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Global Wealth Management
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US Treasury Declares Switzerland Currency Manipulator for Balance of Payments and Trade

Under the Trade Facilitation and Trade Enforcement Act of 2015 (the "**2015 Act**") and the Omnibus Trade and Competitiveness Act of 1988 (the "**1988 Act**"), the United States Department of Treasury ("**US Treasury**") has the power to label major US trading partners as "currency manipulators" if the US Treasury determines that their governments are implementing policies which "manipulate" the rate of exchange between their local currency and the United States dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade.[1][2] In its semi-annual report to Congress, *Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States*[3]*,* released on December 16, 2020, the US Treasury labelled Switzerland, along with Vietnam, as a currency manipulator, among others already on the list.

Under the 2015 Act, the US Treasury monitors the macroeconomic and currency policies of major trading partners and conducts enhanced analysis of and engagement with those partners if they meet certain objective criteria that provide insight into possibly unfair currency practices. These objective criteria include the following, namely whether there is:

1. the existence of bilateral trade surplus with the United States, i.e. one that is at least $20 billion over a 12-month period;
2. the existence of a material current account surplus, i.e. one that is at least 2% of gross domestic product ("**GDP**") over a 12-month period; and
3. evidence of persistent, one-sided intervention, which occurs when net purchases of foreign currency are conducted repeatedly, in at least 6 out of 12 months, and these net purchases total at least 2% of an economy's GDP over a 12-month period.

The US Treasury determined that Switzerland met all three criteria over 4 quarters through June 2020 to warrant an enhanced analysis in its semi-annual report to Congress. Of particular interest, the report noted the Swiss National Bank spent $93 billion on currency interventions in the first half of 2020 and that the United States trade deficit with Switzerland widened to $49 billion through June 2020. However, this concerns trade in goods rather than trade in services or direct investments.

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[1] *See* the Omnibus Trade and Competitiveness Act of 1988, Section 3004.
[2] Please note that there are distinct standards and criteria under the 1988 Act and 2015 Act. An economy may meet the standards set forth in one of the Acts, but not in the other.
[3] Available at <https://home.treasury.gov/system/files/206/December-2020-FX-Report-FINAL.pdf>. (Last accessed 16 December 2020.)

The effect of this designation on finance and trade between the two countries remains to be seen. However, the US Treasury has stated it will commence enhanced bilateral engagement with Switzerland to urge specific policy actions to address what the US Treasury perceives are the underlying causes of Switzerland's external imbalances. This is in line with the foreseen consultation mechanism. We deem it rather unlikely that the US would impose trade restrictions against Switzerland, both in light of the otherwise excellent bilateral trade relations and renewed discussions about a bilateral free trade agreement, outcome of which will also depend on the stance on free trade agreements of the incoming Administration.

In addition, there is some dispute on key points from the Swiss National Bank's ("**SNB**") perspective on this issue, according to news reports, namely around alleged manipulation:

- The Swiss Franc is actually quite strong and has been getting stronger towards the USD and EUR for more than 10 years
- SNB plans to continue with its current monetary policy of negative interest rates and foreign currency purchases in the currency markets, with the goal of the policy to support stable prices
- The hope is that the expected incoming US Treasury Secretary Janet Yellen would show understanding of the context as a former US Federal Reserve chair and allow productive bilateral communications with SNB based on the overall relationships that already exist between the officials of both countries

Additional analysis on the legal and other impact of the manipulator designation would be clearer as more information regarding the bilateral discussions becomes available.

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