93rd Annual Report

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA

2000

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. The National Bank considers price stability to be achieved with an annual rise in the national consumer price index of less than 2%.

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.

Statistical tasks

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

Tasks on behalf of the Confederation

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

Stability of the financial system

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

Swiss National Bank
93rd Annual Report 2000

Contents

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

Ladies and Gentlemen

In the past year, the Swiss economy was in excellent shape. Gross domestic product exhibited vigorous and broadly based growth. The continued marked decline in unemployment was particularly gratifying. This development, however, should not obscure the fact that the work environment has become increasingly demanding. Considerable flexibility is required of both employees and employers. A balanced economic development and stable conditions facilitate the adjustment process. The National Bank contributes to this by conducting a foreward-looking and stability-oriented monetary policy.

In 2000, inflation rose slightly, in line with expectations. It remained below 2%, however, and thus did not exceed the bounds of price stability. A significant proportion of the rise in inflation is due to higher oil prices; by contrast, prices for domestic goods and services only increased moderately. In order not to threaten price stability in the medium term, the National Bank tightened its monetary policy in the course of the year. We are convinced that with this move we have prevented economic overheating without unduly slowing down the Swiss economy.

For the first time, the National Bank fixed a target range for a short-term interest rate, the three-month Libor rate, for steering its monetary policy. The adjustments to this interest rate target range were based on regular inflation forecasts. The experience gained with the new monetary policy concept has been positive. The concept was on the whole also well received by the public.

On 1 May 2000, the Federal law on currency and payment instruments entered into force. This enabled the National Bank to begin with the sale of those gold holdings that are no longer required as monetary reserves. The proceeds from the sale of gold are to be put to other public uses.

Currently, work on the total revision of the National Bank Law is under way. The revision of the National Bank Law is an important foundation to adequately meet the demands of the future.

The earnings situation of the National Bank in 2000 again permits a distribution of profits to the Confederation and the cantons in the agreed amount of Sfr 1.5 billion.

We wish to thank the bank authorities as well as our Bank's staff for their support in the past year, which has contributed considerably to the success achieved.

Berne, 9 March 2001

Eduard Belser
President of the Bank Council

Jean-Pierre Roth
Chairman of the Governing Board

Review of economic developments

1 International developments

1.1 Development of the real economy

Global economy in good shape

The global economy grew strongly in 2000 with inflation remaining low compared with previous boom phases. The US economy provided particularly strong impetus and growth also picked up in European industrialised countries. By contrast, the Japanese economy is lifting itself out of stagnation only gradually. Outside the OECD, the overall economic situation improved significantly and many countries made progress in overcoming structural problems. As a result of the strong growth, the volume of world trade rose considerably.

Broad-based economic growth in OECD countries

Real gross domestic product (GDP) in OECD countries rose by over 4% in 2000, compared with 3% in the previous year. Real growth was well above the long-term average of 2.6%. All demand components, but especially exports of goods and services, contributed to the increase in GDP. Exports rose by almost 12% in real terms in 2000, following growth of 4% in 1999. Capital spending in the corporate sector also gained momentum owing to the favourable economic climate. Consumer spending rose by just under 4%, slightly more than in the previous year and more vigorously in the United States than in Europe and Japan.

Sustained upswing in the United States

There was a further appreciable rise in real GDP in the United States of 5% in 2000, compared with growth rates of over 4% in the three preceding years. The main economic stimulus came from consumer spending but there was also a significant upturn in capital spending in the corporate sector. Exports benefited from the upswing in many Asian countries. The US economy lost momentum in the second half of the year, however, with a tighter monetary policy acting as the main brake. Other factors that dampened economic growth were the drop in share prices and increases in the price of oil.

Strong growth in western Europe …

The western European industrialised countries posted considerably higher growth in 2000 than in preceding years. On average, real GDP in the EU rose by 3.4%, compared with 2.4% in the previous year. While Germany, France, the UK and Italy each reported growth of around 3%, real GDP increased by more than 4% in Spain. Economic growth was also above average in many smaller countries.

… primarily as a result of exports

Growth was mainly export-driven. Rising demand from other parts of the world lifted European exports by about 11% in real terms in 2000, compared with 4% in the previous year. A further decline in the euro exchange rate against the dollar boosted export growth. By contrast, in most countries domestic demand did not expand quite as fast as in the previous year, partly as a result of tighter monetary policy. In addition, a sharp rise in the price of oil products in the second half of the year held back demand in many countries.

Slow recovery in Japan

In Japan, the economic situation improved only slowly over the year. While exports rose strongly by around 14%, domestic demand remained weak. Investment was slightly above the previous year's level but consumer spending continued to suffer from high unemployment. Another adverse factor was the reduction in state measures to stimulate the economy, which had boosted demand considerably in previous years. Real GDP rose by approximately 1%, compared with 0.2% in the previous year.

Higher employment

As a result of the favourable economic conditions, most OECD countries reported a rise in employment. However, the increase was low in the United States because the economy had reached virtually full employment in the previous year. By contrast, there was a perceptible rise in demand for labour in many European countries, especially Germany and France. In Japan, employment declined further as a consequence of continued restructuring in many sectors.

Unemployment declining

The unemployment rate dropped slightly to 4.0% in the United States and declined by nearly one percentage point to 8.2% in the EU. However, this figure masks considerable regional differences: the highest unemployment rates were registered in Spain (over 14%), Greece and Italy (about 11% each). Unemployment was lowest in Luxembourg and the Netherlands (below 3%). The unemployment rate dropped below 10% in Germany and France for the first time in many years. Unemployment in Japan remained unchanged at 4.7%.

Increase in oil prices

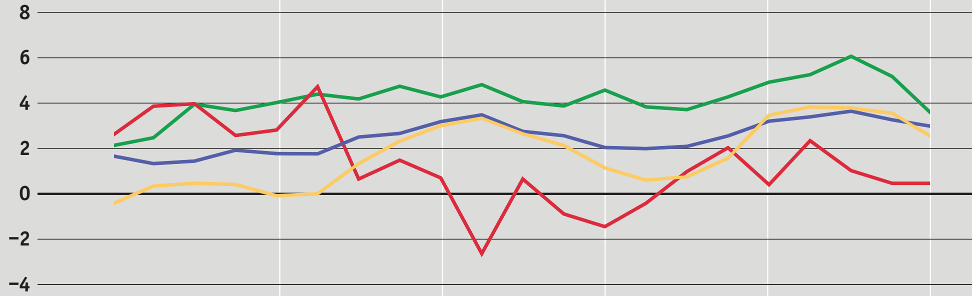
The rise in oil prices, which had started in early 1999, continued into the fourth quarter of 2000. Prices dropped back substantially in December, however. The average world market price per barrel of crude oil was 30 dollars in the fourth quarter, compared with 11 dollars two years before. Such levels were last recorded in the second half of 1990. The rise in the price of oil products led to a perceptible rise in the cost of living in industrialised countries.

1996 1997 1998 1999 2000

Real gross domestic product

United States
Japan
OECD Europe
Switzerland

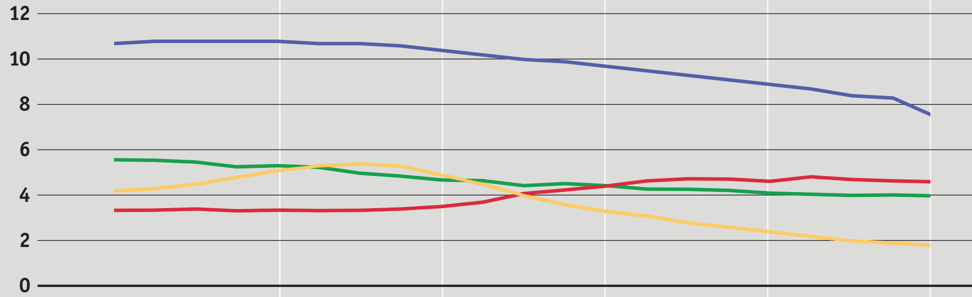
Change in percent
from previous year.
Source: OECD



Unemployment

United States
Japan
OECD Europe
Switzerland

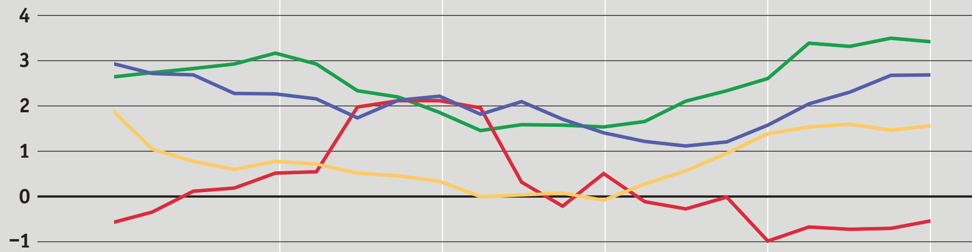
Seasonally-adjusted; in percent.
Source: OECD



Inflation

United States
Japan
OECD Europe
Switzerland

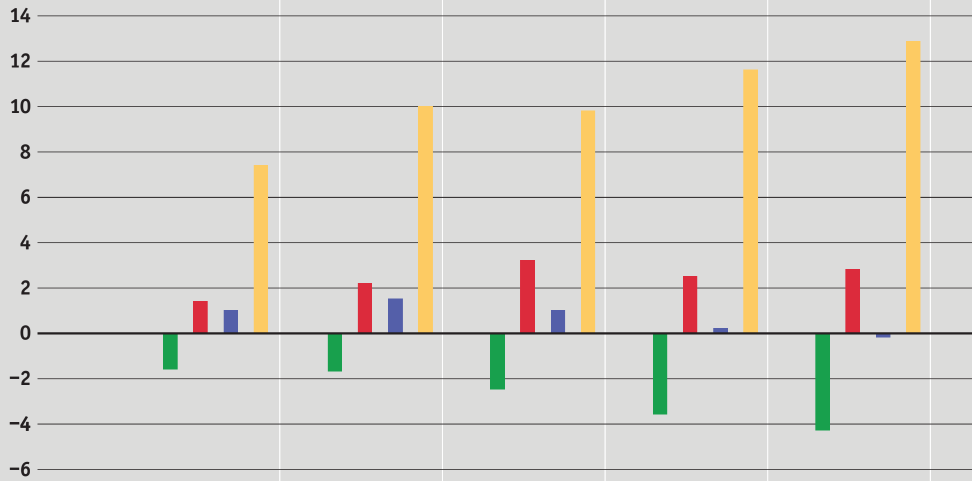
In percent.
Source: OECD



Current account balance

United States
Japan
European Union
Switzerland

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



1996 1997 1998 1999 2000

Summary of economic developments

	1996	1997	1998	1999	2000
Real GDP Change from previous year in percent					
United States	3.6	4.4	4.4	4.2	5.0
Japan	5.1	1.6	−2.5	0.2	1.0
European Union	1.7	2.5	2.7	2.4	3.4
Germany	0.8	1.4	2.1	1.6	3.0
France	1.1	1.9	3.2	2.9	3.3
United Kingdom	2.6	3.5	2.6	2.2	3.0
Italy	1.1	1.8	1.5	1.4	2.8
Switzerland	0.3	1.7	2.3	1.5	3.4
Unemployment in percent					
United States	5.4	4.9	4.5	4.2	4.0
Japan	3.4	3.4	4.1	4.7	4.7
European Union	10.7	10.4	9.8	9.1	8.2
Germany	10.4	11.5	11.0	10.5	9.5
France	12.3	12.4	11.8	11.1	9.7
United Kingdom	7.9	6.5	5.9	6.0	5.5
Italy	11.7	11.8	11.9	11.5	10.8
Switzerland	4.7	5.2	3.9	2.7	2.0
Consumer price inflation in percent					
United States	2.9	2.3	1.6	2.2	3.4
Japan	0.1	1.7	0.7	−0.4	−0.7
European Union	2.4	2.0	1.7	1.2	2.4
Germany	1.2	1.5	0.6	0.6	2.1
France	2.1	1.3	0.7	0.6	1.8
United Kingdom	2.5	3.1	3.4	1.6	2.9
Italy	3.9	1.8	1.7	1.6	2.5
Switzerland	0.8	0.5	0.0	0.8	1.6
Current account balance as percentage of GDP					
United States	−1.6	−1.7	−2.5	−3.6	−4.3
Japan	1.4	2.2	3.2	2.5	2.8
European Union	1.0	1.5	1.0	0.2	−0.2
Germany	−0.3	−0.1	−0.2	−0.9	−0.9
France	1.3	2.7	2.6	2.6	2.3
United Kingdom	−0.1	0.8	−0.0	−1.2	−1.5
Italy	3.2	2.8	1.8	0.6	−0.9
Switzerland	7.4	10.0	9.8	11.6	12.7

Some of the 2000 figures are estimates.
Source: OECD

Higher inflation

Average consumer price inflation in OECD countries rose to 2.5% in 2000, compared with 1.4% in the previous year. Excluding food and energy prices, inflation amounted to 1.9%. The rise in inflation varied from one country to another: in the United States the figure was 3.4% in December, compared with 2.7% the previous year. Alongside oil prices, this increase was caused by an appreciable rise in wage costs. In the euro area, the harmonised consumer price index showed a rise in inflation from 1.8% in December 1999 to 2.8% in September 2000, before it dropped back to 2.6% in December 2000. Inflation was even higher in the UK: 2.9% in December, compared with 1.8% a year earlier. In Japan, the consumer price index declined by 0.7%. In the previous year it had dropped by 0.4%.

Further divergence in current account balances

The US current account deficit increased substantially again in 2000, rising to around $ 430 billion as a result of strong growth in imports. This figure is approximately one-third higher than in the previous year. The deficit totalled 4.3% of GDP, compared with 3.6% the year before. Overall, the EU countries also reported higher current account deficits or declining surpluses. For the EU as a whole, this resulted in a small deficit, compared with a slight surplus in the previous year. By contrast, the current account surplus in Japan rose by 0.3 percentage points to 2.8% of GDP.

Sustained recovery in East Asia

Economic conditions improved in many East Asian countries, especially South Korea, Thailand and Malaysia, in 2000. In addition to sustained strong demand for exports, consumer spending picked up during the year. In June and August respectively, Thailand and South Korea terminated the economic restructuring programmes agreed with the International Monetary Fund (IMF) in the wake of the Asian crisis. South Korea and Malaysia made particularly good headway with reforms in the banking and corporate sectors. Indonesia and the Philippines were still dominated by problems: as a result of inadequate structural reforms and the difficult political situation, the upswing failed to establish itself in either country. The continued rise in oil prices also held back development in East Asia.

Faster growth in central and eastern Europe

Economic growth gained momentum in central and eastern Europe in 2000. For the first time, all transition economies in this region reported a rise in real GDP. This was essentially attributable to higher demand from EU countries. Slovenia, Hungary and Poland, where the transition process is most advanced, posted the highest growth rates. In Hungary and Poland there were mounting signs that the economy was overheating and the central banks raised key interest rates to counter this. While the Hungarian central bank's scope to alter monetary policy was restricted by the fact that the currency is pegged to the euro, the Polish central bank tightened its monetary policy, having floated the exchange rate of its currency in April. The Bulgarian and Slovak economies also grew rapidly, but both countries continued to suffer from very high unemployment. In the Czech Republic, GDP increased in 2000 after three years of recession; however the necessary restructuring of the banking and corporate sectors hampered growth. The economic situation has brightened in Romania, but the country has still made very little headway in the fight against inflation.

Improvement in Russia

The Russian economy picked up after several years in crisis, primarily as a result of the rise in global market prices of oil and natural gas: Russia is a significant exporter of both commodities. Real GDP rose strongly and the inflation rate dropped over the year. The Russian government put forward a proposal for a balanced budget for the first time since the start of the reform process. By contrast, little progress was made with the reform of the banking sector and the tax system.

Further problems in Turkey

The economic problems in Turkey increased during the year, even though the country had agreed on a stability programme with the IMF at the end of 1999. Although inflation dropped, the decline was well short of the target set in the programme. The Turkish central bank endeavoured to counter difficulties in the banking sector in November by injecting liquidity. This resulted in a massive outflow of capital. Additional financial assistance from the IMF and the announcement of further stabilisation measures temporarily brought a degree of calm.

Higher growth momentum in Latin America – crisis in Argentina

In Latin America, economic growth picked up in 2000. Benefiting from strong demand from the United States and rising oil prices, the Mexican economy grew particularly fast. Chile and Brazil, which, in 1999, had still been suffering the after-effects of the previous crises, recovered quickly. By contrast, demand continued to stagnate in Argentina and there was a renewed rise in unemployment. Political uncertainty in this country rose towards the end of the year. Dwindling confidence on the part of investors made it increasingly difficult for Argentina to meet its high borrowing requirements. To support the economy, in December the IMF, the World Bank, the Inter-American Development Bank, Spain and private-sector banks announced an extensive financial aid package for Argentina.

1.2 Monetary policy

Further tightening of monetary policy

Central banks in the OECD countries tightened monetary policy further in 2000 in response to strong economic growth and the risk of a sustained rise in inflation. While the Federal Reserve Board in the United States and the Bank of England raised key interest rates for the last time in May and February respectively, the European Central Bank (ECB) continued to tighten its monetary policy in the second half of the year.

Increase in key interest rates in the US and UK

The Federal Reserve raised its key interest rate, the overnight rate, in three steps from 5.5% to 6.5% in the first half of the year, following a rise of 0.75 percentage points to 5.5% between June and November 1999. The Bank of England raised its base rate in two steps from 5.5% to 6% in January and February, following a total rise of half a percentage point in September and November 1999.

Tighter monetary policy in the euro area ...

The ECB raised the key rate for its main refinancing operations (repo transactions) in six steps from 3% to 4.75% in 2000. The repo rate had been lifted for the first time in November 1999 by half a percentage point. The ECB justified the tightening of its monetary policy by citing the generous liquidity supply in the economy and the mounting risk of inflation as a result of exchange rate trends. To support the euro, the ECB and other central banks also intervened in the foreign exchange markets in September and November.

... and in Denmark and Norway

The Danish central bank raised its rates almost in parallel with the ECB. At the end of September, when accession to the third stage of European Economic and Monetary Union was rejected in a referendum, monetary policy was relaxed slightly, reflecting the strength of the Danish krone. During the year, the Norwegian central bank tightened its monetary policy, raising its key interest rate by a total of one percentage point to 6.75%.

Interest rates cut in Greece

The Greek central bank lowered interest rates considerably in the course of 2000 to align them with the level in the euro area. At the start of 2001 Greece became the twelfth of the fifteen EU member states to join the third stage of European Economic and Monetary Union and thus to introduce the euro.

Slight rise in interest rates in Japan

The Bank of Japan ended its zero interest-rate policy in August 2000 and raised the overnight rate to 0.25%. It justified this with the improvement in the economic situation and the lower risk of deflation. In February 1999 the Bank of Japan had started to provide liquidity virtually interest-free to support the weak economy.

1.3 Fiscal policy

Improvement in public finances

In most OECD countries, public finances ended 2000 in better shape than the previous year. As a result, public debt declined. This trend was attributable to a rise in tax revenues as a result of the buoyant economic conditions and to more restrained government spending policies.

Budget surpluses in the UK and US

The United States reported a budget surplus of around 2% of GDP in 2000, compared with 1% in 1999. Public debt dropped from 65% to 60% of GDP. In the UK, too, the budget surplus improved considerably, to 3%, which was almost double the previous year's level. Public debt dropped from 57% to 52%.

Declining deficits in the euro area

Overall, budgets in the euro area were balanced at the end of 2000, following the previous year's deficit of 1.3 % of GDP. However, there were substantial discrepancies between the various countries. France and Italy again reported deficits of an estimated 1.4% and 1.5% respectively, although these represented improvements on the previous year. Germany posted a surplus of 1.4%, albeit entirely due to extraordinary income from the auction of licences for mobile telecommunications systems. Many smaller states in the euro area also posted surpluses. Overall, public debt in the euro area dropped from 75% to 73%. Public sector debt was highest in Italy (112%) and Belgium (111%) and lowest in Luxembourg (6%).

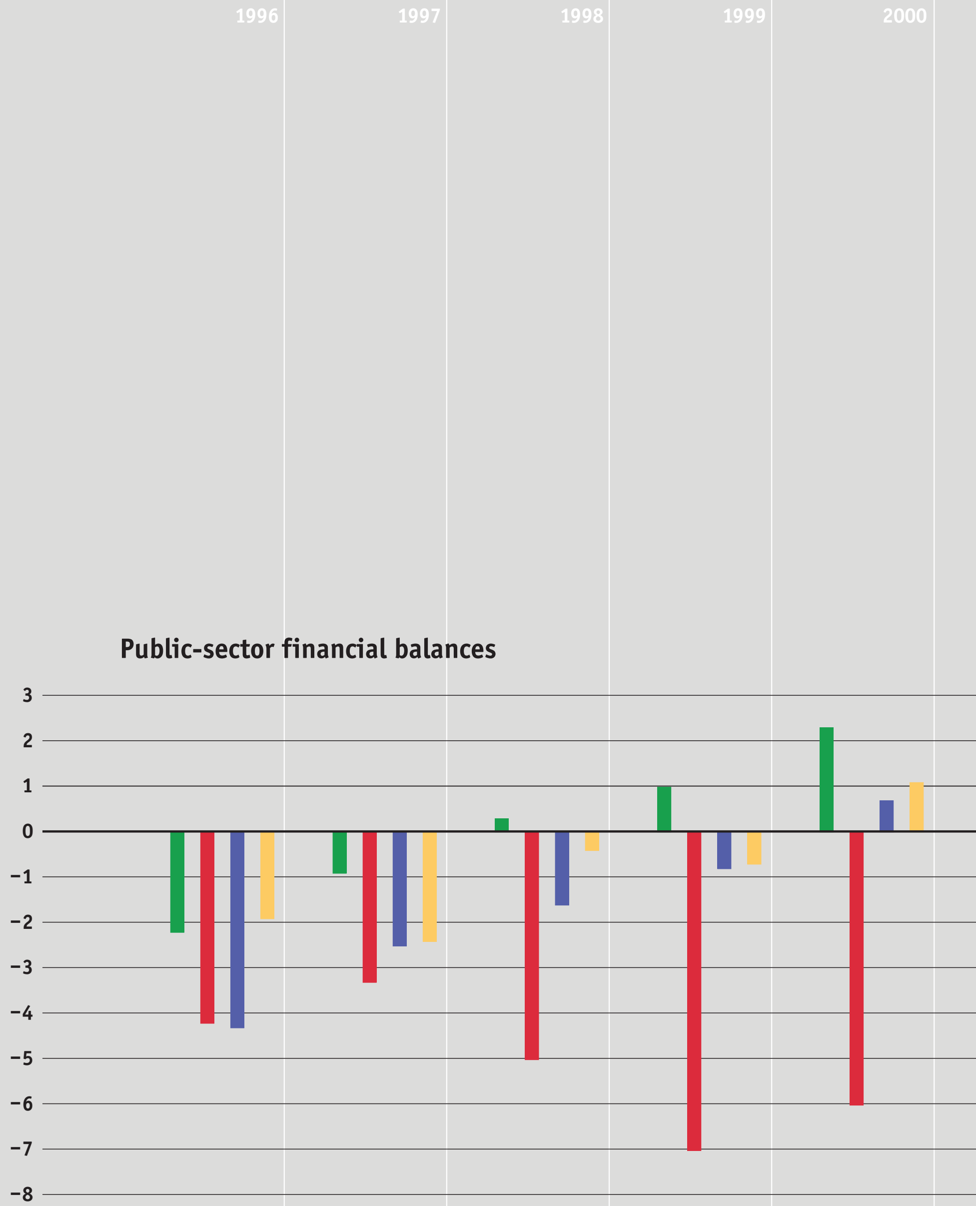
High deficit in Japan

Japan reported a deficit of 6% of GDP in 2000, compared with 7% a year earlier. Public-sector debt rose to 112% of GDP, compared with about 60% in the early nineties. The sharp rise in debt is a consequence of the government's attempts to revive the economy in the nineties through extensive state spending programmes and tax relief.

