Arguments of the SNB against the initiative

The so-called gold initiative demands that the SNB hold at least 20% of its assets in gold, that it be prohibited from selling gold and that all gold reserves be physically stored in Switzerland itself.

The SNB does not generally comment on any political initiatives. However, the gold initiative has a very direct impact on the SNB's capacity to act.

The initiators see a high level of gold reserves as a guarantee for currency stability. They fear that the Swiss franc will decline in value and that price stability will be threatened if a large proportion of the balance sheet does not consist of gold holdings. They are also concerned that the SNB's gold reserves held abroad are not secure and will not be accessible in critical situations.

Some objectives the initiators put forward are shared by the SNB, such as maintaining currency and price stability and ensuring both the SNB's capacity to act and its independence. However, the measures proposed to this effect are not suitable; in fact, they are even counterproductive. Instead, they are based on misunderstandings about the importance of gold in monetary policy and would compromise the SNB's capacity to act in pursuing its monetary policy, which would run counter to the objectives envisaged. In other words, these measures would, in certain situations, considerably hinder the SNB in fulfilling its monetary policy mandate and be detrimental to Switzerland.

The SNB has the statutory mandate to ensure price stability, while taking due account of economic developments. The monetary policy operations that must be carried out in fulfilment of this mandate have a direct impact on the SNB's balance sheet. In order for the SNB to fulfil its mandate at all times, its capacity to act in monetary policy matters must not be compromised by rigid rules on the composition of its balance sheet, which would be the case with the required 20% minimum share of gold and the ban on the sale of gold.

It was precisely the latest crisis that demonstrated how important it is for the SNB to have the flexibility to expand its balance sheet, if needed. In future, the SNB will also need this flexibility to reduce the balance sheet again, if necessary. The demands of the initiative would considerably curtail this flexibility.

Were the initiative to be accepted, the SNB would – in the current environment – have to make large-scale gold purchases to meet the required 20% minimum share of gold. It would not be allowed to sell this gold at a later point, even if it had to reduce its balance sheet again in order to maintain price stability. In a worst-case scenario, the assets side of the SNB's balance sheet would, over time, be largely comprised of unsellable gold. Managing the interest rate level and the money supply would only be possible via the liabilities side of the balance sheet; in practice by issuing the SNB's own interest-bearing debt certificates (SNB Bills). This would have serious financial consequences: On the assets side, the SNB would neither have any interest income nor could it realise any profits on gold due to the ban on sales. On the liabilities side, it might have to pay high interest on debt certificates. The SNB could therefore find itself in a situation in which it could only finance its current expenses by means of money creation.

The far-reaching demands of the gold initiative would inevitably have repercussions for monetary policy. In making its monetary policy decisions, the SNB would have to consider the long-term consequences the necessary gold purchases would have on its capacity to act and on the structure of its balance sheet. Furthermore, market participants would hardly regard monetary policy decisions as credible, should these decisions involve a substantial expansion of the balance sheet, which in turn would impair the effect of monetary policy. It is unlikely that decisions such as the introduction of the minimum exchange rate or the stabilisation of UBS would have been made in the same way given these circumstances. This constraint on the capacity to act would not be in Switzerland's interest.

Gold is nevertheless an important component of the SNB's assets. However, this is not because gold guarantees price stability. In today's monetary system, there is no direct connection between the proportion of gold on the SNB's balance sheet and price stability. This is also evidenced by the fact that the objective of price stability has been better achieved in recent years, even though the proportion of gold on the SNB's balance sheet was smaller, than at times when gold accounted for a much larger share. A high proportion of gold on the balance sheet is no guarantee for price stability.

There is another reason why gold is useful for the SNB and Switzerland. As part of a good diversification of currency reserves, a certain proportion of gold can help reduce the balance sheet risk. The SNB has therefore never ruled out the possibility of future gold purchases. At the same time, however, gold is also one of the most volatile and thus riskiest investments. A high proportion of gold would increase the SNB's balance sheet risk. With the increasing share of gold on the balance sheet, a secondary effect would be that the profit distribution to the Confederation and the cantons would likely be lower. This is because, unlike foreign currency investments, gold does not generate income in the form of interest or dividends, and any valuation gains on gold could not be realised because of the ban on sales.

If, as the initiative demands, a ban on selling gold were to be enshrined in the constitution, the question would arise as to whether an immovable asset of this kind could even still fulfil the function of a currency reserve. Yet, the very purpose of currency reserves is that they are available quickly and without restriction when needed. This availability in a crisis situation is important, even if – as is currently the case – the SNB is not intending to sell gold.

The availability of gold reserves also plays a role with regard to their storage. Decentralised storage in Switzerland and abroad is in line with the basic principles of due diligence in the conduct of business and business continuity management. It ensures that the SNB can in fact access its gold reserves, especially in an emergency. The same standards are applied to storing gold abroad as to storing gold in Switzerland. The partner central banks keep clearly identifiable gold bar holdings for the SNB. Each bar stored abroad has a bar identification and remains the property of the SNB. The availability of our gold holdings is fully guaranteed at all times.

Of the 1,040 tonnes of the SNB’s gold, more than 70% – and thereby the overwhelming proportion – is stored in Switzerland. The remaining 30% is distributed between two countries. Roughly 20% of the gold reserves are kept at the central bank of the United Kingdom, and approximately 10% at the central bank of Canada. The SNB has been storing gold exclusively in these countries for over ten years. A number of clearly defined criteria are used when selecting countries for gold storage. First, adequate regional diversification and good market access for the storage of gold must be ensured. Second, the country in which the gold is stored must be politically and economically very stable and guarantee the immunity protection of central bank investments. The principles of risk diversification and the requirements of due diligence in the conduct of business still speak for decentralised storage in Switzerland and abroad.