Annual report 1992
Abridged version

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1. Economic developments – a summary

1.1 International economic and monetary developments

Continued weak economic growth in the western industrial countries

In the OECD countries, the slowdown in business activity, which had started around the end of 1990, continued in 1992. Overall economic growth did show a slight improvement over the previous year due mainly to the economic recovery in the United States. In Japan and Germany, however, stagnation tendencies increased, while the United Kingdom remained in the grip of recession. In most other western European industrial countries the pace of economic activity also slowed markedly. Real gross national product of the OECD countries rose by 1.5% on average, compared to 0.8% a year earlier.

Lower inflation – higher unemployment

Further progress was made in the fight against inflation. Almost all OECD countries exhibited falling inflation rates. On the other hand, employment levels declined in numerous OECD countries, and joblessness increased. At the end of 1992, the average unemployment rate in the OECD countries clearly exceeded the previous year's level.

Greater external imbalances

The growth differentials in the OECD countries became particularly evident in the external payments balances of the United States and Japan. Due to higher imports, the US current account deficit increased markedly from the year-earlier level. Japan, by contrast, achieved a new record surplus since weak domestic demand had a strong dampening effect on the growth of imports. All the EC countries combined exhibited a slightly higher current account deficit than in the previous year.

Growth differentials due to divergent monetary policies

The growth differentials within the OECD were attributable mainly to divergent monetary policies in the recent past. In the United States, the monetary reins were loosened once again, causing short-term interest rates to fall to their lowest level since the beginning of the sixties. Japan, by contrast, began to feel the effects of a monetary policy which had been restrictive until autumn 1991. With this policy stance, the Japanese monetary authorities had reacted to the threat of inflation and the signs of overheating in the real estate and financial markets. When the stock and real estate markets slipped into a serious crisis and the economic situation deteriorated rapidly, they relaxed their monetary policy in the course of 1992. In Europe, the restrictive monetary policies of most EMS countries and the government budget problems in some countries triggered a rise in real interest rates. This put a damper on both investment activity and private consumption.

Pressure on real estate prices, problems in the financial sector

The crisis in the real estate markets, which had so far hit mainly English-speaking countries, also manifested itself in Japan and northern Europe. The massive decline in real estate prices compelled the banks to make high valuation adjustments, induced them to exercise greater caution in extending credit, and also affected the portfolio quality of other financial institutions. While in Japan banks introduced measures to strengthen the financial sector, governments in some northern European countries came to the support of major banks.

European integration process continued

The European integration process continued. Most EC countries ratified the Treaty adopted in Maastricht in December 1991 concerning the creation of a European economic and monetary union. In some countries the agreements met with strong domestic resistance. This led to a lively discussion of individual aspects of the union treaty. The turbulences in the European Monetary System (EMS) in the second half of the year moreover showed clearly that considerable economic and policy differences still stand in the way of a rapid realisation of the planned European economic and monetary union.

Frictions in the EMS

In September and November, growing tension in the EMS led to parity adjustments between various currencies and to the withdrawal of the United Kingdom and Italy from the exchange rate mechanism (ERM). Finland, Sweden and Norway, which had pegged their currencies unilaterally to the ECU, went back to floating exchange rates. After these adjustments, several countries – among them, notably, the United Kingdom – adopted a more expansionary monetary policy in order to support economic activity.

Hot-and-cold baths for the dollar

Until September 1992, the exchange rate of the US dollar plunged to historic lows in the wake of the continued weakness in the economy and of falling US interest rates. Thanks to a brighter economic horizon in the United States, the dollar made up for these exchange rate losses in the fourth quarter, and by the end of the year it had risen above the year-earlier level against most currencies.

Divergent fiscal policies

Most OECD countries exhibited higher government budget deficits in 1992. These to some extent reflect the cyclically induced slowdown in revenues. To bolster the economy, the Japanese government introduced substantial fiscal measures. On the other hand, despite the economic slowdown a number of European governments decided in favour of a drastic consolidation of public sector finance in order to restore confidence in their currencies. At the EC summit in Edinburgh last December, the EC countries agreed on a programme designed to stimulate growth in Europe.

Progress in adjustments in central Europe – worse situation in eastern Europe

The situation in central and eastern Europe was characterised by the radical economic and political changes in the former communist countries. While the adjustment process showed some success mainly in the central European countries, it made very little leeway in most countries of the Community of Independent States (CIS), notably in Russia. The CIS and the former Yugoslavia were subject to armed disputes.

The LDCs and threshold countries exhibited distinctly higher growth in 1992 than in the previous year. Once again the countries of South-East Asia witnessed the most marked expansion while prospects in Latin America also improved. The economic situation in Africa, however, remained grim.

Improved situation in the LDCs

1.2 Economic developments in Switzerland

In Switzerland, the inflation rate eased to 3.4% by the end of 1992; a year earlier it had still amounted to 5.2%. Economic activity, by contrast, was characterised by a continued slump. The marked increase in unemployment became a major concern.

Declining inflation – continuing economic slump

Real gross domestic product, which had stagnated in 1991, decreased to slightly below the previous year's level (–0.6%). The pace of economic activity was uneven. While exports of goods grew more strongly than in the previous year, thus providing significant support for the economy, domestic demand again diminished perceptibly. The expansion in private consumption was slow, and investment activity declined markedly, as in the previous year.

Higher exports – diminished domestic demand

The weak demand affecting the economy as a whole was also reflected on the supply side. Imports receded and industrial production stagnated. The rate of utilisation of technical capacities declined steadily, albeit less significantly than in the previous year. At the same time, staff cutbacks increased. Aside from industry and the building trade, the service sector also shed jobs. By the end of the year, the seasonally-adjusted number of fully unemployed persons topped 112,000; this is equivalent to an unemployment rate of 3.6%.

Strong rise in unemployment

The cyclically induced decline in imports, accompanied by higher exports, led to a significant narrowing of the trade deficit. Since the traditional surplus of invisibles was roughly equal to the previous year's figure, the current account surplus rose to a record level.

Distinctly higher current account surplus

In the referendum of 17 May 1992, the Swiss people voted in favour of accession to the institutions of Bretton Woods. On signing the IMF and World Bank Articles of Agreement in Washington at the end of May, Switzerland became a valid member of these organisations.

Vote in favour of accession to the IMF and the World Bank

Vote against joining the European Economic Area

On 6 December 1992, the Swiss people voted against joining the European Economic Area (EEA). Switzerland is now the only EFTA country that will not participate in the single internal market. The Swiss National Bank regrets the rejection of the EEA Treaty. The liberalisation of the free movement of goods, services, capital and persons which would have been instituted by the EEA Treaty would have stimulated competition and strengthened the Swiss economy. It is to be hoped that those liberalisation measures which are necessary for ensuring international competitiveness in the long term will nevertheless be introduced in Switzerland. Since monetary policy was not part of the EEA Treaty, the outcome of the vote on the EEA does not directly affect the policy of the Swiss National Bank.

2. Central bank policy and financial markets in Switzerland

2.1 Some features of Swiss National Bank policy

Steble price level as mein target of monetary policy

Monetary policy aims at keeping the price level stable in the medium term. The economy is to be allowed sufficient leeway for real growth to keep up with the increase in potential output. To this end, the Swiss National Bank limits the expansion of the money supply. At the same time, it retains the option of reacting appropriately to unexpected developments such as excessive fluctuations in the exchange rate or in the demand for liquidity. In order to ensure a stable price level, it orients itself to a medium-term growth target for the seasonally-adjusted monetary base; to supplement this, it publishes quarterly forecasts for the monetary base. The quarterly forecasts provide information on the policy course which the Swiss National Bank is planning to pursue in the immediate future.

Medium-term money supply growth of 1%

At the end of 1990, the Swiss National Bank for the first time published a medium-term rather than an annual growth target for the seasonally-adjusted monetary base. The latter is to be expanded by an annual average of 1% per annum over a three to five-year period. The envisaged growth rate falls short of the increase in Swiss potential output of approximately 2% per annum. The difference reflects a substantial negative trend component in the demand for bank notes. In view of the steady trend towards cashless payments, real note circulation, which currently accounts for some 90% of the monetary base, is expanding at a considerably slower rate than real national product.

Sterting base of target path: fourth quarter of 1989

At the end of 1992, the Swiss National Bank announced that it intended to take the seasonally-adjusted monetary base in the fourth quarter of 1989 as the starting base for its medium-term target path. It had already oriented itself informally to this aggregate in the past. Various considerations pointed to the value in the fourth quarter of 1989 as a basis: at the end of 1989, the Swiss National Bank had closely adjusted the monetary base to the shifts in demand triggered by the new liquidity requirements for banks and the introduction of the new interbank clearing system SIC. Moreover, it had also reduced much of the liquidity overhang resulting from its expansionary monetary policy in 1987 and at the beginning of 1988. The Swiss National Bank therefore assumed that the seasonally-adjusted monetary base was back on the target path in the fourth quarter of 1989.

Periodic review of the target path

The target path for the monetary base, however, is a guideline which cannot be fixed with scientific accuracy. Further small shifts in the banks' demand for reserves are likely to occur. The Swiss National Bank therefore reviews the target path periodically and to this end also refers to other informative indicators, such as the development of the money stock M_1.

Seasonally-adjusted monetary base well below the medium-term path

In 1990 and 1991, the seasonally-adjusted monetary base was, on average, well below the medium-term target path. The large deviation from the target path developed in 1990, when the seasonally-adjusted monetary base contracted by 2.6%. This was due to the fact that in view of persistent inflation the Swiss National Bank was steering a considerably more restrictive course than originally envisaged. In 1991, the monetary base again expanded by 1.4%.

