
The SNB and its Watchers: Central bank balance sheets

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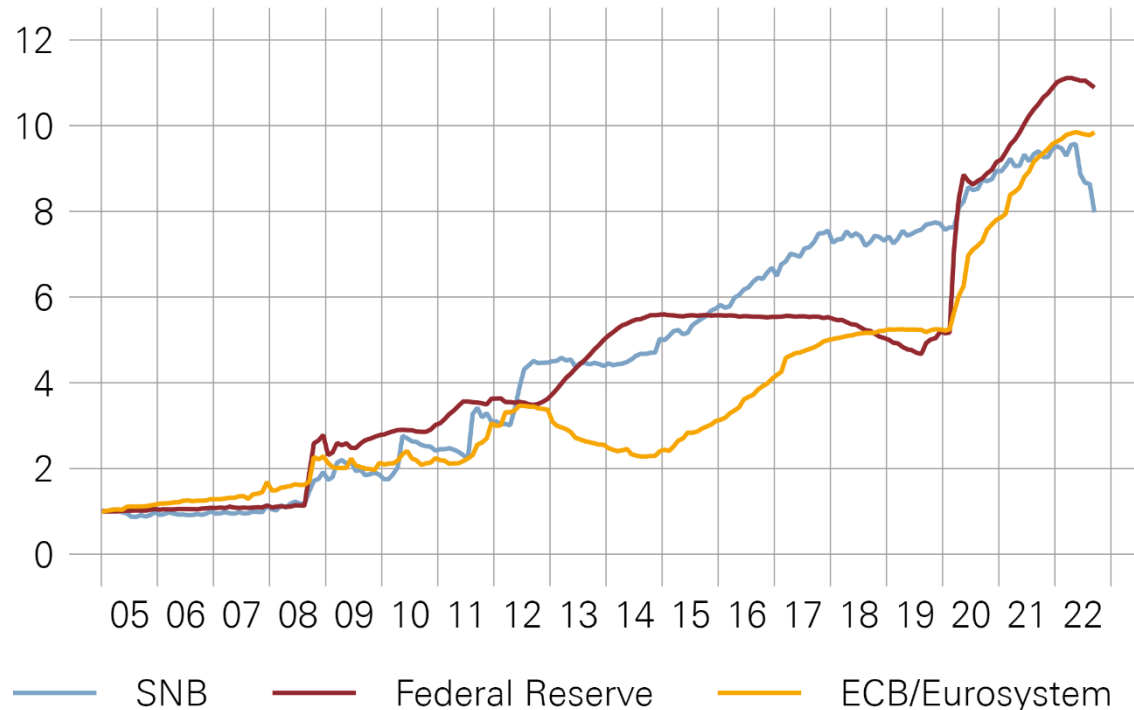


