

The SNB and its Watchers



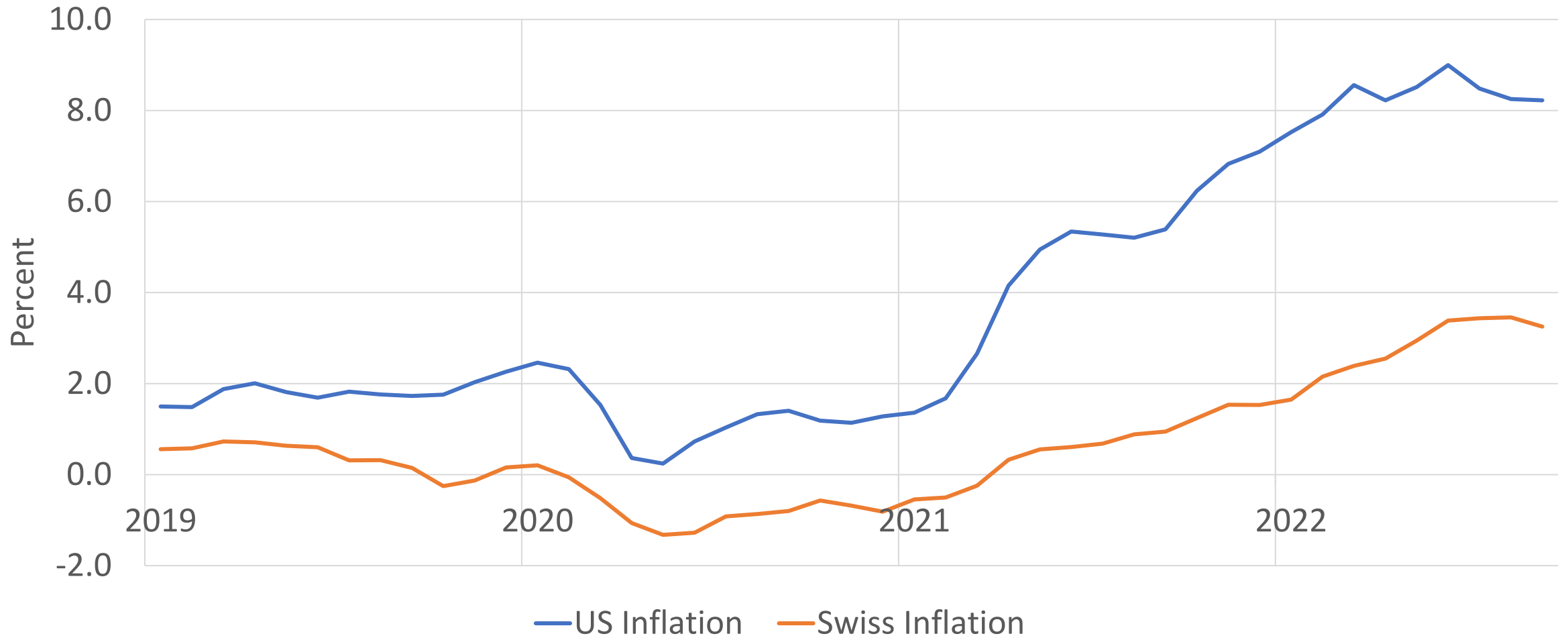
Exchange Rate Policy Panel

Prof. Harald Uhlig, University of Chicago

Bern, Nov 11th, 2022

Inflation: in check. Congrats, SNB!

