Swiss National Bank
89th Annual Report 1996

Contents

The figures in the tables are rounded;
the total may therefore deviate from the sum of individual items.

Ladies and Gentlemen

1996 proved to be a difficult year for the Swiss economy. Real gross domestic product decreased while unemployment rose.

Declining domestic demand gave particular cause for concern. Notably the building industry was badly hit by a lack of demand for housing and fiscal tightening. In other domains competitive pressure also increased, leading to a continued restructuring of the economy. Numerous enterprises stepped up their efforts at modernisation and rationalisation, which, in the medium term, will improve the growth opportunities of the Swiss economy. This development, however, clearly left its mark on the labour market: redundancies increased, and the number of unemployed rose steeply. With consumer sentiment consequently deteriorating, no noteworthy stimuli emanated from private consumption. Foreign demand was unable to compensate for the decline in domestic demand. On the one hand, some major trading partners were suffering from weak economic growth, on the other hand, the strong Swiss franc had an adverse effect on the competitiveness of the Swiss export industry.

The silver lining on this dark cloud is to be seen in the development of prices. The average increase in Swiss consumer prices of 0.8% is regarded as price stability.

Due to the low level of economic activity, we further relaxed our monetary policy. The monetary base showed a vigorous expansion, exceeding the medium-run target path in summer. At the end of September, the National Bank lowered the discount rate, thereby underlining its willingness to keep interest rates at a low level for the time being. The situation in the foreign exchange markets eased and the Swiss franc began to weaken. The low interest rate level and the decline of the Swiss franc improved the monetary conditions for economic recovery.

Notably the strong rise of the US dollar, but also the non-recurring extraordinary income due to changes in the valuation principles, raised the level of aggregate income in the 1996 annual accounts. This will permit the National Bank to make good the 1995 shortfall by distributing approximately Sfr 458 million to the Confederation and the cantons from the 1996 account, in addition to the Sfr 600 million per year agreed on with the Federal Government. In 1995 profits only sufficed for an allocation of Sfr 142 million.

In 1996, Switzerland's role in the Second World War became a much-discussed topic. In this context, the Swiss National Bank's gold transactions during the war again were an issue. These transactions have already been the subject of research by various historians, especially after the National Bank opened its archives at the beginning of the eighties. Nonetheless, we understand the need for a further detailed study of Switzerland's financial relations in the Second World War and therefore welcome the measures taken by the Federal Council and by parliament.

We wish to thank the Bank's staff for the responsible way in which they have fulfilled their tasks.

Berne, 7 March 1997

Jakob Schönenberger
President of the Bank Council

Hans Meyer
Chairman of the Governing Board

Review of economic developments

1 International developments

1.1 Real economic performance

Stronger world economic growth – regional variations

The world economy as a whole experienced an upturn in growth over the past year. Developments were very mixed from one region to another, however. Real gross domestic product (GDP) in the OECD countries grew by 2.4% on average, compared with 2% in 1995. The strongest growth stimuli emanated from the United States and the United Kingdom. Only in the second half of the year did the economies of continental Europe show signs of emerging from the economic downturn they had entered in autumn 1995. The Japanese economy recovered only slowly. Outside the OECD, the boom observable for several years in Southeast Asia lost some of its former vigour. While the economic fortunes of central Europe's structural reform economies improved, the situation in the other former Eastern Bloc countries remained bleak.

Expansion in the USA and the UK

The economic expansion in the United States and the United Kingdom gained momentum in the course of the year. While domestic demand – especially consumer spending – was buoyant in both countries, export performance was mixed. American exports were restrained by a stronger dollar and declining demand from Europe. By contrast, exports from the UK continued to rise.

Gradual improvement in Germany and France during the year

In Germany and France, the economic slowdown which had set in during 1995 made itself felt well into 1996. The sluggishness can be traced back to the currency turbulences of early 1995, which had caused most of the European currencies to appreciate sharply. The resulting stagnation in export and investment activity had triggered a renewed rise in unemployment, thus impacting on consumer sentiment. Restrictive fiscal policies also contributed to the slowdown. As the year went on, however, economic activity in both countries began to revive, due in large part to brisker demand from abroad.

Marked levelling-off in Italy

In Italy, the – mainly export-driven – economic expansion came to a standstill. Flagging demand from Italy's principal European trading partners, combined with a rise in the lira from mid-1995 onwards, were the main contributory factors. Owing to the tight monetary policy adopted by the Italian central bank in a bid to combat inflation, domestic demand also receded.

Improvement in Japan

After several years of stagnation, Japan witnessed significant growth in real GDP. This was due primarily to the public sector's large-scale investment programme. Despite low interest rates, however, private demand never really took off – very possibly another result of the crisis in the Japanese banking system. Export growth was brought almost to a standstill by the massive appreciation of the yen between early 1993 and mid-1995, whereas imports rose sharply.

Lower jobless numbers in the USA and the UK – unemployment high in Europe

Robust economic growth in the United States and the United Kingdom was accompanied by expansion in employment and a fall in the number of people out of work. This was in contrast to continental Europe: in Germany and France, in particular, unemployment increased. In the EU as a whole, the average rate of unemployment persisted at around 11%.

Continued low inflation

Inflation in the OECD countries remained low. In Europe – especially Italy and the UK – it fell off sharply. The average inflation rate in the EU countries amounted to 2.5%. In the United States, prices showed no sign of an upsurge despite almost full utilisation of production capacity: inflation was virtually unchanged at 2.9%. In Japan, consumer prices stagnated at 1995 levels.

Summary of data on economic activity

	1992	1993	1994	1995	1996
Real GDP change from previous year in percent					
United States	2.7	2.3	3.5	2.0	2.5
Japan	1.0	0.3	0.7	1.3	3.4
Germany	1.8	−1.2	3.0	2.1	1.3
France	1.2	−1.3	2.8	2.2	1.3
United Kingdom	−0.5	2.1	3.9	2.5	2.3
Italy	0.6	−1.2	2.1	3.0	0.8
Switzerland	−0.3	−0.8	1.2	0.1	−0.7
Unemployment in percent					
United States	7.5	6.9	6.1	5.6	5.4
Japan	2.2	2.5	2.9	3.2	3.4
Germany	7.7	8.9	9.6	9.5	10.4
France	10.4	11.7	12.3	11.8	12.4
United Kingdom	9.9	10.3	9.3	8.3	7.5
Italy	8.8	10.2	11.3	12.0	12.1
Switzerland	2.4	4.5	4.7	4.2	4.7
Inflation consumer prices, in percent					
United States	3.0	3.0	2.6	2.8	2.9
Japan	1.7	1.2	0.7	−0.1	0.1
Germany	5.1	4.5	2.7	1.8	1.5
France	2.4	2.1	1.7	1.8	2.0
United Kingdom	3.7	1.6	2.5	3.4	2.5
Italy	5.3	4.2	3.9	5.4	3.8
Switzerland	4.0	3.3	0.9	1.8	0.8
Current account balance in percent of GDP					
United States	−1.0	−1.5	−2.2	−2.0	−2.1
Japan	3.0	3.1	2.8	2.2	1.4
Germany	−1.1	−0.7	−0.9	−0.7	−0.2
France	0.3	0.7	0.5	1.1	1.3
United Kingdom	−1.6	−1.7	−0.4	−0.4	−0.1
Italy	−2.3	1.2	1.5	2.5	3.5
Switzerland	6.3	8.4	6.9	6.9	6.9

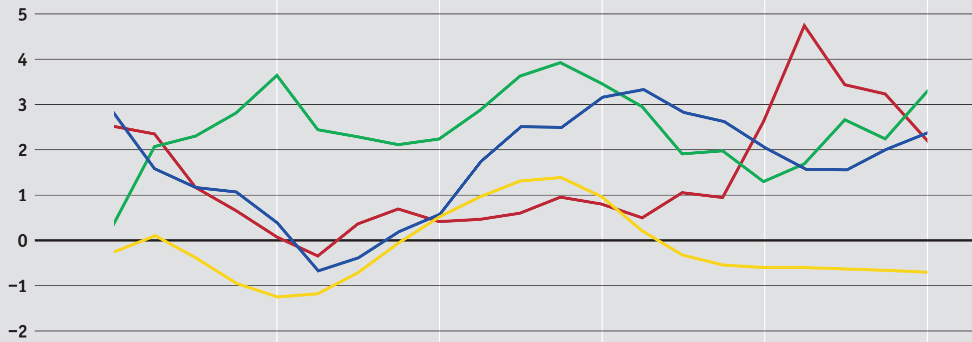
Some of the figures for 1996 are preliminary estimates.
Source: OECD

1992 1993 1994 1995 1996

Gross domestic product

USA
Japan
OECD Europe
Switzerland

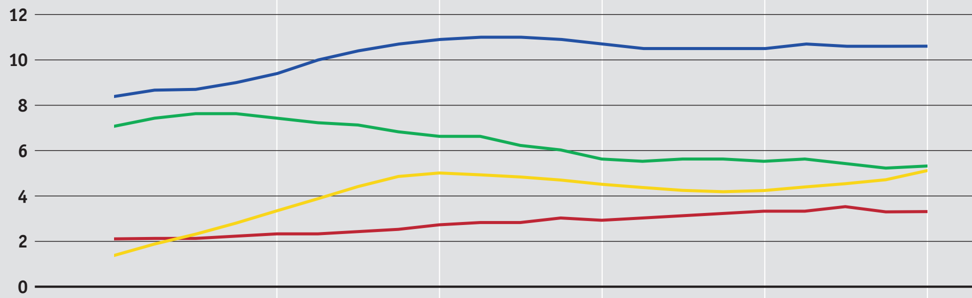
Change in percent
from previous year.
Source: OECD



Unemployment

USA
Japan
OECD Europe
Switzerland

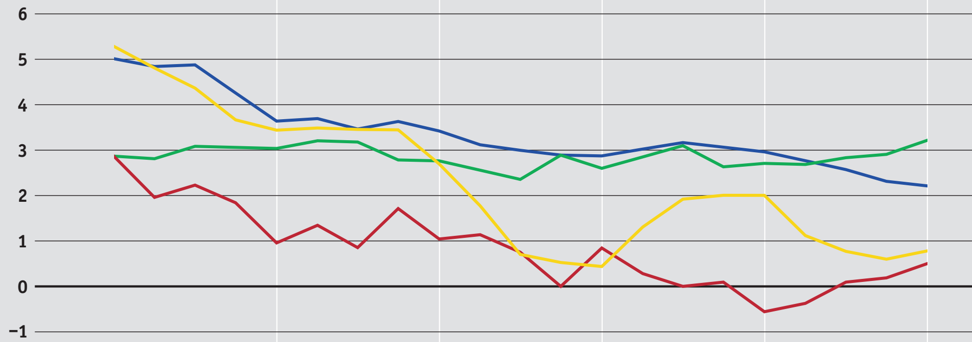
In percent of labour force.
Source: OECD



Inflation

USA
Japan
OECD Europe
Switzerland

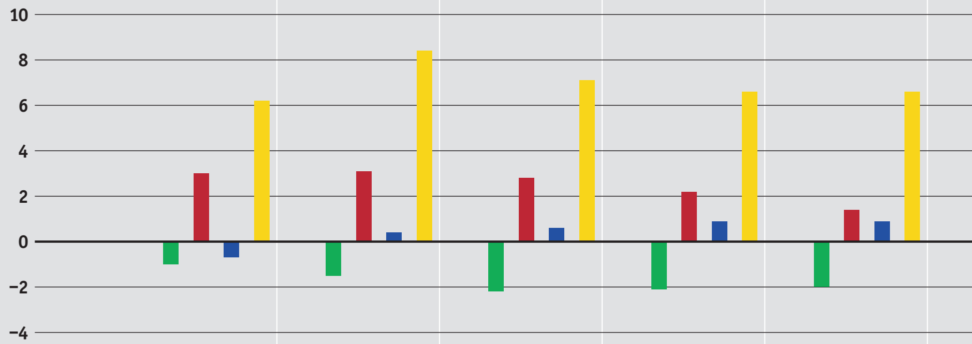
In percent.
Source: OECD



Current account balance

USA
Japan
OECD Europe
Switzerland

Net balance in percent
of gross domestic product.
Source: OECD



1992 1993 1994 1995 1996

Slower growth in central Europe

Due mainly to a downturn in exports to the EU countries, the structural reform economies of central Europe experienced lower rates of growth in 1996. On the other hand, domestic demand picked up: private consumption rose in most countries while investment activity was distinctly up in the Czech Republic, Poland and Slovenia. The decline in employment slowed down, even though in general the privatisation of state-owned industries (often involving heavy job losses) continued to make progress.

Continuing decline in output in eastern Europe

In the easternmost countries of the former Eastern bloc, output continued to shrink. Structural reform made little headway and investment thus remained low. Owing to exports of raw materials and energy, however, Ukraine and Russia recorded large trade surpluses.

Lower growth in Asia – recovery in Latin America and Africa

The industrial countries of eastern and southeastern Asia experienced lower growth. This was due in part to the higher interest rates implemented by the region's central banks in an effort to counter rising inflation and growing current account deficits. The economic situation in Latin America improved in the year under review – the entire region had previously been suffering from the impact of the Mexico crisis at the end of 1994. Structural reform began to bear fruit in a number of African countries: on average, there was a slight rise in percapita income on this continent.

Slower expansion of world trade

World trade grew by an estimated 5% in 1996, i.e. rather less than in the previous year. The fall-off was due primarily to the slower economic growth in continental Europe as well as to the rise of the dollar, which worsened the competitive position of numerous Asian countries that peg their currencies to the US dollar.

1.2 Monetary policy

Monetary policy was influenced by mixed economic performance in the major industrial nations.

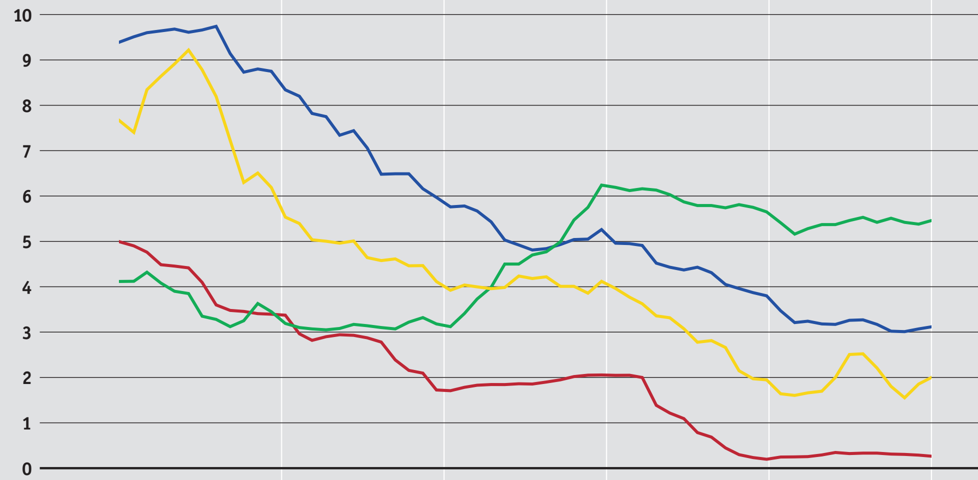
Monetary policy in the United States and Japan unchanged

In the United States, the Federal Reserve Board left the federal funds rate unchanged after having lowered it to 5.25% in two quarter-point steps in December 1995 and January 1996. Since inflation remained muted, there was no need to raise interest rates despite the acceleration in economic growth. Having reduced its discount rate to 0.5% in September 1995, the Bank of Japan left it at this low level during the year under review owing to the sluggish economy and the banking system's continuing problems.

Interest rate cuts in Germany and France

In the first half of the year, the Bundesbank eased its monetary stance even though growth in the M_3 money supply aggregate was well above the target range. The repo rate – which Germany's central bank applies to securities repurchase agreements with the commercial banks – dropped almost one percentage point between January and August to 3%, and then remained at this level. In April the Bundesbank also lowered both the discount and Lombard rates by half a percentage point to 2.5% and 4.25% respectively. In a parallel move, the Banque de France lowered its key interest rates, as did the other central banks participating in the exchange rate mechanism (ERM) of the European Monetary System (EMS). By December, France's benchmark rates were one percentage point lower than a year earlier.

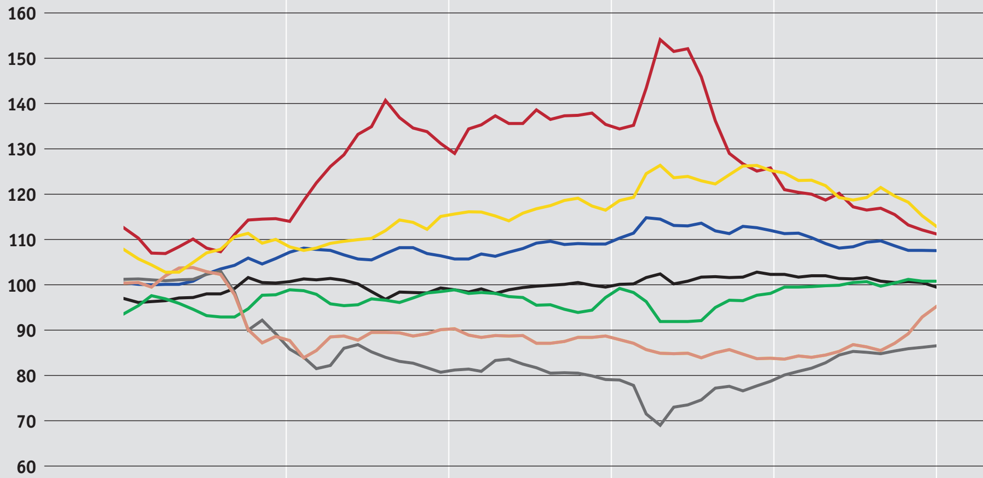
Short-term interest rates



Eurodollar
Euroyen
Euro-DM
Euro-Sfr

Three-month
Euromarket rates.
Source: BIS

Exchange rates



Dollar
Yen
D-mark
French franc
Pound sterling
Lira
Swiss franc

Real, trade-weighted exchange
rates; index: 1990 = 100.
Source: OECD

Growing concern over inflation in the UK

In the UK, the Bank of England successively lowered its base lending rate in the first half of the year. In October, however, this benchmark rate was lifted slightly owing to buoyant consumer spending and rising inflation expectations.

Inflation successfully combated in Italy

With inflation close to 6% in the fourth quarter of 1995, the Italian central bank continued to pursue its restrictive monetary policy for the time being. As the year progressed, however, inflation eased steadily while the lira strengthened, thus permitting a substantial lowering of the discount and Lombard rates in the second half.

Sharp rise in the dollar

The US dollar appreciated sharply during 1996. Its rise was interrupted only briefly when share prices on Wall Street dipped in the third quarter. Over the course of the year, the dollar rose by 11.8% against the yen, by 7.7% against the D-mark and by 14% against the Swiss franc. In real, trade-weighted terms, the dollar was 2.8% higher in December than it had been a year before.

D-mark declines

The D-mark lost ground slightly against most other currencies. Over the year as a whole it dropped by 1.9% against the French franc but rose 5.9% against the Swiss franc. In December, the real, trade-weighted value of the D-mark was 3.9% below the level of a year earlier.

Calm in the EMS

Within the exchange rate mechanism (ERM) of the EMS, the spread between the strongest and weakest currency narrowed from 6% in January to 2% in October. The peseta, the guilder and the Irish punt each had a spell at the top of the currency grid. In November and December, the spread widened considerably again owing to a sharp rise in the punt.

ERM expanded

In October the ERM was expanded to include the Finnish mark. Moreover, the lira returned to the mechanism in November after having dropped out in September 1992.

1.3 Fiscal policy

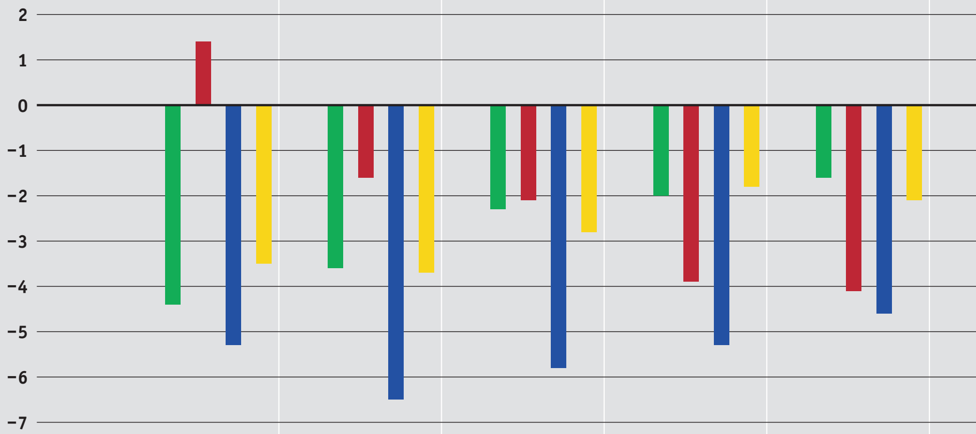
Major industrial countries still applying tight budget policies

In contrast to monetary policy, most of the major industrial countries maintained a tight budgetary stance in 1996. In the EU in particular, governments – mindful of the 1999 deadline for economic and monetary union – accorded top priority to putting their public finances in order. Owing to the cooler economic climate, however, the government deficits of many EU countries grew in relation to GDP.

Deficits falling in the USA and the UK but growing in Japan

Budget deficits in the USA and the UK shrank owing to the abundant inflow of tax revenues. At $ 107 billion, or 1.4% of GDP, the federal deficit in the United States was below budget. The government's target is to balance the federal budget by the year 2002. The UK budget deficit narrowed to 3.4% of GDP. By contrast, Japan's deficit for the 1996-97 fiscal year rose to 4.4% of GDP owing to the government's large-scale programmes aimed at revitalising the economy. While the American deficit will probably increase again owing to the expected slower economic growth in the USA, the deficit in Japan should shrink significantly in fiscal 1997-98. The Japanese government is planning an increase in value added tax to ease the public authorities' financial situation.

Public-sector budget balances



USA

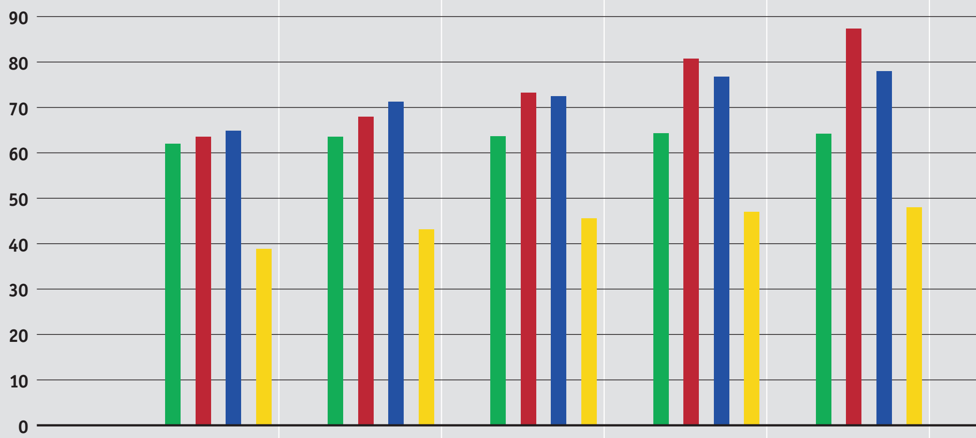
Japan

European Union

Switzerland

Public-sector budget balances (all levels of government including social insurance) in percent of GDP.
1996: budget forecasts.
Source: OECD

Debts



USA

Japan

European Union

Switzerland

Aggregate public-sector debt (all levels of government including social insurance) in percent of GDP.
1996: budget forecasts.
Source: OECD

Slowdown-induced worsening of public finances in Germany and Italy, improvement in France

In Germany, contracting tax revenues and higher outlays on welfare benefits pushed the budget deficit up to 3.5% of GDP. Italy also witnessed a rise in its deficit, whereas France saw a considerable improvement from the previous year.

