92nd Annual Report

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA

1999

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. It considers price stability to be equivalent to an inflation rate – measured by the national consumer price index – of less than 2% per annum.

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.

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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

The Swiss National Bank looks back on a good year. We have succeeded in managing current business without encountering any major problems. At the same time, we have shifted the emphasis in important areas.

Particularly gratifying was the economic upswing, which increasingly manifested itself in the course of the year. We are now closer to the goal of a balanced overall economic development – adequate real growth, high employment, low inflation – than we have been for many years. This is due in part to the favourable monetary conditions.

Changes in the environment relevant to the National Bank have induced us to reconsider the basis of our monetary policy. The adjusted concept will permit us to continue to fulfil our mandate of pursuing a monetary policy in the interests of the country as a whole. We are, however, aware that with the means at our disposal we can primarily ensure price stability.

Further progress has been made in adapting Switzerland's monetary order to modern standards. The new Federal Constitution also includes an amended monetary article. At the beginning of May, the new Federal law on currency and payment instruments is expected to enter into force. This will sever the link between the Swiss franc and gold. As already known, it is intended to use half of the approximately 2,600 tonnes of gold holdings for other public purposes. The National Bank will continue to maintain adequate currency reserves.

The reorganisation of the distribution of currency has been completed. Cash processing is now concentrated in the head offices in Berne and Zurich and in the branch offices in Geneva and Lugano. The branch offices Basel, Lausanne, Lucerne and St Gallen still perform their task of collecting and providing information in their respective regions.

Our earnings situation permits a distribution of profits to the Confederation and the cantons in the agreed amount, i. e. Sfr 1.5 billion.

Looking back on a successful year does not allow us to forget that numerous tasks await a solution and that we will certainly be faced with new challenges in future.

We wish to thank our Bank's staff, as also the members of the bank authorities, for their support, on which we continue to rely.

Berne, 3 March 2000

Eduard Belser
President of the Bank Council

Hans Meyer
Chairman of the Governing Board

Review of economic developments

1 International developments

1.1 Development of the real economy

Recovery in East Asia gives a lift to the world economy

Following two years shaken by crises in East Asia, Russia and Latin America and by turbulence on the financial markets, the world economic situation brightened in 1999. The emerging market countries of East Asia recovered faster than expected from the previous year's economic downturn. Japan, too, emerged from its recession in the first half of the year. By contrast, many countries in Eastern Europe continued to be adversely affected by the international financial crisis and Russia's continuing economic difficulties. The economic climate in Latin America started to improve after the financial crisis in Brazil had been averted. With economic growth accelerating overall, the volume of world trade picked up appreciably in the course of 1999.

Faster economic growth in OECD countries

The passing of the East Asia crisis had a beneficial effect on the industrialised countries. Exports rose in most countries after a noticeable flattening in the previous year, while capital investment increased significantly. In the OECD countries, real gross domestic product (GDP) rose by an average of 2.8% in 1999 compared with 2.4% in 1998. The upturn was assisted by the recovery in Japan as well as by the brisk business climate in the US.

US economy still booming

In the United States, the economy continued to prosper in 1999. Real GDP rose by more than 4% for the third year running. Buoyed by rising share prices, private consumption grew particularly sharply. An investment boom in the IT sector and an upturn in exports during the year also added to the momentum. By contrast, higher interest rates impacted on the level of building activity.

Recession in Japan comes to an end

In 1999, the Japanese economy registered growth of just under 1% whereas in the previous year it had contracted by 2.6%. Initially, the growth was due mainly to large-scale government stimulus packages aimed at boosting persistently weak demand. In the course of the year, exports and private consumption also picked up. As a result, subdued sentiment in industry gave way to guarded optimism. Far-reaching restructuring measures implemented in a variety of sectors also had a positive impact.

Upswing in Europe

Europe's economic recovery made further progress in 1999. Exports were particularly buoyant, due not least to the considerably weaker euro. The general improvement in the business climate also stimulated domestic demand. In most European countries, capital spending registered a stronger increase and the construction industry emerged from a prolonged period of stagnation. Private consumption remained one of the main driving forces behind the upswing. Owing to slow growth in the first half of the year, real GDP in the EU countries grew less rapidly in 1999 than in the previous year (average of 2.1%, down from 2.7%). While above-average rates of growth were recorded by France, Spain and various smaller countries, the upturn in Germany and Italy was only gradual.

More people employed

Developments on the labour market reflected the considerably uneven business trends in the various OECD countries. Employment rose sharply again in the US, whereas in Japan – due partly to the restructuring process – further jobs were lost. Several European countries – notably Spain, Ireland and the Netherlands – witnessed remarkable growth in the number of persons employed. Demand for labour also grew in France but was muted in Germany and Italy.

EU unemployment still high

In 1999, unemployment in the US declined to 4.2%, the lowest rate since 1970. In the EU, it dropped to an average of 9.2%. Although the trend was pointing downwards, unemployment rates were still above the EU average in Spain, Italy, Greece, France and Belgium. Starkly contrasting unemployment rates within certain countries reflect continuing structural problems: in southern Italy, for example, jobless numbers were roughly four times the North Italian level, and in eastern Germany they were twice as high as in the former Federal Republic.

Slight rise in inflation

Consumer price inflation rose slightly in 1999. In December, the OECD average was 3.6%, i.e. 0.3 percentage points higher than a year previously. The higher inflation figures were due mainly to the sharp rise in oil prices. Factoring out energy and food costs, inflation came to 1.5% and was thus slightly lower than in 1998. In contrast to most other industrial countries, the UK witnessed a decline in inflation in the past year. Inflation in Germany and France was remarkably low (around 0.5%), while in Japan consumer prices were stable.

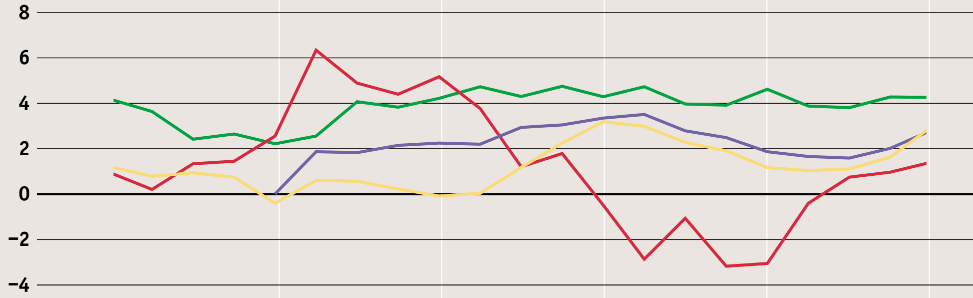
Divergent current account balances

The US current account deficit widened significantly owing to strong import growth, increasing to almost 4% of GDP in 1999. By contrast, Japan's current account surplus narrowed owing to the increasing consumption of foreign goods. The EU's current account was virtually balanced, though with considerable differences between the various countries: France's surplus contrasted with a large UK deficit.

United States
Japan
OECD Europe
Switzerland

Change in percent
from previous year.
Source: OECD

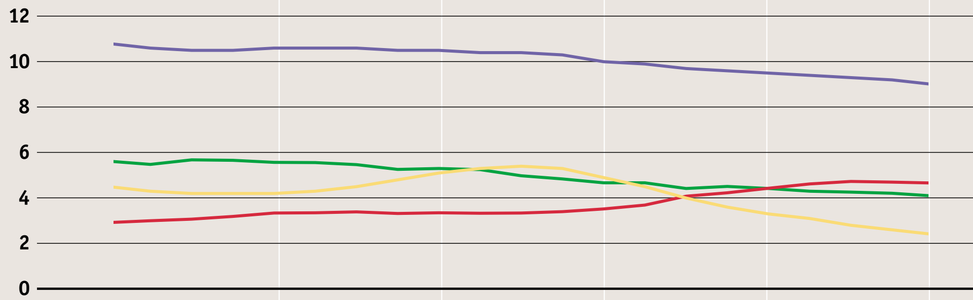
Real gross domestic product



United States
Japan
OECD Europe
Switzerland

Seasonally-adjusted; in percent.
Source: OECD

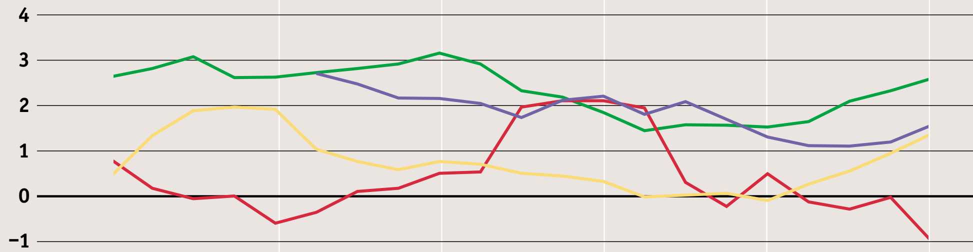
Unemployment



United States
Japan
OECD Europe
Switzerland

In percent.
Source: OECD

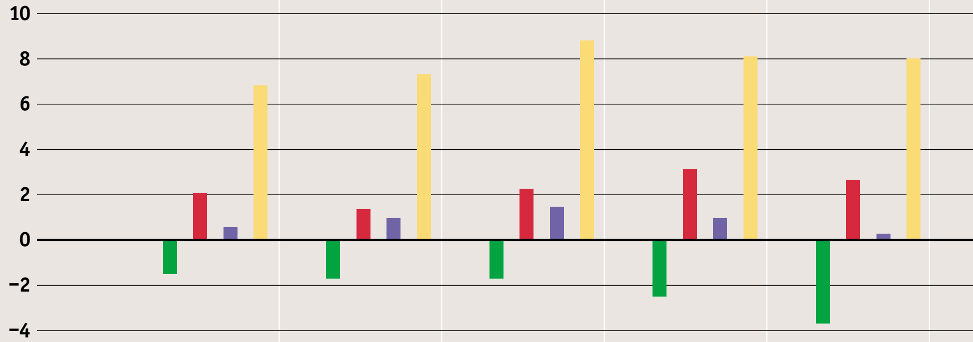
Inflation



United States
Japan
European Union
Switzerland

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

Current account balance



Summary economic development

	1995	1996	1997	1998	1999
Real GDP Change from previous year in percent					
United States	2.7	3.7	4.5	4.3	4.1
Japan	1.4	5.2	1.6	−2.6	0.7
European Union	2.4	1.6	2.5	2.7	2.1
Germany	1.8	0.8	1.6	2.0	1.4
France	1.8	1.2	2.0	3.4	2.4
United Kingdom	2.8	2.6	3.5	2.0	1.7
Italy	2.9	0.9	1.5	1.3	1.0
Switzerland	0.5	0.3	1.7	2.1	1.7
Unemployment in percent					
United States	5.6	5.4	4.9	4.5	4.2
Japan	3.2	3.4	3.4	4.1	4.7
European Union	10.8	10.9	10.8	10.1	9.4
Germany	9.5	10.4	11.5	11.0	10.5
France	11.6	12.3	12.5	11.8	11.2
United Kingdom	8.0	7.3	5.5	4.7	4.3
Italy	11.7	11.7	11.8	11.9	11.4
Switzerland	4.2	4.7	5.2	3.9	2.7
Consumer price inflation in percent					
United States	2.8	2.9	2.3	1.6	2.2
Japan	−0.1	0.1	1.7	0.6	−0.1
European Union	3.0	2.4	2.0	1.7	1.2
Germany	1.7	1.4	1.9	1.0	0.6
France	1.8	2.1	1.3	0.7	0.6
United Kingdom	3.4	2.5	3.1	3.4	3.0
Italy	5.4	3.9	1.8	1.7	1.6
Switzerland	1.8	0.8	0.5	0.0	0.8
Current account balance in percent of GDP					
United States	−1.5	−1.7	−1.7	−2.5	−3.7
Japan	2.1	1.4	2.3	3.2	2.7
European Union	0.6	1.0	1.5	1.0	0.3
Germany	−0.8	−0.2	−0.1	−0.2	0.0
France	0.7	1.3	2.7	2.8	2.4
United Kingdom	−0.5	−0.1	0.8	0.0	−1.5
Italy	2.3	3.3	2.9	1.7	0.6
Switzerland	6.9	7.4	8.9	8.2	8.1

Some 1999 figures are estimates.
Source: OECD

East Asia overcomes its crisis

Most countries in East Asia – especially South Korea but also Thailand, Malaysia and the Philippines – in the course of 1999 shook off the effects of the financial crisis which had erupted in mid-1997 and which had ended a prolonged upswing. Driven by expansive fiscal policies, domestic demand began to recover. Meanwhile, sharp currency depreciation improved these countries' international competitiveness. Structural reform and financial assistance from the International Monetary Fund (IMF) also played a major role. The situation in Indonesia improved only marginally: this country still had serious political problems to contend with. In China, which was not directly affected by the financial crisis, economic growth declined owing to mounting structural problems – notably a backlog of restructuring measures at unprofitable state-owned enterprises.

Growth in Eastern Europe slows

Eastern Europe experienced a slowdown in economic growth in 1999. This was mainly because fiscal policies had been tightened in the previous year to counter the threat of a currency crisis. While the slowdown was modest in Hungary, Poland and Slovenia, growth fell off sharply in Slovakia and Bulgaria. The crisis which had been affecting Romania for three years not only continued but, as in Bulgaria, was compounded by the Kosovo war. The Czech economy began to recover from the recession into which it had slid the previous year. As many Eastern European countries had tightened the monetary reins in the preceding years, inflation declined. Anti-inflationary measures proved particularly successful in Bulgaria, whose currency was rigorously pegged to the D-mark in 1997. This pegging did, however, result in a sharp appreciation of the local currency and a corresponding widening of the current account deficit.

Stabilisation in Russia

The economic situation in Russia stabilised in 1999. The depreciation of the rouble came to a halt in the spring, and inflation ceased climbing – though by this time it was already over 100%. Dearer imports made home-produced goods more competitive, leading to a slight increase in industrial output. In July, the IMF approved a stand-by credit for Russia after the country had satisfied a number of conditions relating to reforms in the banking and fiscal areas. Only the first instalment of this credit (which is to be used solely for servicing existing debts due to the IMF) has been paid.

Mixed economic trends in Latin America

The Latin American countries, which had been badly hit by the international financial crisis and falling raw material prices, exhibited mixed economic trends. The Mexican economy benefited from the US boom, and conditions in Chile also improved. By contrast, Brazil was plunged into a currency crisis at the beginning of 1999 and had to cease pegging the real to the dollar. Thanks to the rapid implementation of a stabilisation programme and large-scale international financial assistance, inflation was brought under control and a recovery ushered in. The sharp devaluation of the Brazilian currency helped to push Argentina (whose biggest trading partner is Brazil) into a recession, though here too an improvement was taking shape towards the end of the year.

1.2 Monetary policy

Tightening of reins in the second half-year

In the first six months of the year, the central banks of the US and Europe continued the easy monetary policies they had instituted in autumn 1998 when the international financial crisis had threatened to plunge the world into recession. They tightened the reins again mid-year as the economic climate improved and the danger of inflation increased.

Rise in key US rates

Between June and November, the US Federal Reserve raised its target rate for overnight funds in three steps from 4.75% to 5.5%. By mid-November, the rate was back to where it had been when the international financial crisis broke out in the fall of 1998.

UK policies eased but then tightened up again

The Bank of England cut its base lending rate four times between January and June, lowering the rate from 6.25% to 5%, as the economy had cooled significantly and inflation was declining. Domestic demand surged again later in the year, prompting the bank to raise its key rate by a total of half a point to 5.5% between September and November.

Start of the third stage of EMU

On 1 January 1999, the third stage of European Economic and Monetary Union came into effect in eleven of the fifteen EU countries. The bilateral exchange rates of the eleven participating countries having been fixed in May 1998, the euro was introduced as a currency in its own right. At the same time, control over monetary policy in the euro area passed from the participating countries' central banks to the European Central Bank (ECB).

European Central Bank lowers and then raises key rate

In the first three months of the year, the ECB left its key rate for refinancing transactions (repo rate) unchanged at 3%, i.e. the level to which the euro area's central banks had lowered their rates in a concerted action in December 1998. At the beginning of April, with the economy sluggish and inflation low, the ECB cut its benchmark rate by half a percentage point to 2.5%. An upswing in Europe and fears of a resurgence in inflation prompted the ECB, at the beginning of November 1999, to reverse this cut, bringing its key rate back up to 3%.

Further easing of Japan's monetary stance

In 1999, the Japanese central bank continued its easy monetary policy aimed at bolstering the economy and countering deflationary tendencies. In February it lowered its call money rate from 0.25% to 0.15%, subsequently allowing it to drop almost to 0%.

1.3 Fiscal policy

Public finances improve

The fiscal position improved in many industrial countries in 1999 and public debt as a percentage of GDP declined. The improvement was due both to the more buoyant economy and to the restrictive fiscal policies still being pursued in many countries.

Surpluses in the US and the UK

Owing to the continuing economic boom, the US recorded another large budget surplus in fiscal 1998–99: the figure of $ 123 billion is equivalent to 1.4% of GDP (down from 1.7% in the prior period). The surplus for 1999–2000 is expected to be similarly large in terms of GDP. The United Kingdom also recorded a budget surplus. According to estimates, at 1% of GDP, it topped the previous year's level. Revenues are expected to exceed expenditures again in 2000.

Lower budget deficits in euro area

Government finances in the euro area also improved. The aggregate deficit declined from 2% to 1.2% of GDP. Whereas the deficit in Germany (1.5%) was only slightly lower than in 1998, it decreased in France and Italy by almost one percentage point each to less than 2%. In 2000 the aggregate budget deficit of the euro countries should decline further. A number of countries took steps to further reduce their budget deficits, notably by cutting back government spending. On the revenue side, the shift from direct to indirect taxation continued.

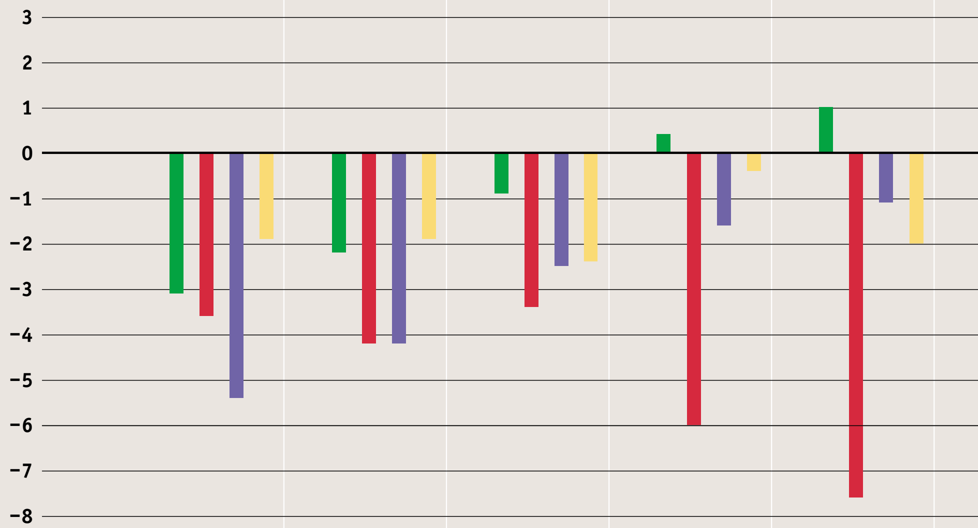
Worsening of government finances in Japan

Japan is the only large industrial country whose public finances deteriorated in 1999. Owing to the government's fiscal stimulus packages and lower revenues in fiscal 1999–2000, the deficit – equivalent to an estimated 10% of GDP – was much higher than in the previous reporting period. Public-sector debt as a percentage of GDP rose by about 8 percentage points to 105%.

United States
Japan
European Union
Switzerland

Public-sector financial balances (all levels of government including social insurance) in percent of GDP.
1999: budget forecasts.
Source: OECD

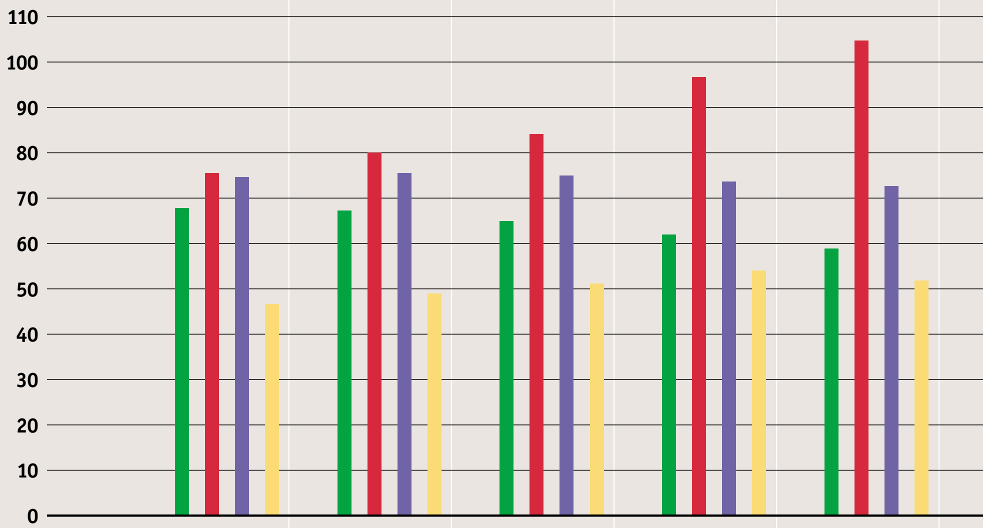
Public-sector financial balances



United States
Japan
European Union
Switzerland

Aggregate public-sector debt (all levels of government including social insurance) in percent of GDP.
1999: budget forecasts.
Source: OECD

Government indebtedness



1.4 Foreign exchange markets

Strengthening of the dollar…

Owing to robust economic growth in the US, the dollar appreciated against most other currencies in the first half of 1999. Although it softened initially in the second half of the year, it moved up again sharply in the final quarter. Over the year as a whole, it gained 14.7% against the euro and 16.8% against the Swiss franc. In real, trade-weighted terms, the dollar's exchange rate in December was 3.9% higher than a year previously.

…and the yen

The yen also rose sharply, especially in the second half of 1999. Over the year as a whole, it gained almost 10% against the dollar and about 23% against the euro and the Swiss franc.

Euro weaker

With growth prospects for the euro area looking shaky at the beginning of 1999, the euro lost ground during the first six months of the year. In early January, the euro's exchange rates stood at 1.18 US dollars, 133.3 yen and 0.7 pounds sterling. By June, the euro had fallen to 1.04 dollars. After a brief uptick, it dropped to parity against the dollar by the end of December. In relation to sterling, the euro lost 12.6% in the year under review. In real, trade-weighted terms, the euro's value in December was 11.5% lower than in January. The Swiss franc's rate stayed very close to 1.60 francs per euro throughout the year.

1.5 Financial markets

Rise in long-term rates

Interest rates for long-term bonds began to rise in the industrial countries at the end of 1998 after having declined over the preceding four years. This reflected the cyclical upturn in demand for capital as well as growing fears of inflation. As most countries tightened up their monetary policies, the situation on the capital markets became calmer and long-term interest rates stabilised. By the end of 1999, long-term rates in the US had risen by 1.6 percentage points to 6.3% while those in the euro area had gained 1.4 points to an average of 5.3% compared with their position a year earlier. In terms of the yield on long-term government bonds the spread between the highest euro-area yields (i.e. those in Italy) and the lowest (Germany) varied between 0.1 and 0.4 percentage points during the entire year.

Share prices continue to rise

Share prices rose sharply on most stock exchanges in 1999. The advances were particularly pronounced in Scandinavia, but stock markets in all major industrial countries also recorded sizeable gains. The reasons for the rally were different from one region to another: whereas the Japanese index rose on expectations of an economic upswing, the US gains were due mainly to huge rises in telecommunications and computer shares. The economic upswing helped to drive European share prices upwards, particularly in the second half of the year – by December, these markets had reached an annual high.

