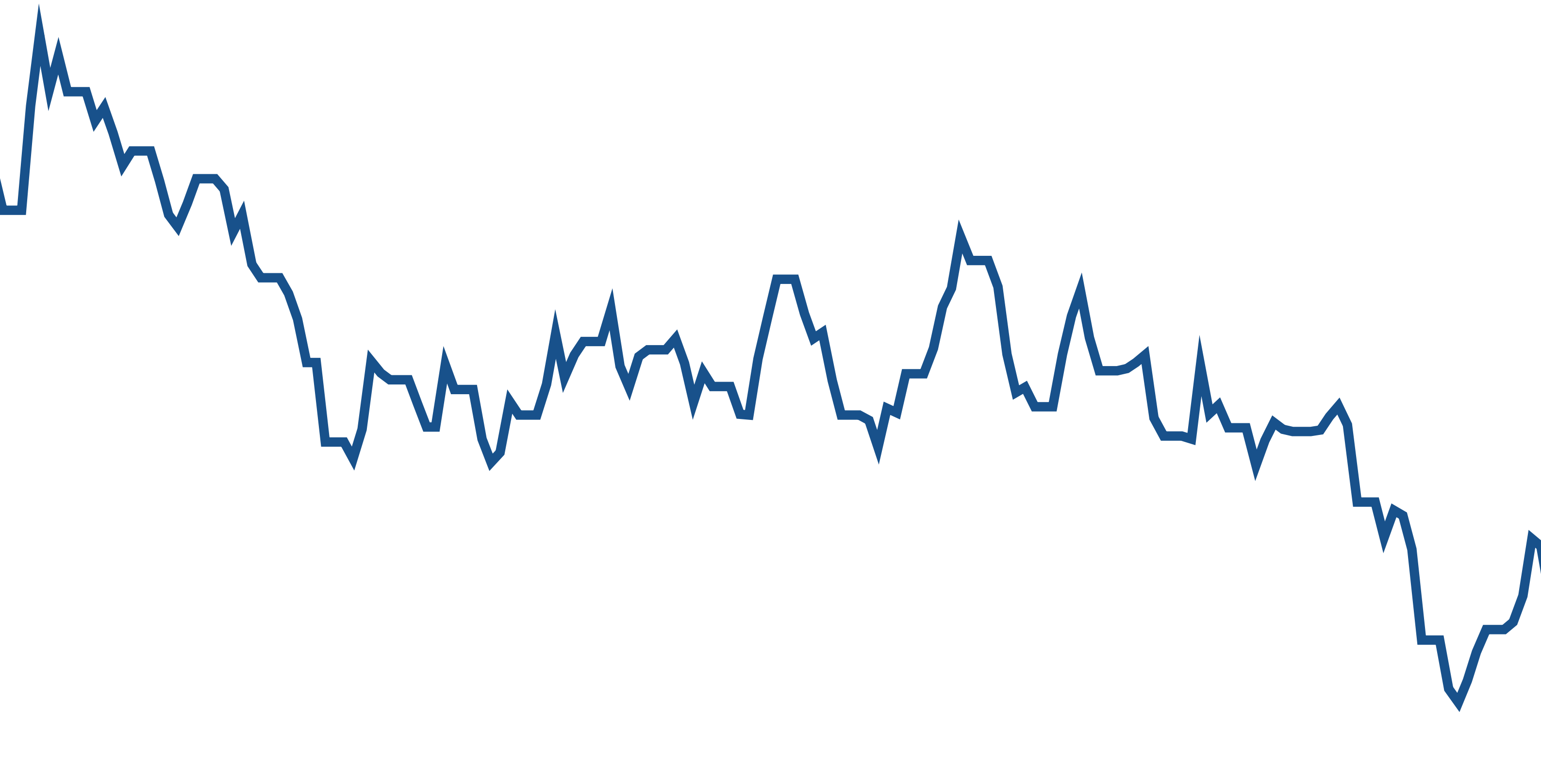
March 2025

Federal Treasury

Activity report 2024



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

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The Federal Treasury activity report explains the strategies and results with respect to the Confederation's debt management, liquidity management and foreign exchange management in 2024. It is tailored primarily to the Federal Council, the Finance Delegation, and the Swiss Federal Audit Office. Once they have acknowledged it, the report will also be made accessible to interested members of the public.

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102

billion

in debt is managed by the Federal Treasury. 83 billion of this is market debt (money market debt register claims and bonds).

0.62

percent

was the interest on the bonds issued in 2024.

10.9

years

is the average term to maturity of the Confederation's market debt.

Summary

The monetary policy of the central banks had a strong influence on the interest rate markets last year. The global disinflation process ran its course, fueled by the fall in energy prices. This allowed central banks to ease their restrictive monetary policies and lower key interest rates. In March, the Swiss National Bank (SNB) was one of the first central banks to initiate a cycle of interest rate cuts. This was made possible not least by the Swiss franc, which gained strongly against the currencies of Switzerland's most important trading partners, particularly in the final quarter of 2023, placing further downward pressure on inflation. The European Central Bank followed suit two months later and the US Federal Reserve was able to cut interest rates for the first time in September. The SNB followed suit three more times during the course of the year and lowered its policy rate to 0.5% by the end of the year.

The volatility in the interest rate markets and low interest rates did not diminish the attractiveness of the Swiss capital market. Driven by record issuing activity in the domestic segment, the volume of bonds outstanding reached a new high of around CHF 630 billion. The Confederation also played an active role in this issuing spree, placing a nominal total of CHF 4.8 billion on the capital market across 11 auction dates. At the end of the year, the volume of Confederation bonds outstanding totaled around CHF 74 billion, an increase of approximately CHF 1.7 billion year on year.

The lower level of interest rates also enabled the Confederation to significantly reduce its financing costs on the capital market. The average volume-weighted issue yield on Confederation bonds in 2024 was 0.62%. This means that the cost of raising fresh funds on the capital market almost halved compared to the previous year (1.20%). Financing costs on the money market also fell over the course of the year. While the yield on money market debt register claims was still around 1.7% at the beginning of the year, it fell in line with the SNB's interest rate cuts to 0.35% at the end of the year. The average issue yield on money market debt register claims for the year was around 1.1% (previous year: 1.4%).

However, in relative terms, i.e. measured by the yield spread to the swap rate, the Confederation's financing conditions became more expensive. While some spreads were still at record lows of around -100 basis points in 2023, they increased steadily over the course of 2024 and stood at over -10 basis points in some cases at the end of the year. This spread widening was observed on the Swiss primary market across all sectors and credit ratings during the year under review. This development is also likely to be closely linked to the monetary policy of the central banks. Despite interest rate cuts, both the US and European central banks continued to reduce the size of their balance sheets, thereby increasing the supply of government bonds on the markets. Investors are demanding an additional premium to absorb the higher volume of bonds. Although the SNB did not purchase any Confederation bonds in Switzerland as part of its balance sheet expansion, the international spread widening also affected the Confederation bond market.

Aside from debt management, the investment of disposable funds was at the center of the Federal Treasury's activities last year. In addition to fixed-term deposits at the SNB, the repo market was also used for short-term investments. A total volume of around CHF 61 billion was traded on the repo market at an average interest rate of 1.3%. Moreover, fixed-term deposits were occasionally concluded with selected counterparties. The Federal Treasury was able to generate receipts totaling around CHF 250 million from liquidity management.

An important milestone in 2024 was the announced conversion of own tranches into own holdings. The own tranches were Confederation bonds that were prepared for issue as part of an auction but were not yet placed. Previously, own tranches could be sold individually between the auction dates if required, allowing this final step in the placement process to be completed. These own tranches have now been fully paid up and thus converted into own holdings of bonds. This opens up new opportunities for the Federal Treasury. In particular, own holdings of bonds can be used as collateral on the repo market, providing an additional financing instrument. At the same time, the Federal Treasury can lend its own holdings to interested market participants for a suitable fee, which in turn has a positive effect on the liquidity of Confederation bond trading and thus ultimately on the Confederation's financing conditions.

Finally, the Federal Treasury published the second Green Bond Allocation and Impact Report during the year under review. This provides details on how the proceeds are allocated to the various eligible expenditure areas and the positive environmental impact achieved by these areas. In 2024, the green Confederation bond maturing in 2038 was reopened three times in total. Taking into account the own holdings, the outstanding volume already totals CHF 2.7 billion.

102

billion

in debt is managed by the Federal Treasury. 83 billion of this is market debt
(money market debt register claims and bonds).

Guidelines and targets

The central Treasury, run by the Federal Finance Administration (FFA), ensures the Confederation's ability to fulfill its payment obligations at all times (Art. 60 para. 1 of the Financial Budget Act). The three main tasks of the Federal Treasury stem from this statutory mandate:

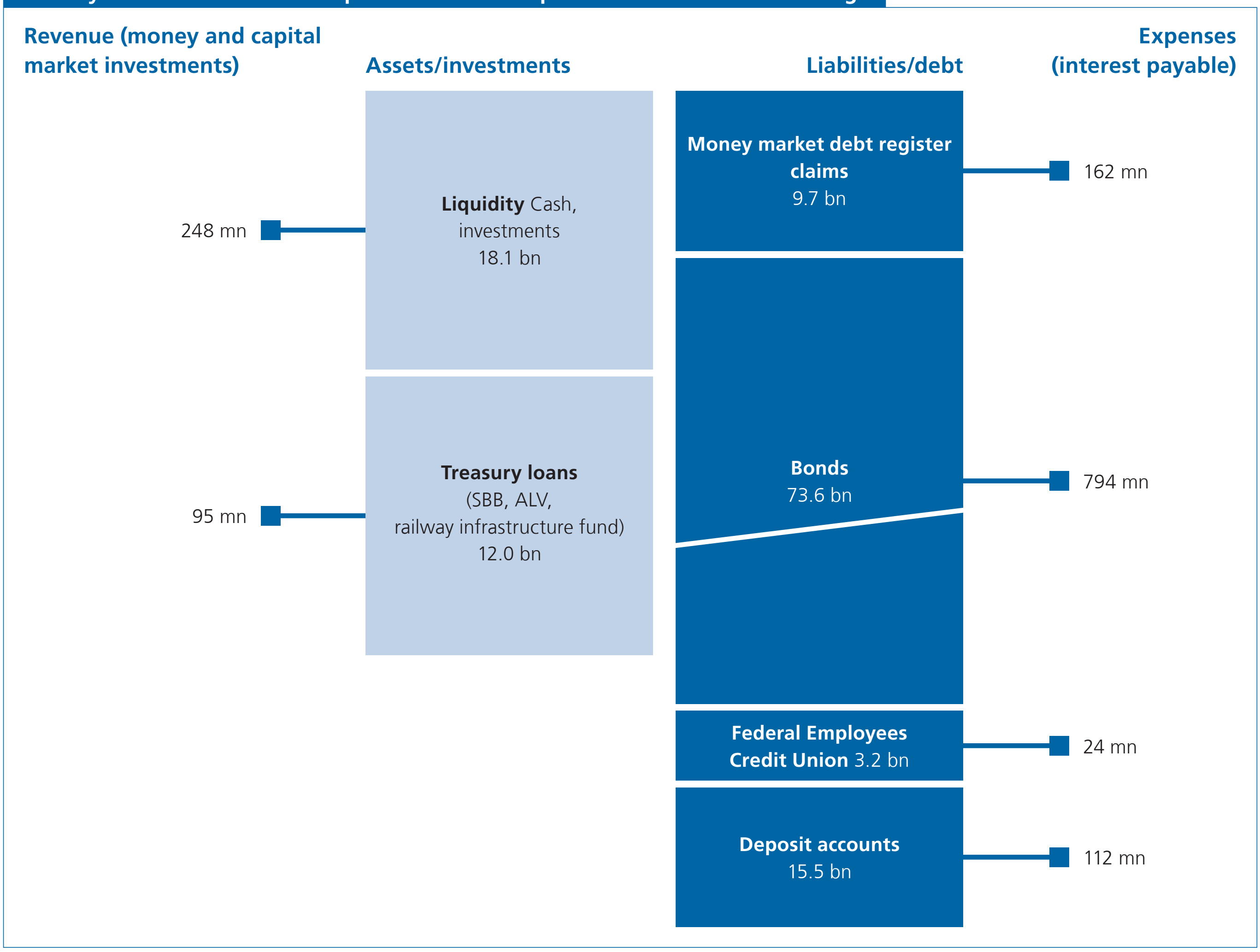
— *Debt management:* coverage of the funding needs by means of funding in the money and capital market at the lowest possible cost and with an acceptable degree of risk

— *Liquidity management:* assurance of an appropriate level of liquidity to even out liquidity fluctuations; low-risk short-term investment of liquidity at usual market interest rates or short-term coverage of liquidity shortfalls

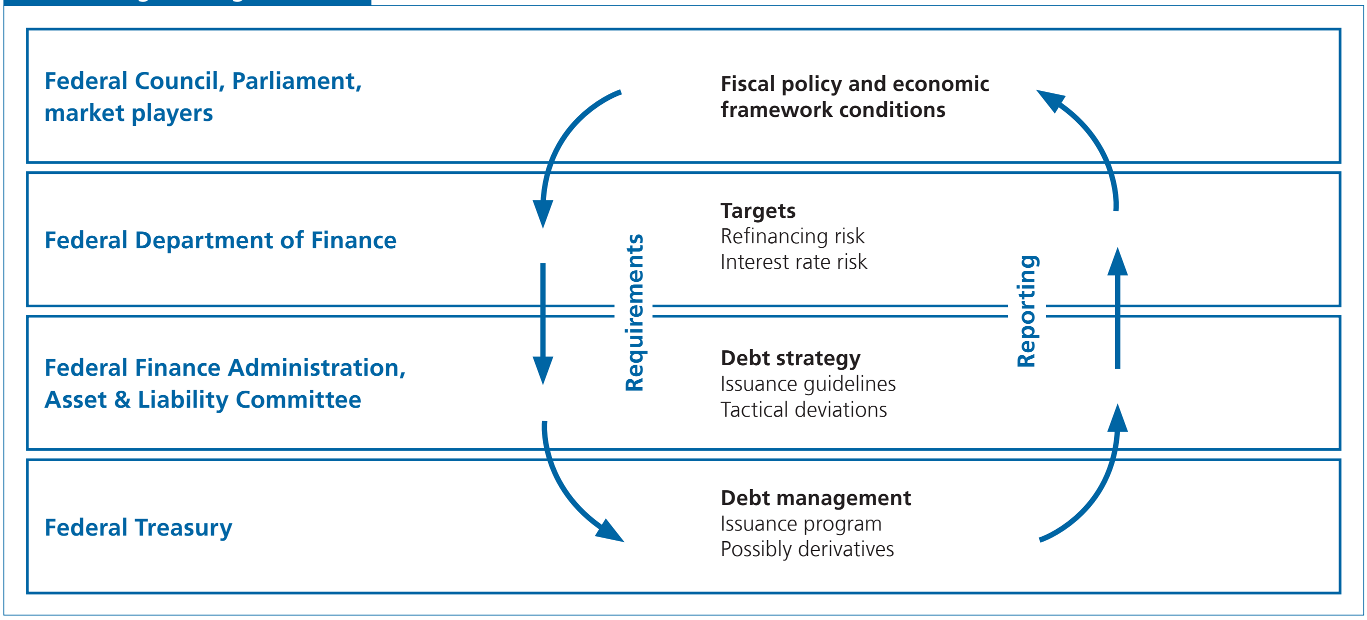
— *Foreign exchange management:* central procurement and management of foreign currencies to ensure planning certainty

The Federal Treasury ensures the Confederation's ability to fulfill its payment obligations at all times

Treasury statement of financial position and its impact on the 2024 federal budget



Debt management governance



The Federal Treasury manages a significant proportion of the Confederation's balance sheet. Its activities involve substantial expenditure and receipts. Since the Confederation is a net borrower, this mostly concerns debt management with interest payable.

