94th Annual Report

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA

2001

Goals and responsibilities 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 the 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 in the medium term, the National Bank orients its monetary policy to the growth potential of the economy. The National Bank equates price stability with a rise in the national consumer price index of less than 2% per annum.

Promoting the efficiency of the payment system

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

Ensuring the supply of cash

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

Cashless payment transactions

In the field of cashless payment transactions the National Bank provides services for payments between banks. 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 ensure confidence in the Swiss franc, serve to prevent and overcome crisis situations and may be utilised for interventions in the foreign exchange market.

Stability of the financial system

The stability of the financial system is ensured first and foremost by solid market participants and effective banking supervision. Banking supervision is the responsibility of the Swiss Federal Banking Commission. The National Bank's contribution is to conduct a stability-oriented monetary policy and to help promote an appropriate framework for the Swiss financial centre.

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 banker to the Confederation.

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

The figure 0.0 is a rounded value representing less than half of the used unit. A dash (–) in place of a number stands for zero (nil).

Ladies and Gentlemen

The past year has made a profound impact. The terrorist attacks of 11 September in the United States left death and destruction in their wake. They also revealed the vulnerability of modern industrial societies. The international financial system, however, was not destabilised by the crisis.

The terrorist attacks hit the world economy in a phase when business activity was cooling. The slowdown did not come as a surprise, but turned out to be more pronounced than anticipated. It went hand in hand with losses on the equity markets, which corrected previous excesses.

Switzerland did not remain immune to the unfavourable developments. In the course of the year, economic growth lost momentum. As a result, unemployment increased.

Central banks, including the Swiss National Bank, responded to the weakening of economic activity and the receding danger of inflation by strongly easing their monetary policies. The National Bank thus created an important precondition for a sustained economic recovery without jeopardising the goal of price stability.

The launch of euro notes and coins as legal tender in twelve European countries at the beginning of this year caused no significant problems. The new currency has been favourably received by the public. In the long term, the public will benefit from efficiency gains associated with the euro. The euro is also expected to have positive effects for the Swiss economy.

This year, the earnings of the National Bank again permit 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 staff for their support in the past year.

Berne, 8 March 2002

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

End of economic boom

The economy witnessed a marked worldwide slowdown in the course of 2001. The cooling trend started in the US in the summer of 2000 and began to spill over into Europe, Asia and Latin America in 2001. Significantly higher oil prices in the previous years and the crisis that hit the technology sector in the fall of 2000 were a considerable burden for most industrial countries. Another factor contributing to the economic slowdown was the central banks' tightening of monetary policy in 2000 to counter the threatening signs of overheating. This had a particularly adverse effect on investment activity, which had supported the recovery in the preceding years. The unfavourable development and the resultant deteriorating profit expectations sent equity prices on a downward spiral.

Terrorist attacks in the US

The terrorist attacks of 11 September in New York and Washington not only hit the United States but also had grave consequences for the rest of the world. Air traffic and tourism in particular suffered massive losses. As a result of dwindling consumer confidence, private consumption, which had so far supported the economy, slowed down. In the second half of the year, real gross domestic product (GDP) contracted in the United States, growth in Europe came to a standstill, and the economic crisis in Japan deepened.

Stagnating world trade

The economic downturn put a considerable damper on world trade. According to an estimate of the Organisation for Economic Cooperation and Development (OECD), the volume of international trade stagnated in 2001 after still having grown by nearly 13% a year earlier. Trade between the OECD countries diminished, while it advanced slightly outside the OECD.

Subsiding inflation – easing of monetary policy

In most industrial countries, the cooling of the economy went in tandem with subsiding inflation. Receding inflationary pressure made it possible for central banks to loosen their monetary reins. The Fed's key interest rate cuts were particularly drastic.

Sharp decline of US economy

The economic downturn was especially marked in the United States. Real GDP grew by only 1.2% in 2001 compared with an increase of 4.1% in the previous year. Declining corporate investment and fewer exports were the main culprits for the slowdown. In the second half of the year, private consumption also failed to provide any noticeable stimulus. Industrial production fell off, and in the fourth quarter, capacity utilisation dropped significantly below the level it had reached during the last recession in 1991.

Slowdown in the euro area

During the course of the year, the cyclical decline also took hold of the economies of the euro area. Export activity lost momentum, and domestic demand increasingly suffered from eroding consumer confidence. The second half of the year saw a stagnation of economic activity in the euro area. Over the year, average growth of real GDP was 1.2% compared with 3.5% in the previous year. Germany recorded the lowest growth rate (0.6%), Ireland the highest (5.6%). At 2.0% and 1.8% respectively, economic growth was above average in France and in Italy.

UK economy remains favourable

Unlike in the United States and the euro area, the economic situation in the UK remained favourable. Even though investment and exports lost momentum, consumption remained more robust than in most other industrial countries. Real GDP increased by 2.3% compared with 2.9% in the previous year.

Recession in Japan

The Japanese economy was pushed into recession again in 2001. In addition to the deteriorating global economic environment, notorious structural problems put pressure on the economy. Real GDP fell by 0.5%, after an increase of 2.4% a year earlier.

Rise in unemployment

The weak global economy had a deep impact on labour markets. Employment only registered moderate increases in most industrial countries, and in Japan it was on the decline. As a result, jobless numbers climbed in most industrial countries, with the US and Japan experiencing an especially steep rise. At 5.8%, unemployment in the United States in December was nearly 2 percentage points above the previous year's figure; in Japan it exceeded the 5% mark in the second half-year for the first time since the early 1950s. In the euro area, the unemployment rate moved up in autumn as well, yet at 8.5% – averaged over the year – remained half a percentage point below the previous year's figure. Germany saw a particularly strong rise in unemployment. In the United Kingdom, too, the jobless rate rose slightly, i.e. to 5.3% until December, yet it remained below the previous year's level.

Receding inflation

After still having risen in the first half of the year, consumer price inflation in the OECD countries softened in the second half of the year. The decline was mainly attributable to falling oil prices. In December, a barrel of Brent crude oil traded at just under 19 dollars on the international market, i.e. roughly a third less than in the previous year. At year-end, consumer price inflation in the United States was 1.6% after having stood at an average of 3.4% during the first half-year. In the euro area, it advanced to a high of 3.4% until May and subsequently fell off continuously to a level of 2.1% in December. In the United Kingdom, by contrast, inflation held steady slightly above 3% during the entire year. In Japan, consumer prices declined, as had been the case already in the previous years. The drop became more pronounced, from 0.3% in January to 1.2% in December.

Converging current accounts

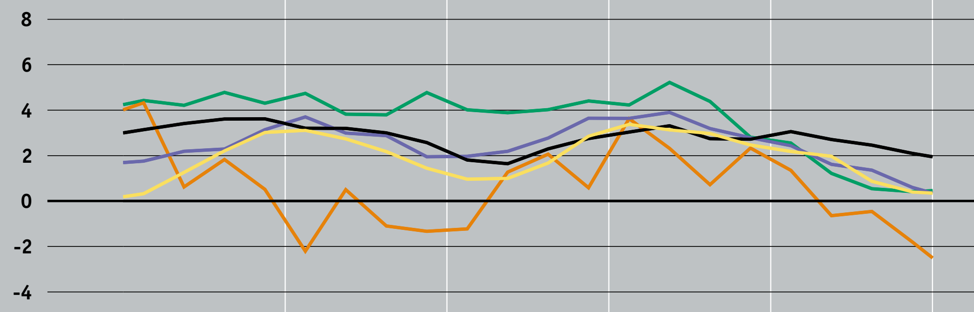
As a result of the economic slowdown and sinking oil prices, current account deficits receded in many industrial countries. In 2001, the OECD countries on average recorded a current account deficit of an estimated 1.2% of GDP compared with 1.3% a year earlier. The deficit decreased particularly sharply in the United States, dropping from 4.5% to 4.1%, while the current account in the euro area – after a small deficit in the previous year – was balanced again. In Japan, a softer foreign demand resulted in a smaller current account surplus, diminishing from 2.5% to 2.1% of GDP. In absolute figures, the deficit in the United States amounted to roughly 414 billion dollars, the surplus in Japan to 87 billion dollars.

1997 1998 1999 2000 2001

Real gross domestic product

United States
Japan
Euro area
United Kingdom
Switzerland

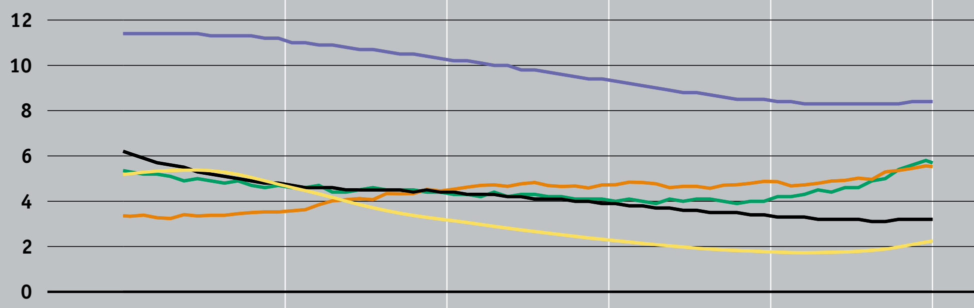
Change from previous year in percent.
Source: OECD



Unemployment

United States
Japan
Euro area
United Kingdom
Switzerland

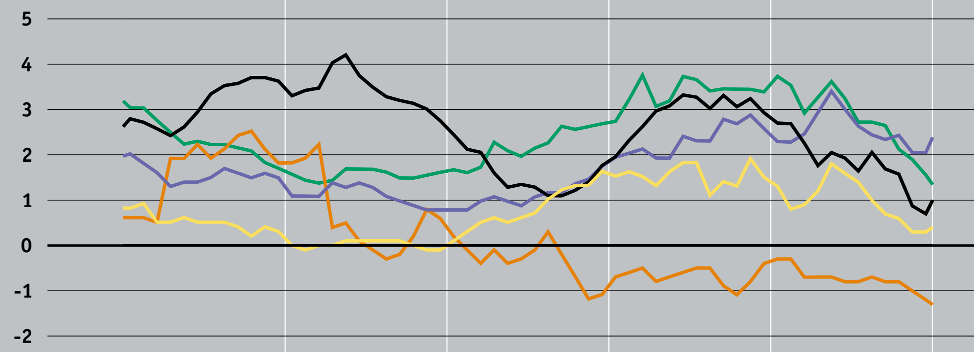
Seasonally-adjusted; in percent.
Source: OECD



Inflation

United States
Japan
Euro area
United Kingdom
Switzerland

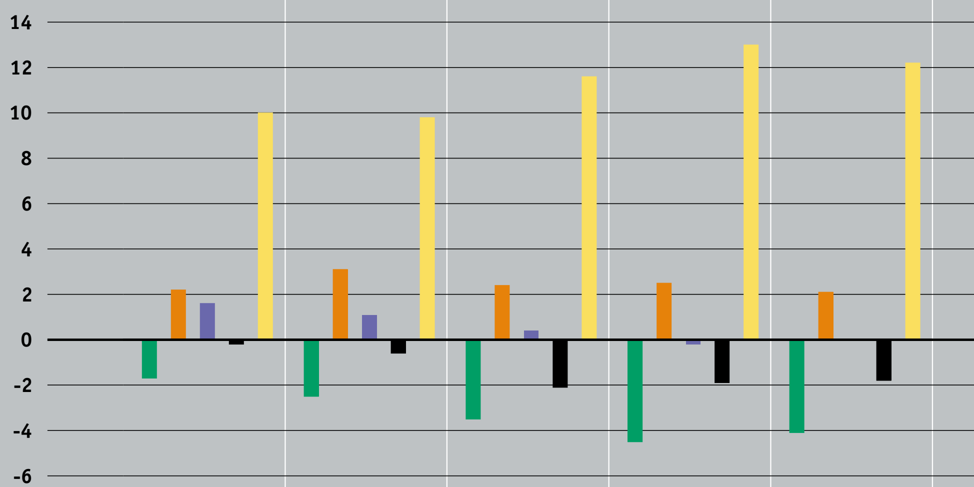
In percent.
Source: OECD



Current account balance

United States
Japan
Euro area
United Kingdom
Switzerland

Net balance in percent of GDP.
Source: OECD



1997 1998 1999 2000 2001

Summary of economic development

	1997	1998	1999	2000	2001
Real GDP Change from previous year in percent					
United States	4.4	4.3	4.1	4.1	1.2
Japan	1.8	−1.1	0.7	2.4	−0.5
Euro area	2.3	2.9	2.7	3.5	1.2
Germany	1.4	2.0	1.8	3.0	0.6
France	1.9	3.5	3.0	3.6	2.0
Italy	2.0	1.8	1.6	2.9	1.8
United Kingdom	3.4	3.0	2.1	2.9	2.3
Switzerland	1.7	2.4	1.6	3.0	1.3
Unemployment in percent					
United States	4.9	4.5	4.2	4.0	4.8
Japan	3.4	4.1	4.7	4.7	5.0
Euro area	11.4	10.8	9.9	8.9	8.5
Germany	9.4	8.9	8.2	7.5	7.5
France	12.2	11.6	10.9	9.5	8.9
Italy	11.8	11.9	11.5	10.7	10.0
United Kingdom	6.5	5.9	6.0	5.5	5.1
Switzerland	5.2	3.9	2.7	2.0	1.9
Consumer price inflation in percent					
United States	2.3	1.6	2.2	3.4	3.0
Japan	1.7	0.7	−0.4	−0.7	−0.7
Euro area	2.0	1.7	1.2	2.4	2.7
Germany	1.5	0.6	0.6	2.1	2.5
France	1.3	0.7	0.6	1.8	1.9
Italy	1.8	1.7	1.6	2.5	2.7
United Kingdom	3.1	3.4	1.6	2.9	3.1
Switzerland	0.5	0.0	0.8	1.6	1.0
Current account balance in percent of GDP					
United States	−1.7	−2.5	−3.5	−4.5	−4.1
Japan	2.2	3.1	2.4	2.5	2.1
Euro area	1.6	1.1	0.4	−0.2	0.0
Germany	−0.1	−0.3	−1.0	−1.0	−0.7
France	2,7	2,7	2,5	1,6	1.6
Italy	2.9	1.9	0.7	−0.4	0.1
United Kingdom	−0.2	−0.6	−2.1	−1.9	−1.8
Switzerland	10.0	9.8	11.6	12.8	9.9

Some 2001 figures are estimates.
Source: OECD

Slowdown in the Asian emerging market economies

Emerging market economies in Asia also witnessed weaker growth in 2001. In addition to the economic downturn in the industrial countries and higher oil prices in the previous years, the unstable political situation in some countries was a contributing factor as well. The slump in the technology sector had a particularly severe impact on Taiwan, Singapore and Malaysia. In India, however, growth was on the wane mainly as a result of a drought and because the stimulus emanating from a sizeable fiscal package was tapering off. According to available data, China exhibited a favourable economic trend, since vigorous domestic demand compensated for sagging export growth.

Weaker growth in Central and Eastern Europe …

In most Central and Eastern European countries economic activity began to falter in 2001. While domestic demand generally remained strong, the weaker trend in the industrial countries interfered with exports. In Poland, flagging growth, which was also the result of tighter monetary policy in the previous year, was especially apparent. With inflation easing, the Polish central bank was able to loosen monetary policy again in the course of 2001. By contrast – due to signs of overheating – the central banks of the Czech Republic and Hungary tightened their monetary policy. Unlike most Central and Eastern European countries, Romania and Slovakia witnessed stronger economic growth, which was fuelled by vigorous domestic demand. The economic outlook remained favourable in Bulgaria as well, albeit to a lesser degree than in the previous year.

… and recovery in Russia

Market conditions in Russia continued to improve. Although real GDP did not climb as sharply as in the previous year, the growth rate (approximately 4% in real terms) was, nevertheless, again above average in an international comparison. Demand was underpinned mostly by real growth of income and tax cuts. The trend towards higher prices basically did level off, but since many administered prices were raised, the inflation rate – at almost 20% – remained at the previous year's level. Economic progress made it possible for the Russian government to repay a part of the government's debt with the IMF before the due date.

Economic crisis in Turkey

In Turkey, growing economic and political uncertainties led to a currency crisis in February. After the currency was allowed to float, Turkey's lira plummeted and interest rates skyrocketed. In May, the IMF provided approximately 8 billion dollars in additional loans to Turkey after the government had initiated further stabilisation measures. However, the economic situation improved only marginally. The rise in interest rates led to a significant increase in government debt, as well as putting an even greater strain on the already fragile banking system. As a result of the crisis in 2001, real GDP fell by approximately 7% according to estimates.

Slowdown in Latin America – crisis in Argentina

Latin America witnessed a significant slowdown in economic growth in 2001. The Mexican economy particularly felt the effects of the cyclical downturn in the US. In Argentina – in spite of extensive measures to stimulate the economy – the recession, which had been plaguing the country for more than three years, deepened. It thus became even more difficult for Argentina to service its high foreign debt. At the beginning of September, the IMF granted Argentina additional loans in the amount of 8 billion dollars, after sizeable amounts had already been committed at the end of 2000 to help manage a financial crisis. Since the economic situation continued to deteriorate, the new loans were only partially disbursed, however. In December, this deterioration led to serious unrest in the country. Brazil increasingly suffered from the crisis of its neighbour country. Growing uncertainty among foreign investors resulted in a devaluation of the Brazilian currency, forcing the authorities to adopt a more restrictive monetary and fiscal policy. In September, the IMF granted a 15.6 billion dollar loan to support the Brazilian economy.

1.2 Monetary policy

Easing of monetary stance

The central banks of the industrial countries reacted to the economic slowdown by relaxing monetary policy after key interest rates had still been lifted in the previous year. The easing of monetary policy was very aggressive in the United States, while Europe was more cautious in cutting its key rates. With inflation and fears of inflation waning, the decision to trim interest rates was facilitated.

Significant key rate cuts in the US

In the course of 2001, the Fed cut its key interest rate – the rate for overnight funds – in eleven steps from 6.5% to 1.75%. In doing so, it lowered interest rates more swiftly and more markedly than in earlier phases of interest rate cuts. In April, short-term interest rates fell below the corresponding interest rate level in the euro area, and by December, short-term interest rates in the United States had plunged to the lowest level in forty years.

Slower pace of easing monetary policy in the euro area ...

The European Central Bank (ECB) lowered its key rate, the rate for the main refinancing operations, only marginally by 0.25 percentage points to 4.5% in the first half of the year, since inflation in the euro area was above the 2% upper limit of the range for price stability as set by the ECB. With inflation subsiding in the second half of the year, the ECB cut the key rate in three steps by another 1.25 percentage points to 3.25%.

... and in the United Kingdom

The Bank of England also eased its monetary policy and lowered the key interest rate in three steps by 0.75 percentage points to 5.25% in the first half-year and by another 1.25 percentage points to 4% in four steps in the second half-year.

Interest rate cuts in Japan

The Japanese central bank increased bank liquidity drastically, causing the interest rate for overnight funds to fall from 0.25% in January to 0.0% in December. It trimmed the discount rate in four steps from 0.5% to 0.1%.

1.3 Fiscal policy

Deteriorating fiscal position

Government budgets in all major industrial countries deteriorated in 2001 compared with the previous year. On the one hand, this was the result of the economic slowdown, which led to lower tax revenues and higher expenses for social welfare. On the other hand, tax relief measures introduced in several countries had a negative impact on the budget. Notably the United States, where the slowdown in growth was particularly pronounced, saw an increase in government spending and tax cuts. Notwithstanding mounting deficits, government debt – expressed as a percentage of GDP – diminished in many countries.

US and UK continue to post a surplus

Government budgets in the United States and the United Kingdom again showed a surplus, yet it was more modest in both countries than in the previous year. While it fell markedly from 1.7% to 0.6% of GDP in the United States, the drop was less significant in the UK – down to 1.1% from 1.9%. Government debt receded from 59% to 58% of GDP in the United States, and in the UK from 54% to 52%.

Sustained deficits in the euro area

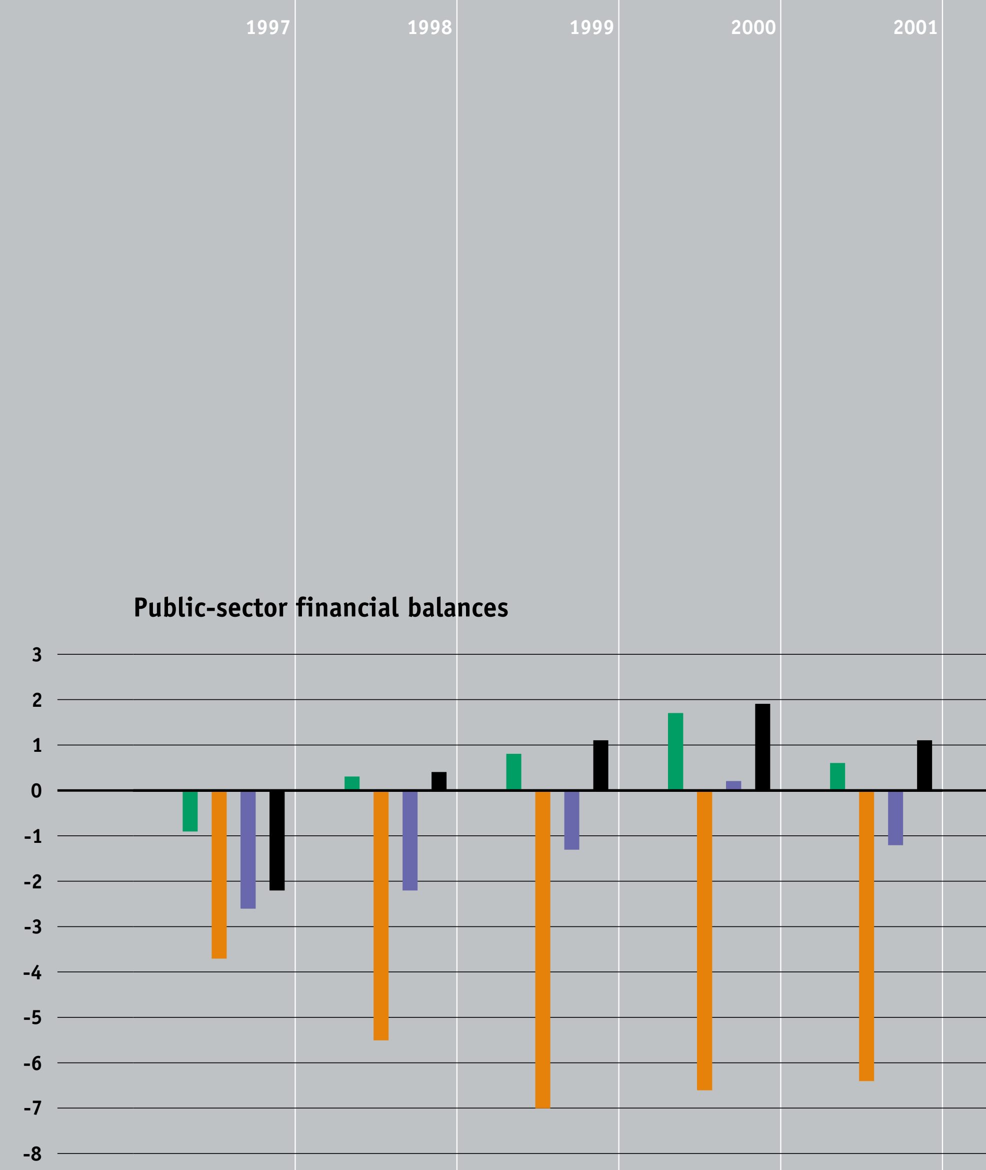
In 2001, public finances in the euro zone exhibited an overall deficit of 1.2% of GDP compared with a slight surplus in the previous year. However, this surplus had been primarily the result of extraordinary income generated in those countries which had granted licences for mobile telecommunications systems. Without this income, the deficit had amounted to 0.8% of GDP in the previous year. Since the deficit did not exceed the 3% mark in any member country of the euro zone, the Maastricht Treaty conditions for government budgets were met. Several small countries posted a surplus; Germany, France and Italy continued to show deficits of 2.5%, 1.5% and 1.4% respectively. Total government debt in the euro area declined slightly from 73% to 72% of GDP. The highest level of indebtedness was recorded in Italy (108%), the lowest in Luxembourg (5%).

Deficit in Japan remains high

In Japan the government deficit remained on a high level. At 6.4% of GDP, it was only slightly lower than in the previous year. More restraint in government spending contributed to this development; earlier governments had tried to stimulate the economy with comprehensive programmes. At 132%, government indebtedness in 2001 was almost 10 percentage points above the previous year's level.