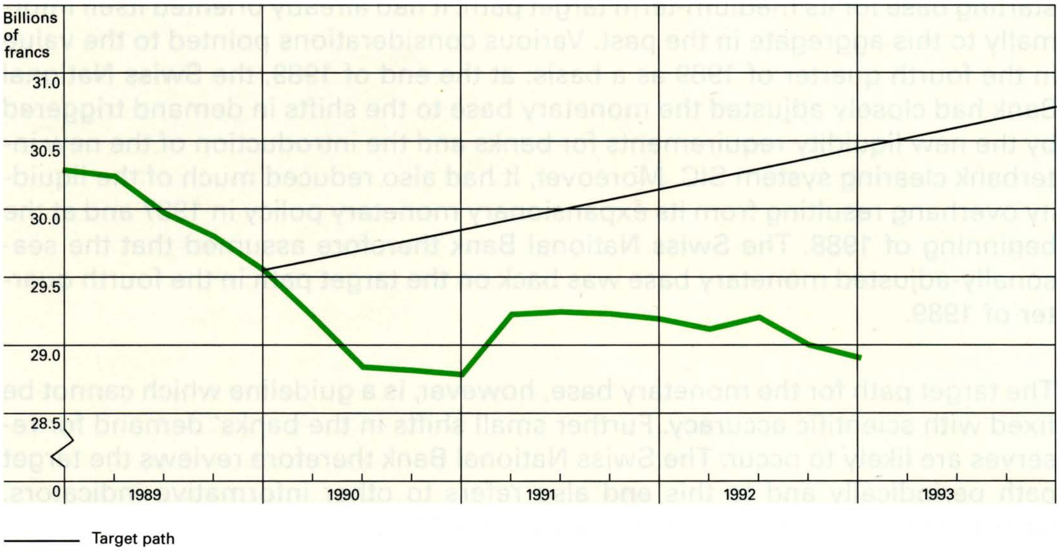
Basic assumptions for SNB policy in 1992

At the end of 1991, the Swiss National Bank assumed that the expansion of the seasonally-adjusted monetary base would again exceed the medium-term target rate of 1% in 1992. It anticipated a further easing of inflation and interest rates, accompanied by a slight economic upturn. Under these conditions, demand for central bank money was expected to rise vigorously. The Swiss National Bank, however, also emphasised its intention to continue to pay due attention to an orderly development of exchange rates when implementing its policy.

Contraction of monetary base in 1992

The seasonally-adjusted monetary base did not develop in line with the Swiss National Bank's original expectations in 1992. Instead of expanding, this aggregate contracted by 1.0% from the fourth quarter of 1991 to the fourth quarter of 1992. Although the money stock M_1 rose by 2.7% over the same interval, its average rate of increase in 1992 of 0.3% was modest. There is no denying that monetary policy remained restrictive, notably in the first half of 1992.

Seasonally-adjusted monetary base



The deviation from the envisaged monetary course was due mainly to the fact that the Swiss National Bank paid particular attention to exchange rate developments both in 1991 and in the first half of 1992. Already in 1991, the Swiss franc had exhibited some weakness in the foreign exchange market. When, in the spring of 1992, it again lost considerable ground vis-à-vis the European currencies, the financial markets themselves triggered a marked rise in short- and long-term interest rates. These temporarily soared to over 9% and 7% respectively. The Swiss National Bank gave free rein to this development, for the weakness of the Swiss franc was threatening to gain a momentum of its own and consequently to jeopardise efforts to reduce inflation. Even though the Swiss National Bank had been pursuing a restrictive policy since autumn 1988, inflationary expectations remained persistently high until summer 1992. The doubts still existing with regard to the effectiveness of a restrictive monetary policy would have been nourished anew by the weakness of the Swiss franc. Domestic suppliers would have tried to pass an exchange rate-induced rise in import prices on to consumers.

Persistent inflationary expectations

After the inflation rate had declined by one percentage point to 3.8% between April and July, inflationary fears eased perceptibly. The foreign exchange markets regained their confidence in the Swiss franc, and domestic interest rates started to fall. The Swiss National Bank supported this decline in interest rates by supplying the banks with liquidity on more favourable terms. The turbulences in the EMS additionally helped to extend the newly recovered room for manoeuvre in the monetary field. In September, the Swiss National Bank cut the discount rate in two steps from 7% to 6%. At the end of 1992, both short- and long-term interest rates were well below the year-earlier level.

More monetary room for manoeuvre as a result of declining inflation and a stronger Swiss franc

Bank note circulation always tends to react with a time lag to changes in short-term interest rates. Accordingly, by the end of 1992, the decline in interest rates had not yet led to an overall increase in note circulation and, consequently, in the monetary base. The demand for base money fell short of the level the Swiss National Bank had anticipated a year earlier, in part also because of the continued weak state of the economy. The Swiss National Bank had correctly assessed the course of inflation, but real gross domestic product did not increase as expected; on the contrary, it declined in 1992 as a result of the unfavourable development of domestic demand.

Interest rate reductions still without effect on monetary base

In 1993, the Swiss National Bank, in agreement with the Federal Government, continues to implement its medium-term monetary policy, which is geared to price stability. It will adhere to its target of increasing the seasonally-adjusted monetary base by an annual average of 1% over a three to five-year period. This policy promotes price stability in the medium term while allowing the economy sufficient leeway for real growth. The Swiss National Bank expects the expansion of the seasonally-adjusted monetary base in 1993 to be well above 1%. As

Monetary policy in 1993

in recent years, it will retain the option of temporarily deviating from the medium-term growth path if unexpected developments in the foreign exchange and financial markets begin to pose a threat to the goal of price stability.

Continued decline in inflation and interest rates

The monetary policy to be implemented in 1993 is based on the following assumptions: the Swiss National Bank expects inflation to continue its decline; it should fall to 2.5% by the end of 1993. If there is no increase in the customs duty on motor fuel, the rate may even go down to 2%. Real gross domestic product will probably continue to stagnate in 1993. The Swiss National Bank does not expect an economic upturn before the latter part of the year at the earliest. While the economic slump will continue to depress demand for bank notes, the reduction in interest rates, which set in during the second half of 1992, should gradually lead to an expansion of bank note circulation and of the monetary base. And since the economy's demand for liquidity is unlikely to pick up significantly in view of the sluggish state of business activity, a further decline in money market rates is to be expected in the course of the year.

2.2 Development of the monetary aggregates

Contracting monetary base due to decrease in bank note circulation

In the fourth quarter of 1992, the seasonally-adjusted monetary base fell 1.0% short of the corresponding level in the fourth quarter of the year before. The decline almost entirely reflects the decrease in bank note circulation. High interest rates, notably on savings deposits, receding inflation and weak economic activity were the chief factors that caused the slowdown in note circulation.

Stabilisation of bank reserves in the fourth quarter

Even though bank reserves held with the Swiss National Bank continued to contract by –9.4% from the previous year's level on average, in the fourth quarter of 1992 they were only Sfr 19 million below the corresponding 1991 figure.

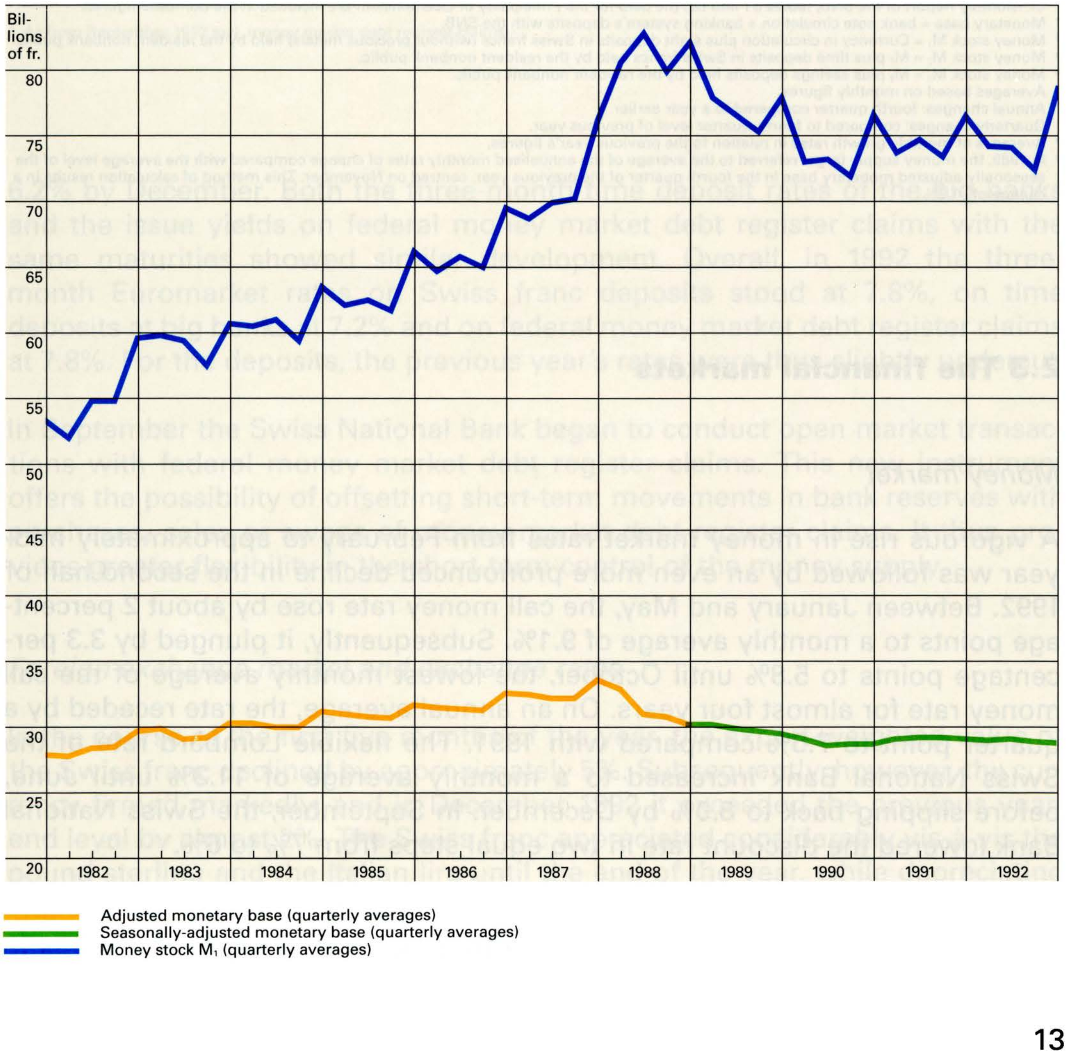
Unchanged money stock M_1

After having risen by 1.3% in 1991, the monetary aggregate M_1 on average only barely exceeded the previous year's level in 1992. Currency in circulation, which had increased by 2.7% in 1991, expanded by a mere 0.5%. The strong rise in interest rates between February and May led to a shift of sight deposits into time deposits. From September onwards, there was a corresponding shift back into sight deposits. Consequently, the money stock M_1 fell markedly until summer and subsequently rose again.