Balance sheet size and composition: SNB and other central banks

CENTRAL BANK BALANCE SHEETS

Total, level

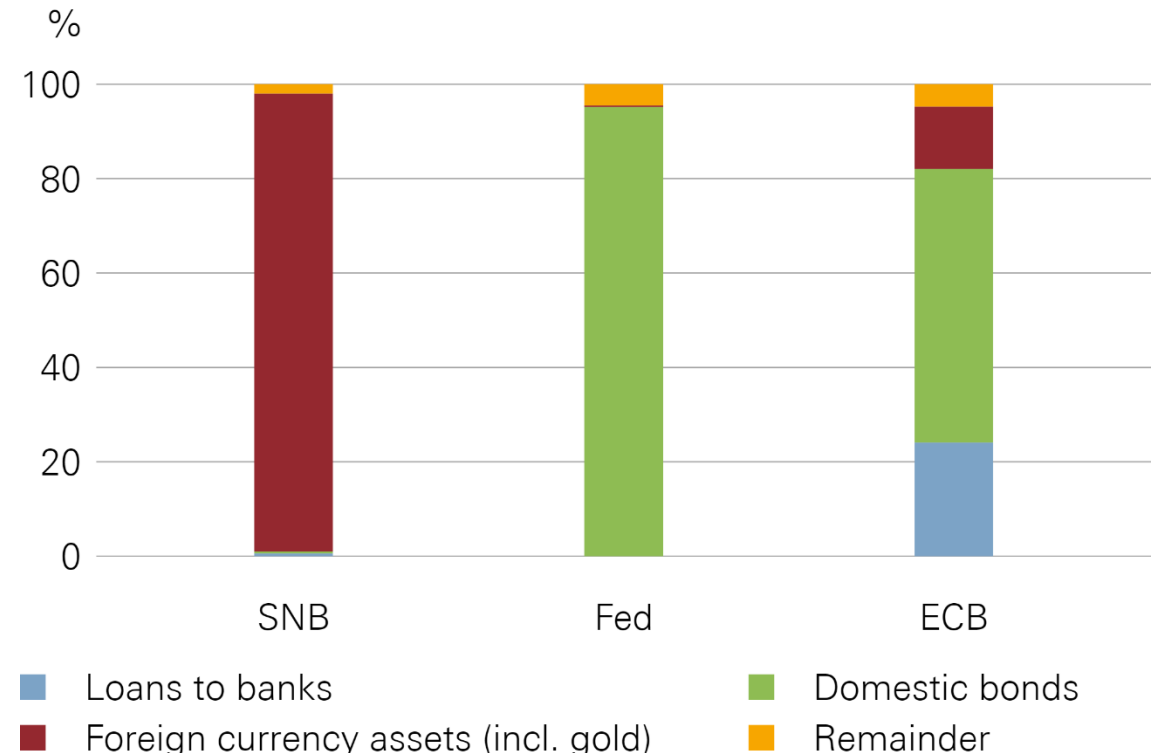
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Sources: respective central bank

