Swiss National Bank
90th Annual Report 1997

Contents

The figures in the income statement, balance sheet and tables are rounded; the total may therefore deviate from the sum of individual items.

Ladies and Gentlemen

In 1997, the Swiss economy emerged from a long period of stagnation. The recovery was still hesitant at first. We are confident that it will continue and strengthen.

Exports were the chief factor contributing to the brighter economic picture. They expanded markedly due to the favourable situation abroad and the weakening of the Swiss franc. Initially, consumption was slow to rise, but began to pick up in the second half of the year. The construction industry still saw no ray of hope; building investment declined once more. Numerous sectors were exposed to strong competitive pressure, inducing enterprises to make renewed efforts at modernisation and rationalisation. Accordingly, expenditure on plant and equipment again grew distinctly, whereby the competitiveness of our economy was improved.

Inflation remained at a low level. The favourable price development, however, was accompanied by an unsatisfactory situation on the labour market. The unemployment rate was higher than in the previous year, though it receded in the course of the year. Unemployment is in large measure due to structural causes. It is therefore expected to be reduced only gradually despite the economic recovery.

In the year under review, we again ensured that monetary conditions remained favourable. With a generous supply of money, we kept short-term interest rates at a low level and thus counteracted the rise of the Swiss franc exchange rate. As uncertainty surrounding the interpretation of the monetary base increased, we paid greater attention to the broadly defined monetary aggregates, notably M_3, in assessing the situation.

A focus of our activity was the reform of the monetary constitution, which has become outdated by the development of the international monetary system. The link between the Swiss franc and gold is to be severed. Furthermore, the Swiss National Bank's mandate in the Constitution is to be formulated in more detail. Finally, the principle of the Bank's independent status and the obligation to hold adequate monetary reserves are to be embodied in the Constitution. – In 1997, a partial revision of the National Bank Law became effective, making it possible for us to manage our monetary reserves more profitably.

The higher earnings from foreign-currency investments and the rise of the dollar exchange rate led to a high aggregate income. This permits the National Bank – after dividend and per capita payments and the allocation to the legal reserves – again to distribute to the Confederation and the cantons the amount of Sfr 600 million agreed on with the Federal Government.

The discussions on Switzerland's role in the Second World War continued in the year under review. The commission under the chairmanship of Professor Bergier set up by the Federal Council at the end of 1996 investigated the gold transactions of the National Bank. In a first public assessment, the commission confirmed the hitherto known facts. – As a gesture of humanity, we contributed an amount of Sfr 100 million to the fund for needy victims of the Holocaust.

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

Berne, 6 March 1998

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 growth in the world economy – crises in East Asia

World economic growth accelerated in 1997. Real gross domestic product (GDP) in the OECD countries rose by 3% on average, up from 2.7% in the previous year. Growth was particularly pronounced in the United States and the United Kingdom. In Germany, France and Italy, the pace of business activity quickened, whereas the recovery in Japan suffered a setback. Outside the OECD, the situation improved in the transition economies of central Europe and in Latin America. Eastern Europe continued to grapple with huge economic problems. East Asia was shaken by financial crises, and several countries in this region had to resort to international financial aid.

Rapid expansion in the United States and the United Kingdom

In the United States and the United Kingdom the expansion continued with GDP rising substantially faster than in the previous year. In the United States, the growth was broad-based, with a particularly rapid increase in plant and equipment spending and in exports. The upswing in the United Kingdom was driven primarily by private consumption, though exports and investment in plant and equipment also contributed to the favourable outcome. The pace of expansion slowed in the second half of the year owing to higher interest rates and a stronger pound sterling.

Economic recovery in continental Europe

The economic recovery in Germany, France and Italy was driven mainly by strong export growth. Domestic demand, on the other hand, revived only hesitantly. Construction activity in particular remained sluggish, and government demand was dampened by restrictive fiscal policies. There was, however, an upturn in private consumption – in Italy partly also due to tax changes – and in expenditure on plant and equipment. Most of the smaller European countries enjoyed a lively pace of business activity, with growth rates of GDP exceeding the EU average of 2.5%.

Downturn in Japan

In Japan, the economic recovery lost momentum. The rise in value-added tax, lower public-sector investment activity and the collapse of major financial institutions in the second half of the year put a brake on domestic demand. After rising steeply at the beginning of the year, exports were throttled towards year-end by the financial crises in East Asia.

Uneven decline in unemployment

Vigorous economic growth in the United States and the United Kingdom gave a further boost to the demand for labour, and unemployment in these countries declined significantly. By contrast, the recovery in continental Europe brought little improvement in the labour market. Although the unemployment rate fell in a number of smaller countries, it continued to rise in Germany and remained at a high plateau in France and Italy. The average figure for the EU as a whole edged down to 11.1%. Japan showed relatively low unemployment.

Inflation still low

The inflation rate in the OECD area in general remained low. A notable decline was recorded in Italy, and the rate also fell in the United States, France and many smaller countries. Slight rises were recorded in the United Kingdom and Germany. In the EU as a whole, inflation receded from 2.5% on average to 2% whereas in Japan it moved up from 0.1% in the previous year to 1.7% on account of the increase in value-added tax.

Summary of data on economic activity

	1993	1994	1995	1996	1997
Real GDP change from previous year in percent					
USA	2.3	3.5	2.0	2.8	3.8
Japan	0.3	0.7	1.4	4.1	0.8
Germany	−1.2	2.8	1.9	1.4	2.4
France	−1.3	2.8	2.1	1.5	2.2
United Kingdom	2.1	4.3	2.7	2.3	3.4
Italy	−1.2	2.2	2.9	0.7	1.1
European Union	−0.5	2.9	2.5	1.7	2.5
Switzerland	−0.5	0.5	0.8	−0.2	0.7
Unemployment in percent of the labour force					
USA	6.9	6.1	5.6	5.4	5.0
Japan	2.5	2.9	3.2	3.4	3.4
Germany	8.9	9.6	9.5	10.4	11.5
France	11.7	12.3	11.6	12.3	12.5
United Kingdom	10.3	9.3	8.2	7.5	5.6
Italy	10.3	11.3	12.0	12.1	12.3
European Union	11.1	11.5	11.2	11.3	11.1
Switzerland	4.5	4.7	4.2	4.7	5.2
Inflation of consumer prices, in percent					
USA	3.0	2.6	2.8	2.9	2.3
Japan	1.2	0.7	−0.1	0.1	1.7
Germany	4.5	2.7	1.8	1.5	1.8
France	2.1	1.7	1.8	2.0	1.2
United Kingdom	1.6	2.5	3.4	2.5	3.1
Italy	4.2	3.9	5.4	3.9	1.8
European Union	3.5	3.0	3.1	2.5	2.0
Switzerland	3.3	0.9	1.8	0.8	0.5
Current account balance in percent of gross domestic product					
USA	−1.4	−1.9	−1.8	−1.9	−2.1
Japan	3.1	2.8	2.1	1.4	2.2
Germany	−0.7	−1.0	−1.0	−0.6	−0.3
France	0.8	0.6	0.7	1.3	2.3
United Kingdom	−1.6	−0.3	−0.5	−0.1	0.3
Italy	0.9	1.3	2.3	3.4	3.6
European Union	0.2	0.3	0.6	1.0	1.3
Switzerland	8.2	7.0	7.0	6.9	8.3

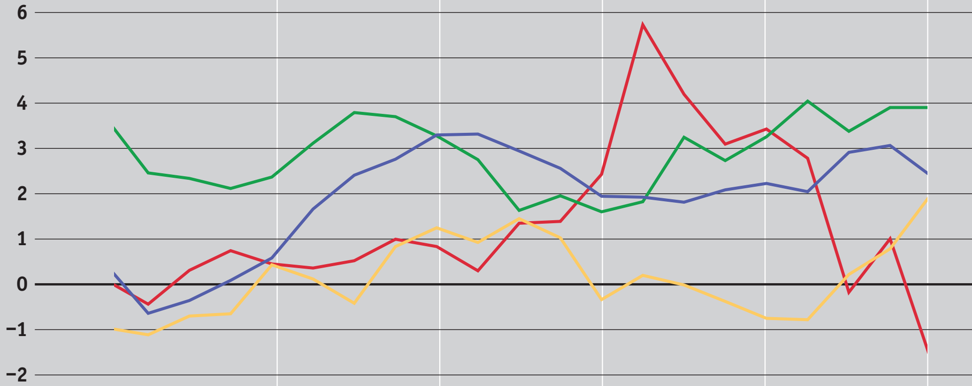
Some 1997 figures are estimates.
Source: OECD

1993 1994 1995 1996 1997

Real gross domestic product

USA
Japan
OECD Europe
Switzerland

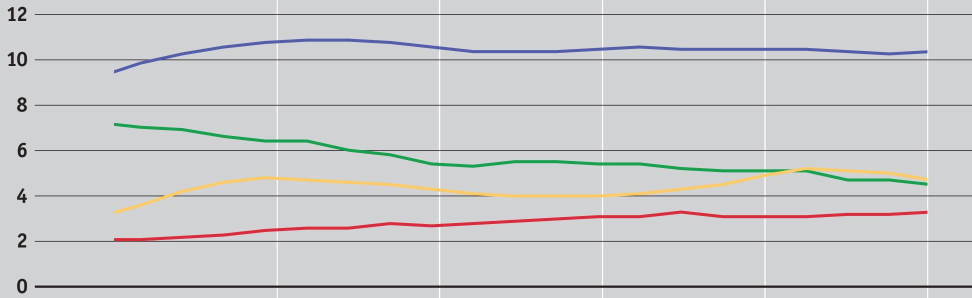
Change in percent
from previous year.
Source: OECD



Unemployment

USA
Japan
OECD Europe
Switzerland

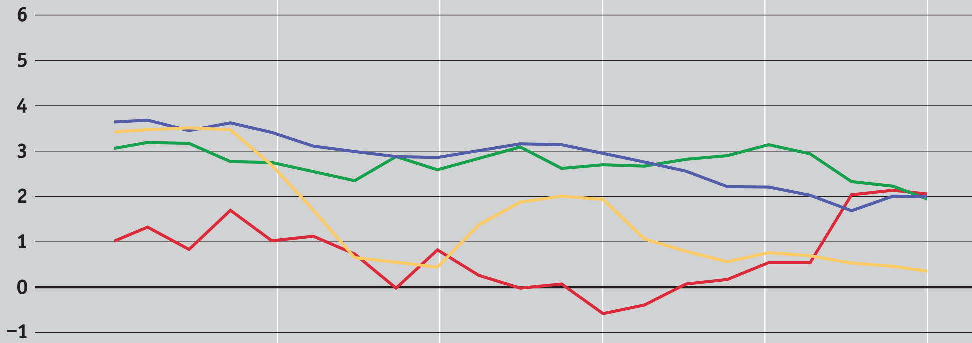
In percent of labour force.
Source: OECD



Inflation

USA
Japan
OECD Europe
Switzerland

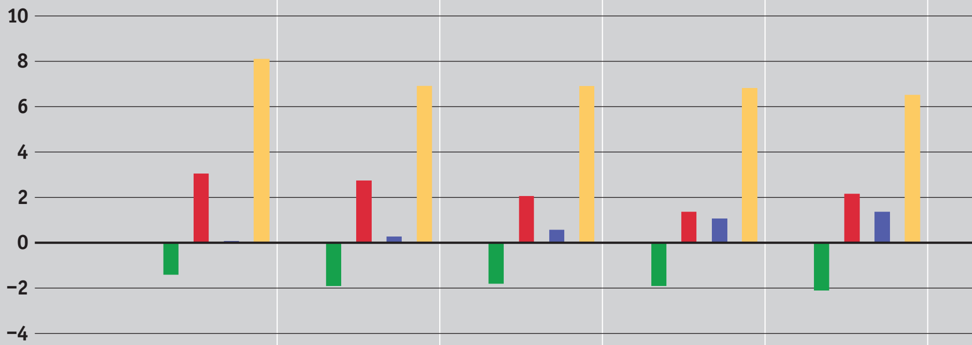
Percentage change in consumer
prices from previous year.
Source: OECD



Current account balance

USA
Japan
European Union
Switzerland

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



1993 1994 1995 1996 1997

Mixed developments in central and eastern Europe

In most countries of central and eastern Europe, further progress was made with economic reforms in 1997. Economic growth strengthened, and inflation receded. The exceptions were the Czech Republic and Slovakia, which reported a drop in output, as well as Bulgaria and Romania, where the recession worsened. In Russia, the decline in production was halted for the first time since 1991, while in Ukraine it fell less steeply than in the previous year against a background of lower inflation.

Financial crises in East Asia

In the course of 1997, various countries in East Asia suffered from increasing structural imbalances. The situation was aggravated by the rise in the US dollar, as many of the region's countries had pegged their currencies to the dollar. During the second half of the year, Thailand and later Indonesia, Malaysia, the Philippines and South Korea were forced to abandon the dollar peg. The result was a massive devaluation of these currencies. In an attempt to bring the financial crisis under control, various countries asked international organisations (notably the International Monetary Fund) and foreign governments for financial assistance. By the end of 1997, such assistance was granted to Thailand, Indonesia and South Korea. The crises, along with the measures being taken to combat the structural imbalances, are likely to substantially slow the region's hitherto strong growth.

Continued recovery in Latin America and Africa

The economic situation in Latin America improved steadily. The rate of inflation continued to decline. However, the financial crises in East Asia attracted attention to Latin America's structural weaknesses. This in particular prompted the Brazilian government to institute strong measures to curb the country's mounting current account and government deficits. As a result, the Brazilian currency stabilised. In Africa, particularly south of the Sahara, economic recovery continued, and inflation declined further.

Growth in world trade

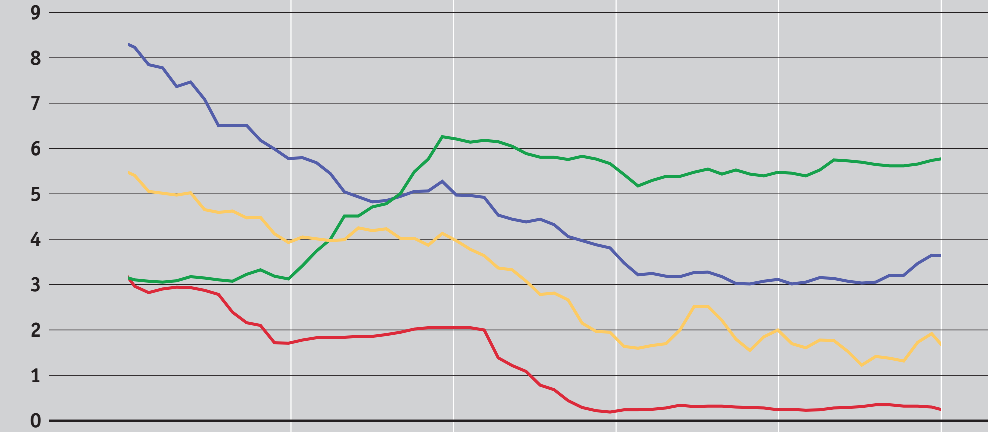
World trade expanded substantially in 1997. Real exports were up 9% compared with a 6% rise in the previous year. This was due mainly to the improvement in the economies of the OECD area as a whole.

1.2 Monetary policy

Small rise in US interest rates, substantial tightening of monetary policy in the United Kingdom

In 1997, the central banks of the OECD countries continued their efforts to maintain price stability. At the end of March, the Federal Reserve Board in the United States raised its benchmark interest rate (federal funds rate) by 0.25 percentage points to 5.5% after having lowered it at the beginning of 1996. Owing to the favourable inflation outlook, no further interest rate increase was deemed necessary in 1997. By contrast, the Bank of England was compelled – in view of the growing threat of inflation – to tighten its monetary policy considerably in the course of the year. To reduce the strength of domestic demand, the base lending rate was raised in several steps by a total of 1.25 percentage points to 7.25%.

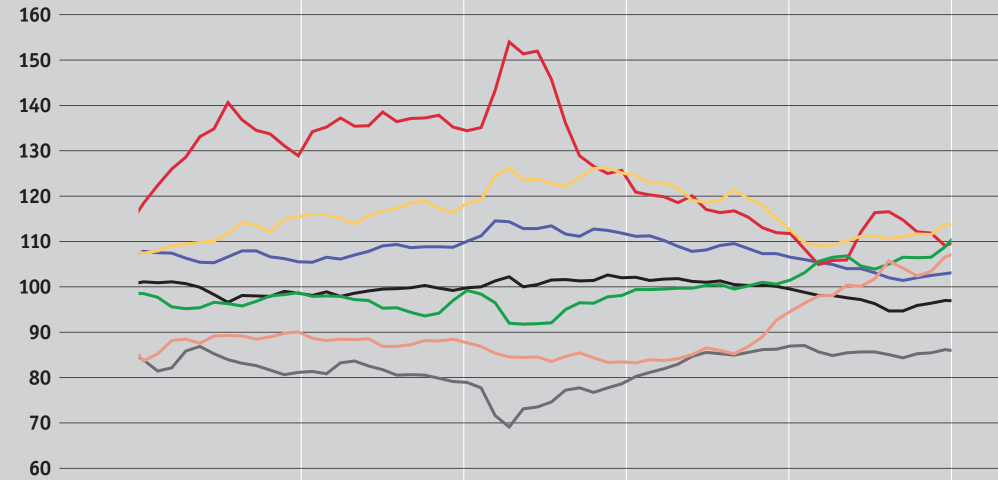
Short-term interest rates



Eurodollar
Euroyen
Euro-DM
Euro-Sfr

Three-month
Euromarket rates.
Source: BIS

Real exchange rates



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

Trade-weighted real exchange
rate indices; 1990 = 100.
Source: OECD

Modest interest rate increase in Germany and some of the neighbouring countries

In October, the German Bundesbank raised its repurchase rate from 3% to 3.3% after having left it unchanged for over a year. The discount and Lombard rates were not altered. The Bundesbank justified its move by citing its intention to counter a build-up of inflationary potential in the runup to European Monetary Union (EMU). The M_3 money supply aggregate, which had exceeded the target corridor in the first half of the year, expanded less rapidly in the course of the year and was back within the corridor in the second half. In step with the Bundesbank, the central banks of various neighbouring countries also raised their key interest rates by a small margin.

Substantial easing in Italy

In Italy, the sharp reduction in inflation and the lira's readmission to the European Monetary System's exchange rate mechanism (ERM) at the end of 1996 allowed the central bank to ease its monetary stance very substantially: it lowered the discount rate from 7.5% to 5.5% and the Lombard rate from 9% to 7%.

No change in Japan's low rates

As in the previous year, the Japanese central bank left the discount rate unchanged at 0.5%. Its policy took account of the ailing economy and the problems of the financial sector.

1.3 Fiscal policy

Improved public-sector finances

The public-sector finances of all the major industrial countries improved in 1997. In the United States and the United Kingdom, this was due mainly to the favourable economic conditions, while in Japan and in continental Europe it resulted from a tighter fiscal stance.

Restrictive fiscal policy in Japan

In Japan in particular, the government adopted a restrictive fiscal policy in order to curb the public-sector deficit which had mushroomed in the preceding years owing to measures taken to revitalise the economy. With a rise in value-added tax and cutbacks in public investment the total government deficit declined by 1.5 percentage points to approximately 3% of GDP.

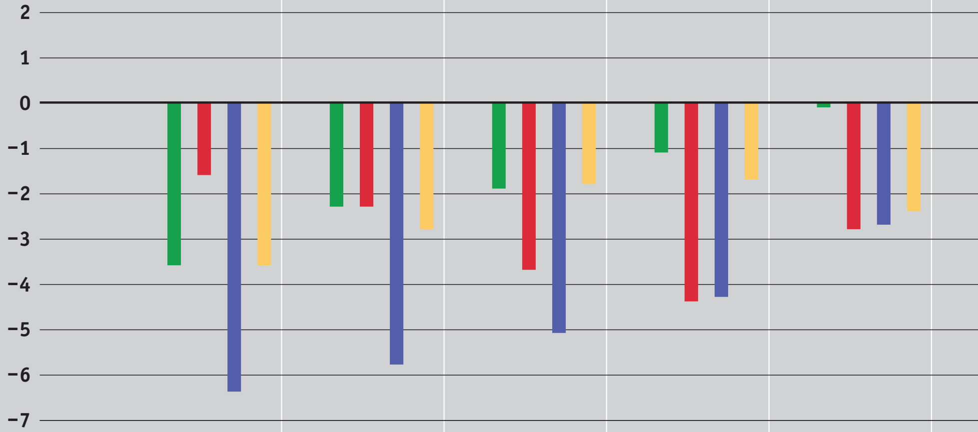
Smaller government deficits in the United States and the United Kingdom

In the United States, tax revenues were well over budget owing to the strong economic growth. In fiscal 1996–97, the deficit was down to $ 22.6 billion or 0.3% of GDP (compared with a budgeted figure of $ 125.6 billion). The United Kingdom's budget deficit was also reduced, dropping to 1.5% of GDP for the 1997–98 fiscal year. Both the American and British governments are aiming to balance their budgets within the next few years.

Government deficits down to about 3% of GDP in Germany, France and Italy

Germany, France and Italy reduced their budget deficits to approximately 3% of GDP in 1997. This was the result of strenuous efforts on the part of the respective governments: spending cuts were implemented in all three countries, and, in addition, in France and Italy taxes were raised. These three governments are predicting a further deficit reduction in 1998.

