Annual report 1993
Abridged version

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1. Economic developments – a summary

1.1 International economic and monetary developments

Continued weak growth of the world economy

Economic activity continued to be weak in most OECD countries in 1993. Real gross domestic product grew at an average rate of only 1.1%, following a similarly modest development in the previous two years. At the same time, the various OECD countries exhibited increasingly divergent economic trends. In the United States the upswing, which had begun in 1992, was sustained. The British economy managed to emerge from its trough. In contrast, both Germany and Japan slipped into recession at the beginning of 1993. While in Europe there were signs of a nascent economic recovery near the end of the year, the cyclical slowdown continued in Japan.

Growing external imbalances

Opposing economic developments in the United States, Japan and Europe were reflected in growing external imbalances. The US current account deficit almost doubled from the previous year. Conversely, Japan's surplus rose, while the overall deficit in Europe contracted.

Marked rise in unemployment in western Europe

The economic upturn in the United States was accompanied by a perceptible fall in the jobless rate. In Japan and particularly in Europe, by contrast, the situation on the labour market deteriorated. The number of employed persons declined, and unemployment figures rose to record levels in numerous countries. In Europe the poor prospects for employment, notably the long-term outlook, are causing growing concern.

Renewed decline in inflation

The decline in inflation, under way since the end of 1990, continued in the OECD countries. Inflation retreated to almost the low levels of the mid-eighties. The decline was particularly pronounced in Japan.

Divergent cyclical development

Unlike in earlier business cycles, the upswing in the United States did not bring about an improvement in the economic situation in Europe and Japan. The marked cyclical divergence between major industrial countries primarily reflected the different monetary policies in recent years. While in the United States monetary policy had already been eased significantly at the beginning of 1991, it remained restrictive in Japan until the end of the year. The slump in real estate and share prices, which had become inflated as a result of speculation, induced the Japanese monetary authorities to loosen the monetary reins. Until the onset of the crisis in the European Monetary System (EMS) in autumn 1992, most European central banks adopted a restrictive monetary stance. Prolonged adherence to unrealistic exchange rate parities in the EMS exacerbated the recessionary trends in Europe.

Reduced tension in the banking sector

The crisis in the banking sector, which had detrimentally affected numerous countries in 1992, eased in 1993. As a result of the glut of vacant space in small business and industrial properties, the situation in the real estate sector remained unstable. Nevertheless, since profits in the banking sector showed a marked improvement, losses and provisions in credit business were more easily absorbed. In Japan, in the Scandinavian countries and in Italy the banks were very restrictive in granting new credits in view of the large losses they had sustained on account of huge write-downs on previous loans.

Widening of the bands in the exchange rate mechanism of the EMS

Between autumn 1992 and autumn 1993 the EMS suffered its worst crisis yet. Following the withdrawal of the United Kingdom and Italy from the exchange rate mechanism (ERM) in autumn 1992, various EMS currencies successively came under pressure. Among these were the French franc, the Spanish peseta, the Portugese escudo, the Irish punt and the Belgian franc. The Irish punt and the Iberian currencies were devalued in February and May respectively. In July tension in the EMS increased once more. Following massive interventions, the fluctuation bands for the admissible exchange rate fluctuations in the EMS were widened to +/–15%.

Marked appreciation of the yen, higher value of the US dollar

Until mid-year, the Japanese yen appreciated markedly, reaching a peak rate against all other currencies. The continued expansion of Japan's current account surpluses contributed to this high level. The US dollar tended to gain in value vis-à-vis the European currencies, while depreciating significantly against the yen.

Easing of monetary policy

In 1993 the industrial countries eased their monetary policies. Solely the United States left its interest rates at the previous year's low level. Japanese interest rates fell to their lowest post-war level. The European countries likewise reduced their interest rates. In due consideration of exchange rates, they followed the cautious pace adopted by Germany. The tension in the EMS that arose on various occasions during the first half-year even induced several countries to temporarily increase their benchmark rates in order to support their currencies. In the United Kingdom and Italy, by contrast, monetary policy was considerably eased following the withdrawal of these two countries from the ERM. At the end of the year, the short-term interest rates in most countries of continental Europe still exceeded the long-term rates. As a result of declining inflation and the persistent weak state of the economy, these fell to their lowest level for decades.

Continued rise of government deficits

Due to the low level of business activity the already high government deficits continued to mount. Despite the poor state of the economy, numerous countries, including Germany and Italy as also the Scandinavian countries, introduced measures to reduce their deficits. The economic stringency that has become imperative for balancing government budgets has had the effect of intensifying the recession. Since Japan is in a better financial position than Europe, it has more leeway in fiscal policy. As in the previous year, the Japanese government supported its economy by incurring vast new state expenditure. In the United States, another programme for the medium-term reduction of the government deficit entered into force.

