

Annual report 1988
Abridged version

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1. Economic developments – a summary

1.1 International economic and monetary developments

Contrary to widespread fears, the stock market collapse in October 1987 and the subsequent further decline in the dollar's exchange rate did not lead to a slackening of economic activity in the industrialised countries. In actual fact, the economic recovery, which had already become discernible in 1987, gained momentum. In 1988, real GNP in the OECD countries rose, on average, by approximately 4%, following a 3.3% increase in the previous year. The OECD countries exhibited narrower growth differentials than in earlier years. In most countries inflation accelerated somewhat, the average rate in the OECD countries climbing to 3.8% (1987: 3.2%). Substantial inflationary stimuli emanated from raw materials prices, which – with the exception of the oil price – rose markedly.

Increased economic growth in the OECD countries – a slight rise in inflation

Various factors helped to quicken the pace of economic growth. After the slump in stock market prices the central banks of most OECD countries relaxed their monetary policies in order to obviate the danger of an economic cooling off and to brake the slide of the dollar. This caused a fall in interest rates at the beginning of 1988 which in turn boosted demand for goods and services. Tax concessions in various countries and a renewed decline in oil prices provided additional support to the economy.

Stimuli emanating from monetary and fiscal policies

In 1988 demand was stimulated largely by investments. In a number of countries the economic upswing also derived much of its force from exports. Private consumption in the industrialised countries increased at approximately the same pace as in the previous year.

Capital investment and exports as major pillars of economic activity

According to preliminary estimates of the OECD, the volume of world trade increased by around 9%, compared to 5.5% a year earlier. This strong expansion reflected primarily the vigorous import growth in the industrialised countries of Europe, in Japan and in Asia's newly industrialising countries. The US current account deficit contracted somewhat after having risen continuously since 1982. By contrast, Japan's current account surplus declined. Among the European countries, notably West Germany exhibited a slightly larger surplus while Britain's current account deficit widened appreciably.

Vigorous expansion in world trade

The vigorous growth in output led to higher capacity utilisation and rising employment levels in most industrialised countries. A shortage of qualified manpower made itself felt in numerous countries. Unemployment figures, however, dropped noticeably only in the United States and the United Kingdom. In most countries of the EEC, by contrast, the number of new jobs and the increased number of persons seeking employment more or less balanced each other.

High capacity utilisation – increased employment

Mixed picture of economic development in NICs and LDCs

In 1988 a few rays of light appeared in the economic situations of the less developed and newly industrialising countries but on the whole the darker shades predominated. Most of the non-oil-exporting countries of Latin America were able to step up their export earnings owing to brisk demand from the industrialised countries and the recovery in major raw materials prices. This helped to somewhat ease the debt servicing burden measured in terms of export earnings. Notably in Argentina and Brazil, however, domestic economic problems were exacerbated. The inflation rate soared to four-digit figures and real income per head of the population declined. In the Latin American and African countries heavily dependent on oil exports, too, recessionary trends began to emerge. In most other African countries real economic growth lagged marginally behind the population increase. Asia's newly industrialising countries were the only group able to vigorously boost growth. In these efforts they benefited, in particular, from dynamic Japanese demand.

Economic cooperation: concerted interventions in the foreign exchange markets

The turbulences in the financial and foreign exchange markets in autumn 1987 once again highlighted the close economic integration of the industrialised countries. Against this background the industrialised countries reaffirmed their willingness to cooperate in economic policy matters. A case in point are the concerted interventions in the foreign exchange markets with which the monetary authorities sought to prevent a further downward slide of the US dollar at the start of 1988. In the second quarter the United States' more restrictive monetary policy and the signs of an improvement in the US trade balance had the effect of strengthening the dollar. In the course of summer the exchange rate rose to a level that threatened to jeopardise any endeavours by the industrialised countries to reduce the persistently high external imbalances. The monetary authorities accordingly tried to prevent a further rise in the dollar's exchange rate by means of concerted interventions in the foreign exchange markets.

More restrictive monetary policy in the second half of the year

Most industrialised countries pursued rather expansionary monetary policies in the first half of 1988. Around the middle of the year, however, a number of European central banks tightened the monetary reins. Between June and August and also in December benchmark rates were raised, a reaction of the monetary authorities to the strong economic growth which was again increasingly triggering inflationary fears.

1.2 Economic developments in Switzerland

In Switzerland the economic upswing also gained strength. The growth of real GDP in 1988 is estimated to have amounted to 3%, thus exceeding the 1987 figure. At the beginning of the year, under the impact of the stock market collapse in October 1987, most forecasting institutions had anticipated a slowing of the upswing in economic activity.

Favourable economic situation in Switzerland

Particularly noteworthy was the significant increase in exports owing to brisk foreign demand for capital goods. The chief pillars of the domestic economy were private consumption and construction. Capital investment in building projects by small businesses and industry showed remarkably dynamic development. This is an indication that business enterprises did not confine themselves to investing in rationalisation and modernisation but, in addition, increasingly expanded their production capacities. Equipment investment again exhibited vigorous growth.

Increase in exports – boom in construction

Industrial production, which had expanded conspicuously in the second half of 1987, continued to rise. For the first time, utilisation of technical capacities exceeded the peak attained during the last business cycle in the mid-eighties. On the other hand, employment in industry stagnated at the previous year's level. A grievance to be heard in numerous sectors was the lack of qualified staff. In the building trade and the services sector employment levels again rose perceptibly. Overall, jobless figures, which are low by any standards, continued to fall while vacancies clearly surpassed the 1987 level.

Higher capacity utilisation and employment

Lively domestic demand led to a sharp expansion in the volume of imports, causing the trade balance deficit to widen significantly. Since at the same time the traditional surplus from cross-border flows of services and capital income minus labour income shrank, the current account surplus contracted.

Widening trade balance deficit

Money market rates temporarily declined at the beginning of 1988 as the Swiss National Bank only gradually adjusted the supply of base money to the reduction in demand brought about by the imposition of new liquidity requirements for banks and further progress in the introduction of the Swiss Interbank Clearing System (SIC). By about mid-year money market rates had again reached the previous year's level. The erratic interest rate fluctuations in the money market had relatively little impact on long-term interest rates. Calculated over the year, the average yield on Federal Government bonds about equalled the 1987 figure.

Fluctuations in short-term interest rates – stable yields in the capital markets

Slight rise in inflation

Measured by the consumer price index, inflation rose from 1.4% in 1987 to an average rate of 1.9%. This increase is due chiefly to price rises in the services sector. Falling oil prices, on the other hand, had a dampening effect on inflation. Overall, the price index of foreign goods remained virtually unchanged while domestic prices advanced by 2.6%.

2. Central bank policy and financial markets in Switzerland

2.1 Some features of Swiss National Bank policy

The monetary policy of the Swiss National Bank is oriented to maintaining price stability in Switzerland in the longer term. If this goal is to be achieved, the monetary base must expand by a medium-term average of approximately 2% per annum. In setting its annual targets, the Swiss National Bank also takes into account – aside from this medium-term guideline – the current economic situation and the prospects for the year ahead.

Principles of monetary policy

The Governing Board set a growth target for the adjusted monetary base of 3% for 1988. This target figure was meant to show that the Swiss National Bank intended to implement a similar policy in 1988 as in 1987, when the monetary base expanded by just under 3%. When the money supply target was fixed in December 1987, shortly after the stock market crash and against the background of a weakening dollar, there was reason to fear a considerable cooling down in the economic climate the following year; this ruled out a more restrictive monetary policy. At the same time the Swiss National Bank was aware that the imposition of new liquidity requirements for banks and further progress in the introduction of the electronic Swiss Interbank Clearing System (SIC) would reduce the banks' demand for base money. The Swiss National Bank therefore emphasised that even more so than in other years the money supply target was meant only as a guideline.