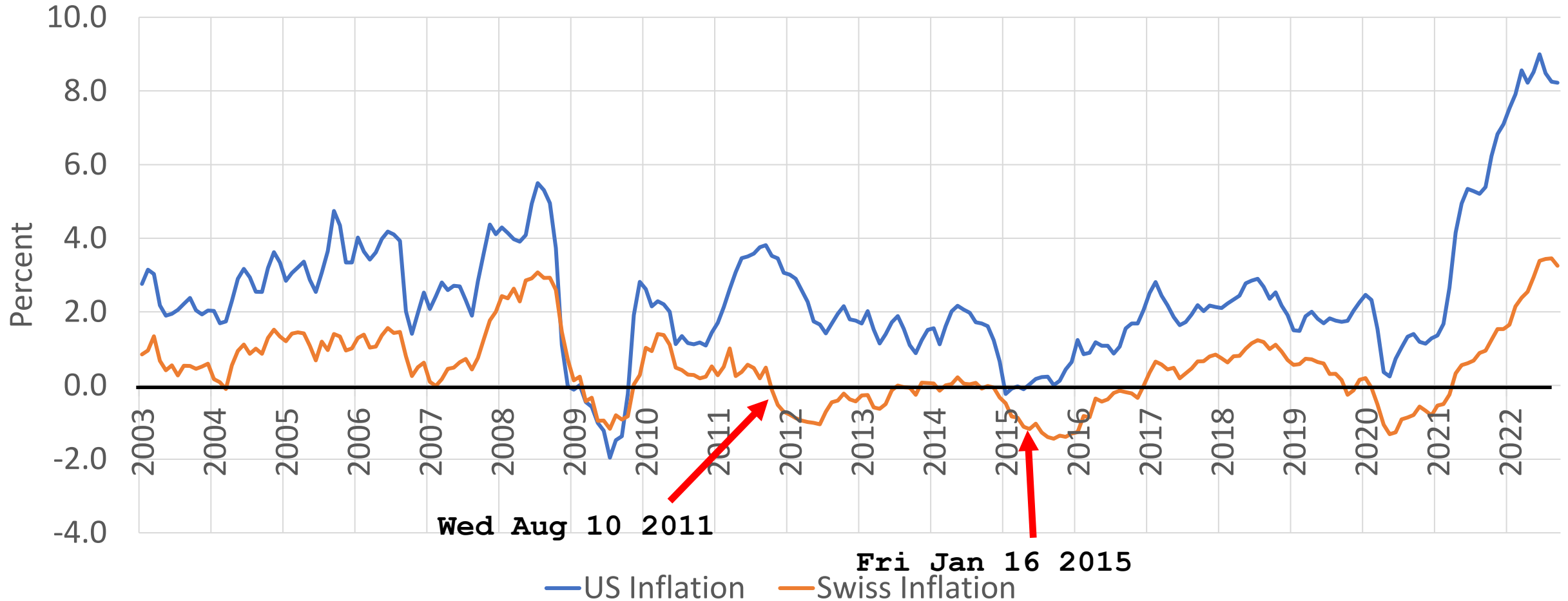
Inflation: 2019-now



SNB Mandate: Its primary goal is to ensure price stability, while taking due account of economic developments.

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Inflation: 2003-now



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Exchange Rate Intervention: 2011-2015