Public-sector financial balances

United States
Japan
European Union
Switzerland

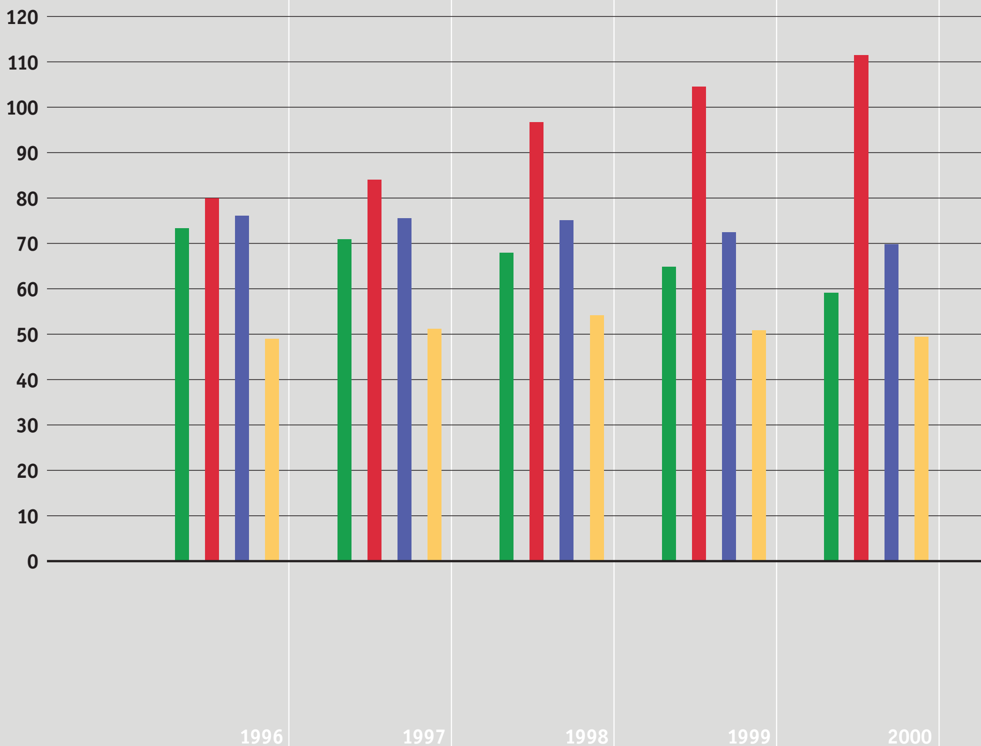
Public-sector financial balances (all levels of government including social insurance) in percent of GDP.
Source: OECD



Government indebtedness

United States
Japan
European Union
Switzerland

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



1.4 Foreign exchange markets

Marked rise in the dollar

Strong economic growth in the United States led to a marked rise in the dollar against all major currencies. A slight weakening mid-year proved merely temporary. In December the dollar dropped appreciably but the monthly average was still up 11.3% year-on-year against the euro and 6.3% against the Swiss franc. In real trade-weighted terms the dollar was 9.1% higher in December 2000 than in December 1999.

Euro remains weak

The euro weakened further in the course of the year although the European economy picked up and the ECB raised interest rates several times. In September and November the ECB intervened on the currency markets to support the euro. As a result, the euro exchange rate had improved slightly to $ 0.90, Sfr 1.51 and £ 0.61 by December. Year-on-year, the euro slipped by 12.8% against the dollar, 5.8% against the Swiss franc and 2.2% against sterling. The real trade-weighted euro exchange rate in December was 4.8% below the previous year's level and 15.9% lower than when the single currency was introduced in January 1999.

Fluctuations in the yen

The yen exchange rate fluctuated considerably over the year. In December it was down 9.6% year-on-year against the dollar, 2.5% lower against the Swiss franc but up 3.1% against the euro. In real trade-weighted terms, the yen was down 5.7% in December compared with the year-back figure.

1.5 Financial markets

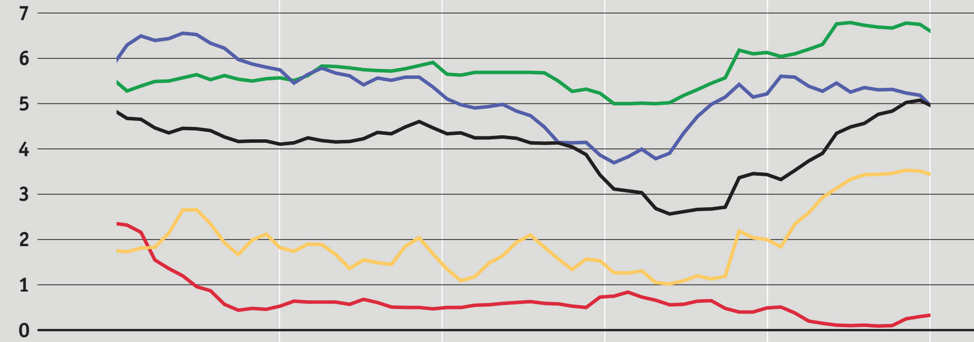
Decline in long-term yields

In industrialised countries, yields on long-term government bonds declined in 2000, following sharp hikes in some countries in the previous year. This decline essentially reflected a reduction in inflation expectations in the wake of of tighter monetary policy. The improvement in budget prospects in some countries also pushed down the yield on long-term government bonds.

Clear decline in US yields

In the United States the yield on ten-year government bonds was 5.2% in December 2000, 1.5 percentage points below the January level. Following the rise in the interest rate for overnight funds to 6.5%, short-term rates exceeded long-term rates in the second half of the year, i. e. the yield curve was inverted. The announcement that the US government would be redeeming some of its debt widened the spread between government and private-sector bonds considerably at the start of the year. Added to this, the spread between private-sector borrowers with good and less good credit ratings widened in the second half of the year because of the anticipated economic slowdown and increased indebtedness of many companies.

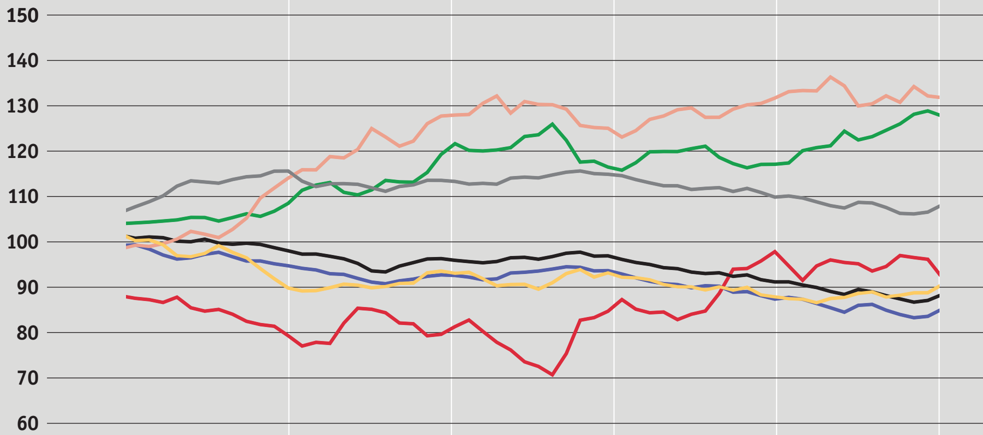
Short-term interest rates



Dollar
Yen
D-mark
Euro
Swiss franc

Three-month Euromarket rates, in percent.
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: BIS

Slower decline in European yields

In Europe, the decline in yields on ten-year government bonds was less pronounced than in the United States. In the UK, yields slipped from 5.4% in December 1999 to 4.9% in December 2000 and the yield curve has already been inverted since October 1999. In the euro area, long-term yields – at 5.1% in December 2000 – were down 0.6 percentage points from the January level and thus still remained above short-term rates.

Stable long-term yields in Japan

Yields on ten-year Japanese government bonds stabilised at 1.7% over the year. This was exactly the same as the yield in the previous year.

Drop in share prices

All major stock exchanges except the Swiss Exchange reported a decline in share prices over the year amid significant volatility. US share prices hit a high early in the year, whereas prices on European stock exchanges peaked around mid-year. There was a particularly marked drop in share prices of some telecommunications and computer companies that had surged in the previous year.

Decline in borrowing on the financial markets

Net borrowing on the international financial markets slipped by 6% in 2000, compared with a strong rise in the previous year. Most of the anticipated issues totalling $ 1,138 billion were medium to long-term bonds. Money market instruments again accounted for a low proportion at just $ 122 billion. There was a major shift in issuing currencies: while the proportion of euro-denominated issues dropped from 39% to 34% and the proportion of dollar-denominated issues slipped from 43% to 42%, yen issues rose from 7% to 12%. The market share of the Swiss franc was slightly lower than in the previous years, at 1.4%.

Banks in US and Europe report higher profits

Commercial banks in the United States and Europe reported a renewed rise in profits as a result of the favourable economic trends. The consolidation of the financial services sector continued. In the United States, this was boosted by the revision of the Financial Modernization Act at the end of 1999. In Europe, banks in various EU countries started to cooperate more closely. There were major mergers between banks in Germany and Austria, France and the UK and in Scandinavia.

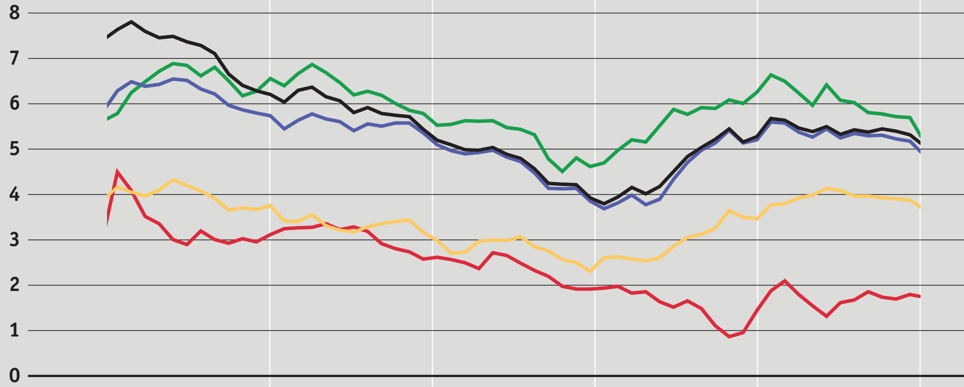
Continued restructuring of banks in Asia

The restructuring of the Japanese banking sector continued. Despite state support, the capital ratios of many banks remained low. In Hong Kong and Singapore the financial sector succeeded in regaining a sounder footing, but in other countries in East Asia, the high proportion of nonperforming loans could not be scaled back adequately.

Increased cooperation between European stock exchanges

European stock exchanges endeavoured to step up cooperation in the course of 2000. While the stock exchanges in Amsterdam, Brussels and Paris merged to form Euronext in September, the merger of the Frankfurt and London stock exchanges failed. In conjunction with the British trading platform Tradepoint, Swiss Exchange SWX set up a new exchange, Virt-x, which specialises in European blue chips.

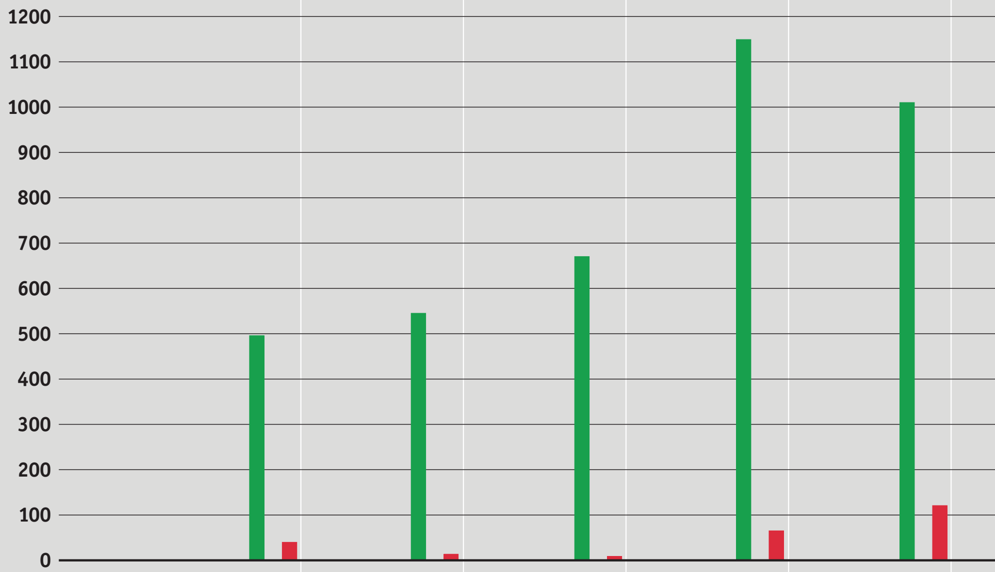
Long-term interest rates



United States
Japan
Germany
Euro area
Switzerland

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

Net borrowing in international financial markets



Bonds and medium-term paper
Money market paper

Billions of dollars.
Source: BIS

1996 1997 1998 1999 2000

2 Switzerland

2.1 Development of the real economy

Strong economic growth

The Swiss economy gained a good deal of momentum in 2000. Positive factors included the upturn in the global economy, low interest rates and the weakening of the Swiss franc versus the dollar. Economic momentum was particularly high in the first half of the year, leading to the virtual disappearance of the output gap that had existed since 1992. At an annual average, real GDP rose by 3.4%, compared with 1.5% in 1999. This represents the biggest rise since 1989. Exports made the greatest contribution to economic growth but domestic demand was another major factor. Additional impetus came from the construction sector.

Better operating conditions for industry

Industrial business trends improved considerably during the year. Following a significant reduction in inventories in 1999, a sharp rise in demand led to strong growth in output. Despite expansion of capacity, the capacity utilisation of technical facilities increased to 84.4% at year-end 2000 compared with 82.0% at year-end 1999. Business trends were particularly favourable in export-oriented sectors. The order inflow rose significantly at the start of the year but then dropped back slightly during the year. Both the export industry and sectors serving the domestic market were, however, optimistic about business prospects throughout the year.

Sound consumer spending

Consumer spending rose by 2% in real terms, roughly in line with the previous year's rise. It thus remained a major source of economic growth. Consumer confidence improved considerably, primarily because of high employment. This benefited the retail sector and other service industries. The trend in domestic tourism was particularly favourable and there was also a marked upturn in the number of foreign visitors following a dip in the two previous years as a result of the Asian crisis. The tourist sector, which had stagnated in 1999, thus had an extremely good year.

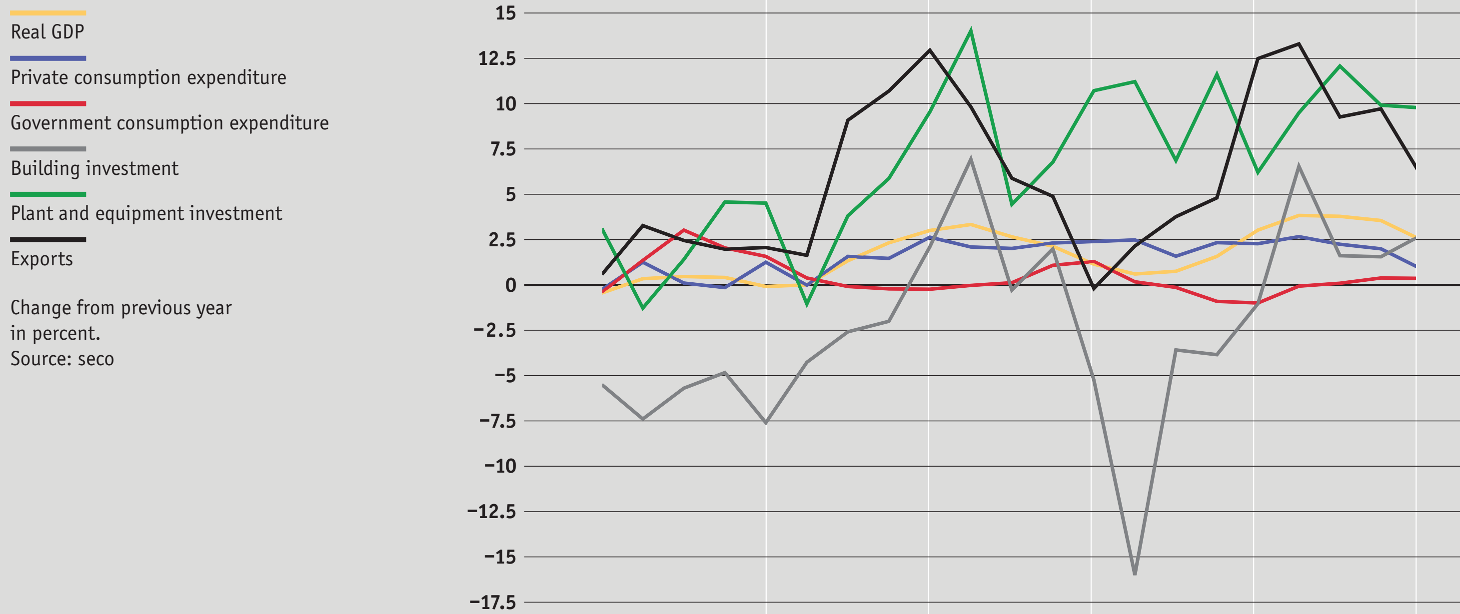
Recovery in construction spending

Construction spending rose by 2.7% in real terms in 2000, having fallen by 5.3% in 1999. Expansion of the national road network and major rail projects (NEAT/Bahn 2000) made a significant contribution to the strong rise in civil engineering work. By contrast, growth in residential building was more modest than in 1999. In the commercial and industrial sector, the improvement in industrial business trends and a degree of pent-up demand for building maintenance work led to an increase in construction activity.

Strong growth in capital spending

The strong growth in investment in plant and equipment continued in 2000, with real year-on-year growth of 10.3%, up from around 9% in 1999. As a result of rising capacity utilisation and the improved earnings situation, investment in industry gained momentum. Production rationalisation remained a major driving force behind industrial investment, but spending was also boosted by investments geared to expanding capacity. Since investment in plant and equipment has been growing far faster than investment in construction for some years, its proportion of annual investment rose strongly, bringing it above the 50% mark for the first time ever in 2000.

Gross domestic product and components



Change from previous year
in percent.
Source: seco

1996 1997 1998 1999 2000

Faster growth in exports…

Exports rose more than twice as fast as in 1999, up 7.1% in real terms, aided by the favourable economic situation in the United States and the EU. The export industry also benefited from the upswing in East Asia, strong demand from oil-exporting countries and the strength of the dollar. (Nominal) exports to the United States were up 13% year-on-year, while exports to the EU increased by 6.7%. A particularly strong increase was registered in shipments of Swiss capital goods, raw materials and semi-manufactures. A breakdown by product group shows that the main rise in exports related to products from the metal-working industry, mechanical engineering, the electrical and electronics sector and precision instruments. The 3.5% rise in export prices was far higher than in the previous year.

…and imports

Buoyant overall demand in Switzerland lifted merchandise imports by 7% in real terms compared with 8.2% in the previous year. Imports of raw materials and semi-finished products picked up particularly fast on the back of good industrial conditions, while imports of consumer goods and capital goods did not rise as rapidly as in the previous year and imports of energy sources declined slightly. Import prices increased perceptibly by 6.4% in 2000, having declined in 1999. Alongside the higher dollar prices for oil and other raw materials, this was caused by the depreciation of the Swiss franc against the dollar.

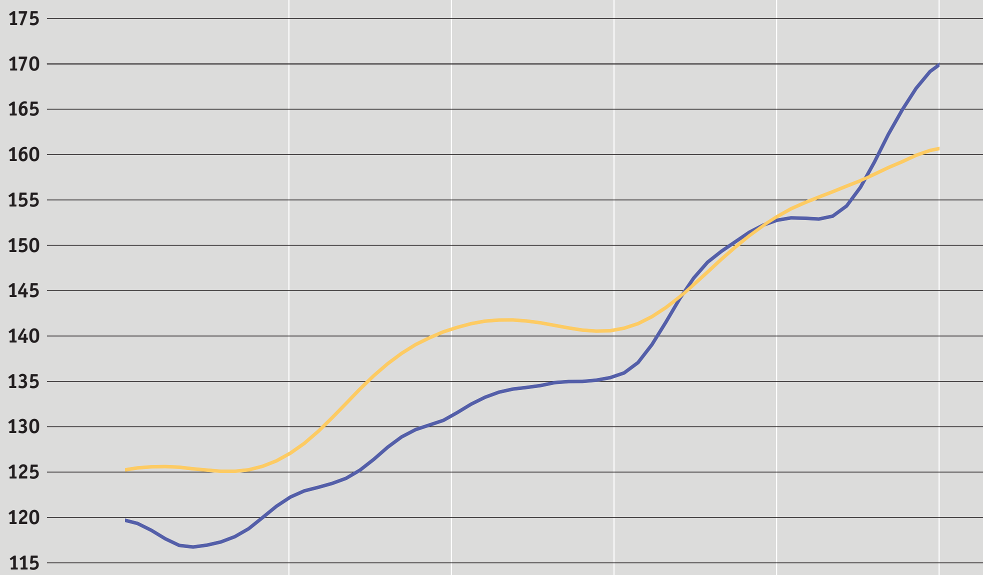
Employment rising more rapidly

There was a strong rise in demand for labour in 2000 as a result of the economic upswing. Employment increased by 2.2%, having risen by 1.6% in 1999. New jobs were created mainly in the service sector (+2.6%); looking at individual sectors, construction, however, reported the greatest rise in employment. There was also higher employment in industry (+1%), following a steady reduction in the workforce during the nineties. The shift in employment to the service sector continued, with employment increasing especially strongly in the retail, banking and IT sectors, in public administration, corporation services, and in education. Trends were less uniform in industry. Here, the rise in employment was concentrated in segments with leading-edge technologies.

Declining unemployment

Unemployment declined further. In December the seasonally-adjusted number of job-seekers totalled 111,300 compared with 148,500 the year before. This figure covers the unemployed and people looking for casual jobs, taking part in work creation schemes and attending training or retraining courses. The number of registered unemployed fell from 84,300 to 66,000 within twelve months, bringing the unemployment rate down from 2.3% to 1.8%, while the proportion of job-seekers dropped from 4.1% to 3.1%. This latter downtrend slowed during the year. As a result of the widening gap between the qualifications of unemployed persons and the qualifications required for vacant positions, companies hired an increasing number of highly qualified staff from abroad. There was a particularly sharp rise in the number of people commuting to work in Switzerland from neighbouring countries and in the number of one-year work permits.

Foreign trade

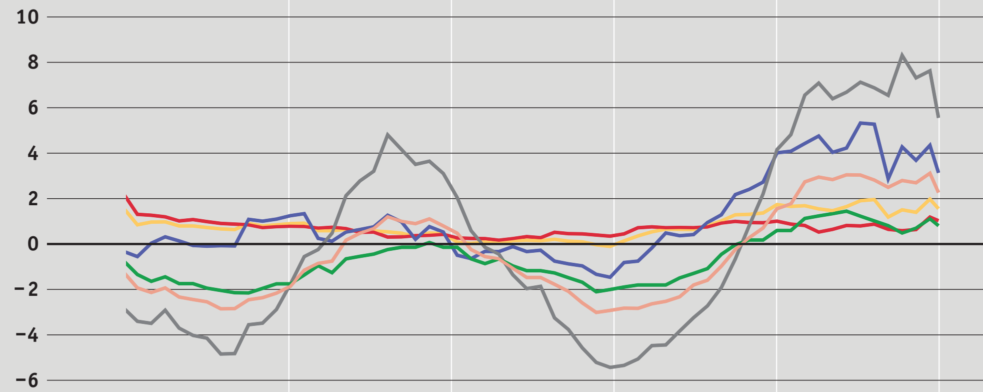


Imports

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

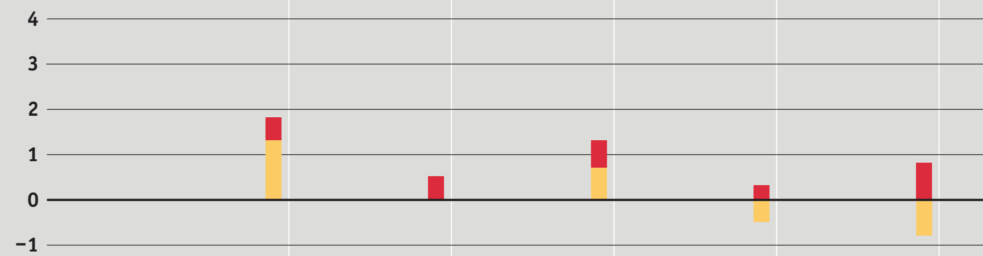
Import prices

Producer prices

Producer and 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 (2000: estimate).
Source: Federal Statistics Office

Fewer long-term jobless

The decline in unemployment was accompanied by a drop in the number of long-term unemployed, i.e. persons who have been out of work for a year or more. In 2000 the number of long-term unemployed dropped from 22.5% to 18.5% of the total registered as unemployed. The problem of unemployed persons no longer entitled to claim unemployment benefit also abated: approximately 10,000 persons reached the end of the period of eligibility, compared with 39,300 in 1999.

