



Swiss National Bank - an obituary of its former nimbus

Between 2008 and early 2022, central banks printed money on an unprecedented scale because their governments were broke - with one exception: the SNB did so to weaken its own currency. An essay on the SNB, Switzerland, stability and failure.

Peter Hanseler

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Introduction

This essay is an attempt to describe and discuss the changes the strategy of the SNB over time against the background of the Swiss economy in a journey through time. The aim is to allow the reader to form an opinion on the performance of the Swiss National Bank over the past 20 years.

Switzerland, an exceptional country

Switzerland is a dwarf in terms of size and population: it is 9 times smaller than Germany, 15 times smaller than Ukraine, 240 times smaller than the USA and 414 times smaller than Russia. In terms of population, the small state contributes 1 per mille to the world population.

"As late as 1899, the starving country received grain aid from the Russian Tsar."

The Alpine state also challenges its inhabitants topographically: two-thirds of Switzerland is made up of mountains, which meant that the small country was one of the poorhouses of Europe as long as agriculture was the wealth of the world. As late as 1899, the starving country received aid shipments of grain from the Russian Tsar.

Despite the tininess and poverty of the soil, Switzerland knew how to prevail, also through external circumstances and privileges.

Since the Congress of Vienna of 1815, which took place after the final failure of Emperor Napoleon I's conquest of the world, and on the occasion of which the powerful once again set out to divide up the world anew, Switzerland has been granted a priceless privilege: Neutrality. How Switzerland treats this privilege today - a good 200 years later - will be discussed in a later article.



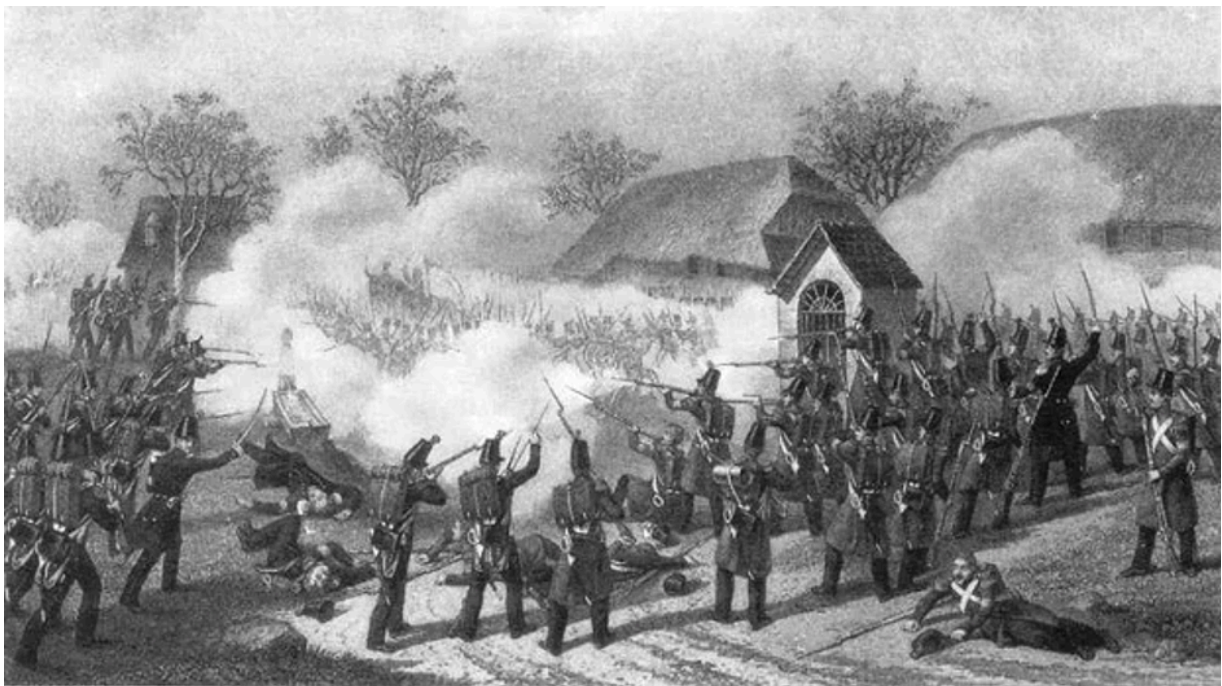
In 1815, the "perpetual neutrality of Switzerland" was decided at the Congress of Vienna. Source: Limmattaler Zeitung

With the enactment of the first Federal Constitution in 1848, Switzerland received a set of rules that provided the legal basis for Switzerland's boom. With a great deal of diligence, discipline, inventiveness and modesty, Switzerland became one of the richest countries in the world in the course of the next 100 years - without the privilege of natural resources, mind you.