Slower growth of the money stock M_2 and unchanged growth of M_3

Because of rising interest rates, time deposits increased appreciably between February and July, only to contract again in the second half of the year. On an annual average, they grew by 1.3%, compared to 4.5% a year earlier. Concomittantly, the rate of expansion of the money stock M_2 declined from 3.3% in 1991 to 0.9%. The growth rate of savings deposits, by contrast, accelerated from 3.1% in the previous year to 5.7%. The stronger growth of savings deposits offset the decline in the monetary aggregate M_2. Accordingly, the expansion of the money stock M_3 – at 3.1% – remained virtually unchanged from the year-earlier rate.

Adjusted monetary base and money stock M_1



Development of monetary aggregates[1]

Quarterly and yearly averages

Year/ Quarter	Seasonally-adjusted monetary base[2]		Money stock M_1[3]		Money stock M_2[4]		Money stock M_3[5]	
	Billions of francs[6]	Change %[7]	Billions of francs[6]	Change %[8]	Billions of francs[6]	Change %[8]	Billions of francs[6]	Change %[8]
1987	33.4	4.9	71.4	7.5	138.5	9.8	303.4	9.4
1988	31.5	–11.0	81.5	14.4	149.1	7.8	333.1	9.8
1989	29.9	–2.4[9]	77.0	–5.5	179.0	20.0	353.7	6.2
1990	28.9	–2.6	73.8	–4.2	202.3	13.3	362.1	2.4
1991	29.3	1.4	74.7	1.3	208.9	3.3	373.7	3.2
1992	29.0	–1.0	74.9	0.3	210.8	0.9	385.1	3.1
1992								
1st quarter	29.1	–0.4	74.3	0.7	207.4	0.2	380.7	2.7
2nd quarter	29.2	–0.1	74.2	–0.9	213.6	2.1	386.7	3.6
3rd quarter	29.0	–0.7	72.5	–1.4	212.5	2.1	382.9	3.0
4th quarter	28.9	–1.0	78.7	2.7	209.9	–0.3	390.0	3.0

[1] Cf. Monthly Report of the SNB, tables B1 and B2; the data for tha Principality of Liechtenstein are included in the domestic figures.
[2] Monetary base = bank nota circulation + banking system's deposits with the SNB.
[3] Money stock M_1 = Currency in circulation plus sight deposits in Swiss francs (without precious metals) held by the resident nonbank public.
[4] Money stock M_2 = M_1 plus time deposits in Swiss francs held by the resident nonbank public.
[5] Money stock M_3 = M_2 plus savings deposits held by the resident nonbank public.
[6] Averages based on monthly figures.
[7] Annual changes: fourth quarter compared to a year earlier.
Quarterly changes: compared to fourth-quarter level of previous yaar.
[8] Averages of monthly growth rates in relation to the previous year's figures.
[9] In 1989, the money supply target referred to the average of the annualised monthly rates of change compared with the average level of tha seasonally-adjusted monetary base in the fourth quarter of tha previous year, centred on November. This method of calculation results in a change of –1.9%.

2.3 The financial markets

Money market

Strong interest rate movements at the very short end of the market

A vigorous rise in money market rates from February to approximately mid-year was followed by an even more pronounced decline in the second half of 1992. Between January and May, the call money rate rose by about 2 percentage points to a monthly average of 9.1%. Subsequently, it plunged by 3.3 percentage points to 5.8% until October, the lowest monthly average of the call money rate for almost four years. On an annual average, the rate receded by a quarter point to 7.5% compared with 1991. The flexible Lombard rate of the Swiss National Bank increased to a monthly average of 11.3% until June, before slipping back to 8.0% by December. In September, the Swiss National Bank lowered the discount rate in two equal steps from 7% to 6%.

Rise and fall of three-month rates

Between February and June, the three-month Swiss franc rate in the Euromarket climbed by 1.8 percentage points to 9.2%, only to fall by 3.0 points to

The National Bank's credits to the banking system

in millions of francs, monthly averages based on daily values

Month	Foreign exchange swap credits (1)		Lombard advances (2)		Discount credits[1] (3)		Domestic correspondents (4)		Total (5) = (1) + (2) + (3) + (4)	
	1991	1992	1991	1992	1991	1992	1991	1992	1991	1992
January	10 655	11 721	36	22	697	496	211	187	11 599	12 426
February	10 233	10 974	21	34	647	469	179	167	11 080	11 644
March	10 349	12 590	27	23	646	447	194	228	11 216	13 288
April	11 060	13 403	17	19	600	448	249	257	11 926	14 127
May	11 342	13 132	16	37	655	452	240	196	12 253	13 817
June	11 433	12 433	11	18	619	447	213	260	12 276	13 158
July	11 648	12 031	28	25	563	467	286	261	12 525	12 784
August	11 530	11 933	29	24	530	471	188	167	12 277	12 595
September	11 874	12 013	21	14	512	782	205	199	12 612	13 008
October	11 760	11 414	19	21	505	768	243	161	12 527	12 364
November	11 447	12 864	19	44	500	1 286	199	177	12 165	14 371
December	12 714	16 038	54	17	499	1 444	297	233	13 564	17 732
Annual average	11 337	12 546	25	25	581	665	225	208	12 168	13 443

[1] As from September 1992 incl. money market debt register claims.

6.2% by December. Both the three-month time deposit rates of the big banks and the issue yields on federal money market debt register claims with the same maturities showed similar development. Overall, in 1992 the three-month Euromarket rates on Swiss franc deposits stood at 7.8%, on time deposits at big banks at 7.2% and on federal money market debt register claims at 7.8%. For the deposits, the previous year's rates were thus slightly undercut.

Short-term liquidity management by means of money market debt register claims

In September the Swiss National Bank began to conduct open market transactions with federal money market debt register claims. This new instrument offers the possibility of offsetting short-term movements in bank reserves with purchases, sales or swaps of money market debt register claims. It thus provides greater flexibility in the short-term control of the money supply.

Foreign exchange market and exchange rates

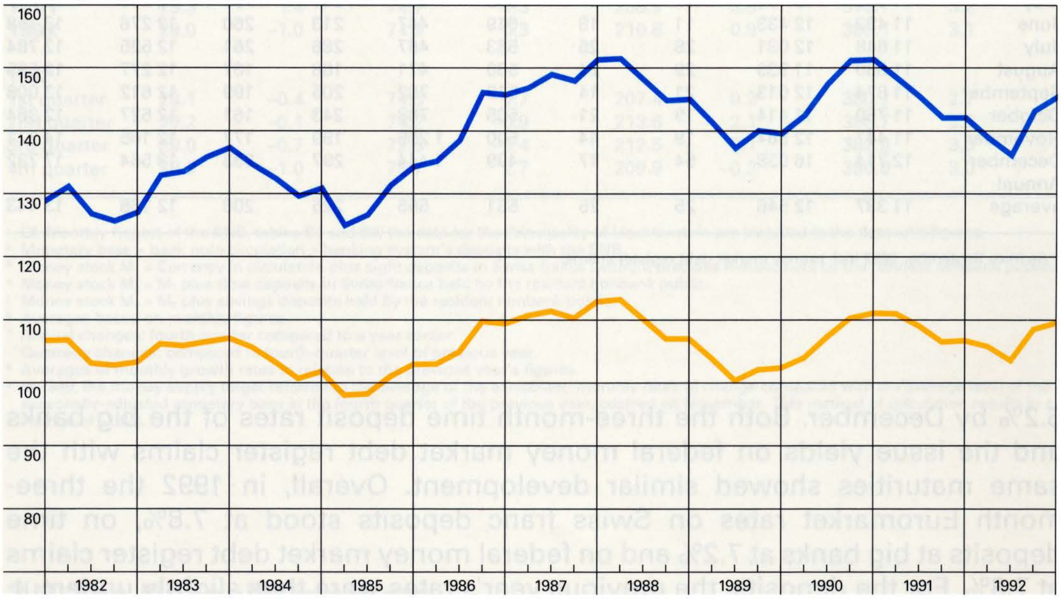
Depreciation of the Swiss franc until mid-year

In the course of the first five months of the year, the export-weighted value of the Swiss franc declined by approximately 5%. Subsequently, however, the currency firmed markedly, and in December 1992 it exceeded the previous year-end level by almost 2%. The Swiss franc appreciated considerably vis-à-vis the pound sterling and the Italian lira until the end of the year, while depreciating slightly against the other EMS currencies. In relation to the Japanese yen and the US dollar, it fell by some 6% and 2 % respectively from the 1991 level.

On average, slight depreciation in nominal and real terms

The real (i.e. adjusted for varying rates of inflation in Switzerland and abroad) export-weighted value of the Swiss currency declined – as did the nominal value – until mid-year. In the second half of 1992 the index, however, moved distinctly higher again. For the year as a whole, an average real depreciation of 2% from the previous year's level was recorded. In nominal terms, the decline amounted to 2.5%.

Nominal and real exchange rates of the Swiss franc



Nominal Swiss franc rate in terms of foreign currencies (export-weighted index: November 1977 = 100).
Real Swiss franc rate in terms of foreign currencies (export-weighted index; adjusted by the indices of consumer prices; November 1977 = 100).

Interventions in the foreign exchange market

The Swiss National Bank intervened – partly in concerted actions with other central banks – in the foreign exchange market in 1992. In the first quarter, it sold a total of US$ 685 million and D-mark 730 million, in the third quarter it purchased US$ 325 million.

Capital market

Average levels of capital market rates unchanged

In 1992, Swiss capital market rates on average remained virtually at their previous year's level. Those yields which are adjusted to market conditions continually or at short intervals, however, exhibited a similar pattern during the year as money market rates. A strong increase until around mid-year was followed in the second half by an even greater decline.

In particular, the average yield on federal bonds rose during the first six months by 0.8 of a percentage point to 7.0%, a level last attained in 1975. This was followed by an initial slight decline and a relatively rapid fall to below 6% in autumn. The yields on other Swiss franc denominated bonds developed similarly. These, however, fell somewhat less markedly in the second half of the year than those on federal bonds.