Short-term interest rates

Dollar

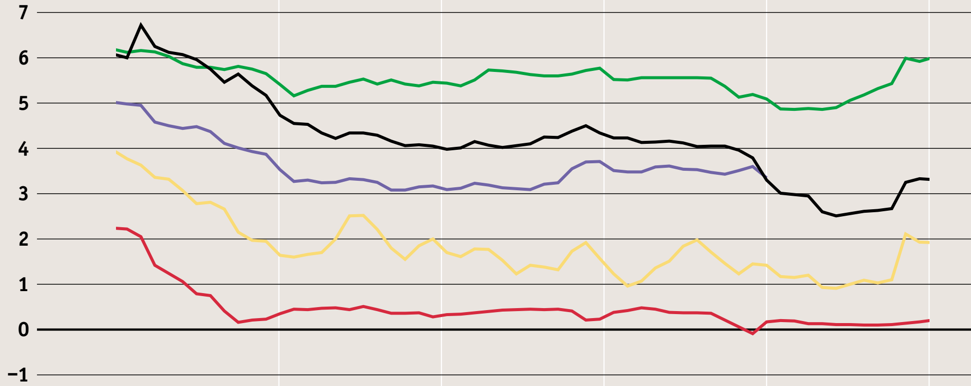
Yen

D-mark

Euro

Swiss franc

Three-month Euromarket rates. Source: BIS



Real exchange rates

Dollar

Yen

D-mark

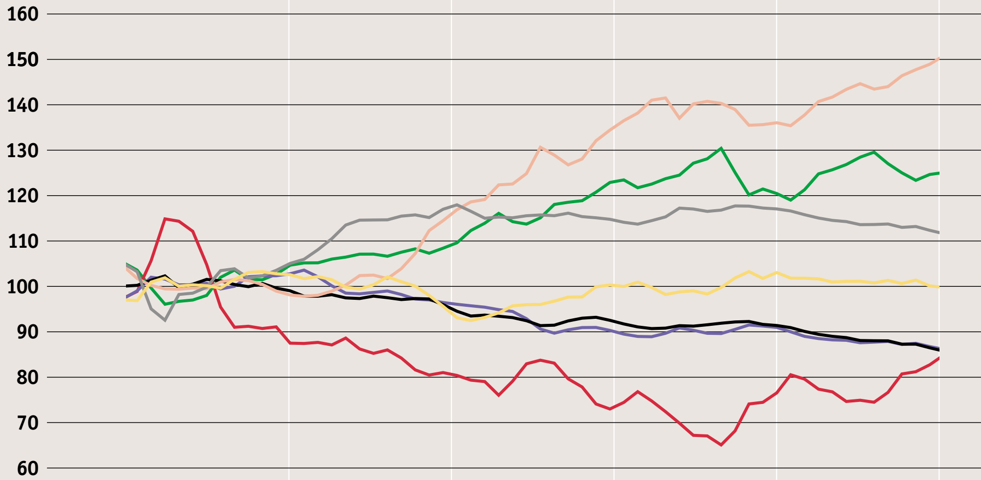
French franc

Pound sterling

Lira

Swiss franc

Trade-weighted real exchange rates; index: 1995 = 100. Source: IMF



Borrowers flock to the financial markets

Net borrowing on the international financial markets rose by more than a third in 1999 to $ 1086 billion. The larger part of this total ($1017 billion) is accounted for by medium- and long-term bonds; the proportion of money market instruments was relatively small again ($ 69 billion). Year-on-year, medium- and long-term bonds were up by 52% and money market instruments by 600%. The euro gained market share from the other issuing currencies: it accounted for 39% of debt issues in 1999 compared with 28% in 1998, while the percentage of issues denominated in dollars and pounds declined from 49% to 43% and from 9% to 7% respectively. The market shares of the yen and the Swiss franc (7% and 2% respectively) were roughly the same as in the previous year.

Bank profits rising in the US and in Europe

After a difficult 1998, the commercial banks posted large earnings gains in 1999. In the US, strong economic growth boosted the profitability of banking transactions while in Europe the German and French banks in particular benefited from higher turnover on the international financial markets. The process of concentration in the banking sector continued: in France, Italy and Spain, large banks merged to form the biggest institutions in each country.

Liberalisation of US banking law

In November 1999, the US Congress approved legislation deregulating the banking sector (Financial Modernization Act). In particular, it dispensed with the regulations which had previously required an almost complete separation of banks, securities houses and insurance. This deregulation means that “one-stop-shop” financial institutions and universal banks will now also be permitted in the US.

Restructuring process in Japan yields first fruits

The restructuring of the Japanese banking sector began to yield results in 1999. Some of the large Japanese banks moved back into the profit zone. By providing public funds, the state assisted the restructuring process. Five regional banks were declared insolvent and put under public management. Several big banks merged or set up joint holding companies, while one bankrupt lending institution was sold to foreign investors.

Recapitalisation in East Asia

In East Asia, the banks’ financial results were impacted by a large number of nonperforming loans. This resulted in a large number of mergers and various countries began injecting capital into insolvent banks. Hong Kong and Singapore deregulated their financial markets, increasingly opening them up to foreign competition in order to enhance their international standing as centres of finance.

Problems in Russia, restructuring in Eastern Europe

The banking sector in Russia still had to contend with serious problems. The Russian central bank withdrew the operating license of 16 institutions that were unable to meet their obligations. In Eastern Europe, the restructuring process in the banking sector continued. In the Czech Republic and Poland, the financial sector was partially privatised.

Long-term interest rates

United States

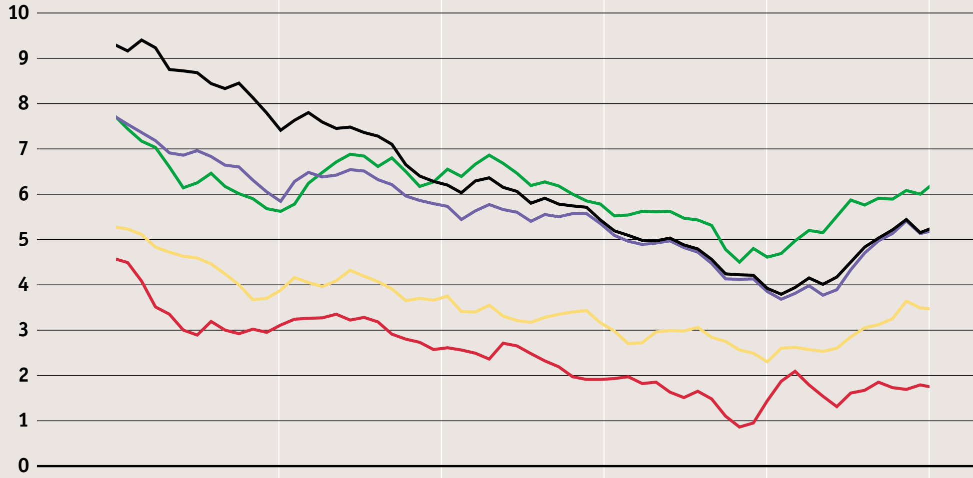
Japan

Germany

Euro area

Switzerland

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

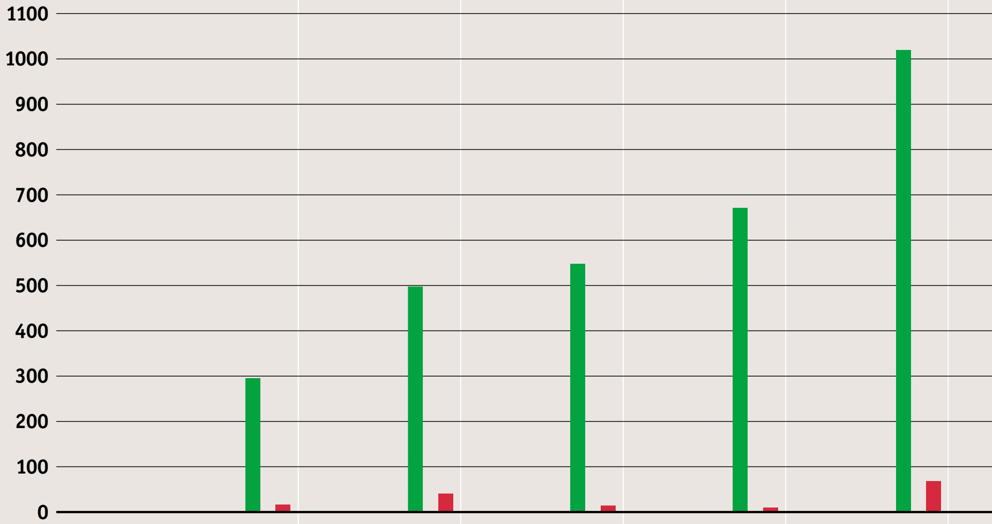


Net borrowing in the international financial markets

Bonds and medium-term paper

Money market paper

Billions of dollars.
Source: BIS



2 Switzerland

2.1 Development of the real economy

Economy gains momentum

After the Asia crisis had resulted in a marked slowdown in the second half of 1998, the Swiss economy picked up momentum again in 1999. Exports were the main driving force. For the first time in four years, the construction sector also contributed to economic growth. Whereas the expansion of capital investment slowed, private consumption remained – as in the previous year – an important engine of growth. Government spending stagnated as efforts to consolidate public finances continued. Owing to slow growth in the first half of the year, real GDP grew less rapidly in 1999 than in the previous year (1.7%, down from 2.1%).

Upturn in industry

In the industrial sector, business picked up perceptibly as the year went on. The upturn was due mainly to a gradual rise in order intake and orders in hand. The turnaround was particularly marked in the strongly export-oriented sectors. Industrial output, which had decreased at the beginning of the year, rose again in the subsequent quarters. Since companies were anxious to scale back excessive inventories, however, the rise in output was modest. At year-end, technical capacity utilisation was 81.6%, as against 84.7% a year previously.

Strong growth in consumer spending

The rise in consumer spending was the same as in 1998, i.e. 2.2%. Although growth in real incomes was lower, the general mood among consumers was brighter. In January 2000, the consumer sentiment index reached its highest level for ten years. The improvement was due mainly to a more optimistic assessment of the economic situation and to growing confidence with regard to job security. As in the previous year, demand for consumer durables grew especially quickly. Domestic tourism also expanded at a healthy pace. Since the number of foreign guests declined, however, the sector's overall result was down on the previous year.

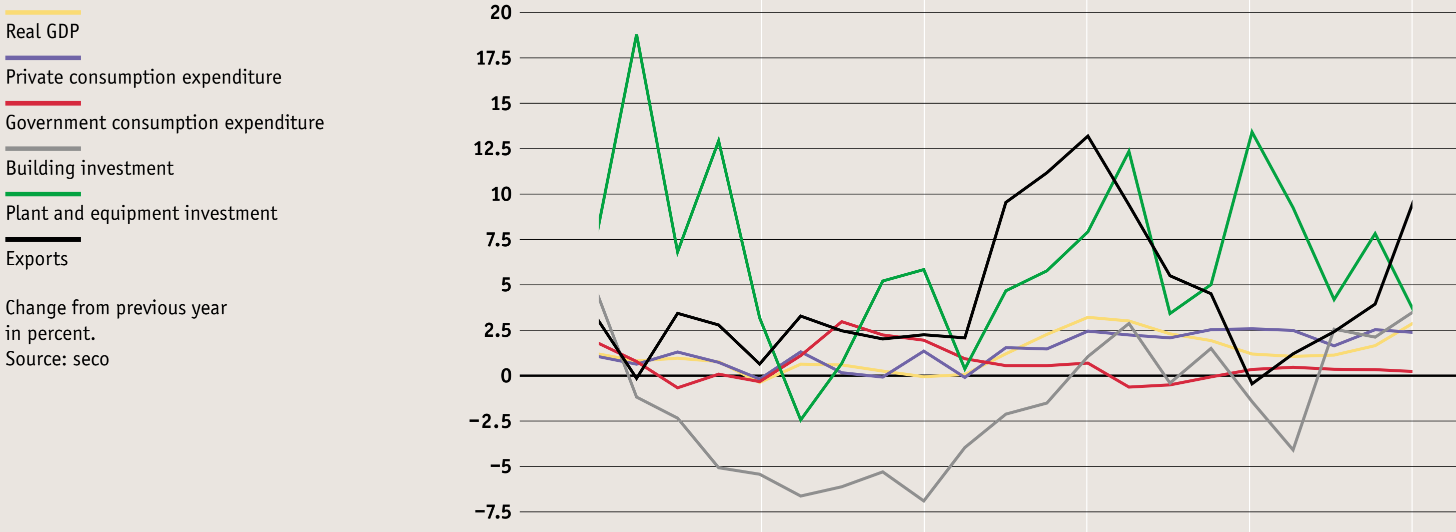
Building investment recovers

After hitting a low in 1998, the Swiss construction industry began to stage a gradual recovery in 1999. Investment in construction rose by 1.5% year-on-year. Demand was boosted in particular by large public civil engineering projects in the transport field (Rail 2000, motorway network) and by the awarding of the first contracts for the new trans-Alpine rail routes (NEAT). The main focus of private construction activity was residential construction, which benefited from the improved earnings situation of many households, low mortgage rates and the dwindling number of vacant properties. Commercial and industrial building investment also recovered, though from a low base. With government finances strained, however, demand for public-sector structural engineering works remained sluggish.

Growth in capital spending slows

Investments in plant and equipment grew less quickly in 1999 than in the previous year (down from 8.6% to 5.9%). While investment by industry was muted, demand in the service sector remained buoyant. Computer purchases showed particularly strong growth, with the impending year 2000 rollover spurring demand.

Gross domestic product and components



Change from previous year in percent.
Source: seco

Exports pick up

Goods exports picked up during the year in real terms after being stalled by the Asia crisis in 1998. At 4.4%, average growth over the year was almost the same as in 1998. Growth in exports to Asian emerging market economies was particularly dynamic, though shipments to the US (which had tailed off in the previous year) also rose sharply. By contrast, demand from EU countries was slow, due not least to the no more than leisurely upturn in Germany and Italy. Broken down by segment, the biggest rises were witnessed initially by raw materials, semi-manufactures and consumer goods. In the second half-year, demand for investment goods also picked up. Export prices rose slightly after having fallen in the previous year.

Imports rising at a slower pace

At 5.3%, merchandise imports grew more slowly in real terms than in the previous year (9.4%). Imports of investment goods again recorded above-average gains (even factoring out the delivery of three wide-bodied jets, which inflated the import figures). While imports of industrial machinery were moderate, computer shipments to Switzerland grew by double-digit margins. Imports of consumer goods rose at roughly the same rate as in the previous year. Growth of raw materials and semi-manufacture imports was much less marked than in 1998. Import prices declined again year-on-year. In the course of 1999, however, the sharp rise in oil prices put an end to the price slide observable since end-1997.

Slower growth in employment

Owing to the cyclical downturn in the second half of 1998, employment did not rise as sharply in 1999 as in the previous year. Averaged over the year, the increase came to 1.1%, compared with 1.4% in 1998. The number of jobs in industry stagnated overall. As a result of ongoing restructuring, however, several sectors trimmed their workforce while others created jobs. In the service sector, employment rose by 1.4%. Demand for labour was particularly marked in the IT area, the real estate sector, and in the insurance industry. After having declined by roughly 10% since the beginning of the 1990s, the banks' workforce stabilised. Thanks to the economic upturn, the number of people employed in the construction sector rose again and exceeded the year-earlier level by 0.6%.

Unemployment recedes

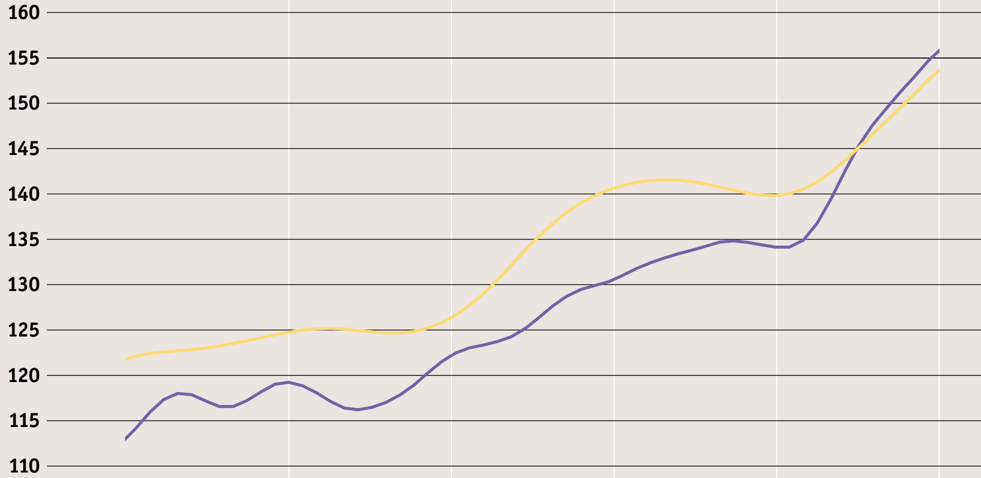
With the labour market recovering, unemployment continued to recede in 1999. In contrast to the two preceding years, the number of job-seekers dropped faster than the jobless numbers. In addition to unemployed persons, job-seekers include people who are looking for casual jobs, are participating in a work creation scheme or are training or retraining. In December 1999, there were 149,400 job-seekers compared with 197,200 a year previously. In the same period, the number of people registered as unemployed fell from 116,600 to 85,400 (in seasonally-adjusted terms). The unemployment rate declined from 3.2% to 2.4%. Meanwhile, the number of job-seekers as a percentage of the total workforce declined from 5.4% to 4.1% year-on-year.

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

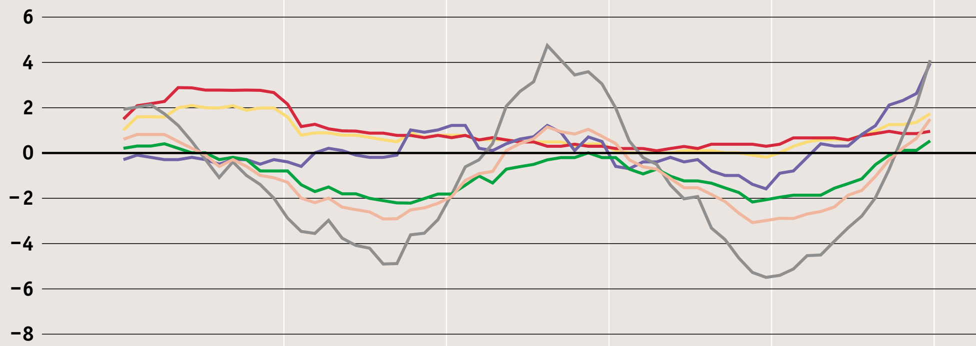
Consumer prices for imported goods

Producer and import prices

Producer prices

Import prices

Index: May 1993 = 100, percent change from previous year.
Source: Federal Statistics Office

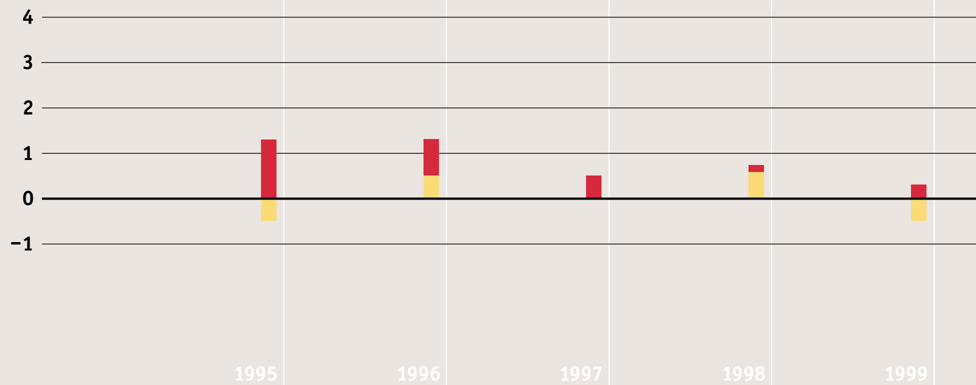


Wages and salaries

Nominal

Real

Wage and salary earnings of employed persons, percent change from previous year (1999: estimate).
Source: Federal Statistics Office



Many unemployed persons stop receiving benefits

In 1998 and 1999 approximately 50,000 and 40,000 people respectively reached the end of the period of eligibility for drawing unemployment benefits. There are two reasons why so many people ceased to receive unemployment benefits. First, there is a time-lag of about two years following the peaking of the unemployment trend (which took place in mid-1997). Second, with greater use being made of the government's training, retraining and work creation programmes, some unemployed people were able to extend the period during which they received benefits. Experience shows that, two months after ceasing to receive unemployment benefits, only about half the unemployed continue to sign on at regional employment offices while a further 15% have found a new job. The remaining 35% or so do not re-register even though they are still jobless. As a result, the decline in the number of people who are unemployed or looking for a job is overstated.

Regional differences less pronounced

The unemployment rate declined more markedly in Ticino than in German- or French-speaking Switzerland. Over the year, unemployment averaged 4.4% in Ticino, 4.0% in French-speaking Switzerland and 2.2% in German-speaking Switzerland. Foreign nationals continued to make up an above-average percentage of the unemployed (48%).

Employment figures rising

According to the results of the "SAKE" Swiss labour force survey, which is conducted once a year (in the second quarter), the growth in employment slowed down more markedly than the employment statistics would suggest. In the second quarter of 1999, the workforce grew by 0.8% year-on-year, compared with a 1.8% rise a year previously. The number of persons in full-time employment declined by 0.5% after having risen by 1.4% the year before. At 3.8%, however, the rise in part-time employment was slightly more pronounced than in 1998. The percentage of part-time workers in the overall workforce rose to 29.4%. Although the proportion of men working part-time increased slightly, women still account for 82% of the part-time workforce. While in the past ten years the percentage of the potential labour force in gainful employment declined from 91.1% to 89.6% for men, the equivalent figure for women rose from 70.6% to 74.5%. For men, this percentage was still higher in Switzerland than in the EU countries. The figure for women exceeded the EU average but was lower than in the Scandinavian countries.

Employment and unemployment

	1995	1996	1997	1998	1999
Full-time employment[1] change in percent	−0.5	−1.0	−1.8	0.8	0.4
Full- and part-time employment[1] change in percent	0.1	−0.3	−1.6	1.4	1.1
Persons in employment[2] change in percent	1.5	0.5	−0.4	1.8	0.8
Unemployment rate in percent	4.2	4.7	5.2	3.9	2.7
Number of unemployed thousands	153.3	168.6	188.3	139.7	98.6
Number on short working hours thousands	9.9	13.1	6.6	3.1	2.9
"Manpower job offer index"[3] change in percent	19.7	−19.9	2.4	36.0	26.4

1 according to employment statistics

2 according to SAKE

3 space occupied by job advertisements in Swiss newspapers.

Sources: Federal Statistics Office, State Secretariat for Economics (seco), Manpower Index

Inflation, as measured by the national consumer price index, was 0.8% in 1999 compared with 0.5% and 0.0% in the two preceding years. According to Federal Statistics Office estimates, about 0.3 percentage points of the annual inflation figure resulted from the increase in value added tax (VAT) from 6.5% to 7.5% which took effect in January. The cost of services rose by 0.9%, compared with 0.3% in the previous year. Prices of goods increased by 0.7% year-on-year, as against a 0.3% decline in 1998. This was due not only to the higher VAT rate but to sharp rises in oil prices.

Moderate rise in consumer prices

Prices of goods produced in Switzerland rose by 0.7%, as against 0.3% in the previous year. Prices of foreign goods and services declined at the beginning of the year but increased significantly in the second half: by the end of the year, they were 1.0% higher on average than a year previously.

Bigger price rises for imported goods

At 1.4%, the fall in the total supply index was slightly less pronounced than in the previous year. Producer prices declined by 1.0% and import prices by 2.2%. The steepest drop – despite the higher oil prices – was in raw materials, followed by semi-manufactures. By contrast, prices of investment goods showed little change while consumer goods prices rose slightly on average.

Total supply index

Switzerland's current account surplus widened by Sfr 9.3 billion to Sfr 43.9 billion in 1999. This equates an expansion to 11.3% of GDP, compared with 9.1% in 1998. In value terms, exports of goods rose more sharply (by 5.9%) than imports, which increased by just 3.6% owing to falling prices. The balance of trade ("special trade" – i.e. merchandise with some exceptions, mainly electricity) exhibited a surplus of Sfr 0.7 billion, following a deficit of Sfr 1.8 billion in the previous year. The surplus from services expanded by Sfr 2.3 billion. While revenues from international transport and bank commissions continued rising, earnings from tourism declined slightly. The surplus from employee compensation and investment income widened by Sfr 5 billion. This expansion was accounted for by considerably higher net earnings on portfolio investment and direct investment. In the case of direct investment, interest and dividends from abroad mounted while payments of interest and dividends to other countries diminished markedly. At Sfr 5.4 billion, the deficit from current transfers equalled the previous year's figure.