In terms of education, infrastructure, transport, social peace, spending discipline of the state, legal security and sympathy abroad, Switzerland set standards for a very long time and continues to do so in many fields today.

Due to the neutrality granted in 1815 and through skilful action during the First and Second World Wars, the Swiss managed to ensure that no foreign soldier's boot was present in our country again for 207 years.

Switzerland also had its civil war - the Sonderbundskrieg - in 1847. It lasted 26 days and resulted in 86 deaths. Compared to the later conflicts on European soil (and beyond), this was a negligible little affair.



Sonderbund War 1847: Not very bloody.

Compared to the butchery that led to people standing knee-deep in blood - especially after the Second World War - Switzerland was doing splendidly. Thus humility and modesty are also called for, despite the great achievements that its inhabitants have undeniably made.

The positive development of the country led to an extraordinary confidence of foreign countries in Switzerland, and thus also in the franc, which ranks among the strongest and most stable currencies in the world.

" in relative terms, the swiss franc is a hercules".

Even currencies that are many times more significant in international trade fall sharply against the firmness of the Swiss franc.

Relative strength of the Swiss franc

The strength of our currency is legendary. The US dollar has lost 78% against the franc since the removal of the gold standard in 1971. The euro has already lost 39% since its inception in 1999 - in relative terms, this makes the Swiss franc a Hercules.

Absolute weakness of the Swiss franc

If, on the other hand, one looks at the performance of the Swiss franc against gold, the absolute measure of value, one's gaze clouds. For against the precious metal the Swiss franc has lost over 90% of its value since 1971. The Swiss franc could not escape

"It is thus fair to say that the Swiss franc is the one-eyed king among the blind."

the worldwide gigantic devaluation of currencies that took place after the abolition of the gold standard.

Nevertheless, it can be said that the Swiss franc is the one-eyed king among the blind.

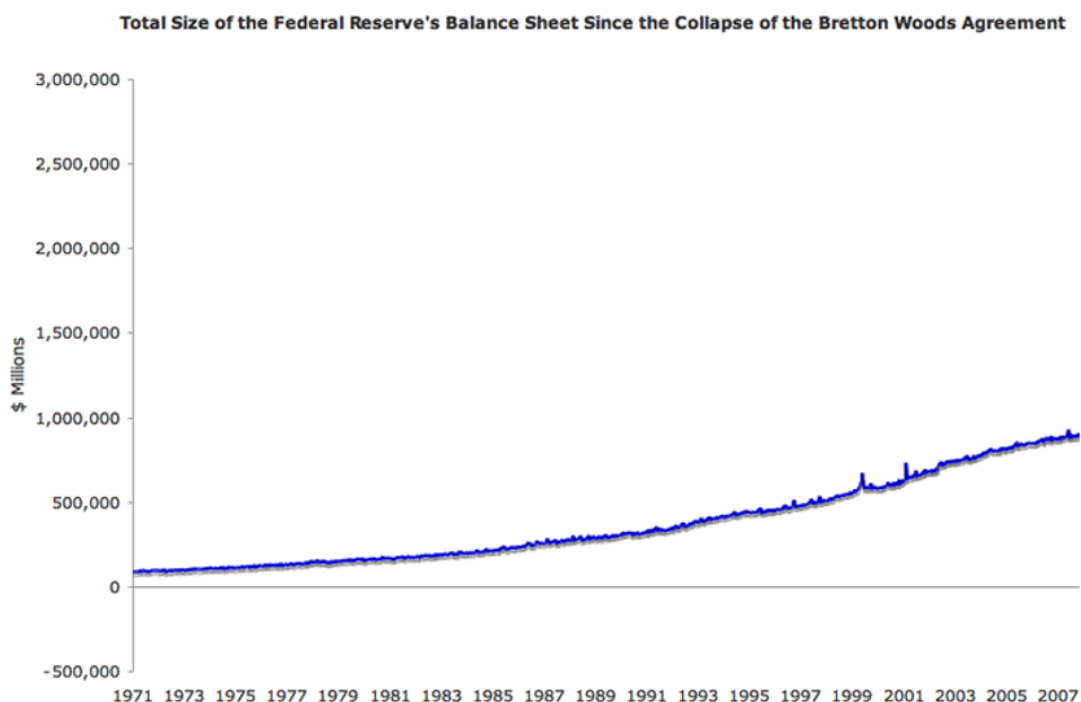
Since 1971, the central banks' mission in life has been the printing of money.

