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Equity comes before distributions, and why a sovereign wealth fund is not a good idea

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Barbara Janom Steiner

President of the Bank Council

Swiss National Bank

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Dear Shareholders
Ladies and gentlemen
Esteemed guests

Stunned by a new era of uncertainty and helplessness – a time of global trade war that has caused the world's stock markets to slide into the deep red – it is easier to start by looking back on a good year. I am therefore delighted that the SNB is once again able to pay a dividend. Unfortunately, this was not possible in the past two years due to net losses, so I am all the more grateful to every shareholder who has nevertheless remained loyal to the SNB. The Confederation and the cantons will also receive a profit distribution this year. As the former Director of Finance of the Canton of Graubünden, I am aware of how welcome the SNB's distribution is to public finances.

Let me start by outlining what led to this year's net profit, and how the distributions are made. Then I would like to take a very circumspect look into the future with regard to future distributions. Finally, I will consider the recurring idea of a sovereign wealth fund and explain why the SNB rejects such proposals.

Annual result

Ladies and gentlemen, the SNB reported a profit of around CHF 81 billion for the 2024 financial year. This was the result of several developments, with price gains for gold, equities and bonds. The Swiss franc depreciated, which led to currency gains on the foreign exchange reserves. Interest and dividend income also contributed to the profit. Once the interest costs associated with implementing monetary policy had been deducted, the annual result was thus clearly positive overall.

Based on this annual result, as a first step, the SNB allocated the minimum amount to the provisions. Whether the SNB can pay a dividend and make distributions depends on the net profit. This last is a function of the distributable annual result together with the distribution reserve, which corresponds to the profit or loss brought forward. If a net profit is achieved, the SNB pays a dividend. The net profit then remaining is available for a distribution to the Confederation and the cantons.

Despite the high loss carried forward from the previous year, a net profit of around CHF 16 billion was recorded for 2024, which allows the SNB both to pay a dividend and to distribute profits to the Confederation and the cantons.

The SNB's financial situation

The SNB was unable to make distributions in the two previous years not because of a lack of goodwill, but rather due to its financial situation. The losses in 2022 and 2023 had significantly diminished the SNB's equity capital. However, due to last year's substantial annual profit, the SNB was able to increase its equity capital to around CHF 140 billion.

That's a lot of money. But is equity capital of CHF 140 billion enough, with a balance sheet total of CHF 850 billion?

As you know, each company's equity capital must reflect the risks on its balance sheet. The same applies to the SNB. Its capital must be proportional to the risks on its balance sheet. It should be noted that the risks can change over time. Proposals by external experts on how much equity capital the SNB should hold ought therefore be weighed carefully, especially if they argue that much more should be distributed and less capital should be accrued. This requires more than simply opinions; it calls for well-founded analyses. The SNB's balance sheet risks are high and probably much higher since the beginning of this year.

They arise from fluctuations on the foreign exchange, capital and gold markets. At CHF 850 billion, the SNB's balance sheet remains large. The larger the balance sheet and the higher the share of foreign currencies, the greater the fluctuations, and thus the potential losses.

An example of this is the loss in 2022, mentioned already. At that time, the loss on currency reserves amounted to CHF 131 billion, or around 13% of reserve assets. Although this was a considerable loss, such setbacks are not unexpected. It was attributable above all to the development of share prices and interest rates. Especially given the geopolitical situation, such losses could occur again in the coming years; there could even be losses over several years. If so, the equity capital would be quickly depleted and could also become negative. Negative equity capital should be avoided by all means, among other things because rebuilding may take some years.

Limited potential for distributions

Ladies and gentlemen, I am sure you are wondering whether there will also be profit distributions in the coming years. First, it is important to bear in mind that the SNB's long-term potential profits are limited: Future profits depend mainly on share prices, the gold price and exchange rates. How these will develop is difficult to predict. Since the US tariff announcements, they have become much more unpredictable. Moreover, the SNB cannot hedge currency risks because doing so would run counter to monetary policy. In recent years, the Swiss franc has mostly appreciated, resulting in currency losses. This contrasts with the returns on our foreign exchange reserves. However, 75% of the reserves are made up of bonds, most of which are government bonds. The SNB can expect only a modest yield on these investments. Finally, the SNB incurs interest costs when it implements its monetary policy.

It is pleasing, however, that the distribution reserve could be replenished thanks to the high profit in 2024. It now stands at around CHF 13 billion. The burden of the two previous poor years has thus been removed, which has improved the situation for the future.

However, 2022 taught us that very large losses can occur quickly. And if they do, the distribution reserve could also dip into negative territory again. There is therefore no guarantee for the SNB's annual profit distributions.