Belt tightening throughout Europe in 1997

The fiscal programmes announced for 1997 indicate that European governments will be continuing to keep a tight rein on their budgets. In Germany, expenditure is to be cut by 2.5% in order to bring the budget deficit within the 3% ceiling stipulated in the Maastricht Treaty. For the same reason, France has frozen nominal spending, and government revenues are to be augmented by taking over the pension fund of a corporation which is to be privatised. Italy has taken steps to cut its deficit by addressing both revenues and expenditures. The British government plans to meet the Maastricht target figure despite its planned tax cuts.

1.4 Financial markets

Easing of interest rates in second half of year

In most OECD countries, long-term interest rates rose appreciably in the first half of 1996. The upturn was particularly marked in the United States owing to the economic expansion. Interest rates in Europe and Japan initially rose in step with the American increase, though with economic growth muted and little inflation anticipated, they fell back again by the end of the year. The yield gap between the D-mark and most other EU currencies narrowed significantly, partly because EMU is now given a much better chance of materialising.

Share prices advance

Share prices rose on most markets, with particularly big gains being recorded in the USA. Germany and France also enjoyed a boom year for equities, though in France prices started to soar mainly in the latter part of the year. By contrast, Japanese stocks were hit by the country's persistent economic and structural problems, and advances in the first half turned into losses later in the year.

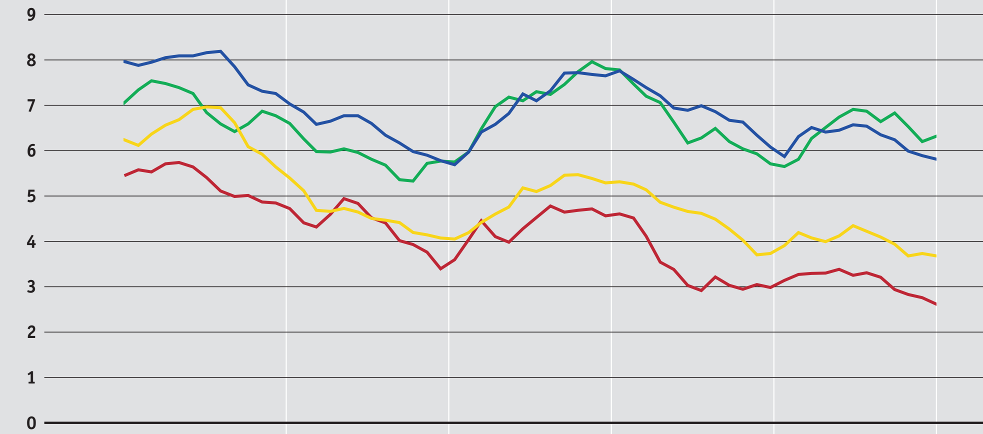
Rising volume of new issues on the international financial markets

Borrowing on the international financial markets totalled $ 1,572 billion in 1996, compared with $ 1,284 billion in the previous year. The volume of bond issues rose at a particularly impressive rate. Convertible and warrant issues as well as floating-rate paper gained in popularity at the expense of fixed-interest securities – a shift that can be ascribed partly to the stock market boom and partly to uncertainty about the future course of interest rates. Issuing programmes for notes also became busier, whereas the volume of syndicated loans remained at the previous year's levels. Helped by the bull market for equities, the number of share flotations increased substantially. The dollar, the French franc and the pound sterling all gained market shares as issuing currencies. The D-mark and the lira maintained their shares while the importance of the yen, Swiss franc and Ecu receded.

US bank profits up

1996 saw a further rise in US bank profits. This was due, on the one hand, to an increase in net interest earnings – resulting from high levels of lending – and, on the other, to buoyant trading income. At the same time, most banks increased their provisions for doubtful loans. The intended reform of the Glass-Steagall Act, which forms the basis of the two-tier system of banking in the

Long-term interest rates



Dollar

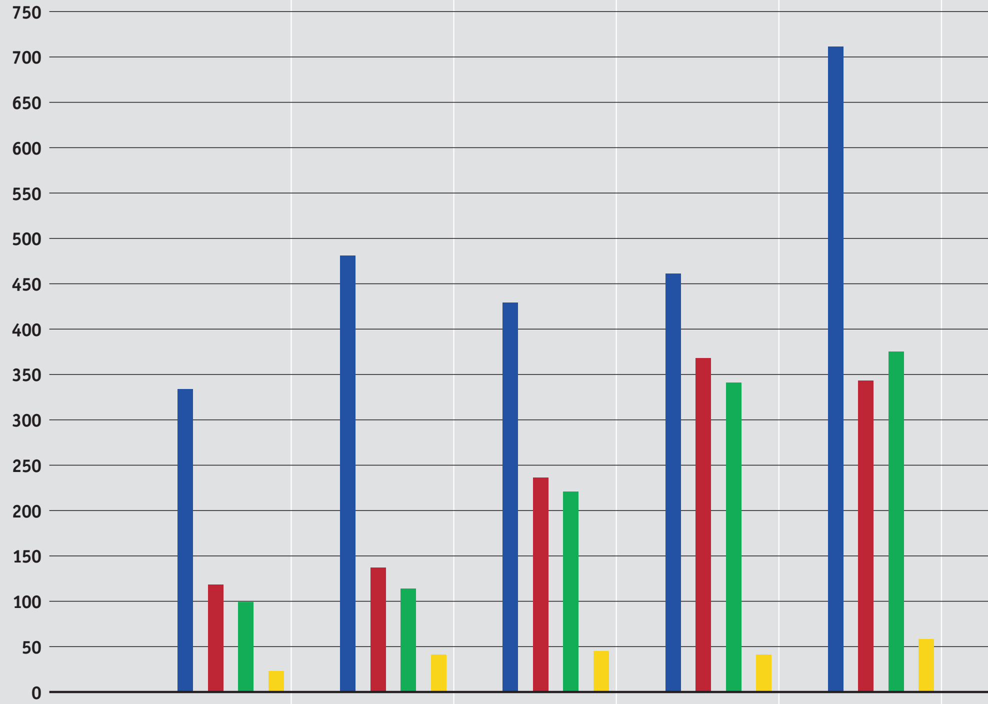
Yen

D-mark

Swiss franc

Long-term government bonds,
in percent.
Source: BIS

Borrowing in the international financial markets



Bonds

Bank loans

Medium-term paper

Shares

Billions of dollars.
Source: BIS

United States, did not materialise. As a result, the US monetary authorities have submitted new proposals which envisage giving the savings and loan banks access to securities trading.

Japanese banks still struggling

Despite a slight improvement in profitability, the Japanese banks were still beset by problems. Following a thorough restructuring of their balance sheets in the previous year, the big lending institutions reduced their allocations to provisions slightly; in the rest of the banking sector, however, provisions were increased again. As part of a government restructuring programme, two companies were founded for liquidating the assets of insolvent real estate companies and credit unions. In addition, the government announced deregulation plans aimed at improving the competitiveness of Japan's financial sector.

Improved position of Western European banks

The profitability of the banking sector in most Western European countries improved. The banks benefited from the stock market boom and lower provisioning requirements for doubtful loans. Owing to slack demand for loans, however, net interest earnings were flat in some countries. In France and Italy two large banking houses ran into difficulties and, with the help of public-sector funds, underwent state-organised restructuring.

Harmonisation of EU's financial sector continues

The EU continued its efforts to harmonise the financial sector. The European Parliament and the Council issued a directive extending the recognition of contractual netting in the calculation of capital adequacy requirements. In addition, the Commission submitted new proposals for directives on the finality of settlements and the provision of security in payment systems, as well as on the enhanced exchange of information with nonbank supervisory authorities in non-EU countries.

1.5 European monetary integration

Progress in various areas in the EU

The European Union continued to prepare for the introduction of a single European currency, the euro. The monetary policy of the future European Central Bank (ECB) began to take on concrete form, and the exchange rate system between the EMU participants and those EU member states which will not be included in the monetary union from the start was defined. Moreover, a stability and growth pact was signed by the EU nations.

Monetary policy concept

The European Monetary Institute proposed that the ECB's monetary policy should be oriented either to a money supply or an inflation target. Open-market transactions are to be the main instrument of monetary policy. The ECB will also have the option of issuing regulations on minimum reserves if necessary.

Exchange rate system

The European Council reached agreement on the new exchange rate system which is to link the EU member states within and outside the euro currency area after the implementation of EMU. The euro will be the lead currency in this system. Exchange rate parities will be fixed by agreement with all countries and institutions involved, notably the ECB. Exchange rates will be allowed to fluctuate around these parities by a relatively wide margin. If a currency reaches the lower edge of its band, all participants are in principle obliged to intervene automatically and to an unlimited extent in support of the currency concerned. Such intervention may be suspended, however, if it jeopardises the prime objective of the European System of Central Banks – price stability.

Stability and growth pact

The pact on stability and growth seeks to ensure that all countries participating in EMU continue to pursue stability-oriented fiscal policies even after the introduction of a joint monetary policy. The pact requires these countries to keep their budget deficits permanently below 3% of GDP. They will be allowed to exceed this figure only in exceptional situations, for instance in a severe recession (i.e. where real GDP declines by more than 2% within a year). If a country's deficit becomes excessive, it will be obliged to set up a precisely defined programme of measures according to a specified timetable. The country concerned will initially have the option of eliminating the deficit within a given time-span. If it fails to do so, it will be obliged to put down a non-interest-bearing deposit which will be converted into a fine if the excessive deficit persists beyond a specified period.

2 Switzerland

2.1 Real economic performance

Slight decline in real GDP

The economic situation in Switzerland deteriorated in 1996. Real GDP declined by 0.7% after having remained flat in the previous year. The recession may be attributed to structural as well as cyclical factors. In the domestic economy, the construction industry's crisis persisted while the industrial and service sectors continued to undergo a process of structural change. The associated job losses dampened consumer sentiment. At the same time, the public sector continued to implement austerity measures. With the franc remaining strong until mid-year, and also because of weak economic performance in the EU, export growth fell off. Despite sluggish domestic demand, imports increased slightly.

Decline in industrial output and capacity utilisation

Low levels of demand at home and abroad, coupled with attempts to reduce excessive inventory levels, caused a downturn in industrial output. Capacity utilisation dropped from 85.1% at the end of 1995 to 83.5% at the end of 1996. While some export-oriented industries – notably the chemicals sector – managed to improve capacity utilisation slightly in the course of the year, the corresponding figures for building-related and metals industries declined sharply.

Consumer spending flat

Following an 0.7% rise in 1995, consumer spending – at 0.3% – only showed a slight increase in the year under review. The stagnation was due in large part to a decline in real disposable income. In addition, purchasing power was undermined by the massive increase in health insurance premiums, and rising unemployment had negative repercussions on consumer sentiment. In real terms, retail sales declined markedly. Turnover in the tourist industry also fell. By contrast, spending by Swiss tourists abroad continued to rise.

Investment spending levels off

The growth of investment in plant and equipment decelerated to 1.3% in 1996. While investment in machinery and equipment rose appreciably, building investment continued to decline.

Strong demand for capital goods

Despite the drop in capacity utilisation, investment in machinery and equipment soared by 8.4%, though falling short of the previous year's rise of 14.1%. Competitive pressure triggered further outlays on modernisation and rationalisation. Investment activity was boosted by the continuing reduction in the prices of imported capital goods.

Building industry crisis continues

Building investments continued their decline, falling by 3.5% in the year under review after a drop of 4.3% in 1995. Residential construction fell off sharply owing to lack of demand. With public authorities continuing their drive at fiscal consolidation, government spending on construction projects was also cut drastically. On the other hand, commercial and industrial construction stabilised after having dwindled to a low level over the preceding years.

Lower growth in exports…

Export growth – and particularly shipments to Germany and France – fell off markedly. Overall, real merchandise exports grew by 2.1%, compared with a rise of 4.2% in 1995. Weaker growth in foreign demand for capital goods was largely responsible for the slowdown in the growth of exports. The volume of consumer goods, raw materials and semifinished goods exported barely increased at all.

1992 1993 1994 1995 1996

Gross domestic product and its components

Real GDP

Private consumption expenditure

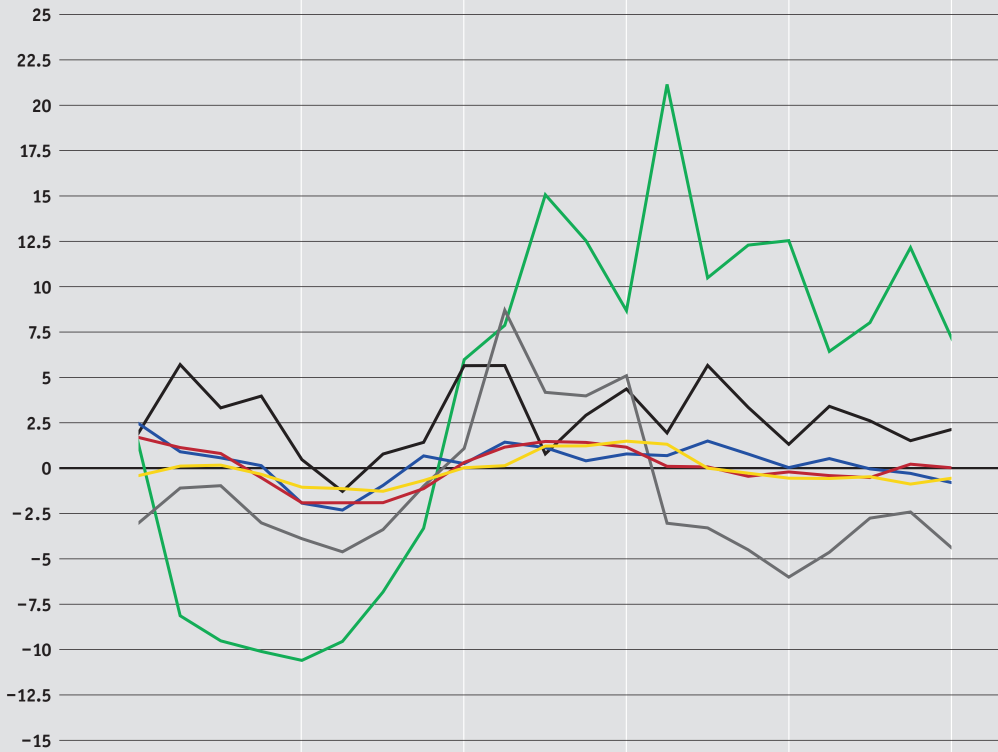
Government consumption expenditure

Building investment

Machinery and equipment investment

Exports

Change from previous year
in percent.
Source: Federal Office
for Economic Policy



1992 1993 1994 1995 1996

...and imports

Owing to the decline in domestic economic activity, real growth in imports, at 1.5%, was also lower than in 1995 (+6.5%). The fall-off in imports of raw materials and semifinished goods reflected the decline in Switzerland's industrial output. Imports of capital goods grew less rapidly than in the previous year. By contrast, the growth rate in consumer goods imports was higher despite muted consumer sentiment.

Further decline in employment

Employment shrank by an average of 0.9% in 1996 after an 0.8% drop in the previous year. In the services sector, the number of employed persons remained stable while above-average job losses were registered in the construction sector and in manufacturing. The trend observable since mid-1990 thus continued. In six years, the proportion of the labour force employed in industry dropped from 26.3% to 23.7% while the percentage working in construction fell from 10.3% to 9.8%.

Rising unemployment

After having fallen until October 1995, the unemployment rate rose again in 1996, reaching a seasonally-adjusted 5.3% in December. At 7.1%, unemployment in French-speaking and Italian-speaking Switzerland was significantly higher than in the German-speaking areas, where the rate was 4.5%. Non-Swiss citizens accounted for 45% of unemployment, as against about 25% of the total population. Probably because of the larger number of layoffs, there was only a small increase in short-time working.

Employment and unemployment

	1992	1993	1994	1995	1996
Full-time employment change in percent	[1]	−3.4	−2.2	−1.3	−1.2
Full- and part-time employment change in percent	−2.6	−2.8	−1.8	−0.8	−0.9
Unemployment rate in percent	2.6	4.5	4.7	4.2	4.7
Number of unemployed thousands	92.3	163.1	171.0	153.3	168.6
Short-time working thousands	34.0	42.0	22.6	9.9	13.1
"Manpower" job offer index change in percent	−38.2	−27.7	27.2	18.4	−19.1

1 Figure cannot be calculated

Data not seasonally-adjusted, annual averages.
"Manpower" job offer index: total area of job advertisements in Swiss newspapers.
Sources: Federal Office for Industry and Labour, Federal Statistics Office, "Manpower"

Survey reveals slight growth in employment

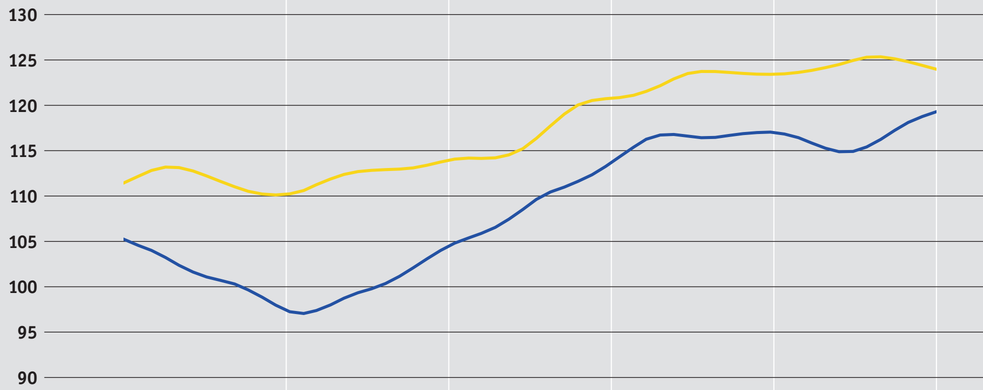
According to the 'SAKE' survey of the Swiss labour force carried out in the second quarter of 1996, the number of persons in employment (including foreign nationals with seasonal or cross-border commuting permits) increased by 0.5%. The total, however, was still 2.9% below the 1991 level. In contrast to the employment index described above, this data also includes part-time jobs amounting to less than 50% of a full working week. The increase in the total figure is attributable to this category. The number of persons in full-time employment remained unchanged and the number of part-time employees working more than 50% declined by 2.1%. The number of men in employment decreased by 0.8% while the number of women increased by 2.3%. The latter rise is accounted for mainly by the services sector, which provides a large number of part-time jobs. The number of employed foreign nationals declined by 1% while the number of Swiss in employment increased by 1%. The percentage of the potential labour force without gainful employment climbed from 3.2% to 3.7% during the year under review; the figure for women (4.4%) was substantially higher than that for men (3.3%).

Foreign trade

Imports

Exports

Volume, adjusted for seasonal and exceptional factors.
Index: 1988 = 100.
Source: General Directorate of Customs



Price trends

Consumer prices

Consumer prices for domestic goods

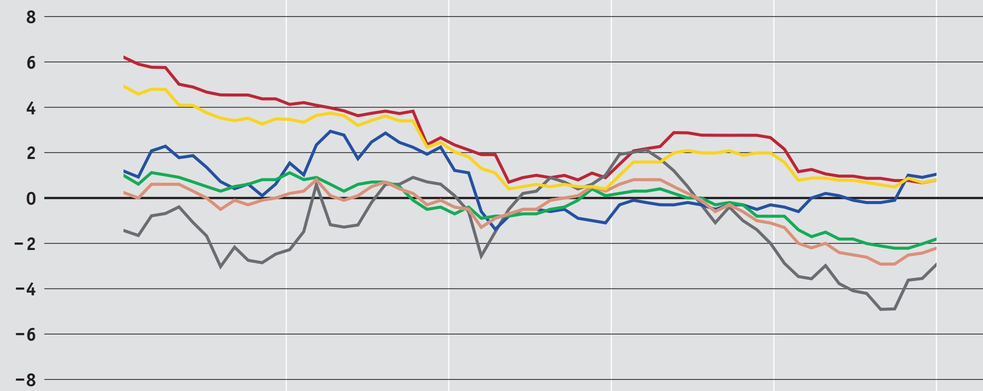
Consumer prices for imported goods

Producer and import prices

Producer prices

Import prices

Percent change from previous year.
Source: Federal Statistics Office

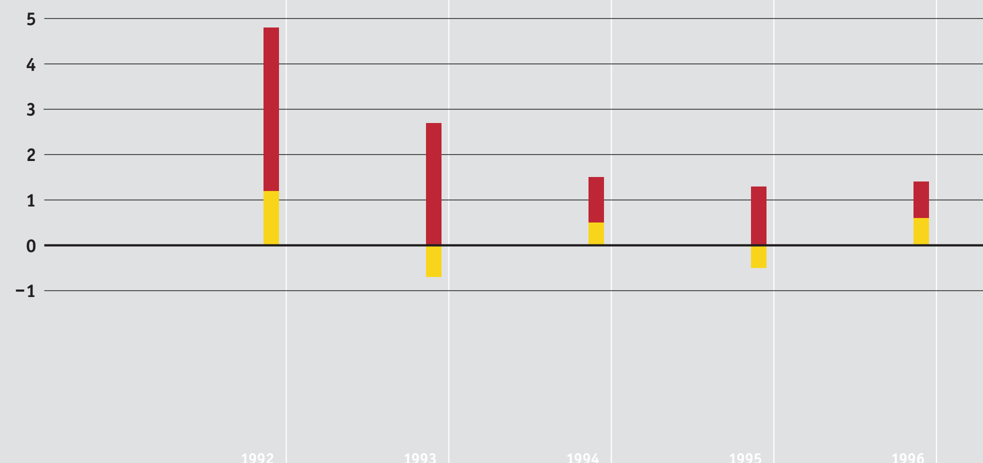


Wages and salaries

Nominal

Real

Wage and salary earnings of employed persons;
percent change from previous year (1996: estimate).
Source: Federal Department of Economic Affairs



Steady fall in inflation

Inflation, as measured by the national consumer price index, fell steadily during 1996. By December it had dropped to 0.8%, compared with 1.6% in January. The average rate for the year was 0.8%.

Goods prices remain stable – inflation in services sector declines

Prices of goods remained stable throughout the year, whereas inflation in services declined from 2.7% in January to 0.7% in December. In both the private and public sectors, price rises were less pronounced than in 1995, when the introduction of value added tax (VAT) had resulted in an average 3% rise in charges for services. Imported goods and services became somewhat more expensive during the year as the franc depreciated; prices of goods and services produced in Switzerland edged up by 1%.