Regional differences

Unemployment varied regionally. The average unemployment rate was 3.3% in Ticino, 3% in French-speaking cantons and 1.6% in German-speaking areas.

Slower growth in employment

According to the Swiss labour force survey (SAKE), which is conducted in the second quarter of every year, the growth in employment was only 0.4% in 2000, just half the level in 1999. While the number of persons in full-time employment increased by 0.5% and the number working between 50% and 90% rose by 2.3%, there was a 1.7% decline in the number of persons working 50% or less of the standard working week. Unlike the situation in previous years, there was a renewed rise in the number of women working full-time and fewer working part-time. By contrast, there was a sharp rise in the number of men working part-time. However, women still account for 80% of part-time working. The employment ratio was 89.4% for men and 73.9% for women.

Employment and unemployment

	1996	1997	1998	1999	2000
Full-time employment[1] change in percent	−2.2	−1.9	−0.4	−0.2	1.0
Full and part-time employment[1] change in percent	−1.2	−1.3	0.7	1.6	2.2
Persons in employment[2] change in percent	0.5	−0.4	1.8	0.8	0.4
Unemployment rate in percent	4.7	5.2	3.9	2.7	2.0
Number of unemployed in thousands	168.6	188.3	139.7	98.6	72.0
Number on short working hours in thousands	13.1	6.6	3.1	2.9	0.7
"Manpower job offer index"[3] change in percent	−19.9	2.5	35.9	26.5	24.5

1 according to employment statistics

2 according to SAKE

3 space occupied by job advertisements in Swiss newspapers

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

Higher consumer price inflation

In 2000 the national consumer price index showed inflation of 1.6%, compared with 0.8% in 1999. About one percentage point of annual inflation was due to the rise in the price of oil products. The price of merchandise rose by 3.1% year-on-year compared with 0.7% in 1999. In the service sector, inflation dropped from 0.9% in the previous year to 0.4%, with the decline in the price of telecommunications services again having a major impact.

Rise in prices of goods of foreign origin

Prices of goods of foreign origin increased by an average of 4.1% compared with 1.0% in the previous year mainly because of the rise in oil prices. By contrast, as in the previous year, the price of goods produced in Switzerland increased by only 0.7%.

Having declined in the previous two years, the total supply price index rose by 2.7% year-on-year in 2000. The inflation rate was 6.7% on imports and 0.9% on Swiss-produced goods. Prices of raw materials rose particularly fast, while prices of semi-manufactures and consumer goods increased only moderately. The price of capital goods remained at the previous year's level.

Increase in prices of total supply

The current account surplus rose by Sfr 7.4 billion to Sfr 52.4 billion in 2000. This is equivalent to 12.9% of GDP, compared with 11.6% in the previous year. In terms of value, exports and imports of goods (special trade) increased by 10.6% and 13.4% respectively, giving a deficit of Sfr 2.1 billion on the balance of trade, compared with a surplus of Sfr 1 billion in 1999. Total trade in goods (special trade plus primarily precious metals, precious stones and gemstones, works of art, antiques and electricity) ended the year with a deficit of Sfr 4.8 billion. The surplus on the invisible trade balance rose by Sfr 2.8 billion to Sfr. 22.6 billion. Income from tourism and international transport was well above the previous year's level and commission income in the banking sector also increased substantially. The surplus on employee compensation and investment income advanced by Sfr 8.3 billion to Sfr 40.2 billion as net income from direct investment and portfolio investments increased. The deficit on current transfers was Sfr 5.5 billion, a decline of Sfr 0.7 billion compared with the previous year.

Higher current account surplus

Current external transactions account
balances in billions of Swiss francs

	1996	1997	1998 revised	1999 provisional	2000 estimate
Goods trade	1.1	−0.5	−2.3	−0.4	−4.8
special trade	2.2	2.0	2.2	1.0	−2.1
electrical energy	0.5	0.7	0.7	0.6	0.4
other goods trade	−1.5	−3.2	−5.2	−2.1	−3.1
Services	15.4	18.9	19.6	19.8	22.6
of which personal travel	1.6	1.4	1.7	1.4	1.7
of which private insurance	1.7	2.0	2.2	2.7	2.8
of which transport	0.4	1.2	1.5	1.8	1.9
of which bank commission	7.8	8.8	9.2	11.1	13.3
Labour income and investment income	15.6	23.4	25.5	31.9	40.2
labour income	−6.9	−6.5	−6.4	−6.5	−7.0
investment income	22.4	30.0	32.0	38.4	47.1
Current transfers	−4.9	−4.9	−5.3	−6.2	−5.5
Total current account	27.2	37.0	37.5	45.0	52.4

2.2 Fiscal policy

Significant federal budget surplus

The Federal Government posted a significant surplus of Sfr 4.6 billion or 1.1% of GDP in 2000 compared with a budgeted deficit of Sfr 1.8 billion. Notably revenues were massively higher than budgeted. Additional revenue was attributable, on the one hand, to the economic upswing, which was stronger than anticipated and which had a favourable impact in particular on withholding tax, direct federal tax and stamp duty. On the other hand, special revenues – such as proceeds from the auctioning of wireless licences – contributed to the gratifying results. Federal spending was below the budgeted amount in 2000. Notably expenditure relating to social security, agriculture and traffic was lower than budgeted.

An almost balanced budget for 2001

The government budgeted a slight surplus of Sfr 18 million for 2001. Growth in revenue is expected to return to normal according to the budget, notably in case of withholding tax, while the rise in expenditure should be slightly below nominal economic growth.

Fulfilment of the constitutional budget requirements

The budget surplus of Sfr 4.6 billion fulfilled the constitutional target set in 1998 for 2001. The constitutional requirements stipulated a maximum deficit of Sfr 2.5 billion for 2000.

Surpluses at cantonal and communal levels

As a result of the favourable economic situation most cantons and communes reported a budget surplus in 2000 as well. According to available data, the cantons' aggregate surplus totalled approximately Sfr 500 million, that of the communes approximately Sfr 250 million. Deficits totalling Sfr 1.3 billion and Sfr 500 million respectively had been budgeted.

Declining debt ratio

The debt ratio (total debts expressed as a percentage of GDP) of the Confederation, cantons and communes dropped further from 51.4% to below 50%. Half of the debt was attributable to the Federal Government, 30% to the cantons and 20% to the communes.

Consultation process on fiscal equalisation system

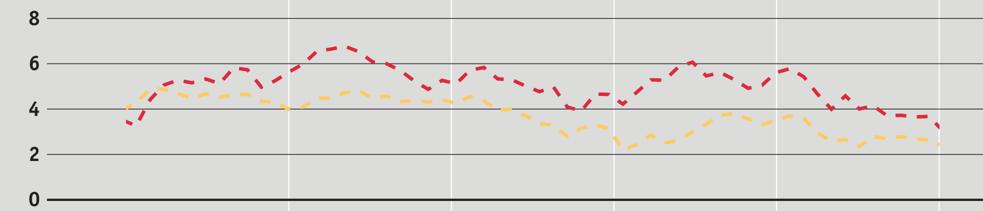
The consultation process on a revision of the law levelling the differences between financially strong and financially weak cantons, which had commenced in 1999, was completed. The principal aims of the revision are to strengthen federal structures and reorganise authorities and responsibilities between the Confederation and the cantons. Following further modifications, the Federal Administration will probably put the draft law before the Federal Council in 2001.

1996 1997 1998 1999 2000

Spreads for long-term interest rates

Germany – Switzerland
United States – Switzerland

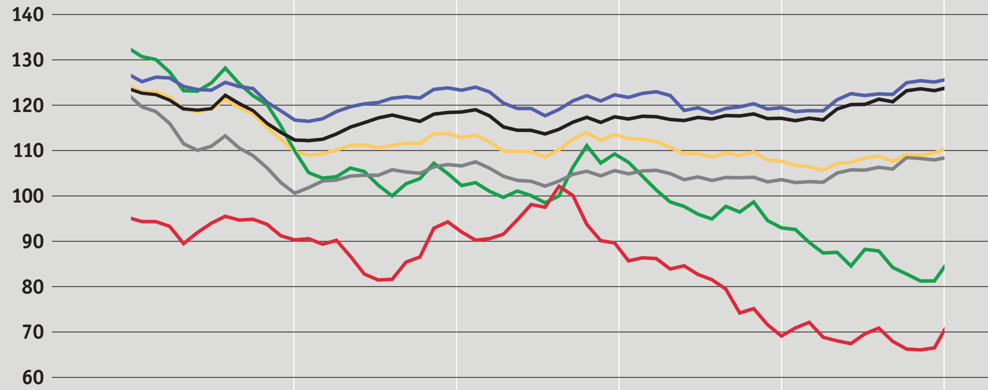
Spread in percentage points.
Source: BIS



Swiss franc real exchange rates

Total (15 countries)
Dollar
D-mark
Yen
French franc
Lira

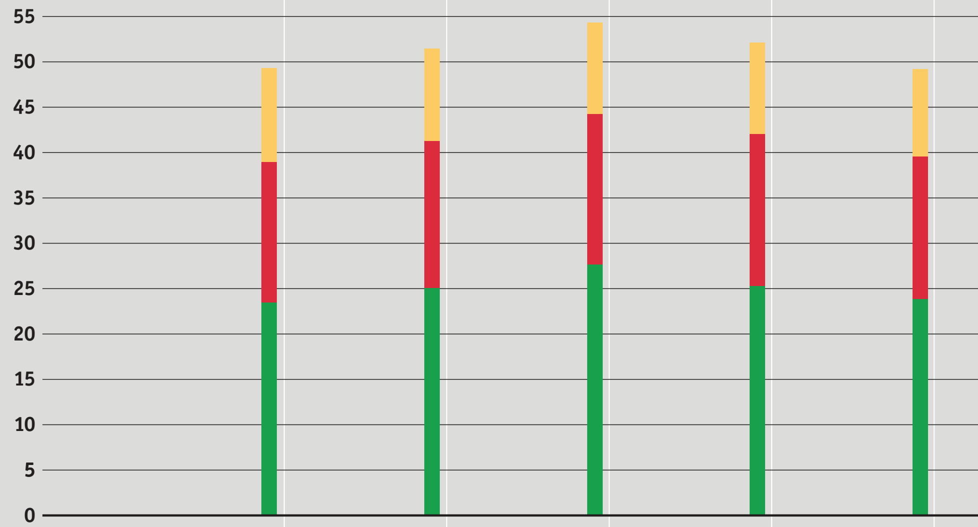
Consumer-price deflated real value of the Swiss franc in foreign currencies.
Total: export-weighted.
Index: November 1977 = 100



Public-sector indebtedness

Communes
Cantons
Confederation

In percent of GDP (2000: estimate).
Source: Federal Department of Economic Affairs



1996 1997 1998 1999 2000

2.3 Financial markets

Rising interest rates in the first half of the year

The rise in interest rates that started in the second half of 1999 continued in the first six months of 2000. Since short-term interest rates rose far faster than long-term rates, the yield curve flattened. The average yield on Confederation bonds rose to 4.3% by May before slipping back to 3.7% by December. Yields on three-month money market debt register claims rose from 1.7% in January to 3.3% in November, but dropped slightly to 3.2% in December. The yield spread between Confederation bonds and money market debt register claims was thus still 0.5 percentage points in December, compared with 2.1 percentage points in January.

Share price rally

The Swiss SPI share index gained 12% in 2000. In fact, it rose by 15% to nearly 5,800 between the start of January and mid-August, before slipping back to around 5,300 in October. It subsequently recovered to close the year at around 5,600. Share prices of large corporations were 9% higher, which was well below the uptrend registered by small (+36%) and medium-sized companies (+22%). Share prices in the service sector rose by an average of 11%, which was almost exactly in line with the rise in industrial share prices. However, there were major differences between the various sectors. Strong gains were posted by the food and beverage industry (+30%), insurance (+21%) and banks (+16%), while the retail sector (–7%), transportation (–9%) and construction (–7%) posted a decline. The New Market Index, which is composed of shares from the telecommunications, biotechnology and information technology sectors, rose sharply at the start of the year but slumped in the spring and subsequently proved extremely volatile. In December it was 7.4% above the January level.

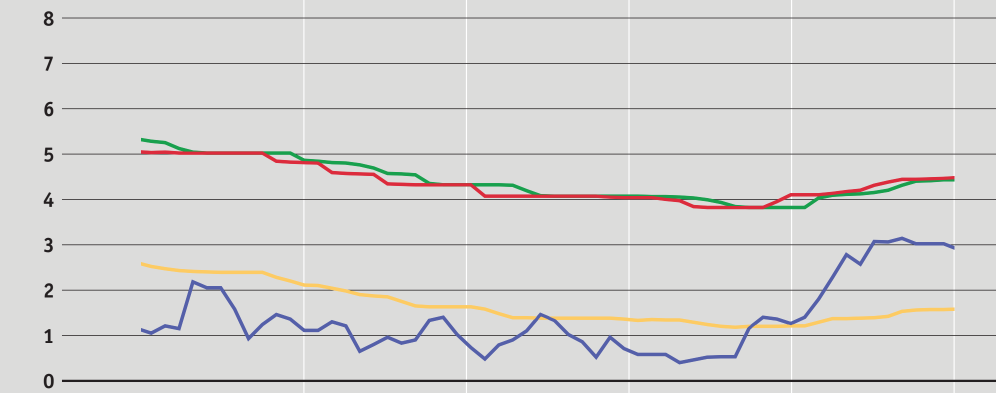
Lower net borrowing on the capital market

Borrowing on the Swiss capital markets in 2000 was again lower than in the previous year. Net borrowing (new issues less redemptions) was Sfr 28.8 billion in 2000, compared with Sfr 34.8 billion in 1999. Although domestic borrowing rose from Sfr 12 billion to Sfr 17.3 billion, borrowing by foreign issuers dropped significantly to Sfr 11.5 billion, down from Sfr 22.8 billion. Nearly five-sixths of domestic borrowing was effected through the bond market and just over one-sixth via the equity market.

Slower growth in lending

Growth in domestic lending business slowed. Non mortgage-secured loans to domestic customers rose only half as fast as in 1999. The big banks cut back lending in this segment while the cantonal banks reported double-digit growth. Mortgage-backed loans remained at around the previous year’s level. Mortgage lending declined slightly at the big banks and cantonal banks whereas the regional banks and Raiffeisen banks (regional credit cooperatives) reported a rise in mortgage business. Classic savings instruments, i.e. customer deposits in savings accounts and similar investments plus medium-term notes, declined again in 2000. Banks therefore had to resort increasingly to the interbank market and the capital market to refinance loans and mortgages.

Selected bank interest rates



Existing mortgages at cantonal banks

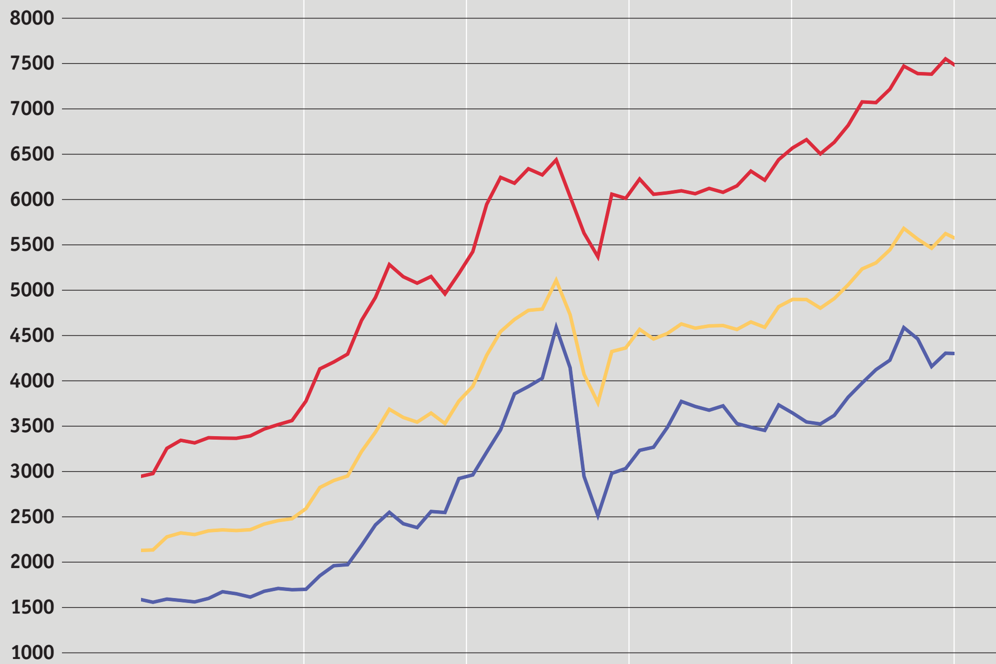
New mortgages at cantonal banks

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

Restructuring of Geneva cantonal bank

The Banque Cantonale de Genève transferred approximately Sfr 5 billion in non-performing loans to a special management company. This transfer required a capital increase from Sfr 225 million to Sfr 360 million. The majority shareholders are the City and Canton of Geneva and the Geneva communes. The management company benefits from a full state guarantee, whereas the cantonal bank itself only has a limited state guarantee.

US acquisitions by major Swiss banks

UBS AG and Credit Suisse Group both acquired financial institutions in the United States in 2000. UBS AG acquired the US asset management company PaineWebber for Sfr 20.8 billion, and the CS Group acquired the investment bank Donaldson, Lufkin & Jenrette (DLJ) for Sfr 19.6 billion. With these acquisitions in the United States the two big banks aimed at strengthening their investment banking and asset management.

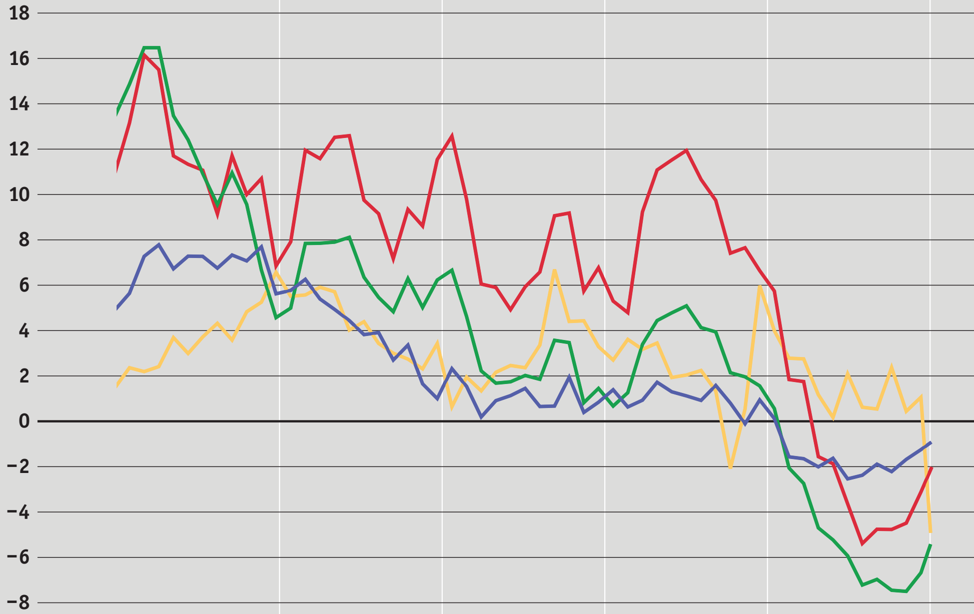
Higher profits in the banking sector

In an international environment characterised by increasing uncertainty the two big banks reported exceedingly high profits. The majority of the other banks also exhibited better results.

Monetary base
M1
M2
M3

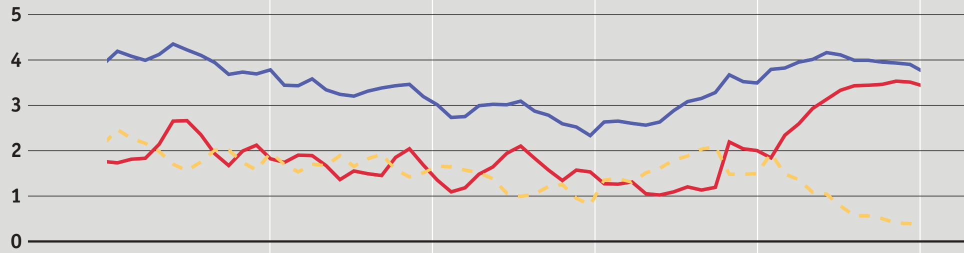
Percentage change from previous year's level.

Monetary aggregates



Three-months LIBOR
Yield on federal bonds, percent per annum
Differential in percentage points

Money and capital market rates



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 exceedingly low interest rate level leads to an excessive supply of money and triggers an inordinate demand for goods and services. Overall economic capacity is stretched, which may cause prices to rise. An excessively high interest rate level, by contrast, hampers production. The economy suffers losses of output and possibly a decline in the price level.

Adjustment of the monetary policy concept as from the beginning of 2000

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. In 1999, the National Bank fundamentally reviewed its monetary policy concept after it had been shown that the monetary base had lost its indicator value to some extent. The adjustment of the monetary policy concept as from the beginning of 2000 brought three innovations with it: 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. Third, it sets an operational target range for a reference interest rate, the three-month Libor rate (London Interbank Offered Rate). The National Bank no longer announces a growth target for a monetary aggregate; monetary aggregates, notably M_3, however, continue to play a significant role as monetary policy indicators since they provide important information on the long-term course of inflation.

Definition of price stability

The National Bank equates price stability with a rise in the national consumer price index of less than 2% per annum. This 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.

As a rule, no smoothing of short-term price fluctuations

The National Bank must reckon with unexpected price fluctuations in the short term, for example as a result of marked swings in oil and other import prices and in exchange rates. It only reacts to such swings, however, if there is a danger of a protracted inflationary or deflationary development. The smoothing of short-term movements in the price level would be associated with the threat of stronger cyclical fluctuations, which would be a significant burden on the economy.

Regular publication of an inflation forecast

In mid-year and at year-end, the National Bank 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, however, fraught with considerable uncertainties. By publishing a medium-term forecast, 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. The inflation forecast is normally based on the assumption that the reference interest rate will remain constant during the forecasting period.

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 are significant, the most important among them being indicators of the cyclical state of the economy and exchange rates. The National Bank comments the development of major monetary policy indicators of relevance to the inflation forecast on a regular basis.

Review of monetary policy based on the inflation forecast

If the inflation forecast deviates from price stability as defined by the National Bank, monetary policy needs to be reviewed. Should inflation threaten to exceed 2%, the National Bank will tend to tighten the monetary reins. Conversely, it is ready to relax the monetary reins if there is a danger of deflation.

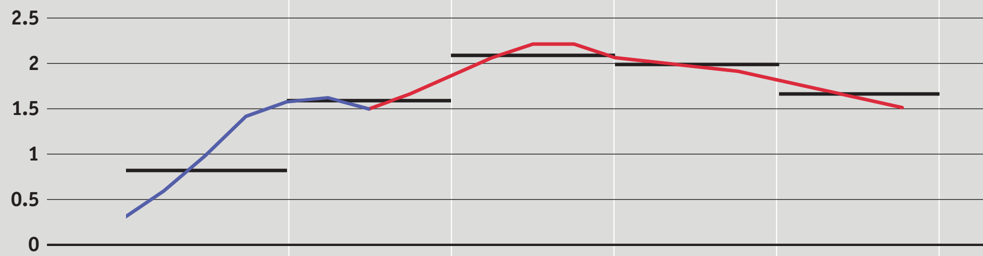
Steering concept for the money market – target range for the three-month Libor rate

In implementing its monetary policy, the National Bank focuses on the interest rate level in the money market. It fixes a target range with a spread of one percentage point for the three-month Libor, the economically most significant money market rate for Swiss franc investments, and publishes this band regularly. The National Bank reviews its monetary policy during its quarterly assessment of the situation. If circumstances require, the National Bank also adjusts the target range for the three-month Libor rate between regular publication dates. Reasons are stated for any changes made.

