
Broad Money	Feb-24	Mar-24	M	M	M	M	1M	1M
Central Bank Balance Sheet	Feb-24	Mar-24	Q	Q	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	Feb-24	Mar-24	Q	Q	M	M	1M	1M
Interest Rates[2]	19-Apr-24	19-Apr-24	D	D	D	...	...	...
Consumer Price Index	Mar-24	Apr-24	M	M	M	M	1M	1D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Dec-23	Mar-24	Q	Q	A/Q	A/Q	2Q/12M	1Q
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Dec-23	Mar-24	Q	Q	M	M	1M	1Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec-23	Mar-24	Q	Q	Q	Q	1Q	1Q
External Current Account Balance	Dec-23	Mar-24	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Dec-23	Mar-24	Q	Q	M	M	8W	1Q
GDP/GNP	Dec-23	Feb-24	Q	Q	Q	Q	1Q	1Q
Gross External Debt	Dec-23	Mar-24	Q	Q	Q	Q	1Q	1Q
International Investment Position	Dec-23	Mar-24	Q	Q	Q	Q	1Q	1Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[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) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("I") irregular; and ("NA") not available.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

SWITZERLAND

May 22, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By European Department

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FUND RELATIONS _______ 2

FUND RELATIONS

(As of March 31, 2024)

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	4,183.91	72.50
Reserve position in Fund	1,587.25	27.50

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocation	8,819.38	100.00
Holdings	9,234.92	104.71

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				
	2024	2025	2026	2027	2028
Principal					
Interest	0.12	0.12	0.12	0.12	0.12
Total	0.12	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 Swiss National Bank (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 March 15, 2024, Switzerland notified the IMF of 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 May 31, 2023, with the staff report published on June 7, 2023. Switzerland is on the standard 12-month consultation cycle.

Technical Assistance (TA):
In January 2024, a joint MCM and EUR follow-up TA mission 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 regional 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), support for debt relief to Somalia and Sudan, contributions to the Fund's Resilience and Sustainability Trust and to the Global Public Finance Partnership.

Resident Representative: 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. A new FSAP will be launched in 2024 to assess the overall financial sector, taking into account of recent developments and the proposed measures, and provide updated recommendations.

- 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.

Statement by Mr. Peter and Mr. Kuth on Switzerland
Executive Board Meeting
June 10, 2024

On behalf of our Swiss authorities, we thank staff for the insightful policy discussions and the thorough analysis and assessment presented in their report and the selected issues papers. The authorities concur with the staff's appraisal that highlights Switzerland's strong economic fundamentals and appropriate policy stance, while pointing to important medium-term policy challenges. The report provides valuable recommendations to inform domestic debates on macroeconomic, financial, and structural reform priorities and measures.

Outlook and Risks

The authorities broadly agree with staff's assessment of the outlook and of the main risks to the outlook.

According to the new "flash" estimate (which provides an early first reading on GDP), Switzerland's real GDP, adjusted for seasonal/calendar effects and sporting events, increased by 0.3 percent in the first quarter of 2024, with growth in the service sector offset by weak industry performance. Weak demand from abroad and a stronger Swiss franc drove this recent subpar performance. As global growth improves and the recent weakening of the Swiss franc takes effect, growth should accelerate moderately and reach 1.7 percent in 2025.

Risks to the outlook appear balanced, with significant uncertainties. The authorities are aware of the risks for Switzerland's open economy in connection with slower growth in trading partners, rising indebtedness in many countries, geopolitical developments, and potential repricing on real estate and financial markets. This being said, the recovery could also be quicker than foreseen if global inflation were to decline faster than expected and financial conditions were to ease.

Fiscal Policy

Switzerland's consistently sound fiscal policy and low public indebtedness are constitutionally anchored in a structural fiscal rule at the federal level—the Swiss debt brake. For more than 20 years, the debt brake rule has helped to discipline federal public spending and to bring down the public debt ratio. Over the years, expenditure grew in line with GDP, while investment as a share of GDP remained constant. The slightly higher current federal debt stock is mainly due to the extraordinary expenditures in response to the COVID-19 pandemic. In accordance with the fiscal framework, these extraordinary outlays will be gradually reduced and offset by budget surpluses over the next decade.

The authorities share staff's view that additional efforts are called for to address prospective pressures on public finances. These include additional near-term spending needs for defense and social welfare, as well as for migration-related expenditures. The main longer-term fiscal challenges, however, are related to demographics and climate change. The authorities' recently published fiscal sustainability report highlights the impact of aging and climate mitigation measures on public finances at all levels of government. The report provides a basis for policy proposals to mitigate these future fiscal burdens.

The federal government has taken short-term savings measures to comply with the debt brake rule in the 2024 and 2025 budgets. To regain strategic room for maneuver within the budget, the government has also commissioned a group of experts to carry out a comprehensive review of federal tasks and subsidies. The first savings resulting from this review are to be realized in 2026 and 2027.