Producer and import prices fall sharply

The producer and import price index receded by 2.4%. Producer prices fell for the third year in succession, this time by 1.8%. Prices of raw materials and semifinished goods showed the steepest falls. The import price index declined by 3.7% whereas in 1995 it had remained virtually unchanged.

Stable current account surplus

Switzerland's current account surplus rose by Sfr 0.1 billion in 1996 to Sfr 25.1 billion, which corresponds to 6.9% of nominal gross domestic product. The trade surplus (special trade) widened somewhat to Sfr 1.9 billion and the surplus from services increased to Sfr 15 billion. While the banks' commissions income rose sharply owing to the stock market boom in the first half of the year, revenues in the tourist industry declined. The surplus from employee compensation and invested capital rose slightly to Sfr 14 billion. By contrast, current transfers again produced a deficit of Sfr 4.9 billion.

Current external transactions account balances in billions of Swiss francs

	1992	1993	1994	1995 revised	1996 preliminary
Goods trade	−1.4	2.4	2.2	1.0	1.0
of which special trade	−0.2	3.5	3.2	1.8	1.9
Services trade	15.1	16.8	16.1	14.9	15.0
of which personal travel	2.8	2.4	2.7	2.1	1.2
Employee compensation and investment income	11.7	13.5	10.8	13.9	14.0
of which investment income	19.2	20.7	17.7	20.8	20.9
Current transfers	−4.2	−4.0	−4.7	−4.9	−4.9
Total current account	21.3	28.8	24.4	25.0	25.1

2.2 Fiscal policy

Federal deficit higher than budgeted

In 1996, the federal budget deficit (excluding the pension fund surplus) amounted to Sfr 5.4 billion or 1.5% of GDP. It was thus Sfr 1 billion higher than in the previous year and Sfr 0.4 billion over the budget figure. The Confederation's rapidly growing contributions to the cantons' current spending were a major expense item. On the income side, VAT revenues exceeded the budget figure, whereas the growth in direct federal tax revenues was lower than expected. Repayments from loans granted to the unemployment insurance scheme fell considerably short of the 1995 figure. The 1997 budget anticipates a deficit of Sfr 5.8 billion, or 1.5% of GDP.

Mixed trends in cantonal and communal deficits

According to available preliminary data, the cantons' aggregate budget deficit grew again in 1996 for the first time in two years and will probably even exceed the budgeted Sfr 2.6 billion by Sfr 0.5 billion. The worsening financial situation is due mainly to mounting welfare expenditures, notably further loans to the unemployment insurance schemes. On the other hand, higher-than-expected savings were achieved in the personnel area. Revenues stagnated or even declined slightly. In contrast to the cantons, the communes on the whole managed to improve their financial situation. Their aggregate deficit will probably be less than Sfr 1 billion.

Rising indebtedness

The debt ratio (government debt as a percentage of GDP) for the Confederation, cantons and communes rose from 47% to 48% (the figure was 31% in 1990). Almost half this debt was accounted for by the Federal Government, about 30% by the cantons and 20% by the communes.

2.3 Financial markets

Slide in capital and money market rates

Following a steep decline in long-term interest rates in 1995, the average yields on federal bonds rose appreciably in the first half of 1996. They receded again in the second half, however, and by December they had dropped to 3.7% – equal to their end-1995 level. Short-term rates followed a similar, though somewhat more pronounced, pattern. The yield on three-month money market debt register claims issued by the Confederation rose by 1.1 percentage points to 2.5% in mid-year, but subsequently declined to 1.7% by the end of the year. The yield curve remained steep.

Swiss franc weakens

Early in 1996, the Swiss franc stabilised after having advanced steadily ever since the beginning of 1993. By December 1996, the franc had depreciated by almost 10% in real, export-weighted terms compared with a rise totalling nearly 9% in the two preceding years. The franc's decline in real terms was particularly marked against the pound sterling (-20%), the lira (-17.1%) and the dollar (-14.6%), whereas it lost only 5.6% against the D-mark.

Lower level of capital market borrowing

Net borrowing on the Swiss capital market (i.e. the gross volume of bond issues less redemptions) declined sharply. The net uptake of capital by domestic borrowers amounted to just Sfr 0.6 billion compared with Sfr 9.8 billion in 1995. Whereas the gross volume of issues was within the normal range, redemptions were far higher than in the previous year. At Sfr 18.4 billion, net borrowing by foreign bond issuers was also far lower than in 1995. On the Swiss equity market, redemptions exceeded new issues by Sfr 0.1 billion, compared with a net result of Sfr 1.1 billion in the previous year.

Share prices rise

The Swiss Performance Index of the stock market climbed by 18% in 1996 after already having increased by 23% in 1995. The rise was due in large part to the share quotations of a number of multinational corporations.

Banks continue to restructure

In 1996 the big banks made massive increases in their provisions. They also announced a radical restructuring of their domestic business and the closure of a large number of branch offices. The planned measures will probably result in substantial job losses in the banking sector. As in the previous year, several regional banks were acquired by one of the big banks or by cantonal banks while others merged to form groups. Two of the cantonal banks established the legal basis for becoming public limited companies.

Expansion of 'Allfinanz'

The banks expanded their activities in the field of 'Allfinanz', i.e. combined banking and insurance services. Several banks began selling insurance policies (primarily life assurance) under their own names, while many others concluded cooperation agreements with insurance companies.

Uneven growth in balance sheets

The aggregate balance sheet total of the Swiss banks grew by 14% in 1996. Owing partly to acquisitions, the regional and cantonal banks' share of this total fell while that of the big banks rose. The cantonal banks' aggregate balance sheet total increased by 2.7%. While the interbank business conducted by these institutions expanded vigorously, loans and deposits saw little growth. The balance sheet totals of the big banks (which also saw rapid growth in interbank business) rose by 19%. Overall, gross financial assets, which comprise liquid assets, amounts due from banks, bills of exchange, money market paper and securities increased by a third within the reporting year. Compared with the regional and cantonal banks, the big banks attracted a disproportionately

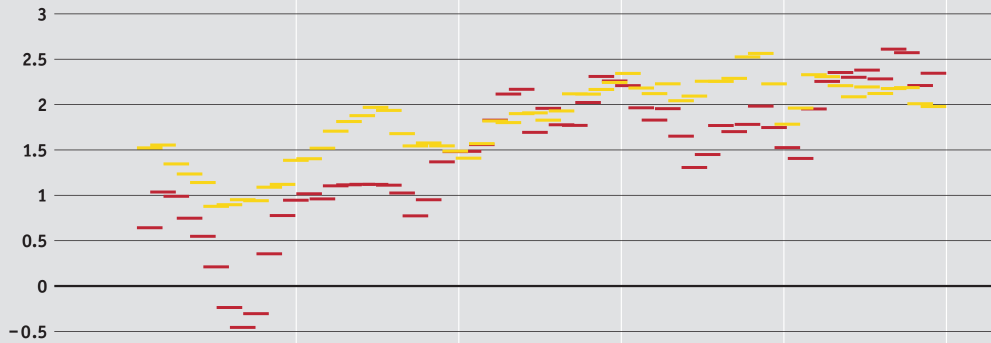
1992 1993 1994 1995 1996

Germany – Switzerland

United States – Switzerland

Spread in
percentage points.
Source: BIS

Spreads for long-term interest rates



Total (15 countries)

Dollar

D-mark

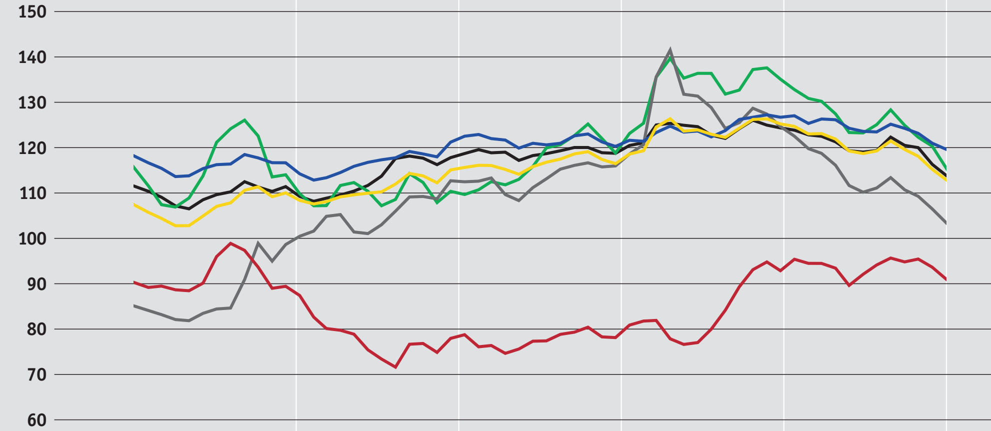
Yen

French franc

Lira

Real value of the Swiss
franc in foreign currencies.
Total: export-weighted and
consumer-price deflated.
Index: November 1977 = 100

Swiss franc exchange rates



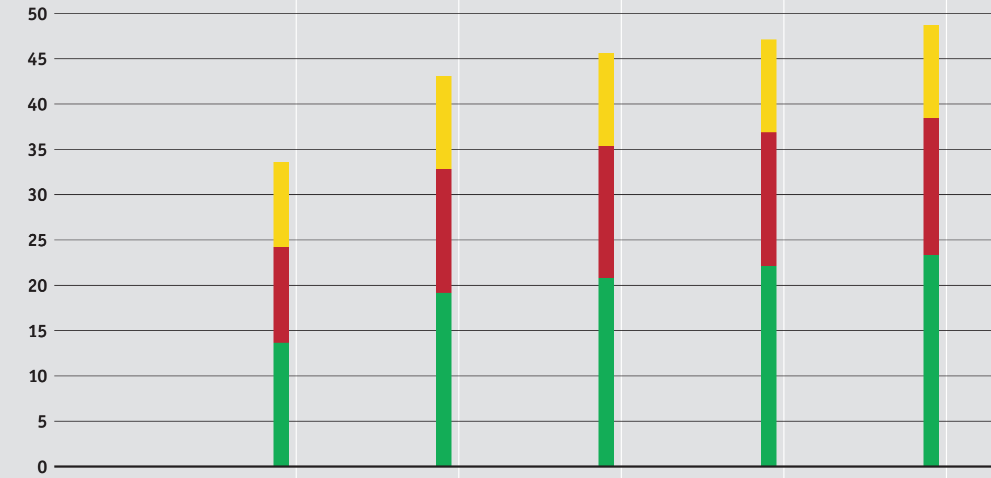
Communes

Cantons

Confederation

In percent of GDP.
Source: Federal Department
of Economic Affairs

Public-sector debt



1992 1993 1994 1995 1996

large volume of customer deposits; domestic lending business, however, was muted.

Stock market trading goes electronic

In 1996, the open-outcry method of stock market trading was superseded by an electronic system. When fully electronic trading began in August, the Swiss Exchange (SWX) was connected up to the SECOM securities management and settlement system operated by the Swiss securities clearing organisation SEGA. The Swiss Interbank Clearing (SIC) system had already been linked up to SECOM in the previous year. The interlinked SWX, SECOM and SIC systems now provide an integrated electronic platform for securities trading and settlement.

1992 1993 1994 1995 1996

Selected bank interest rates

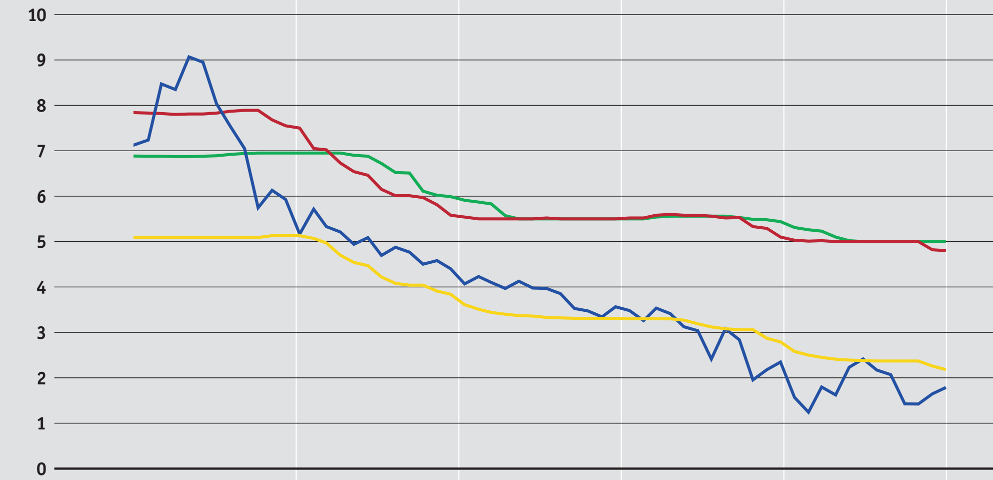
Existing mortgages
at cantonal banks

New mortgages
at cantonal banks

Savings deposits
at cantonal banks

Three-month time deposits
at big banks

Quarterly averages
in percent



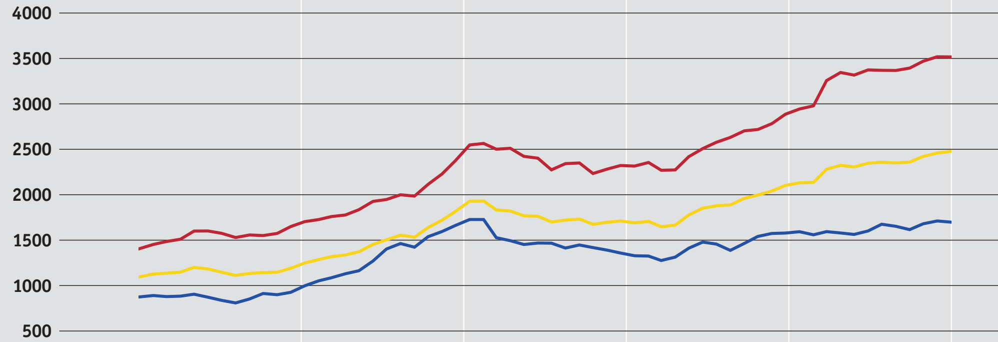
Share prices

Total

Banks

Industry

Swiss Performance Index.
Source: Swiss Exchange



1992 1993 1994 1995 1996

1 Concept

Price stability as goal of monetary policy

The monetary policy of the Swiss National Bank aims at keeping the price level stable in the medium term and allowing the economy to make full use of its production potential. Stable prices are an important prerequisite for the smooth functioning of the economy. By increasing the money stock no further than to enable the economy to grow in keeping with its production potential, the National Bank contributes to a balanced development of domestic demand for goods and services. Under such conditions the price level also remains stable. An excessive expansion of the supply of money would trigger excessive demand. Overall economic capacity would be stretched, causing prices to rise. An inadequate supply of money, by contrast, would hamper production; the economy would suffer losses of growth and possibly a decline in the price level.

Smoothing cyclical fluctuations

Price stability as a goal does not imply that monetary policy takes no account of the state of economic activity. Our policy helps to smooth cyclical fluctuations. If economic capacity is not fully utilised, an expansion of the supply of money in step with the production potential will lead to interest rate reductions. Monetary policy thus serves to support demand and helps to remedy underutilisation. If, however, economic capacity is overstretched, a potential-oriented monetary policy triggers interest rate rises. This curbs demand and acts against cyclical overheating. Moreover, we retain the option of reacting to unexpected developments – such as strong shifts in exchange rates or in the demand for money – in order to keep the damage to the real economy as small as possible.

Orienting monetary policy to the monetary base

We orient our monetary policy primarily to the monetary base. The latter serves as an indicator whether the supply of money conforms to the economic production potential. The monetary base is a narrowly defined aggregate. It is made up of bank note circulation and the balances held by the commercial banks at the National Bank. In principle, it would be possible to orient monetary policy to a more broadly defined monetary aggregate such as the money stock M_1 (currency in circulation outside banks plus sight and other transaction deposits of the nonbank public), M_2 (money stock M_1 plus savings deposits) or M_3 (money stock M_2 plus time deposits). A change is not indicated, however, as the monetary base can still be forecast quickly and fairly accurately. Moreover, the broad aggregates react more strongly to interest rate changes than the monetary base. In the short term, this impairs their relevance as monetary policy indicators. Nevertheless, we closely observe their development in order to review the indicator role of the monetary base.

Medium-term target path for the development of the monetary base

A medium-term target path serves as a guideline for the development of the monetary base. It shows the direction in which the supply of base money should be adjusted. Given regular economic growth – accompanied by price stability and normal utilisation of potential output – demand for money would follow this line. Fixing a medium-term target path permits us to react appropriately to unexpected exchange rate fluctuations and other disruptions in the economic equilibrium. The course of monetary policy can therefore temporarily deviate from the target path. Nevertheless, in order to render our policy transparent at all times, we inform the public regularly of our intentions in the field of monetary policy and forecast the development of the monetary base.

Target path end-1994 to end-1999

At the end of 1994, we fixed a target path for the seasonally-adjusted monetary base for a period of five years to the end of 1999. The target path corresponds to an average growth rate of the monetary base of approximately 1% p.a. This is in keeping with an estimated increase of 2% in potential output and an annual inflation rate of 1%, which is treated as price stability. The envisaged expansion of the monetary base by 1% is below the nominal economic growth rate of 3% on which the target path is based. The shortfall reflects the rising trend towards cashless payments. As a result, banknote circulation tends to increase more slowly than national product.

Fundamentals of monetary operations

We influence the supply of money by adjusting the amount of liquidity provided to the banking system, with a corresponding impact on money market rates. In this way, we regulate the level of sight deposits which the banks hold with the National Bank and enable market participants to trigger interest rate movements in keeping with our monetary policy course. Interest rate fluctuations that run counter to our monetary policy are, however, not excluded. In such cases, we are prepared to exert an influence on the development of interest rates by adjusting the supply of liquidity or by temporary direct steering of the call money rate. We thus ensure an orderly development of money market rates.

Central role of banks' sight deposits and of call money market

Supply and demand for bank liquidity are balanced in the call money market. We employ our monetary instruments for regulating the supply of sight deposits held at the National Bank. The banks' demand for such deposits is due mainly to statutory liquidity requirements, but also to the need for operating funds for cashless payment transactions. Compared to daily liquidity movements within the banking system and between banks and nonbanks (including the Confederation and the postal service), the volume of sight deposit balances is small. We therefore operate regularly in the call money market in order to guarantee an adequate supply of liquidity.

Precedence of open market operations

We control the banks' sight deposit holdings with the National Bank by concluding transactions with the banks at market conditions. In order to maintain our freedom of action, we generally supply the banking system with liquidity for only a limited period through open market operations with swaps (by buying assets and at the same time selling them forward). We meet basic requirements for liquidity by means of foreign currency swaps – Swiss francs against dollars with maturities ranging from 1-12 months – which, as a rule, are renewed after repayment. For providing the market with liquidity in the short term, we usually transact swaps with debt register claims. We also make use of the opportunity to place short-term time deposits of the Confederation at banks. This enables us to adjust differences in liquidity between the banking system and the Confederation.

Instruments for money market operations in Sfr billions

	1995		1996	
	Holding (annual average)	Turnover	Holding (annual average)	Turnover
Foreign exchange swaps with maturities				
up to 1 month	0.5	2.9	0.1	0.5
over 1 month to 3 months	7.4	10.5	5.0	10.2
over 3 months to 12 months	2.4	25.0	3.7	25.9
Total	10.3	38.4	8.8	36.6
Money market debt register claims				
Swaps	1.0	79.9	0.9	78.9
Purchases and sales	0.7	4.3	0.8	4.0
Total	1.7	84.2	1.7	82.9
Federal Government funds				
New investments	5.4	58.2	3.9	74.7
Onward placements	3.0	34.1	2.2	62.2

Advances against securities in an emergency

If a bank has urgent liquidity needs which it cannot meet in the money market, it may obtain an advance against securities (Lombard loan) from the National Bank. A Lombard loan, however, is limited to the amount of the collateral provided in the form of securities and granted only at the official Lombard rate. This rate is constantly kept at two percentage points above the call money rate to discourage banks from using the Lombard loan as a permanent source of refinancing.

2 Implementation

A more expansionary monetary policy than announced …

The unexpected economic downturn induced the National Bank to pursue a more expansionary monetary policy in 1996 than announced at the end of 1995. We endeavoured to provide the economy with sufficient monetary leeway for a rapid cyclical recovery and to counteract deflationary pressures emanating from the strength of the Swiss franc. At the end of 1995, we had expected the seasonally-adjusted monetary base to grow by more than 1% but considered it unlikely to reach the medium-term target path by the end of the year. In actual fact, between the fourth quarter of 1995 and the fourth quarter of 1996 the monetary base rose by 5%, thereby already exceeding the target path in summer.

… necessary due to the economic situation

Our initial assumption, at the end of 1995, had been that the Swiss economy would revive and real gross domestic product would grow by 1.8% until the fourth quarter of 1996. At the same time, we had anticipated an inflation rate of approximately 1.5% during this period. Towards mid-year, however, it became increasingly evident that there would be no economic recovery. Consequently the danger of a steady decline in prices grew. We were thus led to expand the monetary base more markedly than originally planned. This enabled us to keep money market rates more or less at the low level attained at the beginning of 1996. The low interest rates acted as a corrective to the excessive rise of the Swiss franc in the foreign exchange market.

Marked decline in savings deposit rates

The vigorous expansion of the monetary base does not simply reflect the monetary policy pursued in 1996. In the wake of a distinct relaxation of monetary policy in spring 1995, the savings deposit rates fell more steeply than expected at the end of 1995 and the beginning of 1996. Banknote circulation reacts to changes in monetary policy with a time lag of several months since it is influenced less markedly by money market than by savings deposit rates. The latter only adjust to changed money market rates after some delay.

Shift in demand for banks' sight deposits at the National Bank

Another reason for the strong expansion of the monetary base in 1996 is to be seen in the liquidity behaviour of various banks, which increased their sight deposit holdings at the National Bank and reduced their postal cheque account balances. Like cash and postal cheque account balances, these sight deposits help to meet statutory liquidity requirements. In contrast to sight deposits, however, postal cheque account balances do not form part of the monetary base. In order not to tighten our monetary policy course unintentionally, we adjusted the supply of base money by some Sfr 400 million on account of the higher demand for these sight deposits. Our stance was therefore not quite as expansionary as the growth of the monetary base seems to suggest.

Interest rate rise in mid-1996 not consistent with monetary policy

As a result of the expansionary monetary policy money market rates, which had already been declining steadily since spring 1995, fell to below 2% at the beginning of 1996. In the second quarter they moved up again. At first we took this as a sign of the anticipated economic recovery. Then, for the first time after a long period the Swiss franc started to weaken in the foreign exchange market, which normally leads to a certain amount of interest rate tension. In addition, distortions in the money market as a result of the already mentioned changes in the banks' liquidity behaviour made themselves felt. We counteracted interest rate tension by providing the money market with ample liquidity. At the end of September, we decreased the discount rate from 1.5% to 1%, thus underlining our willingness to keep money market rates at a low level.

Strong growth of the broadly defined monetary aggregates

The development of the broadly defined monetary aggregates, which react promptly and vigorously to interest rate changes, confirmed the picture presented by the monetary base. Already beginning in spring 1995, the decline in money market rates had led to a massive expansion of sight and savings deposit liabilities in the banking system to the detriment of time deposits. This development was interrupted by a temporary rise in interest rates in spring 1996. Nevertheless, all the broadly defined aggregates rose vigorously: in 1996 the money stock M_1 exceeded the previous year's level by 11.9% on average, the money stock M_2 expanded by approximately 12.2%, while the money stock M_3 increased by 7.2%.

