

Drivers II: the franc and the policy of the National Bank

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The strength of the Swiss franc is both an asset and a burden for Swiss banks. For wealthy clients, the franc is one of the few currencies that have preserved their purchasing power over long periods, and the reputation of the franc as a safe haven attracts deposits in times of crisis. For the banks, a strong franc means that costs incurred in Switzerland weigh heavily against revenues earned in dollars or euros. Since most assets managed by Swiss banks are invested in foreign currencies, every appreciation of the franc reduces the value of assets under management, and thus of fee income, in the bank's reporting currency.¹

The monetary policy of the Swiss National Bank shapes this environment. From January 2015 to September 2022, the SNB's policy rate was negative, at minus three quarters of a per cent for most of that period, combined with large interventions in the foreign exchange market. Banks were partly relieved of negative interest on their sight deposits through exemption thresholds, but the low rate environment compressed their interest margins.² After rising to one and three quarters per cent in 2023, the policy rate was reduced again from 2024 and reached zero in June 2025. The possibility of a return to negative rates was openly discussed by the National Bank.³

For the scenarios, the franc and monetary policy are largely predetermined elements. The franc is likely to remain strong in most plausible futures, because the factors that support it, including the current account surplus, political stability and the credibility of the SNB, are durable. The policy rate is likely to remain low compared with other major currencies. Domestic banks will therefore continue to seek income beyond the interest margin, while wealth managers will continue to work with a cost base in a strong currency. The question is which institutions can absorb this burden, a

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question that bears directly on the consolidation that each scenario assumes.

A related question concerns the SNB's own role. The National Bank has been criticised by some for the size of its foreign exchange reserves and the volatility of its profits, and by others for the limits it places on the distribution of profits to the Confederation and the cantons. The cantons, including Basel-Stadt and Basel-Landschaft, depend to a varying degree on these distributions in their budgets.⁴ Proposals to use the SNB's reserves for other public purposes recur in Swiss politics. Any change to the independence or mandate of the National Bank would be a significant signpost, because the credibility of the franc is part of the foundation of the Swiss banking model.

1 Notes

1. On the effect of exchange rate movements on the assets under management and revenues of Swiss banks reporting in Swiss francs, see the annual reports of the major listed Swiss private banks and the SNB's Financial Stability Reports. To be verified. ↩
2. On the SNB's negative interest rate policy (policy rate –0.75 per cent from January 2015, return to positive rates in September 2022) and the exemption thresholds on sight deposits, see the SNB's annual reports and press releases. Dates to be verified. ↩
3. On the SNB's policy rate path 2023–2025 (peak of 1.75 per cent in 2023, reductions from March 2024, 0 per cent from June 2025) and its statements on the possibility of negative rates, see the SNB's monetary policy assessments. Status to be verified. ↩
4. On the profit distribution agreement between the Federal Department of Finance and the SNB and the shares of the Confederation and the cantons, including the years without distribution (2023, 2024), see the publications of the SNB and the Federal Department of Finance. Status to be verified. ↩

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