Money supply target for 1988

The banks' demand for base money actually did decline substantially as from the beginning of the year. For this reason, the Swiss National Bank was compelled to adjust its money supply if monetary policy was to be as restrictive as planned. In keeping with this, it reduced the supply of base money on average by 3.9% in 1988. Sight deposits at the central bank declined by almost 34% on an annual average; during the fourth quarter they even fell to less than half of the level attained a year earlier. This huge decline is primarily attributable to the new regulations on bank liquidity; in addition to this, the development of the SIC system plays a prominent role – albeit one difficult to quantify.

Impossibility of adhering to money supply target of 3%

According to the earlier regulations on bank liquidity the ratio of prescribed cash assets, including central bank deposits, to short-term deposit liabilities had been relatively high. However, checks to ensure that these requirements were being fulfilled were only made at the end of every month. At the end of 1987 legally prescribed cash liquidity amounted to some Sfr 18 billion. Under the new requirements, which entered into force on 1 January 1988, every institution subject to the Banking Law must have cash reserves, on a monthly average (computed from the 20th of each month until the 19th of the following month), equivalent to at least 2.5% of

New liquidity requirements for banks

total sight deposits and time deposits (with maturities of up to 30 days); savings funds must be secured in the same ratio but are only considered to the extent of 20%. The legally required total cash liquidity of the banks averaged Sfr 4.5 billion in 1988. The banks in fact had considerably higher cash holdings. In 1988 they averaged Sfr 9.6 billion, Sfr 3 billion of which was accounted for by cash, Sfr 0.8 billion by postal cheque account balances and Sfr 5.8 billion by sight deposits at the Swiss National Bank.

Lower demand by banks
at the end of the
month ...

The new liquidity requirements have led to a change in the banks' behaviour. At the end of the month they no longer needed additional liquidity as they did under the previous regulations. Only at the end of a quarter do peaks in demand for sight deposits still occur since some banks like to exhibit higher cash liquidity in the balance sheets which they publish quarterly. As the Swiss National Bank financed this window-dressing by means of additional sight deposits in 1988, overnight rates were subject to fewer fluctuations than in the past. Record rates frequently exceeding 50% that used to be observable at the end of the month have disappeared.

... and during the month

The banks, however, did not only have a reduced demand for sight deposits at the end of the month but also during the month. This is due to two reasons. First, under the new liquidity requirements even during the month a lower level of cash holdings is prescribed than under the former regulations although this was only checked at the end of the month. For since under the old regulations the Swiss National Bank had not been prepared to make the full amount of legally required liquidity available in the form of one-day or two-day credits over the month-end, the banking system was obliged to borrow part of the liquid funds for an extended period and hold them throughout the month. Consequently money market liquidity was at times so high that the overnight rate plunged to near-zero. Second, due to the SIC system the banks required less base money than formerly for effecting payment transactions. Under the old payment system they did not know the exact balance on their sight deposit accounts until the end of the day; this forced them to build in a certain safety margin in their daily cash dispositions. Since with the SIC system the banks are at all times informed of the current balance on their account, this additional demand has become almost negligible. As a gross payment system providing for the payment of individual amounts SIC, however, requires substantial sight deposits held at the central bank; in this it differs from a net payment system, in which such sight deposits are only used for settling residual amounts.

Gradual reduction in the
supply of base money in
the first half-year

The Swiss National Bank reacted cautiously to the drastic decline in demand for liquidity since the beginning of 1988. In January it did not reduce the supplementary liquidity it had put at the banks' disposal during the end-of-year settlement more rapidly than in previous years. Not only did it wish

to allow the banks sufficient time to become accustomed to the new legal environment, but it also wanted to prevent any further peaks in the banks' demand for central bank money from occurring at the end of the month. Between February and the beginning of June it reduced the supply of central bank deposits fortnightly by approximately Sfr 500 million. Subsequently, money market rates, which had plummeted at the end of January (when the one-month rate was below 1%), embarked on an upward trend until, from June onwards, they were again moving more or less on the previous year's level. At the end of spring, when central bank sight deposits were fluctuating between Sfr 5–5.5 billion, the Swiss National Bank did not immediately continue to reduce them since it wished to evaluate the longer-term effects on the market of the policy implemented up to then.

The cautious approach adopted by the Swiss National Bank – when the adjustment period is seen in retrospect it may be regarded as overly cautious – seemed appropriate for a number of reasons. After the stock market collapse uncertainty surrounded the future development of the economy. An all too rigorous tightening of the supply of central bank money might have led to an excessive further rise in the Swiss franc exchange rate and might well have brought Switzerland to the edge of recession. Moreover, the Swiss National Bank was unable to assess the exact extent of the decline in the banks' demand. Despite this uncertainty, it was unwilling to depart from its practice of steering the money supply directly and to set a temporary interest rate target. The banks would have tended to reduce their cash holdings to a minimum and rely on the Swiss National Bank for unlimited refunding in the event of an unforeseen shortage of central bank money. Returning to the traditional method of direct control over the monetary base at a later stage could have proved difficult. The low level of central bank deposits would hardly have guaranteed a smooth functioning of the SIC system and the banks would regularly have had to resort to additional central bank refinancing credits. In order to avoid these problems, the Swiss National Bank preferred to cut back the supply of money gradually and to regard the money market rate merely as an indicator rather than as a target of its policy. This procedure, however, inevitably delayed a return of interest rates to a more normal level.

Reasons for the cautious attitude of the SNB during the first half-year

In the second half of the year demand for central bank deposits receded more slowly than in the first six months. Between the middle of June and the end of December such deposits diminished from Sfr 5.5 to Sfr 4 billion. In July the banks even temporarily increased their cash holdings on account of a further extension of the SIC system. Other interbank payments, which had hitherto still been transacted via magnetic tapes, were now also being directed via SIC. This boosted the number of daily payments in the SIC system by more than 100 000 transactions on average. Since technical

The situation returns to normal in the second half-year

bottlenecks accompanied the early stages of this extension, several institutions needed additional liquid funds to cover their payments, resulting in an overall rise in the demand for base money. Once these problems had been overcome, the level of sight deposits at the Swiss National Bank returned to normal.

Degree of restriction of monetary policy in 1988

Seen over the entire year, the stance of monetary policy turned out to be somewhat more expansionary than envisaged at the start. This is especially true of the first half of the year, in which the Swiss National Bank only reacted stepwise to the decline in the demand for base money, causing interest rates to fall steeply. Once the adjustment process had neared completion, monetary policy was more or less back on its intended course from June onwards. Until October short-term interest rates varied between 3.4% and 4%, thus corresponding to the previous year's level. From November onwards monetary policy was tightened and interest rates climbed to over 4%. This correction notwithstanding, monetary policy was on the whole more expansionary in 1988 than originally intended.

Money supply target for 1989

The Swiss National Bank intends to bring the growth of its money supply back to a level compatible with the goal of maintaining price stability. It has all the more reason to do so as the economy in Switzerland is showing signs of overheating. The Governing Board, in agreement with the Federal Government, has therefore set the money supply target at 2% for 1989. In order to avoid a distorting statistical basis effect on account of the very unusual development of base money in 1988 the computation of the target rests on the average level of the adjusted monetary base achieved in the fourth quarter of 1988. The target figure is defined as the arithmetic mean of the twelve corresponding annualised monthly growth rates; moreover, unlike in the past, seasonally adjusted values are used. As in previous years, the money supply target is meant as a guideline. The adjustment to the new liquidity requirements and to the SIC system has possibly not been quite completed yet. The Governing Board reserves the right to deviate from this target should circumstances warrant this.