With the abolition of the gold standard, the US dollar was no longer backed by anything and the other currencies were no longer pegged to the US dollar.

This left the world's central banks free to print money as they saw fit to satisfy the ever-increasing desires of their respective states.

On the abolition of the gold standard, [see my article on the petrodollar](#). In the following, I will - for the sake of simplicity - only include the figures for the USA and Switzerland.

The size of the balance sheet of the American central bank, the Federal Reserve (FED), shows a continuous increase in the money supply between 1971 and 2008. We will talk about the explosion of the money supply in 2008 later.



Source: FRED

The nimbus of the hard Swiss franc

In the period from 1971 to 2008, the SNB definitively created the nimbus of the hard Swiss franc. During this period, the Swiss, unlike the Americans, exercised discipline. While one US dollar was still worth 4.35 in 1971, the US dollar depreciated continuously between 1971 and autumn 2008. In autumn 2008, one US dollar was still worth CHF 1.12 - the reward for discipline.



Dr. Fritz Leutwiler, SNB, one of the most prominent gold keepers of the Swiss franc.
Photo: SNB

Since 2000 - Gigantic gold sales

Until 2000, the SNB held 2,600 tonnes of gold, which was worth almost CHF 34 billion at the end of 1999.

On 26 September 1999, 15 European central banks concluded an insane pact: in a concerted action, gigantic quantities of gold were thrown onto the market. The SNB courageously joined in and subsequently sold half of its holdings - 1,300 tonnes. At that time, the price of gold was CHF 14,930 per kilogramme - today it is CHF 53,200.

Through this action, Switzerland missed out on the astronomical increase in value of CHF 50 billion. From a European perspective, the buyers of this gold are likely to be found in the East.

"Physically held gold has no counterparty risk; thus gold beats any other investment in terms of counterparty risk."

According to the 2000 annual report, the SNB invested the proceeds from these gold sales exclusively with "counterparties of very good credit standing". The SNB is thus concealing from the public one of the major advantages of gold: physically held gold has no counterparty risk; thus gold beats any other investment in terms of counterparty risk.

How good the creditworthiness of these counterparties actually was will be presented below. First, let's move on in the timeline.

Financial crisis 2008

In autumn 2008 - with the collapse of Lehman Brothers - a financial crisis began that pushed the financial markets to their very limits. The reason was rather mundane: After the dotcom bubble burst in 2001, resourceful and greedy bankers were looking for a new playground to earn gigantic fortunes without effort.

They found it in the American real estate market, where worthless mortgages were packaged into dodgy financial products and put into the portfolios of customers all over the world. Although there were warnings, greed prevailed and 7 years after the dot-com bubble, there was another bang - this time the bang went through the marrow and bone of many - also huge - financial institutions around the globe.

Even the "conservative" UBS wanted to join in and rowed with the Anglo-Saxons in the money-filled lake of those products that nobody understood but everybody wanted. When it turned out that the lake was not filled with money but excrement, the state and the central bank had to come to the rescue.

Bailout of the banks and fizzled out indignation

On 16 October 2008 - a good 14 years ago - the Swiss Confederation and the SNB rescued UBS, the largest Swiss bank, with an emergency ration of CHF 60 billion. This amount was roughly equivalent to the Confederation's entire income that year. The Americans did the same with their patients.

"Indignation - probably the most useless aggregate state of the human soul..."

The central bankers of the affected countries stood there as heroes, although they merely printed money and passed it on.

