

Article | 12 December 2019

SWITZERLAND

# Should the Swiss National Bank be greener?

The SNB, one of the world's largest institutional investors, has been lukewarm in integrating the green cause in the management of its portfolio



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## The SNB is an institutional investor

Central banks around the world are faced with growing demands to take climate issues into account in their role as monetary authorities. The SNB is no exception. But the issue may be even more complex for the SNB than for other central banks.

The SNB has accumulated a huge amount of assets since the financial crisis following its attempts to prevent the Swiss franc from appreciating too significantly. As a result, the SNB is now obliged to manage an unusually large investment portfolio for a national bank of a medium-sized country, which includes 150 billion Swiss francs worth of company shares (USD 151 billion). With such a portfolio, the SNB has become a major shareholder in 6,700 companies in more than 40 countries and the SNB is estimated to be the eighth largest institutional investor in the world.

The SNB says it takes a neutral investment approach in managing its investment portfolio, only

excluding companies that "earn money with activities that are contrary to Switzerland's fundamental values and standards". Investments in companies that cause serious environmental damage are also excluded, but investments in fossil fuel companies are not excluded, and this has been criticised by some citizens.

### **Sustainable investment by the SNB?**

According to Reuters, some Swiss parliamentarians (social democrats and environmentalists) are preparing legislation to make the fight against climate change one of the Swiss National Bank's policy objectives, alongside the traditional monetary objectives of ensuring price stability and stimulating economic growth. The parliamentarians say the SNB's investment portfolio should be used to combat the climate emergency, targeting investments that promote a greener economy and excluding polluting activities.

In response to this initiative, the SNB has countered that it is not the role of monetary policy to combat climate change, but rather that of fiscal policy. The SNB also insists that any standard that goes further in asset selection would not be consistent with its mandate and that it must remain neutral to all political influences. The SNB believes that it must have highly liquid and diversified investments in order to preserve its flexibility in the conduct of monetary policy and that its investments do not pursue any strategic or structural goals. In addition, it fears that the exclusion of polluting companies would increase the risk of concentration and compromise the SNB's independence and neutrality.

### **Climate risks and monetary policy**

In addition to the SNB's investment policy, there is of course the question of taking climate risks into account when reviewing monetary policy and analysing financial stability. At the press conference following its monetary policy decision on Thursday, the SNB said that it was gradually taking these risks into account. Structural changes within the economy induced by climate change are gradually being integrated into the models and the SNB analyses the possible impact of environmental regulatory measures that could lead to sudden price fluctuations for important goods and services. In addition, the SNB believes that it is the responsibility of the various players in the financial system to fully understand the climate risks to which they are exposed and to properly assess the consequences that may arise from them. In summary, some risks are being incorporated into SNB models. For the rest, the SNB indicates that is up to the economic actors to do their job.

#### **Conclusion: a long process**

The debate has just begun and is likely to continue for a long time. We believe that a process of changing the SNB's monetary policy objectives will take a long time and is not at all guaranteed to succeed. Nonetheless, this initiative by Swiss parliamentarians

shows that in Switzerland, as elsewhere, there is pressure on the central bank to integrate the green agenda in its monetary policy - in the absence of sufficient political will to combat climate change through public policies.

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