2.2 Development of the monetary aggregates

Decrease of the adjusted monetary base

Following the introduction of the new liquidity requirements and the continued extension of the Swiss Interbank Clearing system (SIC), the adjusted monetary base narrowed markedly in 1988. The reduction in liquidity reserves held by the banks led to a steep decline in sight deposits at the

Swiss National Bank, which fell short of the previous year's level by an average of 33.9%. By contrast, the growth of bank note circulation accelerated to 4.2% in 1988 from 3.5% a year earlier. There are two reasons for this development. On the one hand, the higher level of real economic growth and rising inflation in Switzerland have stimulated the demand for bank notes. On the other hand, lower interest rates have induced investors to hold a larger proportion of their assets in bank notes. Statistical studies for Switzerland indicate that the demand for bank notes, in particular large denominations of 500 and 1000 Swiss francs, reacts inversely to changes in money market and savings rates. As in the previous year, therefore, demand for large denominations showed a more rapid rise, i. e. by 4.9% on an annual average, compared to 3.3% for the smaller denominations.

In 1988 the money stock M_1 expanded by 14.5%. This is distinctly in excess of the 7.5% increase recorded in the previous year. The strong acceleration in the growth of M_1 reflects, above all, a steep rise in the growth rate of the sight deposits of the non-bank public to 19.2% as against 10% a year earlier. This development set in at the start of 1988. Usually the money stock M_1 expands temporarily at the end of the year for seasonal reasons. This was also clearly the case in December 1987 but in January 1988, unlike in other years, it did not subsequently contract. Moreover, time deposits at the

Surge in the money stock M_1

Development of monetary aggregates ¹

Yearly and quarterly averages

Year/ Quarter	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 % ⁷	Billions of francs ⁶	Change % ⁷	Billions of francs ⁶	Change % ⁷
1984	30.5	2.6	61.0	2.6	104.8	5.6	240.1	6.2
1985	31.1	2.2	61.1	0.1	112.4	7.3	251.7	4.8
1986	31.8	2.0	66.4	5.0	126.2	5.9	277.1	6.7
1987	32.7	2.9	71.4	7.5	138.5	9.8	303.4	9.5
1988	31.4	-3.9	81.6	14.5	149.3	7.9	332.8	9.8
1988								
1st quarter	33.0	1.3	80.7	17.4	144.8	10.2	324.7	11.2
2nd quarter	31.1	-3.6	83.0	18.5	148.3	8.9	333.0	11.2
3rd quarter	30.8	-4.5	80.2	14.0	150.6	7.9	335.0	9.8
4th quarter	30.7	-8.7	82.5	8.2	153.3	4.5	338.6	6.8

¹ Cf. Monthly Report of the SNB, tables 11 and 12: from 1986 onwards the Principality of Liechtenstein is included in domestic figures.
² Adjusted monetary base = Note circulation plus banking system's deposits with the SNB less end-of-month refinancing credits.
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 Averages of monthly growth rates in relation to the previous year's figures.

Elimination of end-of-month peaks in short-term money market rates

banks declined markedly between December 1987 and February 1988. This development, which points to a shift from time into sight deposits, is a consequence of the introduction of the new liquidity requirements, which have altered the behaviour of bank customers, notably the big industrial and commercial firms as well as institutional investors. Under the former liquidity regime overnight money market rates soared regularly before the end of the month. In order to benefit from the high rates offered at that time some bank customers temporarily switched from sight deposits to short-term time deposits. Under the new liquidity requirements end-of-month peaks in money market rates have been eliminated and there is no longer any such incentive for bank customers to temporarily change the composition of their bank deposits. Since the Swiss National Bank data on the money stock M_1 , and also on M_2 and M_3 , are based on end-of-month figures only, this changed behaviour was reflected in the statistics. The published money stock M_1 thus rose more steeply – mainly for statistical reasons – from the previous year's level. On average during the month, however, the growth of M_1 is likely to have been much slower.

Accelerated growth of savings deposits

Unlike the money stock M_1 , the aggregates M_2 and M_3 were not affected by shifts from time into sight deposits. The slight decline in the growth rate of M_2 from 9.8% in 1987 down to 7.9% in 1988 is partly attributable to a switch from time to savings deposits. This rearrangement is assumed to have taken place mostly in the first half of the year when time deposit rates dropped to well below savings rates. A further reason for the accelerated growth of savings deposits (11.4%, compared to 9.2% a year earlier) is to be seen in the excellent state of the Swiss economy. The expansion of the money stock M_3 increased from 9.5% in 1987 to 9.8% in 1988.

2.3 The financial markets

Money market

Initial sharp decline in money market rates

After a sharp decline early in the year money market rates rose by more than two percentage points to 3.9% until July, i. e. to approximately the average level of the previous year. By autumn they had receded somewhat, only to move up again by around one-and-a-quarter percentage points by the end of the year. The phases of declining money market rates are due to the fact that – seen in retrospect – the Swiss National Bank adjusted the

supply of money step by step to persistently diminishing demand as a result of the new liquidity requirements and the further extension of SIC.

Interest differentials vis-à-vis other countries widened. Whereas in 1987 annual average interest rates on three-month D-mark deposits had only narrowly surpassed the yield on comparable investments in Swiss francs, the respective interest differential in 1988 increased by approximately one percentage point. Even more pronounced was the average widening of the interest differential vis-à-vis Eurodollar deposits (4.7 percentage points as against 3.3 in the previous year).

Wider interest differentials vis-à-vis other countries

As measured by the banks' sight deposits at the Swiss National Bank, average market liquidity amounted to Sfr 5.7 billion, i.e. Sfr 3 billion below the previous year's level. The new liquidity requirements did not only bring about a strong decline in the average level of central bank sight deposits, but they also changed the pattern of end-of-month peaks in these deposits. While such peaks no longer occurred at normal month-ends, the level of central bank sight deposits at the end of each quarter continued to rise as before, albeit to a considerably lesser extent than under the former liquidity requirements. This increase at the end of a quarter is primarily an indication of the banks' desire to exhibit a higher level of liquidity on balance sheet dates (so-called window-dressing). During this period the Swiss National Bank accommodated the supply of base money to the supplementary demand at the end of each quarter in order to prevent a rise in short-term interest rates.

Lower demand for liquidity by the banks

The National Bank's credits to the banking system

Month	Credits in millions of francs, monthly averages							
	Swap credits		Discount and Lombard advances		Total		of which: end-of-month refinancing credits ¹	
	(1)		(2)		(3) = (1) + (2)		(4)	
	1987	1988	1987	1988	1987	1988	1987	1988
January	15 041	14 293	437	342	15 478	14 635	285	316
February	14 308	13 789	1 117	75	15 425	13 864	430	—
March	14 490	12 486	717	78	15 207	12 564	676	60
April	13 727	11 128	999	87	14 726	11 215	1 004	—
May	14 005	11 309	681	86	14 686	11 395	329	—
June	13 174	10 907	1 333	109	14 507	11 016	952	142
July	13 258	11 816	1 066	123	14 324	11 939	888	—
August	13 226	11 735	1 006	90	14 232	11 825	456	—
September	12 799	12 114	904	79	13 703	12 193	667	150
October	12 902	10 986	926	119	13 828	11 105	791	—
November	13 249	10 646	1 192	144	14 441	10 790	741	—
December	16 883	12 077	1 126	293	18 009	12 370	1 471	123

¹ Corresponds to the difference between the monetary base and the adjusted monetary base.