Steering technique

As a rule, the National Bank influences the Libor via short-term repo transactions. It can prevent an undesirable rise in the three-month Libor rate by supplying the banks with an increase in liquidity through repo transactions and tending towards a reduction of its repo rates (creation of liquidity). Conversely, by injecting less liquidity or increasing repo rates the National Bank induces an upward interest rate movement (siphoning off of liquidity). The liquid funds of commercial banks in Swiss francs consist largely of sight deposits held with the National Bank. The banks' demand for sight deposits derives mainly from statutory liquidity requirements; by contrast, since intraday liquidity has been introduced demand for sight deposits stemming from interbank payment transactions has all but ceased, notably in the case of the large banks. In normal circumstances, repos have a maturity of between one day and several weeks. Short-term fluctuations in repo rates frequently have no connection with the monetary policy course, but rather, among other things, with the distribution of liquidity in the system.

Inflation forecast



Inflation

Forecast

Average annual inflation:
2000: 1.6%
2001: 2.1%
2002: 2.0%
2003: 1.7%

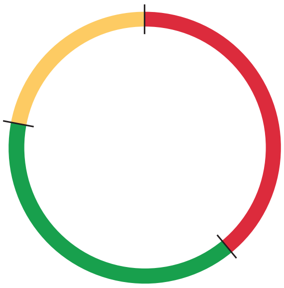
Change in the national consumer price index in percent compared with the previous year's figure.

Repo rates and Libor

Repo rates cannot be directly compared with the Libor. The Libor rate 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. The Libor thus contains a credit risk premium, whereas repo rates are riskless interest rates since repos are backed by securities.

Monetary policy instruments

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. From an economic vantage point, the repo is a secured credit. In exchange, the cash taker pays the cash provider interest. Aside from repo transactions, the National Bank also employs foreign exchange swaps for regulating the money market. Furthermore, the National Bank has the possibility to place time deposits held with it by the Confederation at the banks for its own account but at the Confederation's risk. In this way, it can balance the shifts in liquidity between the banking system and the Confederation. Both instruments play a subordinate role in the current steering concept and are only resorted to in exceptional cases.



Collateral from repo transactions
in percent

CHF bonds of domestic borrowers 39

CHF bonds of foreign borrowers 39

Euro bonds 22

Total: Sfr 24.3 billion.
End 2000

Instruments for money market operations in Sfr billions

	1999		2000	
	Holding Average	Turnover	Holding Average	Turnover
Repo transactions (creation of liquidity)	16.9	722.9	18.9	768.7
less than 1 week			0.9	227.0
1 week			4.1	211.2
2 weeks			10.0	259.4
3 weeks			3.6	62.2
others			0.4	8.9
Confederation and postal investments[1]				
new investments	17.8	244.5	11.4	112.8
onward placements	1.0	15.8	0.0	0.0

1 As from November 2000 without postal investments (cf. p. 59)

Intraday liquidity to facilitate payment transactions

Since the beginning of October 1999, the National Bank has been putting interest-free liquidity at the commercial banks' disposal during the day. These liquid funds are offered in the form of repo transactions. Intraday liquidity serves to facilitate the processing of payment transactions. It does not jeopardise monetary policy since the liquidity provided during the day may not be used to meet statutory liquidity requirements. Whether the liquidity requirements have been fulfilled is checked based on values resulting at the end of a business day, i.e. after repayment of the intraday liquidity. If a bank fails to repay the intraday liquidity on the same business day, it becomes liable to pay interest at a rate clearly in excess of the Lombard rate.

Lombard loan as a short-term source of refinancing in exceptional cases

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.

2 Implementation

Background

At the end of 1999, the National Bank for the first time published a medium-term inflation forecast and a target range for the three-month Libor rate. It fixed the target range at 1.25%–2.25%. This implied a tightening of monetary policy by the National Bank so as to ensure that inflation remained below 2%. The medium-term inflation forecast showed an average inflation rate of 1.5% for 2000 and a slight increase to 1.8% by 2002. This rise in inflation reflected the anticipated economic upswing, which – so experience has shown – would normally go hand in hand with upward price trends.

Tightening of the monetary reins in the first half-year

For 2000, the National Bank forecast real economic growth of 1.8%. Very soon after the turn of the year, it became evident that the economic upswing in Switzerland would be considerably boosted by the strengthening international economy. At the same time, the continuing weak trend of the Swiss franc led to an undesirable easing of monetary conditions in Switzerland. In order to ward off the associated threat of inflation, the National Bank rapidly tightened the monetary reins. Until mid-year, the National Bank increased the target range for the 3-month Libor rate by a total of 1.75 percentage points to 3%–4%.

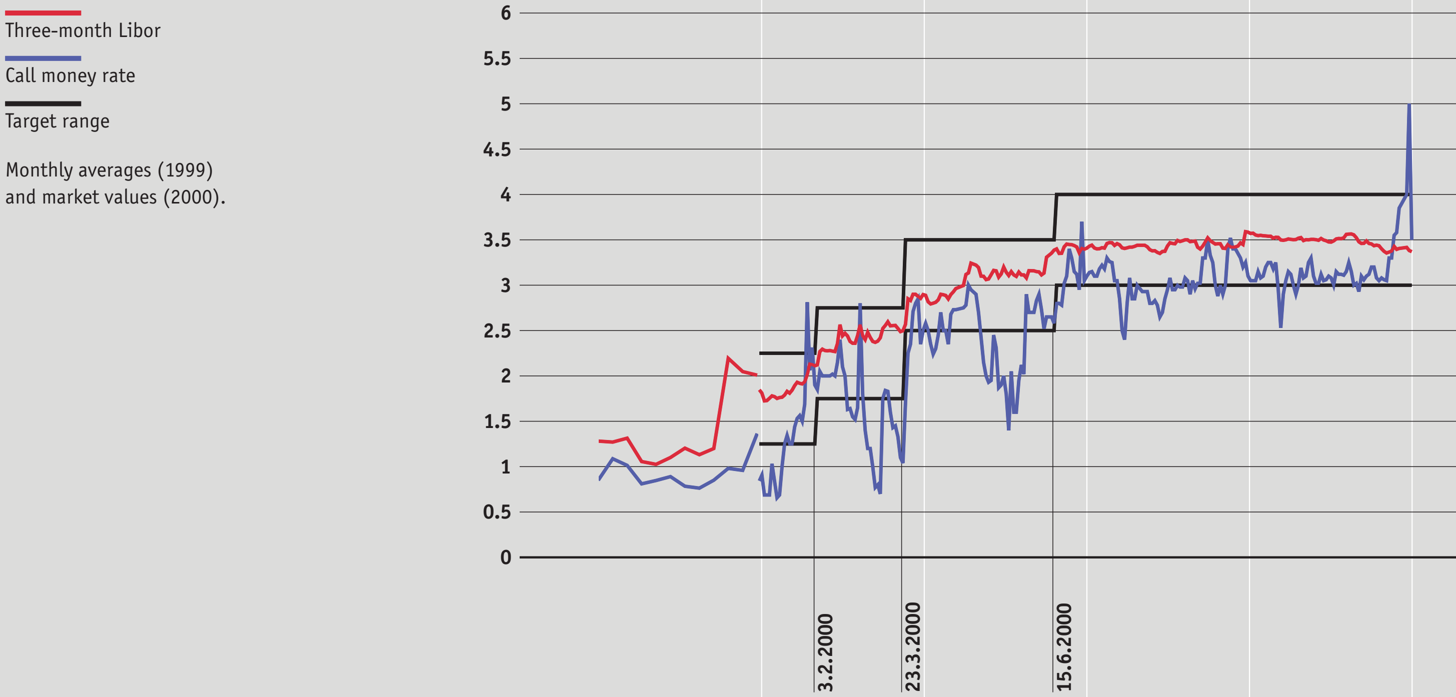
Two-fold increase in the interest target band in the first quarter

As a first step, the National Bank increased the target range by half a percentage point to 1.75%–2.75% on 3 February after already having moved towards the upper part of the target band in the second half of January. On 23 March, on the occasion of its quarterly assessment of the economic situation, the National Bank decided once more to tighten monetary policy considerably and increased the target range for the three-month Libor rate by 0.75 percentage points to 2.5%–3.5%. The data published after the interest rate adjustment in early February showed that the Swiss economy had gained quite drastically in momentum in the second half of 1999. Shortages in the labour market were increasingly in evidence. Additional inflation risks emanated from the further decline of the Swiss franc, notably vis-à-vis the dollar.

Further interest rate step in mid-June

On 15 June, the National Bank increased the interest rate target range by another half a percentage point to 3%–4% after having permitted the three-month Libor rate to rise to the upper part of the target band at the beginning of the month. A review of the inflation forecast issued at the end of 1999 had led to the conclusion that the tightening of monetary policy implemented so far would not suffice to maintain price stability in the medium term. At the same time, the National Bank pointed out that despite a further interest rate hike a temporary increase in inflation in 2001 to more than 2% was unavoidable.

Money market rates



Unchanged interest target range in the second half of the year

At the quarterly assessment of the economic situation in September, the National Bank left the interest target range unchanged. A review of monetary policy had shown that the implemented policy was sufficiently restrictive to prevent economic overheating and ensure price stability in the medium term. Important indicators led to the expectation that the broadly-based economic upswing would continue, albeit at a more leisurely pace than at the beginning of the year. In addition, the Swiss franc had appreciated even further against the euro, which was tantamount to a slight tightening of monetary policy.

No sign of a long-term price rise

The development of the monetary aggregates in 2000 did not point to a long-term threat to price stability. The broadly defined money stock M_3, comprising currency circulation, sight and other transaction deposits of the nonbank public plus savings and time deposits, declined slightly in the course of the year. In the fourth quarter, M_3 fell short of the corresponding previous year's level by 1.2%. The aggregate M_3 was thus at the same level as three years earlier.

Small rise in the monetary base

The seasonally-adjusted monetary base rose by 1.1% in 2000, thus growing less markedly than in the previous year (2.4%). Banknote circulation, which comprises roughly 90% of the monetary base, increased by 2.4%. At the same time, the banks' sight deposits at the National Bank fell by 12%. The decline in demand for sight deposits was due largely to the introduction of intraday liquidity. The fluctuations of sight deposits, which were considerably stronger than in the previous year, reflect mainly the transition from the steering of sight deposits to the steering of interest rates.

Inflation forecast for 2001–2003

At its media news conference of 8 December 2000, the National Bank published its inflation forecast for the period 2001–2003. It projected medium-term inflation risks at approximately the same level as six months earlier. Consequently, it left the target range for the three-month Libor rate at 3%–4%. According to the inflation forecast for 2001–2003 published in December, the inflation rate in mid-2001 is likely to exceed 2%, albeit temporarily, to drop below the 2% mark again in the course of 2002 and to average 1.7% in 2003. The anticipated temporary deviation from the target of price stability can be largely explained by the massive rise in oil prices as well as by the acceleration of economic activity in 2000. The inflation forecast is based on the expectation that economic growth in 2001 and 2002 will slow to 2.2% and 1.6% respectively. Economic development abroad, notably in the US and in Europe, plays a key role in this scenario. The National Bank assumed that the stimulating forces in the United States would subside and that the dynamism in Europe was also likely to lose momentum. Moreover, compared with 2000, it expected a slightly higher real export-weighted Swiss franc rate. Finally, it assumed that the oil price would fall again in the next two to three years.

The experience gained with the new monetary policy concept has been positive. The undertaking to issue an inflation forecast on a regular basis promoted the internal debate of monetary policy and provided an incentive to make a broad-based analysis of all factors relevant to future price developments. Several different methods were applied to forecast inflation and real growth. The results were discussed internally and were subsequently integrated in a consensus forecast. The enhanced transparency of monetary policy associated with the publication of the inflation forecast was welcomed by financial markets. The fact that the decision-making process is based on all significant indicators was noted with particular satisfaction. The National Bank makes every endeavour to disclose, as far as possible, the analyses on which the inflation forecast is based. It consequently plans to publish various studies which will explain its forecasting activities in greater detail.

Positive experience gained with the adjusted monetary policy concept …

In the operational field, the three-month Libor rate proved to be a useful target variable. After a short period of adjustment, the target range and the Libor rate as reference interest rate became firmly established in the monetary policy discussion. Moreover, the Libor rate was, on the whole, successfully steered by means of short-term repo transactions to the level aimed at in each individual case, and kept at this level. This also applies to the first half-year, when the National Bank increased the target range at short intervals. The fully automated repo trading and settlement platform, which permits the highest degree of operational flexibility, contributed significantly to the positive record of interest rate steering.

… also on an operational level

Legal framework

1 Constitutional provision concerning a different utilisation of National Bank gold reserves

Gold reserves no longer required for monetary policy

In 1997, a group of experts for the Reform of the monetary order had investigated what level of monetary reserves was required for conducting monetary policy if the gold reserves, which had hitherto been immobilised based on the gold parity of the Swiss franc, are to become normal and marketable central bank assets. At that time, the group of experts had proposed that those gold reserves of the National Bank that were no longer required for monetary policy should be made available for other public purposes. Based on this and within the context of the planned reform of the monetary constitution, the two chambers of parliament had decided to create an explicit constitutional basis to enable the 1,300 tonnes of 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. Since, however, the new monetary article in the Federal Constitution failed to be passed by the federal parliament in the final vote of 18 June 1999 (cf. 92nd Annual Report, page 43), the Federal Council decided to choose a different procedure. This is based on the renewed Federal Constitution, which entered into force on 1 January 2000.

Message of the Federal Council

The renewed monetary article (art. 99 FC) no longer provides for a link of the Swiss franc to gold. Art. 99, para 3 FC still obliges the National Bank to hold a part of its monetary reserves in gold. There is, however, no obstacle to that part of the gold reserves which – following the revaluation of its gold holdings – the National Bank no longer needs for monetary policy purposes being allocated to other beneficiaries on the basis of a special constitutional norm. Accordingly, with its message of 17 May 2000, the Federal Council submitted the draft of a decree of the federal parliament on the use of gold reserves (transitional provision concerning art. 99 FC) as well as of a federal law on the Swiss Foundation for Solidarity to parliament. The proposed transitional provision concerning the Federal Constitution (art. 197, section 1) authorises the legislature to regulate the allocation of the proceeds from the sale of 1,300 tonnes of gold of the National Bank. Parliament commenced its deliberations on the bill in the second half of 2000.

2 Federal law on currency and payment instruments

Entry into force

The Federal law on currency and payment instruments was passed by the Federal Assembly on 22 December 1999 (cf. 92nd Annual Report, p. 44). After the referendum deadline had expired unused, the Federal Council put the law into force on 1 May 2000. This enabled the National Bank to revalue its 2,590 tonnes of gold holdings and to carry out gold transactions.

Repeal of gold-related decrees of the Federal Council

The Federal law on currency and payment instruments severs the link of the Swiss franc to gold on the legislative level. With the definitive removal of the National Bank's obligation to redeem banknotes and of the gold parity of the Swiss franc from federal legislation, the Decrees of the Federal Council of 29 June 1954 concerning the legal tender status of banknotes and of 9 May 1971 concerning the fixing of the gold parity of the Swiss franc were repealed. The Federal law on currency and payment instruments contains new regulations on all the characteristic features of currency and money (legal tender) relevant for the public: it defines the Swiss currency unit, describes the legal payment instruments and the creditors' obligation to accept these, replaces the Coinage Law and incorporates the provisions in the National Bank Law relating to banknotes. Together with the Federal law on currency and payment instruments, the Federal Council also put the revised Coinage Ordinance into force.

3 Total revision of the National Bank Law

Report and draft of the group of experts

In mid-October 2000, the group of experts for the Reform of the monetary order, in which the National Bank was also represented, submitted its report and draft for a new National Bank Law (NBL) to the head of the Federal Department of Finance. Many sections of the present National Bank Law are outdated and do not conform with the new monetary article of the Federal Constitution (art. 99 FC). It is therefore necessary to revise the Law completely. After the new monetary article and the Federal law on currency and payment instruments have entered into force, the revision of the National Bank Law is the third and last pillar of reform of Switzerland's monetary order.

Comprehensive updating of central bank law

The group of experts was entrusted with the task of analysing all pending problems of Switzerland's central bank legislation and proposing appropriate solutions. The draft law submitted by this group entails, as the main points of reform, translating the new monetary article into a specific central bank mandate, implementing central bank independence and formal accountability, providing for more flexible approaches to the National Bank's business, modernising its instruments, adjusting the legal provisions governing its corporate activities, including the rules on the determination and distribution of its profits, and streamlining its organisational structure. The group of experts was guided mainly by the internationally recognised standards applicable to modern central bank laws.

Comments by the National Bank

The National Bank will submit its comments on the draft of the total revision of the NBL during the consultation procedure planned for 2001.

1 Investment of assets

1.1 Basis

Nature and purpose of the National Bank's assets

The National Bank's assets essentially consist of foreign currency and gold reserves as well as financial assets in Swiss francs (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.

Establishment of a portfolio of free assets

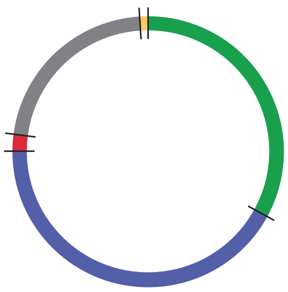
The legal steps which had been initiated for the purpose of a different utilisation of gold reserves no longer needed for the conduct of monetary policy (cf. page 43), led the National Bank to treat these assets in a special manner. Proceeds from the sale of gold as well as the additional gold earmarked for sale are pooled as free assets and managed as a separate portfolio. Free assets, however, do not figure in the annual financial statements as such, since they do not constitute separate assets in the legal sense.

Role of assets within the framework of monetary policy

A considerable part of the National Bank's assets directly serve for implementing monetary policy. In order to supply the economy with base money and to steer money market rates, the National Bank performs securities transactions or foreign exchange transactions. In 2000, monetary policy was controlled almost exclusively by means of repo transactions, which are equivalent to security-backed money market loans (cf. pages 34ff).

Foreign exchange reserves and gold holdings

International reserves are assets, especially foreign exchange reserves and gold holdings, that the National Bank can use for making international payments. The foreign currency reserves enable the National Bank to intervene in the market in the event of a Swiss franc weakness. The National Bank can, at any time, sell foreign exchange reserves against Swiss francs in order to support the external value of the currency. The holdings of monetary gold help to ensure that Switzerland remains able to pay vis-à-vis foreign countries in emergencies.



Structure of National Bank assets
in percent

Gold 33

Unhedged foreign exch. reserves 42

Other foreign currency assets 2

Domestic financial assets 22

Other domestic assets 1

Total: Sfr 115 billion.
Balance sheet values, avarage

Leeway for managing assets

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 provides for the possibility to set aside a part of the gold reserves for gold lending. Within the framework of legal provisions, the risk limits set internally and the requirements of its monetary policy mandate, it manages its assets as profitably as possible.

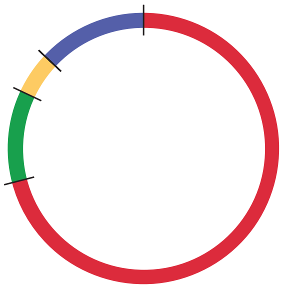
1.2 Monetary foreign exchange reserves

Investment principles

The National Bank invests the bulk of its monetary foreign exchange reserves – i.e. the foreign currency assets without the part allocated to the free assets – in safe and liquid securities, and a small proportion in time deposits at prime foreign banks. It ensures that, in case of need, it can 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 an internal investment committee determines the detailed currency allocation and the permissible interest rate risk. The National Bank's portfolio managers are guided by a reference portfolio for each individual currency. The benchmark for success of managing the portfolios is the yield achieved on these reference portfolios.



Foreign exchange reserves by debtors
(without free assets)
in percent

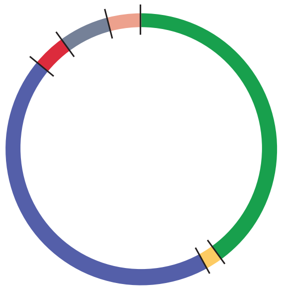
Government securities 71

Securities with indirect government guarantee 11

Monetary institutions 5

Banks 13

Total: Sfr 47.8 billion.
End 2000



Foreign exchange reserves by currency
(without free assets)
in percent

US dollar 40

CA dollar 2

Euro 44

Danish krone 4

Pound sterling 6

Yen 4

Total: Sfr 47.8 billion.
End 2000

In 2000, the National Bank continued to increase the diversification of its foreign exchange reserves. It expanded its investments in the European currencies euro, pound sterling and Danish kroner to the detriment of the US dollar and built up investments in US agency paper and German mortgage bonds. As a new investment, it bought mortgage-backed bonds from Denmark. It was therefore possible, within the framework of legal provisions, to expand the yield potential. In addition to futures, the National Bank also used interest rate swaps for regulating the average duration of portfolios. Duration was kept at approximately 3 years, which was last year's level. On the whole, the yield on monetary foreign exchange investments amounted to 5.8% compared with 9.7% in the previous year. At the end of the year, they amounted to Sfr 47.8 billion, thus falling short of the previous year's level by Sfr 6.8 billion. At the end of 1999, they had been at an extraordinarily high level since – in view of the 1999/2000 changeover – banks' liquid funds had been built up heavily with dollar-Swiss franc swaps.

Investment activity and results

Annual results monetary foreign exchange investments
Yields in percent

	1998		1999		2000	
Currency portfolio	Local currency	Swiss francs	Local currency	Swiss francs	Local currency	Swiss francs
US dollars	7.8	2.1	0.8	16.9	10.1	12.6
Euros	–	–	−0.2	−0.0	6.0	0.7
D-marks	7.4	8.6	–	–	–	–
Dutch guilders	8.4	9.6	–	–	–	–
Yen	0.5	8.7	2.5	32.5	1.0	−8.1
Pounds sterling[1]	9.6	3.9	1.1	14.4	8.6	2.8
Danish kroner[2]	4.8	3.7	0.8	0.9	5.5	−0.2
Canadian dollars[3]	–	–	1.1	7.6	7.9	6.9
Total foreign currency reserves	–	5.9	–	9.7	–	5.8

1 since March 1998

2 since June 1998

3 since May 1999

Up to then, a small portion of the foreign exchange reserves had been managed by an external management company. In 2000, the National Bank appointed three additional external managers. At the end of the year, the external asset management companies had a total of 7.6% of the foreign currency reserves under management. The management mandates open up special investment segments such as mortgage-backed securities in the United States and international bond portfolios. A specialised global custodian processes the business transactions for the foreign exchange reserves managed by external managers.

External asset managers

1.3 Swiss franc bonds

Investment principles

The National Bank keeps a part of its assets in Swiss franc bonds. It manages this portfolio 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. In 2000, the National Bank examined its investment strategy and decided that, in future, it would reproduce an index for Swiss franc bonds that is representative of the market.

Purchases of Swiss franc bonds of domestic and foreign borrowers

The National Bank considers all debtor categories permitted by law: the Federal Government, cantons and communes, domestic and foreign banks and mortgage bond institutions, foreign governments and international organisations.

Investment results

At the end of 2000, the market value of the portfolio – without the part allocated to the free assets – amounted to Sfr 5.2 billion, compared with Sfr 4.9 billion in the previous year. In connection with adjusting the investment strategy, the duration increased from 2.6 to 3.5 years. The yield on the portfolio rose from 0.7 % in the previous year to 3.3 % in 2000.

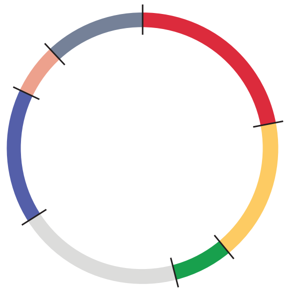
1.4 Gold lending

Investment principles

Since the market for gold lending is a relatively tight one, the National Bank, in order not to disrupt the price structure, only uses a modest proportion of its gold holdings for lending. Its partners are some twenty first-class domestic and foreign financial institutions. They pay interest for the temporary loan of gold.

Decreased lending volume as a result of agreement on gold

The agreement on gold sales concluded in September 1999 between 15 European central banks (cf. 92nd Annual Report, page 45), also requires the National Bank to limit its gold lending to the previous level of 328 tonnes. It therefore kept its lending volume constant on that level; at the end of 2000, the amount of gold lent was 323.8 tonnes.



Swiss franc securities by debtors
(without free assets)
in percent

Confederation 22
Cantons 17
Communes 7
Mortgage bond institutions 20
Banks 16
International organisations 6
Foreign borrowers 12

Total: Sfr 5.2 billion.
End 2000

Long-term lending against securities collateral

The National Bank concludes a part of its gold lending transactions against securities collateral. Depositing such collateral lowers the credit risk considerably, yet it also reduces income. At the end of 2000, 26.3% of all gold lending was backed by securities collateral. This gold lending concentrated on long-term transactions with maturities ranging from one to five years.

