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How the SNB's implementation of monetary policy has changed with the level of the policy rate

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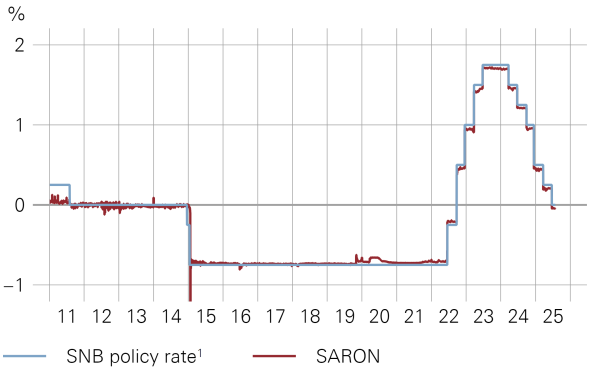
This note describes how the Swiss National Bank has adapted its monetary policy implementation in the money market since 2015, across periods of negative, positive and zero policy rates. All three periods have been characterised by an environment with abundant sight deposits, i.e. banks have held considerably more sight deposits at the SNB than they need to settle payments or meet reserve requirements. In this context, remunerating sight deposits at the SNB policy rate has enabled the effective steering of money market interest rates, while applying different rates of interest to different portions of sight deposits – known as tiered remuneration – has supported money market activity.

To ensure price stability, the Swiss National Bank maintains appropriate monetary conditions, which are determined by the interest rate level and the exchange rate. The SNB implements its interest rate policy in the money market, where financial market participants lend and borrow sight deposits held at the SNB (also called 'reserves') among each other on a short-term basis. More precisely, the SNB seeks to keep the short-term secured Swiss franc money market rates close to the SNB policy rate (cf. chart 1). The most important of these is SARON (Swiss Average Rate Overnight). In this way, the SNB ensures the transmission of the policy rate to broader interest rates, including long-term rates (cf. Martin and Moser, 2024).

When implementing monetary policy, the SNB takes into account the benefits of supporting an active interbank money market – an important source of liquidity for financial market institutions (cf. chart 2). Such trading activity also ensures a reliable basis for calculating SARON, which serves as a reference rate for various financial products such as mortgages, bonds and interest rate swaps, and is calculated on the basis of actual transactions and quotes in the interbank market.

In this background note, we describe how the SNB has ensured the effective steering of SARON while supporting an active interbank market for different levels of the SNB policy rate – negative, positive and zero.

CHART 1: SNB POLICY RATE AND SARON

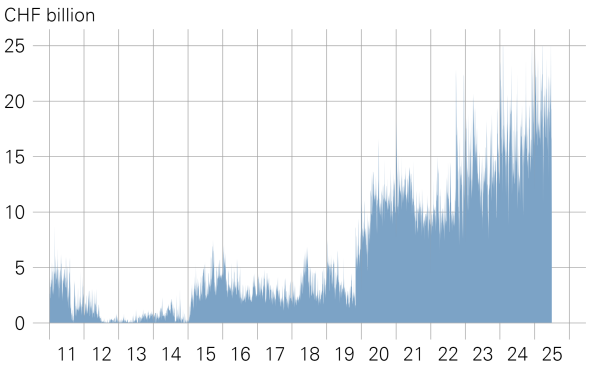


1 Before the introduction of the SNB policy rate on 13 June 2019, the blue line shows the SNB's aim within its 3M CHF Libor target range.

Source(s): Bloomberg, SNB

CHART 2: MONEY MARKET ACTIVITY

Swiss franc overnight repo market, trade volume



Note: Transactions against the SNB General Collateral basket, excluding SNB trades.

Source(s): SIX, SNB

Money market rates and activity in an environment with abundant sight deposits

Following the global financial crisis of 2007–2008, the balance sheets of central banks around the world expanded significantly as they fought disinflationary pressures. So, too, did the SNB's balance sheet, in its case because of foreign exchange interventions. As chart 3 shows, this resulted in a substantial increase in sight deposits held at the SNB by banks and other financial market participants (referred to below simply as 'banks'). Since then, the banking system has been characterised by abundant sight deposits, i.e. banks have held considerably more sight deposits than they need to settle payments or meet reserve requirements.