Abolition of reporting procedure

The considerably reduced significance of end-of-month settlement transactions induced the Swiss National Bank in May to abolish the reporting procedure for utilising central bank credits at the end of the month, as also the required minimum duration of five days for Lombard credits which had been in force until then.

Raising of benchmark rates

The Swiss National Bank raised the Lombard rate in two steps – on 1 July and on 26 August 1988 – by a total of one percentage point to 5%. Simultaneously – on 26 August – it lifted the discount rate by half a percentage point to 3%. On 19 December it again increased the Lombard and discount rates to 5.5% and 3.5% respectively. Since the beginning of 1988 the Swiss National Bank has pursued the basic aim of keeping the Lombard rate above short-term market rates. This measure is designed to encourage the banks to resort to Lombard credits only when their state of liquidity is exceptionally tight.

Foreign exchange market and exchange rates

Higher exchange rate of dollar, pound and yen

The exchange rate of the Swiss franc showed irregular development vis-à-vis the major currencies in 1988. After the lowest ever dollar rate on record of Sfr 1.27 had been paid at the end of 1987, the US currency recovered to Sfr 1.61 by mid-August. Subsequently the dollar rate slipped to Sfr 1.51 by the end of the year. The Swiss franc exhibited a similar development vis-à-vis the Japanese yen and the British pound as against the US dollar while remaining stable in relation to the French franc and the Italian lira. In the fourth quarter of 1988 the Swiss franc rate of the D-mark varied between approximately 83 and 84 centimes after having hit a low of 80 centimes at the end of December 1987.

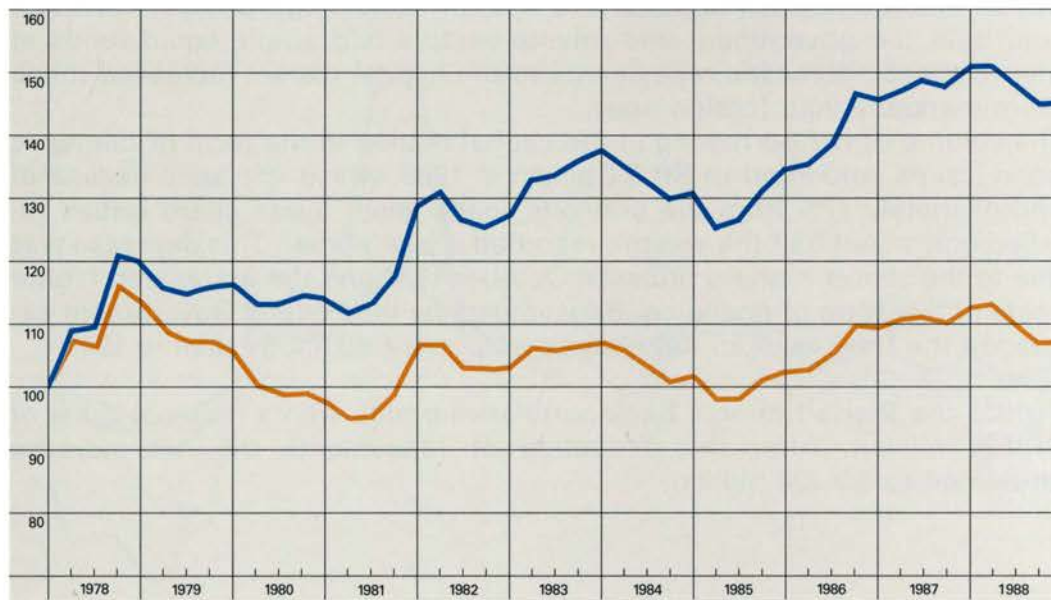
Decline in export-weighted exchange rate

The export-weighted exchange value of the Swiss franc decreased between the first and the fourth quarters. Even more marked was the decline in the corresponding real value of the Swiss franc. Since the overall rate of inflation in Switzerland was lower than in other countries the average real exchange rate of the Swiss franc for the year 1988 fell short of the previous year's level by 1.8% while in nominal terms it declined by a mere 0.9%.

Interventions in the foreign exchange market

In coordination with other central banks the Swiss National Bank intervened repeatedly in the foreign exchange market. From January to April 1988 and again in November 1988 it purchased a total of \$ 320 million; between June and October, on the other hand, it sold \$ 730 million.

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).

Capital market

As in the previous year, the bond market was characterised by quiet development in 1988. The yield on Federal Government bonds showed little fluctuation, the annual average rate amounting to 4%. In April it slipped to its lowest point at 3.75%, while peaking at 4.22% in July. The marked decline in money market rates at the beginning of 1988 scarcely affected capital market rates. The main reason for the stability of the latter was probably due to the investors' perception of the fall in money market rates in early 1988 as a passing phenomenon.

Stable long-term interest rates

Gross borrowing in the Swiss capital market in the form of bond issues (including notes) and share issues increased from Sfr 52.9 billion in the previous year to Sfr 56.2 billion. Of this amount, 24.8% was accounted for by bonds and 4.1% by equity offerings of domestic issuers. At 71.1% the proportion of bonds launched by foreign debtors was well in excess of the previous year's level (1987: 68%).

Increased gross borrowing in the Swiss capital market

Shift from domestic to foreign business

As measured by net borrowing (gross borrowing less repayments) the shift from domestic to foreign business was probably even more pronounced (no complete statistics exist for net foreign borrowing). Since in Switzerland both the government and private sectors had ample liquid funds at their disposal, domestic repayments to the capital market increased much more markedly than foreign ones.

The volume of net borrowing in the capital market in the form of domestic bond issues amounted to Sfr 5.8 billion in 1988, which implies a decline of approximately 17% from the previous year's level. Swiss share issues totalled only about half the volume recorded a year earlier. This decrease was due to the slump in share prices in October 1987 and the associated higher costs of this form of financing. Repayments by the Federal Government exceeded the total value of new issues even more distinctly than in 1987.

Bond purchases by the Swiss National Bank

In 1988 the Swiss National Bank purchased bonds with a nominal value of Sfr 539 million. After the deduction of repayments the net increase amounted to Sfr 324 million.

Capital export authorisations according to financial instruments and groups of countries (percentages)

