Archived World Gold Council Document

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Swiss Gold Policy

The Swiss Finance Ministry issued a press release on 27 May 1998 on "a new constitutional foundation for the Swiss National Bank." The Public Policy Center of the Council has been studying these issues and a note of our main conclusions based on extensive interviews with principal Swiss monetary and financial officials conducted over the last 2 weeks follows. An unofficial translation of the press release issued by the Finance Ministry is attached.

Key Results

Timetable, process and structure for use of excess gold have now snapped into focus.

- constitutional process will likely delay any action before 2000
- any amounts sold, if so decided, would be sold over 10 - 20 year period
- amounts of 50 - 100 tonnes per year, if so decided
- will sell less into weak markets, but more into strong markets
- total "excess" confirmed at approximately 1400 tonnes
- excess gold will be shifted from Swiss National Bank (SNB) to special fund(s), which may be part of SNB structure or external to the SNB.

SNB, Ministry of Finance (MOF) and non-governmental political sources all confident that the constitutional amendments and enabling legislation required for gold sales will most likely be approved.

Christoph Blocher and the Swiss People's Party, previously identified as potential opponents, appear to support the initiative as a way to assist solvency of the national pension system now forecast to go into deficit in 2004 without increased funding.

Solidarity Fund - not clearly popular - will be separated from the above processes and is unlikely to be a blocking factor.

Background

Process revolves around

- constitutional amendment to remove mandatory link with gold,
- amendment of currency and bank laws to remove gold references.

MOF timetable calls for

- legislative approval of constitutional amendment by February 1999
- referendum June 1999
- parallel legislative action on enabling acts with implementation September 1999, 90 days after referendum (mandatory time period for gathering signatures to challenge referendum).

MOF timetable, they admit, may not be realistic. Referendum dates occur on a strict quarterly schedule so if legislature slow in approving constitutional amendment, referendum date would slip by 3 months. This issue has some priority, but the enabling acts may well not move so quickly. SNB legal affairs department officials do not believe sales can legally take place before 2000 - 2001.

The various items of legislation will be presented as a technical matter with support of all political parties and follow usual Swiss process of extensive consultation. The proposed changes principally recognize existing practice in other central banks and secure the independence of the SNB in the constitution.

Opposition to reform seems weak and will come from those recognizing it as a decisive step toward the sale of gold.

Solidarity Fund

The planned Solidarity Foundation is, in our researcher's view, unlikely to survive a referendum challenge. Although the major political parties favor the Foundation, polls show a large negative or undecided percentage and many individual politicians including Christoph Blocher oppose the Foundation. Federal elections scheduled for fall 1999 will discourage politicians from tackling such controversial legislation and may combine with a legislative logjam (constitutional amendments, enabling legislation and the Solidarity Foundation must all go through similar committees) to delay the Foundation.

Timetables

Upcoming relevant events

- 30 May 98 Swiss People's Party decides whether to support use of gold for pensions
- June 98 MOF submits proposed constitutional amendments to parliament
- June/July 98 MOF report on Solidarity Foundation with funding proposal

Preliminary government plans

Plan	Constitutional amendments	Currency/Central Bank legislation	Solidarity Foundation
Government proposal	3 June 1998	9 September 1998	December 1998
Committee meetings &	June 1998	Fall 1998	Winter discussion 1998/99
Debate in 1st Chamber of Parliament	Sept-Oct 1998	Winter 1998	Spring 1999
Debate in 2nd Chamber of Parliament	Nov-Dec 1998	Spring 1999	Summer 1999
Referendum	June 1999	Sept 1999 (if challenged)	Winter 1999/Spring 2000

Source: Swiss Finance Ministry.

With Federal elections due in the Fall of 1999, it is likely that everything after the committee stage (and possibly including the committee stage as well) of the Solidarity Foundation will be delayed until after the elections. That would add nine months to one year to the schedule for the Solidarity Foundation, bringing the final referendum date to perhaps the Winter 2000 or Spring 2001. However, approval of the Solidarity Foundation is not decisive for a gold sale.

Probable outcomes

Plan	Constitutional amendments	Currency/Central Bank legislation	Solidarity Foundation
Government proposal	3 June 1998	Winter 1998	Winter 1998
Committee meetings & Discussion	June 1998	Spring 1999	Spring 1999 [Winter 1999]
Debate in 1st Chamber of Parliament	Sept-Oct 1998	Summer 1999	Spring 2000
Debate in 2nd Chamber of Parliament	Nov-Dec 1998	Fall 1999	Summer 2000
Referendum	June 1999	November 1999 (if challenged)	Winter 2000/ Spring 2001

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Unofficial translation of Swiss Finance Ministry press release 27 May 1998

New Constitutional Foundation for the Swiss National Bank (SNB)

The link between gold and the Swiss franc, currently written in the constitution, should be abolished. The Swiss cabinet has just approved a proposal to abolish the gold link, which has become obsolete, and re-establish coherence between law and practice in monetary issues. According to the proposal, independence of the SNB will be written into the constitution and its mandate specified; the SNB will implement monetary policy serving the general interests of the country while giving priority to the objective of price stability.

The link between the Swiss franc and gold, written in the constitution, limits the possibility of gold sales for the SNB and should therefore be dropped. In the proposed constitutional amendment, as it is currently drafted, the SNB will continue to be required to hold a portion of its monetary reserves in the form of gold. This does not reduce significantly the flexibility of the SNB, but recognises the fact that gold still has a special importance on an emotional level as a reserve asset. In times of crisis, gold has value as an asset of last resort. Gold reserves at a certain level can, therefore, strengthen confidence in the Swiss franc, even if a coverage level is not defined.

Abolition of the gold parity permits gold to again fill its role as a "real" monetary reserve. Currently the SNB has more reserves than required to conduct monetary policy. According to the SNB, other than current foreign exchange reserves, management of monetary policy only requires about half the current level of gold reserves. The other half, about 1300 tons, could be used for other public requirements. After subtracting the capital forecast to create the Solidarity Foundation, those assets not required for monetary policy should remain property of the SNB and be profitably invested by external money managers. In conformity with current profit allocations [of the SNB], income obtained would be allocated 1/3 to the Federal Government and 2/3 to the cantons. It is in the context of the debate concerning the law on the Solidarity Foundation and not in the context of the current monetary reform that it must be decided whether part (approximately SF7 billion) of the excess reserves should be allocated to the Foundation.

Independence of the SNB

The new constitutional amendment confirms the independence of the SNB which is already a legal reality. Independent central banks generally have more success in the struggle against inflation than those which are linked to the state; a principle therefore accepted by the proposed legislation. In addition to the principle of independence, the proposed amendment requires accountability of the SNB for its monetary policy to the Swiss nation. The exact form and frequency of information required should be specified in legislation.

Exact Definition of SNB mandate

The independence of the SNB must not be compromised as the independence is absolute, but should be based on a clear mandate appearing in the constitution. As anticipated during the process of consultative conferences during last year, the SNB must implement a monetary policy serving the general interests of the country while assigning priority to the objective of price stability. The "general interests of the country" means that the SNB must assume its part of responsibility for economic policy in general. The "priority of the price stability objective" clearly shows that the national bank can help to stabilise economic activity while running a monetary policy oriented towards price stability. "Price stability" means that the SNB will fight inflation and deflation equally.