96th Annual Report

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA

2003

Goals and responsibilities of the Swiss National Bank

Mandate

The Swiss National Bank conducts the country's monetary policy as an independent central bank. In so doing, it creates an appropriate environment for economic growth. The National Bank is obliged by the Constitution and statute to act in accordance with the general interests of the country. Its policy goal is price stability, while taking into account the economic situation.

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. In formulating monetary policy, it orients itself to an inflation forecast.

Ensuring the supply of cash

The note-issuing privilege is vested in the National Bank by law. Through the intermediary of the commercial banks and Swiss Post, it supplies the economy with banknotes that meet high standards with respect to quality and security. The Bank 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 international reserves

The National Bank manages international reserves (gold, foreign exchange, international payment instruments). They ensure confidence in the Swiss franc, help to prevent and overcome crises and may be utilised for interventions in the foreign exchange market.

Stability of the financial system

There are a number of authorities that contribute to the stability of the financial system. The Swiss Federal Banking Commission supervises the individual banking institutions for the protection of creditors. The National Bank's contribution is to conduct a stability-oriented monetary policy and to ensure the provision of liquidity for the Swiss franc money market. Within the framework of this task, it takes into account any potential threat to the financial system. Furthermore, it helps to shape the operating framework for the financial centre.

Statistics

The National Bank compiles various statistical data, notably banking statistics and the 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
96th Annual Report 2003

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

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

Ladies and Gentlemen

The hopes held at the beginning of 2003 of the economy gathering steam were initially dashed once again. During the course of the year, however, there were mounting signs of a pickup. This was particularly the case in the United States. While Japan started to emerge from years of stagnation, Europe ended the year on an optimistic note as well, with the prospect of an economic revival.

The disappointing performance of the economy in the first half of the year prompted some major central banks to further relax their monetary policy. In various countries, short-term interest rates consequently sank to lows not seen in years. In Switzerland, call money rates even trended towards zero.

Stock markets initially recorded further price losses in the first quarter before recovering significantly as the year progressed. The situation on the financial markets as well as in the banking and insurance industries thus stabilised. During 2003, the US dollar depreciated further. From the vantage point of the Swiss export industry, though, the strengthening of the euro against the Swiss franc was more significant, and the export-weighted exchange rate index of the Swiss franc weakened.

In October 2003, the Federal Assembly passed the total revision of the National Bank Law (NBL) with a large majority and with hardly any modifications to the original bill of the Federal Council. A referendum was not sought, and the new National Bank Law is expected to enter into force on 1 May 2004, one day after the Annual General Meeting. The National Bank will then have a lean central bank law that is compatible with international standards and oriented to the requirements of contemporary corporate governance.

In the past year as well, political discussion continued on the future appropriation of the proceeds from the sale of 1,300 tonnes of gold (free assets) no longer required for monetary policy purposes. As an interim solution, the Federal Department of Finance and the National Bank concluded, on 12 June 2003, a supplementary agreement on the distribution of income from the free assets. This agreement will remain effective until different legislation enters into force. As a consequence, the National Bank's CHF 2.5 billion annual profit distribution to the Confederation and the cantons (pursuant to the agreement of April 2002) will be increased by an additional CHF 300 million in spring 2004. With gold sales continuing, this additional amount to be distributed will reach CHF 500 million in spring 2006. After expiry of the main agreement in 2012, the profit distribution will fall significantly in line with the Bank's long-term earnings potential.

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

Berne, 5 March 2004

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

Economic upswing

After two years characterised by economic problems and geopolitical tension, the situation for the world economy improved in 2003. The US economy, which was steadily accelerating on the back of expansive monetary and fiscal policies, supplied major growth stimuli. An upswing in Asia's emerging economies (notably China) also exerted a positive effect on the global economy. The dynamic growth in this region spread to Japan, which finally emerged from its lengthy period of stagnation. Economic developments in Europe were relatively subdued, though in the second half of the year this region too began to experience a recovery.

Gloomy prospects at the start of the year

At the beginning of the year, the prospect of a rapid economic upturn had seemed remote. The impending war in Iraq had already cast its shadow over the economy at the end of 2002 and had started pushing the oil price sharply upwards. In the first quarter of 2003, the situation was further aggravated by an outbreak of the respiratory disease SARS, which impacted severely on the East Asian economies in particular and paralysed international tourism. As a result, the recession deepened in many parts of the world. Share prices continued to tumble, hitting new lows in March.

Recovery later on in the year

When the Iraq war ended at the beginning of May and the SARS outbreak was successfully contained, the economic situation took a turn for the better. Global commerce revived, and Asia's emerging economies made a particularly large contribution to the higher volume of trade. On the equity markets, share prices started to recover.

Expansionary monetary and fiscal policies

The fact that the industrialised countries continued to pursue expansionary monetary policies helped to drive the economic upswing. By mid-2003, with the inflation outlook still bright, central banks had reduced the key interest rates to their lowest levels for decades. In most of the industrialised countries, fiscal policies also helped to stimulate the business climate. The United States in particular implemented far-reaching tax cuts. These expansionary fiscal policies were reflected in a marked widening of budget deficits.

Upswing in the US

In the United States, the recovery gathered momentum as the year went on. Domestic demand was pushed up by low interest rates, tax cuts and pent-up demand for capital spending in the corporate sector. An acceleration in the international economy, coupled with a sharp depreciation of the dollar, lent further impetus to the upswing. Over 2003 as a whole, real gross domestic product (GDP) rose by 3.1% in 2003 compared with 2.2% in 2002. The economic recovery was accompanied by a surge in productivity. The situation on the labour market thus showed little improvement, and the unemployment rate did not begin to fall until the second half of the year.

Further increase in US current account deficit

The United States' current account deficit was widened further by the brisk domestic demand, gaining half a percentage point year-on-year to reach 5% of GDP.

Pace of UK economy quickens

The United Kingdom also saw an improvement in the business climate. Initially, the upswing was driven mainly by private consumption and demand from abroad, but as the year went on capital spending also picked up. The 2.3% rise in real GDP exceeded the 2002 figure, and unemployment declined slightly.

Weak growth in the euro area

In the euro area, the economic recovery took hold only slowly. The sluggishness was due among other things to the euro's appreciation against the dollar, which impaired export growth. Domestic demand grew at a leisurely pace. A major contributory factor was the continued decline in capital spending. On average over the year, real GDP edged up by 0.4% compared with a 0.9% rise in 2002. As a result, the unemployment rate continued to climb.

Mixed developments within the euro area

Growth rates varied from one euro-area country to another. Averaged over the year, real GDP remained unchanged at the year-back level in Germany, whereas it grew slightly in France. The Netherlands and Portugal slid into recession. In most of the other euro-area countries, however, growth rates exceeded the average for the area as a whole. The highest growth rates were registered by Greece, Ireland and Spain.

Surprising recovery in Japan

Japan experienced a strong economic recovery in the second quarter of 2003. Buoyant demand from Southeast Asia and China sparked an upturn in equipment investments. By contrast, private consumption was hit by the persistently sluggish labour market.

Inflation declining in most OECD countries

During the course of 2003, inflation receded in most industrialised countries. Although energy prices rose sharply, this was offset in many countries by low price rises for other commodity groups and a fall in the dollar exchange rate. The downturn in inflation was particularly striking in the United States and in the United Kingdom. Averaged out over the year, however, inflation in these two countries was still higher than in 2002 (2.3% and 2.8% respectively) whereas in the euro area it edged down to 2.1%. In Japan, the deflationary trend continued.

Strong growth in Asia,...

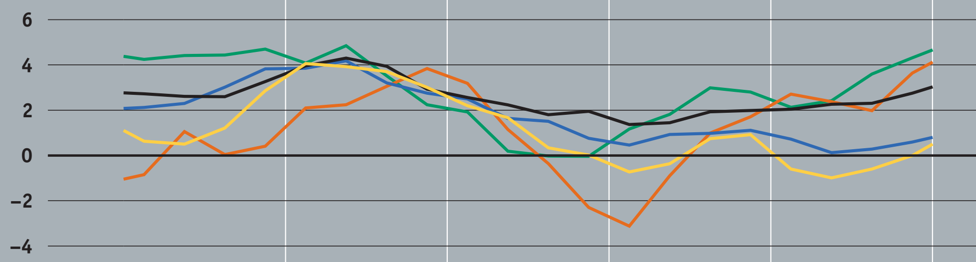
Asia was the fastest-growing region in 2003. Most Asian countries saw a broad-based upswing, with substantial growth in domestic demand as well as exports. The respiratory disease SARS had only a short-lived impact on growth. In South Korea and the Philippines, however, the recovery was impeded by political imponderables.

1999 2000 2001 2002 2003

Real gross domestic product

United States
Japan
Euro area
United Kingdom
Switzerland

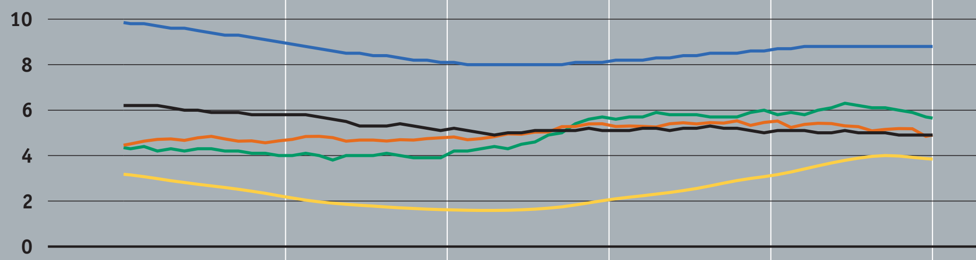
Change from previous year in percent.
Source: OECD



Unemployment

United States
Japan
Euro area
United Kingdom
Switzerland

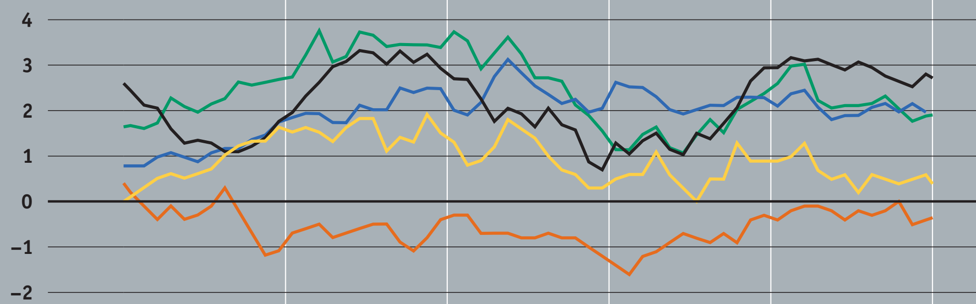
Seasonally adjusted, in percent.
Source: OECD



Inflation

United States
Japan
Euro area
United Kingdom
Switzerland

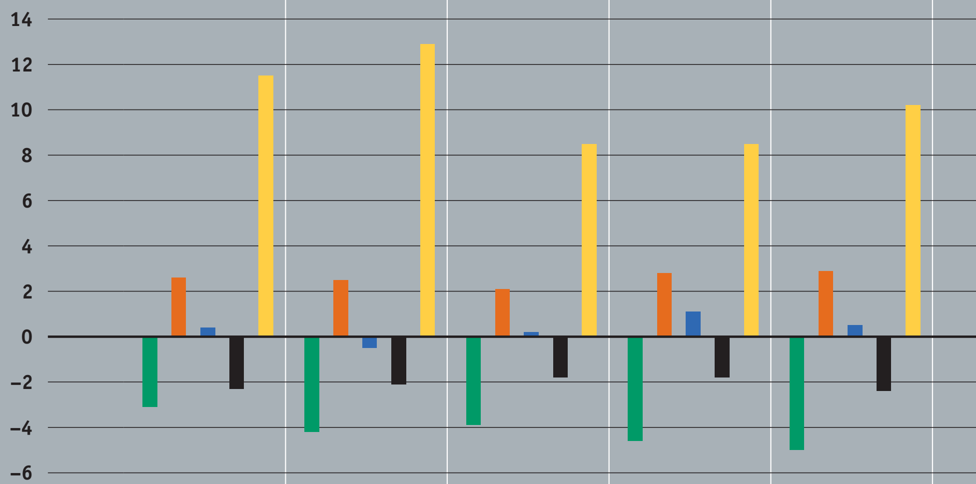
In percent.
Source: OECD



Current account balance

United States
Japan
Euro area
United Kingdom
Switzerland

Net balance in percent of GDP.
Source: OECD



1999 2000 2001 2002 2003

Summary of economic development parameters

	1999	2000	2001	2002	2003
Real GDP Change from previous year in percent					
United States	4.1	3.8	0.3	2.2	3.1
Japan	0.1	2.8	0.4	−0.3	2.7
Euro area	2.8	3.5	1.7	0.9	0.4
Germany	1.9	3.1	1.0	0.2	−0.1
France	3.2	4.2	2.1	1.3	0.2
Italy	1.7	3.3	1.7	0.4	0.4
United Kingdom	2.8	3.8	2.1	1.7	2.3
Switzerland	1.5	3.2	0.9	0.2	−0.5
Unemployment in percent					
United States	4.2	4.0	4.8	5.8	6.1
Japan	4.7	4.7	5.0	5.4	5.3
Euro area	9.4	8.4	8.0	8.4	8.8
Germany	8.0	7.3	7.4	8.1	8.9
France	10.7	9.4	8.7	9.0	9.6
Italy	11.5	10.7	9.6	9.1	8.9
United Kingdom	6.0	5.5	5.1	5.2	5.0
Switzerland	2.9	2.5	2.5	3.1	3.9
Consumer price inflation in percent					
United States	2.2	3.4	2.8	1.6	2.3
Japan	−0.3	−0.7	−0.7	−0.9	−0.3
Euro area[1]	1.1	2.2	2.4	2.3	2.1
Germany[1]	0.6	1.4	1.9	1.3	1.1
France[1]	0.6	1.8	1.8	1.9	2.1
Italy[1]	1.7	2.6	2.3	2.6	2.8
United Kingdom[2]	2.3	2.1	2.1	2.2	2.8
Switzerland	0.8	1.6	1.0	0.6	0.6
Current account balance in percent of GDP					
United States	−3.1	−4.2	−3.9	−4.6	−5.0
Japan	2.6	2.5	2.1	2.8	2.9
Euro area	0.4	−0.5	0.2	1.1	0.4
Germany	−1.2	−1.4	0.2	2.7	2.1
France	2.9	1.3	1.6	2.0	0.9
Italy	0.7	−0.6	−0.1	−0.6	−1.2
United Kingdom	−2.3	−2.1	−1.8	−1.8	−2.7
Switzerland	11.5	12.9	8.5	8.5	10.2

1 Harmonised inflation figures
2 Inflation excluding mortgage costs
Some 2003 figures are estimates.
Source: OECD, national statistics offices

... and especially in China

The Chinese economy displayed particularly dynamic growth. Exports were boosted by demand both from the US and from other Asian countries. Owing to the surge in export earnings along with massive inflows of capital, China's currency reserves ballooned. This development, coupled with the Chinese authorities' decision to adhere to a fixed exchange rate versus the dollar, sparked controversy about China's monetary policy at an international level. The rapid growth gave rise to strains within the country itself. Lending expanded dramatically, triggering a sharp rise in property prices, especially in the cities.

Oil boom in Russia

The Russian economy expanded vigorously. This was due in large part to the oil sector, which benefited from the rise in world market prices for oil. High oil revenues boosted Russia's currency reserves and resulted in a substantial budget surplus. This meant that a large portion of foreign debt could be paid back. Owing to a rise in government-controlled prices, inflation remained in the double-digit range.

Sound economic situation in Central and Eastern Europe

Most of the Central and Eastern European economies grew at a brisk pace. The expansion was driven primarily by private consumption, though exports also played their part. As in the previous year, there was a strong inflow of direct investments as free-market structures became more established. Inflation fell in the majority of these countries.

Turkish economy improving

After being plunged into a crisis in 2001, the Turkish economy continued its recovery in 2003. Domestic demand rose strongly. With inflation falling from 45% to about 25%, confidence in the Turkish financial markets returned. As a result, the Turkish currency rebounded significantly and interest rates declined.

Latin America brightens up

During the course of 2003, the economic situation brightened in many Latin American countries. Argentina saw renewed growth in GDP and a fall in inflation following its severe crisis. In September, a somewhat controversial three-year loan agreement was concluded with the International Monetary Fund (IMF) whereby Argentina undertook to meet its financial obligations. No debt restructuring agreement was reached with private foreign creditors, however. The Brazilian government pursued solid monetary and fiscal policies and began to institute major structural reforms. As a result, the risk premium on government paper narrowed and the currency appreciated. The restrictive monetary policy needed in order to combat inflation had a dampening effect on domestic demand. Growth stimuli thus emanated mainly from exports. At the end of the year, the improved economic situation prompted the IMF to step up its lending to Brazil and extend the corresponding agreement on a contingent basis. Uruguay, too, succeeded in restructuring its government debt. In Venezuela, however, the economic situation remained difficult owing to political imponderables.

1.2 Monetary policy

Continuation of expansionary monetary policies

In most of the industrialised countries, the central banks continued the expansionary monetary policies which they had been pursuing since 2001. Low inflation rates and a favourable outlook for future inflation gave them the necessary scope for implementing monetary measures to aid an economic recovery.

Key rate cuts in the US and Canada ...

At the beginning of June, the US Federal Reserve lowered its target Federal Funds rate by a quarter of a percentage point to 1.0%. This was 5.5 percentage points below the peak it reached in the year 2000. The Canadian central bank cut its key rate in the third quarter of 2003 after having tightened its monetary stance in the spring.

... as well as in Europe

Short-term interest rates in most of Europe's industrialised countries were significantly higher than in the US. However, spreads narrowed considerably compared with the previous year. At the beginning of March, the European Central Bank lowered its minimum bid rate for main refinancing operations by a quarter of a percentage point to 2.5%, with a further half-point cut at the beginning of June to 2.0%. The central banks of Norway, Sweden and Denmark also eased their monetary policy in stages.

Interest rate turnaround in the UK

The Bank of England lowered its key lending rate to 3.5% by way of two quarter-point cuts in February and July. At the beginning of November, however, it raised this rate back to 3.75% in order to prevent the economy from overheating.

Japan's zero percent interest policy

As in the previous year, the Japanese central bank continued to expand bank liquidity in order to stimulate the economy and halt the deflationary trend. The call money rate, which had dropped close to zero in 2001, remained at this level.

Interest rate rise in Australia

Contrary to developments in most other industrial countries, Australia's central bank tightened up its monetary policy towards the end of the year. It did so in order to counter a feared overheating of the economy.

Sweden remains outside the euro area

In a referendum held on 14 September, the Swedish electorate rejected the introduction of the euro. Like the United Kingdom and Denmark, Sweden is an EU member but not part of the euro area.

1.3 Fiscal policy

Sharp deterioration in public finances ...

In most industrialised countries, budget deficits and government debt rose sharply in 2003. This was largely a reflection of the weak economic situation, which eroded tax revenues while giving rise to additional spending on unemployment benefits. In the United States, moreover, tax-cutting programmes coupled with high military spending occasioned by the Iraq war also had an adverse impact on government finances.

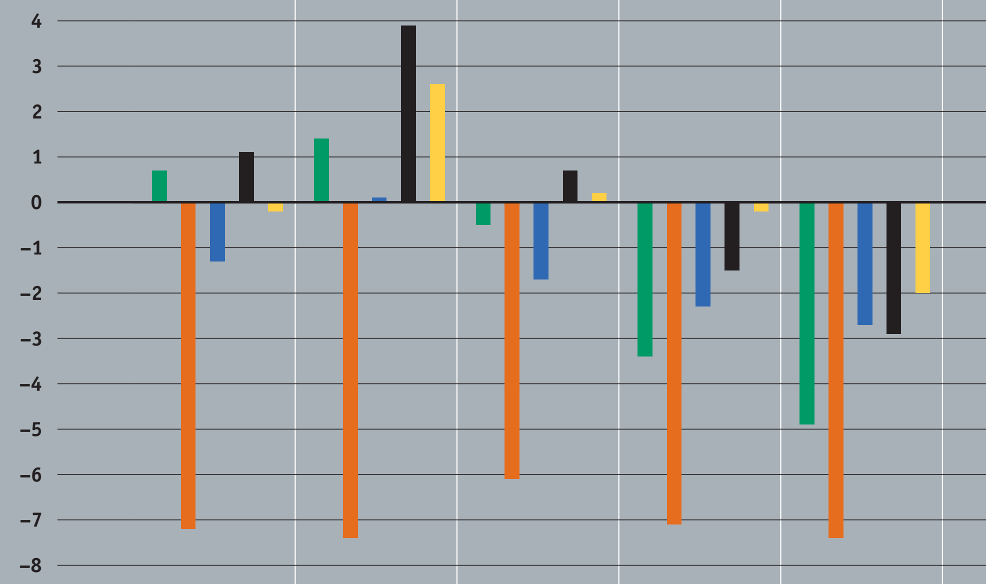
... in the US and UK, ...

According to OECD estimates, the United States' budget deficit rose from 3.4% of nominal GDP in 2002 to 4.9% in 2003. In the United Kingdom, the budget deficit doubled to 2.9% of GDP. The US and the UK had posted surpluses in 2000 and 2001 respectively. Gross government debt in the US rose by 2.6 percentage points to 64% of GDP in 2003, while in the UK it increased by 1.5 percentage points to 54%.

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

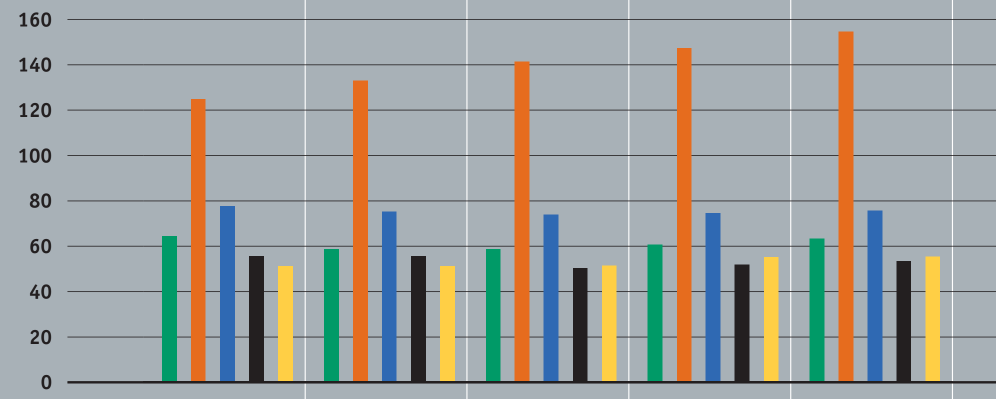
Public-sector financial balances



United States
Japan
Euro area
United Kingdom
Switzerland

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

Government indebtedness



... in the euro area ...

In the euro area, budget deficits rose overall by 0.4 percentage points to 2.7%. This deterioration can be ascribed mainly to developments in the large economies. The deficit expanded to 4% in both Germany and France, exceeding the 3% threshold stipulated in the Maastricht Treaty for the second year running. As the EU Commission's recommendations on measures to reduce deficits in the event of protracted violation of the deficit ceiling have been toned down by the Council of EU Economics and Finance Ministers, however, these two countries will now probably only be obliged to bring their deficits within the 3% limit in 2005. At 2.7%, Italy's deficit was close to the figure for the two previous years. By contrast, other euro-area countries managed either to balance their budgets (Spain) or post a small surplus (Denmark and Belgium). Government debt in the euro area increased from 75% to 76% of GDP. The highest levels of debt were recorded by Italy (117%), Greece (103%) and Belgium (102%) while the lowest figures were posted by Luxembourg (5%) and Ireland (33%).

... and in Japan

In Japan, the budget deficit widened to 7.4% of GDP. Meanwhile, government debt grew by 7 percentage points to 155%, thus continuing the trend of the 1990s.

1.4 Foreign exchange markets

Dollar continues to weaken

The dollar continued the downtrend that had begun in 2002, losing considerable ground to the major currencies. Its slide was probably due among other things to a worsening of the macroeconomic imbalances, especially the growth of the US current account deficit. The US dollar sustained sharp falls against the euro (–17.0%), the Canadian dollar (–15.7%), the Swiss franc (–12.1%) and the yen (–11.6%). It lost 9.3% against the pound sterling. In trade-weighted real terms, the dollar's exchange rate in December was 10.9% lower than a year previously.

Rise of the euro

The euro appreciated steadily during the year. By December, it was fetching USD 1.23, i.e. 20.5% more than a year earlier. Against sterling, the euro gained 9.3% to reach GBP 0.70 by December. In the first half of 2003, it also strengthened against the Swiss franc, rising from CHF 1.47 to CHF 1.55; it then remained roughly at this level in the second half of the year. In the year to December, it advanced by 5.9% against the Swiss currency. The euro's trade-weighted real exchange rate rose by 11.5%, exceeding its value at launch in January 1999.

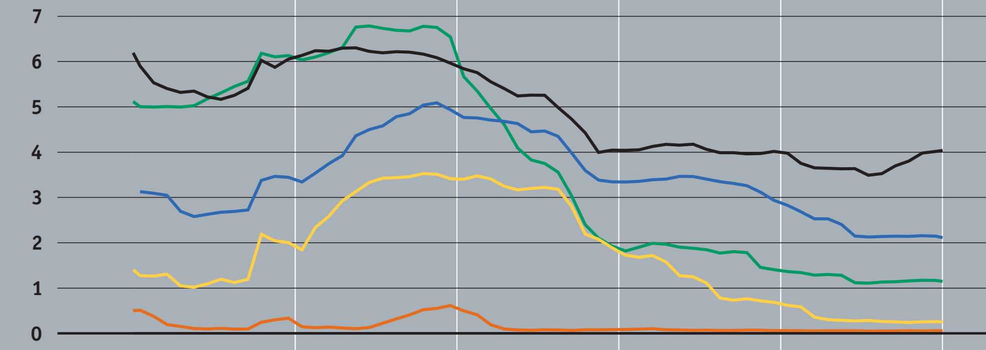
Slight strengthening of the yen

The yen's performance was mixed. It posted a substantial (13.1%) gain versus the dollar despite major interventions by the Bank of Japan on the foreign exchange market. However, the yen showed little change over the year as a whole in relation to the Swiss franc, and it lost 6.2% against the euro. Overall, the yen recovered from its weakness of the two preceding years. By December, its trade-weighted real exchange rate was 2.0% above its year-back level.