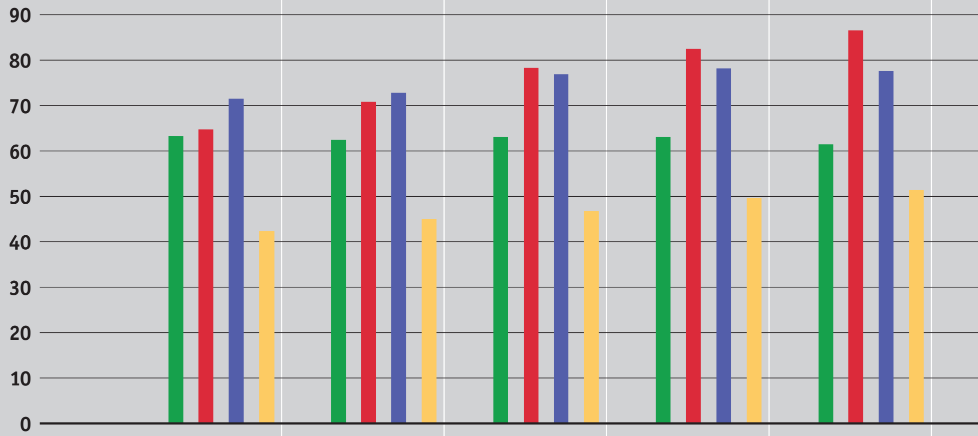
Public-sector financial balances



USA
Japan
European Union
Switzerland

Public-sector financial balances (all levels of government including social insurance) in percent of GDP.
1997: budget forecasts.
Source: OECD

Government indebtedness



USA
Japan
European Union
Switzerland

Aggregate public-sector debt (all levels of government including social insurance) in percent of GDP.
1997: budget forecasts.
Source: OECD

1993 1994 1995 1996 1997

1.4 Foreign exchange markets

Sharp appreciation of the dollar

The US dollar rose steeply in 1997. In the course of the year it appreciated by 15.9% against the D-mark, by 12.2% against the yen and by 8.1% against the Swiss franc. In December the dollar's trade-weighted real exchange rate was 10.5% above its level 12 months previously.

Weak D-mark

The D-mark trended downwards against the other currencies outside the ERM. It depreciated by 11.6% against the pound sterling and by 6.8% against the Swiss franc, but showed little change against the continental ERM currencies. Its trade-weighted real exchange rate declined by 3.0% in the course of the year.

ERM remains calm

There was little change in the ERM parities during the year under review. By and large, the spread between the weakest and the second strongest currency did not exceed 4%. The mechanism's strongest currency – the Irish punt – did appreciate more sharply at first, but eased again in the fourth quarter.

Massive currency depreciations in East Asia

Owing to the financial crises in East Asia, some of this region's currencies underwent massive depreciation in the second half of 1997. By the end of December, the Thai baht had plunged by 46% against the dollar, the Indonesian rupiah by 56%, the Malay ringgit by 35% and the Philippine peso by 26%. The Singapore dollar fell by 15% against the dollar, the currencies of South Korea and Taiwan by 47% and 15% respectively.

1.5 Financial markets

Decline in long-term interest rates

In 1997, long-term interest rates in the OECD countries declined again slightly on balance. In the United States and in Japan they rose in the first half of the year but eased again in the second half. In Europe, interest rates in the various countries converged. Whereas in France and Germany long-term rates edged down only slightly, in Italy they fell sharply. The convergence of long-term interest rates indicates that the financial markets are expecting EMU to materialise.

Booming stock markets in North America and Europe, collapse in East Asia

In the first half of 1997, share prices climbed rapidly on many stock markets. The crises in East Asia triggered sharp falls around the world, however. Although the market indices in North America and Europe recovered by the end of the year, on East Asian stock exchanges the decline continued.

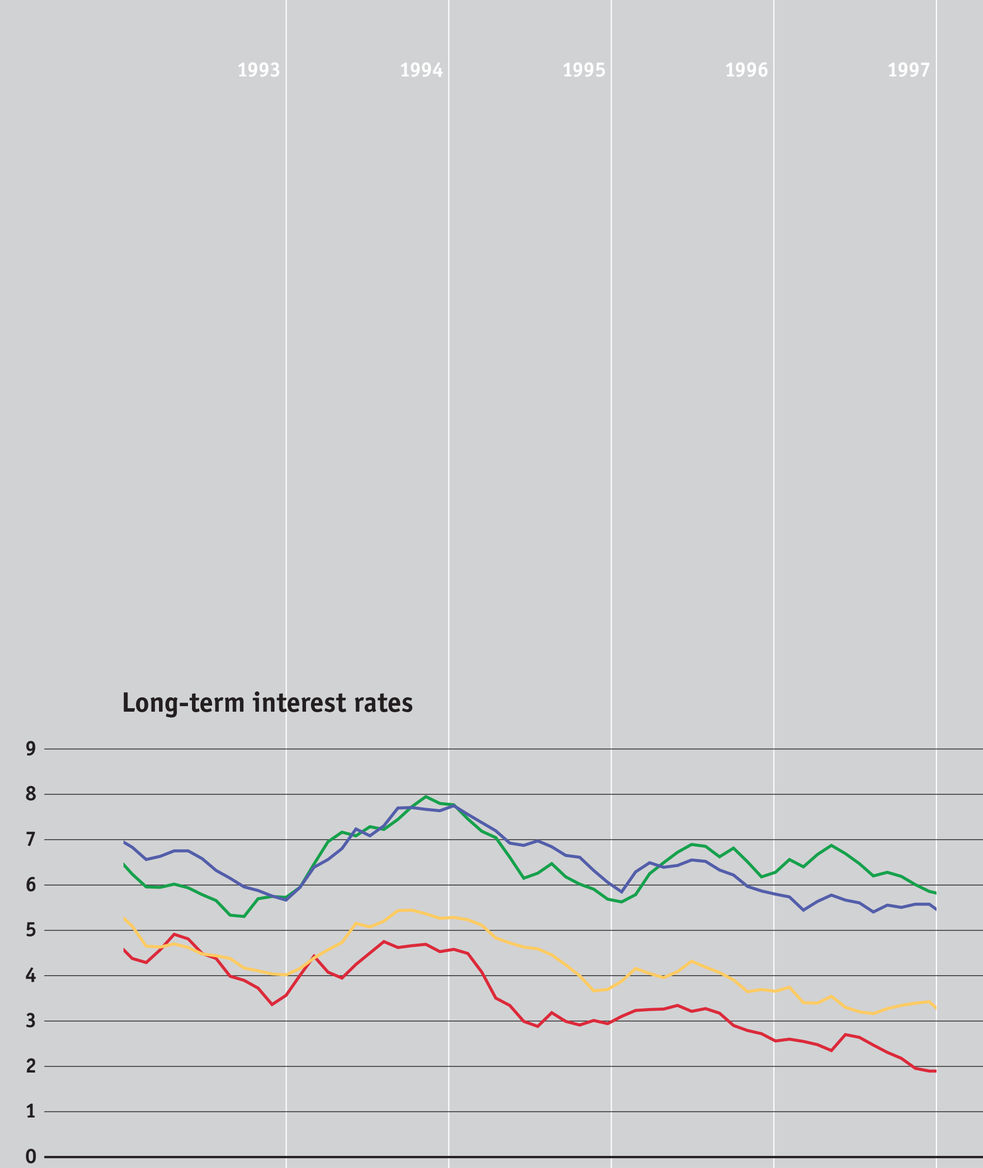
Growing volume of new issues on the international financial markets

Gross borrowing on the international financial markets rose by 12.5% year-on-year to $ 1,769 billion. The portion accounted for by bonds rose to 30.8%. Variable-interest securities, convertible bonds and equities also increased their market share, whereas issuing programmes for notes contracted slightly and those for money market paper quite considerably. The relative importance of the various issuing currencies also shifted, with the dollar, D-mark, lira and sterling gaining at the expense of the yen and – to a lesser extent – the French franc, Swiss franc and guilder.

Rise in US banks' earnings

The economic expansion and the favourable development of the capital markets gave a boost to the financial services industry. In the United States in particular, the banks' earnings rose. Profits were lifted by trading income as well

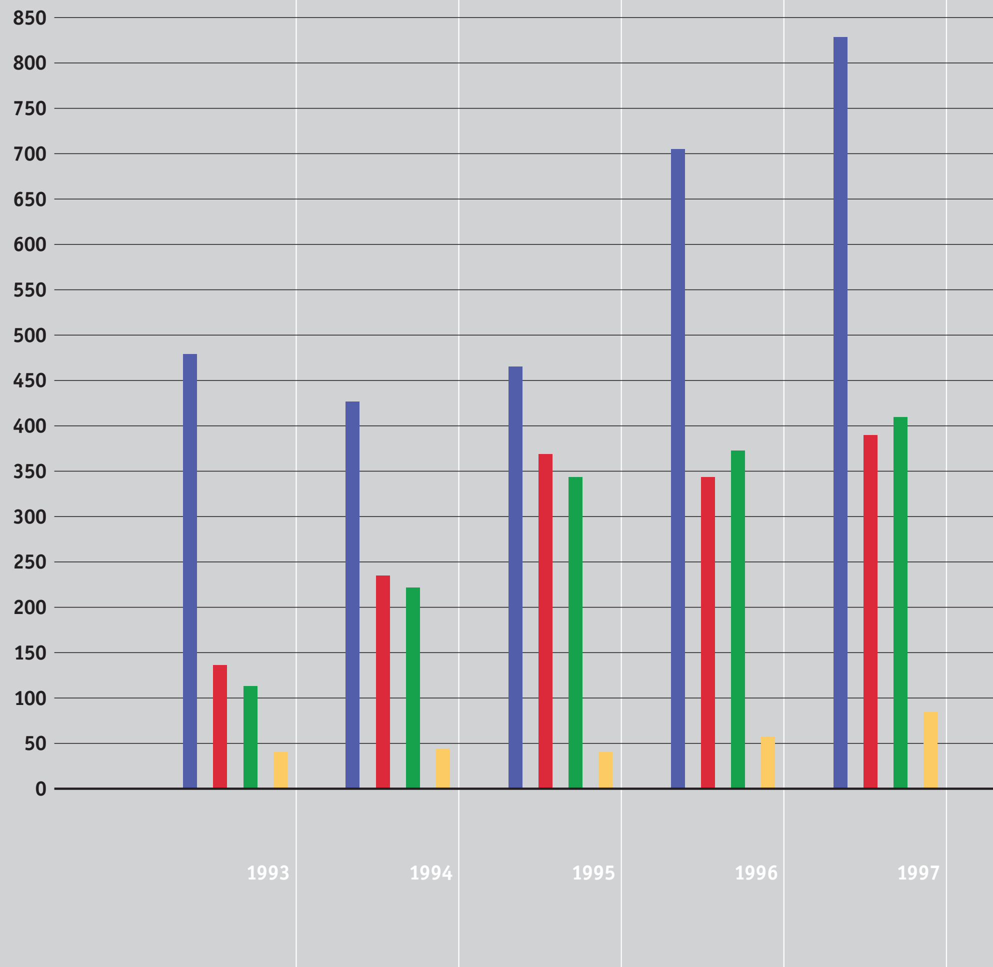
Long-term interest rates



Dollar
Yen
D-Mark
Swiss franc

Yield on long-term government bonds, percent per annum.
Source: BIS

Borrowing in the international financial markets



Bonds
Bank loans
Medium-term notes
Shares

Billions of dollars.
Source: OECD

as by net interest earnings since lending activity was strong. At the same time, most banks also made larger provisions for doubtful loans. The Federal Reserve Board raised the share from 10% to 25% which a securities subsidiary of a bank holding company is permitted to have in its parent company's total earnings. The result was a wave of takeovers, particularly among securities houses.

West European banks more profitable

The banks in most western European countries also improved their profitability in 1997. This can be ascribed to the rise in share prices, the reduced need for provisions and the larger volume of loans. Only in Italy did the banks fail to achieve any substantial increase in profitability, as they were still preoccupied with restructuring their balance sheets. In the United Kingdom, the government transferred responsibility for banking supervision (previously incumbent upon the central bank) to an independent body, the Financial Services Authority.

Situation in Japan's financial sector worsens

The situation in Japan's banking sector deteriorated substantially. Owing to a decline in the quality of the banks' assets, provisions for bad and doubtful loans had to be strengthened. The price decline on Japan's stock markets exacerbated these problems, and a number of large banks had to close down. The Japanese government made public funds available for shoring up the financial sector and announced that reforms would be set in train. In future, it will be permissible to found holding companies. Banking supervision will pass from the Ministry of Finance to an independent body.

1.6 European integration

Further progress towards monetary union

The EU continued to work towards the introduction of the euro. The preparatory tasks included drafting the monetary policy and designing the instruments to be placed at the disposal of the future European Central Bank (ECB). The EU laid the foundations for the exchange rate system which will link the countries participating in the single currency to the "outsiders" currencies. In June 1997, a stability and growth pact was signed.

Stability and growth pact

The purpose of this pact is to ensure that the countries participating in EMU continue to pursue stability-oriented policies even after the launch of the euro. Accordingly, these countries are committed to keeping their budget deficits permanently below 3% of GDP. This limit may be exceeded only in exceptional situations, such as during a deep recession. Any country whose deficit rises above this ceiling will be required to rectify the situation within a given period of time. If it fails to do so, it will have to deposit an interest-free loan which will be converted into a fine if the deficit is not brought within the limit by a particular deadline.

Programme for monetary policy

The planned ECB monetary policy gives the central bank a choice of two strategies, one geared to inflation targets and the other to money supply targets. The ECB can also adopt a combination of the two strategies. Regardless of which strategy is chosen, monetary policy must take the following five requirements into account:

- announcement of a definition of price stability in order to improve the transparency and credibility of monetary policy;
- publication of targets enabling the public to assess the ECB's performance;
- use of a broad spectrum of indicators providing information about possible inflationary threats;
- priority given to money supply aggregates in the formulation of monetary policy;
- development of techniques for forecasting the inflation rate and other important economic factors.

Basis of exchange rate system

The exchange rate system for the member countries not participating in EMU must contain the following elements:

- definition of central rates against the euro;
- fluctuation band of +/–15% around the central rates, as in the ERM today;
- generally automatic and unlimited interventions at the upper/lower edge of the fluctuation band;
- the option of discontinuing interventions if they jeopardise the paramount goal of monetary policy, i.e. price stability;
- voluntary participation in the exchange rate mechanism.

Legal basis for the introduction of the euro and efforts to harmonise the financial sector

The European Council has passed Regulations dealing with the introduction of the euro and an amended proposal for Regulations concerning the denominations and technical features of the single currency coins. Furthermore, a Directive has been drafted concerning the finality of payments and rights of lien which would become applicable to EU payment systems not later than on the commencement of EMU. Besides its work relating to the launch of the euro, the EU continued its efforts to harmonise the financial services sector. The European Parliament and Council passed a Directive stipulating a minimum degree of protection for investors in the event of securities houses becoming insolvent. The Commission also proposed that new Directives be issued for the recognition of internal models for calculating capital adequacy requirements for market risks.

The financial sector's preparations for the single currency

The financial sector has stepped up its preparatory work for the introduction of the single currency. Above all, this includes the development of a euro interbank interest rate, the introduction of forward contracts in euros and the harmonisation of market conventions for euro bonds.

2 Switzerland

2.1 Real economic performance

Signs of a cyclical upturn

The Swiss economy began to show signs of a revival in 1997. After a decline in real GDP in the first quarter, the spring saw the beginnings of a recovery which subsequently strengthened in the second half of the year. Over the year as a whole, real GDP increased by 0.7%, compared with a 0.2% drop in the previous year. The upturn was driven mainly by exports, which were boosted significantly by faster economic growth abroad and by the Swiss franc's depreciation in the previous year. Private consumption revived in the course of 1997. Plant and equipment investment rose once more while building investment and government consumption continued to contract.

Higher industrial output and capacity utilisation

The activity level in manufacturing improved on account of higher demand. Order intake, which had declined in the previous year, increased significantly during 1997, though the rise in domestic orders was easily outstripped by growth in demand from abroad. Output went up markedly after having been virtually unchanged in 1996. Accordingly, capacity utilisation advanced from 83% at the end of 1996 to 86% by the end of 1997.

Moderate rise in consumer spending

Consumer spending rose again only moderately by a mere 0.9% on average. However, it did accelerate as the year went on. While demand for durables and services improved, sales of non-durable goods continued to contract. Domestic tourism began to pick up: overnight stays rose for the first time since 1991. The increase in private consumption was combined with a fall in the savings rate, as disposable household income remained close to the previous year's level.

Marked fall-off in construction activity

Building investment was 4% below the 1996 result. Both in residential and commercial/industrial construction, recovery was held back by the large number of vacant properties. By contrast, the situation in the civil engineering sector improved owing to increased public sector orders. This upturn was due in large part to the "impulse" programme passed by Parliament in spring 1997.

Continued rise in plant and equipment investment

Investment in plant and equipment increased by 1.5%, similar to the previous year.

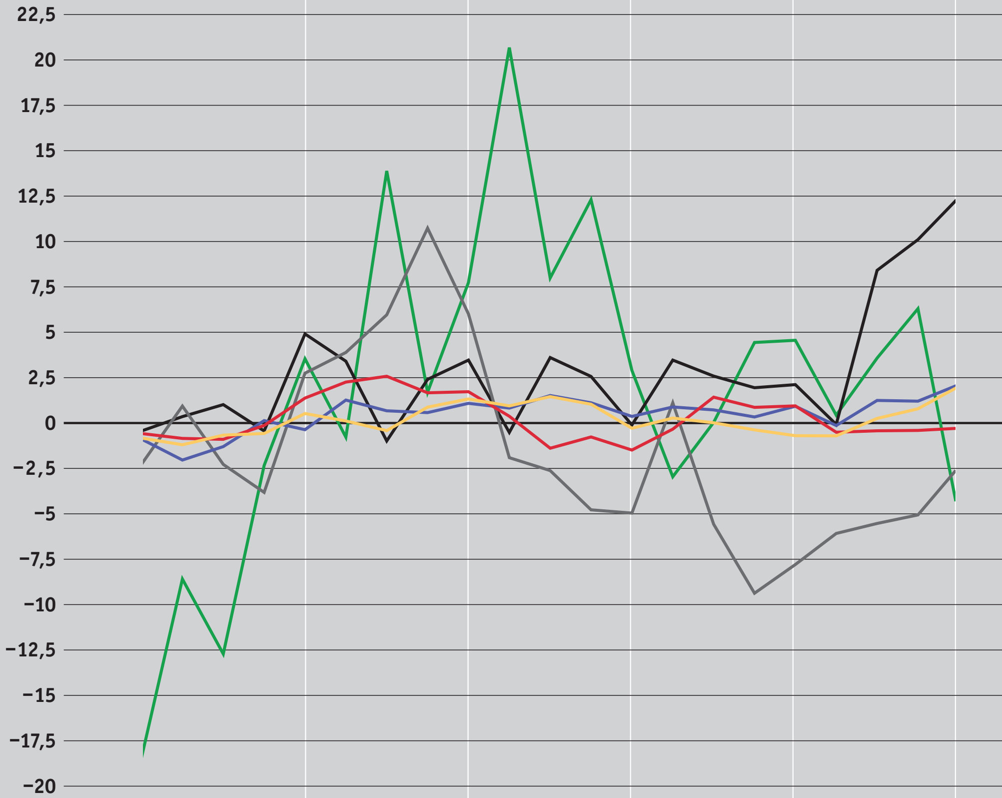
Large increase in exports

Buoyed by the cyclical upturn in the EU, strong economic growth in the United States and the depreciation of the Swiss franc (the currency was still moving downwards at the beginning of 1997), Switzerland's total exports rose substantially during the year under review. In real terms, they increased by 8%, compared with a 2% rise in the previous year. Exports of raw materials and semifinished goods showed above-average growth. Shipments of capital goods abroad also rose significantly, whereas consumer goods exports recorded only a modest advance.

Imports also rose strongly

Owing to the economic recovery – and despite higher import prices – imports increased by a full 6.7% compared with 2.5% in the previous year. Particularly strong growth was recorded by imports of raw materials and semifinished goods, which had declined in 1996. Incoming shipments of investment goods also grew, though consumer goods imports declined.

Gross domestic product and components



Real GDP
Private consumption expenditure
Government consumption expenditure
Building investment
Plant and equipment investment
Exports

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

Decline in employment accelerates

The past year saw no improvement on the Swiss labour market, which generally recovers more slowly than output. According to the employment index, the decline in employment actually accelerated: it dropped by 1.6% in total, compared with a 0.6% fall in 1996. In manufacturing it was down by 2.8% and in construction by 3%. The smallest sectoral drop in employment, by 1%, occurred in services. Increased employment was reported by wholesale distribution, information technology, research and development as well as insurance and public administration.

Decline in unemployment overstated

The seasonally-adjusted number of unemployed, which until March had increased to 194,900, fell to 175,100 in December. However, the fall was due in large part to the cantons' job creation programmes, which were introduced in connection with the recent revision of Swiss labour law. Persons participating in work or training programmes were not registered as unemployed. The annual unemployment rate was 5.2% compared with 4.7% in the previous year. The highest regional rate was recorded in the Canton of Ticino at 7.8%, followed by French-speaking Switzerland at 6.9% while German-speaking Switzerland averaged 4.5%. Whereas the unemployment rate was stable in Ticino, it tended to decrease in the other two regions from the second quarter onwards. The number of people out of work for up to six months began to fall in February. In June, a similar turnaround was reported for the category of persons unemployed for between six and twelve months. By contrast, the number of long-term unemployed rose continually up to year-end; in December, this group accounted for 34% of unemployment, compared with 28% in January. The proportion of unemployed foreign nationals in relation to total unemployment was approximately 45%, as in the previous year. The share of women was 42%, as against 58% for men.