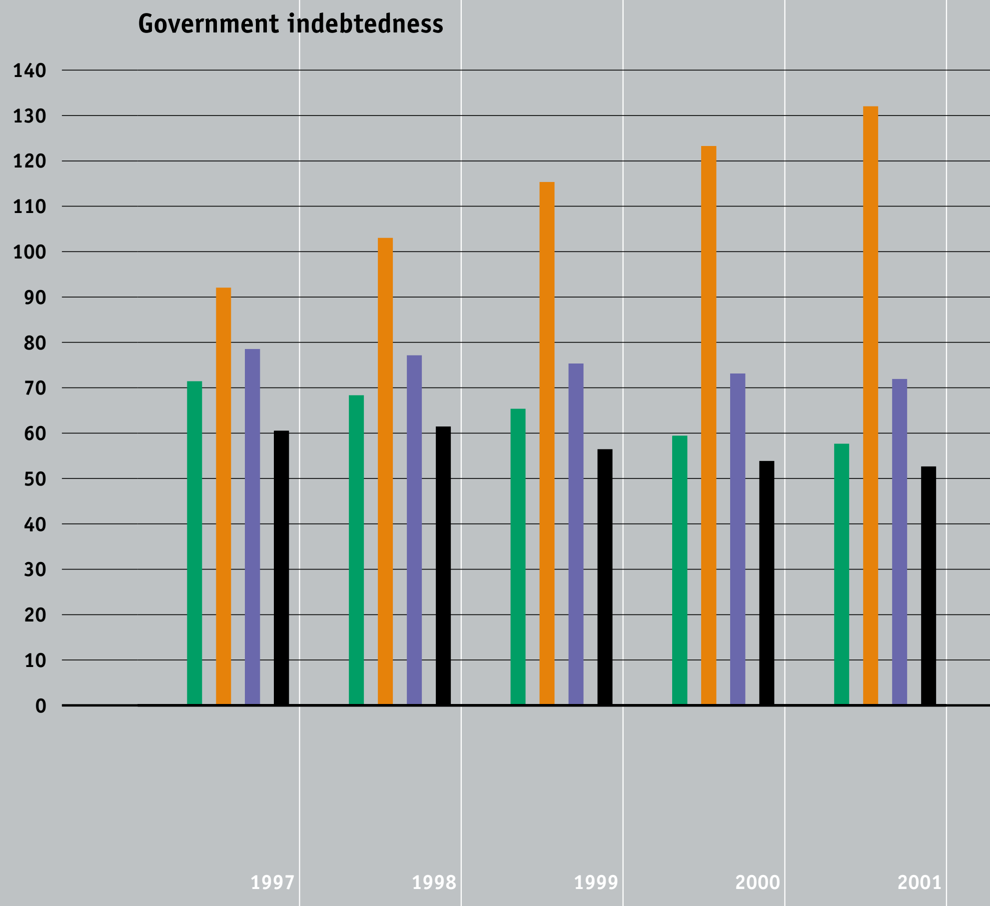
United States
Japan
Euro area
United Kingdom

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



United States
Japan
Euro area
United Kingdom

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



1.4 Foreign exchange markets

Dollar rising at a slower pace

As a result of the economic downturn and declining interest rates, the appreciation of the US dollar, which had lasted for several years, came to a halt by mid-2001. The dollar lost considerable ground in the third quarter, but rebounded in the fourth quarter. Average growth over the year was 3.1% against the euro and 5% vis-à-vis the pound sterling. The dollar remained stable against the Swiss franc. In real, trade-weighted terms, the dollar's exchange rate in December was 5.3% higher year-on-year.

Euro continues to weaken …

In the first half of 2001, the euro continued to lose ground against the dollar, but stabilised in the second half of the year. The annual average rate of 0.90 dollar/euro was thus only slightly below that of the previous year of 0.92 dollar/euro. The stabilisation of the euro was likely to have been helped by the fact that short-term interest rates in the US declined more markedly than those in the euro area. The euro fell against the franc during the course of the year, whereas it advanced vis-à-vis the pound sterling. In real, trade-weighted terms, the euro's value in December was 3.7% above the previous year's level, but 19% below its price at the time of its launch in January 1999.

… and so does the yen

The Japanese yen suffered a considerably stronger decline in 2001 than in the previous year. In December, it fell 13.3% short of the year-earlier level against the dollar and 12.8% against the euro. In real, trade-weighted terms, the yen receded by 12.8%.

1.5 Financial markets

Resilient international financial system

The terrorist attacks of 11 September in New York hit the heart of the international financial system. Despite massive destruction, the US banks, financial markets and the rest of the international financial system continued to function. This was first and foremost to the credit of the high professionalism of the financial markets. The Fed made a significant contribution in that it injected the markets with generous liquidity in those difficult days.

Long-term yields on the decline

After a modest decline and a subsequent increase in the first half-year of 2001, yields on long-term government bonds were on a downward path again until October. The drop reflects the cyclically induced weaker demand for capital, but also diminishing fears of inflation. In November and December, long-term yields moved upward again.

Sharp decline in interest rates in the US – but only for borrowers with excellent credit rating

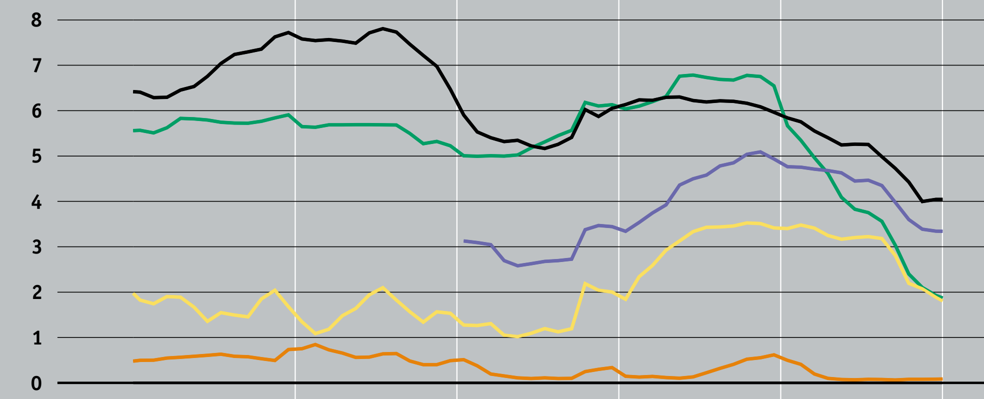
In the US, yields on government bonds fell, with short-term yields registering a considerably sharper decline than the long-term ones as a result of the expansionary monetary policy. In December, the yield on one-year government bonds stood at 2.2%, which was 3.4 percentage points below the year-earlier level. At 5.1%, however, the 10-year bonds fell only slightly short of the previous year's level. The differential between yields on government and private sector bonds widened in the fourth quarter; notably yields on bonds of borrowers of lesser financial standing picked up considerably. This development is a reflection of the less favourable assessment of the economic outlook.

1997 1998 1999 2000 2001

Short-term interest rates

Dollar
Yen
Euro
Pound sterling
Swiss franc

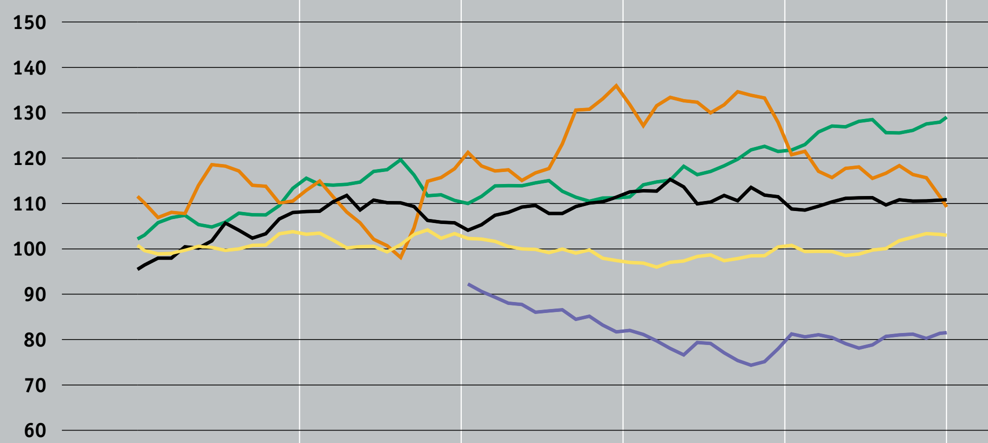
Three-month Euromarket rates, in percent
Source: BIS



Trade-weighted real exchange rates

Dollar
Yen
Euro
Pound sterling
Swiss franc

Index 1995 = 100.
Source: BIS



1997 1998 1999 2000 2001

Modest fall in interest rates in Europe …

In Europe, too, long-term yields fell only slightly. In December, the yield on 10-year government bonds in the euro area was, at 5.0%, only 0.1 percentage point below the previous year's level, while it remained constant in the United Kingdom, registering 4.9%. The relaxing of the monetary stance led to an increase in the differential between short-term and long-term interest rates. In September, short-term interest rates in the United Kingdom dropped below the level of the long-term ones for the first time in nearly two years.

… and in Japan

In Japan, the yield on 10-year government bonds receded to 1.2% up until June, but edged back up in the second half of the year. Registering 1.3% in December, it was 0.3 percentage points below the previous year's level.

Equity prices plummeted

In 2001, equity prices declined on all major stock exchanges. In the aftermath of the terrorist attacks in the US, equity prices recorded a steep decline, but recovered again by year-end. Nevertheless, in December, they were still markedly below their year-earlier level. The fall was more pronounced in Europe and in Japan than in the US.

Borrowing on financial markets down

Net borrowing on the international financial markets was down considerably in 2001, falling to 1,071 billion dollars (previous year: 1,243 billion dollars). While net borrowing in the form of medium- and long-term bonds continued to increase, the share of money market instruments declined sharply. The market shares of individual issuing currencies shifted in favour of the euro: at 44%, the proportion of the euro was 6 percentage points above the previous year's level. The share of the dollar dropped by 2 percentage points to 47%. Sterling and yen issues lost market share as well, while the Swiss franc's share remained insignificant.

Declining bank profits

Banks in the US and in Europe suffered profit losses – heavy in some cases – in 2001. In addition to the deteriorating economic situation, they particularly felt the slump in equity and bond business. The consolidation process in the banking sector in the industrial countries continued. Banks were bent on lowering their costs by mergers and acquisitions as well as alliances, thereby reaching critical mass in order to survive in an ever more competitive domestic and international market.

Difficult situation of banks in Japan …

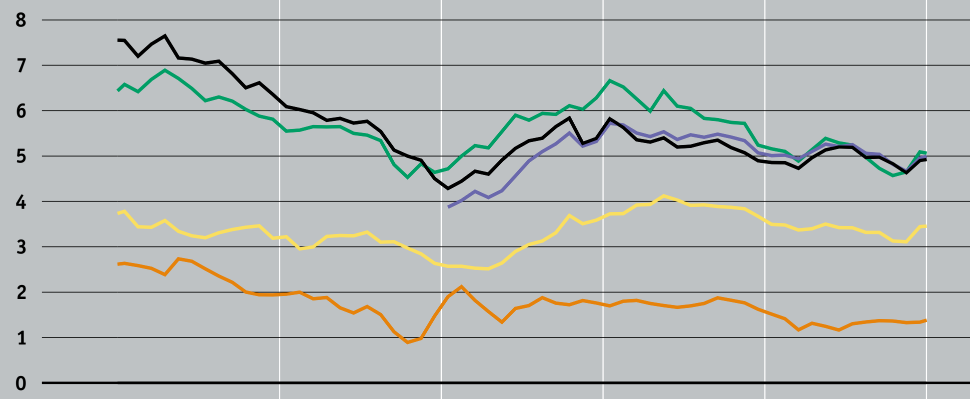
The situation of Japanese banks continued to deteriorate. Inventories of non-performing loans swelled, and the price collapse on the stock exchanges necessitated higher securities write-downs. The government initiated several measures aimed at accelerating the reform of the banking sector. In particular – in cooperation with independent auditors – government supervision is to be strengthened and the functions of the existing government rescue corporation (Resolution and Collection Corporation) extended. This corporation takes over and restructures the business of banks experiencing difficulties and – as of late – bank loans of other borrowers.

… and in Turkey

The economic crisis in Turkey led to closings and mergers in the banking sector. Several institutions were initially taken over by the government. Under pressure from the International Monetary Fund and the World Bank, the government began selling off these banks. Moreover, it initiated a reform of banking legislation as well as measures to improve the enforceability of these regulations.

1997 1998 1999 2000 2001

Long-term interest rates



United States

Japan

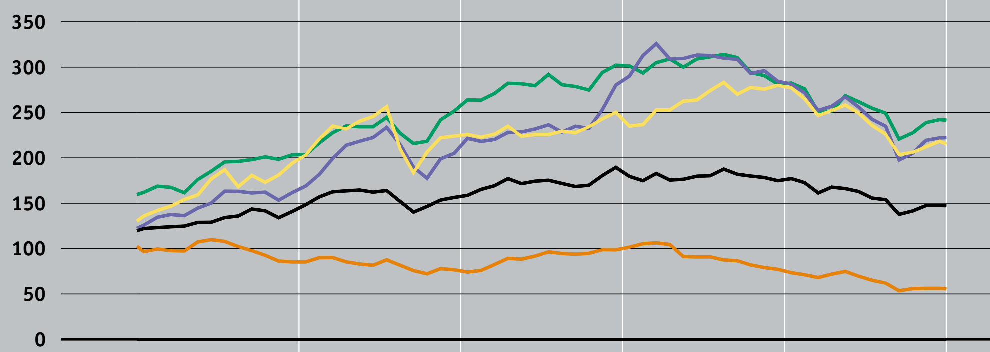
Euro area

United Kingdom

Switzerland

Yield on ten-year government bonds, in percent.
Source: BIS

Share prices



US: Standard & Poor's 500

Japan: Nikkei 225

Euro area: EuroSTOXX

United Kingdom: FT-SE

Switzerland: SPI

Index: January 1994 = 100.
Source: BIS

1997 1998 1999 2000 2001

Increasing privatisation of banks in Central and Eastern Europe

The countries of Central and Eastern Europe pressed ahead with the privatisation of the banking sector. Banks from Western countries increasingly expanded into these countries. Banking reform in Russia progressed only haltingly.

Stock exchanges under pressure to consolidate

In Europe and North America pressure continued on the stock exchanges to increase their trading volume by means of mergers or alliances and to utilise the systems more efficiently to lower the average transaction costs for securities. This process led to the acquisition of the London technology exchange Liffe by Euronext, which in the previous year had been formed by the stock exchanges of Amsterdam, Brussels and Paris. In addition, Virt-x, founded by the Swiss stock exchange (SWX) and the British trading platform Tradepoint in 2000, began trading European blue chips.

Tighter measures to combat money laundering

Many countries implemented tighter measures in the fight against money laundering following the terrorist attacks in the US. In particular, they widened the scope of application of the existing legislation to discover monies of criminal origin and strengthened the powers of the supervisory authorities. At the end of October, the OECD's Financial Action Task Force on Money Laundering (FATF) published new recommendations for the prevention of the financing of terrorist organisations.

2 Switzerland

2.1 Development of the real economy

Economic downturn

The Swiss economy lost considerable momentum in 2001. As early as in the second half of 2000, there were some indications of a slowing tendency, but this was initially deemed desirable given the high capacity utilisation, the mounting signs of tightness in the labour market as well as a growing threat of inflation. Due to the rapid deterioration of the global economic climate and the pronounced crisis in the technology sector, however, the contraction was more marked than anticipated.

Broadly based slowdown

Real GDP rose by 1.3% in 2001, following a 3.0% increase in the previous year. Almost all components of demand lost momentum. The change was most pronounced in exports and investment in plant and equipment. Private consumption and, to a lesser degree, construction spending, however, continued to underpin the economy.

Sharp deceleration in the industrial sector

The cyclical deceleration particularly affected the industrial sector, namely the export industry and manufacturers of technology products. The composite indicator Business Sentiment in Industry, published by the Swiss Institute for Business Cycle Research at the Federal Institute of Technology, dropped significantly. In the second half of the year, it fell into negative territory for the first time since the Asian crisis of 1997/98. Incoming orders and output fell, whereas finished goods inventories were deemed too high. As a result, capacity utilisation dropped markedly to 80.3% at the end of the year, falling short of its long-standing average of slightly over 84%.

Robust private consumption until autumn

Private consumption expanded by 2.3% in 2001, as against 2.0% in the previous year. Driven by the increase in disposable income and the good employment situation, private consumption developed favourably until autumn. In the aftermath of the terrorist attacks of 11 September and a series of negative domestic news – such as the demise of Swissair – consumer sentiment deteriorated in October. Consequently, private households cut spending on expensive consumer durables, in particular, and increasingly preferred Swiss to foreign travel destinations. This helped the Swiss hotel and restaurant industry to partly offset the decline in the number of foreign guests.

End to booming investment in plant and equipment

Investment in plant and equipment levelled off after several years of vigorous growth. Averaged over the year, it fell by 3.4% compared with a 9.0% increase in the previous year. In particular, demand for technology products and means of transport suffered a severe decline. Investment in plant and equipment still accounted for 14.2% of real GDP, more than at the beginning of the 1990s (12.3%).

Slight increase in construction investment

Construction investment rose by 1.3% in 2001, at a lower rate than in 2000 (2.1%). With its high proportion of value added in Switzerland, it nevertheless made a considerable contribution to growth. As in the previous year, the major rail projects (New Alpine Rail Axis NEAT, Rail 2000) were a cornerstone of the construction industry. Rising employment had a favourable impact on commercial building. By contrast, residential construction expanded only in a few regions; the construction volume in this sector contracted slightly in Switzerland as a whole.

Weaker growth in exports

The Swiss export industry increasingly suffered from the global slowdown. The euro's weakness additionally hampered export activity. At 2.1%, exports grew considerably more slowly in real terms than in the previous year (7.1%). The brisk development in the first half of the year spurred exports to the EU, which absorbs around 60% of Swiss exports, by 5.2% in nominal terms. Exports to the United States, however, which had exhibited double-digit growth rates in the previous year, were down by 5.2% in nominal terms. Exports to the emerging economies in Asia fell short of the previous year's levels as well, whereas exports to the oil-exporting countries expanded sharply. Shipments of raw materials and semi-manufactures were on the decline, while shipments of capital goods stagnated. Exports of consumer goods increased, however. The 2% rise in export prices (average prices) was weaker than in the previous year (3.3%).

Lower exports of services

The faltering global economy particularly affected exports of services, which dropped by 6.3%, compared with a 15.4% rise in the year before.

Stagnating imports

The economic slowdown in Switzerland undermined demand for goods from abroad. Real imports of goods stagnated (−0.4%) after having risen by 7.0% in the previous year. The subdued industrial activity resulted mainly in a decline in imports of capital goods as well as of raw materials and semi-manufactures. Imports of consumer goods also lost momentum. On the back of declining oil prices, only the demand for energy sources strengthened significantly. Import prices (average prices) climbed by 1.6%, compared with 6.0% a year earlier. The low dollar prices for oil products combined with the strengthening Swiss franc curbed prices.

GDP and components
Real change from previous year in percent

	1997	1998	1999	2000	2001
Private consumption	1.4	2.3	2.2	2.0	2.3
Government consumption	0.0	1.3	0.5	−0.4	0.1
Investment in fixed assets	1.5	4.5	3.7	5.8	−1.3
Equipment	4.9	8.9	10.6	9.0	−3.4
Construction	−1.5	0.4	−3.3	2.1	1.3
Domestic demand	**1.3**	**3.5**	**2.6**	**2.4**	**0.9**
Exports of goods and services	8.6	5.4	5.2	10.0	1.0
Aggregate demand	**3.4**	**4.0**	**3.3**	**4.7**	**0.9**
Imports of goods and services	7.6	8.3	7.5	8.5	0.0
GDP	**1.7**	**2.4**	**1.6**	**3.0**	**1.3**

Real GDP

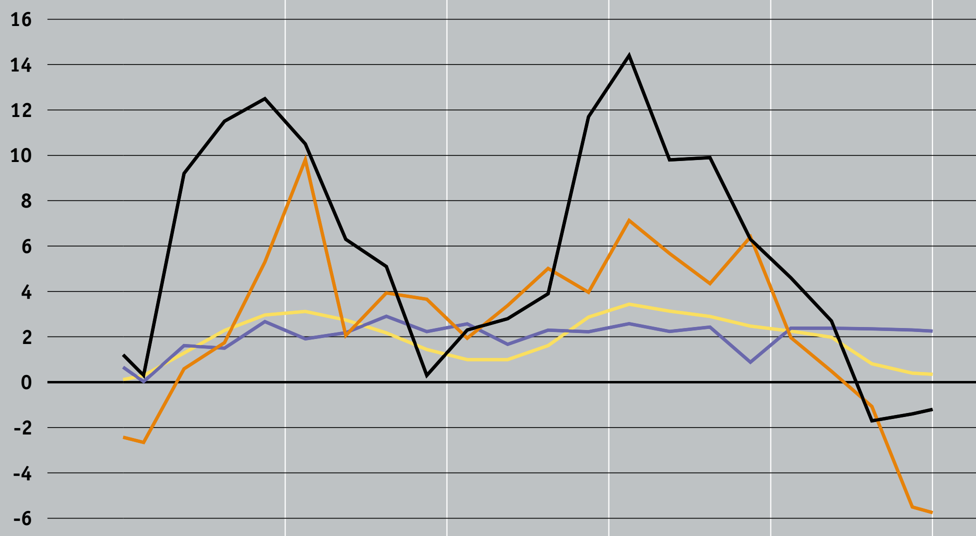
Private consumption

Investment in fixed assets

Exports

Change from previous year
in percent, in real terms.
Source: SECO

Gross domestic product and components



1997 1998 1999 2000 2001

Deterioration on the labour market

The deceleration of economic growth clearly impacted on the labour market. Since spring, the Manpower Index, which measures the space occupied by job advertisements in Swiss newspapers, was on the decline. The jobless number rose noticeably by the end of the year.

Weaker growth in employment

Averaged over the year, employment grew by 1.1% as compared with 2.2% in the previous year. This slowdown affected all sectors of the economy. In the service sector, the number of jobs created was up 1.3%, compared with 2.6% in the previous year. Whereas the banks and insurance companies as well as the IT industry again reported slightly higher employment numbers, jobs were cut in the hotel and restaurant industry, in the transportation and information service sectors as well as in public administration. Employment in the industrial sector rose by 1.0%; as in the year before, this rise was concentrated in a few segments, such as the chemical and metal industries, the electronics and electricity industries as well as the watchmaking and precision instruments sectors. Most other branches of industry saw shrinking employment. The workforce in construction was reduced somewhat, following a sharp increase in the previous year.

Growing number of foreign labour

In 2001, a considerable proportion of newly created jobs were again filled by foreign labour. The highest rise was recorded in the employees holding residence permits, but cross-border commuters and the workforce holding one-year work permits also increased in numbers. The number of foreign employees holding seasonal work permits, however, rose only slightly.

Rising unemployment

The downtrend in unemployment, which has continued since mid-1997, came to a standstill in the first half of 2001. Unemployment climbed again by year-end. In December, the job-seekers and unemployed registered with the regional employment offices numbered 123,500 and 79,500 respectively (seasonally adjusted numbers), thus exceeding the year's low of March by 18,700 and 17,200 persons respectively. The proportion of job seekers increased by 0.5 percentage points to 3.4% by December, the unemployment rate by 0.5 percentage points to 2.2%.

Regional differences persisted

Regional differences persisted. Averaged over the year, the unemployment rate was 2.8% each in Ticino and in French-speaking Switzerland, and 1.5% in German-speaking areas.

More "short-time work"

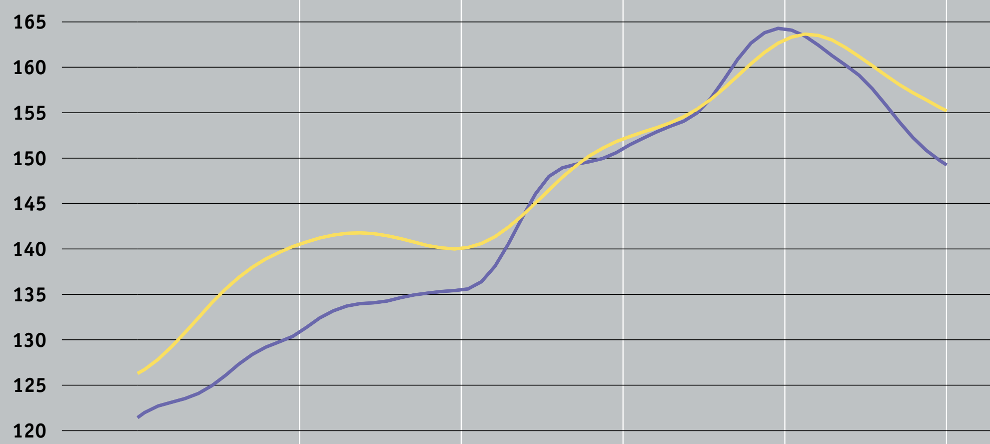
Moreover, companies increasingly introduced "short-time work" (reduction of working time or periodic interruptions of work). In December, persons on short working hours numbered 7,200, compared with 400 at the beginning of the year.