Return on investment

In 2000, the National Bank achieved a yield of 1.8% p.a. with gold lending. At the end of the year, the average residual maturity of all gold lending transactions concluded amounted to 9.3 months.

1.5 Free assets

Principles

The National Bank sells gold no longer required for monetary policy purposes totalling 1,300 tonnes successively over a period of time on the market. The proceeds are invested in various financial assets which are managed separately from the other assets. The investment process is structured similar to the foreign exchange reserves. Within the framework of the investment strategy fixed by the Governing Board, an internal steering committee determines the detailed investment guidelines and management measures. The yardstick for success is the yield achieved on benchmark portfolios.

Beginning of gold sales

The sale of the gold no longer needed began at the beginning of May. By the end of December, the National Bank had sold 170.8 tonnes of gold on the market at an average price of US dollars 275.58 per ounce. The proceeds from these sales amounted to Sfr 2.6 billion. The Bank for International Settlements (BIS) was entrusted with the sale. The sales were concluded at regular intervals and in quantities that protected the market as much as possible. They are effected within the framework of the agreement on gold sales concluded between 15 European central banks in September 1999. The agreement fixes annual sales quotas.

Partial hedge against the currency risk on future gold sales

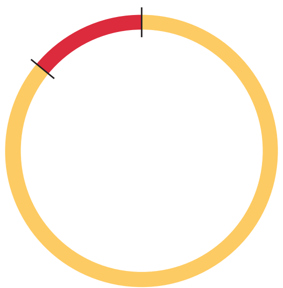
The possibilities of hedging additional gold holdings earmarked for sale against an unfavourable development of the gold price in Swiss francs are considerably limited by the agreement on gold sales of September 1999. The National Bank may therefore not hedge against the gold price risk with derivative instruments. It can, however, manage the currency risk of future US dollar-denominated proceeds from gold sales. For this reason, the National Bank has concluded dollar forward sales against Swiss francs and euros to the extent of roughly one-third of the future proceeds in dollars. A complete hedge of the currency risk is not necessary because, as a rule, any weakening of the dollar against the Swiss franc regularly coincided with a rise in the dollar price of gold. Moreover, broad-based hedging could lead to disturbances in the Swiss franc forward market. In 2000, hedging transactions resulted in a profit of Sfr 82.8 million.

Investment of the proceeds from gold sales

Proceeds from gold sales are invested exclusively with counterparties with excellent rating. The portfolio mainly consists of bonds of public-law institutions, and banks in Switzerland and abroad as well as a small proportion of time deposits with domestic and foreign banks. Approximately 10% of the portfolio consists of Swiss franc denominated bonds, and another 50% is hedged against currency risks. The rest of the portfolio is invested in euros (20%), US dollars (10%) and other currencies (10%). The duration of the portfolio is approximately three years. In the eight months since the portfolio has been in existence, a yield of 4.2% was achieved.

Level of the free assets at year-end

At the end of 2000, the market value of the free assets amounted to Sfr 18,904.6 million, of which Sfr 16,187.5 million was accounted for by the additional gold reserves earmarked for sale and a total of Sfr 2,717.1 million by foreign exchange investments and investments denominated in Swiss francs. The gross replacement values from transactions concluded to hedge the currency risks are included in the market value. The market value of the free assets was Sfr 44.2 million higher than the provision for the assignment of the free assets in the amount of Sfr 18,860.4 million (cf. item no. 46 in the balance sheet). The difference results from the fact that the income received from managing the proceeds from gold sales is not allocated to this provision. Since the free assets do not constitute special assets, the income is reflected in the National Bank's income statement.



Market value of free assets
in percent

Gold (earmarked for sale) 86

Investments in foreign currencies and CHF 14

Total: Sfr 18.9 billion. End 2000

1.6 Risk management

Purpose of risk management

The National Bank's risk management compiles, limits and controls all relevant financial risks it incurs 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 and free assets. Market risks, i. e. currency, gold price and interest rate risks are crucial. In addition, within the framework of its investment and monetary policy, the National Bank also incurs certain credit risks.

Market risks

The National Bank controls market risks 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 for the individual portfolios managed internally and externally. Among other things, the bands for the currency proportions, the duration as also the upper limits for certain investment segments are defined. The strategic guidelines are established by the Governing Board. In 2000, the currency risk from foreign exchange reserves continued to be reduced by diversification. It is, however, still considerable because the role of the National Bank calls for a largely unhedged currency risk in foreign exchange reserves. In the case of free assets, however, it can be greatly reduced by concluding foreign currency forward transactions. Yet, the gold price risk on free assets remains significant.

Credit risks

Credit risk management is carried out in accordance with established 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. An internal risk committee translates these guidelines into concrete allocations for the individual business types and is responsible for the control process. Domestic borrowers are now also included in the bank-wide risk limitation.

Control process and risk reporting

The observance of the investment guidelines and risk limits is monitored systematically. The responsible Section 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. In addition, since November 2000, Swiss Post has carried out its money market transactions via the Swiss Interbank Clearing system (SIC).

Interbank clearing system SIC

The electronic Swiss Interbank Clearing System (SIC) is operated by Swiss Interbank Clearing AG (formerly Telekurs SIC AG) on behalf of the National Bank. The banks, and to some extent also Swiss Post, 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 May 2000, cheque transactions have been settled via SIC. Data carrier exchange, automatic debits (LSV) as well as transactions at ATMs, automated refuelling machines and ec-direct payments had already been integrated into SIC in previous years. With the integration of cheque transactions, all types of payment services offered by banks are now processed via SIC.

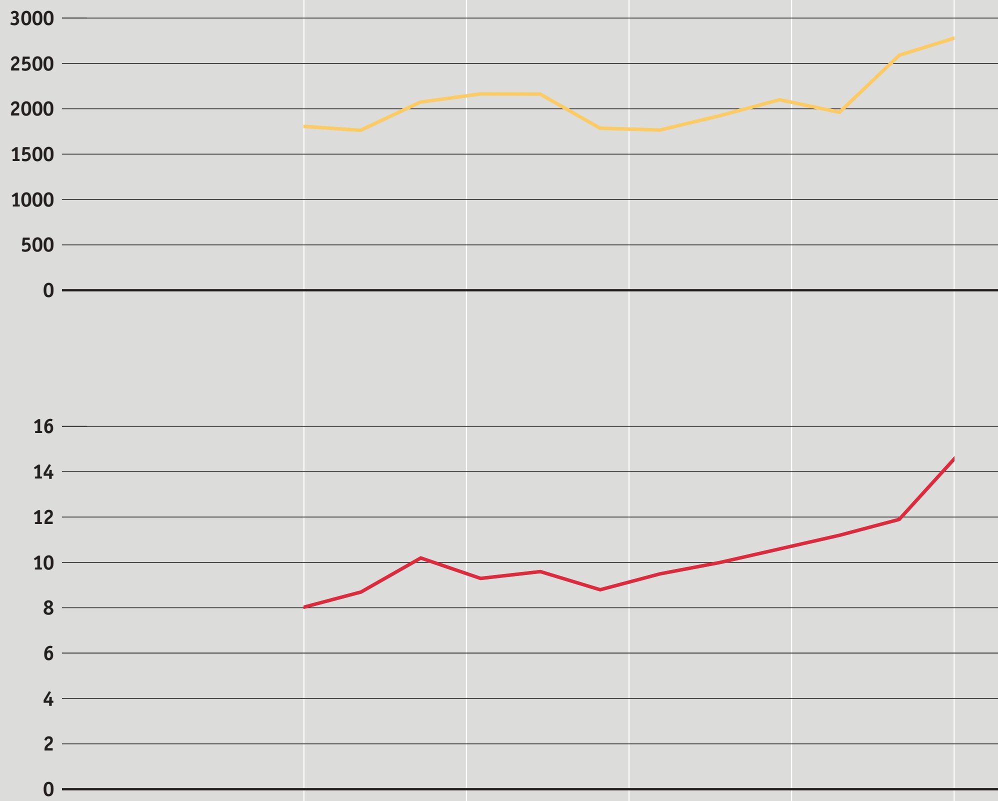
Developments relating to cash transactions

The process of reorganising the cash distribution concept continued in 2000. Swiss Post and several banks outsourced their cash handling tasks to specialised companies. The appearance of cash handling companies operating nationwide has led to flows of cash converging at individual bank offices. The National Bank had already made adjustments in line with market conditions at the end of 1999 and suspended cash distribution services in the Basel, Lausanne, Lucerne and St Gallen branch offices. Since then, cash handling services have been concentrated at the locations Berne, Geneva, Lugano and Zurich. In return, the decentralised network of agencies for the local receipt and distribution of banknotes and coins was expanded by the establishment of agencies in Basel and Lucerne.

Intraday credits

In millions of Swiss francs

Number



2.2 Cashless payment transactions

Increase of payment flows in SIC

At the end of 2000, there were 302 participants in SIC versus 291 at the end of 1999. During the year 2000, an average of 596,000 payments per day totalling approximately Sfr 178 billion were processed compared with 556,000 payments in the amount of Sfr 170 billion in the previous year.

Payment flows in SIC

	1996	1997	1998	1999	2000
Transactions per day thousands					
Average	427	480	529	556	596
Maximum	1156	1303	1323	1384	1821
Volume per day Sfr billions					
Average	150	182	182	170	178
Maximum	290	305	270	296	291

Intraday credits

Since October 1999, banks have had the possibility to obtain intraday liquidity from the National Bank (cf. p. 37). Since this additional liquidity has been introduced, individual payments are pending in the system for a considerably shorter time. Daily drawdowns on intraday loan facilities averaged Sfr 2 billion in 2000; on some days the volume went up as high as Sfr 3.5 billion.

Euro payments

In order to have access to TARGET (Trans-European Automated Real-Time Gross Settlement Express Transfer System), the Swiss banks run a special clearing bank in Frankfurt, the Swiss Euro Clearing Bank (SECB). The SECB services euroSIC, the clearing system which is set up similar to SIC. Most Swiss banks execute their euro payments through this bank. In the course of 2000, the number of payments transacted through the SECB climbed steadily: the volume of payments, however, showed an erratic pattern.

Developments in retail payment transactions

In 1999, PayNet, an Internet-based payment system developed by EUROPAY (Switzerland) SA , was introduced. PayNet is the first Electronic Bill Presentment and Payment System (EBPP) in Europe. An EBPP system is a fully automated invoicing and payment infrastructure, i.e. both invoice and inpayment slips are generated electronically.

2.3 Provision of currency

Higher volume of currency in circulation

In connection with the 1999/2000 changeover there was an unusually sharp increase in currency in circulation which subsided again rapidly, however. In 2000, it averaged Sfr 31.6 billion, thus exceeding the previous year's level by 2.6%. At an average of Sfr 2.3 billion, coins in circulation equalled the previous year's figure.

Production and disposal of banknotes

The National Bank obtained 130 million freshly printed banknotes with a face value totalling Sfr 130 billion from Orell Füssli Security Printing Ltd. A total of 91.8 million damaged or recalled notes with a face value of Sfr 7.5 billion were destroyed.

Decrease in currency turnover

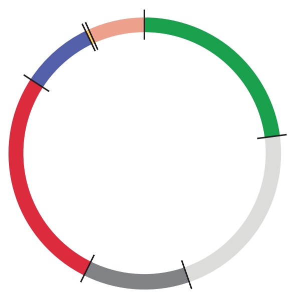
In 2000, the National Bank's bank offices registered a 2.3% decrease in currency turnover in value terms, bringing the total to Sfr 166.6 billion. The bank offices received approximately 472 million notes (1.5% more than in the previous year) and checked them for authenticity, quality and quantity.

Expiration of the conversion period for banknotes from the fifties and the 5-franc note

In accordance with the provisions of the Federal law on currency and payment instruments, on 4 May 2000, the National Bank transferred approximately Sfr 244 million to the Swiss Fund for Emergency Losses. This amount represented the countervalue of banknotes from the fifties and of the 5-franc note recalled as of 1 May 1980 which had not been submitted for conversion to the National Bank within the legal period of 20 years.

Recall of banknotes from the seventies

As of 1 May 2000, the National Bank recalled all banknotes from the seventies series. At that time 42 million of these were still in circulation. The public cashiers' offices of the Confederation (SBB, Swiss Post) accepted the recalled banknotes as legal tender, at their nominal value, until the end of October. At the end of December, the proportion of recalled banknotes was 13.5% of total banknotes in circulation, corresponding to 36.6 million pieces and a value of Sfr 3.7 billion. The National Bank will still exchange the notes at their nominal value for another 20 years, i. e. until 30 April 2020.



Banknotes in circulation
Denom. units (number in millions)

10s 58

20s 55

50s 32

100s 68

200s 22

500s 1

1000s 17

Annual average

3 Statistical tasks

Basis

The National Bank collects from the banks, securities dealers, investment funds 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 payment transactions. Furthermore, it gathers information on the money and capital markets, notably on short- and long-term interest rates. The National Banks' tasks also include drawing up Switzerland's balance of payments, notably regarding direct and portfolio investment. All these statistics are compiled by agreement with the data-reporting institutions and enterprises and conform as closely as possible to international standards.

New data

In 2000, several statistics were compiled for the first time, three of which in cooperation with the Federal Banking Commission. The National Bank for the first time also conducted a survey on cashless payment transactions which, among other data, is intended to provide information on the effects of new payment habits of the public on the demand for money. In addition, the National Bank developed a concept for a survey to compile the interest rates in the banks' credit business.

Expansion of existing statistics

The National Bank supplemented the existing statistics on the maturity structure of yields on Confederation bonds with data on other domestic debtor categories and on foreign bonds. Yields on foreign bonds are shown broken down by risk categories. In addition, the National Bank has introduced a new basis for calculating the exchange rate index.

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 and determines that most of them are 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 as well as in the investment of funds and safe custody.

Agent in the money market

The Confederation holds its liquid funds in the form of sight deposits or short-term time deposits at the National Bank. In the event of liquidity bottlenecks, it assists the Confederation in taking out money market loans from banks. The National Bank pays interest on these time deposits at market rates, on sight deposits up to a certain limit at the call money rate. Since November 2000, Swiss Post has been placing its liquid funds directly on the money market, which is why the level of interest-bearing sight deposits of the Confederation was reduced from Sfr 800 million to Sfr 600 million.

Federal bonds and money market debt register claims

In 2000, the National Bank arranged 52 issues of money market debt register claims (MMDRC) and 14 bond issues on behalf of the Confederation. MMDRCs to the total amount of Sfr 62.7 billion were subscribed, and Sfr 42.4 billion were allocated. Federal bonds were subscribed for a total amount of Sfr 15.6 billion, of which Sfr 9.3 billion were allocated.

Federal bonds and money market debt register claims

	1996	1997	1998	1999	2000
Number of issues[1]					
Federal bonds	10	7	11	10	14
MMDRC	52	53	52	52	52
Total subscribed in billions of francs					
Federal bonds[2]	10.6	7.0	10.8	8.1	15.6
MMDRC	103.1	89.0	89.4	75.7	62.7
Total allocated in billions of francs					
Federal bonds[2]	4.5	3.7	5.2	4.1	9.3
MMDRC	49.9	49.8	45.1	46.8	42.4
Outstanding at year-end in billions of francs					
Federal bonds	33.8	37.5	43.3	46.5	54.1
MMDRC	14.7	14.1	12.9	17.1	13.4

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 process cash transactions through 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 and associated institutions.

5 Cooperation with federal agencies

5.1 Cooperation with the Federal Department of Finance

Group of experts Supervision of financial markets

The National Bank was represented in the group of experts on the supervision of financial markets set up by the head of the Federal Department of Finance in December 1998. These experts were entrusted with the task of investigating whether supervision of the financial markets in Switzerland still fulfils the generally recognised needs and whether, in particular, it meets international standards. In November 2000, the group of experts submitted its final report. This report contains 42 recommendations on supervision in general, banks, insurance companies, bankassurance and financial conglomerates, nonregulated financial services enterprises as well as on the organisation of supervision. In particular, the report proposes that the supervision of banks and insurance companies be concentrated in a single supervisory authority for the financial markets and that supervision be extended to include portfolio managers. The new supervisory authority would also monitor compliance with the money laundering law by those financial intermediaries that have so far not been subject to supervision.

Commission of experts Bank insolvency, bank liquidation and depositor protection

The commission of experts on bank insolvency, bank liquidation and depositor protection set up by the head of the Federal Department of Finance in March 1999 completed its work, in which the National Bank participated, at the end of 2000. In its final report, the commission recommends a revision of the Banking Law. The procedure for liquidating insolvent banks is to be streamlined. In the case of the Spar+Leihkasse Thun the applicable law had proved inadequate. A new instrument for ordering the reorganisation of a bank is to be created. This measure is designed to facilitate the recapitalisation and continued operation of banks in difficulties. Depositor protection is to be brought in line with EU standards. The chief instrument continues to be a privilege in bankruptcy of up to Sfr 30,000 which will in future apply to all deposits in Swiss banks. The guaranteed amount is to be paid out unconditionally by depositors' insurance. The commission is not in favour of a government depositors' insurance if insurance protection can be created through self-regulation.

Comments by the National Bank

The National Bank will submit its comments on the two expert reports in the consultation procedure.

5.2 Cooperation with the Federal Banking Commission

Discussion of developments in the banking system

In 2000, the Governing Board again held two meetings with the Federal Banking Commission (FBC) for a detailed discussion of the economic situation and current developments in the banking system. Given the favourable economic environment, the banking sector experienced no major problems. One exception were the difficulties encountered by the Cantonal Bank of Geneva dating back to the early nineties. The financial problems of the Swiss local authorities' underwriting institution – which is not subject to federal supervision – created by the insolvency of individual communes also gave rise to discussions. Technical cooperation between the FBC and the National Bank concentrated on their joint participation in national bodies, notably in the working groups of the Confederation and in international bodies such as the Basel Committee on Banking Supervision.

5.3 Consultation procedure on the revision of the Cartel Law

Direction in which revision aims

In September, the Federal Department of Economic Affairs invited the interested parties to submit their comments on the planned revision of the Cartel Law. The main aim of the revision is to introduce direct sanctions in the event of violations of the Cartel Law. For constitutional reasons deriving from the fact that the Cartel Law has been based on the abuse principle, not all violations, only hard cartels and the abuse of market power, are to be punished with sanctions.

Comments by the National Bank

The National Bank is interested in competition functioning as efficiently as possible since flexible prices are a precondition for an effective monetary policy. In its comments submitted in December it therefore supported the introduction of direct sanctions since this seems to be a suitable means of further strengthening competition and adding weight to competition law. From the point of view of the National Bank, the massive tightening of Cartel Law only five years after its total revision should, however, be justified in more detail than has been done in the explanatory report. A careful justification is particularly important as the envisaged introduction of direct sanctions touches on the concept of abuse embedded in the Constitution. The National Bank also welcomed the proposed reduction of the competition commission to seven members since it expects a gain in efficiency from this step.

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 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 foreign-exchange reserve and may be used as such by the National Bank at any time. At the end of 2000, Switzerland's reserve position amounted to 963.7 million SDRs (special drawing rights), compared with 1,218.1 million SDRs at the end of 1999. (At the end of 2000, 1 SDR was equivalent to Sfr 2.14.) The decline in the reserve position is due to the fact that in 2000 an increasing amount of funds from loan repayments flowed back to the IMF.

Loan drawings by the Poverty Reduction and Growth Facility (PRGF)

According to the Decree of the Federal Parliament of 3 February 1995, the National Bank finances the Swiss contribution to the loan account of the Poverty Reduction and Growth Facility (PRGF, formerly ESAF II). This facility serves to finance long-term loans at reduced interest rates to poor developing countries. Until the end of December 2000, the IMF utilised a total amount of 151.5 million SDRs from Switzerland's loan commitment of 151.7 million SDRs. The individual drawings have a maturity of ten years, with repayments in instalments beginning five-and-a-half years after payment of the loan. The Confederation guarantees the National Bank the timely repayment of the PRGF credits including interest payments. It also finances the interest rate subsidies.

Yugoslavia is readmitted to the IMF and joins the Swiss constituency

On 20 December, the Federal Republic of Yugoslavia was admitted to the IMF as successor of the Socialist Federal Republic of Yugoslavia. At the same time, the country joined the Swiss constituency at the IMF. Other members of this constituency are Azerbajan, Kyrgyzstan, Poland, Tajikistan, Turkmenistan and Uzbekistan. Yugoslavia's accession to the IMF will come into force in autumn 2002, when the next election of the Executive Board will be held. The combined proportional voting power of all eight countries of the constituency will then increase from 2.65% to 2.86%. In the meantime, the constituency led by Switzerland will represent the interests of the Federal Republic of Yugoslavia in the IMF.

In order to facilitate Yugoslavia's admittance to the IMF, the National Bank granted the country two short-term credits. On the one hand, the National Bank provided a bridging loan amounting to 51.1 million SDRs to the Federal Republic of Yugoslavia to enable it to pay off its share of the old debts of socialist Yugoslavia vis-à-vis the IMF, which was a condition of readmittance. On the other hand, the National Bank granted the Federal Republic of Yugoslavia a loan of 61.1 million SDRs for financing the latest increase in the quota at the IMF. The country repaid both loans on the same day by drawing an IMF loan and its reserve tranche at the IMF.

Intraday credits to Yugoslavia

6.2 Cooperation in the Group of Ten

The National Bank participates in the meetings of the finance ministers and central bank governors of the Group of Ten and in various working groups. In 2000, the Group of Ten dealt with the strengthening of the international financial system, notably with the possibilities of better involving the private sector in the prevention and resolution of crises. Furthermore, a working group assessed the anticipated effects of increasing concentration in the financial sector.

Activities in the Group of Ten

6.3 Cooperation with the Bank for International Settlements

The central bank governors of the G-10 countries meet regularly at the BIS for an exchange of information. The National Bank also cooperates in various committees of the BIS. These include the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems and the Committee on the Global Financial System.

BIS bodies

In 2000, the Basel Committee on Banking Supervision intensified its efforts directed at a fundamental review of the capital adequacy recommendations of 1988. The National Bank participated in the work done by the Basel Committee and in several of its subcommittees. At the end of the year, the Committee adopted a second consultation paper. This paper takes into account the comments of a first consultation carried out in 1999 and completes the recommendations in all three parts of the New Accord (capital adequacy requirements, review by the supervisory authority, market discipline; cf. 92nd Annual Report, page 61).

Basel Committee on Banking Supervision

In September 2000, the National Bank, the Federal Banking Commission and the BIS jointly hosted the 11th International Conference of Banking Supervisors (ICBS) in Basel. Approximately 300 supervisors from 120 countries and representatives of international organisations discussed capital adequacy requirements, implementation of the core principles on effective banking supervision and prospects for the financial industry in the 21st century.

11th International Conference of Banking Supervisors

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems published a report dealing with clearing and processing methods in retail payment transactions. The report clearly shows that there is a much greater diversity of systems in this field than in the case of large-payment systems. For the first time, moreover, the Committee published a survey of the distribution of electronic money (e-money) in approximately 70 countries. The publication shows that in most countries e-money is at least offered in pilot projects but that general distribution has remained relatively modest to date.

Committee on the Global Financial System

The Committee on the Global Financial System followed developments in the financial markets, notably in the emerging market countries. In addition, it published a report on the introduction of stress tests by large financial institutions which test the groups' resistance to change in certain risk factors. Furthermore, the Committee published a report on how to improve the international banking statistics published by the BIS.

6.4 Balance of payments support

Repayment of loans extended as balance of payments support by Bulgaria ...

At the end of April 2000, the central bank of Bulgaria repaid a loan to the amount of $ 32 million which it had been granted by Switzerland in 1993 in the context of the Federal decree on Switzerland's cooperation in international monetary measures. The National Bank had financed this loan, with the Confederation providing a guarantee. This loan represents the Swiss contribution to a loan totalling $ 613.7 million for supporting Bulgaria's transition to a market economy with the participation of the EU and eight other countries.

... and Romania

In October 2000, the central bank of Romania repaid a loan to the amount of $ 7.2 million which it had received as balance of payments support. This loan totalling $ 119.3 million, in which Switzerland also participated, had been provided by the EU and six other countries in October 1993 as international support for the transformation in Romania. The loan was financed by the National Bank within the context of the Federal decree on Switzerland's cooperation in international monetary measures, with the Confederation providing a guarantee.