Survey results indicate decline in labour force

The deterioration in the Swiss labour market was also reflected in the results of the "SAKE" labour force survey. These showed that in 1997 the number of persons in employment declined by 0.4% to 3,766,000, compared with a 0.5% increase in the previous year. Unlike the employment index, this figure also includes persons working less than 50% of full time. A slight increase in employment was recorded in this "under 50%" category, with a more substantial 5.6% rise in the "50–89% of full time" category. The number of persons in full-time employment, however, was down by 1.6%. Between 1991 and 1997, the share of this group in total employment decreased from 74.6% to 71.7%. The number of women with jobs rose in 1997 by 0.4%, while the number of employed men fell by 1%. The percentage of the total labour force without gainful employment rose from 3.7% to 4.1%, a decline in the rate for women being offset by a rise in the rate for males.

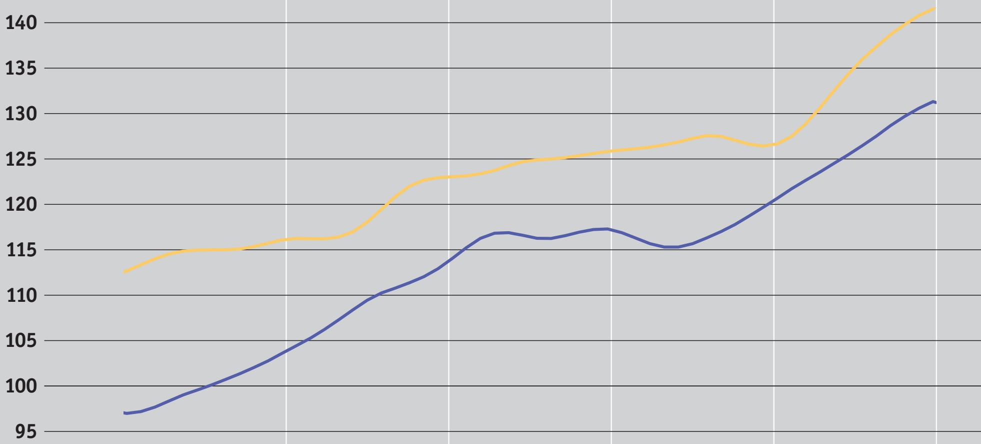
1993 1994 1995 1996 1997

Foreign trade

Imports

Exports

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



Price developments

Consumer prices

Consumer prices for domestic goods

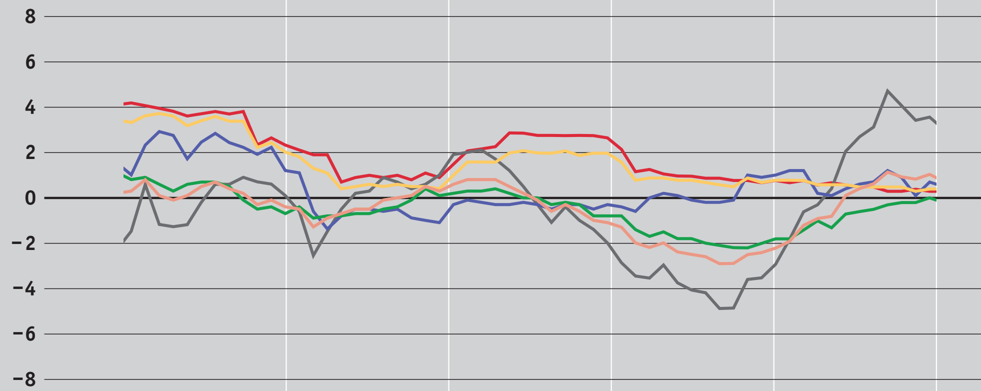
Consumer prices for imported goods

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 (1997: estimate).
Source: Federal Department of Economic Affairs

1993 1994 1995 1996 1997

Rays of hope in the labour market

The development of the "Manpower job offer index" points to a likely future improvement on the labour market. The index, which measures the amount of space occupied by job advertisements in Swiss newspapers, began rising in March 1997 after having fallen steadily since July 1995. Moreover, the decline in employment slowed in the course of the year, and the number of people on short working hours fell markedly.

Employment and unemployment

	1993	1994	1995	1996	1997
Number of persons in employment (SAKE survey) change in percent	−0.8	−1.7	1.5	0.5	−0.4
Full-time employment change in percent	−2.7	−1.4	−0.5	−1.0	−1.8
Full- and part-time employment[1] change in percent	−2.9	−0.4	0.0	−0.6	−1.6
Unemployment rate in percent	4.5	4.7	4.2	4.7	5.2
Number of unemployed thousands	163.1	171.0	153.3	168.6	188.3
Number on short working hours thousands	42.0	22.6	9.9	13.1	6.6
"Manpower job offer index" change in percent	−27.7	27.2	18.4	−19.8	0.6

1 between 50% and 89%

Data not seasonally adjusted
"Manpower job offer index": space occupied by job advertisements in Swiss newspapers
Sources: Federal Statistics Office, Federal Office for Industry and Labour, Manpower

Continued price stability

Inflation, as measured by the national consumer price index, receded again in 1997. It fell from 0.8% in January to 0.4% in December, averaging 0.5% over the year as a whole. This was the smallest rise in the CPI since 1959. The corresponding figure for 1996 was 0.8%.

Prices of services rising more slowly than those of goods

While price rises for goods fluctuated between 0.1% and 1% during the year and averaged out at 0.6%, service-sector inflation declined steadily and averaged 0.5% for the year as a whole. Private-sector services were influenced chiefly by the minimal rent increases, whereas in the public sector costs were driven down mainly by lower charges for postal and communications services.

Exchange-rate-related price rise of imported goods and services

At the consumer level, the cost of foreign goods and services rose by 0.7% on account of the depreciation of the Swiss franc, whereas domestic inflation receded to 0.5%. The combined producer and import price index edged up by 0.1% during the course of the year, as slightly declining producer prices were outweighed by a marked upturn in the cost of imported goods. The rise was particularly pronounced for imported raw materials.

Rising current account surplus

During 1997, the current account surplus grew by Sfr 3.9 billion to Sfr 30.3 billion, i. e. to 8.3% of nominal GDP. While the balance of trade (special trade) showed a surplus of Sfr 0.3 billion, the surplus from services rose by Sfr 2.1 billion to Sfr 17.7 billion. Income from personal travel rose for the first time in three years, and the banks' commissions income soared on account of high stock market turnover. The surplus from employee compensation and investment income grew from Sfr 14.3 billion to Sfr 17.5 billion. This was due to higher net income from direct investment and, above all, to the banks' net interest earnings. The deficit from current transfers decreased slightly to Sfr 4.4 billion.

Current external transactions account balances in billions of Swiss francs

	1993	1994	1995 revised	1996 preliminary	1997 estimated
Goods trade	2.4	2.2	1.0	1.1	−0.5
of which special trade	3.5	3.2	1.8	1.9	0.3
Services trade	16.8	15.6	15.2	15.6	17.7
of which personal travel	2.4	2.7	2.4	1.8	1.8
Employee compensation and investment income	13.5	10.7	13.9	14.3	17.5
of which investment income	20.7	17.6	20.8	21.3	24.2
Current transfers	−4.0	−4.7	−4.8	−4.7	−4.4
Total current account	28.8	23.9	25.3	26.4	30.3

2.2 Fiscal policy

Federal deficit slightly below the budget

In 1997, the federal deficit amounted to Sfr 5.3 billion, i.e. 1.2% of GDP. This was Sfr 0.5 billion below the budget figure. For the first time, credits to the Swiss Federal Railways were included in the calculation while surpluses in the federal pension fund were excluded. Restated on the same basis, the previous year's deficit comes to Sfr 6.4 billion instead of Sfr 4.4 billion. Using the new accounting method, the 1997 deficit is thus Sfr 1.1 billion lower than in the previous year. Whereas revenues notably from direct federal tax and from stamp duty were higher than budgeted, expenditure on loans to the unemployment insurance fund were (as in the previous year) higher than expected. A deficit of Sfr 7.6 billion or 1.7% of GDP is budgeted for 1998.

No improvement in cantonal finances

Preliminary data put the cantons' aggregate deficit at Sfr 3.1 billion, i.e. roughly in line with the budget figure. It was Sfr 0.9 billion higher than in 1996. Most cantons were expecting personnel and transfer expenditures to remain stable and outlays on goods and services as well as for interest payments to fall, but were predicting higher revenues from fees. On the other hand, actual loans to the unemployment insurance fund will probably exceed the planned credits by Sfr 0.9 billion. Moreover, many cantons expect corporate tax revenues to fall below budget.

Balanced aggregate communal accounts

As in the previous year, the communes (municipalities) are likely to post in aggregate more or less balanced accounts for 1997. A deficit of Sfr 0.5 billion had been forecast. While the smaller cities and towns generally reported balanced results or even surpluses, the financial situation of the large cities deteriorated markedly.

Further rise in indebtedness

The debt ratio (i. e. debt as a percentage of GDP) for the Confederation, cantons and communes rose during 1997 from 48% to 49% (the corresponding figure for 1990 had stood at 31%). Almost half of the total was attributable to the Federal Government, about 30% to the cantons and 20% to the communes.

Cut in the federal deficit urgently needed

The development of government finances over the last few years shows that the cantons and communes have been more successful than the Federal Government in cutting their deficits. As a result, government debt at the federal level has risen by a particularly wide margin. Unless the annual deficit is reduced, the deterioration in the Confederation's financial position could undermine confidence in the government's capacity for action. Even if the emerging economic recovery were to result in higher tax revenues and offer relief on the income side, the defects in the structure of the federal budget system still require urgent attention. According to estimates published by the International Monetary Fund, this structural component accounts for about half of Switzerland's total government deficit.

2.3 Financial markets

Low capital and money market rates

The steady slide in long-term interest rates – which had begun in mid-1996 – continued in the first half of 1997. In June, the average yield on Confederation bonds dropped to 3.1%. It initially rose slightly in the second half, but by December it had fallen back to the June figure. Short-term rates followed a similar path: the yield on three-month money market debt register claims issued by the Confederation fell to 1.2% by June. They firmed up in the second half of the year but dropped back to 1.4% by December.

Swiss franc lower than in the previous year

In export-weighted real terms, the Swiss franc weakened by 6.9% on average in 1997 compared with a 3.2% decline a year earlier. In the course of the year, the franc's real exchange rate firmed against the main continental European currencies. It initially softened against the dollar, sterling and the yen but firmed again in the fourth quarter.

Rise in net capital market borrowing

Net borrowing on the Swiss capital market (i. e. issues of bonds and shares less redemptions) rose substantially from the previous year's depressed level. However, the total of Sfr 28.8 billion was still well below the average for the last few years. Net borrowing by domestic debtors came to Sfr 6.7 billion, versus Sfr 0.4 billion in the previous year. Owing mainly to lower redemptions, the net issuing volume of domestic bonds increased by Sfr 0.6 billion to Sfr 6.8 billion year-on-year. Where domestic share issues are concerned, repurchases exceeded new issues by Sfr 0.1 billion – in the previous year, too, buybacks had exceeded flotations. Foreign borrowers tapped the bond market for Sfr 22.1 billion in net terms, roughly in line with the average for the last few years but considerably more than in 1996.

Big advances in share prices

The Swiss Performance Index (SPI) soared by 55% during 1997, easily exceeding the already sizeable gains in share prices recorded in the two preceding years. After sharp price rises in the first half of 1997, the SPI exhibited wide fluctuations but little net change in the second half.

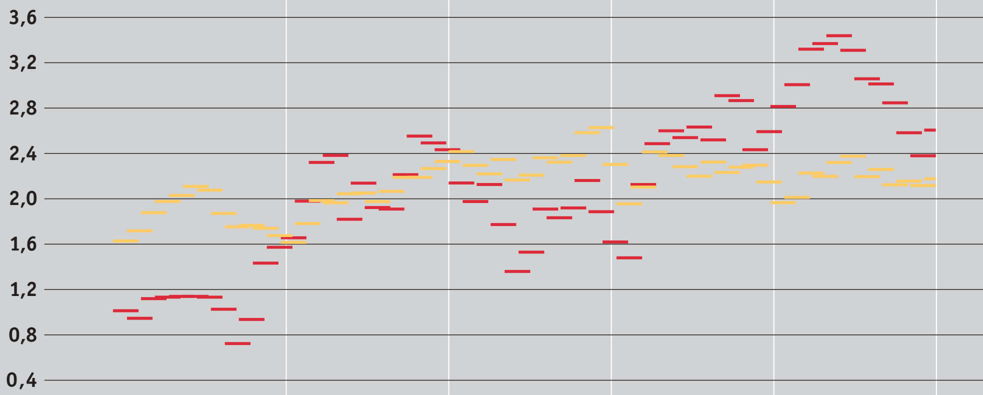
1993 1994 1995 1996 1997

Spreads for long-term interest rates

Germany – Switzerland

United States – Switzerland

Spread in percentage points.
Source: BIS



Swiss franc real exchange rates

Total (15 countries)

Dollar

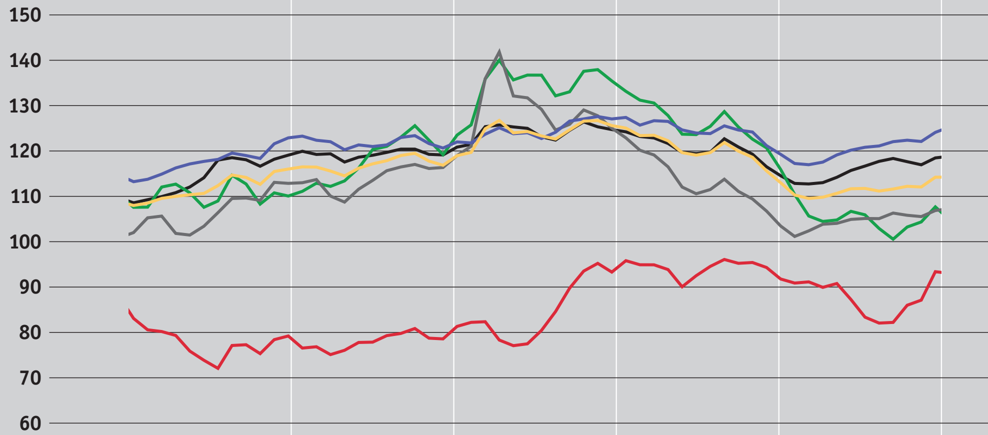
D-Mark

Yen

French franc

Lira

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



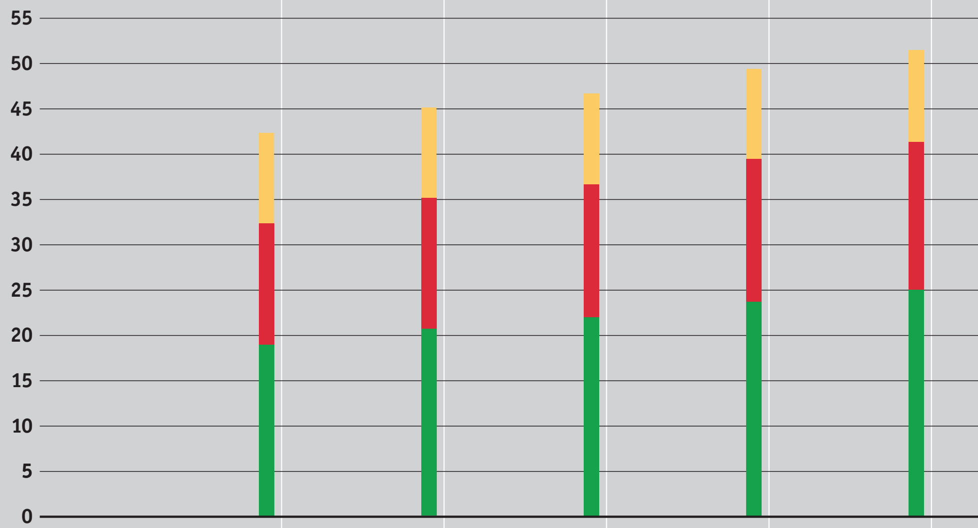
Public-sector indebtedness

Communes

Cantons

Confederation

In percent of GDP.
(1997: estimate).
Source: Federal Department of Economic Affairs



1993 1994 1995 1996 1997

Banks' domestic business stagnated while foreign business grew strongly

Owing to the generally sluggish domestic economy, the banks saw little growth in domestic lending. By contrast, loans to foreign customers expanded markedly. At the same time, the banks' financial assets rose vigorously and by year-end accounted for approximately 40% of the balance sheet total. Overall, the aggregate balance sheet total of the Swiss banks grew substantially by almost 20%, though part of this large rise was due to exchange rate changes.

Mergers in financial services industry

In Switzerland, as in other countries, growing international competition has given rise to mergers between large financial services companies. At the beginning of December, the Credit Suisse Group merged with Winterthur Insurance. The same month, Union Bank of Switzerland and Swiss Bank Corporation announced that they would be merging to form the United Bank of Switzerland, one of the world's largest financial institutions.

Improved annual results

The Swiss banks reported better results than in the preceding years, when loan loss provisions had featured prominently in their financial statements. The "big three", as well as the banks specialising in asset management such as private banks and foreign banks, posted particularly large increases in their operating results. This was due in large part to commissions from securities trading and to earnings from derivative transactions.

Selected bank interest rates

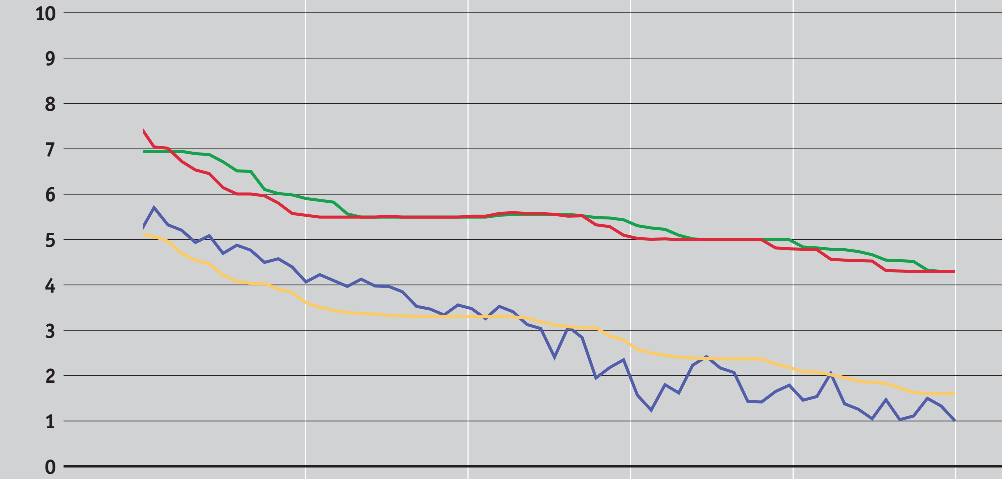
Existing mortgages
at cantonal banks

New mortgages
at cantonal banks

Savings deposits
at cantonal banks

Three-month time deposits
at big banks

Quarterly averages,
percent per annum



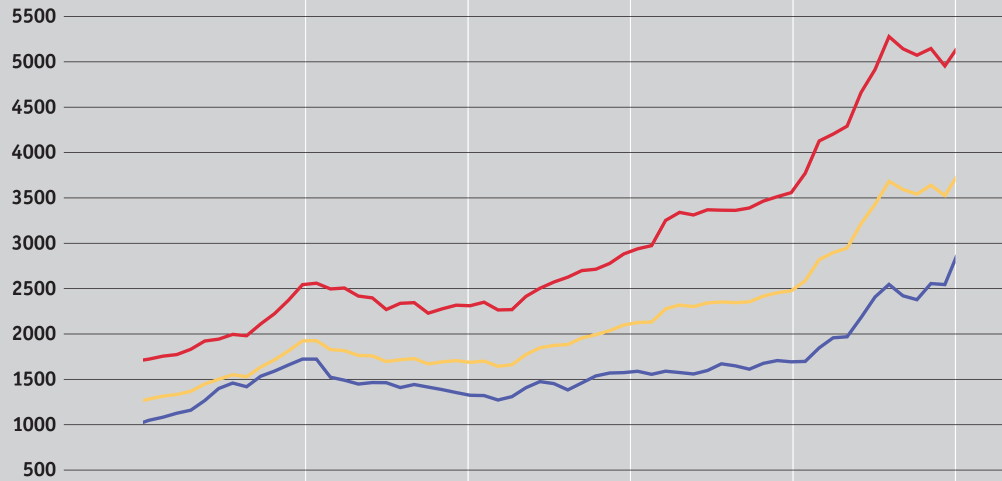
Share prices

Total

Banks

Industry

Swiss Performance Index.
Source: Swiss Stock Exchange



1 Concept

Price stability and full use of production potential as goals of monetary policy

The National Bank has a mandate to conduct a monetary policy serving the overall interests of the country. Its monetary policy aims at maintaining price stability 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. An excessive expansion of the supply of money would trigger an excessive demand for goods and services. 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 output and possibly a decline in the price level.

Taking into account cyclical fluctuations

Price stability as a goal does not imply that we do not take the state of economic activity into account. Our policy helps to smooth cyclical fluctuations. If economic capacity is not fully utilised, a monetary policy oriented to potential growth will lead to interest rate reductions. It 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 dampens 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 any damage to the real economy as small as possible.

Distortion of the monetary base

In 1997 we encountered considerable difficulties in laying down and assessing our monetary policy. The monetary base, which comprises banknote circulation and the sight deposits of the commercial banks at the Swiss National Bank, expanded much more markedly than expected. We were therefore no longer able to rely on the medium-term target path which we had fixed for the monetary base. The monetary base had already exceeded this medium-term target path at the end of 1996, and the gap widened in 1997. Our monetary policy was, however, not nearly as expansionary as the development of the monetary base seemed to suggest (cf. pp. 31f.).