Dollar
Yen
Euro
Pound sterling
Swiss franc

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

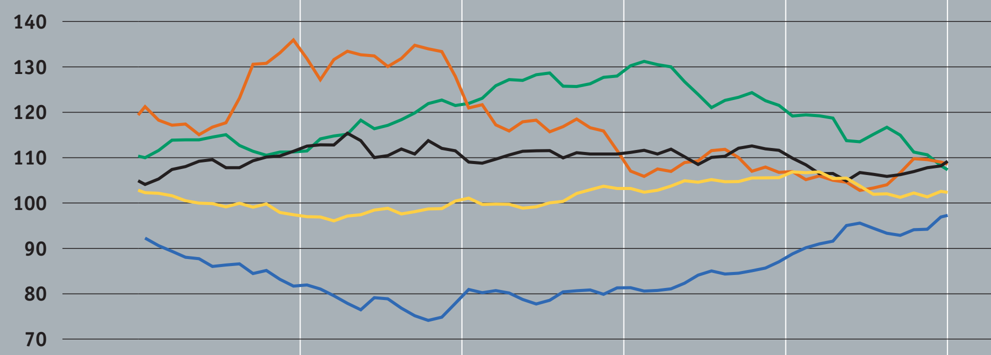
Short-term interest rates



Dollar
Yen
Euro
Pound sterling
Swiss franc

Index: 1990 = 100.
Source: BIS

Trade-weighted real exchange rates



1999 2000 2001 2002 2003

1.5 Capital and credit markets

Interest rates turn in mid-year

In the first half of the year, yields on long-term government bonds receded slightly in the industrialised countries. The trend turned in June, however. By September, yields had risen by 1.0 percentage point to 4.3% in the US, from 3.7% to 4.2% in the euro area and from 0.5% to 1.5% in Japan. Yields then stabilised in the fourth quarter.

Decreasing risk premium for low-rated corporate bonds

While the yield spread between bonds of top-rated private issuers and government bonds narrowed only slightly during the year, the spread between corporate bonds with good and poor credit ratings decreased sharply. In the US, the yield on low-rated corporate bonds was halved from 16% in February to 8% in December – the lowest level for two years. Accordingly, the yield gap between corporate bonds with high and low ratings narrowed dramatically from 10 percentage points in February to 3 points in December. The steep decline in the risk premium reflects the economic recovery and the associated revival of investor confidence.

Share prices on the rise

After continuing to fall in the first quarter, share prices staged a recovery on all major stock exchanges during the rest of the year. By the end of December, the Standard & Poor's 500 share index had risen 26% year-on-year. The European indices also rose: the EuroSTOXX 50 gained 16% while Germany's DAX soared by 37% and the UK's Financial Times SE 100 index gained 14%. In Japan, the Nikkei 225 rose by 24%.

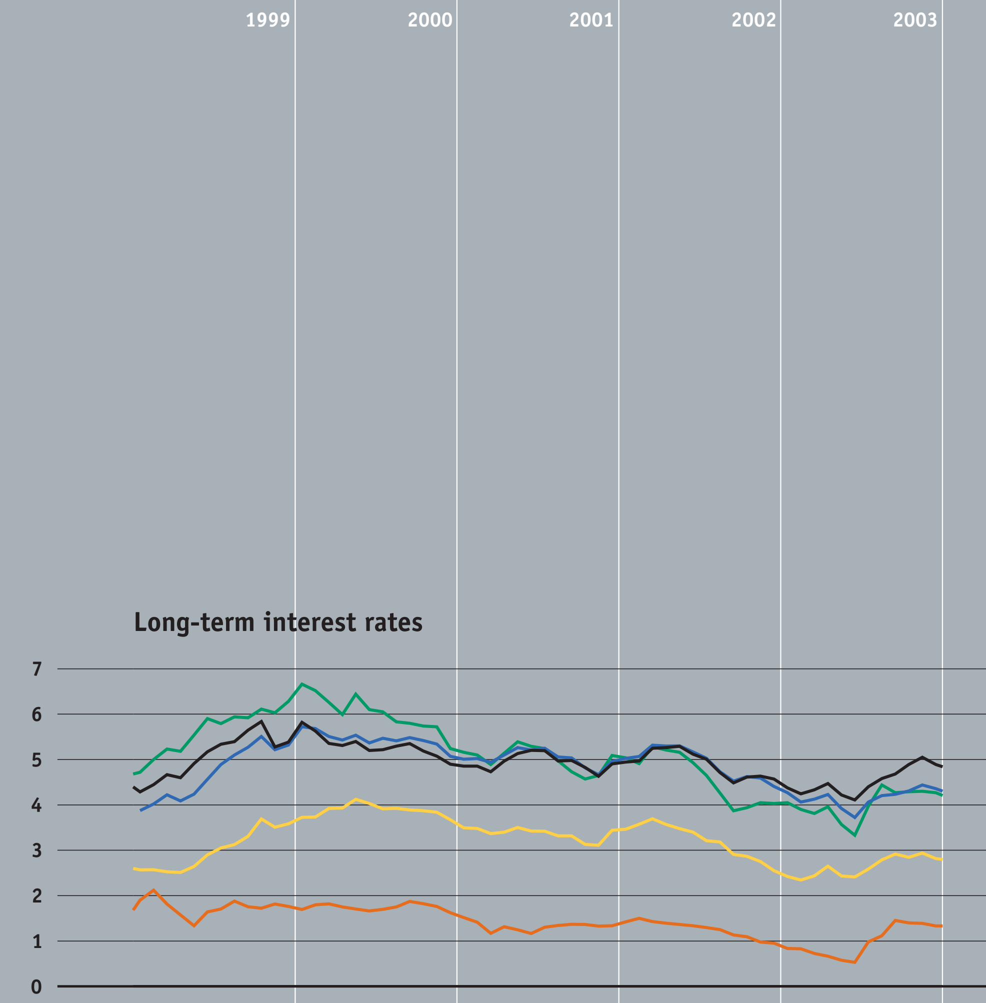
Borrowing on the financial markets rising

Net borrowing on the international financial markets rose by 43% to USD 1,462 billion during 2003. Net borrowing through medium- and long-term bonds rose to USD 1,387 billion, due mainly to a sharp increase in new issues totalling USD 2,883 billion. The portion of this figure attributable to money market instruments remained negligible. While the percentage of new issues accounted for by the euro rose by 7 percentage points to 45%, the dollar's share receded from 47% to 40% and that of the yen fell from 4% to 3%. The percentage accounted for by the pound sterling and the Swiss franc remained stable at 6% and 2% respectively.

Collective action clause introduced for bonds of emerging economies

At the beginning of 2003, Mexico – responding to a recommendation of the Group of Ten – became the first emerging economy to issue a bond with a collective action clause under New York law. Collective action clauses allow a qualified majority of creditors to modify the payment terms in the event of a crisis. The Mexican bond was well received by the market, and further countries followed Mexico's example by issuing similar bonds.

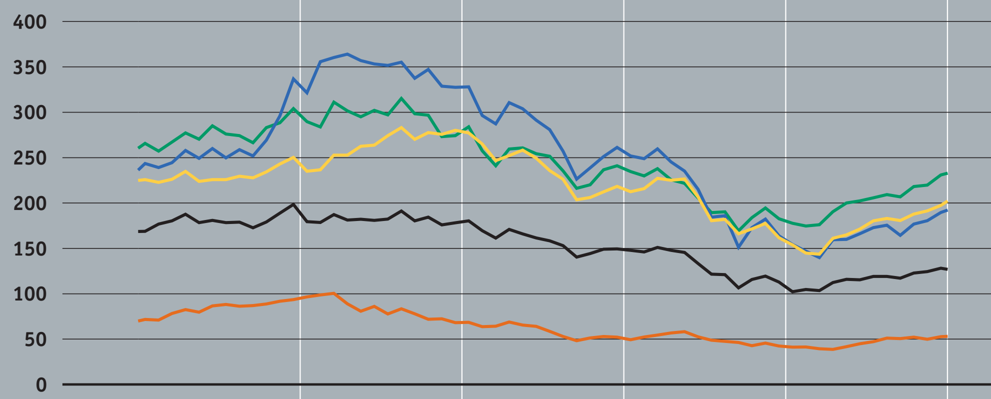
Long-term interest rates



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: Bloomberg,
Swiss Stock Exchange

1.6 Banks and other financial institutions

Improved situation of US banks

Banks in the United States posted higher earnings in 2003 than in the previous year. Retail banking yielded especially good results, though the situation in investment banking also improved. The earnings of US banks were favourably influenced by the fact that bad-debt provisions were lowered owing to the economic upswing.

Cost-cutting by European banks

European banks' results also improved. Cost-cutting measures, which resulted in workforce reductions and the closure of branches, were a contributory factor. With banks focusing increasingly on their core competencies, a number of business units changed hands.

Profitability of German banks improving

After a sharp deterioration in business the previous year, the profitability of Germany's banking sector improved again slightly. In addition to the weak economy, structural problems – reflected primarily in low interest margins and high fixed costs – are responsible for the German banks' low profitability in international terms.

Continuing problems of the Japanese banking sector

The Japanese banking sector again had to contend with non-performing loans and low profitability. When the equity ratio of the country's fifth biggest banking group dropped below the prescribed minimum, the government acquired a majority stake in it. A sizeable regional bank was also nationalised in order to head off impending insolvency. The Bank of Japan continued its programme to buoy up the banking sector. In particular, this involves the purchase of shares from the banks' own portfolios.

Problems at US housing-finance institutions

The two big US housing-finance institutions Fannie Mae and Freddie Mac moved into the forefront of public debate. As early as 2002, Fannie Mae hit the headlines because of a major discrepancy between the maturities of its assets and its liabilities ("duration gap"). In 2003, Freddie Mac had to admit to accounting irregularities: the earnings it had disclosed for the years 2000–2002 were too low by a total of USD 4.5 billion. It had illicitly accumulated reserves so that its future figures would exhibit as much earnings stability as possible. As a result of these events, legal measures were taken to tighten up supervision of the housing-finance institutions.

2 Switzerland

2.1 Economic development

Economic climate brightens in the second half

Like most industrialised countries, Switzerland was faced with a sluggish economy at the beginning of 2003. Uncertainty about the outbreak of war in Iraq, upward pressure on the Swiss franc and the SARS epidemic all had an adverse impact on business and investment. Unemployment continued to rise, and sentiment among producers and consumers worsened. The signs of economic stabilisation multiplied once the Iraq war was over, however, and the climate became generally more upbeat in the second half. After real GDP had contracted in the first half of the year, it expanded slightly in the second half thanks to livelier exports and higher capital spending. Averaged over the year, it declined by 0.5%.

Inventory reductions push down overall demand

Economic activity was bolstered in 2003 by private and government consumption and by residential construction, whereas exports stagnated and equipment investment declined. Along with a reduction in inventories, this resulted in lower overall demand. The industries worst hit by the slack economy were manufacturing, company-related services and tourism. By contrast, the financial sector – which had borne the brunt of the share-price slide in 2002 – staged a recovery.

Industrial output stagnating

In the first half of the year, manufacturing was hit by the fall-off in both domestic and foreign demand. As the business situation worsened, capacity utilisation declined. Around mid-year, however, order intake began to pick up and the outlook brightened. The change in sentiment was especially pronounced in the export industry. Towards the end of the year, industrial production rose slightly. Averaged out over the year, it remained flat compared with a decline of almost 6% in 2002.

Private consumption robust

Despite higher unemployment, private consumption rose by 0.9% – a similar rise to that in the previous year. However, as it grew less rapidly than disposable income, the savings rate increased. As in the previous year, expenditures on the less cyclical items (food, housing and healthcare) rose while purchases of consumer durables and luxury goods receded. The consumer sentiment index remained low. Domestic tourism failed to extricate itself from the stagnation: the number of overnight stays by domestic guests decreased again slightly.

Gross domestic product and components
Change from previous year in percent, in real terms

	1999	2000	2001	2002	2003
Private consumption	2.2	2.5	2.0	0.7	0.9
Government consumption	0.3	2.4	4.0	0.8	0.9
Investment in fixed assets	1.2	4.4	−3.1	−4.8	0.1
Equipment	5.0	5.6	−3.0	−10.1	−0.7
Construction	−3.7	2.7	−3.4	2.2	0.9
Domestic demand	**0.3**	**2.1**	**1.9**	**−0.9**	**−0.1**
Exports of goods and services	6.5	12.2	0.2	−0.5	−0.4
Aggregate demand	**2.1**	**5.2**	**1.4**	**−0.8**	**−0.5**
Imports of goods and services	4.3	9.5	2.2	−3.1	−0.1
GDP	**1.3**	**3.7**	**1.0**	**0.2**	**−0.5**

Source: Swiss Federal Statistical Office, seco

Equipment investment stabilises

The decline in equipment investments that had begun in 2001 initially continued in 2003. As the business climate picked up, however, and due also to rising replacement requirements, investment activity picked up in the second half. Averaged out over the year, equipment investment receded by 0.7% following a 10.1% fall in 2002.

Mixed trend in building sector

Construction investment rose by 0.9% in 2003, down from 2.2% in 2002. The only bright spot was residential construction, which benefited from favourable financing terms and a low vacancy rate. By contrast, commercial construction and civil engineering continued to decline as a result of cost-cutting in the public sector.

Recovery of goods exports in the second half

In the second half of the year, the pickup in the international economy, coupled with the depreciation of the Swiss franc, helped goods exports to stage a recovery. On average over the year, however, they declined by 1.1% compared with a slight increase in the previous year. While initially the rises were confined to shipments of raw materials and semi-manufactures, towards the end of the year the recovery spread to capital and consumer goods.

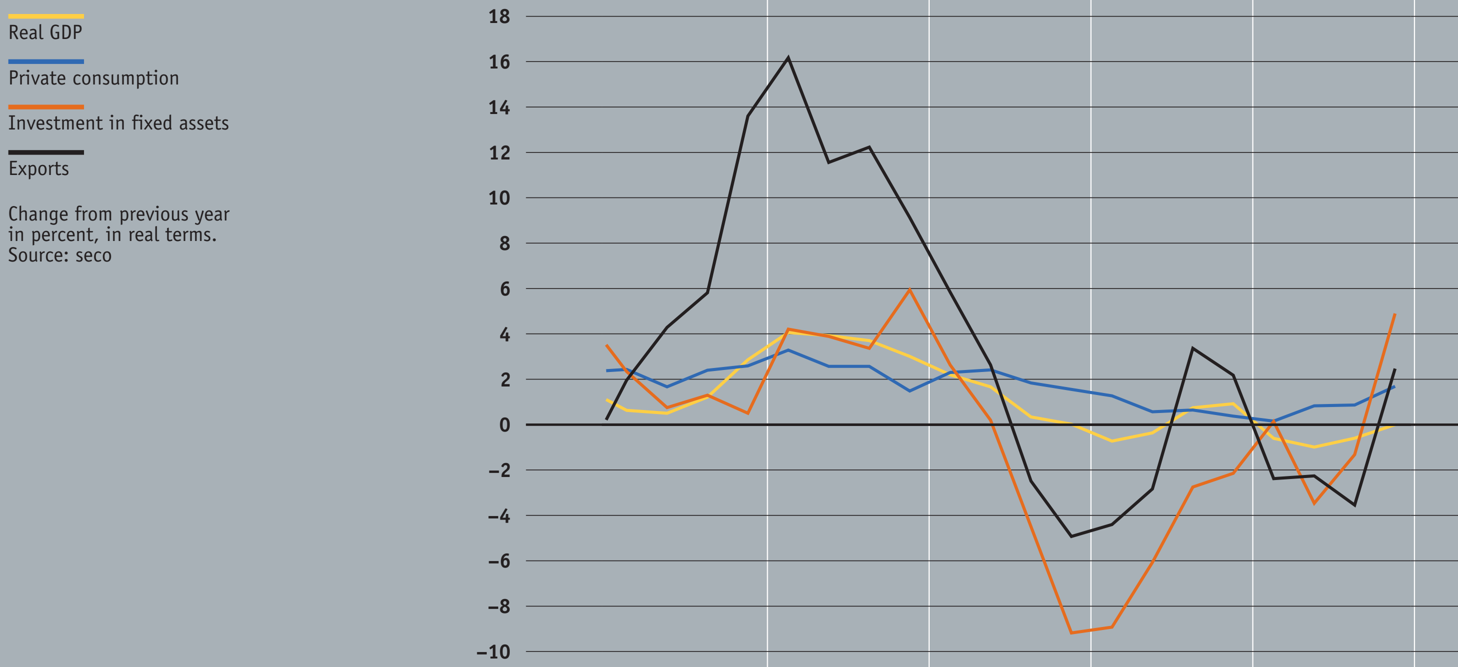
Higher demand from Asia and Central Europe

The growth was driven to a considerable extent by rising demand from Asia (China and Japan in particular) and from the transition economies of Central Europe. Exports to the US and the emerging Asian economies fell off sharply at the beginning of the year, but recovered gradually thereafter. On the other hand, nominal exports to the EU – which account for about 60% of Swiss exports – remained flat. Export prices (mean values) remained stable after declining by 2.7% in 2002.

Rising exports of services

Exports of services rose by 1.2% after having dropped by a total of 8% in the two preceding years. While the tourist industry was hit by dwindling numbers of foreign visitors, the foreign business of banks and insurance companies recovered.

Gross domestic product and components



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

1999 2000 2001 2002 2003

Imports recover

Imports of goods and services rose during the course of 2003. The turnaround for imports of capital goods and services was particularly marked. On average over the year, imports of goods and services were stable after a 3.1% drop in the previous year. Average import prices dropped by 0.5%, and the terms of trade thus improved slightly.

Declining employment

Employment receded by an average of 0.7% in 2003 after having remained steady in the previous year. The steepest decline was in manufacturing (−3.3%), where mechanical engineering, precision instruments and watchmaking saw particularly sharp falls in their workforces. Employment in the construction industry decreased by 0.3% while in the service sector it stagnated. The 3.0% cutback in bank jobs played a significant role. Workforce reductions in the insurance industry were relatively minor, however, while the number of jobs in the public sector increased (2.7%).

Employment and unemployment

		1999	2000	2001	2002	2003
Full-time employment[1]	change in %	−0.3	1.2	1.9	−0.8	−2.2
Full- and part-time employment[1]	change in %	1.6	2.4	1.6	0.1	−0.7
Unemployment rate	in %	2.7	1.8	1.7	2.6	3.7
Number of unemployed	in thousands	98.6	72.0	67.2	100.5	145.7
Number on short working hours	in thousands	2.9	0.7	2.4	9.1	8.9
Manpower job index[2]	change in %	26.0	25.1	−11.8	−43.4	−33.7

1 According to employment statistics
2 Space occupied by job advertisements in Swiss newspapers
Source: Swiss Federal Statistical Office, seco, Manpower

Job vacancies declining

Weak demand for labour was reflected in a sharp decline in the number of job vacancies. In December the Manpower Index, which measures the area of job advertisements in newspapers, was 17.6% lower than a year earlier. The Jobpilot Index, which measures the number of job ads in the Internet, showed a similar result.

Short-time working rising only slightly

After a strong rise in the previous year, the number of people on short-time work edged up only slightly. This was due in part to the gloomy economic outlook at the beginning of the year, which prompted companies to dismiss staff rather than introduce short-time working.

Unemployment moves higher

The unemployment rate rose appreciably again, though the rise slowed down in the second half of the year. In December the number of persons out of work totalled 155,500 compared with 129,700 a year earlier (seasonally adjusted figures). The unemployment rate rose year-on-year from 3.2% to 3.9%. Over the same period, the percentage of job-seekers climbed by 1.1 percentage points to 5.6%. In addition to registered unemployed persons, job-seekers include people who are looking for casual jobs, are participating in a work creation scheme or are training or retraining.

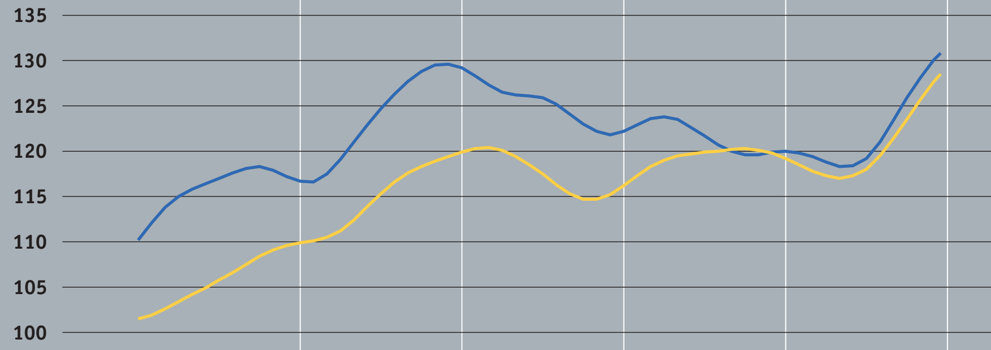
1999 2000 2001 2002 2003

Foreign trade

Imports

Exports

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

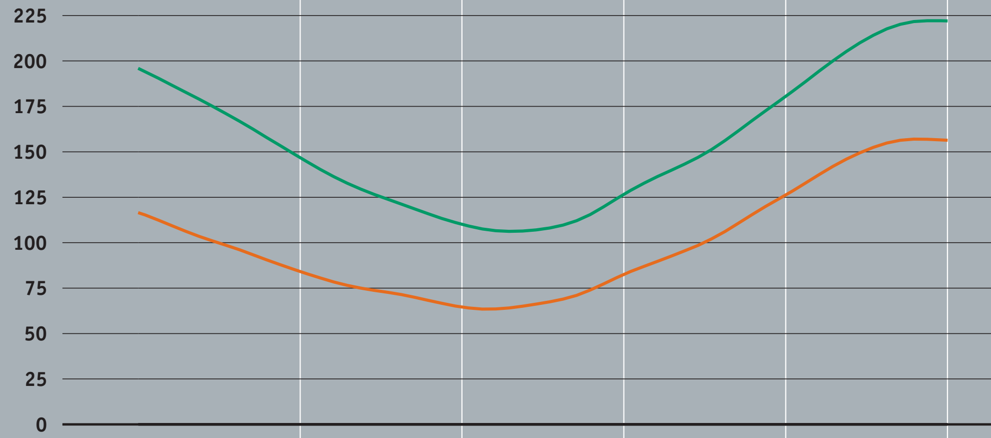


Labour market

Unemployed persons

Job seekers

In thousands,
seasonally adjusted.
Source: seco



1999 2000 2001 2002 2003

Regional differences

On average over the year, the unemployment rate was 4.7% in French-speaking Switzerland and 4.3% in Ticino. At 3.5%, the figure for German-speaking Switzerland was below the national average of 3.7%, but it rose faster here during the year than it did in the other parts of the country. Once again, cantons dominated by one large city were especially hard hit by unemployment: the rate was 6.5% in Geneva, 4.5% in Zurich and 4.3% in Basel-Stadt.

No change in inflation

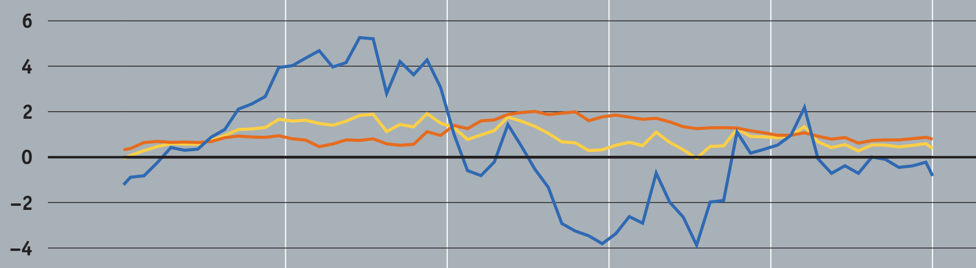
Inflation, as measured by the national consumer price index, averaged 0.6% in 2003 – the same as in 2002. While inflationary pressures from abroad mounted, domestic inflation slackened off. Averaged out over the year, it came to 0.8%. Upward price pressure eased both for goods and for private services and apartment rentals. The only year-on-year acceleration was recorded in public-sector services.