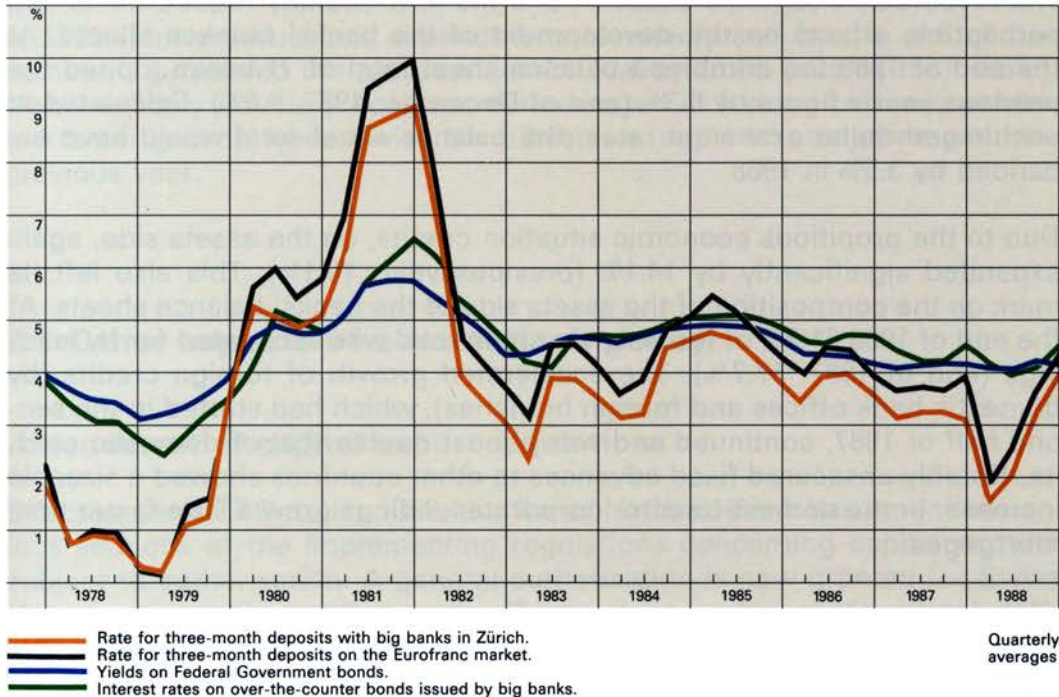
Financial instruments	1983	1984	1985	1986	1987	1988
Bonds ¹	25.6	27.4	37.5	84.4 ²	77.3	78.7
Notes	51.4	47.6	41.5	—	—	—
Loans	22.9	25.0	21.0	15.6	22.7	21.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Groups of countries						
Industrial countries	78.7	73.7	79.2	85.6	89.8	85.5
Developing countries	8.5	8.8	4.7	2.8	4.8	4.9
Centrally planned economies	1.1	2.3	3.6	2.9	3.2	3.1
OPEC	0.6	1.0	0.2	1.2	—	0.5
International organisations ³	11.1	14.2	12.3	7.5	2.2	6.0
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total, billions of francs	40.2	40.9	46.1	51.4	47.3	50.9

¹ Including foreign currency and dual currency bonds.

² Abolition of technical distinctions between public bonds and medium-term Swiss franc notes with effect from 29 May 1986.

³ IBRD, AsDB, AfDB, IDB, EIB, Coal and Steel Community, Euratom, Council of Europe Resettlement Fund.

Money and capital market rates



Following the collapse of share prices in autumn 1987 capital exports subject to authorisation diminished sharply for a time, particularly in the bond sector. However, owing to the low level of Swiss interest rates and the unexpectedly favourable international economic development this line of business made a surprisingly quick and steep recovery at the beginning of 1988. In the first six months of the year the issuing volume and total credits exceeded the previous year's level by approximately 37% and a good 45% respectively. This rapid growth, however, already began to slow at the start of summer, subsequently making way for a marked decline. All in all, capital exports subject to authorisation totalled Sfr 50.9 billion in 1988, 7.6% up on the previous year's level. The proportion ascribable to credits amounted to 21.3%.

Pick-up in capital exports subject to authorisation

As in the previous year, the bulk of capital exports subject to authorisation (85.5%) was accounted for by borrowers from the industrialised countries. Japan again headed the list by absorbing 30.5%, while 4.9% went to developing countries and 6% to development banks.

Increased share of industrialised countries

2.4 Bank balance sheets

Growth of bank balance sheets

The favourable economic situation and the new liquidity requirements had perceptible effects on the development of the banks' balance sheets. At the end of 1988 the combined balance sheet total of 71 banks topped the previous year's figure by 6.3% (end of December 1987: 6.6%). Calculated at unchanged dollar exchange rates, the balance sheet total would have expanded by 3.5% in 1988.

Strong expansion of credits

Due to the propitious economic situation credits, on the assets side, again expanded significantly by 14.1% (previous year: 10.1%). This also left its mark on the composition of the assets side of the banks' balance sheets. At the end of 1988 61.9% of the balance sheet total was accounted for by lendings (end of 1987: 57.7%). The accelerated growth of foreign credits (by domestic bank offices and foreign branches), which had started in the second half of 1987, continued and was almost double that of domestic credits. Notably unsecured fixed advances to other countries showed a sizeable increase. In the domestic sector corporate lendings grew a little faster than mortgages.

Lower level of investments

With lendings expanding more rapidly than customer deposits, investments diminished in the second half of the year. At the end of 1988 this item – in net terms, i. e. after the balancing of interbank business – fell short of the previous year's level by 8.8%. The influence of the new liquidity requirements is largely responsible for the inordinately steep decline – by 55.9% – in liquid funds (cash, postal cheque accounts and – the main component – sight deposit accounts at the Swiss National Bank). Bills and money market paper denominated mainly in foreign currencies were also on a downtrend while the bank's own securities exhibited a slight rise. The principal reason for the decrease in bills and money market paper is to be seen in the higher capital adequacy requirements applying to these balance sheet items as opposed to interbank balances. By contrast, the proportionally largest item among the investments, the balance of interbank deposits, showed an increase.

Growth of customer deposits

On the liabilities side, the inflow of customer deposits gathered force until autumn 1988 but slowed down in the fourth quarter. At the end of 1988 customer deposits exceeded the previous year's level by 8.1% (end of 1987: 6.7%). As in the year before, savings accounts and deposits were the largest item on the liabilities side. Their rate of growth accelerated until mid-year, followed by a decline. At the end of 1988 they were up on the 1987 level by 7.1%. With short-term interest rates rising, the volume of term deposits expanded notably in the second half of the year. Swiss-franc-denominated sight deposits increased steeply (cf. section on monetary aggre-

gates). Over-the-counter bonds and other bank bonds outstanding grew at approximately the same pace as in the previous year.

In 1988 fiduciary business expanded more rapidly and by the end of December it surpassed the previous year's level by 26.1% (end of 1987: 0.6%). However, only fiduciary business denominated in foreign currency exhibited faster growth while Swiss franc business declined compared with the previous year.

Expanding fiduciary business

2.5 Other aspects of central bank policy

Amendment of capital export regulations

Effective as of 27 October 1988, the Swiss National Bank has amended various sections of the implementing regulations concerning capital exports subject to authorisation. A general authorisation is now granted for Swiss franc credits (individual loans as well as lead management of and participation in syndicated credits) and for currency swaps negotiated with a partner domiciled abroad. The Swiss National Bank, however, has reserved the right to specify certain countries (currently South Africa) for which individual authorisation of such transactions is required. Reporting requirements have also been amended.

Facilitation of credit business

Syndication regulations for issuing business have remained unchanged: foreign securities flotations which are either denominated in Swiss francs or linked to the Swiss franc continue to be restricted to institutions domiciled in Switzerland.

Lifting of regulations on banks' minimum reserves and on funds from abroad

At the request of the Swiss National Bank the Federal Government decided on 3 October 1988 to lift the regulations on banks' minimum reserves and on funds from abroad (both dating from 11 July 1979).

The Swiss National Bank does not expect that there will be a need in the foreseeable future to introduce minimum reserves. According to the current concept, solely freely contracted transactions are used in steering the monetary base. Even up to now, banking liquidity has not been restrained

Lifting of regulations concerning minimum reserves

by means of requiring non-interest-bearing balances to be held at the central bank; in view of the international integration of the financial markets the application of this instrument would have caused an outflow of bank deposits to the Euromarket. The statistical data which used to be submitted to the Swiss National Bank because of the reporting requirements contained in the minimum reserve regulations are today collected on the basis of the Banking Law.