Seasonally-adjusted monetary base

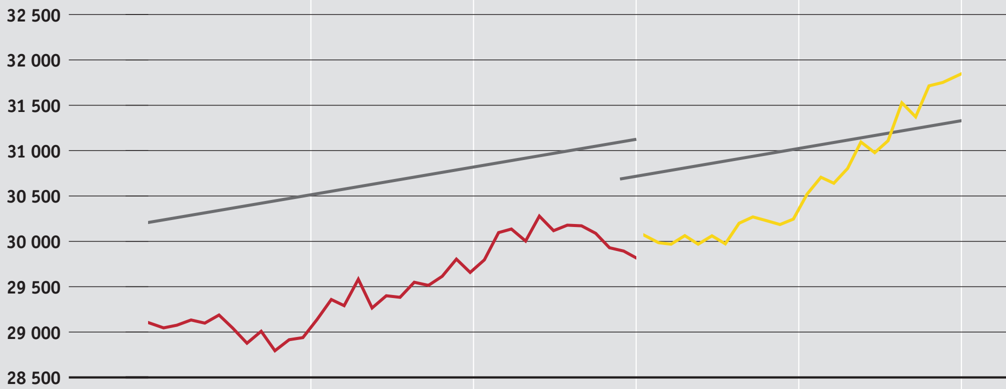
Monetary base until December 1994

Monetary base as from January 1995

Target path of 1%

In millions of Swiss francs

From January 1995 onward, sight deposits held at the National Bank solely comprise the balances of domestic banks. Until end-1994 they included deposits of a few institutions not subject to the Federal Law on Banks and Savings Banks.



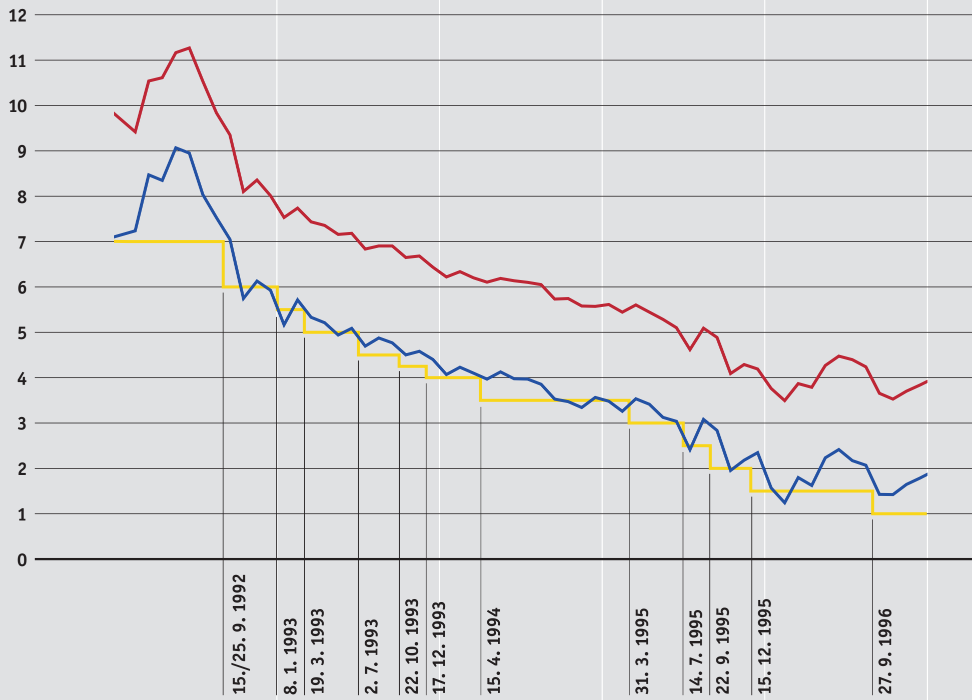
Discount and Lombard rates

Discount rate

Lombard rate

Call money rate

In percent



Monetary policy in 1997

The Swiss National Bank, in agreement with the Federal Government, will continue to pursue a relaxed monetary policy in 1997. We intend to keep the seasonally-adjusted monetary base above the medium-term target path. In so doing, we duly take account of the unfavourable economic situation and the uncertainties surrounding European monetary integration. The supply of base money will remain abundant, creating the monetary preconditions for economic recovery. We currently consider the inflation risks in Switzerland to be low. Yet we are aware that the time for a change of direction must be carefully chosen if price stability is to be maintained in the medium run. A change in monetary policy, however, will only enter into consideration once the Swiss economy is clearly on the path of recovery.

Hesitant economic recovery and low inflation in 1997

The monetary policy envisaged for 1997 is based on the expectation that real gross domestic product will increase by 0.5% and the average inflation rate will amount to 1%. Under these circumstances demand for base money is likely to show a moderate increase only. As usual, we retain the option of deviating from our monetary course in the event of serious disruptions in the financial markets.

1992 1993 1994 1995 1996

Monetary aggregates

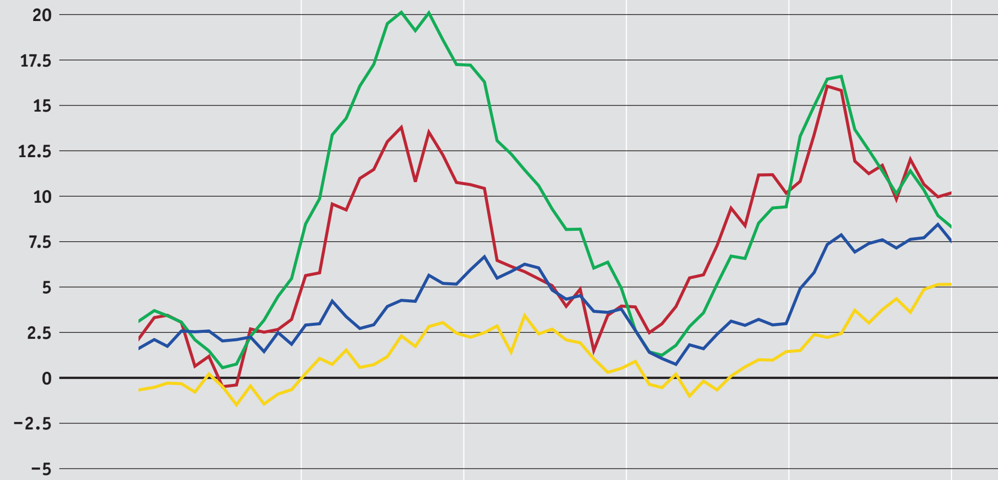
Monetary base

M_1

M_2

M_3

Percentage change from previous year’s level

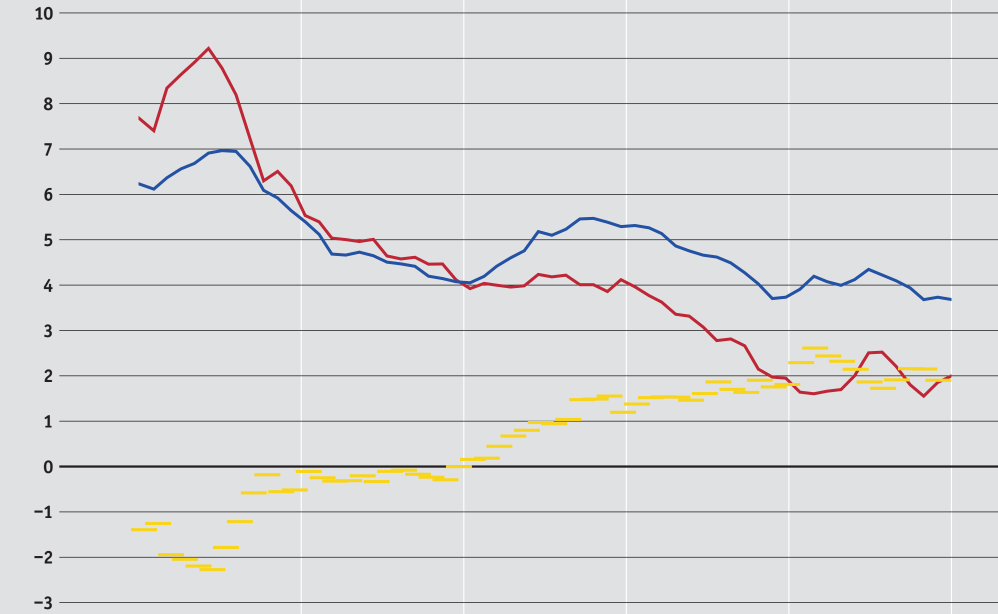


Money and capital market rates

Euromarket rate on three-month Swiss franc deposits, in percent

Yield on federal bonds, in percent

Differential in percentage points



1992 1993 1994 1995 1996

3 Renewal of the note-issuing privilege

State-owned bank or joint-stock bank – an alternative under constitutional law

Under Article 39 of the Federal Constitution (FC), the Confederation has the sole right to issue banknotes. The Confederation may exercise this privilege through a separately organised state-owned bank or, subject to the right of repurchase, vest the note-issuing privilege in a central joint-stock bank administered with the co-operation and under the supervision of the Confederation. The National Bank Law (NBL) confers the note-issuing privilege on the National Bank by parliamentary decision for a period of twenty years. A resolution renewing the privilege was last passed by the federal parliament on 15 September 1976 for a period expiring on 20 June 1997.

Decree of the federal parliament on the renewal of the note-issuing privilege

With its message of 24 April 1996 the Federal Council submitted the draft of a federal decree to the Swiss parliament providing for the renewal of the National Bank's note-issuing privilege for a period of twenty years as from 21 June 1997. It argued on the grounds that the current regulation had proved satisfactory. By vesting the note-issuing privilege in a central bank organised in the form of a joint-stock company, the principle of independence would be realised to a high degree. A 'state-owned bank' would be subject to stronger political influence than a central bank constituted as a joint stock company; this alternative could therefore no longer be considered a viable solution. Both houses of parliament passed the motion unanimously, the Council of States in the autumn session and the National Council in the winter session of 1996.

4 Comments on the draft of the new Federal Constitution

An article on monetary policy was newly introduced in the draft on the reform of the Federal Constitution published in June 1995. This new article is designed to replace the former provisions in Art. 38 FC (coinage clause) and Art. 39 FC (central bank clause).

Comments of the National Bank

In its statement of 29 February 1996, the National Bank qualified the inclusion of an article on the monetary structure as an important element of the reform project. We were in favour of the subject being organised in a single constitutional norm concentrating on fundamental monetary principles. We also welcomed the proposal to sever the link between the Swiss currency and gold, the explicit constitutional competence of the Confederation in monetary matters and the embodiment of central bank independence in the Constitution. Furthermore, we pointed out that the central bank's commitment to the goal of monetary stability is today acknowledged worldwide as a basic principle of a monetary order. A clause in the Constitution orienting central bank policy to the goal of monetary stability, however, could have gone beyond the limits of a simple update. In order to maintain public confidence in the Swiss currency we suggested that the National Bank should be obliged by the Constitution to form adequate currency reserves from its earnings.

This suggestion was consequently taken up by the Federal Department of Justice and Police. On 20 November 1996, the Federal Council passed the revised draft of a new Federal Constitution and the message. In the updated Art. 89 of the draft Constitution, the Swiss National Bank is obliged to form adequate currency reserves. This rule is intended to replace, in function, the present constitutional obligation to provide cover for notes in circulation through gold and foreign exchange holdings.

Addition to the article on monetary policy

Other central bank functions

1 Asset management

1.1 Fundamentals

Nature and purpose of the National Bank's assets

The National Bank's assets essentially consist of gold and foreign currency reserves as well as domestic financial assets (domestic securities and money market assets). They represent a part of Switzerland's national wealth and perform important monetary policy functions. Their composition is determined by the established monetary order and the requirements of monetary policy.

The role of domestic assets and hedged foreign exchange reserves

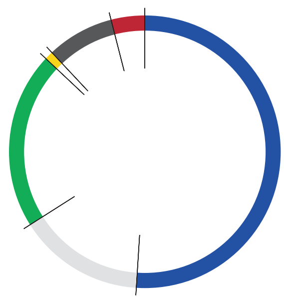
Part of the National Bank's assets serve directly for implementing monetary policy. We acquire assets in order to supply the economy with base money. These assets represent the real countervalue of the monetary base, thus helping to create confidence in the value of our currency. We employ mainly foreign-currency swaps and domestic assets for controlling the monetary base. Foreign-currency swaps constitute dollar reserves which are hedged in the forward market.

The role of unhedged foreign exchange reserves and gold holdings

The unhedged foreign exchange reserves represent an instrument for intervening in the market in the event of a Swiss franc weakness. They are held mainly in dollar assets since the dollar serves as a central reserve and intervention currency. We can sell unhedged foreign exchange reserves at any time against Swiss francs if we need to support the external value of our currency. Unlike unhedged foreign exchange reserves, our gold holdings cannot be used for interventions in the foreign exchange market. The Swiss franc is linked to gold by law. This means that we can only buy and sell gold at the official price, which falls considerably short of the market price. Nevertheless, both gold holdings and unhedged foreign exchange reserves play a decisive role as a national emergency provision. They help to ensure that Switzerland remains solvent vis-à-vis foreign countries and able to pay for essential imports even in emergencies.

Little leeway for managing our gold and foreign exchange reserves

Legal provisions severely restrict our leeway for managing our gold and foreign exchange reserves. An active administration of our gold holdings is ruled out. In the management of our foreign exchange reserves we are also considerably inhibited by the National Bank Law. It specifies the type of assets we may acquire as well as the instruments we may employ for their management. It is, however, our endeavour to manage our foreign exchange reserves as profitably as possible within the limits set by legal provisions and our monetary policy mandate. We are permitted by law to effect investments abroad only in money market assets, and such activity is restricted to a specified circle of borrowers. For monetary policy reasons, moreover, we hold most of our foreign exchange reserves in dollars and do not selectively hedge the exchange rate risk. Experience shows that any exchange rate losses on unhedged foreign exchange reserves will be made good in the long run by higher interest earnings on the respective foreign investments.



Structure of National Bank assets
in percent

Unhedged foreign exch. reserves 51

Foreign exchange swaps 15

Gold 21

Other domestic assets 1

Domestic financial assets 8

Other foreign currency assets 4

Total: Sfr 57.8 billion.
Balance sheet values, ann. average

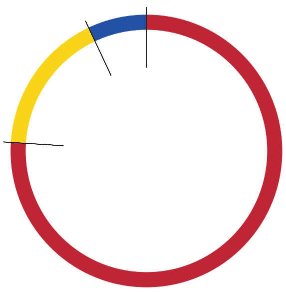
1.2 Foreign exchange investments

Investment policy and risk control

Our foreign exchange reserves are held in secure and liquid form. This enables us, in case of need, to sell these on the market at short notice and without incurring heavy losses. To this end, we are permitted by the National Bank Law to acquire easily marketable debt certificates of foreign states, international organisations and foreign banks and to hold time deposits with foreign banks. The residual maturity of any investment may not exceed twelve months. We deal with first-class banks and take care to avoid risk concentration. Our internal credit limits are based on assessments of creditworthiness of reputable rating agencies. Within these narrow terms of reference, we control the interest rate risk in each individual currency. We keep the mean residual maturities of individual currency portfolios close to the residual maturities of reference portfolios. The yardstick for the success of our asset management are the yields achieved on the reference portfolios and the investment yield attained by an external portfolio manager with a small part of our dollar investments.

Investment activity and results

Our foreign exchange reserves are held in the three key currencies dollars, D-marks and yen. Compared to the previous year, the D-mark share was increased slightly to the detriment of dollar investments, which are still predominant. Approximately 80% of all investments were again accounted for by securities with state guarantee, with approximately 63% being invested in US government paper. The average residual maturity amounted to 4.5 months for dollar and D-mark portfolios, and 3 months for yen portfolios. The yields achieved reflect the lower interest rate level in these three money markets compared to the previous year; the yields amounted to 5.4%, 3.5% and 0.5% respectively and were thus across the board lower than a year earlier. Due to the short residual maturities of the investments, the capital gains failed to offset the decline in interest earnings. Leaving the exchange rate gain on all three currencies out of account, the overall yield on foreign exchange investments stood at 5%.



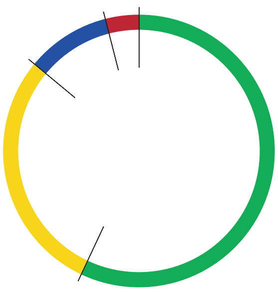
Foreign exchange reserves by debtor category
in percent

Government securities 76

Monetary institutions 17

Remaining money market 7

Total: Sfr 44.6 billion.
Annual average



Foreign exchange reserves by currency
in percent

Dollar unhedged 57

Dollar hedged 29

D-mark 10

Yen 4

Total: Sfr 44.6 billion.
Annual average

1.3 Domestic securities

Fundamentals of securities management

Since the early eighties the Swiss National Bank has been creating part of its base money through annual bond purchases in the domestic capital market to the net amount of approximately Sfr 100 million. We manage our bond holdings in compliance with statutory provisions and subject to the restriction that asset management may neither disrupt monetary policy nor profit from it. We therefore pursue an investment policy bound by rules. We spread purchases evenly over the year. We are only authorised to buy public sector bonds, mortgage bonds and marketable bonds of domestic banks, which reduces the credit risk. All legally admitted debtor categories are considered more or less in relation to their market capitalisation.

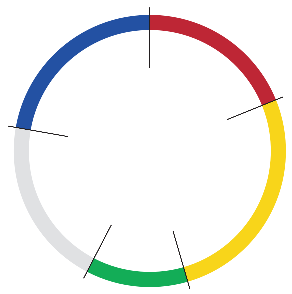
Investment activity and results

At the end of 1996 the market value of the portfolio amounted to Sfr 4,821.5 million, compared to Sfr 4,686.7 million a year earlier. The medium duration increased from 4 to 4.3 years. Interest earnings on the portfolio totalled Sfr 242.9 million. The price loss due to the rise in interest rates in the first half of the year was more than offset when interest rates fell again in the second half. On balance, a price gain of Sfr 17.4 million resulted; the yield amounted to 5.75%.

1.4 Review of investment policy and profit distribution

Joint working group of the Department of Finance and the National Bank

At the beginning of June 1996, the National Bank and the Federal Department of Finance commissioned a joint working group to review the investment policy of the National Bank and to seek possibilities for a more profitable management of its foreign exchange reserves. The working group was also requested to draw up proposals for reducing the fluctuations in the distribution of National Bank profits to the Confederation and the cantons more effectively.



Domestic securities by debtor category
in percent

Confederation 19

Cantons 27

Communes 12

Mortgage bonds 20

Banks 22

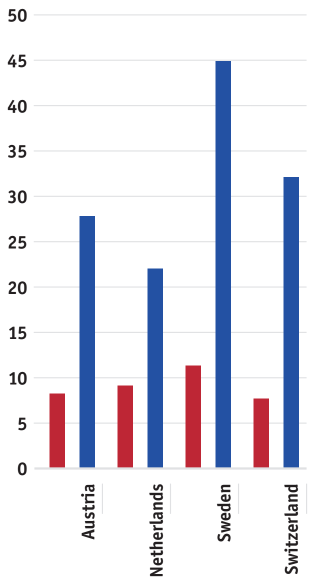
Total: Sfr 4.6 billion.
Annual average

Assessment of the level of the National Bank's foreign exchange reserves

In the first part of its report, which was published on 20 December after having been approved by the Federal Council and the Governing Board, the working group noted that compared to other small European countries the National Bank held adequate unhedged foreign exchange reserves. It also emphasised that the foreign exchange reserves of a central bank primarily performed a monetary policy function. They cannot, therefore, be managed solely based on earnings and risk considerations. The National Bank is, however, committed to achieving maximum earnings while duly taking its liquidity and security requirements into account.

Proposal for a partial revision of the National Bank Law and proposal for future profit distribution

To this end, the working group proposed a partial revision of the National Bank Law (NBL). Accordingly, the maximum maturity of currently twelve months for easily marketable foreign assets is to be abolished in order to enable the National Bank to increase the duration of its foreign currency investments and in this way to achieve higher earnings on its foreign exchange reserves. In addition, the use of derivatives for controlling the market risks of foreign exchange reserves and a more active management of gold holdings through 'gold lending' could, if they were legally authorised, further help to improve earnings. In order to ensure that no violation of the obligation to maintain a gold cover of at least 40% for notes in circulation occurs through gold lending operations, the statutory minimum gold cover is to be reduced to 25%. Overall, the partial revision of the law is expected to produce a surplus income of Sfr 400 million a year on average. The working group also submitted a proposal for reducing the fluctuations in the annual profit distribution more effectively. The distributable amount – calculated on the basis of an earnings forecast – is to be stabilised for a period of five years. Finally, the National Bank is to be exempted from federal income tax. There is little sense in making the National Bank subject to taxation since this merely leads to a shift in the proportion of profits allocated to the Confederation and the cantons.



Foreign exchange reserves
in percent

Gross domestic product

Imports

Average foreign exchange reserves 1992–1994 (Austria, Netherlands and Switzerland) and 1992/1993 (Sweden) respectively. Switzerland: unhedged foreign exchange reserves.
Source: IMF, SNB

2 Payment transactions

2.1 Basis

Overview

In Switzerland, payment transactions are handled primarily by the National Bank, the commercial banks and the Post Office. The banks' payment services are performed by the companies of the Telekurs Group. The National Bank supplies the economy (by way of the banks) with banknotes and coins. It also acts as a settlements centre for cashless payments between the banks and between the Post Office and the banks.

Developments relating to cashless payments

Since 1987, the Swiss National Bank – together with Telekurs Payserv Ltd – has operated the electronic SIC (Swiss Interbank Clearing) system. SIC is a Real-Time Gross Settlement (RTGS) system in which each payment transaction is performed individually via the participants' sight deposit accounts at the National Bank. The banks use SIC for handling their large-value payment transactions as well as part of their bulk payments. Since March 1995, SIC has been linked to the SECOM settlements system of SEGA (the Swiss Securities Clearing Corporation). This ensures that payment and delivery occur simultaneously ('delivery against payment'), thereby avoiding settlement risks.

Participation in other payments services

The other services provided as part of the banks' payment transactions – data carrier exchange (DTA), direct debiting (LSV), cheque clearing (standardised cheques), Bancomat cash dispensers, Electronic Funds Transfer (EFT/POS) and the associated ec-Direct facility – are net settlement systems. The interbank claims which arise through the performance of these payments are settled at regular intervals – generally once a day – via the participants' sight deposit accounts at the National Bank. The payments system of the Swiss Post Office is used mainly for bulk payments. The National Bank's post office accounts provide a link between the payment systems of the banks and that of the Post Office.

2.2 Provision of cash

Cash in circulation

In 1996, the average banknote circulation was Sfr 28.2 billion, i.e. 2.4% more than in 1995. At Sfr 2.1 billion, coins in circulation were only just above the previous year's figure.

Manufacture and disposal of banknotes

The National Bank added 268 million freshly printed banknotes with a face value totalling Sfr 3.4 billion to its stock. 143.6 million damaged or recalled notes with a face value of Sfr 11.3 billion were destroyed.