FRED  — Swiss Franc per Euro



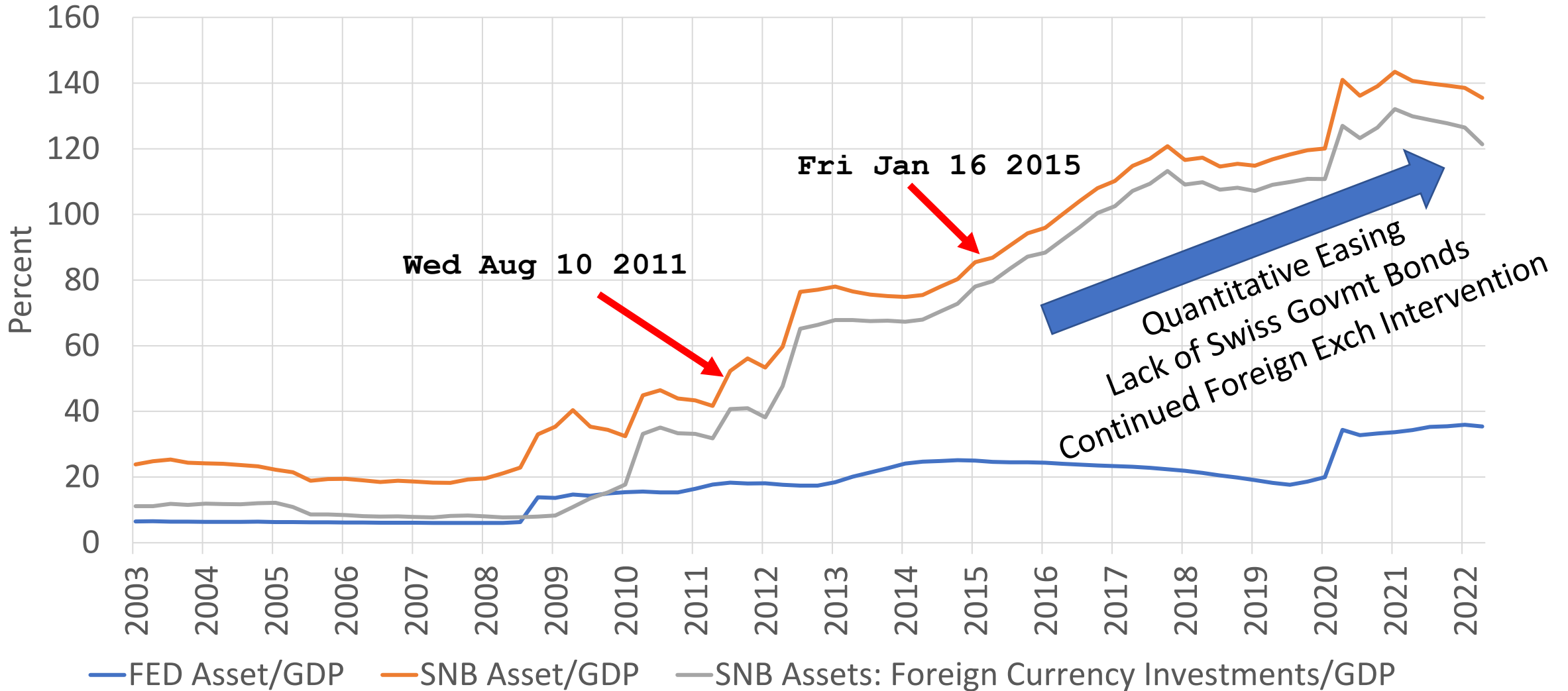
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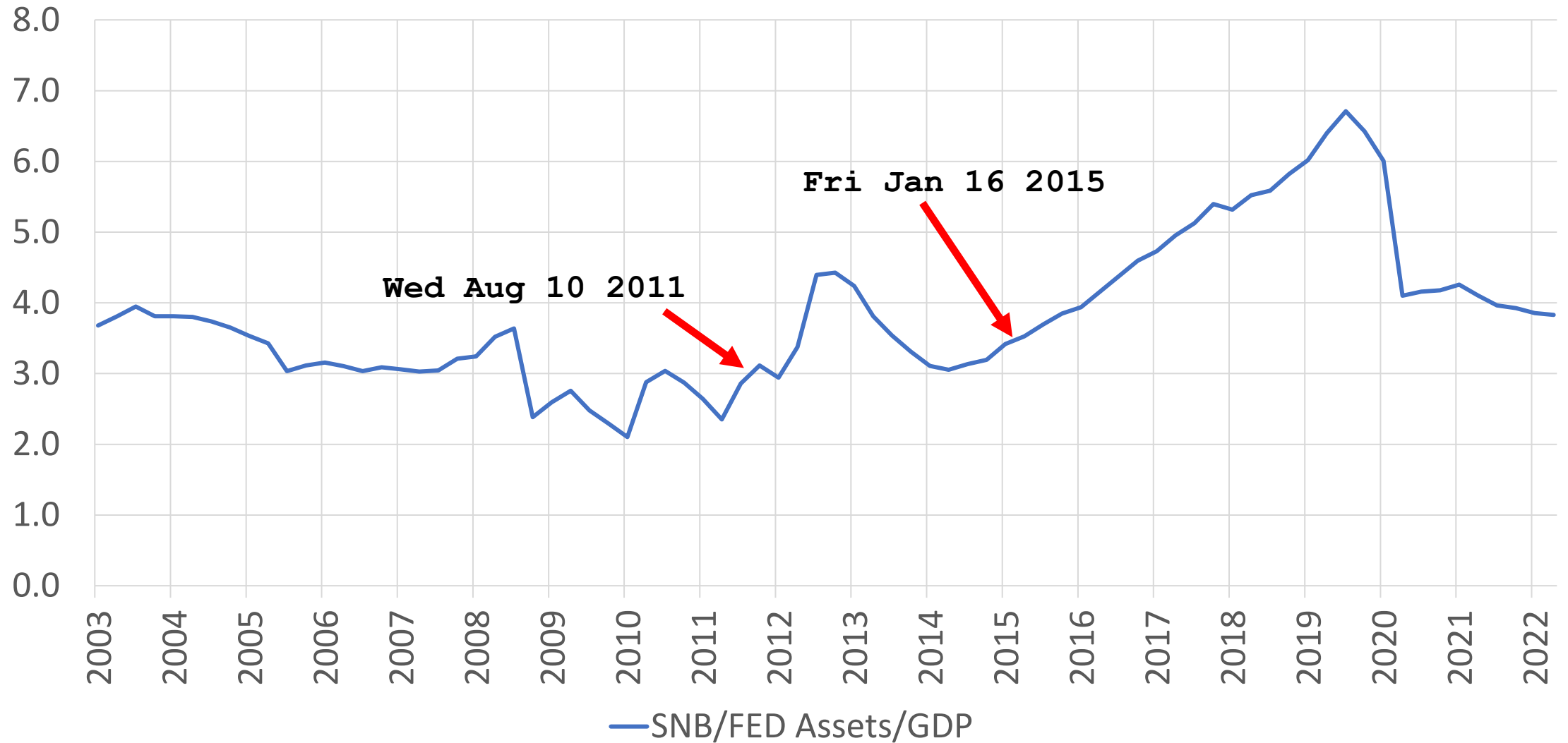
Assets/GDP