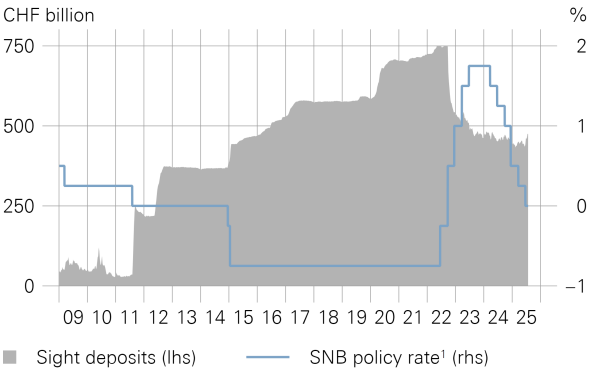
In an environment with abundant sight deposits, the key determinant for the level of money market rates is the interest rate that banks receive on their sight deposits at the central bank. Because banks have abundant sight deposits, they will not borrow at a rate above the interest rate on sight deposits. Doing so would unnecessarily increase their interest costs. Banks also generally have no incentive to lend at a rate below the interest rate on sight deposits. Doing so would earn them a lower rate than simply keeping their deposits with the central bank. These two forces keep the short-term rates at which banks are willing to borrow or lend among each other close to the interest rate on sight deposits at the central bank.

Chart 4 shows this outcome in a stylised representation based on the money market model developed by Poole (1968).[1] Because banks' demand for deposits increases with a lower money market rate, the demand curve for sight deposits slopes downward. The demand curve eventually becomes flat as the market rate approaches the central bank deposit rate, indicating

[1] Cf. Böser, Martin and Stadelmann (2025) for a Poole-based perspective on implementation by major central banks.

the level where sight deposits start to become abundant. From this level onwards, banks are not willing to borrow additional deposits at a rate above the deposit rate (blue area). Sight deposits are supplied by the central bank, with the quantity depending on monetary policy needs. When the supply is such that sight deposits are abundant, the equilibrium money market rate – the interest rate at which the demand for sight deposits equals the supply – is close to the central bank deposit rate.

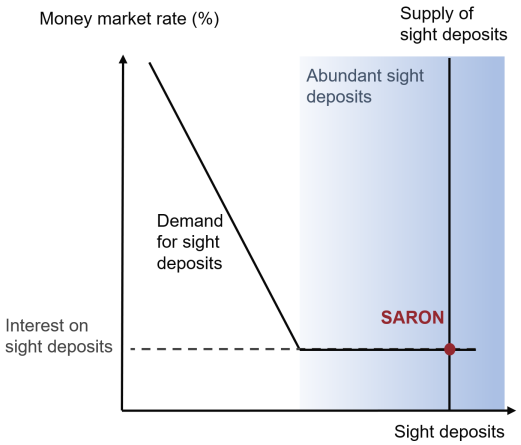
CHART 3: THE GROWTH OF SIGHT DEPOSITS



1 Before the introduction of the SNB policy rate on 13 June 2019, the blue line shows the SNB's aim within its 3M CHF Libor target range.

Source(s): SNB

CHART 4: RATE STEERING WITH ABUNDANT SIGHT DEPOSITS



In an environment with abundant sight deposits, the central bank can therefore keep money market rates close to its target by setting the interest rate on sight deposits equal to the target rate. However, when sight deposits are abundant, banks have little incentive to trade sight deposits with each other, and trading activity declines. This was the situation in Switzerland after 2011, when the SNB had increased the supply of sight deposits sharply. Money market rates fell to around 0% – consistent with the SNB's target at the time – while interbank money market activity declined (cf. chart 2).

Chart 2 also shows that trading volumes picked up considerably from 2015 onwards. This increase resulted when the SNB started to apply two different interest rates on sight deposits, thus creating incentives for trading activity also in an environment with abundant sight deposits. Under this system, which is known as tiered remuneration, each bank is granted a specific threshold.[2] The sight deposits a bank holds below that threshold are remunerated at an upper rate, and those above that threshold at a lower rate.

In this situation two groups of banks emerge: borrowers, which hold sight deposits below their threshold, and lenders, which hold sight deposits that are larger than their threshold. Both groups can improve their interest income by trading sight deposits with each other at a market

2 Currently, the threshold for a domestic bank is equal to the 36-month average of its reserve requirements multiplied by a threshold factor. All other sight deposit account holders have a fixed threshold (cf. the instruction sheet governing interest on sight deposits). This calculation method has largely been unchanged since 2019 with one exception: With a negative policy rate, banks' cash holdings were deducted in the calculation of thresholds to ensure that banks had no incentive to hold cash instead of sight deposits subject to negative interest.

rate between the upper and lower rate. The borrowers place the borrowed funds in their sight deposit account at the SNB and earn the difference between the upper rate and the market rate. The lenders receive the market rate rather than the lower rate on deposits and thus earn the difference between these two rates. In Switzerland, a large part of this redistribution of sight deposits takes place in the secured money market, contributing to the calculation basis for SARON.[3]

These two elements – steering interest rates by remunerating sight deposits at the SNB policy rate and supporting money market activity by applying tiered remuneration – have been key features of the SNB's implementation framework since 2015.