No further need for authority to conclude medium-term forward currency contracts

Since 1980 the sole remaining provision of the ordinance on funds from abroad has been the authorisation granted to the Swiss National Bank to conclude forward currency contracts with maturities of up to 24 months in order to influence the Swiss franc exchange rate. In view of the efficiency of the international foreign exchange markets, forward contracts with maturities of up to 12 months are now considered sufficient to exert an influence on the exchange rate of a currency by means of the forward market. The Swiss National Bank is already empowered to conclude such transactions by the National Bank Law.

Extension of banking supervision to financial intermediaries and investment banks

On 20 October 1988 the draft of an amendment to the bank ordinance with the aim of extending the applicability of the Banking Law was submitted for comment to various interested bodies by the Federal Department of Finance. The Swiss National Bank had provided active assistance to the Federal Banking Commission in drafting this paper; it welcomes plans to increase supervision of the financial markets.

Applicability to financial intermediaries and investment banks

In terms of the draft, supervision will in future extend to financial intermediaries and investment banks. It will apply to financial intermediaries who borrow extensively from various banks in order to provide finance of any kind to an indeterminate number of persons or enterprises with whom they form no economic unit; moreover, to financial intermediaries who engage in substantial off-balance sheet business with different partners. As a matter of principle, these financial intermediaries and investment banks are to be made subject to all banking regulations. Flexible transitional provisions will help to avoid undesirable effects of reciprocity demands on foreign-controlled institutions.

Protection of functions and investors

The draft gives consideration to the massive shift in the activity of banks and finance companies into off-balance sheet business by proposing an interpretation of the term bank in conformity with the times. It duly takes into account that one of the concerns of supervision – beyond creditor protec-

tion – must be to ensure a smooth functioning of the credit and capital markets. In the domain of the investment banks the draft is a useful complement to protective measures of capital market legislation such as liability for statements contained in the prospectus. Finally, extending bank supervision to finance companies and investment banks is likely to promote competitive neutrality between financial market institutions, both domestically and internationally.

Admission board

As a signatory to the “Convention concerning the admission of foreign securities for official trading on the Swiss stock exchanges” (“Vereinbarung betreffend die Zulassung ausländischer Wertpapiere zum offiziellen Handel an den schweizerischen Effektenbörsen”) concluded in 1938 the Swiss National Bank was a recipient of the final report drawn up by a working group appointed by the Association of Swiss Stock Exchanges in October 1988. The working group, in which the Swiss National Bank was represented, makes the following basic recommendations with regard to the future activity of the Admission Board. First, the admission test should continue to focus on the creditworthiness of the issuer but securities with a lower rating would in future be referred to a separate market segment for trading. Second, it is to be examined whether the admission procedure can be extended to include securities of domestic issuers. Third, the number of participants in the Admission Board is to be enlarged and a supervisory authority is to be set up to review decisions. In connection with this activity the Swiss National Bank has been invited to delegate a representative to the Admission Board as observer.

Final report of the working group

The Swiss National Bank did not follow this invitation. While it is equally in favour of a standardised admission procedure for domestic and foreign securities on the Swiss stock exchanges, it has reservations about a creditworthiness test prescribed by the Admission Board. Such a test can hardly be conducted in an objective manner, comes too late at a time when the securities that have already been issued are about to be admitted to the stock exchange, and causes problems if the creditworthiness of the issuer becomes impaired later on. The Swiss National Bank prefers a regulation providing for admission to the stock exchange based on improved publication rules. Moreover, it would be barred by legal considerations from commenting on questions of creditworthiness in the Admission Board. Finally, for monetary policy reasons the Swiss National Bank no longer needs the authority to raise objections which had been vested in it by the 1938 Convention concerning the Admission Board.

Position of the Swiss National Bank

Cooperation of the Swiss National Bank in international monetary measures

Switzerland's participation in bridging loan for Yugoslavia

At the beginning of June 1988 the monetary authorities of the United States, in conjunction with the central banks of the countries of the Group of Ten and Austria, granted Yugoslavia a bridging loan totalling \$ 250 million. The Swiss National Bank entered into a substitution undertaking to the value of \$ 10 million for that tranche of the credit which was allotted via the Bank for International Settlements (BIS). The Swiss National Bank's participation was guaranteed by the Federal Government. The loan was repaid at the end of September.

Participation of the National Bank in stand-by arrangements at the end of 1988

	Original undertakings	Outstanding credits		Outstanding undertakings
		End 1987	End 1988	
1. Swap agreements				
Federal Reserve Bank of NY	\$ 4 billion	0	0	\$ 4 billion
Bank of Japan	Yen 200 billion	0	0	Yen 200 billion
BIS	\$ 600 million	0	0	\$ 600 million
2. Multilateral credits				
General Arrangements to borrow (GAB)	SDR 1020 million	0	0	SDR 1020 million
IMF "Witteveen" facility	SDR 650 million	SDR 221.5 million	SDR 102 million	0
Credit commitment to BIS in favour of IMF	SDR 180 million	SDR 87.1 million	0	0
3. Bilateral credits				
Yugoslavia ¹	\$ 80 million	\$ 43.5 million	\$ 29 million	0
4. Substitution undertakings				
Yugoslavia ¹	\$ 10 million	0	0	0
Brazil ¹	\$ 12 million	0	0	0
Argentina ¹	\$ 12.5 million	0	0	\$ 2.25 million

¹ With Federal Government guarantee.

In mid-July 1988 the monetary authorities of the United States, with the cooperation of the central banks of the countries represented in the Group of Ten, granted Brazil a bridging loan amounting to \$ 500 million. The Swiss National Bank entered into a substitution undertaking to the tune of \$ 12 million for the part of the credit provided by the BIS. The Swiss National Bank's participation was equipped with a Federal Government guarantee. Repayment of the bridging loan was effected at the end of August 1988.

Bridging loan in favour of Brazil

In mid-October 1988 the monetary authorities of the United States, the German bank "Kreditanstalt für Wiederaufbau" and various central banks of Western industrialised nations granted Argentina a bridging loan of \$ 500 million. The Swiss National Bank entered into a substitution undertaking to the amount of \$ 12.5 million for the part of the credit which was made available via the BIS. The Swiss National Bank's participation was equipped with a Federal Government guarantee. At the end of the year the Swiss National Bank's substitution undertaking had been drawn on to the tune of \$ 2.25 million.

Bridging loan in favour of Argentina

In 1988 the IMF repaid the remainder of a credit granted by the Swiss National Bank in April 1984. This loan to the value of 180 million Special Drawing Rights (SDRs) represents the Swiss National Bank's contribution to a facility totalling 6 billion SDRs in favour of the IMF made available by the BIS and 19 industrialised countries and Saudi Arabia. Moreover, the IMF repaid a further tranche of the credit provided by the Swiss National Bank in 1979 under the "Witteveen" facility. In addition, in 1988 a tranche of the medium-term credit granted by the Swiss National Bank to Yugoslavia amounting to \$ 80 million was also repaid. This loan, which is equipped with a Federal Government guarantee, had been granted in June 1983.

Repayment of a credit by the IMF

Application for the status of "other holder" of ECUs

In recent years the Swiss National Bank, in conjunction with the Federal authorities, has repeatedly studied the possibility of strengthening cooperation with the European Monetary System. On 23 December 1988 the Swiss National Bank decided to apply to the European Monetary Cooperation Fund (FECOM) to accord it the status of "other holder" of ECUs. This would enable it to hold part of its monetary reserves in official ECUs. In acquiring official ECUs the Swiss National Bank wishes to demonstrate its solidarity with the European Monetary System and to contribute to strengthening Switzerland's relations with the European Community in the field of monetary policy. The FECOM granted the application in January 1989.