CENTRAL BANK BALANCE SHEETS

Assets, composition, end of September 2022



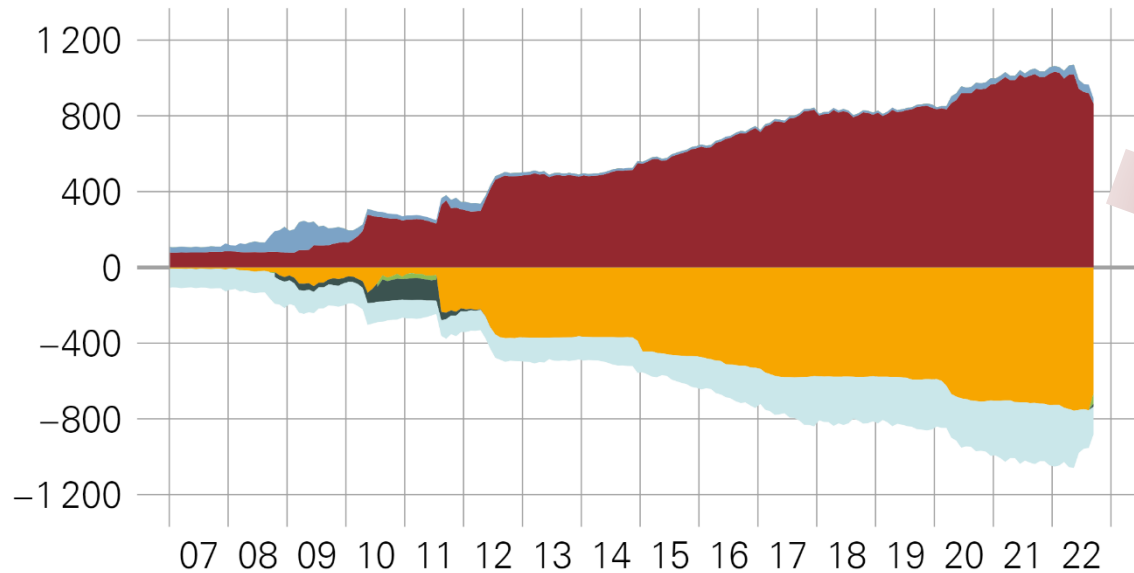
Sources: respective central bank

Focus on the asset side

SNB's assets and liabilities

SNB BALANCE SHEET

CHF billion

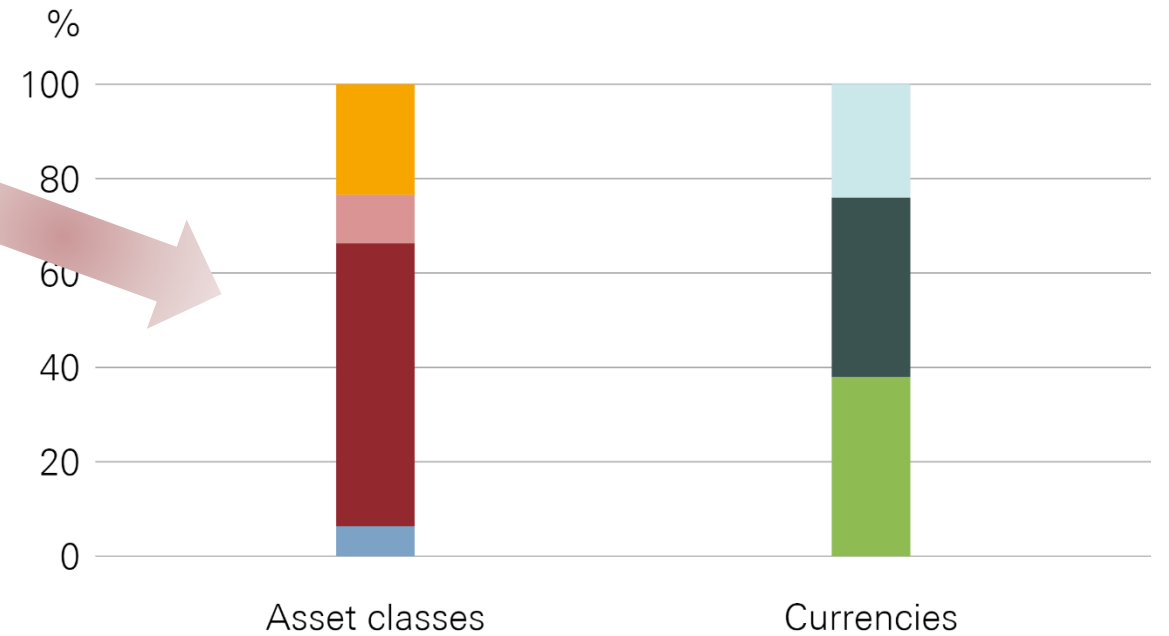


- Foreign currency assets
- Total sight deposits
- SNB bills
- Remaining assets
- Repos
- Remaining liabilities

Source: SNB

SNB'S FOREIGN CURRENCY INVESTMENTS

Asset classes and currencies, end of 2022Q3



- Gold
- EUR
- Govt. bonds
- USD
- Other bonds
- Other currencies
- Equities

