95th Annual Report

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA

2002

Goals and responsibilities of the Swiss National Bank

Mandate

The Swiss National Bank has a mandate to conduct 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 overall interests of the country. 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. The National Bank equates price stability with a rise in the national consumer price index of less than 2% per annum. It formulates its monetary policy with the help of inflation forecasts.

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 bank supervision. Bank 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
95th Annual Report 2002

Contents

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 unit used. A dash (–) in place of a number stands for zero (nil).

Ladies and Gentlemen

Last year was a disappointing one from an economic point of view. The upswing failed to materialise and is now anticipated in the course of 2003. Prices on the equity markets continued to decline, bringing about corrections to clearly exaggerated valuations in some sectors. Reasons for the collapse in share prices included the financial scandals involving some renowned companies, which hit investor confidence hard. These scandals, combined with the share slump, impacted severely on the economy in general and the financial sector in particular.

Switzerland was not left unscathed by these developments. Growth remained weak, with inflation low and unemployment rising. Meanwhile, the economic situation was made still more difficult by the strength of the Swiss franc on the foreign exchange markets.

The National Bank responded to the deterioration in conditions for the Swiss economy with a further significant relaxation of its monetary policy. Both short and long-term interest rates fell to the lowest level in many years as a result. The monetary conditions are currently in place for Switzerland to stage an economic recovery as soon as the global economy begins to send out positive signals once again.

On 26 June 2002, the Federal Council passed a Message to the Swiss Parliament on the total revision of the National Bank Law. The objective is the comprehensive modernisation of the National Bank's founding statute. The parliamentary debate on the bill has in the meantime begun.

On 22 September, the Swiss people and the cantons rejected both the popular initiative and the counter-proposal of the Federal Assembly regarding the allocation of the proceeds from the sale of National Bank gold which is no longer required for monetary policy purposes. The sale proceeds will thus remain in the hands of the National Bank for the time being, while political discussion continues about how they are to be used.

In line with a new agreement with the Federal Department of Finance on the distribution of profits, the National Bank will pay a total of Sfr 2.5 billion to the Confederation and the cantons for the first time for the year 2002.

We wish to thank the bank authorities as well as the National Bank's staff for their support over the past year.

Berne, 7 March 2003

Hansueli Raggenbass
President of the Bank Council

Jean-Pierre Roth
Chairman of the Governing Board

Review of economic developments

1 International developments

1.1 Economic development

Tentative recovery

Economic growth was disappointing in 2002, and the recovery in most OECD countries was slow to get under way after the previous year's downturn. There were also significant differences in the growth rates recorded in different regions around the world. North America, as well as the majority of industrialised and threshold economies of Asia, reported above-average growth, while Europe in general languished in a trough. Japan saw gradual signs of a revival, but expansion was patchy and the economy's structural problems remained an obstacle. In Latin America, several countries found themselves grappling with economic and financial crises.

Global trade stimuli weak

Persistent economic weakness meant that global trade volumes, which had stagnated in 2001, rose by only a little in 2002. Trade outside the Organisation for Economic Cooperation and Development (OECD) expanded more vigorously than trade between OECD countries. To put this into context, the 1990s saw a significant escalation in world trade volumes.

Positive initial outlook

International economic growth looked promising during the first few months of 2002. Sentiment among companies and consumers brightened, and industrial output began to rise, boosted by the central banks' relaxation of monetary policies and the previous year's fall in oil prices. Investment appeared to be recovering, as profit forecasts improved and share prices gained ground after the losses sustained in 2001. One of the main factors driving growth was strong demand for consumer goods in the United States.

Rest of year more subdued

Contrary to expectations, growth failed to pick up during the second half of the year. Clouds had begun to gather even before the mid-year point. The second and third quarters then saw a renewed drop in equity prices, partly as a reaction to revelations of accounting irregularities at several companies. Some major sectors, especially the telecommunications industry, were forced into another round of severe write-downs, and economic sentiment suffered further as the geopolitical situation continued to worsen. Oil prices rose as a result, taking the price of a barrel of Brent to 30.15 dollars, or 46.6% higher than at the beginning of the year. Corporate investment activity was particularly hard hit by the increased uncertainty.

Monetary policy relaxation

The fourth quarter saw the US Federal Reserve and the European Central Bank respond to the economic slow-down by cutting their key interest rates again. This relaxation was favoured by the easing of inflationary pressures.

US economy improves

Momentum in the US economy was stronger than in most other industrialised countries in 2002, although growth still failed to live up to expectations. Real gross domestic product (GDP) advanced by 2.3%, having remained more or less unchanged in 2001. This increase was driven primarily by private spending and investment in residential construction, which was bolstered by low interest rates and rising real estate prices. By contrast, corporate investment rose by only a little. During the first half of the year, extensive stockpiling and a marked increase in exports also helped to shore up the recovery. Capacity utilisation in industry remained at the previous year's level, as the economic recovery progressed in tandem with a surge in productivity. This meant little expansion in employment, and the average unemployment rate for the year was one percentage point higher at almost 6%.

Rise in US current account deficit

Growing domestic demand meant that imports into the United States expanded much more strongly than exports during the first half of the year. This produced a further rise in the current account deficit for 2002 to around 5% of GDP.

Slow growth in the euro currency area

GDP growth in the euro currency area slowed to 0.8%, compared with 1.5% the previous year. France, Spain and various smaller countries posted above-average expansion, while Germany and Italy all but stagnated. In the first part of the year, the euro area was boosted by rebounding exports and a modest increase in private and government spending. This momentum slackened as the year went on, however. Capital spending continued to fall. The sluggish economy was reflected in rising joblessness, and the unemployment rate – which had receded in the previous years – increased from 8.1% in January to 8.5% in December. The export revival produced a current account surplus of just under 1% of GDP, after a neutral result in 2001.

UK situation better

The United Kingdom economy staged a better performance than the euro area. Although a capital spending decline weakened growth by half a percentage point to 1.5%, there was a vigorous rise in private consumption. This was also supported by a comparatively favourable labour market, where the unemployment rate was 5.2%. As in most other industrialised countries, exports lost ground in the course of the year.

Slight improvement in Japan

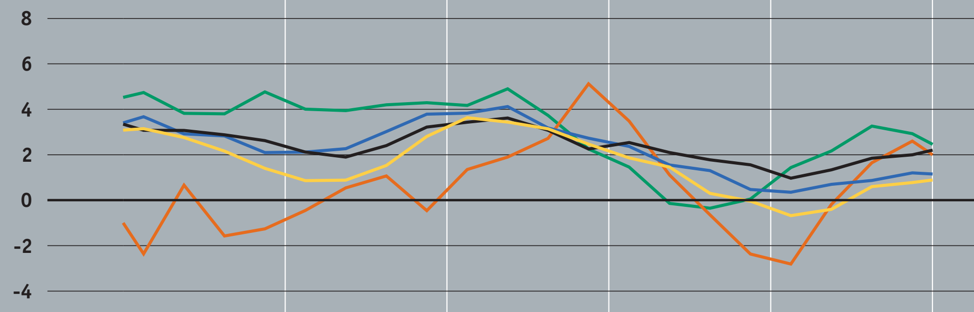
The Japanese economy made only a little headway after the previous year's sharp downturn. Exports to Asia, in particular, picked up, and private spending increased despite the persistent weakness of consumer sentiment. Investment activity remained volatile, however. This is attributable in part to the Japanese economy's ongoing structural problems. These resulted in a further decline in employment, which raised the unemployment rate to an average of 5.5%.

1998 1999 2000 2001 2002

Real gross domestic product

United States
Japan
Euro area
United Kingdom
Switzerland

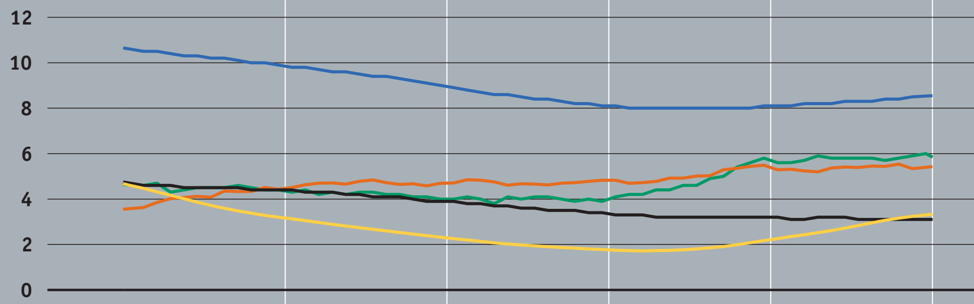
Change from previous year in percent.
Source: OECD



Unemployment

United States
Japan
Euro area
United Kingdom
Switzerland

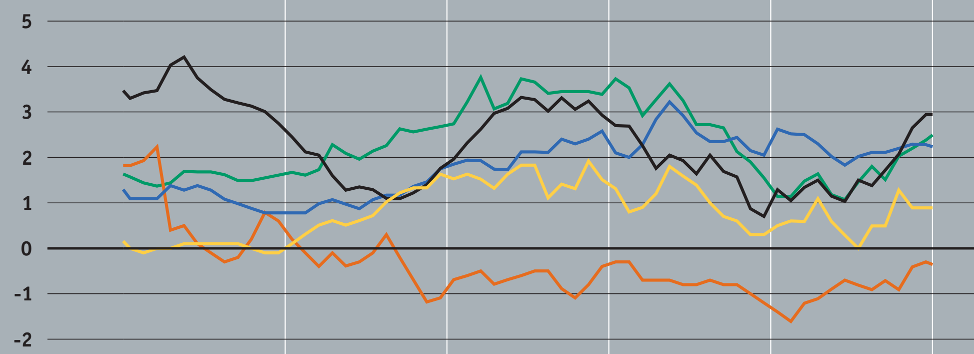
Seasonally-adjusted; in percent.
Source: OECD



Inflation

United States
Japan
Euro area
United Kingdom
Switzerland

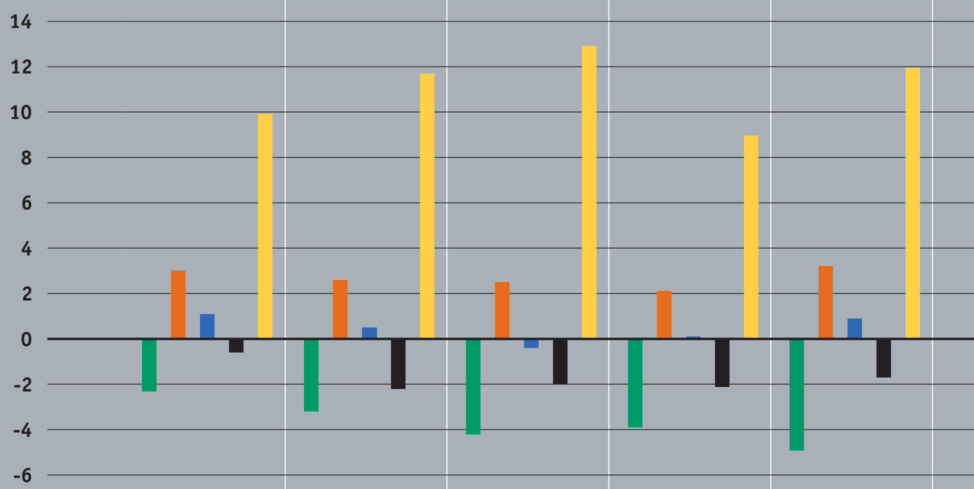
In percent.
Source: OECD



Current account balance

United States
Japan
Euro area
United Kingdom
Switzerland

Net balance in percent of GDP.
Source: OECD



1998 1999 2000 2001 2002

Summary of economic development

	1998	1999	2000	2001	2002
Real GDP Change from previous year in percent					
United States	4.3	4.1	3.8	0.3	2.3
Japan	−1.1	0.7	2.6	−0.3	0.3
Euro area	2.9	2.8	3.6	1.5	0.8
Germany	2.0	2.0	2.9	0.6	0.4
France	3.5	3.2	4.2	1.8	1.0
Italy	1.8	1.6	2.9	1.8	0.3
United Kingdom	2.9	2.4	3.1	2.0	1.5
Switzerland	2.4	1.5	3.2	0.9	0.1
Unemployment in percent					
United States	4.5	4.2	4.0	4.8	5.8
Japan	4.1	4.7	4.7	5.0	5.5
Euro area	10.2	9.4	8.4	8.0	8.3
Germany	8.7	8.0	7.3	7.3	7.8
France	11.5	10.7	9.4	8.7	9.0
Italy	11.9	11.5	10.7	9.6	9.2
United Kingdom	6.3	5.9	5.4	5.1	5.2
Switzerland	3.9	2.7	2.0	1.9	2.8
Consumer price inflation in percent					
United States	1.5	2.2	3.4	2.8	1.6
Japan	0.7	−0.3	−0.7	−0.7	−1.1
Euro area[1]	1.2	1.1	2.4	2.5	2.4
Germany[1]	0.6	0.6	2.1	2.4	1.6
France[1]	0.7	0.6	1.8	1.8	1.9
Italy[1]	2.0	1.7	2.6	2.3	2.5
United Kingdom[2]	2.7	2.3	2.1	2.1	2.0
Switzerland	0.0	0.8	1.6	1.0	0.6
Current account balance in percent of GDP					
United States	−2.3	−3.2	−4.2	−3.9	−4.9
Japan	3.0	2.6	2.5	2.1	3.2
Euro area	1.1	0.5	−0.4	0.1	0.9
Germany	−0.3	−0.9	−1.1	0.1	2.0
France	2.7	2.9	1.3	1.6	1.8
Italy	1.9	0.7	−0.5	−0.0	−0.8
United Kingdom	−0.6	−2.2	−2.0	−2.1	−1.7
Switzerland	9.9	11.7	12.9	9.1	11.9

1 Harmonised inflation figures
2 Inflation excluding mortgage costs
Some 2002 figures are estimates.
Source: OECD

Consumer price inflation fell or remained low in most industrialised countries in 2002. In the United States, the average for the year slid to 1.6%, compared with 2.8% in 2001. In the euro area, special factors such as tax increases and an extraordinary rise in a number of foodstuff prices drove inflation higher. The introduction of euro notes and coins at the beginning of the year did not, as had been feared, cause inflation to surge, although there were significant price rises on some items. Inflation weakened as the year progressed, yet remained above 2% during the second half. There were broad differences between the individual countries of the euro area: in Germany, Belgium, Austria and France, for example, inflation was less than 2%, while the figures for Spain, Portugal, Greece and the Netherlands were between 3.5% and 4%, and prices rose almost 5% in Ireland. Inflation in the United Kingdom remained unchanged at 2%.

Lower inflation in the United States and Europe

In Japan, inflation was negative for the fourth consecutive year. Prices fell by an average of 1.1%, compared with a 0.7% slide the previous year.

Deflation in Japan

Having slowed down significantly the previous year, most Asian industrialised and emerging market economies, and South Korea in particular, returned to higher growth in 2002. The recovery was supported by more expansive monetary and fiscal policy, as well as the revival in intra-Asian trade. Nonetheless, economic activity in Hong Kong and Indonesia remained slack. While expansion in Hong Kong was held back by uncertainties over its economic and political future, Indonesia suffered from the repercussions of a terrorist attack.

Varied picture in Asia

The Chinese economy recorded the strongest growth in the region on the back of generous state support and high levels of foreign investment. The fact that many industrial businesses are dependent on state aid, however, has kindled doubts about the sustainability of this growth.

State support in China

In most countries in Central and Eastern Europe, 2002 saw growth in real GDP fall compared with the previous year. Exports were the main driving force behind economic growth, while domestic demand, and capital spending in particular, advanced only slightly. Inflation continued to trend downward.

Weak growth in Central and Eastern Europe …

Russia also experienced a weaker rise in real GDP. Although private and government spending, as well as oil exports, bolstered the economy, growth in investment declined significantly. The increase in export income led to a rise in currency reserves and considerable budget surpluses, a portion of which was used to repay foreign debt.

… and in Russia

Recovery in Turkey

The Turkish economy recovered from the crisis of the previous year. Export activity, especially, gathered considerable momentum as the value of the country's currency plummeted. Although inflation fell during the year, it was still over 30% at the end of December. The economic recovery was also hit by an increase in risk premiums on interest rates, reflecting the instability of the political situation.

Critical situation in Argentina and Brazil

The recession which has afflicted Argentina for some years worsened in 2002. At the beginning of the year, the country was forced to abandon its long-standing practice of pegging its currency to the dollar. Inflation picked up rapidly as a result, and insolvency had to be declared with respect to foreign creditors. Negotiations with the International Monetary Fund (IMF) on a new economic programme and loan package failed. The crisis in Argentina also spilled over into Uruguay and Paraguay. In the case of Uruguay, international financial institutions injected large amounts of capital in order to shore up a banking system facing massive capital outflows. In Brazil, uncertainty about the outcome of the presidential election led to a rise in the risk premium on government paper and substantial currency depreciation. To counter nascent fears of the country's insolvency, the IMF granted Brazil a loan facility of 30 billion US dollars in early September. Economic growth in the other major Latin American countries was mixed. While the Mexican economy continued to expand at a modest pace, growth in Chile slowed.

1.2 Monetary policy

Relaxation of monetary policy in the fourth quarter

After several rounds of interest rate cuts in 2001, the respective central banks of the United States and the euro area left rates unchanged until the latter part of 2002. Monetary policy was relaxed further in November and December in order to stimulate the economy.

Key rate cuts in the United States ...

The US Federal Reserve lowered its key interest rate – the rate for overnight funds – by half a percentage point to 1.25% at the beginning of November. This came after a massive reduction totalling 4.75 percentage points in 2001.

... and in Europe

The weak economy prompted the European Central Bank (ECB) to cut the minimum bid rate on the main refinancing operations by half a percentage point to 2.75% in early December. The decision was made in the light of increasing signs that inflation would fall below the ECB's 2% price stability ceiling in the foreseeable future. The Swedish and Norwegian central banks also relaxed their monetary policies. By contrast, the Bank of England left its base rate unchanged throughout the year.

Zero percent interest in Japan

The Bank of Japan further extended the banks' liquidity in order to stimulate the economy and counter deflation. The overnight rate stayed at zero percent for the whole of the year.

1.3 Fiscal policy

Deteriorating public finances

Government budgets closed 2002 in a much worse state than the previous year in almost all OECD countries. Deficits were swelled primarily by weak economies, lower tax revenues and higher unemployment-related expenditure. The United States was also affected by higher spending on security and defence.

Deficits in the United States and Britain

Having achieved some large surpluses in recent years, both the United States and the United Kingdom reported public sector deficits. According to the OECD, the shortfall in the United States increased from 0.5% to 3.1% of GDP. In the United Kingdom, government finances were in the red for the first time since 1997. The deficit was 1.4%, compared with a surplus of 0.7% in 2001. Gross government debt rose by one percentage point to 61% of GDP in the United States and stayed steady at 51% in the United Kingdom.

Rising deficits in the euro area …

Most countries in the euro area saw their budget deficits grow, producing an overall shortfall of 2.2% of GDP for 2002, according to the OECD. Having kept within the Maastricht criteria the previous year, Germany's public sector deficit rose to 3.7% – higher than the limit stipulated in the Treaty. In France, the deficit doubled to 2.7%, while in Italy it stayed at 2.3% – more or less the same as in the previous year. Only a few smaller countries within the euro area were still able to post a surplus. Aggregate government debt in the region rose from 72% of GDP in 2001 to 73% in 2002. In France and Germany, it met the 60% criterion laid down at Maastricht. The highest debt to GDP ratios were recorded by Italy (110%), Belgium (108%) and Greece (107%). Ireland (36%) and Luxembourg (6%) had the lowest debt.

… and in Japan

Figures from the OECD show that the Japanese public sector deficit expanded to 7.9% of GDP, compared with 7.2% the previous year. The sharp rise in public sector debt that began in the early 1990s thus continued. Overall debt has expanded by ten percentage points, taking the current figure to 143% of GDP. In net terms, however, Japan's debt is only around half as much, because the country's social security system has a high level of assets.

United States
Japan
Euro area
United Kingdom
Switzerland

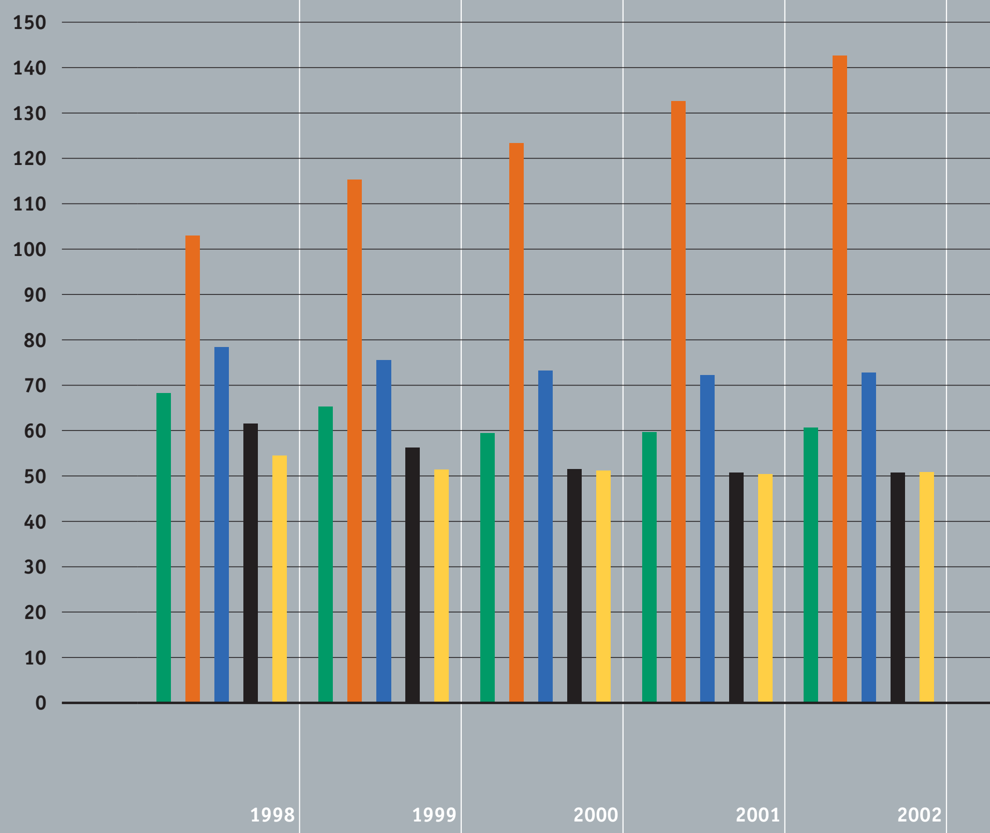
Public-sector financial balances (all levels of government including social insurance) in percent of GDP.
Source: OECD, Federal Finance Administration

Public-sector financial balances

United States
Japan
Euro area
United Kingdom
Switzerland

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

Government indebtedness



1.4 Foreign exchange markets

US dollar depreciates

The US dollar lost a great deal of its value compared with other currencies during the first half of 2002. After a brief resurgence, it fell back again in the fourth quarter. In addition to increasing political uncertainty, factors behind this loss in value include, in particular, the expansion of the United States current account deficit and the sharp deterioration in the budget situation. In nominal terms, the dollar was 12.7%, 12.3% and 9.3% lower year-on-year against the Swiss franc, euro and sterling respectively in December. Over the year as a whole, it lost a real and trade-weighted 5.1%.

Euro recovers

After a long period of weakness, the euro began to advance against the US dollar in March 2002, reaching 1.02 dollars in December. The mean exchange rate for the year was 0.95 dollars/euro. Against sterling, the single European currency gained 3.4% to 0.64 pounds in December. The euro fared a little worse on the Swiss franc market, although at 0.4% its decline was less than in 2001. The exchange rate stabilised at 1.47 francs to the euro towards the end of the year. In real and trade-weighted terms, the euro had gained 7.1% year-on-year by December. This is still 5.5% lower than when it was launched in January 1999.

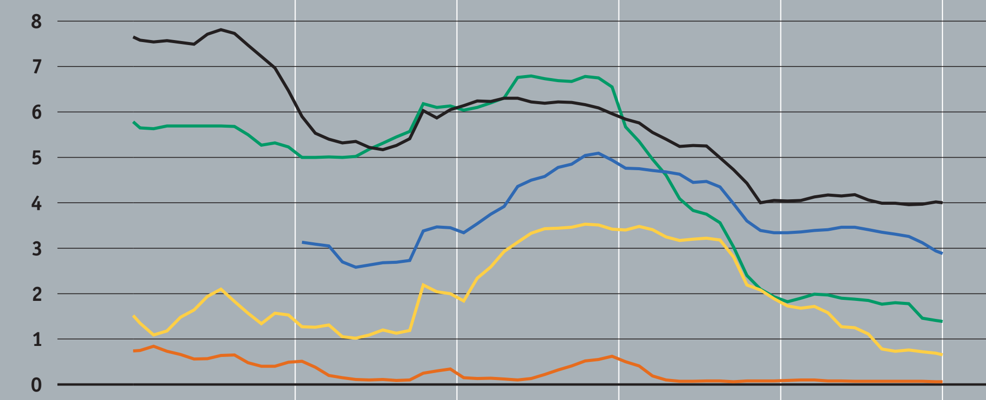
No clear trend for the yen

In 2002, the yen lost 8.7% against the euro and 9.1% against the Swiss franc, although it rose by 4.1% against the dollar. In real and trade-weighted terms, the yen exchange rate was 4.2% lower.