Higher current account surplus

Current external transactions account
balances in billions of Swiss francs

	1995	1996	1997 revised	1998 provisional	1999 estimated
Goods trade	1.0	1.1	–0.5	–2.2	–0.2
of which special trade	1.8	1.9	0.3	–1.8	0.7
Services	15.2	15.4	18.9	19.0	21.3
of which personal travel	2.4	1.6	1.4	1.0	0.6
Employee compensation and investment income	13.9	15.6	24.0	23.2	28.2
of which investment income	20.8	22.4	30.6	29.7	34.8
Current transfers	–5.0	–4.9	–4.9	–5.4	–5.4
Total current account	25.2	27.2	37.6	34.6	43.9

2.2 Fiscal policy

Federal deficit persists

The Federal Government posted a deficit of Sfr 2.7 billion or 0.7% of GDP for 1999 after a small surplus had been recorded in the previous year owing to a number of extraordinary factors. The deficit was thus Sfr 1.2 billion below budget. On the revenue side, it was especially the income from direct federal tax that exceeded the budgeted amount. Income from customs duties, mineral oil and tobacco taxes, repayments of loans as well as dividend payments from Swisscom were also higher than budgeted. Together, revenues yielded Sfr 0.6 billion more than forecast. On the expenditures side, the credit lines earmarked for transport and defence were not fully utilised. Furthermore, credit interest was lower than planned. Overall, expenditures were Sfr 0.6 billion lower than the figure in the 1999 budget. For 2000, a deficit of Sfr 1.7 billion or 0.4% of GDP is budgeted. While expenditures are rising at a slower rate than the rate of economic expansion (2.3%), the Federal Government expects a 7.7% increase in revenue.

Finances difficult to assess at the cantonal level ...

As in previous years, it was difficult to obtain an overview of trends in cantonal finances, as the definitive data only become available after a considerable time-lag and generally differ substantially from the interim figures. The latest data available indicate that the cantons posted an aggregate deficit of Sfr 1.5 billion in 1999, Sfr 0.3 billion less than in the previous year. At the cantonal level, too, tax revenues are likely to have risen faster than budgeted owing to the economic upswing. On the expenditures side, staff costs, investment spending and interest payments are all set to be lower than budgeted.

... and at the communal level

Figures available to date indicate that the communes' aggregate deficit will be nearly twice that of the previous year (Sfr 0.5 billion). The finances of most communes are sound, though the major cities are again running large deficits.

Declining debt ratio

The debt ratio (i.e. total debts of the Confederation, cantons and communes, excluding social insurance, expressed as a percentage of GDP) fell by 2.4 percentage points to 52% in 1999. This is the first decline recorded since the nineties. Just over half the debts were attributable to the Federal Government, 30% to the cantons and just under 20% to the communes.

Implementation of stabilisation programme

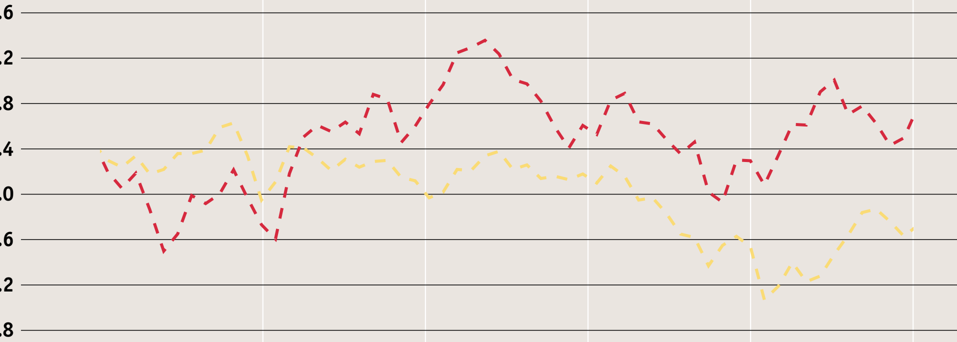
In 1998, after the statutory period for instituting a referendum had expired, the Federal Council implemented the stabilisation programme that had been negotiated by representatives of the cantons, the coalition partners, industry and employee associations. The legislation, which is designed to lighten the Federal budget by about Sfr 2 billion on a permanent basis, is an important instrument for achieving the 2001 budget target which had been incorporated in the Federal Constitution in 1998. With its deficit of Sfr 2.7 billion, the Federal Government was well within its 1999 target, which had set the maximum deficit at Sfr 5 billion.

White paper on fiscal policy

The Federal Council drafted a white paper on future fiscal policy aimed at ensuring the long-term health of the Federal Government's finances and fulfilling the constitutional requirement of a balanced budget. The white paper sets out the objectives, principles and instruments for a sustainable fiscal policy. By keeping taxes at a moderate level, balancing the budget and reducing debts, this solid fiscal policy is intended to promote economic growth and enhance Switzerland's appeal as a location for business.

1995 1996 1997 1998 1999

Spreads for long-term interest rates

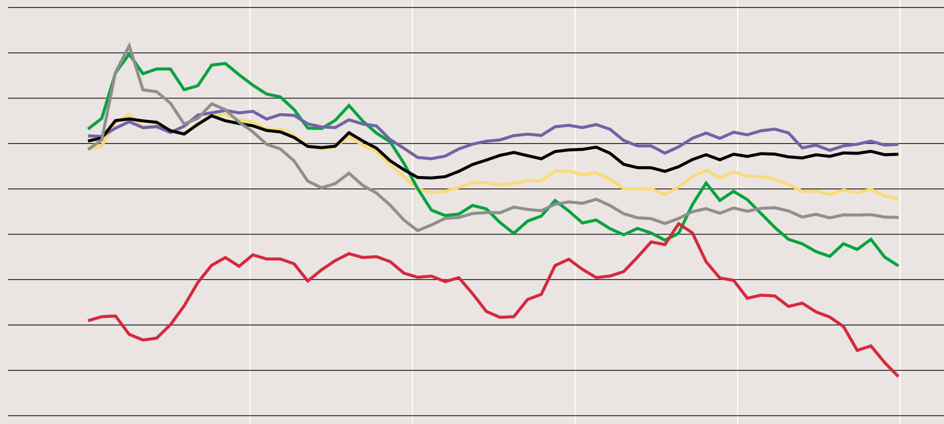


Germany – Switzerland

United States – Switzerland

Spread in percentage points.
Source: BIS

Swiss franc real exchange rates



Total (15 countries)

Dollar

D-mark

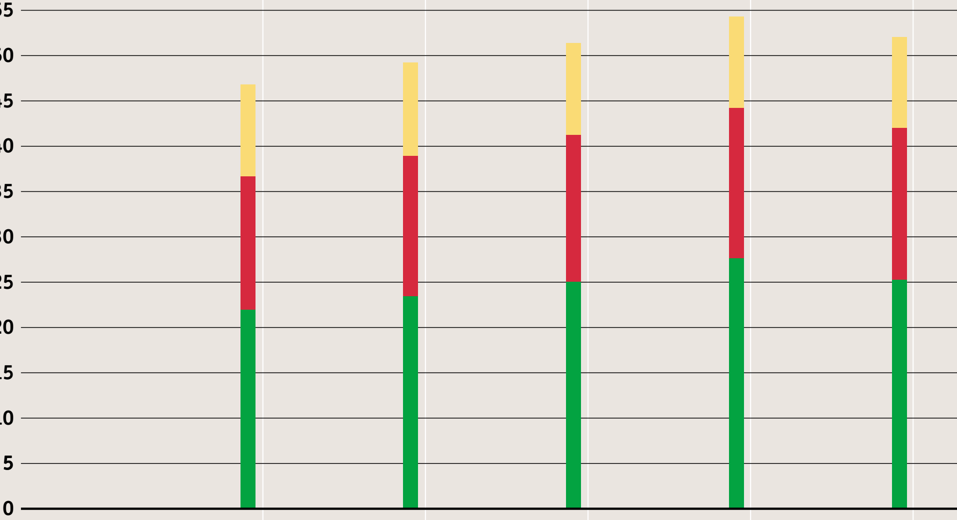
Yen

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 (1999: estimate).
Source: Federal Finance Administration

1995 1996 1997 1998 1999

Plans to overhaul the fiscal equalisation system

The Federal Government has submitted a new draft law on fiscal equalisation to the consultation process. This is intended to replace an existing interregional financial adjustment system dating back to 1959. The principal aims of the new law are to strengthen federal structures and reorganise the various spheres of responsibility within the Confederation.

2.3 Financial markets

Slight rise in interest rates

The downtrend in interest rates that had persisted since 1995 came to an end in 1999. Rates stabilised at a low level in the first half and then started rising. The average yield on Confederation bonds climbed from 2.6% in May to 3.6% in October. It edged down again before the end of the year closing 1.1 percentage points higher (at 3.5%) in December than 12 months earlier. The rise in short-term interest rates was less pronounced. In April, the yield on three-month money market debt register claims issued by the Confederation dropped to a low of 0.8%. It then leapt to 2.0% at the beginning of the fourth quarter; in December it amounted to 1.9%.

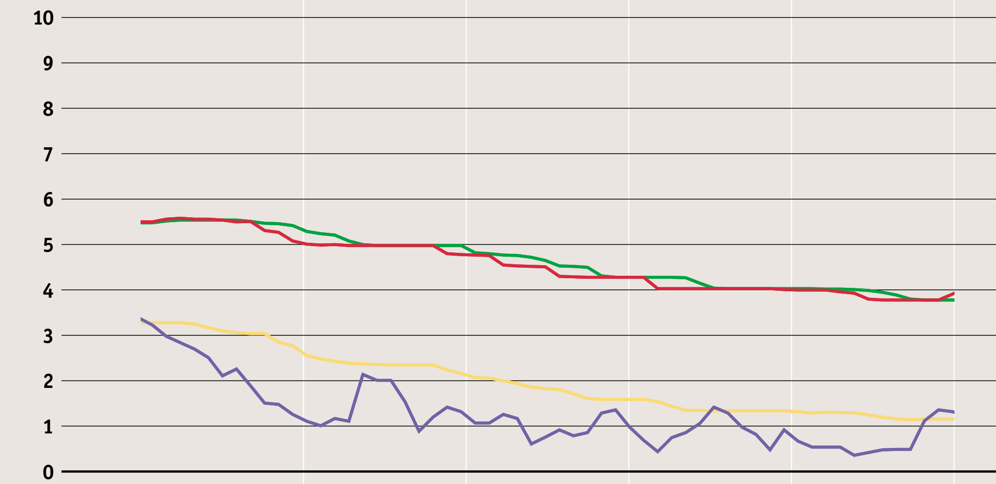
Capital market borrowing lower

Borrowing on the Swiss capital market was considerably lower in 1999 than in the previous year. Net borrowing (i.e. new issues less redemptions) amounted to Sfr 34.8 billion as against Sfr 47.3 billion in the previous year. While domestic borrowing declined from Sfr 22.0 billion in 1998 to Sfr 12.0 billion, capital market borrowing by foreign issuers decreased from Sfr 25.3 billion to Sfr 22.7 billion. Just under one-fifth of domestic borrowing was effected through the equity market and over four-fifths through the bond market.

Comparatively modest rise in share prices

In 1999, Switzerland's SPI share index rose less steeply than the majority of indices abroad. At the close of the year it was 11.7% higher than a year previously. The SPI hardly changed in the first three quarters of the year. However, it took off in the fourth quarter and reached a high of 5,023 points by end-December. While the subindices for small and medium-sized companies soared during the year, large corporations recorded modest price gains on the whole. The index for service-sector shares posted faster growth than the industrials index, though the performance of individual sectors varied widely. Particularly strong rises were recorded by electrical and mechanical engineering stocks as well as by construction companies, retailers and banks. Chemical companies posted only modest gains, and food-sector and insurance shares actually declined.

Selected bank interest rates



Existing mortgages at cantonal banks

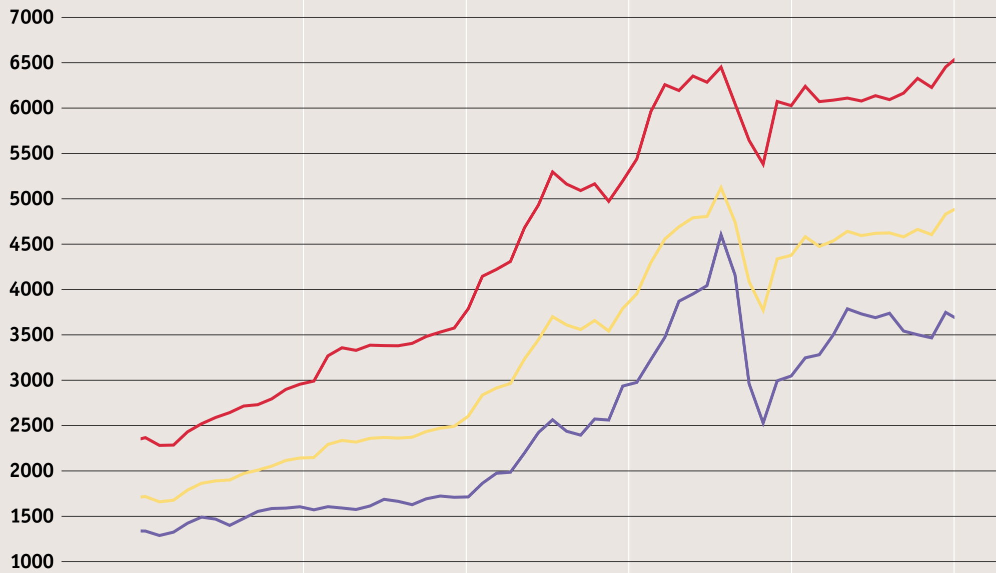
New mortgages at cantonal banks

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

1995 1996 1997 1998 1999

Growth in lending

As the economy recovered, the banks' domestic lending business revived. Non mortgage-secured loans – an area in which the big banks were particularly active – posted above-average growth. The other banking groups were active mainly in the mortgage business, which also exhibited substantial growth. Classic savings instruments – i.e. customer deposits in the form of savings accounts and other similar instruments, plus medium-term notes – declined once again. This further accentuated the disparity between lending business and the accrual of the longer-term savings traditionally used for financing loans. Banks with a high proportion of mortgages in their balance sheets therefore had to resort increasingly to the interbank and capital markets for funding.

Banks' results improve

The banks' annual results were influenced positively by operating profits – especially from their retail banking business around the world. Owing to the economic upswing, the total volume of nonperforming loans decreased.

Cantonal banks redefined

On 1 October 1999, the revised banking law came into force. Since then, a state guarantee has no longer been a necessary characteristic of a cantonal bank. It is now sufficient for the canton to hold more than one-third of the bank's equity and voting rights. All cantonal banks are subject to supervision by the Federal Banking Commission (FBC). Cantonal banks that have a 100% state guarantee continue to benefit from lower equity requirements. This may have the effect of distorting competition.

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 potential 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 inordinate 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.

1980–1999: targets for the monetary base

The National Bank needs indicators to determine whether a chosen monetary policy course is appropriate in view of the goal of price stability. Between 1980 and 1999, it used the seasonally-adjusted monetary base as monetary target and as an indicator. Until the end of 1989, it regularly set annual targets for the growth of the monetary base. At the end of 1990, it began fixing a medium-term growth target for this aggregate. By changing to a medium-term strategy, the National Bank took account of the fact that the development of the money supply influences the course of inflation mainly in the medium and long term. The medium-term strategy provided the National Bank with sufficient leeway, when planning its monetary policy, to take into consideration further indicators such as the economic situation and the exchange rate, which are relevant, in the short term, for the development of inflation.

Distortion of the monetary base

At the end of 1996, the indicator value of the monetary base increasingly began to lose its significance, with banknote circulation rising considerably faster than anticipated. This induced the National Bank to devote more attention to other indicators. It particularly set its sights on the economic situation, the exchange rate and the broadly defined money stock M_3, which comprises currency in circulation, sight and other transaction deposits of the nonbank public plus savings deposits and time deposits.

Adjustment of the monetary policy strategy

With the second five-year period for the medium-term money supply target nearing its end and given the continually distorted indicator value of the monetary base, the National Bank fundamentally reviewed its monetary policy concept. It decided to adjust this concept as from the beginning of 2000. The main emphasis is on three changes: first, the National Bank explicitly states what, from its vantage point, constitutes price stability in order to improve the transparency of its monetary policy in this respect. Second, it bases its monetary policy decisions on a medium-term inflation forecast, and, third, it sets an operational target range for the three-month Swiss franc interest rate. In future, the National Bank will no longer publish a growth target for a monetary aggregate. The money stock M_3, however, will continue to play a major role as a monetary policy indicator.

Definition of price stability

The National Bank considers price stability to be achieved with an annual inflation rate of less than 2% measured by the national consumer price index. This particularly also takes account of the fact that inflation cannot be measured with complete accuracy. Measuring problems may, for example, arise when the quality of goods and services changes. Such changes tend to overstate the actual inflation rate somewhat. For this reason, the money supply targets fixed by the National Bank in earlier years had already allowed room for a limited price increase.

Inevitable price fluctuations

The National Bank must reckon with price fluctuations in the short term that can only be influenced to a limited extent. As a rule, these derive from unexpected swings in oil and other import prices as well as from major exchange rate changes. As long as such price fluctuations do not lead to a sustained inflationary or deflationary development, the Swiss economy is able to cope with them. The National Bank will resolutely continue to counter any persistent inflationary or deflationary developments.

Inflation forecast

At year-end, the National Bank regularly publishes a forecast for the development of inflation in the three ensuing years. The period of three years takes account of the time required for the transmission of monetary stimuli. Forecasts over such a time horizon are difficult to make and fraught with considerable uncertainties. By publishing a forecast for the following three years, however, the National Bank emphasises the need to adopt a forward-looking stance and to react at an early stage to any threats to price stability.

Indicators of relevance to the inflation forecast

In the long term, price development depends to a decisive degree on the course of the monetary aggregates. Notably the money stock M_3 therefore remains a useful indicator. In the short term, by contrast, other indicators of the development of inflation are significant. Most important among them are general economic development and exchange rates. The National Bank will comment the development of major monetary policy indicators of relevance to the inflation forecast on a regular basis.

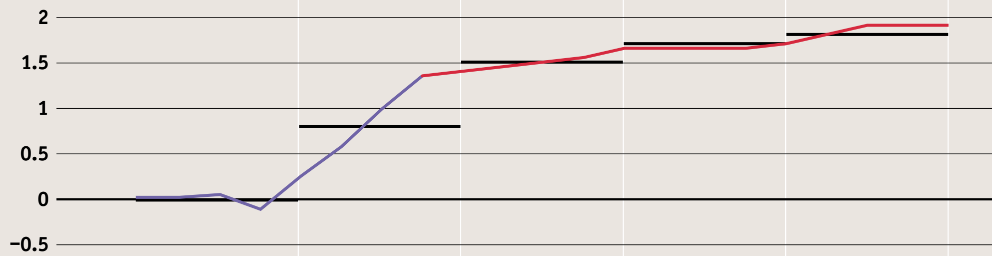
Adjustment of monetary policy based on the inflation forecast

If the inflation forecast deviates from price stability as defined by the National Bank, monetary policy has to be adjusted. Should inflation threaten to exceed the range deemed compatible with price stability, the National Bank will tighten the monetary reins. On the other hand, it is ready to relax the monetary reins if there is a danger of inflation falling below this range.

New steering concept for the money market – target range for the three-month rate

The new monetary policy concept leads to adjustments in steering the money market. In implementing its monetary policy, the National Bank is oriented to the interest rate level in the money market rather than the amount of liquidity. As a reference interest rate it uses the three-month Libor (Libor: London Interbank Offered Rate), the economically most important money market rate for Swiss franc investments. It fixes a target range for the three-month Libor with a spread of one percentage point, which it publishes regularly. While the National Bank communicates its long-term monetary policy course with the inflation forecast, it announces its short-term intentions with the location of the target range. The National Bank as a rule checks the target range on a quarterly basis and gives reasons for any changes. Furthermore, the National Bank announces in what area within the target range it expects the three-month Libor to be.

Inflation forecast



Inflation

Forecast

Average annual inflation:
2000: 1.5%
2001: 1.7%
2002: 1.8%

Change in the national consumer price index in percent compared to the previous year's figure.

Discount rate no longer to be fixed

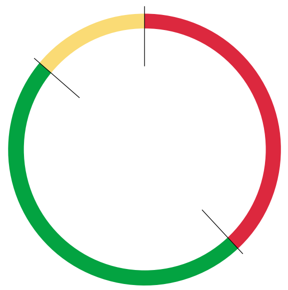
The innovations in the field of money market steering guarantee a high degree of transparency, and the National Bank has thus decided not to fix a discount rate from January 2000 onwards. Since 1993, it has not transacted any discount operations. The discount rate, however, still had a certain significance as a signalling device. In the new steering concept, this, too, has been lost, with the target range for Libor assuming this role. The rules governing the Lombard rate remain unchanged.

Steering technique

As a rule, the National Bank influences the Libor indirectly via short-term repo transactions. Any undesirable upturns in interest rates can be corrected by injecting more liquidity or, conversely, by draining liquidity, an upward movement of interest rates can be induced. The liquid funds of commercial banks in Swiss francs consists largely of sight deposits held with the National Bank. The banks' demand for sight deposits derives from statutory liquidity regulations; since intraday liquidity has been introduced (cf. below), demand for sight deposits stemming from cashless payment transactions has all but ceased. Holdings of sight deposits are small, measured by daily payments. Besides, the National Bank, by concluding open-market operations on a repo or foreign exchange swap basis (purchase of assets and simultaneous forward resale) generally provides the banking system with short-term liquidity only. In this environment, minor random influences can lead to strong fluctuations in the level of sight deposits and in call money rates. In order to even out these movements, the National Bank operates in the money market almost daily.

Repos as the major monetary policy instrument

Repo transactions are the National Bank's major monetary policy instrument. In a repo transaction, 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. Accordingly, the cash taker pays the cash provider interest for the term of the repo. 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. Maturities of repos are between one day and several months. The National Bank fixes the repo rates depending on market conditions and the maturity of the executed transactions. Fluctuations in repo rates, however, frequently have no connection with the monetary policy course, but rather, among other things, with the distribution of liquidity in the system.



Collateral from repo transactions
in percent

CHF bonds of domestic borrowers 38

CHF bonds of foreign borrowers 48

Euro bonds 14

Total: Sfr 28.1 billion.
End 1999

Repo rates cannot be directly compared with Libor. Libor tends to be higher for two reasons. On the one hand, it usually applies to maturities that are longer than those of repo transactions, on the other hand, it is based on unsecured credits between banks. It thus contains a credit risk premium, whereas repo rates are riskless interest rates since repos are backed by securities.

Repo rates and Libor

Aside from repo transactions, the National Bank also employs foreign exchange swaps for regulating the money market. Until mid-1998, it exclusively completed swaps against dollars. Since then, it has also transacted swaps against D-marks and euros. As a rule, maturities for swaps range from one to six months.

Foreign exchange swaps

For the short-term steering of liquidity, the National Bank also has the possibility to place time deposits held with it by the Confederation at the banks for account of the Confederation. In this way, it can balance the shifts in liquidity between the banking system and the Confederation. In 1999, however, this instrument was rarely used; the National Bank usually balanced such shifts in the context of its repo transactions with the banks.

Onward placement of time deposits of the Confederation

At the beginning of October 1999, the National Bank began putting interest-free liquidity at the banks' disposal during the day. These liquid funds are offered in the form of repo transactions. If a bank fails to repay the liquidity on the same business day, it becomes liable to pay interest at a rate clearly in excess of the Lombard rate. In launching this instrument, the National Bank followed the example of other central banks that use intraday liquidity to facilitate the processing of payment transactions. The innovation does not adversely affect monetary policy. The liquidity provided during the day may not be used to meet statutory liquidity requirements. These are based on the figures at the end of a business day, i. e. they are calculated after repayment of the intraday liquidity.