Implementation with a negative policy rate (2015–2022): Zero interest up to the exemption threshold and negative policy rate above it

In 2015, the SNB eased its monetary policy further and lowered the target for money market rates to −0.75%. Keeping money market rates close to the target required charging negative interest on sight deposits at a rate of −0.75%. However, it was sufficient that the SNB applied negative interest (the lower rate) only to deposits that exceeded a bank-specific 'exemption threshold'. Sight deposits below that threshold were remunerated at 0% (the upper rate). In doing so, the SNB limited the burden of negative interest on the banking system (cf. Maechler and Moser, 2020).

The left-hand side of chart 5 illustrates how the implementation with a negative policy rate worked in an environment with abundant sight deposits and tiered remuneration. Between the upper rate (0%) and the lower rate (the negative interest rate), there is a downward-sloping demand curve, situated approximately at the level of total exemption thresholds.[4] Keeping SARON close to the negative policy rate required there to be sufficient sight deposits subject to negative interest, i.e. the supply curve had to be sufficiently to the right of the level of exemption thresholds. In this case, if SARON rose by more than a few basis points above the policy rate, banks that held sight deposits above their exemption threshold would lend those deposits in the market to earn the difference between the market rate and the lower rate, thus pushing SARON back down towards −0.75%.[5]

With regard to money market activity, the introduction of tiered remuneration with two interest rates on sight deposits led to activity picking up again. This revival of trading was welcomed, as it improved the calculation basis for SARON, which would replace the

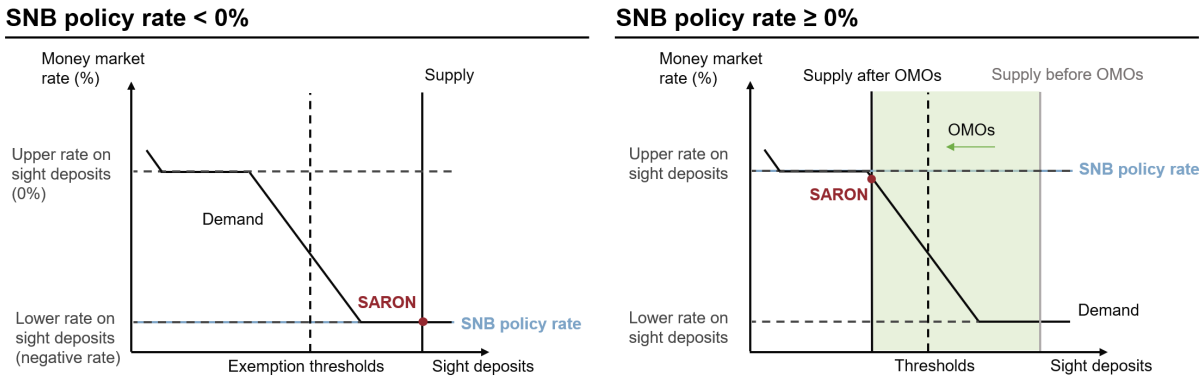
[3] The trades that result from tiered remuneration take place within a range of a few basis points above the lower rate and a few basis points below the upper rate. This is because counterparties need a minimum interest rate margin, for example to cover their transaction costs.

[4] When deciding on how much sight deposits to hold, banks balance the possibility of holding sight deposits above the threshold (incurring an opportunity cost of not lending to the market to earn the spread between the market rate and the lower rate) against the possibility of holding sight deposits below the threshold (incurring an opportunity cost of not borrowing to earn the spread between the upper rate and the market rate). As the market rate decreases, the opportunity cost of holding sight deposits above the threshold falls and the opportunity cost of holding sight deposits below the threshold rises. This leads to an increase in banks' demand for sight deposits. Cf. Fuhrer et al. (2021) on an empirical and theoretical investigation of implementation with tiered remuneration.

[5] In certain situations, for example during the COVID-19 pandemic, when the volume of sight deposits subject to negative interest was not sufficient, the SNB either temporarily increased the amount of sight deposits through repo operations or lowered the exemption thresholds.

CHF Libor as the main reference rate for the Swiss economy by the end of 2021 (cf. Maechler and Moser, 2022a).

