

# **Bundespräsidentin Micheline Calmy-Rey**

Vorsteherin des Eidgenössischen Departements  
für auswärtige Angelegenheiten (EDA)

## **Switzerland's financial and economic challenges in a changing world**

Referat anlässlich der Special Churchill Lecture 2011 am Europa  
Institut an der Universität Zürich vom 9. November 2011

It is a great pleasure and an honour for me to address you tonight here at the University of Zurich. And I want to talk to you (not about Europe but) about poverty, about sustainable development, about Switzerland and about financial stability.

Poverty is part of the lives of too many people. More than one billion people do not have enough to eat and a further one billion risk falling back into extreme poverty. Many poor countries have however made considerable progress in combating this problem.

But while progress has been achieved, the current opportunities and future prospects of many countries are being seriously threatened by global risks such as climate change, diminishing resources, food insecurity and by unstable international financial markets.

And there are issues of global inequalities which can only be solved through global action. Africa for example, where 15% of the world's population lives, receives only 1% of global investment and accounts for little more than 1% of global manufacturing production. Although poverty is decreasing, it is doing so very slowly: from 1.8 billion people living in poverty in 1990 to 1.4 billion in 2005. At this rate it would take another 88 years to achieve a world without extreme poverty.

There is also the issue of the fair distribution of wealth and income across the world. The former British Prime Minister, GORDON BROWN, pointed out that between 1990 and 2007, the bottom 20% of the world's population raised its share of total income from 1.5 to 2% and between 2002 and 2010 a group of just over 10 million people increased their share of global assets from 22 trillion to 42.7 trillion US dollars.

We need sustainable development. Financial stability is a condition for sustainable and equitable economic growth. And this means that all financial markets need proper regulation, supervision and transparency.

It has been clear for some time already that the banking system has to change fundamentally because the financial system has been massively expanded through the process of leveraging and not on the creation of real wealth. One of the reasons for the financial crisis is that while middle and low-income families in the West saw their incomes fall, they were at the same time encouraged to make up for this through excessive borrowing. A change is absolutely essential.

For Switzerland, the issue of banks that are "too big to fail" was the first area where the rules needed to be tightened. Given the size, global integration and importance for the Swiss economy of Switzerland's two largest banks, Switzerland needs to make particular efforts to address the issue. New legal provisions were passed by Parliament at end of September and will enter into force in early 2012. The two largest banks will have to gradually strengthen their own capital base. They also have to meet more stringent liquidity requirements, diversify risks more effectively and prepare organisational measures to ensure the maintenance of systemically important functions. The revised law provides modified instruments, such as reserve capital and convertible capital, to meet the higher capital requirements.

Switzerland has also begun to apply the capital adequacy rules of the international Basel III framework to all banks, not only to the two largest ones. A couple of weeks ago, the government submitted an amended text on capital adequacy for consultation. The existing Swiss regime with capital buffers, which go beyond the international minimum standards, will remain in effect, but the calculation method will be fully in line with Basel III. This text may enter into force as early as 1 January 2013 which shows our determination to act quickly.

With respect to the “too big to fail” legislation, I have just said that the two largest Swiss banks need to draw up organisational plans to ensure that systemically vital functions can continue. This leads me to the topic of resolution regimes, another area where lawmakers should act and give supervisors better instruments. The idea is to maintain functions such as payment transactions and credits in favour of businesses and individuals even in the case of threatened insolvency.

I am pleased that the Financial Stability Board has proposed an outline for a new standard. This work was performed by a working group in which our financial supervisory authority was a driving force.

Transparency is a further field where many improvements are required. For my country, the question is about how to protect the privacy of bank clients and at the same time remain willing to inform and to cooperate. Switzerland has recently signed tax agreements with Germany and with the United Kingdom. Discussions on a similar agreement have already begun with Greece. These agreements regulate the past and introduce a withholding tax for the future. Based on these agreements, tax payments, but not the names of bank clients, will be handed over to foreign tax authorities. Banking relationships will only be disclosed with the explicit consent of the person concerned. To this end, the agreements enable appropriate substantial taxation without abandoning protection of clients’ privacy. This approach will ensure that in future the privacy of honest clients only will be protected.

Another aspect the Swiss government has been consistently attentive to is the fact that exchange rate fluctuations can have very serious negative consequences for exporting companies and their employees, particularly when it comes to sudden and sharp movements or to periods of extremely high volatility. I am obviously referring to the safe-haven function of our currency.

The disappearance or downsizing – in Switzerland and elsewhere – of sound economic activities because of extreme disturbances on the forex markets is a phenomenon that we all – national and international authorities – should perceive as something that needs to be avoided.

Under these circumstances, the Swiss National Bank’s announcement of a minimum exchange rate was a decisive step, which was welcomed by the Federal Council and by a vast majority of the Swiss population. Although the measure was unconventional, it cannot be seen as an unfair competitive de-

valuation. By and large, partner governments and central banks have also expressed their understanding of this necessary step to avoid severe consequences. It can be argued that this measure to counter excessive speculation contributed to financial stability in Europe and beyond.

I have strayed far from poverty in the world, to the regulation of financial markets and the strong Swiss franc. As a result of globalisation, both poor and wealthy countries have rapidly become increasingly interdependent. National prosperity depends on domestic policy as well as on global developments. This is true for every country. There are no islands other than in a geographic sense.

Switzerland is committed to a responsible foreign policy oriented towards improving global sustainability, promoting human rights and the rule of law, and providing direct support to developing countries. But one area that is particularly important for us is to contribute to a sustainable financial system.

The outlook is not bleak because all authorities in the major financial centres, in Europe, America and Asia, have realised the need to work seriously together to improve financial stability.