Provision of intraday liquidity

Instruments for money market operations in Sfr billions

	1998 Holding Average[3]	1998 Turnover[3]	1999 Holding Average	1999 Turnover
Repo transactions [1]	9.7	313.8	16.9	722.9
Foreign exchange swaps	6.1	27.9	4.8	24.4
Money market debt register claims[2]				
Swaps	0.4	43.7		
Purchases and sales	0.1	0.4		
Total	0.5	44.1		
Federal Government funds[4]				
New investments	12.1	128.4	12.1	66.7
Onward placements	5.1	74.9	1.0	8.8
Swiss Post funds				
New investments			5.7	177.8
Onward placements			0.0	7.0

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

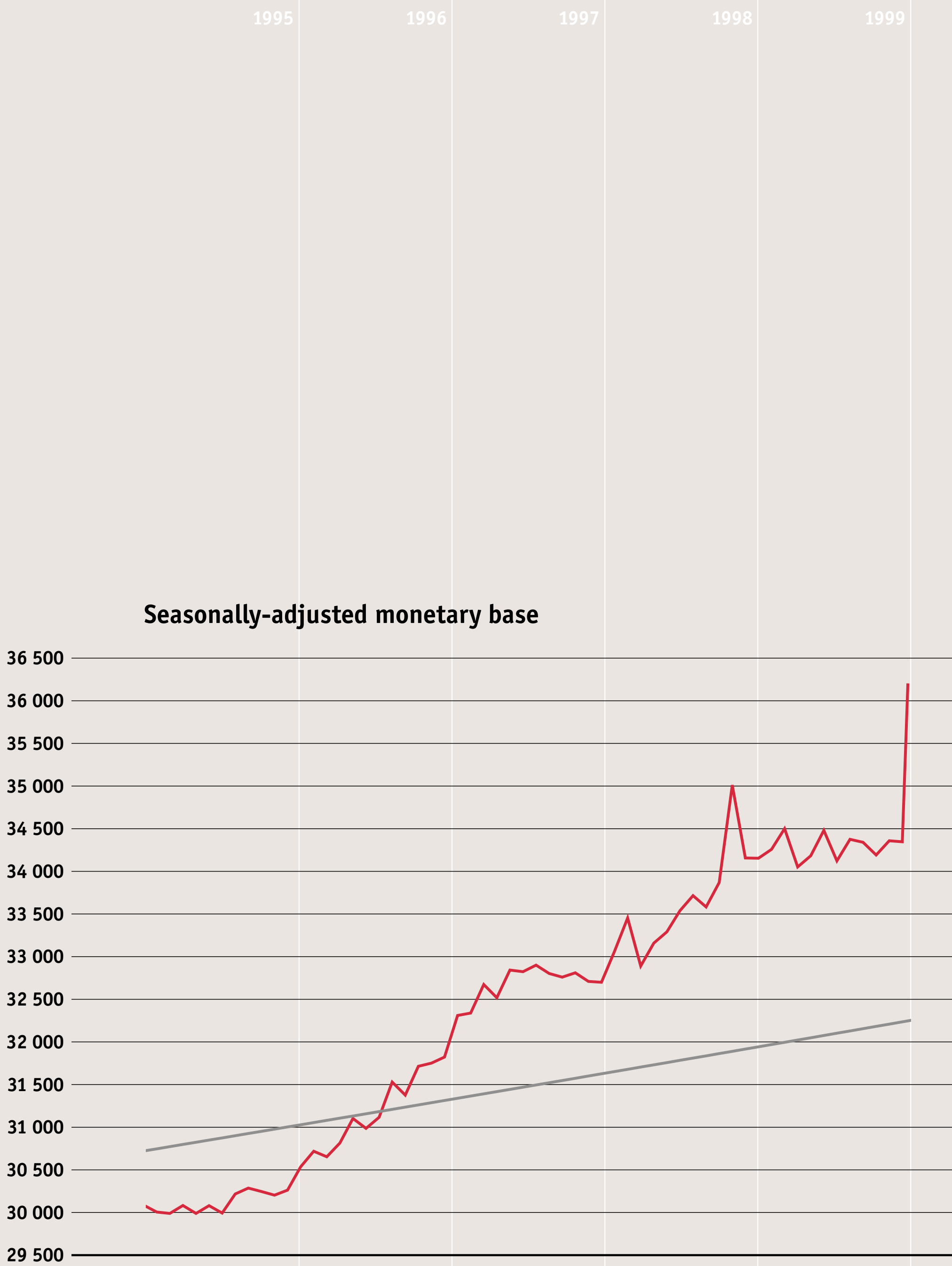
4 until end-1998: including Swiss Post investments

Advances against securities in an emergency

If a bank has urgent liquidity needs which it cannot meet in the money market, it may obtain an advance against securities (Lombard loan) from the National Bank. A Lombard loan, however, is limited to the amount of the collateral provided in the form of securities and granted only at the official Lombard rate. 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.

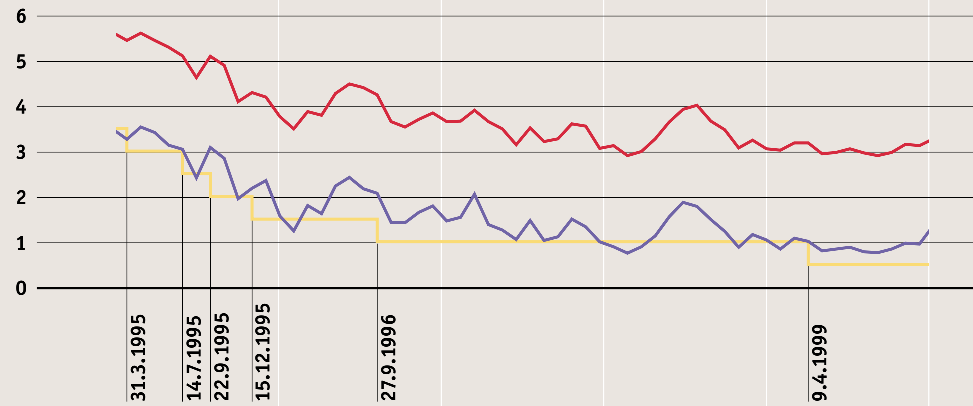
Monetary base
Target path of 1%
In millions of Swiss francs.

Seasonally-adjusted monetary base



Discount rate
Lombard rate
Call money rate
In percent.

Discount and Lombard rates



2 Implementation

Announcement of an unchanged monetary policy

At the end of 1998, the National Bank had announced that it would continue implementing a basically generous monetary policy in 1999. In the wake of the problems in East Asia and the anticipated slowdown in growth in the United States it expected economic activity in Western Europe to weaken. For Switzerland, it forecast real economic growth of 1.5% and a rise in inflation to 1%. Furthermore, it indicated that with its planned monetary policy it also intended to take account of the uncertainties associated with the introduction of the euro.

Economic revival – smooth launch of the euro

Economic growth and inflation in 1999 came close to the expectations of the National Bank. Though business activity was still weak at the start of the year, this was soon followed by a marked recovery. The euro was launched without a hitch. In the first few months of the year, the National Bank strove to keep the Swiss franc exchange rate against the euro as stable as possible. In the second half of the year, however, the exchange rate still kept within a very narrow band. This was due not least to the fact that the economic situation was then similar in Switzerland and the countries of the euro area.

On average, slightly lower call money rates

The implementation of monetary policy was reflected by the course of call money rates. Their annual average was somewhat below the previous year's level. As from 9 April, the National Bank lowered the discount rate by 0.5 percentage point to 0.5%. This step went hand in hand with the lowering of interest rates by the ECB. Swiss money market rates fell in the wake of this interest rate reduction, only to rise again in the second half of September. Long-term money market rates were to some extent characterised by expectations of a liquidity bottleneck at the end of the year. The National Bank did not react to this increase in interest rates since the pickup in economic activity also tended to add to the danger of inflation. Nevertheless, it left the discount rate unchanged at 0.5%.

Declining sight deposits

The sight deposits held by the commercial banks at the National Bank declined substantially from the previous year's level. This fall is due, on the one hand, to the marked temporary expansion of sight deposits in October 1998, when the National Bank had provided the money market with additional liquidity in order to counteract an undesirable appreciation of the Swiss franc. On the other hand, it reflects the generally declining trend in the banks' demand for sight deposits. This was partly a consequence of the merger between Swiss Bank Corporation and Union Bank of Switzerland to form the UBS. Other factors that had the effect of reducing the demand for sight deposits are the introduction of intraday liquidity by the National Bank and the steady expansion of repo business which, in contrast to traditional interbank credits, does not require risk backing in the form of liquid funds.

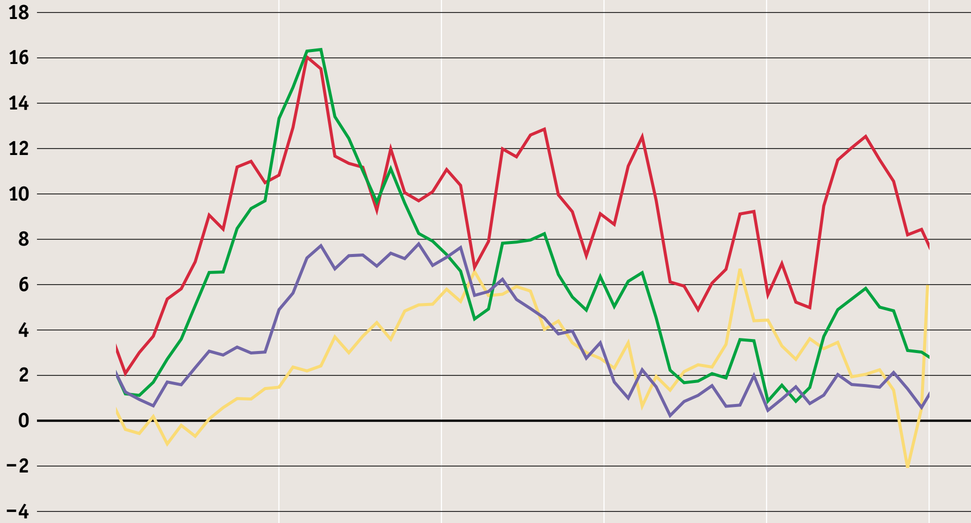
No end-of-year problems

The year-end settlement proceeded smoothly despite the critical change of date. The National Bank had made it known at an early stage that it would fulfil any liquidity requirements in excess of the level that was usual at this time of year. It concluded several forward-forward repos and gave the banks an opportunity to temporarily raise their Lombard limits. It also increased its stocks of banknotes in order to be able to meet even a massive rise in the demand for banknotes.

Monetary aggregates

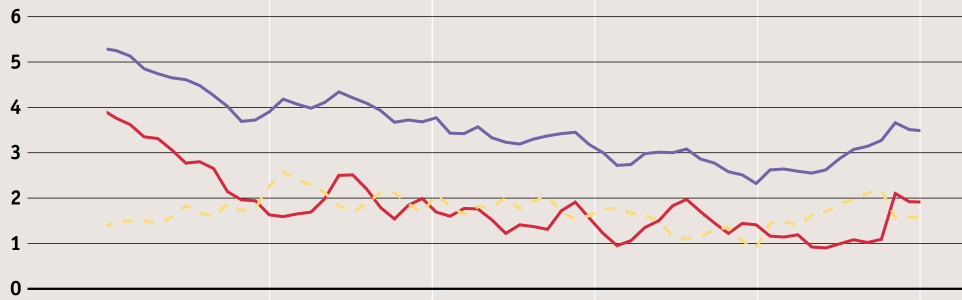
Monetary base
M1
M2
M3

Percentage change from previous year's level.



Money and capital market rates

Euromarket rate on three-month Swiss franc deposits, percent per annum
Yield on federal bonds, percent per annum
Differential in percentage points



Stagnating monetary base

The seasonally-adjusted monetary base barely changed at all in the course of 1999, only to rise markedly at the end of the year. In the fourth quarter, it surpassed the corresponding year-earlier level by an average of 1.5%, exceeding the medium-term target range laid down at the end of 1994 by 8.4%. Based on the shifts in the demand for banknotes observed over a number of years and the banks' changed liquidity behaviour, the National Bank assumes that the gap between the monetary base and the medium-term target path again overstated the degree of monetary expansion in 1999.

Weak growth of the money stock M_3

The money stock M_3, considered by the National Bank to be the most important monetary aggregate in the past few years, showed only a slight rise in 1999. In the fourth quarter, M_3 exceeded the corresponding previous year's level by 0.7%.

Slight tightening of monetary policy in 2000

At its news conference of 10 December 1999, the National Bank announced that it would be tightening monetary policy slightly in 2000, after already having allowed money market rates to move up in autumn. It made known its intention to keep the three-month Swiss franc money market rate within a target range of 1.25–2.25% for the time being and the three-month rate, which, at the beginning of December had still been in the lower part of the target range, in principle in the middle part of the range at first. In 2000, the National Bank expects real economic growth of 1.8% and an average annual inflation rate of 1.5%.

Inflation forecast for 2000–2002

With the slight tightening of monetary policy, the National Bank wants to ensure that inflation remains below 2% in the following three years. According to the medium-term inflation forecast published by it for the first time, inflation is likely to increase somewhat to 1.8% by 2002. That is the upper range of what the National Bank regards as price stability. The slight rise in inflation mirrors the anticipated economic upswing, which – so experience has shown – normally goes hand in hand with certain upward price trends. These result from the higher utilisation of production capacities and the improved situation in the labour market. Given the favourable outlook for the international economy, raw material prices are also likely to increase; however, intense competition and falling prices in telecommunications and in the agricultural sector will continue to have a dampening effect. Nor does the development of the monetary aggregates, which in turn is responsible for the long-term development of inflation, point to any inflation threats. Until the end of 1999, the money stock M_3 only showed a moderate increase. No notable inflationary stimuli are therefore likely to emanate from the expansionary monetary policy pursued by the National Bank until autumn 1999. The National Bank will closely observe the chief indicators and review the analyses on which the inflation forecast rests on a quarterly basis. The results of its monetary policy assessment will be published in the Quarterly Report.

3 Reform of the monetary constitution

Federal parliament deals with the new monetary article

On 17 March 1999, the Council of States dealt with the Federal Council's bill for a new monetary article in the Federal Constitution (message of the Federal Council of 27 May 1998: cf. 91st Annual Report, pp. 36 f.). Like the National Council, it adhered largely to the concept of the Federal Council. It adopted the priority of price stability in the central bank's mandate, the National Bank's independence in fulfilling its mandate, and the principle of accountability as new elements of the constitutional norm. Like the big chamber before it, the Council of States opted for an explicit constitutional basis to enable the gold reserves no longer needed for monetary policy purposes to be separated from the National Bank's holdings and be put to other public uses. While the National Council had added a further section to the monetary article for this purpose, the Council of States decided to introduce a respective transitional provision into the Federal Constitution.

Separate reform of the monetary constitution fails

In its June session, the National Council adopted the Council of States' version concerning the reform of the monetary constitution in the conciliation procedure. In the final vote of 18 June 1999, the Council of States passed the new monetary article with a clear majority, whereas the National Council rejected it by a narrow margin. In the National Council, two sets of votes had a cumulative effect: those cast by the opponents of a National Bank mandate focusing on price stability and those cast by the opponents of establishing a constitutional basis which would have allowed the use of the National Bank's excess gold reserves to endow the planned Swiss Foundation for Solidarity. The new monetary article in the Federal Constitution was thus doomed to fail; from the perspective of the National Bank this is to be regretted.

New Federal Constitution is adopted and enters into force

In the ballot of 18 April 1999, the Swiss people and the cantons approved the comprehensive revision of the Federal Constitution. The new Federal Constitution, which was put into force by the federal parliament as from 1 January 2000, also contains a renewed monetary article (art. 99 of the new Federal Constitution [nFC]). This article replaces the former coinage article (art. 38 FC) and the central bank article (art. 39 FC) of the Constitution. The renewed monetary article severs the Swiss franc's constitutional link to gold. It embodies the National Bank's independence in the Constitution, as also the obligation to set aside adequate currency reserves from its earnings, part of them in gold. Both elements are designed to help maintain public confidence in monetary stability. As previously, the central bank mandate consists in the obligation of the National Bank to conduct a monetary policy in the interests of the country as a whole. The provision according to which the National Bank must deliver at least two-thirds of its net profit to the cantons was also left unchanged. Art. 99 nFC lacks a reservation with respect to this profit distribution rule permitting surplus currency reserves to be put to other public uses.

Intentions of the Federal Council concerning the future procedure

The Federal Council has decided against a renewed reform of the monetary constitution. At the same time, it envisages formulating the central bank's mandate in more detail within the context of the planned revision of the National Bank Law, as well as introducing a formal accountability of the National Bank in this Law. Furthermore, the government intends to submit a proposal to the federal parliament to create a special constitutional basis both for separating surplus gold reserves from the National Bank's holdings and putting them to other public uses. The Federal Council intends to open a consultation procedure on this subject in the first half of 2000.

4 Federal law on currency and payment instruments

Message of the Federal Council

On 26 May 1999, the Federal Council passed its message concerning a Federal law on currency and payment instruments (cf. 91st Annual Report, p. 38). With this law, the severance of the Swiss franc's link to gold – which was adopted on the constitutional level as part of the comprehensive revision of the Federal Constitution – is implemented. The Federal law on currency and payment instruments definitively abolishes the National Bank's obligation to redeem banknotes in gold, which had already been suspended for decades; it removes the minimum gold coverage of the banknotes in circulation and the gold parity of the Swiss franc. The law contains regulations on all the characteristic features of currency and money (legal tender) relevant for the public. In addition to coins and banknotes, Swiss franc denominated sight deposits at the Swiss National Bank are now also deemed to be legal tender. The institutions that process payment transactions (commercial banks and several of their jointly operated organisations, Swiss Post and large security transport companies) are entitled to open a sight deposit account with the National Bank. The Coinage Act currently in force will be integrated in the new federal law; all regulations governing banknotes will be transferred from the National Bank Law into the Federal law on currency and payment instruments.

Deliberation in parliament

The National Council dealt with the Federal law on currency and payment instruments on 5 October 1999, leaving the draft of the bill largely unchanged. It merely rejected an innovation in the field of coinage proposed by the Federal Council, i.e. to replace the present authorisation requirement for the manufacture of coin-like objects by a penal provision. The Council of States, in its December session, in turn followed the motions submitted by the Federal Council, while at the same time also including the option of privatising the Swiss Federal Mint in the law. During the conciliation procedure, the National Council adopted the version of the Council of States in full. On 22 December 1999, the Federal law on currency and payment instruments was approved by a large majority in the final vote in both the National Council and the Council of States. If no referendum is launched, the law is expected to take effect at the beginning of May 2000.

5 Agreement concerning gold sales

Agreement between European central banks concerning gold sales

Once the Federal law on currency and payment instruments enters into force, the National Bank will be in a position to revalue its 2,590 tonnes of gold holdings and to carry out gold transactions. The National Bank already previously announced its intention to begin as soon as possible with the sale of 1,300 tonnes of gold no longer required for monetary policy purposes. In this context, the agreement on future sales of monetary gold concluded between 15 European central banks, including the National Bank, in Washington on 26 September 1999 is significant.

Contents and significance

In the agreement, the participating central banks have undertaken to sell a total amount of no more than 2,000 tonnes of gold within the framework of a coordinated programme in the next five years, i. e. approximately 400 tonnes annually. They furthermore agreed not to expand their gold leasing and gold forward transactions during this time. Other industrial countries declared unilaterally that they would abstain from any gold sales during the period in question. This covers some 85 % of the official gold reserves of central banks, governments and international organisations. The 1,300 tonnes of gold which the National Bank intends to sell are included in the total quota of 2,000 tonnes.

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.

Assets for monetary policy

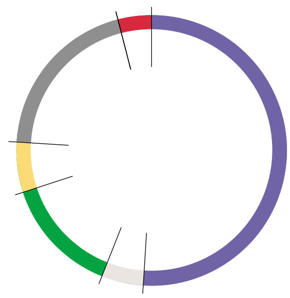
Part of the National Bank's assets serve directly for implementing monetary policy. In order to supply the economy with base money, the National Bank concludes securities transactions and foreign exchange transactions, in particular repurchase agreements (repos) and foreign exchange swaps. A repo represents 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. The National Bank can sell unhedged foreign exchange reserves at any time against Swiss francs in order to support the external value of the currency. Its gold holdings help to ensure that Switzerland remains able to pay vis-à-vis foreign countries in emergencies.

Leeway for investing the National Bank's international reserves

The National Bank Law specifies both the types of assets which the National Bank may acquire as well as the instruments it may employ for their management. Furthermore, it makes it possible to employ a part of the gold reserves for gold lending. Within the framework of legal provisions and in line with the monetary policy mandate, it is the National Bank's endeavour to manage its assets as profitably as possible.



Structure of National Bank assets
in percent

Unhedged foreign exch. reserves 51

Foreign exchange swaps 5

Gold 14

Other domestic assets 6

Domestic financial assets 20

Other foreign currency assets 4

Total: Sfr 89 billion.
Balance sheet values, ann. avarage

1.2 Foreign exchange investments

Investment principles

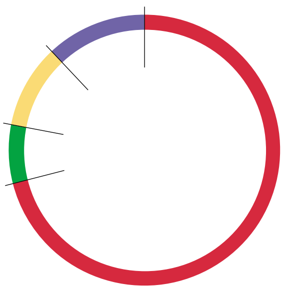
The National Bank invests its foreign exchange reserves in safe and liquid securities, and a small proportion in time deposits at prime foreign banks. This enables it, in case of need, to sell the investments at short notice and without incurring undue losses. The National Bank Law permits liquid marketable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

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 success of the asset management is the yield achieved on this reference portfolio.

Investment activity and results

The beginning of 1999 was marked by the launch of the euro, which went smoothly. The D-mark and Dutch guilder portfolios were merged into a euro portfolio. At the same time, the spectrum of permissible investments was expanded to include all the countries participating in stage three of the Monetary Union. Since May, the National Bank has also invested in bonds denominated in Canadian dollars. Within the currency portfolio, the US dollar and Japanese yen share were reduced in favour of euro-denominated investments. During the period under review, the diversification of borrowers continued to increase; the proportion of mortgage bonds within the euro portfolio, for example, was built up considerably. At the end of 1999, approximately 78 % of all investments were accounted for by government securities or by securities with virtual government guarantee. In addition to futures, the National Bank also used interest rate swaps for regulating the average duration of portfolios. On the whole, the yield on foreign exchange investments amounted to 9.7 % compared with 5.9 % in the previous year.



Foreign exchange reserves by debtor category
in percent

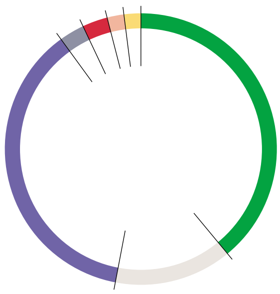
Government securities 71

Securities with indirect government guarantee 7

International organisations 10

Banks 12

Total: Sfr 54.6 billion.
End 1999



Foreign exchange reserves by currency
in percent

US dollar 39

US dollar hedged 14

Euro 37

Pound sterling 3

Danish krone 3

Yen 2

CA dollar 2

Total: Sfr 54.6 billion.
End 1999

Annual results foreign exchange investments Yields in percent

Currency portfolio	1997 Local currency	1997 Swiss francs	1998 Local currency	1998 Swiss francs	1999 Local currency	1999 Swiss francs
US dollars	5.8	14.0	7.8	2.1	0.8	16.9
Euros	–	–	–	–	−0.2	−0.0
D-marks	3.2	3.5	7.4	8.6	–	–
Dutch guilders	–	–	8.4	9.6	–	–
Yen	0.2	3.4	0.5	8.7	2.5	32.5
Pounds sterling[1]	–	–	9.6	3.9	1.1	14.4
Danish kroner[2]	–	–	4.8	3.7	0.8	0.9
Canadian dollars[3]	–	–	–	–	1.1	7.6
Total foreign exchange investments	–	10.9	–	5.9	–	9.7

1 since March 1998

2 since June 1998

3 since May 1999

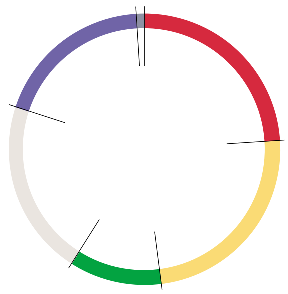
External asset managers

Up to now, a small portion of the foreign exchange portfolio was managed by an external management company. At the end of 1999, the National Bank outsourced additional mandates to external asset managers to start managing portfolios in the spring of 2000. This move allows the National Bank to take advantage of special investment opportunities, e.g. mortgage-backed securities in the US or international bond portfolios.