Dollar
Yen
Euro
Pound sterling
Swiss franc

Three-month Euromarket rates, in percent.
Source: BIS

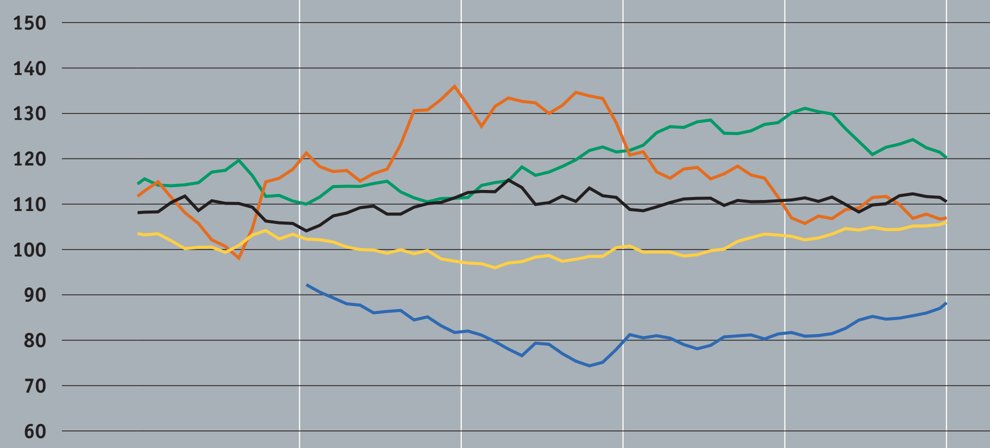
Short-term interest rates



Dollar
Yen
Euro
Pound sterling
Swiss franc

Index: 1990 = 100.
Source: BIS

Trade-weighted real exchange rates



1998 1999 2000 2001 2002

1.5 Financial markets

Long-term yields on the decline

There was little increase in the yields on government bonds in industrialised countries during the first quarter of 2002. They fell further as the year went on owing to the slack business climate and stronger demand among investors for secure government paper. The decline in long-term yields was particularly stark in the United States: these slipped from 5.3% in March to 3.9% in September. In the euro area, they went from 5.3% to 4.5% and in Japan from 1.4% to 1.1% during the same period. Yields then stabilised in the fourth quarter.

Higher risk premium on bonds from low-rated borrowers

While the yield differential between bonds from top-class private borrowers and government paper remained approximately constant, the spread between bonds from highly creditworthy and poorly rated issuers widened. In the United States, this rating-related differential peaked in August at 18 percentage points, compared with 2 percentage points in August 2001. In the eight months from January 2002, the yield on low-rated bonds increased from 13% to 24% (the highest level for five years), before dropping back to 14% in December. This sharp rise in the risk premium reflects increasing uncertainty about the economy, as well as the turbulence that can be observed on the financial markets.

Equity prices fall

Having firmed during the first quarter of 2002, share prices dropped once again on all major stock exchanges during the second and third quarters, plumbing depths last seen around five years ago. The situation stabilised in the final quarter and equity prices began to creep up again overall. Despite this late recovery, the Standard and Poor's 500 share index was still down by 24% year-on-year in December. European indices recorded similar falls, with the EuroSTOXX 50 losing 23% and the British FTSE 100 closing the year 25% lower. In Japan, the Nikkei 225 declined by 19%.

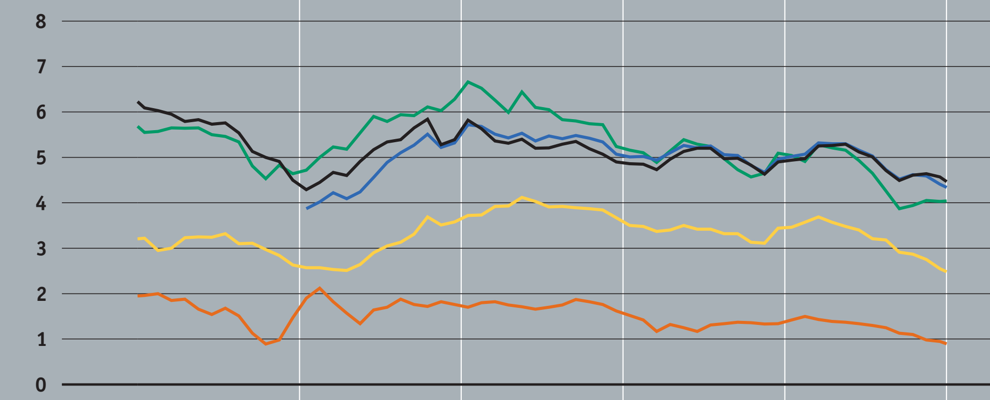
Decline in borrowing on the financial markets

Net borrowing on the international financial markets slumped by 24% to 1,024 billion US dollars during 2002. The portion of this figure attributable to money market instruments remained negligible. Net borrowing in the form of medium- and long-term bonds declined to 1,023 billion dollars, although the level of planned issues, at 2,116 billion dollars, was significantly higher than in previous years. While the US dollar was the issuing currency in an unchanged 47% of cases, the popularity of the euro increased by 2.5 percentage points to 38% of the total. The euro has thus gained market share at the expense of sterling and the yen, which were the issuing currencies for 6% and 4% respectively of medium and long-term bonds. The Swiss franc accounted for 2%.

Lower earnings for banks in the United States and Europe

Banks in the United States and Europe reported lower net earnings in 2002. In addition to the weak economy, falls in prices on the financial markets and slower business were to blame. The failure of the two big US corporations, Enron and WorldCom, also made a tangible mark on the balance sheets of their creditor banks.

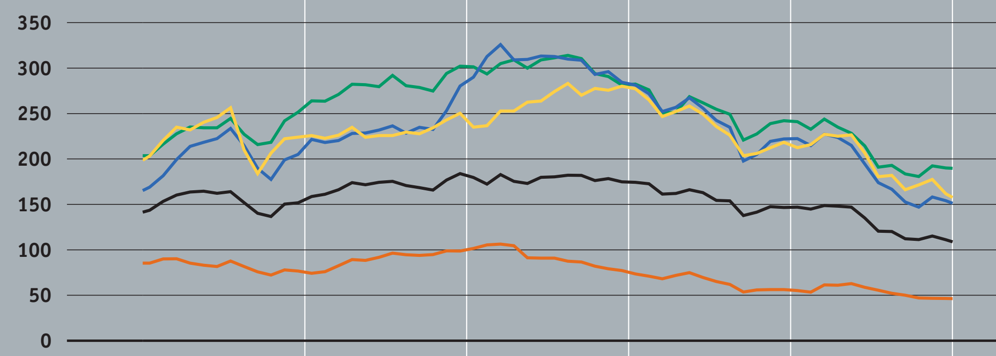
Long-term interest rates



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 50
United Kingdom: FTSE 100
Switzerland: SPI

Index: January 1994 = 100.
Source: BIS

Trend towards separating financial analysis and investment

In the United States, federal regulatory authorities and the Attorney General of New York conducted investigations into the business practices of several investment banks. These focused on possible conflicts of interest between the banks' financial analysis activities and their investment recommendations. The investigations came to an end in December with a global settlement between the investigating authorities and the banks concerned. The banks were forced to pay high fines and have also undertaken to make funds available for independent financial analysis and investor training programmes.

Difficulties for the Japanese banking sector …

In Japan, the banking sector continued to suffer from non-performing loans. The government has instituted reforms which provide for changes in the way that creditworthiness is assessed. Meanwhile, the Bank of Japan announced a purchase of securities from the banks at market prices.

… and in Argentina

During 2002, the Argentinian government eased a variety of measures which had restricted the withdrawal of funds from bank accounts. These measures had been introduced at the end of 2001 in order to prevent the threatened collapse of the banking system. The position of the Argentinian banking sector nonetheless remained difficult owing to the ongoing economic crisis.

2 Switzerland

2.1 Economic development

Sluggish economic development

In 2002, the Swiss economy failed to recover from its cyclical decline that had set in during the second half of the previous year. Although a pick-up seemed to be under way at the beginning of the year, signs of a delayed rebound and of continued slow growth in the economy multiplied. The disappointing development was mostly due to the unexpectedly weak global economic environment and the uncertainty after the downslide in the financial markets. The continued sluggish economic activity led to a significant deterioration on the labour market.

Investment crisis and weak foreign demand

Real GDP went up by 0.1% in 2002, following a 0.9% increase in the previous year. While the decrease in construction investment was less pronounced than in the previous year, investment in plant and equipment again dropped massively as companies became increasingly reluctant to commit resources. Exports of goods and services rose by 0.4%. Since imports dropped, foreign trade made a positive contribution to growth. Both consumer and government spending proved to be a mainstay of growth, even though both did not increase to the same degree as in the previous year.

Industrial output on the decline

Industrial output receded in 2002 after having stagnated in 2001. The machinery and electrical engineering industries were particularly affected by the decline, while the chemical industry was able to continue boosting production. After a revival of demand had been discernible in spring, the outlook became dimmer again in the second half of the year. The expected incoming orders failed to materialise and outstanding orders were down. As a result, companies revised down their near-term forecasts and slashed inventories for semi-finished and finished goods. Utilisation of production capacities remained at roughly 80%, thus falling well short of its long-term average of approximately 84%.

Weaker growth in private consumption

Private spending moved up by 0.9% in 2002 compared with 1.8% in the previous year. Growing unemployment and turbulence on the financial markets, however, led to a loss in consumer confidence, which was reflected in a massive drop of the consumer confidence index in the second half of the year. Households especially held back with purchases of durable consumer goods, such as motor vehicles and household furnishings. Gloomy consumer sentiment also hurt the Swiss hotel and restaurant industry. After having risen in the previous year, the number of overnight stays by Swiss guests fell off.

Sharp fall in equipment investment

The decline in equipment investment, which had started at the beginning of 2001, became more pronounced in 2002. Averaged over the year, it fell by 10.7% in real terms, twice as much as in the previous year. The fall was thus as steep as during the recession at the beginning of the nineties. Towards the end of the year, equipment investment plummeted to a level which was roughly on a par with replacement needs. Its share of real GDP dropped to 12.2% compared with 13.7% in the previous year.

Construction investment down

Construction investment was down 1.5%. The previous year had seen a decline of 4.8%. The slight upturn in the number of housing units under construction suggested a certain pick-up in investment in residential construction, benefiting mostly urban areas. Conversely, as a result of the weak economic situation, construction activity at companies was down during the entire year, with the decline in new office space being particularly pronounced. Cost-cutting in the public sector led to dwindling demand in the civil engineering sector. The major rail projects, the NEAT transalpine routes and Rail 2000, were an exception to the rule.

Slight rise in goods exports

The Swiss export industry suffered from the global economy's sluggish growth and subdued investment activity worldwide. Another handicap was the real appreciation of the Swiss franc, in particular vis-à-vis the US dollar, which had a negative impact on the competitiveness of export prices. Exports of goods grew by a modest 1% in real terms after 2001 had seen a rise of 2.1%. Exports of investment goods registered a sharper decline than a year earlier. While shipments of raw materials and semi-manufactures diminished at a lesser rate than in 2001, exports of consumer goods were boosted again.

Fewer exports to most industrial countries

Exports to the EU, which absorbs approximately 60% of Swiss exports, were down by 2.8% in nominal terms. Weak demand from Germany was especially troubling for Switzerland's export industry. Exports to the emerging economies in Asia and to Japan also fell short of the previous year's level. Exports to the US, which had fallen significantly in 2001, increased by 2.6%. As in the prior year, demand from the OPEC countries went up sharply. They only account for roughly 3% of exports, however. After having registered a 1.2% increase in the previous year, export prices – based on averages – slipped by 2.7%.

Demand for services down

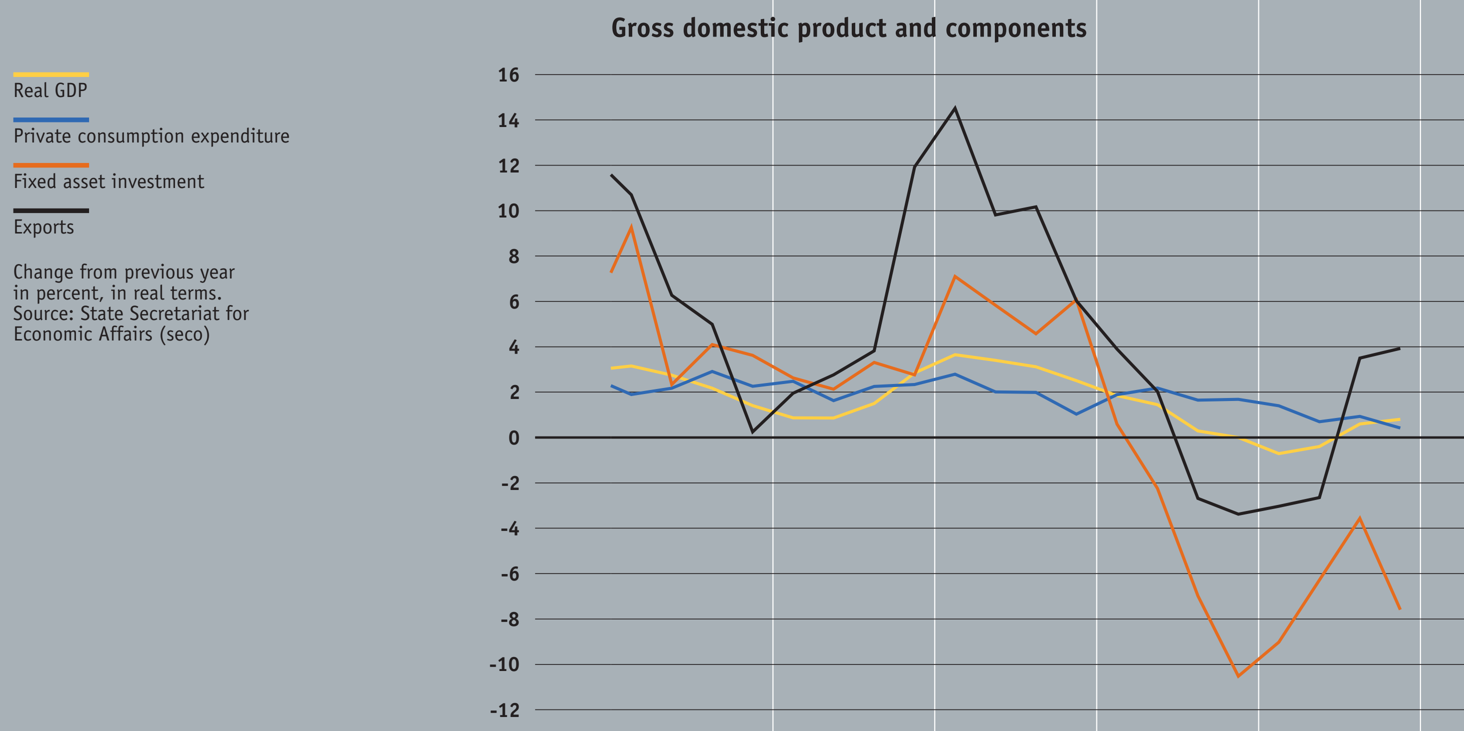
Exports of services contracted by 1.8% compared with a 7.7% decline in the previous year. While the tourist industry suffered from the lacklustre global economy, the downslide in equity prices on international stock markets resulted in lower exports of banking services.

Decline in imports of goods ...

As a result of the stagnating economy, Swiss demand for foreign goods waned. In 2002, imports of goods fell by 2.6% in real terms after having stagnated a year earlier. Persistently weak investment activity eroded the demand for investment goods. Imports of consumer goods also fell from the middle of the year onwards. In contrast to their growth of 5.8% in 2001, they stagnated on average over the year. Demand for energy sources went down. After import prices (average prices) had risen by only 0.1% in the previous year, in 2002 they contracted by 2.9% – a development which was mostly attributable to the stronger franc.

... and services

Imports of services diminished by 2.6% compared with 3.9% a year earlier. While expenditures for travel abroad were up slightly, those for banking services declined markedly.


Gross domestic product and components
Real GDP
Private consumption expenditure
Fixed asset investment
Exports
Change from previous year in percent, in real terms.
Source: State Secretariat for Economic Affairs (seco)
16
14
12
10
8
6
4
2
0
-2
-4
-6
-8
-10
-12

GDP and components
Real change from previous year in percent

	1998	1999	2000	2001	2002
Private consumption	2.3	2.2	2.0	1.8	0.9
Government consumption	1.3	1.2	1.5	2.6	1.9
Investment in fixed assets	4.5	2.7	5.8	−5.2	−6.5
Equipment	8.9	8.7	8.8	−5.5	−10.7
Construction	0.4	−3.3	2.5	−4.8	−1.5
Domestic demand	**3.5**	**2.5**	**2.5**	**0.8**	**−1.3**
Exports of goods and services	5.4	5.1	10.0	−0.1	0.4
Aggregate demand	**4.0**	**3.3**	**4.8**	**0.5**	**−0.8**
Imports of goods and services	8.3	7.4	8.5	−0.3	−2.6
GDP	**2.4**	**1.5**	**3.2**	**0.9**	**0.1**

Source: Federal Statistical Office, seco

Employment drifting downward

The difficult economic situation worldwide had a deep impact on labour markets. The decline in employment which had begun in the third quarter of 2001 accelerated in 2002. Averaged over the year, employment shrank by 0.4% compared with an increase of 1.1% in the previous year. The processing industry was affected most severely (−2.5%). Jobs shed in the machinery and electronics industries as well as the metal industry accounted for a large part of this development. The number of persons employed in the chemical industry was up, however. The construction industry continued to trim its workforce (−1.6%). In the services sector, the number of jobs created was up 0.4%, compared with 1.3% in the previous year. While employment in the banking sector rose again, the insurance companies' payroll declined considerably.

Manpower Index on the decline

The declining demand for labour was also reflected in the Manpower Index, which measures the space occupied by job advertisements in newspapers. Between December 2001 and December 2002 it receded by 43% on a seasonally adjusted basis.

Short-time work on the increase

A growing number of companies introduced short-time work. On an annual average, persons on short working hours totalled 9,100, compared with 2,400 in the previous year.

Unemployment rises

Unemployment has continued to rise steadily since the spring. At year-end, the number of unemployed persons registered with the regional employment offices stood at 129,800. In seasonally adjusted terms, the unemployment rate rose from 2.2% to 3.3% between December 2001 and December 2002. The rate of jobseekers went from 3.4% to 4.8%, which represents approximately 173,200 persons. In addition to unemployed persons, jobseekers include people who are looking for casual jobs, are participating in a work creation scheme or are training or retraining.

Regional differences persist

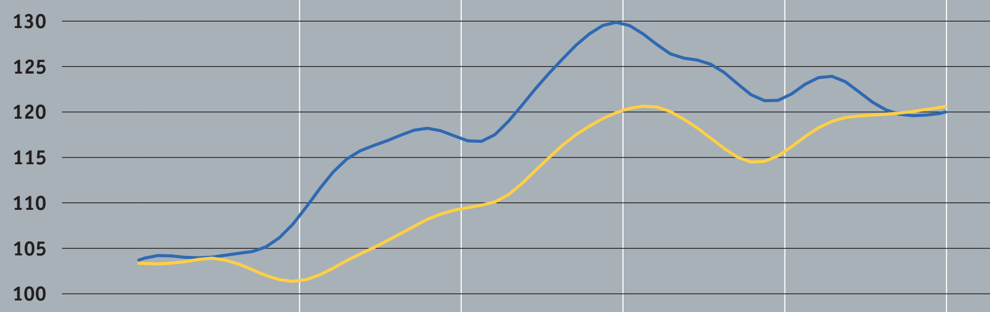
Regional differences in the unemployment situation persisted. In December, the unemployment rate reached 4.6% in French-speaking Switzerland and 4.8% in Ticino. In German-speaking Switzerland, it stood at 3.2%. Unemployment figures were up more sharply in German-speaking Switzerland than in the other areas of the country, notably in the canton of Zurich. This is why the differences diminished slightly compared to the previous year.

Imports

Exports

Volume, adjusted for seasonal
and exceptional factors.
Index: 1997 = 100.
Source: General Directorate of Customs

Foreign trade

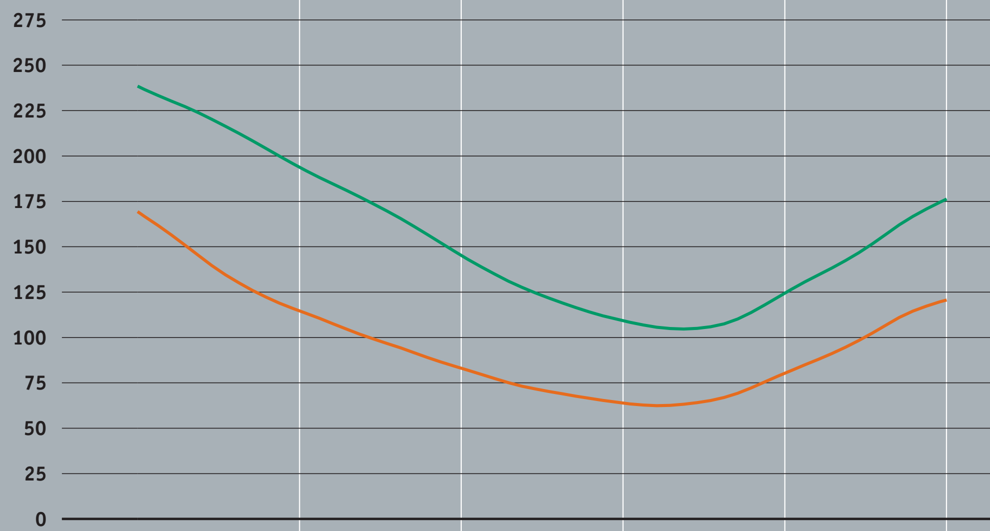


Unemployed persons

Job seekers

In thousands,
seasonally-adjusted.
Source: seco

Labour market



1998 1999 2000 2001 2002

Small 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 0.5% year-on-year to 3,959,000 persons. This was despite the lacklustre economy. The employment ratio for women rose, while that for men decreased. This development confirms the slight upward trend in the participation rate for women, witnessed in the last few years. The share of foreign labour has moved up somewhat. While the number of individuals with short-term permits increased sharply, foreign employees holding seasonal work permits fell. The number of gainfully employed persons holding a residence permit, together with those holding one-year work permits and cross-border commuters, has remained stable.

Agreement on Free Movement of Persons between Switzerland and the EU enters into force

On 1 June 2002, the Agreement on the Free Movement of Persons – one of the seven bilateral agreements between Switzerland and the EU – entered into force. This Agreement accords EU and Swiss nationals the right of residence in each other's territory and the right to pursue an economic activity. The Agreement provides for a transitional period of five years for Switzerland during which access to the Swiss labour market will remain regulated and quotas will be maintained in respect of the incoming foreign labour.

Employment and unemployment

	1998	1999	2000	2001	2002
Full-time employment[1] change in percent	−0.4	−0.2	1.0	0.7	−1.3
Full- and part-time employment[1] change in percent	0.7	1.6	2.2	1.1	−0.4
Persons in employment[2] change in percent	1.8	0.8	1.2	1.5	0.5
Unemployment rate in percent	3.9	2.7	2.0	1.9	2.8
Number of unemployed in thousands	139.7	98.6	72.0	67.2	100.5
Number on short working hours in thousands	3.1	2.9	0.7	2.4	9.1
"Manpower job offer index"[3] change in percent	35.7	26.2	25.2	−11.5	−43.3

1 according to employment statistics
2 according to SAKE
3 space occupied by job advertisements in Swiss newspapers
Sources: Federal Statistical Office, seco, Manpower

Inflation, measured by the national consumer price index, receded in 2002. On an annual average, it came to 0.6% as against 1.0% in the previous year. As in 2001, inflationary stimuli emanated mostly from domestic goods and services. After posting a 1.7% rise in the previous year, price increases levelled off during the course of the year. Average inflation stood at 1.4%. Inflationary effects stemmed mostly from services, with prices rising by 1.5% compared to 1.8% in 2001. Weaker inflation was attributable in particular to apartment rents, which rose much less sharply (1.0%) than in the previous year. Inflationary pressure on private and public services, however, rose by 1.9% and 1.5% respectively.

Inflation low

As a result of the slack growth in the global economy and the stronger franc, prices of imported consumer goods continued to fall. Averaged over the year, they declined by 1.7% after having contracted by 1.2% in the previous year. Declining prices for oil products, which averaged 6.8% over the year, had a particularly inflation-dampening effect.

Inflation-dampening effects from abroad

National consumer price index
Change from previous year in percent

	1998	1999	2000	2001	2002
Total	**0.0**	**0.8**	**1.5**	**1.0**	**0.6**
Domestic goods and services	0.3	0.7	0.7	1.7	1.4
Goods	0.3	0.3	1.6	1.5	1.1
Services	0.3	0.9	0.4	1.8	1.5
Private services excluding rents	0.7	1.6	0.3	1.5	1.9
Rents	0.1	0.7	1.5	2.8	1.0
Public services	−0.2	0.0	−1.4	0.5	1.5
Foreign goods	−0.7	1.0	4.1	−1.2	−1.7
Excluding oil products	0.4	0.5	0.9	−0.4	−0.8
Oil products	−10.2	5.7	31.3	−4.7	−6.8

Source: Federal Statistical Office, Swiss National Bank

Inflationary pressure on producer and import prices also softened considerably. After the total supply index had remained virtually unchanged in the previous year, it fell by an average of 1.2% in 2002. Prices for goods produced in Switzerland dropped by 0,5%, and import prices declined by 2.8%. Prices of raw materials fell by 2.7% year-on-year; prices of semi-manufactures moved 2.1% lower. Prices of consumer and investment goods were almost unchanged from the year-earlier level.

