Our National Bank
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The Swiss National Bank is located right at the heart of Switzerland, with headquarters on Bundesplatz in Berne and on Bürkliplatz in Zurich. Safely fortified behind locks and gates, and yet in the midst of these vibrant cities and their buzzing populaces. These locations are symbolic of the central role the SNB plays in our everyday lives, whether we’re withdrawing money, shopping or getting a mortgage loan from a bank.

But what does the SNB do, exactly? Where does it print the money that we use practically every day? How does it ensure that this money retains its value? And how is the SNB structured? This brochure provides an inside look into one of Switzerland’s most important institutions.

Welcome to our National Bank.
Our SNB

Learn more about the Swiss National Bank at: www.our.snb.ch
All about our money

It may be just a piece of metal, a scrap of paper or a number on a screen, but money is also a lot more than this, as so much in our economy and everyday lives revolves around it.

Not only is money critically important for an economy, but it also plays a central role in each of our daily lives. Accommodation, food, telephony, riding the train – all these activities that we take for granted couldn’t happen without money. We all know that money is a means of payment. Yet money can also be saved, and thereby used as a store of value. It also serves as a measure of value and unit of account. For money to perform these functions, two criteria must essentially be met: it must be generally accepted, and people must trust that it will retain its value. In most countries, ensuring that these two criteria are fulfilled falls to the central bank. In Switzerland, the SNB is responsible for calibrating the amount of money in circulation to the economy’s needs.

Money is the physical cash in our wallets. But it also comprises book money (so called because payment is effected by ‘booking’ amounts from one account to another), for example the balances on our postal and salary accounts. Today, almost 90% of Swiss francs exist in the form of book money, a large proportion of which is created by the banks when they grant loans to companies and households. Book money is extremely practical when it comes to paying salaries and invoices or settling restaurant bills, for instance.

The SNB is the only institution in Switzerland that is authorised to manufacture and distribute Swiss banknotes – in other words, it holds the banknote monopoly. It was granted this right by the Confederation. Banknotes are printed by Orell Füssli Security Printing Ltd under contract to the SNB. The right of coinage, on the other hand, lies with the Confederation; coins are minted by the Federal Mint, Swissmint, and then put into circulation by the SNB.

There are currently two banknote series in circulation – the eighth and ninth. The first banknote of the new, ninth series – the 50-franc note – entered into circulation in April 2016, and further denominations are to follow until 2019. The eighth banknote series continues to be legal tender.
Paper money, which is more suitable for larger transactions than heavy coins, is first developed in China.

The Swiss franc is introduced as the national currency, supplanting the various currencies in circulation.

While the use of credit cards as well as online and mobile banking is increasingly widespread, cash remains an important means of payment.
The value of price stability

Stable prices are crucially important for an economy. Substantial price fluctuations over longer periods of time lead to considerable uncertainty among companies and households, as well as a redistribution of wealth and income.

The SNB regards prices as stable when the overall price level in Switzerland (as measured by the national consumer price index) increases by less than 2% per year, and there is no incidence of negative inflation. Inflation or deflation is said to occur only when the general level of prices rises or falls substantially over a sustained period of time.

While an economy can absorb short-term deviations from price stability, sizeable and sustained fluctuations – whether up or down – are extremely harmful. A substantial and unexpected rise in inflation leads to considerable uncertainty among companies and households, as well as a redistribution of wealth and income. As the value of money declines, consumers can afford less (i.e. their purchasing power is eroded) since wages and pensions are not always – or fully – adjusted for inflation, and then only with a time lag. Sustained deflation also has harmful consequences, since it has deleterious effects on economic performance.

Preventing inflation and deflation is the task of central banks. The SNB has a constitutional mandate to pursue a monetary policy that serves the interests of the country as a whole. This requirement is outlined in greater detail in the National Bank Act, which states that the National Bank shall ensure price stability, and in so doing, take due account of the development of the economy. In other words, the SNB has to make certain that prices remain stable, while seeing to it that the economy neither overheats nor cools excessively.