The Federal Treasury has little leeway regarding the volume of debt, as the funding requirements depend primarily on the development of the federal budget and thus on fiscal policy. Nevertheless, the Federal Treasury's debt management has a significant impact on interest payable: since the interest rates for short maturities are generally lower than those for long ones, the Federal Treasury can reduce the average interest burden by issuing more short-term debt instruments. However, this increases the interest rate risk and refinancing risk, as the debt needs to be renewed more frequently. Conversely, it can reduce these risks by issuing long-dated instruments, but this leads to higher interest expenditure on average.

The interest rate risk is a relevant variable for fiscal policy, as unexpected changes in interest expenditure affect the leeway for budgeting other expenditure. Consequently, the Federal Treasury has a risk limit which it may not exceed for debt management. This risk limit is part of the FFA's targets in performance management. They are agreed with the Department on an annual basis. Within these risk guidelines, the FFA's Asset & Liability Management Committee (ALCO) specifies a debt strategy which the Federal Treasury has to implement with its issuing activity. Monitoring and reporting are carried out by an independent middle office (Risk Control).

Liquidity and foreign exchange management are also associated with risks, which are controlled by the ALCO and monitored by Risk Control.

Targets

	Limit	Actual 2023	Actual 2024
Refinancing risk: the FFA helps ensure that the Confederation's refinancing risk is bearable.			
Maturity profile of money and capital market debt under 1 year (%, maximum)	30	20	16
Maturity profile of money and capital market debt under 5 years (%, maximum)	60	38	35
Maturity profile of money and capital market debt under 10 years (%, maximum)	85	59	56
Interest rate risk: the FFA helps ensure that the interest rate risk is bearable for the federal budget in the short and medium term.			
Accumulated interest rate risk for following 4-year period: additional interest expense that will not be exceeded in 9/10 cases (CHF mn)	500	387	403

Debt management risks

The Confederation is confronted by two inherent risks when managing its debt:

Interest rate risk: in the event of a rise in interest rates, debt has to be issued at a higher rate of interest. This leads to higher interest expenditure, i.e. to a burden for the federal budget. The interest rate risk can be quantified using statistical simulations.

Refinancing risk: as a result of declining creditworthiness on the part of the Confederation or major financial market turmoil, (re)financing in the market could result in higher/unfavorable market interest rates, or, in an extreme situation, could even prove impossible. This could jeopardize the objective of ensuring the Confederation's ability to fulfill its payment obligations. The maturity profile of outstanding debt as well as ratings are key indicators for the refinancing risk.

0.62

percent

was the interest on the bonds issued in 2024.

2024 Treasury activity

■ Developments on the Swiss capital market

Global economic growth was robust overall in 2024, although there were clear regional differences. While strong growth continued in the United States, the economic recovery in the eurozone progressed only sluggishly, which was due in particular to political uncertainties in key markets such as Germany and France, as well as general structural challenges in the eurozone. Compared to the eurozone, the Swiss economy was somewhat more dynamic, supported primarily by the strength of highly specialized sectors such as the chemical and pharmaceutical industries. Nevertheless, the subdued growth in the eurozone also impacted Switzerland, which is why economic growth of only around 1% is expected for 2024.

Inflation likewise remained a key issue in 2024. Inflation rates in the United States and the eurozone approached the target value of 2% over the course of the year, which gave the central banks leeway to cut key interest rates on several occasions. Despite this progress, however, core inflation remains a persistent problem, suggesting that it could be some time before the inflation targets are reached on a sustained basis in both markets. The decline in inflation also continued significantly in Switzerland. After an average inflation rate of 2.1% in 2023, it even fell to 1.1% in 2024. As a result of the low inflation, the SNB reduced its policy rate in March. Further interest rate cuts followed each time the situation was assessed over the course of the year, bringing the policy rate to 0.50% at the end of December 2024 – a total decrease of 125 basis points in this period. These monetary policy measures had a direct impact on the bond markets. In Switzerland, lower inflation and the resulting reduction in the policy rate led to a significant fall in yields. For example, the yield on the 10-year Confederation bond fell continuously over the course of the year. While it was still at 0.6% at the beginning of 2024, it had fallen to around 0.3% by the end of the year.

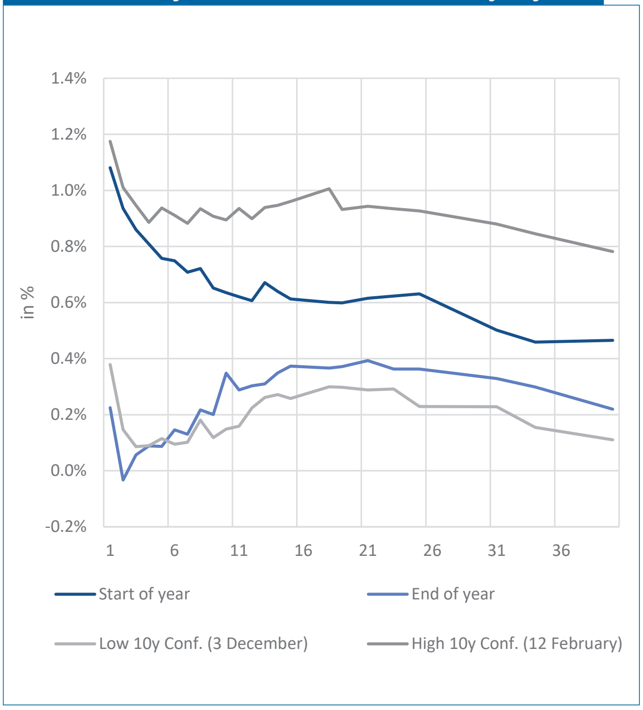
The yield on 10-year Confederation bonds fell from 0.6% to 0.3% over the course of the year

Against this backdrop, the Swiss primary market was once again robust, recording a total issuance volume of over CHF 82 billion (including Confederation bonds, but excluding changes in own holdings over the course of the year). This was due mainly to domestic business, which saw a record volume of almost CHF 64 billion. Issuers from the industrial and public sectors in particular recorded a significant increase in issuing activity. By contrast, the foreign segment experienced a rather weak year and, with an issuance volume of just under CHF 19 billion, suffered a decline of over 25% year on year.

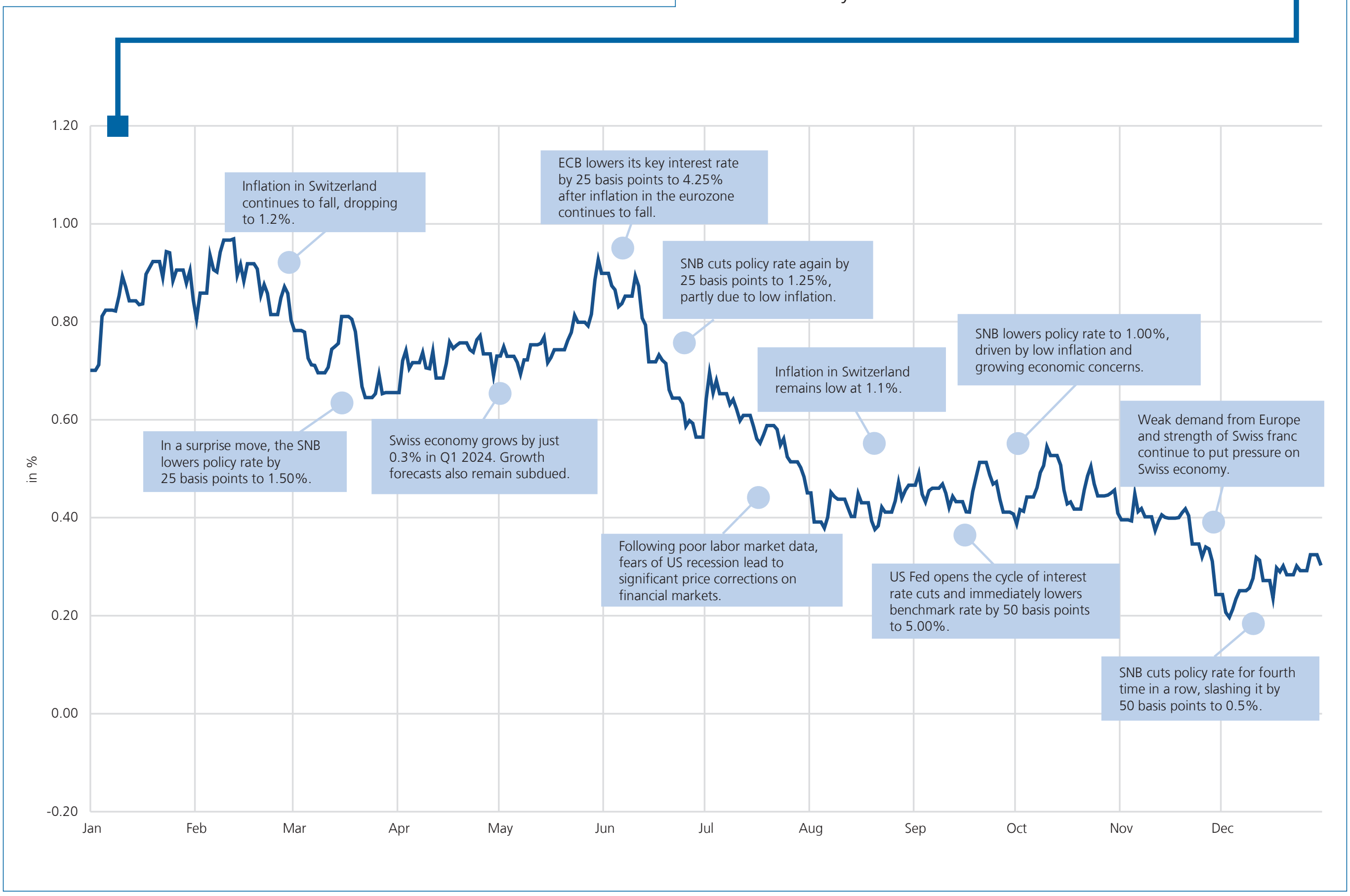
A much-discussed development on the Swiss primary market in 2024 was the spread widening, which was observed across all sectors and credit ratings and did not leave the Confederation bonds unscathed. The spread of the 10-year Confederation bond widened over the course of the year from around -50 basis points at the beginning of the year to just under -10 basis points at the end of 2024. This development was often attributed to the high level of issuing activity on the domestic primary market: in order to participate in the numerous new issues, many investors divested themselves of their most liquid positions, including Confederation bonds, which led to a continuous increase in spreads. However, spread widening was not a purely Swiss phenomenon, as it was also observed in other countries such as Germany, the United Kingdom and the United States.

Accordingly, this development was a major issue for public debt managers in other countries too. Potential explanations focused in particular on monetary and fiscal policy. With the turnaround in interest rates, the major central banks discontinued their quantitative easing (QE) programs and scaled them back in some cases. In Germany, for example, this led to an increase in the free float of government bonds, which boosted their availability on the market. At the same time, in an effort to combat inflation, many central banks pursued a monetary policy that was more closely focused on economic data, which in some cases led to fierce market reactions when new economic data was published, and generally increased the volatility of government bonds. Both factors are likely to have contributed to spread widening. Added to this was the expansionary fiscal policy in many important countries, which increased the supply of government bonds and had a correspondingly negative impact on their prices. Although these explanations cannot be directly applied to Switzerland, especially as the SNB did not carry out QE with Confederation bonds, it stands to reason that domestic spreads were also pulled down in the wake of the spread widening observed internationally.

Confed. bond yield curve (term to maturity & yield)

