A Swiss Sovereign Wealth Fund — Opportunities and Risks

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Through large-scale and nearly continuous foreign exchange market interventions, the SNB has accumulated a large stock of foreign currency assets. It is highly likely that the bulk of this stock will stay for years to come, possibly further rising. In practice, this is wealth and it belongs to the Swiss people. What to do with this wealth?

We examine what it would mean to transfer this wealth to a Sovereign Wealth Fund (SWF). Such a transfer has important advantages. It would free the SNB from political pressure on its management of the funds and it would reduce the financial risks that it currently bears, thus allowing it to focus exclusively to running monetary policy. In contrast, the SWF would be a for-profit institution, seeking the best risk-adjusted returns from the wealth. It could distribute all its profits to the Confederation and the cantons.

However, important details must also be examined. The SWF should not sell or buy foreign currencies to ensure that the SNB remains fully in charge of exchange rate policy. It should be independent, but accountable to the Swiss people through their elected representatives. We identify and analyze various institutional arrangements.