Source: SNB

Guiding principles of SNB's foreign currency investments

- Two main goals

1. Balance sheet can be used for monetary policy purposes at any time
2. Preserve the value of foreign currency assets in the long term

- Implications

- Liquidity: Invest mainly in world's most liquid government bond markets
- Security: Invest in safe assets and diversify broadly

- Additional requirement of market neutrality: Do not unduly influence prices

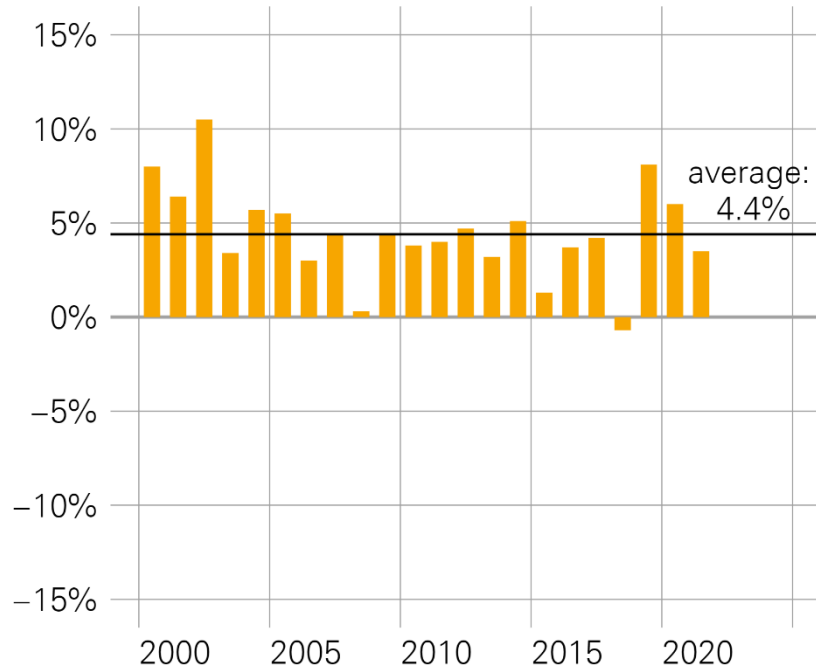
Long-run profit prospects of SNB's foreign currency investments