The Swiss National Bank as "other holder" of ECUs

3. Balance sheet and profit and loss account

3.1 Main components of the balance sheet since 1951 (End-of-year values)

Assets

End of year	Gold holdings ¹	Foreign exchange	Foreign treasury bonds in Swiss francs; SDRs ²	Balances with foreign central banks covered by exchange rate guarantee	Domestic portfolio				Lombard advances	Securities	Balances with domestic correspondents	Loss on foreign exchange and gold holdings
					Swiss bills	Treasury bonds ³	Dis-counted bonds	Total				
<i>In millions of francs</i>												
1951	6 003,8	227,6	—	—	233,8	4,6	12,7	251,1	58,9	39,9	53,0	—
1952	5 876,1	490,9	—	—	243,9	—	1,8	245,7	64,0	40,1	37,5	—
1953	6 086,1	522,2	—	—	190,8	14,7	1,1	206,6	65,2	35,5	34,9	—
1954	6 323,4	649,8	—	—	91,6	2,0	9,6	103,2	116,6	46,5	41,3	—
1955	6 686,3	624,1	—	—	129,2	2,0	23,0	154,2	131,8	45,9	47,8	—
1956	7 102,9	627,0	—	—	170,9	21,5	80,0	272,4	186,9	45,7	56,1	—
1957	7 383,5	781,4	—	—	193,9	—	31,9	225,8	52,0	45,3	41,4	—
1958	8 329,3	560,9	—	—	56,0	—	2,3	58,3	21,8	44,6	33,0	—
1959	8 369,3	534,6	—	—	50,6	—	7,3	57,9	39,7	44,2	45,2	—
1960	9 454,7	583,0	—	—	49,2	—	4,3	53,5	37,8	43,3	45,1	—
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	—

¹ Valuation since 10 May 1971: 1 kg fine gold = Sfr 4595.74; previously: 1 kg = Sfr 4869.80.

² Since 1980, Special Drawing Rights.

³ Since 1979 including money market debt register claims.

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

Note circulation	Cover- age of note circu- lation by gold holdings	Sight liabilities					Banks' minimum reserves	Time liabilities	Foreign exchange valuation adjust- ment	Capital and reserves	Provisions for foreign exchange risks	Balance sheet total	End of year	
		Total	of which sight deposit accounts of domestic banks and finance compa- nies ⁶	Ac- counts of the Confed- eration	Ac- counts held under payment and clearing agree- ments	Balan- ces of foreign banks ⁷								
In millions of francs	%	In millions of francs												
4 927,3	121,85	1 528,8	1 101,9	225,4	159,9	—	—	—	70,0	—	3,6	6 675,9	1951	
5 121,9	114,73	1 453,9	1 209,2	78,9	126,8	—	—	—	70,5	—	3,9	6 796,8	1952	
5 228,5	116,40	1 540,9	1 147,3	157,3	171,5	—	—	—	71,0	—	5,3	6 996,8	1953	
5 411,6	116,85	1 692,2	1 255,2	216,1	171,5	—	—	—	71,5	—	4,8	7 327,2	1954	
5 515,5	121,23	1 990,4	1 623,8	268,9	82,1	—	—	—	72,0	—	13,4	7 738,2	1955	
5 809,7	122,26	2 286,4	1 570,6	609,2	89,2	—	—	—	73,0	—	16,0	8 340,1	1956	
5 931,2	124,49	2 393,0	1 831,1	471,1	74,7	—	—	—	74,0	—	17,1	8 574,6	1957	
6 109,3	136,34	2 726,4	2 541,2	105,7	61,3	—	—	—	75,0	—	16,8	9 098,9	1958	
6 343,9	131,93	2 535,3	2 330,7	165,6	22,1	—	—	—	76,0	—	17,0	9 141,5	1959	
6 854,1	137,94	2 756,4	2 288,4	416,6	33,3	—	—	390,3	77,0	—	18,4	10 266,2	1960	
7 656,0	144,70	2 947,0	1 996,1	662,5	37,2	231,5	1 035,0 ⁸	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 ⁸	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 ⁸	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 ⁸	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 ⁸	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 ⁸	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 ⁹	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 ¹⁰	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 ¹⁰	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 ¹⁰	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 ¹⁰	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 ¹⁰	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	—	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	—	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	—	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	—	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	—	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	—	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	—	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	—	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	—	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	—	167,6	—	—	1 970,9	103,0	12 741,6	630,0	53 930,4	1988

⁶ Prior to 1986: Sight deposit accounts of banks, trade and industry.

⁷ Prior to 1961 under "Sight deposit accounts of banks, trade and industry".

⁸ Temporarily blocked sight deposit accounts of banks.

⁹ In accordance with the agreement of 18 August 1971 concerning extraordinary minimum reserves.

¹⁰ 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 1981

Expenditure (in Sfr 1000)

	1981	1982	1983	1984	1985	1986	1987	1988
Operating expenses	71 604	86 920	106 160	120 232	93 998	95 489	97 702	110 485
Bank authorities	594	688	722	726	718	714	705	707
Personnel	40 815	47 790	46 602	49 984	52 123	52 025	53 343	56 249
Premises	6 083	9 464	20 355	16 115	9 379	4 918	4 417	9 785
Furniture and fixtures	1 829	2 652	9 658	17 858	2 402	3 034	4 104	3 108
Business and office equipment and supplies	1 720	2 117	2 248	2 754	2 914	2 861	2 990	3 206
Information and communication	1 355	1 867	1 639	1 859	1 951	2 436	1 870	2 304
Printing, publications	1 617	1 045	615	548	635	693	644	731
Expenditure in respect of note circulation	14 190	16 116	18 659	18 601	17 105	18 689	19 485	24 037
Other expenditure on materials	3 401	5 181	5 662	11 787	6 771	10 119	10 144	10 358
Other expenses	258 323	182 890	197 099	132 687	122 193	181 917	127 711	141 546
Interest payable to depositors	2 482	2 664	2 409	2 767	3 077	2 926	3 012	3 395
Interest payable to Federal Government	18 179	24 086	42 289	39 296	56 767	58 492	41 244	40 444
Interest payable on Federal Treasury bonds	33	—	—	—	—	—	—	—
Interest payable on bonds	19 772	34 600	13 126	—	—	—	—	—
Other sterilisation expenses	20 506	4 533	167	—	—	—	—	—
Write-down of own securities	183 038	114 510	138 467	90 624	62 349	94 499	66 320	96 407
Depreciation of bank buildings	14 313	2 497	641	—	—	26 000	17 135	1 300
Write-down of foreign exchange holdings	—	—	—	—	—	2 139 125 ¹	3 528 837	—
Transfer to the valuation adjustment to foreign exchange holdings account	—	—	—	—	—	—	—	1 970 906
Taxes	—	8 898	—	2 851	—	1 789	2 632	1 592
Appropriation to staff and pensioners' welfare facilities funds	4 000	3 000	2 500	5 000	3 000	3 000	2 000	2 000
Donation to the Gerzensee study centre foundation	—	—	—	32 733	—	—	—	—
Provisions	2 444 142	2 143 355	2 051 141	2 245 993	2 655 953	—	—	1 807 669
Provisions for foreign exchange risks	2 374 142	2 033 355	2 001 141	2 245 993	2 655 953	—	—	1 807 669
Other provisions	70 000	110 000	50 000	—	—	—	—	—
Net profit	7 593	7 593	7 593	7 593	7 593	7 593	7 593	7 593
Allocation to the reserves	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	5 093	5 093
Total	2 785 662	2 432 656	2 364 493	2 547 089	2 882 737	2 428 913	3 766 475	4 041 791