In most years, the SNB was nevertheless able to distribute profits to the Confederation and the cantons. Indeed, the current agreement with the Federal Department of Finance provides for the highest distributions to date – up to CHF 6 billion. Since 2020 – in other words, over the last five years – the SNB has distributed CHF 15 billion to the Confederation and the cantons, more than in the previous six years. The Confederation and the cantons have thus been pleasantly surprised by high distributions in recent years. In view of balance sheet risks and limited potential earnings, distributions cannot be taken for granted. It is the responsibility of the Confederation and the cantons to take this into account in their budget planning and to smooth the high level of distributions made in individual years over time.

At this point, I would like to draw your attention once again to the SNB's statutory mandate, which is to ensure price stability in Switzerland while taking due account of economic developments. Generating a profit is not among the SNB's statutory tasks. Ensuring price stability is the most important contribution the SNB can make to society and the economy. With its monetary policy, the SNB creates favourable conditions that benefit everyone: the population, companies and, last but not least, the Confederation and the cantons. The SNB's success in maintaining price stability in our country for many years, even in very challenging times, deserves great respect.

A sovereign wealth fund – not a good idea

Over the years, the SNB's foreign exchange reserves have repeatedly inspired ideas about setting up a sovereign wealth fund to manage them, ideas often based on the sovereign wealth funds of other countries. Well, these sovereign wealth funds are not ideal models for Switzerland, as they are financed almost exclusively through commodity receipts or fiscal surpluses. Foreign exchange reserves, on the other hand, do not represent real savings. Rather, they are a result of monetary policy.

If required by monetary policy, it must be possible to reduce these foreign exchange reserves. To this end, the SNB requires full access to them. This is the only way it can implement its monetary policy and achieve its mandate of price stability. The Constitution stipulates that the SNB conduct an independent monetary policy. This means that it is free to determine the level of its foreign exchange reserves, and how they are used. Expropriating the foreign exchange reserves would in itself constitute an interference in the SNB's independence.

The foreign exchange reserves on the SNB's balance sheet are offset by corresponding liabilities. A transfer of foreign exchange reserves to a sovereign wealth fund would thus only be possible if it were fully financed. In other words, the sovereign wealth fund – or the Confederation, if the fund were domiciled with it – would therefore have to buy the foreign currency from the SNB. To finance this transfer, the Confederation would need to take on significant debt. At the same time, it would have to be prepared to bear high financial risk, as the SNB does today. It, too, would not be able to hedge currency risks without influencing monetary policy. Furthermore, the danger of a sovereign wealth fund being 'politicised' would be considerable, which is not a good starting point.

Proponents of a sovereign wealth fund hope that the transfer of foreign exchange reserves would generate a higher return. The SNB already manages its foreign exchange in a very professional manner and is regarded as a leading central bank in asset management. Its portfolio is diversified over different currencies and investment categories, it invests substantially in foreign equities and corporate bonds, and, at 25%, its equity share is higher than that of many other central banks.

A sovereign wealth fund would have to adopt an investment approach similar to that of the SNB and could only achieve higher returns by assuming greater risk. However, greater risk also means that profit fluctuations would be greater than they have been at the SNB. By far the biggest risk with foreign currency investments is exchange rate risk. Like the SNB, a sovereign wealth fund could not hedge this risk without affecting monetary policy.

In summary, it has to be said that a sovereign wealth fund would complicate the conduct of monetary policy without bringing any benefits. The SNB therefore has good reason to oppose the creation of a sovereign wealth fund using its foreign exchange reserves.

Closing remarks

Ladies and gentlemen, let me conclude with my key points. This year's profit distribution is very good news. Nevertheless, in view of the SNB's balance sheet risks, annual distributions are not to be taken for granted. The scope for making distributions is limited because the SNB's earnings potential is limited. It is also clear that equity capital takes priority over distributions. The SNB must further strengthen its equity capital to be capable of cushioning the high risks to its balance sheet. In view of the limited potential for distributions, therefore, the Confederation and the cantons should budget cautiously. However, by seeking to keep prices stable, the SNB will continue to create favourable conditions that benefit everyone, not least the Confederation and the cantons.

What is also clear is that a sovereign wealth fund for foreign exchange reserves is not a good idea. Such a fund would complicate monetary policy, and the hoped-for higher returns would be associated with higher risks for the state and thus also for us, as taxpayers.

I would be remiss if I closed my speech without thanking my fellow Bank Council members for their tremendous engagement and collegiality. Thanks also to the Governing Board under its Chairman, Martin Schlegel, for the cordial and positive collaboration.

And finally, my gratitude is due as well to the SNB's employees for their daily commitment to the institution. I also thank all of you, our shareholders, for your loyalty and your trust.

Thank you for your attention.