Swiss Annex - document circulated at the joint meeting of EU and EFTA Economic and Finance Ministers, October 15th 2013

General Economic Situation

Against the background of challenging international economic conditions, the Swiss economy proves remarkably resilient. In 2012 the economy grew by 1.2% in real terms and the first two quarters of 2013 showed robust growth rates of 1.2% and 2.5% compared to the same quarters of the previous year. At the same time, the unemployment rate (according to the ILO definition) is rising slowly but steadily, starting from a level of 4% in 2011 it has reached 4.6% in March 2013.

Behind this positive overall growth performance there is, however, a divergent picture with robust domestic demand (e.g., private consumption) on the one hand and rather subdued exports on the other. Construction as well as public and private consumption are sustained by continued immigration, low interest rates and relatively solid public finances (and thus no need for drastic structural reforms and austerity measures), while export-oriented sectors like industry and tourism suffer from an uneven economic global recovery, the strong franc and the uncertainty in the Euro area. For these sectors the introduction of a minimum exchange rate of CHF 1.20 against the Euro in September 2011 by the Swiss National Bank (SNB) was crucial to prevent a more pronounced decline. A recovery of the Euro area economies would further accelerate economic development in Switzerland.

Mirroring the performance of the Swiss economy as a whole, the public finances remain healthy. The financial balance of the government sector as a whole (in percent of GDP) remained slightly positive in 2012 and is expected to do so also in the coming two years. From the four government sectors (Confederation, cantons, communes, and social security) only the cantons exhibited notable deficits (-0.4%) in 2012, while the financial accounts of the other sectors were in balance or positive. The gross debt to GDP ratio at general government level even fell by two percentage points between 2009 and 2012 to 35.7%.

Turning to the outlook, current indicators show a slightly improving picture. Forecasts from the State Secretariat for Economic Affairs (SECO) indicate robust economic growth for 2013 (1.8%) and a further improvement for 2014 (2.3%), with a continuously stable domestic economy and a brightening outlook for the export sector – under the assumption of a stabilizing world economy.

Economic Policy

During the past year, Swiss economic policy was particularly concerned with topics related to financial markets in a broad sense and their regulation.

In an environment of historically low interest rates, the danger persists that imbalances on the domestic mortgage and real estate markets will increase further. There are, however, signs of an easing and price growth in some segments of the real estate market has slowed somewhat. Nevertheless, mortgage lending is still climbing more rapidly than GDP. Due to these developments, measures were announced in June 2012 to reduce risks in the Swiss mortgage market. These measures include a revision of the self-regulation rules for mortgage lending and stricter capital requirements for mortgage loans. In addition, the Swiss government in February 2013 decided to activate the countercyclical capital buffer, as proposed by the SNB.

There is, however, a risk that the measures already implemented to counter imbalances on the mortgage and real estate markets may not suffice. With a view to underpinning financial stability, it might thus prove necessary to take further regulatory measures. The SNB will continue to regularly assess whether an increase of the countercyclical capital buffer is necessary.

Within this context, the fact that the capitalization of domestically focused banks is significantly above the regulatory minimum requirements is welcome. Indeed, compared to the previous year, these banks have even slightly improved their regulatory capitalization. Moreover, most domestically focused banks already meet the Swiss Financial Market Supervisory Authority (FINMA)'s capital buffer requirements, which are in line with Basel III.

The SNB maintains its exchange rate floor at CHF 1.20 per Euro. In the current environment, the minimum exchange rate remains important in order to avoid an undesirable tightening of monetary conditions for Switzerland in the event of sudden upward pressure on the Swiss franc. The SNB stands ready to enforce the minimum exchange rate, if necessary, by buying foreign currency in unlimited quantities, and to take further measures, as required.

Furthermore Swiss economic policy was concerned with a revision of the antitrust law, reforms of the corporate tax law system and the negotiation of a free-trade agreement with China (signed in July 2013) inter alia.

Cooperation in the field of financial services

Switzerland has defined stability, predictability, and integrity as overarching objectives of its financial market policy. The Swiss government strives to maintain conducive framework conditions for a competitive and successful financial sector. It remains committed to ensuring international financial stability and effectively combating abuses. International cooperation is indispensable in attaining these objectives.

Cooperation on financial stability: Switzerland is actively contributing to the work of the FSB, including within the G20 process, with a view to fostering financial stability and ensuring a level playing field. Switzerland has proven its strong support for a timely and consistent implementation of the ongoing regulatory initiatives, in particular of Basel III and measures that address the Too-Big-To-Fail issue and contribute to financial stability. In accordance with the transitional periods, the Swiss Basel III guidelines are in force since January 1 of this year. Switzerland is among the 11 member states – of the 27 member states of the Basel Committee – that have already implemented the Basel III reforms. This includes a comprehensive implementation of the new Basel III capital guidelines. Based on the Regulatory Consistency Assessment Programme (RCAP), the Basel Committee on Banking Supervision assigned Switzerland the overall rating "compliant". Switzerland would expect similar and timely efforts from others with regard to Basel III-implementation and TBTF-measures, including an effective international bank resolution framework.