Foreign trade

Imports

Exports

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

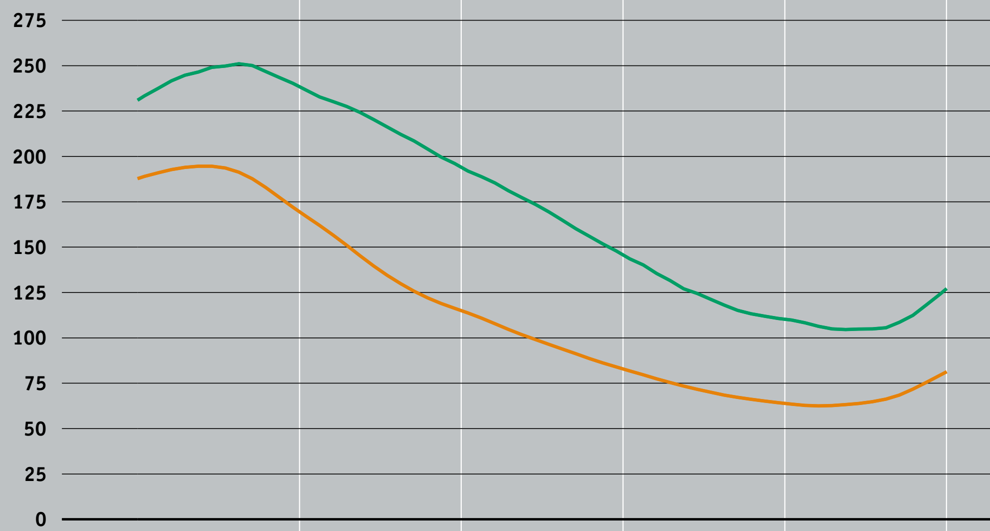


Labour market

Unemployed persons

Job seekers

In thousands,
seasonally-adjusted.
Source: SECO



1997 1998 1999 2000 2001

Rise in workforce

According to the Swiss labour force survey (SAKE), which is conducted in the second quarter of every year, the number of gainfully employed persons grew by 1.5% year-on-year to 3,938,000 persons. The accelerated growth in comparison with the previous year is due exclusively to an increase in part-time employment. The number of persons working between 50% and 90% climbed by 7.3% and the number of persons working less than 50% was up by 4.8%; the number of persons in full-time employment, however, dipped somewhat. As a consequence, the proportion of part-time workers in the overall workforce rose from 29.3% to 30.7% within a year. The rising trend to work part-time was more pronounced among women than among men. The employment ratio was 73.2% for women and 89.2% for men. In addition to a higher participation rate of women, increased immigration of foreign labour, in particular, contributed to the expansion of the workforce.

Employment and unemployment

	1997	1998	1999	2000	2001
Full-time employment[1] change in percent	−1.9	−0.4	−0.2	1.0	0.7
Full- and part-time employment[1] change in percent	−1.3	0.7	1.6	2.2	1.1
Persons in employment[2] change in percent	−0.4	1.8	0.8	1.2	1.5
Unemployment rate in percent	5.2	3.9	2.7	2.0	1.9
Number of unemployed in thousands	188.3	139.7	98.6	72.0	67.2
Number of persons on short working hours in thousands	6.6	3.1	2.9	0.7	2.4
“Manpower job offer index”[3] change in percent	0.4	35.7	26.2	25.2	−11.5

1 according to employment statistics

2 according to SAKE

3 space occupied by job advertisements in Swiss newspapers

Sources: Swiss Federal Statistical Office, State Secretariat for Economic Affairs (seco), Manpower

Receding inflation

Inflation, as measured by the national consumer price index, receded in 2001. On an annual average, it came to 1.0%, as against 1.6% in the previous year. The lower prices of oil products, in particular, curbed inflation after the rise in oil prices had boosted inflation in the previous year. Prices of goods stagnated, following a 3.1% rise in 2000. Services, however, recorded a price increase from 0.4% to 1.8%. This development was mainly brought about by higher residential rents, which almost doubled their annual inflation rate from the previous year to 2.8%.

Stronger rise in prices of domestic goods

In contrast to the previous year, inflationary pressure was mainly attributable to domestic goods and services. Prices of goods produced in Switzerland rose by 1.7%, compared with 0.7% in 2000. Prices of imported goods, however, eased by 1.2%, following a 4.1% increase in the previous year.

Stable producer prices and import prices

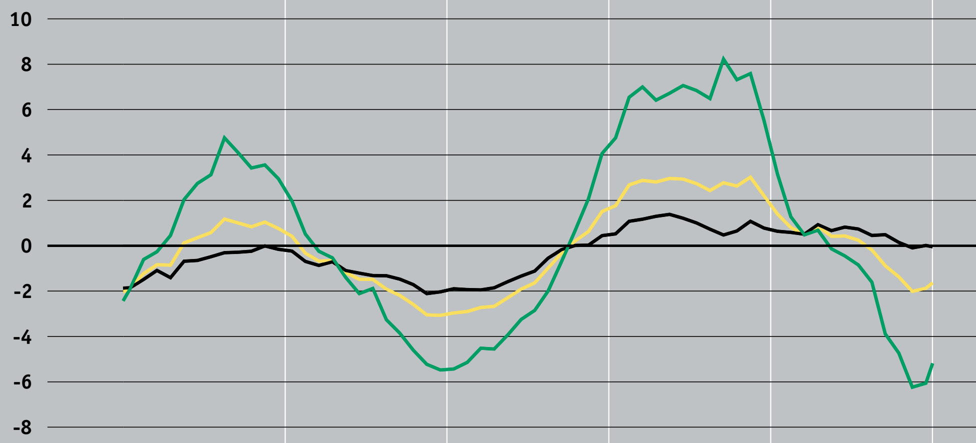
Inflationary pressure on producer prices and import prices also receded. Having increased by 2.7% in 2000, the aggregate supply price level remained virtually unchanged in 2001 (−0.1%). Whereas prices of Swiss-produced goods were up by 0.5%, import prices fell by 1.6%. Prices of raw materials plunged by 9.4% year-on-year; prices of semi-manufactures inched 0.2% lower. Prices of consumer goods and capital goods, however, climbed 0.9% and 1.0% respectively.

Consumer prices

Consumer prices
Domestic goods
Imported goods

Change from previous year in percent.
Source: Federal Statistical Office

Producer and import prices



Producer and import prices
Producer prices
Import prices

Change from previous year in percent.
Source: Federal Statistical Office

Shrinking current account surplus

The current account surplus shrank by Sfr 10.8 billion to Sfr 41.5 billion in 2001. This decrease was mainly due to the lower surplus from services and from investment income. The current account surplus slipped from 12.8% to 9.9% of GDP.

Lower deficit from trade – smaller net investment income

Exports and imports of goods classified as special trade expanded by 4.1% and 1.1% respectively in terms of value after having exhibited double-digit growth rates in 2000. The trade balance of this category closed with a surplus of Sfr 1.7 billion. Total goods trade, which includes special trade in addition to precious metals, precious stones and gems as well as objets d'art and antiques plus electrical energy, posted a slightly smaller deficit than in the previous year, i.e. Sfr 3.6 billion. The surplus from services amounted to Sfr 22 billion, falling Sfr 1.4 billion below the year-earlier level. Higher spending by Swiss residents abroad led to a declining surplus from travel, and the banks' income from financial services dropped markedly. On the back of receding net earnings from portfolio investments and direct investments as well as from the banks' interest business, the surplus on the labour and investment income account contracted from Sfr 39.6 billion in 2000 to Sfr 30.2 billion in 2001. The deficit from current transfers amounted to Sfr 7.1 billion, as against Sfr 6.5 billion in the previous year.

Current account balances in billions of Swiss francs

	1997	1998	1999 revised	2000 provisional	2001 estimate
Goods	−0.5	−2.3	−0.3	−4.2	−3.6
special trade	2.0	2.2	1.0	−2.1	1.7
electrical energy	0.7	0.7	0.6	0.5	0.9
other goods	−3.2	−5.2	−1.9	−2.6	−6.4
Services	18.9	19.6	20.0	23.4	22.0
of which tourism	1.4	1.7	1.6	2.2	1.6
of which private insurance	2.0	2.2	2.7	2.3	2.4
of which transportation	1.3	1.2	1.4	1.7	2.4
of which financial services	8.8	9.2	11.1	13.3	11.8
Labour income and investment income	23.4	25.9	31.4	39.6	30.2
labour income	−6.5	−6.4	−6.5	−6.9	−7.7
investment income	30.0	32.4	37.8	46.5	38.0
Current transfers	−4.9	−5.3	−7.5	−6.5	−7.1
Total current account	37.0	37.8	43.5	52.3	41.5

2.2 Fiscal policy

Deterioration of federal budget

The Federal Government posted a deficit of Sfr 1.3 billion or 0.3% of GDP for 2001 after a surplus of Sfr 4.6 billion had been recorded in the previous year. A small surplus of Sfr 18 million had been budgeted. On the revenue side, notably income from withholding tax fell short of the projected figure. Non-fiscal revenue (in particular a loan repayment from the unemployment insurance and a capital repayment by Swisscom), however, showed a more favourable development than had been anticipated. Overall, revenue in 2001 was only slightly below the estimate, while expenditures were significantly higher than budgeted. An additional loan for Expo.02, the Swiss National Exhibition, and the Federal Government's financial assistance to Swissair for building up a new airline accounted for most of the negative impact.

2002 budget

According to the budget passed by Parliament, the Federal Government anticipates a deficit of Sfr 294 million for 2002. While at 4.8%, expenditures are likely to increase at a stronger rate than nominal GDP compared with the 2001 budget, projected revenue is expected to climb more slowly (4.2%).

Constitutional budget requirements not met

The budget deficit of Sfr 1.3 billion did not meet the constitutional target set in 1998 for 2001. The constitutional requirements stipulated a maximum deficit of 2% of revenue, i.e. Sfr 1.2 billion.

Deficit at the cantonal level

The available data indicate that the cantons closed with a deficit totalling Sfr 500 million in 2001. A deficit of Sfr 600 million had been budgeted.

Surplus at the communal level

According to first assessments, the financial situation of most communes was sound. As had been budgeted, an overall surplus of Sfr 200 million resulted.

Further declining debt ratio

The debt ratio (total debt expressed as a percentage of GDP) of the Confederation, cantons and communes dropped further from 51.3% to 49.6%. Just over half the debt was attributable to the Federal Government, 30% to the cantons and just under 20% to the communes.

Message on the new fiscal equalisation system

In November 2001, the message on the revision of the law levelling the differences between financially strong and financially weak cantons was passed by the Federal Council and submitted to Parliament. The new financial equalisation project aims to disentangle the tasks and financial flows between the Confederation and the cantons, allocate the responsibilities clearly and distribute expenditures more equitably. These reforms seek to strengthen the powers of the Federal Government and of the cantons in terms of government and fiscal policy and to reduce the financial disparities between financially stronger and weaker cantons.

Yes to the debt-brake package

The instrument of the “debt brake”, a constitutional mechanism for managing the federal budget and keeping the level of debt in check, was approved by a large majority of the Swiss people and the cantons in a referendum on 2 December. The aim of this debt brake is to prevent increases in federal debt and to safeguard the budget against structural imbalances. The new instrument replaces the transitional provision to the 2001 budget target and is incorporated in the Federal Constitution. It consists of a concrete rule governing the development of expenditure permitted in the federal budget: the budget should basically remain balanced over an entire economic cycle, but cyclically-induced fluctuations are acceptable. The permitted maximum for expenditures will be pegged to the revenue received. However, this amount will be adjusted by a factor which takes into account the economic situation.

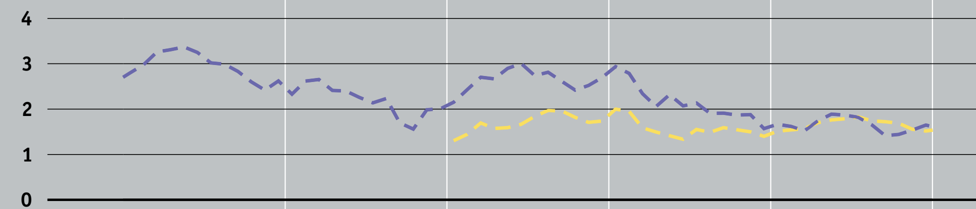
1997 1998 1999 2000 2001

Spreads for long-term interest rates

Euro area - Switzerland

United States - Switzerland

Spread in percentage points.
Source: BIS

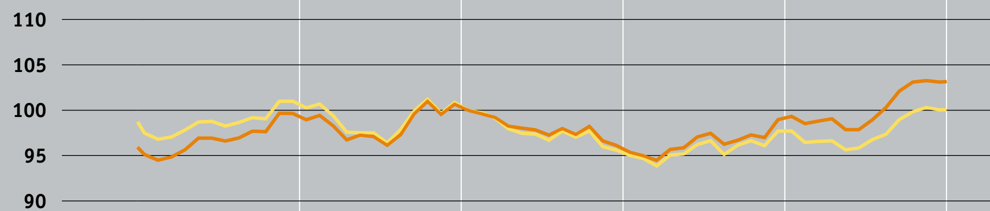


Export-weighted Swiss franc exchange rates

Real

Nominal

Index: January 1999 = 100.



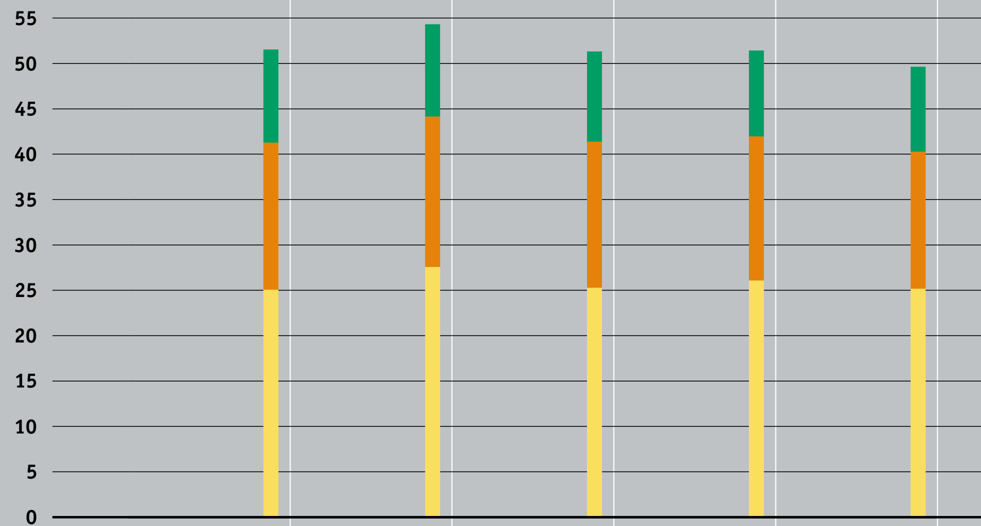
Public-sector indebtedness

Confederation

Cantons

Communes

In percent of GDP (2001: estimate).
Source: Federal Finance Administration



1997 1998 1999 2000 2001

2.3 Financial markets

Considerable fluctuations in long-term interest rates

During the first nine months of 2001, the yield on 10-year Confederation bonds fluctuated within a range of 3.3%–3.6% after having dropped from 4.0% to 3.6% in the second half of 2000. The uncertainty among capital market participants after the terrorist attacks in the United States in September and the collapse of Swissair in October led to an increase in demand for government paper at the expense of commercial paper. The yield on 10-year Confederation bonds fell to 3.0% in October, thus considerably widening the yield differential to commercial paper. With interest rates beginning to pick up worldwide, yields in both capital market segments moved ahead again in November and December. In December, 10-year Confederation bonds yielded 3.4%.

Sharp fall of equity prices

The Swiss Performance Index (SPI) decreased by 22% in 2001. Registering 5621 points at the end of December 2000, the index declined markedly during the first nine months of 2001, reaching a low of 3547 points on 21 September after the terrorist attacks in the US. It rebounded in November and December, closing at 4383 points at year-end. Shedding 20%, share prices of large companies fell at a slower pace than those of small (26%) and medium-sized companies (33%). There were considerable differences between individual sectors as well. The transport sector, retail, health care, industry and the technology and media sectors suffered the most severe setback; banks and the chemical, food and insurance sectors were not nearly as hard hit. The New Market Index, which is composed of telecom, biotechnology and information technology stocks, fell by 51%.

Significantly less net borrowing on the capital markets

Due to the economic situation, borrowing on the Swiss capital market was lower in 2001 than in the previous year. Net borrowing (i.e. new issues less redemptions) only amounted to Sfr 13 billion as against Sfr 25.8 billion in the previous year. Net borrowing of both domestic and foreign borrowers declined. The former registered a drop from Sfr 14.1 billion to Sfr 5.9 billion, the latter dipped from Sfr 8.5 billion to Sfr 2.0 billion.

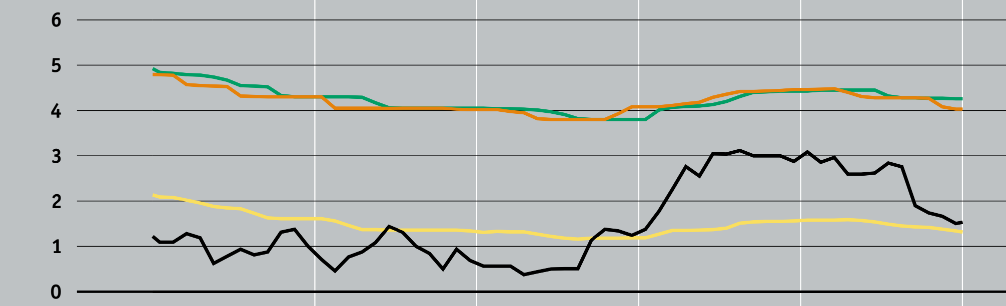
Higher growth in lending

The volume of domestic lending increased by 1.8% in 2001, which was slightly more than in the previous year (1.7%). Approximately three-quarters of the banks' domestic lending were accounted for by mortgage loans and one-quarter by customer claims. While domestic customer claims saw a marginal decline, mortgage loans went up by just under 3%. Classic savings instruments (i.e. customer deposits in savings accounts and similar investments plus medium-term notes) rose by 1.5%.

Receding profits in the banking sector

The global economic downturn and the slump in stock prices led to a decline in profits for most banks. In the previous year, however, profits had been extraordinarily high.

Selected bank interest rates



Existing mortgages at cantonal banks

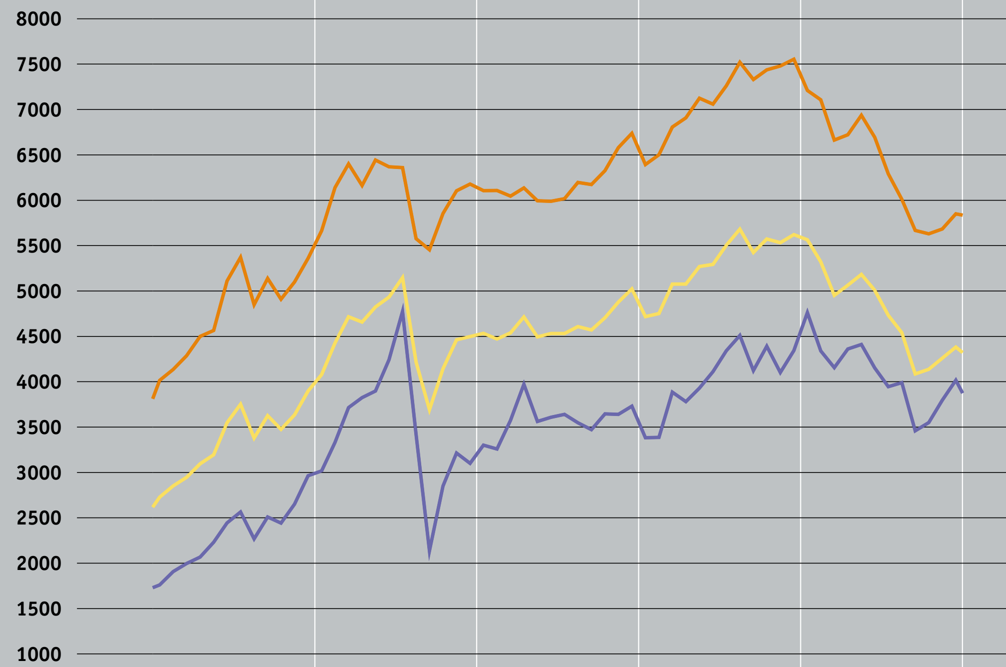
New mortgages at cantonal banks

Savings deposits at cantonal banks

Three-month time deposits at big banks

In percent.

Share prices



Total

Banks

Industry

Swiss Performance Index.
Source: Swiss Stock Exchange

Launch of Virt-x

Virt-x, a joint venture between SWX Swiss Exchange and the British trading platform Tradepoint, was launched in London and started trading European blue-chip stocks. Trading went smoothly on a technical level, but the targeted turnover was not reached in 2001.

Robust Swiss financial system

The Swiss financial system proved to be resilient in the aftermath of the terrorist attacks of 11 September in the United States. The biggest immediate problem for some Swiss banks is likely to have been the inability to act of a major correspondence bank in New York. Crisis management in Switzerland was facilitated by the fact that the large majority of banks, the markets and the financial market infrastructure were in good shape.

More problems at the Geneva cantonal bank

The Banque Cantonale de Genève had problems with its loan portfolio. This bank, which had been restructured in the previous year, had to transfer further high-risk loans to a special management company. Unlike the cantonal bank, this company benefits from a full state guarantee.

Restructuring of the Banque Cantonale Vaudoise

An extraordinary audit at the Banque Cantonale Vaudoise resulted in a massive increase in provisions. As a consequence, the 2001 annual accounts of the cantonal bank posted a loss, and a capital increase became necessary. The cantonal government of Vaud agreed to a 51% participation in the capital increase. In September, a draft bill which would have allowed the canton to lower its interest in the cantonal bank from 50% to 30% was rejected.

1 Concept

Stable prices are an important prerequisite for the smooth functioning of the economy, and they enhance prosperity. The National Bank's monetary policy aims at maintaining price stability in the medium term. It thus creates a favourable environment allowing the economy to make full use of its production potential. In order to ensure price stability, the National Bank must provide adequate monetary conditions. If the interest rate level is too low, the supply of money to the economy is excessive, thus triggering an inordinate demand for goods and services. Although this will boost production initially, production bottlenecks will occur in the course of time and overall economic capacities will be stretched. As a result, only prices will rise, and the production situation will deteriorate once again. By contrast, if the interest rate level is too high, this will tighten the supply of money and, consequently, lead to a demand shortage. Prices for goods and services will come under pressure, hampering economic development.

Significance of price stability

The National Bank needs indicators to determine whether its monetary policy course is appropriate in view of the goal of price stability. Until the end of the 1990s, the development of the monetary aggregates was of prime importance. Today, the National Bank bases its decisions on a broad range of real and monetary indicators. The monetary policy concept in force since the beginning of 2000 consists of three elements. First, the National Bank states what, from its vantage point, constitutes price stability. 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 selected by it, the three-month Libor rate (London Interbank Offered Rate). The National Bank does not publish a growth target for a monetary aggregate. However, the monetary aggregates continue to play an important role as monetary policy indicators, since they provide important information on the long-term trend of inflation.

Monetary policy concept

The National Bank equates price stability with a rise in the national consumer price index of less than 2% per annum. With this definition, the National Bank also takes into account that inflation cannot be measured with complete accuracy. Measuring problems may, for example, arise when the quality of goods and services improves. Such changes tend to slightly overstate the actual inflation rate.

Definition of price stability

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 corresponds to the time required for the transmission of monetary impulses. 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 inflationary or deflationary threats. The inflation forecast is normally based on the assumption that the reference interest rate will remain steady during the forecasting period.

Regular publication of an inflation forecast

Indicators of relevance to the inflation forecast

In the long term, price developments depend primarily on the course of the monetary aggregates. In particular, the money stock M_3 provides useful information. In the short term, other indicators are relevant; the most important are measures of economic activity and exchange rates. The National Bank comments on a regular basis the evolution of the most important economic indicators relevant to its inflation forecasts.