The SNB’s monetary policy strategy outlines how and with which instruments it achieves its objectives. It consists of three elements. First, on introducing this strategy, the SNB defined its mandate to ensure price stability in specific terms. Second, each quarter it prepares a conditional inflation forecast for the next three years, which it uses to assess whether inflation falls within the bounds of price stability or whether it is too high or low. Third, based on this assessment, the SNB makes its interest rate decision, namely whether to raise, lower or leave unchanged the target range for its reference interest rate.
Taking out a loan becomes less attractive for households and companies, which in turn reduces demand. Accordingly, companies adjust their production to the lower demand, and economy activity is dampened. Because demand is lower, the supply of goods is comparatively greater. If demand is lower than supply, it becomes virtually impossible to raise prices. Price stability is assured.

Monetary policy affects prices and the economy through various channels. What follows is a simplified illustration of a complex transmission mechanism. Let us assume that the inflation forecast predicts excessively high inflation.

The SNB increases the target range for the reference interest rate, thereby pushing up interest on short-term loans.

With time, this in turn raises long-term rates, e.g. for mortgage and corporate loans.

The Swiss franc becomes more attractive than other currencies, and appreciates. In other words, the same unit of currency can be purchased for fewer Swiss francs.
Implementation of monetary policy

The SNB can deploy various instruments to ensure price stability in our country. It uses these to implement its monetary policy – a complex task that is subject to many uncertainties.

The SNB implements its monetary policy by defining a target range for the reference interest rate. This is the three-month Libor for Swiss-franc investments, or Libor for short. The Libor is the interest rate at which banks in London lend money to one another. So rather than using its own key rate, the SNB sets its intended level for the Libor in the form of a target range.

The main instrument through which the SNB steers the Libor is the repo transaction. In such transactions, the SNB buys securities from a bank and credits the countervalue to the latter’s sight deposit account. Simultaneously, the parties enter into an agreement under which the bank commits to buying back the securities at a later date. The bank receives a short-term, Swiss-franc loan from the SNB for the term of the transaction, in return for which it pays interest, i.e. the repo rate. The SNB receives securities as collateral.

The SNB defines how much money it wishes to make available to the banks, at what price (repo rate) and for how long, thereby influencing interest rates within the economy. How exactly does this work? Let us assume the SNB’s inflation forecast points to a sharp rise in inflation. In order to counteract the threat of inflation, the SNB tightens its monetary policy. It announces that it is increasing the Libor target range and raises the interest rate at which it lends to banks, namely the repo rate. The banks consequently raise their own lending rates. Companies and households, in turn, take out fewer (now more expensive) loans, which reins in demand for goods and services. Companies cut back production. As they are no longer able to sell their products as well as previously, firms refrain from further price increases. The SNB thus achieves its objective in that the risk of inflation is warded off. Exactly the opposite occurs if economic activity slows.
Through liquidity-providing operations, the SNB supplies the banking system with more liquidity.

The SNB uses various liquidity-providing and liquidity-absorbing instruments to implement its monetary policy.

Through liquidity-absorbing operations, the SNB reduces the liquidity in the banking system.

Through its instruments, the SNB regulates liquidity in the banking system.
The SNB is an institution with many distinctive features. It is a joint-stock company with a public mandate. It is independent in the fulfilment of this mandate, while being administered with the cooperation and under the supervision of the Confederation.

In some respects, the SNB is a company like any other. However, certain features make it unique. The SNB holds the legally mandated banknote monopoly, and as such is the sole institution in Switzerland with the right to issue banknotes; as the country’s central bank, it alone manages the national supply of money. A further special feature is its legal form, which is that of a special-statute joint-stock company – its shares are traded on the stock exchange. However, its organisation, supervision and shareholder rights are governed by a special act, the National Bank Act.

The SNB’s supreme management and executive body is the Governing Board, comprising the Chairman, Vice Chairman and Member. The Governing Board alone is responsible for monetary policy.

The SNB’s supervisory body is the Bank Council. It monitors and controls the SNB’s business conduct and lays down the fundamental elements of its organisation.

It also has many other functions, for example it decides on banknote design. However, it has no say in the SNB’s monetary policy, which – as mentioned – is solely the responsibility of the Governing Board.

The SNB conducts its monetary policy as an independent central bank in the interests of Switzerland as a whole. It therefore may not accept instruction on monetary policy from any quarter – be it state, business, political.

This is not to say that the SNB can do as it pleases. First, its independence only extends to the fulfilment of its public mandate. Second, an accountability report detailing how the SNB has carried out its duties must regularly be presented to parliament and the public. The SNB also regularly meets with the Federal Council to discuss topical economic developments.
An accountability report detailing how the SNB has fulfilled its duties must regularly be presented to parliament and the public.