National consumer price index
Change from previous year in percent

	1999	2000	2001	2002	2003
Total	**0.8**	**1.5**	**1.0**	**0.6**	**0.6**
Domestic goods and services	0.7	0.7	1.7	1.4	0.8
Goods	0.3	1.6	1.5	1.1	0.6
Services	0.9	0.4	1.8	1.5	0.9
Private services excluding rents	1.6	0.3	1.5	1.9	1.0
Rents	0.7	1.5	2.8	1.0	0.3
Public services	0.0	−1.4	0.5	1.5	2.9
Foreign goods	1.0	4.1	−1.2	−1.7	0.1
Excluding oil products	0.5	0.9	−0.4	−0.8	−0.5
Oil products	5.7	31.3	−4.7	−6.8	3.3

Source: Swiss Federal Statistical Office, SNB

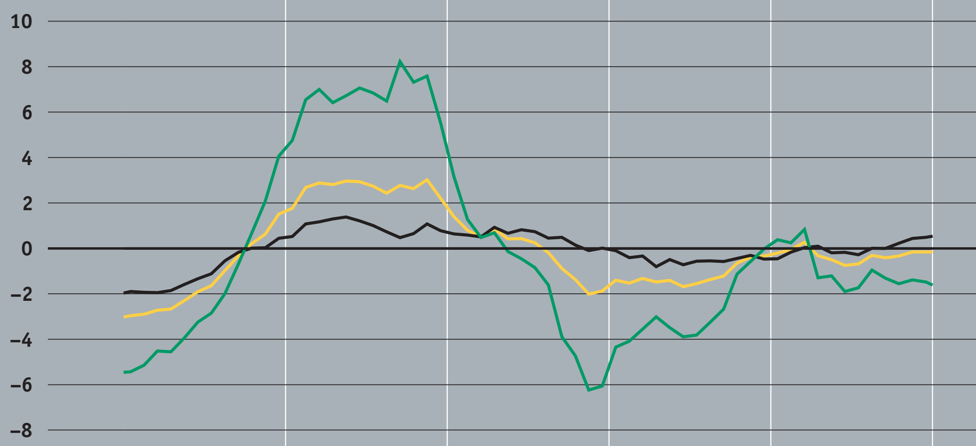
Consumer prices



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

1999 2000 2001 2002 2003

Higher oil prices

After declining in both of the preceding years, prices of imported consumer goods edged up again in 2003. Averaged out over the year, they rose by 0.1%. This rise was due mainly to oil products, which appreciated by 3.3%. By contrast, other foreign goods exerted a deflationary influence, though the 0.5% drop in these prices was less pronounced than in the previous year.

Declining total supply prices

Producer and import prices continued to have a dampening effect on inflation, though less so than in 2002. Total supply prices declined on average by 0.4%, compared with a 1.2% drop in the previous year. While import prices receded by 0.9%, prices for goods manufactured in Switzerland were stable.

Rising current account surplus

The current account surplus widened by CHF 7.7 billion to CHF 44 billion in 2003, owing primarily to higher net investment income. As a percentage of GDP, the current account surplus came to 10.2%, compared to 8.5% in 2002.

Current account balances in CHF billions

	1999	2000	2001	2002	2003
Goods	−0.3	−4.2	−4.6	5.2	4.6
Special trade	1.0	−2.1	1.7	7.3	6.9
Electrical energy	0.6	0.5	1.1	1.0	1.0
Other goods	−1.9	−2.6	−7.4	−3.1	−3.3
Services	21.6	25.6	22.1	22.1	23.2
of which tourism	1.6	2.4	2.1	1.9	2.2
of which private insurance	2.7	2.3	1.7	3.6	4.5
of which transportation	1.4	1.7	2.0	1.0	0.7
of which financial services	11.1	13.3	11.8	10.4	10.4
Labour income and investment income	30.5	37.0	25.1	15.6	21.6
Labour income	−6.5	−7.8	−8.6	−9.2	−10.4
Investment income	37.0	44.8	33.7	24.8	32.0
Current transfers	−6.2	−4.9	−6.7	−6.5	−5.3
Total current account	**45.7**	**53.5**	**35.8**	**36.6**	**44.0**

In nominal terms, goods imports and exports increased slightly. The trade balance (special trade) closed with a surplus of CHF 6.9 billion compared with CHF 7.3 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 CHF 4.6 billion. At CHF 23.2 billion, the surplus from services was CHF 1.1 billion above the previous year's figure. This rise was primarily due to higher exports of insurance-related services. The banks' earnings from commissions business remained at their year-back levels. The surplus from labour and investment income rose by CHF 6 billion to CHF 21.6 billion. This increase was due to higher net earnings from direct investments, which had fallen sharply in the previous year. The deficit from current transfers amounted to CHF 5.3 billion, as against CHF 6.5 billion in the previous year.

2.2 Fiscal policy

Deficit in the federal budget

The Federal Government posted a deficit for the third year running in 2003. At CHF 2.8 billion or 0.7% of GDP, the deficit exceeded the budgeted figure of CHF 246 million because of a sharp drop in tax revenues. The Federal Government had based its forecast on real economic growth of over 1%, which proved over-optimistic. Revenues from direct federal income tax and value added tax in particular were substantially lower than forecast. At CHF 50 billion, spending was lower overall than budgeted. This includes payments of around CHF 1.1 billion into the fund for major rail projects (NEAT, Rail 2000), expenditure on which totalled CHF 2.0 billion in 2003. The volume of additional credits was well below the average for the period 1990–2002.

2004 budget

For 2004, the Federal Government is anticipating a budget deficit of CHF 3.5 billion. Whereas expenditure is set to remain stable in real terms compared with the 2003 estimate, the government expects revenues to fall.

2003 relief programme

In July, the Federal Council passed a Message on its budget relief programme for 2003. This aims to bring the budget into line with the requirements of the "debt brake" rule. The relief programme seeks to eliminate the present structural deficit by 2007. It envisages savings of CHF 1.0 billion in 2004 and CHF 2.1 billion in 2005 compared with the figures currently budgeted. As of 2006, it will relieve the federal budget permanently by CHF 3.0 billion a year, primarily by way of spending cuts.

Higher deficits at the cantonal and municipal level

Owing to the sluggish economic climate, the budget situation of the cantons and municipalities also deteriorated. According to the available data, the cantons and municipalities posted an aggregate deficit of CHF 2.5 billion and CHF 700 million respectively. The consolidated deficit of the Federal Government, the cantons and the municipalities thus amounted to 1.6% of GDP.

Debt ratio rises

As a percentage of GDP, the consolidated debt ratio of the Federal Government, the cantons and the municipalities rose to 55.8%. Of total debt, 51.9% was attributable to the Federal Government, 31.4% to the cantons and 16.7% to the municipalities.

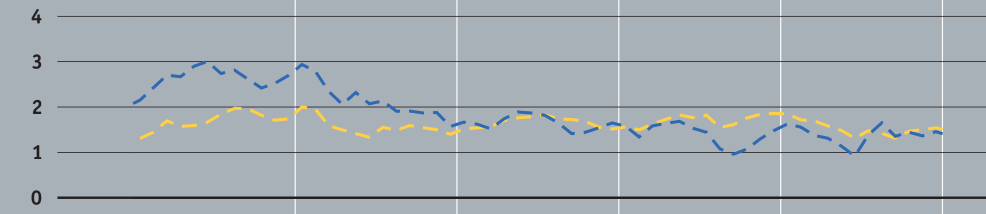
Restructuring of the fiscal equalisation system

In its autumn session, the Federal Parliament concluded its deliberations on the restructuring of the fiscal equalisation system and on the division of tasks between the Federal Government and cantons (referred to as the "NFA"). It approved both the constitutional basis for this change and the Federal law on financial perequation. The mandatory referendum on the incorporation of this legislation into the Constitution is due to be held in the second half of 2004. The referendum will bring the first phase of the NFA process to a close. The second phase, in which the NFA is implemented, will involve adapting a large number of individual laws. The NFA aims to unbundle 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

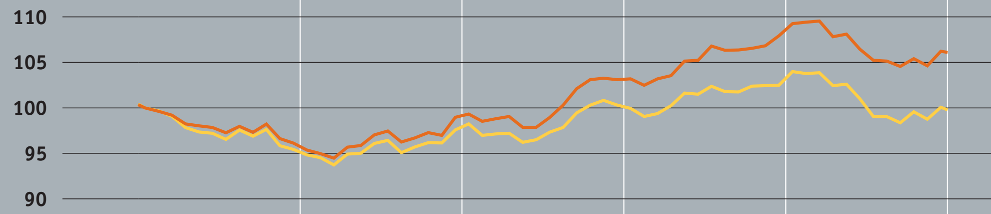
Spread in percentage points.
Source: BIS



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

1999 2000 2001 2002 2003

2.3 Capital and credit markets

Rise in long-term interest rates

Aside from an upward blip in April, long-term interest rates remained at their December 2002 level through the first five months of 2003. In June, however, they began moving upwards. The average yield on ten-year Confederation bonds rose from 2.4% at the end of May to 2.8% in December. The interest rate rise reflected the market's expectations that an economic recovery would set in and that monetary policy would sooner or later be tightened. Short-term interest rates, however, remained low after the key rates were cut by the National Bank in March. The yield differential between ten-year Confederation bonds and money market debt register claims, which stood at 2.1 percentage points in the previous year, continued rising to just under 2.7 percentage points in December.

Lower risk premiums for bonds of private debtors

Owing to expectations of an economic recovery, the yield spread between corporate bonds and government paper narrowed substantially. By December, the yield on three-year bank bonds was about 16 basis points higher than that on comparable Confederation bonds, as against a differential of almost 50 points a year earlier. The corresponding yield spread for industry bonds narrowed even more strikingly, falling from 152 to 61 basis points.

Recovery on the equity markets

After a two-year bearish spell, the Swiss Performance Index (SPI) recovered by 22% during 2003. At the end of December 2003, it stood at 3,962 points compared with 3,246 points a year earlier. The negative trend persisted at the beginning of the year, and by mid-March the index had dropped to a low of 2,603 points. Since then, however, the SPI has risen almost without interruption. Gaining 20%, share prices of large companies advanced less sharply than those of small (up 32%) and medium-sized companies (up 35%). All sectors of industry gained ground, though to varying degrees. The biggest winners were banks and retailers, as well as the electrical, machinery and energy sector. Other sectors made significantly smaller advances.

Brisker borrowing on the capital markets

Borrowing on the Swiss capital market was much brisker in 2003 than in the previous year. Net borrowing in the form of publicly issued stocks and bonds amounted to CHF 23 billion compared with CHF 17 billion in 2002. This can be ascribed to a marked increase in domestic borrowing: net issuing of Swiss franc bonds by domestic borrowers doubled from CHF 3.7 to CHF 7.6 billion. Unlike the previous year, share issues exceeded buybacks. Net borrowing on the equity market came to CHF 1.3 billion, as against a negative figure of CHF –1.7 billion in 2002. The net issuing value of Swiss franc bonds issued by foreign borrowers declined by 5% to approximately CHF 14 billion.

1999 2000 2001 2002 2003

Existing mortgages
at cantonal banks

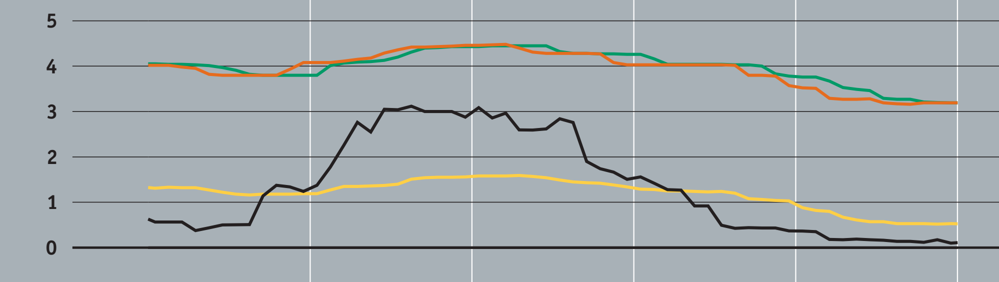
New mortgages
at cantonal banks

Savings deposits
at cantonal banks

Three-month time deposits
at big banks

In percent.

Selected bank interest rates



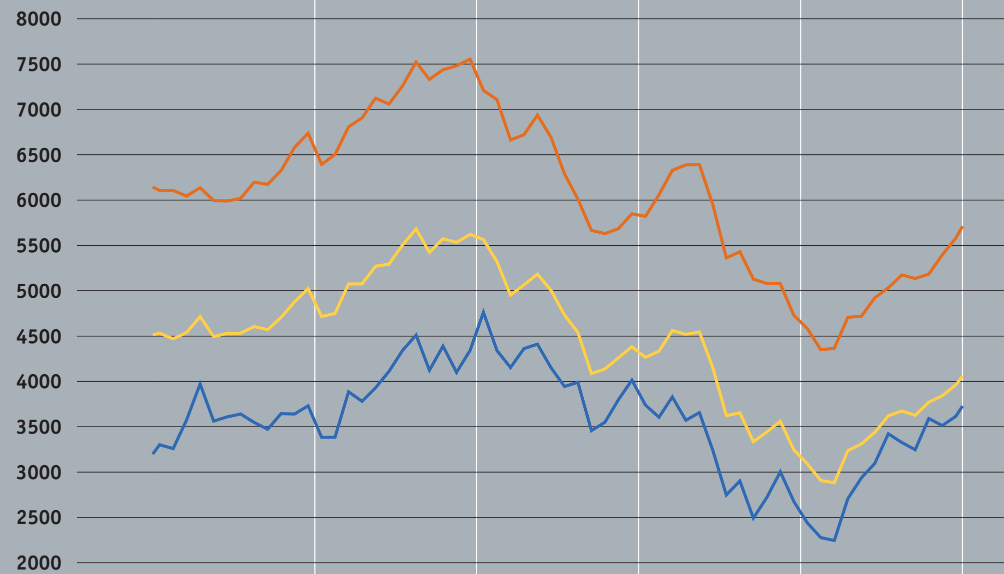
Total

Banks

Industry

Swiss Performance Index.
Source: Swiss Stock Exchange

Share prices



1999 2000 2001 2002 2003

Slight rise in credit volume

The volume of domestic credit taken up in 2003 rose by 2.5%. 82% of the banks' domestic lending was accounted for by mortgage loans and 18% by domestic customer claims. The positive trend in mortgage lending continued (+5.3%). At the same time, domestic customer claims declined by 7.5%, although the downturn was less pronounced than in the previous year (-11.1%). Apart from the Raiffeisen banks and foreign-controlled institutions, all the major banking groups reported a decrease in loan portfolios. The fall-off in lending to manufacturing and industry as well as lending institutions was particularly pronounced. Owing to this development, the proportion of secured bank claims continued to rise. On the refinancing side, liabilities towards customers in the form of savings and investment instruments rose by 12% while liabilities towards banks were up by 15%. The volume of medium-term notes was 16% lower than a year previously, accounting for less than 10% of traditional savings instruments.

2.4 Banks and other financial institutions

Despite the lack of economic growth, the Swiss banks' results for 2003 were an improvement on the previous year. Across the entire banking sector, interest-earning business proved especially profitable. Moreover, a recovery became evident in the investment banking and private banking fields, which had come under heavy pressure in 2002.

Recovery at the banks ...

After two turbulent years, the situation eased at the insurance companies too. Profitability rose, and insurers were able to consolidate their depleted equity base. Thanks to the recovery on the financial markets, the pension funds' financial situation also improved. The low level of interest rates prompted the Federal Council to lower the minimum interest rate for occupational insurance schemes to 2.25% as of 2004.

... and insurance companies

In addition to the rise in share prices and the favourable interest rate environment, far-reaching restructuring measures helped to alleviate the problems in the banking and insurance sectors. Owing to the recent stockmarket slump and the sluggish business climate, many of these companies were forced to implement cost-cutting measures and to focus on their core competencies.

Pronounced restructuring and consolidation

Switzerland reached agreement with the EU on cross-border taxation of interest earnings, while at the same time retaining banking secrecy. The crux of the agreement is that Switzerland will levy a withholding tax on interest income earned by EU taxpayers, initially at a rate of 15% and most probably with effect from 2005. The rate will then be raised in stages to 35% by 2011. Three-quarters of the revenues will be remitted to the relevant countries of origin. In addition, Switzerland is committed to providing administrative assistance in cases of tax fraud, though not in cases of tax evasion.

Agreement with the EU on taxation of interest

Owing to a number of incidents abroad, the Swiss Bankers Association issued guidelines on the independence of financial analysis which were then adopted by the Federal Banking Commission as a binding minimum standard. Since 1 July 2003, these rules have been applicable to all banks domiciled in Switzerland. They are intended to improve the transparency of analysis and to avoid conflicts of interest through appropriate adjustments to organisational structures.

Guidelines on the independence of financial analysis

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, 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 and credit 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 overutilised, thus causing prices to rise. As a result, production conditions will deteriorate. By contrast, if interest rates are too high, this will reduce the supply of money and credit 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 activity. 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. It 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: the definition of price stability, a medium-term inflation forecast and an operational target range for the National Bank's chosen reference interest rate, the three-month London interbank offered rate (Libor) for Swiss francs.

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, 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

The National Bank publishes quarterly forecasts on the development of inflation for three subsequent years. The period of three years corresponds more or less to the time required for the transmission of monetary stimuli. 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 constant 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, the price trend depends 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 the exchange rate. 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 price stability, monetary policy needs to be reviewed. Should inflation threaten to exceed 2%, the National Bank will consider tightening its monetary stance. Conversely, it is ready to loosen the monetary reins if there is a danger of deflation. The National Bank does not, however, react mechanically to the inflation forecast.

No smoothing of short-term price fluctuations

The National Bank must reckon with unexpected price fluctuations in the short term, for example as a result of 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 usually one percentage point for the three-month Libor, the economically most significant money market rate for Swiss franc investments. The target range is published regularly. The National Bank reviews its monetary policy during its quarterly assessment. 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

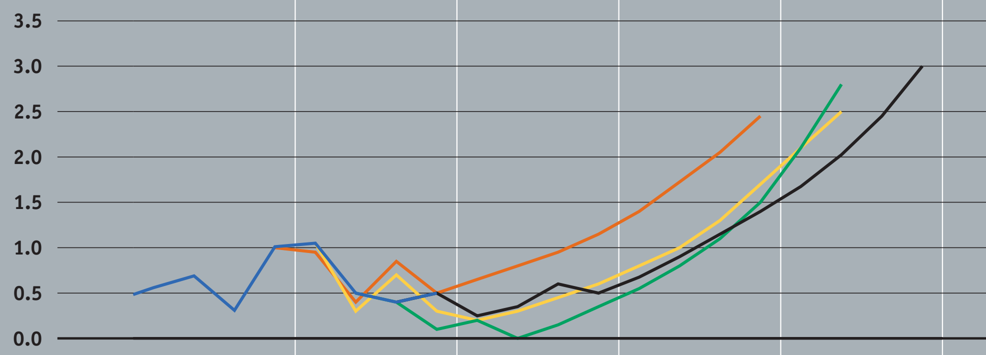
Forecast March 2003
(three-month Libor: 0.25%)

Forecast June 2003
(three-month Libor: 0.25%)

Forecast September 2003
(three-month Libor: 0.25%)

Forecast December 2003
(three-month Libor: 0.25%)

Change in the national consumer price index from previous year, in percent.

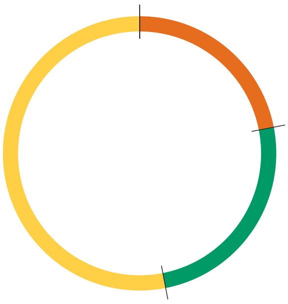


Steering technique

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, interbank payment transactions hardly influence the demand for sight deposits anymore. In normal circumstances, the maturity of repos ranges from one day to a few weeks. The repo rate depends on both monetary policy and the maturity of a transaction. Imbalances in the distribution of liquidity within the banking system may cause short-term fluctuations.

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 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.



Collateral from repo business
in percent

Swiss franc bonds
of domestic borrowers 22

Swiss franc bonds
of foreign borrowers 25

Euro bonds 53

Total: CHF 27.1 billion.
End 2003

Instruments for money market operations in billions of Swiss francs

		2002		2003	
		Holding Average	Turnover	Holding Average	Turnover
Repo transactions; liquidity-creating		21.7	967.6	23.6	1,017.9
maturity	less than 1 week	0.8	213.5	1.4	236.4
	1 week	8.5	445.6	8.4	436.4
	2 weeks	10.2	258.6	11.1	286.4
	3 weeks	1.7	36.6	2.3	39.8
	others	0.5	13.3	0.3	18.9
Repo transactions; liquidity-absorbing		0.0	0.5	0.0	0.0
maturity	less than 1 week	0.0	0.5	0.0	0.0

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.

Other monetary policy instruments

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 monetary policy concept of the National Bank; since 2000, repo transactions exclusively have been used for regulating the money market.

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

If a bank urgently needs liquidity which cannot be obtained in the money market, it may receive an advance against securities (Lombard loan) from the National Bank. A Lombard loan, however, is limited to the amount of collateral provided in the form of securities and granted only at the official Lombard rate. The National Bank always 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. In the course of 2004, instead of the traditional Lombard loan, the banks will be given the possibility of concluding repo transactions at the Lombard rate. This results in a more efficient collateral management for the banks.

Intraday liquidity to facilitate payment transactions

By means of repo transactions, the National Bank, during the day, makes interest-free liquidity (intraday liquidity) available to the commercial banks and to PostFinance to facilitate the processing of payment transactions in the Swiss Interbank Clearing (SIC) system and foreign exchange transactions in the Continuous Linked Settlement (CLS) system. The liquidity available 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 exceeding the Lombard rate by two percentage points.

2 Implementation

Background

At its quarterly assessment of the situation in December 2002, the National Bank had expected economic growth in Switzerland to be around 1% in 2003 and that a sustained upswing would not set in before the second half of the year. On the assumption that the three-month Libor rate would remain steady at 0.75%, it forecast inflation rates between 0.7% (annual average 2003) and 1.6% (2005) in the next few years. It therefore seemed appropriate to leave the target range for the three-month Libor rate unchanged at the level of 0.25% to 1.25% applicable since 26 July 2002.

Lowering of the target range in March

In the first few months of 2003 it became clear that the economic upswing would be delayed. The impending war in Iraq strengthened this trend. In this situation, the National Bank strove to head off the tightening of monetary conditions that would arise from an appreciation of the Swiss franc. On 6 March the National Bank therefore lowered the target range for the three-month Libor rate by half a percentage point to 0%–0.75%. At the same time, the National Bank announced that for the time being, the three-month Libor was to be kept at the lower end of the target range at 0.25%. For technical reasons (zero lower bound for nominal interest rates), the target range has temporarily been reduced from 100 to 75 basis points. At the quarterly assessment of the situation of 20 March, this policy was confirmed, and at the same time a new inflation forecast was published (cf. also table Inflation forecasts).

Monetary conditions relaxed due to weakening of the Swiss franc

Following the lowering of the target range for the three-month Libor rate in March, the Swiss franc depreciated markedly. This led to a welcome further easing of monetary conditions. Nevertheless, the economic data were at first somewhat weaker than expected. The National Bank had already reduced its forecast for economic growth in 2003 to just under one percent in March; by mid-year it was expecting a stagnation and a little later a moderate decline of GDP. Inflation again decreased slightly.

No further adjustments to the target range until year-end

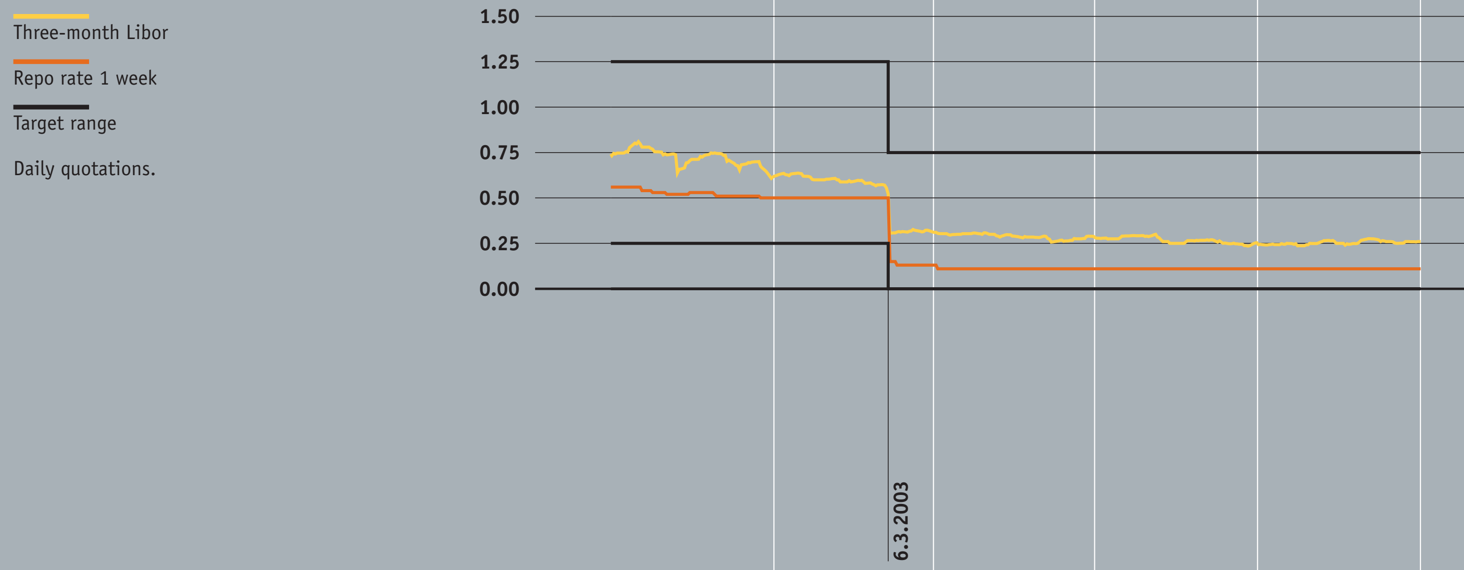
At the quarterly assessments of 11 June, 18 September and 11 December, the target range was left unchanged at 0.0%–0.75%. The inflation forecasts published on these three dates differed only in minor respects (cf. table).

Inflation forecasts Annual averages in percent

Month	Libor[1]	2003	2004	2005	2006
December 2002	0.75	0.7	0.9	1.6	–
March 2003	0.25	0.7	0.9	1.9	–
June 2003	0.25	0.6	0.4	1.2	–
September 2003	0.25	0.5	0.2	1.0	–
December 2003	0.25	0.6	0.4	1.0	2.3

1 Based on a constant three-month Libor rate

Money market rates



Inflation forecast signals interest rate rise in the medium term

Seen over the whole year, the National Bank endeavoured to underpin the economic recovery and to keep Swiss franc investments fairly unattractive. It considered its monetary policy to be expansionary. This is reflected in the inflation forecasts, which rose markedly near the end of the forecasting period and topped 2.0% in 2006, thus underscoring the fact that the low interest rate cannot be maintained in the long run.