Review of monetary policy based on the inflation forecast

If the inflation forecast deviates from the range of price stability, monetary policy needs to be reviewed. Should inflation threaten to exceed 2% in the medium term, the National Bank will tend to tighten its monetary stance. On the other hand, it is ready to loosen the monetary reins if there is a danger of deflation.

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 or in exchange rates. It only reacts to such swings, however, if there is the danger of a protracted inflationary or deflationary development. The smoothing of short-term movements in the price level would be associated with the risk of stronger cyclical fluctuations, which would generate a significant burden on the economy.

Economic situation taken into account

A country's economy is subjected to numerous internal and external influences, leading to fluctuations in economic activity. Such fluctuations cannot be prevented. The National Bank's monetary policy, however, which aims at medium-term price stability, helps to limit these fluctuations. During a phase of underutilised production capacities, upward price pressures subside; conversely, they intensify during a period of economic overheating. The National Bank will thus tend to ease monetary policy in the first case and tighten it in the latter. In so doing, it takes account of the economic situation, promoting a balanced development of the economy.

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

The National Bank implements its monetary policy by influencing the interest rate level on the money market. It sets 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. The target range is published regularly. The National Bank reviews its monetary policy during its quarterly assessment of the economic situation. If circumstances so require, the National Bank also adjusts the target range for the three-month Libor rate between regular assessment dates. Explanations are given for any changes to the target range.

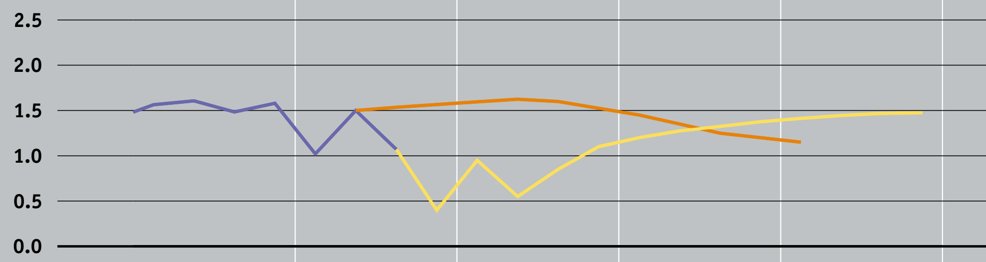
Inflation

Forecast June 2001
(Libor 3.25%)

Forecast December 2001
(Libor 1.75%)

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

Inflation forecast



2000 2001 2002 2003 2004

Steering technique

The National Bank influences the three-month Libor mainly through short-term repo transactions. It can prevent an undesirable rise in the three-month Libor rate by supplying the banks with additional liquidity through repo operations at lower repo rates (creation of liquidity). Conversely, by increasing repo rates, the National Bank induces an upward interest rate movement (absorption 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 regulations; 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, the maturity of repos ranges from one day to a few weeks. Short-term fluctuations in repo rates do not indicate a change in monetary policy. Rather, they reflect the National Bank's reaction to the uneven liquidity distribution in the banking system and other short-term influences.

Repo rates and the three-month Libor

Repo rates cannot be directly compared with the Libor. As a rule, the three-month Libor is higher for two reasons. First, maturities for repo transactions are usually shorter than three months and, therefore, have a lower maturity premium than the three-month Libor. Second, the Libor refers to an unsecured loan, whereas the repo rate is the price for a loan backed by securities. The Libor thus additionally contains a credit risk premium.

Monetary policy instruments

Repo transactions are the National Bank's major monetary policy instrument. In a repo transaction, the cash taker sells its 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 point of view, the repo is a secured loan. In exchange, the cash taker pays the cash provider interest. Apart from repo transactions, the National Bank can also employ foreign exchange swaps to regulate 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. The two latter instruments play no role in the current steering concept and are only resorted to in exceptional cases.

Collateral from repo transactions
in percent

Swiss franc bonds
of domestic borrowers 29

Swiss franc bonds
of foreign borrowers 18

Euro bonds 53

Total: Sfr 26.2 billion.
End 2001

Instruments for money market operations in billions of Swiss francs

	2000		2001	
	Holding Average	Turnover	Holding Average	Turnover
Repo transactions (creation of liquidity)	18.9	768.7	17.1	923.5
less than 1 week	0.9	227.0	1.1	250.4
1 week	4.1	211.2	9.3	482.0
2 weeks	9.9	259.3	5.2	139.2
3 weeks	3.6	62.2	0.9	16.0
other	0.4	8.9	0.7	36.0
Repo transactions (absorption of liquidity)	0.2	40.0	0.0	12.4
less than 1 week	0.2	40.0	0.0	12.4
Confederation investments	11.4	112.8	4.9	72.8

Intraday liquidity to facilitate payment transactions

By means of repo transactions, the National Bank puts interest-free liquidity at the commercial banks' disposal during the day to facilitate the processing of payment transactions. Intraday liquidity, provided exclusively during the day, however, may not be used to meet statutory liquidity requirements. Whether the liquidity requirements have been fulfilled is established from 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 short-term source of refinancing in exceptional cases

If a bank urgently needs liquidity which cannot be obtained in the money market, it may receive 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

The inflation forecast published by the National Bank in December 2000 predicted that, at an unchanged interest rate of 3.5%, inflation would increase somewhat in the course of 2001 and slightly exceed 2% for a limited period of time. This forecast was based on a background of robust economic growth in 2000 and the massive rise in oil prices. At the same time, the National Bank noted that the gradual tightening of Switzerland's monetary policy from autumn 1999 until summer 2000 and the anticipated economic slowdown in the US and Europe would help prevent an inflationary overheating of the Swiss economy. For 2001 and 2002, the National Bank projected real economic growth to slow to 2.2% and 1.6% respectively.

Subsiding inflationary pressures – lowering of the interest rate target range in March

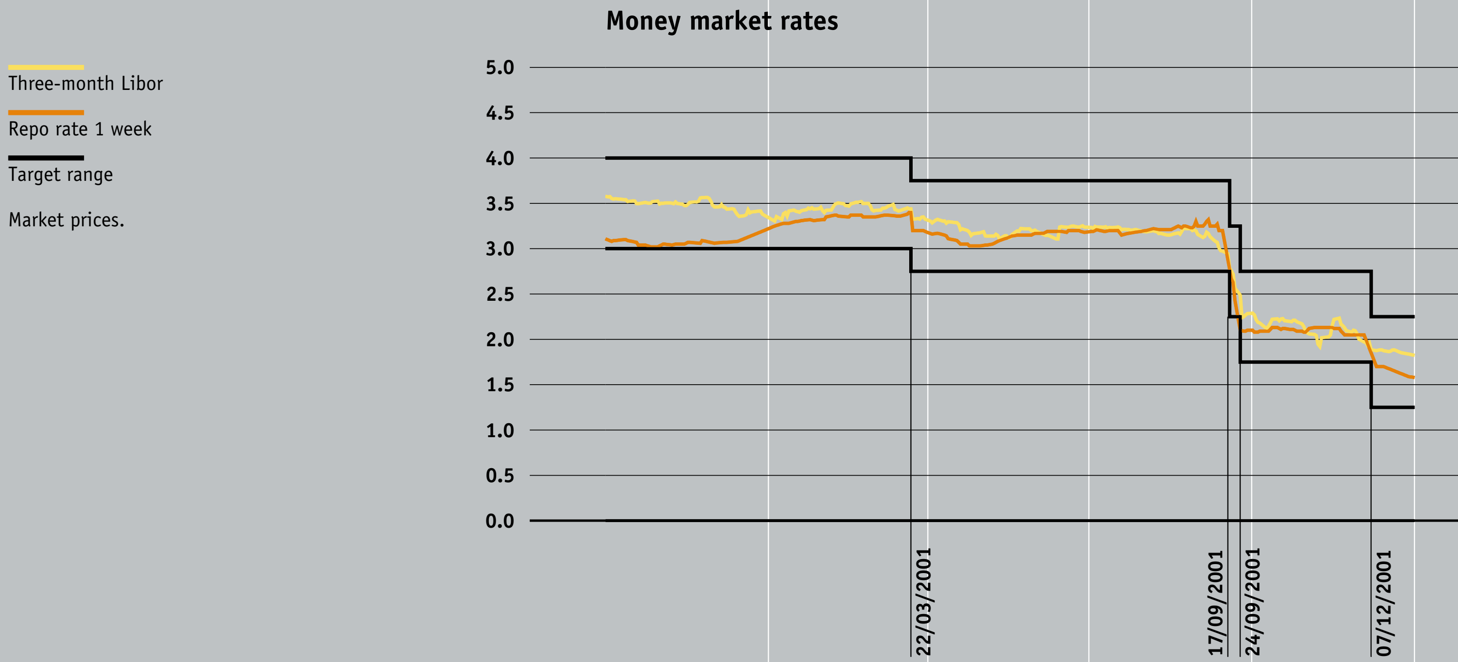
In the course of the first quarter 2001, however, it became clear that price pressures were beginning to subside. This was due to the economic downturn in Switzerland and abroad as well as the faster-than-expected decline in oil prices. On 22 March, the National Bank reacted to this development by lowering the target range for the three-month Libor rate by 0.25 percentage points to 2.75%–3.75%. This was the first adjustment of the target range since mid-2000.

Interest rate target range left unchanged at the monetary policy assessment in June

Although the economy lost momentum in the subsequent months, the decline was moderate and the overall economic capacities remained extremely stretched. The National Bank assumed, as most observers did, that the US economy would recover slightly towards the end of the year. Inflation measured by the national consumer price index, which had dropped significantly in the first quarter due to special factors, rose again in the two following months and, at 1.5%, roughly equalled the average recorded in 2000. The new inflation forecast presented at the news conference on 14 June showed that the National Bank, assuming a short-term interest rate of 3.25%, expected inflation to stabilise at around 1.5% in 2003. At its monetary policy assessment in June, the National Bank therefore decided to leave the interest rate target range unchanged.

Interest rate cuts following the terrorist attacks in the US

In the second half of the year, it became increasingly clear that the US economy would not rebound as quickly as had first been anticipated. In addition, the economic downturn in Europe and, particularly, in Germany, proved to be more pronounced than expected. This also clouded growth prospects for Switzerland. At the same time, current inflation decreased. Therefore, even before the terrorist attacks of 11 September, the ground was prepared for a further reduction in money market rates. When the Federal Reserve and the European Central Bank (ECB) cut their interest rates by half a percentage point on 17 September, the National Bank moved forward its monetary policy assessment scheduled for 20 September and also lowered the target range by 0.5 percentage points to 2.25%–3.25%. Since the other central banks reduced their key interest rates by the same margin, the interest rate differential to other countries did not change. In the subsequent days, the Swiss franc came under strong upward pressure, especially against the euro. On 21 September, the National Bank indicated to the markets that it was extremely concerned about the development on the foreign exchange markets, and on 24 September, it reduced the interest rate target range by another 0.5 percentage points to 1.75%–2.75%. With this cut the National Bank acted in response to the appreciation of the Swiss franc, which threatened to aggravate the monetary conditions in a manner that was undesirable given the flagging economy.



Q4 2000 Q1 2001 Q2 Q3 Q4

Further reduction in the interest rate target range in December

At the monetary policy assessment in December, the National Bank decided to lower the target range for the three-month Libor rate by another 0.5 percentage points to 1.25%–2.25%. It acted in response to the further deterioration of the economic outlook and the associated decrease in inflationary pressure. The inflation forecast published at the news conference on 7 December is based on a three-month Libor of 1.75% and anticipates an average inflation rate of 0.9% for 2002, 1.3% for 2003 and 1.5% for 2004. At the same time, the National Bank based its forecast on an increase in real GDP of 1.5% in 2001 and around 1% in 2002.

Short-term increase of repo rates within the target range

With these four rate cuts, the National Bank reduced the target range for the three-month Libor rate by a total of 1.75 percentage points in 2001. Every time it lowered its interest rate – except on 24 September - the National Bank informed the markets that the three-month Libor rate would be kept in the middle of the target range for the time being. Since the markets had been anticipating a downtrend in interest rates since the beginning of the year, this meant that the National Bank had to let short-term repo rates climb temporarily. This was particularly the case in March, September and November, when there was the growing expectation that rates would be adjusted – possibly even ahead of schedule. In these cases, however, the National Bank was willing to make use of the flexibility offered by the target range and let the three-month Libor temporarily slip considerably below the middle of the applicable target range.

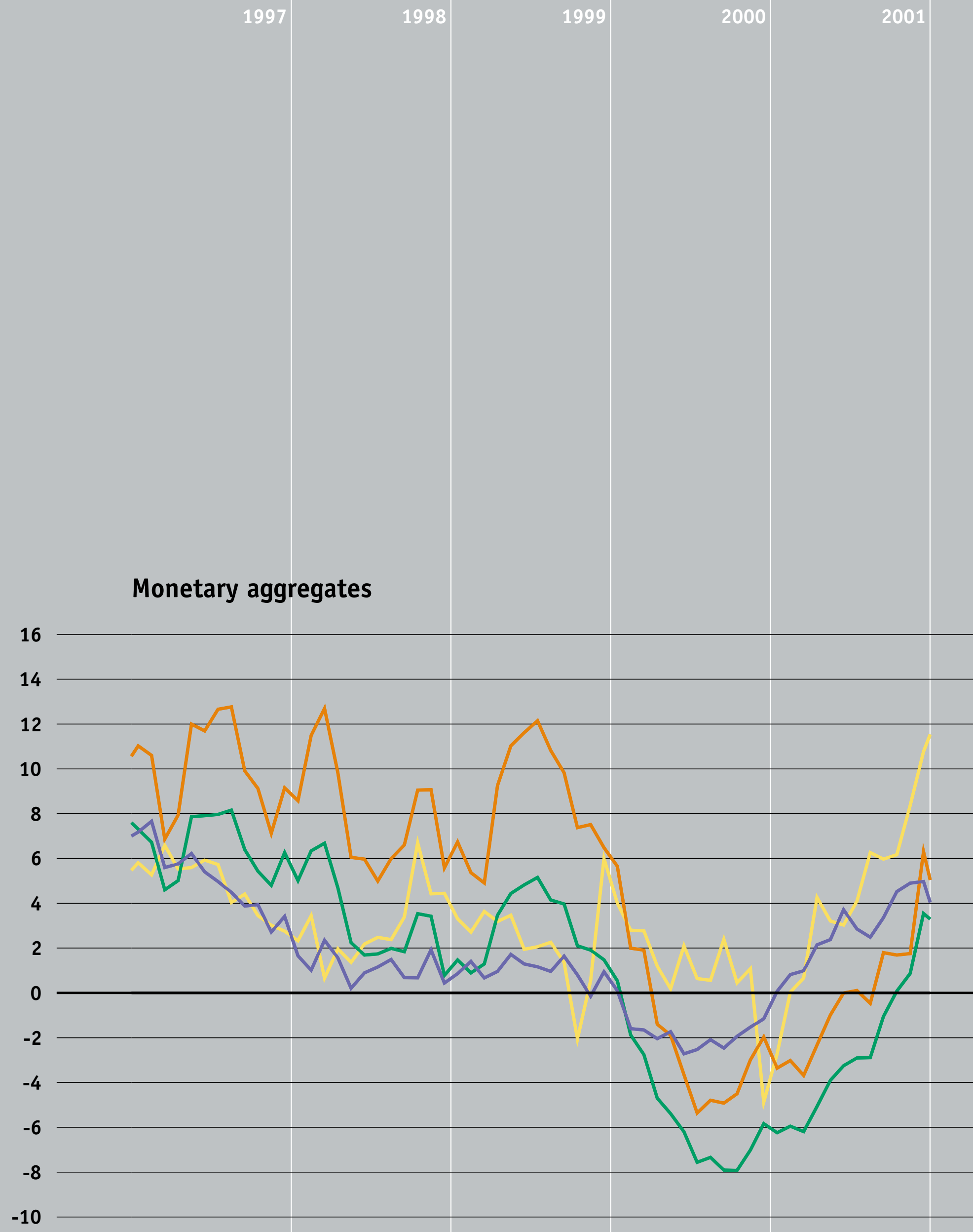
No signs of a long-term rise in prices

The substantial reduction in short-term interest rates effected during 2001 was facilitated in that the growth rates of the monetary aggregates did not signal a threat to long-term price stability. The money stock M_3, which – overall – had grown only marginally from 1997 to mid-1999, increased steadily during 2001, but growth remained moderate. In the fourth quarter, M_3 exceeded the previous year's level by 4.8% on average.

Expansion of monetary base due to rising demand for banknotes

The seasonally-adjusted monetary base, which measures the liquidity supplied directly to the economy by the National Bank, registered a much stronger expansion. This increase is mainly attributable to the massive rise in banknote circulation, which was influenced by special factors such as the forthcoming introduction of euro banknotes and coins. The second component of the monetary base, the banks' sight deposits at the National Bank, also rose while experiencing heavy fluctuations. These fluctuations were most likely triggered by the interaction between the markets' interest rate expectations and the National Bank's efforts to keep the three-month Libor rate near the middle of the interest rate target range.

Monetary aggregates



Monetary base

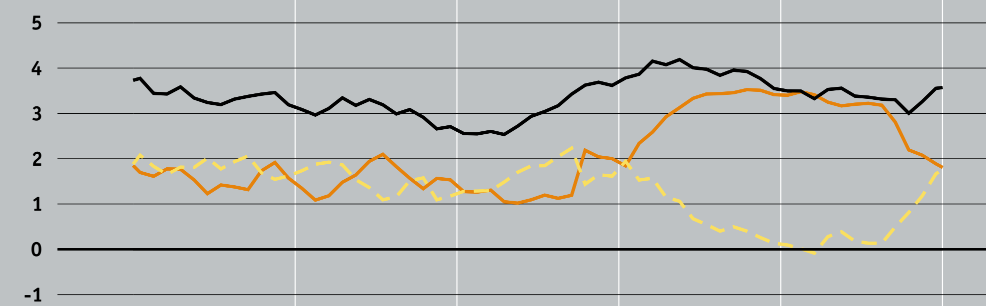
M_1

M_2

M_3

Change from previous year in percent.

Money and capital market rates



Three-month Libor

Yield on federal bonds

Spread in percentage points

Legal framework

Total revision of the National Bank Law

Consultation procedure on the draft by the group of experts

In March 2001, the Federal Department of Finance opened the consultation procedure on the total revision of the National Bank Law based on the draft law of the group of experts for the Reform of the monetary order (cf. 93rd Annual Report, page 45). The current National Bank Law dates back to 1953 and has been revised only partially since then. Numerous provisions are therefore outdated. Moreover, after the revision of the article on monetary policy in the Federal Constitution (art. 99 FC), amendments on the legislative level became indispensable. The preliminary draft of the group of experts entails, as the main points of reform, translating the new monetary article of the Constitution into a specific central bank mandate, implementing central bank independence and formal accountability, providing for more flexibility in the scope of the National Bank's transactions, modernising its instruments, adjusting the legal provisions governing its corporate activities and streamlining its organisational structure.

Price stability as the goal of monetary policy

In its comments submitted to the Federal Department of Finance at the end of June, the National Bank supported the planned revision of the National Bank Law. It regarded the preliminary draft law by the group of experts as a useful basis for the message to parliament. In particular, the proposed detailed formulation of the central bank mandate is to be welcomed. The orientation of monetary policy to the primary goal of price stability is one of the characteristic features of a modern central bank law. Pursuant to the draft law, the National Bank shall ensure price stability. The additional provision in the statutory mandate obliging the National Bank to take into account the development of economic activity is appropriate and conforms to established practice. The National Bank would like to see its contribution to the stability of the financial system embodied in the Law in addition to the individual National Bank tasks, which have been updated in the draft law.

National Bank acts independent of instructions

From the National Bank's point of view, its constitutional independence has been appropriately defined in the draft law, which obliges the Bank and its bodies to act independent of instructions. In addition to functional independence, the National Bank's institutional and financial independence must, however, also rest on a solid legal foundation. In this context, the National Bank was in favour of retaining the legal form of a joint-stock company. The National Bank also explicitly approved of the accountability and information obligations which are to be defined in detail in the new National Bank Law.

Updated central bank instruments

The abolition, proposed by the group of experts, of central bank instruments no longer needed was fully supported by the National Bank. The required cash liquidity of the banks is to be replaced by a minimum reserve requirement. In this connection, the National Bank proposed an addition to the effect that issuers of electronic money and other issuers of payment instruments might also be made subject to minimum reserve requirements by means of an ordinance. Given the rapid change in financial markets, the term "bank" might one day prove too narrow to apply to all enterprises that should be obliged to hold minimum reserves.

Setting aside of provisions to be decided by the Bank Council

Furthermore, the National Bank argued in favour of appropriately specifying in the Law the constitutional provision stipulating that currency reserves shall be built up by setting aside provisions from the National Bank's earnings. As regards the question of who is to decide on the amount of the required provisions, the National Bank, unlike the group of experts, was in favour of the Bank Council assuming this responsibility rather than the Governing Board. It is desirable that this decision, which is significant for the calculation of profits, be given broader support. This is in conformity with the intention to vest more extensive supervisory powers in the Bank Council.

Appropriate reduction in the number of bank bodies

Finally, the National Bank supported the streamlining of the organisational structure as proposed in the draft law. It is indispensable for the efficient management of the Bank to reduce the number of bank bodies and to optimise their interaction. An important precondition is the diminution of the Bank Council in terms of number. In this respect, the National Bank would like to go a step further than the group of experts; it considers a total of 11 (instead of the proposed 15) members for the future Bank Council as appropriate. This would strengthen the responsibility of the individual members of the Bank Council in the decision-making process and enhance the working efficiency of this body.

Ensuring a regional presence

In the context of the planned streamlining of the organisation, care should be taken to keep the central bank adequately represented in the regions. The National Bank therefore proposed that the Law spell out the importance of a regional presence of the central bank for the purpose of observing, and maintaining relations with, the local economy. In particular, the National Bank strongly recommended that the observation of economic development in the regions be attended and supported by boards of advisers at the individual bank offices.

Oversight of payment and settlement systems

In the consultation procedure, the oversight of payment systems proposed by the group of experts in principle met with broad support. In December, the National Bank and the Federal Banking Commission, in a joint position paper, proposed to the Federal Department of Finance to make not only payment systems, but also further central installations which might involve risks for the stability of the financial system, subject to oversight by the National Bank. In line with the recommendations of international organisations, notably securities settlement systems are to be included in the oversight of systems. At the same time, coordination between system oversight (by the National Bank) and supervision of institutions (by the Banking Commission) is to be laid down in detail. Aside from additions to the draft of the National Bank Law, this requires a number of specific amendments to the Banking Law and the Stock Exchange Act.

Other central bank functions

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, gold reserves and 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.

Role of assets within the framework of monetary policy

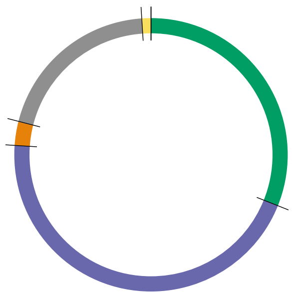
A considerable part of the National Bank's assets serve directly for implementing monetary policy. In order to supply the economy with base money and to steer money market rates, the National Bank purchases securities or foreign exchange from commercial banks on a temporary basis. In 2001, monetary policy was implemented almost exclusively by means of repo transactions, which are equivalent to security-backed money market loans.

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 National Bank can, at any time, sell foreign exchange reserves against Swiss francs in order to support the external value of the currency. Monetary gold holdings help to ensure that Switzerland is able to pay foreign countries in emergencies.

Free assets

In spring 2000, the National Bank began selling the gold reserves no longer required for monetary policy purposes (cf. 93rd Annual Report, page 51). The gold sales are effected within the framework of the agreement concluded between 15 European central banks in September 1999, which forms the basis of the annual sales quotas. The proceeds from the gold sales are managed separately, but are not shown separately in the books since they do not constitute separate assets in the legal sense.



Structure of National Bank assets
in percent

Gold 31

Foreign exchange reserves 45

Other foreign currency assets 3

Domestic financial assets 20

Other domestic assets 1

Total: Sfr 112 billion.
Balance sheet values, average

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. Within the framework of legal provisions, the risk limits set internally and the requirements of its monetary policy mandate, the National Bank manages its assets as profitably as possible.

