

Seven source texts on the monetary policy of the Swiss National Bank (SNB)

For those wishing to gain further insights into monetary policy after having read the knowledge sheet on this topic (contained in the monetary policy unit), Iconomix has selected seven source texts – studies, speeches and excerpts from SNB publications. The seven texts are briefly introduced and put into context below. This is followed by a list with the corresponding links and a short description.

Article 99 of the Federal Constitution entrusts the SNB, as an independent central bank, with the conduct of monetary policy in the interests of the country as a whole. The National Bank Act spells out this mandate in detail, stating that the SNB's role is to ensure price stability while taking due account of economic developments. The SNB's monetary policy strategy defines price stability and describes the communication of monetary policy decisions. More detailed information on this topic can be found in *The Swiss National Bank in Brief*^[1] and in the article *'The Swiss National Bank's monetary policy concept'*^[2].

In small open economies such as Switzerland, economic activity and the development of prices are materially affected by global events. The exchange rate also reflects the economic situation in Switzerland and abroad. A study in the *Quarterly Bulletin 1/2020*^[3] explains how the Swiss franc exchange rate is correlated with domestic and international interest rate levels.

The Swiss franc is seen as a safe haven currency and therefore appreciates during times of crisis. Before the global financial crisis of 2007/2008, the SNB was able to counteract the upward pressure on the Swiss franc by lowering interest rates, thus making Swiss franc investments less attractive. With the financial crisis, the global level of interest rates, which had already been on the decline in the previous decades, decreased further. The major central banks, including the SNB, thus resorted to unconventional monetary policy instruments. This unconventional monetary policy is explained in two speeches given by Thomas Jordan in 2016^[4] and in 2020^[5].

Besides the SNB's willingness to intervene in the foreign exchange market as necessary, its monetary policy between the beginning of 2015 and mid-2022 was based on the negative interest rate. This interest was charged on sight deposits held by banks at the SNB. The SNB granted the banks exemptions in order to minimise the costs of negative interest rates. An article in *Die Volkswirtschaft of 2020*^[6] explains the effects of the negative interest rate on the banking sector.

In the summer and autumn of 2022, the SNB increased its policy rate in two steps to 0.5%, thus ending the era of negative interest rates in Switzerland. At the same time, the SNB adjusted the implementation of its monetary policy to the positive interest rate environment. This ensured that the secured short-term money market rates remain close to the SNB policy rate. Details can be found in the *introductory remarks by Andréa M. Maechler*^[7] at the SNB news conference on 22 September 2022.

Source texts

1 The Swiss National Bank in Brief: chapters 1–3 (basic elements of the mandate, strategy and implementation)

These chapters from The Swiss National Bank in Brief provide an overview of the SNB's mandate and history, its monetary policy strategy and the instruments it uses to implement the monetary policy decisions.

www.snb.ch

2 Baltensperger, E., P. M. Hildebrand and T. J. Jordan (2007). The Swiss National Bank's monetary policy concept – an example of a 'principles-based' policy framework, Economic Studies 3, Swiss National Bank

The study presents the basic elements of the SNB's monetary policy strategy – between rules and discretionary freedom.

www.snb.ch

3 Study in the Quarterly Bulletin 1/2020: The response of the Swiss franc to SNB policy rate changes

Based on theory and empirical evidence, this study explains the mechanism by which a policy rate cut leads to currency depreciation, and the effects of changes in the interest rate differential.

www.snb.ch

4 Speech 2016: Monetary policy using negative interest rates: a status report

Based on theory and empirical evidence, this study explains the mechanism by which a policy rate cut leads to currency depreciation, and the effects of changes in the interest rate differential.

www.snb.ch

5 Speech, 2020: Small country – big challenges

In his speech, Thomas Jordan explains why Switzerland's monetary policy uses a combination of negative interest and foreign exchange market interventions.

www.snb.ch

6 Die Volkswirtschaft, 2020: Belastung durch SNB-Negativzins

In this article, Carlos Lenz and Martin Schlegel look at how Switzerland keeps the potential side-effects of negative interest rates under control.

dievolkswirtschaft.ch (in German only)

7 Swiss National Bank (SNB) – Introductory remarks, news conference

Andréa M. Maechler, Member of the Governing Board, at the SNB news conference on 22 September 2022

www.snb.ch

Footnotes:

^[1] Mandate, strategy and implementation, cf. link 1 in the link list.

^[2] Basic elements of monetary policy strategy, cf. link 2 in the link list.

^[3] Mechanism of policy rate cuts; role of the Swiss franc as a safe haven, cf. link 3 in the link list.

^[4] Reasons, effects and side-effects of negative interest rates, cf. link 4 in the link list.

^[5] Negative interest rate and foreign exchange market interventions as monetary policy instruments, cf. link 5 in the link list.

^[6] Minimum reserve requirement as calculation basis for exemption thresholds, cf. link 6 in the link list.

^[7] Introductory remarks, SNB news conference, cf. link 7 in the link list.