Strong money supply growth

The expansionary monetary policy was accompanied by growing monetary aggregates. The strong money supply growth, however, overstated the risk to price stability. For one thing, credit creation by the banks continued to be slow-moving. For another, increasing liquidity was also a sign of insecurity on the part of investors, who had a preference for liquidity after the negative stock market experience and given the uncertain economic situation. The preference for liquidity is particularly marked whenever the interest rate level on the money market approaches 0%. In this case, interest income no longer covers the commission charged to investors on the conclusion of certain money market transactions. Thus in 2003, in particular fiduciary Swiss franc investments abroad flowed back into sight deposits in Switzerland. This inflow of capital additionally expanded the monetary aggregates.

Adhering to an expansionary monetary policy despite a strong increase in money supply growth

The National Bank held the view that monetary policy only needs to be tightened once the economic upswing is certain. Given the unused production capacities, a pickup in demand does not immediately put upward pressure on prices, leaving sufficient time to adjust monetary policy.

1999 2000 2001 2002 2003

Monetary base

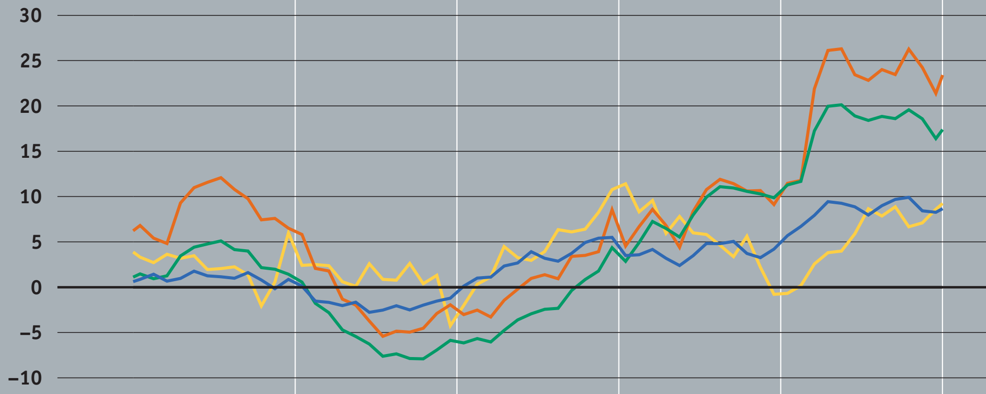
M_1

M_2

M_3

Change from previous year in percent.

Monetary aggregates

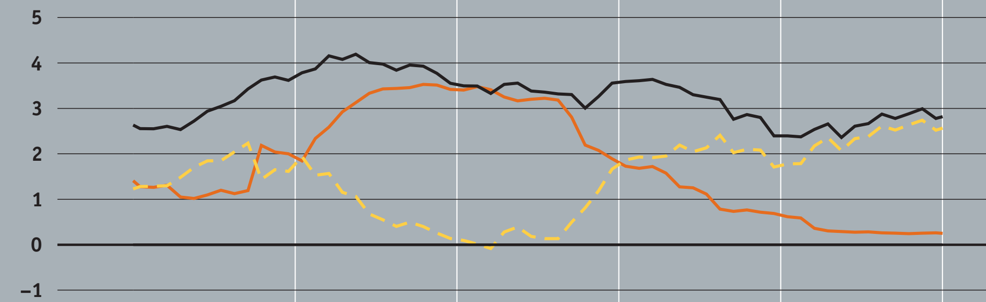


Three-month Libor

Yield on Confederation bonds

Spread in percentage points.

Money and capital market rates



1999 2000 2001 2002 2003

Legal framework

1 Total revision of the National Bank Law

Price stability embodied in the central bank mandate

The Federal Council's bill on the total revision of the National Bank Law (cf. 95th Annual Report, p. 48) met with a positive reception in the Federal Parliament. The Council of States dealt with the revision project in March, the National Council in September 2003. The main subject of debate was the question whether solely the goal of price stability was to be embodied in the statutory central bank mandate or whether monetary policy was to pursue further objectives such as the stabilisation of the business cycle or full employment. Both chambers of Parliament finally agreed on the following wording: "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 account of the development of the economy." The wording corresponds to the French version of the bill of the Federal Council.

Accountability formalised more rigorously

Broad approval was given to the concept of the National Bank's independence, which takes the form of an explicit authority to act independent of instructions, as well as to the three-fold accountability vis-à-vis the Federal Council, Parliament and the public. Parliament merely decided to formalise accountability somewhat more rigorously by obliging the National Bank to submit a written report on the fulfilment of its statutory tasks to Parliament on an annual basis. This is the sole substantive deviation by Parliament from the bill presented by the Federal Council. Both the suggested reform of monetary policy instruments and of the National Bank's scope of business remained unchanged. Notably, in the conciliation procedure, the two chambers followed the bill presented by the Federal Council, according to which the banks' postal account balances shall not be part of the minimum reserves. The proposed rules for calculating the profit and for the streamlining of the National Bank's organisational structure also did not undergo any changes. On 3 October 2003 a final vote was taken, and the amended bill was adopted by a large majority of votes in both chambers of Parliament.

Positive overall result

After the referendum deadline expired unused on 22 January 2004, the new National Bank Law can be expected to enter into force on 1 May 2004. Within a short time, therefore, Switzerland will have a lean, modern central bank law compatible with international standards and oriented to the requirements of up-to-date corporate governance.

Consultation procedure on the National Bank Ordinance

The new National Bank Law (NBL) provides for an ordinance to be passed by the National Bank containing implementing regulations with respect to statistics, minimum reserves and oversight of payment and securities settlement systems. The National Bank submitted the draft of a respective ordinance for consultation to the interested parties at the end of October 2003. The comments received by the end of December led to slight adjustments to the draft. At the time of issue, the National Bank Ordinance (NBO) will be published in the Official Collection of Federal Laws.

2 Message concerning the Federal Law on international monetary aid

Message of the Federal Council

On 21 May 2003, the Federal Council passed its Message concerning a Federal Law on international monetary aid and a Federal Decree by the same name. With the new Federal Law, which will replace the Federal Decree on Switzerland's cooperation in international monetary measures, a clear and comprehensive basis for Switzerland's financing obligations within the framework of international monetary cooperation is to be established.

Three types of financial aid

These measures can be categorised as follows: participation in financial assistance to prevent or remedy serious disruptions in the international monetary system (so-called systemic aid), participation in special funds of the International Monetary Fund (IMF), especially to finance loans to low-income countries at concessional interest rates, and the granting of loans to countries Switzerland has especially close ties with (e.g. members of the Swiss constituency in the IMF). It is planned that the National Bank will finance credits for the so-called systemic aid, with the Confederation guaranteeing repayment. Short-term or medium-term credits granted to individual countries that cooperate closely with Switzerland will be financed by the Confederation. Participation in special funds of the IMF may be assumed by the National Bank at the request of the Confederation, with the loan repayment also being guaranteed by the Confederation.

Credit line with ceiling

The financing of guarantees or loans within the framework of bilateral and multilateral monetary cooperation is to be effected through a credit facility. For this purpose, a credit ceiling of CHF 2,500 million is stipulated in the draft of the Federal Decree on international monetary aid. Special credit lines for Switzerland's participation in special funds and in other IMF facilities (loans and non-repayable grants) will still have to be approved by Parliament.

Parliamentary consultation

The Council of States dealt with the bill in the autumn session, the National Council in the winter session. Disagreement arose on the question whether the Federal Decree with the credit ceiling of CHF 2,500 million was to be provided with a deadline or not. Therefore, the Federal Law on international monetary assistance and the Federal Decree by the same name are expected to be passed by Parliament in spring 2004 at the earliest.

3 Appropriation of 1,300 tonnes of National Bank gold – new constitutional basis

Message of the Federal Council

Following the double rejection in the national referendum on the gold initiative and the counter-proposal of the Federal Assembly of 22 September 2002, the appropriation of National Bank assets no longer required for monetary policy purposes remains an unresolved issue (cf. 95th Annual Report, p. 47). Subsequently, numerous parliamentary advances were made concerning the use of these assets. On 20 August 2003, the Message on the use of 1,300 tonnes of National Bank gold and on the people's initiative "National Bank profits for the Old Age and Survivors' Insurance Fund (AHV)" was passed by the Federal Council and submitted to the Federal Assembly.

Maintaining the substance of the special assets

The Federal Council proposes that the National Bank's assets no longer required for monetary policy purposes be maintained in their substance and managed by a fund outside the National Bank. One-third of the real income is to be distributed to the Confederation and two-thirds to the cantons over a period of 30 years. If, upon expiry of this period, it is decided not to extend this regulation, the assets are to be distributed to the Confederation (one-third) and to the cantons (two-thirds). A transitional provision in the Federal Constitution (art. 197, section 2 new FC) would serve as the legal basis for this appropriation.

National Bank profits not to be allocated to the AHV

With the second bill, the Federal Council recommends that the people's initiative "National Bank profits for AHV" be rejected. The initiative proposes that the National Bank's profits, minus an annual amount of CHF 1 billion to be distributed to the cantons, should be allocated to the Federal Old Age and Survivors' Insurance Fund (AHV). The Federal Council believes that the long-term financial consolidation of AHV cannot be achieved by the initiative. Moreover, incorporating a financing target for AHV in the monetary article of the Federal Constitution (art. 99, section 4 FC) might compromise the SNB's credibility and subject the Bank to increased political pressure.

Separate decrees of the Federal Parliament

The two bills have been designed as separate federal decrees. They may be passed or rejected independent of each other. The Federal Parliament is expected to deliberate the submitted decrees, both of which concern the utilisation of National Bank assets in the widest sense, in 2004. It is already becoming apparent that the Message of the Federal Council will be judged controversially by the two houses of Parliament.

4 Supplementary agreement on the distribution of income from the SNB's free assets

Income from reinvested proceeds from gold sales

On 12 June 2003 the Federal Department of Finance and the Swiss National Bank concluded a supplementary agreement on the distribution of income from the free assets. According to this agreement, the National Bank will, from spring 2004 onwards, distribute one-third of the income from its free assets (cf. p. 108f.) to the Confederation and two-thirds to the cantons. As the gold sales proceed, the annual amount to be distributed will rise from CHF 300 million in spring 2004 to CHF 500 million from spring 2006 onwards since the proceeds from the gold sales are continuously being invested in fixed-interest securities by the National Bank. The supplementary agreement represents a provisional solution, which will apply until a new legal basis enters into force for the use of the 1,300 tonnes of gold no longer required for monetary policy purposes.

Relation to the main agreement and to the long-term earnings potential

The supplementary agreement is an addition to the profit distribution agreement of 5 April 2002 concluded between the Federal Department of Finance and the National Bank, which lays down that an amount of CHF 2.5 billion per annum be distributed to the Confederation and the cantons for each of the financial years 2003 until 2012 (cf. 95th Annual Report, p. 49). The main agreement does not yet take into account income on reinvested gold proceeds. While the main agreement of April 2002 covers the current profits of the National Bank and the reduction in surplus provisions, the supplementary agreement exclusively relates to income from the National Bank's free assets. The earnings forecasts, which form the basis of the supplementary agreement, will be reviewed in 2007 together with the forecasts for the main agreement. This review may result in an adjustment of the distributions. Overall, the National Bank effects distributions under these agreements that are clearly in excess of the Bank's long-term earnings potential. It must be expected that at some point in the future profit distributions will be much lower.

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 control money market rates, the National Bank purchases securities (repos) or foreign exchange (swaps) from the banks on a temporary basis. As in the previous year, monetary policy was implemented in 2003 exclusively by means of repo transactions.

Foreign exchange reserves and gold

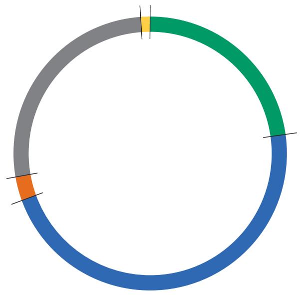
International reserves are assets, especially foreign exchange reserves and gold holdings, that the National Bank can use for making international payments. The National Bank can sell foreign exchange reserves against Swiss francs at any time in order to support the external value of the currency. The 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, page 51). The gold sales are effected within the framework of the agreement concluded between 15 European central banks in September 1999, which forms the basis of the annual sales quotas. The proceeds from the gold sales are managed separately, but are not shown separately in the books since they do not constitute separate assets in the legal sense.

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.



Structure of National Bank assets
in percent

Gold 23

Foreign exchange reserves 47

Other foreign currency assets 3

Domestic financial assets 27

Other domestic assets 1

Total: CHF 118.1 billion.
Balance sheet values, average

Investment and risk control

The Governing Board fixes the investment strategy and defines the range within which Asset Management implements a market-oriented investment policy. An investment committee makes the tactical investment decisions and sets the guidelines for the individual portfolio managers. The performance at the different levels is assessed through the consistent use of benchmarks and the corresponding performance figures. The observance of the guidelines and limits is monitored systematically. Overall supervision lies with the Bank Council.

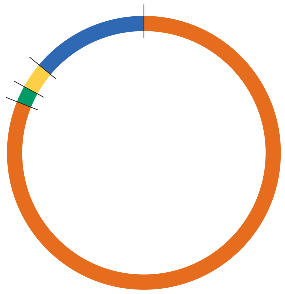
1.2 Monetary foreign exchange reserves

Investment principles

The National Bank invests its monetary foreign exchange reserves – i.e. foreign currency investments excluding the part allocated to the so-called free assets (cf. page 55) – according to the criteria of liquidity, safety and performance. The bulk of these reserves are invested in fixed-income securities. The National Bank ensures that, if necessary, it can sell the investments at short notice without incurring undue losses. The current National Bank Law permits the acquisition of liquid marketable debt certificates issued by foreign governments, international organisations and foreign banks. The National Bank also uses interest rate futures and swaps for purposes of risk management.

External asset managers

External asset managers had 7.4% of all foreign exchange reserves under management at the end of 2003. 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 the business transactions for the externally managed foreign exchange reserves.



Monetary foreign exchange reserves by debtor
(excluding free assets)
in percent

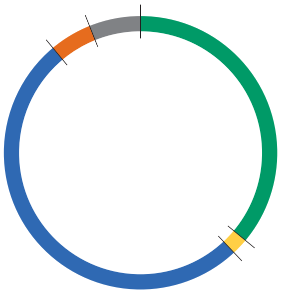
Government securities 81

Securities with indirect government guarantee 2

Monetary institutions 3

Banks 14

Total: CHF 41.7 billion.
End 2003



Monetary foreign exchange reserves by currency
(excluding free assets)
in percent

US dollars 36

CA dollars 2

Euros 51

Danish kroner 5

Pounds sterling 6

Total: CHF 41.7 billion.
End 2003

At the end of 2003, foreign exchange reserves amounted to CHF 41.7 billion, thus falling CHF 1.2 billion short of the previous year's level. Foreign currency investments were reduced by CHF 2.5 billion to finance the distribution of profits to the Confederation and the cantons in the spring of 2003. Income earned in 2003 was not sufficient to compensate this outflow. The average duration of the foreign exchange reserves was just under five years. The US dollar's share in the foreign exchange reserves was lower than the strategic target figure of 40%. This had a positive effect on the performance. On the whole, the yield on monetary foreign exchange reserves amounted to 3.0% compared with 0.4% in the previous year.

Investment activity and performance

Annual performance of monetary foreign exchange reserves
Yields in percent

	2001		2002		2003	
Currency portfolio	Local currency	CHF	Local currency	CHF	Local currency	CHF
US dollar	6.3	9.1	12.1	−7.3	1.8	−8.9
Euro	5.7	2.7	9.2	7.1	3.9	11.7
Yen	1.9	−8.6	–	–	–	–
Pound sterling	5.7	5.0	8.3	−9.3	2.6	1.8
Danish krone	5.6	3.0	9.4	7.5	4.4	12.0
Canadian dollar	7.9	4.0	8.7	−0.2	5.0	14.8
Total foreign exchange reserves		5.2		0.4		3.0

1.3 Swiss franc bonds

Investment principles

The Swiss National Bank holds a part of its investments 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 therefore pursues a passive investment policy. Since 2000, the SNB has been reproducing the maturity and rating structure of the Swiss Bond Index. The index replicates the market for Swiss franc bonds and 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. To eliminate any potential conflicts of interest, securities issued by domestic banks have not been bought since the beginning of 2003.

Investment performance

At the end of 2003, the market value of the Swiss franc bonds – without the part allocated to the free assets – amounted to CHF 6.1 billion, compared with CHF 6.0 billion in the previous year. The duration was 4.7 years. The interest rate development led to a distinctly lower yield of 1.4% vis-à-vis the previous year (10%).

1.4 Gold lending

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 2003, the amount of gold lent was 232.9 tonnes. The National Bank's counterparties are some twenty domestic and foreign financial institutions. They pay interest on the temporary loan of gold.

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

Confederation 29
Cantons 10
Municipalities 4
Mortgage bond institutions 17
Banks 2
International organisations 8
Foreign borrowers 30

Total: CHF 6.1 billion.
End 2003

The SNB concludes a part of its gold lending against securities collateral. This not only reduces the credit risk significantly, but also the profit. At the end of 2003, 47.7% of all gold lending was secured by such collateral. Secured gold lending transactions concentrated on maturities of one to five years.

Long-term lending against securities collateral

In 2003, the National Bank achieved a yield of 0.6% on its gold lending activities. At the end of the year, the average residual maturity of the gold lending portfolio amounted to 13 months.

Investment performance

1.5 Free assets

Since it has not yet been determined how the free assets are to be appropriated, they will continue to be shown in the National Bank's balance sheet for the time being. Gold holdings are gradually being sold. The proceeds from these sales are invested in a range of financial assets that are managed separately from the monetary foreign exchange reserves. In essence, the investment process is structured similarly to that for foreign exchange reserves.

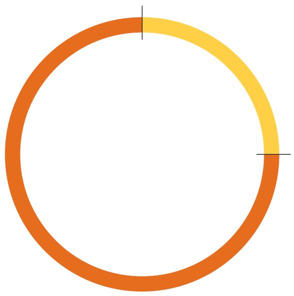
Principles

In 2003, the National Bank sold 283.4 tonnes of gold at an average price of USD 363.7 per ounce. The proceeds amounted to CHF 4.5 billion. Of the original 1,300 tonnes, 956.9 tonnes were thus sold by the end of the year. The sales were concluded at regular intervals and in such quantities as to burden the market as little as possible.

Gold sales

The agreement on gold sales of September 1999 severely limits the options for hedging future gold sales 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, it concluded dollar forward sales against Swiss francs and euros to the extent of 35% of future proceeds in dollars. In 2003, the drop in the dollar exchange rate resulted in a profit of CHF 334.2 million from hedging transactions, following a profit of CHF 741.3 million in the previous year.

Hedging a part of the currency risk



Market value of free assets
in percent

Gold (earmarked for sale) 25

Investments in foreign currencies and Swiss francs 75

Total: CHF 22.4 billion.
End 2003

Investment of proceeds from gold sales

Proceeds from gold sales are invested with borrowers with an excellent rating. The portfolio consists mainly of bonds issued by public-law institutions, as well as a small proportion of time deposits with domestic and foreign banks. At the end of 2003, 10% of the investment portfolio consisted of Swiss franc denominated bonds, and another 48% was hedged against currency risks. The rest of the portfolio was invested in euros (29%), US dollars (6%) and other currencies (7%). The duration was 2.8 years. A yield of 4.0% was achieved.

Free assets at year-end

At the end of 2003, the market value of free assets – including the replacement value of hedging transactions – amounted to CHF 22.4 billion. CHF 5.7 billion of this was accounted for by the remaining gold reserves earmarked for sale, and a total of CHF 16.2 billion by investments denominated in both foreign currency and Swiss francs. The market value of the free assets was CHF 1.2 billion higher than the CHF 21.2 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 control and overall performance

Risk management principles

The National Bank – through its monetary and investment policy activities – incurs diverse risks. The National Bank's relevant financial risks are identified, assessed and controlled within the framework of its risk management system. Risk management is carried out by means of a system of guidelines and limits. The focus is on those assets that are managed with the intention of achieving a profit. Market risks, i. e. currency, gold price and interest rate risks, are of crucial importance. Exchange rate and interest rate risks are primarily managed by diversification. The National Bank counters liquidity risks by holding the majority of its investments in the world's most liquid currencies and investment markets. In addition, it also incurs certain credit risks. These investments are limited to borrowers with above-average credit ratings.

Risk measurement

Risk measurement is based on standard risk indicators and procedures. In the case of market risks, the emphasis is on sensitivity analyses and value-at-risk calculations whereas in the case of credit risks the focus is on information provided by the major rating agencies. To gain an overall picture of risk, the risk indicators are aggregated over all investment categories, instruments and the different organisational units involved.

2003 risk profile of the monetary assets…

There were only minor changes in the risk profile of the monetary assets compared with the previous year. Currency risks and gold price risks were the main components of market risks. Furthermore, there were considerable interest rate risks as a result of the investments having a duration of barely five years on average. The credit risks remained modest. The majority of investments were held in government paper or – in the case of monetary repos – were secured by collateral. The remaining investments exposed to credit risks were bonds with above-average ratings and exposures to banks (time deposits, gold lending and derivatives).

The free assets were managed with a more conservative approach than the monetary assets. This is due to the uncertainty as to when those free assets will be paid out and to the fact that certain monetary restrictions are irrelevant with regard to the free assets. While the National Bank leaves the currency risk on monetary foreign exchange reserves unhedged, it can be limited by concluding foreign currency forward transactions in the case of the free assets. A significant part of the currency risk on these investments was hedged in this way. Moreover, the duration of these investments was only three years. While the gold price risk was becoming less of a factor in the overall risk attached to the free assets on account of the continuous gold sales during the course of the year, it was still predominant. The overall risk remained basically unchanged compared with the previous year. Measured by the value-at-risk, it was slightly below the year-earlier level.

...and of the free assets

The yield on total assets amounted to 4.2% in 2003. The gold price in Swiss francs exhibited a firmer trend during the year, thus making a significant contribution to the overall result. The dollar, however, lost considerable ground. Among the foreign currency reserves, this development was largely offset by the appreciation of the euro. The yield on the free assets was only marginally eroded by the fall in the dollar exchange rate, since the bulk of the dollar exposure had been hedged against exchange rate losses.

Overall result in 2003

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. In the area of cashless payment transactions, the National Bank keeps the participants' accounts in the Swiss Interbank Clearing System (SIC), which it also oversees and operates. SIC is the major payment system in Switzerland. The banks and Swiss Post process both their large-value payments and increasingly their retail payments through this system. Swiss Interbank Clearing AG, a subsidiary of Telekurs Holding, is entrusted with handling the technical and operational part of SIC. The Telekurs Group is a joint venture of the Swiss banks.

2.2 Cashless payment transactions

More payments but lower volume through SIC

At the end of 2003, there were 307 participants in SIC, compared with 314 at the end of 2002. SIC handled 768,000 payments a day, worth some CHF 178 billion. The average amount per payment was CHF 232,000. In the past few years, this amount has gone down steadily. The reason for this is that banks are no longer interested in processing their retail payment transactions via retail payment applications (data carrier exchange system [DTA], direct debiting [LSV], ATM withdrawals, etc.), but rather directly in the form of single transactions via SIC. The volume from retail payment applications in 2003 amounted to CHF 287.1 billion compared with CHF 300.1 billion in 2002. This is equivalent to 0.6% (2002: 0.7%) of the total turnover in SIC.