1.3 Investment in Swiss franc denominated securities

Investment principles

Since the early 1980s, the National Bank has been expanding its portfolio of domestic bonds by approximately Sfr 100 million annually. Purchases are spread evenly over the year. It manages its bond holdings subject to the condition that the investment decisions may neither disrupt monetary policy nor profit from it. The National Bank therefore pursues an investment policy bound by rules and checks its quality based on comparative indices.



Swiss franc securities by debtor category
in percent

Confederation 24

Cantons 24

Communes 11

Mortgage bonds 21

Banks 19

Foreign borrowers 1

Total: Sfr 4.9 billion.
End 1999

Expansion of bond purchases to include foreign debtors

The National Bank has thus far limited itself to the acquisition of Swiss franc bonds of domestic borrowers and considered all debtor categories permitted by law: the public sector, banks and mortgage bond companies. The proportions of the different debtor categories approximately corresponded to their market capitalisation; a concentration on individual debtors was avoided by means of limits. In July 1999, the National Bank began to purchase – on a modest scale – Swiss franc bonds of foreign debtors, i.e. foreign countries, international organisations and banks.

Investment results

At the end of 1999, the market value of the portfolio amounted to Sfr 4,885 million, compared to Sfr 5,010 million in the previous year. The duration was around 2¾ years. As a result of current interest rates, the yield on the portfolio fell from 4.8% in the previous year to 0.7% in 1999.

1.4 Gold lending

Investment principles

The market for gold lending is a relatively tight one. In order not to disrupt the price structure, the National Bank 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 interest for the temporary loan of gold.

Gold lending against securities collateral

In mid-1999, the National Bank also began to conclude gold lending transactions with the counterparty depositing securities as collateral. By employing such transactions, the credit risk can be lowered considerably, while keeping loan interest low. This type of collateral makes sense especially for long-term transactions. At the end of 1999, a proportion of 23% of all gold lending was backed by securities collateral.

Gold lending frozen

On 26 September, within the framework of an agreement to set a limit on future gold sales, the National Bank and 14 other European central banks pledged to cap at current levels the amount of gold being leased out (cf. p. 45). At that time, the amount of gold lent by the National Bank was 328 tonnes.

Investment results

At the end of the year, the average residual maturity of all gold lending transactions concluded amounted to 7¼ months. In 1999, a yield of 1.6% p.a. was achieved with gold lending.

1.5 Risk management

Purpose of risk management

The purpose of the National Bank's risk management is the systematic and comprehensive compilation, limitation and control of all relevant financial risks which the National Bank is exposed to by virtue of its activities on the financial and capital markets. Risk management focuses on those National Bank assets that are managed with a view to achieving a profit, notably foreign exchange reserves. The market risks, i.e. currency and interest-rate risks from foreign exchange investments, are especially significant for the National Bank. Within the scope of its investment and monetary policy, it also takes certain credit risks.

Market risks

The National Bank controls market risks associated with foreign exchange investments with standard procedures and modern tools such as sensitivity and scenario analyses and value-at-risk calculations. Risk control is performed by means of limits and detailed investment guidelines. The latter spell out, among other things, the bands for the currency proportions, duration as also the upper limits for certain investment segments. In 1999, the currency risk from foreign exchange investments continued to be reduced by the reallocation of dollar and yen reserves into the euro. Interest-rate risk remained on last year's level.

Credit risks

Credit risk management is carried out in accordance with strictly determined rules for the allocation and control of credit limits. The bank authorities define strategic guidelines in the form of sector limits and requirements regarding the financial standing of debtors, and they set upper limits for individual credit lines. A newly appointed risk committee translates these guidelines into concrete allocations for the individual business types and is responsible for the control process.

Direct risk reporting

The risk management reports the results of risk control directly to the responsible line and supervisory bodies of the National Bank. Overall supervision lies with the bank authorities with a two-person delegation from the Bank Committee assuming special responsibility for risk control.

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 cash. It also acts as a settlements centre for cashless payments between the banks and between Swiss Post and the banks.

New cash distribution concept as a result of the developments relating to cash transactions

The companies with which the National Bank does business (such as commercial banks, Swiss Post and security transport companies) have been undergoing a rationalisation process of their cash handling processes for several years now. Especially commercial banks with networks of branches are increasingly clearing cash positions within their own organisations. Various bank mergers have reinforced this trend. Furthermore, banks and Swiss Post are tending to outsource more and more cash handling tasks to specialised companies. This trend has led to flows of cash within the National Bank's network of branches converging at individual branches. As a result, the National Bank decided to concentrate cash handling services at four locations – Berne, Geneva, Lugano and Zurich – from 2000 onwards. In return, the decentralised network of agencies for the local receipt and distribution of banknotes and coins was reinforced (cf. p. 65).

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 this system. SIC has a direct link to SECOM, the securities clearing system of SIS SegaInterSettle (formerly SEGA). This link makes it possible for securities and repo transactions to be carried out with simultaneous delivery and payment. Since June 1999, transactions at ATMs, automated refuelling machines and ec-direct payments have been processed in SIC. With the exception of cheques, all types of payment services offered by banks have now been integrated into SIC.

Introduction of intraday liquidity facilitates payment transactions

The intraday liquidity offered by the National Bank (cf. p. 37) facilitates payment transactions via SIC. This is especially important in view of the planned introduction of CLS (Continuous Linked Settlement). CLS is an international multi-currency processing system for foreign exchange transactions. By linking payments in both currencies, the principal risk can be eliminated. In order for CLS to function smoothly, banks must be able to process their payments at certain times of the day. Intraday liquidity makes this easier.

Euro payments of the Swiss banks

With the launch of stage three of the European Monetary Union at the beginning of 1999, the central banks of the participating EU countries put the TARGET system (Trans-European Automated Real-time Gross Settlement Express Transfer), which is designed to interlink their national payment systems, into operation. TARGET facilitates implementation of the monetary policy of the European Central Bank as well as cross-border payments in the euro area. Only the payment systems of EU member states are eligible to be linked to TARGET. In order to have access to TARGET, the Swiss banks run a special clearing bank in Frankfurt, the Swiss Euro Clearing Bank (SECB). The SECB is subject to direct German banking supervision. The euroSIC system set up by the SECB (to process transactions) is used primarily for payment transfers in euros between Swiss banks, while the majority of cross-border payments are still effected via the traditional correspondent bank network.

2.2 Provision of currency

Currency in circulation

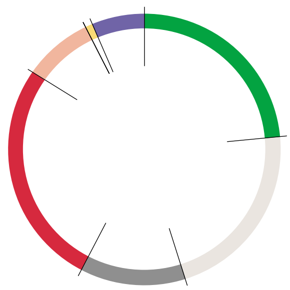
In 1999, the average banknote circulation was Sfr 30.8 billion, i.e. 4.24% more than in 1998. At Sfr 2.2 billion, coins in circulation equalled the previous year's figure.

Manufacture and disposal of banknotes

The National Bank obtained 75.7 million freshly printed banknotes with a face value totalling Sfr 28.4 billion from Orell Füssli Security Printing Ltd. 85.1 million damaged or recalled notes with a face value of Sfr 8.6 billion were destroyed.

Currency turnover

In 1999, the National Bank's branches registered a 5.6% decrease in currency turnover in value terms, bringing the total to Sfr 170.6 billion. The branches received approximately 465 million notes (5.7% less than in 1998) and checked them for authenticity, quality and quantity.



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

10s 60

20s 55

50s 32

100s 69

200s 21

500s 2

1000s 16

Annual average

2.3 SIC payment transactions

Declining payment flows

At the end of 1999, there were 291 participants in SIC versus 288 at the end of 1998. During the year under review, an average of 556,000 payments per day totalling approximately Sfr 170 billion were processed compared with Sfr 182 billion in the previous year. This decline is primarily due to the fact that at the beginning of July, the SIC accounts of two big banks were joined together as a result of their merger. A considerable part of the volume processed by SIC stems from processing foreign exchange transactions. In the course of 1999 the one billionth transaction was processed since SIC started operating in 1987.

Development of payment flows in SIC

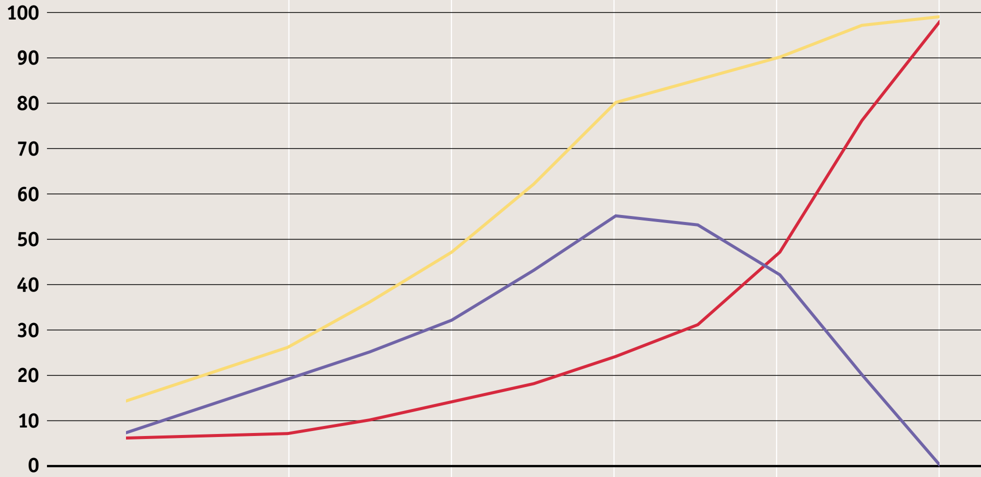
	1995	1996	1997	1998	1999
Transactions per day thousands					
Average	382	427	480	529	556
Maximum	1 154	1 156	1 303	1 323	1 384
Volume per day Sfr billions					
Average	128	150	182	182	170
Maximum	257	290	305	270	296
Frequency of turnover per day[1]					
Average	57	58	58	49	48
Maximum	112	90	97	82	93

1 Total volume divided by the end-of-day volume of sight deposits

Reduction of pending payments as a result of the introduction of intraday liquidity

As a result of the introduction of intraday liquidity (cf. p. 37) payments in SIC can be processed faster. Between October and December 1999, the number of payments pending in the system thus decreased considerably.

Processing in SIC without intraday liquidity



Payments entered

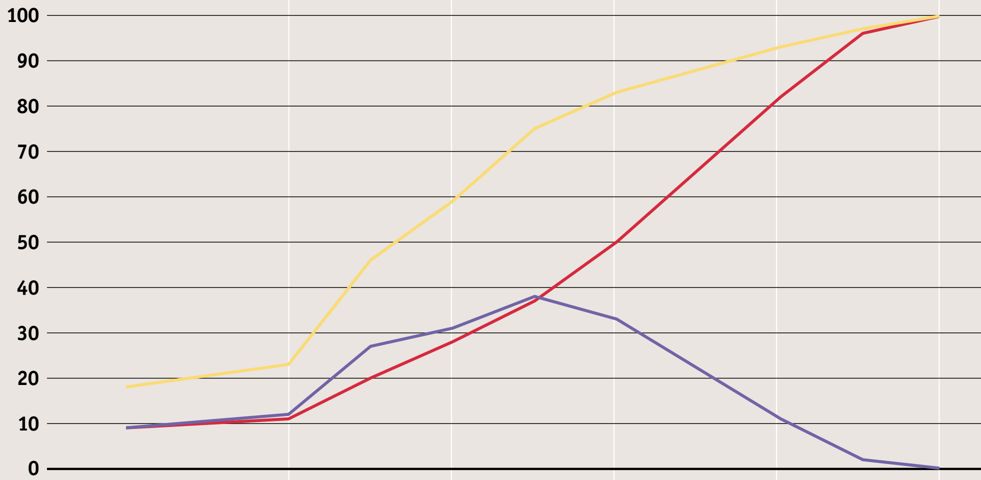
Payments in queue

Payments settled

January to September 1999.

Percent of the volume of payments in value terms.

Processing in SIC with intraday liquidity



Payments entered

Payments in queue

Payments settled

October to December 1999.

Percent of the volume of payments in value terms.

3 Statistical tasks

Basis

The National Bank collects from the banks and other enterprises the statistical data which it needs for performing its tasks. This data is used for analyses concerning monetary policy, for the survey of economic developments and for economic forecasts, and for analysing developments in the financial markets. The National Bank collects statistics on the banks' balance sheets and on other important aspects of banking business, as well as on investment funds and the balance of payments. This includes data on direct investment, which industrial and service sector enterprises are required to supply to the National Bank and which are then reflected in the balance of payments. The National Bank also gathers information on the money and capital markets, notably on short- and long-term interest rates. All these statistics are compiled by agreement with the data-reporting institutions and enterprises and conform closely to international standards.

New data

The new regulation concerning the exchange of data in the Implementing Ordinance to the Swiss Banking Law (Art. 54) enabled the National Bank to strengthen and increase its cooperation with the Federal Banking Commission (FBC) in the field of statistics in 1999. It undertook to collect various types of banking statistics which the FBC requires for its task as supervisory authority. Furthermore, it decided, in conjunction with representatives of the banks, the Swiss Bankers' Association and the State Secretariat for Economic Affairs (seco), to compile a new category of statistics covering the banks' loans to small and medium-sized enterprises. This data will be published for the first time in 2001. The National Bank also developed a concept for a survey on cashless payment transactions providing information on the effects of new payment habits of the public on the demand for money. This survey will be conducted for the first time in 2000.

Supplement to the calculation of capital market yields

The National Bank supplemented the data on the average yield on Confederation bonds with data on the maturity structure of interest rates on debentures of the Confederation. At the beginning of 2000, this data was first published in the form of a yield curve. It gives a more precise picture of the situation on the capital market than the former average yield and facilitates a comparison with corresponding foreign statistics.

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. It prohibits deficit financing of the public sector 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 Federal treasury and Swiss Post hold their liquid funds in the form of sight deposits or short-term time deposits at the National Bank. The National Bank pays interest on these sight deposits up to an amount of Sfr 800 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 1999, the National Bank arranged 52 issues of money market debt register claims (MMDRC) and 10 bond issues on behalf of the Confederation. MMDRCs to the total amount of Sfr 75.7 billion were subscribed, and Sfr 46.8 billion were allocated. Federal bonds were subscribed for a total amount of Sfr 8.1 billion, of which Sfr 4.1 billion were allocated.

Federal bonds and money market debt register claims

	1995	1996	1997	1998	1999
Number of issues[1]					
Federal bonds	7	10	7	11	10
MMDRC	52	52	53	52	52
Total subscribed in billions of francs					
Federal bonds[2]	8.2	10.6	7.0	10.8	8.1
MMDRC	94.7	103.1	89.0	89.4	75.7
Total allocated in billions of francs					
Federal bonds[2]	3.5	4.5	3.7	5.2	4.1
MMDRC	47.1	49.9	49.8	45.1	46.8
Outstanding at year-end in billions of francs					
Federal bonds	29.8	33.8	37.5	43.3	46.5
MMDRC	14.1	14.7	14.1	12.9	17.1

1 Based on date of payment

2 Excluding the National Bank's own tranches

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 National Bank also keeps the federal debt register and administers securities holdings and objects of value on behalf of the Confederation.

5 Cooperation with federal agencies

5.1 Cooperation with the Federal Department of Finance

Group of experts for the "Reform of the monetary order"

The group of experts for the "Reform of the monetary order" set up by the head of the Federal Department of Finance in April 1997 had been commissioned to study all the problems arising from the revision of the monetary constitution on a legislative and regulatory level (cf. 91st Annual Report, p. 38). The group of experts is composed of three representatives each from the Department of Finance, the National Bank and from academic circles. After completing its task of preparing a new Federal law on currency and payment instruments (cf. p. 44), the group of experts, in 1999, devoted itself primarily to preparing the ground for the revision of the National Bank Law.

Comprehensive reform of the National Bank Law planned

In view of the renewed monetary constitution, the group of experts expressed itself in favour of a comprehensive revision of the National Bank Law. The present law dating from the year 1953, which had been partially amended in 1978 and 1997, has become outdated in several respects: the tasks of the National Bank, its legal status and its organisation require a rewording that takes account of developments in international monetary conditions and the institutional environment. Thus, for example, the embodiment of the National Bank's independence in the Federal Constitution requires certain adjustments on the legislative level. Since the National Bank has the legal form of a special-law joint stock company, the 1991 reform of Swiss company law is also to be taken into account. In this connection, the structure of the National Bank's various bodies must be subject to scrutiny. In view of the radical changes currently characterising the financial markets, the central bank's legal scope of business is also to be made more open and more flexible. Finally, those sovereign instruments of the National Bank that are based on concepts dating from the time of fixed exchange rates (control of new securities issues, control of capital transfers) are no longer feasible in globally integrated financial markets, and their removal from the National Bank Law is thus indicated. Other sovereign instruments, such as the statistical reporting obligations of financial institutions and minimum reserve requirements, need to be adapted to modern standards. The group of experts for the "Reform of the monetary order" will submit a draft, with comments, for a new National Bank Law in 2000.

"Euro" working group

The National Bank participated in a working group under the chairmanship of the Federal Department of Finance which dealt with the legal framework for the use of the euro in Switzerland. The working group came to the conclusion that there are no major obstacles to the use of the euro in private-law contracts while in the areas of customs, taxes and social security the euro can only be used in exceptional cases. In the current state of integration, a removal of legal obstacles in these fields can, in the view of the working group, be considered at best in occasional cases only. The working group was confirmed in its findings by a survey of the Swiss Institute for Business Cycle Research at the Swiss Federal Institute of Technology. Industries, the hotel and restaurant business and the retail trade thus do not expect the introduction of the euro to bring about any fundamental changes in the use of foreign payment instruments in Switzerland.

5.2 Cooperation with the Federal Banking Commission

Precautionary measures for the year-2000 changeover

In 1999, the Governing Board held two meetings with the Federal Banking Commission for a detailed discussion of the economic situation and current developments in the banking system, including aspects relating to repo business and settlement systems. Furthermore, a working group consisting of representatives of the National Bank and the Federal Banking Commission dealt with selected topics in connection with the year-2000 changeover. The main intention was to harmonise the National Bank's contingency measures for providing the banking system with liquidity with those of the Banking Commission for supervising the technical preparations of the institutions for the changeover at the turn of the year and to devise a common response strategy. In the event, however, this was not needed as the financial sector entered the year 2000 without any problems.

6 International cooperation

On an international level, the National Bank cooperates mainly 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. The IMF finances its activities with the member countries' quotas. The portion of the Swiss quota used by the IMF is equal to Switzerland's reserve position in the IMF, which is financed by the National Bank. It may be likened to a currency reserve and may be used as such by the National Bank at any time. At the end of 1999, Switzerland's reserve position amounted to 1,224.8 million SDRs (special drawing rights), compared to 1,597.8 million SDRs at the end of 1998. (At the end of 1999 1 SDR was equivalent to Sfr 2.19.) The decline in the reserve position is due to the fact that in 1999 an increasing amount of funds from loan repayments flowed back to the IMF.

Conversion of the Enhanced Structural Adjustment Facility II into a Poverty Reduction and Growth Facility

At the Annual General Meeting of the IMF at the end of September, the member countries approved the conversion of the Enhanced Structural Adjustment Facility (ESAF II) into a Poverty Reduction and Growth Facility (PRGF). Via ESAF II, the IMF had granted low-income member countries long-term preferential loans in support of economic adjustment programmes since the end of the eighties. As a result of the conversion into a PRGF the facility is aimed more directly than previously at combating poverty. According to the Decree of the Federal Parliament on Switzerland's participation in the prolonged Enhanced Structural Adjustment Facility of 3 February 1995, the National Bank finances the Swiss contribution to the loan account of ESAF II. Until the end of 1999, the IMF utilised a total amount of 109.3 million SDRs from Switzerland's loan commitment of 151.7 million SDRs. The still unused loan commitment of 42.4 million SDRs can be drawn on until the end of 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 credits including interest payments; it also finances the interest rate subsidies.

6.2 Cooperation in the Group of Ten

Loan repayments by the IMF

In 1999, the IMF repaid loans which it had utilised in the previous year in the context of the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). In exceptional circumstances and in the event of a shortage of funds, the GAB permit the IMF to borrow funds from the Group of Ten countries according to a distribution key agreed upon in advance. The NAB are parallel agreements to the GAB, in which fourteen further countries participate. In July 1998, the IMF had activated the GAB for financing a stand-by credit in favour of Russia, and in December 1998 it had activated the NAB for a similar loan in support of Brazil, in both cases with the undertaking that the utilised funds would be repaid to the participating countries as soon as the IMF again had sufficient capital of its own. With the increase in quotas that had entered into force on 22 January 1999, the capital of the IMF received a substantial boost. At the beginning of March 1999, the IMF fully repaid the loans from the GAB and the NAB. It transferred 86.6 million SDRs from the GAB and 143.5 million SDRs from the NAB (cf. p. 89) to the National Bank, which exercises Switzerland's membership in the above borrowing arrangements.

6.3 Cooperation with the Bank for International Settlements

BIS bodies

The central bank governors of the G-10 countries meet regularly at the BIS for an exchange of information. Moreover, the National Bank is represented in various committees of the BIS including the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems and the Committee on the Global Financial System. In 1999, the National Bank also participated in the activities of the Joint Year 2000 Council, whose task it was to prepare the financial sector for the year 2000 changeover.

Revised capital adequacy recommendations of the Basel Committee on Banking Supervision

In summer 1999, the Basel Committee on Banking Supervision adopted a consultation paper on revised capital adequacy recommendations. This paper proposes a concept resting on three pillars. The first pillar are capital requirements. In this domain, a main feature of the new approach is the measuring of credit risks based on banks' internal ratings; for less sophisticated banks – which are the majority of all banks – a standard procedure with given risk weights will continue to be available. In future, capital adequacy requirements will also reflect outliers with respect to interest rate risks as well as organisational and other risks. The second pillar of the concept is a review of capital ratios by bank supervisors; banks that do not have first-rate internal risk measuring and control procedures should have to meet higher capital requirements. The third pillar is market discipline, which is to be realised primarily through greater transparency.

Studies of the Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision drew up a worldwide study on the implementation of its core principles on banking supervision. In addition, it published various surveys on the subject of hedge funds ("Highly Leveraged Institutions"), supervisory implications of the financial crisis in Southeast Asia and on best practices in the banks' various lines of business.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems published two reports. The first one deals with securities lending and was prepared in cooperation with the International Organisation of Securities Commissions (IOSCO). The report gives a survey of customary transactions, market structures, legal aspects and the associated risks. Moreover, it describes the implications for market participants, infrastructure operators and the responsible authorities. The second report discusses widely used payment instruments (such as cash, cheques, debit and credit cards). It describes in detail the characteristics and functioning of these payment instruments and includes statistics on their use in the G-10 countries.

Committee on the Global Financial System

The Committee on the Global Financial System (formerly called Eurocurrency Standing Committee) followed developments in the financial markets, notably in the emerging countries. It published surveys on the development of the repo markets and on the turbulence in the international financial markets in autumn 1998. It also submitted recommendations for the organisation of the markets for government bonds.

6.4 Balance-of-payments aid

Increase in the limit in the Federal decree on Switzerland's cooperation in international monetary measures

The Federal decree on Switzerland's cooperation in international monetary measures enables Switzerland to participate in international support operations for the prevention or elimination of serious disruptions in the international monetary system. Up to now, a credit ceiling of Sfr 1 billion has been available for this purpose. In the wake of the international financial crises, recourse to guarantee and credit commitments has been considerable. At the beginning of 1999, Switzerland had outstanding commitments of almost Sfr 930 million. Since the globalised financial system has become increasingly susceptible to crises, the Federal Council submitted a proposal to parliament to the effect that the credit ceiling, which had been left unchanged since 1984, should be doubled. On 18 June 1999, the federal parliament approved a respective amendment to the Federal decree on Switzerland's cooperation in international monetary measures. After the referendum deadline had expired unused, the Federal Council put the amendment into effect on 1 December 1999. The loans are financed by the National Bank, with the Confederation guaranteeing repayment of the loans including interest.