Substitution agreement to the credit facility of the BIS to Brazil ended

In April 2000, the central bank of Brazil repaid a loan to the amount of $ 14.5 billion to the BIS which the latter had made available as balance of payments support at the end of 1998 as part of an international financial assistance package. The members of the Group of Ten and nine other countries had guaranteed the loan; Switzerland's substitution agreement amounted to a maximum of $ 250 million. The National Bank had entered into the substitution agreement based on the Federal decree on Switzerland's cooperation in international monetary measures. With the repayment of the loan by Brazil the facility was ended and the National Bank's substitution agreement expired.

In August 2000, the Federal Government decided to grant Bulgaria balance of payments support to the amount of $ 12 million. The loan, with a seven-year maturity, is part of a concerted action by the Group of 24 (G-24) to bridge a financing gap of approximately $ 350 million. The loan is granted within the context of the Federal decree on Switzerland's cooperation in international monetary measures and is guaranteed by the Confederation. Payment was made in euros by the National Bank at the end of December.

New balance of payments loan for Bulgaria

6.5 Technical assistance and training

In 2000, the National Bank provided technical assistance to the central banks of Kyrgyzstan (library and cash management), Slovenia (securities processing systems), Tajikistan (library, management of commercial banks, payment systems) and the organisation of the East Caribbean countries (payment systems).

Technical assistance

The Study Center Gerzensee organised six courses for employees of foreign central banks in 2000. The courses offered training in the fields of monetary policy, financial markets, and bank regulation. They were attended by a total of 152 persons from 89 countries.

Study Center Gerzensee: courses on monetary policy, financial markets and bank regulation, ...

In addition, the Study Center Gerzensee held two scientific conferences and two summer symposiums on economic theory and financial markets. Internationally renowned researchers took part in these conferences.

... international scientific conferences ...

The Study Center Gerzensee 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.

... and post-graduate courses

Structure and organisation of the National Bank

1 Organisation

Legal form

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.

Structure

The National Bank has two head offices: the legal domicile in Berne and the seat of the Governing Board in Zurich. Department I and Department III are in Zurich, Department II is in Berne. In addition to the Bank's two head offices, branch offices in Geneva and in Lugano ensure the distribution of currency. Four branch offices without cash distribution services located in Basel, Lausanne, Lucerne and St Gallen – as well as the two head offices and the branch offices that maintain cash distribution services – are responsible for monitoring economic developments in the regions. The National Bank maintains 18 agencies operated by cantonal banks for the receipt and distribution of banknotes and coins. Moreover, it has an extensive network of banking correspondents which serve as agents for local payment transactions.

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. The Monetary Operations Division of Department III implements monetary policy by carrying out transactions in the financial markets. Department II deals with questions relating to the stability of the financial system.

Management of assets

The National Bank's foreign currency reserves are allocated and managed by Department III, gold reserves and Swiss franc reserves by Department II.

Cash 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 via its network of bank offices. It assures that the quality of currency in circulation is kept on a high level by checking the cash returned to the National Bank and disposing of those banknotes and coins which no longer meet requirements as well as counterfeits. This task falls within the competence of the Cash Division in Department II.

… and cashless payment transactions

On the other hand, the National Bank 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 the General Processing and Informatics Division in Department III. Cashless payment transactions with the banks are processed by Department III, those with the Confederation by Department II.

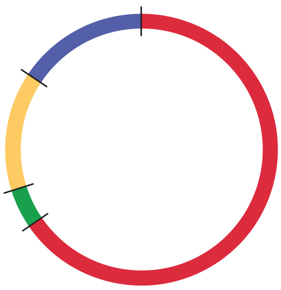
Bank of the Confederation

Acting as the bank of the Confederation is a function primarily performed by Department II. It maintains the accounts, carries out domestic and foreign payments on behalf of the Confederation, 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

At the end of 2000, National Bank staff numbered 575 persons, a decline of 25 persons from the year-earlier figure. Converted into full-time jobs, the number of employees decreased from 560.7 to 534.1 persons. The number of part-time employees rose by 2 to 117 persons. Personnel turnover (including retirements) climbed to 14.3% in 2000, as against 13% in the previous year. This rise is the result of the last early retirements taken in the context of the reorganisation of cash distribution (cf. 92nd Annual Report, pages 65f.) as well as the tight situation on the labour market.



Personnel
Number of employees

Full-time, men 376

Part-time, men 27

Full-time, women 82

Part-time, women 90

Total: 575.
End 2000

Job evaluation and new compensation policy

The National Bank's goal is to offer its employees competitive compensation in line with their functions and performance. It recently became apparent that better data was needed in order to have the necessary decision-making tools in place for setting salary ranges. The National Bank therefore conducted an in-depth job evaluation with the help of an external consultant and determined the new future salary structure. Bank management decided to take selective special measures in the 2001 round of salary increases aimed at bringing those job functions which were classified too low closer to market conditions.

Considerable investment in training and continued education

As already in the previous year, the National Bank invested roughly Sfr 1.1 million in training and continued education for its personnel. This sum corresponds to 1.7% of total salary expense and reflects the high priority given to human resources development at the Bank. Management training accounted for 11% of the cost, 53% was expended on specialist and language training and 36% on computer courses.

Developments in information technology

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. Within the framework of the new standard software, applications for cash transactions, gold sale and gold lending as well as for managing gold holdings were put into operation. The existing application for managing banknote and coin stocks was replaced by a standard software module for banking transactions. Furthermore, new applications for the administration of time series and electronic mail were taken into service. The installation of the new data communications network for secure electronic traffic between the National Bank and the outside (firewall infrastructure) was completed.

Property management

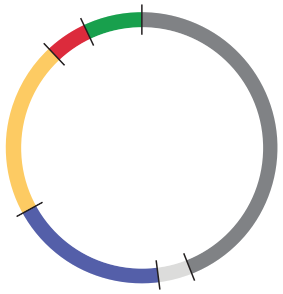
Within the framework of the new cash distribution concept, the branch offices Basel, Lausanne, Lucerne and St Gallen suspended their cash distribution services at the end of 1999 (cf. 92nd Annual Report, page 65). The premises of these former branch offices were vacated in the first quarter of 2000 and were sold as planned; in order to house the branch offices without cash distribution services, the National Bank rented suitable office space. At the Zurich head office, the renovation of the buildings located at Stadthausquai/Fraumünsterstrasse proceeded as planned. The rooms which were renovated in a first building phase were ready for occupation at the beginning of September.

Shifts in the 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. The proportion of cash distribution fell considerably in recent years, and in 2000 it only accounted for 44% of total operating costs. This decline is attributable to the closing of two branch offices, the suspension of cash distribution services in another four branch offices as well as lower banknote expense. The National Bank's share of costs in connection with the cashless payment system also declined slightly, falling from 5% in the previous year to 4% in 2000. This position includes the services of the National Bank in interbank payment transactions, 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 other two significant cost units of the National Bank, asset management and monetary policy, increased, however. The position asset management, which comprises the costs relating to foreign exchange, money market, securities, gold and Lombard business and the management of financial investments and gold holdings, rose by 5 percentage points to 19% of total operating costs. The main factor contributing to this development was the expansion of business activity in asset management, notably foreign exchange reserves and gold. The item monetary policy rose from 17% in the previous year to 21% in 2000, which was the result of the expansion of economic analysis in connection with the new monetary policy concept as well as the intensified monitoring of the economic situation in the different regions. The proportion of the other two cost units of the total costs – services on behalf of the Confederation, services on behalf of third parties – remained almost unchanged at 5% and 7% respectively. The item services on behalf of the Confederation includes the costs of all services the National Bank provides on behalf of the Federal Government and its agencies. The costs for the item services on behalf of third parties comprise the Bank's contribution to the Study Center Gerzensee, the costs for international cooperation, notably with the International Monetary Fund, and technical assistance to foreign central banks.

Improvement of the environmental performance evaluation

The National Bank's environmental performance evaluation compiled for the year 1999 improved significantly as against the previous years. A study showed that processing, transport and storage of banknotes account for approximately one-third of the total environmental impact caused by the National Bank. The reorganisation of cash distribution together with the closing of two branch offices was therefore a significant factor contributing to the improvement of the National Bank's environmental performance evaluation. The switch to recycled paper supported this positive trend. By contrast, construction at the Zurich head office resulted in special temporary impact, even though ecological criteria had been observed.



Cost units
in percent

Cash transactions 44
Cashless payment transactions 4
Asset management 19
Monetary policy 21
Services for the Confederation 5
Services for third parties 7

3 Changes in the bank authorities and management

Bank Council

At the Annual General Meeting of Shareholders held on 28 April 2000, the following new member was elected to the Bank Council:

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

On the day of the Annual General Meeting of 20 April 2001, the following members retire from the Bank Council:

Henri André, Paudex, Chairman of the Board of André & Cie AG, member of the Bank Council since 1989,
Melchior Ehrler, Riniken, National Councillor and Director of Schweizerischer Bauernverband (Swiss farmers' association), member of the Bank Council since 1989,
Judith Stamm, Lucerne, member of the Bank Council since 1993.

The National Bank thanks Mrs Stamm and Messrs André and Ehrler for their valuable services.

The three vacant positions are to be filled by the Federal Council.

Local Committees

As per the date of the Annual General Meeting, 28 April 2000, the following committee members resigned their positions:

Karl Gnägi, Wohlen near Berne, Chairman of the Local Committee Berne since 1998 (Member since 1992),
Claude Hauser, Versoix, Chairman of the Local Committee Geneva since 1999 (Member since 1992),
Jean-Claude Rinolfi, Givrins, Vice-Chairman of the Local Committee Geneva since 1999 (Member since 1996).

As per end of June 2000 the following member retired:

Walter Kobler, Vice-Chairman of the Local Committee Lausanne since 1999 (Member since 1998).
The National Bank thanks the retiring members for their services on behalf of the Bank.

The Bank Council made the following appointments:

Berne
Reto Hartmann, Hünibach, Chief Executive Officer of Valora Holding AG.

Geneva
Raymond Léchaire, Bussigny, Director of Coop Romandie,
Claude-Daniel Proellochs, Neuchâtel, General Manager and Chairman of the Board of Vacheron Constantin SA.

Lausanne
Bernard Rüeger, Féchy, General Manager of Rüeger SA.

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

Auditing Committee

Upon the proposal of the Bank Council, the Annual General Meeting of Shareholders of 28 April 2000, elected the current office holders:
Kaspar Hofmann, Adliswil, Certified Auditor, Hofmann Wirtschaftsprüfung AG,
Hans Michel, Egnach,
Maryann Rohner, Zürich, Certified Auditor, Treureva AG, as members, and
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, as substitute members of the Auditing Committee.

The Bank Council proposes to the Annual General Meeting of Shareholders of 20 April 2001 that the current members and substitute members of the Auditing Committee be re-elected.

As per the end of 2000,

Hans Meyer, Chairman of the Governing Board, retired.

Hans Meyer was appointed Chairman of the Governing Board by the Federal Council in 1995 and took office in May 1996. He had already been a member of the Governing Board for eleven years, the first three as Head of Department III, followed by eight years as Vice-Chairman and Head of Department II. Hans Meyer committed himself with great conviction to fulfilling the central bank mandate serving the interests of the country as a whole. He dedicated his entire professional career to this task, which was the foundation of his profound knowledge of the National Bank. Also on a personal level, Hans Meyer had close ties with the Bank.

The National Bank thanks Hans Meyer for his many years of successful activity.

On 18 September 2000 and on 18 October 2000 respectively, the Federal Council appointed, with effect from January 2001:

Jean-Pierre Roth, previously Vice-Chairman and Head of Department II,
Chairman of the Governing Board,

Bruno Gehrig, Head of Department III,
Vice-Chairman of the Governing Board,

Niklaus Blattner, previously Chief Executive Officer and Delegate of the Board of Directors of the Swiss Bankers' Association, Basel, and Professor at the University of Basel,
Member of the Governing Board.

Department I is headed by Jean-Pierre Roth, Department II by Niklaus Blattner and Department III by Bruno Gehrig.

Management

At the end of April,
Hans Theiler, Director and Deputy Head of Department II, took early retirement after having served the National Bank for over two decades. He began his career as Director of the branch office in Lucerne, which he headed for eight years. He then became Deputy Head of Department II at the Berne Head Office. The National Bank thanks him for his many years of valuable service.

As his successor, with effect from May 1, the Federal Council, upon proposal of the Bank Council, appointed
Thomas Wiedmer, previously Secretary General and Head of the economics section of the department of finance of the canton of Berne.

Upon proposal of the Bank Council, with effect from 1 January 2001, the Federal Council appointed
Mauro Picchi, previously Assistant Director in the Statistics Section, Director of the branch office in Lugano.

At the end of July,
Christine Breining, Director and Head of Personnel, left the National Bank to pursue an academic career.
The National Bank thanks her for her valuable services in different functions.

At the end of October,
Peter Merz, Director and Head of the Legal Service, left the National Bank to take on a new challenge in the private sector.
We thank him for his many years of valuable service.

We also thank
Theo Birchler, Assistant Director and Head of Premises and Technical Services at the Zurich Head Office, who retired after many years of dedicated service to the Bank.

With effect from 1 May, the Bank Committee approved the following promotion:
Peter Fankhauser to Assistant Director and Head of Premises and Technical Services at the Zurich Head Office.

The Bank Committee approved the following promotions with effect from 1 January 2001:
Urs Locher (Head of Processing in the Cash Division) to Assistant Director,
Gabriela Mittelholzer (Personnel) to Assistant Director, and
Marcel Zimmermann (Money Market and Foreign Exchange Section) to Assistant Director.

With effect from 1 March 2001, the Bank Committee appointed:
Martin Hiller to Head of Personnel (Director),
Hans Kuhn to Head of Legal Service (Deputy Director),
Peter Eltschinger to Head of Cashier's Office Zurich (Assistant Director),
Guido Boller to Deputy Head of the Statistics Section (Assistant Director).

Financial report

1 Income statement for the year 2000

	Notes	2000 Sfr millions	1999 Sfr millions	Change percent
Income from gold	01	−2 159.6	57.8	
Income from				
foreign currency investments	02	3 422.1	372.9	+817.7
reserve position in the IMF	03	87.4	91.4	−4.4
international payment instruments	04	19.0	8.2	+131.7
balance of payments support	05	12.4	16.5	−24.8
Income from				
Swiss franc repo transactions	06	513.2	150.1	+241.9
Lombard advances	07	1.9	0.8	+137.5
claims against domestic correspondents	08	2.4	1.0	+140.0
Swiss franc securities	09	164.8	30.6	+438.6
Other income	10	40.0	30.9	+29.4
Gross income		**2 103.7**	**760.1**	**+176.8**
Interest expenses	11	−336.9	−243.8	+38.2
Banknote expenses	12	−35.0	−43.8	−20.1
Personnel expenses	13	−79.5	−81.3	−2.2
General overheads	14	−93.8	−74.5	+25.9
Depreciation on tangible assets	33	−19.4	−20.9	−7.2
Net income		**1 539.1**	**295.7**	**+420.5**
Exchange rate-related valuation adjustments	15	−1 075.2	4 137.1	
Extraordinary expenses	16	−4.1	−2.3	
Extraordinary income	17	12.8	27.3	
Extraordinary revaluation gain on gold	18	27 700.5		
Aggregate income		**28 173.2**	**4 457.9**	**+532.0**
Allocation to provisions for				
the assignment of free assets	19	−18 860.4		
market and liquidity risks on gold	20	−6 589.9		
market, credit and liquidity risks	21	−1 214.9	−2 949.9	
Annual profit	49	**1 508.0**	**1 508.0**	

2 Balance sheet as of 31 December 2000

in Sfr millions

Assets

	Notes	2000	1999
Gold and claims from gold transactions			
gold	22	30 014.4	10 453.2
claims from gold transactions	23	4 710.5	1 485.4
Foreign currency investments[1]	24	50 452.8	54 608.2
Reserve position in the IMF	25	2 078.8	2 677.6
International payment instruments	26	268.5	756.4
Balance of payments support	27	352.4	306.5
Claims from Swiss franc			
repo transactions	28	24 182.0	28 136.0
Lombard advances	29	0.5	1.0
Claims against domestic correspondents	30	276.3	390.8
Swiss franc securities	31	5 409.8	4 884.9
Participations	32	89.5	89.4
Tangible assets	33	537.3	556.7
Sundry assets	34	700.7	467.7
Non paid-up share capital	47	25.0	25.0
		119 098.4	104 838.9

1 of which hedged using forex swaps: 2000: none; 1999: Sfr 7,686.4 million

Liabilities

	Notes	2000	1999
Banknotes in circulation	35	35 485.7	37 184.8
Sight deposit accounts of domestic banks	36	6 193.6	9 883.3
Liabilities towards the Confederation			
sight	37	164.7	112.1
time	38	9 888.0	16 749.9
Sight deposits of foreign banks and institutions	39	203.4	214.0
Other sight liabilities	40	161.5	295.4
Liabilities from Swiss franc			
repo transactions	41	–	6.5
Foreign currency liabilities	42	440.2	355.1
Sundry liabilities	43	127.6	266.4
Provisions for			
market, credit and liquidity risks	44	38 893.4	37 678.5
market and liquidity risks on gold	45	6 589.9	
operating risks	44	467.1	470.8
the assignment of free assets	46	18 860.4	
Share capital	47	50.0	50.0
Reserve fund	48	65.0	64.0
Net disposable income – annual profit	49	1 508.0	1 508.0
		119 098.4	104 838.9

3 Notes to the accounts as of 31 December 2000

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 conduct 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 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. The provisions must grow at least in step with gross national product (see pp. 101ff).

On 31 December 2000, the National Bank employed 575 persons (1999: 600), corresponding to 534.1 full-time posts (1999: 560.7). In addition to its head offices in Berne and Zurich, the National Bank has operating branches in Geneva and Lugano. It also has offices in Basel, Lausanne, Lucerne and St Gallen in order to monitor economic developments in Switzerland's regions.

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

Since the new Federal law on currency and payment instruments (*Bundesgesetz über die Währung und die Zahlungsmittel*) came into force on 1 May 2000, gold has been stated at its market value rather than at the former parity price of Sfr 4,595.74 per kilogram.

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 are value-dated in the new year are stated under off-balance-sheet transactions.

Valuation principles

Gold and *gold claims from lending transactions, negotiable foreign currency investments* and *Swiss franc securities* are stated at their year-end market prices (including accrued interest). Changes in market value are thus reported in the income statement.

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.

Derivative financial instruments used to control and hedge interest rate and exchange rate risks on foreign currency investments and USD-related currency risks on gold holdings are stated at their year-end market value. The same applies to *non-performed spot transactions on gold, negotiable foreign currency investments* and *Swiss franc securities*. 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*, 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 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 and gold price

	2000	1999	Change in percent
Year-end rates			
CHF/USD	1.6353	1.5980	+2.3
CHF/EUR	1.5245	1.6059	−5.1
CHF/JPY	1.4242	1.5653	−9.0
CHF/GBP	2.4464	2.5844	−5.3
CHF/DKK	20.4200	21.5800	−5.4
CHF/CAD	1.0900	1.1004	−0.9
CHF/XDR[1]	2.1433	2.1862	−2.0
Gold price in CHF/kg	14 334.88	4 595.74[2]	

1 XDR: Special Drawing Rights
2 previous parity rate in accordance with the Federal Council resolution of 9 May 1971 on the fixing of the gold parity (rescinded as of 1 May 2000, see p. 44)

3.3 Notes to the income statement

High aggregate income following revaluation of gold

Summary

The extraordinarily high level of aggregate income of Sfr 28,173.2 million results mainly from the change in the basis on which gold holdings are valued. The revaluation on 1 May 2000 produced an extraordinary book profit of Sfr 27,700.5 million. Since then, the price of gold has fallen and led to a marked book loss. Including interest income from gold lending operations and income from transactions to hedge the foreign exchange risk on USD proceeds of gold sales in the future, earnings from gold amounted to Sfr –2,159.6 million.

Lower interest rates on the relevant foreign investment markets produced significant price gains on foreign currency investments compared with the considerable price losses that had been reported in 1999. Together with interest income, earnings rose from Sfr 372.9 million to Sfr 3,422.1 million, while the total of other income items increased from Sfr 329,5 million to Sfr 841.1 million. At Sfr 2,103.7 million, gross income was much higher than the Sfr 760.1 million recorded last year.

Ordinary expenses rose from Sfr 464.3 million to Sfr 564.6 million, due mainly to higher interest expenses for Confederation investments. Net income increased from Sfr 295.7 million to Sfr 1,539.1 million.

The high level of the Swiss franc produced exchange rate-related losses of Sfr 1,075.2 million on foreign currency positions, compared with a profit of Sfr 4,137.1 million in 1999. Together with the balance of extraordinary items of Sfr 8.7 million and the extraordinary Sfr 27,700.5 million revaluation gains on gold mentioned above, aggregate income totalled Sfr 28,173.2 million. The 1999 figure was Sfr 4,457.9 million.

Two new provision items created

Valuation gains on gold (extraordinary revaluation gain, changes in the market value since 1 May 2000 and income from transactions to hedge the foreign exchange risk on the proceeds of gold sales) account for Sfr 25,450.3 million of aggregate income. This sum was used to create two new provisions: Sfr 18,860.4 million was set aside for the planned assignment of the countervalue of gold holdings no longer required for monetary policy purposes (1,300 tonnes before sales began; please refer to item no. 19 in the income statement). Sfr 6,589.9 million has been set aside as a special provision for market and liquidity risks on monetary gold, i.e. the gold still held by the National Bank (approx. 1,290 tonnes, cf. p. 83 item no. 20 in the income statement). Excluding valuation gains on gold, aggregate income stood at Sfr 2,722.9 million. This permitted Sfr 1,214.9 million to be allocated to the provision for market, credit and liquidity risks. Annual profit was Sfr 1,508.0 million.

Income from gold

Item no. 01
in the income statement

This item comprises changes in the market value of gold holdings since the revaluation of 1 May 2000, income from transactions to hedge the foreign exchange risk on USD proceeds of gold sales (forward sales of USD) and interest income from gold lending business. The impact of revaluation at market value on 1 May 2000 is explained under items nos. 18–20 in the income statement.

The fall in the price of gold resulted in a Sfr 2,333.0 million drop in the market value of the National Bank's holdings. This loss was offset by a gain of Sfr 82.8 million from hedging transactions. Gold lending operations yielded income of Sfr 90.6 million, compared with Sfr 57.8 million in 1999. The increase is due primarily to higher interest rates.

	2000 Sfr millions	Change from previous year Sfr millions
Changes in market value	−2 333.0	−2 333.0
of monetary gold	−1 232.9	−1 232.9
of gold from disposable assets	−1 100.1	−1 100.1
Hedging transactions	82.8	+82.8
Gold lending business	90.6	+32.8
Total	−2 159.6	−2 217.4

Income from foreign currency investments

Item no. 02
in the income statement

Income from foreign currency investments (interest and realised and unrealised capital gains and losses) rose by Sfr 3,049.2 million to Sfr 3,422.1 million. Whereas rising interest rates had produced large capital losses in the previous year, the fall in rates on all investment markets in the course of 2000 resulted in significant capital gains. The exchange rate gains or losses resulting from the conversion of foreign currency positions is shown under exchange-rate related valuation adjustments (item no. 15 in the income statement).

Income from other foreign currency items

Items no. 03–05
in the income statement

Overall, the average reserve position in the IMF, international payment instruments and balance of payments support were lower than in the previous year. The slight increase in interest income to Sfr 118.8 million from Sfr 116.1 million in 1999 is attributable to higher earned interest.

Item no. 06
in the income statement

Income from Swiss franc repo transactions

Income from Swiss franc repo transactions amounted to Sfr 513.2 million in 2000 compared with Sfr 150.1 million in 1999. In addition to the slight increase in the average transaction volume, this sharp rise is due mainly to considerably higher interest rates.

Item no. 07
in the income statement

Income from Lombard advances

Income from Lombard advances rose by Sfr 1.1 million to Sfr 1.9 million. Both the average Lombard rate and the average level of borrowing were higher than in 1999.

Item no. 08
in the income statement

Income from claims against domestic correspondents

Despite a lower average position volume, income from claims against domestic correspondents rose by Sfr 1.4 million to Sfr 2.4 million. This increase is attributable to the change in interest conditions that came into effect on 1 April 2000. The discount rate was applied in the first quarter of the year, and the money market rate (the Lombard rate less 200 basis points) in the subsequent quarters.

