91st Annual Report

1998

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA

Responsibilities and goals of the Swiss National Bank

General remarks

The Swiss National Bank conducts the country's monetary policy as an independent central bank. In conjunction with fiscal and competition policy, this serves to create an appropriate environment for economic growth. The National Bank is obliged by Constitution and statute to act in accordance with the interests of the country as a whole. It considers price stability to be a primary goal.

Price stability

Price stability is an important precondition for growth and prosperity. Inflation and deflation are inhibiting factors for the decisions of consumers and producers, they disrupt economic development and put the economically weak at a disadvantage. In order to keep the price level stable, the National Bank orients its monetary policy to the growth potential of the economy.

Promoting the efficiency of the payment system

One of the National Bank's prime responsibilities is to promote the efficiency of the payment system. The National Bank, together with the banks and Swiss Post, is a major institutional operator of the payment system.

Ensuring the supply of cash

The note-issuing privilege is vested in the National Bank by law. The Bank supplies the economy with banknotes that meet high standards with respect to quality and security. It is also entrusted by the Confederation with the task of coin distribution.

Cashless payment transactions

In the field of cashless payment transactions the National Bank provides services for payments between banks, where it can make a major contribution to the security and efficiency of the payment system. These payments are settled via the Swiss Interbank Clearing (SIC) system.

Investment of currency reserves

The National Bank is responsible for investing the currency reserves (gold, foreign exchange, international payment instruments). Currency reserves help to ensure confidence in the Swiss franc, serve to prevent and overcome crisis situations and are utilised for interventions in the foreign exchange market.

Statistics

The National Banks compiles various statistical data, notably regarding banking activity and Switzerland's balance of payments.

Tasks on behalf of the Confederation

The National Bank advises the federal authorities on issues of monetary policy. It also acts as the bank of the Confederation.

Stability of the financial system

The stability of the financial system depends primarily on the soundness of individual market participants and effective supervision of banking. The latter responsibility rests on the Federal Banking Commission. The chief contribution of the National Bank consists in a stability-oriented monetary policy and the promotion of an appropriate framework for the Swiss financial centre. The National Bank acts as lender of last resort.

Swiss National Bank
91st Annual Report 1998

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

We look back on an eventful year. Notably economic and social difficulties in large parts of the world and their implications for both the financial markets and real international economic developments have been of particular concern to us.

All in all, 1998 was a gratifying year for our economy. Though exports lost momentum, domestic demand, notably private consumption, picked up. In the construction industry the situation stabilised. These developments had a perceptible impact on the labour market. The number of unemployed declined markedly, with the trend, however, being overstated by statistical influences. Nevertheless, this is a positive indication of the flexibility of the labour market.

Monetary conditions made a significant contribution to the economic recovery. We supported this positive development by conducting a generous monetary policy. In the given circumstances, price stability is not jeopardised by this policy. It continues to be an important prerequisite for a balanced overall economic development. Moreover, price stability is also a social concern, since the weakest members of society suffer the most from inflation.

Work in connection with the reform of the monetary constitution progressed according to plan. Now that the mandate has been specified, independence and accountability have been incorporated and provisions concerning the monetary reserves have been laid down, the planned constitutional article conforms to modern standards.

At the beginning of 1999 the European Monetary Union became a reality. A large majority of the members of the European Union opted for the euro as a common currency. The European Central Bank assumed responsibility for monetary policy. These events are a milestone in the process of European integration. They are also of considerable significance for Switzerland. We have noted with satisfaction that the aims and concepts of the European Central Bank are largely in conformity with our own ideas. As regards the future development, we are confident even if the extent of the challenges facing us cannot be overlooked.

The efforts under way to come to terms with the role played by Switzerland during the Second World War have been continued. In the spring, the Independent Commission of Experts under the chairmanship of Professor Bergier published an interim report on the gold transactions. A conclusive assessment will appear in the final report.

The National Bank's earnings continue to permit a distribution of profits to the Confederation and the cantons. Following allocation to the reserve fund and payment of the usual dividend and per capita contribution to the cantons, profit distribution – according to the new agreement with the Confederation – amounts to Sfr 1.5 billion.

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

Berne, 5 March 1999

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

Crises in East Asia and Russia

In 1998, the world economy was dominated by the crises in East Asia and Russia. In East Asia, the financial crisis that broke out in mid-1997 triggered a very sharp downturn in growth. Russia's economic and political problems came to a head in the first half of 1998. International aid failed to prevent a further financial crisis. As investors took fright, large amounts of capital flowed out of the emerging markets. This also plunged a considerable number of Latin American countries into economic difficulties.

Tremors in the financial markets

The financial and economic crises in various parts of the world also sent tremors through the financial markets of the industrialised countries. In the summer, the Russian crisis triggered a huge fall in share prices. These price declines, the liquidation of speculative positions and the bailing-out of an American hedge fund that had come close to bankruptcy led to massive write-downs at international financial institutions. A measure of calm returned in the final quarter of the year, however. Interest rate cuts by the Federal Reserve Board helped in particular to ease the situation.

Slower growth in the industrialised nations

The economic crises and the turbulence in financial markets had a damaging impact to varying degrees on the industrialised countries. Japan was hardest hit. In most other industrialised nations, export growth tailed off perceptibly while general business sentiment worsened. Thanks to improving domestic demand, however, there was no drastic decline in overall growth rates. In the OECD countries, real gross domestic product (GDP) grew by an average of 2.2% in 1998, compared with 3.2% in 1997. The decrease can be ascribed in large part to the recession in Japan.

US economy still buoyant

The US economy grew by about 4% in 1998, roughly the same rate as in the previous year. Domestic demand was the main support for the economy, whereas export activity waned noticeably. Despite the upbeat economy, growth in industrial output slowed down during the course of the year. This was partly the result of the Asian crisis.

UK's upswing runs out of steam

Economic growth in the United Kingdom lost momentum in the past year. Consumer spending remained lively (though less so than in 1997) while investments and exports levelled off. The UK economy not only felt the effects of the Asian crisis, but also the restrictive monetary policy pursued by the central bank until mid-year in a bid to prevent the economy from overheating.

Recovery on the European continent

In Germany and France, the economic recovery initially gained fresh momentum in 1998. Domestic demand revived in both countries, thus helping to offset the effects of a flagging export industry. Towards the end of the year, however, signs of a slowdown began to increase. In contrast to Germany and France, Italy again failed to recover from its economic weakness in 1998. Growth rates in most of the smaller western European countries were much higher than those in the major economies. The decline in interest rates prior to the launch of the euro had a particularly beneficial effect. In the European Union (EU), at 2.8% on average, real GDP grew at roughly the same rate as in 1997.

Recession in Japan

At the end of 1997, the Japanese economy slipped into recession after the government's large-scale economic stimulation programmes had brought about a temporary revival in the preceding years. The crisis in the East Asian countries dealt a blow not only to the export sector but also to Japan's banking system, which has been faced with severe structural problems. The government launched another series of economic stimulation programmes while also deregulating various areas of the economy and taking steps to restructure the banking system.

Unemployment falls

A considerable number of jobs was created in the USA and the United Kingdom, thereby reducing unemployment. On the European continent, too, the situation on the labour markets improved: modest growth in the workforce was accompanied by the first fall in unemployment since 1994. The average unemployment rate for the EU as a whole, however, was still a substantial 10.6%. In Japan, unemployment rose to a record 4.1%.

Inflation still very low

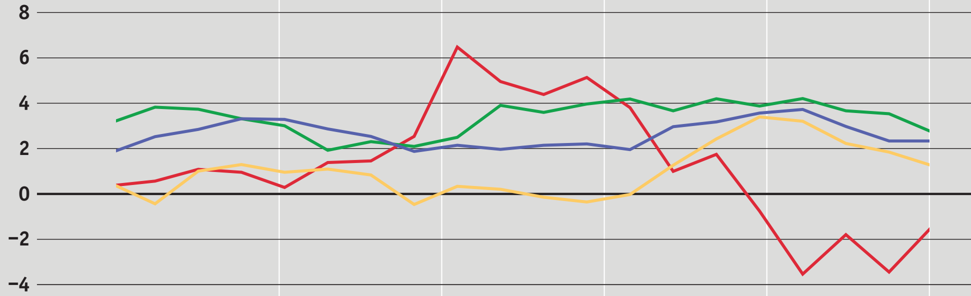
Consumer price inflation continued to decline in most OECD countries in 1998. This was due both to a sharp decline in commodities prices and to cheaper imports from East Asia. On average (and excluding high-inflation countries), inflation in the OECD dropped by 0.7 percentage points to 2% from the previous year's level. Of the major industrialised countries, only the United Kingdom witnessed a rise in inflation compared with the previous year.

1994 1995 1996 1997 1998

Real gross domestic product

USA
Japan
OECD Europe
Switzerland

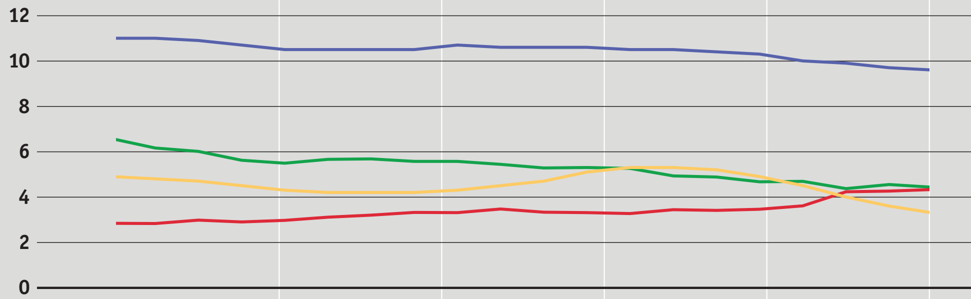
Change in percent
from previous year.
Source: OECD



Unemployment

USA
Japan
OECD Europe
Switzerland

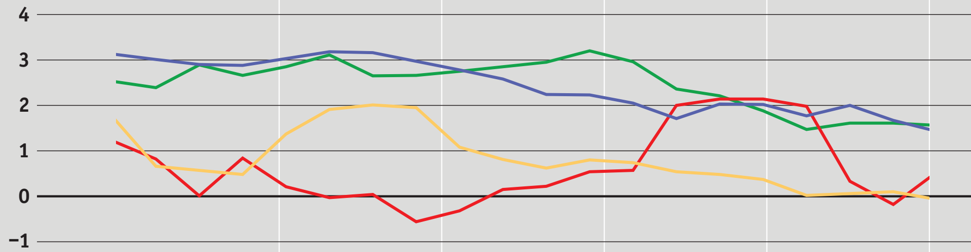
In percent of labour force.
Source: OECD



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

1994 1995 1996 1997 1998

Summary of data on economic activity

	1994	1995	1996	1997	1998
Real GDP Change from previous year in percent					
USA	3.5	2.3	3.5	3.9	3.9
Japan	0.7	1.4	5.2	1.4	−2.6
Germany	2.8	1.3	1.3	2.3	2.5
France	2.8	2.1	1.6	2.3	3.2
United Kingdom	4.4	2.8	2.6	3.5	2.0
Italy	2.2	2.9	0.7	1.5	1.5
EU	3.0	2.4	1.8	2.7	2.8
Switzerland	0.5	0.6	0.0	1.7	2.1
Unemployment in percent					
USA	6.1	5.6	5.4	4.9	4.5
Japan	2.9	3.2	3.4	3.4	4.1
Germany	9.6	9.5	10.4	11.5	11.1
France	12.3	11.6	12.3	12.5	11.8
United Kingdom	9.3	8.0	7.3	5.5	4.7
Italy	11.3	12.0	12.1	12.3	12.3
EU	11.5	11.2	11.3	11.2	10.6
Switzerland	4.7	4.2	4.7	5.2	3.9
Consumer price inflation in percent					
USA	2.6	2.8	2.9	2.3	1.6
Japan	0.7	−0.1	0.1	1.7	0.7
Germany	2.7	1.8	1.5	1.8	1.0
France	1.7	1.8	2.0	1.2	0.7
United Kingdom	2.5	3.4	2.5	3.1	3.4
Italy	3.9	5.4	3.9	1.8	1.7
EU	3.0	3.1	2.5	1.9	1.7
Switzerland	0.9	1.8	0.8	0.6	0.0
Current account balance in percent of GDP					
USA	−1.8	−1.6	−1.8	−1.9	−2.7
Japan	2.8	2.1	1.4	2.3	3.2
Germany	−1.0	−1.0	−0.6	−0.2	−0.5
France	0.6	0.7	1.3	2.7	2.6
United Kingdom	−0.3	−0.5	−0.3	0.6	−0.6
Italy	1.4	2.4	3.3	2.9	3.2
EU	0.3	0.6	1.0	1.4	1.4
Switzerland	6.7	7.0	7.2	8.2	8.1

Some 1998 figures are estimates.
Source: OECD

The financial crisis had grave repercussions in East Asia. In Thailand and South Korea, GDP contracted by approximately 8% each in 1998, in Indonesia even by approximately 15%. Malaysia and Hong Kong (China), which were initially spared the worst of the crisis, also suffered a serious downturn in economic activity in the first half of the year. In mainland China, too, economic growth eased off. In many countries – notably Thailand, South Korea and Indonesia – the crisis exposed structural weaknesses in the banking sector and insufficient supervision of the financial sector. Towards the end of the year, the economic downturn moderated in all three countries. This improvement was due in part to financial support from the International Monetary Fund (IMF) and steps towards structural reform. Gradual exchange rate stabilisation following sharp depreciation in the previous year allowed all three countries to lower their interest rates.

Crisis in East Asia ...

The economic situation in Russia deteriorated rapidly in the first half of the year. The government was unable in particular to rein in its budget deficit. As the markets became increasingly nervous, interest rates on government paper soared. Despite financial aid from abroad, the rouble (which had been pegged to the dollar) came under strong pressure in the summer. The government announced that it would be restructuring its short-term rouble-denominated debts and imposed a moratorium on the repayment of private-sector debt to private creditors abroad. This accentuated the downward pressure on the rouble. Once allowed to float freely at the beginning of September, the rouble spiralled downwards. Inflation subsequently accelerated and the recession worsened.

... and in Russia

The Russian crisis had little impact on most of the other East European countries. In Poland, Hungary and Slovakia, economic growth slowed only slightly while inflation continued to fall. The Czech economy drifted into a mild recession after monetary and fiscal policies had been tightened in response to the spring 1997 currency crisis. In Romania, the economy continued to contract while inflation fell off markedly.

Eastern Europe resists the crisis

The crises in Asia and Russia also had repercussions on Latin America. Export earnings were hit by declining commodity prices as well as by the Asian crisis. In Brazil, the large current account deficit coupled with a deterioration in government finances dealt a particularly severe blow to investor confidence. This triggered a large-scale exodus of capital. In the late summer, the Brazilian real – which was pegged to the dollar – came under pressure. A financial crisis was headed off (for the time being at least) by large injections of foreign money and the adoption of more stringent monetary and fiscal policies. Whereas Argentina, Chile and Mexico experienced only a moderate downturn, Venezuela plunged into recession.

Problems in Latin America – international financial aid for Brazil

Economic growth in the developing countries of Africa picked up slightly in 1998 despite the adverse effect of sharply declining commodity prices. Inflation continued to fall.

African growth continues

1.2 European integration

Beginning of the third stage of European Monetary Union

1 January 1999 marked the beginning of the third stage of European Monetary Union (EMU). From the same date, the European Central Bank (ECB) – which had begun operating on 1 June 1998 – took charge of monetary policy in the EMU. Also on 1 January 1999, the euro was introduced as a currency in its own right. Since then, the ECB has used the euro for all its transactions. Newly issued government debt of the participating countries is now denominated in euros, and a large proportion of existing government bonds have been redenominated in the new currency.

Participating countries

Eleven countries participated in the third stage of EMU from the start: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. The European Council had recognised in May 1998 that these countries fulfilled the conditions for membership (notably the convergence criteria). Of the four other EU countries, Greece and Sweden failed to meet all the prerequisites while Denmark and the United Kingdom decided for the time to opt out of the third stage of the European Monetary Union.

Fixing of the conversion rates

The bilateral exchange rates between the currencies of the participating countries which were fixed in May 1998 corresponded to the central rates in the exchange rate mechanism of the European Monetary System. These rates, as well as the market rates applicable on 31 December 1998, formed the basis on which the national currencies were to be converted into euros. In this way it was possible to ensure that the external value of the ECU – which, according to the Maastricht Treaty, was to be converted into the euro at a ratio of 1:1 – would not be changed by the introduction of the euro.

Monetary policy of the European Central Bank

The ECB's monetary policy strategy has three main elements: a quantitative definition for price stability, a reference value for the rate of growth of the money stock M_3, harmonised for the euro area, and an estimate of future inflation. The ECB defines price stability as a rise in the harmonised consumer price index not exceeding 2% per annum. For the growth of the M_3 aggregate in 1999, a reference value of 4.5% was fixed. The ECB pointed out that deviations from the reference value would not automatically trigger interest rate changes. And finally, the estimate of future inflation was to be based on an analysis of numerous economic and financial factors.

Instruments of monetary policy

Open market transactions constitute the ECB's chief instrument of monetary policy. These consist mainly of short-term repurchase agreements with a two-week maturity which are concluded at weekly intervals, longer-dated (three-month) repos concluded at monthly intervals, and fine-tuning operations. In addition, the ECB made two standing facilities available: a marginal lending facility and a facility allowing banks to deposit their liquidity surpluses. Moreover, all credit institutions within the meaning of the EU's First Banking Directive are subject to the minimum reserve requirement. The minimum reserves bear interest at the ECB's rate for its main refinancing operation.

The European Council issued three regulations governing the introduction of the euro, the last of which took effect on 1 January 1999. As a result, the national currencies – which continue as sub-units of the euro until 2002 and can be used until that year – were superseded by the euro at the defined conversion rates. In the transitional period, financial obligations have in principle to be met in the currency in which they are denominated unless otherwise agreed by the contractual parties. From the beginning of 2002, banknotes and coins denominated in euros will be put into circulation. Not later than six months afterwards, the national banknotes and coins will cease to be the legal tender of the member countries participating in the third stage of European Monetary Union.

Legal basis for the introduction of the euro

The EU continued its efforts to harmonise the financial sector. ECOFIN (the EU's council of economics and finance ministers) passed a directive allowing banks and investment houses to calculate the equity needed for covering market risks using internal models. Another directive issued by ECOFIN revises the capital adequacy standards applying to derivative financial instruments and permits an extensive exchange of information with supervisory bodies in third-party states.

Continued harmonisation of the financial sector

1.3 Monetary policy

After a number of central banks had tightened the reins slightly in the previous year, monetary policy was left largely unchanged in the major industrialised countries throughout the first three quarters of 1998. In the last few months of the year, the Federal Reserve Board gradually eased its monetary stance to counter the effects of the turbulence in the financial markets and to take account of the more subdued growth prospects. On the European continent, interest rate convergence continued in the run-up to the euro launch. In December, as a downturn in the business cycle began to look more likely, all eleven countries in the euro area reduced their key interest rate to 3%.

Unchanged monetary policy in the first three quarters – easing in final quarter

Between end-September and mid-November, the Federal Reserve Board lowered its Fed Funds rate in three steps from 5.5% to 4.75% and reduced the discount rate from 5% to 4.5%. The Bank of England followed suit, cutting its base lending rate three times by a total of 1.25 percentage points to 6.25% in mid-December. This was a response to flagging economic activity and an easing of inflationary pressures. In June it had raised the lending rate in order to prevent the economy from overheating.

US and UK interest rates lowered

Up to the end of November, the German and French central banks left their key interest rates (repo rates) unchanged at 3.3%. Meanwhile, the central banks of Italy, Spain, Portugal and Ireland brought their key interest rates gradually in line with the German and French rates. On 3 December, all countries in the euro area with the exception of Italy simultaneously lowered their key interest rates to 3%. Italy initially reduced its discount rate from 4% to 3.5%, subsequently lowering it to 3% at the end of December. The final round of interest rate cuts prior to the euro launch ranged between 0.2 percentage points (Austria) and 1 percentage point (Italy). The ECB confirmed that the 3% rate was to

Euro area key interest rates converge at 3%

be seen as the European benchmark and that it intended to hold it at this level for the foreseeable future. A year previously, key interest rates in the future euro area had averaged 4.1%.

Interest rate cuts in Japan

In September, the Bank of Japan lowered its call money rate from 0.5% to 0.25% to prevent any further worsening in the economic situation and to head off deflationary trends.

1.4 Fiscal policy

Budget situation improves

With the exception of Japan, the leading industrial nations saw a continued improvement in their budget situation in 1998. Government debt as a proportion of GDP also declined in most countries. The contraction in government deficits was due to economic growth and declining interest rates; in a number of countries, the situation was improved by the fact that governments were adhering to tight fiscal policies.

Budget surplus in the USA

In the USA, the government posted a budget surplus in fiscal 1997–98 – the first for thirty years. Equivalent to 1.7% of GDP, the surplus was mainly the result of a surge in tax revenues, which was due in turn to the economic uptrend. As business activity is expected to slow down, the budget surplus is likely to contract slightly in fiscal 1998–99.

Improved budget situation in Europe

In the United Kingdom, the government recorded a slight budget surplus of an estimated 0.6% of GDP in 1998, compared with a deficit of 1.5% in the previous year. As in the USA, vigorous economic growth was a major factor contributing to this growth. 1998 also saw a decline in budget deficits in most countries participating in the third stage of European Monetary Union as of 1 January 1999: in Germany and France, the deficit was still 2.1% and 2.9% respectively of GDP, while in Italy it remained at 2.7%. The governments of all three countries plan to trim back their deficits further in 1999.

Drastic deterioration in government finances in Japan

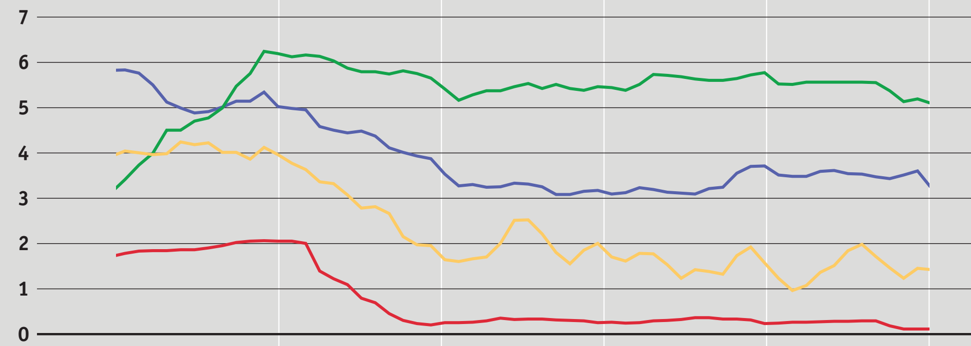
In Japan, expansionary fiscal policies implemented by the government in an attempt to boost economic activity caused the budget deficit for fiscal 1998–99 to balloon to an estimated 6% of GDP. Public debt rose to approximately 100% of GDP.