Repayment of a loan extended as balance-of-payments aid

On 4 February 1999, within the time limit, the central bank of Romania repaid a loan which had been extended to it as balance-of-payments aid. Switzerland had granted the credit to the amount of $ 40 million to Romania in 1992 in the context of the Federal decree on Switzerland's cooperation in international monetary measures.

6.5 Technical assistance and training

Technical assistance

In 1999, the National Bank provided technical assistance to the National Bank of Kyrgyzstan, the National Bank of Slovakia, the National Bank of the Republic of Tajikistan, the State Bank of Vietnam and the central bank of the West African Monetary Union.

"Studienzentrum Gerzensee": courses on monetary policy and financial markets, ...

The "Studienzentrum Gerzensee" (Gerzensee Study Centre) organised five courses for employees of foreign central banks in 1999. The courses offered training in the fields of monetary policy and financial markets. They were attended by a total of approximately 130 persons from more than 90 countries.

... international scientific conferences ...

In addition, the Gerzensee Study Centre held three scientific conferences on economic subjects and a panel discussion on the reform of pension systems. Internationally renowned researchers took part in these conferences.

... and post-graduate courses

The Gerzensee Study Centre organised post-graduate courses for students of Swiss universities; in these courses renowned professors provided specialised instruction in all the main fields of economic science.

Structure and organisation of the 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 1999 - had six branch offices in addition to the two head offices. Currency transactions, moreover, were also carried out by 16 agencies at cantonal banks after the Delémont agency was closed in mid-1999 at the request of the cantonal bank of the canton of Jura.

Reorganisation of the branch offices as a result of the new cash distribution concept

As a result of a new cash distribution concept the National Bank centralised banknote processing at four locations: in Zurich, Berne, Geneva, and Lugano. Cash distribution services in the Basel, Lausanne, Lucerne and St Gallen branch offices were suspended at the end of 1999. These branch offices continue to monitor economic developments in those regions. The decentralised network of agencies for accepting and distributing banknotes and coins was expanded: at the beginning of 2000, the cantonal banks in Basel and Lucerne opened an agency in each city.

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.

Issuing banknotes and 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 and holds the Confederation's securities in safe custody. Department III carries out money market and foreign exchange transactions on behalf of the Confederation.

2 Staff and resources

Number of staff and turnover

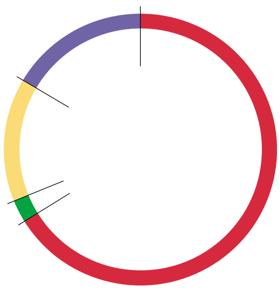
With the number of staff totalling 600, the National Bank was one of Europe's smallest central banks at the end of 1999. The number of employees decreased by 10 persons as against last year's figure. This is equivalent to 560.7 full-time jobs, compared to 567.4 full-time jobs the year before. As a result of the reorganisation of cash distribution and a tight labour market, fluctuation (including retirements) increased by more than half to 13% year-on-year.

Decrease in staff as a result of the new cash distribution concept

For the 71 staff members in the branch offices who were directly affected by the new cash distribution concept, individual solutions could be found: 40 persons started a new position within the National Bank, 14 took early retirement, and 17 took on a new challenge outside of the National Bank. The internal transfers were facilitated by 26 early retirements at the two head offices in Zurich and Berne and the Geneva branch office. No layoffs were necessary.

Extensive staff training

Training and continued education for the Bank's staff were again given high priority in 1999. The National Bank invested Sfr 1.1 million for this purpose. Management training accounted for 12% of the cost, 45% was expended on specialist and language training and personality development, and 43% on computer courses.



Personnel
Number of employees

Full-time, men 397

Part-time, men 16

Full-time, women 88

Part-time, women 99

Total: 600.
End 1999

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. In particular, automatic processing of repo transactions (partial levels Repo Full, Repo SWX, and Repo International) as components of the new standard package for banking transactions processing were put into operation. The new solution represents an overall integration of the external systems comprising the stock exchange (SWX), SIS SegaInterSettle and Swiss Interbank Clearing (SIC), with the corresponding internal applications. Furthermore, a new application for the administration of primary statistical data, e.g. in banking statistics, was taken into service. The installation of the new data communications network and the migration of PCs to the Windows NT operating system were completed. Both of these projects had a significant impact on making the National Bank's IT systems more stable.

Developments in information technology

During 1999, the Swiss National Bank tested all its IT applications, interbank connections and infrastructure equipment for their Y2K compliance. In addition to these efforts, it also participated in an interbank test for the whole of Switzerland in May. All systems engaged in cross-systems transaction processing, i.e. the Electronic Stock Exchange (SWX), securities clearing (SIS), and Swiss Interbank Clearing (SIC) were tested. No problems were detected. In spite of this positive outcome, the National Bank drew up a comprehensive range of organisational measures as well as contingency plans for the changeover period. It also increased the banknote supply in order to meet any additional demand. Thanks to the careful preparations, the transition to the year 2000 went smoothly.

The year 2000 problem

The third comprehensive environmental performance evaluation (for the year 1998) revealed that we now have a reliable data base at our disposal which allows us to judge the National Bank's impact on the environment. The replacement of regular paper with recycled paper has been stepped up quite significantly, and the amount of waste has decreased steadily. Stronger measures in the area of energy conservation are necessary, however, if we are to reach the targets set in the 1997 ecological charter, i.e. a 10% reduction of both electricity and heat consumption by the year 2002. In addition, the National Bank has launched a life cycle assessment (LCA) project for Swiss banknotes to determine their impact on the environment. This assessment comprises the analysis of the flow of materials and energy of all processes – ranging from the production stage to storage, processing, transportation and waste disposal.

Environmental management

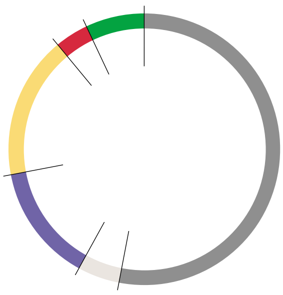
In connection with the closing of the branch offices in Aarau and Neuchâtel (cf. 91st Annual Report, page 63), the bank buildings in those cities became vacant and ready for another use in the first quarter of 1999. Since the National Bank does not maintain real estate for investment purposes, the properties in question were sold. In the branch offices in Basel, Lausanne, Lucerne and St Gallen, which suspended cash distribution services at the end of 1999 (cf. p. 65), the premises formerly occupied by the National Bank also became available for new and different purposes. The National Bank, therefore, decided to house its branch offices at these locations in rented facilities and to dispose of its own properties. Negotiations to sell the bank buildings in Basel, Lausanne, Lucerne and St Gallen were successfully completed at the end of 1999. In Geneva, where the cash volume processed will be significantly higher in

Property management

future, the National Bank purchased a building adjacent to its branch office and was thus able to secure extra space for future use and to improve security. At the Zurich head office, a comprehensive renovation of the buildings located at Stadthausquai was initiated.

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 53

Cashless payment transactions 5

Asset management 14

Monetary policy 17

Services for the Confederation 4

Services for third parties 7

3 Changes in the supervisory authorities and staff

Bank Council

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 President, and
Philippe Pidoux, Lausanne, National Councillor, formerly member of the Bank Committee, as Vice-President
Both gentlemen took office after the Annual General Meeting.

At the Annual General Meeting of Shareholders held on 23 April 1999 the following new members were elected to the Bank Council:

Brigitta M. Gadient, Chur, National Councillor, partner in a consulting firm for legal, organisational and strategy 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, Attorney-at-law,
Armin Jans, Zug, National Councillor, lecturer in economics at the University of Applied Sciences, Winterthur,
Ruth Lüthi, Fribourg, Member of the cantonal government and head of the health and social welfare department of the canton of Fribourg.

The following members were re-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
Hugo Fasel, St Ursen, National Councillor, Chairman of Christlichnationaler Gewerkschaftsbund der Schweiz (Christian trade union federation)
Trix Heberlein, Zumikon, President of the National Council, Attorney-at-law
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,
Peter Spälti, Hettlingen, Chairman of the Board of "Winterthur" Swiss Insurance Company,
Alexandre Swoboda, Geneva, Professor at The Graduate Institute of International Studies (on leave), Senior Policy Advisor and Resident Scholar, International Monetary Fund, Washington,
Elisabeth Zölch-Balmer, Berne, Member of the cantonal government and director of the economics department of the canton of Berne.

After the Annual General Meeting, the Federal Council completed the body by electing the following persons:

Kurt Amsler, Neuhausen, President of the Verband Schweizerischer Kantonalbanken (association of Swiss cantonal banks),
Peter Galliker, Altishofen, entrepreneur, President of the Luzerner Kantonalbank,

Marion Gétaz, Cully, President of the Lausanne Hotel Business School,

Marianne Kleiner-Schläpfer, Herisau, Member of the cantonal government and head of the department of finance of the canton of Appenzell Ausserrhoden,

Luigi Pedrazzini, Locarno Solduno, Member of the cantonal government and head of the department of justice and police of the canton of Ticino,

Fulvio Pelli, Lugano, National Councillor, Attorney-at-law and notary,

Rolf Ritschard, Luterbach, Member of the cantonal government and head of the department of the interior of the canton of Solothurn

Christian Seiler, Sitten, Attorney-at-law, Managing Director of Seiler Hotels Zermatt AG,

Alberto Togni, Küsnacht, Vice President of the Board of Directors of UBS AG.

The Federal Council re-elected the following persons:

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 of Création Baumann, Weavers and Dyers Ltd,

Pierre Darier, Cologny, partner of Darier, Hentsch & Cie, Banquiers Privés,

Melchior Ehrler, Riniken, National Councillor and Director of Schweizerischer Bauernverband (Swiss farmers' association),

Laurent Favarger, Develier, Director of Four électrique Delémont SA,

Serge Gaillard, Bolligen, Executive Secretary of the Swiss federation of trade unions,

Rudolf Hauser, Zurich, Managing Director of Bucher Holding AG,

Yvette Jaggi, Lausanne, President of The Arts Council of Switzerland Pro Helvetia,

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)

Vasco Pedrina, Zurich, Central president of the trade union for construction and industry, Vice-Chairman of the Swiss federation of trade unions,

Heinz Pletscher, Löhningen, Building contractor, Chairman of the Swiss contractors' association,

Judith Stamm, Lucerne, National Councillor,

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

Peter Spälti, Hettlingen, Chairman of the Board of "Winterthur" Swiss Insurance Company, retires on the day of the Annual General Meeting, 28 April 2000.

The National Bank thanks Peter Spälti for his valuable services.

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

Hansjörg Frei, Mönchaltorf, Member of the Corporate Executive Board of "Winterthur" Swiss Insurance Company.

Bank Committee

The Bank Council delegated the following members to the Bank Committee (with effect from 11 June 1999):

Trix Heberlein, Zumikon, as successor of Jakob Schönenberger,
Jean-Philippe Maitre, Vésenaz, as successor of François Jeanneret,
Franz Marty, Goldau, as successor of Gianfranco Cotti.

Local Committees

As per the date of the Annual General Meeting, 23 April 1999, the following committee members resigned their positions:

Alain Peyrot, Vésenaz, Chairman of the Local Committee of Geneva since 1996 (Member since 1991),
Christian Seiler, Sitten, Chairman of the Local Committee of Lausanne since 1990 (Member since 1988),
Flavio Riva, Montagnola, Chairman of the Local Committee of Lugano since 1994 (Member since 1991),
Gerry Leumann, Meggen, Chairman of the Local Committee since 1996 (Member since 1991).

The Bank Council made the following appointments:

Geneva

Charles Seydoux, Choulex, Director of Seydoux-DMB SA.

Lausanne

Gérard Beytrison, Conthey, Managing Director of Orgamol SA.

Lucerne

Ruth Pedrazzetti-Weibel, Lucerne, hotel manager, Hotel Continental-Park, President of the Hotelierverein der Stadt Luzern (Lucerne Hotel Managers' Association).

Lugano

Olimpio Pini, Sorengo, Director of the civil engineering firm Pini & Associati

The Bank Committee made its appointments for the chairmanship and vice-chairmanship of the different Local Committees according to seniority.

Auditing Committee

At the Annual General Meeting of Shareholders held on 23 April 1999
Kaspar Hofmann, Adliswil, Certified Auditor, Hofmann Wirtschaftsprüfung AG, and
Hans Michel, Egnach, were elected as members
Maryann Rohner, Zurich, Certified Auditor, formerly substitute member of the Auditing Committee, was elected as member and successor of Peter Blaser, Hünibach, and
Josef Blöchlinger, Begnins, Certified Auditor, Refidar Société Fiduciaire,
Jean-Claude Grangier, Epalinges, Vice President of the Executive Board of Banque Cantonale Vaudoise, and
Werner M. Schumacher, Binningen, Director of Banque Jenni et Cie SA, were elected as substitute members of the Auditing Committee.

The Bank Council proposes to the General Meeting of Shareholders of 28 April 2000 that the current members and substitute members of the Auditing Committee be re-elected.

Management

With effect from 1 August 1999, the Bank Committee approved the following promotion:
Thomas Jordan (Head of Economic Research) to Assistant Director.

Effective 1 November 1999, the Bank Committee appointed
Benjamin Künzli (Head of Personnel Training) to Assistant Director.

The Bank Committee approved the following promotions with effect from 1 January 2000:
Werner Hermann (Head of the International Monetary Relations Section) to Director,
Karl Hug (Head of the Money Market and Foreign Exchange Section) to Director,
Michel Peytrignet (Head of the Economic Studies Section) to Director,
Werner Abegg (Head of Press Relations) to Deputy Director,
Thomas Stucki (Head of the Investment Section) to Deputy Director,
Mauro Picchi (Head of Monetary Statistics) to Assistant Director,
Umberto Schwarz (Head of the European Monetary Integration Unit) to Assistant Director.

In memory of Walter Wasserfallen

After a long and serious illness,

Walter Wasserfallen

passed away on 1 March 1999. He managed the Gerzensee Study Centre with great success since 1988 and was instrumental in its development. His legacy will be felt for a long time to come. It was with unflagging enthusiasm that he worked on improving the quality of the teaching and research activities at the Study Centre. Thanks to his efforts, the Study Centre acquired an excellent international reputation. The National Bank is most grateful for his accomplishments.

Walter Wasserfallen's successor is Philippe Bacchetta.

Financial report

1 Income statement for the year 1999

	Notes	1999 Sfr millions	1998 Sfr millions	Change percent
Income from				
gold transactions	01	57.8	42.6	+35.7
foreign currency investments	02	372.9	3 091.3	−87.9
reserve position in the IMF	03	91.4	123.8	−26.2
international payment instruments	04	8.2	14.0	−41.4
balance-of-payments aid	05	16.5	19.5	−15.4
Income from				
Swiss franc repo transactions	06	150.1	84.2	+78.3
domestic money market claims		–	5.9	
Lombard advances	07	0.8	0.7	+14.3
claims against domestic correspondents	08	1.0	1.4	−28.6
Swiss franc securities	09	30.6	220.0	−86.1
Other income	10	30.9	15.1	+104.6
Gross income		**760.1**	**3 618.4**	**−79.0**
Interest expense	11	−243.8	−126.1	+93.3
Banknote expense	12	−43.8	−45.5	−3.5
Personnel expense	13	−81.3	−81.1	+0.2
General overheads	14	−74.5	−60.3	+23.5
Depreciation of tangible assets	15	−20.9	−17.0	+22.9
Net income		**295.7**	**3 288.5**	**−91.0**
Exchange rate-related valuation adjustments	16	4 137.1	−871.2	
Extraordinary expense	17	−2.3	−22.9	
Extraordinary income	18	27.3	0.0	
Aggregate income		**4 457.9**	**2 394.5**	**+86.2**
Allocation to provisions	19	−2 949.9	−886.5	
Annual profit	47	**1 508.0**	**1 508.0**	

2 Balance sheet as of 31 December 1999

in Sfr millions

Assets

	Notes	1999	1998
Gold holdings and claims from gold transactions			
gold holdings	20	10 453.2	11 045.5
claims from gold transactions	21	1 485.4	884.6
Foreign currency investments			
not exchange rate-hedged	22	46 921.8	45 005.7
exchange rate-hedged (swaps)	23	7 686.4	7 800.1
Reserve position in the IMF	24	2 677.6	3 070.6
International payment instruments	25	756.4	390.8
Balance-of-payments aid	26	306.5	768.3
Claims from Swiss franc			
repo transactions	27	28 136.0	17 348.3
Lombard advances	28	1.0	0.3
Claims against domestic correspondents	29	390.8	378.8
Swiss franc securities	30	4 884.9	5 010.0
Participations	31	89.4	89.4
Tangible assets	32	556.7	563.0
Sundry assets	33	467.7	480.4
Non paid-up share capital	45	25.0	25.0
		104 838.9	92 860.7

Liabilities	Notes	1999	1998
Banknote circulation	34	37 184.8	33 218.8
Sight deposit accounts of domestic banks	35	9 883.3	6 860.1
Liabilities towards the Confederation			
sight	36	112.1	147.6
time	37	16 749.9	14 972.0
Sight deposit accounts of foreign banks			
and institutions	38	214.0	163.5
Other sight liabilities	39	295.4	236.1
Liabilities from Swiss franc repo transactions	40	6.5	–
Foreign currency liabilities	41	355.1	175.9
Sundry liabilities	42	266.4	265.3
Provisions			
for market, credit and liquidity risks	43	37 678.5	34 728.6
for operating risks	44	470.8	471.7
Share capital	45	50.0	50.0
Reserve fund	46	64.0	63.0
Net disposable income – annual profit	47	1 508.0	1 508.0
		104 838.9	92 860.7

3 Notes to the accounts as of 31 December 1999

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. 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, federal agencies, other central banks and 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 even though the assets are judiciously managed. It hedges these risks 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 97f.).

On 31 December 1999, the National Bank employed 600 persons (1998: 610), corresponding to 560.7 full-time posts (1998: 567.4). Up to the end of 1999, the National Bank had operating branches in Basel, Geneva, Lausanne, Lucerne, Lugano and St Gallen, in addition to its head offices in Berne and Zurich. Implementation of the new cash distribution concept (see page 65) has brought 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 detailed 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

Interest rate swaps, which have been used on occasion since autumn 1999 to regulate the average duration of investments, are stated under off-balance-sheet business and are assessed daily at market (i. e. replacement) values.

With regard to the asset and liability positions and the other off-balance-sheet transactions, the same accounting and valuation principles apply as in the previous year.

Recording of transactions/ balance sheet entries

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

Valuation principles

Gold holdings 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 *Swiss franc 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.

Forward contracts and *non-performed spot transactions on negotiable foreign currency investments* (including futures and interest rate swaps) and on *Swiss franc securities* are stated at year-end market values (replacement values). Positive or negative gross replacement values are posted to the income statement and balance sheet as appropriate. In the case of *forward contracts* and *non-performed spot transactions on non-negotiable instruments*, only the contract values are stated under off-balance-sheet transactions.

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

	1999	1998	Change in percent
Year-end rates			
CHF/USD	1.5980	1.3772	+16.0
CHF/EUR	1.6059	1.6064	−0.0
CHF/JPY	1.5653	1.2110	+29.3
CHF/GBP	2.5844	2.2826	+13.2
CHF/DKK	21.5800	21.5600	+0.1
CHF/CAD	1.1004	0.8891	+23.8
CHF/XDR	2.1862	1.9218	+13.8

XDR: Special Drawing Rights

3.3 Notes to the income statement

Summary

The income statement is strongly influenced by interest rate and exchange rate developments. The rise in interest rates on the relevant markets resulted in substantial falls in the prices of negotiable financial investments (in the previous year these had appreciated significantly). Income from foreign currency investments declined by 87.9% to Sfr 372.9 million while income from Swiss franc securities dropped 86.1% to Sfr 30.6 million. Together with the other income items totalling Sfr 356.7 million (up 16.1%), gross income comes to Sfr 760.1 million (down 79.0%). Ordinary expenses rose by 40.7% to Sfr 464.3 million due mainly to higher interest expense for Confederation investments. Net income decreased sharply, falling 91.0% to Sfr 295.7 million.

However, the cheaper Swiss franc resulted in significant currency-related mark-ups totalling Sfr 4,137.1 million. Together with the balance of extraordinary items (+Sfr 25.0 million), overall aggregate income of Sfr 4,457.9 million resulted (+86.2%), permitting an allocation of Sfr 2,949.9 million to provisions. The annual profit came to Sfr 1,508.0 million.

Item no. 01 in the income statement

Income from gold transactions

Gold lending operations yielded income of Sfr 57.8 million (1998: Sfr 42.6 million). This rise was due mainly to the higher average figure for claims from this type of transaction.

Item no. 02 in the income statement

Income from foreign currency investments

The income from foreign currency investments (interest and realised and unrealised capital gains and losses) declined by Sfr 2,718.4 million to Sfr 372.9 million. Whereas declining interest rates had produced large capital gains in the previous year, the rise in rates on all investment markets (except Japan) had resulted in substantial losses in the course of 1999. The exchange rate gains or losses resulting from the conversion of foreign currency holdings is shown under exchange rate-related valuation adjustments (item no. 16 of the income statement).

Income from other foreign currency items

Items nos. 03–05 in the income statement

For the reserve position in the IMF, the international payment instruments and the balance-of-payments aid, average foreign currency positions and average interest rates were both lower than in the previous year. The income from these positions declined from Sfr 157.3 million to Sfr 116.1 million.

Income from Swiss franc repo transactions

Item no. 06 in the income statement

Income from Swiss franc repo transactions amounted to Sfr 150.1 million in 1999 (up from Sfr 84.2 million in 1998). While the average volume of outstanding claims rose appreciably, interest rates were lower than in the previous year. Moreover, in 1998 repo transactions had only commenced in April.

Income from Lombard advances

Item no. 07 in the income statement

Income from Lombard advances rose by Sfr 0.1 million to Sfr 0.8 million. The average Lombard rate was lower than in the previous year, while the average level of borrowing was higher.

Income from claims against domestic correspondents

Item no. 08 in the income statement

With outstanding balances almost unchanged from the previous year, income from claims against domestic correspondents decreased by Sfr 0.4 million to Sfr 1.0 million. This fall was due to the half-point reduction in the discount rate in April 1999.

Income from Swiss franc securities

Item no. 09 in the income statement

Securities income (interest plus realised and unrealised capital gains and losses) receded by Sfr 189.4 million to Sfr 30.6 million compared with the previous year. The interest rate rise resulted in substantial capital losses.

Other income

Item no. 10 in the income statement

	1999 Sfr millions	Change from previous year Sfr millions
Commissions from banking transactions	17.7	+14.5
Income from participations	6.4	+1.3
Income from real estate[1]	6.0	−0.3
Other ordinary income	0.7	+0.1
Total other income	30.9	+15.8

1 Income from real estate stems from subletting of real estate not currently required and from buildings in Zurich and Geneva, which serve as spare capacity.

Sfr 13.9 million of the rise of Sfr 14.5 million in the commissions position from banking transactions are due to a change in the method of posting these items. Since 1999, the gross principle has been applied to the posting of securities commissions on transactions for the account of third parties. Consequently, commissions received are no longer offset against commissions forwarded. This change has also resulted in a higher figure for general overheads (cf. item no. 14 in the income statement).

Item no. 11
in the income statement

Interest expense

Interest expense rose from Sfr 126.1 million to Sfr 243.8 million due to a further rise in net liabilities to the Confederation (including Swiss Post). Only in isolated cases were onward placements effected. Instead, even greater use was made of repo transactions for making the necessary liquidity available.

	1999	Change from previous year
	Sfr millions	Sfr millions
Interest expense for liabilities towards the Confederation	241.4	+44.2
less interest income from onward placements	−12.8	−64.3
Net interest expense for liabilities towards the Confederation	228.6	+108.5
Interest on depositors' balances	5.6	–
Interest expense for liabilities from Swiss franc and foreign currency repo transactions	9.6	+9.2
Total interest expense	243.8	+117.7

Item no. 12
in the income statement

Banknote expense

The banknote expense corresponds to the cost of producing the banknotes of the eighth issue, which entered circulation in 1999.

