Almost every year between August and October, a discussion starts about whether Switzerland should create a sovereign wealth fund. The next debate will not be long in waiting, Juergen Braunstein writes in his essay for finews.first.

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The idea of a Swiss sovereign wealth fund (SWF) which could use a part of the country’s massive reserves for investments arose after Switzerland had established in 2011 its currency link to the Euro. Since then various sovereign wealth options have been discussed, from a SWF with a savings mandate to a fund with a strategic investment mandate, a private equity-type fund that invests in technology start-ups and protects against hostile foreign takeovers of strategic companies.

The latest debate took place in September 2018 when Christian Levrat, the head of the Swiss Socialist Party (SP), proposed to create a Swiss state fund whose return could be paid to the AHV. Just a few months earlier, the Egyptian parliament passed the bill to create a sovereign wealth fund with an authorized capital of $12 billion – capitalized through trade surpluses and public assets. Backed by the government the Egypt Fund aims to crowd private investors into promising growth areas in the Egyptian economy. It will mainly serve as a co-investor and act as a facilitator in terms of regulation and smoothening the entry and exit of investments.

«Switzerland is the only country that has not created a SWF worldwide with such an excess of reserves»

Why can Egypt afford to create a sovereign wealth fund, but not Switzerland? According to standard economic theory, one should expect exactly the opposite. The reserves of Switzerland correspond to seventeen months of import – well above the rule of thumb of three months, and more than what is needed for the money operations of the Swiss National Bank (SNB). Switzerland is the only country that has not created a SWF worldwide with such an excess of reserves.

Often overlooked in the debate is the fear of crowding out versus the desire of crowding in among domestic actors. While Egypt’s investment community seems to welcome the creation of a SWF, Swiss banks reject the creation of such a fund. The latter argue that the state cannot make better investment decisions than the private sector. Although Swiss banks don’t like the
idea of having a Swiss SWF, they welcome international sovereign wealth funds that invest in Switzerland. For example, Singapore’s GIC recently bought a 3 percent stake in Julius Baer Swiss banks. After the global financial crisis, GIC became even the largest shareholder of UBS.

«Switzerland could follow the Singapore model»

It is also worth noting that the SNB is privately held and is held by a majority of cantons and cantonal banks. Cantonal banks – driven by the desire of each Swiss member state to have its own bank – operate like commercial banks, but also provide cantonal funding. The outsourcing of part of the reserves of the SNB for a national sovereign wealth fund would lead to a reduction in assets, which in turn would reduce the profit potential of the Swiss National Bank. By law, the Swiss cantons receive two-thirds of the profits of the SNB. Therefore, the creation of a Swiss state fund would reduce its revenues.

In an overbanked system such as in Switzerland the creation of a large sovereign wealth fund sparks fear of competition with the private sector. Therefore the next debate about SWF in Switzerland should focus more on the particular design to make sure such a vehicle does not lead to unintended consequences for Swiss monetary policy and impair the independence of the National Bank. For example, Switzerland could follow the Singapore model whereby a Swiss sovereign wealth fund issues a special bond and swaps it for part of the reserves of the SNB.

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Previous contributions: Rudi Bogni, Peter Kurer, Oliver Berger, Rolf Banz, Dieter Ruloff, Werner Vogt, Walter Wittmann, Alfred Mettler, Peter Hody, Robert Holzach, Craig Murray, David Zollinger, Arthur Bolliger, Beat Kappeler, Chris Rowe, Stefan Gerlach, Marc Lussy, Nuno Fernandes, Richard Egger, Maurice Pedergnana, Marco Bargel, Steve Hanke, Urs Schoettli, Ursula Finsterwald, Stefan Kreuzkamp, Oliver Bussmann, Michael Benz, Peter Hody, Albert Steck, Martin Dahinden, Thomas Fedier, Alfred Mettler, Brigitte Strebel, Peter Hody, Mirjam Staub-Bisang, Nicolas Roth, Thorsten Polleit, Kim Iskyan, Stephen Dover, Denise Kenyon-Rouvinez, Christian Dreyer.
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Friday, 23 August 2019 15:57