Rise and fall of yields

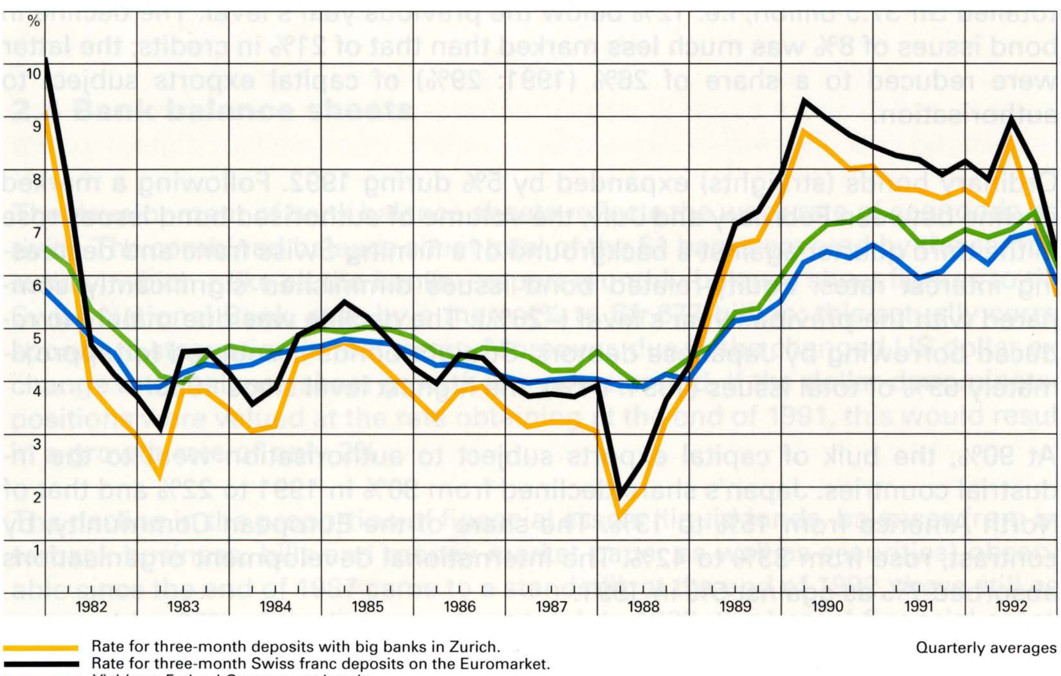
As the decline in interest rates was much more pronounced at the short end of the market than in the case of long-term yields, the maturity structure of interest rates in the fourth quarter of 1992 was only slightly inverse compared with the pattern observable since the beginning of 1989.

Only slight inversion of yield curve at year-end

The cantonal banks raised the average interest rates on their newly issued medium-term notes by a total of 0.4 of a percentage point to 7.0% until the third quarter before lowering them to 6.1% in the course of the fourth quarter. Most cantonal banks did not adjust the rates on existing first mortgages in 1992. The average rate stood at 6.9%, compared to 6.8% a year earlier. The rates on new mortgages were reduced somewhat near the end of the year. On an annual aver-

Small changes in mortgage rates and savings deposit rates

Money and capital market rates



age, the rates on new mortgages of the cantonal banks remained at the previous year's level of 7.8%. The interest rate on savings deposits stayed practically unchanged during the whole year at an average of 5.1%.

Rise in share prices

Measured by the Swiss Performance Overall Index, share prices rose by 14% in the first five months of 1992. The index level thus achieved was followed first by a decline and then, near the end of the year, by a renewed rise to the same level. In December 1992, the index exceeded the previous year's value by 18%.

Rise in total new issues due to increase in the domestic sector

Bonds and shares issued in the Swiss capital market reached a total of Sfr 52.4 billion – an increase of 5% over the previous year's figure of Sfr 50.0 billion. The domestic sector actually recorded a rise of 50% from Sfr 18.1 billion to Sfr 27.2 billion. After deduction of redemptions in the amount of Sfr 10.0 billion, the volume of net borrowing in the capital market by domestic issuers totalled Sfr 17.2 billion, exceeding the previous year's figure of Sfr 11.4 billion by 51%.

Renewed decline in capital exports subject to authorisation

Capital exports subject to authorisation amounted to Sfr 27.7 billion, as against Sfr 31.9 billion in 1991. The decline had already begun in the previous year. This development again contrasted with the steady expansion of international issuing activity. The share of Swiss franc denominated foreign bond issues in the international issuing volume contracted once more. Overall capital exports subject to authorisation, which also include credits amounting to Sfr 9.8 billion, totalled Sfr 37.5 billion, i.e. 12% below the previous year's level. The decline in bond issues of 8% was much less marked than that of 21% in credits; the latter were reduced to a share of 26% (1991: 29%) of capital exports subject to authorisation.

Rising share of ordinary bonds

Ordinary bonds (straights) expanded by 5% during 1992. Following a marked decline between February and July, the volume of authorised bond issues rose in the third quarter against a background of a firming Swiss franc and decreasing interest rates. Equity-related bond issues diminished significantly compared with the previous year's level (–28%). The decline was due mainly to reduced borrowing by Japanese debtors. Straight bonds accounted for approximately 69% of total issues (1991: 61%), the highest level since 1986.

Capital outflow mainly into industrial countries

At 90%, the bulk of capital exports subject to authorisation went to the industrial countries. Japan's share declined from 30% in 1991 to 22% and that of North America from 15% to 13%. The share of the European Community, by contrast, rose from 33% to 42%. The international development organisations absorbed 7% as against 5% in 1991.

Capital export authorisations according to financial instruments and groups of countries

(percentages)[1]

	1989	1990	1991	1992
Financial instruments				
Bonds[2]	74.6	73.7	70.9	73.9
of which: straights[3]	*22.1*	*48.4*	*43.2*	*51.2*
convertible bonds	*42.3*	*20.2*	*9.9*	*5.6*
warrant bonds	*10.2*	*5.5*	*17.8*	*17.1*
Loans	25.4	26.3	29.1	26.1
Total	100.0	100.0	100.0	100.0
Groups of countries				
European Community	22.5	31.6	32.6	41.6
European Free Trade Association	4.8	6.8	9.4	12.0
United States, Canada	6.9	17.6	15.2	13.3
Japan	49.5	29.7	30.4	22.3
Other countries	16.3	14.2	12.5	10.7
Total	100.0	100.0	100.0	100.0
of which development organisations[4]	*4.6*	*5.6*	*5.2*	*6.7*
Total amount, billions of francs	**42.0**	**43.6**	**42.5**	**37.5**

[1] Due to rounding up or down of figures these do not always add up to 100.
[2] Including foreign currency and dual currency bonds.
[3] Including takeovers, placement, issuance and payment of shares, and share capital increases.
[4] World Bank (IBRD), IDB, AfDB, AsDB.

2.4 Bank balance sheets

Bank balance sheets characterised by weak economy

The development of bank balance sheets reflects the weak rate of economic activity. The combined balance sheet total of the 61 banks covered by the sample survey, which – like all the banks – report monthly balance sheet figures to the Swiss National Bank, rose by a mere 4% to Sfr 877 billion; this actually corresponds to stagnation in real terms. Moreover, due to the changed US dollar exchange rate, balance sheet growth is overestimated. If the dollar denominated positions were valued at the rate obtaining at the end of 1991, this would result in a growth rate of only 2%.

Stabilisation in the proportion of the balance sheet total accounted for by financial assets

The decline in the proportion of financial assets (liquid funds, balances from interbank business, bills and money market paper as well as securities) observable since the end of 1987 came to a standstill; at the end of 1992, these still accounted for 26% of the balance sheet total. In 1992, the banks' financial assets expanded by 6% due to the low demand for credit and the accelerated inflow of customer deposits near the end of the year.

Sustained cash liquidity

At the end of 1992, the liquid assets of the banks (notes and coin, sight deposits and balances on postal checking accounts) fell short of the previous year's level by 3%. The liquidity ratio I (actually available liquid funds as a percentage of required liquid funds, measured as an average from the 20th of each month until the 19th of the following month) stood at 125% in the last period of 1992 (20 November to 19 December), compared to 126% a year ago.

Unusually slow credit expansion

At the end of December 1992, total credits extended by the 61 banks in the sample exceeded the previous year's figure by 2% (end of 1991: 8%). This is the smallest increase since the Second World War. Like the sluggish growth of the balance sheet total, the weak demand for credit is due mainly to the economic downturn. The individual positions of the credit volume showed varying development. At the end of 1992, lending to the domestic sector, which accounted for four-fifths of the total, was 2% up on the year-earlier figure. While short-term loans remained virtually unchanged from the previous year, mortgage lending exceeded the 1991 level by 4%. This relatively strong increase is, however, not the result of a corresponding amount of construction activity as the development of building loans shows. The borrowing limits were 6% lower and the actually utilised credits were 1% lower than a year earlier. Open limits, i.e. the difference between the limits granted and the credits utilised thus narrowed by 12%. Public-sector borrowing was reduced by 16% in the course of the year.

Customer deposits reflect normalisation of interest rate structure

At the end of 1992, customer deposits exceeded the year-earlier level by 4%. With the normalisation of the yield curve in the course of 1992, it was to be expected that on the liabilities side of the balance sheet the big shifts from sight deposits and savings deposits into time deposits which had taken place between 1988 and 1990 would partially be reversed. In actual fact, sight deposits expanded by 6% while time deposits fell 2% below the previous end-of-year level. At 8%, savings and savings deposit accounts exhibited the highest growth rate of all customer deposits. At the end of the fourth quarter, the combined total of bank-issued medium-term notes, bonds and mortgage bonds surpassed the year-earlier level by 2%.

Decline in fiduciary business

In off-balance sheet business, fiduciary funds diminished by 4% from the end-1991 level. This change was partly brought about by the development of the dollar exchange rate. Approximately half of the fiduciary liabilities originated in Switzerland; the bulk of fiduciary funds were invested abroad.

2.5 Financial innovations and structural change

Structural change in the Swiss banking sector proceeded apace. Numerous mergers and takeovers as well as the withdrawal of a number of foreign-controlled banks intensified the process of concentration. Restructuring and the attempts of numerous banking institutions to cut costs led to a reduction of staff throughout the banking industry.

Accelerated structural change in the banking sector

The weak economy and falling prices in the real estate market necessitated higher provisions for mortgage loans and commercial credits. In particular, banks active in real estate lending which had considerably expanded their mortgage loans in recent years were no longer able to offset this additional expenditure with surplus income from other lines of business; they consequently suffered setbacks in profits. Stiffer competition in the banking sector led to higher demands with respect to the economic efficiency of operating procedures and on the management.