No one - apart from a few traders in the USA - was held responsible. The indignation - probably the most useless aggregate state of the human soul - was great among the people, but in the end nothing at all changed in the self-serving mentality in the financial business. A storm in a teacup.

The first step towards hyperinflation - 2008 to 2016

The central banks opened the floodgates of money by printing it but not selling it, but giving it away by setting the interest rate to zero, in the case of Switzerland even below zero.

The meltdown of the financial system was prevented or, as it seems today, put on the side-lines, because no lessons were learned.

The Western national banks kept on printing money to please the stock markets and to finance the exploding state costs.

As a visual lesson: the balance sheet development of the American Fed between 2004 and 2015.



Source: FRED

Raping the language

Of course, the central bankers do not use the term "printing money". The truth is glossed over with absurd word creations that sound important and sophisticated, but basically just pull the wool over the eyes of the ordinary citizen.

"It's like calling violence education."

The Americans call it quantitative easing or QE. . A fanciful non-word that means nothing, but makes the activity of printing money seem like a great achievement. It's like calling violence education.

According to its own statements, the SNB does not print money either, but it "intervenes" or "supports the euro".

Special case Switzerland - low debt and hard currency

Switzerland was and still is better off than most other countries in terms of debt because the federal government has always acted in a very well-disciplined manner with regard to spending and was thus not forced to plug huge financial holes in government deficits with printed money.

The Swiss people discipline their politicians, for example through the federal debt brake - and do so very successfully. This is another reason for the strong Swiss franc.

Strong countries each have hard currencies. A British pound was once worth 20 francs and the US dollar around 5 francs, always until the respective world powers became depleted.

A strong currency has only advantages in the long run. Citizens can be sure that their savings will not gradually become worthless, as happens with savings accounts in weak currencies.

Foreign goods can be bought at favourable prices, which is an advantage especially for Switzerland, since it has to buy its raw materials for consumption and further processing by its industry.

Finally, the export industry has to make an effort to remain competitive so that it can sell its goods at high prices, in that the products are more expensive but have to make up the price difference through higher quality: Prestige of the better.

Special case Switzerland - small companies that are giants

Many people believe that the big, listed companies - giants such as Nestlé, Roche or Novartis - make Switzerland wealthy. Far from it - the giants in Switzerland are thousands and thousands of SMEs, small and micro companies that are leaders in their field and that perform incredibly well. There are countless companies in Switzerland that produce the smallest high-precision parts for giant companies in the world and are market leaders in this small cosmos. Without attracting attention, they create jobs, values and contribute a lot to Switzerland's wealth.

Representative of this guild is a company that has a global reputation and carries the aura of precision, creativity and value into the world like no other: Patek Philippe.

This company, which is privately held by the Stern family, has been setting standards in luxury and precision since 1839 and has earned a reputation that allows it to charge high prices for its products and which regularly sell for many times the retail price due to the scarcity of supply on the secondary market.



Left: Father and son Stern: Creating value without whining

Right: The Nautilus - the current icon of Patek. Photo: Patek Philippe

Whining in the Swiss export industry

However, some exporters could not or would not withstand this huge pressure. After the euro went down through the fault of their guardians between 1999 and 2011 and lost 34% - from CHF 1.60 to CHF 1.05 - the weeping of some exporters began - first and foremost the multi-billionaire Nick Hayek, main shareholder and CEO of the big watch group SWATCH, who built up pressure in the media.



Whining multi-billionaire: Nick Hayek, majority shareholder and CEO of the Swatch Group - 5 times the turnover of Patek Philipp - cries out for subsidies. Picture: Swatch

The exporters probably took their inspiration from the bailout of UBS, which - against the laws of the free market economy - was rescued by the SNB after they scared everyone that the world would end if the bailout did not come.

The exporters in question were now blowing the same horn.