1.5 Foreign exchange markets

Large fluctuations in dollar exchange rate

Between January and August, the dollar performed strongly against the European currencies. It was buoyed up by economic growth in the USA and an ample flow of money into American investments from East Asia and other emerging markets. Owing to Japan's economic problems, the dollar made particularly large gains against the yen. At the end of August, turbulence in the financial markets caused the dollar to plunge against the European currencies and the yen. It then fluctuated substantially up to the end of the year. Between January

Short-term interest rates



Eurodollar

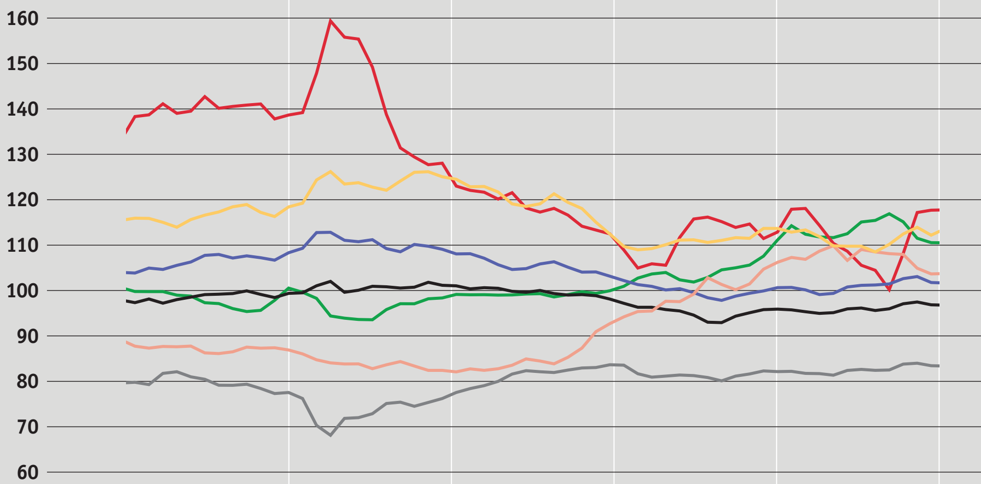
Euroyen

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

and December, the dollar lost a total of 7.3% against the D-mark, 14.5% against the yen and 6.2% against the Swiss franc. Nevertheless, the real trade-weighted dollar exchange rate in December was 1.6% higher than a year previously.

D-mark holds steady

The D-mark held steady against most European currencies in 1998. The only noticeable gain was a 6.8% rise versus the pound sterling. In relation to the Swiss franc, it showed a modest appreciation year-on-year. The real trade-weighted exchange rate of the D-mark fell by 2.5% in the 12 months to end-December 1998.

Calm in the European Monetary System

The situation in the European Monetary System (EMS) remained calm in the run-up to the launch of the euro. This was a reflection of the growing confidence in the new single currency. In March, the Greek drachma was admitted to the System's exchange rate mechanism (ERM). With the exception of this new member, all ERM currencies moved within narrow bands.

EMS II

For those EU currencies remaining outside the euro area, an "EMS II" was set up. The main difference compared with the original EMS is that the central rates of the participating currencies are fixed in relation to the euro rather than bilaterally. Intervention in support of a currency is, in principle, unlimited but may be suspended if price stability – the primary goal of the ECB's monetary policy – is jeopardised. Denmark and Greece have been members of EMS II since the beginning of 1999. Their respective currencies are pegged to the euro within a bandwidth of +/–2.25% (Danish krone) and +/–15% (Greek drachma). The United Kingdom and Sweden have not joined EMS II.

1.6 Financial markets

Continued fall in long-term interest rates

Long-term interest rates in the OECD countries underwent a further decline in 1998. This development was assisted by the continuing downtrend in inflation and low inflationary expectations. In the summer, moreover, sharp price falls on the equity markets prompted many investors to switch their assets increasingly into high-grade government bonds. This brought about a steep drop in the yields on government paper issued by western industrialised countries, thus widening the spread versus corporate bonds. By December, long-term US bond yields had fallen to 4.6%, 1.2 percentage points lower than a year previously.

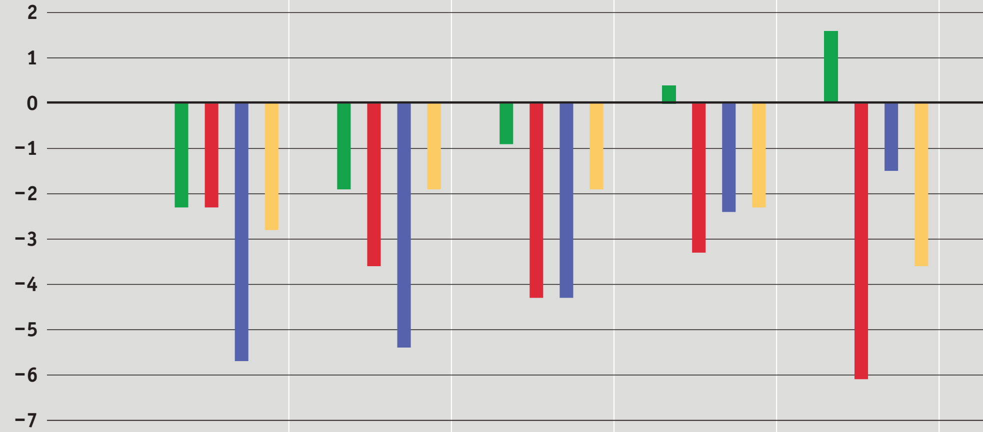
Long-term European rates converge

In the euro-area countries of the EU, long-term interest rates had converged to a large extent even before the new single currency was launched. By the end of the year, the average yield on ten-year government bonds in the eleven EMU countries was 4.1%. The spread between the country with the highest yield (Italy) and that with the lowest yield (Germany) had shrunk to 0.3 percentage points.

Share prices highly volatile

Share prices on most stock markets continued to soar in the first half of 1998, but a massive downturn set in at the end of July. The sea change in sentiment was triggered by the outbreak of the financial crisis in Russia. This induced market players to reassess the risks inherent in numerous emerging markets. In addition, investors were increasingly worried about the growth prospects for the

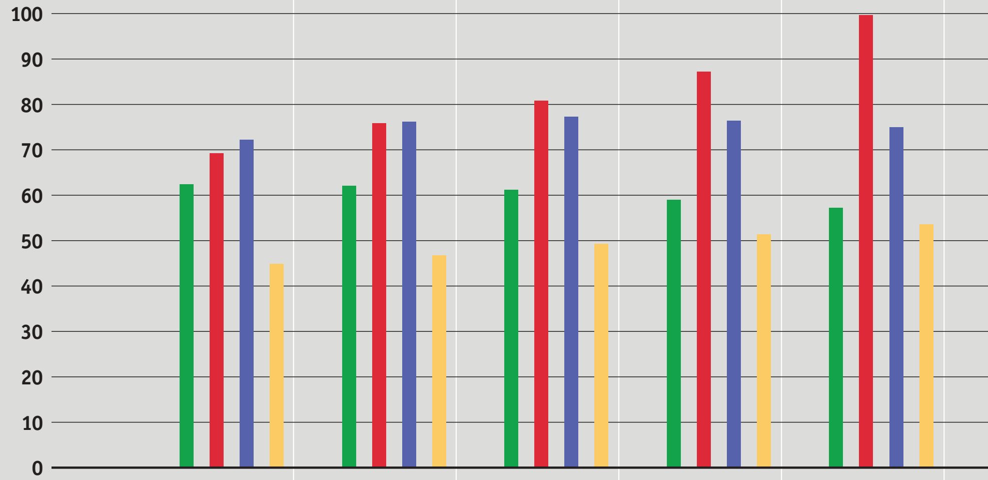
Public-sector financial balances



USA
Japan
European Union
Switzerland

Public-sector financial balances (all levels of government including social insurance) in percent of GDP.
1998: 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.
1998: budget forecasts.
Source: OECD

industrialised countries. In the fourth quarter, share prices in most industrial nations recovered. The recovery was due in large part to the interest rate cuts implemented by central banks in the USA and Europe.

Decline in net borrowing on the international financial markets

Net borrowing on the international financial markets declined by 12% compared with 1997 to a total of $ 912 billion. Of this total, international bank loans accounted for $ 320 billion, money market instruments for $ 7 billion and net sales of medium- and long-term bonds for $ 585 billion. The volume of floating-rate and equity-linked issues increased at the expense of fixed-interest instruments. The currency breakdown changed substantially: while the percentage of issues denominated in dollars rose from 50% to 55%, the share accounted for by EU currencies increased from 32% to 38%. Swiss franc issues took a market share of 1.5%, up from 0.8% in 1997. These increases in market share contrasted with a decline in the relative importance of yen-denominated issues.

Bank earnings fall

The sharp fall in share prices coupled with the effects of the financial crises diminished the earnings of the commercial banks. A major American hedge fund became insolvent and was saved from collapse by a group of large international banks mediated by the Federal Reserve Board.

US and European banks set aside large provisions

The financial debacle in East Asia and Russia compelled internationally active banks in the USA and Europe to greatly increase their provisions for loan losses in the crisis-hit regions. This had a considerable impact on earnings from international business. On the other hand, margins in domestic business were boosted by the economic upswing. The process of concentration in the financial services industry continued. Numerous mergers and acquisitions took place between financial institutions, notably in North America. The German and Swiss futures exchanges entered into an alliance, and a number of other foreign stock exchanges agreed on closer cooperation.

Banking crisis in Japan

In Japan, the situation in the banking sector continued to deteriorate. Having posted large write-downs, the majority of financial institutions reported substantial losses. Two big banks were nationalised, and two regional banks had to cease operating. The government issued a restructuring plan for the banking sector. A fund to provide protection for investors was set up with the help of public money. The government also provided finance for state-run banks, as well as for financial institutions that are continuing to operate as autonomous entities.

Bank failures and government aid in East Asia and Russia

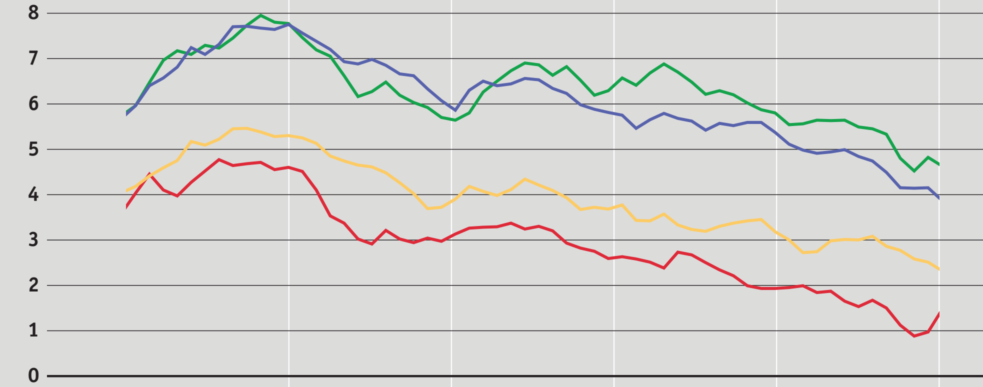
In Thailand, Indonesia, South Korea and Malaysia, numerous banks encountered solvency problems. They either had to close down or were recapitalised with the help of public funds. In Russia, the banking sector had to contend with massive liquidity problems. As a result, one major bank went out of business. The Russian central bank provided short-term loans to shore up the banking sector. Most of the countries affected by the financial crisis announced that they would be subjecting their banking sectors to tighter capital adequacy and provisioning requirements while also creating a more stringent system of banking supervision.

1994 1995 1996 1997 1998

Long-term interest rates

Dollar
Yen
D-mark
Swiss franc

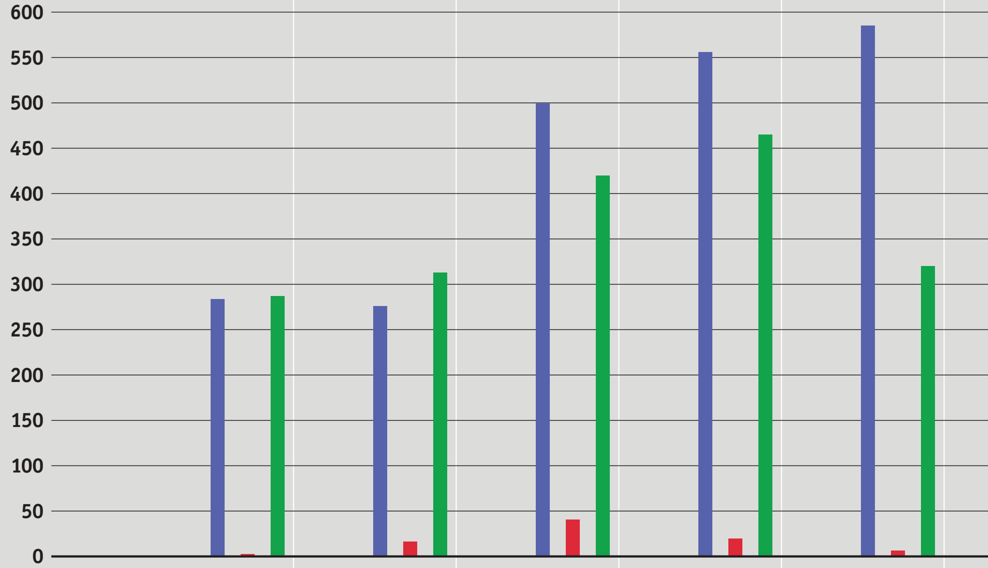
Yield on long-term government bonds, percent per annum.
Source: BIS



Net borrowing in the international financial markets

Bonds and medium-term paper
Money market paper
Bank loans

Billions of dollars.
Source: BIS



1994 1995 1996 1997 1998

2 Switzerland

2.1 Real economic performance

Firmer support for economic upswing

In Switzerland, the economic upswing that had begun in the previous year gained more solid support in 1998. Real GDP expanded on average by 2.1%, compared with a rise of 1.7% in 1997. As export growth – which had powered the early stages of the recovery – eased off, domestic demand took over as the driving force. Private consumption made particularly gratifying progress. Investment in the construction sector posted its first (if still hesitant) advance since 1994, while investment in plant and equipment continued to surge ahead.

Weaker export industry but domestic economy forges ahead

The cooling of the world economy had a serious impact on the export sector. A steady decline set in at the end of 1997: foreign orders had already started tailing off in the autumn of 1997, and by the second half of 1998 even the absolute figures were declining. Owing to the robust domestic economy, however, industrial output grew overall, albeit less markedly than in the previous year. The end-1998 capacity utilisation figure of 86% was the same as a year earlier even though technical capacity had been increased substantially during the year.

Private consumption revives

Private consumption gained further momentum, exceeding the year-back level by 1.8% in real terms. The improvement in the labour market and an increase in real disposable income had a stimulating effect. Both are reflected in the index of consumer sentiment, which reached its highest level for eight years in July and is thus back in the positive zone. Demand for consumer durables strengthened markedly, and the situation in the domestic tourism market continued to improve.

Downslide of building investment arrested

The crisis that had afflicted the construction sector since 1991 finally eased in 1998. Investment in construction rose 0.7% year-on-year, compared with a 1.5% drop in 1997. The upturn was assisted by the federal government's "Impulse" programme and by a number of major transportation projects, which particularly benefited civil engineering. Although the number of vacant properties remained stubbornly high, construction activity in the private residential segment also picked up slightly. Commercial construction revived, albeit on a very low level.

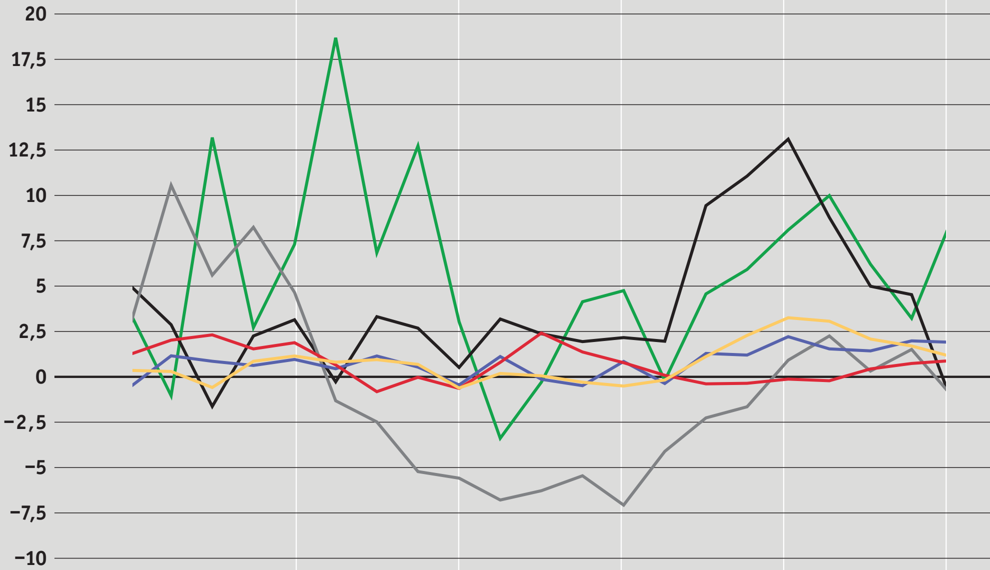
Strong growth in plant and equipment investment

Already growing strongly in the previous year, investment in plant and equipment continued to rise in 1998 (up 7.1% as against 5% in 1997). The steady fall in prices for imported capital goods provided an incentive. As a result of this brisk investment activity, technical capacity was expanded considerably.

Export growth slows

In real terms, growth in goods exports lost momentum during the year. On average over 1998, exports of goods rose by a real 4.9%, as against 7.7% in the previous year. Flagging demand from Japan and crisis-hit East Asia had a particularly strong impact. Shipments to this region fell by 26.1% year-on-year, and their share of total exports declined from 10.3% to 5.6%. Thanks to the European economic revival, exports to the EU rose faster than in 1997, and this helped to offset the decline in Asia. Exports of both capital goods and consumer goods as well as raw materials and semi-manufactures grew at a slower pace on an annual average. Export prices were below the year-back level after having firmed in 1997.

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

Rapid growth in imports

With the domestic economy expanding, merchandise imports grew strongly again in real terms, climbing by 8.1%. Imports of consumer goods showed particularly dynamic growth. Imports of capital goods also rose faster than in the previous year, though imports of raw materials and semi-manufactures levelled off. Following a marked rise in the previous year, import prices declined in 1998. This was largely a reflection of the sharp fall in oil prices.

Improved employment situation

The economic recovery had a pronounced effect on the labour market. On average, employment in 1998 rose by 1.2% after having declined by 1.6% in the previous year. Total employment was still 6.4% below its 1991 peak, however. The improved situation is due for the most part to growth in the service sector. The workforce in this sector rose by 1.6%, with all segments except transport and communications and also the banking industry contributing to the growth. In manufacturing industry, however, employment figures rose only marginally. While the number of people employed in the chemical, electronics and metalworking/machine-building industries rose, employment in other sectors – notably the garment and footwear industry and publishing and printing – declined. The construction sector saw a slight rise – by 0.8% – in employment after the workforce had contracted by approximately 15% compared with its previous peak.

Decline in unemployment quickens

Higher demand for manpower accelerated the decline in unemployment: the seasonally-adjusted unemployment rate dropped from 4.8% in December 1997 to 3.2% in December 1998, and the number of persons without jobs declined by 57,000 to 116,500 in the space of a year. As in 1997, part of the decline in unemployment was due to statistical factors. For one thing, there was an increase in the number of long-term unemployed (i.e. persons no longer eligible for unemployment benefits) and, for another, cantonal work creation programmes also helped to improve the figures. Only about half the long-term unemployed feature in the statistics, while persons taking part in job creation schemes are not included. Even so, the drop in unemployment attributable to cyclical factors was more pronounced than in the previous year. The number of job seekers – comprising both unemployed persons and participants in a cantonal job creation scheme – declined from 241,600 in December 1997 to 198,200 in December 1998. The regional discrepancies remained: unemployment averaged 6.3% in Ticino, 5.3% in French-speaking Switzerland and 3.3% in German-speaking Switzerland. However, the rate declined at a similar pace in all three regions. Foreign nationals as a percentage of the total number of unemployed persons rose slightly to 48%. Short-time working remained low after having declined significantly in the previous year.

Employment figures up

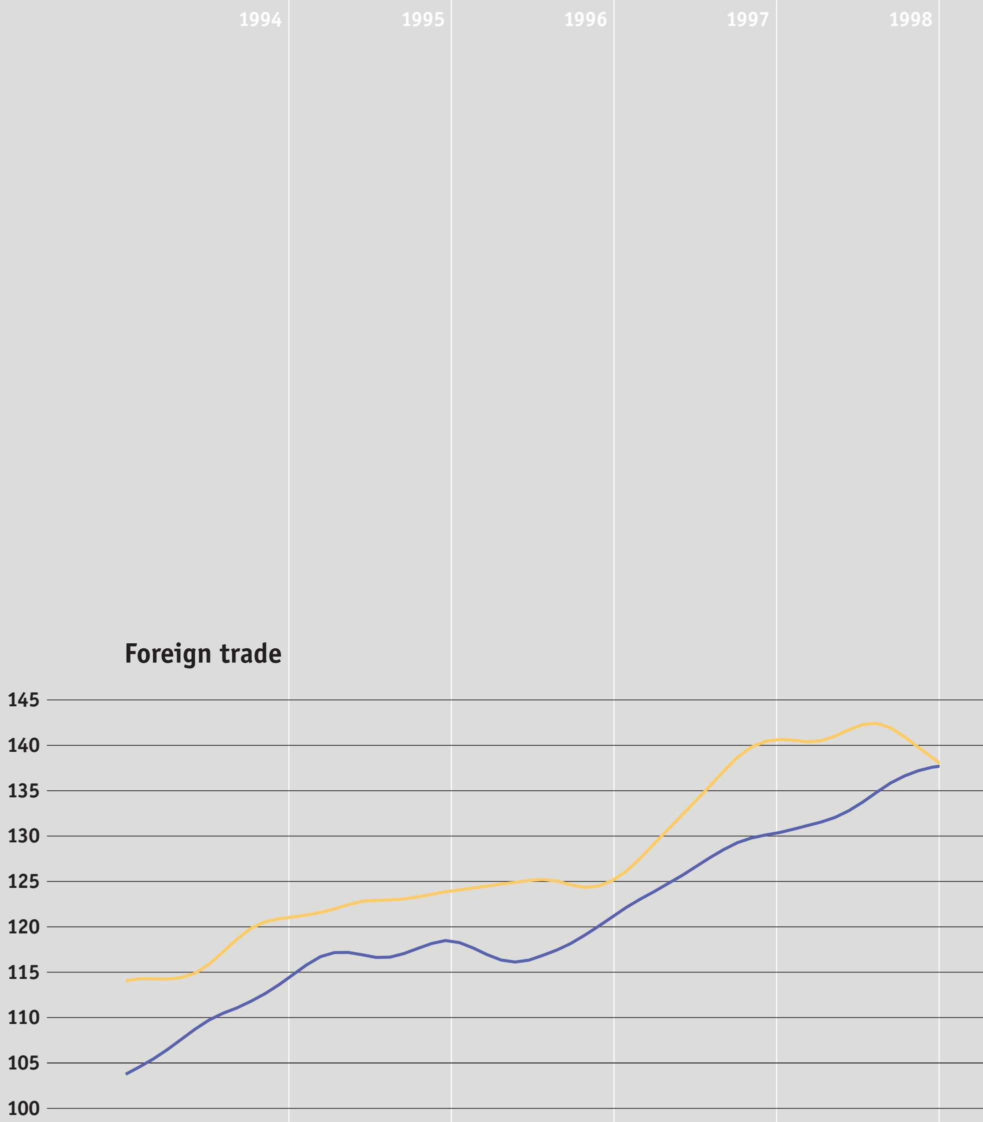
The improved employment situation is reflected in the results of the "SAKE" Swiss labour force survey, which is conducted once a year (in the second quarter). This showed a 1.8% rise in the workforce to 3,833,000 persons, compared with an 0.4% decline in the previous year. While the number of persons in full-time employment rose only slightly (up 1.4%), there were more substantial rises in part-time employment (2.5% in the 50–89% category and 3.2% in the under 50% category). The proportion of "part-timers" as a percentage of the total workforce thus advanced further from 25.4% at the beginning of the 1990s to 28.5%. The percentage of the potential labour force without gainful employment decreased from 4.1% to 3.6%. While the rate for men declined, it rose

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

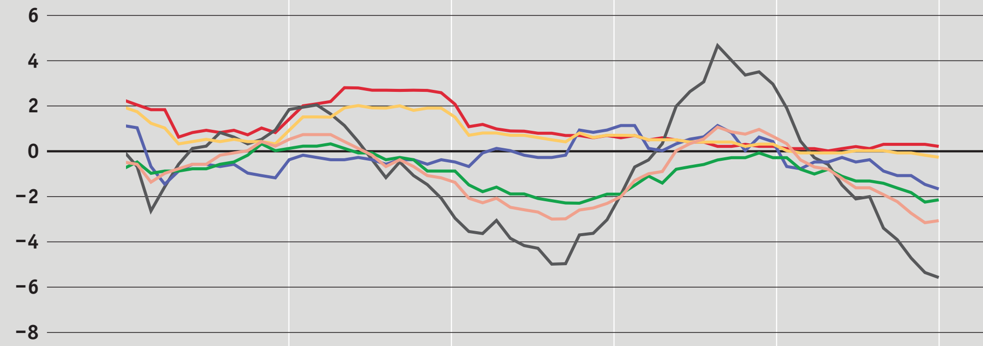
Consumer prices for imported goods

Producer and import prices

Producer prices

Import prices

Percent change from previous year.
Source: Federal Statistics Office

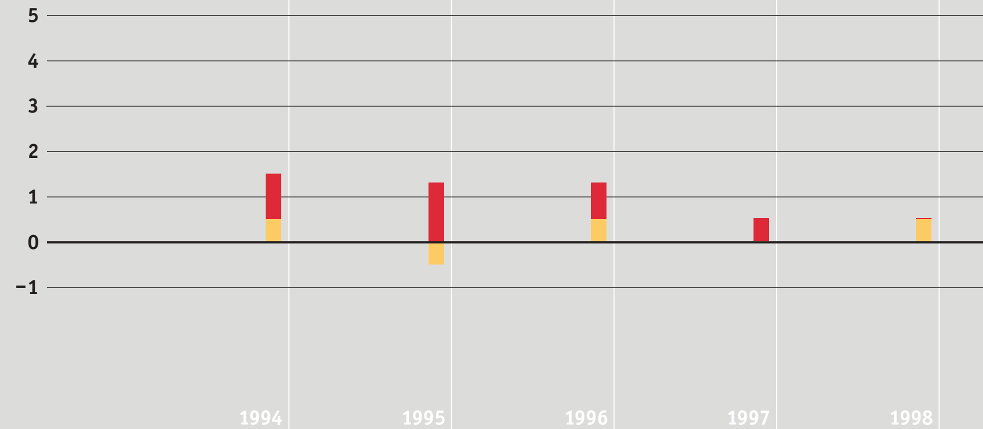


Wages and salaries

Nominal

Real

Wage and salary earnings of employed persons: percent change from previous year (1998: estimate).
Source: Federal Department of Economic Affairs



slightly for women. However, the number of women in employment rose faster (by 2.3%) than the equivalent figure for men. This illustrates that the proportion of women represented in the workforce has grown once more.