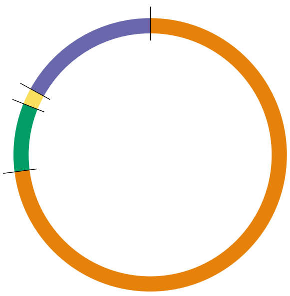
1.2 Monetary foreign exchange reserves

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 (see page 55) – 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 debtor
(without free assets)
in percent

Government securities 73

Securities with indirect government guarantee 8

Monetary institutions 2

Banks 17

Total: Sfr 43.6 billion.
End 2001

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

US dollar 41

CA dollar 2

Euro 46

Danish krone 4

Pound sterling 6

Yen 1

Total: Sfr 43.6 billion.
End 2001

The foreign exchange reserves were reduced by approximately Sfr 4.5 billion in favour of a higher level of repos. A further Sfr 1.5 billion was used for profit distribution to the Confederation and the cantons. The average duration of investment of the foreign exchange reserves was extended from three to four years. In an environment of falling interest rates this had a positive effect on profits. The share of yen investments in the currency composition was reduced in the course of the year. Investment in German mortgage bonds was augmented somewhat due to their increased significance and liquidity. In addition to futures, the National Bank also used interest rate swaps for regulating the average duration of portfolios. The yield on total monetary foreign exchange reserves amounted to 5.2% compared with 5.8% in the previous year. At the end of 2001, they amounted to Sfr 43.6 billion, thus falling short of the previous year's level by Sfr 4.2 billion.

Investment activity and results

Annual results of monetary foreign exchange investments
Yields in percent

	1999		2000		2001	
Currency portfolio	Local currency	Swiss francs	Local currency	Swiss francs	Local currency	Swiss francs
US dollar	0.8	16.9	10.1	12.6	6.3	9.1
Euro	−0.2	−0.0	6.0	0.7	5.7	2.7
Yen	2.5	32.5	1.0	−8.1	1.9	−8.6
Pound sterling	1.1	14.4	8.6	2.8	5.7	5.0
Danish krone	0.8	0.9	5.5	−0.2	5.6	3.0
Canadian dollar[1]	1.1	7.6	7.9	6.9	7.9	4.0
Total foreign currrency reserves		9.7		5.8		5.2

1 since May 1999

External asset management companies had 8.2% of all foreign exchange reserves under management at the end of 2001. The management mandates open up 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 externally managed foreign exchange reserves.

External asset managers

1.3 Swiss franc bonds

Investment principles

The Swiss 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. Since mid-2000, it has been pursuing an investment policy which reproduces an index for Swiss franc bonds that is representative of the market. The index includes all the debtor categories permitted under the National Bank Law: the Federal Government, cantons and communes, domestic and foreign banks, mortgage bond institutions, foreign governments and international organisations.

Investment performance

At the end of 2001, the market value of the portfolio – without the part allocated to the free assets – amounted to Sfr 5.5 billion, compared with Sfr 5.2 billion in the previous year. In connection with adjusting the investment strategy, the duration increased from 3.5 to 4.4 years. The yield on the portfolio rose from 3.3% in the previous year to 4.3%.

1.4 Gold lending and gold reserves

Investment principles

The agreement on gold sales concluded in September 1999 between 15 European central banks requires the Swiss National Bank to limit its gold lending to 328 tonnes, the level at that time. At the end of 2001, the amount of gold lent was 322.2 tonnes. The National Bank's counterparties are some twenty first-class domestic and foreign financial institutions. They pay interest on the temporary loan of gold.

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

Confederation 21
Cantons 9
Communes 6
Mortgage bond institutions 19
Banks 13
International organisations 9
Foreign borrowers 23

Total: Sfr 5.5 billion.
End 2001

The National Bank concludes a part of its gold lending transactions against securities collateral. Depositing such collateral lowers the credit risk considerably, yet at the same time it reduces income. At the end of 2001, 26.3% of all gold lending was backed by securities collateral. Secured gold lending transactions concentrated on maturities of one to five years.

Long-term lending against securities collateral

In 2001, the National Bank achieved a yield of 1.6% with gold lending. At the end of the year, the average residual maturity of the gold lending portfolio amounted to 11.3 months.

Return on investment

1.5 Free assets

The National Bank continuously sells gold, totalling 1,300 tonnes, no longer required for monetary policy purposes on the market. The proceeds are invested in various financial assets which are managed separately from the other assets. The investment process is structured similarly to that of 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.

Principles

In 2001, the National Bank sold 220.8 tonnes of gold at an average price of 272.4 dollars per ounce. The proceeds amounted to Sfr 3.3 billion. Of the planned 1,300 tonnes, 391.6 tonnes were thus sold by the end of the year. The sales were concluded at regular intervals and in quantities that protected the market as much as possible.

Gold sales

The possibilities of hedging additional gold holdings earmarked for sale against an unfavourable development of the gold price in Swiss francs are severely 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, reduce the currency risk of future US dollar-denominated proceeds from gold sales. For this reason, the National Bank concluded dollar forward sales against Swiss francs and euros to the extent of roughly one-third of the future proceeds in dollars. In 2001, the unexpected rise of the dollar exchange rate resulted in a loss of Sfr 317 million from hedging transactions, following a profit of Sfr 82.8 million in the previous year.

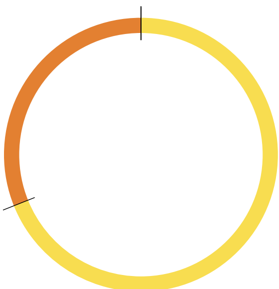
Partial hedge against the currency risk on future gold sales

Investment of the proceeds from gold sales

Proceeds from gold sales are invested exclusively with counterparties with an excellent rating. The portfolio consists mainly 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. At the end of 2001, 9% of the investment portfolio consisted of Swiss-franc denominated bonds, and another 45% was hedged against currency risks. The rest of the portfolio was invested in euros (26%), US dollars (12%) and other currencies (8%). The duration of the portfolio was three years. A yield of 4.4% was achieved.

Level of the free assets at year-end

At the end of 2001, the market value of the free assets amounted to Sfr 19.4 billion, Sfr 13.4 billion of which was accounted for by the additional gold reserves earmarked for sale and a total of Sfr 6.0 billion by foreign exchange investments and investments denominated in Swiss francs. The market value of the free assets was Sfr 0.2 billion higher than the provision for the assignment of the free assets in the amount of Sfr 19.2 billion. The difference results from the fact that the income received from managing the proceeds from gold sales is not included in this provision.



Market value of free assets
in percent

Gold (earmarked for sale) 69

Investments in foreign currencies and Swiss francs 31

Total: Sfr 19.4 billion.
End 2001

1.6 Risk management

Purpose of risk management

The risk management identifies, limits and controls all relevant financial risks which the National Bank incurs by virtue of its activities on the financial and capital markets. Risk management focuses on those National Bank assets that are managed with the intention of achieving a profit, particularly 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. Investment is limited to counterparties with an above-average rating. Risk measurement is based on standard risk ratios and procedures. In the case of market risks, the emphasis is on sensitivity and value-at-risk analyses, and in the case of credit risks on publicly accessible rating information.

Risk limitation and control process

Risk is controlled by means of a system of guidelines and limits. The strategic guidelines for the market risk are established by the Governing Board, those for the credit risk by the bank authorities. An internal risk committee translates these guidelines into concrete allocations and is responsible for the control process. The observance of the guidelines and limits is monitored systematically. The results of risk control are reported direct to the responsible line and supervisory bodies of the National Bank. Overall supervision lies with the Bank Council, with a two-person delegation of the Bank Committee assuming special responsibility for risk control.

Risk development in 2001

Both the gold price in Swiss francs and the investment currencies exhibited fewer fluctuations in 2001 than in the previous year. Total income fluctuations resulting from exchange rate and gold price movements were also more moderate. In the course of the year, all investment currencies with the exception of the dollar lost ground vis-à-vis the Swiss franc, while the gold price in Swiss francs rose slightly. In the bond markets, price fluctuations were more pronounced than in earlier years, notably in the second half of the year. Compared with the beginning of the year, yields on long-term bonds remained virtually unchanged; some yields on bonds with maturities of less than seven years, however, dropped steeply. Due to an increase in duration to four years, slightly higher interest rate risks were accepted for foreign exchange reserves. At approximately 85 %, currency risks, however, were the main factor in the overall risk of foreign exchange reserves. The role of the National Bank calls for a largely unhedged currency risk in foreign exchange reserves. In the case of the free assets, the currency risk may be considerably limited by concluding foreign currency forward transactions. Yet the gold price risk on the free assets remains significant despite the partial hedging of the inherent dollar risk. The price risk on the gold reserves remaining with the National Bank is unhedged.

Temporary liquidity risks

In the wake of the terrorist attacks of 11 September, liquidity and the conduct of business in the US markets were temporarily impaired. The National Bank's business activity was not directly affected.

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. The operative side of electronic payments is handled by the Telekurs Group, a joint venture of the banks. The National Bank oversees the Swiss Interbank Clearing (SIC) system and keeps the participants' accounts in this system. Since it processes nearly all interbank clearings – from large-value payments to retail payments – SIC is the major payment system in Switzerland. In the last few years, processing of all interbank services of retail payment transactions has been integrated into SIC step by step.

2.2 Cashless payment transactions

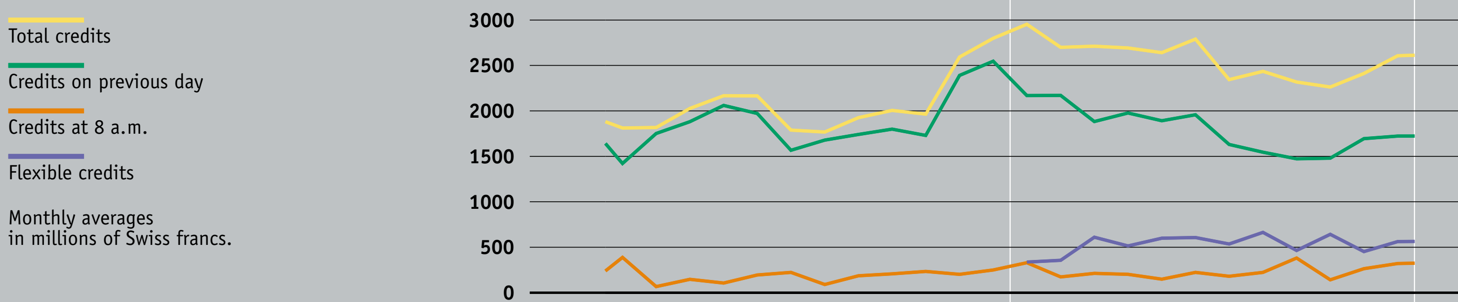
Increase of payment flows in SIC

At the end of 2001, there were 313 participants in SIC versus 302 at the end of 2000. During 2001, an average of 644,000 payments per day totalling Sfr 182 billion were processed compared with 596,000 payments (Sfr 178 billion) in the previous year.

Payment flows in SIC

	1997	1998	1999	2000	2001
Transactions per day in thousands					
Average	480	529	556	596	644
Maximum	1 303	1 323	1 384	1 821	2 078
Volume per day in billions of Swiss francs					
Average	182	182	170	178	182
Maximum	305	270	296	291	274
Liquidity per day average in millions of Swiss francs					
Sight deposits (end of day)	3 204	3 710	3 503	3 336	3 339
Intraday credits			2 221	2 074	2 566

Intraday liquidity



Integration of Postfinance into SIC

Postfinance has been settling its customer payments in SIC since November 2001. In a first step in November 2000, the company had started to process its money market transactions via SIC.

Retail payment systems of banks

In 2001, the volume of retail payment systems of the banks settled via SIC amounted to 0.7 % of the total SIC turnover. This figure includes the following interbank services: the data carrier exchange system (DTA), payments from direct debiting (LSV), ATM withdrawals, EFTPOS payments (debit card payments), cheque payments, automated refuelling machines and payments with the CASH card.

Development of intraday credits

Since the beginning of 2001, in addition to previous-day drawdowns, banks have been able to conclude intraday repos with the National Bank at any time between the hours of 8:00 a.m. and 2:45 p.m. This had previously only been possible at 8:00 a.m. The additional liquidity which is thus created facilitates the processing of the individual payments in SIC and allows banks to further optimise their liquidity management. Daily drawdowns on intraday loan facilities averaged Sfr 2.6 billion in 2001; on some days the volume went up as high as Sfr 4 billion.

Euro payment transactions

To access 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, a clearing system similar to SIC. Many Swiss banks and Postfinance execute their euro payments through this bank. The transaction volume fell slightly in 2001 and averaged 1.5 billion euros per day compared with 1.6 billion euros a year earlier.

SIC access by participants abroad

Since 1998, financial institutions abroad (banks, securities dealers, processing and settlement organisations) have – subject to certain conditions – been able to become SIC participants without a license from the Swiss Federal Banking Commission. Moreover, in June 2001 access was made possible through SWIFT.

2.3 Provision of currency

Higher volume of currency in circulation

Banknote circulation increased significantly in 2001 compared with the previous year. The extraordinary expansion in the fourth quarter – as in the case of dollar and pound sterling notes – is probably attributable to the imminent introduction of euro notes and coins at that time. Averaged over the year, banknote circulation amounted to Sfr 33.2 billion, thus exceeding the previous year's figure by 5.1%. Notably circulation of the two biggest denominations registered a sizeable increase. Averaging Sfr 2.3 billion, coins in circulation equalled the previous year's figure.

Banknotes

In 2001, the National Bank put 99.4 million freshly printed banknotes with a face value totalling Sfr 5.6 billion into circulation. It destroyed 99.2 million damaged or recalled notes with a face value of Sfr 7.3 billion.

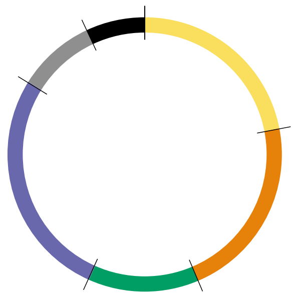
Decrease in currency turnover

In 2001, the National Bank's offices registered a 25% decrease in currency turnover in value terms, bringing the total to Sfr 125 billion. They received roughly 384 million or 18.6% fewer notes than in the previous year and checked them for authenticity and quality. The massive decrease in turnover is attributable to Swiss Post and the banks having outsourced the processing of notes and coins to cash processing facilities. These are specialised companies which handle the sorting and distribution of cash. The services offered by cash processing facilities result in banknotes and coins remaining in circulation for a longer period of time and thus flowing back to the National Bank's offices less frequently.

Regional concentration

As a result of the concentration in the Zurich area of cash processing facilities operating in larger regions, the Zurich head office registered a higher volume of incoming banknotes. By contrast, incoming banknotes in the Berne, Geneva and Lugano offices levelled off considerably. The National Bank reacted to the change in the flows of cash by adapting its sorting capacities. The cash turnover of the network of agencies and correspondents which are responsible for the local receipt and distribution of banknotes and coins also declined markedly.

In processing banknotes received, the National Bank's offices secured 504 counterfeits during the period under review and handed them to police. The number of falsifications which were discovered to have been put into circulation in Switzerland is about three times as high.



Banknotes in circulation
Denom. units (number in millions)

10s 57
20s 56
50s 34
100s 70
200s 24
1000s 18

Annual average

3 Statistical tasks

Basis

The National Bank collects those statistical data from banks, securities dealers, investment funds and other enterprises that it requires for performing its tasks. The National Bank compiles statistics on the banks' balance sheets and on other important aspects of banking business, notably credit business, securities management on behalf of non-banks as well as payment transactions. Furthermore, the National Bank gathers information on the money and capital markets, particularly on short- and long-term interest rates and the issuing volume. It also draws up Switzerland's balance of payments, the statement of the international investment position and the financial accounts. All these statistics are compiled by agreement with the data-reporting institutions and enterprises and conform as closely as possible to international standards. The data are used for analyses concerning monetary policy, for the survey of economic developments, for economic forecasts, and for analysing developments in the financial markets. The growing significance of statistical information activity over the last few years has led to a marked expansion of administered time series. At the end of 2001, the National Bank maintained approximately 1.2 million time series.

Statistical publications

The National Bank regularly publishes the results of its statistical surveys and provides the public with a variety of data both in printed form and on the Internet. Statistical information is made available primarily in the Statistical Monthly Bulletin, in the Quarterly Bulletin on banking statistics and in the statistical yearbook of the Swiss banks. These publications are supplemented by reports on Switzerland's balance of payments, on the international investment position and direct investment.

Survey of foreign exchange and derivatives

In 2001, the National Bank participated in the triennial survey of foreign exchange and derivatives market activity, which was internationally coordinated by the Bank for International Settlements (BIS). It collected data on turnover and the amounts outstanding from the leading institutions in this line of business. The data reported were analysed according to different criteria. The survey showed that the Swiss franc accounted for 6% of international foreign exchange business compared with 7% in the last survey. The Swiss franc's share in Switzerland's foreign exchange business dropped from 39% in 1998 to 34% in 2001.

4 Services on behalf of the Confederation

Basis

The National Bank acts as banker to the Confederation. The National Bank Law lays down the services to be performed on behalf of the Confederation and determines that most of these services be rendered free of charge. 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.

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. It pays interest on the Confederation's time deposits at market rates and on sight deposits up to a limit of Sfr 600 million at the call money rate. Postfinance places its liquid funds directly on the money market.

Money market business

In 2001, the National Bank arranged 52 issues of money market debt register claims (MMDRC) and 14 bond issues on behalf of the Confederation – both by auction. MMDRCs to the total amount of Sfr 53.0 billion were subscribed, and Sfr 39.7 billion were allocated. Federal bonds were subscribed for a total amount of Sfr 12.6 billion, of which Sfr 7.5 billion were allocated. The auctions of MMDRCs and Confederation bonds have been held since February 2001 and March 2001 respectively via the auction system of the electronic trading platform Eurex Repo.

Money market debt register claims and Confederation bonds

Confederation bonds and money market debt register claims

	1997	1998	1999	2000	2001
Number of issues[1]					
MMDRC	53	52	52	52	52
Confederation bonds	7	11	10	14	14
Total subscribed in billions of Swiss francs					
MMDRC	89.0	89.4	75.7	62.7	53.0
Confederation bonds[2]	7.0	10.8	8.1	15.6	12.6
Total allocated in billions of Swiss francs					
MMDRC	49.8	45.1	46.8	42.4	39.7
Confederation bonds[2]	3.7	5.2	4.1	9.3	7.5
Outstanding at year-end in billions of Swiss francs					
MMDRC	14.1	12.9	17.1	13.4	11.5
Confederation bonds[3]	37.5	43.3	46.5	54.1	62.1

1 based on date of payment

2 excluding the Confederation's own tranches

3 including own tranches placed in the market by the Confederation

In 2001, the National Bank arranged – for account of the Confederation – a short-term bilateral bridging loan each for the Republic of Tajikistan and the Federal Republic of Yugoslavia. It undertook to negotiate the contracts in its own name and to transact the business, while the Confederation financed the two loans.

Bridging loans to Tajikistan and Yugoslavia

The National Bank processes a part of the payment transactions of the Confederation in Switzerland and abroad. It also keeps the federal debt register and administers securities holdings and objects of value on behalf of the Confederation and associated institutions.

Administration and processing services

The National Bank distributes, processes and stores large quantities of coins on behalf of the Confederation. The expenditure for coinage services provided amounted to approximately Sfr 9.3 million in 2001.

Coinage

5 Cooperation with federal agencies

5.1 Cooperation with the Federal Department of Finance

Comments in response to recommendations …

In 2001, the Federal Department of Finance opened the consultation procedure on two bills in the financial sector which had been drafted by groups of experts of the Federal Department of Finance with the participation of the National Bank. The National Bank submitted comments on both bills.

… of the group of experts "Supervision of financial markets"

In its final report, the group of experts "Supervision of financial markets" particularly recommends that the supervision of banks and insurance companies be concentrated in a single supervisory authority. Furthermore it proposes a simplified and at the same time more nuanced regulation of the banking sector and the extension of the supervisory function to include all other suppliers of financial services. The National Bank welcomed the review of the existing financial market regulation. Comprehensive and adequate supervisory standards in the entire financial system make it easier for the central bank to take responsibility for monetary policy. In its comments, the National Bank particularly recommended that the possibility of an alignment of banking and insurance supervision be studied. It did not, however, consider it of prime importance to make foreign exchange brokers and independent asset managers subject to supervision.

… and of the commission of experts "Bank reorganisation, bank liquidation and depositor protection"

The National Bank also supported the report of the commission of experts "Bank reorganisation, bank liquidation and depositor protection". In view of its task to protect the stability of the financial system, the National Bank approved particularly of plans to establish an up-to-date bank insolvency law. Such a law would make it easier to reorganise a bank in difficulties and help to prevent a disruption of its business activity. The National Bank also agreed to the proposed extension of deposit protection in the form of preferential claims in bankruptcy to all deposits up to Sfr 30,000 per depositor.

5.2 Cooperation with the Federal Banking Commission

Successful cooperation …

In 2001, the Governing Board again held two meetings with the Federal Banking Commission for a detailed discussion of the economic situation and current developments in the banking system. Both bodies also cooperated closely in the Basel Committee on Banking Supervision. On a technical level, too, the National Bank and the Banking Commission continued to intensify their cooperation.

… supported by a centre for monitoring the stability of the financial system

In 2001, the National Bank set up a financial stability competence centre in Department II. In so doing, it took account of the fact that a stable and competitive financial system is an essential prerequisite for the successful conduct of monetary policy. The centre cooperates closely with the Banking Commission. The latter is responsible for the supervision of individual institutions, while the National Bank is concerned with systemic aspects of the financial sector that extend beyond the individual institution.

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 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 can be likened to a currency reserve and may be used as such by the National Bank at any time. At the end of 2001, Switzerland's reserve position amounted to 1,258.7 million SDRs (special drawing rights), compared with 963.7 million SDRs at the end of 2000. (At the end of 2001, 1 SDR was equivalent to Sfr 2.11.) The marked increase in the reserve position is due mainly to the drawings of the IMF for overcoming the financial crises in Argentina and Turkey.

Full utilisation of the credit provided 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. With its ninth and final drawing of 197,500 SDRs in March 2001, the IMF used the full Swiss loan commitment totalling 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.

Contribution to the interim PRGF

The funds of the current PRGF were used up by the end of 2001. From 2005 onward, the PRGF will be maintained as a self-supporting facility; until then, interim financing (interim PRGF) will be necessary. The National Bank contributes to the financing of the capital. At the beginning of December 2001, the National Bank entered into a loan agreement with the IMF for a credit to the maximum amount of 250 million SDRs, however not exceeding 6.25 % of all bilateral capital contributions. Similar to the PRGF, the individual drawings have a maturity of ten years with repayment in instalments beginning five-and-a-half years after payment of the loan. Until the end of 2001, no drawings were made under the interim PRGF. By Decree of the Federal Parliament on addendum I to the 2001 cost estimate of 13 June 2001, the Confederation guarantees the National Bank – similar to the PRGF – the timely repayment of the interim PRGF credits including interest payments. Moreover, the Confederation contributes to the financing of the interest subsidy of the interim PRGF.

6.2 Cooperation in the Group of Ten

Activities in the Group of Ten

The National Bank participates in meetings of the finance ministers and central bank governors of the Group of Ten and in various working groups. In 2001, the Group of Ten devoted itself to various issues relating to the international financial system. Emphasis was placed, on the one hand, on efforts to increasingly involve the private sector in crisis management; and, on the other, on the potential implications of excessive share price fluctuations for the entire financial system.

6.3 Cooperation with the Bank for International Settlements

BIS bodies

The central bank governors of the G-10 countries and of the ECB meet regularly at the BIS for an exchange of information. The National Bank moreover participates in the four standing committees of the BIS: in the Basel Committee on Banking Supervision, in the Committee on Payment and Settlement Systems, in the Committee on the Global Financial System and in the Committee of Experts on Gold and Foreign Exchange.

Basel Committee on Banking Supervision: capital adequacy recommendations …

In 2001, the Basel Committee on Banking Supervision continued to concentrate its efforts on the review of the capital adequacy recommendations for internationally active banks. The Committee dealt with the comments by the banking sector on the consultation paper published at the end of 2000 (see 93rd Annual Report, page 63). Based on the large number of changes suggested, the Committee decided to publish a further consultation paper in summer 2002 before the final version of "Basel II" is due to be adopted at the end of 2002. In the course of 2001, working papers on various aspects of the capital adequacy recommendations were published. The Basel Committee will adhere to the goal of maintaining the total capital resources available at the banks.

… and other tasks

In addition, the Committee dealt with further questions pertaining to the stability of the international banking system. After prior consultation, it released recommendations on the relation between banks and external auditors, and on the observance of due diligence by bankers. It also delivered an opinion on the subjects of "risk management in electronic banking" and "hedge funds" (highly leveraged institutions). Furthermore, the Basel Committee was represented in the Financial Stability Forum.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems published three reports. The first report deals with core principles for payment systems from which a systemic risk is liable to emanate. The report contains a total of ten core principles which major payment systems must observe. The second report was drawn up in conjunction with the International Organization of Securities Commissions IOSCO, the international securities supervisory authority. This report, too, contributes to the setting of international standards. It contains 19 recommendations for securities settlement systems. The third report provides a broad overview of the use of electronic money in some 80 countries.