Item no. 09
in the income statement

Income from Swiss franc securities

Securities income (interest plus realised and unrealised capital gains and losses) rose by Sfr 134.2 million to Sfr 164.8 million. Interest rates rose in the course of 2000 as they did in 1999. Although this increase produced capital losses, as in the previous year, they were lower because the interest rate rise was not as pronounced.

Item no. 10
in the income statement

Other income

	2000 Sfr millions	Change from previous year Sfr millions
Commissions from banking transactions	27.4	+9.7
Income from participations	6.8	+0.4
Income from real estate[1]	5.2	−0.8
Other ordinary income	0.6	−0.1
Total other income	40.0	+9.1

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

The rise in commissions from banking transactions is a result of higher securities commissions.

Interest expenses

Item no. 11
in the income statement

Interest expenses rose by Sfr 93.1 million as against the previous year and amounted to Sfr 336.9 million. The increase is mostly attributable to higher interest expenses for liabilities towards the Confederation (including Swiss Post). Despite lower average net liabilities, these expenses rose significantly owing to much higher interest rates.

	2000 Sfr millions	Change from previous year Sfr millions
Interest expenses for liabilities towards the Confederation	317.6	+76.2
less interest income from onward placements	–	−12.8
Net interest expenses for liabilities towards the Confederation	317.6	+89.0
Interest on depositors' balances	6.4	+0.8
Interest expenses for liabilities from Swiss franc and foreign currency repo transactions	12.8	+3.2
Total interest expenses	336.9	+93.1

Banknote expenses

Item no. 12
in the income statement

Banknote expenses correspond to the cost of producing the banknotes of the eighth issue which entered circulation in 2000.

Personnel expenses

Item no. 13
in the income statement

	2000	Change from previous year	
	Sfr millions	Sfr millions	percent
Wages, salaries and allowances	62.9	−1.4	−2.2
Welfare benefits	11.7	+0.1	+0.9
Other personnel expenses	4.9	+0.4	+8.9
Allocations to the pension fund	–	−1.0	−100.0
Total personnel expenses	79.5	−1.8	−2.2

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

Item no. 14
in the income statement

General overheads

	2000	Change from previous year	
	Sfr millions	Sfr millions	percent
Direct expenses for banking operations	41.5	+14.5	+53.7
Premises	13.5	−0.8	−5.6
Furniture and fixtures	9.4	+1.4	+17.5
Other general overheads	29.5	+4.3	+17.1
Total general overheads	93.8	+19.3	+25.9

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 charges from the management of financial investments and gold, plus securities commissions retroceded. The latter are the main cause for the increase in this item.

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.

This item also includes a contribution of Sfr 5.3 million (1999: Sfr 5.4 million) to the operating costs of the Study Center Gerzensee.

Exchange rate-related value adjustments

Item no. 15
in the income statement

The value of foreign currency holdings – which comprise foreign currency investments (basic investments and hedging transactions), the reserve position in the IMF, international payment instruments, balance of payments support and foreign currency liabilities – was subject to the following exchange-rate related value adjustments:

	2000 Sfr millions	1999 Sfr millions
USD	+333.8	+3 164.4
EUR[1]	−1 030.2	−18.4
JPY	−160.8	+278.1
GBP	−119.4	+202.4
DKK	−84.5	−0.3
CAD	+21.2	+40.3
XDR	−35.2	+470.7
Other currencies	−0.1	+0.1
Total	−1 075.2	+4 137.1

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

Extraordinary expenses

Item no. 16
in the income statement

This item includes expenses of Sfr 2.2 million for the National Bank's Expo.02 project and Sfr 1.7 million in book-value write-downs on the sale of cash processing machines that are no longer required.

Extraordinary income

Item no. 17
in the income statement

The principal components of this item are proceeds in excess of the book value of Sfr 11.9 million from the sale of the premises in Basel, Lausanne, Lucerne and St Gallen.

Extraordinary revaluation gain on gold

Item no. 18
in the income statement

The entry into force of the new Federal law on currency and payment instruments at the beginning of May 2000 relieved the National Bank of its obligation to value its gold holdings at the parity rate of Sfr 4,595.74 per kilogram. As is the case with other negotiable assets, gold has since been stated at its market value.

The revaluation of gold holdings on 1 May at Sfr 15,290.54 per kilogram resulted in a gain of Sfr 27,700.50 million.

Item no. 19 in the income statement

Allocation to the provision for the assignment of free assets

In view of the planned assignment of the countervalue of 1,300 tonnes of gold that is no longer needed for monetary policy purposes, the National Bank created a new item, provision for the assignment of free assets, of Sfr 18,860.4 million. This figure has been set on the basis of the market value of the 1,300 tonnes of gold, i.e. Sfr 19,877.7 million on 1 May 2000, less the Sfr 1,100.1 million loss in the value of gold that has since occurred, plus Sfr 82.8 million in income from transactions to hedge the foreign exchange risk on the proceeds of gold sales.

Item no. 20 in the income statement

Allocation to the provision for market and liquidity risks on gold

As a result of the gold revaluation, a special provision was created for market and liquidity risks on monetary gold, i.e. that portion that remains with the National Bank (approximately 1,290 tonnes). The first-time allocation to this new provision was calculated from the revaluation gain of Sfr 27,700.5 million from the revaluation of the entire gold holdings on 1 May 2000, less the Sfr 19,877.7 million (as at 1 May) countervalue of 1,300 tonnes of gold that are no longer needed for monetary policy purposes. Subsequent changes in the market value of monetary gold were posted to this new provision item. Since 1 May 2000, these changes have amounted to Sfr -1,232.9 million as a consequence of the fall in the gold price. The first ever allocation to this provision was thus Sfr 6,589.9 million for the year 2000.

Item no. 21 in the income statement

Allocation to provision for market, credit and liquidity risks

Income for the year under review allowed for an increase in the provision for market, credit and liquidity risks. However, at Sfr 1,214.9 million, the allocation for 2000 was much lower than in 1999, when Sfr 2,949.9 million was transferred.

3.4 Notes to the balance sheet

Compared with the previous year, the balance sheet total rose by Sfr 14.3 billion to Sfr 119.1 billion. This sharp rise in the total is due to the reporting of gold holdings at their market value, which became official practice as of 1 May 2000. This was partially offset by lower foreign exchange investment positions and lower claims from Swiss franc repo transactions caused by lower year-on-year liquidity requirements on the part of the banks and the general public in the form of sight deposit balances and banknotes (the changeover to the new millennium being a factor in 1999), and the marked reduction in net time liabilities towards the Confederation.

Items no. 22 and 23 in the balance sheet

Gold and claims from gold transactions

The entry into force of the new Federal law on currency and payment instruments relieved the National Bank of its obligation to value its gold holdings at the former parity rate of Sfr 4,595.74 per kilogram (see p. 43). Since the beginning of May, the principle whereby negotiable assets are stated at their market value has also applied to gold. The revaluation on 1 May 2000 of total gold holdings (both physical gold holdings and claims from gold transactions) produced a market value of Sfr 39,605.1 million on the basis of a gold price of Sfr 15,290.54 per kilogram. This resulted in an extraordinary book profit of Sfr 27,700.5 million (cf. item no. 18 in the income statement).

Gold

Physical gold holdings, which are stored at a variety of locations in Switzerland and abroad, declined by 180.7 tonnes compared with 1999. Of this figure, 170.8 tonnes were sold and 9.9 tonnes are accounted for by lending transactions and higher balances on metals accounts.

	2000		1999	
	Tonnes	Market value in Sfr millions	Tonnes	Parity value in Sfr millions
Gold ingots	1 918.6	27 503.0	2 099.3	9 647.9
Gold coins	175.2	2 511.4	175.2	805.3
Total	2 093.8	30 014.4	2 274.5	10 453.2

Claims from gold transactions

This item relates principally to secured and unsecured claims from gold lending transactions. Transactions are effected with first-class Swiss and foreign financial institutions. At the end of 2000, there were outstanding claims of over 323.8 tonnes, corresponding to a market value of Sfr 4,685.4 million (including accrued interest) on gold lending transactions.

	2000		1999	
	Tonnes	Market value in Sfr millions	Tonnes	Parity value in Sfr millions
Claims from unsecured gold lending transactions	238.8	3 448.8	242.4	1 140.1
Claims from secured gold lending transactions[1]	85.0	1 236.6	73.3	345.2
Claims on metals accounts	1.8	25.1	0.0	0.0
Total	325.6	4 710.5	315.7	1 485.4

1 secured by the deposit of first-class securities with a market value of Sfr 1,252.7 million

Item no. 24 in the balance sheet

Foreign currency investments

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[1]

	2000			Change from previous year	
	millions		percent	millions	
	original currency	Sfr	weighting	original currency	Sfr
USD[2]	12 552.4	20 526.9	40.7	−5 691.2	−8 626.3
EUR[3]	14 596.1	22 251.8	44.1	+2 092.9	+2 173.0
JPY	120 290.5	1 713.2	3.4	+45 433.7	+541.5
GBP	1 201.7	2 939.8	5.8	+466.1	+1 038.8
DKK	9 915.2	2 024.7	4.0	+3 618.7	+665.9
CAD	913.7	996.0	2.0	+55.8	+51.9
Others		0.5	0.0		−0.1
Total		**50 452.8[4]**	**100.0**		**−4 155.4**

1 The breakdown by currency refers to basic investments and does not take currency hedging transactions into account.
2 of which hedged using forex swaps: 2000: none; 1999: Sfr 7,686.4 million
3 comprises positions already converted into euros and positions which are still denominated in the respective euro area currency
4 Of these, non-negotiable investments account for Sfr 10,742.4 million (1999: Sfr 11,282.7 million).

Foreign currency investments by borrower and currency[1]

	2000			Change from previous year	
	millions		percent	millions	
	original currency	Sfr	weighting	original currency	Sfr
Government paper					
USD	6840.9	11186.9	22.2	−3966.4	−6083.1
EUR[2]	11275.3	17189.2	34.1	+1139.8	+912.6
JPY	119491.3	1701.8	3.4	+51835.8	+642.8
GBP	1059.7	2592.5	5.1	+417.9	+933.9
DKK	8677.5	1771.9	3.5	+2500.7	+438.9
CAD	911.2	993.2	2.0	+54.7	+50.7
Total		35435.5	70.2		−3104.2
Monetary institutions					
USD	1286.8	2104.3	4.2	−1946.5	−3062.5
EUR[2]	260.6	397.3	0.8	+90.2	+123.6
JPY	193.9	2.8	0.0	−927.2	−14.7
GBP	128.0	313.1	0.6	+86.8	+206.7
DKK	343.7	70.2	0.1	+324.5	+66.0
CAD	2.3	2.5	0.0	+1.0	+1.1
Others		0.5	0.0		–
Total		2890.7	5.7		−2679.8
Banks					
USD	4424.7[3]	7235.7	14.3	+221.7	+519.3
EUR[2]	3060.1[4]	4665.1	9.2	+862.9	+1136.6
JPY	605.3	8.6	0.0	−5474.9	−86.6
GBP	14.0[5]	34.2	0.1	−38.6	−101.8
DKK	894.0	182.6	0.4	+793.6	+160.9
CAD	0.2	0.2	0.0	+0.1	–
Others		0.1	0.0		–
Total		12126.6	24.0		+1628.4
Total		**50452.8[6]**	**100.0**		**−4155.4**

The holdings stated contain securities used for repo transactions (market value: Sfr 492.2 million) and securities lodged as initial margin with counterparties to futures transactions (market value: Sfr 105.6 million).

1 The breakdown by currency refers to basic investments and does not take currency hedging transactions into account.

2 comprises positions already converted into euros and positions which are still denominated in the respective euro area currency

3 Of this, 63.8% is accounted for by organisations with an indirect government guarantee.

4 Of this, 1.9% is accounted for by organisations with an indirect government guarantee.

5 Of this, 50.5% is accounted for by organisations with an indirect government guarantee.

6 Of this, non-negotiable investments account for Sfr 10,742.4 million (1999: Sfr 11,282.7 million).

Item no. 25 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 credit 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.

	2000 millions		Change from previous year millions	
	XDR	Sfr	XDR	Sfr
Swiss quota with IMF	3458.5	7412.5	–	−148.3
less IMF's Swiss franc sight balances at the National Bank[1]	−2488.6	−5333.7	−254.9	−450.5
Reserve position in the IMF	969.9	2078.8	−254.9	−598.8

1 Balance after deduction of accrued interest amounting to XDR 6.2 million (Sfr 13.4 million) on the reserve position.

Item no. 26 in the balance sheet

International payment instruments

Special Drawing Rights (XDR) are interest-yielding sight balances with the IMF. The National Bank has undertaken towards the IMF to purchase XDR against foreign currencies up to a limit of XDR 400 million.

	2000 millions		Change from previous year millions		Undertakings 2000 millions
	XDR	Sfr	XDR	Sfr	XDR
XDR	125.3[1]	268.5	−220.7	−487.9	275.3

1 Including accrued interest.

Item no. 27
in the balance sheet

Balance of payments support

The bilateral credits are medium-term, dollar-denominated credits used for internationally co-ordinated balance of payments assistance in which Switzerland participates by providing a tranche. The dollar-denominated credits to Romania and Bulgaria were repaid and Bulgaria received a new credit, denominated in euros.

The PRGF (Poverty Reduction and Growth Facility, formerly ESAF II – Prolonged Structural Adjustment Facility II) is a trust fund administered by the IMF which finances long-term low-interest credits to needy developing countries. As a result of further withdrawals from this facility, the IMF increased required contributions by XDR 43.0 million in 2000. General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB) are special credit mechanisms which can be used to provide the IMF with additional liquidity if its own funds are insufficient. There were no outstanding credits under these arrangements at the end of 2000. The facility and thus the National Bank's undertaking of XDR 1,557.0 million remain unchanged. While the Confederation guarantees interest and principal repayments for the bilateral credits and Switzerland's participation in the PRGF credit account, the National Bank finances Switzerland's contributions to the GABs and NABs without any guarantee from the federal government.

	Outstanding credits 2000		Change from previous year		Undertakings 2000
	millions		millions		millions
	USD	Sfr	USD	Sfr	USD
Bilateral credits					
Romania	–	–	−7.3	−11.7	–
Bulgaria	–	–	−32.3	−51.7	–
	EUR	Sfr	EUR	Sfr	EUR
Bulgaria	14.3	21.8	+14.3	+21.8	–
	XDR	Sfr	XDR	Sfr	XDR
Credit facilities in conjunction with the IMF					
PRGF (formerly ESAF II)	154.2	330.6	+43.0	+87.4	0.2
Total		**352.4**		**+45.9**	

Item no. 28
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. 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. 29
in the balance sheet

Lombard advances

Lombard loans are used by the banks as a stopgap for unforeseeable liquidity shortfalls. At the end of 2000, a total of 161 credit lines were outstanding, 3 fewer than at the end of 1999.

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

	2000 Sfr millions	Change from previous year Sfr millions
Credit lines outstanding at end-year	9 153.8	−127.1
Value of collateral at end-year[1]	9 910.6	−89.1
Yearly average of drawn advances	42.9[3]	+12.5
Maximum drawdown[2]	1 202.0	+188.0

1 market prices less 10–35 %
2 daily peak
3 average of values on working days

Item no. 30
in the balance sheet

Claims against domestic correspondents

647 branches of 66 banks (1999: 710 branches of 78 banks) perform local cash redistribution transactions for the National Bank and cover the cash requirements of federal institutions (Swiss Post, Swiss Federal Railways). In the first quarter of 2000, the claims attracted interest at the previous discount rate. From 1 April 2000 onwards, interest was paid at the Lombard rate less 200 basis points.

Swiss franc securities

These are exchange-listed bonds.

Item no. 31
in the balance sheet

	2000		Change from previous year
	Sfr millions	% weighting	Sfr millions
Domestic borrowers			
Confederation	1 169.8	21.6	–
Cantons	925.8	17.1	−299.3
Communes	400.6	7.4	−141.2
Mortgage bond institutions	1 059.4	19.6	+50.4
Banks	864.5	16.0	−45.5
Foreign borrowers			
Governments	245.1	4.5	+228.0
Banks	414.1	7.7	+403.1
International organisations	**330.6**	**6.1**	**+329.5**
Total market value[1]	**5 409.8**	**100.0**	**+524.9**
Total nominal value	5 134.6		+637.8

1 year-end prices plus accrued interest

The positions stated contain securities with a market value of Sfr 9.1 million used as margin deposits for Swiss franc repo transactions.

Participations (not consolidated) in Sfr millions

Item no. 32
in the balance sheet

	Value as of 31.12.1999	Investments	Divestments	Changes in the market value	Value as of 31.12.2000
Orell Füssli	27.0	–	–	–	27.0
BIS	61.0	–	–	–	61.0
Others	1.5	–	–	0.0	1.5
Total	89.4	–	–	0.0	89.5

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 2000, the nominal value of this company's registered share was once again reduced by Sfr 20. A reduction by the same amount took place in 1999. 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 for reasons of collaboration on monetary policy.

Other participations include stakes held in Telekurs Holding Ltd., Zurich, Sihl, Zurich (a paper mill) 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 Study Center Gerzensee.

Item no. 33 in the balance sheet

Tangible assets

Tangible assets are stated at their historical cost and written down on a straight-line basis over their estimated useful life. Low-value acquisitions of less than Sfr 1,000 are charged directly to general overheads.

This year, the "Specific conversion work" category is reported separately for the first time.

At Sfr 15.5 million (1999: Sfr 17.1 million), the "Sundry tangible assets" item accounted for the greater part of the depreciation figure. A further Sfr 3.9 million (1999: Sfr 3.8 million) of depreciation was accounted for by real estate, including specific conversion work for the National Bank.

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.

Schedule of assets in Sfr millions

	Banknote stocks	Real estate[1]	Specific conversion work	Fixed assets under construction	Sundry tangible assets[2]	Total
Period of depreciation	as per usage	100 years	10 years	no depreciation	3–12 years	
Historical cost						
Gross value as of beginning of 2000	154.7	347.3	4.3	24.4	88.9	619.5
Additions	41.5	0.5	5.2	11.9	15.9	74.9
Disposals	–35.0	–38.6	–	–	–16.2	–89.7
Reclassified		0.5	9.7	–15.5	5.2	
Gross value as of end of 2000	161.2	309.7	19.2	20.8	93.8	604.7
Cumulative depreciation						
Valuation adjustments as of beginning of 2000		6.8	0.5		55.5	62.8
Additions		3.2	0.7		15.5	19.4
Disposals		–0.9	–		–13.9	–14.8
Reclassified		–	–		–	
Valuation adjustments as of end of 2000		9.1	1.2		57.1	67.4
Net book values						
Net book value as of beginning of 2000	154.7	340.5	3.8	24.4	33.4	556.7
Net book value as of end of 2000	161.2	300.6	18.0	20.8	36.7	537.3

1 The insured value of real estate at end-2000 was Sfr 336.1 million (end-1999: Sfr 403.8 million).

2 The insured value of sundry tangible assets at end-2000 was Sfr 61.0 million (end-1999: Sfr 60.3 million).

Real estate

In the context of the new cash distribution concept, the premises of the branch offices in Basel, Lausanne, Lucerne and St Gallen were sold.

Sundry tangible assets

This category principally includes investments in information technology, machinery, equipment, furnishings and vehicles.

Sundry assets in Sfr millions

	2000	Change from previous year
Coins (including medallions)[1]	373.1	−39.1
Foreign notes	0.1	–
Postal giro accounts	0.0	−0.4
Other accounts receivable	33.0	−2.1
Other cheques and bills of exchange (collection business)	1.5	−4.1
Positive replacement values (forward contracts)[2]	292.9	+278.5
Total	700.7	+233.0

Item no. 34 in the balance sheet

1 Coins comprise the commemorative coins and medallions acquired by Swissmint which are placed in circulation by the National Bank.
2 Positive replacement values correspond to unrealised gains on derivative financial instruments that are not reported in the balance sheet. By far the greater part of this item is derived from foreign currency forward transactions concluded to hedge currency risks (cf. p. 103).

Accruals

Accrued interest on gold claims (Sfr 43.6 million), foreign currency investments (Sfr 959.4 million), the reserve position in the IMF (Sfr 13.4 million), international payment instruments (Sfr 1.5 million), balance of payments support (Sfr 5.9 million), claims from Swiss franc repo transactions (Sfr 22.0 million) and Swiss franc securities (Sfr 150.2 million) is contained in the corresponding balance sheet items.

Banknotes in circulation

Item no. 35 in the balance sheet

This comprises all banknotes held by the general public and the banks. Of the banknotes originating from the sixth issue, which were recalled in May 2000 and are exchangeable at the National Bank until 30 April 2020, a total of Sfr 3.7 billion were still outstanding at the end of the year.

On 4 May 2000, in accordance with the Federal law on currency and payment instruments, the National Bank transferred a total of around Sfr 244 million to the Swiss Fund for Emergency Losses. This amount corresponds to the countervalue of banknotes originating from the second and fifth issues which had not been exchanged by 30 April 2000 and had thus become worthless.

The requirement to secure notes in circulation by means of gold and certain other assets no longer applies with the entry into force of the Federal law on currency and payment instruments as of 1 May 2000.

Item no. 36
in the balance sheet

Sight deposit accounts of domestic banks

The 290 sight deposit accounts (1999: 293) of the 267 banks (1999: 283) do not bear interest. They form the basis on which the National Bank controls monetary policy and facilitate cashless payments within Switzerland. They are also a component of the liquidity which the banks are legally required to hold.

Items no. 37 and 38
in the balance sheet

Liabilities towards the Confederation

The sight deposits of the Confederation (including those of Swiss Post) facilitate the domestic and foreign payments transactions of the Federal Government and its agencies.

Interest ceased to be paid on sight deposits from Swiss Post on 1 November 2000, when Postfinance joined the Swiss Interbank Clearing system (SIC). Also on 1 November 2000, the interest limit on sight deposits held by the Confederation was raised to Sfr 600 million.

Interest at market rate is paid on the time deposits of the Confederation and Swiss Post. At year-end, liabilities towards the Confederation were Sfr 8,168.1 million (1999: Sfr 9,013.9 million), and liabilities towards Swiss Post were Sfr 1,719.9 million (1999: Sfr 7,736.0 million). The National Bank is free to place these funds on the market for monetary management reasons, in which case the Confederation bears the credit risk. No onward placements were made during 2000. Necessary liquidity was made available by means of repo transactions instead.

Item no. 39
in the balance sheet

Sight deposits of foreign banks and institutions

The 210 (1999: 221) accounts are denominated in Swiss francs and do not bear interest. They are held primarily by foreign central or commercial banks.

Item no. 40
in the balance sheet

Other sight liabilities

These comprise accounts held by active and retired employees, liabilities towards pension funds amounting to Sfr 16.2 million (1999: Sfr 12.8 million) and liabilities towards individual non-banks.

Item no. 41
in the balance sheet

Liabilities from Swiss franc repo transactions

As an instrument for regulating the money market, the National Bank may use repos to withdraw liquidity from the market. Such transactions were used in particular at the beginning of 2000 in order to reduce the high level of sight deposits that had been held in connection with the changeover to the new year and new millennium. This item also includes cash margins from Swiss franc repo transactions. There were no outstanding liabilities at the end of the year.

Item no. 42
in the balance sheet

Foreign currency liabilities

This item consists of liabilities from repo transactions aimed at managing foreign currency investments (Sfr 439.5 million) plus sight liabilities towards the Confederation denominated in foreign currencies.

Sundry liabilities in Sfr millions

	2000	Change from previous year
Other liabilities	27.6	−0.9
Negative replacement values (forward contracts)[1]	100.0	−137.9
Total	127.6	−138.8

Item no. 43
in the balance sheet

1 Negative replacement values correspond to unrealised losses on derivative financial instruments that are not reported in the balance sheet. By far the greater part of this item is derived from foreign currency forward transactions concluded to hedge currency risks (see p. 103).

Deferrals

Accrued interest on forward liabilities towards the Confederation (Sfr 43.0 million) and liabilities from foreign currency repo transactions (Sfr 0.7 million) are contained in the corresponding balance sheet positions.

Provisions for market, credit and liquidity risks, and for operating risks

Item no. 44
in the balance sheet

If the effect of the market valuation of gold is factored out, aggregate income was much lower than the previous year. The provision for market, credit and liquidity risks could nonetheless be expanded by Sfr 1,214.9 million. Provisions thus exceed the minimum figure stipulated in the profit calculation concept (see p. 101ff).