Employment and unemployment

	1994	1995	1996	1997	1998
Full-time employment[1] change in percent	−1.4	−0.5	−1.0	−1.8	0.8
Full- and part-time employment[1] change in percent	−1.1	0.1	−0.3	−1.6	1.2
Persons in employment[2] change in percent	−1.7	1.5	0.5	−0.4	1.8
Unemployment rate in percent	4.7	4.2	4.7	5.2	3.9
Number of unemployed thousands	171.0	153.3	168.6	188.3	139.7
Number of part-timers thousands	22.6	9.9	13.1	6.6	3.1
"Manpower job offer index"[3] change in percent	27.2	18.4	−19.8	0.8	36.1

1 according to employment statistics

2 according to the SAKE survey

3 space occupied by job advertisements in Swiss newspapers

Sources: Federal Statistics Office, Federal Office for Industry and Labour, Manpower

Consumer prices stable

Inflation, as measured by the national consumer price index, was 0% in 1998, compared with 0.5% in 1997. The cost of services rose by 0.2% compared with an 0.5% increase in the previous year. The renewed fall in inflation was due in large part to the sharp drop in telecommunications charges resulting from deregulation. The price of goods declined by 0.3% year-on-year after having risen 0.2% in 1997.

Prices of domestic goods rise faster while imported goods become cheaper

Inflation for goods and services produced in Switzerland averaged 0.3%. By contrast, prices of imported goods and services declined by 0.7% (largely due to a sharp fall in the oil price).

Lower prices across the board

The past year saw a decline in both producer prices and import prices, the fall being particularly pronounced for raw materials and semi-manufactures. Producer prices were 1.2% below their year-back level while prices of imported goods – which had risen by 2% in 1997 – declined by 2.2%.

Declining current account surplus

Switzerland's current account surplus fell by Sfr 2 billion to Sfr 31.1 billion in 1998. This latter figure is equivalent to 8.1% of GDP. In value terms, exports of goods rose by 3.2% and imports by 5.2%. The balance of trade (special trade) showed a deficit of Sfr 1.8 billion. The surplus from services contracted by Sfr 0.3 billion to Sfr 18.5 billion over the year. A further rise in revenue from personal travel was recorded while the banks' commission earnings diminished substantially. The surplus from employee compensation and investment income increased by Sfr 0.3 billion to Sfr 20 billion. Investment earnings from abroad rose more markedly overall than the corresponding payments remitted to foreign countries. This was due principally to higher net earnings from direct investment. The deficit from current transfers amounted to Sfr 4.8 billion, slightly less than in 1997.

Current account
balances in billions of Swiss francs

	1994	1995	1996 revised	1997 provisional	1998 estimated
Goods trade	2.2	1.0	1.1	−0.5	−2.7
of which special trade	3.2	1.8	1.9	0.3	−1.8
Services	15.6	15.2	15.4	18.8	18.5
of which personal travel	2.7	2.4	1.6	1.5	1.5
Employee compensation and investment income	10.7	13.9	15.6	19.7	20.0
of which investment income	17.6	20.8	22.4	26.2	26.4
Current transfers	−4.7	−5.0	−5.0	−4.9	−4.8
Total current account	23.9	25.2	27.2	33.1	31.1

2.2 Fiscal policy

Budget surplus at the federal level

In 1998, the federal surplus amounted to Sfr 0.5 billion or 0.1% of GDP. This was Sfr 8.1 billion higher than budgeted, exceeding the previous year's figure by Sfr 5.8 billion. Extraordinary revenues were mainly responsible for this positive result. First, the contribution emanating from the National Bank's profits (Sfr 400 million) was double the projected figure and, second, proceeds from the sale of Swisscom shares were posted to the financial accounts as an extraordinary one-off revenue item. This income led to a better financial result in accounting terms by Sfr 2.9 billion. In addition, the favourable economic situation caused revenues from stamp duty and direct federal tax to outstrip the budgeted figures. On the expenditures side, unused credit lines for the unemployment insurance scheme and lower interest expenses improved the result by Sfr 1 billion compared with the budgeted figure. For 1999, a deficit of Sfr 4 billion or about 1% of GDP is budgeted.

Deficit at the cantonal level ...

Interim figures put the aggregate cantonal deficit at Sfr 3.2 billion, compared with Sfr 3.1 billion in 1997. This is Sfr 1 billion below budget. The improvements vis-à-vis the budgeted figures are due mainly to the National Bank's higher transfer of profits. By contrast, most cantons expect tax revenues to fall short of the projected figures. With regard to expenditures, loans to the unemployment insurance scheme and interest expenses are likely to have fallen.

... and at the communal level

According to the available figures, the communes (municipalities) are expected to have posted a deficit of Sfr 0.3 billion overall in 1998, compared with a budgeted deficit of Sfr 0.6 billion. While most smaller towns and villages reported balanced budgets or even surpluses, the large towns and cities recorded deficits again.

Rise in indebtedness

Total debts of the Confederation, cantons and communes rose – according to estimates – to approximately 53% of GDP. Almost half the debts were attributable to the Federal Government, rather more than 30% to the cantons and just under 20% to the communes.

Programme to reduce the federal deficit

The Federal Council's efforts to tackle the federal budget deficit led to the drafting of a constitutional bill, "Budget Target 2001", which was approved by a referendum in June. The draft legislation lays down binding targets and deadlines for reducing the deficit and imposes sanctions in the event of their being missed. A maximum permissible deficit of 2% of revenues (i.e. approximately Sfr 1 billion) is defined for the year 2001. The interim targets for 1999 and 2000 are deficits not exceeding Sfr 5 billion and Sfr 2.5 billion respectively.

Stabilisation Programme 1998

To comply with Budget Target 2001, a "Stabilisation Programme 1998" was agreed at round-table talks held by representatives of the cantonal governments, the coalition partners, industry and employee organisations; this programme was subsequently submitted to parliament. The economy programme, which comprises revenue-boosting measures and spending cuts resulting in savings of about Sfr 2 billion, focuses mainly on social benefits, transfer payments to the cantons and defence spending. It also lays down savings targets for the Federal Railways and stipulates credit ceilings. The programme plans to boost government revenues by closing a number of tax loopholes.

2.3 Financial markets

Low interest rates

The downtrend in interest rates, already observable since 1995, continued through to February 1998. By the end of February, the average yield on federal bonds had slipped to 2.6%, while the yield on three-month money market debt register claims issued by the Confederation had dropped below 1%. Both short- and long-term rates climbed back again by the summer, the rise being more pronounced at the short end of the market. The international financial crisis pushed interest rates lower again in the second half of the year. By December, the average yield on federal bonds had dropped back to 2.3%, i.e. lower than they had been in February. The growing nervousness on the markets that resulted from the international financial crisis caused the yield spread between Confederation and other paper to widen.

Financial crisis pushes up the Swiss franc's exchange rate

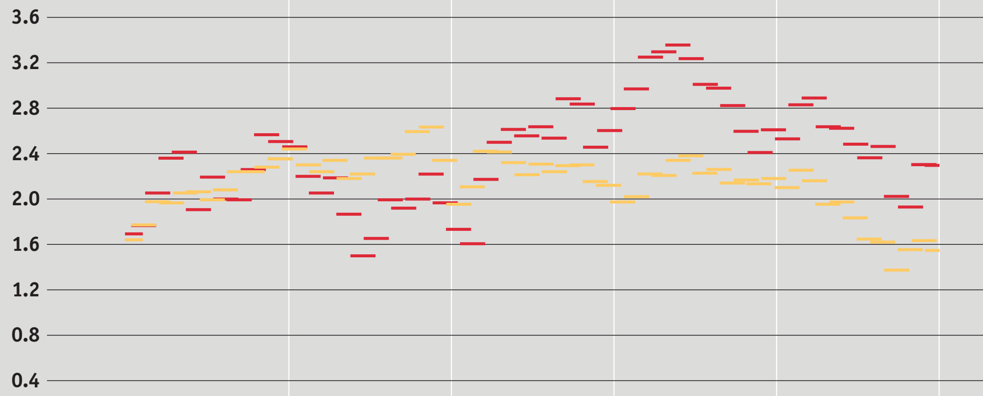
At the beginning of the year, the Swiss franc appreciated in the wake of the financial market turbulence in East Asia. From March onward, the Swiss franc lost ground – particularly against the European currencies – as the market gained confidence in a timely euro launch and in the new currency's stability. As of end-August, however, the international financial crisis pushed the Swiss franc up again. Over the year as a whole, the Swiss franc's exchange rate remained virtually unchanged both in real and export-weighted terms.

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

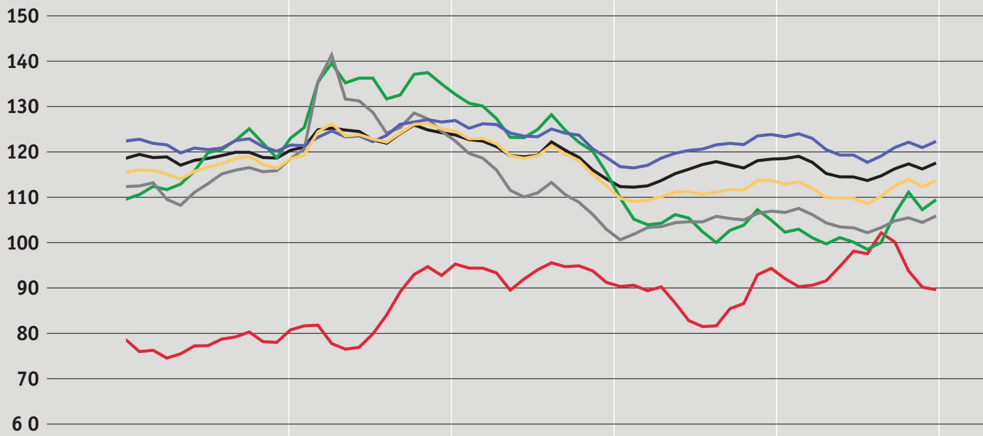
D-mark

Yen

French franc

Lira

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



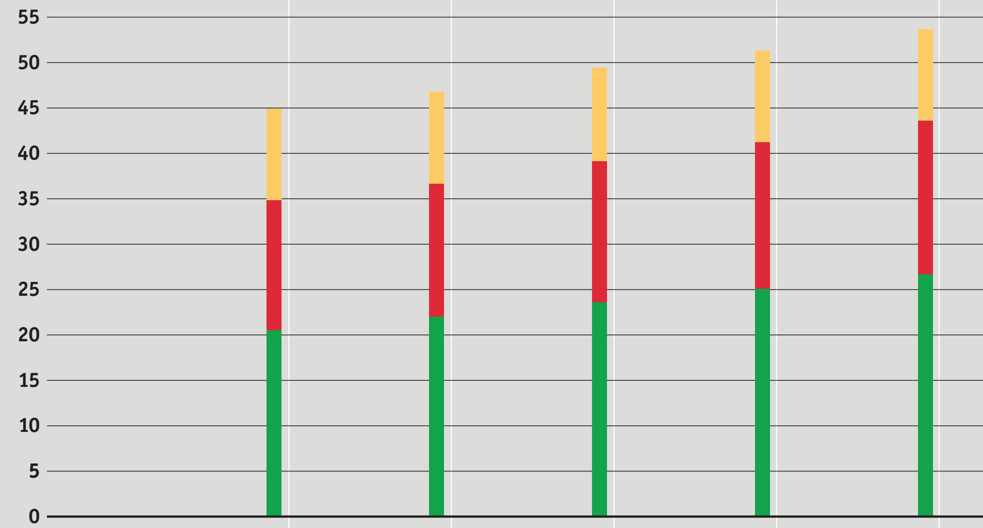
Public-sector indebtedness

Communes

Cantons

Confederation

In percent of GDP
(1998: estimate).
Source: Federal Department
of Economic Affairs



Capital market borrowing

Borrowing on the Swiss capital market increased considerably in 1998 by comparison with the previous year. Net borrowing on the Swiss capital market (i. e. new issues less redemptions) amounted to Sfr 42 billion, as against Sfr 28 billion in 1997. Net borrowing by domestic debtors totalled Sfr 14 billion, twice the previous year's figure. Bond issues accounted for the bulk of these domestic borrowings, whereas share issues were counterbalanced by an almost equal volume of redemptions. Foreign borrowers tapped the capital market for Sfr 28 billion.

Highly volatile equity market

In the first half of the year, the bull market for equities continued. The Swiss Performance Index (SPI) gained 32% between January and end-July, climbing to a peak of over 5200 points. By October, however, it had dropped below 3400 points in the wake of the international financial crisis. While industrial stocks lost about 24% of their value on average, service-sector shares declined by over 51%. The main losers were bank shares, which plummeted on average by 55%. The SPI recovered by year-end, however, considerably exceeding its level at the beginning of 1998.

Banks adopt cautious stance on domestic lending

As in the preceding years, the banks' domestic lending business virtually stagnated in 1998, whereas their foreign business grew substantially. The aggregate balance sheet total of the Swiss banks increased by 25% overall, though this significant rise was due in large part to a new accounting method for repo transactions.

Banks' annual results unchanged

The banks' annual results were influenced positively by operating profits from domestic business and by the expansion of their private banking business around the world. Their results were adversely affected, however, by the stock market slide in the late summer, losses from derivatives business and the big banks' problems with loans to crisis-ridden emerging countries.

Merger of big banks

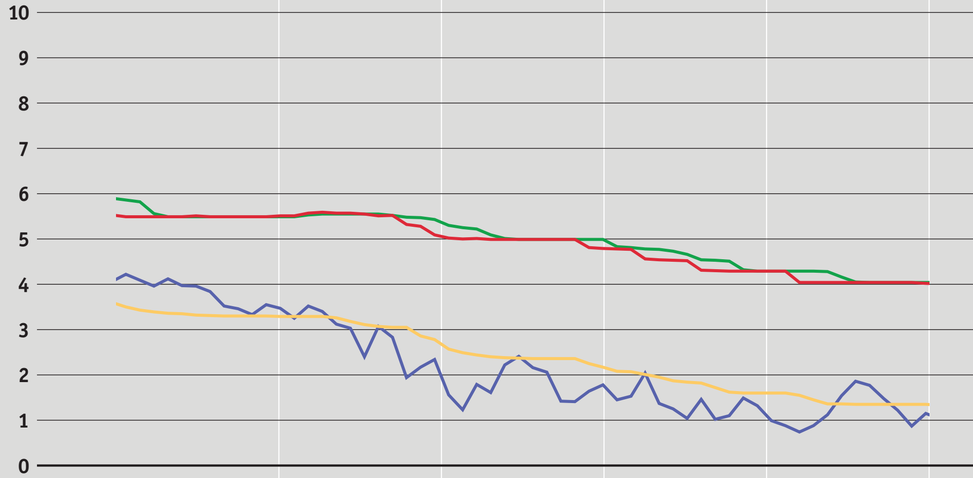
The merger of Union Bank of Switzerland and Swiss Bank Corporation, announced in December 1997, was completed by end-June 1998 in legal terms with the formation of UBS LTD. The Competition Commission approved the merger, subject to various conditions being met. Even before the merger, the Federal Banking Commission had released plans to tighten up the regulation of the big banks, and in autumn 1998 it set up a special office to monitor these banks' activities.

The repo – an innovation in the Swiss financial market

In April 1998, a new financing instrument – the repurchase agreement, or "repo" – was introduced in the Swiss financial market (cf. page 32). Switzerland's repo market was developed jointly by SEGA (Swiss Securities Clearing Corporation), the commercial banks, the Swiss Exchange and the National Bank. It allows unsecured credits between banks to be superseded by secured loans, thus reducing counterparty and market risks. In addition, the simultaneous "delivery versus payment" system guaranteed by SEGA eliminates settlement risk. Repo transactions are almost fully automated. This also applies to the selection of the securities in the borrowers' custody account serving as collateral and to the margin transfers.

1994 1995 1996 1997 1998

Selected bank interest rates



Existing mortgages at cantonal banks

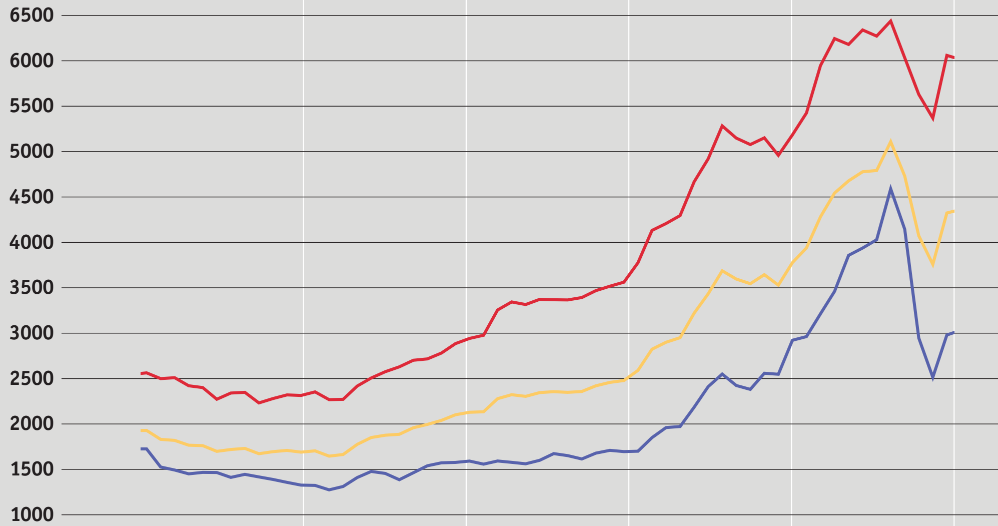
New mortgages at cantonal banks

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

1994 1995 1996 1997 1998

1 Concept

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

The monetary policy of the National Bank aims at allowing the economy to make full use of its production capacity without jeopardising price stability in the medium term. 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 the National Bank does not take economic activity into account. Its policy helps to smooth cyclical fluctuations. If economic capacities are 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 capacities are overstretched, a potential-oriented monetary policy triggers interest rate rises. This dampens demand and acts against cyclical overheating. Moreover, the National Bank retains the option of reacting to unexpected developments – such as strong shifts in exchange rates or in the demand for money – in order to minimise damage to the real economy.

Monetary policy indicators

The National Bank uses indicators to determine whether a chosen monetary policy course is appropriate in view of the goal of price stability. In the event of a particularly close and stable connection between a specific indicator and the goal of price stability the indicator may be used as an intermediate monetary policy target. The monetary base, which comprises banknote circulation and the banks' sight deposits at the National Bank, fulfilled this condition for a long time. For this reason, the National Bank set a medium-term target path as a guideline for the monetary base. This indicated the direction in which the National Bank should change its supply of base money.

Distortion of the monetary base

In 1997 and 1998 it became clear that the monetary base is no longer a reliable monetary policy indicator. Its two components, banknote circulation and the banks' sight deposits, exhibited strong fluctuations that were not foreseeable. Overall, the monetary base rose much more steeply in both years than forecast by the National Bank, thus overstating the degree of expansion of monetary policy.

Increased reference to the money stock M_3 as a long-term indicator

In view of this uncertainty, the National Bank increasingly referred to the money stock M_3 as an additional monetary indicator. The money stock M_3 is the broadest monetary aggregate calculated by the National Bank. It comprises currency circulation, sight and other transaction deposits of the nonbank public plus savings deposits and time deposits at the banks. The development of M_3 is particularly relevant to the price level in the long term. As a rule, an excessive expansion of the money stock M_3 is followed, approximately three years later, by an acceleration in inflation.

Further indicators taken into account in the short term

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 influences threaten to set off a persistent inflationary or deflationary process, the National Bank has to take counter-measures. In laying down monetary policy, it therefore also takes into account the development of other factors, notably exchange rates and the business cycle, in addition to the monetary aggregates.

Fundamentals of monetary operations

The National Bank regulates the supply of money by concluding financial transactions with the commercial banks. In this way, it influences the amount of liquidity provided to the banking system and the 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, the National Bank triggers interest rate adjustments by market participants in conformity with its monetary policy intentions. In the course of time, interest rate adjustments influence banknote circulation and the monetary aggregates.

Implementation of monetary operations

The National Bank employs its monetary instruments for regulating the supply of sight deposits held with it. 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 Swiss Post – the volume of sight deposit balances is small. The National Bank therefore operates regularly in the call money market in order to guarantee an adequate supply of liquidity.

Precedence of open market policy

The National Bank controls the banks' sight deposit holdings with it by concluding transactions with the banks at market conditions. In order to maintain its freedom of action, it generally supplies the banking system with liquidity for only a limited period through open market operations with repos and swaps (by buying assets and at the same time selling them forward).