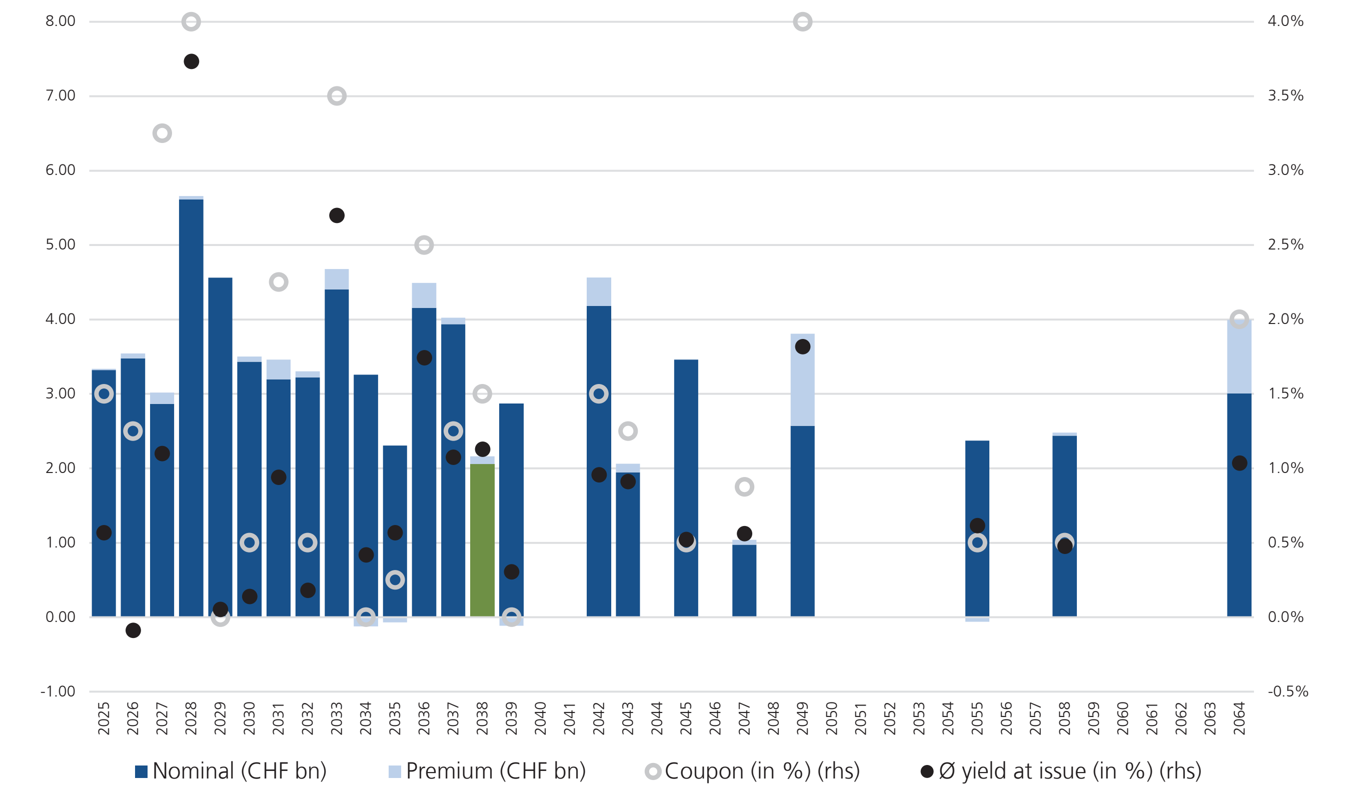


Development of government bond interest rates

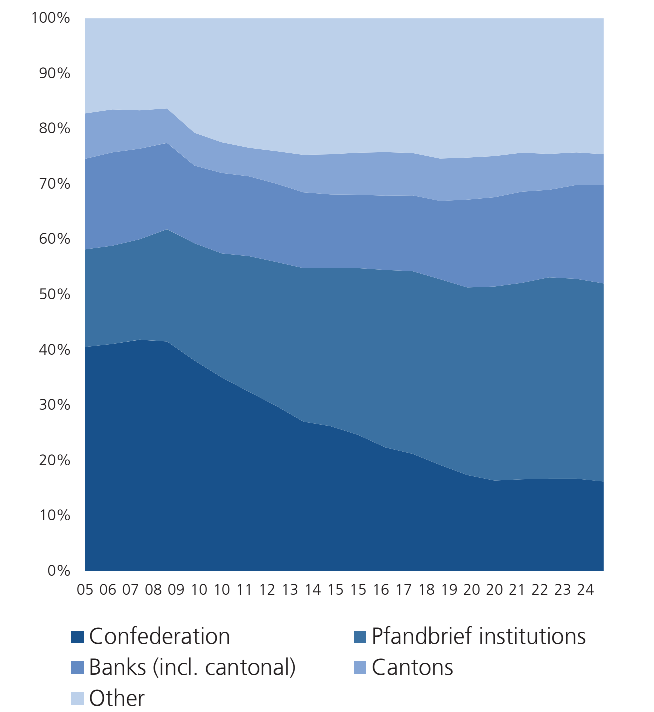


Source: Bloomberg

Outstanding bonds in nominal terms and at amortized cost

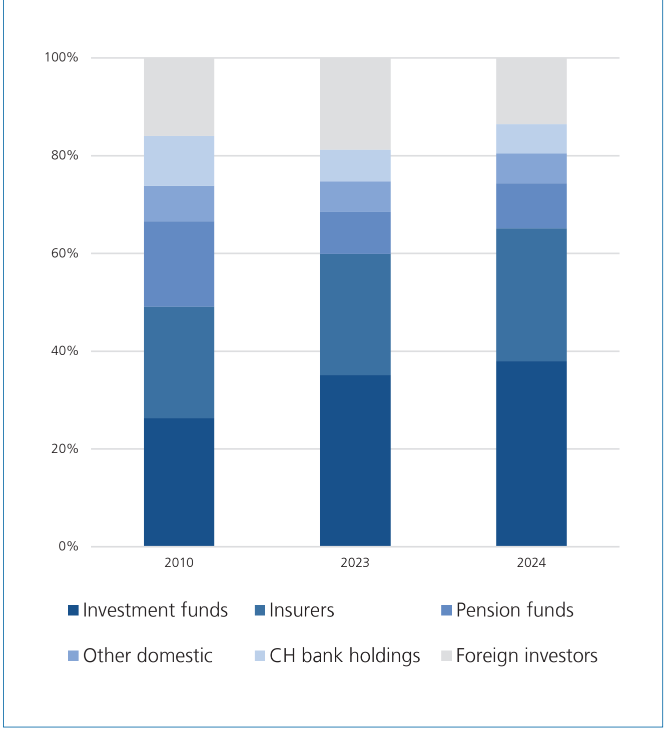


Outstanding bonds in CHF domestic segment



Source: SIX

Confederation bond investor base



Source: SNB, own calculations

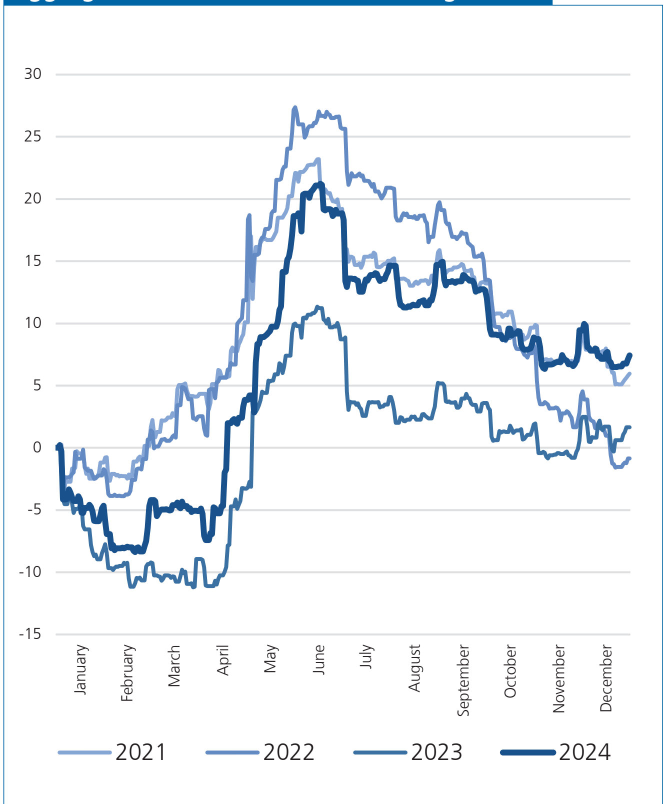
As in the previous year, Pfandbrief institutions dominated the Swiss bond market in 2024 and achieved a total issuance volume of around CHF 21 billion, followed by the Confederation with just under CHF 5 billion. A similar picture emerged for the outstanding bond volume: the Pfandbriefbank led the ranking (95 bn), closely followed by the Pfandbriefzentrale (83 bn) and the Confederation (74 bn; including own holdings sold).

Funding requirements and liquidity trend

At the beginning of 2024, the Confederation had liquid assets totaling CHF 15.6 billion. In addition to the credit balance on the SNB sight deposit account, these also included short-term money market investments. The ranges adopted by the ALCO for optimal liquidity management also envisaged a relatively high level of liquidity of between CHF 15 billion and CHF 23 billion at the end of 2024. The high liquidity reserves are still necessary in order to be able to meet the potential obligations arising from the rescue mechanism for the electricity industry at all times. Based on the Federal Act on Subsidiary Financial Aid to Support Systemically Critical Companies in the Electricity Industry (FiRECA), the Federal Treasury must be in a position to provide up to CHF 10 billion to bridge the industry's liquidity gap at short notice until the end of 2026.

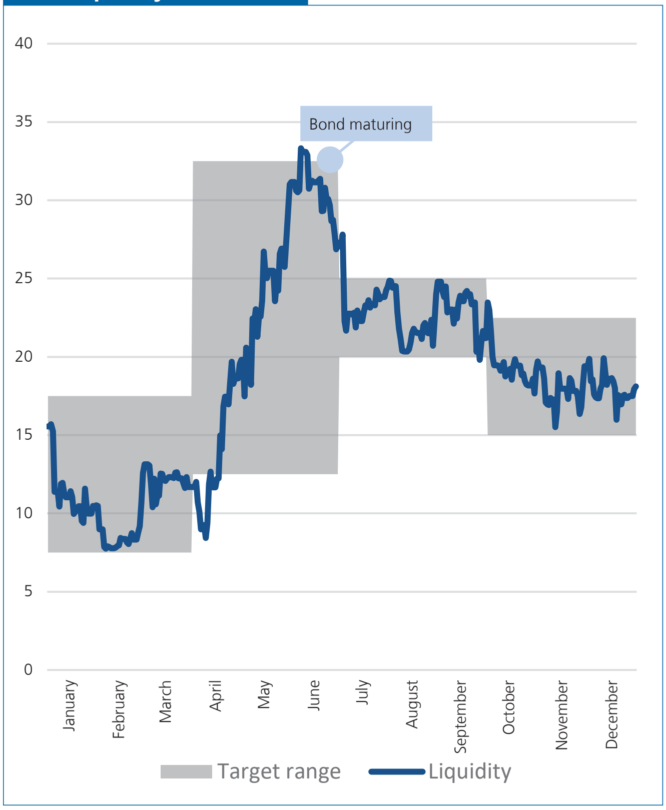
In order to keep liquidity within the desired range, the Federal Finance Administration's issuance program envisaged gross issues on the capital market worth CHF 5 billion. At the same time, the volume of money market debt register claims was to be kept within a range of CHF 10 billion to CHF 16 billion over the course of the year. The net debt increase of CHF 1.8 billion was intended mainly to cover the general funding requirements of the federal budget.

Aggregate net cash flows federal budget in bn



Calculation: daily change in SNB sight deposit account less financing activities

2024 liquidity trend in bn



Overall, liquidity developed better than expected in the Federal Treasury's planning, which served as the basis for the 2024 issuance program. Consequently, the money market debt register claim volume was steadily reduced from February until early summer and then kept constant at around CHF 10 billion, although the original plan was to increase it from late summer onward. The slightly lower-than-planned bond issuance volume also helped to achieve the planned liquidity level.

Liquidity developed better than expected over the year

With the return to a positive interest rate environment in 2022, the seasonal liquidity pattern changed significantly. In particular, deferred withholding tax refund requests due to the negative interest rate environment up to 2023 were finally submitted. This catch-up effect was no longer observed in 2024.

Investment activity

Liquidity

As part of its liquidity management, the Federal Treasury may invest and borrow funds in the money market. In 2024, the SNB's interest rate policy remained a key issue. After the SNB's policy rate reached a high in June 2023, the Federal Treasury adjusted its strategy for investing short-term funds to the changed market conditions and continued its investment activities. The focus remained on making optimal use of market opportunities in the prevailing interest rate environment. Three instruments are at the center of this. The sight deposit account at the SNB provides the Federal Treasury with a risk-free investment opportunity that bears interest at the SNB policy rate up to a certain threshold. In its daily liquidity planning, the Federal Treasury's aim is to utilize this limit on the sight deposit account to the fullest extent possible. In addition, fixed-term deposits with maturities of between one week and one year are concluded with the SNB at standard market conditions. Access to the Swiss repo market provides a third instrument for investing funds. This instrument is used in particular for investing unexpected liquidity that temporarily exceeds the threshold on the sight deposit account.

At the beginning of the year, SNB fixed-term deposits totaling CHF 10.1 billion were outstanding. These fixed-term deposits also include the CHF 1 billion that must be held at the SNB at all times to cover possible intraday liquidity shortfalls. Over the course of the year, the outstanding volume of fixed-term deposits fluctuated between CHF 2.6 billion and CHF 28,25 billion, and ended the year at CHF 11.3 billion. The yield achieved was always based on the prevailing OIS SARON swap rate for the corresponding maturity.

If the available liquidity on the sight deposit account at the end of the day exceeds the threshold for interest at the SNB policy rate, the Federal Treasury executes overnight repo transactions. The funds placed are repaid on the next business day. The Federal Treasury is well established on the CHF repo market and can call on a wide range of counterparties. In 2024, repo transactions were executed on 106 days, spread across a total of 702 transactions. The volumes traded ranged between CHF 35 million and CHF 2.2 billion, and amounted to an average of CHF 570 million. Of the 702 transactions, 83% were overnight transactions, which shows the clear dominance of short-term financing instruments, while 9% had a term of one week and 2% of two weeks. Only 1% of transactions had a term of three weeks, while 5% had a term of one month. This breakdown makes it clear that the majority of transactions are concentrated on very short-term periods, while longer terms play only a minor role. The interest rate agreed in each case was slightly below the SNB policy rate, but significantly higher than the interest rate paid by the SNB for balances on the sight deposit account above the threshold (SNB policy rate -50bp).

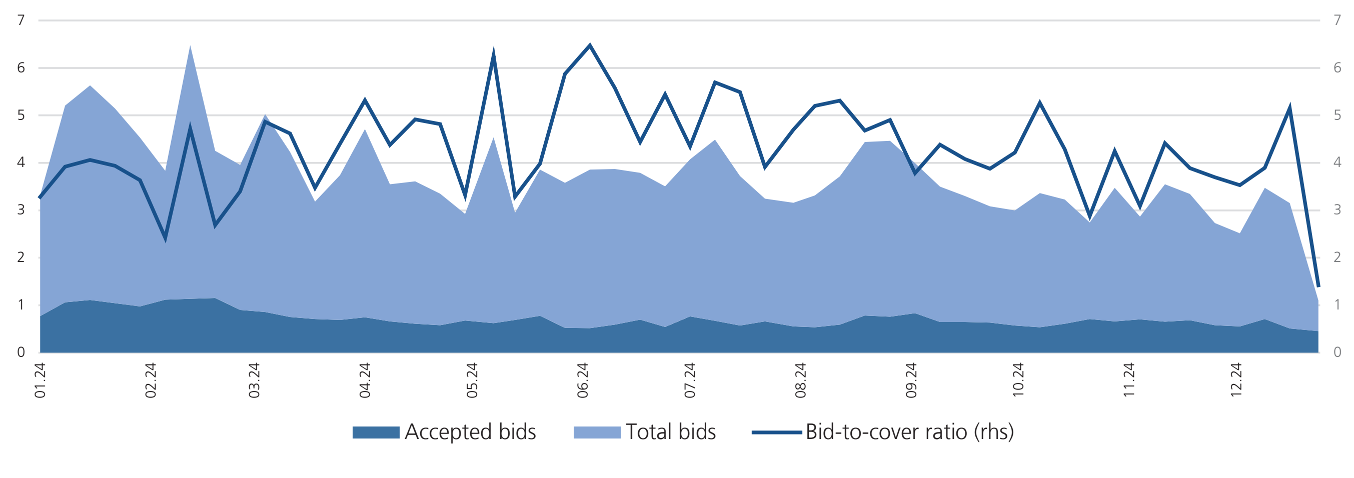
In addition, fixed-term deposits were concluded with carefully selected counterparties (cantons and cantonal banks with a state guarantee). The amounts ranged from CHF 50 million to CHF 400 million, with maturities varying between 7 days and 5 months. The average yields achieved were 12 to 25 basis points above the OIS SARON rate with the same maturity.