Provisions in Sfr millions	Provisions on 31.12.1999	Allocated to provisions	Released from provisions	Provisions on 31.12.2000	Change from previous year
Market, credit and liquidity risks	37 678.5	1 214.9	–	38 893.4	+1 214.9
Operating risks	470.8	–	3.8[1]	467.1	−3.8
Total	38 149.3	1 214.9	3.8	39 360.5	+1 211.2

1 Amounts disbursed 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 foreign currency investments. The interest risks on foreign currency investments and Swiss franc securities are also significant. Credit risks are primarily settlement risks attached to foreign exchange transactions.

Item no. 45 in the balance sheet

Provision for market and liquidity risks on gold

This newly created provision takes account of the market and liquidity risks associated with monetary gold, i. e. the gold still held by the National Bank (approximately 1,290 tonnes). Fluctuations in the market value of monetary gold are allocated to this provision item. However, it is not included in the calculation of residual surplus on provisions in accordance with the profit distribution agreement with the Confederation (cf. p. 101f.). The provision for market and liquidity risks on gold is an important contra entry to those gold holdings that remain with the National Bank. As monetary gold holdings are not available for other public-sector purposes, the contra item may not be included among distributions either. This provision stood at Sfr 6,589.9 million as at year-end.

Item no. 46 in the balance sheet

Provision for the assignment of free assets

This newly created provision reflects the fact that 1,300 tonnes of gold are no longer required for monetary policy purposes, as well as the National Bank's intention to assign the countervalue of this gold for other public-sector purposes in the near future. The provision corresponds to the market value of that part of the 1,300 tonnes of gold that has not yet been sold, plus income from transactions to hedge the foreign exchange risk on the dollar proceeds of gold sales, as well as the income received from sales of gold. This provision stood at Sfr 18,860.4 million as at year-end.

Item no. 47 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) is paid up.

In the year under review, the Bank Committee authorised the transfer of 8,693 shares to new holders. As of 31 December 2000, applications for registration were pending or outstanding for 10,789 shares.

The shares were distributed as follows:

1 055 private shareholders each with	1	share
1 391 private shareholders each with	2–10	shares
460 private shareholders each with	11–100	shares
20 private shareholders each with	101–200	shares
14 private shareholders each with	over 200	shares
2 940 private shareholders with a total of	33 347	shares
26 cantons with a total of	38 981	shares
24 cantonal banks with a total of	14 921	shares
39 other public authorities and institutions with a total of	1 962	shares
89 public-sector shareholders with a total of	55 864	shares
3 029 shareholders with a total of	89 211	shares
Registration applications pending or outstanding for	10 789	shares
Total	100 000	shares

Of the shares registered 63% belonged to cantons, cantonal banks and other public-law bodies and institutions, and 37% were registered in the names of private shareholders; of the latter, 78% were held by private individuals and 22% by legal entities. 2,328 shares (without voting rights) were in foreign ownership; this is equivalent to 2.3% of the share capital.

The price of the National Bank share – which, owing to its legally stipulated maximum dividend of 6%, generally develops along similar lines to a long-term Confederation bond with a 6% coupon – ranged between Sfr 651 and Sfr 855 during the year.

The number of transactions fell by almost 25% year-on-year. The number of pending or outstanding applications for registration declined by 4%.

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**	
	2000	Change from previous year	2000	Change from previous year
Canton of Berne	6 630	–	6.63%	–
Canton of Zurich	5 200	–	5.20%	–

Reserve fund

Item no. 48 in the balance sheet

The reserve fund was increased by Sfr 1.0 million (the legally permitted maximum) to Sfr 65.0 million by an allocation from the 1999 annual profit.

Annual profit – calculation and distribution

Item no. 49 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 and thereby ensure confidence in the Swiss franc. 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 determined (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 Finance Department stated that, in order to achieve an even steadier flow of payments, the distributions to the Confederation and cantons were to be fixed in advance – on the basis of earnings forecasts – at Sfr 1.5 billion per annum for the period 1998–2002. These distributions are being paid out of the earnings surpluses for financial years in question and from the residual surplus from actual 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 reduced or even suspended altogether during the five-year period.

Target levels of provisions for market, credit and liquidity risks, for operational risks and calculation of the residual surplus and distribution

	Growth in nominal GNP	**Provisions for market, credit and liquidity risks, and for operating risks as at year-end** Sfr millions		**Residual surplus prior to distribution** Sfr millions	**Distri-bution** Sfr millions
	in percent (average period)[1]	targeted level	actual level prior to distribution[2]		
	(1)	(2)	(3)	(4) = (3) – (2)	(5)
1997	2.9 (1991–95)	25 191.9	34 892.2	9 700.3	600.0
1998	1.8 (1992–96)	25 645.4	36 700.4	11 055.0	1 500.0
1999	1.9 (1993–97)	26 132.7	39 649.3	13 516.6	1 500.0
2000	2.0 (1994–98)	26 655.4	40 860.5	14 205.1	1 500.0
2001	2.6 (1995–99)	27 337.8			

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 for market, credit and liquidity risks, and for operating risks" – corresponds to this figure less the distribution of Sfr 1.5 billion to the Confederation and the cantons.

3.5 Notes regarding off-balance-sheet business

	2000 Sfr millions	Change from previous year Sfr millions
Outstanding undertakings		
Two-way arrangement (IMF)[1]	590.0	+469.2
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)[2]	3 337.1	−66.7[3]
Poverty Reduction and Growth Facility PRGF (formerly ESAF II)[4]	0.4	−92.4
Substitution undertaking to the Bank for International Settlements (BIS)[5]	–	−234.1
Other off-balance-sheet items		
Additional funding obligation for registered shares of BIS[6]	125.0	−5.2
Documentary credits[7]	8.9	−1.3
Other payment obligations[8]	11.9	−5.4
Fiduciary investments of the Confederation	648.5	+272.7

	Contract value Sfr millions	Gross replacement value Sfr millions	
		positive	negative
Outstanding derivative financial instruments			
Interest rate instruments	**9 326.9**	**6.2**	**3.9**
Forward contracts	7 688.2	2.0	1.0
Interest rate swaps	264.1	4.0	2.9
Futures	1 374.6	0.1	–
Foreign currency	**8 459.1**	**286.6**	**96.1**
Forward contracts	8 459.1	286.6	96.1
Precious metals	**193.9**	**0.1**	**–**
Forward contracts[9]	193.9	0.1	–
Total, end-2000	**17 979.9**	**292.9**	**100.0**
Total, end-1999	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 (cf. item 26 in the balance sheet)

2 Credit line totalling XDR 1,557 million (of which a maximum of XDR 1,020 million under GABs) in favour of the IMF for special cases, without a federal guarantee (cf. item 27 in the balance sheet)

3 Change due entirely to exchange rates

4 Limited-term credit undertaking to the IMF's trust fund amounting to XDR 151.7 million (cf. item 27 in the balance sheet and p. 62)

5 As of 12 April 2000, the Banco Central do Brasil repaid all outstanding sums that it had received as part of a balance of payments support package to Brazil from the BIS. The National Bank's substitution undertaking of USD 146.5 million to the BIS has thus expired.

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

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

8 Liabilities from long-term rental and maintenance contracts

9 From spot transactions and gold lending with value dates in the new year

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

At its meeting of 9 March 2001, the Bank Council accepted the proposal of the Bank Committee to approve the 93rd Annual Report for the year 2000, as presented by the Governing Board, for submission to the Federal Council and the Annual General Meeting of Shareholders.

On 16 March 2001, the Federal Council approved the Annual Report and the annual financial statements pursuant to Article 63 paragraph 2 (i) of the National Bank Law. The Auditing Committee produced its report pursuant to Article 51 paragraph 2 of the National Bank Law on 5 February 2001.

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 proposal regarding the reappointment of the Auditing Committee, see page 72.

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 2000. We confirm that we meet the legal requirements concerning professional competence and independence.

Our audit was conducted in accordance with the Swiss 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, 5 February 2001

The Auditing Committee:

Hans Michel
Chairman

Maryann Rohner
Vice-Chairwoman
Certified auditor

Kaspar Hofmann
Chief auditor
Certified auditor

On 3 February, the National Bank increases the target range for the three-month Libor rate by 0.5 percentage points to 1.75%–2.75% (cf. pp. 38f.) **February**

On 23 March, the National Bank increases the target range for the three-month Libor rate by 0.75 percentage points to 2.5%–3.5% (cf. pp. 38f.) **March**

On 1 May, the Federal law on currency and payment instruments and the revised Coinage Ordinance enter into force (cf. p. 44). **May**

On 2 May, the National Bank begins with the sale of gold no longer required for monetary policy purposes (cf. pages 43 and 51f.).

On 17 May, the Federal Council submits to the federal parliament a message together with the draft of a provision in the Constitution concerning the different use of gold reserves of the National Bank (cf. p. 43).

On 15 June, the National Bank increases the target range for the three-month Libor rate by 0.5 percentage points to 3%–4% (cf. pp. 38f.). **June**

On 8 December, the National Bank announces its intention to leave the monetary policy course unchanged for the time being (cf. p. 40). **December**

Tables and statistical data

1 Business results since 1990

in Sfr millions

	1990	1991
Income from		
gold	–	–
foreign currency investments	2 585.1	3 084.7
reserve position in the IMF[1]	–	–
international payment instruments[1]	–	–
balance of payments support[1]	–	–
Income from		
securities discounting	44.2	37.1
Swiss franc repo transactions	–	–
domestic money market claims	–	–
Lombard advances	3.9	2.6
claims against domestic correspondents	10.8	12.6
Swiss franc securities[2]	160.2	176.1
Other income	6.1	6.6
Gross income	**2 810.3**	**3 319.6**
Interest expenses	−107.0	−89.5
Banknote expenses	−20.5	−23.1
Personnel expenses	−69.5	−77.0
General overheads	−59.9	−64.9
Depreciation on tangible assets	–	–
Net income	**2 553.4**	**3 065.1**
Exchange rate-related valuation adjustments	−3 976.8	1 697.1
Write-downs on securities	−48.3	−37.0
Extraordinary expenses	–	–
Extraordinary income	–	–
Extraordinary revaluation gain on gold	–	–
Taxes	−3.4	–
Aggregate income	**−1 475.0**	**4 725.2**
Allocation to provisions		−4 117.6
Release of provisions	1 482.6	
Annual profit	**7.6**	**607.6**
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	605.1

1 Posted to foreign currency investments until 1991

2 Income from domestic securities until 1998

3 Due to changes in valuation principles

1992	1993	1994	1995	1996	1997	1998	1999	2000
–	–	–	–	–	2.6	42.6	57.8	−2 159.6
2 498.8	2 348.4	1 618.4	1 910.7	1 794.8	2 067.5	3 091.3	372.9	3 422.1
3.3	40.3	32.1	45.6	55.1	69.9	123.8	91.4	87.4
4.3	11.3	12.9	12.4	13.6	14.0	14.0	8.2	19.0
6.1	8.7	8.9	12.1	10.7	12.9	19.5	16.5	12.4
31.6	4.0	–	–	–	–	–	–	–
–	–	–	–	–	–	84.2	150.1	513.2
11.2	59.0	57.2	55.5	32.6	22.9	5.9	–	–
2.5	1.8	2.0	0.9	0.9	0.9	0.7	0.8	1.9
12.2	6.9	7.0	3.8	2.3	1.7	1.4	1.0	2.4
184.3	315.9	228.7	238.1	260.3	262.4	220.0	30.6	164.8
14.1	17.8	15.3	8.9	12.9	13.4	15.1	30.9	40.0
2 768.3	**2 814.2**	**1 982.5**	**2 288.0**	**2 183.2**	**2 468.4**	**3 618.4**	**760.1**	**2 103.7**
−98.8	−296.3	−213.1	−101.6	−49.3	−67.1	−126.1	−243.8	−336.9
−26.4	−54.6	−57.6	−59.3	−15.1	−32.0	−45.5	−43.8	−35.0
−79.8	−79.4	−83.3	−79.8	−82.0	−79.6	−81.1	−81.3	−79.5
−54.2	−55.0	−47.0	−56.6	−54.0	−55.2	−60.3	−74.5	−93.8
–	–	–	–	−10.1	−9.9	−17.0	−20.9	−19.4
2 509.1	**2 328.9**	**1 581.5**	**1 990.7**	**1 972.7**	**2 224.5**	**3 288.5**	**295.7**	**1 539.1**
692.6	764.1	−2 338.9	−3 531.4	4 412.1	1 765.2	−871.2	4 137.1	−1 075.2
−35.1	−67.7	−45.5	−66.0	–	–	–	–	–
–	–	−50.3	−0.9	–	−100.0	−22.9	−2.3	−4.1
–	–	–	–	2 077.1 [3]	6.0	0.0	27.3	12.8
–	–	–	–	–	–	–	–	27 700.5
−8.7	–	–	–	–	–	–	–	–
3 157.9	**3 025.3**	**−853.2**	**−1 607.6**	**8 461.9**	**3 895.7**	**2 394.5**	**4 457.9**	**28 173.2**
−2 549.5	−2 417.3			−7 396.1	−3 287.7	−886.5	−2 949.9	−26 665.2
		1 461.2	1 757.8					
608.4	**608.0**	**608.0**	**150.2**	**1 065.8**	**608.0**	**1 508.0**	**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
605.9	605.5	605.5	147.7	1 063.3	605.5	1 505.5	1 505.5	1 505.5

2 Summary of balance sheets since 1990

Year-end values in Sfr millions

The accounting and valuation principles applied since 1996 are explained on pages 80ff.

Assets

	1990	1991
Gold holdings and claims from gold transactions		
gold	11 903.9	11 903.9
claims from gold transactions	–	–
Foreign currency investments	37 209.8	40 232.1
of which exchange rate-hedged using swaps	14 729.3	14 521.7
Reserve position in the IMF	–	–
International payment instruments[1]	112.9	117.3
Balance of payments support	–	97.1
Claims from Swiss franc repo transactions	–	–
Domestic money market claims	–	–
Swiss bills of exchange	711.1	522.1
Confederation treasury notes	–	–
Lombard advances	165.7	107.0
Claims against domestic correspondents	567.0	552.8
Swiss franc securities[2]	2 814.0	2 886.1
Participations[3]		
Tangible assets[3]		
Sundry assets	221.3	313.2
Non paid-up share capital	25.0	25.0
Balance sheet total	**53 730.7**	**56 756.6**

Liabilities

	1990	1991
Banknotes in circulation	29 640.5	29 217.1
Sight deposits of domestic banks[4]	4 595.3	4 275.6
Liabilities towards the Confederation		
sight	621.7	3.4
time	785.0	400.0
Sight deposits of foreign banks and institutions	59.8	114.9
Other sight liabilities	95.0	104.7
Liabilities from Swiss franc repo transactions	–	–
Foreign currency liabilities	–	–
Sundry liabilities	77.7	66.5
Provisions		
for market, credit and liquidity risks[5]	17 113.1	21 230.8
for market and liquidity risks on gold	–	–
for operating risks[6]	630.0	630.0
for the assignment of free assets	–	–
Share capital	50.0	50.0
Reserve fund	55.0	56.0
Net disposable income – annual profit	7.6	607.6
Balance sheet total	**53 730.7**	**56 756.6**

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

1992	1993	1994	1995	1996	1997	1998	1999	2000
11 903.9	11 903.9	11 903.9	11 903.9	11 903.9	11 448.2	11 045.5	10 453.2	30 014.4
–	–	–	–	–	458.3	884.6	1 485.4	4 710.5
45 857.8	47 031.1	45 910.4	41 812.6	49 328.4	53 270.5	52 805.8	54 608.2	50 452.8
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	2 078.8
134.9	332.7	414.8	408.2	290.0	452.4	390.8	756.4	268.5
156.4	218.4	198.3	173.7	204.3	315.4	768.3	306.5	352.4
–	–	–	–	–	–	17 348.3	28 136.0	24 182.0
467.7	752.5	720.5	1 436.2	1 581.7	673.5	–	–	–
353.4	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
26.9	13.5	14.9	4.7	764.2	0.4	0.3	1.0	0.5
493.0	595.8	565.8	429.2	514.5	415.4	378.8	390.8	276.3
2 975.7	2 973.2	3 027.1	3 063.9	4 821.5	4 941.0	5 010.0	4 884.9	5 409.8
				51.0	89.6	89.4	89.4	89.5
				532.4	567.4	563.0	556.7	537.3
261.0	707.0	778.0	1 064.3	452.1	482.2	480.4	467.7	700.7
25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
63 800.1	**65 774.7**	**64 800.2**	**62 009.4**	**72 537.0**	**75 904.5**	**92 860.7**	**104 838.9**	**119 098.4**
29 353.5	29 335.6	30 545.1	30 892.2	32 447.6	32 141.8	33 218.8	37 184.8	35 485.7
4 785.5	4 776.7	3 837.2	4 035.0	4 927.4	5 100.8	6 860.1	9 883.3	6 193.6
245.1	192.3	595.2	917.4	839.5	155.6	147.6	112.1	164.7
3 450.0	2 940.0	2 850.0	1 350.0	815.3	2 301.7	14 972.0	16 749.9	9 888.0
54.7	188.8	46.7	43.3	32.7	47.3	163.5	214.0	203.4
115.1	105.8	108.0	156.3	204.2	230.3	236.1	295.4	161.5
–	–	–	–	–	–	–	6.5	–
–	–	–	–	–	–	175.9	355.1	440.2
670.5	692.0	734.7	746.5	1 089.0	914.7	265.3	266.4	127.6
23 770.3	26 187.5	24 726.3	22 958.4	30 554.5	33 842.2	34 728.6	37 678.5	38 893.4
–	–	–	–	–	–	–	–	6 589.9
640.0	640.0	640.0	650.0	450.0	450.0	471.7	470.8	467.1
–	–	–	–	–	–	–	–	18 860.4
50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
57.0	58.0	59.0	60.0	61.0	62.0	63.0	64.0	65.0
608.4	608.0	608.0	150.2	1 065.8	608.0	1 508.0	1 508.0	1 508.0
63 800.1	**65 774.7**	**64 800.2**	**62 009.4**	**72 537.0**	**75 904.5**	**92 860.7**	**104 838.9**	**119 098.4**

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

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

6 Prior to 1996: other provisions

3 Supervisory and executive bodies

(on 1 January 2001)

Bank Council	Eduard Belser, Lausen, President
(Term of office 1999–2003)	Philippe Pidoux, Lausanne, Attorney-at-law, Vice President
The members elected by the Ordinary General Meeting of Shareholders are marked with an asterisk (*)	Kurt Amsler, Neuhausen am Rheinfall, 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
	* Hansjörg Frei, Mönchaltorf, Chairman of the Swiss Insurance Association (SIA), member of extended Executive Board Credit Suisse Financial Services
	* 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 Management of the Lake Geneva Region Tourist Office and of the Centre romand de promotion du management
	* 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 Industries Ltd.
	* 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 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 Business Federation (economiesuisse)
	* 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
	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

Judith Stamm, Lucerne

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

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 Cron, Basel, Member of the management of Batigroup Holding Ltd, Head of Infra (Public Works Division)

Berne

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

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

Reto Hartmann, Hünibach, Chief Executive Officer of Valora Holding AG

Geneva

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

Raymond Léchaire, Bussigny, Director of Coop Romandie, Deputy Chairman

Claude-Daniel Proellochs, Neuchâtel, General Manager and Chairman of the Board of Vacheron Constantin SA

Lausanne

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

Gérard Beytrison, Conthey, Managing Director of Orgamol SA, Deputy Chairman

Bernard Rüeger, Féchy, General Manager of Rüeger SA

Lugano

Corrado Kneschaurek, Muzzano, President of the Hotel Association Ticinio, Chairman

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

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

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)

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 Jakob Kowner AG, Chairwoman

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

Kurt E. Feller, Wollerau, Chairman of the Board of Directors of Rieter Holding Ltd

Auditing Committee

(Term of office 2000/2001)

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

Departments	**Department I (Zurich)**	
	Head of Department	Jean-Pierre Roth, 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
	Communications	Werner Abegg, Deputy Director
	Regional Economic Relations	Heinz Alber, Director
	Economic Division	Georg Rich, Director
	Economic Studies	Michel Peytrignet, Director
	Research	Thomas J. Jordan, Assistant Director
	Economic Analysis	Eveline Ruoss, Assistant Director
	International Monetary Relations	Werner Hermann, Director
		Umberto Schwarz, Assistant Director
	Statistics	Christoph Menzel, Director
	Statistical Analysis	Robert Fluri, Assistant Director
	Monetary Statistics	Guido Boller, Assistant Director (as from 1 March)
	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	Hans Kuhn, Deputy Director (as from 1 March)
		Eliane Menghetti, Assistant Director
	Personnel	Martin Hiller, Director (as from 1 March)
		Benjamin Künzli, Assistant Director
		Gabriela Mittelholzer, Assistant Director
	Pension Fund	Peter Hadorn, Deputy Director
	Premises, Technical Services	Peter Fankhauser, Assistant Director

Department II (Berne)	
Head of Department	Niklaus Blattner, Member of the Governing Board
Deputy Head of Department	Thomas Wiedmer, Director
Management Support	Theodor Scherer, Director
Regional Economic Relations	Jean-Pierre Borel, Director
System Stability	Urs W. Birchler, Director
	Bertrand Rime, Assistant Director
Security	Hans Balzli, Assistant Director
Banking and Administrative Division	Thomas Wiedmer, Director
Securities and Gold Operations	Hans-Christoph Kesselring, Deputy Director
Central Accounting	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
Processing	Urs Locher, Assistant Director

Department III (Zurich)	
Head of Department	Bruno Gehrig, Vice-Chairman of the Governing Board
Deputy Heads of Department	Erich Spörndli, Director
	Erwin Sigrist, Director
Monetary Operations Division	Erich Spörndli, Director
Risk Management	Dewet Moser, Deputy Director
Money Market and Foreign Exchange	Karl Hug, Director
	Marcel Zimmermann, Assistant Director
Investment	Thomas Stucki, Deputy Director
General Processing and Informatics Division	Erwin Sigrist, Director
Payment Systems	Daniel Heller, Assistant Director
General Processing	Daniel Wettstein, Director
	Beat Spahni, Assistant Director (until 28 February)
Domestic Payments	Walter Gautschi, Assistant Director
Foreign Payments	Markus Steiner, Assistant Director
Cashier's Office Zurich	Roland-Michel Chappuis, Assistant Director (until 28 February)
	Peter Eltschinger, Assistant Director (as from 1 March)
Informatics	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]	Mauro Picchi, 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
- Sitten
- Stans
- Thun
- Weinfelden
- Zug

4 Organisation chart

- **Annual General Meeting**
  - **Auditing Committee**
- **Bank Council**
  - **Local Committees**
- **Bank Committee**
- **Governing Board**
  - **Secretariat General Zurich/Berne**

Department I Zurich

- **Internal Auditors**
- **Communications**
- **Regional Economic Relations**
- **Economic Division**
  - Economic Studies
  - International Monetary Relations
  - Statistics
  - Library
- **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**
- **System Stability**
- **Banking and Administrative Division**
  - Securities and Gold Operations
  - Central Accounting
  - Payment Transactions
  - Cashier's Office, Berne
  - Premises, Technical Services
- **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 55 25, 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 81 14 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 55 25, 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 2.4% 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 55 25, 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 55 25, 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 81 14
Free of charge

All the publications can be accessed on the Internet: http://www.snb.ch

1 including 2.4% 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 with cash distribution services	**Geneva**	
	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
	Lugano	
	Via Canova 12	Telephone +41 91 911 10 10
	P.O. Box 2858	Telefax +41 91 911 10 11
	6901 Lugano	
Branch offices without cash distribution services	**Basel**	
	Aeschenvorstadt 55	Telephone +41 61 270 80 80
	P.O. Box 626	Telefax +41 61 270 80 87
	4010 Basel	
	Lausanne	
	Rue de la Paix 6	Telephone +41 21 213 05 11
	P.O. Box 2332	Telefax +41 21 213 05 18
	1002 Lausanne	
	Lucerne	
	Münzgasse 6	Telephone +41 41 227 20 40
	P.O. Box 7864	Telefax +41 41 227 20 49
	6000 Luzerne 7	
	St Gallen	
	Neugasse 43	Telephone +41 71 227 25 11
	P.O. Box	Telefax +41 71 227 25 19
	9004 St Gallen	
Internet	http://www.snb.ch	
E-mail	snb@snb.ch	

Design
Weiersmüller Bosshard Grüninger WBG, Zurich

Composition
typolitho ag, Zurich

Printing
Buri Druck AG, Wabern-Berne

ISSN 1421-6497