Repo as a new open market instrument

With the repo a flexible domestic instrument has been added to the range of monetary instruments. In a repo transaction (repurchase agreement), the cash taker sells his own or borrowed securities to the cash provider. At the same time, it is agreed that the cash taker will repurchase securities of the same type and quantity from the cash provider at a later date. Even though, in a repo transaction, ownership in the securities is transferred to the cash provider, from an economic point of view this is considered to be a secured loan. The counterparty risk and the market risk are reduced by the securities serving as collateral and by daily margin transfers in the case of changes in the price of these securities. In the course of 1998, repo transactions superseded foreign exchange swaps as the major monetary instrument. Swaps with federal money market debt register claims were completely replaced by repos within a short time. Maturities of repos are between one day and several months. The National Bank fixes the repo rate depending on the maturity of the executed transactions; the rate is in conformity with market conditions (cf. p. 28).

In addition to repo transactions, the National Bank also employs foreign exchange swaps for regulating the money market. Until mid-1998, the National Bank exclusively completed swaps against dollars. Since then, it has also regularly transacted swaps against D-marks. Maturities for swaps range from one to twelve months.

Foreign exchange swaps

For the short-term steering of liquidity, the National Bank also makes use of the possibility to place time deposits held with it by the Confederation at the banks. In this way, it can balance the shifts in liquidity between the banking system and the Confederation.

Onward placement of time deposits of the Confederation

Instruments for money market operations in Sfr billions

	1997		1998	
	Holding annual average	Turnover	Holding average[3]	Turnover[3]
Repo transactions[1]	–	–	9.7	313.8
Foreign exchange swaps with maturities				
up to 1 month	0.5	2.1	0.1	1.3
over 1 month to 3 months	6.0	15.1	3.4	10.3
over 3 months to 12 months	1.1	14.7	2.6	16.3
Total	7.6	31.9	6.1	27.9
Money market debt register claims[2]				
Swaps	0.9	78.9	0.4	43.7
Purchases and sales	0.6	2.8	0.1	0.4
Total	1.5	82.6	0.5	44.1
Federal Government funds				
New investments	4.8	77.8	12.1	128.4
Onward placements	4.3	79.3	5.1	74.9

1 since 20 April 1998

2 until 30 April 1998

3 Repo transactions: 20 April 1998 – 31 December 1998
Money market debt register claims: 1 January 1998 until 30 April 1998
Foreign exchange swaps, Federal Government funds: entire year

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. The National Bank keeps 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.

Advances against securities in an emergency

2 Implementation

Announcement of an unchanged monetary policy

At the end of 1997 the National Bank had announced that it would continue implementing a generous monetary policy. It expected short-term interest rates to fluctuate on a low level of less than 2%. The supply of money was to be adjusted to the increase in demand, with the National Bank expecting real economic growth at the rate of 2% and an inflation rate of 1%.

Consideration given to economic activity and the exchange rate

Despite the worsening international economic situation business activity in 1998 largely fulfilled the expectations of the National Bank. The growth of real gross domestic product corresponded closely to the anticipated rate, and the inflation rate was only marginally overestimated. In the course of the year, however, sentiment notably in the export sector deteriorated, and medium-term growth forecasts were adjusted downwards both in Switzerland and abroad. When the Swiss franc came under upward pressure in the foreign exchange markets, first in February and then in September and October, the National Bank reacted flexibly and provided ample liquidity to the market.

Strong fluctuations in sight deposits

The sight deposits held by the commercial banks at the National Bank rose markedly from the previous year's level. In the course of the year, moreover, they underwent considerable fluctuations. This reflected the sometimes marked expansion in liquidity with which the National Bank counteracted an excessive appreciation of the Swiss franc. The merger between Swiss Bank Corporation and Union Bank of Switzerland into UBS LTD and the creation of a repo market in Switzerland likewise influenced the banks' liquidity behaviour. Furthermore, the turbulences in the financial markets had an effect on the demand for sight deposits by inducing individual banks temporarily to substantially increase their liquid funds at the National Bank.

Expansion of the monetary base

The expansion of sight deposits caused the seasonally-adjusted monetary base to rise more markedly than expected. Between the fourth quarter of 1997 and the fourth quarter of 1998 it grew by 5.2%, thus exceeding the medium-term target path by 7.9%. Due to the shift in the demand for banknotes ascertained in the previous years and the switch by various banks of their liquid funds from postal cheque accounts to sight deposit accounts, the National Bank continues to assume that the gap between the monetary base and the medium-term target path overstates the degree of monetary expansion.

Weak growth of the money stock M_3

The money stock M_3, which the National Bank had increasingly used as an indicator in the past two years, showed only a slight rise in 1998. This reflected the continued slow growth of bank loans. In the fourth quarter, M_3 exceeded the previous year's level by 0.9%.

Monetary policy expected to remain unchanged in 1999

The National Bank expects real economic growth to amount to 1.5% in 1999. The utilisation of overall production capacities is likely to remain moderate and not to lead to increased inflationary pressure. The National Bank assumes the average annual inflation rate will be approximately 1%, half of which will be attributable to the rise in value-added tax effective from 1 January 1999. In these circumstances, there is currently no need to raise interest rates. Given the stable interest rates, the money stock M_3 should expand more markedly in 1999 than in 1998. The growth of M_3 will, however, remain within limits that are in conformity with price stability in the long term.

Seasonally-adjusted monetary base

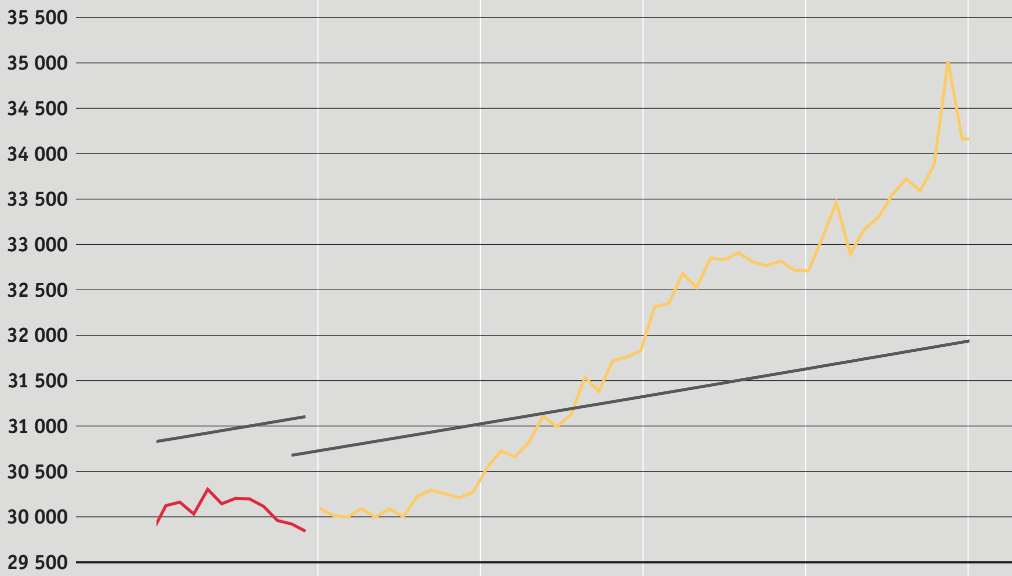
Monetary base until December 1994

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.



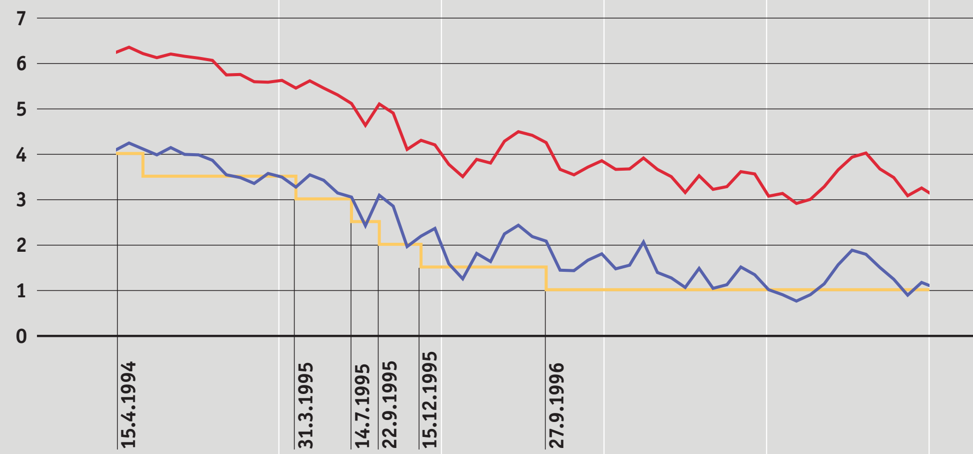
Discount and Lombard rates

Discount rate

Lombard rate

Call money rate

In percent.



Launch of the euro

The launch of the euro is of crucial importance for the Swiss economy. The new European currency was well received by the markets. In the first quarter of 1999, the exchange rate fluctuations of the Swiss franc against the euro remained within narrow limits. Should this change in future, the National Bank will be ready to combat any detrimental development with the monetary means at its disposal.

3 Reform of the monetary constitution

Conferential consultation procedure on the reform concept

The reform of the Swiss monetary constitution had been prepared by a group of experts consisting of representatives of the Confederation, the National Bank and academic circles (cf. 90th Annual Report, p. 36). In January 1998, the Federal Council held conferential consultations with the cantons, political parties, and employer and employee organisations on the draft of a new monetary article in the Federal Constitution. These discussions resulted in a basic general agreement on the reform concept submitted. However, opinions on the formulation of the central bank mandate and on the treatment of the monetary reserves no longer needed for monetary policy purposes partly diverged. Certain circles demanded that the National Bank should be held accountable for its policy as a counterbalance to its independence.

Message concerning the new monetary article

On 27 May 1998, the Federal Council submitted a message concerning a new monetary article in the Federal Constitution to parliament. The proposed monetary article severs the legal link between the Swiss franc and gold. It replaces the central bank article and the coinage article in the Federal Constitution by a modern monetary order largely in conformity with European Community Law. The National Bank is given a clearly defined mandate: it is to conduct monetary policy serving the interests of the country as a whole, with the goal of price stability being given priority. The National Bank is to be independent in fulfilling its mandate. In addition to the principle of independence, the National Bank's obligation to be accountable to the federal authorities and the public for its monetary policy is also to be embodied in the Constitution. Finally, the proposed article in the Constitution obliges the National Bank to hold the necessary monetary reserves for fulfilling its mandate, a part of them in gold. Since the National Bank will have more monetary reserves at its disposal after the severance of the Swiss franc's link to gold than it needs for the conduct of monetary policy, approximately half of its gold holdings of 2,590 tonnes can be made available for other public purposes. It is the intention of the Federal Council that a part of the non-utilised reserves are to be used for financing the Swiss Foundation for Solidarity.

Consultation by committee

The Committee for Economic Activity and Taxes of the National Council dealt in detail with the proposed article in the Constitution in the summer and early autumn. It adopted, without any changes, the Federal Council's proposals for the embodiment, under constitutional law, of the Confederation's monetary sovereignty, for the regulation of the banknote and coinage prerogatives and for the formulation of the central bank's mandate, and specified the National Bank's accountability. Moreover, it decided in favour of a regulation requiring

Monetary base

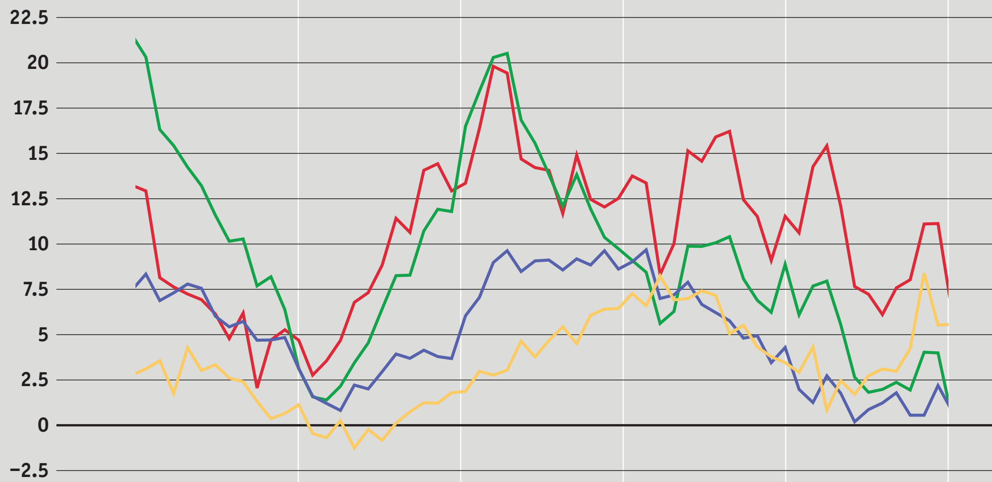
M1

M2

M3

Percentage change from previous year's level.

Monetary aggregates

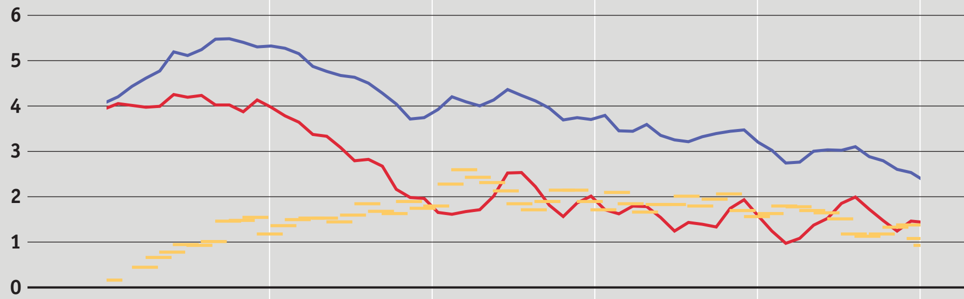


Euromarket rate on three-month Swiss franc deposits, percent per annum

Yield on federal bonds, percent per annum

Differential in percentage points

Money and capital market rates



1994 1995 1996 1997 1998

the National Bank to hold the necessary monetary reserves for exercising its mandate and to remit two-thirds of its net profit to the cantons and one-third to the Confederation. Conversely, the committee regarded a release by the National Bank of monetary reserves not required for the conduct of monetary policy only admissible if an explicit constitutional basis is created for deviating from the profit distribution rule laid down under constitutional law. Accordingly, it added a relevant paragraph to the constitutional article proposed by the Federal Council.

Consultation in the National Council

The National Council was the first chamber of parliament to deal with the new monetary article in the Constitution in its December session. It fully approved the version submitted by the Committee for Economic Activity and Taxes.

Relation to renewal of the Federal Constitution

In the December session the National Council and Council of States also settled the last remaining divergences in the project of renewal of the Federal Constitution (comprehensive revision). The renewed Federal Constitution now contains a monetary article (Art. 99) which severs the Swiss franc's link to gold and embodies the National Bank's independence in the Constitution (cf. 89th Annual Report, p. 36). The newly introduced article in the Constitution differs from the separate reform of the monetary order in that the National Bank's mandate is defined as in the past, i.e. that no orientation of monetary policy to the primary goal of price stability and no accountability by the National Bank have been envisaged. Moreover, the newly introduced monetary article contains no reservation to deviate from the current profit distribution regulation. The National Bank holds the view that the renewed Constitution therefore does not offer a sufficient basis for releasing monetary reserves no longer required by the central bank and making them available for other public purposes (cf. p. 56).

4 Draft of a Federal law on currency and payment instruments

First step towards the implementation of the new monetary order

The group of experts for the "Reform of the monetary order" set up in April 1997 had been commissioned by the head of the Federal Department of Finance, after drafting a new monetary constitution, to study any statutory problems in the context of the reform of the Swiss monetary order (cf. 90th Annual Report, p. 36). In 1998, the group of experts drafted the provisions of federal legislation which were to replace the regulations on the Swiss currency's link with gold. The group of experts proposed that this should take the form of a new Federal law on currency and payment instruments.

Opening of the consultation procedure on the draft law

The draft law provides a definition of the Swiss currency unit and describes the instruments serving as legal tender. It fully replaces the current Coinage Act and takes over the regulations concerning banknotes from the National Bank Law. This regulatory approach will in due course permit the National Bank Law to be concentrated on National Bank functions other than the distribution of currency, on its monetary policy instruments and on organisational provisions. It has become necessary to introduce a new law as – on a constitutional level – "money and currency" will no longer be divided into a coinage article and a central bank article. The current approach to federal legislation – Coinage Act in fulfilment of Art. 38 of the Federal Constitution, National Bank Law in fulfilment of Art. 39 of the Federal Constitution – has become outdated. Instead it seems reasonable to incorporate all the characteristics of currency and legally accepted money that are of public relevance in business transactions in a single federal law. The Federal Council opened the consultation procedure for this draft at the end of October 1998.

Sight deposits at the Swiss National Bank as new legal tender

The draft law is divided into six sections. Aside from Swiss coins and banknotes, it now also designates sight deposits at the Swiss National Bank as legal tender. Payment instruments serving as legal tender must be accepted in satisfaction of a debt. While banknotes must be accepted in payment by everyone to an unlimited extent, the obligation to accept sight deposits as payment is restricted to holders of a sight deposit account at the National Bank. As in the past, the coins in circulation issued by the Confederation must be accepted in amounts of up to 100 pieces; the obligation to accept coins serving as an investment vehicle or commemorative coins at nominal value, however, will in future apply to the National Bank and the public cash counters of the Confederation only. The criminal norms for the protection of the coin and banknote issuing privilege are likewise embodied in the draft.

Financial relations of the Swiss National Bank in the Second World War

1 Switzerland's gold transactions during the Second World War

Interim report on Switzerland's gold transactions

The controversy surrounding Switzerland's financial relations in the Second World War intensified in 1998. On 25 May 1998 the Independent Commission of Experts Switzerland – Second World War (ICE), appointed by the Federal Council, published its first interim report. The report deals with Switzerland's gold transactions during the Second World War. It confirms the figures already known on the volume of the National Bank's gold transactions with the Deutsche Reichsbank and with the Allies. The report also shows that after the Second World War the Allies had an exact knowledge of the National Bank's gold transactions and were thus in possession of the facts when they negotiated the Washington Agreement with Switzerland. What is new is the finding that the Reichsbank's gold deliveries into its own deposit at the Swiss National Bank contained 119.5 kilograms of gold from victims of the concentration camps. The Commission of Experts suspects that part of this gold was later acquired by the National Bank, while at the same time their report underlines that the responsible persons at the National Bank had no means of ascertaining the true origins of this gold.

Criticism of the National Bank's Governing Board of the time

The interim report is critical of the policy then pursued by the National Bank of maintaining the free convertibility of the Swiss franc into gold during the Second World War, as also of the National Bank's argument that it had acted in good faith with respect to the origin of the gold and in accordance with the Federal Government's policy of neutrality and security. The fact that the Governing Board of the time was committed to acting in the interests of the country as a whole is not called into question by the report.

Comments by the National Bank

In its comments on the interim report of the Independent Commission of Experts the National Bank expressed its regret that by accepting gold deliveries from the Reichsbank it may unwittingly also have acquired gold from victims of concentration camps. It pointed out the difficult circumstances in which the National Bank had to fulfil its task during the Second World War. It recognised the dark sides of the policy pursued by it at the time and referred to its contribution of Sfr 100 million to the fund in favour of needy victims of the Holocaust/Shoah, with which it had expressed its sympathy for people still suffering from the consequences of the National Socialist regime today. The interim report of the Commission of Experts contains no new elements that might call for a fundamental reassessment of the National Bank's policy in the Second World War. The National Bank thus considers the measures taken to be appropriate.

2 Class action against the National Bank

Filing of a class action in the USA

At the end of March 1998 it became known that a group of lawyers was planning to file a class action in the USA against the National Bank on behalf of Holocaust victims. In its statement published at the beginning of April the National Bank pointed out that the question of the Bank's gold transactions during the Second World War had been settled with binding force under international law by the Washington Agreement of 1946. It emphasised its determination to oppose any action with all the legal means at its disposal. Participation in an out-of-court settlement did not enter into consideration for the National Bank. This position was confirmed by the Bank when, at the end of June, the media reported that a class action had been filed against the National Bank in a court in Washington D.C.

Conclusion of a settlement by the Swiss big banks

A number of class actions against the Swiss big banks had already been pending in the USA since autumn 1996. These class actions not only demanded that balances held on dormant accounts should be paid out, but they also dealt, among other things, with property stolen from the plaintiffs by the Nazis and allegedly sold in Switzerland. In the settlement negotiations, which the competent judge had promoted, the plaintiffs' side repeatedly called for a global solution to settle all claims against Switzerland, including those lodged against the Confederation and the National Bank. Both the Federal Council and the National Bank declined to participate in a settlement between private parties. In mid-August 1998 it became known that in negotiations led by the competent judge the parties had in principle agreed to end the pending class actions with a settlement. By intention of the parties involved, the settlement was to be effective not only for the defendant banks, but was also to extend to the Confederation, the National Bank, the other banks and the Swiss economy in general with the exception of the Swiss insurance companies. The big banks agreed to pay a settlement sum of $ 1.25 billion. In Switzerland, they approached the other circles covered by the settlement, among them the National Bank, with a view to obtaining a contribution.

Position of the National Bank

The question of a financial contribution by the National Bank to the settlement of the big banks was discussed at an extraordinary meeting of the Bank Council on 21 August 1998. The Bank Council welcomed the successful conclusion to the settlement negotiations and expressed the hope that this would help to ease the situation. It declined, however, to agree to a financial contribution to the costs of the settlement by referring to the National Bank's comments on the interim report of the Independent Commission of Experts and the class action filed against it. The National Bank had not been party to the settlement negotiations of the big banks. A subsequent contribution to the costs of the settlement would have lent this an official character, and this was not considered to be in the interests of the country as a whole.

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 claims from repo transactions). They represent a part of Switzerland's national wealth and perform important monetary policy functions. Their composition is determined mainly by the established monetary order and the requirements of monetary policy.

The role of domestic assets and hedged foreign exchange reserves

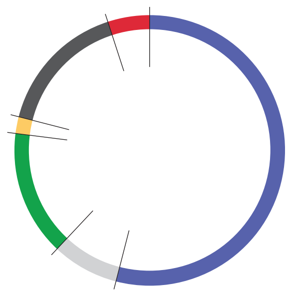
Part of the National Bank's assets serve directly for implementing monetary policy. In order to supply the economy with base money, the National Bank concludes securities and foreign exchange transactions. These are notably repo transactions and foreign exchange swaps. A repurchase agreement (repo) represents a money market credit hedged by securities (claims from repo transactions). Foreign exchange swaps constitute currency 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 major currencies. They represent an instrument that permits the National Bank to intervene in the market in the event of a Swiss franc weakness. It can sell unhedged foreign exchange reserves at any time against Swiss francs in order to support the external value of the currency. Unlike foreign exchange reserves, gold holdings cannot be used for interventions as the Swiss franc is linked to gold by law. This means that gold can only be bought and sold at the official price, which lies distinctly below the market price. Nevertheless, in addition to the foreign exchange reserves, gold holdings also play a role as a national emergency provision. They help to ensure that Switzerland remains able to pay vis-à-vis foreign countries in emergencies.