Repo transactions
Repos (repurchase agreements) are financial transactions in which a lender provides cash to a borrower for a specified period of time in exchange for collateral (e.g. bonds). They essentially consist of two transactions, a spot and a forward transaction. In the first leg, the borrower sells collateral to the lender (spot transaction). At the same time, the parties agree on the repurchase of the collateral at a future date (forward transaction). In a conventional repo transaction, the lender receives interest at the repo rate in addition to the amount lent when the transaction is completed in the final leg. Repos normally have terms of between one day and 12 months. They are an important component of the interbank market and provide the financial system with liquidity. Moreover, the SNB uses repo trading to implement its monetary policy strategy by keeping the short-term repo rate – the Swiss Average Rate Overnight (SARON) – close to its policy rate. An important feature of repos compared with other financial transactions is the considerable reduction in credit risk achieved through the exchange of collateral and the margin calls that are at least daily. The Federal Treasury joined the repo market at the beginning of 2019.

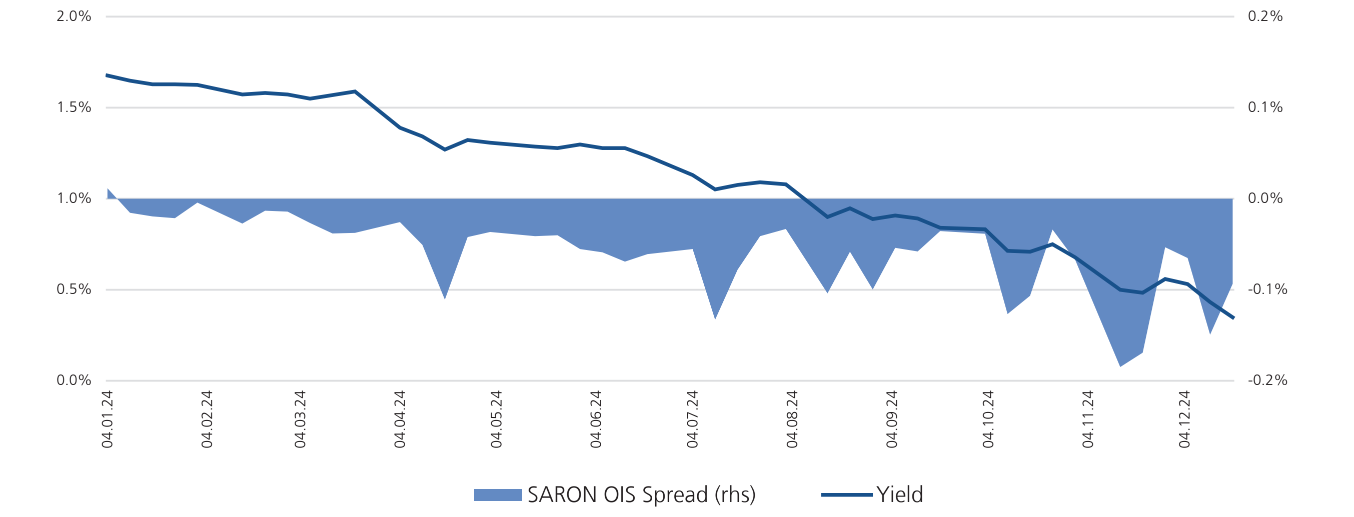
Treasury loans
The Federal Treasury may affiliate administrative units of the decentralized Federal Administration that maintain separate accounts to the central Treasury for the management of their liquidity. This also applies to organizations which, based on special legislation, may have funds invested and managed by the Federal Treasury. The Federal Treasury enters into treasury agreements with the eligible entities. In certain cases, the treasury agreements provide that the administrative units may also take out loans from the Federal Treasury. The interest rate on such loans is generally based on the prevailing OIS SARON swap rate for the relevant term, plus a risk margin. During the year under review, this option was used almost exclusively by SBB and the railway infrastructure fund (RIF). Outstanding loans to SBB rose from CHF 6.5 billion to CHF 7.6 billion during the year, while those to the RIF decreased from CHF 5.1 billion to CHF 4.4 billion. As a result, treasury loans totaling CHF 12.0 billion were outstanding at the end of the year.

Money market debt register claims

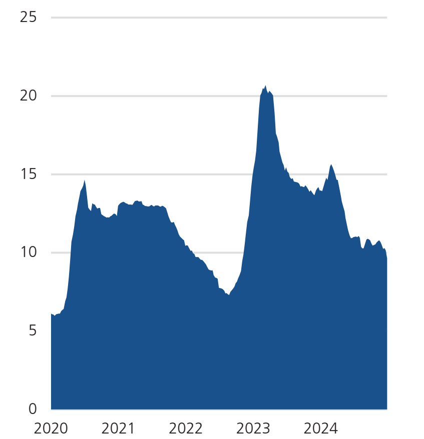
Auctions in bn



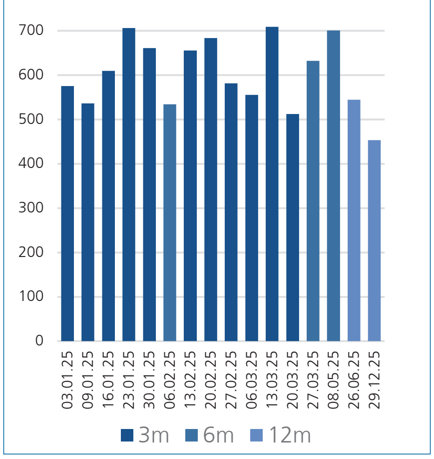
Yields in% (3m money market debt register claims)



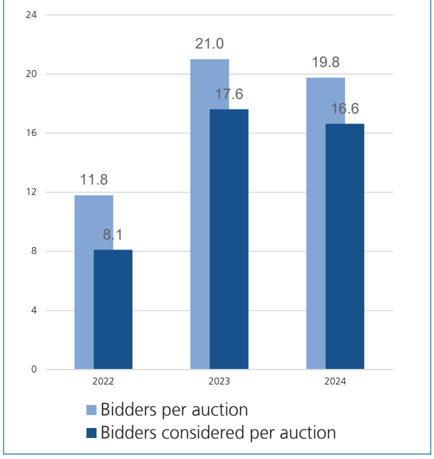
Outstanding in bn



Maturity profile end of 2024 in mn



Average number of bidders



Funding in the money market

Money market debt register claims

Due to their short maturities and weekly auctions, money market debt register claims are an ideal instrument for managing the Confederation's short-term liquidity and responding to short-term payment peaks. According to the issuance program for 2024, the volume of money market debt register claims should be within the range of CHF 10 billion to CHF 16 billion over the course of the year (range in 2023: 12 bn to 18 bn). While the outstanding volume of money market debt register claims totaled around CHF 14 billion at the beginning of the year, it was still around CHF 9.7 billion at the end of the year.

In 2024, the development of the money market debt register claim issues was characterized by stability, efficiency and a clear focus on the planned objectives. The outstanding volume of short-term liabilities was gradually reduced in line with the funding program's requirements, while remaining within the set ranges of CHF 10 billion to CHF 16 billion, except at the end of the year. Seasonal cash inflows, in particular from tax payments, made it necessary to smooth peaks in liquidity requirements and to adjust issuance volumes flexibly. Demand for the issued money market debt register claims remained at a satisfactory level, although the average bid volume fell slightly over the course of the year. Despite these moderate adjustments, the auction mechanisms remained efficient and the average volume issued was adjusted to current market conditions.

Money market debt register claims

Money market debt register claims (T-bills) are interest-bearing debt instruments that are issued at a discount by the FFA. These are tradable debt register claims entered in a main register kept by SIX SIS Ltd. Money market debt register claims have maturities of three, six or twelve months. A total of 16 money market debt register claims are always outstanding (11 three-month ones, 3 six-month ones and 2 twelve-month ones). The auctions are held weekly on Tuesdays on the platform of SIX Repo Ltd (rate tender with Dutch or single rate allocation procedure). No nominal interest rate is specified in the case of money market debt register claims; the interest is in the form of a discount at the time of issuance. This means that money market debt register claims are normally issued at a price that is less than 100% of the nominal value. Redemption is then at 100%.

The regular issuance of these money market instruments is an important pillar of the Confederation's refinancing. A liquid primary market for money market debt register claims that functions well enables the Confederation to raise even larger volumes of borrowed capital at favorable conditions at any time.

Financing conditions improved noticeably over the course of the year, mainly as a result of the monetary policy measures taken by the Swiss National Bank, which resulted in several interest rate cuts. In 2024, the yields on money market debt register claims showed a clear downward trend. While they were still close to 1.7% at the end of 2023 and remained relatively stable above 1.6% in the first few months of the year, a gradual decline set in from March onward, which intensified over the course of the year. At the end of March, the yield fell considerably for the first time to 1.3%, while in the second quarter it fluctuated between 1.39% and 1.23%. A significant turning point occurred at the end of June, when the yield on 1-year money market debt register claims fell below the 1% mark. In the second half of the year, the downward trend continued, with yields falling below 0.9% in August and below 0.8% in September. The development was particularly striking in the fourth quarter, when yields in November were already at around the 0.5% mark, and then ultimately plunged in December. A low of 0.35% was reached in mid-December. Over the course of the year, the yield averaged 1.06% (volume-weighted 1.13%). The combination of lower issuance volumes and lower interest rates led to a noticeable decline in interest expense. In 2024, these amounted to CHF 162 million for money market debt register claims (2023: 214 mn). The spreads to the reference rates (OIS SARON swap rate) averaged -5.5 basis points, with a relatively wide range (between -18.5 and +0.4 basis points). The most negative spreads tended to be observed in the last quarter of the year, which indicates a correlation to the cross-currency basis.

In summary, the money market debt register claims program once again demonstrated impressive flexibility and efficiency in 2024. It made it possible to effectively manage seasonal fluctuations in liquidity requirements and achieve the planned funding objectives. This makes the money market debt register claims program an indispensable part of the Federal Treasury's toolbox.

Lower key interest rates and issue volumes lead to a noticeable decline in interest expenses

Funding in the capital market

The issuance program presented at the start of December 2023 put the federal government's funding requirements for 2024 at around CHF 5 billion in nominal terms. The planned issuance volume was to be raised in full in the Swiss capital market in eleven auctions and through the opportunistic sale of own holdings. The funds raised were to be used, on the one hand, for the Confederation's general funding requirements (CHF 4 bn), with CHF 3.2 billion in particular to be used for the redemption of the bond maturing in 2024. On the other hand, the reduction in the outstanding volume of money market debt register claims of CHF 1 billion was also to be financed.

In total, the Confederation auctioned 23 Confederation bonds on eleven auction dates in 2024, with the volume issued amounting to CHF 4.8 billion in nominal terms. This includes the sale of own holdings with a face value of CHF 37 million. At year-end, the Confederation's outstanding bond volume thus totaled around CHF 73.6 billion (including own holdings sold) and was therefore around CHF 1.6 billion higher than a year earlier (2023: 72.0 bn). The average yield on the Confederation bonds issued in 2024 was 0.62% (2023: 1.2%), while the average term to maturity was 16.8 years (2023: 15.1 years).

The average yield of the Confederation bonds issued in 2024 was 0.62%

Confederation bonds

Confederation bonds are the Confederation's most important instrument for covering its long-term funding requirements. The auctions generally take place on the second Wednesday of every month and are carried out on the platform of SIX Repo Ltd: upon issuance, only the nominal interest rate (coupon) and maturity are defined, while the issue amount and issue price (and thus the yield) are determined on the basis of the bids submitted by the platform participants (banks and Swiss insurance companies, as well as fund management companies and operators of collective investment schemes under the CISA). Like with money market debt register claims, the Federal Treasury allocates the bonds according to the single rate ("Dutch") procedure, i.e. uniformly at the lowest acceptable price. The SNB is responsible for the technical and administrative processing of the auctions.

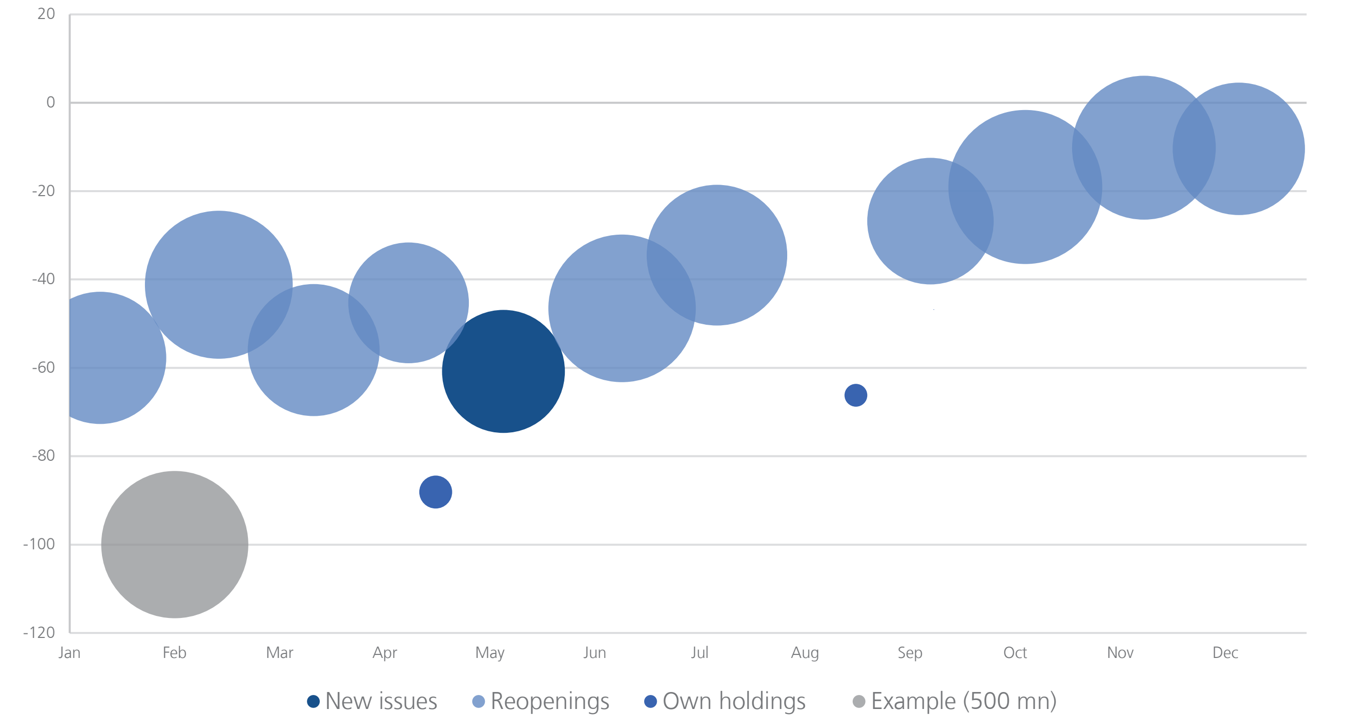
Confederation bonds are listed on the Swiss stock exchange (SIX Swiss Exchange). Effective since summer 2022, they are no longer issued as global certificates, but rather as uncertificated securities in the form of intermediated securities. The Confederation holds a limited volume of securities as own holdings. These own holdings are created in addition when auctions are held, and, if needed, can be sold directly on the market between the ordinary auction dates. An overview of the own holdings available can be found on the FFA and SNB websites.

