

Philipp M Hildebrand: Asset management at central banks - a special case?

Speech by Mr Philipp M Hildebrand, Member of the Governing Board of the Swiss National Bank, at the University of St Gallen, St Gallen, 5 December 2003.

The complete speech can be found in French on the Swiss National Bank's website (www.snb.ch).

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Summary

Next to monetary policy, the management of international reserves is another important task of the Swiss National Bank (SNB). Since its obligations cannot be defined precisely, there can be no exact determination as to the optimal level of a country's international reserves. In accordance with the buffer stock model, the level of international reserves should be determined - just as one would choose an appropriate insurance - based on the likelihood of a crisis, on their contribution to managing or avoiding the crisis as well as on the opportunity costs implied in holding reserves. Both the insights derived from this model and from international comparison have shown that Switzerland holds a reasonable level of international reserves. The long-term development of these reserves should be based on a set of clear goals, as is the case in Switzerland with the growth of nominal GDP as a strategic benchmark.

In defining its investment policy, the SNB takes into account safety, liquidity, and performance. The new National Bank Law will enable the SNB to better adapt its investment profile to its needs, which ought to lower the opportunity costs implied in holding reserves. As investment activity is becoming increasingly complex, so are the demands of corporate governance. In conformity with the private financial sector, central banks - the SNB counts itself among them - have professionalised their investment and risk control processes and improved their accountability toward the public. With increased professionalism, particularly as a result of applying the mark-to-market principle, the SNB's profits are more volatile than in the past, however. In order to safeguard the independence of monetary policy and so as not to restrict investment policy, the SNB's annual profit distribution - as already spelled out in the message of the Federal Council on the new National Bank Law - must remain a variable residual amount in the long term and must not be tied to any specific purpose.