



Embargo

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Annual loss for the SNB in 2022 – reasons, significance and consequences

115th Ordinary General Meeting of Shareholders of the Swiss National Bank

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Swiss National Bank

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Dear Shareholders

Ladies and gentlemen

Esteemed Guests

As you looked through the agenda included with your invitation to today's General Meeting, you probably noticed that the customary item 'Profit appropriation – payment of a dividend' is missing. This is because the SNB posted a net loss for the 2022 financial year, and the National Bank Act thus precludes the payment of a dividend to shareholders.

I deeply regret that we are unable to pay a dividend, particularly in view of our great appreciation for your loyalty to our institution, often stretching back many years, and for your interest in the work of the SNB, as proven not least by your participation in our General Meeting. For all of this, I would like to extend my heartfelt thanks.

The Confederation and cantons must also do without a profit distribution for the 2022 financial year. As a former member of Graubünden's cantonal government, I am only too aware that the lack of such a distribution will hit public finances hard. At the same time, the Confederation and cantons had enjoyed significantly increased distributions thanks to high profits in recent years, and had no doubt almost become accustomed to it.

In my remarks today, I will briefly discuss the reasons for the loss, before explaining the significance of equity to the SNB and addressing the central role played by the provisions for currency reserves. In closing I will take a cautious look ahead to the potential for future distributions.

Financial market turnaround leads to high loss

Ladies and gentlemen, 2022 saw a turnaround on the financial markets. Interest rates in the major economies had previously been declining for years, and this had essentially been mirrored by the rise in stock exchange prices. It was a period in which both equities and bonds posted gains. With the unexpectedly sharp rise in inflation, however, the situation changed suddenly and significantly. The interest rate increases necessary to fight inflation around the world led to a correction in the equity markets as well as to a decrease in bond prices. In addition, the war in Ukraine, the strict anti-COVID measures in China, fears of a recession, and looming energy shortages all created turbulence on the financial markets. The price of gold was unable to really benefit from these uncertainties and rose only slightly. Naturally, the declining prices in the financial markets and the appreciation of the Swiss franc took their toll on the SNB's income statement.

As regards our currency reserves, there were considerable price losses in both our bond portfolio and our share holdings. Added to this were foreign exchange losses. And ultimately, there was only a small profit on gold holdings, with the result that the SNB suffered a loss of CHF 132.5 billion.

This loss is also a consequence of the size of our balance sheet. As a result of the SNB's monetary policy, our balance sheet had been growing for years through to the end of 2021. With a balance sheet of some CHF 1,000 billion, even slight fluctuations in the financial markets can mean significant gains – as in the years prior to 2022 – but also significant losses. And accordingly, greater financial market fluctuations lead to very large gains or, unfortunately, to very large losses.

Unlike with private sector companies, however, the SNB's annual result is no indicator of how well it is performing. The SNB has a clearly defined statutory mandate. It pursues a monetary policy serving the interests of the country as a whole. It ensures price stability, while taking due account of economic developments. Neither generating a profit nor enabling a distribution is listed among its statutory tasks. And although we act in the interests of the country as a whole, there can be cases where necessary monetary policy decisions result in a loss being made. For the SNB, fulfilling its monetary policy mandate always takes precedence.

Importance of equity and central role of provisions

Ladies and gentlemen

High losses naturally reduce equity and can, in extreme cases, erode it altogether. While the SNB's equity shrank significantly last year, it remained positive. Many people might be wondering what would happen if a further high loss were to exhaust the equity completely. In this respect, I can reassure you: Even if its equity were to be temporarily negative, the SNB would still be entirely able to fulfil its monetary policy mandate. Nevertheless, a protracted period of negative equity would not be desirable even for a central bank, since such a situation could eventually jeopardise its credibility. For this reason, it is of paramount importance that the SNB maintain a sufficient equity buffer.

The provisions for currency reserves are the most important component of equity. Our balance sheet has expanded in recent years as a result of our monetary policy. In light of this growth – which was not accompanied by a corresponding increase in equity – and in view of the associated risks, the SNB has been bolstering its provisions since 2009. The extent of this strengthening is based on double the GDP growth rate. In 2016, this formula was supplemented by the introduction of a minimum annual allocation of 8% of the existing provisions, raised to 10% in 2020.