Confederation bonds contain a reopening clause. As a result, a bond can be reopened with several auctions, thereby increasing its liquidity on the secondary market. The outstanding Confederation bonds, with their respective terms to maturity and yields, form the yield curve for Swiss government bonds. These yields constitute the risk-free reference interest rates for market participants, which allows for an efficient primary and secondary market not just for bonds, but also for associated interest rate derivatives.

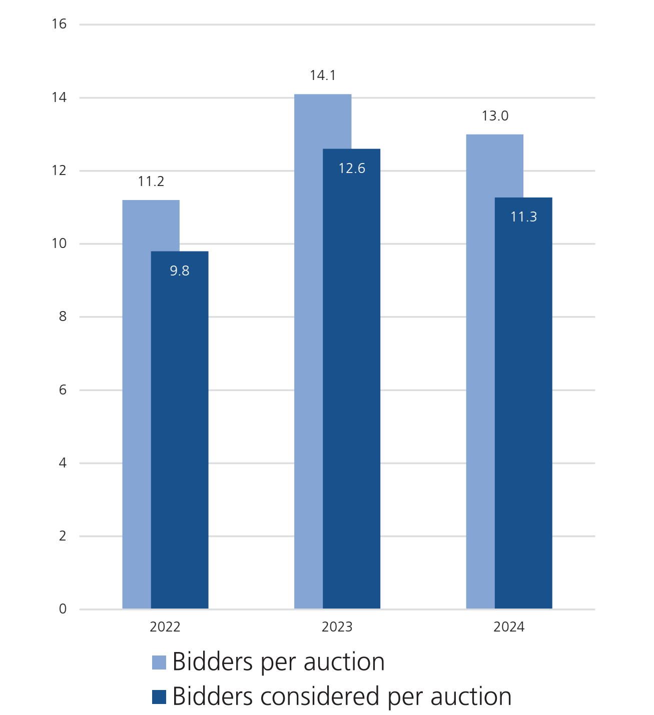
The new green Confederation bonds launched in 2022 are treated in the same way as conventional bonds from an issuing perspective. This means that green bonds will also be regularly reopened in the issuance process after the initial issue in order to ensure secondary market liquidity. Moreover, the Federal Treasury can choose to issue additional green Confederation bonds. The target volume included in the issuance calendar includes both conventional and green Confederation bonds.

Development of the primary market for Confederation bonds

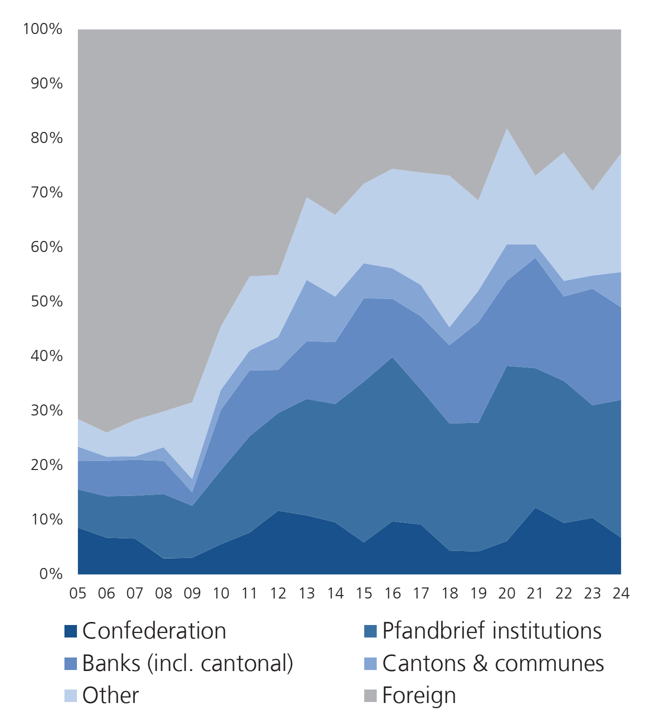
Volume-weighted auction swap spread (in bp)



Average number of bidders



Share of Confederation bonds on CHF primary market



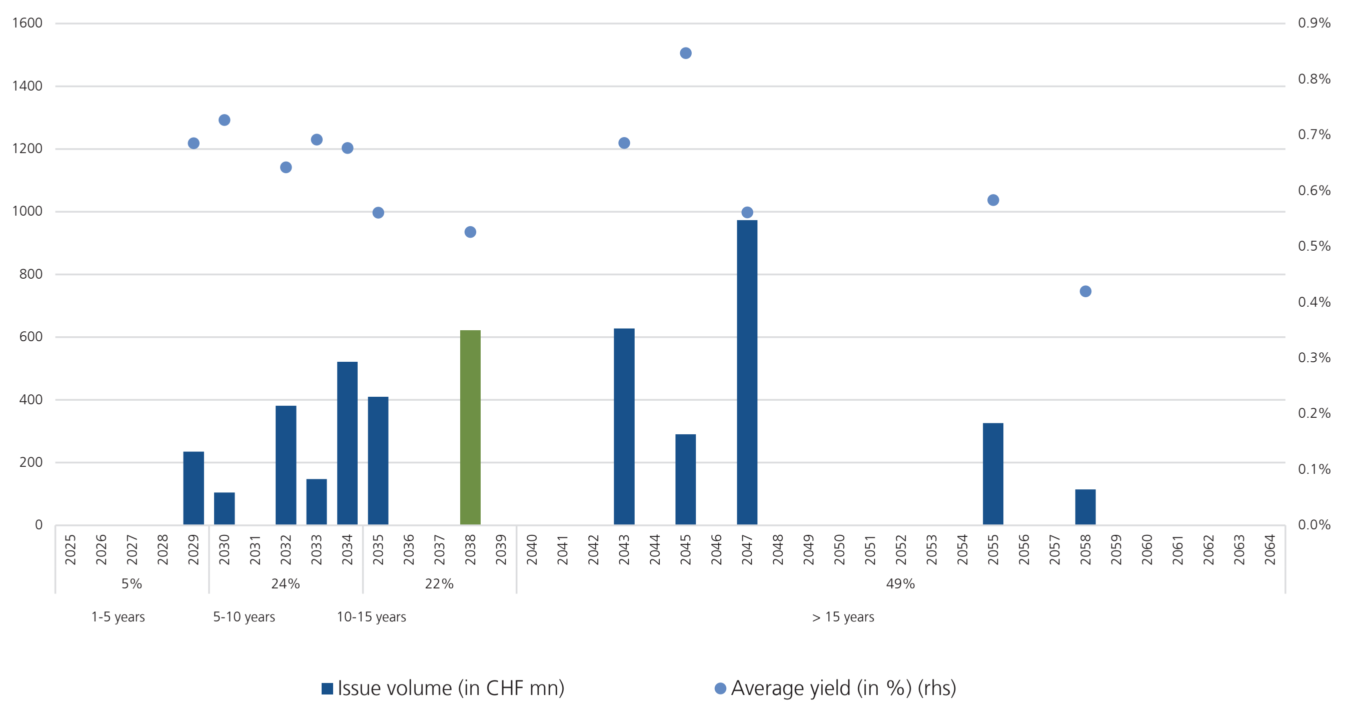
Source: SNB

2024 bond auctions

Auction results

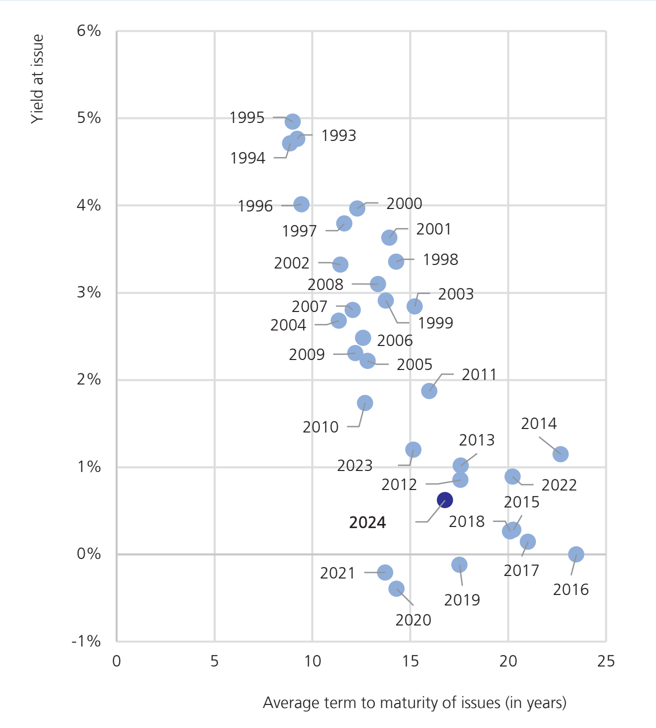
Auction	Issue	Coupon	Maturity	Issue volume (in CHF mn)	Total outstanding (in CHF mn)	Yield	Spread to swap	Bid-to-cover
10.01.2024	Conf. 26.10.22/38	1.500%	26.10.2038	207.6	1 645.0	0.821%	-55.6	1.5
10.01.2024	Conf. 24.05.17/55	0.500%	24.05.2055	195.7	2 243.4	0.700%	-60.0	1.3
14.02.2024	Conf. 27.06.18/32	0.500%	27.06.2032	215.0	3 056.4	0.824%	-33.6	1.7
14.02.2024	Conf. 28.06.17/45	0.500%	28.06.2045	290.1	3 460.2	0.847%	-46.8	2.4
13.03.2024	Conf. 08.04.03/33	3.500%	08.04.2033	147.9	4 403.9	0.692%	-49.9	2.7
13.03.2024	Conf. 28.06.23/43	1.250%	28.06.2043	254.3	1 574.5	0.699%	-59.5	2.4
10.04.2024	Conf. 27.05.15/30	0.500%	27.05.2030	104.9	3 433.4	0.727%	-33.1	1.1
10.04.2024	Conf. 23.06.21/35	0.250%	23.06.2035	231.4	2 127.2	0.670%	-50.8	2.0
08.05.2024	Conf. 22.05.24/47	0.875%	22.05.2047	349.0	349.0	0.686%	-60.8	2.4
12.06.2024	Conf. 26.06.19/34	0.000%	26.06.2034	298.0	3 034.6	0.826%	-43.6	2.1
12.06.2024	Conf. 28.06.23/43	1.250%	28.06.2043	204.5	1 778.9	0.830%	-50.8	1.7
10.07.2024	Conf. 22.06.16/29	0.000%	22.06.2029	235.1	4 562.4	0.686%	-22.4	2.2
10.07.2024	Conf. 22.05.24/47	0.875%	22.05.2047	221.7	570.6	0.616%	-47.3	2.0
11.09.2024	Conf. 27.06.18/32	0.500%	27.06.2032	166.7	3 223.1	0.408%	-21.9	1.2
11.09.2024	Conf. 26.10.22/38	1.500%	26.10.2038	202.9	1 847.9	0.436%	-30.8	1.4
09.10.2024	Conf. 26.06.19/34	0.000%	26.06.2034	223.3	3 258.0	0.477%	-16.4	1.1
09.10.2024	Conf. 22.05.24/47	0.875%	22.05.2047	209.4	780.0	0.499%	-21.0	1.2
09.10.2024	Conf. 30.05.16/58	0.500%	30.05.2058	114.7	2 438.2	0.420%	-20.7	1.6
13.11.2024	Conf. 23.06.21/35	0.250%	23.06.2035	178.4	2 305.6	0.420%	-9.4	1.4
13.11.2024	Conf. 28.06.23/43	1.250%	28.06.2043	168.6	1 947.5	0.491%	-10.4	1.2
13.11.2024	Conf. 24.05.17/55	0.500%	24.05.2055	130.6	2 374.0	0.409%	-10.9	1.6
11.12.2024	Conf. 26.10.22/38	1.500%	26.10.2038	211.0	2 058.8	0.323%	-9.9	1.8
11.12.2024	Conf. 22.05.24/47	0.875%	22.05.2047	193.5	973.5	0.341%	-11.0	1.6
Total				4753.8		0.622%	-36.1	1.8

Maturities and yields

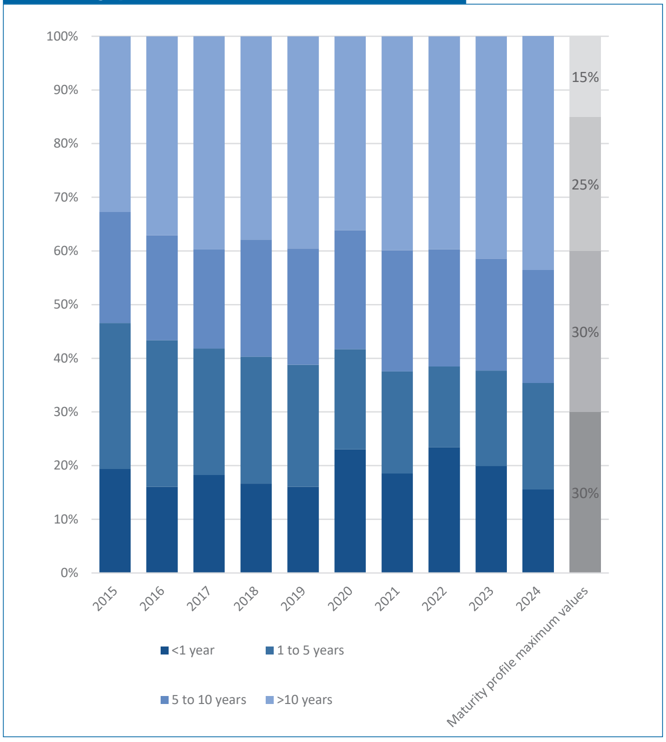


Duration and term to maturity

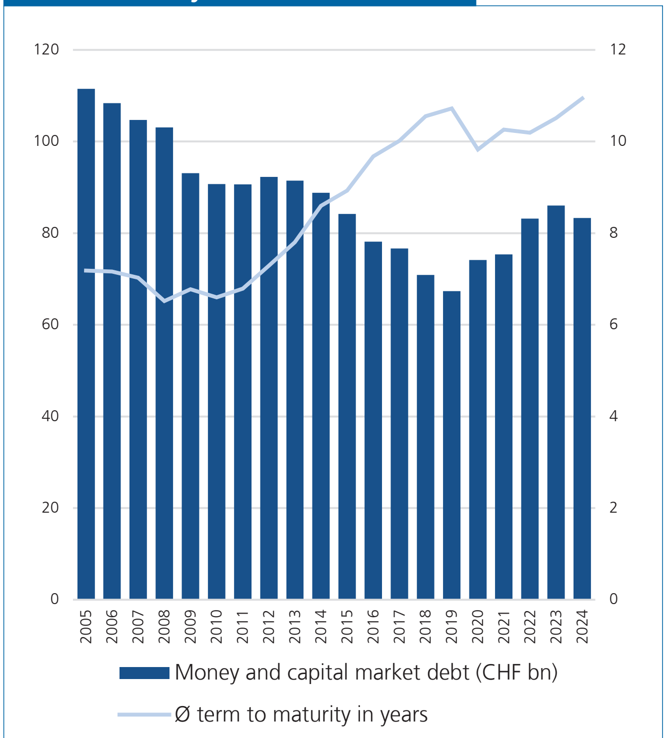
Duration and yield of Confederation bonds



