

The Swiss National Bank and financial stability

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The National Bank Act entrusts the Swiss National Bank with the task of contributing to the stability of the financial system. The division of labour between the National Bank and FINMA follows a distinction common in international practice. FINMA is responsible for the supervision of individual institutions, the microprudential supervision. The National Bank looks at the stability of the system as a whole, the macroprudential perspective. The two authorities cooperate on the basis of a memorandum of understanding and coordinate with the Federal Department of Finance in a tripartite arrangement for financial crises.¹

Several instruments give this task a concrete form. After consulting FINMA, the National Bank designates the systemically important banks and determines which of their functions are systemically important. It oversees the systemically important financial market infrastructures, among them the Swiss Interbank Clearing payment system and the securities settlement system of SIX. Each year it publishes a financial stability report that assesses the situation of the Swiss banking sector and identifies vulnerabilities, such as risks on the mortgage and real estate markets.²

The most visible macroprudential instrument is the countercyclical capital buffer, which Switzerland introduced in 2012. It obliges banks to hold additional capital when credit grows excessively, so that they can absorb losses when the cycle turns. Switzerland has applied the buffer in a sectoral form, limited to mortgage loans for residential property in Switzerland. On the proposal of the National Bank, the Federal Council activated it in 2013 and later raised it. It was released at the beginning of the Covid-19 pandemic in 2020 to support lending, before being reactivated in 2022 in view of the continued growth of mortgage lending and property prices.³

The National Bank is also the lender of last resort. It can provide emergency liquidity to a bank that is solvent and can offer sufficient collateral. The

collapse of Credit Suisse showed the limits of this instrument, because the bank lacked collateral in the necessary quantity. In March 2023, the Federal Council therefore adopted emergency law that allowed the National Bank to provide additional liquidity assistance loans, some of them secured by a federal default guarantee.⁴ The public liquidity backstop would give these instruments a permanent statutory basis. For Basel, the role of the National Bank has a particular connection, since the National Bank is a member of the Bank for International Settlements and takes part in the committees in Basel where the international standards for financial stability are discussed.

1 Notes

1. On the statutory task of the Swiss National Bank to contribute to the stability of the financial system (Art. 5 para. 2 lit. e National Bank Act, SR 951.11), the memorandum of understanding between FINMA and the SNB and the tripartite cooperation with the Federal Department of Finance, see the publications of the SNB and FINMA. To be verified. ↩
2. On the designation of systemically important banks and functions by the SNB (Art. 8 para. 3 Banking Act), the oversight of systemically important financial market infrastructures (Art. 19 ff. National Bank Act and the National Bank Ordinance) and the annual Financial Stability Report, see the publications of the SNB. To be verified. ↩
3. On the sectoral countercyclical capital buffer on residential mortgage loans (Art. 44 CAO), its activation in 2013, its increase in 2014, its deactivation in March 2020 and its reactivation at 2.5 per cent in 2022, see the publications of the SNB and the Federal Council. Current status to be verified. ↩
4. On the emergency ordinance of the Federal Council of 16 March 2023 on additional liquidity assistance loans and the granting of federal default guarantees for liquidity assistance loans of the SNB to systemically important banks, see SR 952.3 (no longer in force) and the publications of the SNB. To be verified. ↩

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