Monetary Policy

The lowering of the policy rate by the SNB in March 2024 was made possible because the fight against inflation over the past two and a half years has been effective. For some months now, inflation has been back below 2 percent and thus in the range the SNB equates with price stability. Inflation is also projected to remain in this range over the next few years.

With its decision, the SNB took into account reduced inflationary pressures as well as the appreciation of the Swiss franc in real terms over the past year. The easing of monetary policy also supports economic activity. Going forward, the SNB will continue to closely monitor the development of inflation, and will adjust its monetary policy if necessary to ensure that inflation remains within the range consistent with price stability over the medium term. The SNB also remains willing to be active in the foreign exchange market as necessary.

External Sector Assessment

The authorities broadly share staff's assessment of the external position. They note that a substantial current account surplus is warranted by Switzerland's fundamentals, including its overall level of development, demographics, fiscal policy, and the occupational pension system. In addition, measurement issues, including the biases related to inflation differentials and retained earnings on portfolio investment, continue to significantly inflate the Swiss current account and help explain the large discrepancy between the cumulated current account balances and the NIIP. Such discrepancies are not specific to Switzerland and should continue to be carefully analyzed by staff as an integral part of the EBA methodology.

The authorities also agree that the assessment of the external sector is subject to substantial uncertainty. This uncertainty is in part related to the inherent complexity of large multinational

corporations, which significantly affect Switzerland's external sector. Meanwhile, various adjustments to the production of BOP/IIP statistics are ongoing.

Financial Sector

The Swiss banking sector's profitability and capitalization both increased in 2023. At the same time, the loss potential for Swiss banks under various stress scenarios remains substantial. Close monitoring of developments and risks in this sector and readiness to take supervisory action are called for. The authorities share staff's view that real estate market vulnerabilities persist and recognize the need to enhance monitoring of CRE exposures and interlinkages. They view the current set of macroprudential measures as adequate, but could consider expanding the toolkit should vulnerabilities increase. The authorities have also taken steps to close data gaps, which will improve risk monitoring of loans as well as fintech.

Following the state-facilitated takeover of Credit Suisse by UBS in mid-March 2023, the authorities undertook an in-depth evaluation of the Swiss regulatory regime for systemically important banks (SIBs). The comprehensive report by the federal government, published on April 10, 2024, concludes that many of the measures introduced at the national and international level to increase financial stability have generally proved their worth and that the objectives of the TBTF regime—reducing risks for the financial system, safeguarding systemically important banks' economically important functions, and avoiding state aid—are still expedient and appropriate. However, the assessment also revealed a need for action to further strengthen the regulatory framework. The report proposes a broad set of measures aimed at strengthening the resilience and stability of SIBs while also improving their resolvability in the event of a crisis. The measures cover the three dimensions (i) strengthening prevention, (ii) strengthening liquidity, and (iii) expanding the crisis toolkit, as elaborated in box 4 of the staff report.

The authorities agree that strong reforms are appropriate to further enhance the regulatory and supervisory framework for SIBs and improve crisis resilience, and they intend to follow through with the proposals in their report in a targeted way. Certain measures will apply to all banks and thus strengthen aspects of bank governance as well as financial market stability more broadly.

Switzerland will also engage at the international level to further develop standards to reflect the lessons learned from the Credit Suisse experience. Focus areas include capital requirements (enhancing the transparency regarding the capitalization of parent banks as well as strengthening the loss-absorbing function of AT1 instruments in a going concern) and liquidity requirements (e.g., strengthening the buffer function of the Liquidity Covered Ratio). In the area of resolution, a focus is on the operationalization of cross-border bail-ins, where legal certainty needs to be enhanced internationally, and on public sector funding mechanisms.

Maintaining an effective system for combating financial crime and safeguarding the integrity of the financial sector are central to the authorities. The federal government has recently submitted

important draft legislation to parliament. The draft includes the establishment of a new federal registry for the beneficial ownership of legal persons. It also includes the extension of due diligence provisions to the activities of the legal and accounting professions beyond the activities as financial intermediaries, as well as measures to strengthen compliance with sanctions. The progress achieved by previous legislative changes, including the provisions on customer due diligence by financial intermediaries, international cooperation, and terrorism financing, were recognized in the FATF's follow-up report of October 2023. Switzerland also remains strongly committed to strengthening the global anti-money laundering network. Among other engagements, Switzerland has been a leading donor to the IMF's AML/CFT topical trust fund since its inception.

Structural Issues

Labor market conditions remain favorable. While unemployment has gradually increased over the past year in parallel with below-average growth, it has remained low in a longer-term comparison. In April, the seasonally adjusted rate of registered unemployment was 2.3 percent, matching the pre-pandemic low. Unemployment is expected to rise somewhat, averaging 2.5 percent in 2025, in line with the continued subpar growth performance in the near term.

The authorities recognize the need for advancing on impactful climate policies. They highlight that Switzerland has made progress on its climate policy with the parliamentary approval of the revised CO2 Act in March 2024 and that work on the 2031-2040 climate policy framework will start this year.