Weak economic activity and stiffer competition as chief factors

With domestic credits accounting for an above-average proportion of their assets, the cantonal banks were particularly hard hit by the downturn in the Swiss economy. Various cantonal institutions were, in the past year, again compelled to substantially increase their provisions for commercial credits and mortgage loans. Lower profits triggered initiatives in some cantons demanding organisational and staff changes in cantonal banking institutions.

Lower profits of numerous cantonal banks

The weak cyclical state of the economy and greater competition led to several cooperation agreements, mergers and takeovers in the regional banking sector. Various regional banks forfeited their independent status and became the objects of takeovers. In two cases, communes which had owned the institutions concerned suffered considerable losses. The association of Swiss regional banks decided in future to conduct regular investigations with respect to profitability, liquidity, corporate policy and market position among its associated members. Institutions that fail to meet requirements are to be barred from raising funds via the common central issuing bank and may even be excluded as members from the association.

Restructuring of regional banks

Notably big banks seek to create synergies in marketing financial services by establishing their own insurance companies or by entering into cooperation agreements with insurance companies.

Trend towards «Allfinance» conglomerates

Since 15 October 1992, the Swiss post office (PTT) has been offering federal time deposits to customers. These fixed-term deposits with the Confederation have maturities of one, two or three years and yield interest rates conforming to market conditions.

Federal time deposits offered by PTT

Electronic stock exchange of Switzerland

The Association Tripartite Bourse (ATB) of the stock exchanges of Zurich, Geneva and Basle has abandoned development work on an electronic stock-broking system of its own and decided to test an existing system for suitability. Technical and functional shortcomings of the original concept were the reason given for abandoning the development project.

Innovations on the SOFFEX

On 29 May 1992, the SOFFEX (Swiss Options and Financial Futures Exchange) first introduced trading with interest rate futures on long-term federal bonds. Any open positions upon expiry of the contract are covered by physical delivery of basic titles.The option deals on the SMI (Swiss Market Index), which were introduced in 1992, permit hedging against specific market risks. An Italian finance company was the first bank with foreign domicile to take up trading on the SOFFEX in 1992. The SOFFEX was one of the founder members of the FEX (First European Exchanges), which was established in 1992; members are stock exchanges specialising in trading with derivative financial products.

2.6 Other aspects of central bank policy

No amendments to Banking Law

EEA membership and Eurolex rejected

In the referendum of 6 December 1992, Switzerland voted against accession to the European Economic Area (EEA). The changes in legislation, which include amendments to sections of the Banking Law (Arts. 7 and 8) falling within the competence of the Swiss National Bank, passed by parliament in its autumn session in view of EEA membership have therefore not entered into force. This concerns the following changes:

No explicit legal basis for a lead manager rule

In Art. 7, para 5 of the Banking Law an explicit legal basis was to be created for a reporting requirement in Switzerland for Swiss franc issuing business. Based on this, the only remaining stipulation in future applying to Swiss franc denominated issuing business would have been lead management by a bank having its domicile (registered office or branch office) in Switzerland. This lead manager would have been responsible to the Swiss National Bank for the correct fulfilment of all statistical reporting requirements. Foreign institutions could also have acted as underwriting banks.

Art. 8 of the Banking Law unchanged

Art. 8 of the Banking Law stipulating that capital exports transacted by banks on their own account, or arranged on behalf of third parties, are subject to authorisation was to be liberalised. Within the context of Eurolex, this regulation would have been transformed into a protective clause for the event of extraordinary capital outflows that seriously jeopardise Swiss monetary policy.

Revision of federal stamp tax

Positive outcome of referendum

The revision of the federal law on stamp tax of 4 October 1991, against which a referendum had been launched, was approved by the Swiss voters on 27 September 1992. The revised law enters into force on 1 April 1993.

Strengthening of the financial centre

The Swiss National Bank was in favour of the revision from the outset. It particularly welcomes the abolition of turnover tax on money market paper since this will pave the way for the emergence of a money market in Switzerland. Exempting new issues of investment fund certificates from stamp duty and the trading stocks of securities dealers from turnover tax will also help to strengthen the financial centre.

Should tax on Swiss franc bond issues of foreign borrowers remain?

Swiss franc issues of foreign borrowers will continue to be subject to stamp tax for the time being. Consequently there is a danger of issuing business being transferred to foreign financial centres. This threat is counteracted by a current regulation of the Swiss National Bank restricting the issue of Swiss franc denominated foreign bonds to domestic banks (syndication rule). In the wake of a worldwide trend towards liberalisation, the Swiss National Bank will, however, have to modify this regulation in the near future. The Governing Board has therefore submitted a proposal to the head of the Federal Department of Finance that the Federal Government make use of its powers to abolish turnover tax on Swiss franc denominated issues of foreign borrowers. This would clear the way for the Swiss National Bank to introduce a lead manager rule at least for Swiss franc denominated foreign issues.

Federal law on investment funds

Submission of a preliminary draft for comment

At the beginning of March 1992, the Federal Department of Finance initiated the procedure for submitting the preliminary draft of a commission of experts for a comprehensive revision of the investment fund law to the interested bodies for comment. The need for such a revision was acknowledged in most comments and the preliminary draft approved.

Main new features

The preliminary draft has been drawn up as a framework law; its sole purpose is to protect investors. Like the present law, the draft covers only the contractual form of collective investment. An important new feature is the admittance of modern investment techniques and of instruments for hedging against risks and for optimising earnings. This is designed to enhance the competitiveness of Swiss investment funds. The same goal is pursued by dividing investment funds into EC-compatible funds and funds which – now and in future – are restricted to the Swiss market. In line with the relevant European directives, the preliminary draft provides for a separation of fund management and deposit bank, as well as for stricter regulations pertaining to the disclosure of information.

Attitude of the Swiss National Bank

In its comments the Swiss National Bank welcomed the endeavours to revise the investment fund law and approved of the guiding principles of the draft for the revision. Its sole criticism concerned the fact that the guiding principles are not always consistently applied. Thus it considered the division into «funds incorporating a normal risk» and «risk funds» inappropriate. It proposed that no quality seal should be attached to funds «incorporating a normal risk» and that instead the fund prospectus should contain a clear description of the fund's investment policy. It also set out its objections to an excessive delegation of legislative powers and proposed that closed funds should be admitted.

Swiss membership in the IMF

Switzerland's accession to the institutions of Bretton Woods

In the referendum of 17 May 1992, the Swiss people voted in favour of accession to the institutions of Bretton Woods. On signing the IMF and World Bank Articles of Agreement in Washington on 29 May 1992, Switzerland became a valid member of these organisations.

Agreement between the Federal Government and the Swiss National Bank

In mid-September, the Federal Government and the Swiss National Bank signed the implementing agreement on Switzerland's membership in the IMF. In principle, the Federal Department of Finance and the Swiss National Bank act by common accord. The Department of Finance plays a leading role in general relations with the IMF. These include, in particular, amendments to the Fund's Articles of Agreement, quota changes, general IMF policy, surveillance of member countries and the use of general funds of the organisation. The Swiss National Bank primarily manages all matters relating to Swiss monetary policy or other matters of a chiefly monetary nature. The post of governor in the IMF is held by the chairman of the SNB's Governing Board, deputy governor is the head of the Federal Department of Finance. Switzerland's representative in the Interim Committee is the head of the Department of Finance, and the chairman of the Governing Board is deputy member. The post of executive director is, as a rule, alternately held by a member of the staff of the Federal Department of Finance and of the Swiss National Bank.

Cooperation of the Swiss National Bank in international monetary measures

Balance-of-payments aid in the form of a credit to Romania

Based on a decree of the federal parliament on Switzerland's cooperation in international monetary measures, Switzerland granted balance-of-payments aid in the form of a medium-term loan amounting to US$ 40 million to Romania in January 1992. The credit is financed by the Swiss National Bank and is guaranteed by the Federal Government.

Swap facility to Finland

In July, the Swiss National Bank participated in a swap arrangement which the central banks of the EC and EFTA countries had established in favour of the Bank of Finland. The Swiss National Bank granted the Bank of Finland a swap facility of Sfr 200 million for a period of 12 months.

Participation of the Swiss National Bank in stand-by arrangements at the end of 1992

	Original undertakings	Outstanding credits		Outstanding undertakings
		End 1991	End 1992	End 1992
1. **Swap agreements**				
Federal Reserve Bank of NY	$4 billion	–	–	$4 billion
Bank of Japan	Yen 200 billion	–	–	Yen 200 billion
Bank of Finland	Sfr 200 million	–	–	Sfr 200 million
BIS	$600 million	–	–	$600 million
2. **Multilateral credits**				
General Arrangements to Borrow (GAB)	SDR 1020 million	–	–	SDR 1020 million
3. **Bilateral credits**				
Hungary[1]	$30 million	$30 million	$30 million	–
Czechoslovakia[1]	$40 million	$40 million	$40 million	–
Romania[1]	$40 million	–	$40 million	–

[1] With Federal Government guarantee.

2.7 Calculation and distribution of profits by the Swiss National Bank

Distribution of profits laid down in the Constitution and the National Bank Law

The distribution of profits of the Swiss National Bank is laid down in detail in the Constitution and the National Bank Law. The profit remaining after the allocation to the legal reserve fund and payment of the shareholders' dividend is distributed in two steps. First, the cantons receive an amount of 80 centimes per head of population. Any remaining surplus is allotted to the Confederation and the cantons in the ratio of one-third to two-thirds.

Setting aside of adequate reserves

There is, however, no regulation on how the profit of the Swiss National Bank is to be calculated. It is uncontested that the Swiss National Bank must be in a position to fulfil its constitutional task without being under a constraint to show a profit, and to create those reserves which are necessary from an operational and economic point of view. In particular, it must be in a position to build up unsecured foreign exchange reserves, i.e. reserves not hedged against exchange rate risks through forward sales in the foreign exchange market.

Purposes served by unsecured foreign exchange reserves

Unsecured foreign exchange reserves serve a number of purposes. They permit the Swiss National Bank to intervene in the foreign exchange market should the Swiss franc exhibit undue weakness. This function would have a particular significance if Switzerland ever decided to return to a fixed Swiss franc rate. In addition, unsecured foreign exchange reserves strengthen the Swiss financial centre's resistance to crises and constitute a vital contingency fund in extraordinary situations.