Increased leeway for investing the National Bank's international reserves

The National Bank Law specifies both the type of assets which the National Bank may acquire as well as the instruments it may employ for their management. Within the limits set by legal provisions and the monetary policy mandate, it is the National Bank's endeavour to manage its assets as profitably as possible. The revision of the National Bank Law, which became effective on 1 November 1997 (cf. 90th Annual Report, p. 34), has increased the National Bank's leeway for managing its gold and foreign exchange reserves. Since then, the National Bank has been able to invest its foreign exchange reserves in additional market segments, and therefore more profitably in the long term, without overall having to sustain greater fluctuations in earnings. Moreover, the revised law makes it possible to employ a part of the gold reserves for gold lending.



Structure of National Bank assets
in percent

Unhedged foreign exch. reserves 54
Foreign exchange swaps 8
Gold 15
Other domestic assets 2
Domestic financial assets 16
Other foreign currency assets 5

Total: Sfr 78 billion.
Balance sheet values, ann. average

1.2 Foreign exchange investments

Investment principles

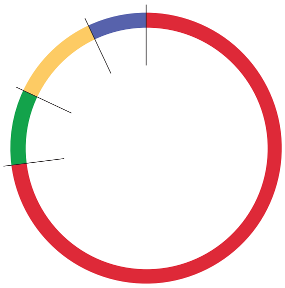
The National Bank invests its foreign exchange reserves in safe and liquid securities, and a small proportion in time deposits at prime foreign banks. This enables it, in case of need, to sell the investments at short notice and without incurring undue losses. The National Bank Law permits liquid marketable debt certificates of foreign governments, international organisations and foreign banks to be acquired.

Decision-making process concerning investments

Since November 1997, the National Bank has applied a three-tier decision-making process concerning investments: the Governing Board issues investment policy guidelines in conformity with which the investment committee determines the detailed currency allocation and the permissible interest rate risk. The portfolio managers are guided by the reference portfolios for each individual currency. The yardstick for the success of the asset management are the yields achieved on the reference portfolios and the investment yield attained by an external portfolio manager with a part of the National Bank's dollar investments.

Investment activity and results

The restructuring of the foreign exchange investments begun in November 1997 was largely completed in 1998. Since mid-February and the end of May respectively, the National Bank has also made investments in pounds sterling and Danish kroner. The dollar share was further reduced in favour of investments in D-marks, pounds sterling, Dutch guilders and Danish kroner. The possibilities offered by the revised National Bank Law were also used for the diversification of borrowers: the National Bank increasingly purchased bonds of international organisations and of US agencies (securities with indirect government guarantee) in the investment currencies. Approximately 82% of all investments are accounted for by government securities or by securities with virtual government guarantee. For the first time, the National Bank made a selective use of interest rate futures for regulating the average duration of portfolios. In the course of 1998, the duration of the entire foreign exchange investments was extended to three years.



Foreign exchange reserves by debtor category
in percent

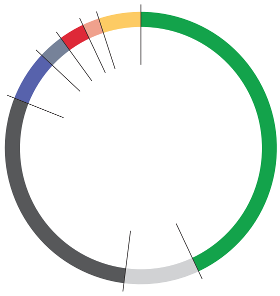
Government securities 73

Securities with indirect government guarantee 9

International institutions 11

Banks 7

Total: Sfr 52.8 billion.
End 1998



Foreign exchange reserves by currency
in percent

Dollar 43

Dollar hedged 9

D-mark 29

D-mark hedged 6

Dutch guilder 3

Pound sterling 3

Danish krone 2

Yen 5

Total: Sfr 52.8 billion.
End 1998

Annual results foreign exchange investments Yields in percent

Currency portfolio	1997 local currency	1997 Swiss francs	1998 local currency	1998 Swiss francs
Dollars (without swaps)	5.8	14.0	7.8	2.1
D-marks (without swaps)	3.2	3.5	7.4	8.6
Yen	0.2	3.4	0.5	8.7
Dutch guilders	–	–	8.4	9.6
Pounds sterling (since March 1998)	–	–	9.6	3.9
Danish kroner (since June 1998)	–	–	4.8	3.7
Total foreign exchange investments	**–**	**10.9**	**–**	**5.9**

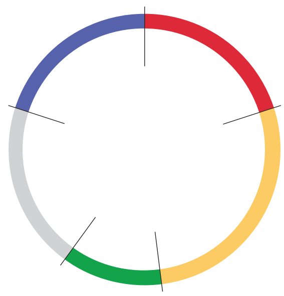
1.3 Investment in domestic securities

Investment principles

Since the early 1980s, the National Bank has been expanding its portfolio of domestic bonds by Sfr 100 million annually. It manages its bond holdings subject to the condition that the investment decisions may neither disrupt monetary policy nor profit from it. It therefore pursues an investment policy bound by rules and checks its quality based on comparative indices. Purchases are spread evenly over the year. The law only permits the acquisition of domestic public sector bonds, mortgage bonds and marketable bonds of domestic banks. The National Bank considers these debtor categories more or less in relation to their market capitalisation. A concentration of investments on individual debtors is avoided by means of limits.

Investment results

At the end of 1998, the market value of the portfolio amounted to Sfr 5,010 million, compared to Sfr 4,941 million in the previous year. The duration decreased from 3.8 to 3.3 years in 1998. The yield on the portfolio amounted to 4.8 %, compared to 5.9 % in the previous year.



Domestic securities by debtor category
in percent

Confederation 20

Cantons 28

Communes 12

Mortgage bonds 20

Banks 20

Total: Sfr 5 billion.
End 1998

1.4 Gold lending

Investment principles

Gold lending takes place in a relatively tight market. In order not to disrupt the price structure, the National Bank practises it with great restraint and only uses a modest proportion of its gold holdings for lending. Its partners are first-class domestic and foreign banks and securities houses. They pay the National Bank interest for the temporary loan of gold.

Investment results

At the end of 1998, lending transactions covered 187 tonnes of gold. At the end of the year the average residual maturity of all gold lending transactions concluded amounted to approximately 4.5 months. In 1998, a yield of 1.9% p.a. was achieved with gold lending.

1.5 Risk management

Approach

Risk management has gained increasingly in significance also for the National Bank in recent years. The permissible transactions and the credit competences are laid down in detail in the National Bank Law and in other directives. Risk control and risk limitation primarily extend to those National Bank assets that are managed with a view to achieving a profit. Foreign exchange reserves are the most important among them.

Procedures

The core of risk management is the identification, measurement and assessment of risks. The National Bank uses standard procedures and modern tools such as sensitivity and scenario analyses and value-at-risk calculations. At the centre are risk limits and detailed investment guidelines. The latter lay down, among other things, the bands for the currency proportions and the duration of foreign exchange investments, as also the upper limits for certain investment segments. The counterparty risks from foreign exchange investments and gold lending are controlled by means of credit limits. Multi-tier risk reporting to the responsible decision-making and supervisory bodies of the National Bank is also part of risk management.

2 Payment transactions

2.1 Basis

Overview

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

Developments relating to cash transactions – National Bank adopts new cash distribution concept

Over the last few years, many of the companies with which the National Bank does business (such as the commercial banks, Swiss Post and security transport companies) have been rationalising their cash handling processes. Commercial banks with networks of branches are increasingly clearing cash positions within their own organisations. This trend has been reinforced by the various bank mergers. Moreover, the banks and Swiss Post are tending to outsource 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. The Bank took account of these developments in its new cash distribution concept, which sets out to concentrate cash handling services at four locations – Berne, Geneva, Lugano and Zurich – as of the year 2000. The decentralised network of agencies will be retained for the local receipt and distribution of banknotes and coins.

Interbank clearing system SIC

The electronic Swiss Interbank Clearing system SIC is operated by Telekurs on behalf of the National Bank. The banks execute their payments through SIC. Thanks to a link between SIC and the SECOM securities clearing system of SEGA (Swiss Securities Clearing Corporation), delivery and payment of securities are performed simultaneously. This means that the repo transactions recently introduced on the Swiss money market can be settled on the "delivery versus payment" principle. Since June 1998, two other payment services provided by the banks – data carrier exchange and direct debiting – have also been performed through SIC.

SIC access rules relaxed

Until last year, access to SIC was limited to banks domiciled in Switzerland and a number of joint undertakings. In 1998, however, in order to meet market needs, eligibility was extended to non-bank securities dealers. The National Bank also decided that, owing to the increasingly international nature of payments, remote SIC access should also be granted – subject to certain provisos – to international joint undertakings and clearing organisations as well as to the banks participating in these bodies. By the end of 1998, about 60 foreign banks had opted for this remote access facility. The institutions in question were German banks, which, owing to the merger of SOFFEX and Deutsche Terminbörse to form EUREX, now handle an increased volume of transactions in Swiss francs.

SIC not linked to TARGET

The central banks of the countries participating in the European Monetary Union set up the TARGET system (Trans-European Automated Real-Time Gross Settlement Express Transfer System) to interlink their national payment systems. TARGET facilitates implementation of the monetary policy of the European Central Bank as well as cross-border payments in euros. SIC cannot be linked to TARGET as only the payment systems of EU member states are eligible.

Special clearing bank for Switzerland's euro payments

To facilitate euro-denominated payment flows from Switzerland to EU countries, the Swiss banks set up a special institution in Frankfurt known as the Swiss Euro Clearing Bank (SECB). The SECB, which is subject to German banking supervision, has direct access to TARGET and thus enables Swiss banks to perform euro transactions. The euroSIC system set up by the SECB for settlement processes corresponds broadly to SIC. One difference is that the account may be overdrawn during the course of a day subject to the furnishing of collateral (in the form of securities) acceptable to the ECB. EuroSIC is linked with the Swiss Exchange (SWX) and the SECOM securities settlement system.

2.2 Provision of currency

Currency in circulation

In 1998, the average banknote circulation was Sfr 29.6 billion, i.e. 2% more than in 1997. At Sfr 2.1 billion, coins in circulation equalled the previous year's figure.

Manufacture and disposal of banknotes

The National Bank obtained 93 million freshly printed banknotes with a face value totalling Sfr 9.3 billion from Orell Füssli Graphic Arts Ltd and added them to its stock. 200.5 million damaged or recalled notes with a face value of Sfr 36.4 billion were destroyed.

Currency turnover

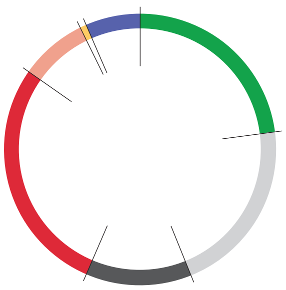
In 1998 the National Bank's branches registered an 18.1% increase in currency turnover in value terms, bringing the total to Sfr 180.8 billion. The branches received approximately 493 million notes (9.6% more than in 1997) and checked them for authenticity, quality and quantity.

New 100- and 1000-franc notes

On 1 April 1998 the National Bank issued the new 1000-franc note, the fifth in its new series. This was followed on 1 October 1998 by the sixth new issue, the 100-franc note. The 1000-franc note features the historian of culture Jacob Burckhardt while the 100-franc note depicts the sculptor Alberto Giacometti. Like the 200-franc note, these two banknotes have an additional security feature – a "perforated" image of the respective denomination.

New series of notes complete

The issue of the 100-franc note completes the new series of banknotes, all of which have extremely sophisticated security features. The banknotes from the previous series – which were in circulation between 1976 and 1998 – will remain legal tender until further notice. The notes issued between 1957 and 1979 (which were recalled in 1980) as well as the 5-franc notes, are redeemable by the National Bank up to 30 April 2000.



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

10s 60

20s 55

50s 33

100s 74

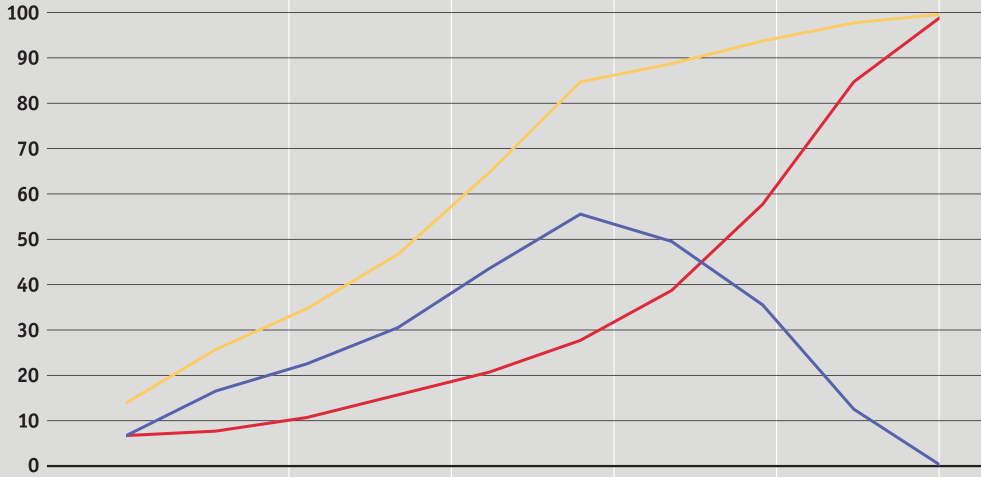
200s 21

500s 2

1000s 17

Annual average

Daily pattern of incoming, pending and settled payments



Payments entered

Payments in queue

Payments settled

Percent of the volume of payments in value terms.

2.3 SIC payment transactions

Continued growth in payment flows

At the end of 1998 there were 288 participants in SIC (end-1997: 222). During the year under review, an average of about 529,000 payments per day totalling approximately Sfr 182 billion were processed. About every two days, therefore, a volume roughly equivalent to Switzerland's annual GNP is handled by the system.

Development of payment flows[1]

	1994	1995	1996	1997	1998
Transactions per day thousands					
Average SIC	349	382	427	480	529
of which SECOM	–	13	20	39	51
Maximum SIC	925	1 154	1 156	1 303	1 323
Maximum SECOM	–	24	40	89	98
Volume per day Sfr billions					
Average SIC	131	128	150	182	182
of which SECOM	–	3	5	7	9
Maximum SIC	270	257	290	305	270
Maximum SECOM	–	7	10	14	20
Frequency of turnover per day[2]					
Average	61	57	58	58	49
Maximum	121	112	90	97	82

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

2 Total volume divided by the end-of-day volume of sight deposits.

Daily procedure

Payments are only settled in the SIC system if the requesting bank has sufficient sight deposits on its account at the National Bank. If there is insufficient cover, the payment instruction is automatically held in a queue until incoming payments bring the level of funds up to the required amount. SIC participants are able to directly monitor incoming and outgoing payments currently pending in their own clearing account. Having access to this information makes cash management easier for the banks. The volume of payments in this queue rises during the course of the morning to reach a peak at around noon.

Structure of payments flow

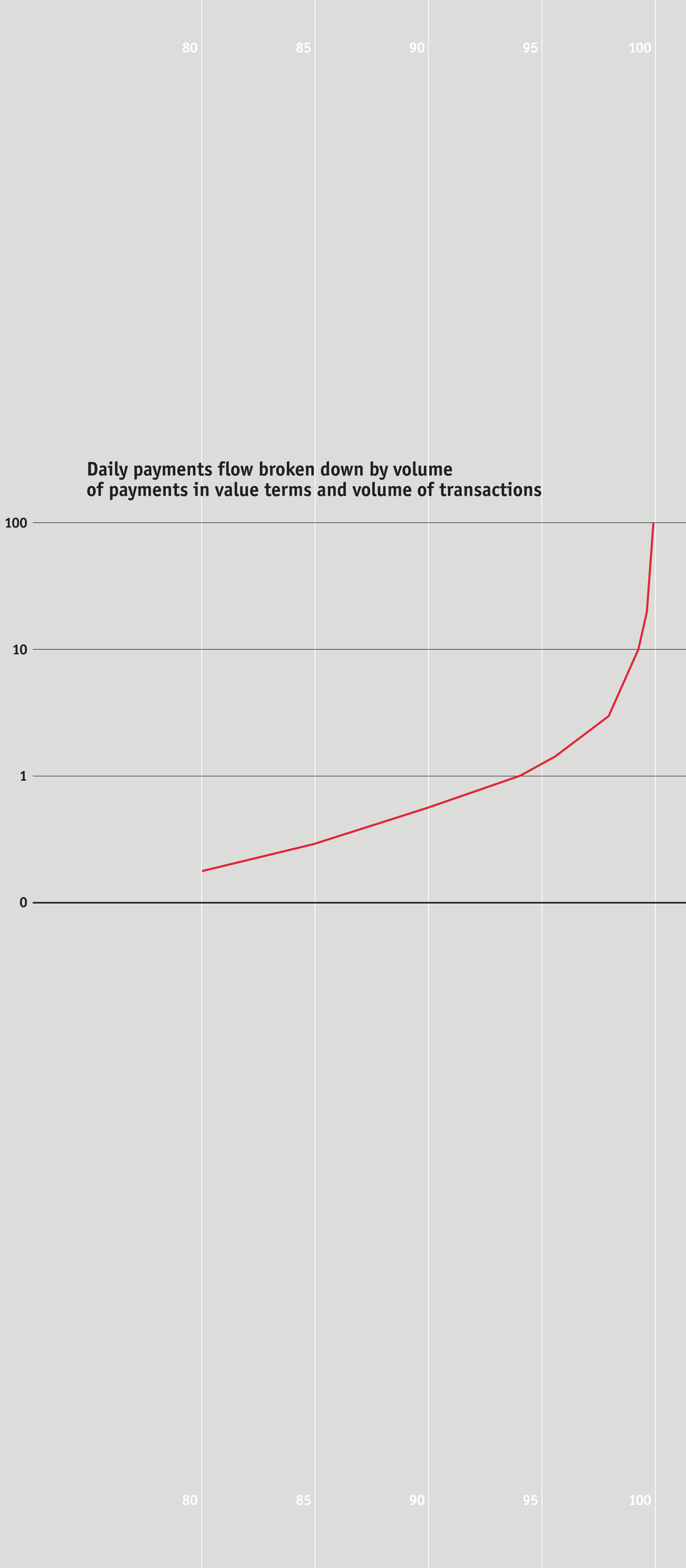
The structure of the payments flow varies greatly in terms of volumes and amounts: a breakdown of the individual payments by size shows that 99% of payments together account for just 12% of the total fund flows handled by SIC.

Daily payments flow,
broken down
by size of payment

Vertical axis:
percentage share
of volume of payments
in value terms
(logarithmic scale).

Horizontal axis:
percentage share of
volume of transactions.

Daily payments flow broken down by volume of payments in value terms and volume of transactions



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 and service sector companies on their direct investment is reflected in the balance of payments. The National Bank is also responsible for compiling investment fund statistics and collects information on the money and capital markets. These statistics are drawn up by agreement with the data-reporting institutions and conform closely to international standards.

Investment Funds Ordinance

In the field of investment fund statistics, a new wording for Article 85 of the Investment Funds Ordinance has been drafted by the Federal Banking Commission, the Investment Fund Association and the National Bank which meets the statistical data requirements of all three institutions. The National Bank will thus gain additional information for conducting its monetary policy. At the same time, the transparency of investment fund business in Switzerland is improved.

New data

In close cooperation with the banks, the National Bank developed a data base concerning securities transactions. The collection of data on securities holdings of third persons at the banks began in 1998. The National Bank took due account of the launch of the euro by expanding its statistics. Data on direct investment is now collected on a quarterly rather than an annual basis. In this way the requirements of the International Monetary Fund (IMF) to draw up a quarterly balance of payments are met.

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 most of the services must be rendered free of charge. On this basis, the National Bank performs 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. The National Bank pays 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, it assists the Confederation in taking out money market credits from banks.

Federal bonds and money market debt register claims

In 1998 the National Bank arranged 52 issues of money market debt register claims (MMDRC) and 11 bond issues on behalf of the Confederation. MMDRCs to the total amount of Sfr 89.4 billion were subscribed, and Sfr 45.1 billion were allocated. Bonds were subscribed for a total amount of Sfr 10.8 billion, of which Sfr 5.2 billion were allocated.

Federal bonds and money market debt register claims

	1994	1995	1996	1997	1998
Number of issues[1]					
Federal bonds	16	7	10	7	11
MMDRC	52	52	52	53	52
Total subscribed in billions of francs					
Federal bonds[2]	9.9	8.2	10.6	7.0	10.8
MMDRC	71.8	94.7	103.1	89.0	89.4
Total allocated in billions of francs					
Federal bonds[2]	6.8	3.5	4.5	3.7	5.2
MMDRC	46.7	47.1	49.9	49.8	45.1
Outstanding at year-end in billions of francs					
Federal bonds	28.6	29.8	33.8	37.5	43.3
MMDRC	12.7	14.1	14.7	14.1	12.9

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 Swiss Post and the Swiss federal railways – flow back to the National Bank via the banks. The National Bank also keeps the federal debt register and administers 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 Department of Finance

Swiss Foundation for Solidarity

In June 1998 the Federal Council initiated the pre-legislative consultation procedure on the Federal law on the "Swiss Foundation for Solidarity". This foundation is intended to renew the country's humanitarian tradition. It is planned to release a part of the National Bank's gold reserves equivalent to 7 billion Swiss francs – but not exceeding 500 tonnes of gold – as foundation capital. The income from managing the foundation capital is to be used both in Switzerland and abroad to help persons suffering severe hardship through no fault of their own.

Comments by the Swiss National Bank

In stating its position on the foundation law, the Swiss National Bank commented on two aspects. Firstly, it suggested that the purpose of the foundation should be defined more narrowly and more precisely in the law. Secondly, it offered its opinion on the question of whether the transfer of National Bank gold reserves to the foundation was in conformity with the Constitution. The National Bank took the view that the release of gold reserves as proposed in the foundation law would not be constitutional. The Swiss franc would not only have to be decoupled from gold on the constitutional level, but an additional provision would have to be inserted permitting a deviation from the constitutional profit distribution rule (two-thirds to the cantons, one-third to the federal government) with regard to the gains achieved from the new valuation of gold.

"Euro" working group

The National Bank participated in a working group chaired by the Federal Department of Finance which examined the repercussions of the European Monetary Union on the Swiss economy in general and on federal taxes in particular. The working group came to the conclusion that the European Monetary Union's impact on the Swiss economy is likely to occur via increased price transparency, stiffer competition and a stronger orientation of the production structure to the EU market. This would require an adaptation of both the private and the public sector. Monetary policy would face a particularly big challenge. The working group also underscored the necessity of formulating a solid fiscal policy and creating optimal conditions for private economic activity. As to the effect on federal taxes, it was of the opinion that action needed to be taken concerning the turnover tax on domestic securities transactions. Higher efficiency and greater transparency of the European financial markets would increase tax-induced competitive disadvantages of securities dealers (mostly banks). This would lead to business being relocated abroad and consequently to a reduction of income from turnover tax. The working group, therefore, recommended a revision of turnover tax.

5.2 Cooperation with the Federal Banking Commission

Exchange of data between the Banking Commission and the National Bank

On 1 December 1998, Article 54 of the Ordinance on Banks and Savings Banks issued by the Federal Council entered into force. The new article serves as a legal basis for the exchange of data which the Federal Banking Commission and the National Bank collect from banks, securities dealers, investment funds as well as on financial markets. Above all, the exchange of data facilitates data collection for statistical purposes. Data concerning individual customers of banks, securities dealers or the National Bank are excluded from the exchange. In the case of a crisis in the financial market or of individual institutions, however, a comprehensive exchange of information is permitted.

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

Switzerland's reserve position

Switzerland's IMF membership is exercised by the Federal Department of Finance and the National Bank. Switzerland's participation in the IMF corresponds to the amount of its quota subscription. The fund finances its activities with the member countries' quotas. The portion of the Swiss quota used by the IMF is equal to its reserve position in the IMF and is financed by the National Bank. It may be likened to a currency reserve and may be used by the National Bank at any time to finance a deficit in Switzerland's balance of payments. At the end of 1998, Switzerland's reserve position amounted to 1,597.8 million SDRs (special drawing rights), compared to 1,407.5 million SDRs at the end of 1997. (At the end of 1998, 1 SDR was equivalent to Sfr 1.92). The significant rise in the reserve position reflects Switzerland's contribution to the financing provided by the IMF to help curb the financial crises in Asia, Russia and Latin America.