Increased reference to the broadly defined monetary aggregates, notably the money stock M_3

In view of these imponderables, we increasingly refer to the broadly defined monetary aggregates as additional indicators. These include 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) and M_3 (money stock M_2 plus time deposits). The aggregate M_3 is of primary importance to us since it is particularly relevant to the price level. As a rule, an excessive expansion of the money stock M_3 is followed, approximately three years later, by an acceleration in inflation. In contrast to numerous other industrial countries, where financial innovations and new payment techniques considerably diminish the indicator value of the monetary aggregates, a clear connection still exists in Switzerland between the development of the money stock and of prices. We therefore continue to aim at an expansion of the money stock in conformity with the growth of the production potential of an estimated 2% per annum and with price stability, defined as an annual rise of 1% in consumer prices.

Further indicators taken into account

The growth of the monetary aggregates sheds light mainly on the medium- and long-term price development. In the short term, the price level also reacts to other influences such as strong fluctuations of exchange rates and energy prices as well as the course of economic activity. Whenever such effects trigger a persistent inflationary or deflationary process, we have to take counter-measures. In laying down monetary policy, we therefore take into account the development of other factors, notably exchange rates and business cycle indicators, in addition to the monetary aggregates.

Fundamentals of monetary operations

We regulate the supply of money by influencing the amount of liquidity provided to the commercial banks, with a corresponding impact on money market rates. The commercial banks' liquidity consists largely of sight deposits held by them with the National Bank. By changing the supply of such sight deposits, we trigger interest rate adjustments by market participants in conformity with our monetary policy intentions. In the course of time, interest rate adjustments influence banknote circulation and the other monetary aggregates. Should any interest rate fluctuations not justified in a monetary policy context arise, we can exert a direct influence on the call money rate.

Implementation of monetary operations

Supply of 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 to statutory liquidity requirements and 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 provide for basic liquidity requirements by means of foreign exchange swaps – Swiss francs against dollars with maturities ranging from 1–12 months – which, as a rule, are renewed after repayment. For supplying 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.

Securities lending and repurchase agreements as a new open market instrument

When the revised National Bank Law (Art. 14, Section 2) entered into force on 1 November 1997, securities lending and repurchase agreements (repos) were explicitly admitted as an open market instrument. Such agreements imply the purchase or sale of securities combined with a simultaneous forward sale or repurchase. With the repo a flexible domestic instrument is added to the range of monetary policy instruments; moreover, this offers advantages in steering risks. In cooperation with the banks and the National Bank, the Swiss Securities Clearing Corporation (SEGA) has prepared the way for the establishment of a Swiss repo market.

Instruments for money market operations in Sfr billions

	1996		1997	
	Holding annual average	Turnover	Holding annual average	Turnover
Foreign exchange swaps with maturities				
up to 1 month	0.1	0.5	0.5	2.1
over 1 month to 3 months	5.0	10.2	6.0	15.1
over 3 months to 12 months	3.7	25.9	1.1	14.7
Total	8.8	36.6	7.6	31.9
Money market debt register claims				
Swaps	0.9	78.9	0.9	79.8
Purchases and sales	0.8	4.0	0.6	2.8
Total	1.7	82.9	1.5	82.6
Federal Government funds				
New investments	3.9	74.7	4.8	77.8
Onward placements	2.2	62.2	4.3	79.3

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. We keep this rate constantly 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

Announcement of a continued generous monetary policy

At the end of 1996 we had announced that we would continue implementing a generous monetary policy. This happened against the background of an unfavourable economic situation and the possible implications of European monetary integration. We also referred to the strong growth of the money stock and emphasised the associated risks for price stability in the medium term.

Abundant supply of money

In 1997, in addition to the development of the money stock aggregates, we paid special attention to the exchange rates and the course of economic activity. Until late summer we kept the supply of money abundant in an endeavour to prevent a rise in money market rates and thus to counteract an appreciation of the Swiss franc. When the signs of a clear economic revival increased the question arose whether our generous monetary policy was still appropriate.

We aimed at normalising the situation and therefore permitted the rise in money market rates that set in after the German Bundesbank had lifted the repo rate in October. We took care, however, that the money market rates remained below 2%. Given the higher valuation of the Swiss franc in the wake of the financial crisis in East Asia, we again relaxed monetary policy in November. Money market rates subsequently declined.

Surprisingly strong expansion of the monetary base

While economic growth and inflation largely conformed to our expectations in 1997, the monetary base expanded more markedly than anticipated. This was partly due to the decline in interest rates on savings accounts, which fell from an average of just over 2% at the beginning of the year to 1.6% in October, thereby stimulating the demand for banknotes. To this was added a massive increase in the circulation of one-thousand-franc notes for reasons largely unknown. Since the banks' sight deposit holdings at the National Bank also rose somewhat more strongly than initially envisaged, the seasonally-adjusted monetary base expanded by 3.1% between the fourth quarter of 1996 and the fourth quarter of 1997, exceeding its medium-term target path by 3.6%.

Overstated degree of monetary expansion

The shift in the demand for banknotes led us to assume that the rise in the monetary base overstated the degree of monetary expansion. Similar shifts in demand had already been observed in 1996. These were due mainly to the endeavours of some banks to switch their liquid funds from postal cheque accounts to sight deposit accounts at the National Bank. The shifts which occurred in 1996 and 1997 explain to a considerable extent the deviation of the monetary base from the medium-term target path.

Normalisation in growth of the broadly defined monetary aggregates

Due to the uncertainties with which the interpretation of the development of the monetary base in the past two years was fraught, we set our sights increasingly on the broadly defined monetary aggregates, notably on M_3. At the end of 1995, the growth of M_3 had clearly accelerated as a result of our generous monetary policy. The strong expansion of M_3 gradually gave way to normal conditions in the course of 1997. In the fourth quarter, M3 exceeded the previous year's level by 3.5%. This growth rate is in a range which is in conformity with price stability in the long run.

Monetary policy expected to remain unchanged in 1998

No tightening of monetary policy is envisaged in 1998. The supply of money will be expanded as required to permit continued economic recovery without threatening price stability. Our assumption is that real gross domestic product will grow by approximately 2%, with the inflation rate amounting to around 1%. If growth and inflation are in keeping with our expectations, the demand for base money is likely to show a modest rise only and to move parallel to the target path. For the time being, therefore, there is no need to increase interest rates. If economic growth turned out to be distinctly slower than expected, interest rates would have to fall in order to prevent the money supply from expanding to a considerably lesser degree. Conversely, an unexpectedly strong economic recovery is likely to lead to a rise in interest rates.

Seasonally-adjusted monetary base

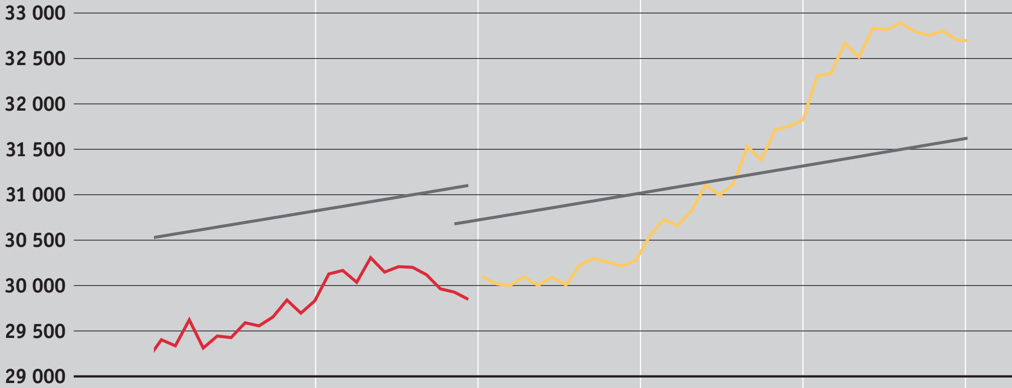
Monetary base until December 1994

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.



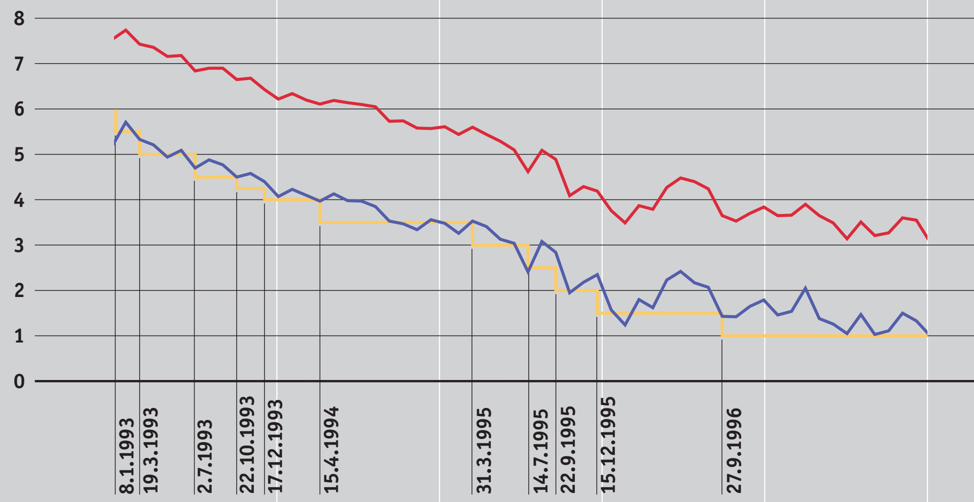
Discount and Lombard rates

Discount rate

Lombard rate

Call money rate

In percent



Beginning of the third stage of the Economic and Monetary Union – a factor of uncertainty

In spring 1998, the EU will decide on the beginning and the participants of the third stage of Economic and Monetary Union. It is conceivable that the transition to the third stage will trigger exchange rate fluctuations that are undesirable from the point of view of the economy as a whole. We would use the monetary means at our disposal to counter such fluctuations.

3 Partial revision of the National Bank Law

Message of the Federal Council

On 17 March 1997, the Federal Council submitted a message concerning the partial revision of the National Bank Law (NBL) to Parliament. The amendment to the law is based on the recommendations which a joint working group of the Federal Department of Finance and the National Bank formulated in December 1996 (cf. 89th Annual Report, pp. 41f.). It was designed as an immediate measure with the aim of granting the National Bank – on the present constitutional basis (Art. 39 Federal Constitution) – greater flexibility in investing its currency reserves more profitably by benefiting from innovations in the financial markets.

Changes in the scope of operations of the National Bank

This necessitated a number of changes in the scope of operations of the National Bank (Art. 14 NBL). Thus the statutory maximum maturity of twelve months for easily marketable debt certificates of foreign governments, international organisations and foreign banks was abolished in order to permit the National Bank to considerably extend the average maturity of foreign exchange reserves. Securities lending and repurchase agreements were explicitly included in the scope of operations of the National Bank. The National Bank was empowered to conclude derivatives transactions for the purpose of steering the market risks relating to foreign exchange reserves. It was furthermore authorised to actively administer its gold holdings by engaging in gold lending operations. Finally, the National Bank was exempted from direct federal tax (Art. 12 NBL).

Changed coverage for banknote circulation

The legal provisions specifying the constitutional coverage for banknotes by gold and short-term assets (Art. 39, para 7 Federal Constitution) were adapted to the changed conditions. The maximum maturity of foreign currency assets which may serve as cover for banknote circulation was brought in line with the maximum maturity applying to domestic assets and fixed at two years (Art. 19, para 1 NBL). As in gold lending the National Bank would run the risk of no longer complying with the coverage rules during the lending period, the gold coverage for banknote circulation was lowered from 40 percent to 25 percent (Art. 19, para 2 NBL).

Effective on 1 November 1997

The bill for the partial revision of the National Bank Law was passed by the National Council on 12 June 1997 and by the Council of States on 20 June 1997. The amendments to the Law became effective on 1 November 1997, after the deadline for the referendum had expired. The new legal basis for the administration of foreign exchange reserves should enable the National Bank to achieve considerably higher earnings in future.

1993 1994 1995 1996 1997

Monetary aggregates

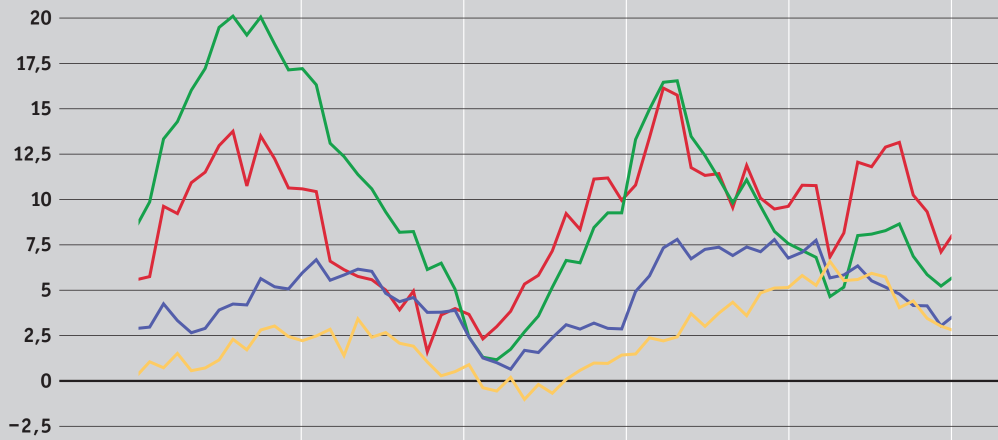
Monetary base

M1

M2

M3

Percentage change from
previous year's level

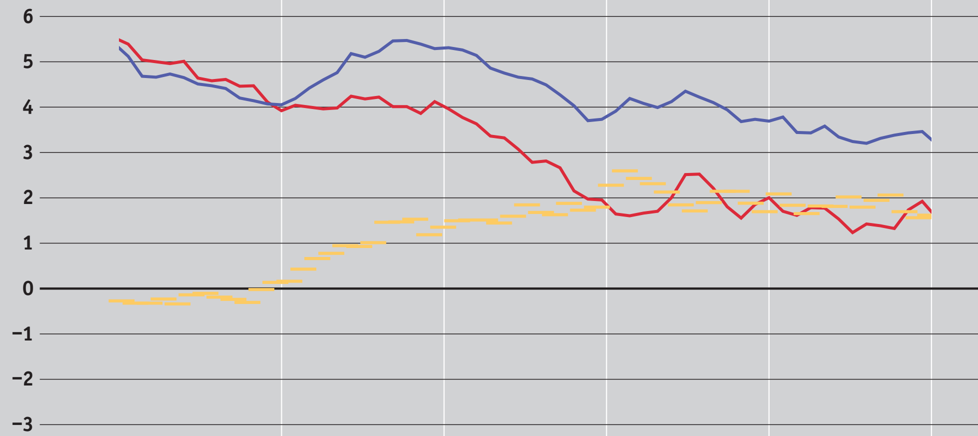


Money and capital market rates

Euromarket rate on three-month
Swiss franc deposits, percent per annum

Yield on federal bonds,
percent per annum

Differential in
percentage points



1993 1994 1995 1996 1997

4 Reform of the monetary constitution

Mandate to a group of experts

Originally, the revision of the monetary constitution had been planned within the context of the overall reform of the Federal Constitution (cf. 89th Annual Report, p. 36). Two parliamentary initiatives, however, induced the Federal Council to expedite the reform of the coinage clause and the central bank clause (Arts. 38 and 39 Federal Constitution). By order of 18 April 1997, the head of the Federal Department of Finance set up a group of experts for the "Reform of the monetary order". The group of experts was commissioned to draft a message for a new monetary constitution and to study the statutory problems arising from the severance of the link between the Swiss franc and gold, giving due consideration to the company law regulations applying to the National Bank as well as to its organisational structure.

Report and draft of an article "Money and currency" in the Constitution

The group of experts fulfilled the first part of its mandate by drawing up a report which was presented to the public on 24 October 1997. The draft of a new article on "Money and currency" in the Constitution severs the legal link between the Swiss franc and gold, a tie that in actual practice has long since lost its relevance. The group of experts further suggested that the central bank's mandate, which has been defined in rather broad terms, should be specified in the Constitution by obligating the National Bank to orient its policy to the primary goal of price stability. As far as is possible without jeopardising this goal, the National Bank is to support the general economic policy of the government. The group of experts pointed out that the primary goal of price stability makes it binding upon the National Bank to combat inflation as well as to prevent deflation. It therefore holds the view that the priority of price stability does not constitute a downgrading of growth and employment targets under constitutional law. The clear obligation imposed on the central bank to maintain the purchasing power of money and the embodiment of the National Bank's independence in the Constitution are meant as an appropriate equivalent following the abolition of the gold standard. The group of experts took into account the general experience that central banks subject to direct state influence are usually less successful in preventing the inflationary financing of government deficits by means of the note press than central banks that are independent in the exercise of their mandate.

Release of gold reserves

In compliance with its mandate, the group of experts also investigated what level of monetary reserves was required for conducting monetary policy if the gold reserves, which have hitherto been immobilised, are to become normal and marketable central bank assets. It came to the conclusion that the required amount of monetary reserves depends principally on the size of the economy and the degree of a country's international involvement. A comparison of the National Bank's current monetary reserves with those of central banks in other countries similar to Switzerland in structure and size showed that the unhedged foreign exchange reserves held by the National Bank seem adequate in relation to gross domestic product. In order to make an effective contribution to the stability of the Swiss financial centre, the group of experts considered international reserves of at least Sfr 10 billion, over and above the unhedged foreign exchange reserves, to be necessary. Based on a cautious valuation, this would be equivalent to approximately 1,200 tonnes of gold. The group of experts proposed that the National Bank release 1,400 tonnes of fine gold from its stocks in order to make this national wealth available for other public purposes. This recommendation was made in an endeavour to avoid conflicts of interest between the National Bank as monetary authority, on the one hand, and as asset manager of the nation, on the other hand.

Comments of the Department of Finance and the National Bank

In his comments of 24 October 1997, the head of the Federal Department of Finance acknowledged the experts' report as a comprehensive assessment of monetary key questions. In agreement with the Governing Board of the National Bank, he announced a shift of emphasis in two points: The Department of Finance was planning to submit a proposal to the Federal Council for a broader definition of the central bank's mandate to include other economic policy goals in addition to the primary goal of price stability. With respect to a separation of surplus gold reserves, it intends, in principle, to follow the original concept which initially only provides for the possibility of releasing gold to the countervalue of Sfr 7 billion for financing a Swiss Foundation for Solidarity. The Department of Finance also announced that it would submit a message for a new monetary article to the Federal Council with all due speed.

Other central bank functions

1 Investment of assets

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

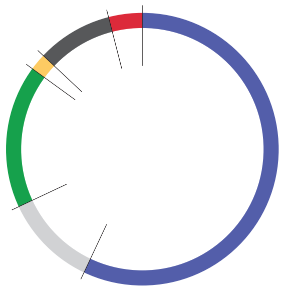
Part of the National Bank's assets serve directly for implementing monetary policy. We acquire assets in order to supply the economy with base money. These assets represent the countervalue to the monetary base, thus promoting confidence in the value of our currency. For controlling the monetary base,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

The role of unhedged foreign exchange reserves and gold holdings

Unhedged foreign exchange reserves are held mainly in key currencies. They represent an instrument for intervening in the market in the event of a Swiss franc weakness. 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 foreign exchange reserves, our gold holdings cannot be used for interventions. For the time being, the Swiss franc is still linked to gold by law. This means that we can only buy and sell gold at the official price, which lies distinctly below the market price. Nevertheless, both gold holdings and 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 even in emergencies.

Increased leeway for investing our international reserves

The National Bank Law specifies both the type of assets we may acquire as well as the instruments we may employ for their management. Within the limits set by legal provisions and our monetary policy mandate, it is our endeavour to manage our assets as profitably as possible. The revision of the National Bank Law which became effective on 1 November 1997 has increased our leeway for managing our gold and foreign exchange reserves. We may now invest our foreign exchange reserves in more markets and currencies, and therefore more profitably in the long term, without overall having to sustain greater fluctuations in earnings. Moreover, the revised law enables us to employ a part of our gold reserves for gold lending.



Structure of National Bank assets
in percent

Unhedged foreign exch. reserves 57

Foreign exchange swaps 11

Gold 17

Other domestic assets 2

Domestic financial assets 9

Other foreign currency assets 4

Total: Sfr 69.9 billion.
Balance sheet values, ann. average

1.2 Foreign exchange investments

Investment policy

We invest our foreign exchange reserves in safe and liquid securities, and a small proportion in time deposits at prime foreign banks. This enables us, in case of need, to sell the investments at short notice and without incurring undue losses. We are permitted by the National Bank Law to acquire easily marketable debt certificates of foreign governments, international organisations and foreign banks. When the revised National Bank Law entered into force, we began restructuring our foreign exchange investments in line with the new target portfolio. Previously, the residual maturity of any investment was not permitted to exceed twelve months.

Decision-making process concerning investments

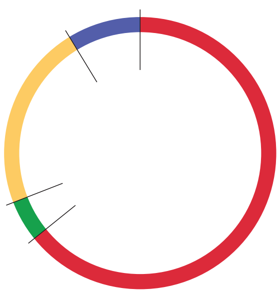
We adapted the decision-making process for investments to the new legal framework. The Governing Board issues investment policy guidelines in conformity with which the investment committee determines currency allocation and the interest rate risk. Our portfolio managers are guided by the reference portfolios for each individual currency. 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 part of our dollar investments.

Risk control

Concurrently with the expansion of the leeway for investment we also improved our risk control. The market and credit risks incurred on foreign exchange investments are constantly monitored. Internal credit limits take due account of the assessments of creditworthiness by reputed rating organisations.