Declining total supply index

Higher current account surplus

The current account surplus grew by Sfr 11.7 billion to Sfr 49.6 billion in 2002. The surplus from goods trade accounts for most of this increase. The current account surplus expanded from 9.1% to 11.9% of GDP. Due to the economic situation, imports declined more sharply than exports. The trade balance (special trade) thus closed with a surplus of Sfr 7.3 billion compared with Sfr 1.7 billion in the previous year. 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 surplus of Sfr 4.5 billion vis-à-vis a deficit of Sfr 4.6 billion in the previous year. The surplus from services rose from Sfr 24.2 billion to Sfr 24.9 billion. This increase was primarily attributable to higher premium income in the private insurance sector, while the banks' commission income declined. Since net income from direct investment was slightly higher than in the previous year, the surplus on the labour and investment income account widened by Sfr 1.5 to Sfr 26.7 billion. The deficit from current transfers amounted to Sfr 6.6 billion, as against Sfr 6.9 billion in the previous year.

Current account balances in billions of Swiss francs

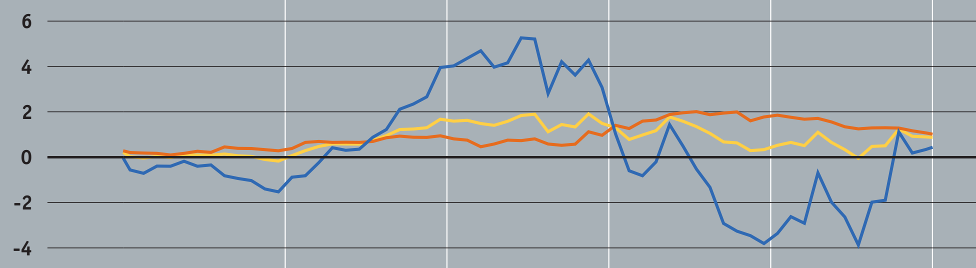
	1998	1999	2000 revised	2001 provisional	2002 estimated
Goods	−2.3	−0.3	−4.2	−4.6	4.5
Special trade	2.2	1.1	−2.1	1.7	7.3
Electrical energy	0.7	0.6	0.5	1.1	0.5
Other goods	−5.3	−1.9	−2.6	−7.4	−3.2
Services	19.6	21.6	25.6	24.2	24.9
of which tourism	1.7	1.6	2.4	2.0	1.1
of which private insurance	2.2	2.7	2.3	1.7	4.2
of which transportation	1.2	1.4	1.7	2.0	1.7
of which financial services	9.2	11.1	13.3	11.8	10.6
Labour income and investment income	25.9	30.5	37.0	25.2	26.7
Labour income	−6.4	−6.5	−7.8	−8.6	−9.2
Investment income	32.4	37.0	44.8	33.8	35.9
Current transfers	−5.3	−6.2	−4.9	−6.9	−6.6
Total	**37.8**	**45.7**	**53.5**	**37.9**	**49.6**

1998 1999 2000 2001 2002

Consumer prices

Consumer prices
Domestic goods
Imported goods

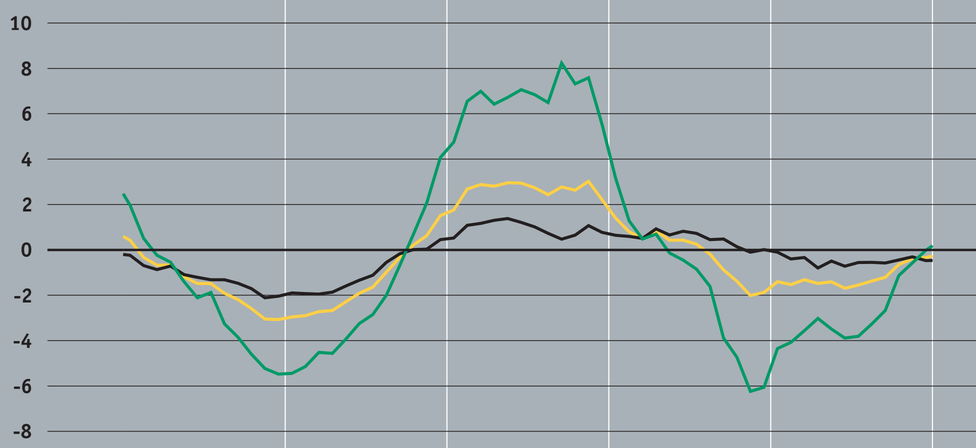
Change from previous year in percent.
Source: Federal Statistical Office



Producer and import prices

Producer and import prices
Producer prices
Import prices

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



1998 1999 2000 2001 2002

2.2 Fiscal policy

Further deterioration of federal budget

The Federal Government posted a deficit of Sfr 3.3 billion or 0.8% of GDP for 2002 after a deficit of Sfr 1.3 billion had been recorded in the previous year. A deficit of Sfr 294 million had been budgeted. As a result of the weak economy and bearish stock markets, fiscal revenue – especially from federal tax and value added tax – was considerably lower than expected. Expenditure was slightly below the budgeted figures. Additional credits were more than offset by non-utilised budgetary credits. Outlays from the fund earmarked for major rail projects (NEAT transalpine routes, Rail 2000) totalling Sfr 1.9 billion and extraordinary income of Sfr 3.7 billion from a reduction in nominal value of Swisscom stock are not included in the federal budget. This latter income was used to reduce debt.

Constitutional budget target met thanks to extraordinary income

The transitional provision to Art. 126 of the Federal Constitution (federal budget) states that the deficit may not exceed 2% of revenue, i.e. Sfr 1.0 billion. The budget target was met owing to extraordinary income from the sale of Swisscom stock.

2003 Budget

According to the Budget passed by Parliament, the Federal Government anticipates a deficit of Sfr 246 million for 2003. The 2003 Budget is thus in conformity with the "debt brake", a constitutional mechanism for managing the federal budget and keeping the level of debt in check, which was approved by the Swiss electorate and the cantons in a referendum at the end of 2001 and will be applied in 2003 for the first time.

Deficits at the cantonal and municipal levels

As a result of the weak economy, most cantons and municipalities posted a budget shortfall in 2002. According to the preliminary figures, the total deficit of all the cantons' budgets amounted to approximately Sfr 600 million, and that of the municipalities to approximately 400 million. The consolidated deficit of the Federal Government, the cantons and the municipalities amounted to roughly 1% of GDP in 2002.

Debt ratio unchanged

The debt ratio (total debt expressed as a percentage of GDP) of the Confederation, the cantons and municipalities remained virtually unchanged at 50.4%. 51.6% of the debt was attributable to the Federal Government, 30.6% to the cantons and 17.8% to the municipalities.

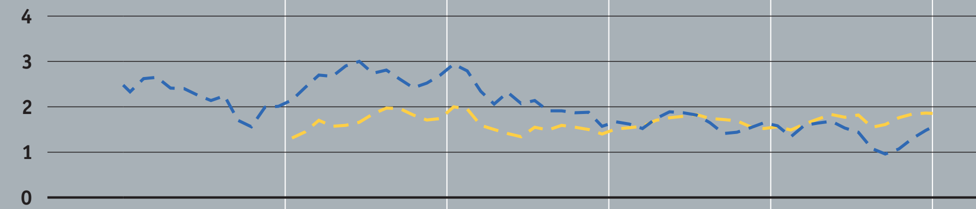
Restructuring of the fiscal equalisation system

In the autumn, parliament began debating the restructuring of the fiscal equalisation system. The new financial equalisation project (NFA) 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 the cantons in terms of government and fiscal policy, and to reduce the financial disparities between financially stronger and weaker cantons.

Spreads for long-term interest rates

Euro area - Switzerland
United States - Switzerland

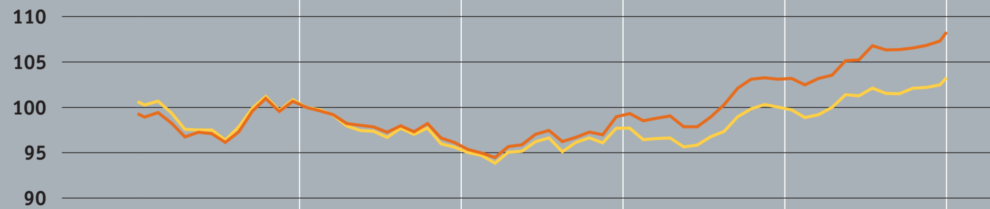
Spread in percentage points.
Source: BIS



Export-weighted Swiss franc exchange rates

Real
Nominal

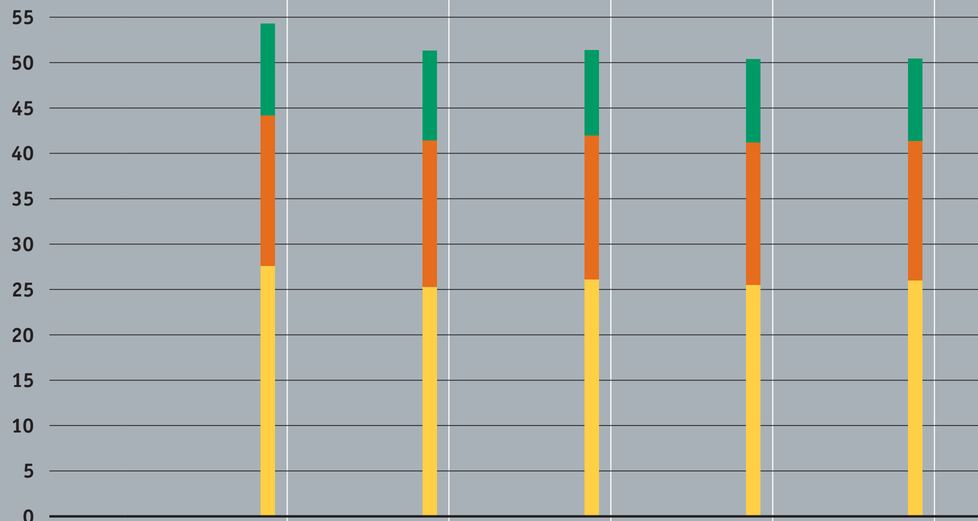
Index: January 1999 = 100.



Public-sector indebtedness

Confederation
Cantons
Municipalities

In percent of GDP.
Source: Federal Finance Administration



2.3 Financial markets

Lower long-term interest rates

Long-term interest rates remained at the previous year's level during the first months of 2002. June saw the beginning of a distinct downward slide. The average yield on 10-year Confederation bonds fell from roughly 3.5% in May to 2.4% in December. On the one hand, this development was due to declining short-term interest rates. On the other hand, many investors were prompted by the price collapse on the stock markets to invest their assets in bonds with high credit ratings, thus driving up the price of government bonds in particular. Reaching a high of 2.7 percentage points in July, the yield differential between 10-year Confederation bonds and money market debt register claims subsequently fell to 2.1 points in December. At the end of the previous year, this spread had amounted to 1.9 percentage points.

Higher risk premiums for bonds of private debtors

In the second half of the year, the differential between yields on government and private sector bonds widened as well. By December, the yield gap between a 3-year bank bond and Confederation bonds had grown to approximately 50 percentage points – an increase of 15 basis points vis-à-vis the previous year. The corresponding yield differential for the industry widened by 40 basis points to 150 basis points. This development suggests that investors considered the credit risks to be higher than a year earlier.

Continued fall in equity prices

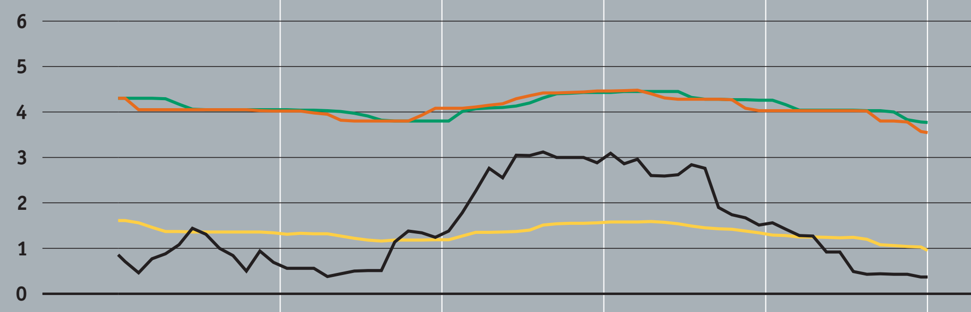
The Swiss Performance Index (SPI) lost nearly 26% in 2002. At the end of December, it stood at 3,246 points versus 4,383 points a year earlier. After climbing to over 4,500 points in the first quarter, the index suffered a first setback during the second quarter. After a short recovery phase, the SPI again fell sharply, reaching a low of 3,096 points at the beginning of October. Shedding 21%, share prices of large companies took less of a hit than those of small (–26%) and medium-sized companies (–25%). There were considerable differences between individual sectors of the economy. Financial stocks (insurance companies and banks) as well as the electrical, transport and construction industries suffered the largest losses. The decline in the chemical and foodstuffs segments was considerably less significant, and energy stocks picked up slightly. The New Market Index, which is composed of telecom, biotechnology and information technology stocks, fell by 52%.

Borrowing on the capital markets up

Even though low stock prices, high corporate bond yields and sagging demand for higher-risk securities made for difficult market conditions, borrowing on the Swiss capital market was higher in 2002 than in the previous year. Net borrowing in the form of publicly issued stocks and bonds amounted to just under Sfr 17 billion compared with Sfr 13 billion in the previous year. This was due to a significant increase in net issuance of Swiss franc bonds of foreign borrowers from Sfr 2 billion to almost Sfr 15 billion. At Sfr 2 billion, however, domestic borrowing clearly remained below the already low year-earlier figure of just under Sfr 11 billion. Equity redemptions surpassed equity issues so that net borrowing via the equity market amounted to Sfr –1.7 billion. The net issuing value of Swiss franc bonds by domestic borrowers fell by 37%.

1998 1999 2000 2001 2002

Selected bank interest rates



Existing mortgages at cantonal banks

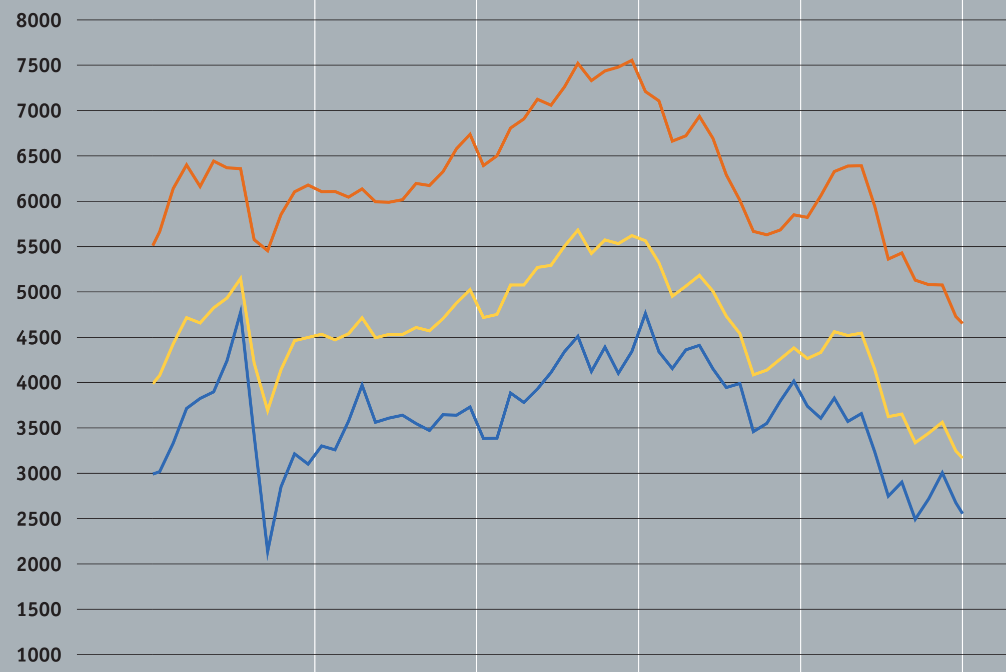
New mortgages at cantonal banks

Savings deposits at cantonal banks

Three-month time deposits at big banks

In percent.

Share prices



Total

Banks

Industry

Swiss Performance Index.
Source: Swiss Exchange

1998 1999 2000 2001 2002

Decline in credit volume

Domestic credit volume contracted by 0.7% in 2002. Four-fifths of banks' domestic lending was accounted for by mortgage loans and one-fifth by domestic customer claims. The latter registered a sharp 11.8% decrease. Most of this decline is attributable to reduced lending by the big banks (−17.1%); in particular, financial institutions, insurance companies and real estate firms were granted fewer loans. Mortgage loans, on the other hand, grew by 2.7%. On the refinancing side, customer deposits in the form of savings and investments climbed by nearly 10%, while sums due to banks were more than 6% below the previous year's level.

Difficult year for banks …

As a result of the weak economy and the stock market slump, the banks' results deteriorated, albeit to varying degrees. In the areas of investment banking and asset management, earnings from commissions and services fell off; in addition, banks suffered considerable losses on their own securities holdings. However, satisfactory results were achieved in the traditional banking business, notably in retail banking. Banks primarily active in the classic interest-earning business were affected less by the development on the stock market than by the level of economic activity. As a result of the deterioration in loan quality, the provisioning requirements increased as well. This effect had little impact on the results, however.

… and insurance companies

At the insurance companies, especially in the life insurance segment, the fall in equity prices led to substantial losses on investments, necessitating considerable impairment charges. Several insurance companies had to subsequently strengthen their equity base. The turbulence in the stock markets also had a major impact on pension funds.

Recapitalisation of Banque Cantonale Vaudoise

In October 2002, after a review of the risk positions of Banque Cantonale Vaudoise (BCV), extraordinary provisioning requirements were again deemed necessary. The government and the parliament of the canton of Vaud subsequently approved financial resources in the amount of Sfr 1.25 billion to recapitalise the bank. The share capital had already been increased by Sfr 600 million in 2001, with the canton subscribing to practically the whole amount.

Financial Sector Assessment Program of the IMF and the World Bank

Switzerland was one of the first industrial countries to participate in the Financial Sector Assessment Program (FSAP) of the International Monetary Fund (IMF) and the World Bank. The programme, established in May 1999, aims to review the financial systems of individual countries with regard to their stability. The surveillance of the international currency and financial system is one of the IMF's main tasks. The IMF published the final report, the Financial Sector Stability Assessment (FSSA), in June 2002. The Swiss financial system is rated as robust overall and in conformity with internationally recognised standards.

The SWX Swiss Exchange regulations on Corporate Governance (RLCG) came into force on 1 July 2002. The directive stipulates that all SWX-listed companies domiciled in Switzerland must publish key data on Corporate Governance. This includes information on a corporation's structure, its shareholders, capital structure, the board of directors, and management.

Swiss Exchange Directive on Corporate Governance

Also in July 2002, economiesuisse, the Swiss Business Federation, published the Swiss Code of Best Practice for Corporate Governance. This code spells out the principles of Corporate Governance taking into account circumstances specific to Switzerland. The Swiss Code is aimed at all Swiss corporations and takes the form of non-binding recommendations.

Swiss Code of Best Practice established by economiesuisse

1 Concept

Significance of price stability

Stable prices are an important prerequisite for the smooth functioning of the economy, and they enhance prosperity. The National Bank's monetary policy aims to maintain price stability in the medium term, i.e. to prevent both inflation and deflation. In so doing, it 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 interest rates are too low, the supply of money to the economy is too high, 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 aggregate economic capacity will be stretched. As a result, only prices will rise, and the production situation will deteriorate again. By contrast, if interest rates are too high, this will reduce the flow of money to the economy and, consequently, lead to a demand shortage. Prices for goods and services will come under pressure, hampering economic growth.

Economic situation taken into account

A country's economy is subject to numerous internal and external influences, leading to fluctuations in its economic cycle. Such fluctuations are inevitable. The National Bank's monetary policy, however, which is aimed at medium-term price stability, helps to limit these fluctuations. If production capacities are underutilised, upward price pressures subside. During a period of economic overheating they intensify. The National Bank will thus tend to ease monetary policy in the former case and tighten it in the latter. In so doing, it takes account of the economic situation, promoting the balanced development of the economy.

Monetary policy concept

The National Bank needs indicators to determine whether or not 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 how it defines price stability. Second, it bases its monetary policy decisions on a medium-term inflation forecast. Third, it sets an operational target range for its chosen reference interest rate, the three-month Libor rate (London Interbank Offered Rate).

Definition of price stability

The National Bank equates price stability with a rise in the national consumer price index of less than 2% per annum. 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 overstate the actual inflation rate slightly.

Regular publication of an inflation forecast

Up to now, the National Bank has published a forecast of inflation trends for the three ensuing years in mid-year and at year-end. In future, it will publish such an inflation forecast after every quarterly assessment of the economic situation. The period of three years corresponds to the time required for the transmission of monetary impulses. Forecasts over such a long 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 based on the assumption that the reference interest rate will remain steady during the forecasting period. It thus illustrates future price trends on the assumption of an unchanged monetary policy environment and cannot be compared with the forecasts of other institutions.

Indicators of relevance to the inflation forecast

In the long term, price trends depend primarily on the course of the monetary aggregates. These thus continue to play a significant role as monetary policy indicators. In particular, the money stock M_3 provides useful information. In the short term, other indicators are relevant, the most important being measures of economic activity and exchange rates. The National Bank comments on a regular basis on the evolution of the most important monetary policy indicators that it uses in its inflation forecasts.

Review of monetary policy based on the inflation forecast

If the inflation forecast deviates from the band that constitutes price stability, monetary policy needs to be reviewed. Should inflation threaten to exceed 2%, the National Bank will consider tightening its monetary stance. On the other hand, it is ready to loosen the monetary reins if there is a danger of deflation.

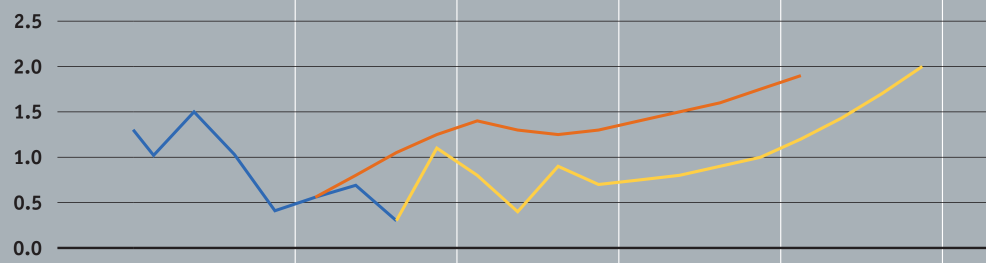
Generally no smoothing of short-term price fluctuations

The National Bank must accept that there may be 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 phase. Smoothing short-term movements in the price level would entail the threat of stronger cyclical fluctuations, which would place a significant burden on 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 interest rates 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. As a rule, 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 assessments. Explanations are given for any changes to the target range.

Inflation forecast



Inflation

Forecast June 2002
(three-month Libor: 1.25%)

Forecast December 2002
(three-month Libor: 0.75%)

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

Steering technique

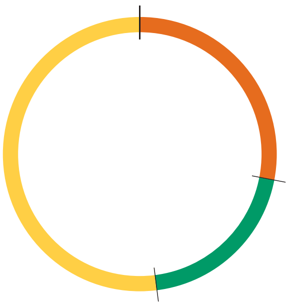
The National Bank influences the three-month Libor mainly through short-term repo transactions, its chief monetary policy instrument. It can prevent an undesirable rise in the three-month Libor rate by supplying the banks with additional liquidity through repo operations at lower repo rates (creating liquidity). Conversely, by injecting less liquidity or increasing repo rates the National Bank induces an upward interest rate movement (absorbing liquidity). The liquid funds of commercial banks in Swiss francs consist largely of sight deposits held with the National Bank. The banks' demand for sight deposits derives mainly from statutory liquidity requirements; by contrast, since intraday liquidity has been introduced demand for sight deposits stemming from interbank payment transactions has all but ceased, notably in the case of the large banks. In normal circumstances, the maturity of repos ranges from one day to a few weeks. Short-term fluctuations in repo rates hardly 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, 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. Second, maturities for repo transactions are usually shorter than three months and therefore have a lower maturity premium than the three-month Libor.

Repo operations

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.



Collateral from repo business
in percent

Swiss franc bonds
of domestic borrowers 28

Swiss franc bonds
of foreign borrowers 20

Euro bonds 52

Total: Sfr 27.9 billion.
End 2002

Apart from repo transactions, the National Bank can also employ foreign exchange swaps to regulate the money market. Furthermore, the National Bank has the option of placing time deposits held with it by the Confederation with the banks for its own account but at the Confederation's risk. In this way, it can balance shifts in liquidity between the banking system and the Confederation. The two latter instruments play no role in the current steering concept of the National Bank; since 2000, repo transactions alone have been used for regulating the money market.

Other monetary policy instruments

Instruments for money market operations in billions of Swiss francs

	2001		2002	
	Holding Average	Turnover	Holding Average	Turnover
Repo transactions (creating liquidity)	17.1	923.5	21.7	967.6
Less than 1 week	1.1	250.4	0.8	213.5
1 week	9.3	482.0	8.5	445.6
2 weeks	5.2	139.2	10.2	258.6
3 weeks	0.9	16.0	1.7	36.6
Other	0.7	36.0	0.5	13.3
Repo transactions (absorbing liquidity)	0.0	12.4	0.0	0.5
Less than 1 week	0.0	12.4	0.0	0.5
Confederation investments	4.9	72.8	5.9	66.3

By means of repo transactions, the National Bank makes interest-free liquidity (intraday liquidity) available to the commercial banks and Swiss Post during the day to facilitate the processing of payment transactions in SIC (Swiss Interbank Clearing) and foreign exchange transactions in the newly introduced (Continuous Linked Settlement) CLS system. The liquidity provided exclusively during the day may not be used to meet statutory liquidity requirements. Whether the liquidity requirements have been fulfilled is established from figures calculated 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 significantly higher than the Lombard rate.