CHART 5: INTEREST RATE STEERING WITH ABUNDANT SIGHT DEPOSITS AND TIERED REMUNERATION



Implementation with a positive policy rate (2022–2025): Positive policy rate up to the threshold and lower rate above it

In 2022, the SNB policy rate returned to a positive level. In an environment with a positive policy rate and abundant sight deposits, the SNB continues to ensure effective interest rate steering by remunerating sight deposits at the policy rate. Moreover, to maintain sufficient trading activity in the money market, the SNB continues to apply tiered remuneration: Sight deposits below a bank's threshold are remunerated at the policy rate (the upper rate), while those above are remunerated at the policy rate minus a discount (the lower rate).

Having originally been introduced to limit the burden of negative interest on the banking system, the sole objective of tiered remuneration in a positive policy rate environment is to support money market activity. Unlike the setup used when the policy rate was negative, it is now the upper rate that is equal to the policy rate. Continuing with the lower rate being equal to the policy rate would technically have been possible, but the cost of monetary policy implementation would have been higher.

The right-hand side of chart 5 illustrates how tiered remuneration works in an environment with abundant sight deposits and a positive policy rate. Keeping SARON close to the policy rate, and hence to the upper rate, requires sight deposits to be sufficiently scarce relative to the thresholds, i.e. the supply curve to be sufficiently to the left of the level of the thresholds. As a result, SARON is close to, but a few basis points below, the policy rate. This small deviation reflects the minimum interest margin required by borrowers, for example to cover their transaction costs. If sight deposits were not sufficiently scarce relative to thresholds, the amount of sight deposits above thresholds lent into the market would be too high, pushing SARON towards the lower rate.

The SNB ensures that sight deposits are sufficiently scarce relative to the thresholds by absorbing sight deposits from the banking system through repos and the issuance of

SNB Bills. These operations – known as open market operations (OMOs) – give banks that hold sight deposits above their threshold the opportunity to lend those to the SNB. As the green area in chart 5 shows, the size of these operations is mainly driven by the level of the thresholds. The lower the latter are, the more sight deposits the SNB needs to absorb to keep SARON close to the policy rate.[6]

Implementation with a zero policy rate (2025): Zero policy rate up to the threshold and lower rate above it

In June 2025, the SNB lowered the SNB policy rate to 0%. The main aspects of the implementation have remained unchanged compared to the positive policy rate regime (cf. chart 5, right-hand side). Sight deposits below the threshold are subject to interest at the policy rate of 0%, while those above the threshold are remunerated at a lower rate equal to −0.25%.[7] Only a very small portion (approximately CHF 15 billion or 3%) of sight deposits are remunerated at the lower rate – numbers that are unchanged from when the policy rate was above 0%.[8] The SNB also continues to absorb sight deposits above the thresholds through open market operations. As a result, SARON continues to be close to, and slightly below, the SNB policy rate, at around −0.05%.

Slightly negative money market rates when the policy rate is 0% are not unusual. Between 2011 and 2014, when the SNB's aim for the 3M CHF Libor was also 0%, some money market rates, including SARON, were also slightly negative (cf. chart 1). There was no tiered remuneration at that time and money market activity was very low (cf. chart 2). Thus, this historical episode suggests that market activity would be considerably lower today if the SNB did not apply tiered remuneration.

Conclusion

In an environment with abundant sight deposits, the SNB ensures effective steering of short-term secured money market rates by remunerating sight deposits at the SNB policy rate. By applying tiered remuneration, the SNB supports an active money market, thus preserving a robust calculation basis for SARON. The SNB regularly reviews its monetary policy implementation in the money market and makes adjustments as necessary.

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[6] Cf. Moser (2023) on the interplay between the size of thresholds and the size of the SNB's OMOs. For the effective steering of SARON, OMOs are priced close to, but slightly below, the SNB policy rate, taking into account the minimum margin needed by borrowers to participate in interbank market activity. This means almost all SNB liabilities to banks are remunerated at a rate close to the policy rate. One exception is the sight deposits that banks hold to meet their reserve requirements. Those are not remunerated, reducing the interest payments of the SNB.

[7] A minor adaptation with a zero policy rate is that the SNB grants every sight deposit account holder a minimum threshold of CHF 10 million (for a domestic bank, the threshold is also at least equal to its last minimum reserve requirement). With a policy rate above 0%, the thresholds for non-domestic banks and non-banks are in principle set at CHF 0.

[8] Some banks do not place their sight deposits above thresholds in the SNB's OMOs or in the interbank money market, for example because they do not participate on the SIX repo platform where the SNB conducts its OMOs and repo trading in Swiss francs takes place.

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