Investment activity and results

Our foreign exchange reserves have in the past been held in the currencies dollars, D-marks and yen. Since the revised National Bank Law became effective, we have also made investments in Dutch guilders. Compared to the previous year, the D-mark share was increased markedly to the detriment of the predominant dollar investments. Approximately 69% of all investments are accounted for by government securities or by securities with indirect government guarantee. The average duration of the dollar and D-mark portfolios before the revision of the National Bank Law was 4.5 months, and 3 months in the case of yen portfolios. Until the end of 1997, the duration of the entire foreign exchange reserves was extended to approximately one year. The yields achieved amounted to 5.8% for dollar investments, 3.2% for D-mark investments and 0.2% for investments in the yen. Due to the restriction on residual maturities until 1 November 1997 we



Foreign exchange reserves by debtor category
in percent

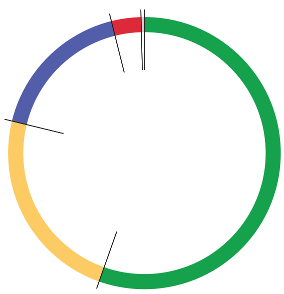
Government securities 64

Securities with indirect government guarantee 5

Monetary institutions 22

Remaining money market 9

Total: Sfr 49.6 billion.
Annual average



Foreign exchange reserves by currency
in percent

Dollar unhedged 55

Dollar hedged 23

D-mark 17

Yen 4

Dutch guilder 1

Total: Sfr 49.6 billion.
Annual average

only benefited partially from the decline in interest rates in the first half-year. Leaving the exchange rate changes out of account, the overall yield on foreign exchange reserves stood at 5.2%, equivalent to gross earnings of approximately Sfr 2.5 billion.

1.3 Investment of domestic securities

Investment policy

Since the early nineteen-eighties we have been expanding our portfolio of domestic bonds by Sfr 100 million annually. We manage our bond holdings 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 and check its quality based on comparative indices. Purchases are spread evenly over the year. We are only authorised to buy public sector bonds, mortgage bonds and marketable bonds of domestic banks. Legally admitted debtor categories are considered more or less in relation to their market capitalisation. We avoid a concentration of investments on individual debtors by means of limits.

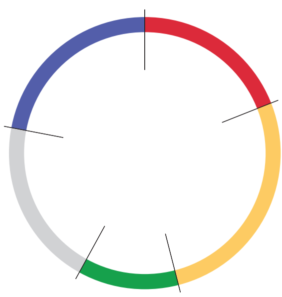
Investment activity and results

At the end of 1997 the market value of the portfolio amounted to Sfr 4,941 million, compared to Sfr 4,822 million in the previous year. The duration decreased from 4.3 to 3.8 years. Interest earnings on the portfolio totalled Sfr 254 million. Due to declining interest rates we achieved a price gain of Sfr 9 million. The yield on the portfolio amounts to 5.9%, which is equivalent to earnings of Sfr 263 million.

1.4 Gold lending

Investment policy

Since the revised National Bank Law entered into force we have engaged in gold lending business. In order not to disrupt the price structure in a relatively tight market, we exercise great restraint in building up our positions and only use a modest proportion of our gold holdings for lending. Our partners are first-class domestic and foreign banks and securities houses. They pay us interest for the temporary loan of gold. We control the risk by means of credit limits and by restricting the transaction periods.



Domestic securities by debtor category
in percent

Confederation 19

Cantons 27

Communes 12

Mortgage bonds 20

Banks 22

Total: Sfr 4.8 billion.
Annual average

Investment activity and results

At the end of 1997 lending transactions covered 99 tonnes of gold. The average residual maturity of all gold lending transactions concluded amounted to approximately eight months. Between the start of this line of business and year-end we achieved earnings totalling Sfr 2.6 million, i. e. a yield per annum of 2.2%.

2 Payment transactions

2.1 Basis

Overview

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

Developments relating to payment flows

Over the last few years, many of the organisations involved in cash transactions with the National Bank (such as the commercial banks, the postal service and security transport companies) have been rationalising their cash handling processes. Commercial banks with networks of branches are increasingly settling cash positions within their own organisations. Moreover, the banks and the postal service are tending to outsource an ever larger number of cash handling tasks to security transport firms. At the same time, flows of cash within the National Bank's network of branches are becoming more centralised. Furthermore, the fees charged by banks for cash deposits and withdrawals are causing cash transactions to shift away from the banks.

Developments relating to cashless payments

Since 1987, the Swiss National Bank – together with the Telekurs Group – has been operating 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. These RTGS systems are already in use in some countries, while other countries are in the course of implementing them. The banks use SIC for handling their large-value payment transactions as well as part of their bulk payments. SIC is 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. Since August 1997, the same principle has been applied to the settlement of SOFFEX transactions. The Swiss banks have recently announced the founding of a special clearing bank in Frankfurt: the Swiss Euro Clearing Bank (SECB). This will facilitate the processing of euro transactions similar to those performed in Swiss francs by SIC.

Participation in other payments services

The other services provided as part of the banks' payment transactions – data carrier exchange (DTA), direct debiting (LSV) and cheque clearing – are net settlement systems. Interbank payments originating from cash withdrawals at Bancomat ATMs, ec-Direct EFT/POS transactions and (since July 1997) purchases with "CASH" prepaid cards are also settled on a net basis. 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 postal service is used mainly for bulk payments. The National Bank's postal service accounts provide a link between the payment systems of the banks and that of the postal service.

2.2 Provision of currency

Currency in circulation

In 1997, the average banknote circulation was Sfr 29 billion, i.e. 2.8% more than in 1996. At Sfr 2.1 billion, coins in circulation equalled the previous year's figure.

Manufacture and disposal of banknotes

The National Bank obtained 140 million freshly printed banknotes with a total face value of Sfr 47.8 billion from Orell Füssli Graphic Arts Ltd and added them to its stock. 142.5 million damaged or recalled notes with a face value of Sfr 19.2 billion were destroyed.

Currency turnover

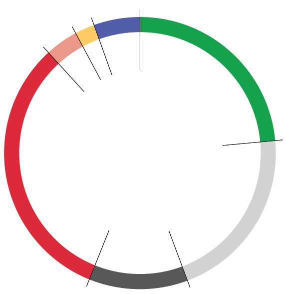
In 1997 the National Bank's branches registered a 6.1% increase in currency turnover in value terms, bringing the total to Sfr 153 billion. The branches received approximately 450 million notes (7.2% more than in 1996) and checked them for authenticity, quality and quantity.

New 10- and 200-franc notes

On 8 April 1997 the National Bank issued the new 10-franc note, the third in its new series of banknotes. This was followed on 1 October 1997 by the 200-franc note. The 10-franc note is dedicated to the architect and painter Charles Edouard Jeanneret, better known as Le Corbusier. The 200-franc note, which takes the place of the 500-franc note, depicts the writer Charles Ferdinand Ramuz. As a new security feature, a "perforated" image of the denomination "200" appears when the note is held against the light.

Completion of the new bank-note series by autumn 1998

The new 1000-franc note is appearing in the spring and the new 100-franc note in autumn 1998. The banknotes from the old series – 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.



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

10s 60

20s 53

50s 30

100s 82

200s* 10

500s 6

1000s 14

Annual average

*Issue in October 1997;
Average Oct. – Dec.

2.3 SIC payment transactions

Strong growth in SIC payments

At the end of 1997 there were 222 participants in SIC (end-1996: 218). During the year under review, an average of about 480,000 payments per day totalling approximately Sfr 182 billion were processed. About every two days, therefore, a volume roughly equivalent to Switzerland's annual gross national product is handled by the system.

Development of payment flows[1]

	1993	1994	1995	1996	1997
Transactions per day (thousands)					
Average SIC	263	349	382	427	480
Average SECOM	–	–	13	20	39
Maximum SIC	580	925	1 154	1 156	1 303
Maximum SECOM	–	–	24	40	89
Volume per day (Sfr billions)					
Average SIC	133	131	128	150	182
Average SECOM	–	–	3	5	7
Maximum SIC	217	270	257	290	305
Maximum SECOM	–	–	7	10	14
Frequency of turnover[2]					
Average	63	61	57	58	58
Maximum	113	121	112	90	97

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 the large-scale payments, even very small sums are processed. 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 96% of the total volume but for less than 3% of the number of payments.

Daily payments flow percent of total for each category

	1993	1994	1995	1996	1997
Number of payments					
Sfr 1–4 999	81.2	84.9	83.0	82.7	80.6
Sfr 5 000–999 999	15.1	12.3	14.5	14.8	17.0
Sfr 1 000 000 and over	3.7	2.8	2.5	2.5	2.4
Amount					
Sfr 1–4 999	0.2	0.2	0.2	0.2	0.2
Sfr 5 000–999 999	2.2	2.2	3.3	3.3	3.6
Sfr 1 000 000 and over	97.6	97.6	96.5	96.5	96.2

3 Statistical tasks

Basis

The National Bank collects from banks and other enterprises 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 business enterprises on their foreign activities, notably direct investment, is reflected in the balance of payments. We are also responsible for compiling investment fund statistics and collect 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.

New data

In close cooperation with the banks, we developed a data base concerning the securities transactions of their customers. This should help us to gain an overview of the extent and composition of the securities portfolios managed by the banks. In 1997, the computation of interest risks was added to the statement on capital and reserves, which had been revised and considerably expanded in 1995. Within the context of the balance of payments statistics, we planned a new survey on the range of services offered by the banks.

4 Services on behalf of the Confederation

Basis

The National Bank acts as the bank of 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 1997 we arranged 53 issues of money market debt register claims (MMDRC) and 7 bond issues on behalf of the Confederation. MMDRCs to the total amount of Sfr 89 billion were subscribed, and Sfr 49.8 billion were allocated. Bonds were subscribed for a total amount of Sfr 7 billion, of which Sfr 3.7 billion were allocated.

Federal bonds and money market debt register claims

	1993	1994	1995	1996	1997
Number of issues[1]					
Federal bonds	16	16	7	10	7
MMDRC	24	52	52	52	53
Total subscribed in billions of francs					
Federal bonds[2]	14.2	9.9	8.2	10.6	7.0
MMDRC	59.0	71.8	94.7	103.1	89.0
Total allocated in billions of francs					
Federal bonds[2]	8.6	6.8	3.5	4.5	3.7
MMDRC	34.5	46.7	47.1	49.9	49.8
Outstanding at year-end in billions of francs					
Federal bonds	24.1	28.6	29.8	33.8	37.5
MMDRC	11.3	12.7	14.1	14.7	14.1

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 to third parties both in Switzerland and abroad up to the amount of the Confederation's sight balances. Federal agencies cover their cash requirements through withdrawals from the National Bank. The surplus liquid funds of the Confederation – notably those of the postal service 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

Capital adequacy rules for market risks: revision of the Banking Ordinance and issue of guidelines by the Banking Commission

After the Basle Committee on Banking Supervision had passed the amendment to the capital adequacy agreement to include market risks in December 1995, a mixed working group under the chairmanship of the Federal Banking Commission, in which the Swiss National Bank was also represented, began translating these international minimum standards into Swiss law. The amended capital adequacy agreement for the first time provides the banks with the option of choosing between a standard procedure and models of their own for measuring a capital adequacy requirement. The draft submitted consisting of the revised capital adequacy rules of the Banking Ordinance and the relevant guidelines of the Banking Commission was submitted to the interested parties for comment in July 1997. The amended capital adequacy rules became effective on 31 December.

Comments of the National Bank

In its comments of September 1997, the National Bank welcomed the endeavours to avert potential losses of banks and securities dealers due to changes in market prices by means of adequate risk-weighted capital ratios. It regretted, however, that the implementation of the amended Basle capital adequacy agreement will, on the whole, probably lead to a lower level of capital and reserves. At the same time, it took account of the fact that due to international competition national law could hardly go beyond the minimum standards of the Basle Committee. The National Bank specifically suggested various changes to the draft of the Ordinance submitted, a number of which have been included in the final version.

Banking Law: status of the "cantonal banks"

The report – completed in December 1996 – on the status of the cantonal banks in the Banking Law, drawn up by a commission of experts in which the National Bank was also represented, was submitted to a consultation procedure by the Federal Department of Finance in February 1997. The draft of the message based on this report was submitted to the responsible federal agencies for comment on 5 November 1997 (consultation of government agencies). The major change is the abolition of the state guarantee as a constitutive element of a cantonal bank; instead, the essential characteristics of a cantonal bank will in future be a basis in a cantonal law and a participation of at least 30% by the respective canton. Moreover, all cantonal banks are to be subject to supervision by the Banking Commission. In its comments, the National Bank supported the proposed amendment to the Law. At the same time, it opposed the continued capital adequacy discount for cantonal banks as this threatens to distort competition and easily leads to the costs of the state guarantee being underestimated in actual practice.

Exchange of data between the Banking Commission and the National Bank

A joint working group of the Secretariat of the Banking Commission and the National Bank drew up a report in March 1997 on the question of whether, and if so, how the exchange of data between the National Bank and the supervisory authority could be intensified. It was established that a series of data is collected by both the Banking Commission and the National Bank. The working group recommended that the National Bank should compile these statistics and put the required data at the disposal of the Banking Commission. To this end, the National Bank would have to introduce a number of new statistics and expand existing ones. On the other hand, the National Bank depends on the Banking Commission to supply it with the information required for resolving financial crises. The working group therefore suggested that the necessary legal basis for a mutual exchange of data should be laid down in the Banking Ordinance. In a consultation procedure involving the Swiss Bankers' Association, the Swiss Institute of Certified Accountants and Tax Consultants and the Federal Commissioner of Data Protection this proposal gained a positive reception. The text of an Ordinance is to be submitted to the Federal Council at the beginning of 1998.

5.2 Cooperation with the Federal Department of Finance

Working group on the euro

The National Bank participated in a working group under the chairmanship of the Federal Department of Finance which dealt with the implications of the introduction of the euro on the federal administration and the National Bank. In a preliminary report of October 1997, the working group identified possible problem areas and concluded that there was little need for action by the federal administration. Nevertheless, the necessary adjustments should be planned in good time in order to avoid capacity bottlenecks during the transition period. The National Bank will be affected by the introduction of the euro chiefly in the implementation of its monetary policy. On this question, the report refers to the study of the Commission for Economic Issues on the economic implications of the European Economic and Monetary Union of August 1996.

5.3 Switzerland's financial relations in the Second World War

Still a highly topical issue

The discussion on Switzerland's financial relations during the Second World War continued in Switzerland and abroad in 1997. It triggered activities on a broad front. The Swiss banks intensified their search for assets which had been deposited with them prior to 1945 and which have remained dormant ever since. The committee of historians appointed by the Federal Council on 19 December 1996 and chaired by Professor Jean-François Bergier began its task of investigating the fate of the assets deposited in Switzerland during the years of the National Socialist regime in Germany. In a concerted action the three big banks made Sfr 100 million available for victims of the Holocaust and their needy descendants; on 26 February 1997, the Federal Council created a special fund for this purpose. Other sectors of the business community contributed payments amounting to approximately Sfr 75 million to this fund.

Gold transactions of the National Bank in the Second World War

The gold transactions of the National Bank in the Second World War were also the subject of criticism. Between 1939 and 1945, within the framework of international payment transactions, the National Bank purchased gold worth Sfr 1.8 billion from the Allies and worth Sfr 1.5 billion from the Axis countries, of which Sfr 1.2 billion from Germany. The bulk of the gold acquired from the Axis countries was sold to other central banks. In a working paper of December 1997, which for the first time presented a flow chart of the Reichsbank's gold transactions, the Bergier committee of experts confirmed the National Bank's figures on their gold transactions in the Second World War. A large part of the Reichsbank's gold deliveries to Switzerland did not come from Germany's pre-war stocks, but stemmed from central banks and private persons in occupied countries. In the Washington Agreement of 1946 Switzerland undertook to pay Sfr 250 million towards the reconstruction of Europe, with the National Bank contributing Sfr 100 million to this amount. At the same time, the Allies waived all further claims to the gold acquired by Switzerland during the War. At the London gold conference in early December 1997 it was confirmed that the Allies, at the end of the War, had already possessed most of the important information on the Reichsbank's gold transactions and that therefore the Washington Agreement had been concluded in full knowledge of the facts.

The National Bank's contribution to the Holocaust Fund

The fact that from today's viewpoint the then management of the National Bank did not have a sufficiently critical attitude towards the Reichsbank, as well as the hardship experienced by the survivors of the Holocaust, however, led the Governing Board to consider a contribution to the fund in favour of needy Holocaust victims at the beginning of March 1997. On 25 June 1997, the Federal Council submitted a message to the federal parliament concerning the participation of the Swiss National Bank in the Holocaust Fund. With a generally binding federal decree, the National Bank was to be empowered to pay Sfr 100 million into the fund set up by the Federal Council. This contribution was intended as a gesture of humanity towards those still suffering from the consequences of persecution by the National Socialist regime.

Contribution to the fund on the SNB's own responsibility

In the September session, the National Council and the Council of States decided not to adopt the motion submitted by the Federal Council. In the parliamentary debates widespread approval of a contribution to the Fund by the National Bank was expressed. However, a majority in the two chambers were of the opinion that the National Bank's contribution did not require a special legal basis in the form of a federal decree, which would be subject to a referendum, but that the Bank could act on its own responsibility. Subsequently, in the second half of October, the Bank Committee and the Bank Council gave their approval to the contribution of Sfr 100 million to the Holocaust Fund. With the remittance of 3 November 1997 by the National Bank, the contributions by the Swiss business community to the Holocaust Fund totalled approximately Sfr 275 million.

Dormant accounts at the National Bank

The National Bank's first legal basis, the National Bank Law of 1905, authorised the National Bank to transact certain types of business with private persons in Switzerland and abroad. Research in our archives led to the discovery of a number of accounts and safekeeping accounts which could, in the broadest sense, be related to the issue of dormant assets. There were eight such cases to the total amount of approximately Sfr 15,000, some Sfr 11,000 of which were attributable to foreign customers. The National Bank reported the names to the office designated by the Swiss Bankers' Association; they were included in the lists of holders of dormant accounts dating from the time prior to 1945 published on 23 July 1997 and 29 October 1997.

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

In 1997, the responsible bodies of the IMF decided on a number of important measures, notably an increase in the capital of the IMF and a one-off selective allocation of Special Drawing Rights (SDRs).

Increase in the quota

The capital of the IMF, i. e. the quotas of the member countries, is to be increased by 45% to 212 billion SDRs. Switzerland's quota, however, is only to be raised by approximately 40% to 3.458 billion SDRs since the weight carried by Switzerland in the overall world economy, which is one of the factors taken into account for calculating the increase in the quota, declined during the reference period. Switzerland's quota will be reduced accordingly, from 1.69% to 1.63%, while the quota of the Swiss constituency will decrease from 2.70% to 2.60%.

First allocation of SDRs to Switzerland

At the IMF Annual Meeting in September 1997, it was decided to allocate 21.4 billion SDRs to the member countries on a selective basis. The holdings of SDRs were thus doubled, with allocated SDRs since then constituting a share of 29.3% of the quota for all members. For the first time, Switzerland received an amount of approximately 0.7 billion SDRs. In order to create the legal basis for a selective allocation, the IMF Articles of Agreement need to be amended.

Switzerland's reserve position

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 1997, Switzerland's reserve position amounted to 1,407.5 million SDRs, compared to 1,064.9 million SDRs at the end of 1996. (At the end of 1997, 1 SDR was equivalent to Sfr 1.96). The rise in the reserve position reflects Switzerland's contribution to the financing provided by the IMF to help resolve the financial crises in various Asian countries.

Drawing on loans under the Enhanced Structural Adjustment Facility II

Based on the Federal Decree on Switzerland's participation in the prolonged Enhanced Structural Adjustment Facility (ESAF II) at the IMF of 3 February 1995, the National Bank finances the Swiss contribution to the loan account of ESAF II. This facility serves to finance long-term loans at reduced interest rates to poor developing countries. In 1997, the IMF utilised a total of 69.9 million SDRs in three drawings from Switzerland's loan commitment of 152.9 million SDRs. The individual drawings have a maturity of ten years, with repayments in instalments beginning five-and-a-half years after payment. The Confederation guarantees the National Bank the timely repayment of the ESAF credits including interest payments. It also finances the interest-rate subsidies.

Amendment to the loan agreement between the National Bank and the Monetary Fund

In September 1997, an amendment was made to the loan agreement between the National Bank and the IMF on participation in ESAF II, permitting the IMF to make drawings until 31 December 2001. The amendment to the agreement became necessary after the IMF had, in autumn 1996, prolonged the period during which loan commitments may be made to developing countries under this facility.

Election of a new Swiss Executive Director

The IMF Governors of the Swiss constituency elected Roberto Cippà of the Swiss National Bank as Executive Director of the IMF as per 1 November 1997. He succeeds Daniel Kaeser, formerly of the Federal Department of Finance.

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 of its working groups.

Prolongation of participation in the General Arrangements to Borrow

With its message of 12 November 1997, the Federal Council submitted the Federal Decree on the Prolongation of Switzerland's Participation in the General Arrangements to Borrow (GAB) of the IMF to the federal parliament. Switzerland has been associated with the GAB since 1964 and has been a participant since 1984; the Swiss National Bank is the participating institution. In the event that the IMF finds itself short of funds, the GAB permit it to borrow additional funds to the amount of 17 billion SDRs for the purpose of warding off or resolving an extraordinary crisis threatening the international monetary system. The loan commitment of the National Bank amounts to 1,020 million SDRs. The GAB are valid for five-year periods; in keeping with this, any prolongation of Switzerland's participation has so far been decided by the federal parliament every five years. In future, this will be the responsibility of the Federal Council, with the prior agreement of the National Bank. The GAB currently in force are due to expire at the end of 1998.