The SNB conducts its monetary policy as an independent central bank in the interests of Switzerland as a whole. This is its mandate. The body solely responsible for monetary policy is the Governing Board, comprising the Chairman, Vice Chairman and Member.

Monetary policy has a substantial influence on the Swiss economy, and the SNB is therefore continually faced with a broad range of demands.

This independence only extends to the fulfilment of the SNB’s mandate, which is laid down in the Federal Constitution and the National Bank Act.

The SNB takes these demands, and the discussions they provoke, seriously. Nonetheless, it formulates its monetary policy independently. This independence is critically important to the fulfilment of its mandate.

The SNB’s shareholders – mainly cantons and cantonal banks – have a say too, although they have fewer rights and powers than their counterparts in other joint-stock companies.

The Federal Council has a participatory role and oversight function...

The SNB is closely supervised:

... and the Bank Council oversees business conduct to ensure compliance with legislation.

An accountability report detailing how the SNB has fulfilled its duties must regularly be presented to parliament and the public.

The SNB is closely supervised:
Accountability report

Under the National Bank Act, the SNB is obliged to report to the Federal Assembly each year on the fulfilment of its statutory tasks. The accountability report describes the economic and monetary developments during the period under review and gives a detailed presentation of how the SNB fulfilled its tasks. The accountability report is part of the SNB’s Annual Report.

Bank Council

The Bank Council oversees and controls the conduct of business by the SNB, in particular as regards compliance with legislation, regulations and directives, but not regarding monetary policy decisions and monetary policy actions of the Governing Board. Of the eleven Bank Council members, five are elected by the General Meeting of SNB shareholders and six by the Federal Council, which also appoints the President and Vice President of the Bank Council. The Bank Council has a Compensation Committee, a Nomination Committee, an Audit Committee and a Risk Committee.

Book money

Book money is a balance held in a bank or post office account. It is also known as sight balances or money in account.

Central bank

A central bank is the monetary authority of a country. As a rule, it has the exclusive right to issue banknotes (note-issuing privilege) and conducts the country’s monetary policy. Switzerland’s central bank is the Swiss National Bank (SNB).

Consumer price index (CPI)

The national consumer price index (CPI), which is compiled by the Swiss Federal Statistical Office (FSO, www.bfs.admin.ch), measures the average development of prices for goods and services in demand by private households in Switzerland. The CPI is calculated every month based on a basket whose contents represent private household consumption to measure the inflation rate in Switzerland. The SNB uses the CPI as a basis for its definition of price stability.

Governing Board

The Governing Board is the supreme management and executive body of the SNB. It consists of three people: the Chairman, the Vice Chairman and one additional member. The Governing Board is, among other things, responsible for monetary policy, asset management strategy and international monetary cooperation. The Enlarged Governing Board is made up of the three Governing Board members and their deputies, and is responsible for the strategic guidelines for the SNB’s business operations. The members of the Governing Board and their deputies are appointed for a term of office of six years by the Federal Council on the basis of a proposal by the Bank Council. Re-election is possible.

Minimum reserves

In order to facilitate the smooth functioning of the money market, banks are required to hold a certain percentage of their Swiss franc short-term liabilities in minimum reserves. Valid minimum reserves comprise Swiss franc coins, banknotes and sight deposits held at the SNB.

Monetary conditions

Monetary conditions are shaped by interest rates and by the exchange rate. The SNB maintains price stability by ensuring that monetary conditions are appropriate for the Swiss economy.

Note-issuing privilege

The National Bank Act gives the SNB the exclusive right to issue Swiss banknotes. The SNB thus holds the banknote monopoly. The SNB issued its first banknotes on 20 June 1907, on the day it took up business (interim banknotes).

SNB inflation forecast

The inflation forecast is a forecast of movements in the inflation rate over the coming three years which the SNB releases once a quarter at its monetary policy assessment. It is conditional, because it is based on the assumption that the SNB will not change the key rate over the forecast horizon. The SNB bases its monetary policy decision on the inflation forecast and can thus react to signs of any divergence from price stability.

Target range

In carrying out its monetary policy strategy, the SNB sets a target range for the three-month Swiss franc Libor, which usually extends over one percentage point.