Expansion of unsecured foreign exchange reserves in step with nominal GNP

Even if it is not possible to calculate the precise need of foreign exchange reserves, this can be said to depend on the size of the economy and its international involvement. Unsecured foreign exchange reserves should therefore expand at least in step with nominal gross national product. The Swiss National Bank finances the growth that it envisages for unsecured foreign exchange reserves by setting aside provisions. The general rule, therefore, is that foreign exchange reserves and provisions respectively are expanded in step with nominal GNP (cf. 1991 Annual Report, pp. 23–26).

Definition of «reserve provisions»

For calculating the amount to be distributed, the Swiss National Bank assumes that there is no difference, economically speaking, between the balance sheet items reserve provisions and valuation adjustment on foreign exchange. Both balance sheet items were built up from surpluses which the Swiss National Bank set aside in the past. The first balance sheet item is based on realised surpluses, the second one on non-realised surpluses. The growth in reserve provisions aimed at by the Swiss National Bank thus includes the valuation adjustment on foreign exchange. The sum of the two balance sheet items reserve positions (for currency risks and other contingencies) and valuation adjustment on foreign exchange is hereinafter referred to in short as «reserve provisions».

Level of «reserve provisions» aimed at

The volume of «reserve provisions» aimed at depends on the development of nominal Swiss gross national product. The percentage increase in «reserve provisions» aimed at is equivalent to the annual growth of the nominal gross national product over the past five years, for which final data is available. The calculation of an average is designed to prevent large year-to-year fluctuations of growth rates. The actual volume of «reserve provisions» at the end of 1990 totalling Sfr 17743.1 million forms the basis for the calculation.

Gross national product grew by an average of 6.2% in the period 1985–89. This resulted in an increase in «reserve provisions» aimed at for 1991 to Sfr 18 843.2 million. The increase aimed at for the following years is calculated accordingly.

Volume of «reserve provisions» aimed at

	Growth of nominal GNP in % (averaging period)	Level of reserve provisions at year-end in millions of Swiss francs
1990		17 743.1
1991	6.2 (1985–89)	18 843.2
1992	6.3 (1986–90)	20 030.3
1993	6.3 (1987–91)	21 292.2

Calculation of distributable surplus

The Swiss National Bank achieves a surplus if net income (operating income + other income + appreciation of foreign exchange holdings – operating expenditure – other expenses – depreciation of foreign exchange holdings – taxes – allocation to pension fund) exceeds the sum total of allocation to the legal reserve fund, shareholders' dividend and per capita payment to the cantons. Surpluses that are not distributed lead to an equivalent increase in «reserve provisions». If the actual «reserve provisions» are higher than the level aimed at, this results in a distributable surplus. The distributable surplus per end of 1992 is shown in the following table:

Calculation of the distributable surplus and of distribution

(millions of Swiss francs)

	«Reserve provisions» at the start of the year according to balance sheet	Surplus	«Reserve provisions» Actual level at year-end before distribution	«Reserve provisions» Level envisaged at year-end	Distributable surplus	Distribution
	(1)	(2)	(3)=(1)+(2)	(4)	(5)=(3)-(4)	(6)
1991	17 743.1	4 717.6	22 460.7	18 843.2	3 617.5	600
1992	21 860.8	3 149.5	25 010.3	20 030.3	4 980.0	600
1993	24 410.3			21 292.2		

At the beginning of 1992, «reserve provisions» according to the annual balance sheet as per end of 1991 amounted to Sfr 21 860.8 million (reserve provisions and valuation adjustment on foreign exchange: Sfr 20 163.7 million and Sfr 1697.1 million respectively). As the Swiss National Bank achieved a surplus of Sfr 3 149.5 million in 1992, «reserve provisions» at year-end prior to distribution amounted to Sfr 25 010.3 million. The level of «reserve provisions» aimed at by the Swiss National Bank amounted to only Sfr 20 030.3 million, leaving a distributable surplus of Sfr 4 980.0 million.

Distribution of Sfr 600 million

The Swiss National Bank will, however, not remit the entire distributable surplus of 1992 to the Confederation and the cantons. Distribution is limited to Sfr 600 million per year according to the procedure laid down by the Federal Government and the Swiss National Bank (cf 1991 Annual Report, p. 25). In this way, strong fluctuations in the remittances to the Confederation and the cantons are to be avoided. It must be expected that exchange rate-induced capital losses on unsecured foreign exchange reserves will in future reduce the distributable surplus.

Remittance to the Federal Department of Finance at the start of 1994

As in the previous year, a sum of Sfr 600 million from the 1992 annual profit will be remitted to the Federal Department of Finance at the start of 1994 for distribution to the Confederation and the cantons. The Confederation and the cantons can thus budget for their respective share of the amount to be distributed by the Swiss National Bank.

Financial strength of cantons taken into account

The Federal Government notified parliament in a parliamentary message (of 25 March 1992, on the 1992 austerity measures designed to equilibrate the federal budget) of the proportion of profit to be distributed to the Confederation and the cantons. On 9 October 1992, the federal assembly approved an amendment to Art. 27, para 4 of the National Bank Law. In terms of this amendment, distribution of the profit of the Swiss National Bank to the cantons will no longer be based exclusively on resident population figures; in a proportion of 3/8, it now takes the financial strength of the cantons into account. This amendment entered into force on 1 January 1993 and will thus already apply to the remittance of Sfr 600 million from the 1991 profit.

3. Balance sheet and profit and loss account

3.1 Main components of the balance sheet since 1961 (End-of-year values)

Assets

In millions of francs

End of year	Gold holdings[1]	Foreign currency investments	Reserve position at the IMF	International payments instruments[2]	Foreign currency loans[3]	Domestic portfolio: *Swiss bills*	Domestic portfolio: *Money market papers*	Domestic portfolio: *Discounted bonds*	Domestic portfolio: *Total*	Lombard advances	Securities	Balances with domestic correspondents	Loss on foreign currency and gold holdings
1961	11 078,0	842,4	—	—	—	62,2	—	7,3	69,5	66,3	42,9	58,3	—
1962	11 543,3	867,4	—	207,0	—	67,4	45,0	11,2	123,6	71,7	42,8	77,8	—
1963	12 203,8	1 083,3	—	207,0	—	87,5	35,0	19,7	142,2	97,5	51,7	61,5	—
1964	11 793,6	1 679,1	—	432,0	431,3	109,8	24,8	28,0	162,6	77,7	65,3	75,3	—
1965	13 164,2	852,6	—	432,0	428,5	98,1	9,5	31,5	139,1	38,9	92,9	66,1	—
1966	12 297,4	2 060,3	—	432,0	518,9	97,8	16,7	43,3	157,8	109,3	181,7	81,5	—
1967	13 369,7	1 986,7	—	432,0	173,9	99,4	—	43,1	142,5	86,6	181,9	72,4	—
1968	11 355,8	5 601,2	—	1 442,0	108,3	256,2	6,8	25,5	288,5	160,1	180,6	99,7	—
1969	11 434,5	5 792,9	—	1 851,0	—	584,7	118,5	28,2	731,4	277,1	170,2	89,5	—
1970	11 821,3	8 441,1	—	1 851,0	—	306,6	71,0	21,4	399,0	223,5	156,0	82,8	—
1971	11 879,4	10 323,3	—	4 278,0	—	78,1	—	2,4	80,5	28,5	10,8	72,4	1 243,5[4]
1972	11 879,7	12 323,1	—	4 278,0	—	770,3	152,0	13,8	936,1	418,8	—	142,3	1 243,5[4]
1973	11 892,7	12 519,9	—	4 613,0	—	862,7	200,0	35,0	1 097,7	557,7	—	281,8	1 243,5[4]
1974	11 892,7	11 570,6	—	5 403,0	—	2 166,8	484,0	43,5	2 694,3	699,9	92,5	166,9	621,5[4]
1975	11 892,7	14 705,8	—	5 403,0	—	1 706,5	227,0	5,4	1 938,9	200,2	3,7	136,3	621,5[4]
1976	11 903,9	20 426,5	—	5 222,0	—	912,5	375,0	13,3	1 300,8	157,0	63,8	160,3	—
1977	11 903,9	20 514,2	—	3 949,0	—	1 207,4	267,0	44,7	1 519,1	197,5	559,1	171,6	—
1978	11 903,9	28 981,8	—	2 028,5	—	214,6	—	21,5	236,1	49,6	348,0	185,7	2 593,5[5]
1979	11 903,9	26 390,4	—	—	—	1 532,2	10,0	38,3	1 580,5	886,4	963,4	288,6	1 110,9[5]
1980	11 903,9	27 355,6	—	11,4	—	2 285,1	152,0	48,4	2 485,5	919,8	1 212,2	289,6	—
1981	11 903,9	25 494,8	—	0,2	—	2 710,0	256,0	40,9	3 006,9	2 513,9	1 018,4	399,6	—
1982	11 903,9	31 872,8	—	6,3	—	2 076,8	109,2	2,1	2 188,1	1 559,6	1 268,3	314,0	—
1983	11 903,9	32 677,5	—	28,7	—	2 524,5	149,2	2,6	2 676,3	2 408,6	1 562,5	346,4	—
1984	11 903,9	38 876,0	—	23,2	—	2 455,4	293,5	—	2 748,9	2 677,9	1 773,6	500,8	—
1985	11 903,9	38 133,8	—	6,8	—	2 465,9	372,5	—	2 838,4	2 973,6	1 911,1	529,7	—
1986	11 903,9	36 262,0	—	—	—	2 411,9	335,5	—	2 747,4	3 204,0	2 045,0	564,4	—
1987	11 903,9	37 439,9	—	18,5	—	2 246,8	54,9	—	2 301,7	3 126,9	2 190,8	460,1	—
1988	11 903,9	35 946,7	—	30,5	—	2 133,8	—	—	2 133,8	795,9	2 421,4	416,0	—
1989	11 903,9	39 620,2	—	123,6	87,1	542,7	—	—	542,7	704,1	2 574,0	458,3	—
1990	11 903,9	37 209,8	—	112,9	—	711,1	—	—	711,1	165,7	2 814,0	567,0	—
1991	11 903,9	40 232,1	—	117,3	97,1	522,1	—	—	522,1	107,0	2 886,1	552,8	—
1992	11 903,9	45 857,8	1 144,4	134,9	156,4	353,4	467,7	—	821,1	26,9	2 975,7	493,0	—

[1] Valuation since 10 May 1971: 1 kg fine gold = Sfr 4595.74; previously: 1 kg = Sfr 4869.80.
[2] 1962–1979, foreign treasury bills in Swiss francs; as from 1980, Special Drawing Rights and, as from 1989, including ECUs.
[3] 1964–1968 rate-hedged balances at foreign central banks; since 20-4-1989 foreign currency loans.
[4] Liability of the Federal Government in accordance with the Decree of the Federal Parliament of 15 December 1971.
[5] Covered by hidden reserves on gold.