Item no. 13
in the income statement

Personnel expense

	1999	Change from previous year	
	Sfr millions	Sfr millions	percent
Wages, salaries and allowances	64.3	−0.1	−0.2
Welfare benefits	11.6	–	–
Other personnel expenses	4.5	+0.5	+12.5
Allocations to the pension fund	1.0	–	–
Total personnel expense	81.3	+0.2	+0.2

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

General overheads

Item no. 14
in the income statement

	1999	Change from previous year	
	Sfr millions	Sfr millions	percent
Direct expenses from banking operations	27.0	+16.4	
Premises	14.3	−0.8	−5.3
Furniture and fixtures	8.0	+2.0	+33.3
Other general overheads	25.2	−3.3	−11.6
Total general overheads	74.5	+14.2	+23.5

Direct expenses from banking operations

This item relates to direct costs incurred in connection with banknotes in circulation (including remuneration to agencies) plus commission and expenses from the management of financial investments and gold, plus securities commissions forwarded. Since 1999, the latter have no longer been offset against commissions received. This change in the accounting method has contributed Sfr 13.9 million to the rise of Sfr 16.4 million in this expense item (cf. item no. 10 in the income statement).

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 plus information retrieval and security outlays.

Finally, this item also includes contributions to the operating costs of the Gerzensee Study Centre (Sfr 5.4 million, versus Sfr 5.9 million in 1998) and to the Hasli-Zentrum holiday and training centre (down from Sfr 0.5 million to Sfr 0.4 million).

Depreciation of tangible assets

Item no. 15
in the income statement

The bulk of this item (Sfr 17.1 million, versus Sfr 13.3 million in 1998) 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 3.8 million (1998: Sfr 3.7 million) is accounted for by real estate.

Item no. 16 in the income statement

Exchange rate-related valuation adjustments

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

	1999 Sfr millions	1998 Sfr millions
USD	+3 164.4	−941.7
EUR[1]	−18.4	+136.5
JPY	+278.1	+169.1
GBP	+202.4	−102.0
DKK	−0.3	−16.4
CAD	+40.3	−0.1
XDR	+470.7	−116.7
Other currencies	+0.1	0.0
Total	+4 137.1	−871.2

1 Comprises mark-ups on positions already converted into euros and on positions which are still denominated in the respective euro area currency.

Item no. 17 in the income statement

Extraordinary expense

This item comprises write-downs totalling Sfr 1.2 million from the sale of the premises of the former Aarau and Neuchâtel branch offices and expenses incurred by a lawsuit concerning a rebuilding project.

Item no. 18 in the income statement

Extraordinary income

This item includes the Sfr 26 million repaid by the International Monetary Fund (IMF) in respect of contributions made by the SNB to a risk compensation fund for IMF credits.

Item no. 19 in the income statement

Allocation to provisions

The large gains on foreign currency positions enabled the Bank to channel a further Sfr 2,949.9 million into provisions (as against Sfr 886.5 million in 1998).

3.4 Notes to the balance sheet

Compared with the previous year, the balance sheet total rose by approximately Sfr 12 billion to just under Sfr 105 billion. This substantial rise is due in part to the larger amount of liquidity held by the banks and the general public in the form of sight deposit accounts and banknotes in the runup to the year 2000 transition. Other factors included the increase in liabilities from net time liabilities towards the Confederation (time deposits less onward placements) and allocations to provisions. The market's higher need for liquidity was met almost entirely by the conclusion of additional repo transactions which thereby increased by Sfr 10.8 billion to Sfr 28.1 billion.

Gold holdings and claims from gold transactions

Items nos. 20 and 21 in the balance sheet

Gold holdings

Physical gold holdings declined by 128.9 tonnes in 1999 owing to the continued expansion of gold lending operations. These holdings are stored at various locations in Switzerland and abroad.

	1999		Change from previous year	1999
	Tonnes	Parity value in Sfr millions	Parity value in Sfr millions	Market value in Sfr millions
Gold ingots	2 099.3	9 647.9	–592.3	31 343.1
Gold coins	175.2	805.3	–	2 616.2
Total	2 274.5	10 453.2	–592.3	33 959.3

Claims from gold transactions

This item relates to secured and unsecured claims from gold lending transactions. Transactions are effected with first-class Swiss and foreign financial institutions. Secured gold lending transactions have been effected since mid-year. At end-1999, the amount outstanding was 315.7 tonnes at a parity value of Sfr 1,485.4 million (including accrued interest).

	1999		Changes from previous year		1999
	Tonnes	Parity value in Sfr millions	Tonnes	Parity value in Sfr millions	Market value in Sfr millions
Claims from unsecured gold lending	242.4	1 140.1	+55.6	+255.5	3 644.9
Claims from secured gold lending [1]	73.3	345.2	+73.3	+345.2	1 102.6
Total	315.7	1 485.4	+128.9	+600.8	4 747.5

1 Secured by the deposit of first-class securities with a market value of Sfr 1,089.5 million.

Items nos. 22 and 23 in the balance sheet

Foreign currency investments

Both the non-hedged and the hedged (swap-related) foreign currency holdings are invested jointly. Government paper is mainly 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

	1999			Change from previous year	
	millions		percent	millions	
	original currency	Sfr	weighting	original currency	Sfr
USD	18 243.6	29 153.2	53.4	−1 599.1	+1 825.9
of which					
not exchange rate-hedged	13 433.6	21 466.8	39.3	−2 964.1	−1 116.1
exchange rate-hedged (swaps)	4 810.0	7 686.4	14.1	+1 365.0	+2 941.9
EUR[1]	12 503.2	20 078.8	36.8	+81.5	+124.1
of which					
not exchange rate-hedged	12 503.2	20 078.8	36.8	+1 983.5	+3 179.7
exchange rate-hedged (swaps)	–	–	–	−1 902.0	−3 055.6
JPY	74 856.8	1 171.7	2.2	−140 561.3	−1 437.0
GBP	735.6	1 901.0	3.5	+8.8	+242.0
DKK	6 296.5	1 358.8	2.5	+475.5	+103.8
CAD	857.9	944.1	1.7	+857.4	+943.6
Others		0.6	0.0		+0.2
Total		**54 608.2**[3]	**100.0**		**+1 802.5**

Foreign currency investments by borrower

	1999			Change from previous year	
	millions		percent	millions	
	original currency	Sfr	weighting	original currency	Sfr
Government paper					
USD	10807.3	17270.0	31.6	−570.6	+1600.3
EUR[1]	10135.5	16276.6	29.8	−898.1	−1448.3
JPY	67655.5	1059.0	1.9	−144587.7	−1511.3
GBP	641.8	1658.6	3.0	−18.5	+151.5
DKK	6176.8	1333.0	2.4	+358.6	+78.6
CAD	856.5	942.5	1.7	+856.5	+942.5
Total		38539.7	70.6		−186.7
Monetary institutions					
USD	3233.3	5166.8	9.5	−291.0	+313.2
EUR[1]	170.4	273.7	0.5	−525.8	−844.7
JPY	1121.1	17.5	0.0	−50.7	+3.3
GBP	41.2	106.4	0.2	+27.9	+75.9
DKK	19.2	4.2	0.0	+16.9	+3.7
CAD	1.3	1.4	0.0	+1.3	+1.4
Others		0.5	0.0		+0.5
Total		5570.5	10.2		−444.5
Banks					
USD	4203.0[2]	6716.4	12.3	−737.5	−87.7
EUR[1]	2197.2	3528.5	6.5	+1505.4	+2417.1
JPY	6080.2	95.2	0.2	+4077.1	+70.9
GBP	52.6	136.0	0.2	−0.6	+14.6
DKK	100.4	21.7	0.0	+99.9	+21.6
CAD	0.1	0.2	0.0	−0.4	−0.3
Others		0.1	0.0		+0.1
Total		10498.1	19.2		+2433.8
Total		**54608.2**[3]	**100.0**		**+1802.5**

The holdings stated contain securities used for repo transactions (market value: Sfr 492.3 million) and securities lodged as initial margin with counterparties to futures transactions (market value: Sfr 88.2 million).

1 Comprises positions already converted into euros and positions which are still denominated in the respective euro area currency.

2 Of this total, 59.7% is accounted for by organisations with an indirect state guarantee.

3 Of these, non-negotiable investments account for Sfr 11,282.7 million (1998: Sfr 4,650.0 million).

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 held at the National Bank. It may be likened to a currency reserve position and may be used as such by the National Bank at any time.

	1999 millions		Change from previous year millions	
	XDR	Sfr	XDR	Sfr
Swiss quota in IMF	3 458.5	7 560.8	+988.1	+2 813.2
less IMF's Swiss franc sight balances at the National Bank[1]	2 233.7	4 883.2	+1 361.1	+3 206.2
Reserve position in the IMF	1 224.8	2 677.6	−373.0	−393.0

1 Balances after deduction of accrued interest to the amount of XDR 6.7 million (Sfr 14.6 million) on the reserve position

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 Special Drawing Rights against foreign currencies until a limit of XDR 400 million is reached (limit until November 1999: XDR 200 million).

	1999 millions		Change from previous year millions		Undertakings 1999 millions
	XDR	Sfr	XDR	Sfr	XDR
Sight deposits at IMF	346.0[1]	756.4	+142.7	+365.6	55.3

1 including accrued interest

Balance-of-payments aid

Item no. 26 in the balance sheet

The bilateral credits are medium-term, dollar-denominated credits used for internationally coordinated balance-of-payments aid in which Switzerland participates by providing a tranche.

The PRGF (Poverty Reduction and Growth Facility, formerly ESAF II – Extended Structural Adjustment Facility II) is a trust fund administered by the IMF which finances long-term low-interest credits to needy developing countries. The Confederation guarantees both interest and repayment of principal on the bilateral credits of and Switzerland's share in the credits account of the PRGF. The credits granted to the IMF under the General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB) were repaid in March 1999. Both of these credit facilities remain in existence.

	Outstanding credits 1999		Change from previous year		Undertakings 1999
	millions		millions		millions
	USD	Sfr	USD	Sfr	USD
Bilateral credits					
Romania	7.3	11.7	–40.9	–54.7	–
Bulgaria	32.3	51.7	–	+7.2	–
Total	39.6	63.3	–40.9	–47.5	–
	millions		millions		millions
	XDR	Sfr	XDR	Sfr	XDR
Credit facilities in conjunction with the IMF					
GAB	–	–	–87.1	–167.5	
NAB	–	–	–144.0	–276.7	
Total GAB and NAB	–	–	–231.1	–444.2	1 557.0
PRGF (formerly ESAF II)	111.2	243.2	+0.2[1]	+29.9	42.4
Total	111.2	243.2	–230.9	–414.3	1 599.4
Total		**306.5**		**–461.8**	

1 accrued interest

Item no. 27 in the balance sheet

Claims from Swiss franc repo transactions

Repo transactions, 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 secured by securities from either the "SNB Basket" (Swiss franc-denominated bonds of Swiss or foreign borrowers acceptable to the National Bank as security and money market debt register claims of the Confederation and the cantons) or the "German GC Basket" (euro-denominated German government paper, plus certain World Bank issues).

Item no. 28 in the balance sheet

Lombard advances

Lombard loans are used by the banks as a stopgap for unforeseeable liquidity shortfalls. At the end of 1999, a total of 164 credit lines were outstanding (1998: 200).

Credit lines outstanding, collateral values and drawdowns are summarised below.

	1999 Sfr millions	**Change from previous year** Sfr millions
Credit lines outstanding at end-year	9 280.9	+409.6
Value of collateral at end-year[1]	9 999.7	+370.6
Yearly average of drawn advances	30.4	+12.3
Maximum drawdown[2]	1 014.0	+380.7

1 market prices less 10–35%

2 daily peak

Item no. 29 in the balance sheet

Claims against domestic correspondents

710 branches of 78 banks (1998: 752 branches of 80 banks) perform local cash redistribution transactions for the National Bank and cover the cash requirements of federal institutions (Swiss Post, Swiss Federal Railways). The claims attract interest at the discount rate.

Swiss franc securities

These are bonds which are listed on the stock exchange.

Item no. 30 in the balance sheet

	1999		Change from previous year
	Sfr millions	% weighting	Sfr millions
Domestic borrowers			
Confederation	1 169.8	23.9	+174.0
Cantons	1 225.1	25.1	−143.1
Communes	541.8	11.1	−68.9
Mortgage bond institutions	1 009.0	20.7	−1.3
Banks	910.0	18.6	−115.0
Foreign borrowers			
Government paper	17.1	0.4	+17.1
Monetary institutions	1.1	0.0	+1.1
Banks	11.0	0.2	+11.0
Total market value[1]	4 884.9	100.0	−125.1
Total nominal value	4 496.8		+63.9

1 year-end prices plus accrued interest

The positions stated contain securities with a market value of Sfr 0.9 million used as margin deposits for Swiss franc repo transactions.

Participations (not consolidated) in Sfr millions

Item no. 31 in the balance sheet

	Value as of 31.12.1998	Investments	Divestments	Depreciation	Value as of 31.12.1999
Orell Füssli	27.0	–	–	–	27.0
BIS	61.0	–	–	–	61.0
Others	1.5	–	–	−0.0	1.5
Total	89.4	–	–	−0.0	89.4

The National Bank holds 33.34% of the share capital of Orell Füssli Holding Ltd, Zurich, whose subsidiary Orell Füssli Security Documents Ltd prints the SNB's banknotes. In 1999, the nominal value of this company's registered share was reduced by Sfr 20. The sum of Sfr 1.3 million which accrued to the National Bank from this transaction was credited to income from participations.

The 3.1% interest in the Bank for International Settlements (BIS) is held by reason of collaboration on monetary policy.

The end-1999 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.

**Item no. 32
in the balance sheet**

Tangible assets

Schedule of assets in Sfr millions

	Banknote stocks	Real estate and specific conversion work[1]	Fixed assets under construction	Sundry tangible assets[2]	Total
Historical cost					
Position as at 01.01.99	174.2	357.9	1.0	78.0	611.1
Additions	24.3	9.6	24.3	16.0	74.2
Disposals	−43.8	−15.9		−6.1	−65.8
Reclassified			−0.9	0.9	
Position as at 31.12.99	154.7	351.6	24.4	88.9	619.5
Cumulative depreciation					
Position as at 01.01.99		3.7		44.4	48.1
Additions		3.8		17.1	20.8
Disposals		-0.2		-6.0	−6.2
Reclassified					
Position as at 31.12.99		7.3		55.5	62.8
Net values					
as at 01.01.99	174.2	354.1	1.0	33.6	563.0
as at 31.12.99	154.7	344.3	24.4	33.4	556.7

1 The insured value of the real estate at end-1999 was Sfr 403.8 million (end-1998: Sfr 425.7 million).

2 The insured value of the sundry tangible assets at end-1999 was Sfr 60.3 million (end-1998: Sfr 57.8 million).

Banknote stocks

The stocks of new banknotes which have not been put into circulation yet are stated at cost. These production costs are charged to the income statement in line with the notes' 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). Owing to the new cash distribution concept, the premises of the former branch offices in Aarau and Neuchâtel were sold in 1999 while in Geneva a property adjacent to the branch office was purchased (cf. pp. 67f.).

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 of less than Sfr 1,000 are charged directly to general overheads.

Sundry assets in Sfr millions

Item no. 33
in the balance sheet

	1999	Change from previous year
Coins (including medallions)[1]	412.2	−33.7
Foreign notes	0.1	–
Postal giro accounts	0.4	−0.1
Other accounts receivable	35.1	+7.2
Other cheques and bills of exchange (collection business)	5.6	+2.5
Positive replacement values (forward contracts)	14.4	+11.6
Total	467.7	−12.7

1 Coins comprise the commemorative coins and medallions acquired by Swissmint (formerly "Eidgenössische Münzstätte", the Federal Mint) which are placed in circulation by the National Bank.

Accruals

Accrued interest on gold claims (Sfr 34.7 million), foreign currency investments (Sfr 1,039.8 million), the reserve position in the IMF (Sfr 14.6 million), international payment instruments (Sfr 2.8 million), balance of payments aid (Sfr 5.0 million), claims from Swiss franc repo transactions (Sfr 16.4 million) and Swiss franc securities (Sfr 144.1 million) is contained in the corresponding balance sheet items.

Banknote circulation

Item no. 34
in the balance sheet

This comprises all banknotes held by the general public and the banks. Of the banknotes originating from the second and the fifth issues, which were recalled in 1980 and are exchangeable at the National Bank until 30 April 2000, a total of Sfr 257.4 million were still outstanding at the end of the year (1998: Sfr 266.8 million).

Averaged out over the year, and after taking account of all eligible assets, coverage of banknotes in circulation as specified in Art. 19 of the National Bank Law amounted to 115.2% (1998: 133.2%). Banknote coverage by physically available gold alone decreased to an average of 34.9% (1998: 37.6%). The minimum rate prescribed by law is 25%.

This decline is due primarily to the lower holdings of assets eligible as cover and secondly to the higher average figure for banknotes in circulation.

Banknote coverage annual average

	1999 Sfr millions	percent coverage	Change from previous year
Gold holdings	10752.0	34.9	−2.7 percentage points
Other eligible assets	24734.5	80.3	−15.4 percentage points
of which			
Foreign currency investments[1]	21066.8		
Reserve position in the IMF	2944.8		
International payment instruments	234.1		
Lombard advances	30.4		
Eligible Swiss franc securities[2]	458.2		
Overall banknote coverage	35486.6	115.2	−18.1 percentage points
Banknote circulation	30817.5		+4.2%

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

2 Residual maturity of up to two years

Item no. 35 in the balance sheet

Sight deposit accounts of domestic banks

The 293 sight deposit accounts (1998: 550) of the 283 banks (1998: 372) 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.

The marked decline in the number of sight deposit accounts is due firstly to the concentration of account operations at the bank's head office in Zurich. Whereas banks with a branch structure used to operate accounts at several offices, now each bank has just one sight deposit account. The second reason is the sharp decrease in the number of banks participating in the giro system, as banks belonging to the regional banking association now transact their business through a single joint sight deposit account.

Items nos. 36 and 37 in the balance sheet

Liabilities towards the Confederation

The sight deposits of the Confederation (including those of Swiss Post) facilitate the domestic and foreign payment transactions of the Federal Government and its agencies. On 1 April 1999, the level of interest-bearing sight deposits was raised from Sfr 500 million to Sfr 800 million. The sight deposits and time deposits attract interest at market rates. At year-end, the time deposits totalled Sfr 16,749.9 million (1998: Sfr 22,448.0 million). 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 end-1999, no onward placements were outstanding (1998: Sfr 7,476.0 million).

Item no. 38 in the balance sheet

Sight deposit accounts of foreign banks and institutions

The 221 (1998: 217) accounts are denominated in Swiss francs and do not bear interest. They are held primarily by foreign central or commercial banks.

Other sight liabilities

Item no. 39 in the balance sheet

These comprise deposit accounts of active and retired employees, liabilities towards pension funds amounting to Sfr 12.8 million (1998: Sfr 12.5 million) and liabilities towards individual non-banks.

Liabilities from Swiss franc repo transactions

Item no. 40 in the balance sheet

As an instrument for regulating the money market, the National Bank may use repos to withdraw liquidity from the market. In 1999, these transactions were used for test purposes only.

This item also includes cash margins from Swiss franc repo transactions. As part of its mark-to-market activities, the clearing organisation SIS SegaInter-Settle undertakes daily market valuations of all claims and liabilities arising from repo transactions (both on the money and the securities sides). It offsets these values to calculate the net risk exposure for each counterparty. If this exceeds the limit set, a margin transfer is automatically triggered which may take the form either of margin securities or a cash margin.

Foreign currency liabilities

Item no. 41 in the balance sheet

This item consists of liabilities from repo transactions aimed at managing foreign currency investments (Sfr 354.5 million) plus sight liabilities towards the Confederation denominated in foreign currencies.

Sundry liabilities in Sfr millions

Item no. 42 in the balance sheet

	1999	Change from previous year
Other liabilities	28.5	+11.6
Negative replacement values (forward contracts)	237.9	−10.5
Total	266.4	+1.1

Deferrals

Accrued interest on forward liabilities towards the Confederation (Sfr 69.9 million) and liabilities from foreign currency repo transactions (Sfr 0.4 million) are contained in the corresponding balance sheet positions.

Provisions

Items nos. 43 and 44 in the balance sheet

Owing to substantial exchange rate gains on foreign currency holdings, aggregate income was considerably higher than in the previous year and easily exceeded the annual profit to be reported. Provisions were increased by Sfr 2,949.9 million. This figure therefore exceeded the minimum amount stipulated in the profit calculation concept (see pages 97f.).

	Provisions on 31.12.1998	Allocated to provisions	Released from provisions	Provisions on 31.12.1999	Change from previous year
Provisions in Sfr millions					
Market, credit and liquidity risks	34 728.6	2 949.9	–	37 678.5	+2 949.9
Operating risks	471.7	–	0.9[1]	470.8	–0.9
Total	35 200.4	2 949.9	0.9	38 149.3	+2 949.0

1 During the course of the year, sums were paid out to staff taking early retirement as a result of the new cash distribution concept and for 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 Swiss franc securities are also significant. Credit risks are primarily settlement risks attaching to foreign exchange transactions.

Item no. 45 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 11,518 shares (+17%) to new holders. As of 31 December 1999, applications for registration were pending or outstanding for 11,201 shares.

The shares were distributed as follows:

1 077 private shareholders each with	1	share
1 455 private shareholders each with	2–10	shares
452 private shareholders each with	11–100	shares
19 private shareholders each with	101–200	shares
13 private shareholders each with	über 200	shares
3 016 private shareholders with a total of	32 655	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	2 242	shares
90 other public-sector shareholders with a total of	56 144	shares
3 106 shareholders with a total of	88 799	shares
Registration applications pending or outstanding for	11 201	shares
Total	100 000	shares

63% of the shares registered belonged to cantons, cantonal banks and other public authorities and institutions, and 37% were registered in the names of private shareholders; of the latter, 76% were held by private individuals and 24% by legal entities. 2,706 shares (without voting rights) were in foreign ownership; this is equivalent to 2.7% 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 750 and Sfr 950 during the year.

The number of transactions increased by almost 20% year-on-year. The number of pending or outstanding applications for registration declined by a similar margin.

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	
	1999	Change from previous year	1999	Change from previous year
Canton of Berne	6 630	–	6.63%	–
Canton of Zurich	5 200	–	5.20%	–

Reserve fund

Item no. 46 in the balance sheet

The reserve fund was increased by Sfr 1.0 million (the legally permitted maximum) to Sfr 64.0 million by an allocation from the 1998 annual profit.

Annual profit – calculation and distribution

Item no. 47 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 national economy less vulnerable to international crises. The need for currency reserves is growing in line with the size and globalisation of the Swiss economy.

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, henceforth for the five-year period 1999–2003. These distributions are being 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 these 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 in percent (average period)[1]	Provisions at year-end Sfr millions Targeted level	Actual level prior to distribution[2]	Residual surplus Sfr millions	Distribution Sfr millions
	(1)	(2)	(3)	(4) = (3) – (2)	(5)
1996	3.7 (1990–94)	24481.9	32062.3	7580.4	1057.8[3]
1997	2.9 (1991–95)	25191.9	34892.2	9700.3	600.0
1998	1.8 (1992–96)	25645.4	36700.4	11055.0	1500.0
1999	1.9 (1993–97)	26132.7	39649.3	13516.6	1500.0
2000	2.0 (1994–98)	26655.4			

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

	1999 Sfr millions	Change from previous year Sfr millions
Outstanding undertakings		
Two-way arrangement (IMF)[1]	120.8	+106.0
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)[2]	3 403.8	+853.9
Poverty Reduction and Growth Facility (PRGF – formerly ESAF II)[3]	92.8	+11.2[4]
Substitution undertaking to the Bank for International Settlements (BIS)[5]	234.1	−110.2
Swap agreement with the Bank of Japan[6]	–	−2 422.0
Other off-balance-sheet items		
Additional funding obligation for registered shares of BIS[7]	130.2	+19.2
Documentary credits[8]	10.2	+2.4
Other payment obligations[9]	17.3	
Fiduciary investments of the Confederation	375.8	+52.0

	Nominal value Sfr millions	Gross replacement value Sfr millions positive	 negative
Forward contracts			
on precious metals	–	–	–
on currencies[10]	8 920.8	14.4	236.9
on interest rate instruments[11]	199.4	–	1.0
Total	9 120.2	14.4	237.9

1 National Bank undertaking to purchase Special Drawing Rights against currency up to the agreed maximum of XDR 400 million or to return the Special Drawing Rights in exchange for currency (see page 88)

2 Credit line totalling XDR 1,557 million (of which a maximum of XDR 1,020 million in the context of GABs) in favour of the IMF for special cases, without a federal guarantee (see page 89)

3 Limited-term credit undertaking to the IMF's trust fund in the amount of XDR 151.7 million (cf. pages 60 and 89)

4 Change due entirely to exchange rates

5 Substitution undertaking to the BIS in the amount of USD 146.5 million in the context of the Federal decree on Switzerland's cooperation in international monetary measures for the provision of balance-of-payments aid to Brazil, with federal guarantee (cf. 91st Annual Report, page 59)

6 The bilateral agreement with the Bank of Japan for the limited-term exchange of Swiss francs against a maximum of 200 billion JPY expired in the year under review.