Intraday liquidity to facilitate payment transactions

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 collateral provided in the form of securities and granted only at the official Lombard rate. The National Bank keeps this rate at two percentage points above the call money rate to discourage banks from using the Lombard loan as a permanent source of refinancing.

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

2 Implementation

Background

In December 2001, the National Bank lowered the interest rate target range for the three-month Libor to 1.25%–2.25% and published an inflation forecast assuming a constant interest rate of 1.75%. The forecast projected that inflation in Switzerland would temporarily drop to around 0.5% in the course of the year and would thereafter rise gradually to 1.5% by the end of the three-year forecasting horizon. As regards economic growth in Switzerland, the National Bank forecast a decline from an estimated 1.5% to approximately 1.0% in 2002. Initially, the National Bank therefore continued to implement its expansionary monetary policy; this was reflected, among other things, in the strong growth of the money stock M_3.

Reassessment in view of unexpectedly weak economic growth and strong Swiss franc

During the year, two specific factors necessitated several reassessments of the situation. First, it became increasingly clear that there would be a delay in the expected recovery and that the original economic growth forecast of 1.0% would not be achieved. The second factor was the appreciation of the Swiss franc. The Swiss franc had already firmed markedly, both in nominal and real terms, in the wake of the terror attacks in the US of September 11. After the pressure had eased temporarily, the Swiss franc again appreciated slightly in April and July. The appreciation of the Swiss franc in conjunction with an unchanged interest rate would have had the same effect as a more restrictive monetary policy. This was undesirable against a background of unexpectedly weak economic growth and low inflation.

Lowering of the target range in May and July

The National Bank responded to these developments by lowering the interest rate target range in two steps. On 2 May, it lowered the target range by half a percentage point to 0.75%–1.75%. On 26 July, it made a further reduction by another half a percentage point to 0.25%–1.25%. Declining economic growth and a low inflation rate of less than 1% provided leeway for this marked overall interest rate cut.

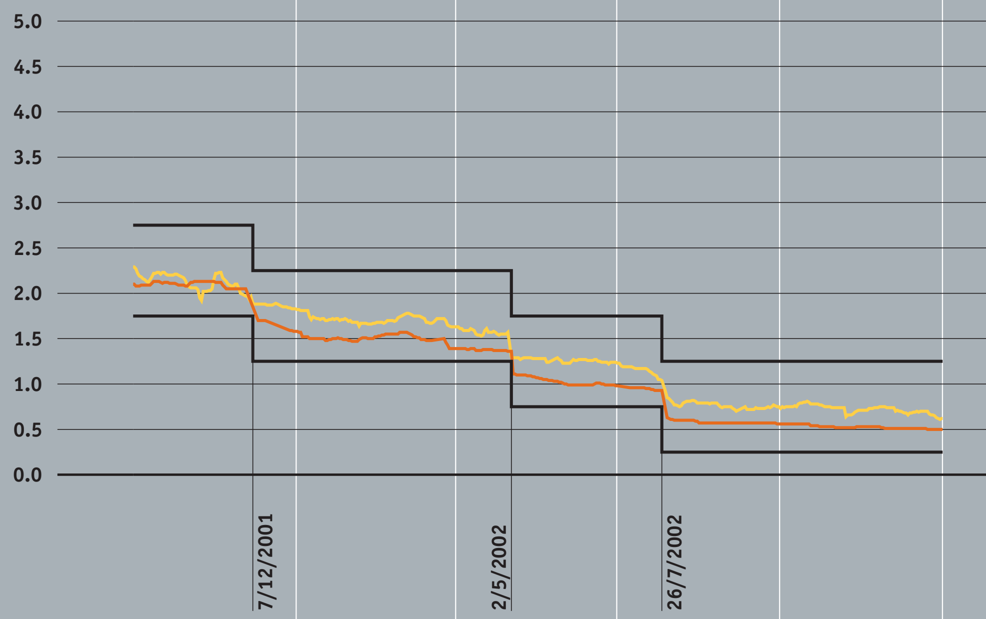
No change in the target range at the scheduled assessments of the situation

At the quarterly assessments of the situation, the National Bank left the interest rate target range unchanged. In March there was no reason as yet to change monetary policy. Favourable data on economic activity in the US had even improved sentiment somewhat, which had also caused share prices to move up. In June and September account had to be taken of the fact that the interest rate target range had already been lowered twice, on 2 May and 26 July. At these two quarterly assessments of the economic situation, therefore, no need for additional measures emerged. In December, the National Bank again left the target range unchanged. It continued to implement its expansionary monetary policy in support of the expected upswing.

Money market rates

Three-month Libor
Repo rate 1 week
Target range

Daily quotations.

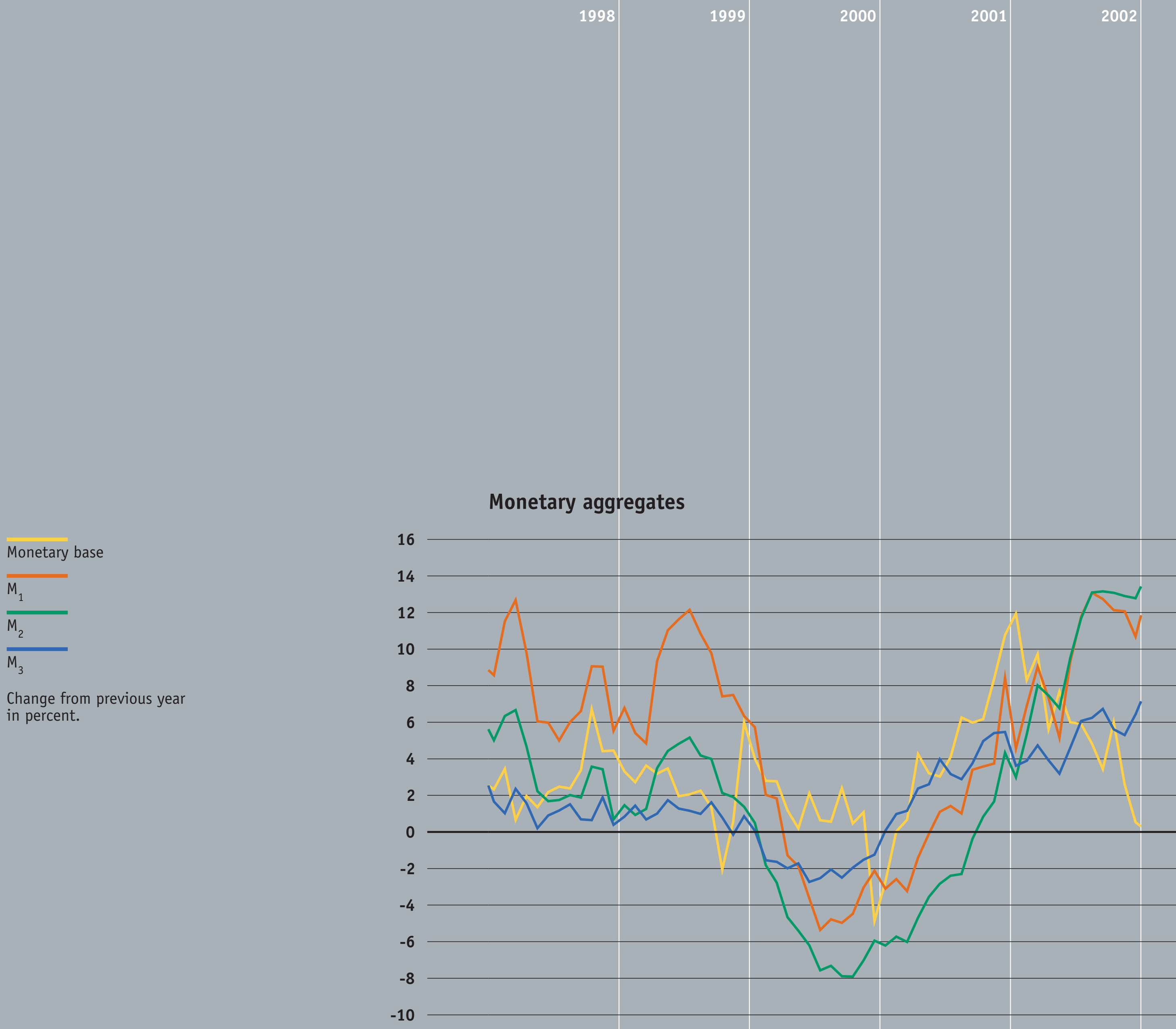


Q4 2001 Q1 2002 Q2 Q3 Q4

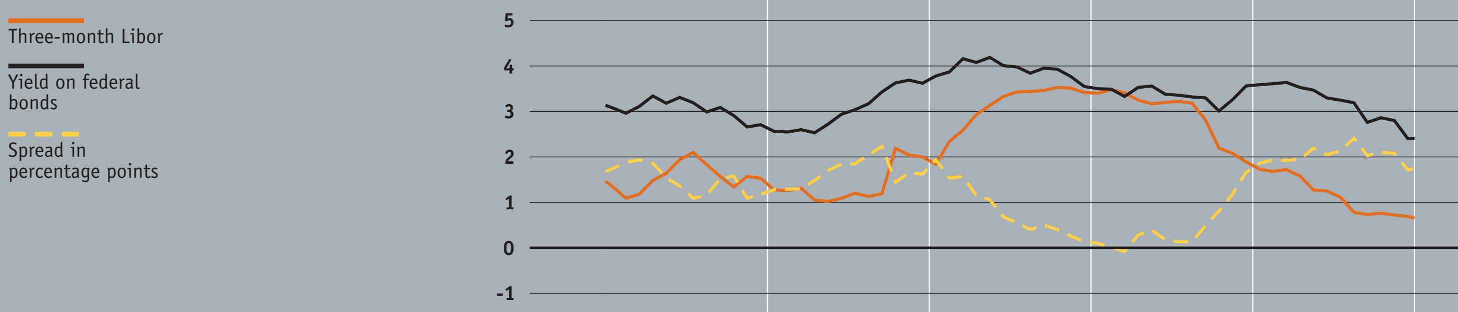
Signals for a medium-term increase in interest rates

The inflation forecast published in June 2002 indicated that, with an unchanged three-month Libor rate of 1.25%, inflation would rise rapidly and distinctly near the end of the forecasting horizon. Moreover, the inflation forecast published in December 2002, which is based on a constant three-month Libor rate of 0.75%, showed a similar development. Both forecasts thus signalled that the low interest rate level is appropriate for the time being but cannot be maintained in the long term without jeopardising price stability.

Monetary aggregates



Money and capital market rates



Legal framework

1 National referendum on the gold initiative and the counter-proposal of the Federal Assembly

Double "no" vote

On 22 September 2002, a federal referendum was held on the use of National Bank gold reserves no longer required for monetary policy purposes. In this referendum, neither the people's initiative of 30 October 2000, "Surplus gold reserves for the (Federal) Old Age and Survivors Insurance Fund (gold initiative)", nor the counter-proposal of the Federal Assembly of 22 March 2002, "Gold for the (Federal) Old Age and Survivors Insurance Fund, the cantons and the Swiss Solidarity Foundation", was approved. The contents of the Monetary Article of the Federal Constitution (Art. 99 FC) was thus left unchanged and was also not extended by a transitional provision. The use of the gold reserves no longer needed remains an unresolved issue. The constitutional provision to the effect that at least two-thirds of the net profit of the Swiss National Bank is allocated to the cantons (Art. 99 para 4 FC) applies without restriction.

Significance for the National Bank

The lack of a special legal basis for the use of the reserves no longer needed means that, for the time being, these are not available for other public purposes. They will still be shown in the balance sheet of the National Bank. The earnings from gold sale investments flow into the ordinary income statement. The National Bank, however, considers it desirable for the reserves no longer needed to be separated from the Bank's assets in order to avoid conflicts of interest between monetary policy and asset management.

2 Total revision of the National Bank Law

Results of the consultation procedure

On 16 January 2002, the Federal Council took note of the results of the consultation procedure which had been conducted on the basis of a draft by a group of experts on the total revision of the National Bank Law (cf. 94th Annual Report, p. 47). It stated that the draft law had met with wide approval and published the report on the consultation procedure.

Guidelines issued by the Federal Council

At the same time, the Federal Council passed a number of basic decisions for proceeding. Thus it determined that the National Bank should maintain the legal form of a joint-stock company governed by special law, and decided in favour of a legal domicile in both Berne and Zurich. The Federal Council confirmed the wording of the central bank mandate as laid down in the consultation procedure draft: "The National Bank shall pursue a monetary policy serving the interests of the country as a whole. It shall ensure price stability. In so doing, it shall take due account of the development of the economy". It proposed a threefold accountability structure for the National Bank vis-à-vis the Federal Council, Parliament and the public as a counterbalance to independence. It outlined the basic concept of the minimum reserve requirement and the oversight of payment systems. The Federal Council upheld the distribution of the National Bank's profits to the Confederation and the cantons in the proportion of one-third to two-thirds. Furthermore, it decided that the Bank Council must approve the level of provisions and it expressed its support for reducing the Bank Council from its current 40 members to 11 members in the future.

Message and draft law for consideration by the Federal Parliament

Under these terms of reference, the Federal Department of Finance, in conjunction with the National Bank, has drafted a Message on the revision of the National Bank Law. It was passed by the Federal Council on 26 June 2002 for consideration by the Federal Parliament. From the vantage point of the National Bank, the draft of the revision submitted to Parliament has been refined significantly compared with the preliminary draft of the group of experts: thus the tasks of the National Bank now include co-responsibility for the stability of the financial system. With this, the lender-of-last-resort function has become embodied in the law. Furthermore, in addition to payment systems relevant in terms of risk, securities settlement systems are now also made subject to oversight by the National Bank. Cooperation between the system oversight authority (National Bank) and the banking supervisory authority (Swiss Federal Banking Commission or a foreign supervisory authority) will be specifically laid down in the National Bank Law. Moreover, various amendments to the Banking Law and the Stock Exchange Act are proposed with a view to better adapting the supervisory framework for system operators to their special characteristics. Where minimum reserves are concerned, authority is vested in the National Bank to extend the reserve obligation by ordinance to issuers of electronic money as well as to other issuers of payment instruments. Furthermore, the law specifies, in several respects, the basis for calculating the minimum reserves.

3 New profit distribution agreement

1998 agreement replaced

On 5 April 2002, the Federal Department of Finance and the National Bank concluded a new agreement concerning the distribution of the Swiss National Bank's profit. The new agreement replaces the current profit distribution agreement of 24 April 1998, which lays down allocations to the Confederation and the cantons of Sfr 1.5 billion per annum up to and including the 2002 business year. The new agreement is valid for a period of 10 years, i.e. it comprises the 2003 to 2012 financial years.

Higher profit distribution

At the end of 2001, the National Bank held provisions for market, credit, liquidity and operating risks exceeding the targeted level by Sfr 13.4 billion. This surplus is to be reduced over a period of 10 years. This will make it possible to increase profit distribution to Sfr 2.5 billion as from spring 2004. Moreover, the profit of Sfr 1.5 billion to be distributed in spring 2003 according to the current agreement can already be raised to Sfr 2.5 billion by means of a special allocation of Sfr 1 billion. Once the distributable surplus has been reduced, the profit distributed by the National Bank will be limited to the level of income actually earned – approximately Sfr 900 million p.a. on the basis of today's figures.

Content refined

The substance of the profit distribution agreement has also been refined. The rule of thumb, according to which the provisions of the National Bank increase in line with economic growth, is henceforth to be based on nominal gross domestic product (formerly gross national product). The targeted level of currency reserves is now calculated to include gold reserves (basis: 1,290 tonnes of gold) in addition to foreign exchange reserves. The free assets of the National Bank, amounting to 1,300 tonnes of gold or the proceeds from intermediary gold sales, are not included in the calculation. As up to now, a minimum level of provisions will ensure that the conduct of monetary policy will not be jeopardised even in the event of unexpected losses in earnings of the National Bank: provisions may not fall below the targeted level by more than Sfr 10 billion. At the same time, a newly introduced upper level will ensure that the planned reduction in surplus provisions is not delayed unnecessarily as a result of higher-than-forecast central bank earnings: provisions may not exceed the envisaged reduction volumes by more than Sfr 10 billion. In any case, the level of the agreed amount for distribution will be reconsidered after a period of five years.

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 monetary policy framework

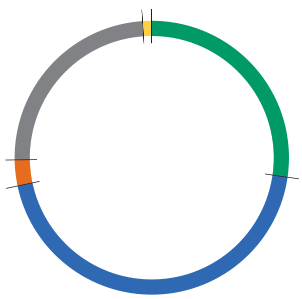
A considerable part of the National Bank's assets directly serve the implementation of monetary policy. In order to supply the economy with base money and to steer money market rates, the National Bank purchases securities (repos) or foreign exchange (swaps) from the banks on a temporary basis. In 2002, monetary policy was implemented exclusively by means of repo transactions.

Foreign exchange reserves and gold

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 sell foreign exchange reserves against Swiss francs at any time in order to support the external value of the currency. The National Bank's 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 that part of the gold reserves no longer required for monetary policy purposes (cf. 93rd Annual Report, p. 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 gold sales are managed apart from other assets, but are not shown separately in the books since they do not constitute segregated assets in the legal sense.



Structure of National Bank assets
in percent

Gold 27

Foreign exchange reserves 44

Other foreign currency assets 3

Domestic financial assets 24

Other domestic assets 1

Total: Sfr 116 billion.
Balance sheet values, average

Scope for managing assets

The National Bank Law specifies both the types of assets which the National Bank may acquire and the instruments it may employ for their management. The National Bank manages its assets as profitably as possible within the framework of legal provisions, the risk limits set internally and the requirements of its monetary policy mandate.

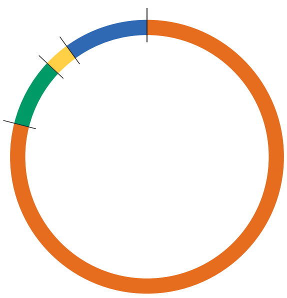
1.2 Monetary foreign exchange reserves

Investment principles

The National Bank invests the bulk of its monetary foreign exchange reserves – i.e. foreign currency assets excluding that part allocated to free assets (see p. 45) – in secure and liquid securities, and a small proportion in time deposits with foreign banks. It ensures that, if necessary, it can sell the investments at short notice without incurring undue losses. The National Bank Law permits the acquisition of liquid marketable debt certificates issued by foreign governments, international organisations and foreign banks. The currency risk inherent in holding foreign exchange reserves is not hedged, as this would limit scope for action if intervention were required or in the event of a crisis.

Three-stage decision-making process

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 portfolio management success is the yield achieved on these reference portfolios.



Foreign exchange reserves by debtor
(excluding free assets)
in percent

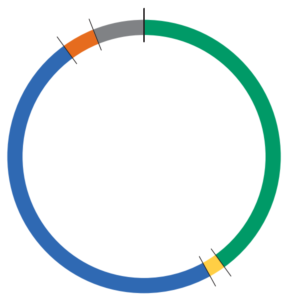
Government securities 79

Securities with indirect government guarantee 8

Monetary institutions 3

Banks 10

Total: Sfr 42.9 billion.
End 2002



Foreign exchange reserves by currency
(excluding free assets)
in percent

US dollars 40

Canadian dollars 2

Euros 48

Danish kroner 4

Pounds sterling 6

Total: Sfr 42.9 billion.
End 2002

Investment activity and performance

The foreign exchange reserves were reduced by approximately Sfr 1.6 billion in favour of a higher level of repo holdings during 2002. The average duration of the foreign exchange reserves was extended from four to five years at the beginning of the year. Given a backdrop of falling interest rates, this had a positive effect on profits. Yen-denominated investments were disposed of. In addition to futures, the National Bank used interest rate swaps to regulate the average duration of portfolios. Overall, the yield on monetary foreign exchange reserves amounted to 0.4% compared with 5.2% in the previous year. At the end of 2002, these reserves came to Sfr 42.9 billion, thus falling short of the previous year's level by Sfr 0.7 billion.

Annual performance of monetary foreign exchange investments
Yields in percent

	2000		2001		2002	
Currency portfolio	Local currency	Swiss francs	Local currency	Swiss francs	Local currency	Swiss francs
US dollar	10.1	12.6	6.3	9.1	12.1	−7.3
Euro	6.0	0.7	5.7	2.7	9.2	7.1
Yen	1.0	−8.1	1.9	−8.6	–	–
Pound sterling	8.6	2.8	5.7	5.0	8.3	−9.3
Danish krone	5.5	−0.2	5.6	3.0	9.4	7.5
Canadian dollar	7.9	6.9	7.9	4.0	8.7	−0.2
Total foreign currency reserves		5.8		5.2		0.4

External asset managers

External asset managers had 9.7% of all foreign exchange reserves under management at the end of 2002. With these management mandates, the Bank is able to tap into investment segments such as mortgage-backed securities in the United States and international bond portfolios. A specialised global custodian processes transactions involving the externally managed foreign exchange reserves.

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. It thus pursues a passive investment policy, i.e. it replicates an index for Swiss franc bonds that is representative of the market. The index includes all the debtor categories permitted by the National Bank Law: the Federal Government, cantons and municipalities, domestic and foreign banks and mortgage bond institutions, foreign governments and international organisations.

Investment performance

At the end of 2002, the market value of the portfolio – without that part allocated to free assets – amounted to Sfr 6.0 billion, compared with Sfr 5.5 billion in the previous year. At 4.6 years, the duration of the portfolio was in line with that of the benchmark. Owing to the fall in interest rates, portfolio yield was substantially higher – up from 4.3% in 2001 to 10.0%.

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 2002, the amount of gold lent was 254.6 tonnes. The National Bank's counterparties are some twenty domestic and foreign financial institutions, which pay interest on the temporary loan of gold.

Swiss franc securities by debtor
(excluding free assets)
in percent

Confederation 25
Cantons 9
Communes 5
Mortgage bond institutions 17
Banks 9
International organisations 8
Foreign borrowers 27

Total: Sfr 6.0 billion.
End 2002

The National Bank concludes a part of its gold lending transactions against securities collateral. Depositing such collateral lowers the credit risk considerably, although it reduces income at the same time. At the end of 2002, 37.7% 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 2002, the National Bank achieved a yield of 1.2% on its gold lending activities. The sharp fall in short-term gold lending rates prompted the National Bank to reduce its portfolio of unsecured lending transactions. At the end of the year, the average residual maturity of the gold lending portfolio amounted to 12.3 months.

Investment performance

1.5 Free assets

On 22 September 2002, the people and the cantons rejected both the gold initiative and the Federal Assembly's counter-proposal (see p. 38). That part of the gold reserves not required for monetary policy purposes will therefore remain with the National Bank for the time being, but will continue to be sold off gradually. The proceeds from these sales will be invested in a range of financial assets that will be managed separately from the monetary reserves. The investment process is structured similarly to that for 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 procedures. The yardstick for success is the yield achieved on benchmark portfolios.

Principles

In 2002, the National Bank sold 281.9 tonnes of gold at an average price of USD 310.3 per ounce. The proceeds amounted to Sfr 4.4 billion. Of the planned 1,300 tonnes, 673.5 tonnes had thus been sold by the end of the year. The sales were concluded at regular intervals and in quantities that kept any disruption of the market to a minimum.

Gold sales

The agreement on gold sales of September 1999 substantially limits the options for hedging additional gold holdings that are earmarked for sale against an unfavourable movement in the Swiss franc gold price. The National Bank may therefore not use derivative instruments to hedge against the gold price risk. It can, however, reduce the currency risk attached to 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 35% of the future proceeds in dollars. In 2002, the drop in the dollar exchange rate resulted in a profit of Sfr 741.3 million from hedging transactions, following a loss of Sfr 317.0 million in the previous year.

Partial hedge against the currency risk on future gold sales

Investment of the proceeds of gold sales

Proceeds from gold sales are invested exclusively with top-rated borrowers. The portfolio consists mainly of bonds issued by institutions under public law, as well as a small proportion of time deposits with domestic and foreign banks. At the end of 2002, 11% of the investment portfolio consisted of Swiss-franc denominated bonds, and another 57% was hedged against currency risks. The rest of the portfolio was invested in euros (21%), US dollars (4%) and other currencies (7%). The duration of the portfolio was three years, and net yield was 5.2%.

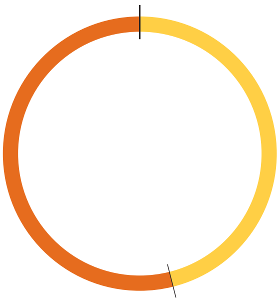
Free assets at year-end

At the end of 2002, the market value of free assets amounted to Sfr 21.0 billion, Sfr 9.7 billion of which was accounted for by the gold reserves that are earmarked for sale, and a total of Sfr 11.0 billion by investments denominated in both foreign exchange and Swiss francs. The market value of free assets was Sfr 0.7 billion higher than the Sfr 20.3 billion provision for their assignment. The difference results from the fact that the income received from managing the proceeds from gold sales is not included in this provision.

1.6 Risk management

Purpose of risk management

The risk management process identifies, assesses, limits and controls all relevant financial risks which the National Bank incurs by virtue of its activities on the money 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 of crucial importance. In addition, the National Bank incurs certain credit risks within the framework of its investment and monetary policy. Investments are limited to borrowers with above-average credit ratings. 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.



Market value of free assets
in percent

Gold (earmarked for sale) 46

Investments in foreign currencies and Swiss francs 54

Total: Sfr 21.0 billion.
End 2002

Risk limitation and control

Risk is controlled by means of a system of guidelines and limits. The strategic guidelines for market risk are laid down by the Governing Board, while those for the credit risk are set by the bank authorities. An internal risk committee translates these guidelines into concrete allocations and is responsible for the supervision process. Compliance with the guidelines and limits is monitored systematically and the outcome of this process 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 from the Bank Committee assuming special responsibility for risk control.

