Philipp Hildebrand: The Swiss National Bank and the financial crisis

Summary of a speech by Mr Philipp Hildebrand, Chairman of the Governing Board of the Swiss National Bank, at the Club of Rome Forum, Zurich, 20 January 2011.

The complete speech can be found in German on the Swiss National Bank's website.

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Since August 2007, central banks have been continually at work, fighting the crisis. They have had to stabilise the financial system and limit the extent of the economic downturn.

In many countries, the repercussions of the financial crisis are reflected in both government finances and central bank balance sheets. In Switzerland, these repercussions – i.e. the costs of the financial crisis – have had relatively little impact on the budgets of either the Confederation or the cantons. The costs are mainly to be found in the SNB's balance sheet, at the moment largely in the form of risks.

The SNB balance sheet has significantly lengthened, particularly as a result of foreign currency purchases. Inevitably, the large holdings of currency investments means greater risk. As the SNB announced on 14 January 2011, it is expecting a substantial loss for the year 2010. This is mainly attributable to exchange rate losses on foreign currency investments.

In view of these losses, it is very tempting to argue that the SNB should not have purchased any foreign exchange. However, the purpose of the SNB is not to make a profit. The decision on whether monetary policy measures in the form of foreign currency purchases are necessary is based on an evaluation of the threat of deflation and the monetary policy expansion needed in order to counter this. Monetary policy inaction during the dramatic phases of 2009 and 2010 was not an option.

The primacy of monetary policy applies, and the top priority of monetary policy is to ensure price stability. The SNB's legal mandate is explicit in this regard. This is the contribution which the SNB can and must make to economic prosperity in this country.