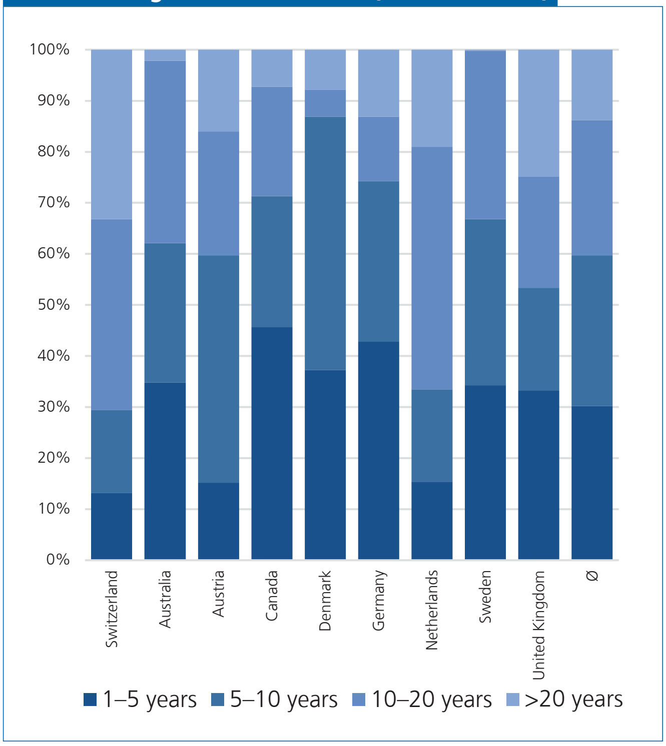
Maturity profile of federal market debt



Term to maturity of federal market debt

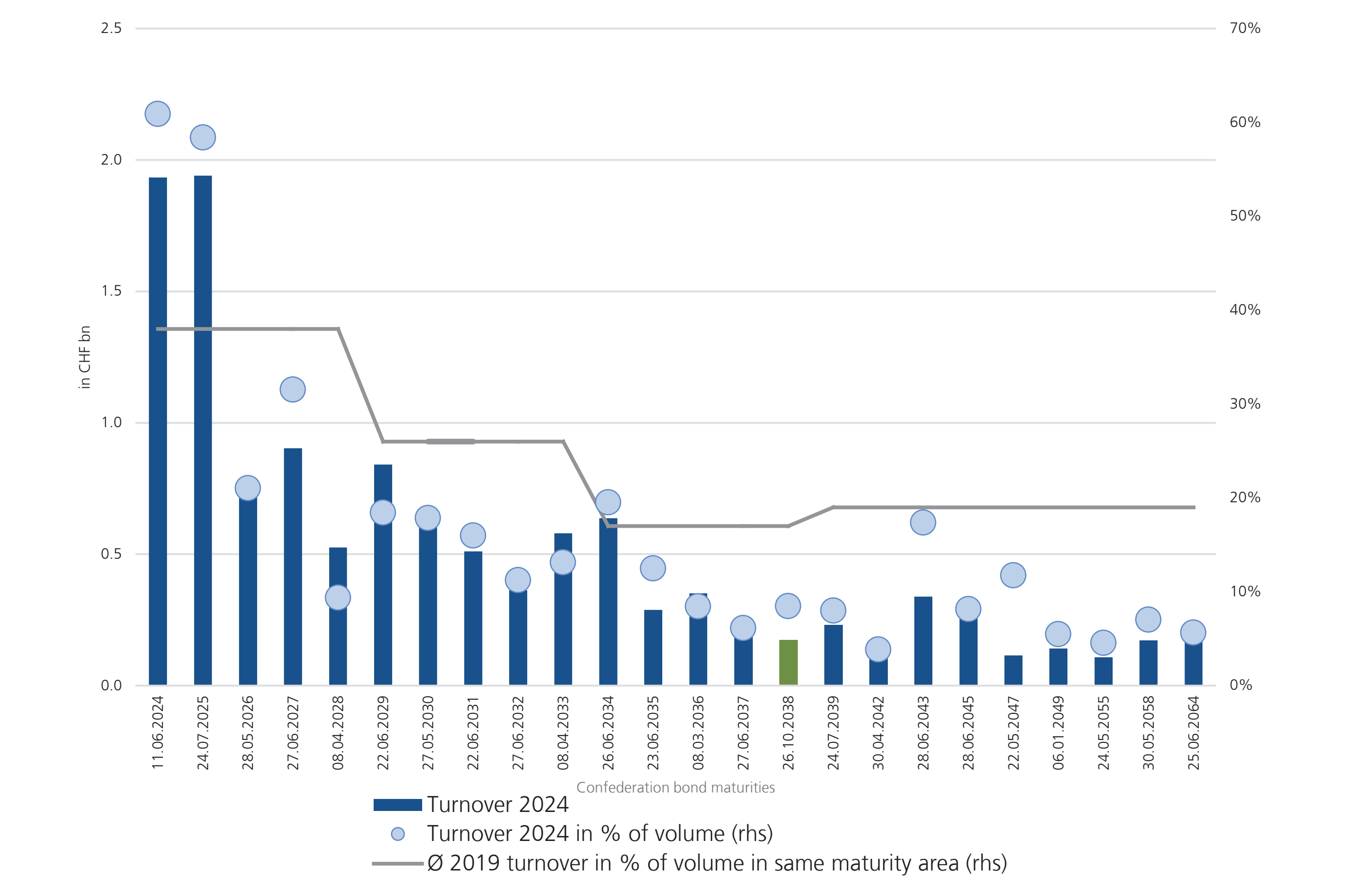


Duration of government bonds (issued in 2024)

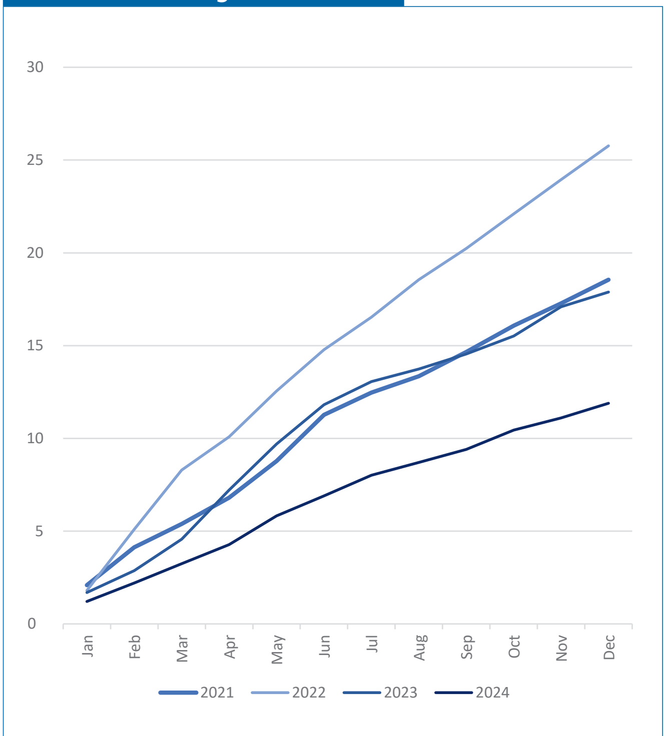


Development of the secondary market for Confederation bonds

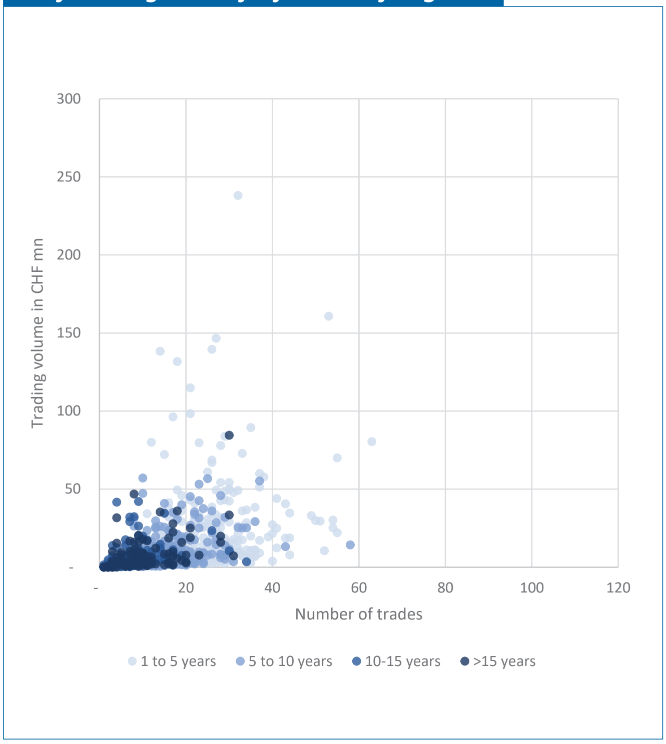
Confederation bond trading volumes on the secondary market



Cumulative trading volumes in bn



Daily trading activity by maturity segment



Source: SIX

Issuing principles of the Federal Treasury

1. The Confederation is committed to an efficient Swiss capital market that functions well, thereby ensuring regular and reliable refinancing opportunities. By issuing bonds, it makes sure that the most important maturities of 1 to 13 years are covered with liquid bonds. In the case of extremely long maturities, intermittent anchor points are to be placed on the yield curve with individual bonds.

2. The Confederation's debt portfolio comprises around 20 underlying bonds. There is only one bond per maturity.

3. The issuance program, together with auction dates and the gross and net annual funding requirements, is publicly communicated in December of the previous year.

4. Bond auctions take place on a monthly basis, with a summer break in August. Two dates are optional (usually October and December).

5. A bond with a maximum volume of CHF 5 billion is to mature per year. A minimum volume of CHF 2 billion is sought with the 10-year benchmark bond.

6. If possible, bonds should mature in the months of May to September; new underlying bonds are launched accordingly during this period.

7. Reopenings are possible for all bonds with a term to maturity of more than one year.

8. Pricing at auctions (allocation) is based on the funding requirement, investor demand, absolute interest rates, bid and offer prices, and the swap spread of the underlying bond.

9. Subject to a federal funding requirement, own holdings can be acquired from the Federal Treasury between the auction dates at market conditions (pricing same as for bond auctions). Maturities that are not (or no longer) covered by auctions in the respective year are preferred.

10. Bonds with a shorter term to maturity can be redeemed within the framework of liquidity management.

Auction review

The Federal Treasury conducted a total of eleven auctions in 2024, and the two optional dates in October and December were used. Two bonds were auctioned at eight of these auctions, while three bonds were issued on each of the two other dates. In May, a new bond maturing in 2047 was additionally issued. No additional bonds were issued on this date, in order to focus on this new issue. Overall, 23 bonds with a face value of CHF 4.8 billion were placed (2023: 8.3 bn). The average volume-weighted auction yield was 0.62% in (2023: 1.20%). After a discount of around CHF 0.1 billion was recorded in the previous year due to the generally higher interest rate environment, a premium of around CHF 0.2 billion was achieved this year. This increase was due to the significant decline in capital market yields in the year under review.

The bonds auctioned will mature between 2029 and 2058, and therefore cover almost all maturity ranges of the yield curve. The average term to maturity (duration) of the bonds auctioned, i.e. excluding the own holdings sold, was 16.8 years (2023: 15.1 years). The tendency toward a long average term to maturity shows that the largest volume was raised by bonds with longer maturities. Bonds with maturities of over 15 years accounted for almost CHF 2.3 billion, or almost 50%, of the issues, while the 10 to 15-year maturity segment represented around CHF 1 billion, or almost 22%.

The issuance strategy defined as optimal for the Federal Treasury stipulates that issues should have an average interest commitment of twelve years with a money market debt register claim share of 15% of the total debt volume. If these issuance guidelines are met over the long term, the debt portfolio should reach a state in which the maximum limit for interest rate risks is fully utilized and interest costs are simultaneously minimized. The realized average term to maturity of just over 16.8 years was slightly above this target. This deviation was due to various factors. On the one hand, demand for short-dated Confederation bonds was relatively weak during the year, which was likely due to the fact that there were sufficient alternatives to Confederation bonds in this segment that offer higher yields as well as very good creditworthiness. On the other hand, similar to the previous year, the Confederation bond yield curve was inverted for long periods, with the result that yields on bonds with longer maturities were similar to, or in some cases even lower than, yields on bonds with shorter maturities. From an economic point of view, issuing bonds with shorter maturities was therefore less advantageous, since the higher interest rate risk was not offset by lower costs. Moreover, it became apparent that investor demand was strongest for long-dated bonds, as was already the case in the previous year. In terms of the average term to maturity of the bonds auctioned in 2024, the Federal Treasury was again well above the international average.

Increase in relative financing costs

Compared to the previous year, the relative financing costs of the federal government, measured by the yield spread to the swap rate, increased. The rise in relative financing costs was particularly noticeable in the second half of the year. While the volume-weighted spread was still around -51 basis points in the first half of the year, it was only -20 basis points in the second half of the year. This spread widening was observed on the Swiss primary market across all sectors and credit ratings during the year under review. This development was likely due, in part, to the high level of issuing activity on the domestic primary market and, in part, to developments in international monetary and fiscal policy. The end of QE programs in several countries led to an increase in the free float of government bonds and thus to a rise in supply, which in turn caused spreads to widen. In addition, the high government deficits in many countries and the resulting high volume of new issues led to an additional increase in the supply of government bonds. Even though the SNB has never practiced QE with Confederation bonds, the widening of spreads internationally is likely to have affected Confederation bond spreads as well. The volume-weighted spread averaged around -36 basis points for the year (2023: -63 basis points).

In terms of investor structure for Confederation bonds, the share of foreign investors fell to 14% compared with the previous year (2023: 19%), while domestic investors continued to hold the largest share at 86% (2023: 81%). The own holdings of Swiss banks remained at around 6%, the same level as the previous year. The average number of participants in the auctions and the number of counterparties considered fell slightly compared with the previous year, which is likely due, among other things, to the lower funding requirements and the associated fall in issuance volume in 2024. The bid-to-cover ratio, i.e. the ratio of bids received to the allocated volume, stood at 1.8, roughly in line with previous years.