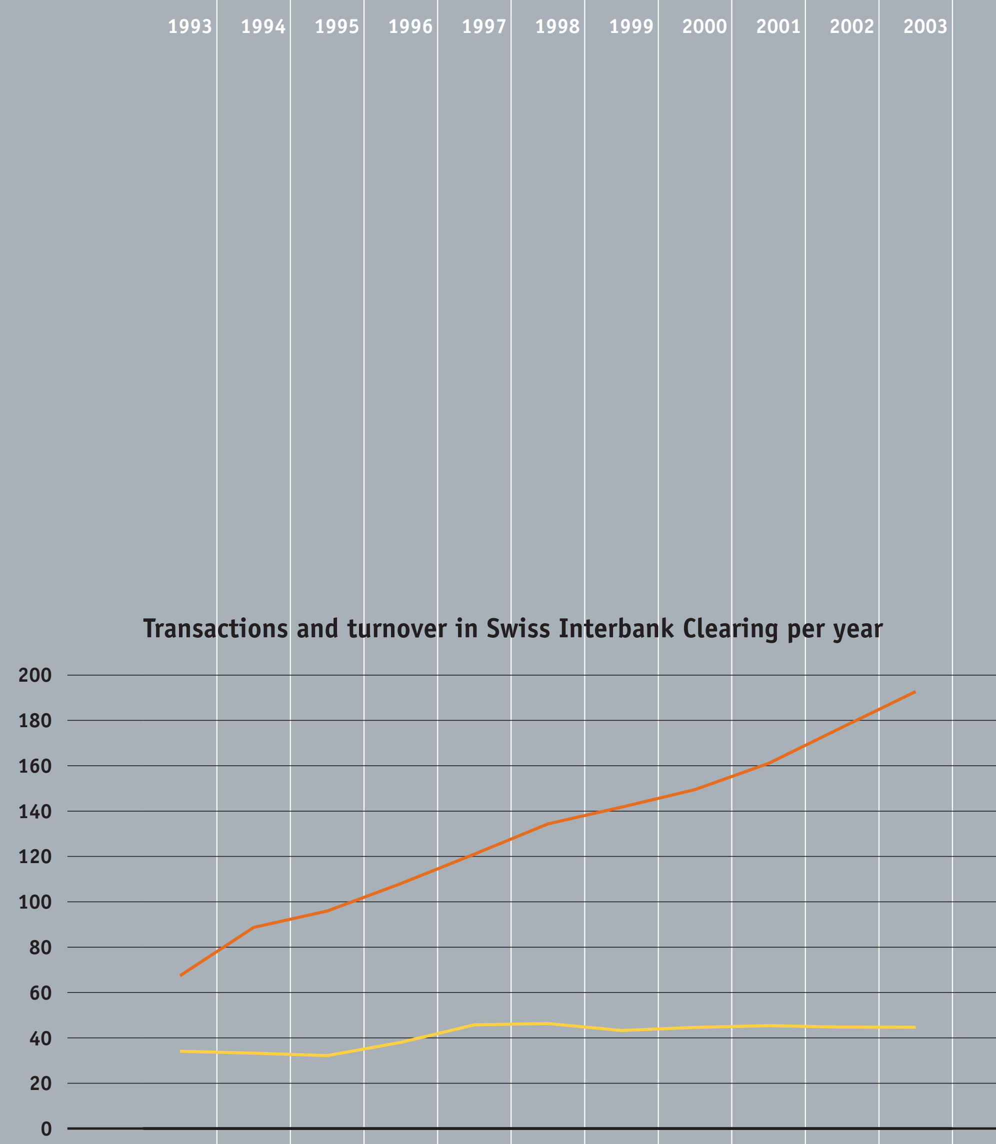
Payment flows in SIC

	1999	2000	2001	2002	2003
Transactions per day in thousands					
Average	556	595	644	705	768
Maximum	1 384	1 821	2 078	1 874	2 145
Volume per day in CHF billions					
Average	170	178	182	180	178
Maximum	296	291	274	270	284
Average volume per transaction in CHF thousands					
Average	305	299	282	253	232
Average liquidity per day in CHF millions					
Sight deposits (end of day)	3 503	3 336	3 339	3 327	4 811
Intraday repos	2 221	2 074	2 566	3 897	5 972

Transactions and turnover in Swiss Interbank Clearing per year

Number of transactions (in millions)

Turnover (in CHF 1000 billions)



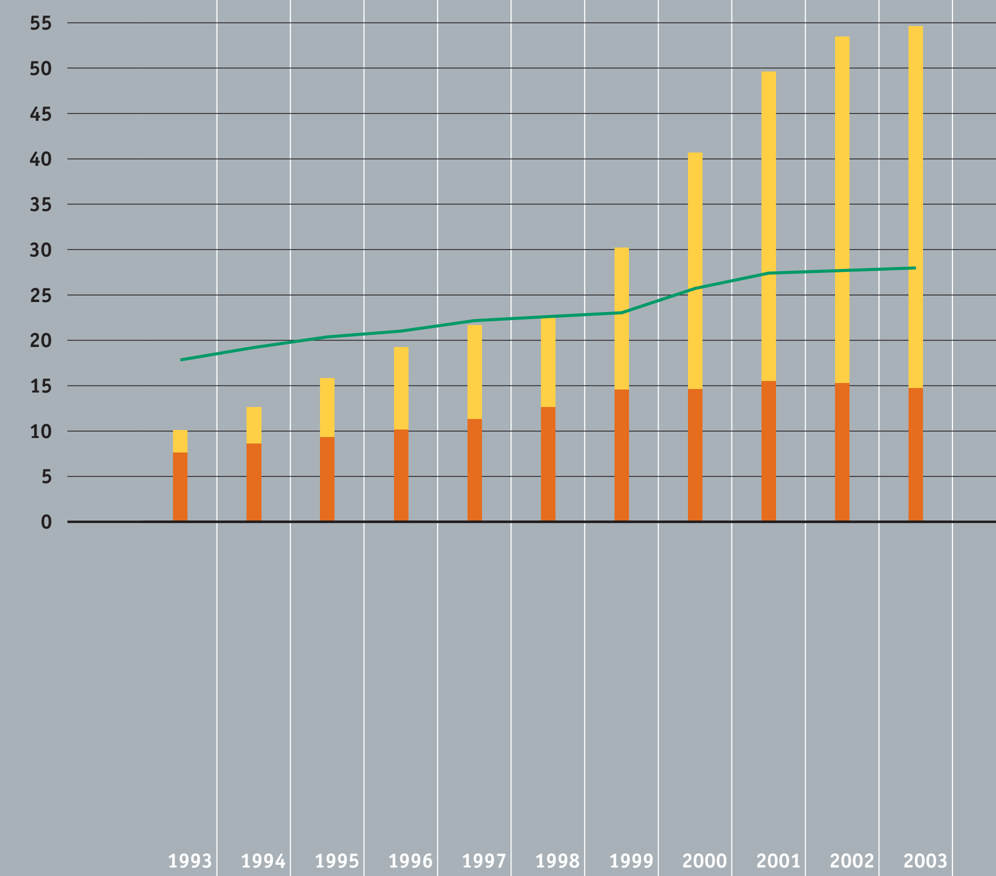
Payments with cards and ATM withdrawals

Credit cards

Debit cards

ATMs

in CHF billions



The value of payments effected with credit and debit cards grew by 2.1% in 2003, while cash withdrawals at ATMs (Bancomat and Postomat) registered a 1.1% increase.

Payment transactions in euros

The Swiss banks and Swiss Post run a special clearing bank in Frankfurt, Swiss Euro Clearing Bank (SECB). It operates the euroSIC clearing system. Most Swiss banks, in addition to Swiss Post, execute their euro payments through this system. Furthermore, the SECB secures access to TARGET (Trans-European Automated Real-time Gross settlement Express Transfer System). The transaction volume in euroSIC increased in 2003, averaging EUR 1.9 billion per day, compared with EUR 1.7 billion in 2002. In 2003, the number of euroSIC payments rose to 1.9 million, around 40% of which were cross-border transactions.

Continuous Linked Settlement

September 2002 saw the start of the Continuous Linked Settlement (CLS) system. CLS is a global payment system for the settlement of foreign exchange transactions in eleven major currencies. Since CLS settles both legs of a foreign exchange transaction simultaneously (delivery-versus-payment principle), settlement risks that existed previously can now be eliminated. 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. In 2003, the number of transactions per day in Swiss francs was 4,359, worth a total of CHF 46.6 billion per day. The Swiss franc accounts for 4.0% of the total value of foreign exchange transactions settled in CLS.

2.3 Provision of currency

Higher volume of currency in circulation

In 2003, the average banknote circulation was CHF 35.7 billion, i.e. 1.7% more than in 2002. At CHF 2.3 billion, the average volume of coins in circulation equalled the previous year's figure.

Banknotes

In 2003, the National Bank put 120 million freshly printed banknotes with a face value totalling CHF 8.6 billion into circulation. It destroyed 115.2 million damaged or recalled notes with a face value of CHF 9 billion.

In 2003, the National Bank's offices registered a slight decrease of 2.7% in currency turnover, bringing the total to CHF 132.2 billion. They received roughly 425 million, i.e. 5.1% fewer notes than in the previous year. Receipts of banknotes at the Berne Head Office were up as a result of a cash processing facility rearranging its organisation. Cash processing facilities specialise in sorting and distributing cash on behalf of third parties. The Lugano, Geneva and Zurich offices received fewer notes than in the previous year.

Decrease in currency turnover

In 2003, the Swiss National Bank for the first time opened a cash deposit facility at a cash processing facility. A cash deposit facility is a stock of banknotes that the National Bank sets up with a third party. However, the National Bank retains ownership of the assets stored in the external deposit facility. The holder of a cash deposit facility may withdraw or deposit cash from the deposit facility provided that there are sufficient funds in the respective sight deposit at the SNB. Cash deposit facilities reduce the number of transports, thus enhancing the efficiency of the provision of currency. Consequently, turnover at the National Bank's offices is likely to recede further.

Cash deposit facilities

Turnover at the agencies operated by the cantonal banks stabilised at CHF 14.1 billion. This ended the downward trend of cash turnover at the agencies. The decline was attributable to the increased volume of business of the cash processing facilities operating in the whole of Switzerland.

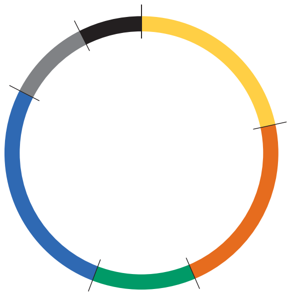
Agencies

While processing banknotes received, the National Bank secured 190 counterfeits during the period under review.

Counterfeits

The National Bank is entrusted by the Confederation with the task of coin circulation. Its role is spelled out in the Federal Law on Currency and Payment Instruments (art. 5).

Coinage



Banknotes in circulation
Denominations – millions

CHF 10s: 58

CHF 20s: 59

CHF 50s: 33

CHF 100s: 72

CHF 200s: 27

CHF 1000s: 20

Annual average

3 Services on behalf of the Confederation

Basis

The National Bank acts as banker to the Confederation. The current 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. The National Bank pays interest at market rates on time deposits held with it by the Confederation, and at the call money rate on sight deposits up to a limit of CHF 600 million. Swiss Post places its liquid funds directly on the money market.

Money market debt register claims and Confederation bonds

In 2003, the National Bank arranged 53 issues of money market debt register claims (MMDRCs) and 20 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 CHF 57.8 billion were subscribed, and CHF 40.1 billion were allocated. Federal bonds were subscribed for a total amount of CHF 18.7 billion, of which CHF 14.9 billion were allocated.

Confederation bonds and money market debt register claims

	1999	2000	2001	2002	2003
Number of issues[1]					
MMDRC	52	52	52	52	53
Confederation bonds	10	14	14	15	20
Total subscribed in CHF billions					
MMDRC	75.7	62.7	53.0	54.7	57.8
Confederation bonds[2]	8.1	15.6	12.6	9.9	18.7
Total allocated in CHF billions					
MMDRC	46.8	42.4	39.7	40.6	40.1
Confederation bonds[2]	4.1	9.3	7.5	8.4	14.9
Outstanding at year-end in CHF billions					
MMDRC	17.1	13.4	11.5	12.4	10.7
Confederation bonds[3]	46.5	54.1	62.1	70.2	82.6

1 By 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 domestic and international payments of the Confederation. 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. The expenditure for coinage services provided on behalf of the Confederation amounted to CHF 9.7 million in 2003.

4 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.

4.1 Integrated financial market supervision

SNB participates in drafting federal law

The National Bank is represented in the commission of experts chaired by Ulrich Zimmerli. Based on the recommendations of the previous group of experts headed by Jean-Baptiste Zufferey, the commission is in the process of preparing the legal foundation for the integration of financial market supervision. In July 2003, the commission presented the first part of its report as well as a draft of a federal law on financial market supervision (Financial Market Supervision Act; FINMAG). The National Bank submitted its comments in the context of a consultation procedure.

Establishment of a Federal Financial Market Supervisory Authority

The interim report by the "Zimmerli Expert Commission" calls for the establishment of a Federal Financial Market Supervisory Authority (FINMA) in the form of an institution under public law. As a first step, the Swiss Federal Banking Commission and the Federal Office of Private Insurance are to be integrated; additional authorities could be integrated at a later point. FINMA is to enjoy far-reaching independence and, in particular, budgetary autonomy. As a next step, the commission will determine in detail the possible catalogue of sanctions to be imposed by the Financial Market Supervisory Authority as well as considering the possibilities of making administrative law more stringent.

Consultation procedure

During the consultation procedure, the National Bank was of the opinion that the reasons for merging the supervision of banks and insurance companies into a single supervisory authority, as already mentioned in the Zufferey Report, are still valid. At the same time, however, it cautioned against exaggerated expectations. Moreover, it opposed intentions to burden the future FINMA with tasks that do not belong to the core business of a financial market supervisory authority and must therefore not necessarily be performed by such an authority.

4.2 Reform of the securities law

SNB heads working group

The Federal Department of Finance entrusted the Swiss National Bank with heading a working group to lay the groundwork for drafting a law governing indirect holding of securities and book-entry securities by financial intermediaries. Even though the immobilisation and dematerialisation of securities is fairly widely practised in Switzerland, these developments have not been regulated by law thus far. Given the importance of securities markets for the financial system, the resulting uncertainties are no longer acceptable. A draft law on the indirect holding of securities is due to be in place at the beginning of 2004. International law on the indirect holding of securities is to be revised simultaneously by proposing the ratification of the Hague Securities Convention.

4.3 Cooperation with the Federal Banking Commission

Regular meetings…

In 2003, the National Bank held two meetings with the Federal Banking Commission for a detailed discussion of the economic situation and current developments in the banking system. Both bodies also cooperated closely in the Basel Committee on Banking Supervision. Within the framework of the steering committee set up in 2001 to deal with questions relating to system stability, the National Bank and the Secretariat of the Federal Banking Commission continued to strengthen their cooperation on a technical level.

…and closer cooperation on a technical level

In the context of the procedure to obtain a banking licence for the central counterparty for securities transactions, SIS x-clear AG, the National Bank gave the Federal Banking Commission its feedback on the planned risk control mechanisms. Moreover, the National Bank expressed its view on several Federal Banking Commission circulars, in particular the ones relating to the treatment of credit derivatives in the context of capital adequacy requirements and to the reform of the audit process.

5 International cooperation

SNB membership in different institutions

On an international level, the National Bank cooperates in particular with the International Monetary Fund (IMF), the Group of Ten (G-10), the Bank for International Settlements (BIS) and the Organisation for Economic Cooperation and Development (OECD). The National Bank also maintains close relations with many central banks all over the world. Moreover, it provides technical assistance and training.

Federal Decree on the renewal of the IMF's General Arrangements to Borrow

On 20 June 2003, the Federal Parliament approved a renewal of Switzerland's membership in the IMF's General Arrangements to Borrow (GAB) until the end of 2008. Switzerland had 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 in the amount of XDR 17 billion (special drawing rights) to prevent or resolve an extraordinary crisis threatening the international monetary system. The credit commitment of the National Bank amounts to XDR 1,020 million. The GAB are valid for five-year periods. The renewal of the Swiss participation will also in future be approved by the Federal Parliament and not – as proposed in the Federal Council's Message – by the Federal Council with the prior agreement of the National Bank.

5.1 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. For the National Bank, it represents a currency reserve and may be used by it at any time. At the end of 2003, Switzerland's reserve position amounted to XDR (special drawing rights) 1,383.4 million, compared with XDR 1,410.0 million at the end of 2002. (At the end of 2003, 1 XDR was equivalent to CHF 1.85. The figure is calculated on the basis of weighted exchanges rates for the US dollar, euro, yen and pound sterling.)

Poverty Reduction and Growth Facility (PRGF)

According to the Decree of the Federal Parliament of 3 February 1995, the National Bank finances the Swiss contribution to the loan account of the Poverty Reduction and Growth Facility (PRGF, formerly ESAF II). This facility is used to grant long-term loans at reduced interest rates to the poorest 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. By March 2001, the IMF had utilised the total amount of Switzerland's loan commitment of XRD 151.7 million. After an initial repayment in 2002 came additional repayments totalling XRD 17.9 million in 2003.

Interim PRGF

As the PRGF loans were used up at the end of 2001 and since they cannot be operated as a self-financing facility before 2005, interim funding became necessary. The National Bank participated in this facility to the tune of XDR 250 million, but capped the amount at 6.25% of all bilateral contributions. Of this loan commitment, XDR 26.6 million were drawn in 2003, bringing the total to XDR 32.7 million by the end of 2003. At the end of 2003, the outstanding loan amount of PRGF and interim PRGF was XDR 163.5 million.

5.2 Participation in the Group of Ten

Report on Collective Action Clauses

The National Bank participates in meetings of the finance ministers and central bank governors of the Group of Ten and in various working groups. In 2003, the Group of Ten especially devoted itself to issues relating to the international financial system. A working group that dealt with collective action clauses in government bonds concluded its work. The use of collective action clauses shall permit that – in the event of default – debts incurred in the form of bonds can be restructured by means of a majority decision of the creditors. The Report of the working group, which was submitted to the G-10 finance ministers and governors in September 2002, was published in March 2003.

5.3 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

The Basel Committee on Banking Supervision serves as a platform for regular cooperation in matters of banking supervision. The focus in 2003 was on completing the New Basel Capital Accord (Basel II) which is to replace the 1988 accord. In 2003, the Basel Committee also issued guidelines entitled "Risk management principles for electronic banking" and "Management and supervision of cross-border electronic banking activities". Furthermore, the publication "High-level principles for the cross-border implementation of the New Accord" is a report aimed at facilitating cooperation between the different supervisory authorities.

The role of the Committee on Payment and Settlement Systems (CPSS) is to monitor and coordinate developments in domestic and international payment, settlement and clearing systems. The CPSS has issued two reports. The first one deals with basic issues of central banks' policies in retail payments. The report demonstrates that different central banks take very different views on their respective roles. Only some of these differences can be attributed to the different stage of development of retail payment systems. The second report focuses on the role of central bank money in payment systems and investigates a number of practical issues that are relevant for central banks in this context.

Committee on Payment and Settlement Systems

The Committee on the Global Financial System (CGFS) follows and assesses international financial markets and draws up recommendations which support central banks in assuming their responsibility with regard to the stability of the financial system. In 2003, the CGFS published the reports of two working groups: "Incentive structures in institutional asset management and their implications for financial markets" and "Credit risk transfer". The latter describes the developments in the financial market in the area of credit risk derivatives and identifies some possible implications for the functioning of the financial system.

Committee on the Global Financial System

The Markets Committee serves as a discussion forum for the G-10 central bank staff members responsible for financial market operations. The discussions dealt with the developments on the foreign exchange and other financial markets as well as the impact of individual events on the overall functioning of these markets.

Markets Committee

5.4 Balance of payments support

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 2003. There was one outstanding balance of payments loan at the end of the year – EUR 14.3 million to Bulgaria, expiring in 2007.

No new loans

5.5 Technical assistance

Technical assistance to countries of the Swiss constituency at the IMF...

Technical assistance was once again concentrated on the Swiss constituency within the Bretton Woods institutions. The provision of technical assistance to the central bank of Azerbaijan intensified. The projects initiated in the previous year in the areas of implementation of monetary policy and of cash handling processes continued. A new project aimed at lending support in the area of IT security was initiated. Serbia's central bank continued to receive assistance with the investment of international reserves. In cooperation with the IMF, the institution which acts as a central bank in Kosovo was given advice on building security. The central bank of Kyrgyzstan continued to receive support in the areas of cash management and the development of the payment system. A new project devoted to training in the area of central bank management was initiated last year in Kyrgyzstan.

...and other countries

Outside of the Swiss constituency within the Bretton Woods institutions, the National Bank advised the central banks of Vietnam and Indonesia on issues regarding money and foreign exchange trading as well as internal auditing. Moreover, representatives of the National Bank participated in the meetings held by the Central Bank of West African States on the institutional reform of the West African Monetary Union.

5.6 Study Center Gerzensee

Courses for foreign central banks

The Study Center Gerzensee, a National Bank foundation, organised five courses for employees of foreign central banks in 2003. The courses offered training in the fields of monetary policy, financial markets and banking regulation. They were attended by a total of 125 participants from 98 countries.

International scientific conferences

In addition, the Study Center Gerzensee hosted a scientific conference on international capital markets and two summer symposia on financial markets and economic theory. They were attended by internationally renowned researchers.

Doctoral programmes

The Study Center Gerzensee organised doctoral programmes for students of Swiss universities. These programmes featured lectures by leading academics in the main fields of economic science. Moreover, the Study Center organised a Finance Workshop lasting several days.

6 Stability and oversight of the financial system

Stability of the financial market as a condition for successful monetary policy

Confidence in the stability of the financial system is essential for a balanced economic development in that it helps consumers, savers and investors to make long-term decisions. A stable financial system, however, is also a prerequisite for properly functioning financial markets and is thus one of the necessary conditions for a successful implementation of monetary policy. The National Bank, therefore, makes every effort to identify any danger to the stability of the system early on. While the Federal Banking Commission supervises the individual institutions, the National Bank monitors the development of the financial system as a whole. In particular, it attempts to identify areas of tension or imbalances that could jeopardise the stability of the system.

Annual stability report

In 2003, the National Bank published for the first time its assessment of the current situation of the financial system as well as potential trends in the form of a stability report (see the SNB's Quarterly Bulletin, 2/2003, pp. 60–85). In its report, the National Bank makes the distinction between market factors determining banking stability (macroeconomic developments and stock prices), bank-specific stability indicators (balance sheet information on capital and on liquid assets, etc.) and the development of the financial market infrastructure.

Resilient banks...

The report reveals that – in the face of the economic downturn and the slump on the stock markets – the Swiss banking sector proved to be resilient. Notably provisioning requirements in the lending business remained modest, since the volume of bank loans had only seen a small increase during the stock market's boom years. Available capital, which is crucial for the banking sector's resilience, is at a satisfactory level both by international and historical standards. No major imbalances which might trigger a crisis were identified in mid-2003. Consequently, the National Bank considered the Swiss banking system to be stable. Judging from the development of stock prices and bond yields of banks, this view was shared by the markets. Admittedly, the worst-case scenario discernible in summer 2003 – a further economic downturn and a persistently unfavourable situation on the financial markets – failed to materialise. For banks, but also for other financial market participants, such as insurance companies and pension funds, it was a positive year overall.

...and a sound infrastructure

The financial market infrastructure (clearing and settlement of payments [SIC] and transactions in securities and other financial instruments [SECOM]) was also in good shape in 2003. Owing to the Continuous Linked Settlement (CLS) system, which had already been in operation since the autumn of 2002, and the central counterparty SIS x-clear, introduced in May 2003, the settlement risks of securities and foreign exchange transactions were further reduced.

Cooperation in Basel II

On an international level the National Bank, as a member of the Basel Committee on Banking Supervision, continued to participate in the revision of the Basel Capital Adequacy Accord (Basel II) together with the Federal Banking Commission. This revision should remedy the major shortcomings of the Capital Adequacy Accord in effect since 1988, notably the insufficient consideration of risks in the calculation of required capital. The draft of the New Accord is based on three elements or "pillars": (1) minimal capital adequacy requirements which in some cases permit banks to apply an internal ratings-based approach, (2) monitoring the banks' capital adequacy strategies by the national supervisory authorities and (3) the effective use of market discipline.

Revised draft

In April 2003, the Basel Committee published a revised draft of the New Accord. Based on the feedback received, the Committee decided to complete the new Capital Adequacy Accord – with a few changes – by mid-2004 so that the individual countries can implement it by December 2006.

Positive assessment

The National Bank supports the direction in which the New Accord aims. An adequate cushion of capital commensurate with the risks strengthens the stability of the banking system. It protects banks from solvency problems and thus also from confidence crises that may lead to liquidity problems. Furthermore, only well capitalised banks can effectively fulfil their macroeconomic task of granting credit, not least in difficult economic times.

7 Statistics

7.1 Basis

Tasks

The National Bank collects those statistical data from banks, securities dealers, investment funds and other enterprises that it needs for fulfilling its statutory mandate. The data are used for analyses concerning monetary policy, for the survey of economic developments and for economic forecasts, and for analysing developments in the financial markets. The National Bank compiles statistics on the banks' balance sheets and on other important aspects of banking business, notably credit business and securities held in custody on behalf of non-banks. The National Bank requests information on the use of credit and debit cards from the major card companies. Furthermore, it 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 reporting institutions and associations and conform as closely as possible to international standards.

Preparatory work for financial accounts

In collaboration with the Swiss Federal Statistical Office, the National Bank continued with the preparatory work for the production of a set of financial accounts for Switzerland. These financial accounts will show the flow of funds between different sectors of the economy and offer valuable information for monetary policy as well as closing a major gap in the system of national accounts.

7.2 Statistical publications

Printed publications

The National Bank publishes the results of its statistical surveys. Information is made available primarily in the Statistical Monthly Bulletin, in the Monthly Bulletin on Banking Statistics and in the statistical yearbook of the Swiss banks, "Die Banken in der Schweiz". These publications are supplemented by reports on Switzerland's balance of payments, on the international investment position and on direct investment.

Internet

The National Bank offers a wide range of data on the economy in the form of time series which can be accessed on the Internet free of charge. Users can download these time series on their PCs and process the data. The growing importance of statistical information activity resulted in an increasing number of time series administered. At the end of 2003, the National Bank maintained approximately 1.4 million time series.

Statistics on the international investment position and on foreign debt

Since 2003 – in addition to the yearly data on Switzerland's international investment position – the National Bank has been publishing quarterly estimates on this position. It has also started to compile statistics on Switzerland's foreign debt. These statistics reflect a detailed cross-section of the liabilities side of Switzerland's international investment position and as such conform to IMF requirements.

Statistics on corporate lending according to company size

The National Bank complemented its present statistics on the banks' credit business with information on lending broken down by the size of corporate customers as measured by the number of employees. The figures are published in the Internet version of the Monthly Bulletin on Banking Statistics.

7.3 Banking statistics committee

Adoption of lending rate statistics

The National Bank is advised on the content of its surveys by the banking statistics committee. The committee comprises representatives of banks, the Swiss Bankers' Association and the Swiss Federal Banking Commission. In 2003, the banking statistics committee adopted a survey on the banks' conditions in corporate customer lending (lending rate statistics). This survey allows the National Bank to gain more detailed insight into the transmission mechanism of monetary policy, and it will provide detailed information on corporate lending rates, which are key for economic development. The survey will be launched as a pilot project in 2004.

7.4 Balance of payments: group of experts

Drawing up of the balance of payments

A group of experts under the direction of the National Bank participates in the drawing up of the balance of payments. The group of experts comprises representatives from banking, industry, the insurance sector, various federal agencies and the Swiss Institute for Business Cycle Research at the Swiss Federal Institute of Technology.