New Arrangements to Borrow

At the beginning of 1997, the Executive Board of the IMF approved the New Arrangements to Borrow (NAB), which constitute parallel agreements to the GAB (cf. 89th Annual Report, p. 52). The two chambers of the federal parliament decided on Switzerland's accession to the NAB in October and in December 1997 respectively. The NAB have the objective of doubling the amount available to the IMF under the GAB to respond to financial emergencies from 17 billion SDRs to 34 billion SDRs. In addition to the participants in the GAB, fourteen new participants (industrial countries and NICs) adhere to the NAB though not all of them have joined yet. The loan commitment of the National Bank, which is also the participating institution in the NAB, will amount to 1,557 million SDRs. At the same time, this amount is the upper limit of commitments under the GAB and the NAB since these two facilities cannot be drawn on with cumulative effect. Like the GAB, the NAB are concluded for five-year periods and can be renewed. On a national level, the same regulations apply to renewal as are also envisaged for the GAB in future.

Working party on electronic money

On the initiative of the G-7, a working party of the G-10 was set up to study the implications of electronic money. In April 1997, a report assessing the new electronic payment instruments with particular relevance to consumer protection, legal enforcement and supervision was published. The working party came to the conclusion that at present there is no immediate need for new institutional coordination mechanisms for electronic money on an international level.

6.3 Cooperation with the Bank for International Settlements

The central bank governors of the G-10 countries meet once a month at 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.

Basle Committee on Banking Supervision

Together with the Federal Banking Commission, the National Bank participated in the tasks of the Basle Committee. The Committee cooperated with supervisors from non-G-10 countries, notably with those from emerging market nations, in working out the core principles of effective banking supervision. These are intended to make it easier for the supervisory and legislative authorities in individual countries to assess their supervisory systems and make the necessary improvements. For the first time, the Committee issued recommendations not addressed exclusively to G-10 countries and not limited to internationally active banks. The Committee also passed recommendations concerning the banks' attitude to the risks posed by interest-rate changes. The banks are strongly encouraged to oblige their top management to share in the responsibility for risks, to employ appropriate systems for measuring and regulating interest-rate risks and to hold adequate capital and reserves.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems published two reports. The first report dealt with the settlement procedures for exchange-traded derivatives. It identified a number of risks that can arise in the processing of such transactions. The conclusions of the report did not require Switzerland to make any additional adjustments to SOFFEX and SIC. The second report provided an overview of the real time gross settlement systems of the G-10 countries. These systems, which are considered to be extremely low-risk, have in the meantime become the standard for large-value payments between the banks. Various working groups were active within the framework of the Committee on Payment and Settlement Systems. One of the working groups continued to study measures for handling the performance risk in foreign exchange trading transactions. Other working groups devoted themselves to questions relating to public payment transactions, securities lending and the processing of OTC derivatives.

6.4 Balance of payments aid

Balance of payments aid to South Korea

During the turbulences that shook Asia, South Korea slid into a monetary and financial crisis. After the country had applied to the IMF at the beginning of December 1997, an international financing package was put together. The IMF extended a three-year stand-by credit to the amount of $ 21 billion, the World Bank and the Asian Development Bank gave credit undertakings for $ 10 billion and $ 4 billion respectively. Another $ 22 billion were pledged by the Group of Ten in conjunction with Australia and New Zealand. These loans form a second line of defence which will only be drawn on in case of need. Switzerland's credit has been fixed at $ 312.5 million. It will be granted by the National Bank in the context of the Federal Decree on Switzerland's cooperation in international monetary measures. The Confederation guarantees the National Bank the timely fulfilment of the loan agreement.

6.5 Technical assistance and specialist training

Counselling in various central bank activities

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 IMF or the respective central banks and partly within the context of the Confederation's development programme. In 1997, considerable support was given to the Bank of Tanzania in the form of continued counselling in the management of its foreign exchange reserves.

Courses on monetary policy

The Gerzensee Study Centre again invited qualified central bank employees from various developing and transition countries to courses notably on monetary policy. In 1997, the Study Centre organised five courses with over 120 participants.

6.6 Relations with the Principality of Liechtenstein

Updated annexe to the Currency Agreement of 1980

The Principality of Liechtenstein is linked to Switzerland by the Currency Agreement of 19 June 1980. The Swiss regulations concerning monetary and credit policy, and also the protection of Swiss coins and banknotes, are directly applicable in the Principality of Liechtenstein. On 20 August 1997, the Federal Council approved the annexe to the Currency Agreement incorporating these applicable regulations in an updated version per 31 December 1996.

Regulatory developments in the financial sector of Liechtenstein

In 1997, the National Bank analysed the regulatory developments recorded in the financial services sector of the Principality of Liechtenstein since 1990. With the introduction of a modern banking law, a new law on investment companies, a mutual judicial assistance law and a due diligence regulation, as well as the punishment of money laundering and insider trading under criminal law, the legislative authorities of Liechtenstein took important steps to ensure the stability and integrity of the financial sector. The regulatory efforts entailed the recruitment of additional staff by the Liechtenstein banking supervisory authority. Further revisions of laws designed to complete the implementation of Liechtenstein's EEA commitments in the financial sector are under way. Overall, the regulatory gap between Liechtenstein and Switzerland pinpointed in a report on the financial relations between the two countries of 24 April 1990, drawn up under the auspices of the Federal Banking Commission, may today be considered as largely eliminated. In a meeting in November 1997, the National Bank advised a government delegation of the Principality of Liechtenstein of its findings.

Structure and organisation of the Swiss National Bank

1 Organisation

Structure

Unlike most foreign central banks, the Swiss National Bank is not a government-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 54% 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 currency and follow economic developments in the regions. Currency transactions are, moreover, also performed by 18 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 postal service payment transactions. Conceptual and technical questions in the field of cashless payment transactions are dealt with by Department III. Cashless payment transactions with the banks are processed by Department III, those with the Confederation by Department II.

Bank of the Confederation

Acting as the bank of the Confederation is a function primarily performed by the Banking Division of Department II. This division maintains the accounts, carries out domestic and foreign payments on behalf of the Confederation and participates in the floating of bonds. Department III carries out money market and foreign exchange transactions 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 Europe's smallest central banks. At the end of 1997, the number of staff totalled 621 persons, compared with 603 persons at the end of 1996. This is equivalent to 577.3 (end-1996: 565.4) full-time jobs. The proportion of part-time employees rose by 2% to 124 persons – i. e. 20% of total staff – compared to the previous year. Most part-time employees were female (85%); women accounted for 11% of total senior staff. We strove to achieve a better proportion by promoting part-time employment in demanding positions. In the operational sectors of the Bank we continued our efforts to switch staff between various functions.

Reviewing the effects of the Bank's guideline charter

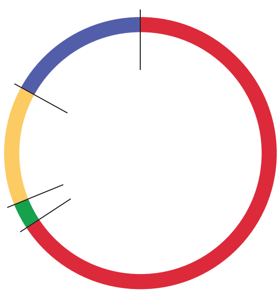
Just three years after the SNB's guideline charter had been adopted in May 1994, the Bank's management ordered a review to determine the progress made in implementing the charter within the Bank. For this purpose, a survey was conducted among all staff members. The majority of replies stated that the charter had had a positive effect on leadership and performance, while certain shortcomings in the implementation were also noted. The overall evaluation of the survey concerning the charter induced the Governing Board to introduce a number of optimisation measures.

Staff training

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. In 1997 training costs totalled Sfr 1.2 million. 11.5% of these were attributable to management training, 48.2% to specialist and language training and personality development and 40.2% to computer courses.

Developments in informatics

In the field of informatics the National Bank continued its efforts towards a strategic new orientation to the client-server concept. We put new solutions for the links with SIC and S.W.I.F.T., as well as for portfolio management, into operation. The banking applications programs now being used will be replaced by a system which covers the full range of banking applications. This overall package is to be introduced in several steps in 1998/99. Preparations were made for the implementation, at the beginning of 1998, of a new solution in the accounting sector. We also drew up plans for a new network architecture with enhanced efficiency and security.



Personnel
Number of employees

Full-time, men 407

Part-time, men 19

Full-time, women 88

Part-time, women 105

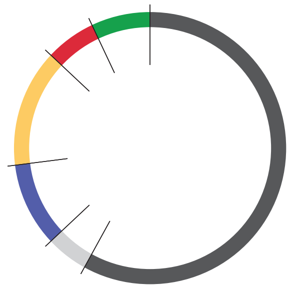
Total: 621.
End of the year

Environmental charter

In its sphere of activity, the National Bank pays increasing attention to ecological aspects. In 1997, a systematic strategy of environmental management was developed. Based on a pilot ecological balance sheet, we drew up an environmental charter with precise guidelines for an ecologically sustainable use of resources. In this charter, we laid down quantitative targets for the conservation of resources as well as rules of conduct for property management, the use of material and technical equipment, and cash transactions. In September, an inhouse environmental office was set up for the purpose of providing line managements with expertise and monitoring ecological targets.

Cost structure

The bulk of the National Bank's entire operating costs is caused by currency transactions. These include the costs 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 and in the linking of bank and postal service 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 asset management. 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 International Monetary Fund, and technical assistance to foreign central banks.



Cost units
in percent

Cash transactions 58
Cashless payment transactions 5
Asset management 10
Monetary policy 14
Services for the Confederation 6
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 18 April 1997 the following new member was elected to the Bank Council:

Alexandre Swoboda, Geneva, Professor at The Graduate Institute of International Studies.

After the Annual General Meeting the Federal Council complemented the number of members of the Bank Council by the election of

Käthi Bangerter, Aarberg, National Councillor, Chairwoman of the Board and Managing Director of Bangerter-Präzisionsteile AG.

On the day of the Ordinary General Meeting of Shareholders on 24 April 1998 the following members of the Bank Council retire:

Georges Blum, Basle, Chairman of the Board of Swiss Bank Corporation,
Christiane Brunner, Geneva, Councillor of State, Co-chairwoman of the Swiss federation of trade unions and Chairwoman of SMUV (metalworkers' and watch-and-clockmakers' trade union),
Hans-Rudolf Früh, Bühler, Entrepreneur, President of Swiss union of crafts and small and medium-sized enterprises,
Eugen Hunziker, Rüschlikon,
Margrit Meier, Gümligen, Executive Secretary of the Swiss federation of trade unions,
Guido Richterich, Bottmingen, and
Robert Studer, Schönenberg, Chairman of the Board of Union Bank of Switzerland.

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

Of the seven vacancies four are to be filled by the Annual General Meeting and three by the Federal Council.

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

Fritz Blaser, Reinach/BL, Chairman of Schweizerischer Arbeitgeberverband (Swiss employers association),
Peter Everts, Zurich, Chairman of the Board of Migros-Genossenschaftsbund,
Trix Heberlein, Zumikon, National Councillor, and
Franz Marty, Schwyz, Member of the cantonal government and head of the Department of Finance of the canton of Schwyz.

Local Committees

As per the date of the Annual General Meeting, 18 April 1997, the following committee members resigned their positions:

Jürg Schatzmann, Baden, Chairman of the Local Committee Aarau since 1995,
Käthi Bangerter, Aarberg, National Councillor, Member of the Local Committee Berne since 1995,
Hubert Barde, Le Mont-sur-Lausanne, Deputy Chairman of the Local Committee Lausanne since 1990, and
Urs Bühler, Uzwil, Chairman of the Local Committee St Gallen since 1993.

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

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

Aarau

Ernst Frey-Burkard, Kaiseraugst, Chairman,
Hans Keiser, Staufen, Deputy Chairman,
Silvia Huber-Meier, Lengnau/AG, Managing Director of DOMACO, Dr. med. Aufdermaur AG, Member.

Berne

Gisèle Girgis-Musy, Berne, Director of Genossenschaft Migros Bern, Member.

Lausanne

Pierre Baroffio, Renens, Deputy Chairman,
Rolf Mehr, St-Prex, President of the Executive Board of Groupe Vaudoise Assurances, Member.

St Gallen

Roland Bertsch, Romanshorn, Chairman,
Peter G. Anderegg, Egnach, Deputy Chairman, and
Willy Egeli, Wittenbach, President and Managing Director of Egeli AG, Holding, President of Schweizerischer Verband Creditreform, Member.

Auditing Committee

At the Annual General Meeting of Shareholders held on 18 April 1997
Maryann Rohner, Certified Auditor, Zurich, Treureva AG, was elected to the Auditing Committee as substitute member and successor of Francis Sauvain, Morges.
Gilbert Jobin, Delémont, is not offering himself for re-election for reasons of age. We thank him for his thirteen years of activity in the Auditing Committee.

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

Josef Blöchlinger, Certified Auditor, Nyon, Réfidar Société fiduciaire, as new substitute member of the Auditing Committee.

Hans Michel, Egnach, substitute member, is proposed as new member of the Auditing Committee.

Management

After a long and serious illness
Christian Vital, Deputy Head of Department III and head of the General Processing and Informatics Division, died in August. Christian Vital made a lasting contribution to the Bank notably through the introduction of information technology and his concept for a completely new cashless payment and settlement system. He gained international recognition and respect as an expert in payment system issues. His life's work, Swiss Interbank Clearing (SIC) became an important location factor of the Swiss financial centre. The National Bank will continue to honour his memory.

In October,
Monique Dubois, head of International Monetary Relations, left the Swiss National Bank to devote herself to private interests. We thank her for her valuable services in various functions over many years.

Our thanks for their long and excellent services also go to Assistant Directors
Alex Huber, head of Security, and
Werner Bolliger, head of Accounting in Zurich, who have both retired for reasons of age.

Following a proposal of the Bank Council, the Federal Council appointed, with effect from 1 February 1998,
Erwin Sigrist as Deputy Head of Department III and head of the General Processing and Informatics Division.

The Bank Committee approved the following promotions:

Christine Breining-Kaufmann (head of Personnel) to Director (with effect from 1 January 1998),
Michel Peytrignet (head of the Economic Studies Section) to Deputy Director (with effect from 1 March 1997),
Werner Hermann (head of the International Monetary Relations Section) to Deputy Director (with effect from 1 October 1997), and
to Assistant Directors:
Thomas Stucki (head of the Investment Section) with effect from 1 June 1997, and
Hans Balzli (head of Security),
Daniel Heller (head of Management Support Payment Systems), and
Hans-Ueli Hunziker (Deputy Secretary General)
with effect from 1 January 1998.

Financial report

1 Income statement for the year 1997

	Notes	1997 Sfr millions	1996 Sfr millions	Change percent
Income from				
gold transactions	01	2.6	–	–
foreign currency investments	02	2 067.5	1 794.8	+15.2
reserve position in the IMF	03	69.9	55.1	+26.9
international payment instruments	04	14.0	13.6	+2.9
balance of payments aid	05	12.9	10.7	+20.6
Income from				
domestic money market claims	06	22.9	32.6	−29.8
Lombard advances	07	0.9	0.9	0.0
claims against domestic correspondents	08	1.7	2.3	−26.1
domestic securities	09	262.4	260.3	+0.8
Other income	10	13.4	12.9	+3.9
Gross income		**2 468.4**	**2 183.2**	**+13.1**
Interest expense	11	−67.1	−49.3	+36.1
Banknote expense	12	−32.0	−15.1	+111.9
Personnel expense	13	−79.6	−82.0	−2.9
General overheads	14	−55.2	−54.0	+2.2
Depreciation of tangible assets	15	−9.9	−10.1	−2.0
Net income		**2 224.5**	**1 972.7**	**+12.8**
Exchange rate-related valuation adjustments	16	1 765.2	4 412.1	−60.0
Extraordinary expense	17	−100.0	–	–
Extraordinary income	18	6.0	–	–
Extraordinary income owing to change in valuation principles		–	2 077.1	–
Aggregate income		**3 895.7**	**8 461.9**	**−54.0**
Allocation to provisions	19	−3 287.7	−7 396.1	−55.5
Annual profit	45	**608.0**	**1 065.8**	**−43.0**

2 Balance sheet as of 31 December 1997

Sfr millions

Assets	Notes	1997	1996
Gold holdings and claims from gold transactions			
Gold holdings	20	11 448.2	11 903.9
Claims from gold transactions	21	458.3	–
Foreign currency investments			
not exchange rate-hedged	22	40 780.2	36 462.9
exchange rate-hedged (swaps)	23	12 490.3	12 865.5
Reserve position in the IMF	24	2 765.0	2 067.8
International payment instruments	25	452.4	290.0
Balance of payments aid	26	315.4	204.3
Domestic money market claims	27	673.5	1 581.7
Lombard advances	28	0.4	764.2
Claims against domestic correspondents	29	415.4	514.5
Domestic securities	30	4 941.0	4 821.5
Participations	31	89.6	51.0
Tangible assets	32	567.4	532.4
Sundry assets	33	482.2	452.1
Non paid-up share capital	43	25.0	25.0
		75 904.5	72 537.0

Liabilities	Notes	1997	1996
Banknote circulation	34	32 141.8	32 447.6
Sight deposits of domestic banks	35	5 100.8	4 927.4
Liabilities towards the Confederation			
sight	36	155.6	839.5
time	37	2 301.7	815.3
Sight deposits of foreign banks			
and institutions	38	47.3	32.7
Other sight liabilities	39	230.3	204.2
Sundry liabilities	40	914.7	1 089.0
Provisions			
for market, credit and			
liquidity risks	41	33 842.2	30 554.5
for operating risks	42	450.0	450.0
Share capital	43	50.0	50.0
Reserve fund	44	62.0	61.0
Net disposable income – annual profit	45	608.0	1 065.8
		75 904.5	72 537.0

3 Notes to the accounts as of 31 December 1997

3.1 Explanatory notes on business activities

The Swiss National Bank, a company limited by shares with head offices in Berne and Zurich, is Switzerland's central bank and the country's sole authorised issuer of banknotes. It is empowered by law 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. The provisions also serve to safeguard the pursuit of monetary policy by allowing the National Bank to accumulate sufficient foreign currency reserves. These provisions must grow at least in step with gross national product (see pp. 85 f.).

On 31 December 1997, the National Bank employed 621 persons (1996: 603), corresponding to 577.3 full-time posts (1996: 565.4). In addition to the head offices in Berne and Zurich, the National Bank has branches in Aarau, Basle, Geneva, Lausanne, Lugano, Lucerne, 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, asset 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). Since the National Bank is a listed company, a number of these provisions are binding upon it.

Changes from the previous year

The revised National Bank Law allows the Bank to engage in gold lending operations. The item *Gold holdings* has therefore been divided into *Gold holdings* (i. e. physical holdings) and *Claims from gold transactions*. The latter consist of gold claims plus accrued interest from gold on loan. Like the physical gold holdings, *Gold claims* are stated at the parity price (Sfr 4,595.74 per kilo of gold loaned).

With regard to the other asset and liability positions, the same accounting and valuation principles apply as in the previous year. Consequently, direct comparisons of balance sheet and income statement data are possible.

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 following year are stated under off-balance-sheet transactions.

Valuation principles

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

Negotiable foreign currency investments, 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 cost less required depreciation, or at the market value in the case of non-substantive minority interests in listed companies.

Since the participations are insignificant in relation to 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 items are translated at year-end rates, whereas income from these items is translated at the exchange rates applicable at the time the income was posted to the accounts.

Foreign currency exchange rates

	1997	1996	change percent
Year-end rates			
CHF/USD	1.4549	1.3500	+7.8
CHF/DEM	81.2400	86.8700	−6.5
CHF/JPY	1.1196	1.1611	−3.6
CHF/NLG	72.0600	77.3600	−6.9
CHF/XDR	1.9645	1.9418	+1.2
CHF/XEU	1.6040	1.6895	−5.1

3.3 Notes to the income statement

Summary

Foreign-currency items are a prominent feature of the income statement. Income from foreign-currency items rose by 15.5% to Sfr 2,164.34 million compared with the previous year. Together with the slightly reduced figure for other income items of Sfr 304.1 million, gross income comes to Sfr 2,468.4 million (up 13.1%). With expenses up 15.8% to Sfr 243.9 million, net income was 12.8% higher at Sfr 2,224.5 million. Translations gains due to exchange rate movements amounted to Sfr 1,765.2 million while extraordinary items produced a negative balance of Sfr 94 million. Overall, aggregate income amounted to Sfr 3,895.7 million. After the formation of provisions totalling Sfr 3,287.7 million, annual profit came to Sfr 608.0 million.

Item no. 01 in the income statement

Income from gold transactions

The gold lending operations entered into at the beginning of November 1997 yielded income of Sfr 2.6 million.

Items nos. 02–05 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 rose by Sfr 290.1 million. This increase can be attributed to higher average conversion rates and to capital gains resulting from lower interest rates. The increase in residual maturities at the beginning of November had a beneficial effect.

Item no. 06 in the income statement

Income from domestic money market claims

With interest rates lower and holdings slightly reduced from the previous year, income from money market claims declined by Sfr 9.7 million to Sfr 22.9 million.

Item no. 07 in the income statement

Income from Lombard advances

Both the average Lombard rate and the average level of borrowing were lower than in 1996. Since this facility was used at times when Lombard rates were relatively high, however, income is an unchanged Sfr 0.9 million.

Item no. 08 in the income statement

Income from claims against domestic correspondents

With the discount rate remaining unchanged and balances lower than in the previous year, income from claims against domestic correspondents declined by Sfr 0.6 million to Sfr 1.7 million.

Item no. 09 in the income statement

Income from domestic securities

Securities income rose by Sfr 2.1 million to Sfr 262.4 million. In addition to interest income of Sfr 253.6 million, the slight easing of interest rates produced a capital gain of Sfr 8.8 million.

