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Arguments of the SNB against the Swiss sovereign money initiative (Vollgeldinitiative)

What the initiative seeks to achieve

- Under the initiative, Switzerland's commercial banks would no longer be permitted to create deposits through lending (money creation). All sight deposits would have to be backed by (i.e. consist of) central bank money created by the SNB.
- The SNB would put newly created money into circulation 'debt-free'. In other words, it would be distributed directly to the Confederation and cantons or citizens as a sort of 'gift'.
- The initiative's backers believe that centralising money creation at the SNB would result in a more stable financial system and would also increase central bank payouts to the state and citizens due to higher profit from the note-issuing privilege ('seigniorage').

Why the SNB opposes the Swiss sovereign money initiative (*Vollgeldinitiative*)

Advantages of the existing monetary system

- Switzerland's current monetary system works well. The financial system has a proven track record and there is no fundamental problem that needs fixing. Switzerland has come through the financial crisis and relevant new regulations (capital requirements and other regulatory measures) have made its financial system more secure.
- Today's decentralised system is both customer-focused and efficient. Loans are transacted on a decentralised basis via the market. The market behaviour of borrowers/savers determines at which banks money is lent/created.

- Competition between banks ensures favourable interest rates and high-quality, modern and low-cost services for bank customers. Banks are incentivised to innovate and improve their services continuously (e.g. e-banking, TWINT).
- The SNB has the requisite instruments at its disposal to steer the interest rate level and hence the money supply, thereby fulfilling its mandate of ensuring price stability.

Disadvantages of the sovereign money system

- A radical overhaul of Switzerland's financial system is inadvisable. Given the lack of empirical data and reference values, a transition to a sovereign money system would entail significant uncertainty and risk.
- If banks can no longer finance lending through sight deposits, credit is likely to become tighter and more expensive. In Switzerland, bank loans are an important source of financing for companies (particularly SMEs) as well as households.
- Under a sovereign money system, competition for sight deposits would change fundamentally. This would result in a more costly, less efficient and less innovative financial system, which in turn would harm the economy – and especially bank customers.
- Abandoning the existing (decentralised, two-tier) system, in which commercial banks are able to respond to customer demand for liquidity, in favour of a system in which money creation is centralised at the SNB risks impairing efficiency.
- The proposed reform would complicate and politicise the implementation of monetary policy.
  - The 'debt-free' issuance of central bank money envisaged by the initiative's backers would expose the SNB to political ambitions. Calls for the SNB to finance projects and government spending would inevitably grow louder; this would jeopardise monetary policy independence and the fulfilment of the SNB's mandate.
  - Today, the SNB can steer demand for money and credit via interest rates. Interest rate targeting is practised by the major central banks and has proved its worth as a strategy. Abandoning the current system of interest rate targeting in favour of monetary targeting would be an unnecessary and regressive step.

Backers' unrealistic expectations

- A sovereign money system would not guarantee financial stability.
  - A sovereign money system could not prevent credit cycles and asset bubbles in real estate and financial investments; while lending may reinforce such asset bubbles, it does not cause them. Asset bubbles and credit cycles are primarily caused by exaggerated price expectations and a propensity to underestimate risks.

  - The principal causes of the recent financial crisis could not have been circumvented under a sovereign money system. Chief among these are: the belief that asset prices can go on rising indefinitely, complex financial instruments with opaque risk liability, the accumulation of excessive amounts of short-term debt via the money and interbank markets, and instability at investment banks with no deposit business.
  - In a sovereign money system, banks would no longer be able to use sight deposits to finance loans. They would thus attempt to switch to other, less stable sources of finance. Furthermore, less tightly regulated shadow banks could play a bigger role.
- A sovereign money system would not facilitate consistently higher SNB transfers to the state and citizens.
  - The SNB would have to take over the money creation tasks that the banks were no longer able to perform. However, it is difficult to estimate how much public demand there would be for sovereign money and therefore how much central bank money there would be.
  - Over time, the 'debt-free' issuance of money imagined by the initiative's backers would erode the SNB's balance sheet, as no assets would be acquired by the National Bank in order to put sovereign money into circulation. The SNB's profit would be lower than under the current system, where it makes a return on the assets it acquires.
  - At the same time, the SNB's equity would shrink continuously. In the long term, this could weaken confidence in the Swiss franc. The value of all Swiss franc-denominated savings would be under threat.
  - The net income that the banks derive from money creation under the current system is overestimated by the initiative's backers; it is used to finance services like account management. Removing the banks' ability to create new deposits through lending would make holding money more expensive for citizens, as they would have to pay for these banking services.

Conclusion

- The transition to a sovereign money system would have to take place in the absence of empirical data and would entail substantial risks. In short, growth and prosperity could be jeopardised for the sake of a radical experiment.
- A sovereign money system would be inferior to the current system. It would not only lead to a less efficient and more costly financial system but it would also complicate and politicise the implementation of monetary policy. This would be to the detriment of the real economy, bank customers and citizens.
- A sovereign money system would neither improve financial stability nor result in higher central bank transfers to the state and citizens – nor would it create greater prosperity.