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 1998, the IMF utilised a total of 39.4 million SDRs in two drawings from Switzerland's loan commitment of 151.7 million

SDRs. The IMF had already drawn 69.9 million SDRs in the previous year; the still unused loan commitment of 42.4 million SDRs can be utilised until the end of December 2001. 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.

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

In June 1998, the federal parliament agreed to a prolongation of Switzerland's participation in the General Arrangements to Borrow (GAB) to the end of 2003. 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 mitigating an extraordinary crisis threatening the international monetary system. Switzerland has been associated with the GAB since 1964 and has been a participant since 1984. The loan commitment of the National Bank amounts to 1,020 million SDRs. The GAB are valid for five-year periods.

Activation of the General Arrangements to Borrow for Russia

In order to finance an IMF loan for Russia the GAB were activated in July 1998 – the first time since Switzerland's participation. In the context of this GAB activation the IMF is granted a loan totalling 6.3 billion SDRs. Switzerland's portion amounts to 378 million SDRs, which corresponds to the 6% agreed upon. Until mid-August, the IMF borrowed funds to the amount of 86.6 million SDRs from the Swiss National Bank. The IMF programme for Russia has been suspended since mid-August as Russia's economic policy is no longer in line with the requirements of the IMF.

Entry into force of the New Arrangements to Borrow

The New Arrangements to Borrow (NAB) are parallel agreements to the GAB. They entered into force on 17 November 1998 after having been signed by the twenty-five participants, including the countries of the Group of Ten. In the NAB, the member countries undertake to grant loans to the IMF in exceptional circumstances and in the event of a shortage of funds according to a distribution key agreed upon in advance. Under the terms of the GAB and the NAB, the IMF can borrow up to 34 billion SDRs. That is double the amount previously available under the GAB alone. The loan commitment of the National Bank amounts to 1,557 million SDRs, which is 4.6% of the total amount. At the same time, this amount is the upper limit of the National Bank's commitments under the GAB and the NAB since these two facilities cannot be drawn on with cumulative effect.

Activation of the New Arrangements to Borrow for Brazil

Shortly after they entered into force, the NAB were activated in favour of Brazil. The IMF was granted a loan totalling 9.12 billion SDRs for Brazil. Since some of the participants were unable to make a contribution under the NAB, the National Bank's share amounted to 455 million SDRs, i.e. 4.99%.

6.3 Balance of payments aid

At the beginning of 1998, the Group of Ten, along with Australia and New Zealand, pledged loans to South Korea to the amount of $ 22.2 billion. Switzerland's commitment amounts to a maximum of $ 312.5 billion. The loan is extended in the context of the Federal Decree on Switzerland's cooperation in international monetary measures. The Federal Government guarantees the National Bank the regular performance of the credit agreement. The loans to South Korea are to be drawn on in case of need only. They were not used in 1998.

Balance of payments aid to South Korea not used until the end of 1998

In mid-November an international financing package in favour of Brazil was put together. The IMF extended – under a stand-by arrangement – a credit to the amount of $ 18 billion; the World Bank and the Inter-American Development Bank gave credit undertakings for $ 4.5 billion each. In addition, the BIS pledged a credit facility of $ 14.5 billion guaranteed by the members of the Group of Ten as well as nine additional countries. The substitution undertaking by Switzerland amounts to a maximum of $ 250 million. It is granted by the National Bank in the context of the Federal Decree on Switzerland's cooperation in international monetary measures; the Federal Government guarantees the National Bank the regular performance.

Balance of payments aid to Brazil

6.4 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, the Committee on Payment and Settlement Systems and the Euro-currency Standing Committee.

BIS bodies

The central bank governors of the G-10 countries entrusted the three committees with the task of taking stock of gaps in international security measures to combat financial market problems and of determining the desirability and feasibility of setting up international standards to close these gaps.

New tasks for the committees

Together with the Federal Banking Commission, the National Bank participated in the tasks of the Basle Committee. In 1998, the committee dealt with the implementation of the core principles of effective banking supervision developed in the previous year together with supervisors from non-G-10 countries. As a step toward specifying these principles in the area of transparency, the committee presented a report on the principles of information disclosure by the banks. In addition, the committee worked toward the banks' careful preparation for the year 2000 transition. In particular, it carried out a broad survey on the measures taken by the banks and supervisory authorities designed to deal with this problem. Furthermore, it published a report on the topic of risk control in connection with using electronic money (e-money).

Basle Committee on Banking Supervision

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems published two reports. The first one is a follow-up report on the performance risks in foreign exchange transactions. It concludes that further progress has been made in assessing, monitoring and reducing the performance risk. The situation is still deemed to be unsatisfactory, however. The second report, which was written in cooperation with the Euro-currency Standing Committee, deals with the risks of over-the-counter derivatives markets. It states that collateral security as a means to set off risks is becoming ever more important. Even though collateral security reduces the credit risk, legal and operational risks are increasing. The report recommends the use of standardised master agreements.

Euro-currency Standing Committee, ECSC

The Euro-currency Standing Committee carefully studied the Asia crisis and drew initial conclusions. It made an effort to monitor and assess developments in emerging markets more closely and issued recommendations on the disclosure of official foreign currency reserves.

6.5 Technical assistance and specialist training

Courses and seminars

The National Bank provides technical assistance to central banks that have either been newly established or are undergoing reorganisation. This assistance is given 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 1998, the National Bank continued counselling the central bank of Tanzania on managing foreign currency reserves and on how to build up a foreign currency trading and treasury bill market. Furthermore, it held seminars for various central banks on selected topics of monetary policy.

Courses on monetary policy and financial markets

The “Studienzentrum Gerzensee” (Gerzensee Study Centre) again offered courses on monetary policy and financial markets. In 1998, the study centre held five courses with roughly 120 participants.

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.

Responsibilities

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

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. To ensure the distribution of currency and to follow economic developments in the regions the National Bank – until the end of 1998 – had eight branch offices in addition to the two head offices. Currency transactions, moreover, are also carried out by 17 agencies at cantonal banks.

Repercussions of the new cash distribution concept

With the new cash distribution concept banknotes will be processed centrally at four locations (Zurich, Berne, Geneva and Lugano). The branch offices in Aarau and Neuchâtel were closed at the end of 1998. In Basel, Lausanne, Lucerne and St Gallen cash distribution services will be suspended at the end of 1999. The decentralised network of agencies will be maintained to accept and distribute banknotes and coins. These changes will not affect the monitoring of economic developments: for the Basel, Geneva, Lausanne, Lucerne, Lugano and St Gallen geographical areas this activity will continue to be carried out locally. For the Aarau and Neuchâtel regions, it will be handled by the Zurich and Berne offices respectively. For reporting purposes, the geographical areas were partially rearranged.

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

The National Bank exercises its mandate in the field of payment transactions in the following ways. On the one hand, it issues banknotes and puts the coins minted by the Confederation into circulation: this is the responsibility of the Cash Division of Department II. On the other hand, it cooperates in the planning and processing of cashless 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 turnover

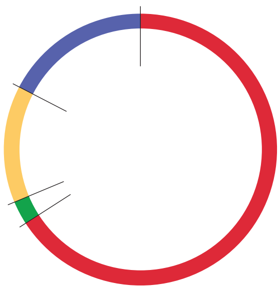
With the number of staff totalling 610 at the end of 1998, the Swiss National Bank remains one of Europe's smallest central banks. The number of employees decreased by 11 persons as against last year's figure. This is equivalent to 567.4 full-time jobs, compared to 577.3 full-time jobs the year before. Even though at 5.8% turnover (including retirements) increased by approximately half year-on-year, it continued to be low compared to other companies. Women accounted for 86% of part-time employees. The proportion of female senior staff members rose to 15% from 11% in the previous year.

Repercussions of the new cash distribution concept

The new cash distribution concept had an impact on the headcount. Owing to early retirements and internal transfers layoffs could be avoided. Intensive staff development and training efforts assured quick reorientation and adjustment to new jobs. Of the roughly 80 persons affected in the branch offices, 19 took early retirement, while 44 will probably start a new position within the National Bank. The remaining persons took on a new challenge outside of the National Bank.

Staff training

In 1998 the National Bank invested Sfr 1.2 million in training and continued education of its staff. 18% of the total cost was attributable to management training, 43% to specialist and language training and personality development and 39% to computer courses.



Personnel
Number of employees

Full-time, men 402

Part-time, men 17

Full-time, women 85

Part-time, women 106

Total: 610.
End of the year

During the summer the National Bank started working on a systematic job evaluation concept which will provide the foundation for a new, progressive compensation system.

Job evaluation concept

In the field of information technology, the National Bank continued its efforts towards a strategic new orientation to the systems and applications architecture according to the client-server concept. First components of new standard packages for all banking transactions processing could be put into operation in October 1998. Securities transactions and money market debt register claims have since then been partially administered with the new solution. Work towards replacing additional banking applications as well as statistical applications is under way. Installation of the new network infrastructure, which is more efficient and offers more security, has also made good progress. Since March 1998 the National Bank has had its own website on the Internet (http://www.snb.ch) offering a range of information.

Developments in information technology

Preparations to cope with the Year 2000 problem are in full swing. In addition to the computer applications and the interbank connections, all the infrastructure equipment and installations are undergoing testing. In the second quarter of 1999 the National Bank will participate in tests being carried out for the whole of Switzerland. All the important partners in interbank business transactions will take part in these tests. Finally, the National Bank has a large supply of banknotes so that it can easily cope with any additional cash demand by banks and the public at the turn of the year 1999/2000.

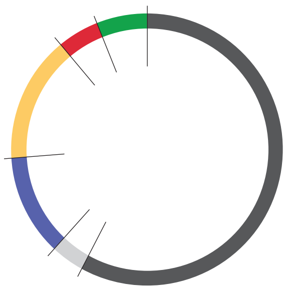
The Year 2000 problem

Environmental management

In 1997, the National Bank developed a systematic strategy of environmental management. Based on a pilot ecological balance sheet, it drew up an environmental charter with precise guidelines for an ecologically sustainable use of resources. An environmental office keeps track of the progress made in the area of ecology in an annual balance sheet and provides line management support in implementing measures. The analysis of the 1997 report revealed that the need for action was most apparent in the area of saving paper and energy. The target spelled out in the guiding principles, which calls for replacing at least 30% of the paper requirement with recycled paper, will be reached in 1999 after the changeover to recycled paper has taken place.

Cost structure

The bulk of the National Bank's entire operating costs is incurred 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 4

Asset management 12

Monetary policy 15

Services for the Confederation 5

Services for third parties 6

3 Changes in the supervisory authorities and staff

Bank Council

At the Annual General Meeting of Shareholders held on 24 April 1998 the following new members were elected to the Bank Council:

Fritz Blaser, Reinach, Chairman of Schweizerischer Arbeitgeberverband (Swiss employers' association),
Peter Everts, Zollikofen, Chairman of the Board of Migros-Genossenschaftsbund,
Trix Heberlein, Zumikon, National Councillor,
Franz Marty, Goldau, Member of the cantonal government and head of the department of finance of the canton of Schwyz; President of the Conference of cantonal finance ministers.

After the Annual General Meeting, the Federal Council complemented the body by the election of
Mathis Cabiallavetta, Zurich, Chairman of the Board of Directors of UBS LTD,
Serge Gaillard, Bolligen, Executive Secretary of the Swiss federation of trade unions, and
Vasco Pedrina, Zurich, Co-chairman of the Swiss federation of trade unions.

On the day of the Annual General Meeting of Shareholders on 23 April 1999 the four-year term of office of the Bank Council ends and the new term limit of 12 years becomes effective. The following members of the Bank Council have retired:

Jakob Schönenberger, Kirchberg/ SG,
Mathis Cabiallavetta, Zurich,
Chasper Campell, Sils i.D.,
Gianfranco Cotti, Locarno,
Theo Fischer, Sursee,
Claudio Generali, Gentilino,
Gustav E. Grisard, Riehen,
Joseph Iten, Hergiswil/NW,
François Jeanneret, St Blaise,
Pierre-Noël Julen, Sierre,
Ursula Mauch, Oberlunkhofen,
Carlo de Mercurio, Lutry,
Félicien Morel, Belfaux,
Paul Rutishauser, Götighofen, and
Kurt Schiltknecht, Zumikon.

The Swiss National Bank thanks the retiring members for their valuable services on behalf of the central bank.

Special thanks go to the outgoing president of the Bank Council,
Jakob Schönenberger.
He was elected to the Bank Council in 1985, who delegated him to the Bank Committee in 1987. In 1993, the Federal Council elected him President of the Bank Council. Jakob Schönenberger carried out his presidential duties with enthusiasm and sound judgement, thus making a significant contribution to the National Bank.

On 17 February 1999 the Federal Council made the following appointments:

Eduard Belser, Bottmingen, Member of the cantonal government, formerly Vice-President of the Bank Council, as new President, and

Philippe Pidoux, Lausanne, National Councillor, formerly member of the Bank Committee, as new Vice-President of the Bank Council. Both gentlemen will take office after the Annual General Meeting of 23 April 1999.

The other members of the Bank Council offer themselves for re-election. Of the fifteen vacancies six must be filled by the Annual General Meeting and nine by the Federal Council.

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

Brigitta M. Gadient, Chur, National Councillor, Advisor on legal and organisational issues,

Jean Guinand, Neuchâtel, Member of the cantonal government and head of the finance and welfare department of the canton of Neuchâtel,

Rudolf Imhof, Laufen, National Councillor and director of Ricola Ltd,

Hansheiri Inderkum, Altdorf, Councillor of State, Advocate and Notary,

Armin Jans, Zug, National Councillor, lecturer in economics at the University of Applied Sciences, Winterthur, and

Ruth Lüthi, Fribourg, Member of the cantonal government and head of the health and social welfare department of the canton of Fribourg.

Bank Committee

The Bank Council delegated the following new members to the Bank Committee:

Serge Gaillard, Bolligen, as successor of Margrit Meier (with effect from 12 June 1998), and

Ulrich Zimmerli, Gümligen, as successor of Hans-Rudolf Früh (with effect from 24 April 1998).

As per the date of the Annual General Meeting, 24 April 1998, the following committee members resigned their positions:

Theo Fässler, Mörigen, Chairman of the Local Committee Berne since 1992 (Member since 1991),
Pierre Baroffio, Renens, Deputy Chairman of the Local Committee Lausanne since 1997 (Member since 1990),
Franco Donati, Tegna, Deputy Chairman of the Local Committee Lugano since 1990, and
Roland Bertsch, Romanshorn, Deputy Chairman of the Local Committee St Gallen since 1997 (Member since 1990).

The Local Committees of Aarau and Neuchâtel were dissolved as per 31 December 1998. As per this date, the following committee members resigned their positions:

Ernst Frey-Burkhard, Kaiseraugst, Chairman of the Local Committee Aarau since 1997 (Member since 1994),
Hans Keiser, Brugg, Deputy Chairman of the Local Committee Aarau since 1997 (Member since 1995),
Michel M. Soldini, Le Locle, Chairman of the Local Committee Neuchâtel since 1995 (Member since 1987), and
Vincent Lang, Porrentruy, Member of the Local Committee Neuchâtel since 1995.

As per 31 December 1998 the following committee members also resigned their positions:

Gisèle Girgis-Musy, Berne, Deputy Chairwoman of the Local Committee Berne since 1998 (Member since 1997), and
Adolf Gugler, Zollikon, Chairman of the Local Committee Zurich since 1994 (Member since 1989).

The National Bank thanks Gisèle Girgis-Musy and the nine gentlemen for their services on behalf of the Bank.

Silvia Huber-Meier (formerly Local Committee Aarau) and Jean Lauener (formerly Local Committee Neuchâtel) will join the Local Committees Zurich and Berne respectively as of 1999.

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

Berne

Jean-François Rime, Bulle, Chairman of the Board of Despond SA, Member.

Lausanne

Walter Kobler, Lausanne, Managing Director of Baumgartner Papiers SA, Member.

Lugano

Franz Bernasconi, Genestrerio, President and General Manager of Precicast SA, Member.

St Gallen

Charles Peter, Uzwil, President and Managing Director of Benninger AG, Member.

Auditing Committee

At the Annual General Meeting of Shareholders held on 24 April 1998

Hans Michel, Egnach, General Manager of the Cantonal Bank of Thurgau, formerly substitute member of the Auditing Committee, was elected as member and successor of Gilbert Jobin, Delémont, and

Josef Blöchlinger, Certified Auditor, Nyon, Refidar société fiduciaire, as substitute member of the Auditing Committee.

Peter Blaser, Hünibach, is not offering himself for re-election due to term limit regulations. The National Bank thanks him for his sixteen years of activity in the Auditing Committee, which he has presided since 1990.

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

Jean-Claude Grangier, Epalinges, Deputy President of the Executive Board of Banque Cantonale Vaudoise, as new substitute member of the Auditing Committee.

Maryann Rohner, Zurich, substitute member, is proposed as new member of the Auditing Committee.

Management

At the end of May,

Andreas Frings,

Director and Secretary General, took early retirement. Andreas Frings performed the duties of Secretary General for over two decades with judgement and expertise. The National Bank expresses its profound gratitude for his successful activity.

At the end of May,

Cesare Gaggini,

Director and head of the Lugano branch, went into retirement. The judicious way in which he fulfilled his tasks earned him wide recognition. The National Bank thanks Mr Gaggini for his valuable services during more than thirty years.

Following a proposal of the Bank Council, the Federal Council appointed, with effect from 16 November 1998,

Wally Giger Delucchi as Director of the Lugano branch office.

The Bank Committee, with effect from 1 June 1998, appointed

Peter Schöpf as Secretary General.

The Bank Committee approved the following promotions with effect from 1 January 1999:

Daniel Wettstein (Head of General Processing Section) to Director,
Peter Bechtiger (Head of Accounting) to Deputy Director,
Dewet Moser (Head of Risk Management Section) to Deputy Director, and
Jean-Marie Antoniazza (Head of Applications Software) to Assistant Director,
Eliane Menghetti (Member of the Legal Staff) to Assistant Director,
Bertrand Rime (Economist in the Banking Studies Section) to Assistant Director.

In memory of Markus Lusser

On 22 April 1998,
barely two years after resigning as Chairman of the Governing Board of the Swiss National Bank,

Markus Lusser

passed away.

After many years in the service of the Swiss Bankers' Association, Markus Lusser was elected a member of the Governing Board by the Federal Council, with effect from 1 January 1981. He first held the post of Head of Department III, subsequently that of Vice-Chairman and Head of Department II. In May 1988, the Federal Council appointed him Chairman of the Governing Board and Head of Department I.

In his capacity as Chairman of the National Bank, Markus Lusser was an ardent supporter of price stability as the main goal of the National Bank. The years of his presidency coincided with difficult times. Economic development and structural shifts, as well as changes in the monetary sector, posed significant problems for the conduct of monetary policy. Justifying a restrictive policy with the public at large was a challenging, and not always an easy undertaking. Markus Lusser fulfilled this task with the utmost devotion, duly bearing in mind the interests of the economy as a whole. His keen perception, paired with sensitivity and high ethical standards, will always be remembered. We are very grateful for his services on behalf of our country and the independence of the National Bank.

Financial report

1 Income statement for the year 1998

	Notes	1998 Sfr millions	1997 Sfr millions	Change percent
Income from				
gold transactions	01	42.6	2.6	–
foreign currency investments	02	3 091.3	2 067.5	+49.5
reserve position in the IMF	03	123.8	69.9	+77.1
international payment instruments	04	14.0	14.0	−0.0
balance of payments aid	05	19.5	12.9	+51.2
Income from				
claims from Swiss franc repo transactions	06	84.2	–	–
domestic money market claims	07	5.9	22.9	−74.2
Lombard advances	08	0.7	0.9	−22.2
claims against domestic correspondents	09	1.4	1.7	−17.6
domestic securities	10	220.0	262.4	−16.2
Other income	11	15.1	13.4	+12.7
Gross income		**3 618.4**	**2 468.4**	**+46.6**
Interest expense	12	−126.1	−67.1	+87.9
Banknote expense	13	−45.5	−32.0	+42.2
Personnel expense	14	−81.1	−79.6	+1.9
General overheads	15	−60.3	−55.2	+9.2
Depreciation of tangible assets	16	−17.0	−9.9	+71.7
Net income		**3 288.5**	**2 224.5**	**+47.8**
Exchange rate-related valuation adjustments	17	−871.2	1 765.2	–
Extraordinary expense	18	−22.9	−100.0	–
Extraordinary income		0.0	6.0	–
Aggregate income		**2 394.5**	**3 895.7**	**−38.5**
Allocation to provisions	19	−886.5	−3 287.7	–
Annual profit	48	**1 508.0**	**608.0**	**+148.0**

2 Balance sheet as of 31 December 1998

in Sfr millions

Assets	Notes	1998	1997
Gold holdings and claims from gold transactions			
gold holdings	20	11 045.5	11 448.2
claims from gold transactions	21	884.6	458.3
Foreign currency investments			
not exchange rate-hedged	22	45 005.7	40 780.2
exchange rate-hedged (swaps)	23	7 800.1	12 490.3
Reserve position in the IMF	24	3 070.6	2 765.0
International payment instruments	25	390.8	452.4
Balance of payments aid	26	768.3	315.4
Claims from Swiss franc			
repo transactions	27	17 348.3	–
Domestic money market claims	28	–	673.5
Lombard advances	29	0.3	0.4
Claims against domestic correspondents	30	378.8	415.4
Domestic securities	31	5 010.0	4 941.0
Participations	32	89.4	89.6
Tangible assets	33	563.0	567.4
Sundry assets	34	480.4	482.2
Non paid-up share capital	46	25.0	25.0
		92 860.7	75 904.5

Liabilities	Notes	1998	1997
Banknote circulation	35	33 218.8	32 141.8
Sight deposit accounts of domestic banks	36	6 860.1	5 100.8
Liabilities towards the Confederation			
sight	37	147.6	155.6
time	38	14 972.0	2 301.7
Sight deposit accounts of foreign banks			
and institutions	39	163.5	47.3
Other sight liabilities	40	236.1	230.3
Liabilities from Swiss franc			
repo transactions	41	–	–
Foreign currency liabilities	42	175.9	–
Sundry liabilities	43	265.3	914.7
Provisions			
for market, credit and			
liquidity risks	44	34 728.6	33 842.2
for operating risks	45	471.7	450.0
Share capital	46	50.0	50.0
Reserve fund	47	63.0	62.0
Net disposable income – annual profit	48	1 508.0	608.0
		92 860.7	75 904.5

3 Notes to the accounts as of 31 December 1998

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 under the Swiss constitution 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 pages 95 f.).

On 31 December 1998, the National Bank employed 610 persons (1997: 621), corresponding to 567.4 full-time posts (1997: 577.3). Up to the end of 1998, the National Bank had branches in Aarau, Basel, Geneva, Lausanne, Lucerne, Lugano, Neuchâtel and St Gallen in addition to its head offices in Berne and Zurich. Implementation of the new cash distribution concept (see page 63) is bringing about changes in the branch network.

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). Owing to the particular nature of its business, the National Bank does not draw up a cash flow statement or publish a mid-year statement.

Changes from the previous year

Since April 1998, the National Bank has been using repo transactions as an instrument of monetary policy (see pages 28 and 32). Regardless of whether the repos are used for procuring or for absorbing liquidity, only the money side of the transaction is posted to the accounts.