Cash turnover

In 1996 the National Bank's branch offices registered a 6.6% increase in cash turnover in value terms to Sfr 144.2 billion. The branch offices received approximately 420 million notes (7.9% more than in 1995) and checked them for authenticity, quality and quantity.

New 20-franc note

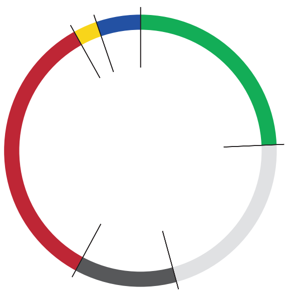
On 1 October 1996 the National Bank issued the new 20-franc note, the second in its new series. The note, which depicts the composer Arthur Honegger, is of similar design to the 50-franc note depicting Sophie Taeuber-Arp. The new note's underlying colour is red, thus clearly distinguishing it from the 100-franc note. The new banknote series combines modern design with state-of-the-art printing technology. The security features allow members of the public to easily verify that the notes are genuine.

Completion of the new bank note series by autumn 1998

The new 10-franc note will appear in spring 1997, with the remaining notes being introduced at six-monthly intervals up to autumn 1998. The banknotes of the old series, which were issued between 1976 and 1979, will remain legal tender until further notice. The notes from previous series, which were recalled in 1980, are redeemable by the National Bank up to 30 April 2000.

Numismatics

In 1996 the National Bank put 23,400 sets of coins into circulation. Acting on behalf and for the account of the Federal Government, it also released 457,700 commemorative coins.



Bank notes in circulation
Denom. units (number in millions)

10s 60

20s 53

50s 30

100s 84

500s 7

1000s 13

Annual average

2.3 SIC payment transactions

Growth in SIC payments

At the end of 1996 there were 218 participants in SIC (end-1995: 214). During the year under review, an average of about 427,000 payments per day totalling approximately Sfr 150 billion were handled. Every two-and-a-half days, therefore, a volume roughly equivalent to Switzerland's annual gross national product is handled by the system.

Development of payment flows[1]

	1992	1993	1994	1995	1996
Transactions per day (thousands)					
Average SIC	253	263	349	382	427
Average SECOM	–	–	–	13	20
Maximum SIC	521	580	925	1 154	1 156
Maximum SECOM	–	–	–	24	40
Volume per day (Sfr billions)					
Average SIC	131	133	131	128	150
Average SECOM	–	–	–	3	5
Maximum SIC	232	217	270	257	290
Maximum SECOM	–	–	–	7	10
Frequency of turnover[2]					
Average	67	63	61	57	58
Maximum	125	113	121	112	90

1 As from 27 March 1995, SECOM payments are contained in the SIC payments flow.

2 Average daily turnover per franc

Structure of payments

SIC does not impose any restrictions regarding the size of the amounts handled. Alongside payments of Sfr 100 million or more, even very small sums are handled. The structure of the payments flow varies greatly in terms of volumes and amounts: whereas small sums (of up to Sfr 5,000) account for more than 80% of payments, they account for only 0.2% of the total volume. Conversely, large payments (Sfr 1 million and over) account for over 95% of the total volume but for less than 5% of the number of payments.

Daily payments flow

	1992	1993	1994	1995	1996
Number[1]					
1–4 999	80.3	81.2	84.9	83.0	82.7
5 000–999 999	15.9	15.1	12.3	14.5	14.8
1 000 000 and over	3.9	3.7	2.8	2.5	2.5
Volume[1]					
1–4 999	0.2	0.2	0.2	0.2	0.2
5 000–999 999	2.2	2.2	2.2	3.2	3.3
1 000 000 and over	97.6	97.6	97.6	96.5	96.5

1 Breakdown by category of payment in percent of corresponding total

3 Statistical tasks

Basis

The National Bank collects from banks and industries the statistical data necessary for performing its tasks. This data is used for analyses concerning monetary policy and economic activity and for drawing up the balance of payments. The information on the banks' balance sheets serves mainly for calculating the monetary aggregates. The data supplied by enterprises in the industrial and services sectors on their foreign activities, notably direct investment, is reflected in the balance of payments. The National Bank is also responsible for compiling investment fund statistics; in addition, it collects information on the money and capital markets. These statistics are drawn up by agreement with the data-reporting institutions and conform closely to international standards. It is our aim to rationalise the transmission of data from banks and industries as far as possible. In 1996, initial steps were therefore taken to introduce a fully electronic data transmission system between the banks and the Swiss National Bank.

Improvement of various statistics

In the course of the revision of the banks' capital adequacy requirements and accounting rules all banking statistics, databanks and publications were made subject to review and brought up-to-date in 1996. In order to be able to take account of the current situation in calculating our monetary aggregates, we conducted a preliminary survey with a representative number of banks. We also supplemented the data base with regard to innovations in the financial markets. The structure of our balance of payments was adjusted to the requirements of the IMF. In conjunction with the investment fund association, we devised a new concept for extending the data base concerning investment funds.

4 Services on behalf of the Confederation

Basis

The National Bank acts as banker to the Confederation. The National Bank Law lays down the services to be performed, prohibits deficit financing by means of central bank credits and stipulates that the services must be rendered free of charge. On this basis, we perform tasks on behalf of the Confederation in the payments field and in coinage, in borrowing on the money and capital markets and in the investment of funds.

Agent in the money market

The Confederation holds its liquid funds in the form of sight deposits and short-term time deposits at the National Bank. We pay interest on the Confederation's sight deposits up to an amount of Sfr 500 million at the call money rate, on time deposits at market rates. In the event of liquidity bottlenecks, we assist the Confederation in taking up money market credits from banks; if necessary, the Confederation must avail itself of a Lombard credit from the National Bank on the same terms as the banks.

Federal bonds and money market debt register claims

In 1996 we arranged 52 issues of money market debt register claims (MMDRC) and 10 bond issues on behalf of the Confederation. MMDRCs to the amount of Sfr 103.1 billion were subscribed and Sfr 49.9 billion were allocated. Bonds were subscribed for a total amount of Sfr 10.6 billion, of which Sfr 4.5 billion were allocated.

Federal bonds and money market debt register claims

	1992	1993	1994	1995	1996
Number of issues[1]					
Federal bonds	10	16	16	7	10
MMDRC	24	24	52	52	52
Total subscribed in billions of francs					
Federal bonds	12.6	14.2	9.9	8.2	10.6
MMDRC	23.8	59.0	71.8	94.7	103.1
Total allocated in billions of francs					
Federal bonds[2]	6.2	8.6	6.8	3.5	4.5
MMDRC	15.6	34.5	46.7	47.1	49.9
Outstanding at year-end in billions of francs					
Federal bonds	17.2	24.1	28.6	29.8	33.8
MMDRC	7.2	11.3	12.7	14.1	14.7

1 Based on date of payment

2 Excluding the National Bank's own tranche

Administration and processing services

The National Bank accepts payments on behalf of the Confederation and carries out remittances up to the amount of the Confederation's sight balances to third parties both in Switzerland and abroad. Federal agencies cover their cash requirements through withdrawals from the National Bank. The surplus liquid funds of the Confederation – notably those of the Post Office and the Swiss federal railways – flow back to us via the banks. We also keep the federal debt register and administer security holdings and objects of value on behalf of the Confederation and associated institutions.

5 Cooperation with federal agencies

5.1 Cooperation with the Federal Banking Commission

Basic features

In 1996 regular meetings again took place between the Federal Banking Commission (FBC) and the Governing Board of the Swiss National Bank. At the same time, we cooperated closely with the Secretariat of the FBC on various issues, notably in reviewing amendments to the laws in the financial field.

Stock Exchange Act: second set of implementing norms

After a consultation procedure on a first set of implementing provisions to the Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act; SESTA) had been carried out in autumn 1995, the FBC opened a consultation procedure on a second set of norms at the end of March 1996. These included drafts of sections 3 and 4 of the FBC's stock exchange ordinance (on the disclosure of shareholdings and the submission of public offers) and the draft of an ordinance of the takeover committee on public offers (takeover committee), and finally the draft of the committee's regulations on public offers.

Comments of the National Bank

In its comments, the National Bank first referred to the fact that in their provisions on public takeover the Swiss legislators had followed the guidelines proposed by the EU. This proposal has, in the meantime, been modified considerably; in particular, the obligation to make a public offer when a shareholding exceeds a specific threshold has been deleted. Art. 32 of the Swiss Stock Exchange Act provides for such an obligation to make a public offer, subject to an opting-out clause. In view of this discrepancy vis-à-vis the regulations of the EU countries which is beginning to manifest itself we suggested that the enforcement of chapter 5 of the SESTA should be reconsidered in light of the international competitiveness of Switzerland as a securities trading centre. Moreover, we submitted a series of proposals for specifying the implementing norms of the FBC and the takeover committee.

5.2 Cooperation with the Federal Department of Finance and the Commission for Economic Issues

Working group 'Cantonal banks'

The National Bank participated in a working group under the chairmanship of the Federal Department of Finance which dealt with the status of cantonal banks. The working group's recommendations aim at providing the cantons with more leeway in their relations with the cantonal banks as well as in mergers, cooperation agreements and transformations of cantonal banks.

In its report of December 1996 the working group proposed an amendment to the Banking Law. Accordingly, a bank should be permitted to use the term 'cantonal bank' in its name if it was established pursuant to cantonal legal decree and if the canton holds a qualified investment. State guarantee will no longer serve as a distinguishing feature of cantonal banks. Cantonal banks without state guarantee are to be made subject to unlimited supervision by the FBC; no special provisions of banking law are to apply to them.

Working group 'Economic and Monetary Union'

In February 1996, the head of the Federal Department of Economic Affairs, at the suggestion of the National Bank, commissioned a working group of the Commission for Economic Issues to study the effects of the European Economic and Monetary Union (EMU) on the Swiss economy and to show up the scope of action of the National Bank and other competent authorities. The National Bank was represented in the working group together with the federal authorities and representatives from universities, the business community, and employer and employee associations. Since the effects on the Swiss economy will largely depend on the manner and time of implementation of EMU, the working group described four possible future scenarios: In the first scenario, the third stage of EMU will be realised on schedule at the beginning of 1999 with a limited number of EU countries which meet the convergence criteria laid down in the Maastricht Treaty. In the second scenario, the convergence criteria are softened to permit as many countries as possible to join EMU. In a third scenario, the beginning of the third stage is postponed although public belief in the implementation of EMU remains unshaken. A fourth scenario also provides for a postponement but implementation seems very far off.

Implications for the Swiss economy

The transition to the third stage involves the risk of a real appreciation of the Swiss franc which would impair the competitiveness of the domestic economy. In the case of the first and the third scenario, the appreciation is likely to be both moderate and temporary. Massive exchange rate turbulences cannot, however, be ruled out in the second scenario. In such an event notably the National Bank would be implicated and would have to react by relaxing monetary policy. If forced to a considerable relaxation, the National Bank would, however, run the risk of fuelling inflation in the medium term.

Proposals of the working group

The working group rejected the idea of permanently pegging the Swiss franc to the European single currency. This would deprive the National Bank of its autonomy in conducting monetary policy, with short-term Swiss interest rates rising to the European level. The working group, moreover, is set against any restrictions on capital imports and other restrictive measures. On the other hand, it clearly indicated how economic policy could contribute in other areas to strengthening Switzerland's economic and industrial position.

5.3 Switzerland's financial relations in the Second World War

A renewed topical issue

In the course of 1996 the debate on the role played by the Swiss financial centre during the Second World War gained renewed interest both within and outside Switzerland. Various aspects have been the subject of discussion: the extent and fate of assets belonging to victims of the Nazi regime and deposited in Switzerland before and during the Second World War, the gold transactions of the Swiss National Bank during the War and the issue of Nazi assets brought into Switzerland. The Federal Decree on assets held in Switzerland of foreign nationals or stateless persons subject to racial, religious or political persecution of 20 December 1962 laid down how dormant accounts were to be dealt with. Doubts have currently arisen as to the effectiveness of this Federal Decree. In the same context, the agreements concluded between Switzerland and some countries formerly belonging to the Eastern Bloc for indemnifying dispossessed Swiss nationals have also been criticised.

Independent committee

On 2 May 1996 a committee was set up, based on a Memorandum of Understanding between the Swiss Bankers' Association and various Jewish organisations, with the task of investigating the issue of assets held by Swiss banks with no customer contact. Chairman of the committee is the former Chairman of the US Federal Reserve Board, Paul Volcker.

Legal basis for historical fact-finding

The opinion soon gained ground that only a thorough historical investigation would shed light on the exact circumstances of Switzerland's financial relations in the Second World War. On 13 December 1996, parliament created the necessary legal basis by passing a Federal Decree on the historical and legal inquiry into the fate of the assets deposited in Switzerland in the wake of the Nazi regime. On 19 December 1996 the Federal Council appointed an investigative committee consisting of nine members, most of them historians and including four foreign experts. The committee under the chairmanship of Professor Jean-François Bergier has the task of investigating the fate of the assets deposited in Switzerland under the Nazi regime.

Attitude of the National Bank

The National Bank welcomes the decision of the federal parliament and the appointment of the Volcker committee. These steps are designed to facilitate Switzerland's search for the truth in a difficult period of its history. After the War the National Bank's gold transactions with the German Reichsbank formed the object of an agreement under international law with the Allies. Following the declassification of documents in the eighties, a number of critical treatises on the subject were published by various historians. Switzerland's foremost concern today is to assess these past events from a distance of half a century and to draw the necessary conclusions.

6 International cooperation

On an international level, the National Bank cooperates with the International Monetary Fund (IMF), the Group of Ten (G-10) – which represents the ten leading industrial countries and Switzerland – and the Bank for International Settlements (BIS). The National Bank also participates in international cooperation by providing technical assistance and specialist training.

6.1 Cooperation in the International Monetary Fund

Membership in the International Monetary Fund

Switzerland's IMF membership is exercised by the Federal Department of Finance and the National Bank. The National Bank finances Switzerland's contribution in the form of a reserve position in the IMF, which consists of an interest-bearing claim. The Fund pays for its activities with the member countries' reserve positions. At the end of 1996, Switzerland's reserve position amounted to 1,064.9 million Special Drawing Rights (SDRs), compared to 981.2 million SDRs at the end of 1995. (At the end of 1996 1 SDR was equivalent to Sfr 1.94.) The maximum amount it can reach corresponds to its quota, i.e. Switzerland's capital share in the IMF to the amount of 2,470.4 million SDRs. As part of the General Arrangements to Borrow (GAB), the National Bank extended an additional credit line of 1,020 million SDRs to the IMF for special cases. The IMF may only resort to the GAB if disruptions in the international monetary system have led to a shortage of ordinary funds. The GAB were not utilised in 1996. The National Bank, moreover, finances the Swiss contribution to the loan account of the Enhanced Structural Adjustment Facility II at the IMF (ESAF II). The loan commitment amounts to 151.7 million SDRs. The timely repayment of the ESAF loans including interest to the National Bank is guaranteed by the Federal Government. The ESAF serves to finance long-term loans at reduced interest rates to poor developing countries. The interest-rate subsidies are financed by the Confederation. The loan commitment to the amount of 151.7 million SDRs was not drawn on in 1996.

6.2 Cooperation in the Group of Ten

The National Bank participates in the meetings of the finance ministers and central bank governors of the G-10 as well as in various working groups of the G-10.

New arrangements to borrow (NAB)

At the beginning of 1997 the Executive Board of the IMF approved the New Arrangements to Borrow (NAB). The NAB are parallel agreements to the General Arrangements to Borrow (GAB). They are intended to enable the IMF, in the event of a disruption of the international financial system, to borrow up to 34 billion SDRs should its ordinary financial resources prove to be inadequate. The members of the GAB – the G-10 – and 14 new members are to participate in the NAB. The NAB enter into force as soon as the agreement has been signed by members providing 85% of the total amount. Should the IMF be compelled to borrow funds, it will first have to submit an application for activating the NAB. The GAB will only become available if it is impossible to activate the NAB or if G-10 countries take up credits. No cumulative borrowing through recourse to the GAB and the NAB is admitted. The G-10 countries will provide approximately 80% of the financing of the NAB. As in the case of the GAB, the National Bank is to be a participating institution and will finance the Swiss contribution to the amount of 1,557 million SDRs. The Confederation does not guarantee the loans extended by the National Bank to the IMF within the framework of the NAB.

Working party on the resolution of sovereign liquidity crises

In reaction to the financial crisis in Mexico at the end of 1994, the G-10 countries set up a working party to discuss measures for overcoming liquidity crises of sovereign debtors. The working party published its final report in May 1996. It concluded that adherence to loan agreements was of the essence. If debt servicing is interrupted, suitably flexible solutions would have to be found. This would, for example, be facilitated if loan agreements provided for cooperation between creditors and debtors. Neither debtors nor creditors could expect to be protected against losses in the event of a liquidity crisis.

6.3 Cooperation with the BIS

Basle Committee on Banking Supervision

The central bank governors of the G-10 meet once a month within the framework of the BIS. Moreover, the National Bank is represented in various committees of the BIS including the Basle Committee on Banking Supervision and the Committee on Payment and Settlement Systems.

Together with the Federal Banking Commission, the National Bank participated in the tasks of the Basle Committee. In 1996, the emphasis was on the improvement of capital adequacy standards for internationally active banks, notably on testing the banks' own models for determining the capital resources necessary for covering market risks and the mode of settlement of claims among several parties (multilateral netting). Furthermore, the Basle Committee strove to intensify the dialogue with banking supervisors in countries not belonging to the Group of Ten.

The Committee on Payment and Settlement Systems studied measures for handling the performance risk in foreign exchange trading transactions and published its report in March 1996. A risk in settling foreign exchange transactions may consist – for example, due to different time zones – in a party meeting its payment obligations but not receiving the foreign exchange purchased from its contracting partner.

Committee on Payment and Settlement Systems

Within the framework of the Committee on Payment and Settlement Systems various working groups dealt with the subject of electronic money (e-money). The studies aimed at identifying possible problem areas in connection with the electronic purse as well as with e-money transferred on worldwide data networks. The working groups analysed technical security aspects, regulatory issues, monetary implications and legal aspects of e-money. They came to the conclusion that e-money currently raises no urgent problems for the central banks but that a close eye was to be kept on further developments.

Working group on electronic money

6.4 Technical assistance and specialist training

The National Bank provides technical assistance to central banks that have either been newly established or are in a state of reorganisation. Our activities ensue partly in response to requests from the International Monetary Fund and partly within the context of the Confederation's development programmes. Specialists from our Bank visit other central banks and invite members of their staff to Switzerland for training purposes. In 1996, considerable support was given to the Bank of Tanzania (domestic financial markets, foreign exchange markets), the central bank of Madagascar (internal auditing) and the central bank of Kyrgyzstan (foreign exchange and money markets, cash transactions).

Counselling in various central bank activities

The activities of the Gerzensee Study Centre include courses in the field of monetary policy for qualified central bank employees from developing and transition countries. In 1996 it organised five central bank courses with over a hundred participants from all over the world.

Courses on monetary policy

Structure and organisation of the Swiss National Bank

1 Organisation

Mandate

The Federal Constitution and the National Bank Law define the principal tasks of the National Bank as follows: to regulate the country's money circulation, to facilitate payment transactions and to pursue a monetary policy serving the interests of the country as a whole. The National Bank also acts as banker to the Confederation. The mandate in favour of the overall economy takes precedence over the profit objective.

Structure

Unlike most foreign central banks, the Swiss National Bank is not a state-owned bank; it is an independent public-law institution in the form of a joint-stock company. All its shares are registered shares and are listed on the stock exchange. Shareholders' voting rights are restricted by statute to Swiss citizens, Swiss public-law corporations and legal entities whose main establishment is in Switzerland. Just under 60% of the shares are held by cantons and cantonal banks; the remainder are mostly owned by private persons. The Confederation does not hold any shares.

Sphere of responsibility

The National Bank is administered with the cooperation and under the supervision of the Confederation. The Governing Board, which consists of three members of equal status, is entrusted with the Bank's management. Each member is head of one of the three Departments.The Governing Board enjoys a high degree of independence in fulfilling its monetary policy mandate. The Governing Board and the Federal Council must consult each other before passing major monetary and economic policy decisions. The Bank Council, Bank Committee and Auditing Committee are responsible for the supervision of the National Bank's business activity.

Bank offices

For historical reasons the National Bank has two head offices: the legal domicile in Berne and the seat of the Governing Board in Zurich. Department I and Department III are in Zurich, Department II is in Berne. In addition to the two head offices, the National Bank has eight branch offices which ensure the supply and distribution of cash and follow economic developments in the regions. Cash transactions are, moreover, also performed by 18 (1995: 20) agencies, most of them at cantonal banks.

Conduct of monetary policy

The National Bank's chief task is to pursue a monetary policy serving the interests of the country as a whole. Department I is responsible for the monetary policy concept. The Economic Division analyses the economic situation and developments and provides the basis for monetary policy decisions. After the Governing Board has passed its decisions, the Monetary Operations Division of Department III implements monetary policy by carrying out transactions in the financial markets.

Payment transactions

We exercise our mandate in the field of payment transactions in the following ways. On the one hand, we issue banknotes and put the coins minted by the Confederation into circulation; this is the responsibility of the Cash Division of Department II. The volume of banknotes and coins put into circulation depends on the requirements of the economy and on payment habits. On the other hand, we cooperate in the planning and processing of cashless payment transactions. We are concerned chiefly with interbank payments and maintaining the link between bank and post office payments. The tasks in the field of cashless payment transactions are performed by the General Processing and Informatics Division of Department III.

Banker to the Confederation

Acting as banker to the Confederation is a function primarily performed by the Banking Division of Department II. This division deals with conceptual questions, carries out payments on behalf of the Confederation and participates in the floating of bonds. Department III primarily carries out money market and foreign exchange transactions and foreign payments on behalf of the Confederation.

2 Staff and resources

Number of staff and staff rotation

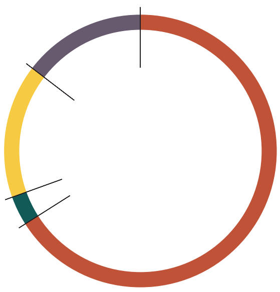
In terms of employed persons, the Swiss National Bank is one of the smallest central banks of western and central Europe. Compared to the previous year, the number of staff decreased slightly. At the end of 1996, a total of 603 (1995: 606) persons were in the Bank's employ, equivalent to 565.4 (1995: 574,1) full-time jobs. The proportion of part-time employees rose by 10% to 108 persons – i.e. 18% of total staff – compared to 1995. Most part-time employees are female (81%); women account for 10% of total senior staff. We are striving to achieve a better proportion by promoting part-time employment in demanding positions. In the operational sectors of the Bank we encouraged staff rotation. This led to increased flexibility in the allocation of staff, but also to higher demands on individual employees.

Staff training, staff policy and salary policy

Staff training is a high priority. In our new training concept adopted in 1996 we shifted the emphasis increasingly in favour of practical, preferably on-the-job, training. Training costs totalled Sfr 1.1 million. 8.5% of these were attributable to management training, 57.8% to specialist and language training and personality development and 33.7% to computer courses. In autumn 1996, the Governing Board and the Bank Committee introduced new conditions of employment and a new salary scale, thus creating the legal framework for flexibility in employment contracts. New working time models and a more performance-related and market-oriented salary policy are designed to ensure that we remain an attractive employer.