Liabilities

Bank note circulation	Coverage of bank note circulation by gold holdings	Sight liabilities: Total	of which sight deposit accounts of domestic banks and finance companies[6]	Accounts of the Federal Government	Accounts held under payments and clearing agreements	Balances of foreign banks	Banks' minimum reserves	Time liabilities[7]	Foreign exchange valuation adjustment	Capital and reserves	Provisions: for foreign exchange risks	Provisions: others	Balance sheet total	End of year
In millions of francs	%	*In millions of francs*												
7 656,0	144,70	2 947,0	1 996,1	662,5	37,2	231,5	1 035,0[9]	293,5	—	78,0	—	21,7	12 206,6	1961
8 506,1	135,71	2 799,7	2 294,2	355,9	30,0	98,0	1 035,0[9]	373,0	—	79,0	—	22,9	12 994,7	1962
9 035,4	135,07	3 187,8	2 700,0	389,4	39,3	31,8	1 035,0[9]	357,3	—	80,0	—	26,1	13 910,2	1963
9 721,8	121,31	3 270,6	2 907,9	291,5	24,4	25,6	1 035,0[9]	433,2	—	81,0	—	28,7	14 787,6	1964
10 042,5	131,08	3 215,4	3 005,0	126,2	20,9	44,3	1 035,0[9]	602,0	—	82,0	—	37,1	15 287,6	1965
10 651,1	115,46	3 430,5	2 982,2	375,2	23,3	34,4	1 035,0[9]	389,0	—	83,0	—	37,2	15 922,3	1966
11 326,8	118,04	4 144,9	3 810,8	230,7	29,0	53,9	—	550,0	—	84,0	—	52,2	16 519,0	1967
12 047,3	94,26	6 413,6	5 776,2	505,0	33,4	75,1	—	233,1	—	85,0	—	69,2	19 339,7	1968
12 518,4	91,34	6 954,8	6 353,4	493,0	40,0	49,6	—	141,9	—	86,0	—	105,0	20 482,5	1969
13 106,0	90,20	8 410,1	7 749,6	405,3	18,3	208,4	—	401,7	—	87,0	—	145,0	23 095,3	1970
14 309,9	83,01	11 854,4	10 701,6	713,7	15,3	393,1	516,4[10]	313,1	—	88,0	665,2	160,0	28 014,6	1971
16 635,0	71,41	11 020,8	9 312,6	1 380,3	17,0	279,5	2 029,3[11]	75,2	—	89,0	783,7	210,0	31 362,9	1972
18 296,2	65,00	9 036,1	8 234,9	458,2	7,8	296,7	2 872,0[11]	229,6	—	90,0	547,7	290,0	32 297,8	1973
19 435,8	61,19	10 367,1	9 505,0	714,5	—	114,8	347,8[11]	1 233,2	—	91,0	157,7	360,0	33 260,6	1974
19 127,8	62,17	13 296,0	11 478,5	1 623,8	—	150,0	165,3[11]	379,8	—	92,0	389,7	380,0	34 991,0	1975
19 730,9	60,33	16 648,7	12 643,7	3 817,5	—	146,2	246,2	954,8	—	93,0	—	390,0	39 324,0	1976
20 396,8	58,36	16 330,2	13 622,8	2 513,8	—	149,3	—	772,2	—	94,0	—	226,2	38 921,0	1977
22 499,1	52,91	20 062,8	15 583,9	3 437,7	—	990,6	—	2 893,2	—	95,0	—	190,2	46 421,0	1978
23 760,9	50,10	17 735,6	13 207,1	2 209,4[8]	—	2 252,8	—	630,1	—	95,0	—	143,5	43 244,5	1979
24 106,3	49,38	16 376,1	13 661,0	402,8[8]	—	2 254,0	—	273,5	—	95,0	2 157,1	270,0	44 318,7	1980
23 336,7	51,01	14 958,0	12 466,7	1 513,9[8]	—	908,0	—	500,0	—	96,0	4 531,3	340,0	44 584,5	1981
24 477,0	48,63	15 713,5	13 992,7	798,9[8]	—	852,0	—	250,0	1 624,6	97,0	6 564,6	450,0	49 374,2	1982
24 759,4	48,08	15 229,4	14 229,2	812,0[8]	—	125,4	—	—	2 528,1	98,0	8 565,8	500,0	51 869,2	1983
26 489,3	44,94	15 537,1	14 227,8	1 102,9[8]	—	130,1	—	—	5 118,7	99,0	10 811,7	490,0	58 748,8	1984
25 861,6	46,03	16 872,7	14 105,2	2 537,1[8]	—	128,1	—	—	1 564,2	100,0	13 467,7	490,0	58 546,7	1985
27 018,9	44,06	16 113,7	14 911,8	1 042,3[8]	—	86,7	—	—	—	101,0	13 056,2	490,0	56 980,4	1986
27 342,3	43,54	18 643,0	17 044,8	1 362,9[8]	—	163,1	—	—	—	102,0	10 934,0	490,0	57 715,7	1987
28 979,2	41,08	9 475,6	6 691,6	2 530,1[8]	—	167,6	—	—	1 970,9	103,0	12 741,6	630,0	53 930,4	1988
29 168,4	40,81	7 724,7	4 948,4	2 571,9[8]	—	119,0	—	—	3 060,8	104,0	15 534,9	630,0	56 290,6	1989
29 640,5	40,16	5 371,8	4 595,3	621,7	—	59,8	—	785,0	—	105,0	17 113,1	630,0	53 730,7	1990
29 217,1	40,74	4 498,6	4 275,6	3,4	—	114,9	—	400,0	1 697,1	106,0	19 533,7	630,0	56 756,6	1991
29 353,5	40,55	5 200,4	4 785,5	245,1	—	54,7	—	3 450,0	2 389,7	107,0	21 380,6	640,0	63 800,1	1992

[6] Prior to 1986: Sight deposit accounts of banks, trade and industry.
[7] Until 1980: sterilisation rescriptions of the Federal Government; 1981 and 1982: own debentures; as from 1990: time deposits of the Federal Government not placed in the market (cf. footnote 8).
[8] Including time deposits of the Federal Government not placed in the market (cf. footnote 7).
[9] Temporarily blocked sight deposit accounts of banks.
[10] In accordance with the agreement of 16 August 1971 concerning extraordinary minimum reserves.
[11] Minimum reserves of banks in respect of domestic and foreign liabilities, in accordance with the Decree of the Federal Parliament of 20 December 1972 and 19 December 1975 respectively.

3.2 Profit and loss account since 1985

Expenditure (in Sfr 1000)

	1985	1986	1987	1988	1989	1990	1991	1992
Operating expenses	**93 998**	**95 489**	**97 702**	**110 485**	**152 865**	**143 896**	**160 016**	**157 404**
Bank authorities	718	714	705	707	734	792	776	799
Personnel	52 123	52 025	53 343	56 249	58 570	62 717	71 258	75 978
Premises	9 379	4 918	4 417	9 785	45 150	20 305	28 414	17 203
Furniture and fixtures	2 402	3 034	4 104	3 108	4 358	15 966	13 918	12 289
Business and office equipment and supplies	2 914	2 861	2 990	3 206	3 360	3 984	3 932	3 955
Information and communication	1 951	2 436	1 870	2 304	1945	2 543	2 924	8 608
Printing, publications	635	693	644	731	852	850	1 118	1 232
Expenditure in respect of bank note circulation	17 105	18 689	19 485	24 037	21 292	20 463	23 113	26 392
Other expenditure on materials	6 771	10 119	10 144	10 358	16 604	16 276	14 563	10 948
Other expenses	**122 193**	**181 917**	**127 711**	**141 546**	**95 233**	**155 225**	**126 479**	**133 950**
Interest payable to depositors	3 077	2 926	3 012	3 395	4 267	5 810	6 593	6 861
Interest payable to Federal Government	56 767	58 492	41 244	40 444	55 161	101 145	82 895	91 965
Write-down of own securities	62 349	94 499	66 320	96 407	35 805	48 270	36 991	35 124
Depreciation of bank buildings	—	26 000	17 135	1 300	—	—	—	—
Write-down of foreign exchange holdings	**—**	**2 139 125**[1]	**3 528 837**	**—**	**—**	**3 976 820**	**—**	**—**
Transfer to the foreign exchange valuation adjustment account	**—**	**—**	**—**	**1 970 906**	**1 089 907**	**—**	**1 697 073**	**692 640**
Taxes	**—**	**1 789**	**2 632**	**1 592**	**298**	**3 365**	**—**	**8 726**
Appropriation to pension fund	**3 000**	**3 000**	**2 000**	**2 000**	**2 000**	**6 000**	**5 000**	**3 000**
Increase in provision for dividends and cantonal shares of profit	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**10 000**
Allocation to provision for foreign exchange risks	**2 655 953**	**—**	**—**	**1 807 669**	**2 793 303**	**2 494 209**	**2 420 560**	**1 846 842**
Net profit	**7 593**	**7 593**	**7 593**	**7 593**	**7 593**	**7 593**	**607 593**	**608 405**
Allocation to the reserve fund	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000
Dividend	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500
Payment to the Federal Finance Administration	5 093	5 093	5 093	5 093	5 093	5 093	605 093	605 905
Total	**2 882 737**	**2 428 913**	**3 766 475**	**4 041 791**	**4 141 199**	**6 787 108**	**5 016 721**	**3 460 967**

[1] Total write-down of foreign exchange holdings less liquidation of the balance sheet item "Valuation adjustment to foreign exchange holdings"

Total write-down of foreign exchange holdings	3 703 300
less liquidation of the balance sheet item "Valuation adjustment to foreign exchange holdings"	1 564 175
	2 139 125

Income (in Sfr 1000)