Interest rate futures, which have been used on occasion since 1998 to regulate the average duration of foreign currency investments, are assessed daily at market (i.e. replacement) values.

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 new 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). Gold claims are inclusive of accrued interest.

Negotiable foreign currency investments and *domestic securities* are stated at their end-year market prices.

Claims and liabilities from repo transactions are stated at their nominal value including accrued repo interest. However, only the money side of the transaction is posted to the accounts. In other words, the securities transferred by the borrower to the lender are treated as if they had been pledged as security for the loan.

Pending forward contracts on *foreign currencies* and *interest rate instruments (including futures)* as well as non-performed spot transactions in negotiable investments are stated at year-end market values (replacement values). Positive or negative gross replacement values are stated under sundry assets or sundry liabilities respectively.

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 stated at their acquisition cost less required depreciation.

Other items are stated at their nominal value inclusive of any accrued interest.

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

	1998	1997	Change in percent
Year-end rates			
CHF/USD	1.3772	1.4549	−5.3
CHF/DEM	82.1400	81.2400	+1.1
CHF/JPY	1.2110	1.1196	+8.2
CHF/NLG	72.8600	72.0600	+1.1
CHF/GBP	2.2826	2.4082	−5.2
CHF/DKK	21.5600	21.3200	+1.1
CHF/XDR	1.9218	1.9645	−2.2
CHF/XEU	1.6037	1.6040	−0.0

XDR: Special Drawing Rights
XEU: ECU

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 year-on-year by 50.1% to Sfr 3,248.6 million. Together with the other income items totalling Sfr 369.8 million (which also rose – up 21.6%), gross income comes to Sfr 3,618.4 million (+46.6%). With expenses up 35.4% to Sfr 330.0 million, net income was 47.8% higher at Sfr 3,288.5 million. Exchange rate-related valuation adjustments resulted in a net write-down of Sfr 871.2 million and extraordinary items produced a negative balance of Sfr 22.9 million. Aggregate income thus came to Sfr 2,394.5 million. After the formation of provisions totalling Sfr 886.5 million, annual profit came to Sfr 1,508.0 million.

Item no. 01 in the income statement

Income from gold transactions

The gold lending operations yielded income of Sfr 42.6 million (1997: Sfr 2.6 million). This marked rise was due mainly to the fact that in 1997 these operations had only commenced in November.

Items nos. 02–05 in the income statement

Income from foreign currency items

Income from foreign currency investments, the reserve position in the IMF, international payment instruments and balance of payments aid rose by Sfr 1,084.3 million to Sfr 3,248.6 million. Average foreign currency positions were slightly higher overall than in the previous year, and the residual maturities of the foreign currency investments were significantly longer. The generally higher returns on longer-dated investments plus the capital gains resulting from interest rate falls had a beneficial effect on the result.

Income from claims arising from Swiss franc repo transactions

Item no. 06 in the income statement

The Swiss franc repo transactions commenced in April 1998 yielded income of Sfr 84.2 million.

Income from domestic money market claims

Item no. 07 in the income statement

At the end of April, the swaps with money market claims of the Confederation were entirely superseded by repo transactions. Income for 1998 came to Sfr 5.9 million (1997: Sfr 22.9 million).

Income from Lombard advances

Item no. 08 in the income statement

Both the average Lombard rate and the average level of borrowing were lower than in 1997. As a result, income declined by Sfr 0.2 million to Sfr 0.7 million.

Income from claims against domestic correspondents

Item no. 09 in the income statement

With the discount rate unchanged and balances lower than in the previous year, income from claims against domestic correspondents declined by Sfr 0.3 million to Sfr 1.4 million.

Income from domestic securities

Item no. 10 in the income statement

Securities income (interest plus price gains) receded by Sfr 42.4 million to Sfr 220.0 million. Since interest rates fell substantially again, returns were lower on all new investments. Moreover, the duration of the portfolio declined from 3.8 to 3.3 years. The lower yields associated with shorter maturities had a greater impact on aggregate income than the capital gains on long-dated bonds which were generated by the interest rate slide.

Other income

Item no. 11 in the income statement

	1998 Sfr millions	**Change from previous year** Sfr millions
Commissions from banking transactions	3.2	+0.7
Income from participations	5.1	+0.9
Income from real estate[1]	6.3	−0.4
Other ordinary income	0.6	+0.5
Total other income	15.1	+1.7

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.

Item no. 12
in the income statement

Interest expense

Interest expense rose from Sfr 67.1 million to Sfr 126.1 million. This rise was due to the significantly higher net liabilities to the Confederation that has resulted since the introduction of repo operations and must therefore be seen in conjunction with the interest income from repo transactions.

	1998 Sfr millions	Change from previous year Sfr millions
Interest expense for liabilities towards the Confederation	197.2	+70.2
Interest income from onward placements	−77.1	+11.0
Net interest expense for liabilities towards the Confederation	120.1	+59.2
Interest on depositors' balances	5.6	−0.6
Interest expense for liabilities from Swiss franc and foreign currency repo transactions	0.4	+0.4
Total interest expense	126.1	+59.0

Item no. 13
in the income statement

Banknote expense

Banknote expense comprises write-downs for notes of the eighth issue capitalised as assets; these write-downs are effected as the new banknotes enter into circulation. Although write-downs were lower for most denominations, the issue of the new Sfr 1000 notes – and, especially, of the new Sfr 100 notes – brought about a marked rise in banknote expense.

Item no. 14
in the income statement

Personnel expense

	1998	Change from previous year	
	Sfr millions	Sfr millions	percent
Wages, salaries and allowances	64.4	+2.5	+4.0
Welfare benefits	11.6	+0.3	+2.7
Other personnel expenses	4.0	−1.4	−25.9
Allocations to the pension fund	1.0	–	–
Total personnel expense	81.1	+1.5	+1.9

Other personnel expenses relate primarily to recruitment, training and cafeteria facilities.

General overheads

Item no. 15
in the income statement

	1998	Change from previous year	
	Sfr millions	Sfr millions	percent
Direct expenses from banking operations	10.6	+2.3	+27.4
Premises	15.1	−3.1	−17.0
Furniture and fixtures	6.0	+0.5	+9.1
Other general overheads	28.5	+5.3	+22.8
Total general overheads	60.3	+5.0	+9.1

Direct expenses from banking operations

This item relates to direct costs incurred in connection with banknotes in circulation (including remuneration to outside agencies) plus commission and expenses from the management of financial investments and gold.

Premises

This item comprises outlays on the maintenance and operation of the Bank's buildings and on rented office accommodation.

Furniture and fixtures

This item comprises expenditure on the maintenance and upkeep of vehicles, machinery, furnishings and computer hardware and software.

Other general overheads

Other general overheads comprise general administrative expenses and third-party consultancy and support expenses totalling Sfr 9.0 million (1997: Sfr 4.8 million) plus information retrieval and security outlays.

Finally, this item also includes contributions to the operating costs of the Gerzensee Study Centre (Sfr 5.9 million, versus Sfr 5.0 million in 1997) and to the Haslizentrum holiday and training centre (down from Sfr 0.6 million to Sfr 0.5 million).

Depreciation of tangible assets

Item no. 16
in the income statement

The bulk of this item (Sfr 13.3 million, versus Sfr 9.7 million in 1997) is accounted for by depreciation of sundry tangible assets, which comprise furnishings, machinery and equipment, vehicles and IT investments. These purchases are written off over 3–12 years. A further Sfr 3.7 million (1997:Sfr 0.2 million) is accounted for by real estate.

Item no. 17
in the income statement

Exchange rate-related valuation adjustments

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

	1998 Sfr millions	1997 Sfr millions
USD	−941.7	+2 247.3
DEM	+137.4	−440.6
JPY	+169.1	−68.5
NLG	−0.4	
GPB	−102.0	
DKK	−16.4	
XDR	−116.7	
Other currencies	−0.5	+27.0
Total	−871.2	+1 765.2

Item no. 18
in the income statement

Extraordinary expense

This item comprises allocations to the provisions for costs arising from early retirements in connection with the new cash distribution concept (Sfr 20.0 million – see pages 63 f.) plus auditing costs incurred by the Fund for Needy Victims of the Holocaust/Shoah (Sfr 2.5 million). It also contains a Swiss National Bank contribution of Sfr 0.3 million to the Canton of Ticino for averting compensation claims in the matter of Granville Gold Trust Switzerland.

Item no. 19
in the income statement

Allocation to provisions

The sharp rise in income from foreign currency positions enabled the Bank to channel a further Sfr 886.5 million into provisions (in 1997, Sfr 3 287.7 million was allocated to provisions). Provisions were in line with the minimum level which the Bank seeks to maintain for reasons of exchange rate policy (see pages 95 f.). Annual profit is stated at Sfr 1,508.0 million. The proposal regarding the distribution of profit is set out on page 98.

3.4 Notes to the balance sheet

The balance sheet total rose by almost Sfr 17 billion in 1998 to just under Sfr 93 billion. The sharp rise is due largely to a massive increase in short-term time deposits of the Confederation held with the National Bank. Only part of this money was placed directly on the market. The market's remaining liquidity requirements were met by entering into additional repo operations.

The money market transactions outlined above thus resulted in a rise in net liabilities towards the Confederation and higher claims from Swiss franc repo transactions (i. e. increases on both sides of 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 87.6 tonnes owing to the stepping-up of gold lending operations since the beginning of January 1998. These holdings are stored at various locations in Switzerland and abroad.

	1998		Change from previous year
	tonnes	Sfr millions	Sfr millions
Gold ingots	2 228.2	10 240.2	–402.7
Gold coins	175.2	805.3	–
Total	2 403.4	11 045.5	–402.7

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 1998, the amount outstanding was 186.8 tonnes at a parity value of Sfr 858.4 million plus accrued interest of Sfr 26.3 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. Government paper is mostly 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]

	1998			Change from previous year	
	millions		% weighting	millions	
	original currency	Swiss francs		original currency	Swiss francs
USD	19 842.7	27 327.3	51.8	−9 033.8	−14 685.1
of which					
not exchange rate-hedged	16 397.7	22 582.9	42.8	−3 893.8	−6 939.2
exchange rate-hedged (swaps)	3 445.0	4 744.5	9.0	−5 140.0	−7 745.9
DEM	22 475.8	18 461.6	35.0	+11 187.5	+9 291.0
of which					
not exchange rate-hedged	18 755.8	15 406.0	29.2	+7 467.5	+6 235.4
exchange rate-hedged (swaps)	3 720.0	3 055.6	5.8	+3 720.0	+3 055.6
JPY	215 418.1	2 608.7	4.9	+52 661.7	+786.5
NLG	2 017.4	1 469.9	2.8	+1 662.4	+1 214.1
GBP	726.8	1 659.0	3.1	+726.0	+1 657.2
DKK	5 821.0	1 255.0	2.4	+5 819.5	+1 254.7
Others		24.1	0.0		+16.8
Total		**52 805.7**	**100.0**		**−464.9**

Investments by borrower[1]

	1998			Change from previous year	
	millions		% weighting	millions	
	original currency	Swiss francs		original currency	Swiss francs
Government paper					
USD	11 377.9	15 669.7	29.7	−4 538.5	−7 487.1
DEM	19 802.3	16 265.6	30.8	+8 810.5	+7 335.9
JPY	212 243.2	2 570.3	4.9	+50 776.6	+762.5
NLG	2 002.9	1 459.3	2.8	+1 650.2	+1 205.1
GBP	660.3	1 507.1	2.9	+660.3	+1 507.1
DKK	5 818.2	1 254.4	2.4	+5 818.2	+1 254.4
Total		38 726.4	73.3		+4 577.9
Monetary institutions					
USD	3 524.3	4 853.6	9.2	−4 590.9	−6 953.2
DEM	1 353.0	1 111.4	2.1	+1 310.0	+1 076.4
JPY	1 171.8	14.2	0.0	−65.9	+0.4
NLG	6.7	4.9	0.0	+4.7	+3.5
GBP	13.3	30.5	0.1	+12.6	+28.8
DKK	2.3	0.5	0.0	+1.0	+0.2
Total		6 015.0	11.4		−5 844.0
Banks					
USD	4 940.5[2]	6 804.1	12.9	+95.7	−244.6
DEM	1 320.5	1 084.7	2.1	+1 067.0	+878.7
JPY	2 003.1	24.3	0.0	+1 951.0	+23.7
NLG	7.7	5.6	0.0	+7.4	+5.4
GBP	53.2	121.4	0.2	+53.1	+121.2
DKK	0.5	0.1	0.0	+0.3	+0.1
Others		24.1	0.0		+16.8
Total		8 064.3	15.3		+801.3
Total		**52 805.7**	**100.0**		**−464.9**

The holdings stated contain securities used for repo operations (market value: Sfr 174.6 million) and securities lodged as initial margin with counterparties to futures transactions (market value: Sfr 240.1 million).

1 of which non-negotiable investments: Sfr 4,650.0 million (1997: Sfr 5,487.7 million)

2 Of this total, 66.8% is accounted for by organisations with an indirect state guarantee.

Item no. 24
in the balance sheet

Reserve position in the IMF

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 at the National Bank. 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.

	1998 millions		Change from previous year millions	
	XDR	Sfr	XDR	Sfr
Swiss quota in IMF	2470.4	4747.6	–	−105.4
less IMF's Swiss franc sight balances at the National Bank	872.6	1677.0	−190.3	−411.0
Reserve position in the IMF	1597.8	3070.6	+190.3	+305.6

Item no. 25
in the balance sheet

International payment instruments

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. The ECUs (XEU) which were previously acquired by way of revolving swaps and invested on a short-term basis at the European Monetary Institute (EMI) were no longer reinvested when they matured at the end of April 1998.

	1998 millions		Change from previous year millions		Undertakings 1998 millions
	original currency	Sfr	original currency	Sfr	original currency
XDR	203.3[1]	390.8	+24.9	+40.3	7.7
XEU	–	–	−63.5	−101.9	
Total		390.8		−61.6	

1 This figure includes accrued interest on the reserve position in the IMF.

Balance of payments aid

Item no. 26 in the balance sheet

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. The General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB) are special credit mechanisms which may be used for supplying additional funds to the IMF when it is short of liquidity. While the Confederation guarantees interest and principal repayments for the bilateral loans and Switzerland's participation in the ESAF II loan account, the National Bank finances Switzerland's contributions to the GAB and NAB without the Federal Government providing any guarantee (see pages 57 f.).

	Outstanding loans 1998		Change from previous year		Undertakings 1998
	millions		millions		millions
	USD	Sfr	USD	Sfr	USD
Bilateral loans					
Czech Republic	–	–	–26.8	–39.0	–
Slovakia	–	–	–13.4	–19.5	–
Romania	48.2	66.4	–0.1[1]	–3.8	–
Bulgaria	32.3	44.5	–	–2.5	–
Total	80.5	110.8	–40.3	–65.0	–
	millions		millions		millions
	XDR	Sfr	XDR	Sfr	XDR
Credit facilities in conjunction with the IMF					
GAB	87.1	167.5	+87.1	+167.5	
NAB	144.0	276.7	+144.0	+276.7	
Total GAB and NAB	231.1	444.2	+231.1	+444.2	1326.9
ESAF II	111.0	213.3	+39.9	+73.7	42.4
Total	342.1	657.5	+271.0	+517.9	1369.3
Total		**768.3**		**+452.9**	

1 Accrued interest

Item no. 27
in the balance sheet

Claims from Swiss franc repo transactions

Repo operations, the principal instrument of monetary policy, are used to provide the banking system with liquidity against the repurchase of securities. The claims from repo transactions are fully secured by Swiss franc-denominated bonds of Swiss or foreign borrowers eligible as collateral at the National Bank and by money market debt register claims of the Confederation and the cantons.

Item no. 28
in the balance sheet

Domestic money market claims

After the first repo transactions were concluded on 20 April 1998, the National Bank no longer entered into swaps with money market debt register claims.

Item no. 29
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 1998, a total of 200 credit lines were pending (1997: 241).

Credit lines, collateral values and drawdowns are summarised below.

	1998 Sfr millions	Change from previous year Sfr millions
Credit lines at end-year	8 871.3	−29.2
Value of collateral at end-year[1]	9 629.1	+216.1
Yearly average of drawn advances	18.1	−3.2
Maximum drawdown[2]	633.3	+82.2

1 Market prices less 10–35 %

2 Daily peak

Item no. 30
in the balance sheet

Claims against domestic correspondents

752 branches of 80 banks (1997: 767 branches of 81 banks) perform local cash redistribution transactions for the National Bank and cover the cash requirements of federal institutions (Swiss Post, Swiss Federal Railways). The National Bank earns interest at the discount rate on the resulting claims.

Domestic securities

These are bonds which are listed on the stock exchange.

Item no. 31 in the balance sheet

	1998		Change from previous year
	Sfr millions	% weighting	Sfr millions
Confederation	995.8	19.9	+22.1
Cantons	1368.2	27.3	+62.9
Communes	610.7	12.2	+9.0
Mortgage bond institutions	1010.3	20.2	+48.7
Banks	1025.0	20.5	−73.9
Total market value[1]	5010.0	100.0	+69.0
Total nominal value	4432.9		+67.5

1 Year-end rates plus accrued interest

The positions stated contain securities with a market value of Sfr 0.4 million used as margin deposits for Swiss franc repo transactions.

Participations and tangible assets

Items nos. 32 and 33 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	61.0				61.0
Others	1.6			0.1	1.5
Total	89.6			0.1	89.4
Tangible assets					
Banknote stocks	183.0	36.7		45.5	174.2
Real estate[1]	356.2	1.7		3.7	354.1
Sundry tangible assets[2]	28.3	19.6		13.3	34.6
Total	567.4	58.0		62.5	563.0

1 The insured value of real estate at end-1998 was Sfr 425.7 million (end-1997: Sfr 416.6 million).

2 The insured value of sundry tangible assets at end-1998 was Sfr 57.8 million (end-1997: Sfr 55.1 million).

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.

The end-1998 figure for other participations includes stakes held in Telekurs Holding Ltd, Zurich, Sihl, Zurich (a paper factory) and the SWIFT Society for Worldwide Interbank Financial Telecommunications S.G., La Hulpe (Belgium), plus the shares in the successor to two companies which had been established in connection with the foundation of the Gerzensee Study Centre.

Tangible assets

Banknote stocks

Stocks of new banknotes (eighth issue) are stated at cost and written down in line with their entry into circulation.

Real estate

Real estate is valued on the basis of its acquisition cost including any investments made. The property is written down on a straight-line basis over 100 years (or ten years in the case of installations and conversions specific to the Bank).

Sundry tangible assets

Sundry tangible assets such as furnishings, machinery and equipment, vehicles and IT investments are stated at cost less required depreciation. These assets are written down over their estimated useful life of 3–12 years.

Low-value acquisitions are debited directly to general overheads.

Item no. 34 in the balance sheet

Sundry assets in Sfr millions

	1998	Change from previous year
Coins (including commemorative coins)[1]	445.9	+17.5
Foreign notes	0.1	–
Postal giro accounts	0.5	−0.1
Other accounts receivable	27.9	−5.5
Other cheques and bills of exchange (collection business)	3.1	−10.2
Positive replacement values (forward contracts)	2.8	−3.5
Total	480.4	−1.9

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

Accruals

Accrued interest on gold claims (Sfr 26.3 million), foreign currency investments (Sfr 886.0 million), the reserve position in the IMF (Sfr 19.8 million), international payment instruments (Sfr 1.3 million), balance of payments aid (Sfr 7.0 million), claims from Swiss franc repo transactions (Sfr 7.4 million), domestic securities (Sfr 146.0 million) and onward placements for the Confederation (Sfr 14.0 million) is contained in the corresponding balance sheet items.

Banknote circulation

Item no. 35 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 266.8 million were still outstanding at the end of the year (1997: 276.3 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 133.2% (1997: 220.1%). The substantial reduction is due mainly to the changed asset structure brought about by the revised National Bank Law.

Banknote coverage by gold alone decreased to an average of 37.6% (1997: 40.9%). The minimum rate prescribed by law is 25%. This decline is mainly a result of the gold lending business and of the associated decrease in physical gold holdings eligible as cover.

The higher average figure for banknotes in circulation by comparison with 1997 also contributed to the fall in both of the above figures, though only to a small extent.

Banknote coverage annual average

	1998 millions Sfr	1998 percent coverage	Change from previous year
Gold holdings	11 104.6	37.6	−3.3 percentage points
Other eligible assets	28 285.0	95.7	−83.5 percentage points
of which			
Foreign currency investments[1]	23 621.0		
Reserve position in the IMF	3 447.3		
International payment instruments	345.8		
Domestic money market claims	532.8		
Lombard advances	17.3		
Eligible domestic securities[2]	320.9		
Overall banknote coverage	39 389.5	133.2	−86.9 percentage points
Banknote circulation	29 568.6		+2.0 %

1 residual maturity of up to one or two years, depending on investment class

2 residual maturity of up to two years

Item no. 36
in the balance sheet

Sight deposit accounts of domestic banks

The 550 sight deposit accounts (1997: 572) of the 372 banks (1997: 407) 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. 37 and 38
in the balance sheet

Liabilities towards the Confederation

The Confederation's sight deposits facilitate the payments transactions of the Federal Government and its agencies both in Switzerland and abroad. Up to a ceiling of Sfr 500 million they attract interest at the call money rate. The time deposits attract interest at market rates. The National Bank is free to place these funds on the market in connection with the conduct of monetary policy, in which case the Confederation bears the credit risk. At year-end, these investments totalled Sfr 22,448.0 million (1997: Sfr 8,034.5 million), of which Sfr 7,476.0 million (1997: Sfr 5,732.8 million) had been placed on the market.

Item no. 39
in the balance sheet

Sight deposits of foreign banks and institutions

The 217 accounts (1997: 142) are denominated in Swiss francs and do not bear interest. They are held primarily by foreign central or commercial banks.

The marked increase is due primarily to the merger of SOFFEX (Switzerland) and Deutsche Terminbörse (DTB) to form Eurex. Since then, numerous German banks have operated a foreign sight deposit account. A link between this account and a SIC clearing account enables foreign Eurex participants to be linked to the Swiss securities clearing system of SEGA.

Item no. 40
in the balance sheet

Other sight liabilities

These comprise deposit accounts of active and retired employees, liabilities towards pension funds amounting to Sfr 12.5 million (1997: Sfr 48.9 million) and liabilities towards individual non-banks.

Item no. 41
in the balance sheet

Liabilities from Swiss franc repo transactions

As an instrument for controlling money supply growth, the National Bank may use repos to withdraw liquidity from the market. So far, however, such transactions have only been used once – for test purposes at the time the repo operations were launched.

Item no. 42
in the balance sheet

Foreign currency liabilities

This item consists of liabilities from repo transactions aimed at managing foreign currency investments (Sfr 175.1 million) plus sight liabilities towards the Confederation denominated in foreign currencies.

Sundry liabilities in Sfr millions

Item no. 43 in the balance sheet

	1998	Change from previous year
Profit distribution to the Confederation and the cantons (from previous year's profit)	–[1]	−600.0
Other liabilities	16.9	+3.1
Negative replacement values (forward contracts)	248.4	−52.5
Total	265.3	−649.4

1 Since 1998, profit has been distributed directly after the Annual General Meeting rather than at the beginning of the following year.

Deferrals

Accrued interest on forward liabilities towards the Confederation (Sfr 98.0 million) and liabilities from foreign currency repo transactions (Sfr 0.1 million) are contained in the corresponding balance sheet positions.

Provisions

Items nos. 44 and 45 in the balance sheet

Owing to the strong rise in net income, which greatly exceeded the exchange rate losses on foreign currencies and the published annual profit, the Bank was able to increase its provisions by Sfr 886.5 million. Provisions thus complied with the minimum figure stipulated in the profit calculation concept (see pages 95 f.).