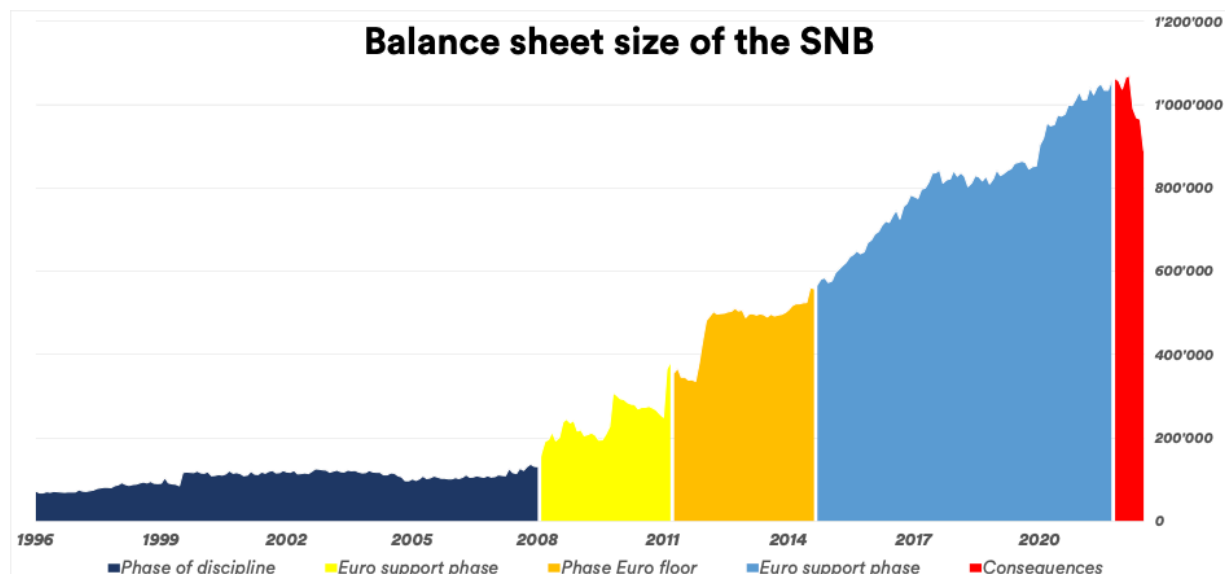
Duties of the SNB and its independence

The SNB's tasks are actually clearly and unambiguously laid down in the Federal Act on the Swiss National Bank. In Article 5, price stability is the first imperative and thus - one might think - it should be clear that this mandate should not be undermined by special interests.

To prevent precisely this, Article 6 obliges the SNB to be independent of the Federal Council, the Federal Assembly or other bodies. As early as 1907, when the SNB was founded, it was obviously clear to the legislators that politicians are regularly the gravediggers of sound finances and thus forbade their interference.

The whining of the export industry was nonetheless successful; the SNB abandoned its policy and introduced the minimum euro exchange rate of CHF 1.20 on 6 September 2011. This "experiment" ended again on 15 January 2015, but the peg was off.

The SNB's balance sheet size exploded from CHF 131 billion in September 2008 to CHF 1,070 billion in May 2022 - thus the SNB's balance sheet size increased eightfold in a period of 14 years.



Source: [voicefromrussia.com](https://www.voicefromrussia.com); Number series: SNB

In 2014, the SNB turns into a hedge fund

In 2014, the SNB began to invest its gigantic foreign currency reserves, which it had bought with good Swiss francs, in shares. It probably no longer knew what to do with these piles of foreign currency. Today, 25% of its foreign currency reserves are invested in shares.

This turned the SNB into one of the largest hedge funds in the world.

The largest hedge fund in the world is the American Citadel Investment Group. This giant manages 244 billion dollars. With 140 billion, the SNB would be number 7 among the world's [250 largest hedge funds](#).

In contrast to the huge hedge funds, which had to prove themselves in the market for decades in order to be entrusted with such huge sums, the officials of the SNB became investment managers overnight, even though the president of the SNB, Dr. Jordan, had never earned a penny before in the wilds of the economy. [From university directly to the government](#).

The SNB itself does not publish details of its equity investments. Under American law, however, it qualifies as a so-called institutional investment manager. These have to submit their positions to the US Securities and Exchange Commission every quarter if they have more than USD 100 million under investment.

As of 30 September 2022, the SNB had invested USD 140 billion spread over [2714 positions in the US market](#).

Disastrous result of the strategy

The money printing had actually aimed at keeping the much too high Swiss franc - so they said - at 1.20 against the EUR. This did not work. Today the euro is trading below parity

The whole exercise was therefore a complete failure. The SNB's statement that the Swiss franc was overvalued was made to advance the particular interests of the export industry, which, according to the law, is not the SNB's function.