7.5 Collaboration with domestic and foreign agencies

Knowledge transfer

The National Bank gathers data for banking supervision purposes on behalf of the Swiss Federal Banking Commission. It 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 cooperation is aimed at harmonising statistical survey methods and analyses.

Structure and organisation of the National Bank

1 Information for shareholders

Statutory bodies and responsibilities

The National Bank is a joint-stock company under special law that is administered with the cooperation and under the supervision of the Confederation. Its organisational structure and responsibilities are governed by the National Bank Law of 23 December 1953 (NBL, SR 951.11 [Classified Compilation of Federal Law]; the NBL can also be viewed at www.snb.ch). Company by-laws are thus not necessary. The National Bank's statutory bodies are the Annual General Meeting, the Bank Council, the Bank Committee, the Governing Board and the Auditing Committee as well as, on a regional level, the Local Committees and Local Management. The Bank Council is the National Bank's supreme supervisory body (art. 43 NBL). A total of 25 of its members are appointed by the Federal Council, whereas the remaining 15 are elected by the Annual General Meeting (arts. 40 to 42 NBL). The close supervision and control of the Bank's management is the responsibility of the ten members of the Bank Committee (cf. arts. 48 and 49 NBL), which is elected by the Bank Council (art. 48 NBL). The Governing Board is the managing and executive body (art. 52 NBL); its three members are appointed for a six-year term by the Federal Council upon recommendation of the Bank Council (art. 53 NBL). The Auditing Committee, which consists of three members and three substitute members elected by the Annual General Meeting for one year (art. 51 NBL), audits the annual accounts (balance sheet, income statement and notes). Since the financial year of 1999, the Auditing Committee has consisted of the specialists (certified auditors and bank specialists) listed on page 122. The Auditing Committee submits a written report to the Bank Council (art. 729a Code of Obligations). The Bank Council and the Bank Committee do not have an auditing committee.

Shareholders' rights

The rights of the shareholders are also embodied in the National Bank Law; company law is applied merely complementarily (art. 13 NBL). As the National Bank fulfils a public mandate and is administered with the cooperation and under the supervision of the Confederation, the shareholders' rights are restricted compared with a joint-stock company under private law. Only Swiss citizens and Swiss corporations as well as legal entities and companies that have their main office in Switzerland are eligible as shareholders with voting rights (art. 7 NBL). Shareholders who do not belong to the public-law sector may not cast more than 100 votes for their own and for represented shares (art. 35 para. 3 NBL). Shareholders may be represented at the Annual General Meeting only by other shareholders (art. 29 NBL). Only 15 out of the 40 members of the Bank Council are elected by the Annual General Meeting (art. 38 NBL). The right to a dividend is limited to six percent of the paid-up capital (art. 27 para. 2 NBL); the remaining net profit is allocated to the reserve fund and distributed to the Confederation and the cantons (art. 27 paras. 1, 3 and 4 NBL). The Annual Report must be approved by the Federal Council before being submitted to the Annual General Meeting (art. 25 para. 3 NBL). Other provisions deviating from company law concern the adoption of resolutions (art. 34 NBL), the agenda and the convention of the Annual General Meeting (art. 30 NBL).

Remuneration and affiliations of the SNB's statutory bodies

The remuneration of the National Bank's statutory bodies is determined in regulations drawn up by the Bank Council and approved by the Federal Council (art. 61 NBL). The remuneration of the statutory bodies and their members' shareholdings and affiliations are shown in the sections Financial Report (p. 95,) and Supervisory and Executive Bodies (p. 119).

Information of shareholders

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 pp. 128f., as well as www.snb.ch).

Registered shares listed on the stock market

The registered shares of the Swiss National Bank are traded on the stock market. Cantons and cantonal banks hold 53% of the shares; of this shareholding, the Canton of Berne owns 6.63% (6,630 shares), and the Canton of Zurich 5.20% (5,200 shares). The remaining shares are mostly held by private individuals (cf. p. 107). The Confederation does not hold any shares.

The National Bank is not structured as a group (of affiliated companies).

2 Organisation

Management and supervision

The National Bank is divided into three Departments, each of which is headed by one member of the Governing Board. The Governing Board enjoys a high degree of independence in fulfilling its monetary policy mandate. Both the Governing Board and the Federal Council must inform each other before passing any major monetary and economic policy decisions. Local management conducts the branch offices' business in accordance with the regulations and the directives of the Governing Board. The Bank Council, the Bank Committee and the Auditing Committee supervise the business activity.

Structure

The National Bank has two head offices: the legal domicile in Berne and the seat of the Governing Board in Zurich. Departments I and III are located in Zurich, while Department II is in Berne. To ensure the distribution of currency, the National Bank maintains – in addition to the two head offices – two branch offices with cash distribution services in Geneva and Lugano. Four additional branch offices located in Basel, Lausanne, Lucerne and St Gallen as well as the head offices and the branch offices with cash distribution facilities are responsible for monitoring regional economic developments. 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.

Reorganisation

In 2003 the National Bank adjusted its organisational structure. Some tasks were reallocated within the three Departments. The potential for synergies was used and functions that had become operationally incompatible were separated. Asset management, banking operations and banking services for the Confederation were concentrated in Department III in Zurich. The cash distribution services of the head offices and the branch offices were allocated to Department II in Berne, and Controlling was separated from Central Accounting. The hierarchical structures were flattened. The reorganisation will be concluded in the course of 2004.

The National Bank's chief task is to pursue a monetary policy serving the interests of the country as a whole. The monetary policy concept is drawn up in Department I. The organisational unit Economic Affairs analyses the economic situation and development in Switzerland and abroad, produces the inflation forecast and provides the bases for monetary policy decisions. It also supplies the statistical data. The international aspects of monetary policy are dealt with by International Affairs. The Financial Markets unit of Department III implements monetary policy by carrying out transactions in the financial markets. Financial Stability and Oversight in Department II concerns itself with questions of stability of the financial system.

Monetary policy

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

Regional economic relations

The management and investment of gold, foreign currency reserves and Swiss franc bonds is the responsibility of the two units Asset Management and Financial Markets in Department III. Investment strategy and risk controlling are dealt with by the same-named unit, also in Department III.

Management of assets

The tasks relating to cash transactions fall within the domain of the Cash unit in Department II. The National Bank issues banknotes and puts the coins minted by the Confederation into circulation via its network of bank offices. It assures that the quality of currency in circulation is kept on a high level by checking the cash returned to the National Bank and by disposing of those banknotes and coins that no longer meet the requirements, as well as of counterfeits.

Cash transactions

Moreover, the National Bank participates in planning and settling cashless payment transactions. Conceptual and technical issues arising with regard to cashless payment transactions are dealt with by Financial Stability and Oversight in Department II as well as the units Banking Operations and Information Technology in Department III.

Cashless payment transactions

Acting as the bank of the Confederation is a function primarily performed by Department III. It maintains the accounts, carries out domestic and foreign payments on behalf of the Confederation, participates in the floating of bonds and assists the Confederation in holding its securities in safe custody. It also executes money market and foreign exchange transactions on behalf of the Confederation.

Bank of the Confederation

3 Staff and resources

Number of staff and turnover

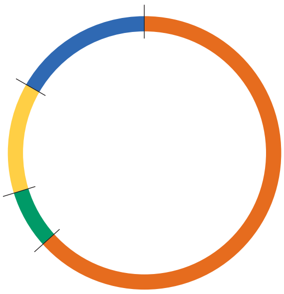
At the end of 2003, the National Bank staff numbered 652 persons (including 20 apprentices). It thus exceeded the previous year's level by 35 persons. Converted into full-time equivalent jobs, the number of employees rose from 573.6 to 607.9 persons. The number of part-time employees was up by 16 to 154 persons, corresponding to a part-time rate of 23.6%. The above-average rise in the number of staff is mainly due to the filling of positions that had remained vacant in previous years and to new tasks assumed by the organisational units International Affairs, Economic Affairs, Financial Stability and Oversight as well as Information Technology. The reorganisation described on page 76 caused 20 jobs to be shifted from Berne to Zurich. Personnel turnover dropped to 3.9% in 2003 from 4.6% a year earlier.

Human resources development

The human resources development concept was fundamentally revised. The newly introduced concept will benefit the Bank's employees by offering demand-oriented staff development measures. As part of the annual employee assessment, the need for development of the individual staff members is systematically determined. On this basis, development targets are set and appropriate measures are selected from a wide range of options. Development at the managerial level was also strengthened. Aside from the well-established courses offered so far, seminars designed for experienced executives are also available. Current and potential members of the management are now additionally offered a competence model helping them to analyse their development potential and needs. This analysis also takes the results of individual assessments into consideration.

Property management

The conversion of the cashier's office and the mezzanine floor as well as the renewal of the technical equipment in the main building of the Zurich head office were started in the first quarter 2003. In October, the first building phase was concluded and the second one started. Maintaining the security level and ensuring disruption-free operations of the Bank during the conversion period was particularly problematic. The planning and construction preparation phases for the conversion of the premises at Nüschelerstrasse 22 in Zurich are



Personnel
Number of employees

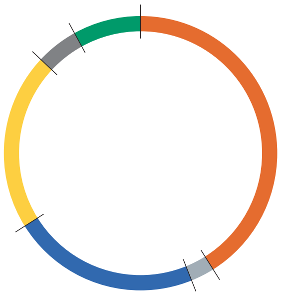
Full-time, men 413

Part-time, men 45

Full-time, women 85

Part-time, women 109

Total: 652.
End 2003



Cost units
in percent

Cash transactions 41

Cashless payment transactions 3

Asset management 22

Monetary policy 21

Services for the Confederation 5

Services for third parties 8

drawing to a close, and the building permit has been issued. The conversion is scheduled to commence in the second quarter 2004 and the building should be ready for occupation a year later.

Environmental target period 1996–2002 concluded

Almost all targets set for conserving resources during the period from 1996 to 2002 were attained. The environmental performance evaluation drawn up in the 2003 reporting year shows that environmental pollution caused by the National Bank was lowered by 22% altogether between 1996 and 2002. The major contribution towards the targeted development was achieved by a 14% reduction in electricity consumption. Paper consumption was even cut 58% during this period. Only the goal of reducing water consumption by 20% was missed by 3 percentage points as a result of construction work. The National Bank's revised ecological charter contains new targets for the period from 2003 to 2008. A further 15% reduction in energy consumption is set to have the biggest impact on the environmental performance. In this connection, the CO_2 output from banking activities is planned to be lowered.

Developments in information technology

A more intense use of the applications systems provided by the Information Technology unit and a strong increase in the total data volume necessitated an upgrade of the network, server and storage infrastructure. All workstations were renewed. In the units Asset Management and Risk Controlling, the renewal of a central asset management application was initiated. Ensuring a high degree of security for IT systems continues to play a vital role and absorbs a significant part of IT resources.

Stabilised 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 had declined markedly in recent years due to the streamlining of the cash distribution and processing network, the introduction of euro cash in 2002 led to an additional demand for banknotes, whose impact was felt until 2003. For the second time in a row, the share of costs stemming from cash transactions did not diminish, remaining unchanged at the year-earlier level of 41% of total operating costs. The costs in connection with cashless payments also remained stable year-on-year at 3% of total operating costs. 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 cost units

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, accounted for 22% of total operating costs, the same percentage as a year earlier. The expansion of the Bank's business activity in the past few years resulted in 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, remained unchanged from the previous year, amounting to 21% of total operating costs. The share of the cost unit services on behalf of the Confederation rose by 1 percentage point to 5%, while the share of the cost unit services on behalf of third parties decreased by 1 percentage point to 8% of total costs. The item services on behalf of the Confederation includes the costs of all services that 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.

4 Changes in the supervisory authorities and staff

Bank Council

On 25 April 2003, the day of the Annual General Meeting, the Bank Council's term of office (from 1999 to 2003) came to an end. In this regard, the president and the other members of the Bank Council who were eligible to be re-elected and stood for re-election were confirmed in their functions for another term by the Federal Council and the Annual General Meeting (cf. p. 119f.).

On 14 March 2003, the Federal Council elected

Ruth Lüthi, Fribourg, Member of the cantonal government and head of the health and social welfare department of the canton of Fribourg, as the new Vice President of the Bank Council and

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

Werner Messmer, Kradolf-Schönenberg, National Councillor, Chairman of the Swiss contractors' association, as new members to the Bank Council.

On 25 April 2003, the Annual General Meeting of Shareholders elected

Charles Favre, Echallens, National Councillor,

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

Rudolf Stämpfli, Berne, joint owner and CEO of Stämpfli Holding Ltd, President-Elect of Schweizerischer Arbeitgeberverband (Swiss employers' association) as new members to the Bank Council.

Local Committees

Effective as of the date of the Annual General Meeting of 25 April 2003 and in August 2003 respectively, the following members of the Local Committees of Zurich and Berne resigned their positions:

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

Reto Hartmann, Hünibach.

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

The Bank Council made the following appointments to the Local Committees:

Local Committee of Zurich

Hans R. Rüegg, Rüti, Chairman of the Board and CEO, Baumann Springs Ltd, and

Local Committee of Berne

Oscar A. Kambly, Trubschachen, President of the Board of Kambly SA.

The Bank Committee makes 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 25 April 2003 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 and CEO of Banque Jenni et Cie SA, as Substitute Member of the Auditing Committee.

Reorganisation of statutory bodies

In connection with the reorganisation of the statutory bodies under the new National Bank Law and the termination of their term of office respectively, all members of the Bank Council, the Local Committees and the Auditing Committee will retire from their functions with effect from the date of the Annual General Meeting of 30 April 2004. The National Bank thanks all of them for their – in some cases longstanding – valuable services.

Pursuant to articles 39, 42 and 47 of the revised National Bank Law that comes into force on 1 May 2004, the Bank Council will in future be composed of eleven members; the president, the vice president and four other members are to be appointed by the Federal Council, while five members will be elected by the Annual General Meeting. The Local Committees will cease to exist as statutory bodies; the Bank Council may, however, appoint regional advisory councils. Instead of the Auditing Committee, the Annual General Meeting in future will have to appoint an Audit Board on an annual basis.

On 11 February 2004, the Federal Council elected the following persons to the Bank Council:

Hansueli Raggenbass, Kesswil, Attorney-at-law, President of the Bank Council (current),

Ruth Lüthi, Fribourg, Member of the cantonal government and head of the health and social welfare department of the canton of Fribourg, Vice President of the Bank Council (current),

Konrad Hummler, Teufen, Managing Partner of Wegelin & Co. Private Bankers (new),

Marina Masoni, Lugano, Member of the cantonal government and head of the department of finance and economic affairs of the canton of Ticino (new),

Fritz Studer, Meggen (new),

Eveline Widmer-Schlumpf, Felsberg, Member of the cantonal government and head of the finance and military department of the canton of Grisons (new).

Proposals to the Annual General Meeting of Shareholders

The Bank Council proposes to the Annual General Meeting of Shareholders of 30 April 2004 that the following persons be elected as members of the new Bank Council:

Ueli Forster, St Gallen, Chairman of the Swiss Business Federation (economiesuisse), Chairman of the Board of Directors of Forster Rohner Ltd

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

Armin Jans, Zug, Professor of Economics at the Zurich University of Applied Sciences, Winterthur

Franz Marty, Goldau, Chairman of the Board of the Swiss Union of Raiffeisen Banks

Alexandre Swoboda, Geneva, Professor at the Graduate Institute of International Studies

the following Audit Board be appointed for the 2004/05 term of office:

PricewaterhouseCoopers AG, Zurich

Management

Effective 1 July 2003, the Bank Committee elected Thomas Kübler as Head ad interim of the Basel Branch Office and as member of the management.

Effective 1 January 2004, the Bank Committee promoted
Thomas Jordan (Head of Research) to Director,
Hans Kuhn (Head of Legal Service) to Director
Eveline Ruoss (Head of Economic Analysis) to Director
Hugo Bischof (Lugano Branch Office) to Assistant Director
Livio Lugano (Statistics) to Assistant Director
Nicolas Stoffels (Economic Analysis) to Assistant Director
Attilio Zanetti (Economic Analysis) to Assistant Director
Jean-Daniel Zutter (Geneva Branch Office) to Assistant Director

At the end of December 2003,
Erwin Sigrist, Deputy Head of Department III, retired.
Mr Sigrist was appointed to office by the Federal Council in February 1998. His commitment and expertise were much appreciated. The National Bank thanks him for his services.

At the end of July 2003,
Anton Föllmi, Director of the Basel Branch Office, retired. Mr Föllmi served the National Bank for 40 years, including in a position at the OECD in Paris, as Head of Statistics and – upon appointment by the Federal Council – as Director of Branch Office. Thanks are extended to him for all he has given to the National Bank.

Financial report

1 Income statement for the year 2003

	Notes	2003 CHF millions	2002 CHF millions	Change in percent
Net result from gold holdings	01	2 615.1	1 532.1	+70.7
Net result from				
foreign currency investments	02	1 555.8	498.8	+211.9
reserve position in the IMF	03	−16.3	−246.9	+93.4
international payment instruments	04	6.2	−33.0	+118.8
balance of payments support	05	1.2	−27.2	+104.4
Net result from				
Swiss franc repo transactions	06	42.1	211.7	−80.1
Lombard advances	07	0.3	0.5	−40.0
claims against domestic correspondents	08	0.0	0.2	−100.0
Swiss franc securities	09	104.4	604.8	−82.7
Other income	10	32.1	34.1	−5.9
Gross income		**4 341.0**	**2 575.0**	**+68.6**
Interest expenses	11	−26.1	−75.4	−65.4
Banknote expenses	12	−45.2	−40.4	+11.9
Personnel expenses	13	−98.4	−89.0	+10.6
General overheads	14	−89.2	−93.5	−4.6
Depreciation on tangible assets	26	−25.1	−22.3	+12.6
Net income		**4 057.0**	**2 254.4**	**+80.0**
Extraordinary expenses		–	−9.1	
Extraordinary income		–	6.1	
Aggregate income		**4 057.0**	**2 251.5**	**+80.2**
Allocated to (−) / released from (+) provisions for				
the assignment of free assets	35	−912.4	−1 079.3	
market and liquidity risks on gold	36	–	−398.0	
market, credit and liquidity risks	37	−336.3	1 734.5	
Annual profit	40	**2 808.3**	**2 508.7**	**+11.9**

2 Balance sheet as of 31 December 2003

in CHF millions

Assets	Notes	2003	2002	Change
Gold holdings	15	23 217.3	25 405.2	−2 187.9
Claims from gold transactions	16	3 910.7	3 934.4	−23.7
Foreign currency investments	17	56 311.7	52 941.2	+3 370.5
Reserve position in the IMF	18	2 561.9	2 669.8	−107.9
International payment instruments	19	45.8	103.0	−57.1
Balance of payments support	20	327.2	316.5	+10.7
Claims from Swiss franc repo transactions	21	27 097.7	27 977.2	−879.5
Lombard advances	22	0.8	–	+0.8
Claims against domestic correspondents	23	36.8	29.8	+7.0
Swiss franc securities	24	7 657.9	7 018.4	+639.5
Participations	25	88.6	88.6	−0.0
Tangible assets	26	532.3	533.7	−1.4
Sundry assets	27	983.9	940.6	+43.4
Non paid-up share capital	38	25.0	25.0	–
		122 797.7	121 983.3	+814.4

Liabilities	Notes	2003	2002	Change
Banknotes in circulation	28	40 544.0	39 600.2	+943.8
Sight deposit accounts of domestic banks	29	7 186.6	4 516.9	+2 669.7
Liabilities towards the Confederation	30			
sight		452.6	388.3	+64.3
time		2 400.5	6 704.1	−4 303.6
Sight deposits of foreign banks and institutions	31	486.0	556.8	−70.8
Other sight liabilities	32	153.4	159.9	−6.5
Liabilities from Swiss franc				
repo transactions		–	–	–
Foreign currency liabilities	33	130.5	146.6	−16.1
Sundry liabilities	34	174.8	190.2	−15.4
Provisions for				
the assignment of free assets	35	21 209.3	20 296.9	+912.4
operating risks	37	461.5	461.9	−0.3
market and liquidity risks on gold	36	–	7 817.5	−7 817.5
market, credit and liquidity risks	37	46 672.2	38 518.4	+8 153.8
Share capital	38	50.0	50.0	–
Reserve fund	39	68.0	67.0	+1.0
Annual profit	40	2 808.3	2 508.7	+299.7
		122 797.7	121 983.3	+814.4

3 Notes to the accounts as of 31 December 2003

3.1 Explanatory notes on business activities

Legal form, mandate, partner organisations

The Swiss National Bank, a joint-stock company under special law 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 a monetary policy that is in the country's overall interests. All the transactions which it is permitted to perform are laid down in the National Bank Law. The National Bank has a commercial relationship with financial institutions in Switzerland and abroad, with federal agencies and associated enterprises, and with other central banks and international organisations.

Special features of the Bank's business activities

The National Bank's obligations towards the economy as a whole take priority over the achievement of profit. The National Bank has the 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 reserve assets, 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 domestic product (cf. p. 108f.).

Staff numbers, branches and offices

On 31 December 2003, the National Bank employed 652 persons (2002: 617), corresponding to 607.9 full-time posts (2002: 573.6); this figure includes 20 apprentices. In addition to its head offices in Berne and Zurich, the 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 publish a cash flow statement or 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 by 31 December 2003 but which have a value date in the future 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).

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

Gold, negotiable foreign currency investments, Swiss franc securities

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.

Claims and liabilities from repo transactions

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.

Derivative financial instruments

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

Participations

Tangible assets are stated at their acquisition cost less required depreciation.

Tangible assets

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

Other items

Foreign currency items are translated at year-end rates, whereas income and realised capital gains from these items are translated at the exchange rates applicable at the time the income was posted to the accounts.

Translation of foreign currency items

Foreign currency exchange rates and gold price

	2003	2002	Change in percent
Year-end rates			
CHF/USD	1.2360	1.3872	−10.9
CHF/EUR	1.5586	1.4525	+7.3
CHF/GBP	2.2040	2.2323	−1.3
CHF/DKK	20.9300	19.5700	+6.9
CHF/CAD	0.9572	0.8800	+8.8
CHF/XDR[1]	1.8478	1.8884	−2.1
Gold price in CHF/kg	16 580.81	15 286.48	+8.5
USD/oz[2]	417.25	342.75	+21.7

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 significant rise in the gold price resulted in valuation gains on gold holdings of CHF 2,248.0 million, while the depreciation of the US dollar resulted in additional gains of CHF 334.2 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 CHF 2,615.1 million (2002: CHF 1,532.1 million).

Capital losses on foreign currency investments were recorded on most of the relevant markets owing to higher interest rates. Together with interest income, the net result prior to exchange rate effects came to CHF 1,703.1 million (2002: CHF 4,675.5 million). Following mixed exchange rate developments, exchange rate losses of CHF 147.2 million were incurred (2002: −4,176.9 million). The net result from foreign currency investments was CHF 1,555.8 million (2002: CHF 498.8 million). The net result from other foreign currency balances (the reserve position in the IMF, international payment instruments and balance of payments support) was negative. The net result from financial assets denominated in Swiss francs, which stemmed mainly from securities and repo transactions, totalled CHF 146.8 million (2002: CHF 817.2 million).

After taking account of other income amounting to CHF 32.1 million (2002: CHF 34.1 million), gross income increased to CHF 4,341.0 million (2002: CHF 2,575.0 million).

Owing to lower interest expenses, ordinary expenses fell from CHF 320.6 million to CHF 284.0 million. Aggregate income rose to CHF 4,057.0 million (2002: CHF 2,251.5 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 CHF 912.4 million.

After setting aside the annual profit earmarked for distribution of CHF 2,808.3 million (2002: 2,508.7 million), CHF 336.3 million was available for allocation to 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.

	2003 CHF millions	2002 CHF millions	Change CHF millions
Monetary gold	1 702.8	452.8	+1 250.0
Net result from changes in market value	1 669.8	398.0	+1 271.8
Interest income from gold lending transactions	32.9	54.8	−21.9
Gold from free assets	912.4	1 079.3	−166.9
Net result from changes in market value[1]	578.1	338.0	+240.1
Net result from hedging transactions	334.2	741.3	−407.1
Total	2 615.1	1 532.1	+1 083.0

1 including realised gains from gold sales

Item no. 02
in the income statement

Net result from foreign currency investments

Owing to the higher interest rates, capital losses were recorded on most of the relevant markets during the year under review. Before allowing for exchange rate influences, however, a positive investment result was achieved in all currencies.

The substantial weakening of the US dollar in particular resulted in exchange rate losses. These were almost cancelled out by the appreciation of the euro, the Danish krone and the Canadian dollar.

