Preface

Ladies and Gentlemen

Both the Swiss economy and the Swiss National Bank (SNB) faced considerable challenges in 2015. The global economy continued to recover, however worldwide economic growth did not strengthen in the way many had hoped. Moreover, the Swiss franc appreciated sharply following the discontinuation of the minimum exchange rate in mid-January. Against this backdrop, economic growth in Switzerland slowed and unemployment increased slightly until year-end. Thanks in part to the flexibility of its employers and workforce, Switzerland did not enter recession, however.

Switzerland's annual inflation rate, as measured by the Swiss consumer price index, was negative in 2015 and thus below the range which the SNB equates with price stability. This was principally due to Swiss franc appreciation and the substantial fall in oil prices. Internationally, too, inflation rates were low. The SNB cannot offset such temporary factors. A forward-looking monetary policy must concentrate on steering inflation back to within the range of price stability in the medium term.

From September 2011, monetary policy had been geared to enforcing the minimum exchange rate of CHF 1.20 per euro. Towards the end of 2014, market participants were preparing for a tightening of monetary policy in the US, while further easing was anticipated in the euro area. The euro lost ground against the US dollar and this, in turn, led the Swiss franc to weaken against the US dollar as well. By contrast, the franc strengthened against the euro and remained close to the minimum exchange rate.

In January 2015, the SNB had to intervene in the foreign exchange market on an increasingly large scale in order to enforce the minimum exchange rate against the euro. Given the growing divergence of monetary policy stances on both sides of the Atlantic, the Governing Board concluded, after intensive discussion, that the discontinuation of the minimum exchange rate was unavoidable. The SNB could only have enforced the rate through ongoing foreign currency purchases of rapidly increasing magnitude – in an environment where there was no prospect of long-term stabilisation. The risks associated with maintaining the minimum exchange rate would have compromised the SNB's ability to conduct monetary policy in the long term. Continuing to uphold the minimum exchange rate was thus no longer justifiable.

The SNB discontinued the minimum exchange rate on 15 January, stating that it would continue to take account of the exchange rate situation in formulating its monetary policy in future, and would, if necessary, remain active in the foreign exchange market. Concurrently with the discontinuation of the minimum exchange rate, the SNB announced that it was lowering the interest rate on sight deposits held by banks and other financial market participants at the SNB, to –0.75%. Both of these measures – the interest rate cut and the SNB's willingness to intervene in the foreign exchange market – are reducing the attractiveness of the Swiss franc and cushioning the effects of the discontinuation. Indeed, the Swiss franc, which initially appreciated sharply following the decision on 15 January, has since weakened again appreciably.

The minimum exchange rate was only ever intended to be an exceptional and temporary measure. It was introduced in September 2011 at a time of extreme uncertainty when the Swiss franc's safe-haven status had caused it to appreciate rapidly and sharply against virtually all currencies. In the almost three and a half years until its discontinuation in January 2015, the situation changed considerably. Investor confidence in the US dollar was restored, while the euro weakened against all major currencies. In contrast to 2011, the environment at the beginning of 2015 was no longer characterised by Swiss franc strength, but by euro weakness.

The appreciation of the Swiss franc left its mark on the SNB's 2015 annual financial statements, which closed with a loss of CHF 23.3 billion, compared to a profit of CHF 38.3 billion the previous year. This negative result was principally attributable to losses of CHF 19.9 billion on foreign currency positions and CHF 4.2 billion on gold holdings.

The allocation to the provisions for currency reserves amounts to CHF 1.4 billion. Taken together, the annual loss and allocation to provisions totalling CHF 24.6 billion are less than the distribution reserve, which amounts to CHF 27.5 billion. Thus, despite the annual loss, the resulting net profit will, according to the profit distribution agreement between the Federal Department of Finance and the SNB, allow a dividend payment to shareholders of CHF 15 per share as well as the ordinary profit distribution of CHF 1 billion to the Confederation and the cantons. The distribution reserve after appropriation of profit is therefore CHF 1.9 billion.

The first part of this *108th Annual Report* comprises the SNB's accountability report to the Federal Assembly, and provides information about how the SNB has fulfilled its mandate – in particular its conduct of monetary policy and contribution to the stability of the financial system.

The second part of the *Annual Report* comprises the financial report, which is submitted for approval, first to the Federal Council and then to the General Meeting of Shareholders. The financial report provides information on organisational and operational developments as well as the financial result of the SNB. It includes the business report and the annual financial statements of the SNB, which contain the balance sheet, income statement and profit distribution, changes in equity and notes.

Last year will go down in the annals as a particularly challenging period for the SNB and the Swiss economy. The SNB had to make difficult decisions with painful repercussions in the short term. However, we are convinced that we have acted in the long-term interests of our country and our economy. We would like to thank our employees for their ongoing commitment and valuable support in these endeavours.

Berne and Zurich, 4 March 2016

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