Cooperation on regulatory convergence: Switzerland welcomes the initiative of the EU to overcome the fragmented national market access regimes for third country providers by striving to harmonize such regimes at the EU-level, as long as such a harmonized regime reduces barriers to market access. In current or proposed EU regulations, there are over 20 different third country regimes with some similarities but also significant differences with regard to requirements on equivalence and cooperation agreements. Thus, from a third country perspective, the approach is sometimes difficult to understand and rather burdensome to implement, in particular for supervisory authorities (on both sides). The streamlining of processes to allow for an effective and efficient implementation would be highly appreciated by Switzerland. Furthermore, third country regimes should include sufficiently long transition periods. Equivalence assessments are helpful since they avoid duplication and conflicts of regulatory and supervisory requirements, legal uncertainty, and regulatory arbitrage. However, equivalence should not require identical rules and supervisory processes but should allow for a holistic assessment that comprises regulation and effective supervision, including enforcement. Where appropriate, compliance with internationally agreed standards and relevant peer reviews from international standard setting bodies, particularly by the FSB, should be taken into account.

Cooperation on ensuring investor protection: Switzerland appreciates the effort of the EU to reinforce and harmonize the protection of investors – in particular of retail investors – and shares these objectives. It continues to give high priority to investor protection and is currently preparing legislation to further strengthen it, taking into account developments in the EU and internationally. Switzerland is fully committed to meet and implement relevant international standards in a timely manner and to prevent regulatory arbitrage. However, such measures should not be more stringent than necessary to protect investors and to ensure the functioning of markets.

Cooperation on preserving open markets and competitiveness: In order to keep its important role to enhance economic growth trough investment and lending, Europe's financial industry must be allowed to work efficiently and effective under an open and harmonised framework. Switzerland strongly values and supports an effective functioning of the international financial system that builds on an optimal allocation of capital. It believes that it is also in the interest of the EU to allow for the provision of financial services across national borders and to prevent the fragmentation of financial markets within the Common Market and globally. Switzerland and the EU derive mutual benefits from an intensive exchange in all areas of cross-border service provision and this approach should continue to include financial services.

Switzerland is thus concerned about tendencies of protectionism that have recently found their way into EU legislative projects, in particular the revision of the Markets in Financial Instruments Directive (MiFID). Switzerland stresses the importance of revisiting the proposed third-country regime of MiFID, which is currently discussed in trilogue. In particular, Switzerland is of the view that requiring third-country firms to provide services exclusively or at least mainly through a branch within the EU leads to a serious impediment for the provision of investment services on a cross-border basis into the EU. It goes beyond what is necessary to ensure investor protection, while also running counter to the aim of fostering integrated, global financial markets. It reduces customer choice, prevents competition to the detriment of EU-investors, and is bound to hamper the liquidity of European markets. With respect to Switzerland, it must be considered that based on the Lugano Convention 2007[1], the protection of retail clients domiciled in a EU Member State is already ensured.

Key Figures for Switzerland (nominal values, y-t-y percentage change)

	2009	2010	2011	2012	2013	2014
Private Consumption	0.9	2.4	1.4	1.3	2.4	2
Public Consumption	4.5	2	3.1	2.6	1.3	1.5
Building investments	2.0	3.9	4.8	-2.5	2.0	1.7
Equipment investments	-15.8	4.4	4.5	0.1	-0.5	3.5
Exports	-9.4	6.1	1.2	3.2	1.2	4.8

[1] Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters concluded in Lugano on 30 October 2007 between the Swiss Confederation, the European Community, the Kingdom of Denmark, the Kingdom of Norway and the Republic of Iceland.

Imports	-11.1	7.6	1.9	3.6	1.1	4.3
GDP	**-1.7**	**3.6**	**2.2**	**1.2**	**1.8**	**2.3**
Inflation (Consumer Price Index)	-0.5	0.7	0.2	-0.7	-0.1	0.3
Unemployment rate (ILO definition)	4.3	4.5	4.0	4.2	n.a.	n.a.
Financial balance of the government sector in percent of GDP	0.5	0.2	0.3	0.1	0.2	0.3
Government debt in percent of GDP	37.7	36.4	35.5	35.7	34.7	33.4

Sources: State Secretariat for Economic Affairs (SECO), Federal Statistical Office (FSO), Federal Department of Finance (FDF). The grey shaded values are forecasts.