Thomas Jordan: SNB monetary and investment policy and the impact of the strong Swiss franc

Summary of a speech by Mr Thomas Jordan, Chairman of the Governing Board of the Swiss National Bank, at the Volkswirtschaftliche Gesellschaft des Kantons Bern, Berne, 28 November 2012.

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

As part of measures to combat the financial and economic crisis, balance sheets of central banks around the world have expanded substantially. In 2009 and 2010, the Swiss National Bank (SNB) intervened in the foreign exchange market in order to combat an excessive appreciation of the Swiss franc. On 6 September 2011, it set a minimum exchange rate of CHF 1.20 per euro, in order to avert major damage to the Swiss economy. Since then, the SNB has enforced this minimum rate with determination and is prepared to buy foreign currency in unlimited quantities. This monetary policy is reflected in a very substantial expansion in its balance sheet. It has also altered the importance of the currency reserves and had an impact on the SNB's investment policy.

In view of its mandate, monetary policy has priority at the SNB. Investment policy must be subordinated to the requirements of monetary policy. It is at the service of monetary policy and may not limit its room for manoeuvre. At present, enforcement of the minimum exchange rate has the greatest influence in the management of the currency reserves. The task is to diversify a large foreign currency portfolio according to the criteria of liquidity, security and return. Even in these extreme circumstances, the SNB's investment policy and process have proved resilient. The investment skills we have developed over the past 15 years, together with our flexibility regarding investment categories allow for the smooth absorption even of large inflows from foreign exchange purchases. The principles upon which our investment policy is based have proved their worth.

The idea of a sovereign wealth fund for better management of the SNB's currency reserves has attracted some public interest. However, a sovereign wealth fund would not facilitate monetary policy with regard to the enforcement of the minimum exchange rate. Moreover, advocates of a sovereign wealth fund often have unrealistically high expectations, not least as regards returns. But the most important point is that the current size and composition of the central bank balance sheet are a direct reflection of monetary policy. The SNB's investment requirements are derived directly from money creation and not from other revenue sources. If limitations were placed on the SNB balance sheet, its room for manoeuvre in the monetary policy domain would be restricted.

Due to the accumulation of currency reserves that have resulted from monetary policy measures, there are substantial risks weighing on the SNB balance sheet. Consequently, fluctuations in value may be much greater in future than they have been in the past. In addition, the relationship between equity and currency reserves has worsened. To ensure that the SNB can fulfil its mandate in the long term, without any restriction, in the interests of the country as a whole, particular attention is given to its capital base through a prudent provisioning policy.