Risk trends in 2002

The National Bank made slight adjustments to its investment policy in 2002. A greater degree of interest rate risk was accepted as the duration of foreign exchange reserves was extended from four to five years. At the same time, the foreign exchange reserves held in yen were disposed of in favour of the euro and US dollar. Credit risk was reduced in the course of the year by lowering the limits for bank investments and investments with the major US mortgage institutions. There was a modest shift in the risk profile of assets as interest rate risk took a somewhat higher proportion of the total. By far the greatest share of aggregate risk still derives from exchange rates and the gold price, however.

Greater fluctuations in return

Fluctuations in returns were higher overall compared with the previous year. The gold price and the prices of bonds, in particular, recorded greater swings than in 2001. The marked decline in yields on the bond markets generated price gains on investments, and the gold price in Swiss francs also rose. By contrast, there were losses on all investment currencies, most notably the dollar. While the role of the National Bank requires that currency risk on monetary foreign exchange reserves be left unhedged, this risk was limited significantly by the foreign exchange forward transactions conducted in respect of the free assets. The hedging ratio was raised year-on-year, such that the depreciation of the dollar had only a minor impact on the return on free asset investments. The aggregate risk attached to free assets was dominated by the price risk relating to still-unsold gold holdings, despite partial hedging of the inherent dollar risk.

Diversification of liquidity risk

The National Bank counters liquidity risks by holding the majority of its investments in the world's most liquid currencies and investment markets. This diversifies liquidity risk across the most important financial centres world-wide.

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 with cash via the banking system and Swiss Post, while the operative side of electronic payments is handled by the Telekurs Group (which is jointly owned by the banks), and Swiss Post. The National Bank oversees Swiss Interbank Clearing (SIC) and keeps the participants' accounts in this system. SIC is the major payment system in Switzerland, processing almost all interbank clearings from large-value transactions to retail payments. SIC is adapted continuously in line with the prevailing needs.

2.2 Cashless payment transactions

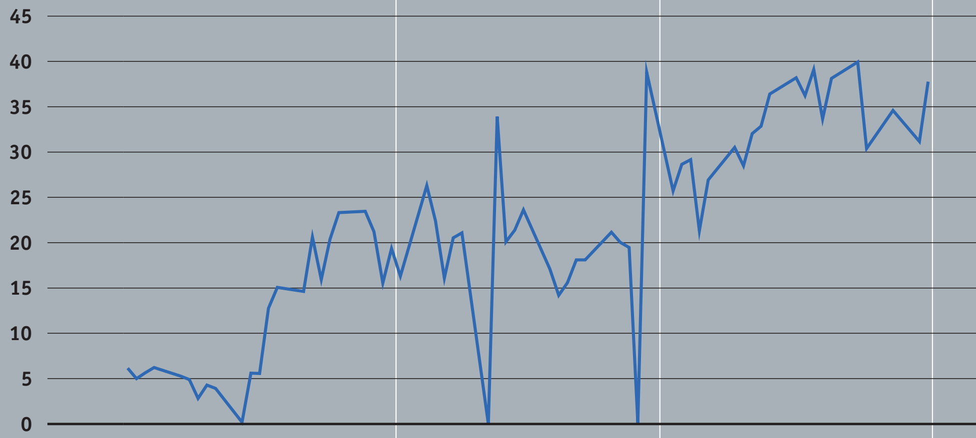
More payments but lower volume through SIC

At the end of 2002, there were 314 participants in SIC, compared with 313 at the end of 2001. SIC handled an average of 705,000 payments a day, worth some Sfr 180 billion. Although this represents 61,000 more payments than the previous year, volumes were down by Sfr 2 billion.

Payment flows in SIC

	1998	1999	2000	2001	2002
Transactions per day in thousands					
Average	529	556	596	644	705
Maximum	1 323	1 384	1 821	2 078	1 874
Volume per day in billions of Swiss francs					
Average	182	170	178	182	180
Maximum	270	296	291	274	270
Liquidity per day average in millions of Swiss francs					
Sight deposits (end of day)	3 710	3 503	3 336	3 339	3 327
Intraday credits		2 221	2 074	2 566	3 897

Volume of transactions in the CLS System



Sfr billions

Daily quotations.
CLS: Continuous Linked Settlement System

October 2002 November December

Mass payment systems at SIC

The volume of mass payments handled by SIC in 2002 amounted to 0.7% of its total turnover. SIC provided 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 facility.

Payment transactions in euros

To give them access to TARGET (Trans-European Automated Real-Time Gross Settlement Express Transfer System), the Swiss banks and Swiss Post run a special clearing bank in Frankfurt, the Swiss Euro Clearing Bank (SECB). The SECB operates the euroSIC clearing system, which is structured in a similar way to SIC. Most Swiss banks, in addition to Swiss Post, execute their euro payments through this bank. The transaction volume increased slightly in 2002, averaging 1.7 billion euros per day, compared with 1.5 billion euros in 2001. The number of euroSIC payments rose to 1.6 million, around 40% of which were cross-border transactions.

Start of the Continuous Linked Settlement System

September 2002 saw the start of the Continuous Linked Settlement (CLS) system. CLS is a global payments system that settles both sides of a foreign exchange transaction simultaneously (delivery-versus-payment principle) and thereby eliminates settlement risks. The settlement via CLS of amounts in Swiss francs is made possible via a direct link between SIC and the CLS Bank, which operates the CLS system. An average of 1,418 transactions a day, worth a total of Sfr 20.5 billion, were processed between October and December 2002.

2.3 Provision of currency

Higher volume of currency in circulation

There was a further significant year-on-year rise in banknote circulation in 2002. The percentage increase was lowest in the fourth quarter, owing to inflated figures for the previous year in anticipation of the launch of the euro in note and coin form. Averaged over the year, banknote circulation amounted to Sfr 35.1 billion, thus exceeding the previous year's figure by 6.4%. Circulation of the two largest denominations, in particular, was very high. Averaging Sfr 2.3 billion, coins in circulation equalled the previous year's figure.

Banknotes

During the year under review, the National Bank put 114 million freshly printed banknotes with a face value totalling Sfr 7.9 billion into circulation. It destroyed 116.6 million damaged or recalled notes with a face value of Sfr 8.5 billion.

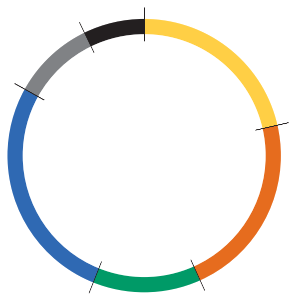
Increase in currency turnover

In 2002, the National Bank's offices registered an 8.6% increase in currency turnover to Sfr 135.8 billion in value terms. They received around 448 million or 16.7% more notes than in the previous year and checked them for authenticity and quality. This increase in turnover is attributable to an increase in transactions with cash processing facilities. These are specialised companies which handle the sorting and distribution of cash on behalf of third parties.

Regional concentration

The reorganisation of Swiss Post's cash processing activities, as well as the nationwide operations of cash processing facilities, are reducing the cash turnover of the agency network and correspondents which offer local banknote and coin acceptance and issuing services. Consequently, the agencies in Weinfelden and Bellinzona closed as of the end of 2002. More and more financial institutions that are entitled to deal directly with the National Bank are outsourcing their cash activities to cash processing facilities. These organisations generally concentrate their processing operations in the major urban areas of Zurich, Berne and Geneva and prefer to deal with the local National Bank offices in those cities. As a result, offices in Berne, Geneva and Zurich registered a growing volume of incoming banknotes, while in Lugano, fewer notes were received than in the previous year.

While processing banknotes received, the National Bank secured 342 counterfeits (2001: 504) and handed them over to the police. The total number of counterfeit Swiss banknotes registered in Switzerland was approximately ten times this figure.



Banknotes in circulation
Denom. units (number in millions)

Sfr 10 57

Sfr 20 58

Sfr 50 34

Sfr 100 72

Sfr 200 26

Sfr 1000 19

Annual average

3 Statistical tasks

Basis

The National Bank collects those statistical data from banks, securities dealers, investment funds and other enterprises that it needs to fulfil its mandate. This data is used for analyses related to monetary policy, monitoring and forecasting economic developments, analysing system stability and monitoring developments on the financial markets. 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, and 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 and statement of the international investment position. All of these statistics are compiled by agreement with the data-reporting institutions and enterprises and conform as closely as possible to international standards. The growing significance of statistical information activity over the last few years is reflected in a marked expansion in the number of time series administered by the National Bank – the figure had grown to approximately 1.3 million by the end of 2002.

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, the Monthly Bulletin on Banking Statistics and the statistical yearbook of the Swiss banks. These publications are supplemented by reports on Switzerland's balance of payments, the international investment position and direct investment.

Monthly Bulletins on the Internet

In 2002, the National Bank began to offer the Statistical Monthly Bulletin and the Monthly Bulletin on Banking Statistics in electronic form on the Internet. This type of presentation facilitates the transfer and further processing not only of the series that have been published in the past, but also of new and additional time series.

IMF portfolio survey

In 2002, the National Bank participated for the first time in the IMF portfolio survey covering securities of foreign issuers held by domestic bank customers in safekeeping accounts. This internationally coordinated survey is designed to help reduce the statistical differences that exist around the world in capital flows and positions between borrower and creditor countries. At the end of 2001, banks in Switzerland managed Sfr 830 billion in foreign securities in the safe custody accounts of domestic customers. Just over 60 percent of this figure was accounted for by securities issued by borrowers in the United States, Luxembourg, Germany, the Netherlands, France and the United Kingdom (incl. Jersey).

Preparatory work for financial accounts

In collaboration with the Swiss Federal Statistical Office, the National Bank has been involved in preparatory work for the production of a set of financial accounts for Switzerland. These financial accounts are intended to close a major gap in the system of national accounts. They also offer valuable information for monetary policy, because they show the flow of funds between different sectors of the economy.

Banking statistics committee

The National Bank is advised on the content of all its surveys by the banking statistics committee, which comprises representatives of the banks, the Swiss Bankers Association and the Swiss Federal Banking Commission. In 2002, the National Bank convened a group of bank economists and representatives of the Swiss Federal Statistical Office to discuss issues of how to measure banks' added value and other topics affecting the Swiss financial sector from a macroeconomic viewpoint.

The National Bank gathers data for banking supervision purposes on behalf of the Swiss Federal Banking Commission. Where banking statistics and macroeconomic data are concerned, the Bank fosters a close working relationship with the Swiss Federal Statistical Office, the Bank for International Settlements (BIS), the OECD, the EU statistical office Eurostat, and the IMF. This co-operation is aimed at harmonising statistical survey methods and analyses.

Collaboration with domestic and foreign agencies

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 stipulates that most of these services be rendered free of charge. They comprise payment transactions, coinage, borrowing in the money and capital markets as well as the investment of funds and safe custody.

Money market business

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, the National Bank assists the Confederation in taking out money market loans from banks. It pays interest at market rates on time deposits held with it by the Confederation, and on sight deposits up to a limit of Sfr 600 million at the call money rate. Swiss Post places its liquid funds direct on the money market.

Money market debt register claims and Confederation bonds

In 2002, the National Bank arranged 52 issues of money market debt register claims (MMDRCs) and 15 bond issues on behalf of the Confederation – both by auction – via the auction system of the electronic trading platform Eurex Repo. MMDRCs to the total amount of Sfr 54.7 billion were subscribed, and Sfr 40.6 billion were allocated. Federal bonds were subscribed for a total amount of Sfr 9.9 billion, of which Sfr 8.4 billion were allocated.

Confederation bonds and money market debt register claims

	1998	1999	2000	2001	2002
Number of issues[1]					
MMDRC	52	52	52	52	52
Confederation bonds	11	10	14	14	15
Total subscribed in billions of Swiss francs					
MMDRC	89.4	75.7	62.7	53.0	54.7
Confederation bonds[2]	10.8	8.1	15.6	12.6	9.9
Total allocated in billions of Swiss francs					
MMDRC	45.1	46.8	42.4	39.7	40.6
Confederation bonds[2]	5.2	4.1	9.3	7.5	8.4
Outstanding at year-end in billions of Swiss francs					
MMDRC	12.9	17.1	13.4	11.5	12.4
Confederation bonds[3]	43.3	46.5	54.1	62.1	70.2

1 based on date of payment
2 excluding the Confederation's own tranches
3 including own tranches placed in the market by the Confederation

Administration and settlement services, coinage

The National Bank settles certain payments 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 federal agencies and associated enterprises. The National Bank also distributes, processes and stores large quantities of coins on behalf of the Confederation.

5 Cooperation with federal agencies

On a national level, the National Bank cooperates with the Federal Department of Finance and the Swiss Federal Banking Commission, but also with other federal agencies.

5.1 Partial revision of the Banking Law

Bank reorganisation, bank liquidation and depositor protection

Following the consultation procedure concerning the report of the commission of experts for "Bank reorganisation, bank liquidation and depositor protection" (cf. 94th Annual Report, p. 64), the Federal Council commissioned the Federal Department of Finance to draft a Message on the amendment to the Banking Law. The National Bank participated in this task. It dealt in particular with the question of the maximum amount that privileged bank deposits in a bankruptcy were to be guaranteed by the banks' depositor protection system, expressing its support for an increase from the current Sfr 1 billion to Sfr 4 billion. It also welcomed the proposal that every bank should be obliged to permanently hold liquid funds in excess of the legally required level for at least half of its contributory obligations. The Federal Council passed its Message on the amendment to the Banking Law on 20 November 2002.

5.2 Cooperation with the Federal Banking Commission

Closer cooperation on a technical level

In 2002, the Governing Board held two meetings with the Federal Banking Commission (FBC) 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. Within the context of the "System stability" steering committee set up in 2001, the National Bank and the Secretariat of the Federal Banking Commission continued to strengthen their cooperation on a technical level.

5.3 Special fund for needy victims of the Holocaust/Shoa

The Federal Council dissolved the Fund for needy victims of the Holocaust/Shoa as at the end of December 2002.

Background

This special fund had been set up by the Federal Council by an ordinance of 26 February 1997. Its purpose was to distribute donations from the banks, insurance companies, industry and the National Bank to needy survivors of the Holocaust.

The three big banks of the time participated in the Fund with a contribution of Sfr 100 million. On 31 October 1997, the Bank Council of the National Bank decided to pay Sfr 100 million into the Fund. The Bank Council intended the contribution as a humanitarian gesture in favour of persons who had suffered at the hands of the National Socialist regime. Other enterprises contributed approximately Sfr 70 million to the Fund.

Jointly with the Confederation and the big banks, the National Bank bore the administration and auditing costs of the Fund. It also kept the Fund's accounts on behalf of the Federal Finance Administration.

The Fund did not deal with any individual applications of victims; rather it treated applications of organisations representing victims. These organisations played a key role in the distribution of the Fund's money; the financial support, however, was paid direct to the victims.

Results

The Fund's money was almost entirely distributed to Jewish victims of the Holocaust. Most of the funds flowed into Eastern Europe and the former Soviet Union, followed by Israel, North America, Western Europe, Australia and New Zealand. Judging by the reactions of the beneficiaries, the victim organisations and the foreign authorities, the fund's activity was considered to have been positive.

6 International cooperation

On an international level, the National Bank cooperates mainly with the International Monetary Fund (IMF), the Group of Ten (G-10) – comprising ten leading industrial countries and Switzerland – the Bank for International Settlements (BIS) and the Organisation for Economic Cooperation and Development (OECD). The National Bank participates in international cooperation by providing technical assistance and specialist training.

6.1 Participation 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 2002, Switzerland's reserve position amounted to 1,410.0 million SDRs (special drawing rights), compared with SDR 1,258.7 million at the end of 2001. (At the end of 2002, one SDR was equivalent to Sfr 1.89. This figure is calculated on the basis of weighted exchange rates for the dollar, euro, yen and pound.) The marked increase in the reserve position is due mainly to the drawings of the IMF to resolve the financial crises in Brazil, Uruguay and Turkey.

Start of repayments to the Poverty Reduction and Growth Facility (PRGF)

The National Bank finances the Swiss contribution to the loan account of the Poverty Reduction and Growth Facility (PRGF, formerly ESAF II). This facility is used to grant long-term loans at reduced interest rates to low-income developing countries. The individual drawings have a maturity of ten years, with repayments in instalments beginning five-and-a-half years after the loan has been paid out. The Confederation guarantees the National Bank the timely repayment of the PRGF loans, including interest payments. In 2001, the IMF exhausted the Swiss loan commitment of SDR 151.7 million in its entirety. At the end of 2002, repayments began with a first instalment of SDR 2.9 million.

First drawing under the interim PRGF

As the PRGF's resources were used up as of the end of 2001 and since it cannot be operated as a self-financing facility until 2005, interim funding is required in the form of an "interim PRGF". The National Bank has paid SDR 250 million towards the capital of the interim PRGF, but has capped its involvement at 6.25% of all bilateral capital contributions. The terms of the loan commitment to the interim PRGF correspond to those applicable to the PRGF. In December 2002 the IMF made use of the Swiss loan commitment for the first time, drawing SDR 6.07 million.

6.2 Participation in the Group of Ten

The National Bank participates in meetings of the finance ministers and central bank governors of the Group of Ten, as well as in various working groups.

Extension of participation in the IMF's General Arrangements to Borrow

With its Message of 20 November 2002, the Federal Council submitted the Federal decree on the extension of Switzerland's participation in the IMF's General Arrangements to Borrow (GAB) to Parliament. Switzerland has been associated with the GAB since 1964 and has been a member since 1984. The Swiss National Bank is the participating institution. In the event that the IMF finds itself short of funds, the GAB enable it to borrow supplementary resources of SDR 17 billion to prevent or resolve an extraordinary crisis threatening the international monetary system. The credit commitment of the National Bank amounts to SDR 1,020 million. The GAB are valid for five-year periods. Accordingly, any renewal of Switzerland's participation has, in the past, been decided by the Federal Parliament every five years. In future, this will be the responsibility of the Federal Council, with the prior agreement of the National Bank. The present GAB expire at the end of 2003.

Extension of participation in the IMF's New Arrangements to Borrow

On 20 November 2002, the Federal Council approved the extension of Switzerland's participation in the IMF's New Arrangements to Borrow (NAB) for a further five-year term. The NAB came into effect in 1998 and run until the end of 2003. They double from SDR 17 billion to SDR 34 billion the GAB resources that are available to the IMF in order to respond to financial emergencies. In addition to the participants in the GAB, 14 other countries (industrial countries and emerging economies) participate in the NAB. The credit commitment of the National Bank, which is also the participating institution in the NAB, amounts to SDR 1,557 million. This is the upper limit of commitments under the GAB and the NAB, since the two facilities cannot be drawn on cumulatively. The same domestic regulations as will in future apply to the GAB govern the extension of the NAB.

Federal Council approves inclusion of Chile in NAB

On 20 November 2002, the Federal Council declared its agreement with the inclusion of the central bank of Chile as a new participant in the NAB. The Latin American country became a new NAB member in mid-February 2003, with a credit commitment of SDR 340 million. As the maximum SDR 34 billion credit that is available to the IMF under the GAB and NAB facilities will remain unchanged, the credit commitments of existing members will be reduced pro rata by the Chilean contribution. The credit commitment of the National Bank thus decreases to SDR 1,540 million.

Activities in the Group of Ten

In 2002, the Group of Ten devoted itself to various issues relating to the international financial system. One of the main areas of focus was the drafting of collective action clauses for loan agreements involving sovereign borrowers. These collective action clauses lay down a procedure whereby, in the event of default, the debts of government borrowers can be restructured by means of a majority decision by the creditors. Particular attention was also devoted to issues of the insolvency procedure for private financial institutions in various countries, as well as the impact of policy measures on the stability of the financial system.

6.3 Cooperation with the Bank for International Settlements

BIS bodies

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

Basel Committee on Banking Supervision: capital adequacy recommendations …

In 2002, the Basel Committee on Banking Supervision continued to concentrate its efforts on the review of capital adequacy recommendations for internationally active banks. Work focused on the treatment of securitisation, claims against small and medium-sized enterprises and private clients, as well as operational risks. In October, the Committee published full regulations regarding minimum capital requirements. Working on the basis of these regulations and in close collaboration with government authorities and the banks, the Committee has quantified the new capital adequacy requirements in a special study. Furthermore, during the second quarter of 2003 it will present a revised version of the new agreement for public consultation. The Committee aims to finalise the new agreement in the fourth quarter of 2003 so that the new regulations can enter into force in all countries at the end of 2006.

… and other tasks

In addition, the Committee dealt with further questions pertaining to the stability of the international banking system. Specifically, it presented a public consultation paper constituting the reformulation of the sound practices for the management and supervision of operational risk. The Committee also published recommendations on the steps that supervisory authorities should take with regard to problem banks.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems published two reports. Drawn up in collaboration with the international securities supervisory authorities, the first of these is intended as a guideline in examining whether or not securities settlement systems are complying with the recommendations. The second report addresses the role of the central banks in retail payment markets. Unlike the payment systems handling large single payments (in which all central banks are heavily involved) there has been comparatively little agreement about the role that central banks should play in the retail sector.

Committee on the Global Financial System

The Committee on the Global Financial System concerned itself with the stability of the international financial markets, notably in the emerging markets. It also produced reports on the increasingly important market for credit risk transfer and on the impact of the growing importance of institutional investors.

Markets Committee

The Markets Committee devoted itself primarily to the ongoing monitoring of key financial markets and coordinating preparations for the next Central Bank Survey of Foreign Exchange and Derivatives Market Activity. The Committee was chaired during 2002 by the head of Department III of the National Bank.

6.4 Balance of payments support

No new balance of payments loans

In the context of the Federal decree on Swiss participation in international monetary measures, the National Bank participates in support operations for countries with balance of payments problems. The loans are financed by the National Bank, while the Confederation guarantees their repayment, including interest. No new loans were extended in 2002. There was one outstanding balance of payments loan at the end of the year – 14.3 million euros to Bulgaria with a maturity of 2007.

6.5 Technical assistance and training

Expansion

During 2002, the National Bank expanded the technical assistance that it offers to other central banks. Several person years were devoted to this area as a result. Once again, assistance was concentrated on the Swiss constituency within the Bretton Woods institutions. The central bank of Azerbaijan was advised on a number of business areas, most notably the implementation of monetary policy and cash handling processes. Support was given to the Yugoslavian central bank in the investment of foreign exchange reserves, and to the central bank of Kyrgyzstan on information technology, cash management and developing the financial system. The National Bank also provided consultancy services to the central banks of Jamaica and Lebanon with regard to modernising their payment systems and to Vietnam in connection with the appropriate structuring of a central bank, and also advised the central bank of Tanzania on short-term liquidity planning. Other central banks were given assistance in areas in which the National Bank has specialist expertise.

6.6 Study Center Gerzensee

Courses for staff of foreign central banks

The Study Center Gerzensee, a National Bank foundation, organised seven courses for employees of foreign central banks in 2002. The courses offered training in the fields of monetary policy, financial markets and bank regulation. They were attended by a total of 187 participants from 98 countries.

International scientific conferences

In addition, the Study Center Gerzensee hosted two specialist conferences on monetary policy and two summer symposia on financial markets and economic theory. They were attended by internationally renowned researchers.

Doctoral courses

The Study Center Gerzensee organised doctoral courses for students of Swiss universities. These courses featured lectures from leading academics in all the main fields of economic science.

Structure and organisation

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 54% of the shares; the Canton of Berne owns 6.63% (6,630 shares), the Canton of Zurich 5.20% (5,200 shares). The remaining shares are mostly held by private persons. The Confederation does not hold any shares.

Special law instead of articles of association

The National Bank is administered with the cooperation and under the supervision of the Confederation. The National Bank Law lays down the main features of the organisation and of the Annual General Meeting of Shareholders. Company by-laws have not been issued. Shareholders' participatory rights are limited. Shareholders not belonging to the public-law sector may not cast more than 100 votes for own and represented shares (Art. 35, para 3 NBL), and only a minority of the 40 members of the Bank Council is elected by the Shareholders' Meeting (Art. 38 NBL). Shareholders may be represented at the Annual General Meeting by other shareholders only (Art. 29 NBL). Notifications to shareholders are, in principle, made by registered mail to the last address listed in the share register and are published in the Swiss Official Gazette of Commerce (Art. 11 NBL). Shareholders do not receive any information not equally accessible to the public (see also the chapter on Publications, page 130f., as well as in the Internet).

Management and supervision

The Governing Board, which consists of three members of equal status, is entrusted with the Bank's management. The Governing Board is the top management and executive body of the National Bank. Each member heads one of the three Departments. The members of the Governing Board are appointed by the Federal Council at the proposal of the Bank Council. The Governing Board enjoys a high degree of independence in fulfilling its monetary policy mandate. The Governing Board and the Federal Council must inform each other before passing any major monetary and economic policy decisions. The branch offices are headed by the local managements. These conduct the branches' business in accordance with the regulations and the directives of the Governing Board. 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 16 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. The National Bank is not structured as an affiliated group.

Auditors

According to Art. 51 NBL, the Annual General Meeting elects the six members of the Auditing Committee every year. Since the 1999 financial year, the Auditing Committee has consisted of the specialists (certified auditors and bank specialists) listed on page 124. On the one hand, the Auditing Committee bases its reports on partial audits of auditing companies and, on the other hand, on reports of the internal auditors.

The Auditing Committee submits a written report to the Bank Council (Code of Obligations, Art. 729a). In autumn 2002, direct contacts were institutionalised between the President of the Bank Council, the Auditing Committee and the internal auditors with a view to improving mutual information and risk assessment. The Bank Council and the Bank Committee do not have an auditing committee.