Central Bank Assets / GDP



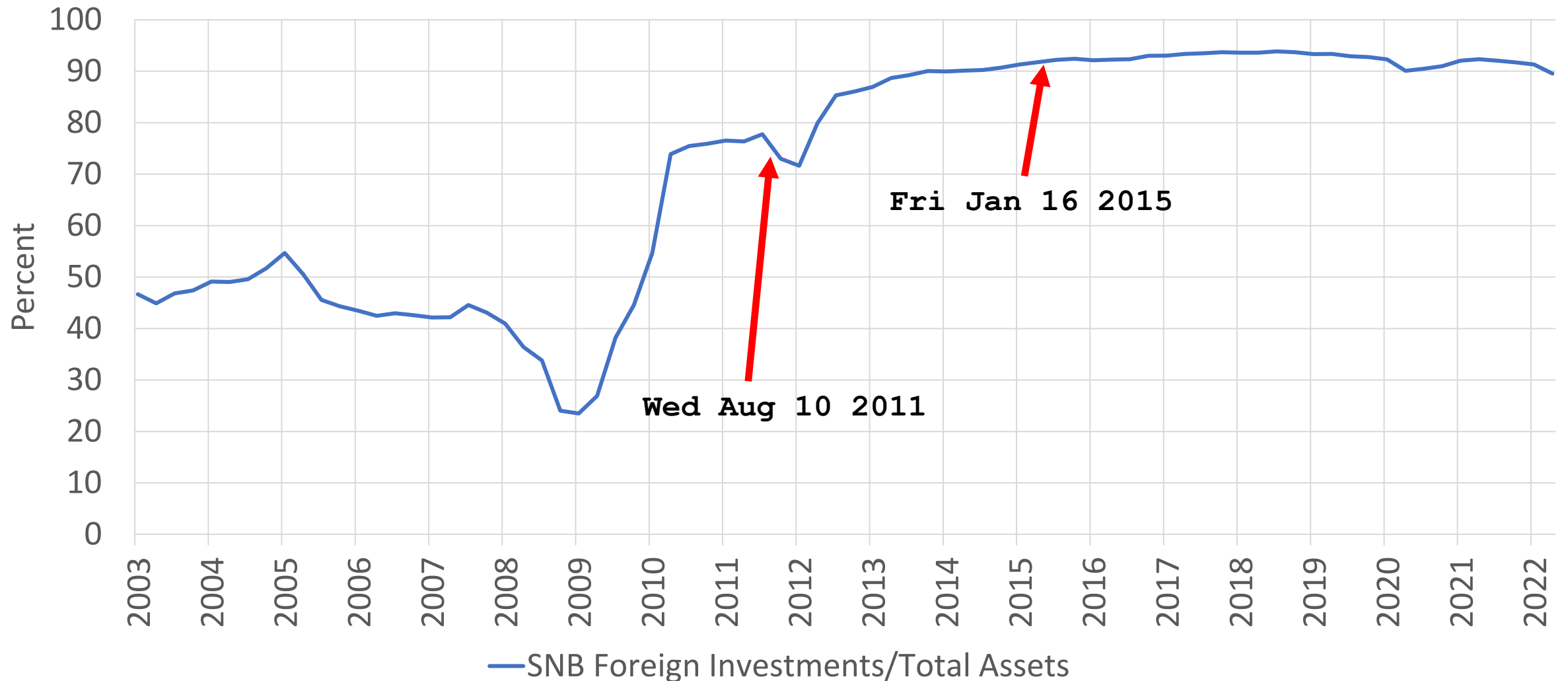
Assets/GDP

Assets/GDP: SNB rel to FED



Share of Foreign Investments

SNB: Foreign Investments/Total Assets



Some Theory, some Conclusions

- Extensive “**speculative attack**” literature: Central Banks, when fending off depreciation may eventually run out of foreign currency and give up. This invites the sharks.
- **2011-2015**: a “**speculative attack**” in reverse? In principle, SNB could have kept selling CHF forever to fend off appreciation. In practice, the foreign-currency portfolio became too large and too risky. This also invites the sharks!
- **Announcing and defending a peg was a mistake**. Large losses.
- **Exorbitant privilege, flight to safety** after 2008: investors are willing to hold Swiss bonds, even if their returns are lower. This **imported deflation**.
- Is there a case for the Swiss government to engage in “**carry trade**”, sell more low-yield govmt bonds, and invest in higher-yield assets abroad? Perhaps, but there is surely a limit to the exchange rate risk that the government/public is willing to hold.
- In any case, this is not the job of the **central bank**. It **should focus on inflation**.
- The SNB has delivered well on inflation! **Grade A+**! **Foreign currency investment and intervention** was **necessary** to get there (QE + lack of Swiss govmt bonds + import of deflation otherwise), but **gradual after 2015 was better**.
- The **size of the balance sheet** and perhaps even its **foreign investments** are **not highly unusual** (see comparison to Fed, comparison over time).
- Nonetheless, the **SNB needs to gradually unwind its foreign currency portfolio now**. QT.