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

3 703 300
1 564 175
2 139 125

Income (in Sfr 1000)

	1981	1982	1983	1984	1985	1986	1987	1988
Operating income	6 933	7 389	9 319	8 245	7 569	8 069	5 771	6 663
Commissions	2 832	3 006	4 756	3 935	2 945	2 216	1 826	1 756
Income from bank buildings	2 465	2 603	2 892	2 816	3 170	5 313	3 446	4 462
Sundry income	1 636	1 780	1 671	1 494	1 454	540	499	445
Other income	2 688 710	2 425 267	2 355 174	2 538 844	2 875 168	2 009 363	1 638 459	2 064 222
Income from foreign exchange and gold	2 552 937	2 307 193	2 228 957	2 391 222	2 709 177	1 834 097	1 462 698	1 924 021
Income from discounting	43 844	37 518	23 651	23 442	25 511	20 848	17 738	3 275
Income from secured advances	25 096	15 656	17 738	21 536	25 257	28 448	27 309	2 832
Income from own securities	64 840	62 801	83 232	100 691	113 281	123 449	128 782	132 877
Income from domestic correspondents	1 993	2 099	1 596	1 953	1 942	2 521	1 932	1 217
Appreciation on foreign exchange holdings	90 019	—	—	—	—	—	—	1 970 906
Drawings on provisions for currency risks	—	—	—	—	—	411 481	2 122 245	—
Total	2 785 662	2 432 656	2 364 493	2 547 089	2 882 737	2 428 913	3 766 475	4 041 791

Explanatory notes on the profit and loss account for the year 1988

The profit and loss account of the Swiss National Bank closed with an earnings surplus of Sfr 1815.3 million in 1988. The surplus was achieved mainly on dollar holdings and was used largely to augment provisions for foreign exchange risks (Sfr 1807.6 million).

Earnings from foreign exchange holdings and foreign exchange dealing totalled Sfr 1924.0 million. Dollar holdings, which are not hedged against exchange-rate risks, were valued at the average December rate of Sfr 1.477 (1987: Sfr 1.329). The appreciation surplus on foreign exchange holdings amounted to Sfr 1970.9 million. For the first time it was transferred indirectly to the "valuation adjustment to foreign exchange holdings" account via the profit and loss account.

As a result of the new liquidity requirements in force since January 1988 and the concomitant changed interest rate situation at the end of a month demand for central bank credits has all but ceased. Accordingly, income from discount and Lombard business as well as income from domestic correspondents fell significantly. Compared with the previous year's total of Sfr 47 million, it shrunk to Sfr 7.3 million in 1988. Income from discount and Lombard business declined by 86.4%, income from domestic correspondents by 37%.

Staff expenditure rose slightly to Sfr 56.2 million. At Sfr 9.8 million, expenditure on premises in 1988 exceeded the previous year's level. The increase is accounted for chiefly by the building renovation at the Lugano branch.

The book value of our bank premises amounting to Sfr 1.3 million was written down to Sfr 1.– to the debit of the profit and loss account.

The extension in securities holdings led to higher interest earnings totalling Sfr 132.9 million at the end of the year (1987: Sfr 128.8 million).

Expenditure in connection with the printing and circulation of bank notes rose by Sfr 4.6 million compared with a year earlier. The higher cost derives from the fact that the production schedule for the Sfr 100 denomination has been shifted forward.

At Sfr 40.4 million, interest payments in favour of the Federal Government fell only slightly short of the previous year's figure. The lower average level of the Federal Government's sight deposits was offset by a rise in time deposits; these, however, caused less expenditure due to the lower level of interest rates.

Book profits on repayments of securities previously written off amounting to Sfr 48.6 million were set off against the cost of depreciation of securities acquired in the year under review. This resulted in a write-off totalling Sfr 96.4 million.

4. Organisation (as on 1 January 1989)

4.1 Supervisory authorities

Bank Council	40 members President: François Schaller Vice-President: Peter Gerber
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: Gilbert Grenier

4.2 Bank management

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

Department I (Zurich)

Head of Department	Markus Lusser, Chairman of the Governing Board
Press Relations	Werner Abegg, Senior Officer
Deputy Heads of Department	Peter Klauser, Director Georg Rich, Director
Economic Section Economic Studies	Georg Rich, Director Jean-Pierre Béguelin, Director Roberto Cippà, Assistant Director Hans-Jürg Büttler, Economic Adviser Franz Ettlín, Economic Adviser
Banking Studies	Urs W. Birchler, Deputy Director Thomas Schlup, Senior Officer Robert Fluri, Senior Officer
Banking Statistics	Christoph Menzel, Deputy Director Markus Zimmerli, Assistant Director Rolf Gross, Senior Officer
Legal and Administrative Section	Peter Klauser, Director
Legal Department	Peter Merz, Legal Adviser
Personnel	Gerhard Nideröst, Director Beat Blaesi, Senior Officer
Staff Welfare Facilities	Peter Hadorn, Deputy Director
Technical Services	Theo Birchler, Senior Officer
Auditing and Controlling	Ulrich Willi Gilgen, Deputy 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
Banking Section	Theodor Scherer, Director
Central Accounting	Hans-Peter Dosch, Deputy Director
Cashier's Office (Berne)	Paul Bürgi, Assistant Director
Correspondence, Bills and Cheques	
Securities	Daniel Ambühl, Assistant Director
	Max Isenschmid, Deputy Director
Cash and Collection, Security, Services	Johann Ammann, Director
Chief Cashier's Office	Roland Tornare, Chief Cashier
	Peter Trachsel, Deputy Chief Cashier
	Urs Suter, Senior Officer
	Alex Huber, Assistant Director
Security	

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	Monique Dubois, Assistant Director (on leave)
Monetary Operations	Jean-Pierre Roth, Director
	Hans Stahel, Director
Foreign Exchange	Karl Hug, Assistant Director
Investment Group	Martin Papp, Assistant Director
Money Market Operations, Bills and Cheques	
Securities	Beat Spahni, Assistant Director
	Markus Steiner, Senior Officer
General Processing and Back Office	Christian Vital, Director
	Eugen Guyer, Deputy Director
Payments Transactions	Eugen Guyer, Deputy Director
Accounting	Werner Bolliger, Assistant Director
Correspondence	Walter Obi, Assistant Director
Cashier's Office	Roland-Michel Chappuis, Assistant Director
Electronic Data Processing	Raymond Bloch, Assistant Director
	Jürg Ziegler, Economic Adviser
	Jules Troxler, Senior Officer

Branches

Aarau	Heinrich Herzog, Director Fritz Merz, Senior Officer
Basle	Anton Föllmi, Director Karl Schär, Senior Officer
Geneva	Yves Lieber, Director Jean-Daniel Zutter, Senior Officer
Lausanne	François Ganière, Director Nivardo Zanini, Senior Officer (as from 1.2.1989)
Lucerne	Max Galliker, Director Josef Huber, Senior Officer
Lugano	Cesare Gaggini, Director Franco Poretti, Senior Officer
Neuchâtel	Jean-Pierre Borel, Director Senior Officer (vacant)
St. Gall	René Kästli, Director Alfred Geiger, Senior Officer

Sub-Branch

La Chaux-de-Fonds (attached to Neuchâtel branch)	Jacques Jolidon, Head of Sub-Branch
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Agencies at other banks:

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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