The members of the Auditing Committee received remuneration totalling Sfr 48,000 for outlays and attendance fees in the 2002 financial year.

In the 2002 financial year, auditing mandates were entrusted to Pricewaterhouse-Coopers Ltd (business audit) and Ernst & Young Ltd (IT audit). Fees totalled Sfr 127,000 and Sfr 51,000 respectively.

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 analyses the economic situation and developments in Switzerland and abroad, produces the inflation forecast and provides the basis for monetary policy decisions. It also supplies the statistical data. 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. The Financial Stability and Oversight Division of Department II concerns itself with questions of 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 companies from all sectors as well as with the major trade associations.

Management of assets

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

Cash transactions

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

Cashless payment transactions

Moreover, the National Bank participates 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 Financial Stability and Oversight Division in Department II and 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 executes money market and foreign exchange transactions on behalf of the Confederation.

2 Staff and resources

Number of staff and turnover

At the end of 2002, the National Bank staff numbered 617 persons (including 15 apprentices). It thus exceeded the previous year's level by 32 persons. Converted into full-time jobs, the number of employees rose from 543.6 to 573.6 persons. The number of part-time employees was up by 11 to 138 persons, corresponding to 22.4% working part-time. Personnel turnover dropped to 4.6% in 2002 from 7.9% in the previous year.

Survey on employee satisfaction

Most of the measures for improving job satisfaction and motivation among National Bank employees, which were devised and introduced as a consequence of the employee satisfaction analysis carried out in 2001, have been implemented. They were largely designed to improve internal communication.

Salary policy in line with the market

Special measures introduced in the two previous years helped the National Bank to bring its salary level in 2002 in line with that of relevant competitors. This made it possible to implement a consistent salary policy devoid of special factors.

Developments in information technology

In the field of information technology, the National Bank completed its efforts towards a strategic new orientation to the new systems and applications architecture. In the fourth quarter, the last modules of a comprehensive banking applications package were implemented in the payment transactions and the accounting sections. In an overall assessment of the IT section it was established that the renewal goals (user-oriented approach, flexibility vis-à-vis changing business requirements and a high degree of security) have been achieved. The current IT systems and the environment set up for their operation provide a solid basis for further steps in expansion in the coming years. Basic features of the continued development of information technology were also outlined in the assessment. The existing applications and the technical infrastructure were further expanded while duly taking into account new user needs and new technological developments. In the Monetary Operations Division, important applications (foreign exchange transactions, market information system) were renewed.

Property management

The project planning stage for the conversion of the cashier's office and the mezzanine floor and the renewal of the building's technical equipment at the Zurich Head Office have been completed so far that the comprehensive and complex construction work can be started at the beginning of 2003. The premises at Nüschelerstrasse 22 in Zurich, strategic reserves of office space owned by the National Bank, is to be converted and will be ready for occupation by the Zurich Head Office as from the first quarter 2005. Assessments and preliminary project studies relating to this building have been drawn up as a basis for the planning work.

Environmental performance evaluation

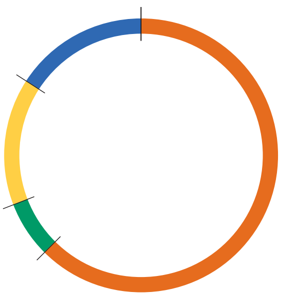
In addition to other goals, the National Bank's first ecological charter contained specific guidelines for reducing the consumption of natural resources between 1996 and 2002. The National Bank's environmental performance evaluation for the 2001 financial year shows that all the target values have already been reached except the electricity coefficient, where the projected savings target of 10% was narrowly missed. Paper consumption was gratifyingly low, declining to less than half the original quantity per staff member and year in the period from 1996 to 2001. The activities of the environmental unit were concentrated on incorporating environmental targets in the performance guidelines of those line sections and staff members performing tasks of above-average ecological relevance.

Unchanged 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. While the share of costs from note and coin circulation declined markedly in recent years due to the reduced number of cash distribution and processing services, the introduction of euro cash in 2002 led to a higher demand for banknotes. Accordingly, the share of costs stemming from cash transactions did not diminish for the first time in years, remaining unchanged from the previous year's level at 41% of total operating costs. The costs in connection with cashless payments fell from 4% in the previous year to 3%. This position includes the services of the National Bank in interbank payment transactions as well as services in the area of payment transactions on behalf of other central banks and international organisations.

Minor changes in the other positions

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 1 percentage point to 22% of total operating costs. The main factors contributing to this development relate to the expansion of the Bank's business activity, i.e. the increased expenses for the management of the international 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 21%. This was slightly less than in the previous year. The share of the cost unit services on behalf of the Confederation dropped by 1 percentage point to 4%, while the share of the cost unit services on behalf of third parties rose by 2 percentage points to 9% 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 associated institutions. 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.



Personnel
Number of employees

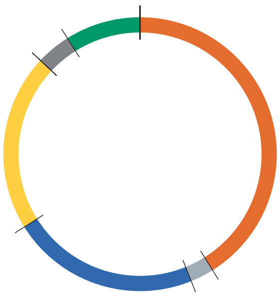
Full-time, men 386

Part-time, men 40

Full-time, women 93

Part-time, women 98

Total: 617.
End 2002



Cost units
in percent

Cash transactions 41

Cashless payment transactions 3

Asset management 22

Monetary policy 21

Services for the Confederation 4

Services for third parties 9

3 Swiss National Exhibition Expo.02

The pavilion of the Swiss National Bank

The Swiss National Bank participated in the Swiss National Exhibition Expo.02 with its own pavilion, employing Sfr 15 million for the project. Entitled “Money and Value – The last taboo”, the exhibition was designed by Harald Szeemann. This topic established the link between the National Bank’s activity and the discussion of values the Expo.02 was striving to promote. During the 159 days of the Expo.02, the National Bank exhibition on the Biel arteplage, housed in a cube with a gold-leaf façade, attracted over a million visitors. A comprehensive catalogue, published by the Swiss National Bank with Edition Oehrli, Zurich, documents the exhibition.

4 Changes in the bank authorities and management

Bank Council

On 10 April 2002, the Federal Council appointed
Hansueli Raggenbass, Kesswil, National Councillor, Attorney-at-law, formerly member of the Bank Council, as President of the Bank Council.
He took office after the Annual General Meeting.

On 27 March 2002, the Federal Council elected the following new members to the Bank Council:
Micheline Calmy-Rey, Geneva, Head of the department of finance of the canton of Geneva,
Ueli Forster, St Gallen, Chairman of the Swiss Business Federation (economiesuisse), Chairman of the Board of Forster Rohner Ltd, textile company,
Thomas Isler, Wädenswil, President of the Swiss Textile Federation (association of Swiss textile and clothing industry), Chief Executive Officer of Gessner AG, silk weaving mill, Wädenswil,
Ralph Lewin, Basel, Member of the cantonal government and Head of the economic affairs and social welfare department of the canton of Basel-Stadt.

At the Annual General Meeting of Shareholders held on 26 April 2002, the following new member was elected to the Bank Council:
Hansueli Loosli, Basel, President of the Executive Committee, Coop.

At the end of 2002, as a result of her election to the Federal Council,
Micheline Calmy-Rey, Geneva, Federal Councillor, resigned her position as member of the Bank Council.

On the day of the Annual General Meeting of 25 April 2003 the Bank Council's four-year term of office comes to an end. The following members are resigning their position:
Philippe Pidoux, Lausanne, Attorney-at-law, Vice-President of the Bank Council,
Fritz Blaser, Reinach, Chairman of Schweizerischer Arbeitgeberverband (Swiss employers' association),
Hansjörg Frei, Mönchaltorf, Chairman of the Swiss Insurance Association (SIA),
Heinz Pletscher, Löhningen, former Chairman of the Swiss contractors' association.

The National Bank thanks the retiring members for their valuable services.
Special thanks are extended to Philippe Pidoux, the departing Vice-President of the Bank Council.
In 1991,
Philippe Pidoux was elected to the Bank Council, which appointed him as delegate to the Bank Committee in 1993. In 1999 the Federal Council elected him Vice-President of the Bank Council.

On 14 March 2003, the Federal Council appointed
Ruth Lüthi, Member of the cantonal government and Head of the health and social welfare department of the canton of Fribourg, hitherto member of the Bank Council, as Vice-President of the Bank Council. Mrs Lüthi will take office after the Annual General Meeting of 25 April 2003.

The other members of the Bank Council are available for re-election. Three of the five vacant positions are to be filled by the Annual General Meeting of Shareholders, two by the Federal Council.

On 14 March 2003, the Federal Council elected the following new members to the Bank Council:

Simonetta Sommaruga, Spiegel near Berne, National Councillor, President of the Swiss Foundation for Consumer Protection,

Werner Messmer, Kradolf-Schönenberg, National Councillor, Chairman of the Swiss contractors' association.

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

Charles Favre, Echallens, National Councillor,

Albert Lauper, Villars-sur-Glâne, Group Chief Executive Officer of Swiss Mobiliar Holding Ltd.,

Rudolf Stämpfli, Berne, joint owner and CEO of Stämpfli Holding Ltd., President-Elect of Schweizerischer Arbeitgeberverband (Swiss employers' association).

Bank Committee

With effect from 13 June 2002, the Bank Council delegated the following members to the Bank Committee:

Ueli Forster, Chairman of the Swiss Business Federation (economiesuisse), as successor to Andres F. Leuenberger,

Armins Jans, Professor of Economics at the University of Applied Sciences, Winterthur, as successor to Yvette Jaggi.

Local Committees

Effective as of the date of the Annual General Meeting of 26 April 2002, the following committee members resigned their positions:

Hans-Heini Gasser, Lungern, Chairman of the Board of the Obwalden Electric Power Plant, Chairman of the Local Committee of Lucerne since 1999 (Member since 1994),

Corrado Kneschaurek, Muzzano, President of the Ticino Hotel Association, Chairman of the Local Committee of Lugano since 1999 (Member since 1994),

Wera Hotz-Kowner, Erlenbach, Managing Director of Jakob Kowner AG, Chairwoman of the Local Committee of Zurich since 1999 (Member since 1994).

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

The Bank Council made the following appointments:

Lugano

Giancarlo Bordoni, Viganello, CEO and Chairman of the Board of Oleificio Sabo SA, Manno.

Lucerne

Werner Steinegger, Schwyz, Chairman of the Board of Celfa AG, Schwyz.

Zurich

Reto Müller, Dietikon ZH, Chairman of the Board and CEO of Helbling Holding SA.

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

Auditing Committee

Upon the proposal of the Bank Council, the Annual General Meeting of Shareholders of 26 April 2002 elected the incumbent office holders:

Kaspar Hofmann, Adliswil, Certified Auditor, Hofmann Wirtschaftsprüfung AG, Chief Auditor since the 1996 business year, as Member,

Hans Michel, Egnach, as Member,

Maryann Rohner, Zurich, Certified Auditor, Treureva AG, as Member,

Josef Blöchlinger, Begnins, Certified Auditor, Moore Stephens Refidar SA, 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 25 April 2003 that the current members and substitute members of the Auditing Committee be re-elected.

Governing Board

In view of his election to the Board of Directors of Swiss Life/Rentenanstalt,

Bruno Gehrig, Vice-Chairman of the Governing Board and Head of Department III, will resign as of the end of June 2003. In May 1996, Bruno Gehrig was appointed by the Federal Council as a member of the National Bank's Governing Board and Head of Department III and, at the beginning of 2001, as Vice-Chairman.

With the departure of Bruno Gehrig, the National Bank loses a Vice-Chairman of the Governing Board who has always given his unreserved commitment to central bank policy. Bruno Gehrig was instrumental in shaping important developments and made significant contributions in particular to the further advancement of the Swiss franc money market.

The bank authorities and the Governing Board would like to take this opportunity to express their gratitude for Bruno Gehrig's dedicated services to the National Bank as well as the excellent and pleasant cooperation.

On 7 March 2003, the Federal Council appointed

Niklaus Blattner, hitherto Member of the Governing Board, as Vice-Chairman of the Governing Board and

Philipp Hildebrand as Member of the Governing Board.

They will assume their new position on 1 July 2003.

Management

On 18 August 2002, after a long and serious illness,

Othmar Flück, Assistant Director, Internal Auditors, passed away. He was 62 years old.

The National Bank is grateful for his many years of valuable service.

As of the end of August,

Hans-Ueli Hunziker, Assistant Director and Deputy Secretary General, relinquished his position at the head office in Berne. In his new function as embassy official at the Swiss Embassy in Washington, he continues to be in the employ of the National Bank.

Effective 1 August 2002, the Bank Committee appointed

Alfred Flessenkämper as Deputy Secretary General (Assistant Director).

In connection with the restructuring of Department II, the Bank Committee promoted

Daniel Heller to Director and Head of the new Financial Stability and Oversight Division of Department II, with effect from 1 September 2002,

Bertrand Rime to Deputy Director and Head of the new System Stability Section with effect from 1 September 2002, and

Andy Sturm to Assistant Director and Head of the new Financial Markets Infrastructure Section with effect from 1 October 2002.

Effective 1 November 2002, the Bank Committee appointed

Roberto Cippà as Director and Head of the new Bretton Woods Institutions Section in the International Affairs Division of Department I.

Effective 1 January 2003, the Bank Committee promoted

Dewet Moser (Head of the Risk Management Section) to Director,

Thomas Stucki (Head of the Investment Section) to Director,

Peter Fankhauser (Head of Premises, Technical Services, Zurich head office) to Deputy Director,

Erich Gmür (Risk Management Division) to Assistant Director,

Samuel Grossenbacher (Head of Premises, Technical Services, Berne head office) to Assistant Director,

Anne Kleinewefers Lehner (delegate for regional economic relations at the head office in Berne) to Assistant Director,

Barbara Rudolf (Economic Analysis Section) to Assistant Director,

Marcel Savioz (Research Section) to Assistant Director.

Financial report

1 Income statement for the year 2002

	Notes	2002 Sfr millions	2001 Sfr millions	Change percent
Net result from gold holdings	01	1 532.1	1 267.6	+20.9
Net result from				
foreign currency investments	02	498.8	2 405.4	−79.3
reserve position in the IMF	03	−246.9	17.8	
international payment instruments	03	−33.0	−1.0	
balance of payments support	03	−27.2	8.6	
Net result from				
Swiss franc repo transactions	04	211.7	519.8	−59.3
Lombard advances	05	0.5	1.1	−54.5
claims against domestic correspondents	06	0.2	1.7	−88.2
Swiss franc securities	07	604.8	236.0	+156.3
Other income	08	34.1	29.7	+14.8
Gross income		**2 575.0**	4 486.8	**−42.6**
Interest expenses	09	−75.4	−203.7	−63.0
Banknote expenses	10	−40.4	−33.7	+19.9
Personnel expenses	11	−89.0	−83.9	+6.1
General overheads	12	−93.5	−82.9	+12.8
Depreciation on tangible assets	24	−22.3	−21.2	+5.2
Net income		**2 254.4**	4 061.3	**−44.5**
Extraordinary expenses	13	−9.1	−6.9	
Extraordinary income	14	6.1	0.0	
Aggregate income		**2 251.5**	4 054.4	**−44.5**
Allocated to/released from provisions for				
the assignment of free assets	33	−1 079.3	−357.2	
market and liquidity risks on gold	34	−398.0	−829.7	
market, credit and liquidity risks	35	1 734.5	−1 359.5	
Annual profit	38	**2 508.7**	1 508.0	**+66.4**

2 Balance sheet as of 31 December 2002

in Sfr millions

Assets	Notes	2002	2001
Gold holdings	15	25 405.2	28 100.1
Claims from gold transactions	16	3 934.4	4 882.2
Foreign currency investments	17	52 941.2	50 580.8
Reserve position in the IMF	18	2 669.8	2 665.7
International payment instruments	18	103.0	476.3
Balance of payments support	18	316.5	347.2
Claims from Swiss franc repo transactions	19	27 977.2	25 912.1
Lombard advances	20	–	9.0
Claims against domestic correspondents	21	29.8	73.7
Swiss franc securities	22	7 018.4	6 000.0
Participations	23	88.6	89.3
Tangible assets	24	533.7	534.8
Sundry assets	25	940.6	456.8
Non paid-up share capital	36	25.0	25.0
		121 983.3	120 153.1

Liabilities

Liabilities	Notes	2002	2001
Banknotes in circulation	26	39 600.2	39 844.7
Sight deposit accounts of domestic banks	27	4 516.9	6 316.9
Liabilities towards the Confederation			
sight	28	388.3	154.1
time	28	6 704.1	2 251.9
Sight deposits of foreign banks and institutions	29	556.8	629.8
Other sight liabilities	30	159.9	182.7
Liabilities from Swiss franc			
repo transactions	19	–	–
Foreign currency liabilities	31	146.6	1 469.7
Sundry liabilities	32	190.2	323.4
Provisions for			
the assignment of free assets	33	20 296.9	19 217.6
operating risks	35	461.9	465.9
market and liquidity risks on gold	34	7 817.5	7 419.5
market, credit and liquidity risks	35	38 518.4	40 252.9
Share capital	36	50.0	50.0
Reserve fund	37	67.0	66.0
Annual profit	38	2 508.7	1 508.0
		121 983.3	120 153.1

3 Notes to the accounts as of 31 December 2002

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 pursue monetary and exchange rate policies that are in the country's overall interests. All the transactions which it is permitted to perform are laid down in the relevant legislation (National Bank Law). The National Bank has a commercial relationship with financial institutions in Switzerland and abroad, with federal agencies and associated enterprises, and with 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 and liquidity risks, as well as credit risks, even though the assets are judiciously managed. It hedges these risks with appropriate provisions. The provisions serve in particular 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 or, as of 2003, with gross domestic product (cf. page 105f.).

On 31 December 2002, the National Bank employed 617 persons (2001: 585), corresponding to 573.6 full-time posts (2001: 543.6). 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.

No change from previous year

There was no change in the accounting and valuation principles compared with the previous year.

Recording of transactions/ balance sheet entries

All transactions are recorded on the day the transaction is concluded. However, they are only entered in the balance sheet on the value date. Transactions which were concluded in 2002 but which have a value date 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

	2002	2001	Change in percent
Year-end rates			
CHF/USD	1.3872	1.6782	−17.3
CHF/EUR	1.4525	1.4813	−1.9
CHF/JPY	1.1690	1.2774	−8.5
CHF/GBP	2.2323	2.4304	−8.2
CHF/DKK	19.5700	19.9100	−1.7
CHF/CAD	0.8800	1.0507	−16.2
CHF/XDR[1]	1.8884	2.1113	−10.6
Gold price in CHF/kg	15 286.48	14 978.01	+2.1
USD/oz[2]	342.75	277.6	+23.5

1 XDR: Special Drawing Rights
2 oz: fine ounces

3.3 Notes to the income statement and balance sheet

Summary

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

The rise in the gold price resulted in valuation gains of Sfr 736.0 million, while the depreciation of the US dollar resulted in gains of Sfr 741.3 million on the 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 1,532.1 million (2001: Sfr 1,267.6 million).

Owing to another decline in interest rates on the relevant markets, which was even more pronounced than in the previous year, there were substantial capital gains on foreign currency investments. Together with interest income, the net result came to Sfr 4,675.5 million (2001: Sfr 2,903.1 million). However, as all foreign currencies depreciated against the Swiss franc, exchange rate losses of Sfr 4,176.9 million were incurred (2001: –497.7 million). The net result from foreign currency investments was Sfr 498.8 million (2001: Sfr 2,405.4 million). However, the net result from other foreign currency balances was negative. The net result from financial assets denominated in Swiss francs, which stemmed mainly from securities and repo transactions, totalled Sfr 817.2 million (2001: Sfr 758.6 million).

After taking account of other income amounting to Sfr 34.1 million (2001: Sfr 29.7 million), gross income was reduced by almost half compared with the previous year (from Sfr 4,486.8 million to Sfr 2,575.0 million).

Owing to lower interest expenses, ordinary expenses fell from Sfr 425.4 million to Sfr 320.6 million. At Sfr 2,254.4 million, net income was significantly lower than in the previous year (Sfr 4,061.3 million). After factoring in the extraordinary items, aggregate income came to Sfr 2,251.5 million (2001: Sfr 4,054.4 million).

Due to the valuation gains on gold held as free assets and to the forward foreign exchange transactions concluded in order to hedge future proceeds from gold sales denominated in US dollars, the provision for the planned assignment of the countervalue of gold holdings no longer required for monetary purposes was increased by Sfr 1,079.3 million. The valuation gains of Sfr 398.0 million were allocated to the provision for market and liquidity risks on monetary gold, i.e. the gold still held by the National Bank.

The net total after these two allocations was Sfr 774.2 million. The published annual profit of Sfr 2,508.7 million includes a sum of Sfr 1,734.5 million released from the provisions for market, credit and liquidity risks.

Net result from gold

Item no. 01
in the income statement

The rise in the gold price resulted in valuation gains. Owing to the depreciation of the US dollar, the forward foreign exchange transactions used to hedge the US dollar proceeds from gold sales (forward sales of US dollars) also generated profits. Lower gold lending rates and a lower average volume of outstanding transactions resulted in a decline in interest income from gold lending transactions.

	2002 Sfr millions	2001 Sfr millions	Change from previous year Sfr millions
Monetary gold	452.8	910.5	−457.7
Net result from changes in market value	398.0	829.7	−431.7
Interest income from gold lending transactions	54.8	80.8	−26.0
Gold from free assets	1 079.3	357.2	+722.1
Net result from changes in market value[1]	338.0	674.2	−336.2
Net result from hedging transactions	741.3	−317.0	+1 058.3
Total	1 532.1	1 267.6	+264.5

1 Including realised gains from gold sales

Item no. 02
in the income statement

Net result from foreign currency investments

As in the previous year, the fall in interest rates on the relevant markets resulted in capital gains. Owing to the strong Swiss franc, however, exchange rate losses were sustained in all investment currencies. These were particularly pronounced in the case of the US dollar.

	2002 Sfr millions	2001 Sfr millions	Change from previous year Sfr millions
USD	−1 114.3	1 567.6	−2 681.9
Interest and capital gain/loss	2 087.5	1 253.5	+834.0
Exchange rate gain/loss	−3 201.9	314.1	−3 516.0
EUR	1 595.9	670.7	+925.2
Interest and capital gain/loss	2 097.6	1 283.4	+814.3
Exchange rate gain/loss	−501.7	−612.6	+110.9
JPY	−3.6	−82.0	+78.4
Interest and capital gain/loss	−1.2	35.0	−36.2
Exchange rate gain/loss	−2.4	−117.0	+114.6
GBP	−19.1	144.1	−163.2
Interest and capital gain/loss	234.9	152.9	+82.0
Exchange rate gain/loss	−254.1	−8.8	−245.3
DKK	141.5	59.5	+82.0
Interest and capital gain/loss	176.5	107.7	+68.8
Exchange rate gain/loss	−35.0	−48.2	+13.2
CAD	−101.5	46.0	−147.5
Interest and capital gain/loss	80.2	71.0	+8.2
Exchange rate gain/loss	−181.8	−25.1	−156.7
Others	0.0	−0.5	+0.5
Interest and capital gain/loss	0.0	−0.4	+0.4
Exchange rate gain/loss	0.0	−0.1	+0.1
Total	498.8	2 405.4	−1 906.6
Interest and capital gain/loss	4 675.5	2 903.1	+1 772.4
Exchange rate gain/loss[1]	−4 176.9	−497.7	−3 679.2

1 Including exchange rate gains or losses of Sfr 77.6 million (2001: Sfr 30.6 million) on foreign currency liabilities.

Item no. 03 in the income statement

Net result from other foreign currency balances

The sharp depreciation of Special Drawing Rights resulted in significant exchange rate losses. In addition, a decrease in holdings and in interest rates led to correspondingly lower interest income.

	2002 Sfr millions	2001 Sfr millions	Change from previous year Sfr millions
Reserve position in the IMF	−246.9	17.8	−264.7
Interest income/expense	49.5	65.2	−15.7
Exchange rate gain/loss XDR	−296.4	−47.4	−249.0
International payment instruments	−33.0	−1.0	−32.0
Interest income/expense	7.6	13.0	−5.4
Exchange rate gain/loss XDR	−40.6	−14.0	−26.6
Balance of payments support	−27.2	8.6	−35.8
Interest income/expense	7.4	14.1	-6.7
Exchange rate gain/loss EUR	-0.4	−0.6	+0.2
Exchange rate gain/loss XDR	−34.2	−4.9	−29.3

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 shows the overall influence of exchange rate developments on the income statement. The net result was a loss of Sfr 4,548.4 million (2001: Sfr −564.6 million).

	2002 Sfr millions	2001 Sfr millions	Change from previous year Sfr millions
USD	−3 201.9	314.1	−3 516.0
EUR	−502.1	−613.2	+111.1
JPY	−2.4	−117.0	+114.6
GBP	−254.1	−8.8	−245.3
DKK	−35.0	−48.2	+13.2
CAD	−181.8	−25.1	−156.7
XDR	−371.1	−66.3	−304.8
Other currencies	-0.0	−0.1	+0.1
Total	−4 548.4	−564.6	−3 983.8

Item no. 04
in the income statement

Net result from Swiss franc repo transactions

Averaged over the year, the volume of claims was approximately Sfr 4 billion higher than in 2001. Owing to substantially lower interest rates, however, income from repo transactions was less than half the previous year's figure (Sfr 211.7 million versus Sfr 519.8 million in 2001).

Item no. 05
in the income statement

Net result from Lombard advances

Owing to a slight drop in the average volume of loans and to lower interest rates, the net result from Lombard advances was lower than in the previous year (down from Sfr 1.1 million to Sfr 0.5 million).

Item no. 06
in the income statement

Net result from claims against domestic correspondents

The net result from claims against domestic correspondents declined by Sfr 1.5 million to Sfr 0.2 million owing to the much lower average volume of claims and to lower interest rates.