Developments in informatics

Our efforts in the field of informatics in 1996 concentrated mainly on the strategic new orientation to the client-server concept. As a first step towards the overall renewal of banking applications, a new IT architecture was defined. New solutions for accounting and logistics were evaluated. In the field of statistical applications we have begun with the implementation of a new application for administering and evaluating primary statistical data. Work is in progress for improving network security, and the availability of the overall system in the event of an emergency was improved.



Personnel
in percent

Full-time, men 66

Part-time, men 3

Full-time, women 16

Part-time, women 15

End of the year

Quality management in the Cash Division

In the Cash Division we introduced a quality management system in keeping with the ISO 9001 Norm. With this system we wish to ensure the high quality of all our products and services. The first phase was successfully brought to a close with the certification in December 1996.

Changes in property ownership

For many years a number of our Zurich offices have been located in four parts of a building complex in the immediate neighbourhood of our main premises. Two of these properties have been in the ownership of the National Bank for a considerable time; sections of the other two buildings were rented by us. We were able to purchase these two blocks per 1 January 1996 and 1 January 1997 respectively. In return, we sold the premises of the 'Hotel Bellerive' as per 1 January 1997.

Cost structure

The bulk of the National Bank's entire operating costs is caused by cash transactions. These include the cost of producing banknotes and costs arising from banknote and coin circulation and numismatics. The costs in connection with the cashless payment system concern the services of the National Bank in interbank payment transactions, the linking of bank and post office payments as well as services in the field of payment transactions on behalf of other central banks and international organisations. The costs relating to foreign exchange, money market, securities and Lombard business and to the administration of financial investments and gold holdings are grouped together under the heading lending business. The cost unit monetary policy reflects the costs involved in planning and formulating monetary policy and for compiling statistics. The item services on behalf of the Confederation includes the costs of all services on behalf of the Federal Government and its agencies. The costs for services on behalf of third parties comprise mainly the Bank's contribution to the Gerzensee Study Centre, the costs for international cooperation, notably with the IMF, and technical assistance to foreign central banks.

Cost units
in percent

Cash transactions 53

Cashless payment transactions 6

Asset management 9

Monetary policy 16

Services for the Confederation 9

Services for third parties 7

3 Changes in the supervisory authorities and bank management

Bank Council

At the Annual General Meeting of Shareholders held on 19 April 1996 the following new member was elected to the Bank Council:

Georges Blum, Basle, Chairman of the Board of Directors of Swiss Bank Corporation.

After the Annual General Meeting the Federal Council further elected Robert Studer, Schönenberg, Chairman of the Board of Directors of Union Bank of Switzerland to the Bank Council.

On the day of the Ordinary General Meeting of Shareholders on 18 April 1997 the following members of the Bank Council retire:

Fred-Henri Firmenich, Genthod, Chairman of the Board of Firmenich SA
Hans Huber, Heerbrugg, Chairman of the Board and Managing Director of SFS Holding AG

The Swiss National Bank thanks the retiring members for their valuable services on behalf of the note-issuing institution.

Of the two vacancies one is to be filled by the Annual General Meeting and one by the Federal Council.

The Bank Council proposes to the Annual General Meeting that the following new member be elected:

Alexandre Swoboda, Geneva, Professor at The Graduate Institute of International Studies and Director of the International Center for Monetary and Banking Studies (ICMB)

Local Committees

As per the date of the Annual General Meeting, 19 April 1996, the following committee members resigned their positions:

Peter Wagner, Basle, Chairman of the Local Committee Basle since 1994 (member since 1990),
Gérard Fatio, Geneva, Chairman of the Local Committee Geneva since 1992 (member since 1988), and
Kurt Babst, Willisau, Chairman of the Local Committee Lucerne since 1994 (member since 1988).

The Swiss National Bank thanks the three gentlemen for their services on behalf of the Bank.

The Bank Committee and the Bank Council made the following appointments:

Basle

Peter Grogg, Bubendorf, Chairman,
Klaus Endress, Reinach, Managing Director of Endress + Hauser (International) Holding AG, Deputy Chairman,
Raymond R. Cron, Basle, Director of Preiswerk & Cie AG, Member.

Geneva

Alain Peyrot, Vésenaz, Chairman,

Claude Hauser, Versoix, Deputy Chairman,

Jean-Claude Rinolfi, Givrins, Chairman of the Board of Directors of Printelec SA, Member.

Lucerne

Gerry Leumann, Meggen, Chairman,

Hans-H. Gasser, Lungern, Deputy Chairman,

Hans-Rudolf Schurter, Lucerne, Chairman of the Board and Managing Director of Schurter Holding AG, Member.

Auditing Committee

At the Annual General Meeting of Shareholders held on 19 April 1996

Kaspar Hofmann, certified auditor, Adliswil, partner to ATAG Ernst & Young AG, was elected to the Auditing Committee as successor of Hans Casanova, Rhäzüns. Francis Sauvain, Morges, is not offering himself for reelection for reasons of age. We thank him most sincerely for his seven-year activity in the Auditing Committee.

Governing Board

With effect from 1 May 1996 the Federal Council appointed

Chairman of the Governing Board:

Hans Meyer, formerly Vice-Chairman and Head of Department II.

New Member and Vice-Chairman of the Governing Board:

Jean-Pierre Roth, formerly Deputy Head of Department III.

New Member of the Governing Board:

Bruno Gehrig, formerly Professor at the University of St Gallen for business administration, economics, law and social sciences and Director of the Swiss Institute of Banking and Finance.

Management

Following a proposal of the Bank Council, the Federal Council appointed

Erich Spörndli, formerly responsible for the Economic Studies Section in Department I, as Deputy Head of Department III with effect from 1 January 1997. Erich Spörndli assumed responsibility for the Monetary Operations Division, which, in the interim period since the election of Jean-Pierre Roth as Vice-Chairman of the Governing Board, had rested with Christian Vital, Deputy Head of Department III and responsible for the General Processing and Informatics Division.

At the end of July 1996 René Kästli, Director of the St Gallen branch, left the Swiss National Bank to take up a new activity in the private sector. We wish to express our sincere thanks to him for his long and valuable services.

Following a proposal of the Bank Council, the Federal Council appointed

Jean-Pierre Jetzer, formerly head of the economic service in the Finance Department of the Canton of St Gallen as his successor.

Financial report

The balance sheet and income statement for 1995 are based on the accounting principles valid up to the end of that year, and thus also correspond to the figures stated in the last annual report. Presentation, classification and designations have been changed, however. The Notes contain figures computed according to the new accounting and valuation principles – where possible and meaningful – so that comparisons can be made with the previous year's figures.

1 Income statement for the year 1996

(Sfr millions)

	Notes	1996	1995
Income from			
foreign currency investments	01	1 794.8	1 910.7
reserve position in the IMF	02	55.1	45.6
international payment instruments	03	13.6	12.4
balance of payments aid	04	10.7	12.1
Income from			
domestic money market claims	05	32.6	55.5
Lombard advances	06	0.9	0.9
claims against domestic correspondents	07	2.3	3.8
domestic securities	08	260.3	238.1
Other income	09	12.9	8.9
Gross income	10	**2 183.2**	**2 288.0**
Interest expense	11	−49.3	−101.6
Banknote expense	12	−15.1	−59.3
Personnel expense	13	−82.0	−79.8
General overheads	14	−54.0	−56.6
Depreciation of tangible assets	15	−10.1	
Net income	16	**1 972.7**	**1 990.7**
Exchange rate-related valuation adjustments	17	4 412.1	−3 531.4
Write-down on securities			−66.0
Extraordinary expense			−0.9
Extraordinary income owing to change in valuation principles	18	2 077.1	
Aggregate income	19	**8 461.9**	**−1 607.6**
Allocation to provisions	20	−7 396.1	
Release of provisions			1 757.8
Annual profit	45	**1 065.8**	**150.2**

2 Balance sheet as of 31 December 1996

(Sfr millions)

Assets	Notes	1996	1995
Gold holdings	21	11 903.9	11 903.9
Foreign currency investments			
not exchange rate-hedged	22	36 462.9	27 767.8
exchange rate-hedged (swaps)	23	12 865.5	14 044.8
Reserve position in the IMF	24	2 067.8	1 687.7
International payment instruments	25	290.0	408.2
Balance of payments aid	26	204.3	173.7
Domestic money market claims	27	1 581.7	1 436.2
Lombard advances	28	764.2	4.7
Claims against domestic correspondents	29	514.5	429.2
Domestic securities	30	4 821.5	3 063.9
Participations	31	51.0	P. M.
Tangible assets	32	532.4	P. M.
Sundry assets	33	452.1	1 064.3
Non paid-up share capital	43	25.0	25.0
		72 537.0	62 009.4

Liabilities

	Notes	1996	1995
Banknote circulation	34	32 447.6	30 892.2
Sight deposits of domestic banks	35	4 927.4	4 035.0
Liabilities towards the Confederation			
sight	36	839.5	917.4
time	37	815.3	1 350.0
Sight deposits of foreign banks and institutions	38	32.7	43.3
Other sight liabilities	39	204.2	156.3
Sundry liabilities	40	1 089.0	746.5
Provisions			
for market, credit and liquidity risks	41	30 554.5	22 958.4
for operating risks	42	450.0	650.0
Share capital	43	50.0	50.0
Reserve fund	44	61.0	60.0
Net disposable income – annual profit	45	1 065.8	150.2
		72 537.0	62 009.4

3 Notes to the accounts as of 31 December 1996

3.1 Explanatory notes on business activities

The Swiss National Bank, a joint-stock company with head offices in Berne and Zurich, is Switzerland's central bank and the country's sole authorised issuer of bank notes. It has a statutory mandate to operate monetary and exchange rate policies that are in the country's overall interests and to facilitate payment transactions. All the transactions which it is permitted to perform are laid down in the relevant legislation (National Bank Law). The National Bank has a commercial relationship with banks in Switzerland and abroad, with federal agencies, with other central banks and with international organisations.

The National Bank's obligations towards the economy as a whole take priority over the achievement of profit. The National Bank is the only Swiss institution with authority to autonomously create money. It is not obliged to pay interest on banknotes in circulation or on sight deposits. Consequently, a large part of the income on its assets remains as an earnings surplus. As administrator of Switzerland's currency reserves, however, the National Bank bears substantial market, credit and liquidity risks, which it hedges with appropriate provisions. These provisions also serve to safeguard the pursuit of monetary policies by allowing the National Bank to accumulate sufficient foreign currency reserves. The provisions must grow at least in step with gross national product (see p. 82).

On 31 December 1996 the National Bank had 603 employees on its payroll (1995: 606); this was equivalent to 565.4 full-time posts (1995: 574.1). In addition to the head offices in Berne and Zurich, the National Bank has branch offices in Aarau, Basle, Geneva, Lausanne, Lucerne, Lugano, Neuchâtel and St. Gallen.

3.2 Accounting and valuation principles

General principles

Except where stipulated otherwise in the National Bank Law (NBL), the principles applied to the books of account, valuation and balance sheet are governed by the Swiss Federal Code of Obligations, due account being taken of circumstances specific to the National Bank (as specified below). Consequently, the annual financial statements are drawn up in accordance with the Swiss Accounting and Reporting Recommendations (ARR). With the introduction of the new accounting methods, the balance sheet and income statement have been streamlined and the Notes to the accounts have been enlarged. These now contain detailed information on the individual items in the balance sheet and the income statement.

Changes from the previous year

Negotiable foreign currency investments, domestic money market claims and domestic securities as well as forward contracts on foreign exchange and securities are now stated at market prices (previously at acquisition cost, nominal or discounted value – cf. note to item no. 18 in the income statement), and foreign-currency items are now translated at end-year rates (instead of at the average December rates as in prior years). Owing to the changeover to market valuations for negotiable financial investments, extraordinary income of Sfr 1,560 million is stated for the 1996 financial year. Fixed assets (participations plus tangible assets) are in principle stated at acquisition cost less depreciation according to their operating life (previously, pro memoria values were stated). These changes have resulted in an additional book profit of Sfr 517.1 million. Book profits from these valuation changes are stated as extraordinary income. The accounting and valuation principles applied to all other items remain unchanged from the previous year.

Recording of transactions / balance sheet entries

All transactions are recorded on the day the transaction is concluded. However, they are only entered in the balance sheet on the value date. Transactions which were concluded in the year under review but which have a value date in the new year are stated under off-balance-sheet transactions.

Valuation principles

Gold holdings are stated at the legally stipulated price of Sfr 4,595.74 per kilogram (Decree of the Federal Council of 9 May 1971 on the fixing of the gold parity).

Negotiable foreign currency assets, domestic money market claims and *domestic securities* are stated at their end-year market prices.

Pending forward contracts on *foreign currencies* and *securities* are stated at end-year market values and the positive or negative gross replacement values are posted to sundry assets or sundry liabilities.

Participations are stated at their acquisition or intrinsic value in accordance with the lower of cost or market valuation principle, or at the market value in the case of non-substantive minority interests in listed companies.

Since the participations are not significant by comparison with the core business, consolidated financial statements have not been prepared.

Tangible assets (including banknote stocks) are generally stated at their acquisition cost less required depreciation.

Other items are stated at their nominal value.

Foreign currency rates

	1996	1995	Change from previous year in %
Relevant conversion rates			
CHF/USD	1.3500	1.1639	+16.0
CHF/DEM	86.8700	80.7000	+7.7
CHF/JPY	1.1611	1.1420	+1.7
CHF/XDR	1.9418	1.7200	+12.9
CHF/XEU	1.6895	1.5100	+11.9

3.3 Notes to the income statement

Summary

The income statement is strongly influenced by the foreign currency items and the changes to the valuation principles. Although income from foreign currency investments declined slightly from the previous year, exchange rate-related valuation adjustments yielded Sfr 4,412.1 million. Owing to the application of new valuation principles to negotiable financial investments, participations and tangible assets, an extraordinary income of Sfr 2,077.1 million resulted. Aggregate income thus came to Sfr 8,461.9 million. After an allocation of Sfr 7,396.1 million to provisions, annual profit comes to Sfr 1,065.8 million.

Items no. 01-04 in the income statement

Income from foreign-currency items

Income from foreign currency investments, the reserve position in the IMF, the international payment instruments and the balance of payments aid declined by Sfr 106.6 million. This decrease can be attributed to lower swap rates and to a slight decline in interest rates in the investment currencies.

Item no. 05 in the income statement

Income from domestic money market claims

With interest rates lower than in the previous year but volumes virtually unchanged, income from money market claims declined by Sfr 22.9 million to Sfr 32.6 million.

Item no. 06 in the income statement

Income from Lombard advances

Lombard income was unchanged at Sfr 0.9 million; although interest rates were lower, greater use was made of this facility.

Item no. 07 in the income statement

Income from claims against domestic correspondents

Income from domestic correspondents receded by Sfr 1.5 million to Sfr 2.3 million on lower discount rates and higher balances.

Item no. 08 in the income statement

Income from domestic securities

Securities income rose by Sfr 22.2 million to Sfr 260.3 million. In addition to interest income of Sfr 242.9 million, the slight easing of interest rates produced a capital gain of Sfr 17.4 million.

Other income

Item no. 09
in the income statement

	1996 in Sfr millions	Change from previous year in Sfr millions
Commissions	2.6	+0.2
Income from participations	3.8	+0.1
Income from real estate[1]	6.0	−0.3
Other ordinary income	0.5	+0.2
Total other income	12.9	.

1 Income from real estate stems from the subletting of real estate not currently required and of the 'Zum Neuen Froschauer' building in Zurich, which serves as spare capacity.

Gross income

Item no. 10
in the income statement

Gross income receded year-on-year by 4.6% to Sfr 2,183.2 million. This was due mainly to lower income from the foreign currency investments.

Interest expense

Item no. 11
in the income statement

The interest expense declined by Sfr 101.6 million to Sfr 49.3 million. This decrease was due not only to lower interest rates but also to the lower net liabilities towards the Confederation.

	1996 Sfr millions	Change from previous year Sfr millions
Interest expense for liabilities towards the Confederation	93.7	−106.7
Interest income from onward placements	−50.2	−54.4
Net interest expense for liabilities towards the Confederation	43.5	−52.3
Interest on depositors' balances	5.8	–
Total interest expense	49.3	−52.3

Item no. 12
in the income statement

Banknote expense

As the bank note expense was defined more precisely and narrowly in the year under review, comparisons with the previous year (Sfr 59.3 million) are of limited validity. For the first time, the bulk of the production costs (paper, printing and development costs) has been charged to the new banknote series (see Schedule of fixed assets), and banknotes are now written down in step with the entry of new notes into circulation.

Item no. 13
in the income statement

Personnel expense

	1996	Change from previous year	
	Sfr millions	Sfr millions	in %
Salaries and children's allowances	61.4	+0.5	+0.8
Welfare benefits, training and catering	17.3	+1.2	+7.5
Expense for current employees	78.7	+1.7	+2.2
Allocations to the pension schemes	1.0	–	–
General allowances for retired employees	1.5	+0.5	+50.0
Remuneration for supervisory bodies	0.8	–	–
Total personnel expense	82.0	+2.2	+2.8

Item no. 14
in the income statement

General overheads

	1996	Change from previous year	
	Sfr millions	Sfr millions	in %
Premises	20.4	−2.2	−9.7
Furniture and fixtures	4.6	−7.1	.
Business and office equipment and supplies	4.4	–	–
Information and communication	3.9	+0.2	+5.4
Printing, publications	1.0	−0.1	−9.1
Other general overheads	19.7	+6.0	.
Total general overheads	54.0	.	.

Premises

Expenditure on regular building maintenance, non-value-adding alterations to various bank offices and rental of office space totalled Sfr 20.4 million, about Sfr 2.2 million or 9.7% less than in the previous year.

Furniture and fixtures

Expenditure on furniture and fixtures is not directly comparable with the previous year: under the new accounting principles, items acquired are capitalised and are thus charged only in part to the income statement. Accordingly, published expenditures declined by Sfr 7.1 million. These consist mainly of costs relating to the maintenance of computer hardware and software and of other equipment.

Other general overheads

Other general overheads increased by Sfr 6 million. These include contributions to the operating costs of the Gerzensee Study Centre (Sfr 4.9 million, up from Sfr 4.4 million in 1995) and of the Haslizentrum (the National Bank's holiday and training centre – unchanged contribution of Sfr 0.5 million) as well as – owing to the redefinition of this item – expenses of Sfr 2.7 million which were formerly classified as banknote expenses plus Sfr 2.3 million for the storage of our financial assets and gold holdings. After taking this into account, the actual increase in the comparable expense categories amounts to Sfr 1 million or 7.3% over the 1995 figure.

Depreciation of tangible assets

**Item no. 15
in the income statement**

The bulk of this item (Sfr 8.2 million) is accounted for by sundry tangible assets, which comprise furnishings, machinery and equipment plus Information Technology investments. These purchases are written off over 3-4 years. A further amount of Sfr 1.9 million was written down on real estate.

Net income

**Item no. 16
in the income statement**

With a decrease in both gross income and expenses, net income declined year-on-year by 0.9% to Sfr 1,972.7 million.

Item no. 17
in the income statement

Exchange rate-related valuation adjustments

The value of the foreign currency holdings, which comprise foreign currency investments, the reserve position in the IMF, international payment instruments and balance of payments aid, was adjusted as follows:

	1996 Sfr millions	1995 Sfr millions
USD	+3 745.8	−2 898.9
DEM	+356.6	−165.9
JPY	+31.1	−296.0
Other currencies	+278.6	−170.6
Total	+4 412.1	−3 531.4

Item no. 18
in the income statement

Extraordinary income owing to changes in valuation principles

Negotiable foreign currency investments were previously stated at acquisition cost. Until the end of 1995, domestic securities were carried in the balance sheet at either 80% (in the case of Confederation bonds) or 70% (other securities) of their nominal value. For participations and tangible assets, only pro memoria values were stated.

	1996 Sfr millions
Changeover to market valuation of negotiable financial investments	1 560.0
of which negotiable foreign currency investments	68.1
of which domestic securities	1 491.9
Revaluation of fixed assets	517.1
of which participations	51.0
of which tangible assets	466.1
Total	2 077.1

Item no. 19
in the income statement

Aggregate income

After taking account of a positive exchange rate-related value adjustment of +Sfr 4,412.1 million and of the release of hidden reserves (resulting from the change in valuation principles), aggregate income comes to Sfr 8,461.9 million.

Allocation to provisions

Item no. 20
in the income statement

Substantial exchange rate-related earnings on the National Bank's foreign currency assets and one-off book profits accruing from the adoption of new valuation principles have permitted provisions to be increased by Sfr 7,396.1 million (in the previous year, Sfr 1,757.8 million was released from provisions). They thus reached the minimum level which the Bank seeks to maintain for reasons of exchange rate policy (see p. 82). Annual profit is stated at Sfr 1,065.8 million. For the proposal regarding the distribution of profit see page 84.

3.4 Notes to the balance sheet

Item no. 21 in the balance sheet

Gold holdings

Gold holdings have remained unchanged since 1981. They are stored at various locations in Switzerland and abroad. The gold holdings are not actively managed.

	1996		Change from previous year
	tonnes	Sfr millions	
Gold ingots	2415.0	11098.6	–
Gold coins	175.2	805.3	–
Total	2590.2	11903.9	–

Items no. 22 and 23 in the balance sheet

Foreign currency investments

The unhedged and the swap-related hedged foreign currency holdings are invested jointly. The maximum term of each investment is 12 months (NBL Art. 14, point 3). 'Government paper' refers to debt issued by the government of the corresponding currency. Bank investments are effected with institutions enjoying very good credit ratings.

Investments by currency

	1996			Change from previous year	
	millions		% weighting	millions	
	original currency	Sfr		original currency	Sfr
USD	30705.2	41452.1	84.0	−938.4	+4707.1
of which not exchange rate-hedged	21175.2	28586.6	58.0	+1745.5	+6024.5
of which exchange rate-hedged (swaps)	9530.0	12865.5	26.1	−2683.9	−1317.4
DEM	6885.7	5981.6	12.1	+2177.8	+2182.3
JPY	162585.6	1887.8	3.8	+1059.1	+43.2
Others		6.9	0.0		+0.9
Total		49328.4	100.0		+6933.5

Negotiable investments
on discount basis:
stated at end-year rates
on interest basis:
stated at end-year rates plus accrued interest

Non-negotiable investments
1996: Sfr 7,198.3 million
1995: Sfr 1,540.2 million
stated at acquisition cost plus accrued interest

Investments by borrower

	1996 millions original currency	Sfr	% weighting	Change from previous year millions original currency	Sfr
Government paper					
USD	17 435.9	23 538.5	47.7	-4 844.4	-2 339.9
DEM	6 544.0	5 684.8	11.5	+1 977.4	+2 015.7
JPY	151 489.9	1 758.9	3.6	-8 944.7	-73.3
Total		30 982.2	62.8		-391.5
Monetary institutions					
USD	9 791.5	13 218.5	26.8	+3 341.2	+5 728.4
DEM	37.6	32.7	0.1	-7.8	-3.9
JPY	1 127.7	13.1	0.0	+49.3	+0.8
Total		13 264.3	26.9		+5 725.3
Banks					
USD	3 477.8	4 695.1	9.5	-564.8	+1 312.5
DEM	304.0	264.1	0.5	+188.1	+170.6
JPY	9 968.1	115.8	0.2	+9 954.7	+115.7
Others		6.9	0.0		+0.9
Total		5 081.9	10.3		+1 599.7
Total		**49 328.4**	**100.0**		**+6 933.5**

Reserve position in the IMF

Item no. 24 in the balance sheet

The reserve position corresponds to the difference between the Swiss quota in the IMF financed by the National Bank and the IMF's Swiss franc balance. The National Bank may draw on the reserve position for balance-of-payments purposes at any time without stating reasons.