- Interest rates typically higher abroad
 - Should be compensated for over the long term by exchange rate movements (interest rate parity)
 - Should therefore in the long term not be a source of profit
- SNB long-run profit prospects result from premium for...
 - ... investing long-term (long-maturity bonds)
 - ... taking some risk (e.g. equities, corporate bonds)

SNB's return on foreign currency investments

RETURN ON FOREIGN CURRENCY INVESTMENTS

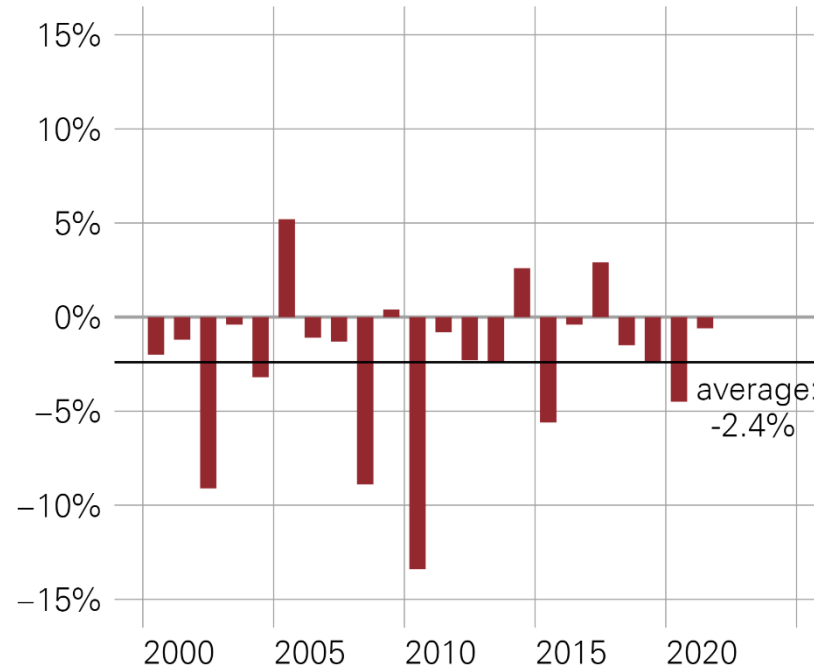
Local return



Source: SNB

RETURN ON FOREIGN CURRENCY INVESTMENTS

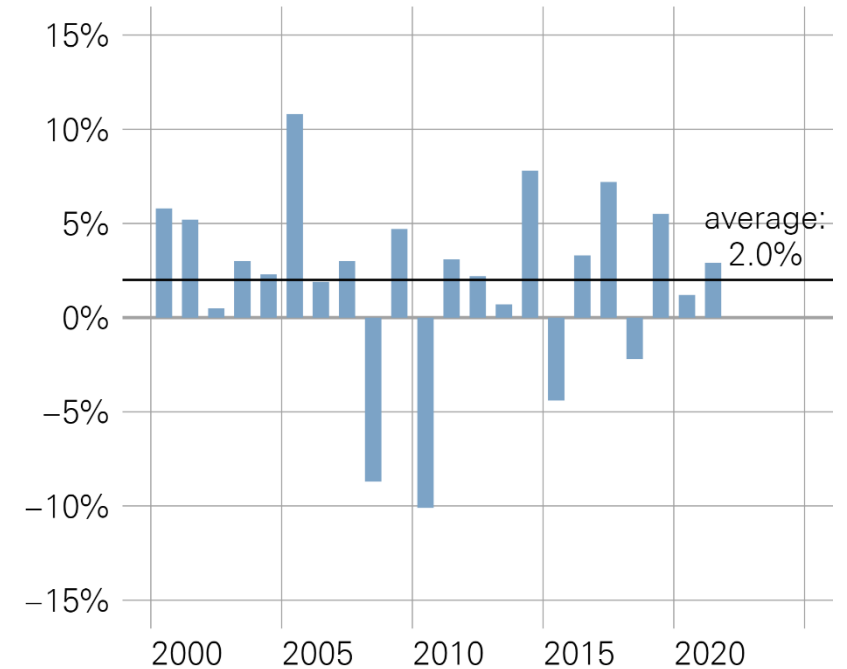
Currency return



Source: SNB

RETURN ON FOREIGN CURRENCY INVESTMENTS

Total return in CHF



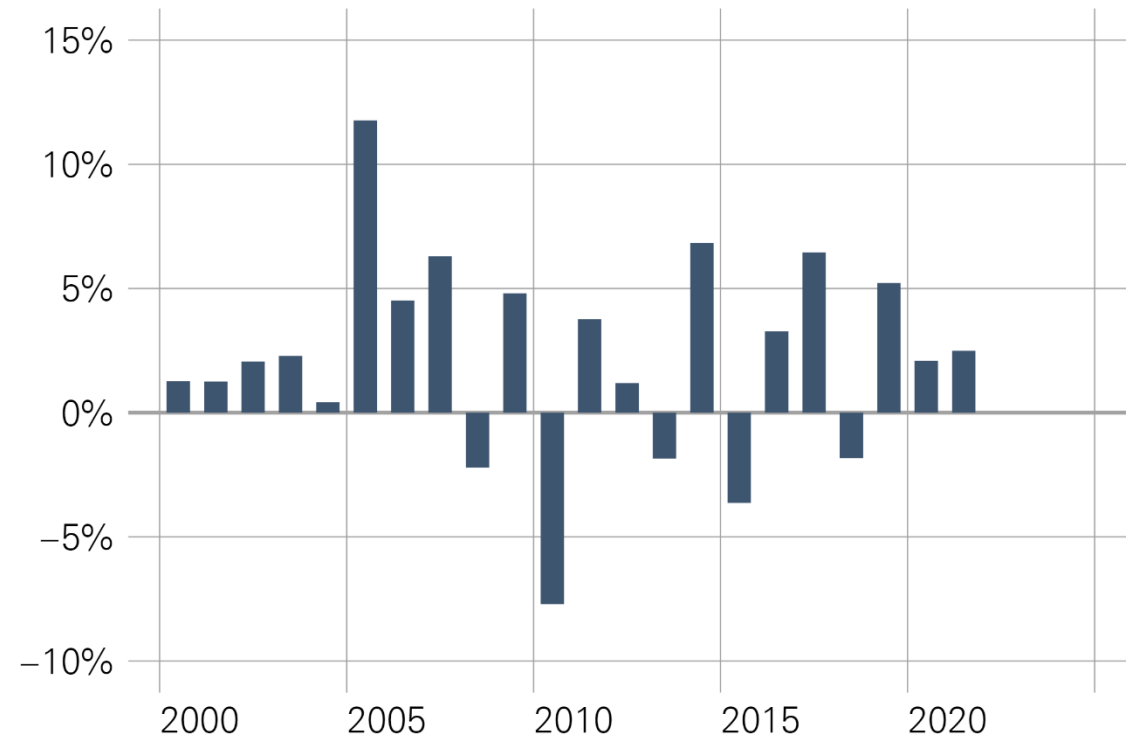
Source: SNB

SNB's annual results

- Yield on assets > yield on liabilities
- Seigniorage; profits are positive on average
- Profits fluctuate due to exchange rate and market movements
- Distributed in a smoothed fashion to the Confederation (1/3) and the cantons (2/3)