	2003 CHF millions	**2002** CHF millions	**Change** CHF millions
USD	−1 524.8	−1 114.3	−410.5
Interest and capital gain/loss	352.8	2 087.6	−1 734.8
Exchange rate gain/loss	−1 877.6	−3 201.9	+1 324.3
EUR	2 650.5	1 595.9	+1 054.7
Interest and capital gain/loss	1 114.7	2 097.6	−982.9
Exchange rate gain/loss	1 535.8	−501.7	+2 037.6
GBP	47.3	−19.1	+66.5
Interest and capital gain/loss	82.6	234.9	−152.4
Exchange rate gain/loss	−35.2	−254.1	+218.9
DKK	239.9	141.5	+98.4
Interest and capital gain/loss	95.3	176.5	−81.2
Exchange rate gain/loss	144.6	−35.0	+179.6
CAD	142.8	−101.5	+244.3
Interest and capital gain/loss	57.6	80.2	−22.7
Exchange rate gain/loss	85.2	−181.8	+267.0
Others	0.0	−3.6	+3.6
Interest and capital gain/loss	0.0	−1.3	+1.3
Exchange rate gain/loss	0.0	−2.4	+2.4
Total	1 555.8	498.8	+1 057.0
Interest and capital gain/loss	1 703.1	4 675.5	−2 972.5
Exchange rate gain/loss[1]	−147.2	−4 176.9	+4 029.7

1 Including exchange rate gains or losses of CHF 51.7 million (2002: CHF 77.6 million) on foreign currency liabilities.

Item no. 03
in the income statement

Net result from the reserve position in the IMF

	2003 CHF millions	**2002** CHF millions	**Change** CHF millions
Interest income/expense	37.7	49.5	−11.8
Exchange rate gain/loss XDR	−54.0	−296.4	+242.4
Total	−16.3	−246.9	+230.6

Net result from international payment instruments

Item no. 04 in the income statement

	2003 CHF millions	2002 CHF millions	Change CHF millions
Interest income/expense	1.6	7.6	−6.0
Exchange rate gain/loss XDR	4.5	−40.6	+45.1
Total	6.2	−33.0	+39.2

Net result from balance of payments support

Item no. 05 in the income statement

	2003 CHF millions	2002 CHF millions	Change CHF millions
Interest income/expense	6.2	7.4	−1.2
Exchange rate gain/loss EUR	1.5	−0.4	+1.9
Exchange rate gain/loss XDR	−6.6	−34.2	+27.6
Total	1.2	−27.2	+28.4

Influence of exchange rate developments on the income statement

	2003 CHF millions	2002 CHF millions	Change CHF millions
USD	−1 877.6	−3 201.9	+1 324.3
EUR	1 537.4	−502.1	+2 039.5
GBP	−35.2	−254.1	+218.9
DKK	144.6	−35.0	+179.6
CAD	85.2	−181.8	+267.0
XDR	−56.0	−371.1	+315.1
Other currencies	0.0	−2.4	+2.4
Total	−201.7	−4 548.4	+4 346.7

Net result from Swiss franc repo transactions

Item no. 06 in the income statement

Averaged over the year, the volume of claims was approximately CHF 1.7 billion higher than in 2002. Owing to the substantially lower interest rates, however, income from Swiss franc repo transactions fell sharply to CHF 42.1 million (2002: 211.7 million).

Net result from Lombard advances

Item no. 07 in the income statement

Owing to a fall 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 CHF 0.5 million to CHF 0.3 million).

Net result from claims against domestic correspondents

Item no. 08 in the income statement

The net result from claims against domestic correspondents declined to about CHF 20,000 (2002: CHF 0.2 million) owing to the lower average volume of claims and to lower interest rates.

Item no. 09
in the income statement

Net result from Swiss franc securities

The net result from securities (interest plus realised and unrealised capital gains and losses) was CHF 104.4 million (2002: CHF 604.8 million). While the previous year had seen capital gains, the rise in interest rates in 2003 resulted in capital losses.

Item no. 10
in the income statement

Other income

	2003 CHF millions	2002 CHF millions	Change percent
Commissions from banking transactions[1]	18.2	20.5	−11.2
Income from participations	8.5	8.0	+6.3
Income from real estate[2]	4.6	5.1	−9.8
Other ordinary income	0.8	0.4	+100.0
Total	32.1	34.1	−5.9

1 These commissions were largely retroceded to the banks (cf. item no. 14 in the income statement).
2 Income from real estate stems from the letting of Bank-owned premises not currently used for its own purposes.

Item no. 11
in the income statement

Interest expenses

	2003 CHF millions	2002 CHF millions	Change CHF millions
Interest expenses for liabilities towards the Confederation	12.0	59.3	−47.3
Interest expenses for depositors' balances	6.0	6.2	−0.2
Interest expenses for liabilities from foreign currency repo transactions	7.9	10.0	−2.1
Other interest expenses	0.1	0.0	+0.1
Total	26.1	75.4	−49.3

Owing to the lower interest rates, the interest expenses for liabilities towards the Confederation decreased sharply.

The number of foreign currency repo transactions concluded for the management of foreign currency investments was higher than in the previous year. Owing to the lower interest rates, however, interest expenses incurred for these operations decreased.

Item no. 12
in the income statement

Banknote expenses

The banknote expenses correspond to the cost of producing the banknotes which entered circulation in 2003. Owing both to the higher average number of banknotes in circulation and to an increase in the average acquisition cost, banknote expenses rose considerably.

Personnel expenses

Item no. 13
in the income statement

	2003 CHF millions	2002 CHF millions	Change percent
Wages, salaries and allowances	74.0	69.4	+6.6
Social insurance	15.8	14.8	+6.8
Other personnel expenses	8.5	4.7	+80.9
Total	98.4	89.0	+10.6

The increase in staff numbers by approximately 6% resulted in a higher figure for wages, salaries and allowances. Social security expenses rose by a similar margin.

In 2003 the National Bank adjusted its organisational structure. The associated personnel costs of CHF 3.2 million were charged to other personnel expenses (cf. item no. 37 in the balance sheet).

The National Bank's pension plans comprise two staff pension fund schemes.

The remuneration of the National Bank's statutory bodies is determined in regulations drawn up by the Bank Council and approved by the Federal Council (art. 61 NBL). The remuneration of the Bank Council consists of a fixed annual salary plus an attendance allowance, while the members of the Governing Board receive a salary plus a lump-sum compensation for representation expenses.

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

	2003 CHF millions	2002 CHF millions	Change 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	1.736	1.727	+0.5
of which for the Chairman of the Governing Board	0.592	0.589	+0.5
of which for the Vice-Chairman of the Governing Board	0.572	0.569	+0.5

In the period under review, the National Bank did not make any severance payments to former members of the Bank Council or the Governing Board. The National Bank does not pay any performance-linked remuneration. In particular, there are no share or options programmes for members of the Governing Board or Bank Council. The National Bank does not grant any loans to governing bodies.

On 31 December 2003, the members of the Bank Council held a total of 5 National Bank shares. None of these were held by the 10 members of the Bank Committee. No shares were held by members of the Governing Board.

The members and the substitute members of the Auditing Committee received remuneration totalling CHF 51,880 for outlays and attendance fees in the 2003 financial year.

Item no. 14 in the income statement

General overheads

	2003 CHF millions	2002 CHF millions	Change percent
Direct expenses from banking operations	36.9	40.3	−8.4
Premises	10.3	10.8	−4.6
Maintenance of mobile tangible assets and software	8.4	10.2	−17.6
Consulting and other third-party support	10.0	8.8	+13.6
Other general overheads	23.6	23.4	+0.9
Total	89.2	93.5	−4.6

Direct expenses from banking operations

This item relates to direct costs incurred in connection with banknotes in circulation (including remuneration to agencies) plus commission and charges from the management of financial investments and gold, plus securities commissions retroceded (cf. item no. 10 in the income statement). The latter, together with lower gold handling fees, resulted in the decrease in this position.

Maintenance of mobile tangible assets and software

In the last two years, major parts of the IT infrastructure have been renewed. During this restructuring, the old and the new infrastructure have operated in parallel, which resulted in higher maintenance costs, especially in the previous year.

Consulting and other third-party support

This consisted primarily of consultancy and support in connection with building- and IT-related projects. The increased amount can be ascribed to the rebuilding project at the Zurich head office.

In the 2003 financial year, auditing mandates were entrusted to PricewaterhouseCoopers AG (business audit), KPMG and Ernst & Young Ltd (IT audit). Fees totalled CHF 99,000 and CHF 128,000 respectively.

Other general overheads

In addition to general administrative expenses, other general overheads comprise procurement of information (market information systems) and outlays on security, plus contributions to operating costs and investments at Study Centre Gerzensee totalling CHF 7.3 million (2002: CHF 7.6 million) and a CHF 0.7 million payment to Eurex Zürich AG as a contribution towards the costs of the electronic trading platform. This contribution was justified by the major importance of repo transactions for the National Bank.

Gold

Item no. 15
in the balance sheet

In 2003 the National Bank sold 283.4 tonnes of gold at an average price of CHF 15,733 per kilogram. The proceeds came to CHF 4,458.8 million. In the previous year, 281.9 tonnes of gold had been sold at an average price of CHF 15,524 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.

	2003		2002	
	tonnes	CHF millions	tonnes	CHF millions
Gold ingots	1 225.1	20 312.5	1 486.7	22 727.2
Gold coins	175.2	2 904.9	175.2	2 678.1
Total	1 400.3[1]	23 217.3	1 661.9	25 405.2

1 The difference from the previous year is due to gold sales plus variations in the size of outstanding gold lending transactions (cf. item no. 16 in the balance sheet).

Claims from gold transactions

Item no. 16
in the balance sheet

Transactions are effected with Swiss and foreign financial institutions that enjoy good credit ratings.

	2003		2002	
	tonnes	CHF millions	tonnes	CHF millions
Claims from gold lending transactions	232.9	3 908.7	254.6	3 932.5
Claims from unsecured gold lending	128.9	2 146.2	158.7	2 438.8
Claims from secured gold lending[1]	104.0	1 762.5	95.9	1 493.7
Claims on metals accounts	0.1	1.9	0.1	1.8
Total	233.0	3 910.7	254.7	3 934.4

1 Secured by the deposit of first-class securities with a market value of CHF 1,887.9 million (2002: 1,717.6 million).

Item no. 17
in the balance sheet

Foreign currency investments[1]

	2003			2002		
	millions		share	millions		share
	original currency	CHF	percent	original currency	CHF	percent
Government paper[2]		**46 438.9**	**82.5**		**41 844.4**	**79.0**
USD	12 687.4	15 681.6	27.8	9 616.8	13 340.4	25.2
EUR	16 032.5	24 988.2	44.4	15 674.9	22 767.8	43.0
GBP	1 211.5	2 670.1	4.7	1 338.9	2 988.8	5.6
DKK	9 631.1	2 015.8	3.6	8 983.1	1 758.0	3.3
CAD	1 131.6	1 083.2	1.9	1 124.3	989.4	1.9
Monetary institutions[3]		**1 417.2**	**2.5**		**1 590.6**	**3.0**
USD	425.9	526.4	0.9	800.2	1 110.1	2.1
EUR	351.8	548.3	1.0	165.9	240.9	0.5
GBP	99.5	219.3	0.4	21.1	47.1	0.1
DKK	289.1	60.5	0.1	915.2	179.1	0.3
CAD	63.5	60.8	0.1	14.0	12.3	0.0
Others		1.9	0.0		1.1	0.0
Banks[4]		**8 455.5**	**15.0**		**9 506.0**	**18.0**
USD	3 396.4	4 198.0	7.5	4 542.8	6 301.8	11.9
EUR	2 427.6	3 783.7	6.7	2 033.2	2 953.2	5.6
GBP	85.8	189.2	0.3	27.5	61.4	0.1
DKK	1 357.2	284.1	0.5	964.7	188.7	0.3
CAD	0.3	0.3	0.0	0.3	0.3	0.0
Others		0.4	0.0		0.6	0.0
Total[5]		**56 311.7**	**100.0**		**52 941.2**	**100.0**
USD	16 509.7	20 406.0	36.2	14 959.9	20 752.4	39.2
EUR	18 811.9	29 320.2	52.1	17 873.9	25 961.9	49.0
GBP	1 396.8	3 078.6	5.5	1 387.5	3 097.3	5.9
DKK	11 277.4	2 360.4	4.2	10 862.5	2 125.8	4.0
CAD	1 195.4	1 144.2	2.0	1 138.6	1 002.0	1.9
Others		2.3	0.0		1.7	0.0

1 The breakdown by currency refers to basic investments and does not take currency hedging transactions into account.
2 Government paper is mainly denominated in the currency of the country of issue.
3 The debtor category "monetary institutions" refers to investments at the Bank for International Settlements (BIS), at central banks and in securities of multilateral development banks.
4 Bank investments are effected with institutions enjoying high credit ratings.
5 Of this, non-negotiable investments account for CHF 5,265.8 million (2002: CHF 4,070.8 million).

Reserve position in the IMF

Item no. 18 in the balance sheet

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.

		2003		2002	
		millions		millions	
		original currency	CHF	original currency	CHF
Swiss quota in the IMF	XDR	3458.5	6390.7	3458.5	6531.1
less IMF's Swiss franc sight balances at the National Bank[1]	XDR	−2072.1	−3828.8	−2044.7	−3861.3
Total	XDR	1386.4	2561.9	1413.8	2669.8

1 Balances after deduction of accrued interest amounting to XDR 3.0 million (CHF 5.5 million) on the reserve position (2002: XDR 3.7 million or CHF 7.1 million)

International payment instruments

Item no. 19 in the balance sheet

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.

		2003		2002	
		millions		millions	
		original currency	CHF	original currency	CHF
International payment instruments[1]	XDR	24.8	45.8	54.5	103.0

1 In addition, undertakings of XDR 375.3 million (2002: XDR 345.8 million) were outstanding at the end of 2003 (cf. p. 110).

Balance of payments support

Item no. 20 in the balance sheet

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 2003, 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.

		2003		2002	
		millions		millions	
		original currency	CHF	original currency	CHF
Bilateral loan to Bulgaria	EUR	14.4	22.4	14.4	20.9
PRGF credit facility[1]	XDR	132.0	243.8	150.4	284.1
Interim PRGF credit facility[2]	XDR	33.0	61.0	6.1	11.5
Total			327.2		316.5

1 No further undertakings have been outstanding since the end of 2002.
2 In addition, undertakings of XDR 217.3 million (2002: XDR 243.9 million) were outstanding at the end of 2003 (cf. p. 110).

Item no. 21
in the balance sheet

Claims from repo transactions in Swiss francs

Repo transactions are used to provide the banking system with liquidity or to withdraw liquidity from the system against the repurchase of securities.

The claims from repo transactions in Swiss francs are secured by paper from the SNB GC Basket. This collateral consists of bonds of Swiss and foreign issuers acceptable to the National Bank, of money market debt register claims of the Confederation and the cantons (in each case denominated in Swiss francs), of euro-denominated paper issued by the German Federal Government or the Republic of Austria, and of euro-denominated German Jumbo Pfandbriefe.

In regulating the money market, the National Bank may use repos to withdraw liquidity from the market. No liquidity-reducing transactions were conducted in 2003.

Item no. 22
in the balance sheet

Lombard advances

Lombard loans are used by the banks to bridge unforeseeable liquidity shortfalls in the short term.

	2003 CHF millions	2002 CHF millions	Change CHF millions
Credit lines outstanding at year-end[1]	9 408.3	9 327.4	+80.9
Value of collateral at year-end[2]	9 984.2	10 194.1	−209.9
Yearly average of drawn advances	10.0	16.1	−6.1
Drawdowns on the peak day	500.7	800.0	−299.3

1 Number of credit lines: 134 (2002: 146)
2 Market prices less 10–35%

Item no. 23
in the balance sheet

Claims against domestic correspondents

419 branches of 55 banks (2002: 440 branches of 57 banks) perform local cash redistribution transactions for the National Bank and cover the cash requirements of federal agencies and of enterprises associated with the Federal Government (Swiss Post and Swiss Federal Railways). The claims attract interest at the Lombard rate less 200 basis points.

Swiss franc securities

Item no. 24
in the balance sheet

	2003 CHF millions	2003 % weighting	2002 CHF millions	2002 % weighting	Change CHF millions
Domestic borrowers	**4 713.0**	**61.5**	**4 624.9**	**65.9**	**+88.1**
Confederation	2 060.1	26.9	1 691.0	24.1	+369.1
Cantons	785.0	10.3	653.2	9.3	+131.8
Municipalities	358.2	4.7	360.0	5.1	−1.8
Mortgage bond institutions	1 336.6	17.5	1 216.1	17.3	+120.5
Banks	173.1	2.3	704.6	10.0	−531.5
Foreign borrowers	**2 314.7**	**30.2**	**1 809.1**	**25.8**	**+505.6**
Governments	938.4	12.3	785.7	11.2	+152.7
Banks	1 376.3	18.0	1 023.4	14.6	+352.9
International organisations	**630.2**	**8.2**	**584.4**	**8.3**	**+45.8**
Total market value	**7 657.9**	**100.0**	**7 018.4**	**100.0**	**+639.5**
Total nominal value	7 047.1		6 337.4		

Participations (not consolidated) in CHF millions

Item no. 25
in the balance sheet

	Percentage held	Value as at 31/12/2002	Invest-ments	Divest-ments	Changes in value	Value as at 31/12/2003
Orell Füssli[1]	33%	27.0	–	–	–	27.0
BIS[2]	3%	60.9	–	–	–	60.9
Others		0.6	–	–	−0.0	0.6
Total		88.6			−0.0	88.6

1 Orell Füssli Holding Ltd, Zurich, whose subsidiary Orell Füssli Security Documents Ltd produces Switzerland's banknotes.
2 The interest in the Bank for International Settlements (BIS) is held by reason of collaboration on monetary policy.

Tangible assets

Item no. 26
in the balance sheet

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 CHF 1,000 are charged directly to general overheads.

The stocks of new banknotes which have not yet been put into circulation are stated at cost. These production costs are charged to the income statement at the time the notes enter into circulation.

The fixed assets under construction refer to a refurbishing project at the Zurich head office.

"Sundry tangible assets" mainly comprises hardware, machinery, equipment, furnishings and vehicles.

Schedule of assets (in CHF millions)

	Banknote stocks	Real estate[1]	Specific conversion work	Fixed assets under construction	Software	Sundry tangible assets[2]	Total
Period of depreciation	as per usage	100 years	10 years	no depreciation	3 years	3–12 years	
Historical cost							
Gross values as at beginning of 2003	149.9	326.1	42.4	–	22.1	75.2	615.8
Additions	41.5	0.1	2.3	6.4	8.3	9.8	68.3
Disposals	–44.4	–	0.0	–	–5.1	–13.8	–63.2
Reclassified		–	–0.0	–	–0.0	0.0	
Gross values as at end-2003	147.0	326.1	44.7	6.4	25.3	71.2	620.8
Cumulative depreciation[3]							
Valuation adjustments as at beginning of 2003		15.6	7.7		6.2	52.5	82.1
Additions		3.3	4.3		8.2	9.3	25.1
Disposals		–	–		–5.1	–13.6	–18.7
Reclassified		–	0.0		0.0	0.0	
Valuation adjustments as at end-2003		18.8	12.0		9.4	48.2	88.5
Net book values							
Net book values as at beginning of 2003	149.9	310.5	34.7	–	15.9	22.6	533.7
Net book values as at end-2003	147.0	307.3	32.7	6.4	15.9	23.0	532.3

1 The insured value of the real estate at end-2003 was CHF 339.8 million (end-2002: CHF 337.8 million).
2 The insured value of sundry tangible assets at end-2003 was CHF 82.5 million (end-2002: CHF 73.5 million).
3 The depreciation on real estate and the specific conversion work is cumulative as of 1996 (when the accounting and valuation principles were amended) and that on sundry tangible assets as of the date on which their use commenced.

Item no. 27
in the balance sheet

Sundry assets

	2003 CHF millions	2002 CHF millions	Change CHF millions
Coins (including medallions)[1]	290.2	337.4	–47.2
Foreign notes	0.6	0.3	+0.3
Other accounts receivable	20.9	6.6	+14.3
Prepayments and accrued income	3.6	3.0	+0.6
Cheques and bills of exchange (collection business)	0.5	0.4	+0.1
Positive gross replacement values[2]	668.2	592.8	+75.4
Total	983.9	940.6	+43.3

1 Coins comprise the commemorative coins and medallions acquired from Swissmint which are placed in circulation by the National Bank.
2 Positive gross replacement values correspond to unrealised gains on derivative financial instruments and on outstanding spot transactions. By far the greater part of this item is derived from foreign currency forward transactions concluded to hedge currency risks on the free assets (cf. p. 111).

Banknotes in circulation

Item no. 28 in the balance sheet

This comprises all banknotes held by the general public and the banks. Of the banknotes originating from the sixth issue, which were recalled in May 2000 and are exchangeable at the National Bank until 30 April 2020, notes to the value of CHF 2.1 billion were still outstanding at the end of the year (2002: CHF 2.3 billion).

Sight deposit accounts of domestic banks

Item no. 29 in the balance sheet

The sight deposit accounts of the 262 (2002: 274) domestic banks do not bear interest. They form the basis on which the National Bank controls monetary policy and facilitate cashless payments within Switzerland. They are also a component of the liquidity which the banks are legally required to hold.

Liabilities towards the Confederation

Item no. 30 in the balance sheet

The sight deposits of the Confederation facilitate the domestic and international payments transactions of the federal agencies and associated enterprises. These deposits, for amounts of up to a maximum of CHF 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.

Sight deposits of foreign banks and institutions

Item no. 31 in the balance sheet

The 220 (2002: 221) sight deposit accounts of the 91 foreign banks (2002: 88) and of the 102 monetary and other institutions (2002: 133) are denominated in Swiss francs and do not bear interest.

Other sight liabilities

Item no. 32 in the balance sheet

	2003 CHF millions	2002 CHF millions	Change CHF millions
Sight deposits of non-banks	13.4	28.3	−14.9
Deposit accounts[1]	138.4	130.4	+8.0
Cheque liabilities[2]	1.6	1.2	+0.4
Total	153.4	159.9	−6.5

1 Primarily accounts of employees and retirees
2 Bank cheques drawn on the National Bank but not yet cashed

The item deposit accounts also contains liabilities towards pension funds amounting to CHF 16.8 million (2002: CHF 16.6 million).

Item no. 33 in the balance sheet

Foreign currency liabilities

	2003 millions original currency	2003 CHF	2002 millions original currency	2002 CHF
towards the Confederation		0.5		0.5
from repo transactions[1]		130.0		146.1
USD	105.1	130.0	69.9	96.9
GBP	–	–	22.0	49.1
Total		130.5		146.6

1 Relating to the management of foreign currency investments

Item no. 34 in the balance sheet

Sundry liabilities

	2003 CHF millions	2002 CHF millions	Change CHF millions
Other liabilities	12.6	6.1	+6.5
Accrued liabilities and deferred income	3.0	5.6	−2.6
Negative gross replacement values[1]	159.2	178.4	−19.2
Total	174.8	190.2	−15.4

1 Negative gross replacement values correspond to unrealised losses on derivative financial instruments and on outstanding spot transactions. By far the greater part of this item is derived from foreign currency forward transactions concluded to hedge currency risks on the free assets (cf. p. 111).

Item no. 35 in the balance sheet

Provision for the assignment of free assets

This provision reflects the fact that an amount of gold initially totalling 1,300 tonnes is 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.

	2003 CHF millions	2002 CHF millions
Development		
Position on 1 January	20 296.9	19 217.6
Allocated to provisions[1]	912.4	1 079.3
Position on 31 December	21 209.3	20 296.9

1 Corresponds to the net gain/loss from gold in the free assets (cf. item no. 01 in the income statement)

Until such time as the gold sales have been completed, the size of the provision will be commensurate with the proceeds from gold sales to date, the market value of the as yet unsold portion and the cumulative net result from hedging transactions.

	2003		2002	
	CHF millions	tonnes	CHF millions	tonnes
Composition				
Cumulative proceeds from gold sales	14 677.6	956.9	10 218.8	673.5
Market value of the as yet unsold portion of gold from the free assets	5 690.4	343.1	9 571.1	626.5
Cumulative net result from hedging transactions	841.3		507.1	
Total (position on 31 December)	21 209.3	1 300.0	20 296.9	1 300.0

Provision for market and liquidity risks on gold

Item no. 36
in the balance sheet

Under the profit distribution agreement of 5 April 2002 with the Federal Department of Finance, the targeted level of currency reserves now also factors in gold reserves (basis: 1,290 tonnes of gold) in addition to foreign exchange reserves. Consequently, the provision for market and liquidity risks on gold was integrated into the provision for market, credit and liquidity risks with effect from 1 January 2003 (cf. 95th Annual Report 2002, pp. 49 and 106).

	2003	2002
	CHF millions	CHF millions
Position on 1 January	7 817.5	7 419.5
Allocated to provisions		398.0
Allocated to provisions for market, credit and liquidity risks	−7 817.5	
Position on 31 December	–	7 817.5

Item no. 37 in the balance sheet

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

	2003 CHF millions	2002 CHF millions
Provisions for operating risks		
Position on 1 January	461.9	465.9
Released from provisions	–3.5	–4.0
Allocated to provisions	3.2	–
Position on 31 December	461.5	461.9
Provisions for market, credit and liquidity risks		
Position on 1 January	38 518.4	40 252.9
Transferred from the provision for market, credit and liquidity risks on gold[1]	7 817.5	
Allocated to/released from provisions	336.3	–1 734.5
Position on 31 December	46 672.2	38 518.4
Total (position on 31 December)	**47 133.7**	**38 980.3**

1 cf. item no. 36 in the balance sheet

Payments for early retirements that resulted from the new cash distribution concept have been charged to the provision for operating risks.

In 2003 the National Bank adjusted its organisational structure. In this connection, additional restructuring provisions totalling CHF 3.2 million were set aside (cf. p. 76)

After setting aside the published annual profit of CHF 2,808.3 million, CHF 336.3 million was allocated to the provisions for market, credit and liquidity risks. Provisions were again in excess of the targeted level. However, the distributable surplus as per the profit calculation concept (cf. p. 108f.) decreased further.

Share capital

Item no. 38 in the balance sheet

The share capital of the National Bank remains unchanged. Totalling CHF 50 million, it is divided into 100,000 registered shares of CHF 500 each, of which 50% (CHF 250) is paid up.

In the 2003 financial year, the Bank Committee authorised the transfer of 4,403 shares to new holders.