	1996 millions XDR	Swiss francs	Change from previous year millions XDR	Swiss francs
Swiss quota in IMF	2 470.4	4 797.0	–	+547.9
less IMF's Swiss franc sight balances at the SNB	1 405.5	2 729.2	−83.7	+167.8
Reserve position in the IMF	1 064.9	2 067.8	+83.7	+380.1

Item no. 25
in the balance sheet

International payment instruments

Special Drawing Rights (XDR) are interest-yielding sight balances at the IMF. The National Bank has undertaken towards the IMF to purchase XDR against foreign currencies until a limit of XDR 200 million is reached. ECUs (XEU) are acquired by way of revolving swaps and invested on a short-term basis at the European Monetary Institute (EMI).

	1996		Change from previous year	
	millions		millions	
	original currency	Swiss francs	original currency	Swiss francs
XDR	94.1	182.7	−87.2	−129.1
XEU	63.5	107.3	−0.3	+10.9
Total		290.0		−118.2

Item no. 26
in the balance sheet

Balance of payments aid

These are medium-term, dollar-denominated loans used for internationally coordinated balance of payments assistance in which Switzerland participates by providing a tranche. The loans are financed by the National Bank and guaranteed by the Federal Government. The guarantee extends to the payment of interest and repayment of the principal. Currency risks are borne by the National Bank.

	Outstanding loans 1996				Undertakings 1996
	millions		Change from previous year		millions
	USD	Swiss francs	USD	Swiss francs	USD
Bilateral loans					
Hungary	31.1	42.0	+1.1[1]	+7.1	–
Czech Republic	26.6	35.9	–	+4.9	–
Slovakia	13.3	18.0	–	+2.5	–
Romania	48.3	65.2	+1.1[1]	+10.3	–
Bulgaria	32.0	43.2	–	+6.0	–
Total	151.3	204.3	+2.2	+30.8	–

1 Accrued interest

Item no. 27
in the balance sheet

Domestic money market claims

These are money market debt register claims against the Swiss Confederation.

Lombard advances

Item no. 28 in the balance sheet

Lombard loans are used by the banks and the Confederation as a stopgap for unforeseeable liquidity shortfalls. At the end of 1996, a total of 248 credit lines were pending (1995: 256).

The following collateral was pledged to the National Bank as security for the credit lines:

	1996 Sfr millions	Change from previous year Sfr millions
Credit lines outstanding at end-year	7 982.8	−7.6
Collateral at end-year [1]	8 283.3	−1 100.2
Yearly average drawn down	23.9	+5.3

1 Market prices less 10-35%

Claims against domestic correspondents

Item no. 29 in the balance sheet

752 branches of 85 banks (20 cantonal banks, 4 big banks, 57 regional banks and savings banks, 1 Raiffeisen bank and 3 other banks) perform local cash redistribution transactions for the National Bank and cover the cash requirements of federal institutions (Post Office, Swiss Federal Railways). The National Bank earns interest at the discount rate on the resulting claims.

Domestic securities

Item no. 30 in the balance sheet

These are bonds which are listed on the stock exchange.

	1996 Sfr millions	 % weighting	Change from previous year Sfr millions
Confederation	960.1	19.9	+67.5
Cantons	1 293.6	26.8	+50.0
Communes	592.0	12.3	+23.7
Mortgage bond institutions	932.3	19.3	+0.4
Banks	1 043.5	21.7	−6.8
Total market value[1]	4 821.5	100.0	+134.8
Total nominal value	4 309.7		+46.6

1 Year-end rates plus accrued interest

Items no. 31 and 32 in the balance sheet

Participations and tangible assets

Participations

The National Bank holds 33.34% of the share capital of Orell Füssli Graphic Arts Ltd, Zurich, the company which prints its banknotes. The 2.75% interest in the Bank for International Settlements (BIS) is held by reason of collaboration on monetary policy. Others comprise AG Hotel Bellerive au Lac, Zurich and two companies connected with the foundation of the Gerzensee Study Centre (all three wholly owned by the SNB), plus shares in Telekurs AG, Zurich, SIHL Zürcher Papierfabrik an der Sihl, Zurich, and SWIFT (Society for Worldwide Interbank Financial Telecommunications) S.G., La Hulpe (Belgium).

Tangible assets

Tangible assets comprise banknote stocks (new, 8th issue), real estate and sundry tangible assets. Banknote stocks, which are stated at production cost, are written down in line with their entry into circulation. 'Sundry tangible assets', which comprise office equipment and computer systems, are written down over 3-12 years.

Schedule of fixed assets in Sfr millions

	Value at start of reporting year[1]	Investments	Divestments	Depreciation	Value at end of reporting year
Participations not consolidated					
Orell Füssli	27.0	–	–	–	27.0
BIS	9.4	–	–	–	9.4
Others	14.6	–	–	0.0	14.6
Total	51.0	–	–	0.0	51.0
Tangible assets					
Banknote stocks	112.8	67.8	0.0	14.0	166.6
Real estate	331.6	13.3	0.0	1.9	343.0
Insured value	*402.5*				*409.6*
Sundry tangible assets	21.8	9.2	0.0	8.2	22.8
Insured value	*61.4*				*60.8*
Total	466.2	90.3	0.0	24.1	532.4

1 The 'start of reporting year' values have been restated, as participations and tangible assets were previously not carried as assets. As a rule, valuations are based on acquisition cost less depreciation according to their operating life. The Bank's real estate (most of which has belonged to the National Bank for several decades) and its acquisition cost are either no longer meaningful or would be difficult to estimate; it is thus stated at its capitalised value, due account being taken of particular operating conditions.

Sundry assets in Sfr millions

Item no. 33
in the balance sheet

	1996	Change from previous year
Coins (including medallions)[1]	398.5	.
Foreign notes	0.1	–
Postal giro accounts	0.3	−0.1
Coupons	–	–
Other accounts receivable	28.1	+0.9
Other cheques and bills of exchange (collection business)	24.8	-6.3
Positive replacement values (forward contracts)	0.3	.
Total	452.1	.

1 Coins comprise the commemorative coins and medallions acquired from the Federal Mint which are placed in circulation by the National Bank.

Accruals

Accrued interest on foreign currency investments (Sfr 23.3 million), international payment instruments (Sfr 12.2 million), balance of payments aid (Sfr 2.9 million), domestic securities (Sfr 140.6 million) and onward placements for the Confederation (Sfr 5.2 million) is contained in the corresponding balance sheet items.

Item no. 34
in the balance sheet

Banknote circulation

This comprises all banknotes held by the general public and the banks. Of the banknotes originating from earlier issues which were recalled in 1980 and are exchangeable at the National Bank until 30 April 2000, a total of Sfr 285.4 million were still outstanding at the end of the year (1995: 298.4 million).

Averaged out over the year, and after taking account of all eligible assets, coverage of banknotes in circulation as specified in NBL Art. 19 amounted to 191.9% (1995: 204.5%). Coverage by gold alone declined to an average of 42.2% (1995: 43.2%) owing to the increase in banknotes in circulation. On a few days when banknotes were in peak demand, coverage by gold dropped below 40%.

Bank note coverage annual average

	1996 millions Sfr	1996 % coverage	Change in coverage from previous year
Gold holdings	11903.9	42.2	−1.0 percentage point
Other eligible assets	42248.9	149.7	−11.6 percentage points
of which			
Foreign currency investments	38070.6		
Reserve position in the IMF	1801.5		
International payment instruments	309.7		
Domestic money market claims	1705.6		
Lombard advances	24.4		
Eligible domestic securities[1]	337.1		
Overall bank note coverage	54152.8	191.9	−12.6 percentage points
Banknote circulation	28214.0		+2.4 %

1 Term to maturity of up to 2 years

Item no. 35
in the balance sheet

Sight deposits of domestic banks

The 586 sight deposits (1995: 603) of the 406 banks (1995: 414) do not bear interest. They form the basis on which the National Bank controls monetary policy and facilitate cashless payments within Switzerland. They are also a component of the liquidity which the banks are legally required to hold.

Liabilities towards the Confederation

Items no. 36 and 37 in the balance sheet

The Confederation's sight deposits are used for payment transactions of the Federal Government and its agencies. Up to a ceiling of Sfr 500 million they attract interest at the overnight rate. The time deposits attract interest at market rates. The National Bank is free to place these funds on the market in connection with the conduct of monetary policy, in which case the Confederation bears the credit risk. At year-end, these investments totalled Sfr 7,510.5 million (1995: Sfr 5,001.1 million), of which Sfr 6,695.2 million (1995: Sfr 3,620.5 million) had been placed on the market.

Sight deposits of foreign banks and institutions

Item no. 38 in the balance sheet

The 153 (1995: 161) deposits are denominated in Swiss francs and do not bear interest. They are held primarily by foreign central or commercial banks.

Other sight liabilities

Item no. 39 in the balance sheet

These comprise deposit accounts of active and retired employees, liabilities towards the pension schemes amounting to Sfr 9.2 million (1995: Sfr 10.2 million) and liabilities towards individual non-banks.

Sundry liabilities in Sfr millions

Item no. 40 in the balance sheet

	1996	Change from previous year
Profit distribution to the Confederation and the cantons (from previous year's profit)	142.2	−457.8
Other liabilities	23.3	−3.8
Negative replacement values (forward contracts)	923.5	.
Total	1089.0	.

Accruals

Accrued interest on time deposits of the Confederation (Sfr 10.5 million) is contained in the corresponding balance sheet item.

Items no. 41 and 42 in the balance sheet

Provisions

Substantial foreign exchange gains, together with the extraordinary income resulting from the adoption of new valuation principles, enabled the Bank to increase its provisions by Sfr 7,396.1 million. Provisions thus complied with the minimum figure stipulated in the profit calculation concept (see page 82).

Provisions in Sfr millions	Provisions on 31.12.95	Allocations	Releases	Transfers	Provisions on 31.12.96	Change from previous year
for market, credit and liquidity risks[1]	22958.4	7396.1	–	+200.0	30554.5	+7596.1
for operating risks[2]	650.0	–	–	–200.0	450.0	–200.0
Total	23608.4	7396.1	–	–	31004.5	+7396.1

1 Up to 1995: for currency risks

2 Up to 1995: Other provisions

The former provisions accounts have been reclassified and given more precise definitions. Provisions for open-market operations (Sfr 100 million) as well as for dividend adjustments and the cantonal quotas (Sfr 100 million) have been transferred to provisions for market, credit and liquidity risks.

Market, credit and liquidity risks consist to a large extent of exchange rate risks on those foreign currency investments which are not hedged against such risks. The interest risks on foreign currency investments and domestic securities are also significant. Credit risks are primarily settlement risks resulting from foreign exchange transactions.

Share capital

Item no. 43 in the balance sheet

The share capital of the National Bank remains unchanged. Totalling Sfr 50 million, it is divided into 100,000 registered shares of Sfr 500 each, of which 50% (Sfr 250) are paid up.

In the year under review, the Bank Committee authorised the transfer of 6,196 shares to new holders. As of 31 December 1996, applications for registration were pending for 5,813 shares. The other shares were distributed as follows:

1 323 private shareholders each with	1 share
1 481 private shareholders each with	2–10 shares
310 private shareholders each with	11–100 shares
23 private shareholders each with	101–200 shares
27 private shareholders each with	over 200 shares
3 164 private shareholders with a total of	35 084 shares
26 cantons with a total of	38 981 shares
24 cantonal banks with a total of	17 118 shares
43 other public authorities and institutions with a total of	3 004 shares
3 257 shareholders with a total of	94 187 shares
pro memoria: registration applications pending or outstanding for	5 813 shares
Total	100 000 shares

63% of the shares were thus registered in the names of cantons, cantonal banks and other public authorities and institutions, and 37% in the names of private shareholders; of the latter, 70% were held by private individuals and 30% by legal entities. 451 shares (without voting rights) were in foreign ownership; this is equivalent to 0.45% of the share capital.

The following major shareholders held more than 5% of the voting rights, i.e. at least 5,000 registered shares:

	1996	Change from previous year
Canton of Berne		
Number of shares	6 630	–
Percentage held	6.63%	–
Canton of Zurich		
Number of shares	5 200	–
Percentage held	5.20%	–

Reserve fund

Item no. 44 in the balance sheet

The reserve fund was increased by Sfr 1 million (the legally permitted maximum) to Sfr 61 million by an allocation from the 1995 annual profit.

Item no. 45
in the balance sheet and income statement

Annual profit – calculation and distribution

The calculation of profit takes due account of the special features of the National Bank's operations. The Bank must be in a position to perform the duties assigned to it by the Constitution without having to yield a profit. Consequently, it does not distribute its entire earnings surplus but allocates funds to those provisions which are required for economic and business management purposes. Provisions are used primarily for accumulating currency reserves which the Bank can use to support the franc in the event of a decline on the foreign exchange markets. The currency reserves also make Switzerland's financial industry less vulnerable to international crises. The need for currency reserves increases in line with the growth and globalisation of the Swiss economy.

The standard rule has therefore been laid down, by agreement with the Federal Council, that the provisions be increased in line with growth in nominal gross national product (see 84th Annual Report 1991, p. 23 ff.). The targeted increment in percentage terms is based on average GNP growth over the previous five years so as to avoid subsequent adjustments or large fluctuations from year to year.

The residual surplus as specified in Art. 27, para. 3 (b) of the National Bank Law is calculated after the other statutory profit distributions have been established (Art. 27, paras. 1-2 and para. 3 (a) NBL). Such a surplus exists if actual provisions exceed the target figure. To ensure stable payments over an extended period, the annual distribution to the Confederation and cantons is limited to Sfr 600 million.

Targeted level of provisions and calculation of the residual surplus and distribution

	Growth in nominal GNP in % (average period) (1)	Provisions at year-end Sfr millions Target level at year-end (2)	Actual level at year-end prior to distribution[1] (3)	Residual surplus Sfr millions (4) = (3) – (2)	Distribution Sfr millions (5)
1993	6.3 (1987–91)	21 292.2	27 427.6 [2]	6 135.4	600.0
1994	5.8 (1988–92)	22 527.1	25 966.3 [2]	3 439.2	600.0
1995	4.8[3] (1989–93)	23 608.4	23 750.6 [2]	142.2	142.2
1996	3.7 (1990–94)	24 481.9	32 062.3	7 580.4	1 057.8 [4]
1997	2.9 (1991–95)	25 191.9			

1 The balance sheet item 'Provisions' corresponds to this figure less the distribution to the Confederation and cantons.

2 This figure includes the valuation adjustment for foreign currencies, which amounted to Sfr 2,389.7 million at end-1992, Sfr 3,153.8 million at end-1993 and Sfr 814.9 million at end-1994. It declined to zero at end-1995.

3 Calculated on the basis of data available at the beginning of 1995. The revised growth figure is 4.9%.

4 At the end of 1995 real provisions exceeded the targeted level by a mere Sfr 142.2 million, leaving only this amount to be set aside for distribution to the Confederation and the cantons. Since at that time we were already planning to disclose the hidden reserves, we envisaged an additional payment to make up the difference to Sfr 600 million should the 1996 financial statement permit this. The high aggregate income in the 1996 accounts now enables us to make the extra payment of Sfr 457.8 million.

3.5 Notes regarding off-balance-sheet business

	1996 Sfr millions	Change from previous year Sfr millions
Contingent liabilities		
Documentary credits[1] (secured by separate balances)	5.3	−2.1
Outstanding undertakings		
General Arrangements to Borrow (GAB)[2]	1980.7	+226.3[4]
Swap agreements[3]:		
Federal Reserve Bank of New York	5400.0	+744.4[4]
Bank of Japan	2322.2	+38.2[4]
Bank for International Settlements (BIS)	810.0	+111.7[4]
Two-way arrangement (IMF)	217.8	+185.6
Additional funding obligations		
BIS registered shares	113.2	+10.5

	Nominal value Sfr millions	Gross replacement value Sfr millions	
		positive	negative
Forward contracts			
on currencies[5]	15810.4	–	923.6
on securities[6]	5528.1	0.3	–
Total	21338.5	0.3	923.6

1 Chiefly in connection with development aid provided by the Confederation

2 Credit line to the amount of XDR 1020 million in favour of the IMF for special cases, without federal guarantee (cf. p. 51)

3 Bilateral agreements concerning the exchange – limited in time – of Swiss francs against a maximum amount of US $ 4 billion with the Federal Reserve Bank, a maximum amount of 200 billion yen with the Bank of Japan and a maximum amount of US $ 600 million with the BIS for the purpose of reciprocal balance of payments aid in extraordinary circumstances

4 Change due entirely to exchange rates

5 From USD/CHF swaps for the purpose of money market steering (cf. p. 30f.). The marked rise of the dollar led to a corresponding loss of value on forward sales; this is offset by a considerable increase in value in the total dollar cash position. On balance, a substantial exchange rate gain resulted (cf. item no. 17 of the income statement).

6 From money market debt-register claim swaps, domestic securities and foreign currency investments (when issued, buy/sell-back transactions) including spot transactions not yet performed

4 Proposals of the Bank Council to the Annual General Meeting of Shareholders

At its meeting of 7 March 1997, the Bank Council accepted the proposal of the Bank Committee to approve the 89th Annual Report for 1996, as presented by the Governing Board, for submission to the Federal Council and the Annual General Meeting of Shareholders.

On 17 March 1997, the Federal Council approved the Annual Report and the annual financial statements pursuant to Article 63, paragraph 2 (i) of the National Bank Law. The Auditing Committee prepared its report pursuant to Article 51, paragraph 2 of the National Bank Law on 4 February 1997.

The Bank Council proposes to the Annual General Meeting[1]:

1. that the present Annual Report including annual financial statements be approved;
2. that the statutory bodies entrusted with the Bank's administration be granted discharge;
3. that the available earnings of Sfr 1 065 799 776.22 million be appropriated as follows:

allocation to the reserve fund (Art. 27, para. 1 NBL)	Sfr	1 000 000.––
payment of a dividend of 6 % (Art. 27, para. 2 NBL)	Sfr	1 500 000.––
payment to the Federal Finance Administration		
for the account of the cantons: Sfr 0.80 per capita (Art. 27, para. 3 (a) NBL)	Sfr	5 498 949.60
for the account of the Confederation and cantons (Art. 27, para. 3 (b) NBL)	Sfr	600 000 000.––
for the account of the Confederation and cantons (difference between the maximum distributable profit of Sfr 600 million and the actual distribution of approximately Sfr 142.2 million for the 1995 financial year)	Sfr	457 800 826.62
	Sfr	1 065 799 776.22

1 For the proposal regarding appointments to the Bank Council, see page 58.

5 Report of the Auditing Committee to the Annual General Meeting of Shareholders

Dear Mr Chairman
Ladies and Gentlemen

As the Auditing Committee we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of the Swiss National Bank for the year ended 31 December 1996. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with the auditing standards promulgated by the profession, which require that an audit be planned and performed in such a way that any significant errors in the annual financial statements can be identified with a reasonable degree of certainty. We examined the individual items and data in the financial statements using analyses and investigations based on spot checks as well as on reports supplied by ATAG Ernst & Young Ltd. We also assessed the application of the accounting principles used, the principal valuation decisions and the presentation of the financial statements as a whole. We believe that our audit provides a reasonable basis for our opinion.

According to our assessment, the financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Accounting and Reporting Recommendations (ARR). We should, however, point out the particular features (explained in the notes to the accounts) of the accounting methods used by the Swiss National Bank as Switzerland's central bank and sole note-issuing institution.

We further confirm that the books of account and the annual financial statements as well as the proposals for the appropriation of available earnings comply with the provisions of the National Bank Law and the Swiss Code of Obligations.

We recommend that the financial statements submitted to you be approved.

Berne, 4 February 1997

The Auditing Committee

Peter Blaser
Chairman

Gilbert Jobin
Vice-Chairman

Kaspar Hofmann
certified auditor
Chief Auditor

On 1 May the Governing Board, newly appointed by the Federal Council on 26 October 1995, takes up its activity (cf. p. 59). **May**

Effective from 27 September 1996, the Swiss National Bank lowers the discount rate by half a percentage point to 1% (cf. p. 32). **September**

On 1 October the 20-franc note of the new banknote series is issued (cf. p. 44) **October**

On 20 November 1996, the Federal Council passes the message and draft for a new Federal Constitution. The new Article 89 on monetary policy severs the link between the Swiss currency and gold and embodies the independence of the central bank in the Constitution (cf. p. 36f.). **November**

The new article reads as follows:

1 Monetary matters are the responsibility of the Confederation, which has the sole right to issue coins and bank notes.

2 The Swiss National Bank as an independent central bank conducts a monetary policy serving the interests of the country as a whole; it is administered with the cooperation and under the supervision of the Confederation.

3 The Swiss National Bank forms adequate currency reserves from its earnings.

4 At least two-thirds of the net profit achieved by the Swiss National Bank is distributed to the cantons.

On 28 November 1996, the National Council is the second chamber to approve the Federal Decree concerning the renewal of the Swiss National Bank's exclusive right to issue bank notes for a further period of twenty years; the Council of States had already passed the bill on 16 September 1996 (cf. p. 36).

The Governing Board, by agreement with the Federal Council, decides to continue pursuing, in 1997, the monetary policy course implemented in 1996. It intends to keep the money stock above the target path. As usual, the National Bank retains the option of deviating from its course in the event of serious disruptions in the financial markets (cf. p. 34). **December**

Following approval by the Governing Board and the Federal Council, the report of a joint working group of the National Bank and the Federal Department of Finance on the National Bank's investment policy and profit distribution is published on 20 December (cf. p. 41f.).