SNB'S ANNUAL RESULTS

Relative to total balance sheet size



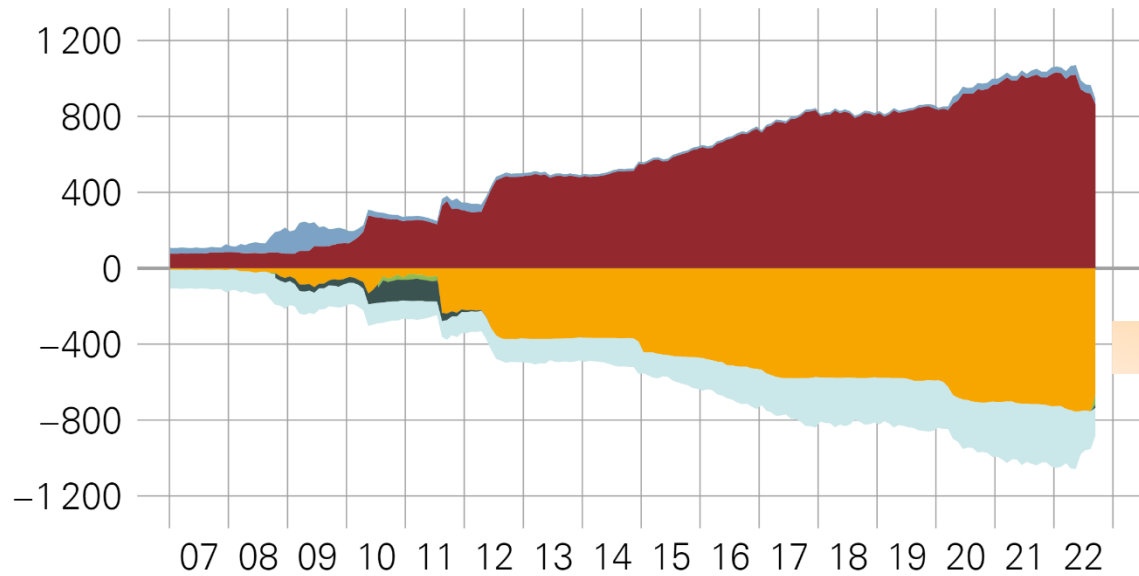
Source: SNB

Focus on the liability side

Current balance sheet developments

SNB BALANCE SHEET

CHF billion

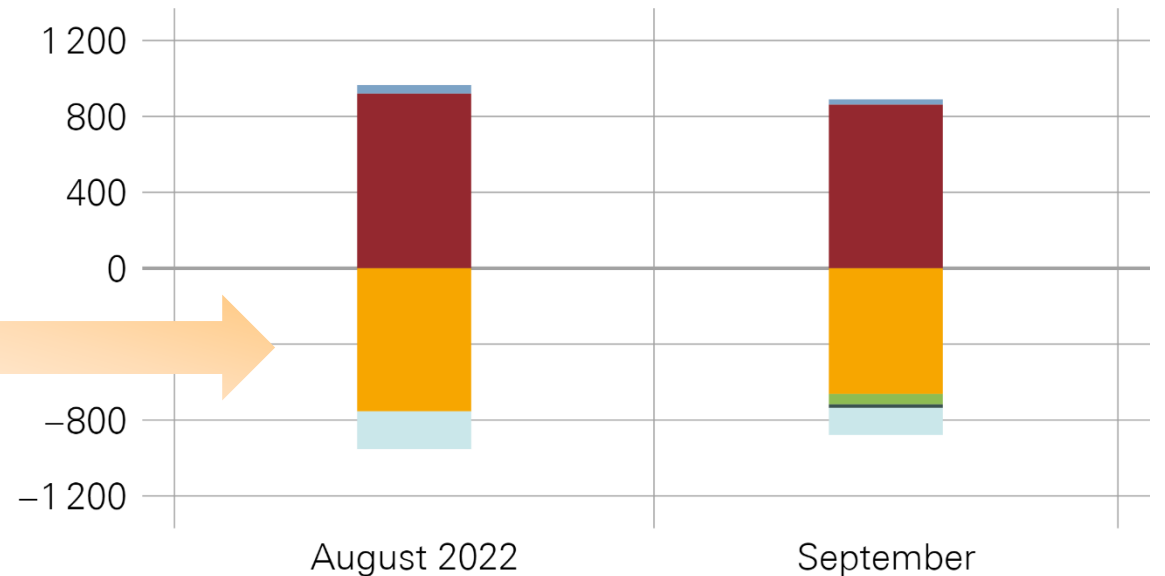


- Foreign currency assets
- Total sight deposits
- SNB bills
- Remaining assets
- Repos
- Remaining liabilities