After this very expensive strategy failed, the SNB now claims that the Swiss franc is by no means too strong. The SNB's line of argument is contradictory: when the euro was at just under CHF 1.20, the franc was too strong - now, at CHF 0.97, the Swiss franc is no longer overvalued.

Result - Discipline followed by fatal activism

On this journey through time, we have seen how Switzerland became one of the richest and most stable countries on earth through skill and diligence.

"From 2000 onwards, the grail guardian of the Swiss franc lost discipline and farsightedness through momentous decisions."

The SNB served as its disciplined treasurer for almost 100 years since its foundation in 1907 and contributed a considerable part to the success of the stable, rich and hard-working Alpine country through the resulting hard franc.

From 2000 onwards, however, the grail guardian of the Swiss franc lost discipline and farsightedness by making several momentous decisions.

The sale of 1,300 tonnes of gold in 2000 turned out in retrospect to be a fatal mistake that has cost Switzerland CHF 50 billion to date. That other European central banks made the same mistake seems little consolation.

In 2008, the rescue of UBS followed with 50 billion. While this rescue was successful and the bailout money was repaid, it sent the wrong signal to the economy and undermined the hard but important laws of the free market economy.

The "propping up" of the euro that followed the 2008 economic crisis culminated in a pegging of the Swiss franc to the euro between 2011 and 2015. Even after this euro floor was lifted, the SNB continued to pursue this strategy. This action led to an eightfold increase in the balance sheet. The SNB's balance sheet today is larger than the balance sheet of the Fed before the financial crisis, although the US dollar is 20 times heavier than the Swiss franc.

Finally, the SNB's decision to become one of the largest hedge funds was another bad decision.



Dr. Thomas J. Jordan, President of the SNB, does not have a fortunate hand in monetary matters. Picture: Tagesanzeiger

The SNB's interim report as of 30 September 2022 paints a bleak picture. [The SNB itself](#) wrote:

"Interest and dividend income amounted to CHF 5.1 billion and CHF 3.4 billion respectively. Price losses of CHF 70.9 billion were recorded on interest-bearing paper and instruments, and CHF 54.2 billion in price losses were recorded on equity securities and instruments. Exchange rate-related losses totalled CHF 24.4 billion."

SNB, INTERIM REPORT OF THE SWISS NATIONAL BANK AS AT 30 SEPTEMBER 2022

The SNB is a joint-stock company, which has equity capital like any other company: equity capital is calculated as the sum of all assets minus all liabilities. The higher the equity capital in relation to the balance sheet total, the healthier a company is.

At the end of 2021, the SNB reported shareholders' equity of CHF 220 billion, which corresponded to about 20% of the balance sheet total.

In the first 9 months of 2022, equity fell from CHF 220 billion to CHF 56 billion. Thus, equity shrank from just under 20% to 6% in 9 months. If the SNB continues to lose this much money in the fourth quarter, it will be left without equity at the end of the year.

A major problem of understanding in these times is that economic figures have magnitudes that were only used in astronomy back in my school days and are therefore almost impossible to put into perspective. Therefore, here are some numerical examples that put these figures into context:

Representation: 142.4 billion look like this in figures: 142400000000.- - that gives eye burning.

When UBS was rescued in 2008, it took 6 billion and a murmur went through the crowd when this huge sum was mentioned. With the loss accumulated by the SNB in 9 months, the SNB could have saved UBS 24 times over.

The SNB's 9-month loss is equivalent to Switzerland's federal tax revenues for over 5 years.

Conclusion

If the SNB loses all its equity capital, this disgrace will not lead to the bankruptcy of the guardian of the currency, since it can print money indefinitely.

However, the SNB's reputation and thus that of Switzerland would be badly tarnished and the Swiss franc, devalued by years of money printing, would have lost its hard-earned aura - with unforeseeable consequences for Switzerland.

There will be many who disagree with me and who will make an effort to avoid the reality shown here. Nevertheless, there are also very critical voices, such as Daniel Riediker, Partner and CEO of Alegra Capital AG, who wrote an article on the financial blog, The [Market](#), on 8 November.

ARTICLE TAGS:

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