Item no. 07
in the income statement

Net result from Swiss franc securities

At Sfr 604.8 million, the net result from securities (interest plus realised and unrealised capital gains and losses) was significantly higher than in the previous year (Sfr 236.0 million). This rise was due mainly to the sharp fall in interest rates across all maturities and to the resulting capital gains.

Item no. 08
in the income statement

Other income

	2002 Sfr millions	**2001** Sfr millions	**Change from previous year** percent
Commissions from banking transactions	20.5	17.5	+17.1
Income from participations	8.0	7.3	+9.6
Income from real estate[1]	5.1	4.7	+8.5
Other ordinary income	0.4	0.3	+33.3
Total other income	34.1	29.7	+14.8

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

The higher commissions from banking transactions can be ascribed to significantly higher earnings from securities management operations. Since these commissions were largely retroceded to the banks, this rise also has the effect of increasing the general overheads (see item no. 12 in the income statement).

Interest expenses

Item no. 09 in the income statement

Average liabilities towards the Confederation rose compared with the previous year. Owing to the substantially lower interest rates, however, the interest expenses for liabilities towards the Confederation decreased sharply.

The number of repo transactions concluded in foreign currencies was lower than in the previous year. This, together with the decline in interest rates, resulted in a marked decrease in interest expenses.

	2002 Sfr millions	2001 Sfr millions	Change from previous year Sfr millions
Interest expenses for liabilities towards the Confederation	59.3	160.8	−101.5
Interest expenses for depositors' balances	6.2	6.3	−0.1
Interest expenses for liabilities from Swiss franc repo transactions	0.0	1.0	−1.0
Interest expenses for liabilities from foreign currency repo transactions	10.0	35.6	−25.6
Total interest expenses	75.4	203.7	−128.3

Banknote expenses

Item no. 10 in the income statement

The banknote expenses correspond to the cost of producing the banknotes which entered circulation in 2002. Owing both to the higher average number of banknotes in circulation and to an increase in the proportion of banknotes withdrawn from circulation, banknote expenses rose sharply.

Personnel expenses

Item no. 11 in the income statement

	2002 Sfr millions	2001 Sfr millions	Change from previous year percent
Wages, salaries and allowances	69.4	64.5	+7.6
Welfare benefits	14.8	15.2	−2.6
Other personnel expenses	4.7	4.2	+11.9
Total personnel expenses	89.0	83.9	+6.1

The increase in wages, salaries and allowances was due primarily to the increase in staff numbers by approximately 6% as well to pay adjustments (inflation adjustment plus individual rises). The increase in other personnel expenses can be ascribed to improved fringe benefits and higher training costs.

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 financed by contributions from 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:

	2002 Sfr millions	**2001** 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	–
of which for the President of the Bank Council	0.082	0.082	–
of which for the Vice-President of the Bank Council	0.041	0.041	–
3 members of the Governing Board	1.727	1.652	+4.5
of which for the Chairman of the Governing Board	0.589	0.564	+4.4
of which for the Vice-Chairman of the Governing Board	0.569	0.544	+4.6

The National Bank does not pay any performance-linked remuneration, nor does it grant any loans to governing bodies.

Item no. 12 in the income statement

General overheads

	2002 Sfr millions	**2001** Sfr millions	**Change from previous year** percent
Direct expenses from banking operations	40.3	36.6	+10.1
Premises	10.8	10.7	+0.9
Maintenance of mobile tangible assets and software	10.2	8.1	+25.9
Other general overheads	32.2	27.5	+17.1
Total general overheads	93.5	82.9	+12.8

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 responsible for the increased figure stated here (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.

Maintenance of mobile tangible assets and software

The rise is due in particular to appreciably higher outlays on the maintenance of applications software. This increase reflects the substantial expansion in the range of software applications used productively in 2002.

Other general overheads

Other general overheads comprise general administrative expenses and third-party consultancy and support expenses plus information retrieval (market information systems) and security outlays.

At Sfr 8.8 million, consultancy and support expenses were considerably higher than in the previous year (Sfr 7.3 million). Other general overheads were also increased by higher operating and investment costs incurred by the Study Center Gerzensee (up from Sfr 6.1 million in 2001 to Sfr 7.6 million) and a first-time contribution of Sfr 1.0 million to Eurex Zürich AG to meet part of the costs of the electronic trading platform. This contribution was justified by the key importance of repo transactions for the National Bank.

Extraordinary expenses

Item no. 13 in the income statement

This item includes expenses of Sfr 8.9 million for the National Bank's Expo.02 project, for which total expenses are put at Sfr 15.0 million.

Extraordinary income

Item no. 14 in the income statement

Extraordinary income includes Sfr 5.0 million in reserves related to a building project which were posted to the income statement some years ago but were never used. A further Sfr 1.0 million is accounted for by the write-back of depreciation on a loan to Kreuz Gerzensee AG which was repaid in the past year.

Gold

Item no. 15 in the balance sheet

In 2002 the National Bank sold 281.9 tonnes of gold at an average price of Sfr 15,524 per kilogram. The proceeds came to Sfr 4,376.0 million. In the previous year, 220.8 tonnes of gold had been sold at an average price of Sfr 14,730 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.

	2002		2001	
	tonnes	market value in Sfr millions	tonnes	market value in Sfr millions
Gold ingots	1 486.7	22 727.2	1 700.9	25 476.1
Gold coins	175.2	2 678.1	175.2	2 624.1
Total	1 661.9	25 405.2	1 876.1	28 100.1

Item no. 16 in the balance sheet

Claims from gold transactions

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

	2002		2001	
	tonnes	market value in Sfr millions	tonnes	market value in Sfr millions
Claims from gold lending transactions	254.6	3 932.5	322.2	4 879.3
Claims from unsecured gold lending	158.7	2 438.8	237.4	3 587.2
Claims from secured gold lending[1]	95.9	1 493.7	84.8	1 292.0
Claims on metals accounts	0.1	1.8	0.2	3.0
Total	254.7	3 934.4	322.4	4 882.2

1 Secured by the deposit of first-class securities with a market value of Sfr 1,717.6 million

Item no. 17 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]

	2002			2001		
	millions		weighting	millions		weighting
	original currency	Sfr	percent	original currency	Sfr	percent
Government paper		**41 844.4**	**79.0**		**36 825.3**	**72.8**
USD	9 616.8	13 340.4	25.2	8 114.3	13 617.5	26.9
EUR	15 674.9	22 767.8	43.0	11 565.4	17 131.8	33.9
JPY	0.0	0.0	0.0	54 276.5	693.3	1.4
GBP	1 338.9	2 988.8	5.6	1 120.9	2 724.1	5.4
DKK	8 983.1	1 758.0	3.3	8 624.6	1 717.1	3.4
CAD	1 124.3	989.4	1.9	896.0	941.4	1.9
Monetary institutions		**1 590.6**	**3.0**		**1 085.8**	**2.1**
USD	800.2	1 110.1	2.1	331.0	555.5	1.1
EUR	165.9	240.9	0.5	144.4	213.9	0.4
JPY	59.9	0.7	0.0	4 737.5	60.5	0.1
GBP	21.1	47.1	0.1	85.4	207.6	0.4
DKK	915.2	179.1	0.3	188.2	37.5	0.1
CAD	14.0	12.3	0.0	9.9	10.4	0.0
Others		0.4	0.0		0.5	0.0
Banks		**9 506.0**	**18.0**		**12 669.7**	**25.0**
USD	4 542.8	6 301.8	11.9	3 922.7	6 583.1	13.0
EUR	2 033.2	2 953.2	5.6	3 943.1	5 841.0	11.5
JPY	25.7	0.3	0.0	2 160.0	27.6	0.1
GBP	27.5	61.4	0.1	10.7	26.0	0.1
DKK	964.7	188.7	0.3	698.9	139.2	0.3
CAD	0.3	0.3	0.0	50.3	52.8	0.1
Others		0.3	0.0		0.1	0.0
Total[2]		**52 941.2**	**100.0**		**50 580.8**	**100.0**
USD	14 959.9	20 752.4	39.2	12 368.0	20 756.1	41.0
EUR	17 873.9	25 961.9	49.0	15 652.9	23 186.6	45.8
JPY	85.5	1.0	0.0	61 174.0	781.4	1.5
GBP	1 387.5	3 097.3	5.9	1 217.0	2 957.7	5.8
DKK	10 862.5	2 125.8	4.0	9 511.7	1 893.8	3.7
CAD	1 138.6	1 002.0	1.9	956.2	1 004.6	2.0
Others		0.7	0.0		0.6	0.0

1 The breakdown by currency refers to basic investments and does not take currency hedging transactions into account.
2 Of these, non-negotiable investments account for Sfr 4,070.8 million (2001: Sfr 6,921.6 million).

Item no. 18
in the balance sheet

Other foreign currency balances

		2002		2001	
		millions		millions	
		original currency	Sfr	original currency	Sfr
Reserve position in the IMF	XDR	1 413.8	2 669.8	1 262.6	2 665.7
Swiss quota in the IMF	XDR	3 458.5	6 531.1	3 458.5	7 301.8
less IMF's Swiss franc sight balances at the National Bank[1]	XDR	−2 044.7	−3 861.3	−2 195.9	−4 636.1
International payment instruments[2]	XDR	54.5	103.0	225.6	476.3
Balance of payments support			316.5		347.2
bilateral loan to Bulgaria	EUR	14.4	20.9	14.3	21.3
PRGF credit facility[3]	XDR	150.4	284.1	154.3	325.9
interim PRGF credit facility[4]	XDR	6.1	11.5	–	–

1 Balances after deduction of accrued interest amounting to XDR 3.7 million (Sfr 7.1 million) on the reserve position.
2 In addition, undertakings of XDR 345.8 million were outstanding at end-2002 (2001: XDR 175.0 million).
3 No further undertakings were outstanding at the end of 2002.
4 In addition, undertakings of XDR 243.9 million were outstanding at end-2002 (2001: XDR 250.0 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 2002, 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. 19
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 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 Euro GC Basket (euro-denominated paper issued by the German Federal Government or the Republic of Austria) or from the German Jumbo Pfandbrief Basket (euro-denominated German jumbo mortgage bonds).

As an instrument for regulating the money market, the National Bank may use repos to withdraw liquidity from the market. A small number of liquidity-reducing transactions were conducted in 2002. At the end of the year, there were no outstanding liabilities from repo transactions.

Lombard advances

Item no. 20
in the balance sheet

Lombard loans are used by the banks to bridge unforeseeable liquidity shortfalls in the short term. At the end of 2002, a total of 146 credit lines were outstanding. This was 4 fewer than at the end of 2001.

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

	2002 Sfr millions	2001 Sfr millions	Change from previous year Sfr millions
Credit lines outstanding at year-end	9 327.4	9 230.9	+96.5
Value of collateral at year-end[1]	10 194.1	9 675.2	+518.9
Yearly average of drawn advances[2]	16.1	20.8	−4.7
Maximum drawdown[3]	800.0	975.0	−175.0

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

Claims against domestic correspondents

Item no. 21
in the balance sheet

440 branches of 57 banks (2001: 559 branches of 62 banks) perform local cash redistribution transactions for the National Bank and cover the cash requirements of federal agencies and associated enterprises. The claims attract interest at the Lombard rate less 200 basis points.

Item no. 22 in the balance sheet

Swiss franc securities

These are exchange-listed bonds.

	2002 Sfr millions	2002 percent weighting	2001 Sfr millions	2001 percent weighting	Change from previous year Sfr millions
Domestic borrowers	**4 624.9**	**65.9**	**4 050.1**	**67.5**	**+574.8**
Confederation	1 691.0	24.1	1 259.4	21.0	+431.6
Cantons	653.2	9.3	570.3	9.5	+82.9
Municipalities	360.0	5.1	351.6	5.9	+8.4
Mortgage bond institutions	1 216.1	17.3	1 109.4	18.5	+106.7
Banks	704.6	10.0	759.4	12.7	−54.8
Foreign borrowers	**1 809.1**	**25.8**	**1 397.3**	**23.3**	**+411.8**
Governments	785.7	11.2	624.8	10.4	+160.9
Banks	1 023.4	14.6	772.5	12.9	+250.9
International organisations	**584.4**	**8.3**	**552.6**	**9.2**	**+31.8**
Total market value	**7 018.4**	**100.0**	**6 000.0**	**100.0**	**+1 018.4**
Total nominal value	6 337.4		5 724.6		

Item no. 23 in the balance sheet

Participations (not consolidated) in Sfr millions

	Value as of 31/12/2001	Invest-ments	Divest-ments	Changes in market value	Value as of 31/12/2002
Orell Füssli	27.0	–	–	–	27.0
BIS	60.9	–	–	–	60.9
Others	1.4	–	−0.7	−0.0	0.6
Total	89.3	–	−0.7	−0.0	88.6

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 share was reduced again by Sfr 30 (1999–2001: Sfr 20) per registered share. The sum of Sfr 20 million which accrued to the National Bank from this transaction was credited to income from participations. This higher distribution was a major reason for the increased income from participations.

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

Other participations include stakes held in Telekurs Holding Ltd, Zurich, 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. This company disposed of fixed assets in 2002 and subsequently reduced its share capital through a reduction in the nominal value of its shares. In the National Bank's accounts, this repayment of equity was deducted from the book value of the participation.

Tangible assets

Item no. 24 in the balance sheet and income statement

Tangible assets are capitalised 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.

The stocks of new banknotes which have not yet been put into circulation are stated at cost. These costs are charged to the income statement in line with the notes' entry into circulation.

The additions to and reclassification of real estate and the specific conversion work are mostly related to conversion work at the Zurich headquarters.

"Sundry tangible assets" mainly comprises machinery, equipment, furnishings, computer hardware and vehicles. Computer software was previously carried under this heading but is now stated separately in the schedule of assets. As it is the only intangible asset that has been capitalised, there is no separate entry under an "intangible assets" heading in the balance sheet.

Schedule of assets in Sfr millions

	Banknote stocks	Real estate[1]	Specific conversion work	Fixed assets under construction	Software[2]	Sundry tangible assets[3]	Total
Period of depreciation	as per usage	100 years	10 years	no depreciation	3 years	3–12 years	
Historical cost							
Gross values as of beginning of 2002	152.1	324.3	34.3	4.5	20.2	68.4	603.8
Additions	37.8	0.4	5.2	–	9.5	9.4	62.3
Disposals	–40.0	–	–0.0	–	–7.7	–2.7	–50.4
Reclassified		1.4	2.9	–4.5	0.1	0.1	
Gross values as of end of 2002	149.9	326.1	42.4	–	22.1	75.2	615.8
Cumulative depreciation[4]							
Valuation adjustments as of beginning of 2002		12.3	4.0		7.4	45.3	68.9
Additions		3.2	3.7		6.5	8.9	22.3
Disposals		–	–0.0		–7.7	–1.7	–9.4
Reclassified		–	–0.0		–	0.0	
Valuation adjustments as of end of 2002		15.6	7.7		6.2	52.5	82.1
Net book values							
Net book values as of beginning of 2002	152.1	312.0	30.3	4.5	12.9	23.1	534.8
Net book values as of end of 2002	149.9	310.5	34.7	–	15.9	22.6	533.7

1 The insured value of the real estate at end-2001 was Sfr 337.8 million (end-2001: Sfr 337.8 million).
2 Stated together with sundry tangible assets up to 2001.
3 The insured value of sundry tangible assets at end-2002 was Sfr 73.5 million (end-2001: Sfr 68.1 million).
4 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.

Item no. 25 in the balance sheet

Sundry assets

	2002 Sfr millions	2001 Sfr millions	Change from previous year Sfr millions
Coins (including medallions)[1]	337.4	351.6	−14.2
Foreign notes	0.3	0.1	+0.2
Postal giro accounts	0.0	0.0	–
Other accounts receivable	6.6	14.0	−7.4
Prepayments and accrued income	3.0	2.4	+0.6
Cheques and bills of exchange (collection business)	0.4	2.7	−2.3
Positive gross replacement values[2]	592.8	86.1	+506.7
Total	940.6	456.8	+483.8

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. 108).

Item no. 26 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 2.3 billion were still outstanding at the end of the year (2001: Sfr 2.8 billion).

Item no. 27 in the balance sheet

Sight deposit accounts of domestic banks

The 292 sight deposit accounts (2001: 298) of the 274 banks (2001: 277) do not bear interest. They form the basis on which the National Bank exercises control over 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. 28 in the balance sheet

Liabilities towards the Confederation

The sight deposits of the Confederation facilitate the domestic and international payments transactions of the federal agencies and associated enterprises. These deposits (up to a maximum of Sfr 600 million) bear interest at the Lombard rate less 200 basis points.

Interest at the market rate is paid on the time deposits of the Confederation. At year-end, the time deposits totalled Sfr 6,704.1 million (2001: 2,251.9 million).

Sight deposits of foreign banks and institutions

Item no. 29 in the balance sheet

The 221 (2001: 218) deposits of the 88 banks (2001: 82) and of the 133 monetary and other institutions (2001: 136) are denominated in Swiss francs and do not bear interest.

Other sight liabilities

Item no. 30 in the balance sheet

These comprise accounts of active and retired employees, liabilities towards pension funds amounting to Sfr 16.6 million (2001: Sfr 19.6 million) and liabilities towards a few non-banks.

Foreign currency liabilities

Item no. 31 in the balance sheet

This item consists of liabilities from repo transactions in connection with the management of foreign currency investments (Sfr 146.1 million, compared with Sfr 1,469.1 million in 2001) plus sight liabilities towards the Confederation denominated in foreign currencies.

Sundry liabilities

Item no. 32 in the balance sheet

	2002 Sfr millions	2001 Sfr millions	Change from previous year Sfr millions
Other liabilities	6.1	12.1	-6.0
Accrued liabilities and deferred income	5.6	3.1	+2.5
Negative gross replacement values[1]	178.4	308.1	−129.7
Total	190.2	323.4	−133.2

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. 108).

Provision for the assignment of free assets

Item no. 33 in the balance sheet and income statement

	2002 Sfr millions	2001 Sfr millions
Position on 1 January	19 217.6	18 860.4
Allocated to/released from provisions	1 079.3	357.2
of which gain/loss from valuation of gold from free assets	338.0	674.2
of which gain/loss from hedging transactions for gold from free assets	741.3	−317.0
Position on 31 December	20 296.9	19 217.6

This provision reflects the fact that 1300 tonnes of gold are no longer required for monetary purposes and that, within the foreseeable future, the National Bank will release the proceeds from the sale of this gold for other public uses.

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.

		2002
	tonnes	Sfr millions
Market value of the as yet unsold portion of gold from the free assets	626.5	9 571.1
Cumulative proceeds from gold sales	673.5	10 218.8
Cumulative net result from hedging transactions		507.1
Provision for the assignment of free assets		20 296.9

Item no. 34 in the balance sheet and income statement

Provision for market and liquidity risks on gold

	2002	2001
	Sfr millions	Sfr millions
Position on 1 January	7 419.5	6 589.9
Allocated to provisions for valuation gain on gold holdings in the currency reserves	398.0	829.7
Position on 31 December	7 817.5	7 419.5

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. Under the new profit distribution agreement with the Federal Department of Finance (cf. page 105f.), the provision for market and liquidity risks on gold will be integrated into the provision for market, credit and liquidity risks with effect from 1 January 2003.

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

Item no. 35 in the balance sheet and income statement

	2002 Sfr millions	2001 Sfr millions
Provisions for operating risks		
Position on 1 January	465.9	467.1
Change	−4.0	−1.1
Allocated to provisions	–	3.0
Released from provisions	−4.0	−4.1
Position on 31 December	461.9	465.9
Provisions for market, credit and liquidity risks		
Position on 1 January	40 252.9	38 893.4
Released from/allocated to provisions	−1 734.5	1 359.5
Position on 31 December	38 518.4	40 252.9
Total (position on 31 December)	**38 980.3**	**40 718.8**

Owing to the new cash distribution concept, payments for early retirements have been charged to the provision for operating risks.

Market, credit and liquidity risks consist to a large extent of exchange rate risks on foreign currency investments. The interest risks on foreign currency investments and Swiss franc securities are also significant. Credit risks are primarily risks on balances with banks and to settlement risks attached to foreign exchange transactions. The published annual profit of Sfr 2,508.7 million includes a sum of Sfr 1,734.5 million released from the provisions. Although the distributable surplus as per the profit calculation concept (cf. page 105f.) decreased, provisions still exceed the target figure.

Item no. 36
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 financial year 2002, the Bank Committee authorised the transfer of 8,252 shares to new holders. As of 31 December, applications for registration were pending or outstanding for 16,611 shares.

The shares were distributed as follows:

Private shareholders	**Number of shares**
2 591 shareholders with a total of	27 495
of whom 1007 shareholders each with	1
of whom 1229 shareholders each with	2–10
of whom 329 shareholders each with	11–100
of whom 14 shareholders each with	101–200
of whom 12 shareholders each with	over 200
Public-sector shareholders	
86 shareholders with a total of	55 894
of whom 26 cantons with a total of	38 981
of whom 24 cantonal banks with a total of	14 473
of whom 36 other public authorities and institutions with a total of	2 440
Total 2 677 shareholders with a total of	**83 389**
Registration applications pending or outstanding for	16 611
Total shares	**100 000**

Of the shares registered as of the balance sheet date (approximately 83% of the total), 67% were held by cantons, cantonal banks and other public authorities and institutions, and 33% were registered in the names of private shareholders. Of the latter, 73% were held by private individuals and 27% by legal entities. 2,263 shares (without voting rights) were in foreign ownership; this is equivalent to 2.3% of the share capital.

Due to the legally stipulated maximum dividend of 6%, the price of the National Bank share usually develops along similar lines to a long-term Confederation bond with a 6% coupon. It decreased from Sfr 1090 at the beginning of 2002 to Sfr 949 at the end of the year, after having peaked at Sfr 1,220. The price payable for the shares is lower than the market price by approximately Sfr 250 (i.e. the non paid-up amount).

Despite higher trading volumes, the number of transactions diminished by 8% year-on-year while the number of pending or outstanding applications for registration declined by 12%. Compared with the previous year, the number of private shareholders decreased slightly by 66.

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	
	2002	Change from previous year	2002	Change from previous year
Canton of Berne	6 630	–	6.63%	–
Canton of Zurich	5 200	–	5.20%	–

Reserve fund

Item no. 37 in the balance sheet

The reserve fund was increased by Sfr 1.0 million (the legally permitted maximum) to Sfr 67.0 million by an allocation from the 2001 annual profit.

Annual profit – calculation and distribution

Item no. 38 in the balance sheet and income statement

The calculation of profit takes due account of the special features of the National Bank's operations. 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 for the years 1998–2002 took this situation into account by confirming that provisions should continue to be increased in line with growth in nominal gross national product. The targeted percentage rise is based on the average increase 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 states that, in order to achieve a steady flow of payments in the medium term, the distributions to the Confederation and cantons for the five financial years 1998–2002 should be fixed in advance – on the basis of an earnings forecast – at Sfr 1.5 billion per annum.

The new agreement concluded on 5 April 2002 states that a special distribution of Sfr 1 billion is payable for financial year 2002 (cf. page 49). Based on the new agreement, the National Bank will pay Sfr 2.5 billion per annum to the Confederation and cantons for each of the financial years 2003–2012. As of 2003, the targeted level of currency reserves now also takes monetary gold reserves (basis: 1,290 tonnes of gold) into account. As of 1 January 2003, therefore, the provisions for market and liquidity risks on gold are added to the target figure for provisions. Moreover, the actual provisions for market and liquidity risks on gold as at 1 January 2003 are grouped together with the actual provisions for market, credit and liquidity risks under a single balance sheet heading. As the data become available more quickly than in the past, growth in nominal gross domestic product (GDP) rather than gross national product (GNP) is now used as the basis for calculating the target figure for provisions.

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

	Growth in nominal GDP[1]	Provisions for market, credit and liquidity risks, and for operating risks at year-end		Residual surplus prior to distribution	Distribution	Residual surplus for future distributions
		Sfr millions		Sfr millions	Sfr millions	Sfr millions
	in percent (average period)[2]	targeted level	actual level prior to distribution[3]	at end-year	in the following year	
	(1)	(2)	(3)	(4) = (3) – (2)	(5)	(6) = (4) – (5)
1999	1.9 (1993–1997)	26 132.7	39 649.3	13 516.6	1 500.0	12 016.6
2000	2.0 (1994–1998)	26 655.4	40 860.5	14 205.1	1 500.0	12 705.1
2001	2.6 (1995–1999)	27 337.8	42 218.8	14 881.0	1 500.0	13 381.0
2002	3.3 (1996–2000)	28 239.9	41 480.3[4]	13 240.4	2 500.0	10 740.4
2003	2.3 (1997–2001)	36 886.7[5]				

1 Until 2002: nominal GNP

2 The data 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.

3 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 or Sfr 2.5 billion to the Confederation and the cantons.

4 Prior to integration of the provisions for market and liquidity risks on gold of Sfr 7,817.5 million

5 After addition of the provisions for market and liquidity risks on gold as at 1 January 2003 (Sfr 7,817.5 million)

3.4 Notes regarding off-balance-sheet business

	2002 Sfr millions	2001 Sfr millions	Change from previous year Sfr millions
Outstanding undertakings			
Two-way arrangement (IMF)[1]	652.9	369.5	+283.4
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)[2]	2 940.3	3 287.2	−346.9[3]
Interim PRGF[4]	460.6	527.8	−67.2

	2002 Sfr millions	2001 Sfr millions	Change from previous year Sfr millions
Other off-balance-sheet items			
Additional funding obligation for registered shares of BIS[5]	133.1	130.5	+2.6
Documentary credits[6]	3.6	5.6	−2.0
Other payment obligations[7]	27.1	29.1	−2.0
Fiduciary investments of the Confederation	414.4	509.1	−94.7

	2002 market value in Sfr millions	2001 market value in Sfr millions	Change from previous year Sfr millions
Assets pledged or assigned as security for own liabilities			
Foreign currency investments			
USD	137.4	1 100.9	−963.5
EUR	37.3	481.2	−443.9
JPY	–	1.3	−1.3
GBP	62.6	28.1	+34.5
Swiss franc securities	4.2	9.0	−4.8
Total[8]	241.5	1 620.5	−1 379.0

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 18 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 250.0 million (cf. p. 66)

5 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.