The shares were distributed as follows:

	Number of shares	in % of shares registered
2,539 private shareholders with a total of	**28129**	**34**[1]
of whom 2,184 shareholders with 1–10 shares each		
of whom 325 shareholders with 11–100 shares each		
of whom 19 shareholders with 101–200 shares each		
of whom 11 shareholders with over 200 shares each		
83 public-sector shareholders with a total of	**54799**	**66**
of whom 26 cantons with a total of	38981	
of whom 24 cantonal banks with a total of	14473	
of whom 33 other public authorities and institutions with a total of	1345	
Total 2,622 shareholders with a total of	**82928**[2]	**100**
Registration applications pending or outstanding for	17072	
Total shares	**100000**	

1 of which 7% are legal entities and 27% private individuals
2 of which 3,111 shares are in foreign ownership (no voting rights)

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. At year-end it stood at CHF 982, compared with CHF 911 at the beginning of the year. During the course of the year, it peaked at CHF 1,080. The price payable for the shares is lower than the market price by CHF 250 (i.e. the non paid-up amount).

The number of transactions diminished by 53% year-on-year while the number of pending or outstanding applications for registration edged up by 2.7%. Compared with the previous year, the number of registered private shareholders decreased slightly by 52.

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	
	2003	Change from previous year	2003	Change from previous year
Canton of Berne	6630	–	6.63%	–
Canton of Zurich	5200	–	5.20%	–

Item no. 39
in the balance sheet

Reserve fund

The reserve fund was increased by CHF 1.0 million (the legally permitted maximum) to CHF 68.0 million by an allocation from the 2002 annual profit.

Item no. 40
in the balance sheet

Annual profit – calculation and distribution

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 macroeconomic 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.

The distribution of profits by the National Bank takes account of this circumstance in that the provisions formed for this purpose on the liabilities side of the balance sheet are to be increased in step with the growth of nominal GDP. 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.

As of 2003, the targeted level of currency reserves now also takes monetary gold reserves (basis: 1,290 tonnes of gold) into account. For this reason, the targeted level of provisions as at 1 January 2003 was increased by the amount of the provisions for market and liquidity risks on gold. Moreover, the actual provisions for market and liquidity risks on gold are grouped together with the actual provisions for market, credit and liquidity risks under a single balance sheet heading (cf. 95th Annual Report 2002, p. 105).

As of the 2003 financial year, the size of the annual profit distribution is determined by two agreements between the National Bank and the Federal Department of Finance. Under the main agreement on the distribution of profit concluded on 5 April 2002 it was agreed that – in order to smooth the payments in the medium term – distributions to the Confederation and the cantons would be fixed at CHF 2.5 billion p.a. for the period 2003–2012 on the basis of an earnings forecast. This main agreement deals with the current profits earned by the National Bank on its monetary assets and with the reduction in excess provisions. The supplementary agreement concluded on 12 June 2003 relates to income accruing to the National Bank's free assets. According to this agreement, the National Bank will – as of spring 2004 and until such time as different legislation enters into force – distribute one-third of these earnings to the Confederation and two-thirds to the cantons. In line with the gold sales in progress, the annual distribution will grow from CHF 300 million in spring 2004 to CHF 500 million from spring 2006 onwards (cf. p. 48).

Target levels 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
	in percent (average period)[2]	CHF millions		CHF millions	CHF millions	CHF millions
		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)
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	13 240.4	2 500.0	10 740.4
2003	2.3 (1997–2001)	36 886.7[4]	49 933.7[4]	13 047.0	2 800.0	10 247.0
2004	2.4 (1998–2002)	37 772.0				

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 to the Confederation and the cantons.

4 After integration of the provisions for market and liquidity risks on gold as at 1 January 2003 (CHF 7,817.5 million)

3.4 Notes regarding off-balance-sheet business

	2003 CHF millions	2002 CHF millions	Change CHF millions
Contingent liabilities			
Documentary credits[1]	2.6	3.6	−1.0
Other contingent liabilities	1.5	–	+1.5

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

	2003 CHF millions	2002 CHF millions	Change CHF millions
Irrevocable undertakings			
Two-way arrangement (IMF)[1]	693.4	652.9	+40.5
General Arrangements to Borrow (GAB) and New Arrangements to Borrow (NAB)[2]	2 845.6	2 940.3	−94.7
Interim PRGF[3]	401.5	460.6	−59.1

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 19 in the balance sheet)

2 Credit line totalling XDR 1,540 million (of which a maximum of XDR 1,020 million in the context of the GAB) in favour of the IMF for special cases, without a federal guarantee (cf. p. 65)

3 Limited-term credit undertaking to the IMF's trust fund amounting to XDR 250.0 million (cf. p. 65f.)

	2003 CHF millions	2002 CHF millions	Change CHF millions
Other obligations not carried on the balance sheet			
Additional funding obligation for registered shares of BIS[1]	110.9	133.1	−22.2
Liabilities from long-term rental and maintenance contracts	28.1	27.1	+1.0

1 BIS shares are only 25% paid up. The additional funding obligation is now calculated in Special Drawing Rights (instead of gold francs as in the period up to 2002) and is thus closely dependent on the respective exchange rate. The decrease is due solely to the fall in this exchange rate.

	2003 market value in CHF millions	2002 market value in CHF millions	Change CHF millions
Assets pledged or assigned as collateral for own liabilities[1]			
Foreign currency investments			
USD	163.5	137.4	+26.1
EUR	87.7	37.3	+50.4
GBP	11.9	62.6	−50.7
Swiss franc securities	–	4.2	−4.2
Total[1]	263.2	241.5	+21.7

1 Collateral lodged in connection with repo and futures transactions

	Contract value CHF millions	Gross replacement value CHF millions positive	 negative
Outstanding derivative financial instruments			
Interest rate instruments	**50 896.6**	**65.7**	**36.0**
Forward contracts[1]	11 035.5	3.2	0.2
Interest rate swaps	6 826.5	61.1	34.1
Futures	33 034.6	1.3	1.8
Foreign exchange	**13 718.4**	**601.6**	**123.1**
Forward contracts[1]	13 718.4	601.6	123.1
Precious metals	**1 127.3**	**1.0**	**0.1**
Forward contracts[2]	291.7	0.3	0.1
Options (OTC)[3]	835.6	0.7	–
Total, end-2003	**65 742.3**	**668.2**	**159.2**
Total, end-2002	39 391.9	592.8	178.4

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)

	2003 CHF millions	2002 CHF millions	Change CHF millions
Fiduciary investments			
Fiduciary investments of the Confederation	550.2	414.4	+135.7

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

At its meeting of 5 March 2004, the Bank Council accepted the proposal of the Bank Committee to approve the 96th Annual Report for 2003, as presented by the Governing Board, for submission to the Federal Council and the Annual General Meeting of Shareholders.

On 24 March 2004, 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 3 February 2004.

The Bank Council presents the following motions to the Annual General Meeting of Shareholders:[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 CHF 2,808,330,408 be appropriated as follows:

allocation to the reserve fund (art. 27 para. 1 NBL)	CHF	1 000 000.––
payment of a dividend of 6% (art. 27 para. 2 NBL)	CHF	1 500 000.––
payment to the Federal Finance Administration:		
– for the account of the cantons, CHF 0.80 per capita (art. 27. para. 3 (a) NBL)	CHF	5 830 408.––
– for the account of the Confederation and the cantons art. 27. para. 3 (b) NBL)		
– ordinary distribution of profits as per the agreement of 5 April 2002	CHF	2 500 000 000.––
– distribution of profits as per the supplementary agreement of 12 June 2003	Fr.	300 000 000.––
	Fr.	2 808 330 408.––

1 For the proposals regarding appointments to the Bank Council and the appointment of the Auditing Committee, see p. 81.

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 2003. We confirm that we meet the legal requirements concerning professional competence and independence.

Our audit was conducted in accordance with the Swiss auditing standards promulgated by the profession, which require that an audit be planned and executed in such a way that any significant errors in the annual financial statements can be identified with a reasonable degree of certainty. We examined the individual items and data in the financial statements using analyses and investigations based on spot checks as well as on reports supplied by PricewaterhouseCoopers Ltd. We also assessed the application of the accounting principles used, the principal valuation decisions and the presentation of the financial statements as a whole. We believe that our audit provides a reasonable basis for our assessment.

According to our assessment, the annual financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Swiss GAAP FER. We should, however, point out the particular features (explained in the notes to the accounts) of the accounting methods used by the Swiss National Bank as Switzerland's central bank and note-issuing institution.

We further confirm that the books of account and the annual financial statements as well as the proposals for the appropriation of the annual profit comply with the provisions of the National Bank Law and the Swiss Code of Obligations.

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

Berne, 3 February 2004

The Auditing Committee:

Hans Michel
Chairman

Maryann Rohner
Vice-Chairwoman
Certified auditor

Kaspar Hofmann
Chief auditor
Certified auditor

Chronicle and press releases on monetary policy

1 Chronicle

On 6 March, the National Bank lowers the target range for the three-month Libor rate by half a percentage point to 0%–0.75% (cf. p. 40f.). **March**

On 21 May, the Federal Council passes the Message concerning the Federal law on international monetary assistance and a Federal decree with the same name for consideration by the Federal Parliament (cf. p. 46). **May**

On 12 June, the Federal Department of Finance and the National Bank conclude a supplementary agreement on the distribution of income on the free assets (cf. p. 48). **June**

On 20 June, the Federal Parliament approves a renewal of Switzerland's membership in the IMF's General Arrangements to Borrow (GAB) until the end of 2008 (cf. p. 65).

On 20 August, the Message on the use of 1,300 tonnes of National Bank gold and on the people's initiative "National Bank profits for the Old Age and Survivors' Insurance (AHV)" is passed by the Federal Council and submitted to the Federal Parliament (cf. p. 47). **August**

On 3 October, the Federal Assembly approves the total revision of the National Bank Law (cf. p. 45). **October**

2 Press releases on monetary policy

6 March

Swiss National Bank lowers the target range for the three-month Libor rate by 0.5 percentage points to 0%–0.75%

With immediate effect, the Swiss National Bank is lowering its target range for the three-month Libor rate by 0.5 percentage points to 0%–0.75%. The temporary narrowing of the target range from 100 to 75 basis points brought about by this move is due to technical factors. For the time being, the National Bank intends to keep the three-month Libor rate at around 0.25%, i.e. at the lower end of the new target range.

The global economic and political uncertainties are persisting. This is adversely affecting the business climate in Switzerland and could delay the economic upturn that was expected to materialise in 2003. Given this difficult situation, the National Bank wishes to ward off a tightening of monetary conditions that would arise from an appreciation of the Swiss franc. The easing of monetary policy does not pose a threat to price stability in Switzerland.

As planned, the National Bank will present its detailed monetary policy assessment, including the inflation forecast, on Thursday, 20 March 2003.

20 March

Monetary policy assessment

The National Bank has not made any further change to its monetary policy in its assessment of 20 March 2003. It cut the target range for the three-month Libor by 0.5 percentage points to 0%–0.75% on 6 March 2003 and announced that the rate is to be kept in the lower part of the new target range, at 0.25%, for the time being. The temporary narrowing of the target band from 100 to 75 basis points was prompted by technical factors.

After the outbreak of the Iraq conflict, the economic and political environment remains extremely uncertain. The economic recovery in Switzerland expected for 2003 may be delayed. Given this difficult situation, the National Bank wishes decisively to counter the tightening of monetary conditions that would arise from an appreciation of the Swiss franc. Low inflation has meant that the National Bank has been able to relax its monetary policy significantly over the last two years. Since March 2001, it has cut the target band for the three-month Libor rate in a total of seven stages by 3.25 percentage points to its current level. At the present time, this expansive monetary policy does not pose any risk to price stability in Switzerland. Assuming that the three-month Libor rate will remain stable at 0.25%, average annual inflation is expected to lie between 0.7% and 1.9% in the next three years. The National Bank now anticipates that economic growth will be just under 1% for 2003.

13 June

Monetary policy assessment at mid-year
Libor target range left unchanged at 0.0%–0.75%

The Swiss National Bank has decided to leave the target range for the three-month Libor rate unchanged at 0.0%–0.75%. For the time being, the three-month Libor is to be kept at the lower end of the target range at 0.25%. In the past two years, the National Bank took decisive steps in response to declining economic growth and to the upward trend of the Swiss franc. Owing to the low inflationary pressure, the National Bank has lowered the target corridor for the three-month Libor by a total of 3.25 percentage points since March 2001. Interest rates were last lowered on 6 March of this year.

The recovery of the global economy is likely to be delayed still further so that in Switzerland, too, any perceptible economic upswing can only be expected to materialise during the course of 2004. The National Bank is therefore maintaining its expansionary monetary policy and shall 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 0.25%, average annual inflation is expected to amount to 0.6% this year, 0.4% next year, and 1.2% in 2005. For 2003 the National Bank anticipates real economic activity to stagnate overall.

Monetary policy assessment 18 September

Libor target range left unchanged at 0%–0.75%

In its monetary policy assessment of 18 September 2003, the Swiss National Bank decided to leave the target range for the three-month Libor rate unchanged at 0.0%–0.75% and to continue to keep the three-month Libor rate at the lower end of the corridor at 0.25%. Since March 2001, the National Bank has eased its monetary policy substantially, lowering the target range for the three-month Libor in seven steps by a total of 3.25 percentage points. Due to the favourable course of inflation, it was in this way able to react effectively to the decline in economic growth and the upward trends of the Swiss franc. The most recent interest rate reduction of 0.5 percentage points was effected on 6 March 2003.

Notwithstanding positive signals emanating from the US, global economic development is still subject to risks. In Switzerland, a perceptible economic upswing is only to be expected in the course of 2004. The National Bank is adhering to its expansionary monetary policy. The low interest rates are designed to continue keeping Swiss franc investments fairly unattractive. Price stability is currently not threatened. Assuming that the three-month Libor rate will remain stable at 0.25%, average annual inflation is expected to amount to 0.5% this year, 0.2% next year, and 1.0% in 2005. All in all, the National Bank is expecting a moderate decline in real economic activity for 2003.

Monetary policy assessment at year-end 12 December

Libor target range left unchanged at 0%–0.75%

The National Bank has decided to leave the target range for the three-month Libor rate unchanged at 0.0%–0.75%. For the time being, the three-month Libor is to be kept around 0.25%. In the past two years, the National Bank reacted to the decline in economic activity and the upward trend of the Swiss franc by considerably relaxing its monetary policy. Now the signs of an economic recovery in Switzerland are gradually intensifying. The upswing is not yet assured, though. At the same time, the inflation potential is small. For this reason, the National Bank is adhering to its expansionary monetary policy and is keeping down the attractiveness of Swiss franc investments.

The National Bank assumes that the economy will grow by slightly over 1.5% in 2004, while a moderate decline in economic activity is expected for the current year. If monetary policy remains unchanged, average annual inflation is likely to amount to 0.4% in the coming year, to 1.0% in 2005 and to 2.3% in 2006. The National Bank is of the opinion that price stability can be maintained by tightening monetary policy at a later point in time.

Miscellaneous information

1 Supervisory and executive bodies

(as of 1 January 2004)

Bank Council

(Term of office as from 2003)

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

Hansueli Raggenbass, Kesswil, Attorney-at-law, President

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

Kurt Amsler, Neuhausen am Rheinfall, President of the Verband Schweizerischer Kantonalbanken (association of Swiss cantonal banks)

Käthi Bangerter, Aarberg, Chairwoman of the Board of Bangerter-Microtechnik AG

Pierre Darier, Cologny, partner of Lombard Odier Darier Hentsch & Cie, banquiers privés

* Hugo Fasel, St Ursen, Chairman of Travail.Suisse

Laurent Favarger, Develier, Director of Four électrique Delémont SA

* Charles Favre, Echallens, National Councillor

Ueli Forster, St Gallen, Chairman of the Swiss Business Federation (economiesuisse), Chairman of the Board of Directors of Forster Rohner Ltd

* Brigitta M. Gadient, Chur, National Councillor, partner in Gadient + Partner, legal and organisational consultants

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

Peter Galliker, Altishofen, entrepreneur, President of Luzerner Kantonalbank

Marion Gétaz, Cully, Member of the Board of Centre romand de promotion du management

* Jean Guinand, Neuchâtel, Attorney-at-law

Rudolf Hauser, Zurich, Chairman of the Board of Directors of Bucher Industries Ltd

* Trix Heberlein, Zumikon, Councillor of State, Attorney-at-law

* Rudolf Imhof, Laufen

* Hansheiri Inderkum, Altdorf, Councillor of State, Attorney-at-law and notary

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 Zurich University of Applied Sciences, Winterthur

Andreas W. Keller, Erlenbach, Chairman of the Board of Diethelm Keller Holding Ltd

Marianne Kleiner-Schläpfer, Herisau, National Councillor

* Albert Lauper, Villars-sur-Glâne, Chairman of Schweizerischer Versicherungsverband SVV (Swiss association of insurance companies), Group Chief Executive Officer of Swiss Mobiliar Holding Ltd

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 of Coop

* Jean-Philippe Maitre, Vésenaz, National Councillor, Attorney-at-law

* Franz Marty, Goldau, Chairman of the Board of the Swiss Union of Raiffeisen Banks

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

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
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
Simonetta Sommaruga, Spiegel near Berne, Councillor of State, President of the Swiss Foundation for Consumer Protection
* Rudolf Stämpfli, Berne, President of Schweizerischer Arbeitgeberverband (Swiss employers' association), joint owner and Chief Executive Officer of Stämpfli Holding Ltd
* Alexandre Swoboda, Geneva, Professor at the Graduate Institute of International Studies
Alberto Togni, Küsnacht, Executive Vice Chairman of the Board of UBS AG
Hansjörg Walter-Heim, Wängi, National Councillor, President of the Swiss farmers' association
Ulrich Zimmerli, Muri BE, Professor of law at the University of Berne
* Elisabeth Zölch-Balmer, Berne, Member of the cantonal government and director of the economics department of the canton of Berne

Bank Committee
(Term of office as from 2003)
Relevant affiliations

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

Ruth Lüthi
- (none)

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
- Member of the Bank Board of Zuger Kantonalbank (Cantonal Bank of Zug)

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

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

Ulrich Zimmerli
- Chairman of the Board of Der Bund Verlag AG, Berne (until the end of 2003)
- Vice Chairman of the Board of Allianz Suisse Insurance Company, Zurich
- Vice Chairman of the Board of Directors of WIFAG Maschinenfabrik AG, Berne
- Chairman of the Board of Directors of Polytype Holding AG, Fribourg (subsidiary of WIFAG Maschinenfabrik AG)

Local Committees

(Term of office as from 2003)

Basel

Klaus Endress, Reinach, CEO of Endress + Hauser Holding AG, Chairman

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

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

Berne

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

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

Oscar A. Kambly, President of the Board of Kambly SA, Trubschachen

Geneva

Charles Seydoux, Choulex, Director of 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, Deputy 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, President and Managing Director of Benninger Holding Ltd, Deputy Chairman

Urs Kienberger, Sils-Maria, Chairman of the Board and Director of Hotel Waldhaus Sils

Zurich

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

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

Hans R. Rüegg, Rüti, Chairman of the Board and CEO of Baumann Springs Ltd

Auditing Committee

(Term of office 2003/2004)

Members

Hans Michel, Egnach, Chairman

Maryann Rohner, Zurich, Certified Auditor, Treureva AG, Deputy 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, Director and CEO of Banque Jenni et Cie SA

Governing Board

	Jean-Pierre Roth, Chairman, Zurich
	Niklaus Blattner, Vice-Chairman, Berne
	Philipp M. Hildebrand, Member, Zurich
Secretariat General	
Secretary General	Peter Schöpf, Director, Zurich
Deputies to the Secretary General	Alfred Flessenkämper, Assistant Director
	Hans-Christoph Kesselring, Director

Departments

Department I	
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	
Zurich region	Heinz Alber, Director
Berne region	Anne Kleinewefers Lehner, Assistant Director
Human Resources	Martin Hiller, Director
	Benjamin Künzli, Assistant Director
	Gabriela Mittelholzer, Assistant Director
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International Research and Technical Assistance	Werner Hermann, Director
International Monetary Relations	Roberto Cippà, Director
	Umberto Schwarz, Assistant Director
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Research	Thomas J. Jordan, Director
	Marcel Savioz, Assistant Director
Economic Analysis	Eveline Ruoss, Director
International	Nicolas Stoffels, Assistant Director
Switzerland	Attilio Zanetti, Assistant Director
Studies	Barbara Rudolf, Assistant Director
Statistics	Christoph Menzel, Director
Applications Software	Jean-Marie Antoniazza, Assistant Director
Methods and Analyses	Guido Boller, Assistant Director
Statistical Surveys	Livio Lugano, Assistant Director
Publications and Data Bank	Markus Zimmerli, Assistant Director
	Rolf Gross, Assistant Director
Balance of Payments	Thomas Schlup, Assistant Director
Legal and Administrative Affairs	Peter Klauser, Director
Legal Service	Hans Kuhn, Director
Pension Fund	Peter Hadorn, Deputy Director
Premises, Technical Services	Peter Fankhauser, Deputy Director

Department II	
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Deputy Head of Department	Thomas Wiedmer, Director
Management Support	Theodor Scherer, Director
	Daniel Ambühl, Assistant Director
Security	Hans Balzli, Assistant Director
Finance	Thomas Wiedmer, Director
Central Accounting	Peter Bechtiger, Deputy Director
	Daniel Hübscher, Assistant Director
Controlling	Alfred Flessenkämper, Assistant Director
Premises, Technical Services	Samuel Grossenbacher, Assistant Director
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Processing	Urs Locher, Assistant Director
Cashier's Office Berne	Werner Beyeler, Assistant Director
Cashier's Office Zurich	Peter Eltschinger, Assistant Director
Cashier's Office Geneva	Jean-Daniel Zutter, Assistant Director
Cashier's Office Lugano	Hugo Bischof, Assistant Director
Financial Stability and Oversight	Daniel Heller, Director
Adviser	Urs W. Birchler, Director
Financial stability	Bertrand Rime, Deputy Director
Financial Markets Infrastructure	Andy Sturm, Assistant Director

Department III	
Head of Department	Philipp M. Hildebrand, Member of the Governing Board
Deputy Head of Department	Erich Spörndli, Director
Financial Markets	Erich Spörndli, Director
Money Market and Foreign Exchange	Karl Hug, Director
	Marcel Zimmermann, Assistant Director
Financial Market Analysis	Vincent Crettol, Assistant Director
Asset Management	Thomas Stucki, Director
	Wolfgang Meyer, Assistant Director
Investment Strategy and Risk Control	Dewet Moser, Director
	Erich Gmür, Assistant Director
	Gion Cavegn, Assistant Director
Banking Operations	Daniel Wettstein, Director
Analyses and Concepts	Robert Fluri, Assistant Director
Payment transactions	Walter Gautschi, Assistant Director
Back Office	Markus Steiner, Assistant Director
	Niklaus Wyss, Assistant Director
Information Technology	Rudolf Hug, Director
Management Support	Raymond Bloch, Assistant Director
Statistics Applications	Jürg Ziegler, Deputy Director
Banking Applications	Roland Wettstein, Assistant 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	Thomas Kübler, interim head, member of the management
Geneva[1]	Yves Lieber, Director
	Jean-Daniel Zutter, Assistant Director
Lausanne	François Ganière, Director
Lucerne	Max Galliker, Director
Lugano[1]	Mauro Picchi, Director
	Hugo Bischof, Assistant 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
Bienne
Chur
Fribourg
Glarus
Liestal
Lucerne
Sarnen
Schaffhausen
Schwyz
Sion
Stans
Thun
Zug

2 Organisational Chart

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

Department I Zurich

- **Internal Auditors**
- **Communications**
- **Regional Economic Relations**
- **Human Resources**
- **International Affairs**
  - International Research and Technical Assistance
  - International Monetary Relations
- **Economic Affairs**
  - Research
  - Economic Analysis
  - Statistics
  - Library
- **Legal and Adminis-trative Affairs**
  - Legal Service
  - Pension Fund
  - Premises, Technical Services

Department II Berne

- **Management Support**
- **Security**
- **Finance**
  - Central Accounting
  - Controlling
  - Premises, Technical Services
- **Cash**
  - Administration
  - Storage
  - Processing
  - Technical Services
  - Cashier's Office Berne, Geneva, Lugano, Zurich

Basel Branch Office

Geneva Branch Office[1]

Lausanne Branch Office

Lugano Branch Office[1]

Lucerne Branch Office

St Gallen Branch Office

1 with cash distribution services

Department III Zurich

Financial Stability and Oversight
- Financial Stability
- Financial Markets Infrastructure

Financial Markets
- Money Market and Foreign Exchange
- Financial Market Analysis

Asset Management

Investment Strategy and Risk Control

Banking Operations
- Payments
- Back Office
- Support

Information Technology
- Banking Applications
- Statistics Applications
- Office Automation and Operations Applications
- Technical Services
- IT Operations Zurich
- IT Operations Berne

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. Price: CHF 20.00 including 2.4% VAT
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 Statistical Monthly Bulletin. 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. Subscription rate: CHF 25.00 per year (other countries CHF 30.00); for subscribers of the Statistical Monthly Bulletin: CHF 15.00 per year including 2.4% VAT (other countries CHF 20.00)
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). Subscription rate: CHF 40.00 per year including 2.4% VAT (other countries CHF 80.00)
Monthly Bulletin on Banking Statistics	The Monthly Bulletin on Banking Statistics contains detailed banking statistics (in German and French). Free of charge (supplement to the Statistical Monthly Bulletin)
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. 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 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

"The Swiss National Bank in brief", information tools and separate copies of publications:
Swiss National Bank, Library, Fraumünsterstrasse 8, P.O. Box, CH-8022 Zurich,
Tel. +41 1 631 32 84, Fax +41 1 631 81 14, E-mail library@snb.ch
Free of charge

Subscriptions for publications:
Swiss National Bank, Address administration, P.O. Box, CH-8022 Zurich,
Tel. +41 1 631 31 71, Fax +41 1 631 81 14, E-mail library@snb.ch

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	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	
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