Committee on the Global Financial System

The Committee on the Global Financial System followed developments in the financial markets, notably in the markets of the emerging countries. Furthermore, it drew up a report on the financing of new technologies and adopted an adjustment to the international banking statistics published by the BIS.

6.4 Balance of payments support

No new balance of payments loans

The National Bank participates, in the context of the Federal decree on Swiss participation in international monetary measures, in support operations for countries with balance of payments problems. The loans are financed by the National Bank, while the Confederation guarantees repayment of the loans including interest payments. In 2001, no new loans were extended. At the end of the year, a balance of payments loan to Bulgaria to the amount of 14.3 million euros with a term until 2007 was outstanding.

6.5 Technical assistance and training

Technical assistance

In 2001, the National Bank provided technical assistance to the central banks of Ethiopia (foreign exchange trading), Costa Rica (payment systems), Georgia (payment systems), Yugoslavia (securities trading, risk management), Kazakhstan (payment systems), Kyrgyzstan (legislation, payment systems, information technology), Lebanon (payment systems), Tajikistan (legal issues, foreign exchange trading), Tanzania (foreign exchange trading) and Belarus (payment systems).

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

The Study Center Gerzensee organised six courses for employees of foreign central banks in 2001. The courses offered training in the fields of monetary policy, financial markets and bank regulation. They were attended by a total of 169 participants from 91 countries.

… international scientific conferences …

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

… and doctoral courses

The Study Center Gerzensee organised doctoral courses for students of Swiss universities; in these courses distinguished professors gave lectures in all the main fields of economic science.

Structure and organisation of the National Bank

1 Organisation

Legal form

Unlike many 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. Cantons and cantonal banks hold 55% of the shares. The remainder are mostly held 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 heads 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 any 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. To ensure the distribution of currency, the National Bank has - in addition to the two head offices – branch offices with cash distribution services in Geneva and Lugano. Four more branch offices located in Basel, Lausanne, Lucerne and St Gallen as well as the 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 overall interests of the country. Department I is responsible for the monetary policy concept. The Economic Division supplies statistical data, analyses the economic situation and developments in Switzerland and abroad, and provides the basis for monetary policy decisions. The international aspects of monetary policy are dealt with by the International Affairs Division. The Monetary Operations Division of Department III implements monetary policy by carrying out transactions in the financial markets. Department II deals with issues relating to the stability of the financial system.

Regional economic relations

The head offices and branch offices assist the Economic Division in analysing the economic situation and development by reporting on regional economic conditions in Switzerland. For this purpose, they are in contact with a large number of enterprises from all sectors and with the major trade associations.

Management of assets

The National Bank's foreign currency reserves are allocated and managed by the Monetary Operations Division in Department III, gold reserves and Swiss franc reserves by the Banking and Administrative Division in Department II.

Cash transactions

The National Bank exercises its mandate in the field of payment transactions by issuing banknotes and putting the coins minted by the Confederation into circulation through its network of bank offices. It assures that the quality of currency in circulation is kept at a high level by checking the cash returned to the National Bank and disposing of those banknotes and coins which no longer meet the requirements as well as counterfeits. These tasks fall within the competence of the Cash Division in Department II.

Cashless payment transactions

Moreover, the National Bank cooperates in the planning and processing of cashless payment transactions. Conceptual and technical issues in the area of cashless payment transactions are dealt with by the Banking Operations and Information Technology 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 2001, the National Bank staff numbered 585 persons, an increase of 10 persons from the year-earlier level. Converted into full-time jobs, the number of employees rose from 534.1 to 543.6 persons. The number of part-time employees was up by 10 to 127 persons, corresponding to a part-time rate of 21.7%. Personnel turnover dropped to 7.9% in 2001 from 14.3% in the previous year. At the end of 2001, there were 15 vacancies at the National Bank.

Survey on employee satisfaction

In autumn 2001, a survey on job satisfaction of the National Bank employees was conducted with the assistance of an external consultant. A total of 73% of employees took part in the survey. Overall job satisfaction was roughly equal to the average results of comparable companies in Switzerland. In 2002, the insights gained from the employee satisfaction analysis are to be translated into concrete measures to improve the motivation and development of employees at all levels. In mid-2001, a new working-time model based on annual working hours was introduced to increase the flexibility in coordinating the actual workload and staff resources.

Developments in information technology

In the field of information technology, the National Bank continued its efforts towards a strategic new orientation to the new systems and applications architecture. Except for the applications in the payment transactions section and in some accounting sub-sections, all applications in the fields of banking transactions, the Bank's operational activities as well as statistics were based on the new architecture at year-end. A new application was implemented for the administration of time series. The migration of the remaining banking applications to the new integrated banking package has been completed to a large degree. The applications already operating on the new architecture as well as the technical infrastructure were further expanded while taking into consideration new professional requirements and new technological developments.

Property management

With the completion of the renovation of the buildings located at Stadthausquai/Fraumünsterstrasse (second building phase) and the remodelling of the 4th floor of the main building at Börsenstrasse, the use of the buildings at the Zurich head office has been significantly optimised. The comprehensive renewal of the building's equipment in need of renovation and the conversion of the cashier's office and the mezzanine floor of the main building are in the project planning stage.

Declining share of costs from cash transactions

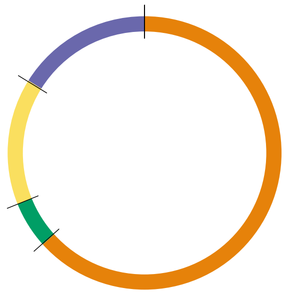
The bulk of the National Bank's total operating costs is incurred by cash transactions. These include the costs of producing banknotes and costs arising in connection with banknote and coin circulation. The reorganisation of cash transactions, notably the reduced number of cash distribution and processing services, contributed to a significant easing of the cost burden over the past few years. The share of costs stemming from cash transactions contracted by 3 percentage points in 2001, accounting for 41% of total operating costs. The costs in connection with cashless payments remained stable and represented a 4% share. This position includes the services of the National Bank in interbank payment transactions as well as services in the field of payment transactions on behalf of other central banks and international organisations.

Increasing share of costs from asset management

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 2 percentage points to 21% of total operating costs. The main factors contributing to this development arose from the expansion of the Bank's business activity, i.e. the increased expenses for the management of foreign exchange reserves and free assets, notably the management of gold holdings. The item monetary policy, which includes the costs involved in planning and formulating monetary policy as well as the costs for compiling statistics, accounted for 22%. This was slightly more than in the previous year. The share of the other two cost units – services on behalf of the Confederation, services on behalf of third parties – remained unchanged at 5% and 7%, respectively, of total costs. 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 position services on behalf of third parties comprises the Bank's contribution to the Study Center Gerzensee, expenses 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 for 2000, compiled in 2001, continued to improve compared with previous years, as the total environmental impact caused by the National Bank declined. Because of the closing of cash distribution services at four branches (cf. 92nd Annual Report, page 65), notably electricity and heat consumption fell markedly. Irrespective of the reduction in cash distribution services, water and paper consumption were reduced significantly; the proportion of recycled paper, for the first time, accounted for more than 50% of total paper consumption.



Personnel
Number of employees

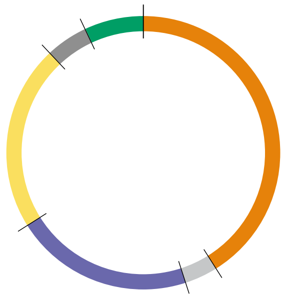
Full-time, men 371

Part-time, men 32

Full-time, women 87

Part-time, women 95

Total: 585.
End 2001



Cost units
in percent

Cash transactions 41

Cashless payment transactions 4

Asset management 21

Monetary policy 22

Services for the Confederation 5

Services for third parties 7

3 Changes in the bank authorities and management

Bank Council

After the Annual General Meeting of 20 April 2001, the Federal Council completed the Bank Council by electing the following persons:

Andreas W. Keller, Erlenbach, Chairman of the Board of Diethelm Keller Holding Ltd,
Hansueli Raggenbass, Kesswil, National Councillor, Attorney-at-law, and
Hansjörg Walter-Heim, Wängi, National Councillor, President of the Swiss farmers' association.

On the day of the Annual General Meeting of 26 April 2002, the following members retire from the Bank Council:

Eduard Belser, Lausen, President of the Bank Council,
Jörg Baumann, Langenthal, Chairman of the Board of Création Baumann, Weavers and Dyers Ltd,
Peter Everts, Zollikofen,
Yvette Jaggi, Lausanne, Member of the Bank Committee, President of the Arts Council of Switzerland Pro Helvetia,
Andres F. Leuenberger, Riehen, Member of the Bank Committee, Vice-Chairman of the Board of F. Hoffmann-La Roche Ltd.

The National Bank thanks the retiring members for their valuable services.

Special thanks are extended to the departing President of the Bank Council,
Eduard Belser.
In 1986 he was elected to the Bank Council, which delegated him to the Bank Committee in 1988. In 1999 the Federal Council elected him President of the Bank Council. Eduard Belser has fulfilled his duties as president with a great deal of dedication and good judgement, thus rendering valuable service to the National Bank.

One of the five vacant positions is to be filled by the Annual General Meeting of Shareholders, four by the Federal Council.

The Bank Council proposes to the Annual General Meeting that the following new member be elected as successor to Mr Everts:
Hansueli Loosli, Basel, Chairman of the management Coop.

Bank Committee

The Bank Council delegated the following member to the Bank Committee with effect from 20 April 2001:

Hansheiri Inderkum, Altdorf, as successor to Melchior Ehrler.

Local Committees

As per the date of the Annual General Meeting of 20 April 2001, the following committee members resigned their positions:

Peter Grogg, Bubendorf, Chairman of the Local Committee of Basel since 1996 (Member since 1993),
Jean Lauener, Saint-Aubin NE, Chairman of the Local Committee of Berne since 2000 (Member of the Local Committee of Berne since 1999, previously in the Local Committee of Neuchâtel since 1993),
Peter G. Anderegg, Egnach, Chairman of the Local Committee of St Gallen since 1998 (Member since 1993).

The National Bank thanks the resigning persons for their services to the Bank.

The Bank Council made the following appointments:

Basel

Bruno Sidler, Basel, President of the Executive Board, CEO of Panalpina Management Ltd.

Berne

Edgar Geiser, Brügg, Senior Vice-President and Chief Financial Officer, Member of the Executive Board of Swatch Group Ltd.

St Gallen

Urs Kienberger, Sils-Maria, Director of Hotel Waldhaus.

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 20 April 2001 elected the incumbent office holders:
Kaspar Hofmann, Adliswil, Certified Auditor, Hofmann Wirtschaftsprüfung AG, as Member,
Hans Michel, Egnach, as Member,
Maryann Rohner, Zurich, Certified Auditor, Treureva AG, as Member, and
Josef Blöchlinger, Begnins, Certified Auditor, Refidar Société Fiduciaire, as Substitute Member
Jean-Claude Grangier, Epalinges, as Substitute Member,
Werner M. Schumacher, Binningen, Director of Banque Jenni et Cie SA, as Substitute Member of the Auditing Committee.

The Bank Council proposes to the Annual General Meeting of 26 April 2002 that the current members and substitute members of the Auditing Committee be reelected.

As per the end of November 2001,
Georg Rich, Director and Deputy Head of Department I, took early retirement. During his 24 years with the National Bank, 16 years of which he spent as chief economist and deputy head of department, Mr Rich, in particular, made a significant contribution to the formulation of the principles of monetary policy, gaining international recognition for his work.
The National Bank thanks Mr Rich for his valuable services.

Upon the proposal of the Bank Council, and with effect from 1 December, the Federal Council appointed
Ulrich Kohli, formerly Professor of Economics at the University of Geneva, as Mr Rich's successor.

As per the end of November 2001,
Jean-Pierre Borel, Director at the head office in Berne, retired. Mr Borel worked for the National Bank for almost three decades, initially as an employee at the Geneva branch, later on as deputy to the director. In 1985, he assumed the management of the Neuchâtel branch. In 1998, he was put in charge of regional economic relations and transferred to the head office in Berne.

At the end of February 2001,
Roland-Michel Chappuis, Assistant Director and Head of the Cashier's Office Zurich, took early retirement.

We thank the above employees for their many years of valuable service to the National Bank.

Effective 1 January 2002, the Bank Committee promoted
Hans-Christoph Kesselring (Payment Transactions/Settlements/Custody) to Director,
Peter Schöpf (Secretary General) to Director,
Daniel Heller (Payment Systems) to Deputy Director,
Thomas Jordan (Research) to Deputy Director,
Eveline Ruoss (Economic Analysis) to Deputy Director,
Vincent Crettol (Securities and Gold Operations) to Assistant Director,
Daniel Hübscher (Central Accounting) to Assistant Director,
Wolfgang Meyer (Investment) to Assistant Director,
Roland Wettstein (Banking Applications) to Assistant Director,
Niklaus Wyss (Payment Transactions/Settlements/Custody) to Assistant Director.

Effective 1 January 2002, the Bank Committee appointed
Beat Müller as Deputy Head of Internal Auditors (Assistant Director).

Financial report

1 Income statement for the year 2001

	Notes	2001 Sfr millions	2000[1] Sfr millions	Change percent
Net result from gold holdings	01	1 267.6	−2 159.6	
Net result from				
foreign currency investments	02	2 405.4	2 377.5	+1.2
reserve position in the IMF	03	17.8	53.2	−66.5
international payment instruments	03	−1.0	23.9	
balance of payments support	03	8.6	11.1	−22.5
Net result from				
Swiss franc repo transactions	04	519.8	513.2	+1.3
Lombard advances	05	1.1	1.9	−42.1
claims against domestic correspondents	06	1.7	2.4	−29.2
Swiss franc securities	07	236.0	164.8	+43.2
Other income	08	29.7	40.0	−25.8
Gross income		**4 486.8**	**1 028.4**	**+336.3**
Interest expenses	09	−203.7	−336.9	−39.5
Banknote expenses	10	−33.7	−35.0	−3.7
Personnel expenses	11	−83.9	−79.5	+5.5
General overheads	12	−82.9	−93.8	−11.6
Depreciation on tangible assets	23	−21.2	−19.4	+9.3
Net income		**4 061.3**	**463.9**	**+775.5**
Extraordinary expenses	13	−6.9	−4.1	
Extraordinary income		0.0	12.8	
Extraordinary revaluation gain on gold			27 700.5	
Aggregate income		**4 054.4**	**28 173.2**	**−85.6**
Allocation to provisions for				
the assignment of free assets	32	−357.2	−18 860.4	
market and liquidity risks on gold	33	−829.7	−6 589.9	
market, credit and liquidity risks	34	−1 359.5	−1 214.9	
Annual profit	37	**1 508.0**	**1 508.0**	

1 adjusted figures (see page 84)

2 Balance sheet as of 31 December 2001

in Sfr millions

Assets	Notes	2001	2000
Gold holdings	14	28 100.1	30 014.4
Claims from gold transactions	15	4 882.2	4 710.5
Foreign currency investments	16	50 580.8	50 452.8
Reserve position in the IMF	17	2 665.7	2 078.8
International payment instruments	17	476.3	268.5
Balance of payments support	17	347.2	352.4
Claims from Swiss franc repo transactions	18	25 912.1	24 182.0
Lombard advances	19	9.0	0.5
Claims against domestic correspondents	20	73.7	276.3
Swiss franc securities	21	6 000.0	5409.8
Participations	22	89.3	89.5
Tangible assets	23	534.8	537.3
Sundry assets	24	456.8	700.7
Non paid-up share capital	35	25.0	25.0
		120 153.1	119 098.4

Liabilities

	Notes	2001	2000
Banknotes in circulation	25	39 844.7	35 485.7
Sight deposit accounts of domestic banks	26	6 316.9	6 193.6
Liabilities towards the Confederation			
sight	27	154.1	164.7
time	27	2 251.9	9 888.0
Sight deposits of foreign banks and institutions	28	629.8	203.4
Other sight liabilities	29	182.7	161.5
Liabilities from Swiss franc			
repo transactions	18	–	–
Foreign currency liabilities	30	1 469.7	440.2
Sundry liabilities	31	323.4	127.6
Provisions for			
the assignment of free assets	32	19 217.6	18 860.4
operating risks	34	465.9	467.1
market and liquidity risks on gold	33	7 419.5	6 589.9
market, credit and liquidity risks	34	40 252.9	38 893.4
Share capital	35	50.0	50.0
Reserve fund	36	66.0	65.0
Annual profit	37	1 508.0	1 508.0
		120 153.1	119 098.4

3 Notes to the accounts as of 31 December 2001

3.1 Explanatory notes on business activities

The Swiss National Bank, a company limited by shares with head offices in Berne and Zurich, is Switzerland's central bank and the country's sole authorised issuer of banknotes. It is empowered under the Swiss Constitution to operate a monetary policy that is 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 financial institutions 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 target figure for provisions rises in step with gross national product (see pages 103 f.).

On 31 December 2001, the National Bank employed 585 persons (2000: 575), corresponding to 543.6 full-time posts (2000: 534.1). 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

The principles applied to the books of account, asset valuation, balance sheet and disclosure are governed by the National Bank Law (NBL), the Swiss Federal Code of Obligations (CO) and the Swiss GAAP FER[1], due account being taken of circumstances specific to the National Bank. 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

Exchange rate-related valuation adjustments are now no longer stated as a separate extraordinary item in the income statement but are included as an additional component of the corresponding income and expense items. The effects of this change are shown under 3.3.

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.

1 The Swiss GAAP are the Generally Accepted Accounting Principles issued by the Foundation for Accounting and Reporting Recommendations (Fachkommission für Empfehlungen zur Rechnungslegung FER).

Valuation principles

Gold and *gold claims from lending transactions, negotiable foreign currency investments* and *Swiss franc securities* are stated at their year-end 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 manage foreign currency investments and gold holdings are stated at their year-end market value or fair 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*, only the contract values are stated under off-balance-sheet transactions.

Participations are stated at cost less required depreciation, or at the market value in the case of non-substantive minority interests in listed companies.

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

	2001	2000	Change in percent
Year-end rates			
CHF/USD	1.6782	1.6353	+2.6
CHF/EUR	1.4813	1.5245	−2.8
CHF/JPY	1.2774	1.4242	−10.3
CHF/GBP	2.4304	2.4464	−0.7
CHF/DKK	19.9100	20.4200	−2.5
CHF/CAD	1.0507	1.0900	−3.6
CHF/XDR[1]	2.1113	2.1433	−1.5
Gold price in CHF/kg	14 978.01	14 334.88	+4.5

1 XDR: Special Drawing Rights

3.3 Restatement of prior-year figures owing to reclassification of exchange rate-related valuation adjustments

1 Figures prior to the reclassification of exchange rate-related valuation adjustments, as stated in the Annual Report 2000.
2 Effects of reclassification of exchange rate-related gains or losses on the figures for the previous year (2000) in the Annual Report 2001.
3 Figures following the reclassification of exchange rate-related valuation adjustments, as stated in the Annual Report 2001.
4 Including exchange rate gains or losses of Sfr 0.9 million on foreign currency liabilities.

	2000 old[1] Sfr millions	**Change**[2] Sfr millions	**2000 new**[3] Sfr millions
Net result from			
foreign currency investments	3 422.1	−1 044.5	2 377.5[4]
reserve position in the IMF	87.4	−34.2	53.2
international payment instruments	19.0	+4.8	23.9
balance of payments support	12.4	−1.3	11.1
Exchange rate-related valuation adjustments	−1 075.2	+1 075.2	–

As mentioned on page 82, exchange rate-related valuation adjustments are now no longer stated as a separate extraordinary item in the income statement but are included as an additional component of the corresponding income and expense items. The prior-year figures shown in the income statement and in the Notes have been adjusted accordingly. These changes do not affect aggregate income.

3.4 Notes to the income statement and balance sheet

Summary

The income statement is strongly influenced by developments in the gold price, the interest rate and the exchange rate.

The rise in the gold price resulted in valuation gains of Sfr 1,503.9 million, whereas the appreciation of the US dollar resulted in losses of Sfr 317.0 million on forward foreign exchange transactions which had been concluded as a means of hedging future proceeds from gold sales denominated in US dollars. Together with interest income from gold lending transactions, the net result from gold holdings came to Sfr 1,267.6 million (2000: Sfr –2,159.6 million).

Owing to the continued decline in interest rates on the relevant markets, negotiable foreign currency investments yielded capital gains, as in the previous year, while generally lower exchange rates resulted in exchange rate losses of Sfr 497.7 million. Together with interest income, the net result from foreign currency investments came to Sfr 2,405.4 million (2000: Sfr 2,377.5 million). The net result from other foreign currency balances came to Sfr 25.4 million (2000: Sfr 88.1 million). The net result from financial assets denominated in Swiss francs, which stemmed mainly from securities and repo transactions, totalled Sfr 758.6 million (2000: Sfr 682.3 million).

Including other income of Sfr 29.7 million (2000: Sfr 40.0 million), gross income comes to Sfr 4,486.8 million, substantially more than in the previous year (Sfr 1,028.4 million).

Owing almost entirely to lower interest expenses, ordinary expenses declined from Sfr 564.6 million to Sfr 425.4 million. At Sfr 4,061.3 million, net income was considerably higher than the previous year's figure of Sfr 463.9 million. After taking account of the extraordinary items, aggregate income came to Sfr 4,054.4 million (2000: Sfr 28,173.2 million including Sfr 27,700.5 million in valuation gains on gold).

Due to the high gold price, the provision for the planned assignment of the countervalue of gold holdings no longer required for monetary purposes was increased by Sfr 357.2 million. In addition, Sfr 829.7 million was set aside as a provision for market and liquidity risks on gold, while Sfr 1,359.5 million was allocated to the provisions for market, credit and liquidity risks on other assets. Annual profit earmarked for distribution comes to Sfr 1,508.0 million.

Item no. 01
in the income statement

Net result from gold

Whereas the higher gold price produced valuation gains, forward foreign exchange transactions used to hedge the US dollar proceeds from gold sales (forward sales of US dollars) yielded losses owing to the dollar's appreciation. Lower gold lending rates resulted in a decline in interest income from gold lending transactions.

	2001 Sfr millions	2000 Sfr millions	Change from previous year Sfr millions
Monetary gold	910.5	−1 142.3	+2 052.8
Net result from changes in market value	829.7	−1 232.9	+2 062.6
Interest income/expense from gold lending transactions	80.8	90.6	−9.8
Gold from free assets	357.2	−1 017.3	+1 374.5
Net result from changes in market value[1]	674.2	−1 100.1	+1 774.3
Net result from hedging transactions	−317.0	82.8	−399.8
Total	1 267.6	−2 159.6	+3 427.2

1 including realised gains/losses from gold sales

Net result from foreign currency investments

Item no. 02 in the income statement

As in the previous year, the fall in interest rates on the relevant markets resulted in capital gains. Exchange rates showed mixed trends. While US dollar investments yielded exchange rate gains, losses were incurred on investments denominated in other currencies.

	2001 Sfr millions	2000 Sfr millions	Change from previous year Sfr millions
USD	1 567.6	2 217.7	−650.1
Interest and capital gain/loss	1 253.5	1 888.5	−635.0
Exchange rate gain/loss	314.1	329.2	−15.1
EUR	670.7	93.2	+577.5
Interest and capital gain/loss	1 283.4	1 123.3	+160.1
Exchange rate gain/loss	−612.6	−1 030.1	+417.5
JPY	−82.0	−150.0	+68.0
Interest and capital gain/loss	35.0	10.8	+24.2
Exchange rate gain/loss	−117.0	−160.8	+43.8
GBP	144.1	94.7	+49.4
Interest and capital gain/loss	152.9	214.1	−61.2
Exchange rate gain/loss	-8.8	−119.4	+110.6
DKK	59.5	0.2	+59.3
Interest and capital gain/loss	107.7	84.7	+23.0
Exchange rate gain/loss	−48.2	−84.5	+36.3
CAD	46.0	121.7	−75.7
Interest and capital gain/loss	71.0	100.5	−29.5
Exchange rate gain/loss	−25.1	21.2	−46.3
Other currencies	−0.5	0.1	−0.6
Interest and capital gain/loss	−0.4	0.1	−0.5
Exchange rate gain/loss	−0.1	-0.1	–
Total	2 405.4	2 377.5	+27.9
Interest and capital gain/loss	2 903.1	3 422.1	−519.0
Exchange rate gain/loss[1]	−497.7	−1 044.5	+546.8

1 Including exchange rate gains or losses of Sfr 30.6 million (2000: Sfr 0.9 million) on foreign currency liabilities.

Item no. 03
in the income statement

Net result from other foreign currency balances

Owing to a general fall in interest rates, interest income decreased in spite of slightly higher holdings. The decline in the relevant exchange rates resulted in losses.