Tables and statistical data

1 Business results since 1986

in Sfr millions

	1986	1987
Income from		
foreign currency investments	1 834.1	1 462.7
reserve position in the IMF[1]	–	–
international payment instruments[1]	–	–
balance of payments aid[1]	–	–
Income from		
securities discounted	20.8	17.7
domestic money market claims	–	–
Lombard advances	28.4	27.3
claims against domestic correspondents	2.5	1.9
domestic securities	123.4	128.8
Sundry income	8.1	5.8
Gross income	**2 017.4**	**1 644.2**
Interest expense	−61.4	−44.3
Bank note expense	−18.7	−19.5
Personnel expense	−55.7	−56.0
General overheads	−24.1	−24.2
Depreciation of fixed assets	−26.0	−17.1
Net income	**1 831.5**	**1 483.1**
Exchange rate-related valuation adjustments	−3 703.3	−3 528.8
Write-down on securities	−94.5	−66.3
Extraordinary expense	–	–
Extraordinary income[2]	–	–
Taxes	−1.8	−2.6
Aggregate income	**−1 968.1**	**−2 114.7**
Allocation to provisions		
Release of provisions	1 975.7	2 122.2
Annual profit	**7.6**	**7.6**
Allocation to reserve fund	1.0	1.0
Dividend	1.5	1.5
Payment to the Federal Finance Administration in favour of the Confederation and the cantons	5.1	5.1

1 Posted to foreign currency investments until 1991

2 Due to changes in valuation principles (cf. p. 70)

1988	1989	1990	1991	1992	1993	1994	1995	1996
1 924.0	2 848.7	2 585.1	3 084.7	2 498.8	2 348.4	1 618.4	1 910.7	1 794.8
–	–	–	–	3.3	40.3	32.1	45.6	55.1
–	–	–	–	4.3	11.3	12.9	12.4	13.6
–	–	–	–	6.1	8.7	8.9	12.1	10.7
3.3	33.9	44.2	37.1	31.6	4.0	–	–	–
–	–	–	–	11.2	59.0	57.2	55.5	32.6
2.8	5.7	3.9	2.6	2.5	1.8	2.0	0.9	0.9
1.2	7.3	10.8	12.6	12.2	6.9	7.0	3.8	2.3
132.9	149.5	160.2	176.1	184.3	315.9	228.7	238.1	260.3
6.7	6.3	6.1	6.6	14.1	17.8	15.3	8.9	12.9
2 070.9	**3 051.3**	**2 810.3**	**3 319.6**	**2 768.3**	**2 814.2**	**1 982.5**	**2 288.0**	**2 183.2**
−43.8	−59.4	−107.0	−89.5	−98.8	−296.3	−213.1	−101.6	−49.3
−24.0	−21.3	−20.5	−23.1	−26.4	−54.6	−57.6	−59.3	−15.1
−59.0	−61.3	−69.5	−77.0	−79.8	−79.4	−83.3	−79.8	−82.0
−29.5	−72.3	−59.9	−64.9	−54.2	−55.0	−47.0	−56.6	−54.0
−1.3	–	–	–	–	–	–	–	−10.1
1 913.3	**2 837.0**	**2 553.4**	**3 065.1**	**2 509.1**	**2 328.9**	**1 581.5**	**1 990.7**	**1 972.7**
1 970.9	1 089.9	−3 976.8	1 697.1	692.6	764.1	−2 338.9	−3 531.4	4 412.1
−96.4	−35.8	−48.3	−37.0	−35.1	−67.7	−45.5	−66.0	–
–	–	–	–	–	–	−50.3	−0.9	–
–	–	–	–	–	–	–	–	2 077.1
−1.6	−0.3	−3.4	–	−8.7	–	–	–	–
3 786.2	**3 890.8**	**−1 475.0**	**4 725.2**	**3 157.9**	**3 025.3**	**−853.2**	**−1 607.6**	**8 461.9**
−3 778.6	−3 883.2		−4 117.6	−2 549.5	−2 417.3			−7 396.1
		1 482.6				1 461.2	1 757.8	
7.6	**7.6**	**7.6**	**607.6**	**608.4**	**608.0**	**608.0**	**150.2**	**1 065.8**
1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
5.1	5.1	5.1	605.1	605.9	605.5	605.5	147.7	1 063.3

2 Summary of balance sheets since 1986

Year-end values in Sfr millions

Assets

	1986	1987
Gold holdings	11 903.9	11 903.9
Foreign currency investments		
not exchange rate-hedged	18 844.5	18 656.5
exchange rate-hedged (swaps)	17 417.5	18 783.4
Reserve position in the IMF	–	–
International payment instruments[1]	–	18.5
Balance of payments aid	–	–
Domestic money market claims	–	–
Swiss bills of exchange	2 411.9	2 246.8
Confederation treasury notes	335.5	54.9
Lombard advances	3 204.0	3 126.9
Claims against domestic correspondents	564.4	460.1
Domestic securities	2 045.0	2 190.8
Participations[2]		
Tangible assets[2]		
Sundry assets	228.7	248.9
Non paid-up share capital	25.0	25.0
Balance sheet total	**56 980.4**	**57 715.7**

Liabilities

	1986	1987
Banknote circulation	27 018.9	27 342.3
Sight deposits of domestic banks[3]	14 911.8	17 044.8
Liabilities towards the Confederation[4]	1 042.3	1 362.9
sight	–	–
time	–	–
Sight deposits of foreign banks and institutions	86.7	163.1
Other sight liabilities	72.9	72.2
Sundry liabilities	193.0	196.8
Provisions		
for market, credit and liquidity risks[5]	13 056.2	10 934.0
for operating risks[6]	490.0	490.0
Share capital	50.0	50.0
Reserve fund	51.0	52.0
Net disposable income – annual profit	7.6	7.6
Balance sheet total	**56 980.4**	**57 715.7**

The accounting and valuation methods applied from 1996 onwards are explained on pages 64 f.

1 From 1980: Special Drawing Rights (XDR) and – in addition, from 1989 – ECU (XEU)

2 Participations and tangible assets were stated on a pro memoria basis until 1995.

3 Up to 1994: sight deposit accounts of domestic banks and finance companies

1988	1989	1990	1991	1992	1993	1994	1995	1996
11 903.9	11 903.9	11 903.9	11 903.9	11 903.9	11 903.9	11 903.9	11 903.9	11 903.9
22 327.3	21 760.4	22 480.5	25 710.4	26 204.8	29 042.8	28 626.0	27 767.8	36 462.9
13 619.4	17 859.8	14 729.3	14 521.7	19 653.0	17 988.3	17 284.4	14 044.8	12 865.5
–	–	–	–	1 144.4	1 221.6	1 241.5	1 687.7	2 067.8
30.5	123.6	112.9	117.3	134.9	332.7	414.8	408.2	290.0
–	87.1	–	97.1	156.4	218.4	198.3	173.7	204.3
–	–	–	–	467.7	752.5	720.5	1 436.2	1 581.7
2 133.8	542.7	711.1	522.1	353.4	–	–	–	–
–	–	–	–	–	–	–	–	–
795.9	704.1	165.7	107.0	26.9	13.5	14.9	4.7	764.2
416.0	458.3	567.0	552.8	493.0	595.8	565.8	429.2	514.5
2 421.4	2 574.0	2 814.0	2 886.1	2 975.7	2 973.2	3 027.1	3 063.9	4 821.5
								51.0
								532.4
257.2	251.7	221.3	313.2	261.0	707.0	778.0	1 064.3	452.1
25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
53 930.4	**56 290.6**	**53 730.7**	**56 756.6**	**63 800.1**	**65 774.7**	**64 800.2**	**62 009.4**	**72 537.0**

28 979.2	29 168.4	29 640.5	29 217.1	29 353.5	29 335.6	30 545.1	30 892.2	32 447.6
6 691.6	4 948.4	4 595.3	4 275.6	4 785.5	4 776.7	3 837.2	4 035.0	4 927.4
2 530.1	2 571.9							
–	–	621.7	3.4	245.1	192.3	595.2	917.4	839.5
–	–	785.0	400.0	3 450.0	2 940.0	2 850.0	1 350.0	815.3
167.6	119.0	59.8	114.9	54.7	188.8	46.7	43.3	32.7
86.3	85.4	95.0	104.7	115.1	105.8	108.0	156.3	204.2
22.5	60.2	77.7	66.5	670.5	692.0	734.7	746.5	1 089.0
14 712.5	18 595.7	17 113.1	21 230.8	23 770.3	26 187.5	24 726.3	22 958.4	30 554.5
630.0	630.0	630.0	630.0	640.0	640.0	640.0	650.0	450.0
50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
53.0	54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0
7.6	7.6	7.6	607.6	608.4	608.0	608.0	150.2	1 065.8
53 930.4	**56 290.6**	**53 730.7**	**56 756.6**	**63 800.1**	**65 774.7**	**64 800.2**	**62 009.4**	**72 537.0**

4 Prior to 1990, time deposits of the Confederation not placed elsewhere were not stated separately as time liabilities.

5 Prior to 1996: provisions for currency risks and valuation adjustment on foreign currencies

6 Prior to 1996: other provisions

3 Supervisory and executive bodies

(on 1 January 1997)

Bank Council

(Term of office 1995–1999)

The members elected by the Ordinary General Meeting of Shareholders are marked with an asterisk (*).

Jakob Schönenberger, Kirchberg/SG, Advocate, President
Eduard Belser, Liestal, Member of the cantonal government of Basle (district), Vice-President
Henri André, Paudex, Chairman of the Board of André & Cie AG
Jörg Baumann, Langenthal, Chairman of the Board and Managing Director of Baumann Weberei und Färberei AG
* Georges Blum, Basle, Chairman of the Board of Swiss Bank Corporation
Christiane Brunner, Geneva, Councillor of State, Co-chairwoman of Schweizerischer Gewerkschaftsbund (Swiss trade union federation) and Chairwoman of SMUV (trade union)
Chasper Campell, Sils i.D.
* Gianfranco Cotti, Locarno, Advocate and Notary, Chairman of the Board of Credit Suisse
Pierre Darier, Cologny, of Darier, Hentsch & Cie, banquiers privés
Melchior Ehrler, Riniken, National Councillor and Director of Schweizerischer Bauernverband (farmers' association)
* Hugo Fasel, St. Ursen, National Councillor, Chairman of Christlichnationaler Gewerkschaftsbund der Schweiz (trade union)
Laurent Favarger, Develier, Director of SA du Four électrique, Delémont
Fred-Henri Firmenich, Genthod, Chairman of the Board of Firmenich SA
Theo Fischer, Sursee, Chairman of the Bank Council of Cantonal Bank of Lucerne
* Hans-Rudolf Früh, Bühler, Chairman of Schweizerischer Gewerbeverband (trade association), Entrepreneur
Claudio Generali, Gentilino, Chairman of the Board of Banca del Gottardo
* Gustav E. Grisard, Riehen, Chairman of the delegation of trade, Chairman of the Board of Hiag Holding AG
Rudolf Hauser, Zurich, Managing Director of Bucher Holding Ltd
* Hans Huber, Heerbrugg, Chairman of the Board and Managing Director of SFS Holding AG
* Eugen Hunziker, Rüschlikon
* Joseph Iten, Hergiswil/NW, Advocate and Notary
Yvette Jaggi, Lausanne, Mayoress of Lausanne
* François Jeanneret, Saint-Blaise, Advocate
Pierre-Noël Julen, Siders, Director of Walliser Handwerkerverband (trade association)
Andres F. Leuenberger, Riehen, Chairman of Vorort of the Swiss Federation of Commerce and Industry, Vice-Chairman of the Board of F. Hoffmann-La Roche Ltd
* Jean-Philippe Maitre, Vésenaz, National Councillor, Member of the cantonal government of Geneva
Ursula Mauch, Chemist, Oberlunkhofen
Margrit Meier, Gümligen, Company secretary of Schweizerischer Gewerkschaftsbund (Swiss trade union federation)
Carlo de Mercurio, Lutry, Chairman of the Board of CDM Hôtels & Restaurants SA
* Félicien Morel, Belfaux
* Philippe Pidoux, Lausanne, National Councillor, Advocate
Heinz Pletscher, Schleitheim, Chairman of Schweizerischer Baumeisterverband (trade association), Building contractor

* Guido Richterich, Bottmingen, Chairman of Schweizerischer Arbeitgeberverband (employers' association)

Paul Rutishauser, Götighofen, Member of the managing committee of Schweizerischer Bauernverband (farmers' association), Agriculturist

Kurt Schiltknecht, Zumikon, Managing Director of BZ Trust Ltd

* Peter Spälti, Hettlingen, Chairman of the Board and Chief Executive Officer of Winterthur Swiss Insurance Company

Judith Stamm, Lucerne, President of the National Council

Robert Studer, Schönenberg, Chairman of the Board of Union Bank of Switzerland

Ulrich Zimmerli, Gümligen, Councillor of State and Professor of law at the University of Berne

* Elisabeth Zölch-Balmer, Berne, Member of the cantonal government of Berne

Bank Committee

(term of office 1995–1999)

Jakob Schönenberger

Eduard Belser

Gianfranco Cotti

Melchior Ehrler

Hans-Rudolf Früh

Yvette Jaggi

François Jeanneret

Andres F. Leuenberger

Margrit Meier

Philippe Pidoux

Local Committees

(Term of office 1995–1999)

Aarau

Jürg Schatzmann, Baden, Managing Director and Director of BAG Turgi, Chairman
Ernst Frey-Burkard, Kaiseraugst, Chairman of the Board of Ernst Frey AG and of Helfenstein und Natterer AG, Deputy Chairman
Hans Keiser, Staufen, Member of the Board and Director of Seetal Schaller AG

Basle

Peter Grogg, Bubendorf, Chairman of the Board of Bachem Fine Chemicals Ltd, Chairman
Klaus Endress, Reinach, Managing Director of Endress & Hauser (International) Holding AG, Deputy Chairman
Raymond R. Cron, Basle, Director of Preiswerk & Cie AG

Berne

Theodor Fässler, Mörigen, Chairman of the Board of Mikron Holding AG, Chairman
Karl Gnägi, Wohlen near Berne, Chairman of the Board of Asklia AG, Deputy Chairman
Käthi Bangerter, Aarberg, National Councillor, Chairwoman of the Board and Managing Director of Bangerter-Präzisionsteile AG

Geneva

Alain Peyrot, Vésenaz, Chairman of the Board and General Manager of Naef & Cie SA, Chairman
Claude Hauser, Versoix, General Manager of Migros Genossenschaft Geneva, Deputy Chairman
Jean-Claude Rinolfi, Givrins, Chairman of the Board of Printelec SA

Lausanne

Christian Seiler, Sion, Managing Director of Seiler Hotels Zermatt AG, Chairman
Hubert Barde, Le Mont-sur-Lausanne, Deputy Chairman
Pierre Baroffio, Renens, Member of the Board of Bobst AG

Lucerne

Gerry Leumann, Meggen, Chairman of the Board and Managing Director of Ebnöther Inc., Chairman
Hans-H. Gasser, Lungern, Deputy Chairman
Hans-Rudolf Schurter, Lucerne, Chairman of the Board and Managing Director of Schurter Holding AG

Lugano

Flavio Riva, Montagnola, Managing Director of Impresa Flavio Riva SA, Chairman

Franco Donati, Tegna, Chairman of the Board of IMV Invertomatic-Victron Holding Ltd, Energy Systems, Deputy Chairman

Corrado Kneschaurek, Muzzano, President of the Hotel Association Tessin, Manager of the Hotel du Lac-Seehof

Neuchâtel

Michel Soldini, Le Locle, Chairman of the Board and General Manager of Bergeon & Cie SA, Chairman

Jean Lauener, Saint-Aubin, Chairman of the Board of Lauener & Cie SA, Deputy Chairman

Vincent Lang, Porrentruy, Vice-Chairman of the Board and Director of Louis Lang SA

St Gallen

Urs Bühler, Uzwil, Chairman of the Board of Directors and President of the Executive Board of Bühler Ltd, Chairman

Roland Bertsch, Romanshorn, Chairman of the Board and Managing Director of Hydrel Ltd, Deputy Chairman

Peter G. Anderegg, Egnach, Managing Director of Filtex Ltd

Zurich

Adolf Gugler, Zollikon, Chairman of the Board of Elektrowatt Ltd, Chairman

Vera Hotz-Kowner, Erlenbach, Managing Director of Kowner Jakob AG, Deputy Chairwoman

Kurt E. Feller, Wollerau, President of the Executive Board of Rieter Holding Ltd

Auditing Committee

(Term of office 1996/1997)

Members

Peter Blaser, Hünibach, Chairman of the Board of Amtsersparniskasse Thun, Chairman

Gilbert Jobin, Delémont, Vice-Chairman

Kaspar Hofmann, certified auditor, Adliswil

Substitute members

Hans Michel, Egnach, General Manager of the Cantonal Bank of Thurgau

Francis Sauvain, Morges

Werner M. Schumacher, Binningen, Director of Banque Jenni et Cie SA

Governing Board		Hans Meyer, Chairman, Zurich
		Jean-Pierre Roth, Vice-Chairman, Berne
		Bruno Gehrig, Member, Zurich
	Secretariat General	
	Secretary General	Andreas Frings, Director, Zurich
	Deputy Secretary General	Hans-Ueli Hunziker, Berne

Departments	**Department I (Zurich)**	
	Head of Department	Hans Meyer, Chairman of the Governing Board
	Internal Auditors	Ulrich W. Gilgen, Director
		Othmar Flück, Assistant Director
	Press Relations	Werner Abegg, Assistant Director
	Deputy Heads of Department	Peter Klauser, Director
		Georg Rich, Director
	Economic Division	Georg Rich, Director
	Economic Studies Section	vacant
	Research	Michel Peytrignet, Assistant Director
	Economic Analysis	Eveline Ruoss, Assistant Director
	International Monetary Relations Section	Monique Dubois, Director
	Banking Studies Section	Urs W. Birchler, Director
	Studies	Werner Hermann, Assistant Director
	Statistics Section	Christoph Menzel, Director
	Monetary Statistics	Robert Fluri, Assistant Director
	Balance of Payments	Thomas Schlup, Assistant Director
	Data Bank	Rolf Gross, Assistant Director
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	Legal Service	Peter Merz, Director
	Personnel	Christine Breining-Kaufmann, Deputy Director
		Beat Blaesi, Assistant Director
	Pension Schemes	Peter Hadorn, Deputy Director
	Premises, Technical Services	Theo Birchler, Assistant Director

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Head of Department	Jean-Pierre Roth, Vice-Chairman of the Governing Board
Deputy Head of Department	Hans Theiler, Director
Security	Alex Huber, Assistant Director
Banking Division	Theodor Scherer, Director
Securities	Hans-Christoph Kesselring, Deputy Director
Central Accounting	Peter Bechtiger, Assistant Director
Payment Transactions	Daniel Ambühl, Assistant Director
Cashier's Office Berne	Werner Beyeler, Assistant Director
Cash Division	Roland Tornare, Chief Cashier of the Bank, Director

Department III (Zurich)	
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Deputy Heads of Department	Erich Spörndli, Director
	Christian Vital, Director
Monetary Operations Division	Erich Spörndli, Director
Management Support	Dewet Moser, Assistant Director
Foreign Exchange Section	Karl Hug, Deputy Director
Investment Section	Markus Zimmerli, Deputy Director
General Processing and Informatics Division	Christian Vital, Director
General Processing Section	Daniel Wettstein, Deputy Director
Money Market Operations, Bills and Cheques	Beat Spahni, Assistant Director
Payment Transactions	Walter Gautschi, Assistant Director
Cashier's Office	Roland-Michel Chappuis, Assistant Director
Correspondence	Markus Steiner, Assistant Director
Accounting	Werner Bolliger, Assistant Director
Informatics Section	Rudolf Hug, Director
Management Support	Raymond Bloch, Assistant Director
Banking Applications	François Ryffel, Assistant Director
Statistical Applications	Jürg Ziegler, Deputy Director
Office Automation	Peter Bornhauser, Assistant Director
Technical Services	Jules Troxler, Assistant Director
Computer Centre Zurich	Peter Künzli, Assistant Director
Computer Centre Berne	Bruno Beyeler, Assistant Director

Branch Offices

Aarau	Heinz Alber, Director
Basle	Anton Föllmi, Director
Geneva	Yves Lieber, Director
Lausanne	François Ganière, Director
Lucerne	Max Galliker, Director
Lugano	Cesare Gaggini, Director
Neuchâtel	Jean-Pierre Borel, Director
St Gallen	Jean-Pierre Jetzer, Director

Agencies

The Swiss National Bank maintains agencies operated mainly by cantonal banks in the following towns:

Altdorf
Appenzell
Bellinzona
Bienne
Chur
Delémont
Fribourg
Glarus
Liestal
Sarnen
Schaffhausen
Schwyz
Sion
Solothurn
Stans
Thun
Weinfelden
Zug

4 Publications

Annual Report

In its Annual Report, published in April, the Swiss National Bank renders an account of its activity. The report contains a concise description of international economic developments and current economic activity in Switzerland, comments on the National Bank's monetary policy and other activities and presents the financial statements. The Annual Report for 1996 is published in German, French, Italian and English.

Obtainable from: Swiss National Bank, Secretariat General, Bundesplatz 1, 3003 Berne,
tel. 031 312 02 11, fax 031 312 19 53
Free of charge

Statistical yearbook

'Das schweizerische Bankwesen' is a statistical yearbook providing commented source material on the development of the banking sector in Switzerland. It is compiled mainly from data and information submitted by the banks and is published annually (in German and French).

Obtainable from: Zürichsee Zeitschriftenverlag, Seestrasse 86, 8712 Stäfa, tel. 01 928 56 16,
fax 01 928 55 20
Price: Sfr 20.00[1]

Supplement on balance of payments

This comment on the development of the balance of payments is published once a year as a supplement to the Quarterly Bulletin (in German and French).

Obtainable from: Swiss National Bank, Library, Börsenstrasse 15, P.O. Box, 8022 Zurich,
tel. 01 631 32 84, fax 01 631 39 11
Free of charge

Quarterly Bulletin

The Quarterly Bulletin on monetary issues and cyclical conditions includes the Governing Board's quarterly report to the Bank Council on the economic and monetary situation (German and French), economic studies and selected papers on monetary policy issues (in the original language) by staff members of the Swiss National Bank as well as a chronicle of monetary events. The opening section contains abstracts of the various contributions in German, French, Italian and English.

Obtainable from: Zürichsee Zeitschriftenverlag, Seestrasse 86, 8712 Stäfa,
tel. 01 928 56 16, fax 01 928 55 20
Subscription rates: Sfr 25.00 per year[1] (other countries: Sfr 30.00); for subscribers of the Monthly Report: Sfr 15.00 per year[1] (other countries: Sfr 20.00)

1 incl. 2% VAT

Monthly Bulletin

The Monthly Bulletin contains a brief commentary on the National Bank's policy and on developments in the money, capital and foreign exchange markets as well as graphs and tables on important Swiss and international economic data (in German and French).

Obtainable from: Zürichsee Zeitschriftenverlag, Seestrasse 86, 8712 Stäfa, tel.01 928 56 16, fax 01 928 55 20
Subscription rates: Sfr 40.00 per year[1] (other countries: Sfr 80.00; plus airmail surcharge)

Supplement on banking statistics

This supplement is also published monthly and contains detailed banking statistics.

Obtainable from: Zürichsee Zeitschriftenverlag, Seestrasse 86, 8712 Stäfa, tel. 01 928 56 16, fax 01 928 55 20
Free supplement to the Monthly Bulletin

Bank return

The bank return is an abridged version of the National Bank's balance sheet. It is published three times a month, on the 10th, 20th and the last day of the month, with a brief comment (in German and French).

Obtainable from: Swiss National Bank, Secretariat General, Bundesplatz 1, 3003 Berne, tel. 031 312 02 11, fax 031 312 19 53
Free of charge

'Functions, Instruments, Organisation'

The brochure 'Functions, Instruments, Organisation' describes in brief form (approximately thirty pages) the monetary policy concept, other major tasks, and the organisation and legal basis of the National Bank's activity. The brochure is available in German, French, Italian and English.

Obtainable from: Swiss National Bank, Library, Börsenstrasse 15, P.O. Box, 8022 Zurich, tel. 01 631 32 84, fax 01 631 39 11
Free of charge

1 incl. 2% VAT

Design
Weiersmüller Bosshard Grüninger WBG, Zurich

Composition
typolitho ag, Zurich

Printing
Buri Druck AG, Wabern-Berne

ISSN 1421-6477