

Thomas Jordan: Does the Swiss National Bank need equity?

Summary of a speech by Mr Thomas Jordan, Vice-Chairman of the Governing Board of the Swiss National Bank, to the Statistisch-Volkswirtschaftliche Gesellschaft, Basel, 28 September 2011.

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

The Swiss National Bank (SNB) had to report heavy losses for 2010 and the first half of 2011 due to the strength of the Swiss franc – or, more precisely, due to valuation changes on its foreign currency reserves. Consequently, it suffered a substantial reduction in its equity. Understandably in such a situation, concerns began to be voiced in public. Questions often posed in this context include: Might the SNB lose its capacity to act as a result of a negative equity level? And, if its equity were negative, would the SNB have to be recapitalised, or might it even have to go into administration? The short answer to these questions is “No”, because the SNB cannot be compared with commercial banks or other private enterprises. For one thing, a central bank cannot become illiquid. This means that a central bank's capacity to act is not constrained if its equity turns negative. Moreover, unlike other enterprises, it is not forced to implement recovery measures or go into administration. For another, central banks enjoy a funding advantage over private companies, owing to their banknote-issuing privilege. Moreover, they generate surplus income over the long term. Thus, over time, a central bank like the SNB can usually rebuild its equity level all on its own after a loss. Nevertheless, even for a central bank, a long period of negative equity is not without its problems, as it can undermine the bank's credibility and its independence in the longer term. For these reasons, it is important for the SNB to maintain a sufficient level of equity. To ensure that the SNB can carry out its monetary policy mandate without restriction, also in the long term, in the interests of the country as a whole it is essential that its capital base be adequately rebuilt. This means that the necessary profits must be earned, and retained. In the long run, the entire economy will benefit.