Provisions in Sfr millions	Provisions on 31. 12. 1997	Allocated to provisions	Released from provisions	Provisions on 31. 12. 1998	Change from previous year
for market, credit and liquidity risks	33 842.2	886.5	–	34 728.6	+886.5
operating risks	450.0	22.5	0.8[1]	471.7	+21.7
Total	34 292.2	909.0	0.8	35 200.4	+908.2

1 During the course of the year, funds were released to cover the auditing costs of the Fund for Needy Victims of the Holocaust/Shoah.

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. 46
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 9,868 shares (–55%) to new holders. As of 31 December 1998, applications for registration were pending or outstanding for 13,643 shares.

The other shares were distributed as follows:

1 150 private shareholders each with	1 share
1 502 private shareholders each with	2–10 shares
392 private shareholders each with	11–100 shares
9 private shareholders each with	101–200 shares
14 private shareholders each with	over 200 shares
3 067 private shareholders with a total of	30 013 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	2 442 shares
90 other public-sector shareholders with a total of	56 344 shares
3 157 shareholders with a total of	86 357 shares
pro memoria: registration applications pending or outstanding for	13 643 shares
Total	100 000 shares

65% of the shares were thus registered in the names of cantons, cantonal banks and other public authorities and institutions, and 35% in the names of private shareholders; of the latter, 70% were held by private individuals and 30% by legal entities. 2,916 shares (without voting rights) were in foreign ownership; this is equivalent to 2.9% of the share capital.

The price of the National Bank share – which, owing to its legally stipulated maximum dividend of 6%, has generally developed along similar lines to a long-term Confederation bond with a 6% coupon – ranged between Sfr 850 and Sfr 1,460 during the year.

The number of transactions, which had increased significantly in the previous year, declined sharply. However, a large number of applications for registration were still pending or outstanding.

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

	Number of shares		Percentage held	
	1998	Change from previous year	1998	Change from previous year
Canton of Berne	6 630	–	6.63%	–
Canton of Zurich	5 200	–	5.20%	–

Reserve fund

Item no. 47 in the balance sheet

The reserve fund was increased by Sfr 1.0 million (the legally permitted maximum) to Sfr 63.0 million by an allocation from the 1997 annual profit.

Annual profit – calculation and distribution

Item no. 48 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 provisions which cover economic risks as well as serving the customary 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 economy less vulnerable to international crises. The need for currency reserves is growing in line with the size and globalisation of the Swiss economy.

For this reason, an agreement reached on 24 April 1998 between the National Bank and the Federal Department of Finance regarding the distribution of profits confirmed that provisions should continue to be increased in line with growth in nominal gross national product. The targeted percentage rise is based on the average increase in nominal GNP 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. The agreement with the Department of Finance stated that, in order to achieve an even steadier flow of payments, the distributions to the Confederation and cantons were to be fixed in advance – on the basis of earnings forecasts – at Sfr 1.5 billion per annum for the period 1999–2003. These distributions will be paid out of the earnings surpluses for financial years 1998–2002 and from the residual surplus of effective provisions remaining at the end of 1997. If the actual surpluses are insufficient for the payment of the agreed distributions, the National Bank is prepared to agree to a temporary drop in provisions below the targeted level so that it can still remit the sum of Sfr 1.5 billion. Provisions may not, however, fall below 60% of the targeted level. If necessary, the distribution may have to be curtailed or even suspended altogether during the five-year period.

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)
1995	4.8 (1989–93)	23 608.4	23 750.6	142.2	142.2
1996	3.7 (1990–94)	24 481.9	32 062.3	7 580.4	1 057.8[3]
1997	2.9 (1991–95)	25 191.9	34 892.2	9 700.3	600.0
1998	1.8 (1992–96)	25 645.4	36 700.4	11 055.0	1 500.0
1999	1.9 (1993–97)	26 132.7			

1 The figures for nominal GNP are revised on a continuous basis. The growth rates shown in the table thus 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 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

	1998 Sfr millions	Change from previous year Sfr millions
Contingent liabilities		
Documentary credits[1] (secured by separate balances)	7.8	+2.4
Outstanding undertakings		
Two-way arrangement (IMF)[2]	14.8	−27.6
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)[3]	2 550.0	+546.3
Extended Structural Adjustment Facility (ESAF II)[4]	81.6	−79.2
Substitution undertaking to the Bank for International Settlements (BIS)[5]	344.3	+344.3
Swap agreements[6]:		
Federal Reserve Bank of New York	–	−5 819.6
Bank of Japan	2 422.0	+182.8[7]
Bank for International Settlements (BIS)	–	−872.9
Additional funding obligations		
BIS registered shares[8]	111.0	−7.6
Fiduciary transactions		
Fiduciary investments of the Confederation	323.8	+171.4

	Nominal value Sfr millions	Gross replacement value Sfr millions positive	 negative
Forward contracts			
on precious metals[9]	9.3	–	–
on currencies[10]	13 028.3	2.8	248.4
on interest rate instruments[11]	4 292.4	0.0	0.0
Total	17 330.0	2.8	248.4

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

2 National Bank undertaking to purchase Special Drawing Rights against currency up to the agreed maximum of XDR 200 million or to return the Special Drawing Rights in exchange for currency (see page 86).

3 Credit line totalling XDR 1,557 million (of which a maximum of XDR 1,020 million in the context of GAB) in favour of the IMF for special cases, without a federal guarantee (see pages 58 and 87).

4 Loan undertaking – limited in time – to the IMF's trust fund (see pages 57 f. and 87).

5 Substitution undertaking in the amount of USD 250 million to the BIS as part of the resolution for the provision of foreign exchange aid to Brazil, with federal guarantee (see page 59).

6 Bilateral agreement, concluded for a limited period of time, to exchange Swiss francs against a maximum amount of 200 billion yen with the Bank of Japan for the purpose of providing reciprocal balance of payments aid in extraordinary circumstances. The agreements with the Federal Reserve Bank (for US $ 4 billion) and with the BIS (for US $ 600 million) expired during the year under review.

7 Change due entirely to exchange rates.

8 The BIS shares are only 25% paid up; the additional funding obligation is calculated in gold francs, i.e. is closely related to the gold price. The change is due exclusively to the decline in the gold price.

9 From gold lending operations, valued at the legally stipulated price of Sfr 4,595.74 per kilogram.

10 From forward transactions (primarily swaps) and spot transactions with value date in the new year.

11 From spot transactions with value date in the new year.

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

At its meeting of 5 March 1999, the Bank Council accepted the proposal of the Bank Committee to approve the 91st Annual Report for 1998, as presented by the Governing Board, for submission to the Federal Council and the Annual General Meeting of Shareholders.

On 24 March 1999, 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 produced its report pursuant to Article 51 Paragraph 2 of the National Bank Law on 5 February 1999.

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 1,507,998,949.60 be appropriated as follows:

allocation to the reserve fund (Art. 27 para. 1 NBL)	Fr.	1 000 000.––
payment of a dividend of 6% (Art. 27 para. 2 NBL)	Fr.	1 500 000.––
payment to the Federal Finance Administration:		
for the account of the cantons, Sfr 0.80 per capita (Art. 27 para. 3 (a) NBL)	Fr.	5 498 949.60
for the account of the Confederation and cantons (Art. 27 para. 3 (b) NBL)	Fr.	1 500 000 000.––
	Fr.	1 507 998 949.60

1 For the proposal regarding appointments to the Bank Council and the Auditing Committee, see pages 68 and 70.

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 annual financial statements (balance sheet, income statement and notes) of the Swiss National Bank for the year ended 31 December 1998. 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 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, 5 February 1999

The Auditing Committee:

Peter Blaser
Chairman

Hans Michel
Vice-Chairman

Kaspar Hofmann
Certified auditor
Chief auditor

Chronicle of monetary events

On 1 April the National Bank issues the new 1000-franc banknote (cf. p. 50). April

On 8 April the Federal Council gives its approval to the new agreement with the SNB concerning profit distribution (cf. p. 95).

On 20 April the National Bank introduces repurchase agreements (repos) in Swiss francs (cf. pp. 28 and 32).

On 27 May the Federal Council submits a message concerning a new monetary article in the Federal Constitution to the federal parliament (cf. pp. 36 ff.). May

In June the federal parliament agrees to a prolongation of Switzerland's participation in the General Arrangements to Borrow (GAB) of the International Monetary Fund (cf. p. 58). June

On 16 July the National Bank, in agreement with the Federal Department of Finance, agrees to an activation of the General Arrangements to Borrow (GAB) of the International Monetary Fund in favour of Russia (cf. p. 58). July

On 1 October the National Bank issues the new 100-franc banknote (cf. p. 50). October

On 21 October the Federal Council opens the consultation procedure on the draft of a new Federal law on currency and payment instruments (cf. pp. 38 f.)

On 17 November the New Arrangements to Borrow (NAB) enter into force (cf. p. 58). November

On 19 November the National Bank, in agreement with the Federal Department of Finance, gives its approval to an activation of the new Arrangements to Borrow (NAB) of the International Monetary Fund in favour of Brazil (cf. p. 58). In addition, Switzerland participates in a credit facility extended by the Bank for International Settlements in favour of Brazil with a substitution undertaking to the maximum amount of $ 250 million (cf. p. 59).

On 11 December the Governing Board of the National Bank, in agreement with the Federal Government, decides to continue implementing a pragmatic monetary policy in 1999. The Swiss economy is thus to be granted the monetary leeway necessary for a balanced development, and the uncertainties associated with the forthcoming launch of the euro are duly to be taken into account. The National Bank retains the option of deviating from its monetary policy course in the event of unforeseen developments (cf. pp. 34 ff.). December

On 17 December the National Council gives its approval to the new monetary article in the Federal Constitution (cf. pp. 36 ff.).

At the end of December the National Bank closes its branch offices in Aarau and Neuchâtel following the implementation of a new cash distribution concept (cf. pp. 63f.).

Tables and statistical data

1 Business results since 1988

in Sfr millions

	1988	1989
Income from		
gold transactions	–	–
foreign currency investments	1 924.0	2 848.7
reserve position in the IMF[1]	–	–
international payment instruments[1]	–	–
balance of payments aid[1]	–	–
Income from		
securities discounting	3.3	33.9
claims from Swiss franc repo transactions	–	–
domestic money market claims	–	–
Lombard advances	2.8	5.7
claims against domestic correspondents	1.2	7.3
domestic securities	132.9	149.5
Other income	6.7	6.3
Gross income	**2 070.9**	**3 051.3**
Interest expense	−43.8	−59.4
Banknote expense	−24.0	−21.3
Personnel expense	−59.0	−61.3
General overheads	−29.5	−72.3
Depreciation of tangible assets	−1.3	–
Net income	**1 913.3**	**2 837.0**
Exchange rate-related valuation adjustments	1 970.9	1 089.9
Write-down on securities	−96.4	−35.9
Extraordinary expense	–	–
Extraordinary income	–	–
Taxes	−1.6	−0.3
Aggregate income	**3 786.2**	**3 890.8**
Allocation to provisions	−3 778.6	−3 883.2
Release of provisions		
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

1990	1991	1992	1993	1994	1995	1996	1997	1998
–	–	–	–	–	–	–	2.6	42.6
2 585.1	3 084.7	2 498.8	2 348.4	1 618.4	1 910.7	1 794.8	2 067.5	3 091.3
–	–	3.3	40.3	32.1	45.6	55.1	69.9	123.8
–	–	4.3	11.3	12.9	12.4	13.6	14.0	14.0
–	–	6.1	8.7	8.9	12.1	10.7	12.9	19.5
44.2	37.1	31.6	4.0	–	–	–	–	–
–	–	–	–	–	–	–	–	84.2
–	–	11.2	59.0	57.2	55.5	32.6	22.9	5.9
3.9	2.6	2.5	1.8	2.0	0.9	0.9	0.9	0.7
10.8	12.6	12.2	6.9	7.0	3.8	2.3	1.7	1.4
160.2	176.1	184.3	315.9	228.7	238.1	260.3	262.4	220.0
6.1	6.6	14.1	17.8	15.3	8.9	12.9	13.4	15.1
2 810.3	**3 319.6**	**2 768.3**	**2 814.2**	**1 982.5**	**2 288.0**	**2 183.2**	**2 468.4**	**3 618.4**
−107.0	−89.5	−98.8	−296.3	−213.1	−101.6	−49.3	−67.1	−126.1
−20.5	−23.1	−26.4	−54.6	−57.6	−59.3	−15.1	−32.0	−45.5
−69.5	−77.0	−79.8	−79.4	−83.3	−79.8	−82.0	−79.6	−81.1
−59.9	−64.9	−54.2	−55.0	−47.0	−56.6	−54.0	−55.2	−60.3
–	–	–	–	–	–	−10.1	−9.9	−17.0
2 553.4	**3 065.1**	**2 509.1**	**2 328.9**	**1 581.5**	**1 990.7**	**1 972.7**	**2 224.5**	**3 288.5**
−3 976.8	1 697.1	692.6	764.1	−2 338.9	−3 531.4	4 412.1	1 765.2	−871.2
−48.3	−37.0	−35.1	−67.7	−45.5	−66.0	–	–	–
–	–	–	–	−50.3	−0.9	–	−100.0	−22.9
–	–	–	–	–	–	2 077.1 [2]	6.0	0.0
−3.4	–	−8.7	–	–	–	–	–	–
−1 475.0	**4 725.2**	**3 157.9**	**3 025.3**	**−853.2**	**−1 607.6**	**8 461.9**	**3 895.7**	**2 394.5**
	−4 117.6	−2 549.5	−2 417.3			−7 396.1	−3 287.7	−886.5
1 482.6				1 461.2	1 757.8			
7.6	**607.6**	**608.4**	**608.0**	**608.0**	**150.2**	**1 065.8**	**608.0**	**1 508.0**
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	605.1	605.9	605.5	605.5	147.7	1 063.3	605.5	1 505.5

2 Summary of balance sheets since 1988

Year-end values in Sfr millions

Assets	1988	1989
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	22 327.3	21 760.4
exchange rate-hedged (swaps)	13 619.4	17 859.8
Reserve position in the IMF	–	–
International payment instruments[1]	30.5	123.6
Balance of payments aid	–	87.1
Claims from Swiss franc repo transactions	–	–
Domestic money market claims	–	–
Swiss bills of exchange	2 133.8	542.7
Confederation treasury notes	–	–
Lombard advances	795.9	704.1
Claims against domestic correspondents	416.0	458.3
Domestic securities	2 421.4	2 574.0
Participations[2]		
Tangible assets[2]		
Sundry assets	257.2	251.7
Non paid-up share capital	25.0	25.0
Balance sheet total	**53 930.4**	**56 290.6**

Liabilities

Liabilities	1988	1989
Banknote circulation	28 979.2	29 168.4
Sight deposits of domestic banks[3]	6 691.6	4 948.4
Liabilities towards the Confederation[4]	2 530.1	2 571.9
sight	–	–
time	–	–
Sight deposits of foreign banks and institutions	167.6	119.0
Other sight liabilities	86.3	85.4
Liabilities from Swiss franc repo transactions	–	–
Foreign currency liabilities	–	–
Sundry liabilities	22.5	60.2
Provisions		
for market, credit and liquidity risks[5]	14 712.5	18 595.7
for operating risks[6]	630.0	630.0
Share capital	50.0	50.0
Reserve fund	53.0	54.0
Net disposable income – annual profit	7.6	7.6
Balance sheet total	**53 930.4**	**56 290.6**

The accounting and valuation principles applied since 1996 are explained on pages 76 ff.

1 From 1980: Special Drawing Rights (XDR) and – in addition, from 1989 until 1997 – 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

1990	1991	1992	1993	1994	1995	1996	1997	1998
11 903.9	11 903.9	11 903.9	11 903.9	11 903.9	11 903.9	11 903.9	11 448.2	11 045.5
–	–	–	–	–	–	–	458.3	884.6
22 480.5	25 710.4	26 204.8	29 042.8	28 626.0	27 767.8	36 462.9	40 780.2	45 005.7
14 729.3	14 521.7	19 653.0	17 988.3	17 284.4	14 044.8	12 865.5	12 490.3	7 800.1
–	–	1 144.4	1 221.6	1 241.5	1 687.7	2 067.8	2 765.0	3 070.6
112.9	117.3	134.9	332.7	414.8	408.2	290.0	452.4	390.8
–	97.1	156.4	218.4	198.3	173.7	204.3	315.4	768.3
–	–	–	–	–	–	–	–	17 348.3
–	–	467.7	752.5	720.5	1 436.2	1 581.7	673.5	–
711.1	522.1	353.4	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
165.7	107.0	26.9	13.5	14.9	4.7	764.2	0.4	0.3
567.0	552.8	493.0	595.8	565.8	429.2	514.5	415.4	378.8
2 814.0	2 886.1	2 975.7	2 973.2	3 027.1	3 063.9	4 821.5	4 941.0	5 010.0
						51.0	89.6	89.4
						532.4	567.4	563.0
221.3	313.2	261.0	707.0	778.0	1 064.3	452.1	482.2	480.4
25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
53 730.7	**56 756.6**	**63 800.1**	**65 774.7**	**64 800.2**	**62 009.4**	**72 537.0**	**75 904.5**	**92 860.7**
29 640.5	29 217.1	29 353.5	29 335.6	30 545.1	30 892.2	32 447.6	32 141.8	33 218.8
4 595.3	4 275.6	4 785.5	4 776.7	3 837.2	4 035.0	4 927.4	5 100.8	6 860.1
621.7	3.4	245.1	192.3	595.2	917.4	839.5	155.6	147.6
785.0	400.0	3 450.0	2 940.0	2 850.0	1 350.0	815.3	2 301.7	14 972.0
59.8	114.9	54.7	188.8	46.7	43.3	32.7	47.3	163.5
95.0	104.7	115.1	105.8	108.0	156.3	204.2	230.3	236.1
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	175.9
77.7	66.5	670.5	692.0	734.7	746.5	1 089.0	914.7	265.3
17 113.1	21 230.8	23 770.3	26 187.5	24 726.3	22 958.4	30 554.5	33 842.2	34 728.6
630.0	630.0	640.0	640.0	640.0	650.0	450.0	450.0	471.7
50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
55.0	56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0
7.6	607.6	608.4	608.0	608.0	150.2	1 065.8	608.0	1 508.0
53 730.7	**56 756.6**	**63 800.1**	**65 774.7**	**64 800.2**	**62 009.4**	**72 537.0**	**75 904.5**	**92 860.7**

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 1999)

Bank Council

(Term of office 1995–1999)

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

Jakob Schönenberger, Kirchberg/SG, Attorney-at-law, President
Eduard Belser, Bottmingen, Member of the cantonal government and director of the economics and public health department of Basel-Land, Vice President
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-Microtechnik AG
Jörg Baumann, Langenthal, Chairman of the Board and Managing Director of Création Baumann Weavers and Dyers Ltd
* Fritz Blaser, Reinach, Chairman of Schweizerischer Arbeitgeberverband (Swiss employers' association)
Chasper Campell, Sils i.D.
* Gianfranco Cotti, Locarno, Advocate and Notary, Member of the Board of Credit Suisse
Pierre Darier, Cologny, Partner of Darier, Hentsch & Cie, Banquiers Privés
Melchior Ehrler, Riniken, National Councillor and Director of Schweizerischer Bauernverband (Swiss farmers' association)
* Peter Everts, Zollikofen, Chairman of the Board of Migros-Genossenschaftsbund
* Hugo Fasel, St Ursen, National Councillor, Chairman of Christlichnationaler Gewerkschaftsbund der Schweiz (Christian trade union federation)
Laurent Favarger, Develier, Director of Four électrique Delémont SA, Delémont
Theo Fischer, Sursee, Advocate and Notary
Serge Gaillard, Bolligen, Executive Secretary of the Swiss federation of trade unions
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, Zürich, Managing Director of Bucher Holding AG
* Trix Heberlein, Zumikon, President of the National Council
* 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
* Franz Marty, Goldau, Member of the cantonal government and head of the department of finance of the canton of Schwyz; President of the Conference of cantonal finance ministers
Ursula Mauch, Oberlunkhofen, Chemist
* Félicien Morel, Belfaux
Vasco Pedrina, Zurich, Co-chairman of the Swiss federation of trade unions
* Philippe Pidoux, Lausanne, National Councillor, Attorney-at-law

Heinz Pletscher, Löhningen, Building contractor, Chairman of the Swiss contractors' association
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
* Alexandre Swoboda, Geneva, Professor at The Graduate Institute of International Studies (on leave), Senior Policy Advisor and Resident Scholar, International Monetary Fund, Washington
Ulrich Zimmerli, Gümligen, Councillor of State and Professor of law at the University of Berne
* Elisabeth Zölch-Balmer, Berne, Member 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
Serge Gaillard
Yvette Jaggi
François Jeanneret
Andres F. Leuenberger
Philippe Pidoux
Ulrich Zimmerli

Local Committees

(Term of office 1995–1999)

Basel

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, Basel, Member of the management of Batigroup Holding Ltd

Berne

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

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

Jean-François Rime, Bulle, Chairman of the Board of Despond SA

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

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

Walter Kobler, Lausanne, Managing Director of Baumgartner Papiers SA

Lucerne

Gerry Leumann, Meggen, 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

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

Franz Bernasconi, Genestrerio, President and General Manager of Precicast SA

St Gallen

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

Charles Peter, Uzwil, President and Managing Director of Benninger AG

Zurich

Wera Hotz-Kowner, Erlenbach, Managing Director of Kowner Jakob AG, Chairwoman

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

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

Auditing Committee

(Term of office 1998/1999)

Members

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Hans Michel, Egnach, Vice-Chairman

Kaspar Hofmann, Adliswil, Certified Auditor, Hofmann Wirtschaftsprüfung AG

Substitute members

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

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		Jean-Pierre Roth, Vice-Chairman, Berne
		Bruno Gehrig, Member, Zurich
	Secretariat General	
	Secretary General	Peter Schöpf, Zurich
	Deputy Secretary General	Hans-Ueli Hunziker, Assistant Director, Berne

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		Othmar Flück, Assistant Director
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Central Accounting Section	Peter Bechtiger, Deputy Director
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Cash Division	Roland Tornare, Chief Cashier of the Bank, Director

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Computer Centre Berne	Bruno Beyeler, Assistant Director

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	Geneva	Yves Lieber, Director
	Lausanne	François Ganière, Director
	Lucerne	Max Galliker, Director
	Lugano	Wally Giger Delucchi, Director
	St Gallen	Jean-Pierre Jetzer, Director

Agencies

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

- Altdorf
- Appenzell
- Bellinzona
- Bienne
- Chur
- Delémont
- Fribourg
- Glarus
- Liestal
- Sarnen
- Schaffhausen
- Schwyz
- Sion
- 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/P.O. Box, 8712 Stäfa,
tel. 01 928 56 16, fax 0848 80 55 20
Price : Sfr. 20.00[1]

Balance of payments of Switzerland

This comment on the development of trade and capital flows between Switzerland and other countries is published in September in German and French; it is also issued as a supplement to the Monthly 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/P.O. Box, 8712 Stäfa,
tel. 01 928 56 16, fax 0848 80 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 2.3% 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/P.O. Box, 8712 Stäfa, tel. 01 928 56 16, fax 0848 80 55 20 Subscription rates: Sfr 40.00[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/P.O. Box, 8712 Stäfa, tel. 01 928 56 16, fax 0848 80 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
The Swiss National Bank in brief	The brochure "The Swiss National Bank in brief" describes in concise 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

All the publications – with the exception of "The Swiss National Bank in brief" – can be accessed on the Internet: http://www.snb.ch

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