	2001 Sfr millions	2000 Sfr millions	Change from previous year Sfr millions
Reserve position in the IMF	17.8	53.2	−35.4
Interest income/expense	65.2	87.4	−22.2
Exchange rate gain/loss XDR	−47.4	−34.2	−13.2
International payment instruments	−1.0	23.8	−24.8
Interest income/expense	13.0	19.0	−6.0
Exchange rate gain/loss XDR	−14.0	4.8	−18.8
Balance of payments support	8.6	11.1	−2.5
Interest income/expense	14.1	12.4	+1.7
Exchange rate gain/loss USD	–	4.6	−4.6
Exchange rate gain/loss EUR	−0.6	0.0	−0.6
Exchange rate gain/loss XDR	−4.9	−5.9	+1.0

Influence of exchange rate developments on the income statement

The aggregate figure for exchange rate gains and losses on foreign currency investments and on other foreign currency items conveys the overall influence of exchange rate developments on the income statement. The net result was a loss of Sfr 564.6 million (2000: Sfr −1,075.2 million).

	2001 Sfr millions	2000 Sfr millions	Change from previous year Sfr millions
USD	314.1	333.8	−19.7
EUR[1]	−613.2	−1 030.2	+417.0
JPY	−117.0	−160.8	+43.8
GBP	−8.8	−119.4	+110.6
DKK	−48.2	−84.5	+36.3
CAD	−25.1	21.2	−46.3
XDR	−66.3	−35.2	−31.1
Other currencies	−0.1	−0.1	–
Total	−564.6	−1 075.2	+510.6

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

Net result from Swiss franc repo transactions

Item no. 04 in the income statement

The net result from Swiss franc repo transactions amounted to Sfr 519.8 million compared with Sfr 513.2 million in 2000. There was a fall in the annual average volume of claims compared with the previous year. Owing to the higher average interest rate on these claims, however, the net result from repo transactions increased slightly.

Net result from Lombard advances

Item no. 05 in the income statement

Owing to the smaller average volume of loans, the net result from Lombard advances was lower than the previous year at Sfr 1.1 million.

Net result from claims against domestic correspondents

Item no. 06 in the income statement

The net result from claims against domestic correspondents declined by Sfr 0.7 million to Sfr 1.7 million owing to the lower average volume of claims.

Net result from Swiss franc securities

Item no. 07 in the income statement

The net result from securities (interest plus realised and unrealised capital gains and losses) rose from Sfr 164.8 million to Sfr 236.0 million, while securities holdings rose by about 10% in the period under review. In addition to current interest income, declining interest rates in the short and medium maturity segments resulted in capital gains. In the previous year, capital losses had been recorded owing to the rise in interest rates.

Other income

Item no. 08 in the income statement

	2001 Sfr millions	2000 Sfr millions	Change from previous year percent
Commissions from banking transactions	17.5	27.4	−36.1
Income from participations	7.3	6.8	+7.4
Income from real estate[1]	4.7	5.2	−9.6
Other ordinary income	0.3	0.6	−50.0
Total other income	29.7	40.0	−25.8

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 decline in commissions from banking transactions is mainly due to issuing commission foregone owing to the introduction of the new auction procedure for Confederation bonds at the end of March. Since this commission was retroceded to banks, its absence also results in lower general overheads (see item no. 12 in the income statement).

Item no. 09
in the income statement

Interest expenses

Average liabilities towards the Confederation decreased sharply compared with the previous year. This decline, coupled with lower interest rates, greatly reduced the interest expenses for liabilities towards the Confederation.

The rise in interest expenses on liabilities from foreign-currency repo transactions is due to the increased use of these transactions to manage foreign currency investments.

	2001 Sfr millions	2000 Sfr millions	Change from previous year Sfr millions
Interest expenses for liabilities towards the Confederation	160.8	317.6	−156.8
Interest expenses for depositors' balances	6.3	6.4	−0.1
Interest expenses for liabilities from Swiss franc repo transactions	1.0	1.6	−0.6
Interest expenses for liabilities from foreign currency repo transactions	35.6	11.3	+24.3
Total interest expenses	203.7	336.9	−133.2

Item no. 10
in the income statement

Banknote expenses

The banknote expenses correspond to the cost of producing the banknotes which entered circulation in 2001.

Item no. 11
in the income statement

Personnel expenses

	2001 Sfr millions	2000 Sfr millions	Change from previous year percent
Wages, salaries and allowances	64.5	62.9	+2.5
Welfare benefits[1]	15.2	12.5	+21.6
Other personnel expenses[1]	4.2	4.1	+2.4
Total personnel expense	83.9	79.5	+5.5

1 Contributions to accident insurance are now included under welfare benefits rather than under other personnel expenses. The prior-year figures have been adjusted accordingly.

The increased cost of welfare benefits is mainly due to an increase in contributions to pension fund schemes to Sfr 10.4 million (2000: Sfr 7.7 million). As a consequence of the salary policy review performed in the previous year, individual salary rises at the beginning of 2001 were higher than a year earlier. This led to significantly higher extraordinary contributions to the pension funds. In addition, the premium discount was lower than in the previous year and insured salaries were increased further by a reduction in the coordination deduction (non-insurable part of salary).

The National Bank's pension plans comprise two staff pension fund schemes. Under the terms of the Swiss GAAP FER, these are defined-contribution schemes whose costs are borne by contributions made by the employees and the National Bank in accordance with pension plan regulations.

The remuneration (salaries plus lump-sum expenses) of members of the Bank Council and the Governing Board breaks down as follows:

	2001 Sfr millions	**2000** Sfr millions	**Change from previous year** percent
40 members of the Bank Council, 10 of whom are members of the Bank Committee	0.447	0.447	–
3 members of the Governing Board	1.652	1.630	+1.4

General overheads

Item no. 12 in the income statement

	2001 Sfr millions	**2000** Sfr millions	**Change from previous year** percent
Direct expenses for banking operations	36.6	41.5	−11.8
Premises	10.7	13.5	−20.7
Maintenance of mobile tangible assets and software	8.1	9.4	−13.8
Other general overheads	27.5	29.5	−6.8
Total general overheads	82.9	93.8	−11.6

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 primarily responsible for the decline in this position (see item no. 08 in the income statement).

Premises

This item comprises outlays on the maintenance and operation of the Bank's buildings and on rented premises. Owing to favourable contractual terms, rental expenses decreased by Sfr 2.8 million.

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 6.1 million (2000: Sfr 5.3 million) to the operating costs of the Study Center Gerzensee.

Item no. 13 in the income statement

Extraordinary expenses

This item includes expenses of Sfr 3.8 million for the National Bank's Expo.02 project and a Sfr 3.0 million allocation to provisions for operating risks (see item no. 34 in the balance sheet and the income statement).

Item no. 14 in the balance sheet

Gold

In 2001 the National Bank sold 220.8 tonnes of gold at an average price of Sfr 14,730.24 per kilogram. The proceeds totalled Sfr 3,252.8 million. In the previous year, 170.8 tonnes of gold had been sold at an average price of Sfr 15,167.02 per kilogram. The average prices and the proceeds do not include the net result from the hedging of the currency risk on the US dollar proceeds from gold sales.

The physical gold holdings are stored at various locations in Switzerland and abroad.

	2001		2000	
	tonnes	market value in Sfr millions	tonnes	market value in Sfr millions
Gold ingots	1 700.9	25 476.1	1 918.6	27 503.0
Gold coins	175.2	2 624.1	175.2	2 511.4
Total	1 876.1	28 100.1	2 093.8	30 014.4

Item no. 15 in the balance sheet

Claims from gold transactions

Transactions are effected with first-class Swiss and foreign financial institutions.

	2001		2000	
	tonnes	market value in Sfr millions	tonnes	market value in Sfr millions
Claims from gold lending transactions	322.2	4 879.3	323.8	4 685.4
Claims from unsecured gold lending	237.4	3 587.2	238.8	3 448.8
Claims from secured gold lending[1]	84.8	1 292.0	85.0	1 236.6
Claims on metals accounts	0.2	3.0	1.8	25.1
Total	322.4	4 882.2	325.6	4 710.5

1 secured by the deposit of first-class securities with a market value of Sfr 1,300.2 million

Item no. 16 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, the US Federal Reserve and other central banks, as well as to holdings of World Bank securities. Bank investments are effected with institutions enjoying very high credit ratings.

Foreign currency investments by borrower and currency[1]

	2001			2000		
	millions		weighting	millions		weighting
	original currency	Sfr	percent	original currency	Sfr	percent
Government paper		**36 825.3**	**72.8**		**35 435.5**	**70.2**
USD	8 114.3	13 617.5	26.9	6 840.9	11 186.9	22.2
EUR[2]	11 565.4	17 131.8	33.9	11 275.3	17 189.2	34.1
JPY	54 276.5	693.3	1.4	119 491.3	1 701.8	3.4
GBP	1 120.9	2 724.1	5.4	1 059.7	2 592.5	5.1
DKK	8 624.6	1 717.1	3.4	8 677.5	1 771.9	3.5
CAD	896.0	941.4	1.9	911.2	993.2	2.0
Monetary institutions		**1 085.8**	**2.1**		**2 890.7**	**5.7**
USD	331.0	555.5	1.1	1 286.8	2 104.3	4.2
EUR[2]	144.4	213.9	0.4	260.6	397.3	0.8
JPY	4 737.5	60.5	0.1	193.9	2.8	0.0
GBP	85.4	207.6	0.4	128.0	313.1	0.6
DKK	188.2	37.5	0.1	343.7	70.2	0.1
CAD	9.9	10.4	0.0	2.3	2.5	0.0
Others		0.5	0.0		0.5	0.0
Banks		**12 669.7**	**25.0**		**12 126.6**	**24.0**
USD	3 922.7[3]	6 583.1	13.0	4 424.7	7 235.7	14.3
EUR[2]	3 943.1[4]	5 841.0	11.5	3 060.1	4 665.1	9.2
JPY	2 160.0	27.6	0.1	605.3	8.6	0.0
GBP	10.7[5]	26.0	0.1	14.0	34.2	0.1
DKK	698.9	139.2	0.3	894.0	182.6	0.4
CAD	50.3	52.8	0.1	0.2	0.2	0.0
Others		0.1	0.0		0.1	0.0
Total		**50 580.8**[6]	**100.0**		**50 452.8**[6]	**100.0**
USD	12 368.0	20 756.1	41.0	12 552.4	20 526.9	40.7
EUR[2]	15 652.9	23 186.6	45.8	14 596.1	22 251.8	44.1
JPY	61 174.0	781.4	1.5	120 290.4	1 713.2	3.4
GBP	1 217.0	2 957.7	5.8	1 201.7	2 939.8	5.8
DKK	9 511.7	1 893.8	3.7	9 915.2	2 024.7	4.0
CAD	956.2	1 004.6	2.0	913.7	996.0	2.0
Others		0.6	0.0		0.5	0.0

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, 67.2% is accounted for by organisations with an indirect state guarantee.

4 Of this, 9.9% is accounted for by organisations with an indirect state guarantee.

5 Of this, 44.5% is accounted for by organisations with an indirect state guarantee.

6 Of this, non-negotiable investments account for Sfr 6,921.6 million (2000: Sfr 10,742.4 million).

Item no. 17
in the balance sheet

Other foreign currency balances

		2001 millions original currency	2001 millions Sfr	2000 millions original currency	2000 millions Sfr
Reserve position in the IMF	XDR	1 262.6	2 665.7	969.9	2 078.8
Swiss quota in the IMF	XDR	3 458.5	7 301.8	3 458.5	7 412.5
less IMF's Swiss franc sight balances at the National Bank[1]	XDR	-2 195.9	-4 636.1	-2 488.6	-5 333.7
International payment instruments[2]	XDR	225.6	476.3	125.3	268.5
Balance of payments support			347.2		352.4
bilateral loan to Bulgaria	EUR	14.3	21.3	14.3	21.8
PRGF credit facility[3]	XDR	154.3	325.9	154.2	330.6

1 Balance after deduction of accrued interest amounting to XDR 3.9 million (Sfr 8.3 million) on the reserve position.
2 In addition, undertakings of XDR 175.0 million were outstanding at end-2001 (2000: XDR 275.3 million).
3 In addition, undertakings of XDR 0.0 million were outstanding at end-2001 (2000: XDR 0.2 million).

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.

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.

Balance of payments support

The bilateral loans are medium-term loans used for internationally coordinated balance of payments assistance in which Switzerland participates by providing a tranche. At the end of 2001, only one loan (a euro-denominated credit to Bulgaria) was outstanding.

The PRGF (Poverty Reduction and Growth Facility) is a trust fund administered by the IMF which finances long-term low-interest loans to low-income developing countries.

The Confederation guarantees the interest and principal repayments both on the bilateral loans and on Switzerland's participation in the PRGF credit account.

Swiss franc repo transactions

Item no. 18 in the balance sheet

Repo transactions, the principal instrument of monetary policy, are used to provide the banking system with liquidity or to withdraw liquidity from the system against the repurchase of securities.

Claims from Swiss franc repo transactions are backed by securities from 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), from the German GC Basket (euro-denominated German government paper, plus certain World Bank issues) or from the German Jumbo Pfandbrief Basket (euro-denominated German jumbo mortgage bonds).

At the end of the year, there were no outstanding claims from Swiss franc repo transactions. On 12 and 13 September, liquidity-absorbing repos were used to reduce the level of sight deposits, which had been increased in order to restore calm to the money market following the terrorist attacks on the United States on 11 September. The item "Claims from repo transactions" also comprises cash margins against the deposit of claims arising from repo transactions.

Lombard advances

Item no. 19 in the balance sheet

Lombard loans are used by the banks to bridge unforeseeable liquidity shortfalls in the short term. At the end of 2001, a total of 150 credit lines were outstanding, 11 fewer than at the end of 2000.

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

	2001 Sfr millions	2000 Sfr millions	Change from previous year Sfr millions
Credit lines outstanding at year-end	9 230.9	9 153.8	+77.1
Value of collateral at year-end[1]	9 675.2	9 910.6	−235.4
Yearly average of drawn advances[2]	20.8	42.9	−22.1
Maximum drawdown[2]	975.0	1 202.0	−227.0

1 Market prices less 10%–35%
2 Average of values on working days
3 Daily peak

Claims against domestic correspondents

Item no. 20 in the balance sheet

A total of 62 banks with 559 branches (2000: 66 banks with 647 branches) perform local cash redistribution transactions for the National Bank and cover the cash requirements of federal institutions (Swiss Post, Swiss Federal Railways). The claims attract interest at the Lombard rate less 200 basis points.

Item no. 21 in the balance sheet

Swiss franc securities

These are exchange-listed bonds.

	2001 Sfr millions	2001 percent weighting	2000 Sfr millions	2000 percent weighting	Change from previous year Sfr millions
Domestic borrowers	**4 050.1**	**67.5**	**4 420.0**	**81.7**	**−369.9**
Confederation	1 259.4	21.0	1 169.8	21.6	+89.6
Cantons	570.3	9.5	925.8	17.1	−355.5
Communes	351.6	5.9	400.6	7.4	−49.0
Mortgage bond institutions	1 109.4	18.5	1 059.4	19.6	+50.0
Banks	759.4	12.7	864.5	16.0	−105.1
Foreign borrowers	**1 397.3**	**23.3**	**659.2**	**12.2**	**738.1**
Governments	624.8	10.4	245.1	4.5	+379.7
Banks	772.5	12.9	414.1	7.7	+358.4
International organisations	**552.6**	**9.2**	**330.6**	**6.1**	**+222.0**
Total market value	**6 000.0**	**100.0**	**5 409.8**	**100.0**	**+590.2**
Total nominal value	5 724.6		5 134.6		

Item no. 22 in the balance sheet

Participations (not consolidated) in Sfr millions

	Value as of 31/12/2000	Investments	Divestments	Changes in the market value	Value as of 31/12/2001
Orell Füssli	27.0	–	–	–	27.0
BIS	61.0	–	−0.0	–	60.9
Others	1.5	–	–	−0.1	1.4
Total	89.5	–	−0.0	−0.1	89.3

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. The nominal value of this company’s registered share was reduced once again by Sfr 20. The sum of Sfr 1.3 million, which accrued to the National Bank from this transaction, was credited to income from participations.

The 3.1% interest in the BIS is held for reasons of collaboration on monetary policy. In 2001, the BIS decided to make the central banks its sole shareholders by repurchasing the (non-voting) shares held by private investors. The National Bank held 21 of these shares. The sale produced a capital gain of Sfr 0.3 million.

Other participations include stakes held in Telekurs Holding Ltd, Zurich, in Sihl (a paper mill), Zurich, in SWIFT Society for Worldwide Interbank Financial Telecommunications S.G., La Hulpe (Belgium), and in Kreuz Gerzensee AG, the successor to two companies which had been established in connection with the foundation of the Study Center Gerzensee.

Tangible assets

Item no. 23 in the balance sheet and income statement

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 1000 are charged directly to general overheads.

At Sfr 15.2 million (2000: Sfr 15.5 million), the "Sundry tangible assets" item accounted for the greater part of the depreciation figure. A further Sfr 6.0 million (2000: Sfr 3.9 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 values as of beginning of 2001	161.2	309.7	19.2	20.8	93.8	604.7
Additions	+24.6	+1.6	+8.9	+4.0	+13.5	+52.6
Disposals	−33.7	–	–	–	−19.8	−53.5
Reclassified		+13.0	+6.2	−20.3	+1.1	
Gross value as of end of 2001	152.1	324.3	34.3	4.5	88.6	603.8
Cumulative depreciation[3]						
Valuation adjustments as of beginning of 2001		9.1	1.2		57.1	67.4
Additions		+3.2	+2.8		+15.2	+21.2
Disposals		–	–		−19.7	−19.7
Reclassified		–	–		–	
Valuation adjustments as of end of 2001		12.3	4.0		52.6	68.9
Net book values						
Net book value as of beginning of 2001	161.2	300.6	18.0	20.8	36.7	537.3
Net book value as of end of 2001	152.1	312.0	30.3	4.5	36.0	534.8

1 The insured value of the real estate at end-2001 was Sfr 337.8 million (end-2000: Sfr 336.1 million).

2 The insured value of sundry tangible assets at end-2001 was Sfr 68.1 million (end-2000: Sfr 61.0 million).

3 The depreciation on real estate and the specific conversion work is cumulative as of 1996 (when the accounting and valuation principles were amended) and that on other tangible assets as of the date on which their use commenced.

Real estate

The increased gross values for real estate and the changes featured under "Reclassification" are due mainly to conversion work at the Zurich office.

Sundry tangible assets

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

Item no. 24 in the balance sheet

Sundry assets

	2001 in Sfr millions	2000 in Sfr millions	Change from previous year in Sfr millions
Coins (including medallions)[1]	351.6	373.1	−21.5
Foreign notes	0.1	0.1	–
Postal giro accounts	0.0	0.0	–
Other accounts receivable	14.0	28.9	−14.9
Prepayments and accrued income	2.4	4.2	−1.8
Cheques and bills of exchange (collection business)	2.7	1.5	+1.2
Positive gross replacement values[2]	86.1	292.9	−206.8
Total	456.8	700.7	−243.9

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

2 Positive gross replacement values correspond to unrealised gains on derivative financial instruments and outstanding spot transactions. By far the greater part of this item is derived from foreign currency forward transactions concluded to hedge currency risks (cf. p. 106).

Item no. 25 in the balance sheet

Banknotes in circulation

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, notes to the value of Sfr 2.8 billion were still outstanding at the end of the year.

Item no. 26 in the balance sheet

Sight deposit accounts of domestic banks

The 298 sight deposit accounts (2000: 290) of the 277 banks (2000: 267) 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.

Item no. 27 in the balance sheet

Liabilities towards the Confederation

The sight deposits of the Confederation facilitate the domestic and international payments transactions of the Federal Government and its agencies. They bear interest at the Lombard rate less 200 basis points, up to a maximum of Sfr 600 million.

Interest at the market rate is paid on the time deposits of the Confederation and Swiss Post. At year-end, liabilities towards the Federal Government came to Sfr 2,251.9 million (2000: Sfr 8,168.1 million). No new investments have been placed by Swiss Post since November 2000, and the existing ones matured at the end of 2001 (liabilities at end-2000: Sfr 1,719.9 million).

Sight deposits of foreign banks and institutions

Item no. 28 in the balance sheet

The 218 (2000: 210) deposits are denominated in Swiss francs and do not bear interest. They are held primarily by foreign central or commercial banks.

Other sight liabilities

Item no. 29 in the balance sheet

These comprise accounts of active and retired employees, liabilities towards pension funds amounting to Sfr 19.6 million (2000: Sfr 16.2 million) and liabilities towards a few non-banks.

Foreign currency liabilities

Item no. 30 in the balance sheet

This item consists of liabilities from repo transactions in connection with the management of foreign currency investments (Sfr 1,469.1 million, compared with Sfr 439.5 million in 2000) plus sight liabilities towards the Confederation denominated in foreign currencies.

Sundry liabilities

Item no. 31 in the balance sheet

	2001 in Sfr millions	2000 in Sfr millions	Change from previous year in Sfr millions
Other liabilities	12.1	23.7	−11.6
Accrued liabilities and deferred income	3.1	3.9	−0.8
Negative gross replacement values[1]	308.1	100.0	+208.1
Total	323.4	127.6	+195.8

1 Negative gross replacement values correspond to unrealised losses on derivative financial instruments and outstanding spot transactions. By far the greater part of this item is derived from foreign currency forward transactions concluded to hedge currency risks (cf. p. 106).

Provision for the assignment of free assets

Item no. 32 in the balance sheet and income statement

	2001 Sfr millions	2000 Sfr millions
Position on 1 January	18 860.4	–
Allocated to provisions	+357.2	+18 860.4
of which transfer of a sum corresponding to 1,300 t of gold from the special provision for market and liquidity risks on gold[1]	–	+19 877.7
of which gain/loss from valuation of gold from free assets	+674.2	−1 100.1
of which gain/loss from hedging transactions for gold from free assets	−317.0	+82.8
Position on 31 December	19 217.6	18 860.4

1 at the market value as of 1 May 2000

This provision reflects the fact that 1300 tonnes of gold are no longer required for monetary purposes and that the National Bank will release an equivalent sum for other public uses within the foreseeable future.

The size of the provision is commensurate with the market value of the as yet unsold portion of the 1300 tonnes of gold, the proceeds from gold sales to date and the net result from transactions to hedge the currency risk on the US dollar proceeds from gold sales.

		2001
	tonnes	Sfr millions
Market value of the as yet unsold portion of gold from the free assets	908.4	13 609.0
Cumulative proceeds from gold sales	391.6	5 842.8
Cumulative net result from hedging transactions		−234.2
Provision for the assignment of free assets		19 217.6

Item no. 33 in the balance sheet and income statement

Provision for market and liquidity risks on gold

	2001	2000
	Sfr millions	Sfr millions
Position on 1 January	6 589.9	–
Allocated to provisions	+829.7	+6 589.9
of which extraordinary revaluation gain on monetary and non-monetary gold[1]	–	+27 700.5
of which transfer of a sum corresponding to 1,300 t of gold to the provision for the assignment of free assets	–	−19 877.7
of which valuation gain/loss on gold holdings in the currency reserves	+829.7	−1 232.9
Position on 31 December	7 419.5	6 589.9

1 at the market value as of 1 May 2000

This provision takes account of the market and liquidity risks associated with monetary gold, i. e. the approximately 1290 tonnes of gold required for the purposes of monetary policy. Fluctuations in the market value of the monetary gold are allocated to this provision item.

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

Item no. 34 in the balance sheet and income statement

	2001 Sfr millions	2000 Sfr millions
Provisions for operating risks		
Position on 1 January	467.1	470.8
Change	−1.1	−3.8
Allocated to provisions	+3.0	–
Used	−4.1	−3.8
Position on 31 December	465.9	467.1
Provision for market, credit and liquidity risks		
Position on 1 January	38 893.4	37 678.5
Allocated to provisions	+1 359.5	+1 214.9
Position on 31 December	40 252.9	38 893.4
Total (position on 31 December)	**40 718.8**	**39 360.5**

The implementation of the new cash distribution concept increased the need for provisions for operating risks. Funds are allocated to these provisions by way of extraordinary expenses. The provisions were used for payments to staff taking early retirement as a result of the new cash distribution concept and for the auditing costs of the Swiss 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 on Swiss franc securities are also significant. Credit risks are primarily settlement risks attached to foreign exchange transactions. Provisions were increased by Sfr 1,359.5 million, thus exceeding the minimum figure stipulated in the profit calculation concept (see pages 103 f.).

Item no. 35
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 4,642 shares to new holders. As of 31 December 2001, applications for registration were pending or outstanding for 18,895 shares.