7 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 rise in the gold price.

8 Chiefly in connection with development aid provided by the Confederation (covered by balances earmarked for this purpose)

9 Liabilities from long-term rental contracts shown for the first time (previous year: Sfr 16.1 million)

10 From forward transactions (primarily swaps)

11 From spot transactions with value date in the new year and from futures and interest rate swaps

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

At its meeting of 3 March 2000, the Bank Council accepted the proposal of the Bank Committee to approve the 92nd Annual Report for 1999, as presented by the Governing Board, for submission to the Federal Council and the Annual General Meeting of Shareholders.

On 20 March 2000, 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 4 February 2000.

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

1 For the proposals regarding appointments to the Bank Council and the Auditing Committee, see pages 70 and 72, respectively.

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 1999. 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 available earnings comply with the provisions of the National Bank Law and the Swiss Code of Obligations.

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

Berne, 4 February 2000

The Auditing Committee:

Hans Michel
Chairman

Maryann Rohner
Vice-Chairwoman
Certified auditor

Kaspar Hofmann
Chief auditor
Certified auditor

With effect from 9 April, the National Bank lowers the discount rate by one-half percentage point to 0.5% (cf. pp. 40f.). April

In the ballot of 18 April, the Swiss people and the cantons approve a comprehensive revision of the Federal Constitution which also contains a renewed monetary article (art. 99 of the new Federal Constitution). The new Federal Constitution enters into force at the beginning of 2000 (cf. pp. 43f.).

On 26 May the Federal Council passes its message concerning a Federal law on currency and payment instruments (cf. p. 44). May

On 18 June the revised new monetary article in the Federal Constitution fails to pass in the final vote in the National Council (cf. pp. 43f.). June

On 18 June the federal parliament approves an amendment to the Federal decree on Switzerland's cooperation in international monetary measures (cf. p. 62).

On 26 September 15 European central banks, including the Swiss National Bank, conclude an agreement on gold sales (cf. p. 45). September

At the beginning of October, the National Bank introduces intraday liquidity (cf. pp. 37 and 54). October

On 1 December the amendment to the Federal decree on Switzerland's cooperation in international monetary measures enters into force (cf. p. 62). December

On 10 December the National Bank presents its adapted monetary policy concept. In agreement with the Federal Council, it also envisages a slight tightening of the monetary policy course in 2000 (cf. pp. 33ff. and pp. 40ff.).

On 22 December the federal parliament approves the Federal law on currency and payment instruments (cf. p. 44).

At the end of December, as a result of the new cash distribution concept, the National Bank suspends cash distribution services in the Basel, Lausanne, Lucerne and St Gallen branch offices (cf. pp. 65ff.).

Tables and statistical data

1 Business results since 1989

in Sfr millions

	1989	1990
Income from		
gold transactions	–	–
foreign currency investments	2 848.7	2 585.1
reserve position in the IMF[1]	–	–
international payment instruments[1]	–	–
balance-of-payments aid[1]	–	–
Income from		
securities discounting	33.9	44.2
Swiss franc repo transactions	–	–
domestic money market claims	–	–
Lombard advances	5.7	3.9
claims against domestic correspondents	7.3	10.8
Swiss franc securities[2]	149.5	160.2
Other income	6.3	6.1
Gross income	**3 051.3**	**2 810.3**
Interest expense	−59.4	−107.0
Banknote expense	−21.3	−20.5
Personnel expense	−61.3	−69.5
General overheads	−72.3	−59.9
Depreciation of tangible assets	–	–
Net income	**2 837.0**	**2 553.4**
Exchange rate-related valuation adjustments	1 089.9	−3 976.8
Write-down on securities	−35.8	−48.3
Extraordinary expense	–	–
Extraordinary income	–	–
Taxes	−0.3	−3.4
Aggregate income	**3 890.8**	**−1 475.0**
Allocation to provisions	−3 883.2	
Release of provisions		1 482.6
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 Income from domestic securities until 1998

3 Due to changes in valuation principles

1991	1992	1993	1994	1995	1996	1997	1998	1999
–	–	–	–	–	–	2.6	42.6	57.8
3 084.7	2 498.8	2 348.4	1 618.4	1 910.7	1 794.8	2 067.5	3 091.3	372.9
–	3.3	40.3	32.1	45.6	55.1	69.9	123.8	91.4
–	4.3	11.3	12.9	12.4	13.6	14.0	14.0	8.2
–	6.1	8.7	8.9	12.1	10.7	12.9	19.5	16.5
37.1	31.6	4.0	–	–	–	–	–	–
–	–	–	–	–	–	–	84.2	150.1
–	11.2	59.0	57.2	55.5	32.6	22.9	5.9	–
2.6	2.5	1.8	2.0	0.9	0.9	0.9	0.7	0.8
12.6	12.2	6.9	7.0	3.8	2.3	1.7	1.4	1.0
176.1	184.3	315.9	228.7	238.1	260.3	262.4	220.0	30.6
6.6	14.1	17.8	15.3	8.9	12.9	13.4	15.1	30.9
3 319.6	**2 768.3**	**2 814.2**	**1 982.5**	**2 288.0**	**2 183.2**	**2 468.4**	**3 618.4**	**760.1**
−89.5	−98.8	−296.3	−213.1	−101.6	−49.3	−67.1	−126.1	−243.8
−23.1	−26.4	−54.6	−57.6	−59.3	−15.1	−32.0	−45.5	−43.8
−77.0	−79.8	−79.4	−83.3	−79.8	−82.0	−79.6	−81.1	−81.3
−64.9	−54.2	−55.0	−47.0	−56.6	−54.0	−55.2	−60.3	−74.5
–	–	–	–	–	−10.1	−9.9	−17.0	−20.9
3 065.1	**2 509.1**	**2 328.9**	**1 581.5**	**1 990.7**	**1 972.7**	**2 224.5**	**3 288.5**	**295.7**
1 697.1	692.6	764.1	−2 338.9	−3 531.4	4 412.1	1 765.2	−871.2	4 137.1
−37.0	−35.1	−67.7	−45.5	−66.0	–	–	–	–
–	–	–	−50.3	−0.9	–	−100.0	−22.9	−2.3
–	–	–	–	–	2 077.1 [3]	6.0	0.0	27.3
–	−8.7	–	–	–	–	–	–	–
4 725.2	**3 157.9**	**3 025.3**	**−853.2**	**−1 607.6**	**8 461.9**	**3 895.7**	**2 394.5**	**4 457.9**
−4 117.6	−2 549.5	−2 417.3			−7 396.1	−3 287.7	−886.5	−2 949.9
			1 461.2	1 757.8				
607.6	**608.4**	**608.0**	**608.0**	**150.2**	**1 065.8**	**608.0**	**1 508.0**	**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
605.1	605.9	605.5	605.5	147.7	1 063.3	605.5	1 505.5	1 505.5

2 Summary of balance sheets since 1989

Year-end values in Sfr millions

Assets

	1989	1990
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	21 760.4	22 480.5
exchange rate-hedged (swaps)	17 859.8	14 729.3
Reserve position in the IMF	–	–
International payment instruments[1]	123.6	112.9
Balance-of-payments aid	87.1	–
Claims from Swiss franc repo transactions	–	–
Domestic money market claims	–	–
Swiss bills of exchange	542.7	711.1
Confederation treasury notes	–	–
Lombard advances	704.1	165.7
Claims against domestic correspondents	458.3	567.0
Swiss franc securities[2]	2 574.0	2 814.0
Participations[3]		
Tangible assets[3]		
Sundry assets	251.7	221.3
Non paid-up share capital	25.0	25.0
Balance sheet total	**56 290.6**	**53 730.7**

Liabilities

	1989	1990
Banknote circulation	29 168.4	29 640.5
Sight deposits of domestic banks[4]	4 948.4	4 595.3
Liabilities towards the Confederation[5]	2 571.9	
sight	–	621.7
time	–	785.0
Sight deposits of foreign banks and institutions	119.0	59.8
Other sight liabilities	85.4	95.0
Liabilities from Swiss franc repo transactions	–	–
Foreign currency liabilities	–	–
Sundry liabilities	60.2	77.7
Provisions		
for market, credit and liquidity risks[6]	18 595.7	17 113.1
for operating risks[7]	630.0	630.0
Share capital	50.0	50.0
Reserve fund	54.0	55.0
Net disposable income – annual profit	7.6	7.6
Balance sheet total	**56 290.6**	**53 730.7**

The accounting and valuation principles applied since 1996 are explained on pages 78f.

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

2 Domestic securities up to 1998

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

1991	1992	1993	1994	1995	1996	1997	1998	1999
11 903.9	11 903.9	11 903.9	11 903.9	11 903.9	11 903.9	11 448.2	11 045.5	10 453.2
–	–	–	–	–	–	458.3	884.6	1 485.4
25 710.4	26 204.8	29 042.8	28 626.0	27 767.8	36 462.9	40 780.2	45 005.7	46 921.8
14 521.7	19 653.0	17 988.3	17 284.4	14 044.8	12 865.5	12 490.3	7 800.1	7 686.4
–	1 144.4	1 221.6	1 241.5	1 687.7	2 067.8	2 765.0	3 070.6	2 677.6
117.3	134.9	332.7	414.8	408.2	290.0	452.4	390.8	756.4
97.1	156.4	218.4	198.3	173.7	204.3	315.4	768.3	306.5
–	–	–	–	–	–	–	17 348.3	28 136.0
–	467.7	752.5	720.5	1 436.2	1 581.7	673.5	–	–
522.1	353.4	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
107.0	26.9	13.5	14.9	4.7	764.2	0.4	0.3	1.0
552.8	493.0	595.8	565.8	429.2	514.5	415.4	378.8	390.8
2 886.1	2 975.7	2 973.2	3 027.1	3 063.9	4 821.5	4 941.0	5 010.0	4 884.9
					51.0	89.6	89.4	89.4
					532.4	567.4	563.0	556.7
313.2	261.0	707.0	778.0	1 064.3	452.1	482.2	480.4	467.7
25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
56 756.6	**63 800.1**	**65 774.7**	**64 800.2**	**62 009.4**	**72 537.0**	**75 904.5**	**92 860.7**	**104 838.9**
29 217.1	29 353.5	29 335.6	30 545.1	30 892.2	32 447.6	32 141.8	33 218.8	37 184.8
4 275.6	4 785.5	4 776.7	3 837.2	4 035.0	4 927.4	5 100.8	6 860.1	9 883.3
3.4	245.1	192.3	595.2	917.4	839.5	155.6	147.6	112.1
400.0	3 450.0	2 940.0	2 850.0	1 350.0	815.3	2 301.7	14 972.0	16 749.9
114.9	54.7	188.8	46.7	43.3	32.7	47.3	163.5	214.0
104.7	115.1	105.8	108.0	156.3	204.2	230.3	236.1	295.4
–	–	–	–	–	–	–	–	6.5
–	–	–	–	–	–	–	175.9	355.1
66.5	670.5	692.0	734.7	746.5	1 089.0	914.7	265.3	266.4
21 230.8	23 770.3	26 187.5	24 726.3	22 958.4	30 554.5	33 842.2	34 728.6	37 678.5
630.0	640.0	640.0	640.0	650.0	450.0	450.0	471.7	470.8
50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
56.0	57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0
607.6	608.4	608.0	608.0	150.2	1 065.8	608.0	1 508.0	1 508.0
56 756.6	**63 800.1**	**65 774.7**	**64 800.2**	**62 009.4**	**72 537.0**	**75 904.5**	**92 860.7**	**104 838.9**

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

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

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

7 Prior to 1996: other provisions

3 Supervisory and executive bodies

(on 1 January 2000)

Bank Council

(Term of office 1999–2003)

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

Eduard Belser, Bottmingen, President
Philippe Pidoux, Lausanne, Attorney-at-law, Vice President
Kurt Amsler, Neuhausen, President of the Verband Schweizerischer Kantonalbanken (association of Swiss cantonal banks)
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 of Création Baumann, Weavers and Dyers Ltd
* Fritz Blaser, Reinach, Chairman of Schweizerischer Arbeitgeberverband (Swiss employers' association)
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
* Brigitta M. Gadient, Chur, National Councillor, partner in a consulting firm for legal, organisational and strategy issues
Serge Gaillard, Bolligen, Executive Secretary of the Swiss federation of trade unions
Peter Galliker, Altishofen, entrepreneur, President of the Luzerner Kantonalbank
Marion Gétaz, Cully, Member of the Board of Centre romand de promotion du management (CRPM), director of the Cours suisse de direction d'entreprise
* Jean Guinand, Neuchâtel, Member of the cantonal government and head of the finance and welfare department of the canton of Neuchâtel
Rudolf Hauser, Zurich, Managing Director of Bucher Holding AG
* Trix Heberlein, Zumikon, National Councillor, Attorney-at-law
* Rudolf Imhof, Laufen, National Councillor
* Hansheiri Inderkum, Altdorf, Councillor of State, Attorney-at-law
Yvette Jaggi, Lausanne, President of The Arts Council of Switzerland Pro Helvetia
* Armin Jans, Zug, lecturer in economics at the University of Applied Sciences, Winterthur
Marianne Kleiner-Schläpfer, Herisau, Member (president) of the cantonal government and head of the department of finance of the canton of Appenzell Ausserrhoden
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))
* Ruth Lüthi, Fribourg, Member of the cantonal government and head of the health and social welfare department of the canton of Fribourg
* 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
Luigi Pedrazzini, Locarno Solduno, Member of the cantonal government and head of the department of justice and police of the canton of Ticino

Vasco Pedrina, Zurich, Central President of the trade union for construction and industry, Vice-Chairman of the Swiss federation of trade unions

Fulvio Pelli, Lugano, National Councillor, Attorney-at-law and notary

Heinz Pletscher, Löhningen, building contractor, Chairman of the Swiss contractors' association

Rolf Ritschard, Luterbach, Member of the cantonal government and head of the department of the interior of the canton of Solothurn

Christian Seiler, Sion, Attorney-at-law, Managing Director of Seiler Hotels Zermatt AG

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

Judith Stamm, Lucerne

* Alexandre Swoboda, Geneva, Professor at The Graduate Institute of International Studies (on leave), Senior Policy Advisor and Resident Scholar, International Monetary Fund, Washington

Alberto Togni, Küsnacht, Vice President of the Board of UBS AG

Ulrich Zimmerli, Muri BE, Professor of law at the University of Berne

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

Bank Committee

(Term of office 1999–2003)

Eduard Belser

Philippe Pidoux

Melchior Ehrler

Serge Gaillard

Trix Heberlein

Yvette Jaggi

Andres F. Leuenberger

Jean-Philippe Maitre

Franz Marty

Ulrich Zimmerli

Local Committees

(Term of office 1999–2003)

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

Claude Hauser, Versoix, General Manager of Migros Genossenschaft Geneva, Chairman

Jean-Claude Rinolfi, Givrins, Chairman of the Board of Printelec SA, Deputy Chairman

Charles Seydoux, Choulex, Director of Seydoux-DMB SA, President of Société suisse des entrepreneurs, section de Genève (Swiss contractors' association, Geneva chapter)

Lausanne

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

Walter Kobler, Lausanne, Managing Director of Baumgartner Papiers SA, Deputy Chairman

Gérard Beytrison, Conthey, Managing Director of Orgamol SA

Lucerne

Hans-H. Gasser, Lungern, Chairman

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

Ruth Pedrazzetti-Weibel, Lucerne, hotel manager, Hotel Continental-Park, President of the Hotelierverein der Stadt Luzern (Lucerne Hotel Managers' Association)

Lugano

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

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

Olimpio Pini, Sorengo, Director of the civil engineering firm Pini & Associati

St Gallen

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

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 1999/2000)

Members

Hans Michel, Egnach, Chairman

Maryann Rohner, Zurich, Certified Auditor, Treureva AG, Vice-Chairwoman

Kaspar Hofmann, Adliswil, Certified Auditor, Hofmann Wirtschaftsprüfung AG

Substitute members

Josef Blöchlinger, Begnins, Certified Auditor, Refidar Société Fiduciaire

Jean-Claude Grangier, Epalinges, Vice President of the Executive Board of Banque Cantonale Vaudoise

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

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

Departments	**Department I (Zurich)**	
	Head of Department	Hans Meyer, Chairman of the Governing Board
	Deputy Heads of Department	Peter Klauser, Director
		Georg Rich, Director
	Internal Auditors	Ulrich W. Gilgen, Director
		Othmar Flück, Assistant Director
	Press Relations	Werner Abegg, Deputy Director
	Regional Economic Relations	Heinz Alber, Director
	Economic Division	Georg Rich, Director
	Economic Studies Section	Michel Peytrignet, Director
	Research	Thomas J. Jordan, Assistant Director
	Economic Analysis	Eveline Ruoss, Assistant Director
	International Monetary Relations Section	Werner Hermann, Director
		Umberto Schwarz, Assistant Director
	Banking Studies Section	Urs W. Birchler, Director
		Bertrand Rime, Assistant Director
	Statistics Section	Christoph Menzel, Director
	Statistical Analysis	Robert Fluri, Assistant Director
	Monetary Statistics	Mauro Picchi, Assistant Director
	Balance of Payments	Thomas Schlup, Assistant Director
	Data Bank	Rolf Gross, Assistant Director
	Applications Software	Jean-Marie Antoniazza, Assistant Director
	Legal and Administrative Division	Peter Klauser, Director
	Legal Service	Peter Merz, Director
		Eliane Menghetti, Assistant Director
	Personnel	Christine Breining-Kaufmann, Director
		Benjamin Künzli, Assistant Director
	Pension Fund	Peter Hadorn, Deputy Director
	Premises, Technical Services	Theo Birchler, Assistant Director

Department II (Berne)	
Head of Department	Jean-Pierre Roth, Vice-Chairman of the Governing Board
Deputy Head of Department	Hans Theiler, Director
Regional Economic Relations	Jean-Pierre Borel, Director
Security	Hans Balzli, Assistant Director
Banking Division	Theodor Scherer, Director
Securities and Gold Operations Section	Hans-Christoph Kesselring, Deputy Director
Central Accounting Section	Peter Bechtiger, Deputy Director
Payment Transactions	Daniel Ambühl, Assistant Director
Cashier's Office Berne	Werner Beyeler, Assistant Director
Cash Division	Roland Tornare, Chief Cashier of the Bank, Director

Department III (Zurich)	
Head of Department	Bruno Gehrig, Member of the Governing Board
Deputy Head of Department	Erich Spörndli, Director
	Erwin Sigrist, Director
Monetary Operations Division	Erich Spörndli, Director
Risk Management Section	Dewet Moser, Deputy Director
Money Market and Foreign Exchange Section	Karl Hug, Director
Investment Section	Thomas Stucki, Deputy Director
General Processing and Informatics Division	Erwin Sigrist, Director
Payment Systems	Daniel Heller, Assistant Director
General Processing Section	Daniel Wettstein, Director
Domestic Payments	Walter Gautschi, Assistant Director
Foreign Payments	Markus Steiner, Assistant Director
Cashier's Office Zurich	Roland-Michel Chappuis, Assistant Director
Administration	Beat Spahni, Assistant Director
Informatics Section	Rudolf Hug, Director
Management Support	Raymond Bloch, Assistant Director
Banking Applications	François Ryffel, Assistant Director
Statistics Applications	Jürg Ziegler, Deputy Director
Office Automation and Operations Applications	Peter Bornhauser, Assistant Director
Technical Services	Jules Troxler, Assistant Director
Informatics Operations Zurich	Peter Künzli, Assistant Director
Informatics Operations Berne	Bruno Beyeler, Assistant Director

Branch Offices

Basel	Anton Föllmi, Director
Geneva[1]	Yves Lieber, Director
Lausanne	François Ganière, Director
Lucerne	Max Galliker, Director
Lugano[1]	Wally Giger Delucchi, Director
St Gallen	Jean-Pierre Jetzer, Director

1 with cash distribution services

Agencies

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

- Altdorf
- Appenzell
- Basel
- Bellinzona
- Bienne
- Chur
- Fribourg
- Glarus
- Liestal
- Lucerne
- Sarnen
- Schaffhausen
- Schwyz
- Sion
- Stans
- Thun
- Weinfelden
- Zug

4 Organisation chart

- **Annual General Meeting**
- **Bank Council**
- **Bank Committee**
- **Governing Board**

- **Auditing Committee**
- **Local Committees**
- **Secretariat General Zurich/Berne**

Department I Zurich

- **Internal Auditors**
- **Press Relations**
- **Regional Economic Relations**
- **Economic Division**
  - Economic Studies
  - International Monetary Relations
  - Banking Studies
  - Statistics
- **Legal and Administrative Division**
  - Legal Service
  - Personnel
  - Pension Fund
  - Premises, Technical Services
- **Basel Branch Office**
- **Lucerne Branch Office**
- **St Gallen Branch Office**

Department II Berne

- **Management Support/ Regional Economic Relations**
- **Internal Services**
- **Banking Division**
  - Securities and Gold Operations
  - Central Accounting
  - Payment Transactions
  - Cashier's Office, Berne
- **Cash Division**
  - Administration
  - Storage
  - Processing
  - Technical Services
- **Geneva Branch Office**[1]
- **Lausanne Branch Office**

1 with cash distribution services

Department III Zurich

Security

Monetary Operations Division

Money Market and Foreign Exchange

Investment

Risk Management

General Processing and Informatics Division

General Processing

Informatics

Payment Systems

Lugano Branch Office[1]

5 Publications

Annual Report	The Annual Report is published 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]
Swiss Balance of Payments	This comment on the development of trade and capital flows between Switzerland and other countries is published in September in German, French and English; 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 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 comment 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 per year[1] (other countries Sfr 80.00; plus applicable airmail surcharge)

Quarterly Bulletin on banking statistics

The Quarterly Bulletin on banking statistics is published every three months and contains detailed banking statistics (German and French).

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

1 including 2.3% VAT

6 Addresses of the head offices and branches

Head Offices	**Zurich**	
	Börsenstrasse 15	Telephone +41 1 631 31 11
	P.O. Box 4388	Telefax +41 1 631 39 11
	8022 Zurich	Telex 812 400 snb ch
	Berne	
	Bundesplatz 1	Telephone +41 31 327 02 11
	3003 Berne	Telefax +41 31 327 02 21
		Telex 911 310 snb ch
Branch Offices	**Basel**	
	Aeschenvorstadt 55	Telephone +41 61 270 80 80
	P.O. Box 626	Telefax +41 61 270 80 87
	4010 Basel	
	Geneva[1]	
	Rue Diday 8	Telephone +41 22 311 86 11
	P.O. Box 5355	Telefax +41 22 818 57 62
	1211 Geneva 11	Telex 421 420 snge ch
	Lausanne	
	Rue de la Paix 6	Telephone +41 21 213 05 11
	P.O. Box 2332	Telefax +41 21 320 40 06
	1002 Lausanne	Telex 454 642 snla ch
	Lucerne (as from 25 May)	
	Münzgasse 6	Telephone +41 41 227 20 40
	6000 Lucerne 7	Telefax +41 41 227 20 49
	Lugano[1]	
	Via Canova 12	Telephone +41 91 911 10 10
	P.O. Box 2858	Telefax +41 91 911 10 11
	6901 Lugano	Telex 843 102 snlg ch
		St Gallen
	Neugasse 43	Telephone +41 71 227 25 11
	P.O. Box	Telefax +41 71 227 25 19
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Internet	http://www.snb.ch	
E-mail	snb@snb.ch	

1 with cash distribution services

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