With the aim of further strengthening equity, and in accordance with regulations, the provisions for currency reserves were increased by 10% for the 2022 financial year as well.

These allocations are thus made regardless of whether a profit or a loss has occurred. The amount of the allocation to the provisions is determined by the desired increase in equity, which depends in turn on the size of the balance sheet and the associated risks. The bigger the balance sheet and the higher the currency reserves, the greater the risks as well. Equity is

meant to absorb these risks. The equity ratio is currently less than 8%, which means that the present equity is clearly too small, and must therefore be increased further.

The provisions reflect the level of equity desired at that particular time. Profit distributions cannot be made again until the actual equity exceeds the desired level. The soundness of the balance sheet clearly takes precedence over the distributions.

Looking ahead: limited potential for distributions

Ladies and gentlemen

Allow me to outline the profit distribution mechanisms before taking a cautious look to the future.

As I have already explained, the SNB builds up its equity by making annual allocations to the provisions for currency reserves.

What remains after the allocation to the provisions has been made is the distributable annual result. Since that result is subject to strong fluctuation, the Federal Department of Finance and the SNB have signed an agreement aimed at smoothing the distribution of profits in the medium term. The ‘Distribution reserve’ item was created in the balance sheet for this purpose. This reserve acts as a buffer, as it were, for the smoothing of distributions. In order for the reserve to fulfil its function, large distributions are not permissible even when it is temporarily high. Together, the distribution reserve and the distributable annual result constitute the net profit. In accordance with the profit distribution agreement currently in force, the amount of the net profit determines the annual distribution.

The SNB’s equity, in turn, is composed of the provisions for currency reserves and the distribution reserve, which became negative in the 2022 financial year due to the high annual loss. The actual amount of equity is thus currently significantly lower than the desired level.

We will have to retain future profits until our equity is back at the desired level. Only then, and only once the distribution reserve is correspondingly positive, will our shareholders, first, receive a dividend. If the remaining net profit reaches the threshold defined in the profit distribution agreement, the Confederation and cantons, too, will once again share in the profits generated by the SNB. If, on the other hand, the net profit turns out to be insufficient, or if no net profit at all is posted, then the National Bank Act precludes payment of either a dividend to the shareholders or a distribution to the Confederation and the cantons.

The performance of the gold, foreign exchange and capital markets will continue to play a central role in the development of profits over the coming years. Strongly fluctuating annual results and limited potential for distributions can therefore be expected in future as well.

Closing remarks

Ladies and gentlemen

Let me summarise my remarks as follows.

The SNB's success in fulfilling its statutory mandate cannot be measured by the size of its profits. Since monetary policy always takes precedence, there may be instances where monetary policy decisions have to be made that are necessary in the interests of our country as a whole, but that result in an increase in balance sheet risks. For this reason, it is imperative that the SNB have sufficient equity to be able to absorb losses that may be incurred. Although the SNB would remain entirely capable of fulfilling its monetary policy mandate even if its equity were to be temporarily negative, a protracted period of negative equity could undermine the credibility of our institution over the long term and raise doubts regarding our ability to take action. I therefore find it important that the SNB continue to adhere to a prudent provisioning policy, with the focus on ensuring its capacity to act over the long term.

I would be remiss if I closed my speech without some words of thanks. To my fellow Bank Council members – thank you for all your hard work, for your constructive cooperation and collegial attitude. Thanks also to the Governing Board under its Chairman, Thomas Jordan, for the cordial and positive collaboration. In an extremely difficult environment, the Governing Board has been able to fulfil its monetary policy mandate and to keep inflation in Switzerland very low by international comparison. This has preserved our country, our economy, indeed all of us from great harm. For this, too, the Governing Board has earned our appreciation and our gratitude.

My thanks go as well to the SNB's employees for their unrelenting commitment to our institution. And finally, I thank all of you, our shareholders, for your loyalty and for your trust.

Thank you for your attention.