	1985	1986	1987	1988	1989	1990	1991	1992
Operating income	**7 569**	**8 069**	**5 771**	**6 663**	**6 251**	**6 123**	**6 556**	**14 147**
Commissions	2 945	2 216	1 826	1 756	1 696	1 626	1 671	1 906
Income from bank buildings	3 170	5 313	3 446	4 462	4 088	4 100	4 518	11 949
Sundry income	1 454	540	499	445	467	397	367	292
Other income	**2 875 168**	**2 009 363**	**1 638 459**	**2 064 222**	**3 045 041**	**2 804 165**	**3 313 092**	**2 754 180**
Income from foreign exchange	2 709 177	1 834 097	1 462 698	1 924 021	2 848 708	2 585 097	3 084 661	2 512 481
Income from discounting	25 511	20 848	17 738	3 275	33 906	44 197	37 136	31 618
Income from money market paper	—	—	—	—	—	—	—	11 162
Income from secured advances	25 257	28 448	27 309	2 832	5 672	3 895	2 593	2 466
Income from own securities	113 281	123 449	128 782	132 877	149 504	160 163	176 113	184 290
Income from domestic correspondents	1 942	2 521	1 932	1 217	7 251	10 813	12 589	12 163
Appreciation of foreign exchange holdings	—	—	—	**1 970 906**	**1 089 907**	—	**1 697 073**	**692 640**
Transfer from the foreign exchange valuation adjustment account	—	—	—	—	—	**3 060 814**	—	—
Drawings on provisions for currency risks	—	**411 481**	**2 122 245**	—	—	**916 006**	—	—
Total	**2 882 737**	**2 428 913**	**3 766 475**	**4 041 791**	**4 141 199**	**6 787 108**	**5 016 721**	**3 460 967**

Explanatory notes to the profit and loss account for the year 1992

The profit and loss account was again characterised by the foreign exchange position. US dollar holdings were, as usual, valued at the average December rate, which stood at Sfr 1.4220, compared to Sfr 1.3877 in the previous year. The book profit of Sfr 692.6 million in foreign exchange holdings, which are not hedged against exchange rate risks, was credited to the item «valuation adjustment to foreign exchange holdings» via the profit and loss account. Of the net income of Sfr 2465.2 million, an amount of Sfr 608.4 million was used as net profit and Sfr 1846.8 million were allocated to provisions for foreign exchange risks. In addition, the provision for dividend equalisation and the amounts paid to the cantons was increased by Sfr 10 million, in keeping with the results of the 1990 population census.

Earnings deriving from foreign exchange holdings and trading diminished by Sfr 572.2 million to Sfr 2512.5 million due to lower interest rates.

Rediscounting of compulsory stockpile bills was again on the decline, with income falling by Sfr 5.5 million to Sfr 31.6 million.

Open market transactions in federal money market debt register claims introduced in September yielded an amount of Sfr 11.2 million.

Lombard business remained practically unchanged from the previous year's level; due to falling interest rates, income shrank somewhat to Sfr 2.5 million.

The expansion in securities holdings, with some higher yields, boosted interest income by Sfr 8.2 million to Sfr 184.3 million.

The discount rate is the applicable rate on credits to domestic correspondents. This rate was lowered on 15 and 25 September by half a percentage point each to 6%, causing interest earnings to fall to Sfr 12.2 million.

Operating income showed a strong rise in proceeds from bank premises deriving from the sale of the building which housed the former La Chaux-de-Fonds agency.

An increase in the number of persons employed, pay rises, and cost-of-living allowances for retired staff pushed up staff expenditure by Sfr 4.7 million to Sfr 76.0 million.

Expenditure on premises fell by Sfr 11.2 million to Sfr 17.2 million due to lower extraordinary outlays on renovations.

At Sfr 12.3 million, expenditure on equipment was slightly below the previous year's figure; in addition to new furnishings and vehicles, this item includes mainly the costs for the acquisition and development of data processing hardware and software.

The item information and communications, which rose by Sfr 5.7 million to Sfr 8.6 million, covers expenditure for a new telephone system at the Zurich head office.

Outlays in connection with the printing and circulation of bank notes increased by Sfr 3.3 million to Sfr 26.4 million. The additional expenditure is partly attributable to the development of the new series of bank notes.

Interest payments in favour of the Federal Government rose by Sfr 9.1 million to Sfr 92.0 million despite lower interest rates; this is due to a smaller volume of federal time deposits being placed in the market.

The cost of writing down the value of newly acquired securities by Sfr 142.8 million was offset against book profits of Sfr 107.7 million on the repayment of securities previously written off. This resulted in a write-off to the tune of Sfr 35.1 million.

Tax expenditure, which comprises direct federal tax for the assessment period 1991/92, also includes profits tax on real estate which became payable in connection with the purchase of the AG Hotel Bellerive-au-Lac, Zurich, in 1986.

4. Organisation (as on 1 April 1993)

4.1 Supervisory authorities

Bank Council	40 members President: Peter Gerber Vice-President: Jakob Schönenberger
Bank Committee	10 members of the Bank Council, including its president and vice-president
Local Committees	3 members each; at both head offices and the eight branches
Auditing Committee	Chairman: Peter Blaser

4.2 Bank management

Governing Board	Markus Lusser, Zurich Hans Meyer, Berne Jean Zwahlen, Zurich
Secretariat General	
Secretary General	Andreas Frings, Director, Zurich
Deputy Secretary General	Hans-Ueli Hunziker, Senior Officer, Berne Michel Gremaud, Senior Officer, Zurich

Department I (Zurich)

Head of Department	Markus Lusser, Chairman of the Governing Board
Press Relations	Werner Abegg, Assistant Director
Deputy Heads of Department	Peter Klauser, Director Georg Rich, Director
Economic Division	Georg Rich, Director
Economic Studies Section	Jean-Pierre Béguelin, Director (until 30 April 1993)
Research	Erich Spörndli, Assistant Director Hans-Jürg Büttler, Economic Adviser Franz Ettlin, Economic Adviser Michel Peytrignet, Economic Adviser
Economic Analysis	Eveline Ruoss, Assistant Director
International Monetary Relations Section	Monique Dubois, Deputy Director
International Monetary Cooperation	Roberto Cippà, Assistant Director (on leave)
European Monetary Integration	Umberto Schwarz, Senior Officer

Banking Studies Section	Urs W. Birchler, Director
International Financial Markets	Urs W. Birchler, Director
Studies	Werner Hermann, Assistant Director
Capital Exports	Mauro Picchi, Senior Officer
Statistics Section	Christoph Menzel, Director
Publications	Robert Fluri, Assistant Director Willi Heyden, Senior Officer
Balance of Payments	Thomas Schlup, Senior Officer
Data Bank	Rolf Gross, Assistant Director
Legal and Administrative Division	Peter Klauser, Director
Legal Service	Peter Merz, Deputy Director Martin Hess, Assistant Director
Personnel	Gerhard Nideröst, Director Beat Blaesi, Assistant Director
Pension Fund	Peter Hadorn, Deputy Director
Premises, Technical Services	Theo Birchler, Assistant Director
Internal Auditors	Ulrich Willi Gilgen, Director Othmar Flück, Assistant Director

Department II (Berne)

Head of Department	Hans Meyer, Vice-Chairman of the Governing Board
Deputy Head of Department	Hans Theiler, Director
Adviser	Max Baltensperger, Director
Security	Alex Huber, Assistant Director
Banking Division	Theodor Scherer, Director
Securities	Hans-Christoph Kesselring, Deputy Director Niklaus Wyss, Senior Officer Alexander Hugi, Senior Officer
Central Accounting	Hans-Peter Dosch, Deputy Director
Correspondence, Bills and Cheques, Dispatch	Daniel Ambühl, Assistant Director Eric Berthoud, Senior Officer
Cashier's Office (Berne)	Paul Bürgi, Assistant Director
Cash and Collection (Chief Cashier's Office)	Roland Tornare, Chief Cashier of the Bank, Director Peter Trachsel, Deputy Chief Cashier, Assistant Director
Administration, Transport	Peter Halter, Senior Officer
Storage	Beat Rytz, Senior Officer
Processing	Urs Locher, Senior Officer
Technical services	Urs Suter, Senior Officer

Department III (Zurich)

Head of Department	Jean Zwahlen, Member of the Governing Board
Deputy Heads of Department	Jean-Pierre Roth, Director Christian Vital, Director
Staff	Dewet Moser, Senior Officer
Monetary Operations Division	Jean-Pierre Roth, Director
Foreign Exchange Section	Karl Hug, Deputy Director Erich Maurer, Senior Officer
Investment Section	Markus Zimmerli, Deputy Director Peter Bechtiger, Senior Officer Urs Oberhänsli, Senior Officer
Money Market Operations, Bills and Cheques	Beat Spahni, Assistant Director
General Processing and Informatics Division	Christian Vital, Director
General Processing Section	Daniel Wettstein, Deputy Director
Payments Transactions	Eugen Guyer, Deputy Director Walter Gautschi, Senior Officer
Cashier's Office	Roland-Michel Chappuis, Assistant Director
Correspondence	Markus Steiner, Assistant Director
Accounting	Werner Bolliger, Assistant Director Ulrich Kläntschi, Senior Officer
Informatics Section	Rudolf Hug, Director Raymond Bloch, Assistant Director
Banking Applications	Roger Arthur, Assistant Director Roland Wettstein, Senior Officer
Statistical Applications	Jürg Ziegler, Deputy Director Christoph Straub, Senior Officer
Office Automation/ Communication	Peter Bornhauser, Assistant Director
Systems Engineering	Jules Troxler, Assistant Director Werner Knecht, Technical Consultant
Computer Centre Zurich	Peter Künzli, Assistant Director
Computer Centre Berne	Bruno Beyeler, Assistant Director

Branches

Aarau	Heinz Alber, Director Fritz Merz, Deputy of the director
Basle	Anton Föllmi, Director Eugen Studhalter, Deputy of the director
Geneva	Yves Lieber, Director Jean-Daniel Zutter, Deputy of the director
Lausanne	François Ganière, Director Nivardo Zanini, Deputy of the director
Lucerne	Max Galliker, Director Josef Huber, Deputy of the director
Lugano	Cesare Gaggini, Director Franco Poretti, Deputy of the director
Neuchâtel	Jean-Pierre Borel, Director Jacques Jolidon, Deputy of the director
St. Gall	René Kästli, Director Anton Keller, Deputy of the director

Agencies

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

Altdorf, Appenzell, Bellinzona, Bienne, Chur, Delémont, Fribourg, Glarus, Herisau, Liestal, Sarnen, Sion, Solothurn, Schaffhausen, Schwyz, Stans, Thun, Weinfelden, Winterthur, Zug.

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