Other income

Item no. 10 in the income statement

	1997 Sfr millions	Change from previous year Sfr millions
Commissions	2.5	−0.1
Income from participations	4.1	+0.3
Income from real estate[1]	6.7	+0.7
Other ordinary income	0.1	−0.4
Total other income	13.4	+0.5

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

Interest expense

Item no. 11 in the income statement

Interest expense rose from Sfr 49.3 million to Sfr 67.1 million due almost entirely to higher net liabilities towards the Confederation.

	1997 Sfr millions	Change from previous year Sfr millions
Interest expense for liabilities towards the Confederation	127.0	+33.3
Interest income from onward placements	−66.1	+15.9
Net interest expense for liabilities towards the Confederation	60.9	+17.4
Interest on depositors' balances	6.2	+0.4
Total interest expense	67.1	+17.8

Item no. 12 in the income statement

Banknote expense

Banknote expense comprises write-downs for notes of the eighth issue capitalised as assets; these writedowns are effected as the new banknotes enter into circulation. The significant rise in banknote expense is due to the issuing of the new Sfr 10 and Sfr 200 notes in the year under review.

Item no. 13 in the income statement

Personnel expense

	1997	Change from previous year	
	Sfr millions	Sfr millions	percent
Salaries and children's allowances	61.9	+0.5	+0.8
Welfare benefits, training and catering	15.8	−1.5	−8.7
Expense for current employees	77.7	−1.0	−1.3
Allocations to the pension fund	1.0	–	–
General allowances for retired employees	–	−1.5	−100.0
Remuneration for supervisory bodies	0.9	+0.1	+12.5
Total personnel expense	79.6	−2.4	−2.9

Item no. 14 in the income statement

General overheads

	1997	Change from previous year	
	Sfr millions	Sfr millions	percent
Premises	19.0	−1.4	−6.9
Furniture and fixtures	5.1	+0.5	+10.9
Business and office equipment and supplies	4.4	–	–
Information and communication	4.2	+0.3	+7.7
Printing, publications	1.6	+0.6	+60.0
Other general overheads	21.1	+1.4	+7.1
Total general overheads	55.2	+1.2	+2.2

Premises

This item comprises expenditures on the maintenance of the Bank's buildings (upkeep outlays) and on rented premises.

Furniture and fixtures

Expenditures on furniture and fixtures consist mainly of costs relating to the maintenance of computer hardware and software and of other equipment.

Other general overheads

These include third-party services (Sfr 4.8 million, up from Sfr 3.9 million in 1996) and remuneration for external agencies (Sfr 3.2 million, as against Sfr 3.7 million in 1996). Other major items comprise expenses related to banknotes in circulation (Sfr 2.8 million, versus Sfr 2.7 million in 1996) and administration of financial and gold investments (Sfr 3.2 million, up from Sfr 2.3 million in 1996). Finally, this item also includes contributions to the operating costs of the Gerzensee Study Centre (Sfr 5.0 million, versus Sfr 4.9 million in 1996) and the Haslizentrum holiday and training centre (up from Sfr 0.5 million in 1996 to Sfr 0.6 million).

Depreciation of tangible assets

Item no. 15 in the income statement

The bulk of this item (Sfr 9.7 million, versus Sfr 8.2 million in 1996) is accounted for by depreciation of sundry tangible assets, which comprise furnishings, machinery and equipment plus IT investments. These purchases are written off over three to twelve years. There was an additional write-down of Sfr 0.2 million (1996: Sfr 1.8 million) on the Bank's premises.

Item no. 16 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:

	1997 Sfr millions	1996 Sfr millions
USD	+2 247.3	+3 745.8
DEM	–440.6	+356.6
JPY	–68.5	+31.1
Other currencies	+27.0	+278.6
Total	+1 765.2	+4 412.1

Item no. 17 in the income statement

Extraordinary expense

This item represents the National Bank's contribution to the Holocaust Fund (see pp. 49 ff.).

Item no. 18 in the income statement

Extraordinary income

This relates to a write-back for AG Hotel Bellerive au Lac, Zurich, which was sold in the year under review, and to the part-repayment of a shareholder's loan which the Bank had extended to Kreuz Gerzensee AG.

Item no. 19 in the income statement

Allocation to provisions

Thanks to the substantial exchange rate-related income generated by our foreign currency balances, we were able to allocate a further Sfr 3,287.7 million to provisions (previous year's allocation: Sfr 7,396.1 million). Provisions were in line with the minimum level which the Bank seeks to maintain for reasons of exchange rate policy (see pp. 85 ff.). Annual profit is stated at Sfr 608.0 million (for details, see p. 85). The proposal regarding the distribution of profit is set out on page 88.

3.4 Notes to the balance sheet

Gold holdings and claims from gold transactions

Items nos. 20 and 21 in the balance sheet

Gold holdings

Physical gold holdings declined by 99.2 tonnes owing to the commencement of gold lending operations at the beginning of November 1997. They are stored at various locations in Switzerland and abroad.

	1997		Change from previous year
	tonnes	Sfr millions	Sfr millions
Gold ingots	2315.8	10642.9	–455.7
Gold coins	175.2	805.3	–
Total	2491.0	11448.2	–455.7

Claims from gold transactions

This item relates to unsecured claims from gold lending transactions. Transactions are effected with first-class Swiss and foreign banks and securities houses. At the end of 1997, the amount outstanding was 99.2 tonnes at a parity value of Sfr 455.7 million plus accrued interest of Sfr 2.6 million.

Foreign currency investments

Items nos. 22 and 23 in the balance sheet

Both the non-hedged and the hedged (swap-related) foreign currency holdings are invested jointly. Until the revised National Bank Law came into force, the maximum term of each individual investment was 12 months. Since 1 November 1997, longer-term foreign-currency investments have also been permitted. Government paper is denominated in the currency of the country of issue. The debtor category “monetary institutions” refers to investments at the BIS and holdings of World Bank securities. Bank investments are effected with institutions enjoying very high credit ratings.

Foreign currency investments by currency[1]

	1997			Change from previous year	
	millions		% weighting	millions	
	original currency	Swiss francs		original currency	Swiss francs
USD	28 876.5	42 012.4	78.9	−1 828.7	+560.3
hedged					
not exchange rate-hedged	20 291.5	29 522.1	55.4	−883.7	+935.5
exchange rate-hedged (swaps)	8 585.0	12 490.3	23.4	−945.0	−375.2
DEM	11 288.3	9 170.6	17.2	+4 402.6	+3 189.0
JPY	162 756.4	1 822.2	3.4	+170.8	−65.6
NLG	355.0	255.8	0.5	+354.6	+255.5
Others		9.5	0.0		+2.9
Total		53 270.5	100.0		+3 942.1

Foreign currency investments by type of borrower[1]

	1997			Change from previous year	
	millions		% weighting	millions	
	original currency	Swiss francs		original currency	Swiss francs
Government paper					
USD	15 916.4	23 156.8	43.5	−1 519.5	−381.7
DEM	10 991.8	8 929.7	16.8	+4 447.8	+3 244.9
JPY	161 466.6	1 807.8	3.4	−9 976.7	+48.9
NLG	352.7	254.2	0.5	+352.7	+254.2
Total		34 148.5	64.1		+3 166.3
Monetary institutions					
USD	8 115.2	11 806.8	22.2	−1 676.3	−1 411.7
DEM	43.0	35.0	0.1	+5.4	+2.3
JPY	1 237.7	13.8	0.0	+110.0	+0.7
NLG	2.0	1.4	0.0	+2.0	+1.4
Total		11 857.0	22.3		−1 407.3
Banks					
USD	4 844.8[2]	7 048.7	13.2	+1 367.0	+2 353.6
DEM	253.5	206.0	0.4	−50.5	−58.1
JPY	52.1	0.6	0.0	−9 916.0	−115.2
NLG	0.3	0.2	0.0	−0.1	−0.1
Others		9.5	0.0		+2.9
Total		7 265.0	13.6		+2 183.1
Total		**53 270.5**	**100.0**		**+3 942.1**

1 negotiable investments
– on discount basis:
stated at year-end rates
– on interest basis:
stated at year-end rates plus accrued interest

non-negotiable investments
1997: Sfr 5 487.7 million
1996: Sfr 7 198.3 million
stated at acquisition cost plus accrued interest

2 Of this total, 53% is accounted for by organisations with an indirect government guarantee.

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. It may be likened to a currency reserve position and may be used by the National Bank at any time to finance a deficit in Switzerland's balance of payments.

	1997		**Change from previous year**	
	millions		millions	
	XDR	Sfr	XDR	Sfr
Swiss quota in the IMF	2470.4	4853.0	–	+56.0
less IMF's Swiss franc sight balances at the National Bank	1062.9	2088.0	−342.6	−641.2
Reserve position in the IMF	1407.5	2765.0	+342.6	+697.2

International payment instruments

Item no. 25 in the balance sheet

Special Drawing Rights (XDR) are interest-yielding sight balances in 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).

	1997		**Change from previous year**	
	millions		millions	
	original currency	Sfr	original currency	Sfr
XDR	178.4	350.5	+84.3	+167.8
XEU	63.5	101.9	–	−5.4
Total		452.4		+162.4

Item no. 26 in the balance sheet

Balance of payments aid

The bilateral loans are medium-term, dollar-denominated loans used for internationally coordinated balance-of-payments assistance in which Switzerland participates by providing a tranche. The Extended Structural Adjustment Facility II (ESAF II) is a trust fund administered by the IMF which finances long-term low-interest loans to needy developing countries. Both the bilateral loans and Switzerland's share in the ESAF II loan account are financed by the National Bank and guaranteed by the Confederation. The guarantee extends to the payment of interest and repayment of the principal. Currency risks are borne by the National Bank.

	Outstanding loans 1997				**Undertakings 1997**
	millions		Change from previous year		millions
	USD	Sfr	USD	Sfr	USD
Bilateral loans					
Hungary	–	–	−31.1	−42.0	–
Czech Republic	26.8	39.0	+0.2[1]	+3.1	–
Slovakia	13.4	19.5	+0.1[1]	+1.5	–
Romania	48.3	70.2	–	+5.0	–
Bulgaria	32.3	47.0	+0.3[1]	+3.8	–
Total	120.8	175.8	−30.5	−28.5	–
	millions		Change from previous year		millions
	XDR	Sfr	XDR	Sfr	XDR
ESAF II	71.1	139.6	+71.1	+139.6	81.8
Total	71.1	139.6	+71.1	+139.6	81.8
Total		**315.4**		**+111.1**	

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.

Item no. 28 in the balance sheet

Lombard advances

Lombard loans are used by the banks and the Confederation as a stopgap for unforeseeable liquidity shortfalls. At the end of 1997, a total of 241 credit lines were pending (1996: 248).

At year-end, the following collateral was pledged to the National Bank as security for the credit lines:

	1997	**Change from previous year**
	Sfr millions	Sfr millions
Credit lines outstanding at year-end	8 900.5	+917.7
Value of collateral at year-end[1]	9 413.0	+1 129.7
Yearly average of drawn advances	21.3	−2.6

1 Market prices less 10–35%

Claims against domestic correspondents

Item no. 29 in the balance sheet

767 branches of 81 banks (1996: 752 branches of 85 banks) perform local cash redistribution transactions for the National Bank and cover the cash requirements of federal institutions (postal service, 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.

	1997		Change from previous year
	Sfr millions	% weighting	Sfr millions
Confederation	973.7	19.7	+13.6
Cantons	1305.3	26.4	+11.7
Communes	601.7	12.2	+9.7
Mortgage bond institutions	961.6	19.5	+29.3
Banks	1098.9	22.2	+55.4
Total market value[1]	4941.0	100.0	+119.5
Total nominal value	4365.4		+55.7

1 Year-end rates plus accrued interest

Participations and tangible assets

Items nos. 31 and 32 in the balance sheet

Schedule of tangible assets in Sfr millions

	Value at end of previous year	Investments	Divestments	Depreciation	Value at end of reporting year
Participations not consolidated					
Orell Füssli	27.0				27.0
BIS	9.4	51.6			61.0
Others	14.6		13.0		1.6
Total	51.0	51.6	13.0		89.6
Tangible assets					
Banknote stocks	166.6	48.4		32.0	183.0
Real estate	343.0	13.4[1]		0.2	356.2
Insured value	*409.6*				*416.6*
Sundry tangible assets	22.8	15.2		9.7	28.3
Insured value	*60.8*				*55.1*
Total	532.4	77.0		41.9	567.4

1 Purchase of property at Stadthausquai 7, Zurich

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 3.1% interest in the Bank for International Settlements (BIS) is held by reason of collaboration on monetary policy. In 1996, the BIS decided on an increase in its share capital. After formal approval had been received from the Bank Council and Federal Council, the allocation of 3,000 shares was purchased at a price of Sfr 51.6 million. This increased our holding to 16,021 shares.

At the end of the previous year, "Others" included the shares of AG Hotel Bellerive au Lac, Zurich (sold in 1997). The end-1997 figure includes stakes held in Telekurs AG, Zurich, Sihl, Zurich (a paper factory) and the S.W.I.F.T. Society for Worldwide Interbank Financial Telecommunications S.G., La Hulpe (Belgium), plus the shares in the successor to two companies which merged in the reporting year and which had been established in connection with the foundation of the Gerzensee Study Centre.

Tangible assets

Stocks of new banknotes (eighth issue) are stated at cost and written down in line with their entry into circulation. "Sundry tangible assets", which comprise office equipment and computer systems, are written down over three to twelve years.

Item no. 33 in the balance sheet

Sundry assets in Sfr millions

	1997	Change from previous year
Coins (including medallions)[1]	428.5	+30.0
Foreign notes	0.1	–
Postal giro accounts	0.6	+0.3
Other accounts receivable	33.4	+5.3
Other cheques and bills of exchange (collection business)	13.3	−11.5
Positive replacement values (forward contracts)	6.3	+6.0
Total	482.2	+30.1

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

Accruals

Accrued interest on gold claims (Sfr 2.6 million), foreign currency investments (Sfr 14.8 million), international payment instruments (Sfr 15.6 million), balance of payments aid (Sfr 4.8 million), domestic securities (Sfr 144.4 million) and onward placements for the Confederation (Sfr 2.8 million) is contained in the corresponding balance sheet items.

Banknote circulation

Item no. 34 in the balance sheet

This comprises all banknotes held by the general public and the banks. Of the banknotes originating from the second and fifth issues, which were recalled in 1980 and are exchangeable at the National Bank until 30 April 2000, a total of Sfr 276.3 million were still outstanding at the end of the year (1996: Sfr 285.4 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 220.1% (1996: 191.9%). Owing to higher banknote circulation and the gold lending operations which began at the beginning of November 1997, banknote coverage declined to an average of 40.9% (1996: 42.2%). On a number of days when banknotes were in peak demand, coverage by gold dropped below 40%. Since the revised National Bank Law entered into force, a minimum of 25% has applied.

Banknote coverage annual average

	1997 millions Sfr	1997 percent coverage	Change from previous year
Gold holdings	11862.8	40.9	−1.3 percentage points
Other eligible assets	51970.4	179.2	+29.5 percentage points
of which			
Foreign currency investments[1]	47602.8		
Reserve position in the IMF	2119.2		
International payment instruments	345.6		
Domestic money market claims	1533.2		
Lombard advances	18.5		
Eligible domestic securities[2]	351.2		
Overall banknote coverage	63833.3	220.1	+28.2 percentage points
Banknote circulation	28999.2		+2.8 %

1 as of 1 November 1997: term of up to one or two years, depending on investment class

2 term to maturity of up to two years

Sight deposit accounts of domestic banks

Item no. 35 in the balance sheet

The 572 sight deposit accounts (1996: 586) of the 407 banks (1996: 406) 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.

Items nos. 36 and 37 in the balance sheet

Liabilities towards the Confederation

The Confederation's sight deposits facilitate the 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 yield 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 8,034.5 million (1996: Sfr 7,510.5 million), of which Sfr 5,732.8 million (1996: Sfr 6,695.2 million) had been placed on the market.

Item no. 38 in the balance sheet

Sight deposit accounts of foreign banks and institutions

The 142 (1996: 153) accounts are denominated in Swiss francs and do not bear interest. They are held primarily by foreign central or commercial banks.

Item no. 39 in the balance sheet

Other sight liabilities

These comprise deposit accounts of active and retired employees, liabilities towards pension funds amounting to Sfr 48.9 million (1996: Sfr 9.2 million) and liabilities towards individual non-banks.

Item no. 40 in the balance sheet

Sundry liabilities in Sfr millions

	1997	Change from previous year
Profit distribution to the Confederation and the cantons (from previous year's profit)	600.0	+457.8
Other liabilities	13.8	−9.5
Negative replacement values (forward contracts)	300.9	−622.6
Total	914.7	−174.3

Accruals

Accrued interest on time deposits of the Confederation (Sfr 34.5 million) is contained in the corresponding balance sheet item.

Provisions

Items nos. 41 and 42 in the balance sheet

Owing to the year-on-year rise in net income and to currency gains, provisions were increased to Sfr 3,287.7 million. Provisions thus complied with the minimum figure stipulated in the profit calculation concept (see pp. 85 ff.).

Provisions in Sfr millions	Provisions on 31.12.96	Allocated to provisions	Released from provisions	Reclassified	Provisions on 31.12.97	Change from previous year
for						
market, credit and liquidity risks	30 554.5	3 287.7	–	–	33 842.2	+3 287.7
operating risks	450.0	–	–	–	450.0	–
Total	31 004.5	3 287.7	–	–	34 292.2	+3 287.7

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 attaching to foreign exchange transactions.

Item no. 43 in the balance sheet

Share capital

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 21,723 shares (+251%) to new holders. As of 31 December 1997, applications for registration were pending or outstanding for 15,061 shares.

The other shares were distributed as follows:

1 186 private shareholders each with	1	share
1 501 private shareholders each with	2–10	shares
364 private shareholders each with	11–100	shares
12 private shareholders each with	101–200	shares
11 private shareholders each with	over 200	shares
3 074 private shareholders with a total of	28 335	shares
26 cantons with a total of	38 981	shares
24 cantonal banks with a total of	14 921	shares
40 other public authorities and institutions with a total of	2 702	shares
90 public-sector shareholders with a total of	56 604	shares
3 164 shareholders with a total of	84 939	shares
Pro memoria: registration applications pending or outstanding for	15 061	shares
Total	100 000	shares

67% of the shares were thus registered in the names of cantons, cantonal banks and other public authorities and institutions, and 33% in the names of private shareholders; of the latter, 68% were held by private individuals and 32% by legal entities. 2,636 shares (without voting rights) were in foreign ownership; this is equivalent to 2.6% of the share capital.

In spring 1997, the price of the National Bank share – which, due to the legally permitted maximum dividend of 6%, has in the past normally developed along similar lines to a long-term Confederation bond with a 6% coupon – rose from about Sfr 600 to Sfr 3,000. By the end of the year, however, it had dropped back to Sfr 910. The rise was apparently due to recommendations made in various broker reports, which were based on hopes that the planned revaluation of the gold reserves would generate additional earnings for the National Bank's shareholders. However, the authors of these recommendations failed to note that the law earmarks for public use any profits in excess of the maximum dividend of 6%.

The price movements resulted in a sharp increase in the number of transactions in National Bank shares on the stock market. The number of pending or outstanding applications for registration rose by a massive 159%.

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

	Number of shares		Percentage hold	
	1997	Change from previous year	1997	Change from previous year
Canton of Berne	6 630	–	6.63%	–
Canton of Zurich	5 200	–	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 62 million by an allocation from the 1996 annual profit.

Annual profit – calculation and distribution

Item no. 45 in the balance sheet and income statement

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. The provisions are used primarily as a means of forming currency reserves. These reserves allow the National Bank to intervene on the market in the event of the Swiss franc becoming excessively weak. The currency reserves also make Switzerland's financial industry less vulnerable to international crises. The need for currency reserves is growing in line with the size and globalisation of the Swiss economy.

It has therefore been decided, in agreement with the Federal Council, that the provisions be increased in line with growth in nominal gross national product (see 84th Annual Report 1991, pp. 23 ff.). The targeted percentage rise is based on the average increase in nominal gross national product over the past five years. This avoids the need for subsequent corrections and prevents 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	Provisions at year-end Sfr millions		Residual surplus Sfr millions	Distribution Sfr millions
	In percent (average period)[1]	Targeted level	Actual level prior to distribution[2]		
	(1)	(2)	(3)	(4) = (3) – (2)	(5)
1994	5.8 (1988–92)	22 527.1	25 966.3 [3]	3 439.2	600.0
1995	4.8 (1989–93)	23 608.4	23 750.6 [3]	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	34 892.2	9 700.3	600.0
1998	1.8 (1992–96)	25 645.4			

1 The figures for nominal GNP are revised from time to time. The growth rates for 1988–92 to 1991–95 shown in the table therefore differ slightly from the percentages calculated on the basis of the latest available data.