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

7 Liabilities from long-term rental and maintenance contracts

8 Security lodged in connection with repo and futures transactions

Outstanding derivative financial instruments	Contract value Sfr millions	Gross replacement value Sfr millions positive	 negative
Interest rate instruments	**24 160.5**	**79.0**	**70.7**
Forward contracts[1]	10 531.0	6.8	1.8
Interest rate swaps	3 599.2	72.2	68.9
Futures	10 030.3	–	–
Foreign exchange	**13 850.0**	**512.9**	**100.5**
Forward contracts[1]	13 850.0	512.9	100.5
Precious metals	**1 381.3**	**0.9**	**7.2**
Forward contracts[2]	357.6	0.9	–
Options (OTC)[3]	1 023.7	–	7.2
Total, end-2002	**39 391.9**	**592.8**	**178.4**
Total, end-2001	22 609.5	86.1	308.1

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 7 March 2003, the Bank Council accepted the proposal of the Bank Committee to approve the 95th Annual Report for 2002, as presented by the Governing Board, for submission to the Federal Council and the Annual General Meeting of Shareholders.

On 14 March 2003, 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 4 February 2003.

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 2,508,661,866.40 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	5 830 408.––
– supplementary payment for the financial year 2001[2] (Sfr 5,830,408 less Sfr 5,498,949.60)	Sfr	331 458.40
– for the account of the Confederation and cantons (Art. 27 para. 3 (b) NBL)		
– ordinary distribution of profits as per agreement of 24 April 1998	Sfr	1 500 000 000.--
– non-recurring special distribution as per agreement of 5 April 2002	Sfr	1 000 000 000.--
	Sfr	2 508 661 866.40

1 For the proposals regarding appointments to the Bank Council and the reappointment of the Auditing Committee, see p. 77 and p. 78 respectively.
2 Based on final population figures from the 2000 census

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 2002. 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 Pricewaterhouse-Coopers 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, 4 February 2003

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 5 April 2002, the Federal Department of Finance and the National Bank conclude a new agreement on the distribution of profit by the Swiss National Bank (cf. p. 49). April

On 2 May, the National Bank lowers the target range for the three-month Libor rate by half a percentage point to 0.75%–1.75% (cf. p. 42f.). May

On 26 June, the Federal Council passes a Message concerning a total revision of the National Bank Law for consideration by the Federal Parliament (cf. p. 48). June

On 26 July, the National Bank lowers the target range for the three-month Libor rate by half a percentage point to 0.25%–1.25% (cf. p. 42f.). July

On 22 September, the Swiss electorate and the cantons reject both the popular initiative "Surplus gold reserves for the Federal Old Age and Survivors Insurance Fund (gold initiative)" and the counter-proposal of the Federal Assembly, "Gold for the Federal Old Age and Survivors Insurance Fund, the cantons and the foundation" (cf. p. 47). September

With its Message of 20 November 2002, the Federal Council submits the federal decree on the renewal of Switzerland's participation in the IMF's General Arrangements to Borrow (GAB) for a further five years to the Federal Parliament (cf. p. 67). November

On 20 November, the Federal Council approves a renewal of Switzerland's participation in the IMF's New Arrangements to Borrow (NAB) for a further five years (cf. p. 67).

On 18 December, the Federal Council dissolves the Fund for needy victims of the Holocaust/Shoa (cf. p. 65). December

2 Press releases of the National Bank on monetary policy

21 March

Unchanged monetary policy – target range for the three-month Libor rate remains at 1.25%–2.25%

The National Bank has decided to adhere to its current monetary policy. It is leaving the target range for the three-month Libor rate unchanged at 1.25%–2.25%. For the time being, the three-month Libor is to be kept in the middle of the target range. During the past year, the National Bank has markedly eased its monetary policy, lowering the target range for the three-month Libor by a total of 1.75 percentage points. The last cut – by 0.5 percentage points – came on 7 December 2001. By markedly easing its monetary policy, the National Bank took account of the diminished price pressure and the danger of an excessive Swiss franc appreciation. In the meantime, the risk of a further weakening of economic activity and the associated danger of a deflationary price development in Switzerland have become smaller. There are first signs of an improvement in the world economic situation. The National Bank thus sees no reason at this time to change its monetary policy.

Economic development in Switzerland lost considerable momentum in the first three quarters of 2001. Compared with the previous quarter, the growth rate of real gross domestic product fell, on an annualised basis, from 1.6% in the first quarter to –0.3% in the third quarter of 2001. In the fourth quarter of 2001, the downturn came to a standstill. Consumption continued to pick up, albeit somewhat less markedly than previously. It remains a pillar of the economy. Capital spending exhibited a further strong decline, while building investments expanded slightly in the fourth quarter of 2001. Following two quarters during which exports fell substantially, the fourth quarter again recorded slight growth compared with the third quarter of 2001.

Inflation measured by the national consumer price index (CPI) decreased from 1.5% in the second quarter 2001 to 0.4% in the fourth quarter 2001. In January 2002 inflation amounted to 0.5% and in February to 0.7%. The moderate inflation rate is due mainly to declining prices for foreign goods, notably for oil products. Moreover, seasonal and special effects – such as clearance sales prices for clothing – had a dampening influence on inflation. The actual inflationary pressure is currently underestimated somewhat by the CPI. At 1.8% in February, the price increase for domestic goods is distinctly higher than the CPI increase.

The National Bank bases its assessment of the international economic situation on the assumption that the economy in the United States will start picking up markedly by mid-2002 and then gradually return to its growth potential. For the time being, the European economy will probably show somewhat more restrained development than the US economy. It should, however, gain increasingly in vigour in the second half of the year. As the economy recovers, the price of oil is likely to edge upwards again gradually. The euro/dollar exchange rate should remain more or less at the present level. Based on these assumptions, inflation prospects have changed very little since the forecast of December 2001. The National Bank expects inflation in the next few quarters to be somewhat lower than predicted last December. In particular, it may tend towards zero in the course of the second quarter 2002. This would probably, however, be due exclusively to a basis effect and would not constitute a deflationary development. As from mid-2003 onwards, inflation will again develop in line with the forecast published in December. Economic activity should pick up once more in the second half-year, underpinned by a recovery in exports. The anticipated real growth rate over the entire year 2002 is approximately 1%. Unemployment will still rise slightly, followed by a renewed decline in line with the economic recovery.

The National Bank considers the level of the three-month Libor and current monetary conditions as conducive to sustained and inflation-free economic development. In view of the strengthening global economy, a further lowering of the three-month Libor rate would heighten the risks for future price stability. An increase in the three-month Libor rate would not be indicated at present due to the favourable inflation prospects and the uncertainty concerning the pace and duration of the economic upswing in Europe. The international economic situation can change suddenly, however. In the event of an unexpected development in world economic activity, notably in Europe, or in case of exchange rate turbulences the National Bank would move quickly in adjusting its monetary policy.

2 May

Lowering of the interest rate target range by 0.5 percentage points – Continued concern over exchange rate development of the Swiss franc

The Swiss National Bank will lower the target range for the three-month Libor with immediate effect by 0.5 percentage points to 0.75%–1.75%. It intends to keep the three-month Libor rate in the middle of the adjusted target range. With this step, the National Bank is reacting to the rapid appreciation of the Swiss franc against the major currencies, which has led to an undesirable tightening of monetary conditions in Switzerland. This jeopardises the economic recovery, which is taking hold more slowly than anticipated. The outlook for price stability, however, remains favourable. The increase in the Swiss national consumer price index in April was mainly due to special factors.

The rise of the Swiss franc is attributable to special economic and political uncertainties. At present, it is hardly possibly to assess whether this climate will persist. The National Bank will monitor the further development carefully and will make use of its room for manoeuvre in monetary policy if necessary.

14 June

Libor target range left unchanged at 0.75%–1.75%

The Swiss National Bank has decided to leave the target range for the three-month Libor rate unchanged at 0.75%–1.75%. For the time being, the three-month Libor is to be kept in the middle of the target range. Since the last assessment of 21 March 2002, the National Bank has again adjusted its monetary policy. On 2 May 2002 it lowered the target range for the three-month Libor by 0.5 percentage points to the current level. Some time earlier, on 27 March 2002, it had already lowered repo rates by approximately 10 basis points, which led to a corresponding change in the three-month Libor. In both cases, the National Bank acted in response to the appreciation of the Swiss franc, which had led to an undesirable tightening of monetary conditions.

Since March 2001, the National Bank has eased its monetary policy substantially, lowering the target range for the three-month Libor by a total of 2.25 percentage points. After the cyclical downturn in the second half of last year, there are now signs that the world economy is starting to pick up, which will also benefit economic activity in Switzerland. However, uncertainties regarding the upswing persist. For the time being, the National Bank will thus maintain its expansive monetary policy stance. This does not jeopardise price stability. Assuming that the three-month Libor rate will remain stable at 1.25%, average annual inflation is expected to lie between 0.9% and 1.6% in the next three years. For 2002 the National Bank still anticipates a growth rate of around 1%.

26 July

The Swiss National Bank lowers its interest rate target range by 0.5 percentage points to 0.25%–1.25% – Economic recovery slower than expected – Dissatisfaction with the exchange rate

The Swiss National Bank will lower the target range for the three-month Libor rate with immediate effect by 0.5 percentage points to 0.25%–1.25%. For the time being, it intends to keep the three-month Libor rate in the middle of the new target range. By further loosening the monetary reins, the National Bank reacts to increasing signs from Switzerland and abroad pointing to a delay in economic recovery and slower-than-anticipated economic growth in 2002. It now forecasts the average growth for real GDP to fall considerably short of 1% in 2002. Moreover, the further real appreciation of the Swiss franc has led to a tightening of monetary conditions which is clearly undesirable under the current circumstances. The renewed easing of monetary policy will not jeopardise price stability in the short and medium term.

The strengthening of the Swiss franc reflects the sustained economic and political uncertainties, which led to a loss in confidence also on the international stock markets. The turbulence in the stock markets could, however, turn into a risk factor should it persist contrary to expectations. The National Bank will continue to follow the development of the economy very closely.

19 September

Unchanged monetary policy – target range for the three-month Libor rate remains at 0.25%–1.25%

The National Bank has decided to leave the target range for the three-month Libor rate unchanged at 0.25%–1.25%. For the time being, the three-month Libor is to be kept in the middle of the target range. The National Bank last adjusted its monetary policy on 26 July 2002, when it lowered the target range by 50 basis points. In so doing, it reacted to the sluggish pace of the economic recovery in Switzerland, which already became apparent at that time, as well as to the Swiss franc's renewed upward trend. The National Bank took advantage of the leeway afforded by the favourable price development. Since March 2001, the National Bank has eased its monetary policy substantially, lowering the target range for the three-month Libor by a total of 2.75 percentage points. The anticipated recovery of the global economy is taking hold only gradually and a perceptible upswing is not expected until the spring of 2003. This will also have an impact on the economic development in our country. The National Bank, therefore, will continue its relaxed monetary stance. Price stability is not threatened.

The Swiss economy's performance was below the National Bank's expectations during the first half year of 2002. Business activity continues to suffer from the difficult economic climate worldwide and the strong Swiss franc. In the second quarter 2002, real GDP was slightly below last year's level, but did not contract again compared with the previous quarter. Unemployment registered another slight increase.

Private and government consumption remain the most important pillars of the economy. The decline in capital spending accelerated again during the previous quarters, while construction investment saw stagnating figures. By contrast, both exports and imports picked up in the second quarter 2002 vis-à-vis the previous quarter. The development of orders received, however, does not yet point to a sustained recovery of exports.

Annual inflation measured by the national consumer price index (CPI) increased from 0.4% in January to 1.1% in April. It subsequently receded and hit a low point of –0.1% in July 2002. In August, it climbed to 0.5%. The negative inflation rate in July is mainly attributable to a change in data collection on clearance sales prices for clothing. Irrespective of this special effect, inflationary pressure remains low, which is again due largely to lower prices for imported goods. Inflation in the domestic goods sector always exceeded the 1% mark this year. Core inflation, computed by the National Bank as the trimmed mean, likewise amounts to approximately 1%. Consequently, the modest inflation is not a sign of a deflationary development in Switzerland.

The National Bank views the prospects for the global economy more cautiously than it did only three months ago. Economic growth in the US is unlikely to pick up speed before the spring of 2003; after that it should gradually regain its potential. The same applies to the European economy.

According to the National Bank's assessment, the Swiss economy will see only moderate growth rates until mid-2003. After that, the economy is set to rebound. Private and government consumption are expected to continue to underpin economic activity. What the economy needs to recover, however, is for exports to pick up. Such an increase strongly depends on the development of the global economy, particularly on the demand for capital goods. With rising exports, equipment investment in Switzerland is also likely to go up again. Based on the recently revised figures from the system of national accounts, the National Bank now expects that on average real GDP will almost stagnate in 2002. Growth will probably resume in 2003. Unemployment will rise further this year. As a result of the delayed economic rebound inflation is likely to remain low during the next quarters and is not expected to rise again until 2004.

Reacting to the strong franc and the lacklustre economy, the National Bank has made significant interest rate cuts, thereby considerably relaxing the monetary conditions. For the time being, it will maintain its expansionary monetary course so as to support the economic rebound and to keep Swiss franc investments a fairly unattractive option. Low interest rates and the relatively significant growth of monetary aggregates do not jeopardise price stability under the current circumstances. The National Bank considers the present level of the three-month Libor appropriate.

There are still considerable uncertainties in the current climate, however. Should the global economy slide into another recession or the Swiss franc experience another upward trend – especially vis-à-vis the euro – economic recovery in Switzerland might be at risk again. The National Bank will step in quickly should circumstances change.

13 December

Expansionary monetary policy to be continued – target range for the three-month Libor rate unchanged at 0.25%–1.25%.

The Swiss National Bank has decided to leave the target range for the three-month Libor rate unchanged at 0.25%–1.25%. For the time being, the three-month Libor is to be kept in the middle of the target range. Owing to the low level of inflation, the National Bank has been able to ease monetary policy substantially since March 2001, having since then lowered the target range for the three-month Libor by a total of 2.75 percentage points. The National Bank took decisive steps in response to declining economic growth and the upward trend of the Swiss franc. Interest rates were last lowered on 26 July of this year.

The imponderables with respect to the development of the global economy remain considerable, and a sustained economic upswing in Switzerland is not likely until some time in the second half of 2003. The National Bank is therefore maintaining its expansionary monetary policy and will keep the attractiveness of Swiss franc investments low. This does not jeopardise price stability. Assuming that the three-month Libor rate will remain stable at 0.75%, average annual inflation is expected to lie between 0.7% and 1.6% in the next three years. For 2003 the National Bank is anticipating economic growth of just over 1%, while zero growth is to be expected in the current year.

Selected information

1 Supervisory and executive bodies

(as of 1 January 2003)

Bank Council

(Term of office 1999–2003)

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

Hansueli Raggenbass, Kesswil, National Councillor, Attorney-at-law, 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 of Bangerter-Microtechnik AG
* Fritz Blaser, Reinach, Chairman of Schweizerischer Arbeitgeberverband (Swiss employers' association)
Pierre Darier, Cologny, partner of Lombard Odier Darier Hentsch & Cie, Banquiers Privés
* Hugo Fasel, St Ursen, National Councillor, Chairman of Travail.Suisse
Laurent Favarger, Develier, Director of Four électrique Delémont SA
Ueli Forster, St Gallen, Chairman of the Swiss Business Federation (economiesuisse), Chairman of the Board of Forster Rohner Ltd
* 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 Centre romand de promotion du management (CRPM)
* 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
Thomas Isler, Rüschlikon, President of the Swiss Textile Federation (association of Swiss textile and clothing industry), Chief Executive Officer of Gessner AG
* Armin Jans, Zug, Professor of 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
Ralph Lewin, Basel, Member of the cantonal government and head of the economic affairs and social welfare department of the canton of Basel-Stadt
* Hansueli Loosli, Würenlos, President of the Executive Committee, Coop
* 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, Chairman of the Board of Swiss Union of Raiffeisen Banks
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, Sorengo, National Councillor, Attorney-at-law and notary
Heinz Pletscher, Löhningen, former Chairman of the Swiss contractors' association
Rolf Ritschard, Luterbach, Member of the cantonal government and head of the department of the interior of the canton of Solothurn

Christian Seiler, Sion, Attorney-at-law, Managing Director of Seiler Hotels Zermatt AG
* 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' Union
Ulrich Zimmerli, Muri BE, Professor of law at the University of Berne
* Elisabeth Zölch-Balmer, Berne, President of the cantonal government and director of the economics department of the canton of Berne

Bank Committee
(Term of office 1999–2003)
Relevant involvements

Hansueli Raggenbass
- Chairman of the Board of the Health Care Organisation SWICA and associated companies
- Member of the Board of OC Oerlikon Contraves, Zurich

Philippe Pidoux
- Chairman of the Board of Publigroupe SA, Lausanne
- Vice Chairman of the Board of Directors Zurich Financial Services, Zurich

Ueli Forster
- Chairman of the Board of Forster Rohner Ltd, St Gallen
- Deputy Chairman of the Board of Directors of the Helvetia Patria Group, St Gallen

Serge Gaillard
- (none)

Trix Heberlein
- Chairwoman of the Board of Trustees of SwissTransplant
- Member of the Central Council Committee of the Swiss Broadcasting Corporation (SRG)

Hansheiri Inderkum
- (none)

Armin Jans
- (none)

Jean-Philippe Maitre
- Chairman of the Board of Affichage Holding SA, Geneva
- Chairman of the Board of Société générale d'affichage SA, Geneva
- Member of the Board of Directors of Agence immobilière Edouard Brun & Cie SA, Geneva
- Member of the Board of Directors of Allianz Suisse Insurance Company, Zurich
- Member of the Board of Switzerland Tourism

Franz Marty
- Chairman of the Board of Swiss Union of Raiffeisen Banks

Ulrich Zimmerli
- Chairman of the Board of Der Bund Verlag AG, Berne
- Vice Chairman of the Board of Allianz Suisse Insurance Company, Zurich
- Vice Chairman of the Board of Directors of WIFAG Maschinenfabrik AG, Berne

Local Committees

(Term of office 1999–2003)

Basel

Klaus Endress, Reinach, CEO of Endress + Hauser (International) Holding AG, Chairman

Raymond Cron, Binningen, Member of the management of Batigroup Holding Ltd., Deputy Chairman

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

Berne

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

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, Managing Director and Chief Executive Officer of Vaudoise Insurance Holding, Chairman

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

Bernard Rüeger, Féchy, General Manager of Rüeger SA and Deputy Chairman of the Vaud chamber of commerce and industry

Lucerne

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

Ruth Pedrazzetti-Weibel, Lucerne, hotel manager, Hotel Continental-Park, Vice Chairwoman

Werner Steinegger, Schwyz, Chairman of the Board of Celfa AG

Lugano

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

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

Giancarlo Bordoni, Viganello, CEO and Chairman of the Board of Oleificio Sabo SA

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 and Chairman of the Board of Hotel Waldhaus Sils

Zurich

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

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

Reto Müller, Dietikon, Chairman of the Board and CEO of Helbling Holding SA

Auditing Committee

(Term of office 2002/2003)

Members

Hans Michel, Egnach, Chairman

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

Kaspar Hofmann, Adliswil, Certified Auditor, Hofmann Wirtschaftsprüfung AG, Chief Auditor since the 1996 business year

Substitute members

Josef Blöchlinger, Begnins, Certified Auditor, Moore Stephens Refidar SA

Jean-Claude Grangier, Epalinges

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

Governing Board

	Jean-Pierre Roth, Chairman, Zurich
	Bruno Gehrig, Vice-Chairman, Zurich (until 30 June 2003)
	Niklaus Blattner, Member, Berne
Secretariat General	
Secretary General	Peter Schöpf, Director, Zurich
Deputy Secretary General	Alfred Flessenkämper, Assistant Director, Berne

Departments

Department I (Zurich)	
Head of Department	Jean-Pierre Roth, Chairman of the Governing Board
Deputy Heads of Department	Peter Klauser, Director
	Ulrich Kohli, Director
Internal Auditors	Ulrich W. Gilgen, Director
	Beat Müller, Assistant Director
Communications	Werner Abegg, Deputy Director
Regional Economic Relations	Heinz Alber, Director
Human Resources	Martin Hiller, Director
	Benjamin Künzli, Assistant Director
	Gabriela Mittelholzer, Assistant Director
International Affairs Division	Ulrich Kohli, Director
Research and Technical Assistance	Werner Hermann, Director
Bretton Woods Institutions	Roberto Cippà, Director
	Umberto Schwarz, Assistant Director
Economic Division	Michel Peytrignet, Director
Research	Thomas J. Jordan, Deputy Director
	Marcel Savioz, Assistant Director
Economic Analysis	Eveline Ruoss, Deputy Director
	Barbara Rudolf, Assistant Director
Statistics	Christoph Menzel, Director
Management Support	Robert Fluri, Assistant Director
Applications Software	Jean-Marie Antoniazza, Assistant Director
Methods and Analyses	Guido Boller, Assistant Director
Data Bank	Rolf Gross, Assistant Director
Balance of Payments	Thomas Schlup, Assistant Director
Legal and Administrative Division	Peter Klauser, Director
Legal Service	Hans Kuhn, Deputy Director
Pension Fund	Peter Hadorn, Deputy Director
Premises, Technical Services	Peter Fankhauser, Deputy Director

Department II (Berne)	
Head of Department	Niklaus Blattner, Member of the Governing Board
Deputy Head of Department	Thomas Wiedmer, Director
Management Support	Theodor Scherer, Director
	Daniel Ambühl, Assistant Director
Regional Economic Relations	Anne Kleinewefers Lehner, Assistant Director
Security	Hans Balzli, Assistant Director
Banking and Administrative Division	Thomas Wiedmer, Director
Central Accounting	Peter Bechtiger, Deputy Director
	Daniel Hübscher, Assistant Director
Securities and Gold Operations	Vincent Crettol, Assistant Director
Payment Transactions/ Settlements/Custody	Hans-Christoph Kesselring, Director
Securities Administration	Niklaus Wyss, Assistant Director
Cashier's Office Berne	Werner Beyeler, Assistant Director
Premises, Technical Services	Samuel Grossenbacher, Assistant Director
Cash Division	Roland Tornare, Chief Cashier of the Bank, Director
Processing	Urs Locher, Assistant Director
Financial Stability and Oversight Division	Daniel Heller, Director
Financial Stability	Bertrand Rime, Deputy Director
Financial markets infrastructure	Andy Sturm, Assistant Director
Adviser	Urs W. Birchler, Director

Department III (Zurich)	
Head of Department	Bruno Gehrig, Vice-Chairman of the Governing Board
Deputy Heads of Department	Erich Spörndli, Director
	Erwin Sigrist, Director
Monetary Operations Division	Erich Spörndli, Director
Risk Management	Dewet Moser, Director
	Erich Gmür, Assistant Director
Money Market and Foreign Exchange	Karl Hug, Director
	Marcel Zimmermann, Assistant Director
Investment	Thomas Stucki, Director
	Wolfgang Meyer, Assistant Director
Banking Operations and Information Technology Division	Erwin Sigrist, Director
Banking Operations	Daniel Wettstein, Director
Domestic Payments	Walter Gautschi, Assistant Director
Foreign Payments	Markus Steiner, Assistant Director
Cashier's Office Zurich	Peter Eltschinger, Assistant Director
Information Technology	Rudolf Hug, Director
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

Basel	Anton Föllmi, Director (until 31 July 2003)
Geneva[1]	Yves Lieber, Director
Lausanne	François Ganière, Director
Luzern	Max Galliker, Director
Lugano[1]	Mauro Picchi, Director
St. Gallen	Jean-Pierre Jetzer, Director

1 with cash distribution services

Agencies

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

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

2 Organisation Chart

Annual General Meeting

Auditing Committee

Bank Council

Local Committees

Bank Committee

Governing Board

Secretariat General Zurich/Berne

Department I Zurich

Human Resources

Internal Auditors

Communications

Regional Economic Relations

International Affairs Division

Research and Technical Assistance

Bretton Woods Institutions

Economic Division

Research

Economic Analysis

Statistics

Library

Legal and Administrative Division

Legal Service

Pension Fund

Premises, Technical Services

Basel Branch Office

Lucerne Branch Office

St Gallen Branch Office

Department II Berne

Management Support

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

Security

Regional Economic Relations

Cash Division
- Administration
- Storage
- Processing
- Technical Services

Financial Stability and Oversight Division
- System stability
- Financial Markets Infrastructure

Monetary Operations Division
- Money Market and Foreign Exchange
- Investment
- Risk Management

Banking Operations and Information Technology Division
- Banking Operations
- Information Technology

Lausanne Branch Office

Lugano Branch Office[1]

3 Publications

The printed publications are available on the Internet: http://www.snb.ch

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)

Monthly Bulletin on banking statistics

The Monthly 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, French, and occasionally in 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

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,
Tel. +41 1 631 32 84, Fax +41 1 631 81 14
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 webpage **www.snb.ch/The world of the National Bank** 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,
Tel. +41 1 631 32 84, Fax +41 1 631 81 14
Free of charge

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	
	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
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