Source: SNB

SNB BALANCE SHEET

CHF billion

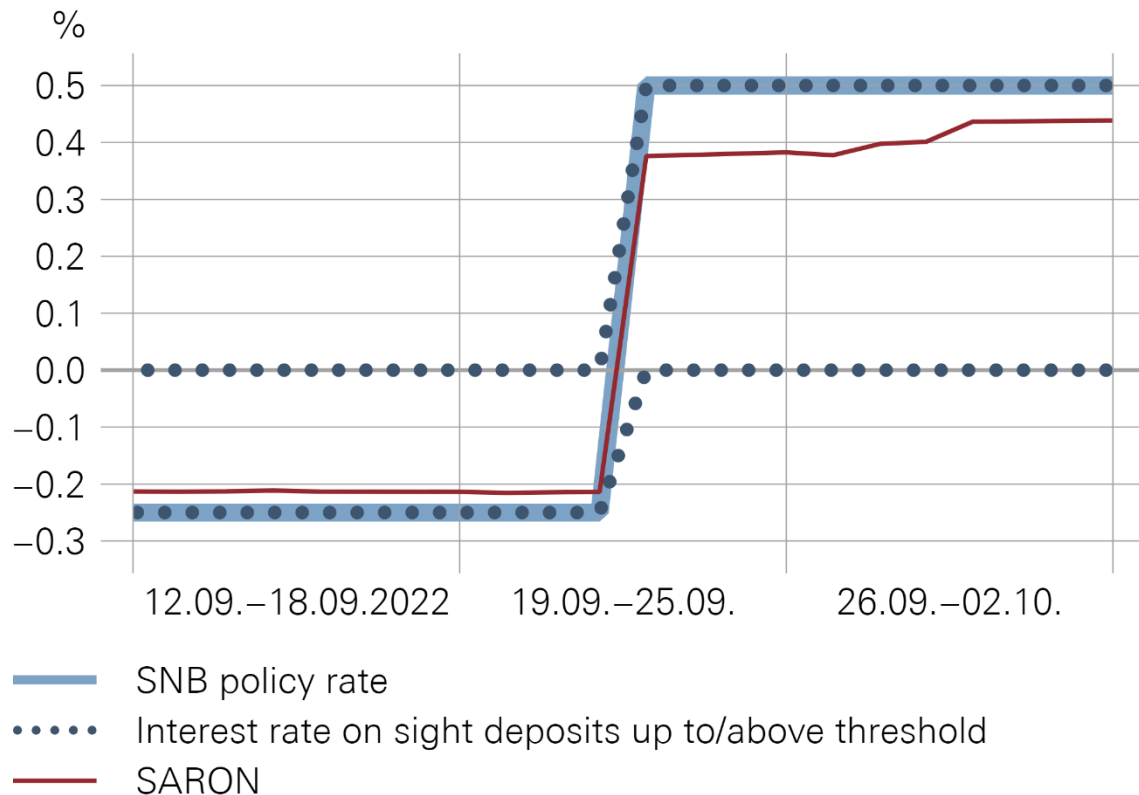


- Foreign currency assets
- Total sight deposits
- SNB bills
- Remaining assets
- Reverse repos
- Remaining liabilities

Source: SNB

Policy tightening and liquidity absorption

SNB RATES AND SARON



Sources: SNB, SIX Repo AG, Bloomberg

- Up to September, banks' deposits were subject to negative policy rate, but only above a certain threshold
- Trading incentives and thus money market activity ensured
- Since then, deposits remunerated at 0.5%, but only up to the threshold
- In addition, liquidity absorption via reverse repos and SNB bills

Summary

Summing up

- Balance sheet reflects monetary policy measures taken to fulfil the SNB's mandate
 - Foreign exchange purchases and balance sheet increase prevented excessive appreciation and persistent negative inflation
 - Change in liabilities to raise interest rates, which counter high inflation
- Balance sheet generates on average profits: Distributed to the Confederation and the cantons

Thank you for your attention!

The presenter thanks Jörn Tenhofen for his help in preparing the talk.

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