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

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

4 Maximum distribution of Sfr 600.0 million plus around Sfr 457.8 million (difference between maximum distributable profit of Sfr 600 million and actual distribution of approximately Sfr 142.2 million for the 1995 financial year)

3.5 Notes regarding off-balance-sheet business

	1997 Sfr millions	Change from previous year Sfr millions
Contingent liabilities		
Documentary credits[1] (secured by separate balances)	5.4	+0.1
Outstanding undertakings		
General Arrangements to Borrow (GAB)[2]	2 003.7	+23.0 [6]
Swap agreements[3]:		
Federal Reserve Bank of New York	5 819.6	+419.6 [6]
Bank of Japan	2 239.2	−83.0 [6]
Bank for International Settlements (BIS)	872.9	+62.9 [6]
Two-way-arrangement (IMF)[4]	42.4	−175.4
Extended Structural Adjustment Facility (ESAF II)[5]	160.8	−133.8
Additional funding obligations		
BIS registered shares[7]	118.6	+5.4
Fiduciary transactions		
Fiduciary investments of the Confederation	152.4	−207.8

	Nominal value Sfr millions	Gross replacement value Sfr millions positive	 negative
Forward contracts			
on currencies[8]	12 797.3	6.3	300.9
on securities[9]	2 392.8	0.0	0.1
Total	15 190.1	6.3	300.9

1 Chiefly in connection with development aid provided by the Confederation.

2 Credit line to the amount of XDR 1,020 million in favour of the IMF for special cases, without federal guarantee (see pp. 52 f.).

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 National Bank undertaking to purchase Special Drawing Rights against foreign currency up to the agreed maximum of XDR 200 million (see p. 77).

5 Loan undertaking – limited in time – to the IMF's trust fund (see pp. 52 f. and 78).

6 Change due entirely to exchange rates.

7 Only 25% paid up; calculated in gold francs, i.e. additional funding obligation closely related to the gold price; owing to the fall in the gold price, the rise in the number of shares by 3,000 to 16,021 had only a marginal effect on additional funding obligations.

8 From forward transactions (primarily swaps) and spot transactions not yet performed.

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

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

At its meeting of 6 March 1998, the Bank Council accepted the proposal of the Bank Committee to approve the 90th Annual Report for 1997, as presented by the Governing Board, for submission to the Federal Council and the Annual General Meeting of Shareholders.

On 16 March 1998, 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 30 January 1998.

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 net disposable income of Sfr 607 998 949.60 be appropriated as follows:

allocation to the reserve fund (Art. 27, para. 1 NBL)	Sfr	1 000 000.00
payment of a dividend of 6% (Art. 27, para. 2 NBL)	Sfr	1 500 000.00
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	600 000 000.00
	Sfr	607 998 949.60

1 For the proposal regarding appointments to the Bank Council and the Auditing Committee, see pages 60 f.

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 books of account and the annual financial statements (balance sheet, income statement and notes) of the Swiss National Bank for the year ended 31 December 1997. We confirm that we meet the legal requirements concerning professional competence and independence.

Our audit was conducted in accordance with the auditing standards promulgated by the profession, which require that an audit be planned and executed 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 assessment.

According to our assessment, the annual financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Swiss 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 sole central bank and 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 the net disposable income 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, 30 January 1998

The Auditing Committee:

Peter Blaser
Chairman

Gilbert Jobin
Vice-Chairman

Kaspar Hofmann
Certified auditor
Chief auditor

Chronicle of monetary events

March

On 17 March the Federal Council submits a message concerning the partial revision of the National Bank Law to the federal parliament (cf. p. 34).

April

On 8 April the National Bank issues the new 10-franc banknote (cf. p. 44).

June

On 12 June the National Council passes the bill submitted by the Federal Council concerning the partial revision of the National Bank Law, followed by the Council of States on 20 June 1997; both chambers pass the bill without any amendments. The revised law becomes effective on 1 November (cf. p. 34).

On 25 June the Federal Council submits a message concerning the National Bank's participation in the fund for needy victims of the Holocaust/Shoah to the federal parliament (cf. pp. 49 ff.).

September

On 6 September the loan agreement between the National Bank and the International Monetary Fund on participation in the Enhanced Structural Adjustment Facility II (ESAF II) is prolonged by two years (cf. pp. 51 f.).

October

On 1 October the National Bank issues the new 200-franc banknote (cf. p. 44).

On 7 October the Council of States decides not to adopt the motion submitted by the Federal Council concerning a contribution by the National Bank to the fund in favour of needy victims of the Holocaust/Shoah. The National Council had taken the same decision on 29 September (cf. pp. 49 ff.).

On 24 October the group of experts on the "Reform of the monetary order" presents its report to the public (cf. pp. 36 f.).

On 31 October the Bank Council gives its approval to a contribution by the National Bank of Sfr 100 million to the fund for needy victims of the Holocaust/Shoah. The amount is credited to the fund's account on 3 November (cf. pp. 49 ff.).

November

With its message of 12 November the Federal Council submits the Federal Decree on the Prolongation of Switzerland's Participation in the General Arrangements to Borrow (GAB) of the International Monetary Fund to the federal parliament (cf. pp. 52 f.).

December

At the beginning of December, the Governing Board, in agreement with the Federal Council, decides not to tighten monetary policy in 1998. The National Bank retains the option to counteract any undesirable fluctuations of the exchange rate (cf. pp. 31 ff.).

On 18 December 1997, the National Council decides on Switzerland's accession to the New Arrangements to Borrow of the International Monetary Fund, following earlier approval by the Council of States on 9 October (cf. pp. 52 f.).

Tables and statistical data

1 Business results since 1987

in Sfr millions

	1987	1988
Income from		
gold transactions	–	–
foreign currency investments	1 462.7	1 924.0
reserve position in the IMF[1]	–	–
international payment instruments[1]	–	–
balance of payments aid[1]	–	–
Income from		
securities discounting	17.7	3.3
domestic money market claims	–	–
Lombard advances	27.3	2.8
claims against domestic correspondents	1.9	1.2
domestic securities	128.8	132.9
Other income	5.8	6.7
Gross income	**1 644.2**	**2 070.9**
Interest expense	−44.3	−43.8
Banknote expense	−19.5	−24.0
Personnel expense	−56.0	−59.0
General overheads	−24.2	−29.5
Depreciation of tangible assets	−17.1	−1.3
Net income	**1 483.1**	**1 913.3**
Exchange rate-related valuation adjustments	−3 528.8	1 970.9
Write-down on securities	−66.3	−96.4
Extraordinary expense	–	–
Extraordinary income	–	–
Taxes	−2.6	−1.6
Aggregate income	**−2 114.7**	**3 786.2**
Allocation to provisions		−3 778.6
Release of provisions	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 for the account of the Confederation and cantons	5.1	5.1

1 posted to foreign currency investments until 1991

2 due to changes in valuation principles

1989	1990	1991	1992	1993	1994	1995	1996	1997
–	–	–	–	–	–	–	–	2.6
2 848.7	2 585.1	3 084.7	2 498.8	2 348.4	1 618.4	1 910.7	1 794.8	2 067.5
–	–	–	3.3	40.3	32.1	45.6	55.1	69.9
–	–	–	4.3	11.3	12.9	12.4	13.6	14.0
–	–	–	6.1	8.7	8.9	12.1	10.7	12.9
33.9	44.2	37.1	31.6	4.0	–	–	–	–
–	–	–	11.2	59.0	57.2	55.5	32.6	22.9
5.7	3.9	2.6	2.5	1.8	2.0	0.9	0.9	0.9
7.3	10.8	12.6	12.2	6.9	7.0	3.8	2.3	1.7
149.5	160.2	176.1	184.3	315.9	228.7	238.1	260.3	262.4
6.3	6.1	6.6	14.1	17.8	15.3	8.9	12.9	13.4
3 051.3	**2 810.3**	**3 319.6**	**2 768.3**	**2 814.2**	**1 982.5**	**2 288.0**	**2 183.2**	**2 468.4**
−59.4	−107.0	−89.5	−98.8	−296.3	−213.1	−101.6	−49.3	−67.1
−21.3	−20.5	−23.1	−26.4	−54.6	−57.6	−59.3	−15.1	−32.0
−61.3	−69.5	−77.0	−79.8	−79.4	−83.3	−79.8	−82.0	−79.6
−72.3	−59.9	−64.9	−54.2	−55.0	−47.0	−56.6	−54.0	−55.2
–	–	–	–	–	–	–	−10.1	−9.9
2 837.0	**2 553.4**	**3 065.1**	**2 509.1**	**2 328.9**	**1 581.5**	**1 990.7**	**1 972.7**	**2 224.5**
1 089.9	−3 976.8	1 697.1	692.6	764.1	−2 338.9	−3 531.4	4 412.1	1 765.2
−35.8	−48.3	−37.0	−35.1	−67.7	−45.5	−66.0	–	–
–	–	–	–	–	−50.3	−0.9	–	−100.0
–	–	–	–	–	–	–	2 077.1[2]	6.0
−0.3	−3.4	–	−8.7	–	–	–	–	–
3 890.8	**−1 475.0**	**4 725.2**	**3 157.9**	**3 025.3**	**−853.2**	**−1 607.6**	**8 461.9**	**3 895.7**
−3 883.2		−4 117.6	−2 549.5	−2 417.3			−7 396.1	−3 287.7
	1 482.6				1 461.2	1 757.8		
7.6	**7.6**	**607.6**	**608.4**	**608.0**	**608.0**	**150.2**	**1 065.8**	**608.0**
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	605.1	605.9	605.5	605.5	147.7	1 063.3	605.5

2 Summary of balance sheets since 1987

Year-end values in Sfr millions

Assets

	1987	1988
Gold holdings and claims from gold transactions		
gold holdings	11 903.9	11 903.9
claims from gold transactions	–	–
Foreign currency investments		
not exchange rate-hedged	18 656.5	22 327.3
exchange rate-hedged (swaps)	18 783.4	13 619.4
Reserve position in the IMF	–	–
International payment instruments[1]	18.5	30.5
Balance of payments aid	–	–
Domestic money market claims	–	–
Swiss bills of exchange	2 246.8	2 133.8
Confederation treasury notes	54.9	–
Lombard advances	3 126.9	795.9
Claims against domestic correspondents	460.1	416.0
Domestic securities	2 190.8	2 421.4
Participations[2]		
Tangible assets[2]		
Sundry assets	248.9	257.2
Non paid-up share capital	25.0	25.0
Balance sheet total	**57 715.7**	**53 930.4**

Liabilities

	1987	1988
Banknote circulation	27 342.3	28 979.2
Sight deposits of domestic banks[3]	17 044.8	6 691.6
Liabilities towards the Confederation[4]	1 362.9	2 530.1
sight	–	–
time	–	–
Sight deposits of foreign banks and institutions	163.1	167.6
Other sight liabilities	72.2	86.3
Sundry liabilities	196.8	22.5
Provisions		
for market, credit and liquidity risks[5]	10 934.0	14 712.5
for operating risks[6]	490.0	630.0
Share capital	50.0	50.0
Reserve fund	52.0	53.0
Net disposable income – annual profit	7.6	7.6
Balance sheet total	**57 715.7**	**53 930.4**

The accounting and valuation principles applied since 1996 are explained on pages 68 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

1989	1990	1991	1992	1993	1994	1995	1996	1997
11 903.9	11 903.9	11 903.9	11 903.9	11 903.9	11 903.9	11 903.9	11 903.9	11 448.2
–	–	–	–	–	–	–	–	458.3
21 760.4	22 480.5	25 710.4	26 204.8	29 042.8	28 626.0	27 767.8	36 462.9	40 780.2
17 859.8	14 729.3	14 521.7	19 653.0	17 988.3	17 284.4	14 044.8	12 865.5	12 490.3
–	–	–	1 144.4	1 221.6	1 241.5	1 687.7	2 067.8	2 765.0
123.6	112.9	117.3	134.9	332.7	414.8	408.2	290.0	452.4
87.1	–	97.1	156.4	218.4	198.3	173.7	204.3	315.4
–	–	–	467.7	752.5	720.5	1 436.2	1 581.7	673.5
542.7	711.1	522.1	353.4	–	–	–	–	–
–	–	–	–	–	–	–	–	–
704.1	165.7	107.0	26.9	13.5	14.9	4.7	764.2	0.4
458.3	567.0	552.8	493.0	595.8	565.8	429.2	514.5	415.4
2 574.0	2 814.0	2 886.1	2 975.7	2 973.2	3 027.1	3 063.9	4 821.5	4 941.0
							51.0	89.6
							532.4	567.4
251.7	221.3	313.2	261.0	707.0	778.0	1 064.3	452.1	482.2
25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
56 290.6	**53 730.7**	**56 756.6**	**63 800.1**	**65 774.7**	**64 800.2**	**62 009.4**	**72 537.0**	**75 904.5**

29 168.4	29 640.5	29 217.1	29 353.5	29 335.6	30 545.1	30 892.2	32 447.6	32 141.8
4 948.4	4 595.3	4 275.6	4 785.5	4 776.7	3 837.2	4 035.0	4 927.4	5 100.8
2 571.9								
–	621.7	3.4	245.1	192.3	595.2	917.4	839.5	155.6
–	785.0	400.0	3 450.0	2 940.0	2 850.0	1 350.0	815.3	2 301.7
119.0	59.8	114.9	54.7	188.8	46.7	43.3	32.7	47.3
85.4	95.0	104.7	115.1	105.8	108.0	156.3	204.2	230.3
60.2	77.7	66.5	670.5	692.0	734.7	746.5	1 089.0	914.7
18 595.7	17 113.1	21 230.8	23 770.3	26 187.5	24 726.3	22 958.4	30 554.5	33 842.2
630.0	630.0	630.0	640.0	640.0	640.0	650.0	450.0	450.0
50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
54.0	55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0
7.6	7.6	607.6	608.4	608.0	608.0	150.2	1 065.8	608.0
56 290.6	**53 730.7**	**56 756.6**	**63 800.1**	**65 774.7**	**64 800.2**	**62 009.4**	**72 537.0**	**75 904.5**

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 1998

Bank Council	Jakob Schönenberger, Kirchberg/SG, Attorney-at-law, President
(Term of office 1995–1999)	Eduard Belser, Bottmingen, Member of the cantonal government and director of the economics and public health department of Basel Land, Vice-President
The members elected by the Ordinary General Meeting of Shareholders are marked with an asterisk (*).	Henri André, Paudex, Chairman of the Board of André & Cie AG
	Käthi Bangerter, Aarberg, National Councillor, Chairwoman of the Board and Managing Director of Bangerter-Präzisionsteile 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 the Swiss federation of trade unions and Chairwoman of SMUV (metalworkers' and watch-and-clockmakers' trade union)
	Chasper Campell, Sils i. D.
	* Gianfranco Cotti, Locarno, Advocate and Notary, Member 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 (Swiss farmers' association)
	* Hugo Fasel, St Ursen, National Councillor, Chairman of Christlichnationaler Gewerkschaftsbund der Schweiz (Christian trade union federation)
	Laurent Favarger, Develier, Director of SA du Four électrique, Delémont
	Theo Fischer, Sursee, Advocate and Notary
	* Hans-Rudolf Früh, Bühler, President of Swiss union of crafts and small and medium-sized enterprises
	Claudio Generali, Gentilino, Chairman of the Board of Banca del Gottardo, Chairman of the Association of Foreign Banks in Switzerland
	* Gustav E. Grisard, Riehen, Chairman of the Board of Hiag Holding AG, President of the delegation of commerce
	Rudolf Hauser, Zurich, Managing Director of Bucher Holding AG
	* Eugen Hunziker, Rüschlikon
	* Joseph Iten, Hergiswil/NW, Attorney-at-law
	Yvette Jaggi, Lausanne
	* François Jeanneret, Saint-Blaise, Attorney-at-law
	Pierre-Noël Julen, Sierre, Director of Walliser Handwerkerverband (trade association)
	Andres F. Leuenberger, Riehen, Vice-Chairman of the Board of F. Hoffmann-La Roche Ltd, Chairman of the Swiss federation of commerce and industry (Vorort)
	* Jean-Philippe Maitre, Vésenaz, National Councillor, Attorney-at-law
	Ursula Mauch, Chemist, Oberlunkhofen
	Margrit Meier, Gümligen, Executive Secretary of the Swiss federation of trade unions
	Carlo de Mercurio, Lutry, Chairman of the Board of CDM Hôtels & Restaurants SA
	* Félicien Morel, Belfaux
	* Philippe Pidoux, Lausanne, National Councillor, Attorney-at-law
	Heinz Pletscher, Löhningen, Building contractor, Chairman of the Swiss contractors' association

* Guido Richterich, Bottmingen

Paul Rutishauser, Götighofen, Agriculturist

Kurt Schiltknecht, Zumikon, Managing Director of BZ Trust Ltd

* Peter Spälti, Hettlingen, Chairman of the Board of Winterthur Swiss Insurance Company

Judith Stamm, Lucerne, National Councillor

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

* Alexandre Swoboda, Geneva, Professor at The Graduate Institute of International Studies

Ulrich Zimmerli, Gümligen, President of the Council of States and Professor of law at the University of Berne

* Elisabeth Zölch-Balmer, Berne, President of the cantonal government and director of the economics department 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

Ernst Frey-Burkard, Kaiseraugst, Chairman of the Board of Ernst Frey AG and of Helfenstein und Natterer AG, Chairman

Hans Keiser, Staufen, Member of the Board and Director of Seetal Schaller AG, Deputy Chairman

Silvia Huber-Meier, Lengnau/AG, Managing Director of DOMACO, Dr. med. Aufdermaur AG

Basle

Peter Grogg, Bubendorf, Chairman of the Board of Bachem AG, Chairman

Klaus Endress, Reinach, Managing Director of Endress + Hauser (International) Holding AG, Deputy Chairman

Raymond R. Cron, Basle, Member of the management of Batigroup Holding Ltd Berne

Berne

Theodor Fässler, Mörigen, Chairman of the Board of Mikron Holding AG, Chairman

Karl Gnägi, Wohlen near Berne, Chairman of the Board of Asklia Holding AG, Deputy Chairman

Gisèle Girgis-Musy, Berne, Director of Genossenschaft Migros Berne

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

Pierre Baroffio, Renens, Member of the Board of Bobst AG, Deputy Chairman

Rolf Mehr, St-Prex, President of the Executive Board of Groupe Vaudoise Assurances

Lucerne

Gerry Leumann, Meggen, Chairman of the Board and Managing Director of Collano 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 IMEL Energy Ltd, Deputy Chairman

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

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

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

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

Willy Egeli, Wittenbach, Chairman of the Board and Managing Director of Egeli AG, Holding, President of Schweizerischer Verband Creditreform

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 1997/1998)

Members

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

Gilbert Jobin, Delémont, Vice-Chairman

Kaspar Hofmann, Certified Auditor, Adliswil, Hofmann Wirtschaftsprüfung AG

Substitute members

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

Maryann Rohner, Certified Auditor, Zurich, Treureva AG

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, Assistant Director, 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	Michel Peytrignet, Deputy Director
	Research	vacant
	Economic Analysis	Eveline Ruoss, Assistant Director
	International Monetary Relations Section	Werner Hermann, Deputy Director
	Banking Studies Section	Urs W. Birchler, Director
	Studies	vacant
	Statistics Section	Christoph Menzel, Director
	Monetary Statistics	Robert Fluri, Assistant Director
	Balance of Payments	Thomas Schlup, Assistant Director
	Data Bank	Rolf Gross, Assistant Director
	Legal and Administrative Division	Peter Klauser, Director
	Legal Service	Peter Merz, Director
	Personnel	Christine Breining-Kaufmann, Director
		Beat Blaesi, Assistant Director
	Pension Fund	Peter Hadorn, Deputy Director
	Premises, Technical Services	Theo Birchler, Assistant Director

Department II (Berne)	
Head of Department	Jean-Pierre Roth, Vice-Chairman of the Governing Board
Deputy Head of Department	Hans Theiler, Director
Security	Hans Balzli, Assistant Director
Banking Division	Theodor Scherer, Director
Securities	Hans-Christoph Kesselring, Deputy Director
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)	
Head of Department	Bruno Gehrig, Member of the Governing Board
Deputy Heads of Department	Erich Spörndli, Director
	Erwin Sigrist, Director (as from 1 February 1998)
Monetary Operations Division	Erich Spörndli, Director
Management Support	Dewet Moser, Assistant Director
Foreign Exchange Section	Karl Hug, Deputy Director
Investment Section	Thomas Stucki, Assistant Director
General Processing and Informatics Division	Erwin Sigrist, Director (as from 1 February 1998)
Management Support Payment Systems	Daniel Heller, Assistant Director
General Processing Section	Daniel Wettstein, Deputy Director
Domestic Payments	Walter Gautschi, Assistant Director
Foreign Payments	Beat Spahni, Assistant Director
Cashier's Office Zurich	Roland-Michel Chappuis, Assistant Director
Administration	Markus Steiner, 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 appears in April in German, French, Italian and English.

Obtainable from: Swiss National Bank, Secretariat General, Bundesplatz 1, 3003 Berne,
tel. 031 327 02 11, fax 031 327 02 21
Free of charge

Statistical yearbook of the Swiss banks

The statistical yearbook of the Swiss banks provides commented source material on the development of the banking sector in Switzerland. It is compiled mainly from data contained in the year-end statistics of the National Bank. The yearbook is published in mid-year 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]

Balance of payments of Switzerland

This comment on the development of the balance of payments is published once a year in German and French; it is also issued as a supplement to the Quarterly Bulletin.

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 includes the Governing Board's quarterly report to the Bank Council on the economic and monetary situation, economic studies and selected papers on monetary policy issues by staff members. The Quarterly Bulletin is published four times a year 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 25.00 per year[1] (other countries Sfr 30.00),
for subscribers of the Statistical Monthly Bulletin: Sfr 15.00 per year[1] (other countries Sfr 20.00)

1 including 2% VAT

Statistical Monthly Bulletin	The Statistical 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 applicable airmail surcharge)
Monthly Bulletin on Banking Statistics	The Monthly Bulletin on Banking Statistics is 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 of charge (supplement to the Statistical 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. 031 327 02 11, fax 031 327 02 21 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 including 2% VAT

Design
Weiersmüller Bosshard Grüninger WBG, Zurich

Composition
typolitho ag, Zurich

Printing
Buri Druck AG, Wabern-Berne

ISSN 1421-6477

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