The average demand per bond issued in 2024 was around CHF 371 million, which corresponds to a decline of approximately 30% compared with the previous year (2023: 533 mn). At around CHF 207 million, the average allocation volume also fell accordingly to around CHF 207 million (2023: 338 mn). This development is not surprising in view of the significantly lower issuance volume compared with the previous year. Based on the trades reported via SIX, trading in Confederation bonds on the secondary market continued to decline. The volume in 2024 fell to around CHF 12.4 billion (2023: 18 bn). However, as not all secondary market trades are reported via SIX, the development of the secondary market volume cannot be reliably tracked.

Sale of own holdings

Significantly fewer own holdings were sold in 2024 compared with the previous year. Overall, own holdings with a face value of CHF 37 million were placed in two transactions (2023: 200 mn). In the process, own holdings of the bonds maturing in 2049 and 2064 were sold, with the focus being on the long end of the yield curve. The volume-weighted average yield was 0.43%, and the average term to maturity was 40.1 years (2023: 1.16%; 16.4 years).

As in previous years, own holdings were used rather sporadically. This is primarily because the Federal Treasury was able to cover its funding requirements with the auctions and therefore was on track to achieve its planned issuance target of CHF 5 billion during the year. Although own holdings were used less frequently in recent years, they will continue to be sold at market conditions at the request of counterparties between auction dates, provided a federal funding requirement exists.

Confederation bonds now as own holdings

At the end of August 2024, the Federal Treasury completed the conversion of its previous own tranches into own holdings. In contrast to own tranches, own holdings are paid-up bonds. This opens up additional possibilities for use. The focus here is on the funding aspect: the Confederation can use own holdings as collateral on the repo market, giving it an additional instrument in the event of short-term funding gaps. In addition, the Confederation can make Confederation bonds from its own holdings temporarily available to participants in the Swiss repo market via repo transactions (see Confederation Bond Lending Facility), which helps to increase the liquidity of the trade in Confederation bonds. Finally, the Confederation can also sell Confederation bonds to interested market participants outside the ordinary auction dates. However, there is a difference: while the placement of own tranches was considered a primary market transaction, the sale of own holdings of Confederation bonds is classified as a secondary market transaction.

Green Bond Allocation and Impact Report

The “green” Confederation bond segment was also tapped in 2024, and the existing green bond maturing in 2038 was reopened. This was successfully launched in 2022 with the aim of strengthening Switzerland’s commitment to sustainability and establishing the Swiss financial center as a leading global provider of sustainable financial services. The funds raised with green bonds may be allocated solely to federal expenditure that has a positive environmental impact. This includes the promotion of public transportation, the preservation of biodiversity and the construction of eco-friendly buildings, for example.

The second Green Bond Allocation and Impact Report was published in fall 2024. It provides an account of how the proceeds are distributed among the various eligible areas of expenditure. It also contains information on the output results and impacts, and sets out the positive environmental effects of green expenditure. The report can be downloaded from the website of the Federal Finance Administration.

■ Foreign exchange management

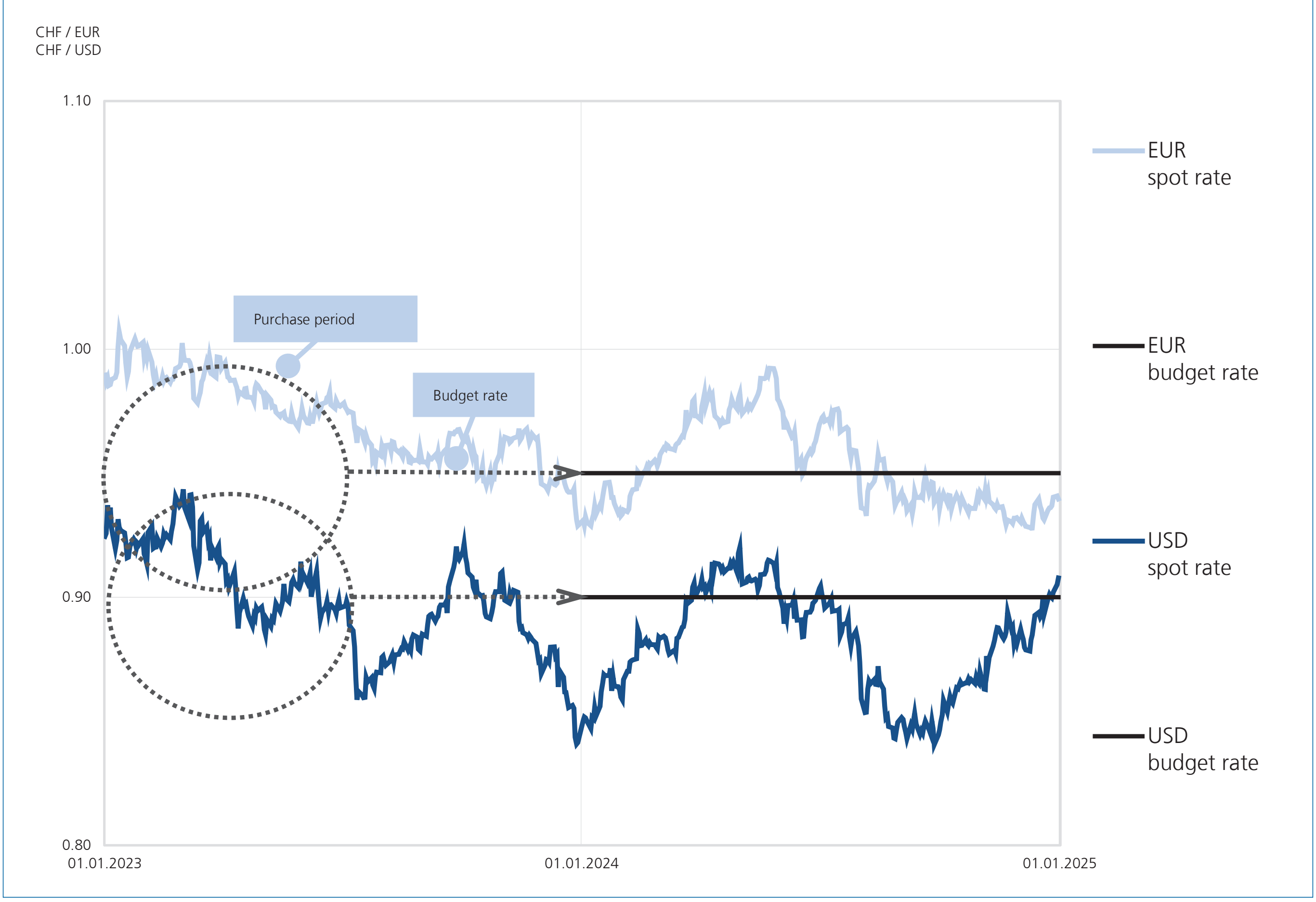
Since 1998, the Federal Treasury has been managing and systematically hedging the Federal Administration's foreign currency demand. From the FFA's perspective, exchange rate developments generally cannot be predicted. Accordingly, the Federal Treasury pursues a passive approach and does not apply active strategies involving changing exposure to rising or falling exchange rates. Hedging gives the administrative units planning certainty, and overruns of approved credits due to negative forex fluctuations can be avoided. The Federal Treasury distinguishes between budgetary transactions and special transactions.

Budgetary transactions

In the case of budgetary transactions, the administrative units' budgeted euro (EUR) and US dollar (USD) requirements for the coming year are hedged. Foreign currencies are purchased forward in parallel with the budget process (February to July). The budgeted volumes are purchased on an ongoing basis in batches of CHF 5 million to CHF 10 million. By following this approach, an average exchange rate that corresponds to market developments is achieved, i.e. the budget rate more or less corresponds to the average exchange rate for the first two quarters. The FFA makes the purchased foreign currencies available to the administrative units at the exchange rates fixed in the budget.

A total of 691 million euros and USD 869 million was purchased forward in 2023 for the 2024 budget year. On that basis, the budget exchange rates for 2024 were set at 0.95 for CHF/EUR and 0.90 for CHF/USD. The hedging phase started in February 2023, with the euro spot rate close to its annual high of CHF 1.01/EUR. The euro then weakened continuously over the course of the year. At the end of the hedging phase (July), the rate was still at CHF 0.96/EUR, and at the end of the year it was even lower at CHF 0.93/EUR. The average spot rate in 2024 was CHF 0.95/EUR, which was below the budget and purchase rate in 2023. In retrospect, hedging resulted in opportunity costs of almost CHF 3 million. The USD also started the 2023 procurement year close to its annual high of CHF 0.94/USD in February, then fell

Foreign exchange management



Source: Bloomberg

sharply to CHF 0.86/USD in July, only to trade at CHF 0.92/USD by early October. After that, however, the USD weakened significantly again, reaching a low of CHF 0.84/USD at the end of the year. The average spot rate in 2024 was CHF 0.88, which was below the budget rate but just above the average purchase rate. USD hedging thus resulted in opportunity gains of approximately CHF 4 million.

The euro amount budgeted by the administrative units in 2023 was exceeded by around 11% in 2024, while approximately 8% fewer payments were made in USD than budgeted. Since the introduction of currency hedging in 1998, around CHF 35 billion in euros and USD has been purchased within the framework of budgetary transactions – in other words, the equivalent of 1.3 billion francs' worth of euros and USD on average each year. Over this period, hedging resulted in opportunity costs of around CHF 264 million, or 0.75% of the hedged volume.

At the end of 2023, it was decided to hedge 90% of the budgeted euro and USD amounts in the future, instead of the previous 100%. This is to avoid over-hedging. Consequently, in the reporting year 2024, a total of EUR 537 million and USD 816 million was purchased forward for the budget year 2025, which corresponds to 90% of the budgeted foreign currency amounts. The budget exchange rates were set at CHF 0.95/EUR and CHF 0.85/USD, respectively.

A total of 537 million euros and USD 816 million was purchased forward for the 2025 budget year

Special transactions

Special transactions are predetermined payments in foreign currencies made over a period of several years within the framework of a credit line. Like the budget requirements, they are fully hedged in a bid not to exceed the CHF amount of the credit line due to negative forex fluctuations and to ensure planning certainty for the administrative units.

During the year under review, one USD special transaction worth around CHF 133 million was opened for the Federal Department of Foreign Affairs (FDFA). As of the end of 2024, 22 special transactions with an aggregate value of around CHF 7.5 billion (USD, EUR and SEK) were open, which was less than in the previous year (around 8.3 bn).

10.9

years

is the average term to maturity of the Confederation's market debt.

Presentation and evaluation of the risk situation

The Confederation's general risk policy is defined by the Federal Council. The Confederation is prepared to assume risks in a controlled and deliberate manner, provided that this is unavoidable for the achievement of objectives or the execution of tasks. Risks should be minimized (instructions on the Confederation's risk policy).

Aside from interest rate and refinancing risks, forex and counterparty risks must also be taken into account by the Federal Treasury when performing its main tasks.

■ Interest rate risk

The interest rate risk of the Federal Treasury is determined by the existing maturity profile and the planned new transactions. It is managed mainly through issuing activity. The debt strategy stipulated by the ALCO determines the issuing activity and thus the maturities of new transactions. The current requirement for new bond issues includes an average duration of twelve years and a money market debt register claim share of outstanding money and capital market debt of 15%.

Dynamic simulation analyses are used to analyze the effects of various issuance strategies and different interest rate scenarios. A cost-at-risk approach is used to examine the development of interest payable and its fluctuations. Information is thus obtained to optimize the debt strategy from a cost and risk perspective. Moreover, the degree to which interest payable may fluctuate can be estimated, also with regard to the budget and financial plan.

The interest rate risk is closely linked to the refinancing risk. High short-term maturities entail high interest rate and refinancing risks, and long maturities dampen them.

A projection of interest rate costs shows the trend of interest payable under various interest rate scenarios with an unchanged issuance strategy. In the process, the development of debt in accordance with the budget and financial plan is factored in. The interest rate paths are generated using a stochastic interest rate model. The mean is derived from this, as are the 10% and 90% quantiles of the statistical distribution of interest payable.

Analysis of the interest rate risk

A prospective approach is used to simulate and analyze various issuance strategies with different interest rate trends over a period of up to ten years. On the one hand, selected deterministic interest rate scenarios are used. On the other, stochastic interest rate models are also used to generate a large number of interest rate paths. This enables a random distribution of potential interest payable to be calculated for different debt portfolios for a given planning period. This in turn makes it possible to establish average expected interest payable, as well as possible deviations and their probability (cost-at-risk approach). Based on this data, different issuance strategies can be compared with respect to the expected interest payable (cost dimension) and its future fluctuation ranges (risk dimension).

The baseline scenario (mean) is derived from the macroeconomic assumptions and corresponding interest rates of the federal government's economic forecasts expert group. It is assumed that interest rates will normalize, and that long-term interest rates will rise slightly. This scenario serves as the baseline and is supplemented with the 10% and 90% quantiles of the distribution of interest rate costs for each month over the 10-year simulation horizon. The extreme scenario involves an exceptionally sharp and rapid rise of 4 percentage points in interest rates (interest rate shock). In addition, the effects of interest rates remaining at the current level (constant interest rates) are also determined.

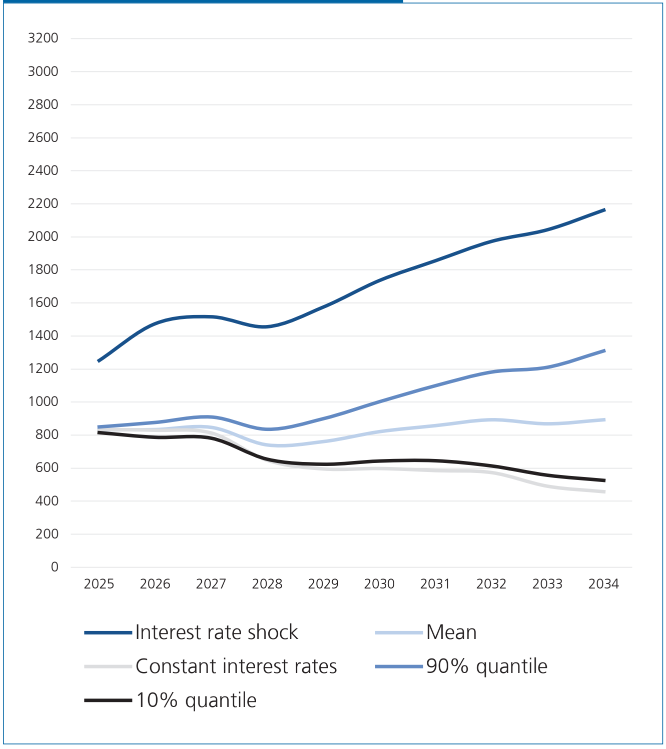
Interest payable is a form of expenditure that cannot be directly influenced by the Federal Council or Parliament. Accordingly, an increase has to be offset by either additional receipts or reduced expenditure in order to comply with the debt brake requirements. Based on the baseline scenario, the Federal Treasury expects more or less stable interest payable over the next four years. In the event of an interest rate shock, however, interest payable would rise very rapidly and sharply, posing a major challenge to the federal budget. This scenario is unlikely at the moment. In such a case, the additional interest receipts from the investment of liquidity would partly offset the increase in interest payable. Relative to the previous year, the utilization of the risk budget increased by CHF 16 million on an annual average to CHF 403 million.