The shares were distributed as follows:

Private shareholders	**Number of shares**
2 657 shareholders with a total of	25 819
of whom 1029 shareholders each with	1
of whom 1272 shareholders each with	2–10
of whom 332 shareholders each with	11–100
of whom 14 shareholders each with	101–200
of whom 10 shareholders each with	over 200
Public-sector shareholders	
87 shareholders with a total of	55 286
of whom 26 cantons with a total of	38 981
of whom 24 cantonal banks with a total of	14 355
of whom 37 other public authorities and institutions with a total of	1 950
Total 2 744 shareholders with a total of	**81 105**
Registration applications pending or outstanding for	18 895
Total shares	**100 000**

Of the shares registered as of the balance sheet date (81% of the total), 68% were held by cantons, cantonal banks and other public authorities and institutions, and 32% were registered in the names of private shareholders. Of the latter, 77% were held by private individuals and 23% by legal entities. A total of 1,387 shares (without voting rights) were in foreign ownership; this is equivalent to 1.4% of the share capital.

The price of the National Bank share – which, owing to its legally stipulated maximum dividend of 6%, has generally developed along similar lines to a long-term Confederation bond with a 6% coupon – trended upwards during the year. The price rose from approximately Sfr 750 at the beginning of 2001 to around Sfr 1,100 at the end, having peaked at Sfr 1,150. These price changes were due to the general downturn in interest rates and to various bouts of speculation which arose as the draft of the new National Bank Law passed through the consultation phase.

The number of transactions fell by 53% from the previous year while the number of pending or outstanding applications for registration rose by 75%. Year-on-year, the number of private shareholders decreased sharply by 283.

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	
	2001	Change from previous year	2001	Change from previous year
Canton of Berne	6 630	–	6.63%	–
Canton of Zurich	5 200	–	5.20%	–

Reserve fund

Item no. 36 in the balance sheet

The reserve fund was increased by Sfr 1.0 million (the legally permitted maximum) to Sfr 66.0 million by an allocation from the 2000 annual profit.

Annual profit – calculation and distribution

Item no. 37 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 (GNP). The targeted percentage rise is based on the average increase in nominal GNP over the past five years. This avoids the need for subsequent corrections and prevents large fluctuations from year to year.

The residual surplus as specified in Art. 27 para. 3 (b) of the National Bank Law is calculated after the other statutory profit distributions have been established (Art. 27 paras. 1–2 and para. 3 (a) NBL). Such a surplus exists if actual provisions exceed the target figure. The agreement with the Department of Finance stated that, in order to achieve a steady flow of payments in the medium term, 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 were paid out of the earnings surpluses for the financial years in question and from the residual surplus from actual provisions remaining at the end of 1997.

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

	Growth in nominal GNP	**Provisions for market, credit and liquidity risks, and for operating risks 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)
1998	1.8 (1992–1996)	25 645.4	36 700.4	11 055.0	1 500.0
1999	1.9 (1993–1997)	26 132.7	39 649.3	13 516.6	1 500.0
2000	2.0 (1994–1998)	26 655.4	40 860.5	14 205.1	1 500.0
2001	2.6 (1995–1999)	27 337.8	42 218.8	14 881.0	1 500.0
2002	3.3 (1996–2000)	28 239.9			

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 items "Provisions for market, credit and liquidity risks" and " Provisions for operating risks" correspond 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

	2001 Sfr millions	2000 Sfr millions	Change from previous year Sfr millions
Outstanding undertakings			
Two-way arrangement (IMF)[1]	369.5	590.0	−220.5
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)[2]	3 287.2	3 337.1	−49.9[3]
Poverty Reduction and Growth Facility (PRGF)[4]	0.0	0.4	−0.4
Interim PRGF[5]	527.8	–	+527.8

	2001 Sfr millions	2000 Sfr millions	Change from previous year Sfr millions
Other off-balance-sheet items			
Additional funding obligation for registered shares of BIS[6]	130.5	125.0	+5.5
Documentary credits[7]	5.6	8.9	−3.3
Other payment obligations[8]	29.1	11.9	+17.2
Fiduciary investments of the Confederation	509.1	648.5	−139.4

	2001 market value in Sfr millions	2000 market value in Sfr millions	Change from previous year Sfr millions
Assets pledged or assigned as security for own liabilities			
Foreign currency investments			
USD	1 100.9	461.4	+639.5
EUR	481.2	92.1	+389.1
JPY	1.3	15.6	−14.3
GBP	28.1	28.7	−0.6
Swiss franc securities	9.0	9.1	−0.1
Total[9]	1 620.6	606.9	+1 013.7

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 17 in the balance sheet)

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

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 17 in the balance sheet and p. 66)

5 Limited-term credit undertaking to the IMF's trust fund amounting to XDR 250.0 million (cf. p. 66)

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 increase is due exclusively to the rise 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 Security lodged in connection with repo and futures transactions

	Contract value Sfr millions	Gross replacement value Sfr millions positive	 negative
Outstanding derivative financial instruments			
Interest rate instruments			
Forward contracts[1]	6 541.2	0.7	4.2
Interest rate swaps	1 315.1	18.0	8.8
Futures	1 670.3	0.0	0.1
Foreign currency			
Forward contracts[1]	10 994.5	63.8	294.2
Precious metals			
Forward contracts[2]	371.3	0.0	0.1
Options (OTC)[3]	1 717.1	3.6	0.7
Total, end-2001	**22 609.5**	**86.1**	**308.1**
Total, end-2000	17 979.9	292.9	100.0

1 Including spot transactions with value date in the new year

2 From spot sales and gold lending transactions with value date in the new year

3 From options written in connection with gold sales programmes and entailing a cap (contractually agreed spot sales with price ceiling)

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

At its meeting of 8 March 2002, the Bank Council accepted the proposal of the Bank Committee to approve the 94th Annual Report for the year 2001, as presented by the Governing Board, for submission to the Federal Council and the Annual General Meeting of Shareholders.

On 15 March 2002, the Federal Council approved the Annual Report and the annual financial statements pursuant to Art. 63 para. 2 (i) of the National Bank Law. The Auditing Committee produced its report pursuant to Art. 51 para. 2 of the National Bank Law on 5 February 2002.

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 annual profit 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.––
	Fr.	1 507 998 949.60

1 For the proposal regarding appointments to the Bank Council and the reappointment of the Auditing Committee, see p. 75 and p. 76 respectively.

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

Dear Mr Chairman
Ladies and Gentlemen

As the Auditing Committee, we have audited the books of account and annual financial statements (balance sheet, income statement and notes) of the Swiss National Bank for the year ended 31 December 2001. 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 PricewaterhouseCoopers 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 GAAP FER. We should, however, point out the particular features (explained in the notes to the accounts) of the accounting methods used by the Swiss National Bank as Switzerland's central bank and note-issuing institution.

We further confirm that the books of account and the annual financial statements as well as the proposals for the appropriation of the annual profit 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 2002

The Auditing Committee:

Hans Michel
Chairman

Maryann Rohner
Vice-Chairwoman
Certified auditor

Kaspar Hofmann
Chief auditor
Certified auditor

Chronicle and press releases

1 Chronicle

On 16 March, the Federal Department of Finance initiates the consultation procedure on the total revision of the National Bank Law (cf. page 47). **March**

On 22 March, the National Bank lowers the target range for the three-month Libor rate by 0.25 percentage points to 2.75%–3.75% (cf. page 42).

On 17 September, the National Bank lowers the target range for the three-month Libor rate by 0.5 percentage points to 2.25%–3.25% (cf. page 42). **September**

On 24 September, the National Bank lowers the target range for the three-month Libor rate by 0.5 percentage points to 1.75%–2.75% (cf. page 44).

On 7 December, the National Bank lowers the target range for the three-month Libor rate by 0.5 percentage points to 1.25%–2.25% (cf. page 44). **December**

2 Press releases of the National Bank on monetary policy

22 March

Slightly relaxed monetary policy course – target range for the three-month Libor rate lowered by 0.25% to 2.75%–3.75%

The National Bank has decided to lower the target range for the three-month Libor rate by 0.25% to 2.75%–3.75%. Compared with the end of last year, the pressure on prices has eased slightly. Moreover, currently there is no indication that price stability might be threatened in the medium term, thus permitting a slight lowering of the interest rate. Economic development in Switzerland has slowed down somewhat; nevertheless, the outlook remains favourable. The risks in the international environment have increased, however. The National Bank intends to keep the three-month Libor rate in the middle of the target range for the time being. Monetary policy was last adjusted on 15 June 2000, when the target range was raised by half a percentage point to the present level.

In the first quarter of 2000, the development of economic activity passed its peak in Switzerland. Between the first and the fourth quarter 2000 the growth of real gross domestic product declined from 3.9% to 2.5% year-on-year. It also became evident, however, that economic growth stabilised in the second half of the year. Compared with the previous period, it amounted to just under 2% in the third and fourth quarters, in line with the trend in growth in the Swiss economy. While capital spending continued to increase vigorously and exports exhibited further remarkable growth, private consumption and construction investment lost some of their momentum.

Annual inflation measured by the national consumer price index dropped to 1.3% in January and to 0.8% in February after having averaged 1.6% in the fourth quarter of 2000. This decline was due to the fall in oil prices and to the clearance sale prices for clothing, which were included for the first time. Domestic inflation, notably price increases in the private service sector, however, rose slightly in the past few months.

Cyclical risks have risen since the end of 2000. Even though the export industry has so far benefited from the robust state of the European economy, the unexpectedly rapid and marked cooling of the US economy and the slowdown in Asia will put a brake on the growth of Swiss exports. Domestic demand is, however, likely to remain a pillar of economic activity. Optimistic consumer sentiment, recent wage increases and the gratifying situation on the labour market should have a favourable effect on private consumption and contribute to the stability of economic development. Moreover, positive stimuli are likely to continue emanating from investment activity. Nevertheless, the National Bank expects the Swiss economy to grow somewhat more slowly in 2001 than had still been forecast in December 2000.

At the time, the National Bank had pointed out that inflation is liable to exceed, in the course of 2001, the 2% level which the National Bank equates with price stability. The main reasons for this assumption were the increase in the oil price and the marked economic upswing. The new evaluation of the monetary policy situation at the end of the first quarter 2001 leads to a modified assessment of inflation prospects. In particular two aspects are of decisive importance:

First, oil prices have declined much more rapidly than expected. As recently as December, the National Bank still had to assume that the oil price would only decline gradually and not return to a level of $ 25 per barrel before 2002. In the event, the decrease has taken place within a very short space of time. Second, as already stated above, the slowdown of the US economy has been more pronounced than seemed likely only last December. These factors have led the National Bank to assume that there is less danger of the inflation rate exceeding a level of 2% in the current year. The long-term price development, however, will not be affected. The expected economic trend and the development of the money stock M_3 indicate no increased inflationary threat in the next three years. After a brief uptick, inflation is likely to diminish again gradually to approximately 1.5% by the end of 2003.

The National Bank considers a slight relaxation of its monetary policy course to be appropriate given the reduced risks for price stability and the increased economic uncertainty.

14 June

Unchanged monetary policy course – target range for the three-month Libor rate to be kept at 2.75%–3.75%

The National Bank has decided to continue its current monetary policy. It is leaving the target range for the three-month Libor rate unchanged at 2.75% to 3.75%. For the time being, the three-month Libor rate is to be kept in the middle of the target range. Monetary policy was last adjusted on 22 March 2001, when the target range was lowered by 0.25 percentage points. Since then, economic prospects in Switzerland have not changed. The National Bank thus sees no reason at the time for a further relaxation of its monetary policy. The cyclical prospects of the Swiss economy remain favourable, and the inflation rate in the next three years should be in a range that the National Bank equates with price stability.

Real economic growth stabilised at the beginning of this year. In the coming months, the Swiss economy should continue to develop close to its potential growth level. The National Bank is expecting GDP to grow by 2.0% in 2001 and by 2.1% in 2002.

The latest inflation forecast is based on the assumption that inflation will remain below the 2% level in the next three years. On average, the National Bank expects a slight rise in inflation of 1.4% in 2001 to 1.6% in 2002. The average inflation rate for the year 2003 will presumably amount to 1.3%. The anticipated temporary rise in inflation is due to two factors. For one thing, the tight real estate market in the large urban areas and surroundings is likely to lead to higher rents even though the mortgage rates have declined somewhat. For another, the price decline in the field of telecommunications will slow down considerably.

17 September

Easing of monetary policy – target range for the three-month Libor lowered by 0.5 percentage points to 2.25%–3.25%

The Swiss National Bank has decided to lower the target range for the three-month Libor rate by 0.5 percentage points to 2.25%–3.25%. For the time being, the three-month Libor is to be kept in the middle of the target range. In order to counter any insecurity in the financial markets the National Bank carried out its assessment today, ahead of the planned date of 20 September 2001. The target range was last adjusted on 22 March 2001, when the National Bank lowered it by 0.25 percentage points.

Since the last policy assessment in June, price pressures in Switzerland have diminished. There is no indication that price stability might be jeopardised in the medium term. This outlook has permitted the National Bank to further loosen the monetary reins. Economic development in Switzerland has continued to slow down but still remains favourable in an international comparison. The risks in the international environment, however, have increased markedly causing growing uncertainty as to the further development in Switzerland.

The Swiss economy expanded by 2.0% year-on-year in the second quarter of 2001. Growth dynamism continued to wane. Annualised growth was down to 1.7% from the previous quarter, compared with 2.0% in the first quarter. Investment and exports are the main factors accounting for the slowdown, while consumption has continued to rise significantly. The pace of economic growth could slow further in the third and fourth quarters in the wake of stagnating exports. The domestic economy will presumably continue to be consumption-driven and lose less momentum than the export industry. The situation on the labour market is not likely to undergo any sustained changes, and the unemployment rate should rise only slightly. Overall, the economy is expected to recover again in the course of the next year.

The annual inflation rate as measured by the national consumer price index climbed from 1.0% in the first quarter of 2001 to 1.5% in the second quarter. Annual inflation dropped to 1.1% in August from the 1.4% recorded in July. This decline, however, is partly due to special factors, notably the strong influence of clearance sales prices for clothing. The overall price trend is thus likely to slightly exceed the inflation rate as measured by the national consumer price index. The private service sector and rents are currently undergoing some upward price trends. There is hardly any pressure on prices of domestic goods. The increased weight of fluctuating oil prices and the inclusion of clearance sales prices in the new national consumer price index tend to render inflation more volatile from one month to another.

The National Bank still considers the medium-term inflation prospects to be favourable. The slowdown of the global economy and of the Swiss economy has a dampening influence on price developments. Taking into account the effect of this latest interest rate cut, the National Bank adheres to its inflation forecast for the next three years which it had published in its assessment in June 2001. Inflation is likely to remain clearly below the 2% level, and thus within the limits of price stability, during the entire forecasting horizon. The National Bank expects the economy in the United States and in Europe to pick up in the first half of 2002. Moreover, it assumes that the dollar will hover around its current level against the euro and that the oil price will be about $25 per barrel.

The National Bank considers the new interest rate level to be appropriate to ensure price stability in the medium term and to allow balanced economic growth. However, the risks facing the development of the global economy are currently substantial. A recession in the United States or a sustained depreciation of the dollar could have a deflationary impact in Europe and Switzerland. In this case, the National Bank would have to review its monetary policy stance. However, the recent accelerated increase in the money stock M3 shows that a possible further easing of monetary policy should be approached cautiously so as not to threaten price stability in the medium term.

Swiss National Bank lowers interest target range – Concern over euro/Swiss franc exchange rate

24 September

The Swiss National Bank will lower the target range for the three-month Libor with immediate effect by 0.5 percentage points to 1.75%–2.75%. This step has been taken in reaction to the marked and rapid appreciation of the Swiss franc vis-à-vis the euro witnessed in the past few days. The rise of the Swiss franc rate against the euro at a time of declining economic growth fills the National Bank with great concern. Should the Swiss franc rate remain at the present level, this would lead to an undesirably restrictive monetary policy.

The appreciation of the Swiss franc reflects the increased political uncertainties. At the present time it cannot be predicted how long these will last. The National Bank will follow further developments on the foreign exchange market very carefully. It will make use of its room for manoeuvre in monetary policy if necessary.

Further easing of monetary policy – target range for the three-month Libor lowered by 0.5 percentage points to 1.25%–2.25%

7 December

The Swiss National Bank has decided to lower the target range for the three-month Libor rate by 0.5 percentage points to 1.25%–2.25%. For the time being, the three-month Libor is to be kept in the middle of the target range. Recently, the National Bank has adjusted its monetary policy twice already. On 17 and 24 September 2001, it lowered the target range for the three-month Libor rate by 0.5 percentage points each. At the time, the National Bank acted in response to the decrease in inflationary pressures and the undesirable development of the Swiss franc exchange rate. The economic outlook has since continued to deteriorate around the globe. In Switzerland, there are no signs that price stability might be jeopardised in the medium term. This development makes it possible to reduce rates again. Accordingly, since the beginning of 2001, the National Bank has lowered the target band for the three-month Libor by a total of 1.75 percentage points, thus easing monetary policy considerably. Assuming that the three-month Libor rate will remain stable at 1.75%, inflation is expected to hover between 0.9% and 1.5% in the next three years. The National Bank projects real gross domestic product to increase by 1.5% in 2001. For 2002 it anticipates a growth rate of around 1%.

1 Supervisory and executive bodies
(as of 1 January 2002)

Bank Council
(Term of office 1999–2003)

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

Eduard Belser, Lausen, President
Philippe Pidoux, Lausanne, Attorney-at-law, Vice President
Kurt Amsler, Neuhausen am Rheinfall, President of the Verband Schweizerischer Kantonalbanken (association of Swiss cantonal banks)
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
* Peter Everts, Zollikofen
* 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 the extended Executive Board of 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, Attorney-at-law
Rudolf Hauser, Zurich, Chairman of the Board of Directors 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
Andreas W. Keller, Erlenbach, Chairman of the Board of Diethelm Keller Holding Ltd
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
* 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, Chairman of the Swiss contractors' association
	Hansueli Raggenbass, Kesswil, National Councillor, Attorney-at-law
	Rolf Ritschard, Luterbach, Member of the cantonal government and Head of the department of the interior of the canton of Solothurn
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	* Alexandre Swoboda, Geneva, Professor at the Graduate Institute of International Studies
	Alberto Togni, Küsnacht, Vice President of the Board of UBS Ltd
	Hansjörg Walter-Heim, Wängi, National Councillor, President of the Swiss farmers' association
	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

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(Term of office 1999–2003)	Philippe Pidoux
	Serge Gaillard
	Trix Heberlein
	Hansheiri Inderkum
	Yvette Jaggi
	Andres F. Leuenberger
	Jean-Philippe Maitre
	Franz Marty
	Ulrich Zimmerli

Local Committees

(Term of office 1999–2003)

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Bruno Sidler, Basel, President of the Executive Board, CEO of Panalpina Management Ltd

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Reto Hartmann, Hünibach, CEO of Valora Holding Ltd, Deputy Chairman

Edgar Geiser, Brügg/BE, Senior Vice-President and Chief Financial Officer, Member of the Executive Board of Swatch Group Ltd

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, Head of sales area 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 Vaudoise Insurance Holding, Chairman

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

Bernard Rüeger, Féchy, General Manager of Rüeger SA

Lugano

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

Olimpio Pini, Sorengo, Director of Pini & Associati, Ingegneri Consulenti SA

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

Ruth Pedrazzetti-Weibel, Lucerne, Manager, Hotel Continental-Park

St Gallen

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

Charles Peter, Uzwil, CEO, President and Managing Director of Benninger Co. Ltd, Deputy Chairman

Urs Kienberger, Sils-Maria, Director of Hotel Waldhaus

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

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(Term of office 2001/2002)

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Kaspar Hofmann, Adliswil, Certified Auditor, Hofmann-Wirtschaftsprüfung AG

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	Erwin Sigrist, Director
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	Wolfgang Meyer, Assistant Director
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Banking Operations	Daniel Wettstein, Director
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Foreign Payments	Markus Steiner, Assistant Director
Cashier's Office Zurich	Peter Eltschinger, Assistant Director
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Management Support	Raymond Bloch, Assistant Director
Banking Applications	Roland Wettstein, Assistant Director
Statistics Applications	Jürg Ziegler, Deputy Director
Office Automation and Operations Applications	Peter Bornhauser, Assistant Director
Technical Services	Jules Troxler, Assistant Director
IT Operations Zurich	Peter Künzli, Assistant Director
IT Operations Berne	Bruno Beyeler, Assistant Director

Branch Offices

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Geneva[1]	Yves Lieber, Director
Lausanne	François Ganière, Director
Lugano[1]	Mauro Picchi, Director
Lucerne	Max Galliker, Director
St Gallen	Jean-Pierre Jetzer, Director

1 with cash distribution services

Agencies

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

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

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

International Affairs Division
- International Monetary Relations

Economic Division
- Research
- Economic Analysis
- Statistics
- Library

Legal and Administrative Division
- Legal Service
- Pension Fund
- Premises, Technical Services

Human Resources

Basel Branch Office

Lucerne Branch Office

St Gallen Branch Office

Department II Berne

Management Support/ Regional Economic Relations

Banking and Administrative Division
- Central Accounting
- Securities and Gold Operations
- Payment Transactions/ Settlements/Custody
- Support
- Cashier's Office
- Premises, Technical Services

Geneva Branch Office[1]

1 with cash distribution services

Department III Zurich

System Stability

Security

Cash Division

- Administration
- Storage
- Processing
- Technical Services

Monetary Operations Division

- Money Market and Foreign Exchange
- Investment
- Risk Management

Banking Operations and Information Technology Division

- Banking Operations
- Information Technology
- Payment Systems

Lausanne Branch Office

Lugano Branch Office[1]

3 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. +41 31 327 02 11, Fax +41 31 327 02 21 Free of charge
Statistical yearbook of the Swiss banks	The statistical yearbook of the Swiss banks provides commented source material on the structure and 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. +41 1 928 55 25, Fax +41 848 80 55 20 Price: Sfr 20.00[1]
Swiss Balance of Payments	The Swiss Balance of Payments provides comments on the development of trade and capital flows between Switzerland and other countries and 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, Fraumünsterstrasse 8, P.O. Box, 8022 Zurich, Tel. +41 1 631 32 84, Fax +41 1 631 81 14 Free of charge
Quarterly Bulletin	The Quarterly Bulletin includes the monetary policy assessment, the report on the economic and monetary situation, economic studies and selected papers on monetary policy issues by staff members of the National Bank. The Quarterly Bulletin is published four times a year in German and French. In addition, an English version of the Quarterly Bulletin is published on the Internet.
	Obtainable from: Zürichsee Zeitschriftenverlag, Seestrasse 86, P.O. Box, 8712 Stäfa, Tel. +41 1 928 55 25, Fax +41 848 80 55 20 Subscription rate: 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. +41 1 928 55 25, Fax +41 848 80 55 20
Subscription rate: 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 contains detailed banking statistics (in German and French).

Obtainable from: Zürichsee Zeitschriftenverlag, Seestrasse 86, P.O. Box, 8712 Stäfa,
Tel. +41 1 928 55 25, Fax +41 848 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. +41 31 327 02 11, Fax +41 31 327 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, Fraumünsterstrasse 8, P.O. Box, 8022 Zurich,
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Free of charge

Information tools for schools and the interested public

The brochure **What is money really about?** describes the activity of the National Bank in simple terms. It is an ideal teaching aid for the intermediate and higher grades.
The brochure **The Swiss National Bank and that vital commodity: money** provides information on the National Bank and its tasks. It is suitable as a teaching aid for the higher grades and for vocational training and generally appeals to people interested in the National Bank.
The glossary **An "A to Z" of the Swiss National Bank** explains important terms from the world of the National Bank and money.
The section **www.snb.ch/The world of the National Bank** on the National Bank's website conveys the contents of the brochures in a form adapted to the Internet.
The short film **The National Bank and money** illustrates the characteristics of money.
The short film **The National Bank and its monetary policy** illustrates how the National Bank conducts monetary policy on a daily basis and explains some principles of monetary policy.
All information tools are available in German, French, Italian and English.

Obtainable from: Swiss National Bank, Library, Fraumünsterstrasse 8, P.O. Box, 8022 Zurich,
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The printed publications are available on the Internet: http://www.snb.ch

1 including 2.4% VAT

4 Addresses of the head offices and branches

Head Offices	**Zurich**	
	Börsenstrasse 15	Telephone +41 1 631 31 11
	P.O. Box 2800	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 François 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 Lucerne 7	
	St Gallen	
	Neugasse 43	Telephone +41 71 227 25 11
	P.O. Box 529	Telefax +41 71 227 25 19
	9004 St Gallen	
Internet	http://www.snb.ch	
E-mail	snb@snb.ch	

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