Once again in 2024, the money and capital market mostly featured an inverted yield curve. As a result, longer maturities tended to be favored on the bond market and, with an average maturity of 16.8 years for new issues, the target of 12 years could not be met. In contrast, the money market debt register claim share of outstanding money and capital market debt was reduced to 11.6 percentage points and was thus below the corresponding target of 15%. The longer durations for new issues and the lower money market debt register claim share compared to the targets indicate that the Federal Treasury's overall approach is less risky.

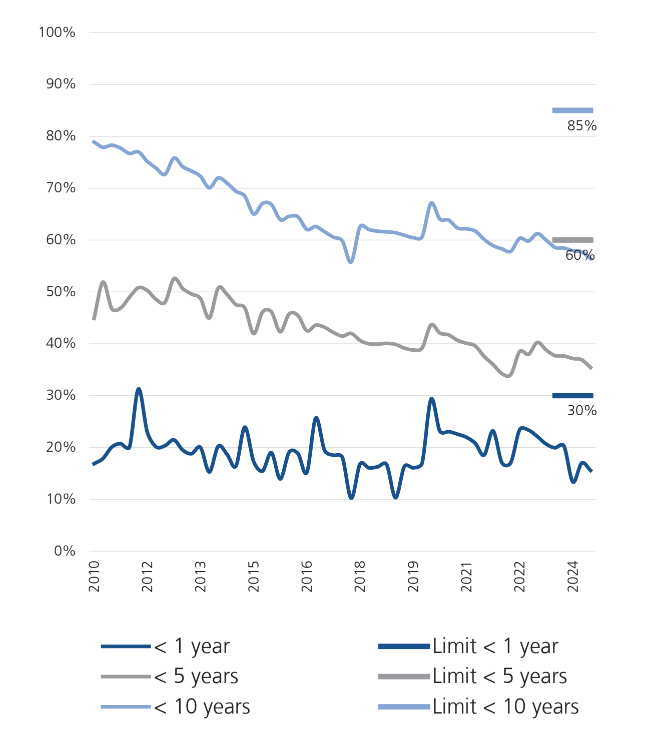
Highest interest rate risk permissible
The cumulated risk budget for interest rate risks is CHF 500 million for four years. This takes into account the Confederation's fiscal policy risk capacity and risk tolerance, i.e. the extent to which an increase in interest expenditure can be offset in another way without radical measures. This means that the fluctuations in interest expense forecast for the budget and financial plan time horizon may deviate from the mean by a maximum of CHF 500 million on a cumulative basis (90% quantile less mean). In the worst case, the corresponding risk can also occur within a year. The annual average for the interest rate risk was CHF 403 million in 2024.

The utilization of the risk budget increased, but it is still not fully utilized

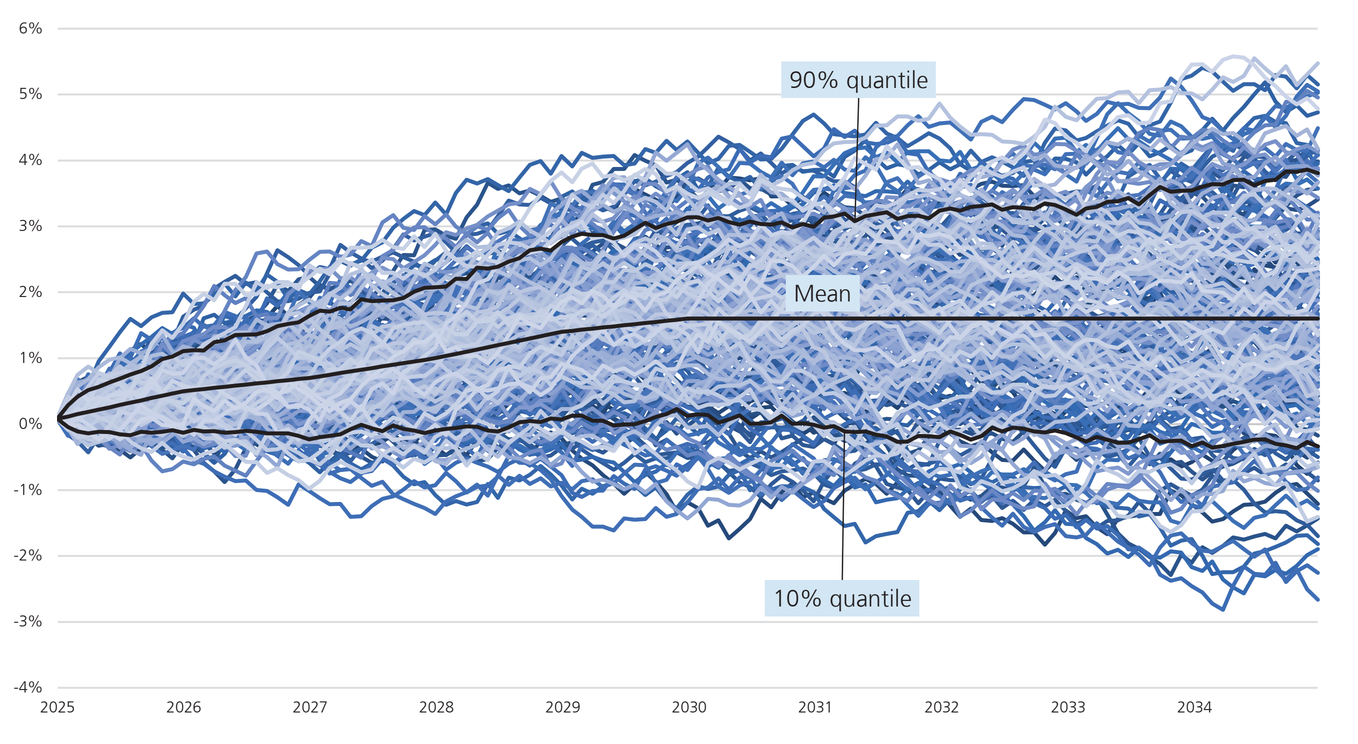
Interest expense projection in mn



Maturity profile of outstanding market debt



Stochastically simulated interest rate paths (10-year swap rate)



Refinancing risk

The maturity profile of outstanding market debt and the Confederation's rating are important refinancing risk indicators.

The current maturity profile of money and capital market debt shows a moderate refinancing risk overall. The refinancing shares of the maturities up to 1 year, up to 5 years and up to 10 years decreased by 3 to 4 percentage points in 2024. The decline was a direct consequence of the CHF 4.3 billion reduction in the amount of money market debt register claims over the course of 2024. The share of the maturities up to 1 year rose by 4 percentage points year on year and thus amounted to 16% of the Confederation's market debt at the end of 2024. The share of maturities up to 1 year thus remained well below the upper limit of 30%. The refinancing shares of the maturities up to 5 years and up to 10 years fell relative to the previous year: to 35% and 56% of market debt, respectively, and were thus well below the upper limits of 60% and 85%. This is well below the targets (or maximum shares) set out in the performance agreement between the FDF and the FFA. The maturity structure of the debt portfolio could thus be shortened significantly within these specifications.

The proportion of debt due to be refinanced within 12 months decreased; refinancing risks were down

The average term to maturity of the debt portfolio rose from 10.5 years to 10.9 years versus the previous year. This was attributable primarily to the reduction in the volume of money market debt register claims (from 14.0 bn to 9.7 bn). The bond portfolio shortened slightly (from 12.5 to 12.3 years).

The Confederation's creditworthiness is given the highest rating by all relevant rating agencies. Even under unfavorable market conditions, the Confederation could raise the necessary funds on the money and capital market.

Forex risk

The Federal Treasury purchases foreign currencies for the administrative units. The foreign currency needs for the budget year for the main currencies of euro and US dollar and the future payment obligations arising from special transactions that are already known are fully hedged. The primary objective when managing forex risks is to ensure adherence to the budget and the predictability of expenditure. Overruns of approved credits due to negative forex fluctuations are to be avoided. Since the Confederation constantly has certain foreign currency needs, it is generally exposed to exchange rate developments.

Forex risk

Due to the uncertainty regarding future exchange rate trends, the procurement costs for covering administrative units' foreign currency requirements are uncertain and subject to risk. The value of existing, non-assigned foreign currency positions can change as a result of exchange rate fluctuations.

From the FFA's perspective, exchange rate developments essentially cannot be predicted. Accordingly, forex risks are systematically hedged using a passive approach. As a result, the Confederation is not exposed to any substantial forex risks for the budget and special transactions reported to the Federal Treasury.

Overruns of approved credits due to negative forex fluctuations can be avoided with hedged forex risks

Since the end of 2023, in order to avoid over-hedging, the EUR and USD volumes budgeted by the administrative units have not been fully hedged, but only to 90%.

In 2024, there were deviations of around 10% between the amounts budgeted by the administrative units in EUR and USD and the amounts actually drawn down. The EUR volume budgeted by the administrative units was exceeded by around 11%, while around 8% fewer payments were made in USD than budgeted. Periodic target/actual comparisons are used to analyze these deviations over the course of the year and, if necessary, limit them with corresponding transactions.

The two major special defense transactions (F-35A fighter aircraft and Patriot ground-based air defense) were hedged using short-dated forwards. The Federal Treasury uses FX swaps to roll over these holdings until the individual payment dates. The resulting interest rate differential risk (risk of a change in the interest rate differential between the United States and Switzerland) is analyzed regularly. The risk increased slightly over the course of 2024.

Counterparty risk

Counterparty risks for the Confederation arise primarily as a result of short-term deposits (liquidity) and positive replacement values from outstanding currency and interest rate derivatives. These receivables are exposed to default risk. Treasury loans are granted to institutions affiliated with the Confederation and therefore are not part of the counterparty limit system; the amount of the loans is managed by means of treasury agreements. A credit limit concept forms the basis for avoiding losses and risk concentrations. The credit limits are established on the basis of predefined criteria, namely rating, equity, financial strength (in the case of cantons), diversification and instrument type. Risk Control regularly reviews the set counterparty limits and monitors compliance with the limits on a daily basis. The development of permitted counterparties' credit quality is continually reviewed (e.g. rating changes, interim financial statements and other reports). The limits were complied with at all times in 2024.

Liquidity amounted to CHF 18.1 billion at the end of 2024. It was placed largely with the SNB (as fixed-term deposits or on the SNB sight deposit account), and thus these investments carry no risk. A total of 1.65 billion is invested with cantonal banks and cantonal financial administrations.

The positive replacement values from outstanding currency and interest rate derivatives increased from CHF 0.6 million last year to CHF 296.9 million at the end of December 2024. In 2024, the CHF/USD exchange rate rose from CHF 0.84175 to CHF 0.90625; as a result, the value of currency hedges also rose sharply. In particular, the hedges for the payment of the AIR 2030 defense transactions (F-35A fighter aircraft, Patriot defense missiles) have a high positive replacement value. On the one hand, derivatives positions (e.g. currency and interest rate hedging instruments) are entered into with counterparties that have signed a Credit Support Annex, or CSA, with the FFA. On the other, such derivatives transactions are also conducted with cantonal banks which have a state guarantee without a CSA. ISDA master agreements with CSAs are in place with key counterparties, resulting in a daily exchange of cash collateral and thereby mitigating the negative impact of the potential default of one or more counterparties.

The Confederation's counterparty risks are minimized by exchanging collateral with daily margin calls.

Outlook

The outlook for interest rate markets in 2025 harbors considerable uncertainty. In particular, the reorientation of US economic and trade policy following the change of government in January 2025 could pose challenges for the international economy. In the United States itself, Treasury bond yields have already risen in anticipation of higher budget deficits and a more restrictive trade policy. At the same time, the economy continues to record robust growth. Previous market expectations of swift interest rate cuts by the US Federal Reserve have evaporated accordingly. In fact, the Fed interrupted its monetary policy normalization process at its first meeting in 2025.

The situation in Europe is different. The German economy in particular is suffering as a result of the current level of industrial activity and is performing weakly. According to the latest indicators, the European economy even came to a standstill at the end of 2024. At the same time, core inflation in the eurozone remains above the ECB's target value. Amid this tension between higher inflation and weak economic growth, the ECB recently decided to cut interest rates further. As a result, the two important economic areas for Switzerland are increasingly drifting apart in terms of monetary policy.

The markets are currently anticipating that the SNB will lower the policy rate in Switzerland by a further 25 basis points. This puts negative interest rates back into the realm of possibility. Whether such a scenario materializes is likely to depend not only on the inflation trend, but also on the difference in interest rates between the eurozone and Switzerland. If the ECB lowers the key interest rate further, the SNB could follow suit in order to counteract an appreciation of the Swiss franc and to guard against potential deflationary risks.

In 2025, the focus in Switzerland will be not only on monetary policy, but also on fiscal policy. At the end of January, the Federal Council adopted the consultation draft for relief package 27. The proposal is intended to reduce the burden on the federal budget by between CHF 2.7 and CHF 3.6 billion from 2027 onward, and bring it back into balance. Without countermeasures, the Confederation expects structural deficits of up to CHF 3 billion in the medium term. This is due to expenditure growing much faster than receipts. Accordingly, the relief measures are primarily aimed at federal expenditure: over 90% of the relief volume is on the expenditure side, with around CHF 300 million coming from the receipts side, primarily in the form of the cancellation or reduction of tax exemptions or concessions. The Federal Administration is also expected to contribute CHF 300 million to the reduction in costs, in particular through savings in the area of human resources. Without countermeasures, the constitutional debt brake requirements can no longer be met.

Following an intensive budget debate, Parliament was able to adopt a budget for 2025 that complies with the debt brake. Taking into account the extraordinary budget, this envisages a financing deficit totaling CHF 800 million. This deficit is to be financed primarily by increasing capital market debt. According to the issuance program published at the end of November, bonds with a nominal value of CHF 4 billion are to be issued in 2025. As a result, the Confederation's capital market debt will again edge up by CHF 0.7 billion. With the exception of August, the bonds will be auctioned monthly as usual; the dates in October and December are optional. As there is still considerable uncertainty about the Confederation's funding requirements, money market debt register claims will be held flexibly within a range of CHF 8 billion to CHF 14 billion. Money market debt register claims are auctioned on a weekly basis.