Conclusion of the GATT and NAFTA agreements

The depressed state of the economy revived protectionist trends in various countries. International agreements aimed at dismantling trade barriers met with domestic resistance. A bright spot was the successful finalisation of two major treaties. After negotiations conducted over several years, the Uruguay Round of the GATT was brought to a conclusion at the end of the year. In addition to a general reduction of tariffs, the new agreements provide mainly for the dismantling of trade barriers in services and in the agricultural sector. Financial services, however, are excluded. Furthermore, the parliaments of the United States, Canada and Mexico voted in favour of the agreement on the free trade zone in North America (NAFTA).

Economic crisis in eastern Europe

The structural crisis and problems of adjustment in eastern Europe that were triggered by the collapse of the communist regimes became even more pronounced in 1993, notably in the successor states of the former Soviet Union. Industrial production continued to decline, and unemployment rose still further. Particularly in a number of successor states of the Soviet Union, government deficits were financed with central bank credits, thereby precipitating currency devaluation.

Boom in Southeast Asia, recovery in Latin America, stagnation in Africa

The boom in Southeast Asia remained unbroken. Extremely vigorous economic growth – albeit accompanied by distinct symptoms of overheating – in the People's Republic of China exerted a strong pull. The opening up of countries previously closed to foreigners, such as Vietnam, and the extension of trade relations between the smaller economies also contributed to the favourable economic development in Southeast Asia. In most Latin American countries, the economic recovery that had set in at the beginning of the nineties continued. In Africa, by contrast, economic conditions remained depressed.

1.2 Economic developments in Switzerland

Economic situation brightened in mid-1993

In Switzerland the recession, which had lasted for more than two years, drew to an end in summer 1993. Real gross domestic product again began to increase slightly in the third quarter. Notably private consumption and exports contributed to the revival of business activity. Investment activity also picked up somewhat in the second half of the year. The expansion in overall economic demand, however, was too weak to bring about a rise in real gross domestic product for the year as a whole. Year-on-year, it declined by 0.6%.

Slightly improved capacity utilisation and higher imports in the second half-year

The slightly accelerating demand led to somewhat higher capacity utilisation in industry and to a marked increase in imports in the second half of the year. The recovery in imports of capital goods, which had shown a decline since the middle of 1991, was particularly pronounced. On an annual average, however, both imports and capacity utilisation fell short of the previous year's levels.

Further decline in inflation

A success was achieved on the inflation front. After remaining, until autumn, at approximately the level attained at the end of 1992, the annual inflation rate eased to 2.5% by the close of the year.

Rising unemployment

No turnaround has become evident as yet in the labour market. Employment fell once more, and the number of jobless persons grew rapidly. In December the unemployment rate stood at 5.1%.

Increase in current account surplus resulting from balance of trade surplus

Lower nominal imports compared with a year earlier, together with slightly higher exports, led to a balance of trade surplus for the first time since 1953. Since the surplus in the services account also rose, the current account surplus again clearly exceeded the previous year's already high level.

2. Central bank policy and financial markets in Switzerland

2.1 Some features of Swiss National Bank policy

Stable price level as main aim of monetary policy

Monetary policy aims at keeping the price level stable in the medium term. This goal can be achieved if the demand for domestic goods and services grows to the same extent as potential output. The Swiss National Bank exerts an influence on overall economic demand by regulating the growth of the money supply. An inordinate expansion of the money supply would trigger excessive demand. The production facilities would not be able to keep up with demand; the result would be capacity constraints followed by price rises. The Swiss National Bank therefore restricts the growth of the money supply, allowing it to expand only to the extent that the economy needs leeway for real growth within the limits of potential output.

Monetary base as target variable

Our monetary policy is built around a medium-term target for the seasonally-adjusted monetary base. At the same time, we retain the option of reacting appropriately to unexpected developments such as strong fluctuations in the exchange rate and shifts in the demand for money. The current course of monetary policy can therefore temporarily deviate from the medium-term target. Moreover, we publish quarterly forecasts of the monetary base in order to inform the public of our intentions in the immediate future.

Medium-term target: growth of 1% per annum

We again plan to expand the seasonally-adjusted monetary base by an average of 1% per annum in the medium term. The average level of the seasonally-adjusted monetary base in the fourth quarter of 1989 serves as the starting base for the medium-term target path (cf. graph). The shift in the demand for money caused by the introduction of the electronic clearing system SIC and the new liquidity requirements for banks had virtually come to an end by that time. From 1989 onwards, we were therefore again able to regard the monetary base as a reliable monetary indicator.

Determining the rise in the growth path

The envisaged growth rate of the seasonally-adjusted monetary base is below the estimated increase in Switzerland's potential output of approximately 2% per annum. The shortfall reflects the increased trend towards cashless payments. As a result, real note circulation, which currently accounts for over 90% of the monetary base, is expanding at a considerably slower rate than real national product.

Periodic review of the target path

The target path for the monetary base is a guideline which cannot be fixed with scientific accuracy. Further shifts in the banks' demand for reserves cannot be ruled out, and neither can changes in the demand for bank notes. We therefore periodically review the target path and to this end also refer to other significant monetary indicators, such as the money stock M_1.

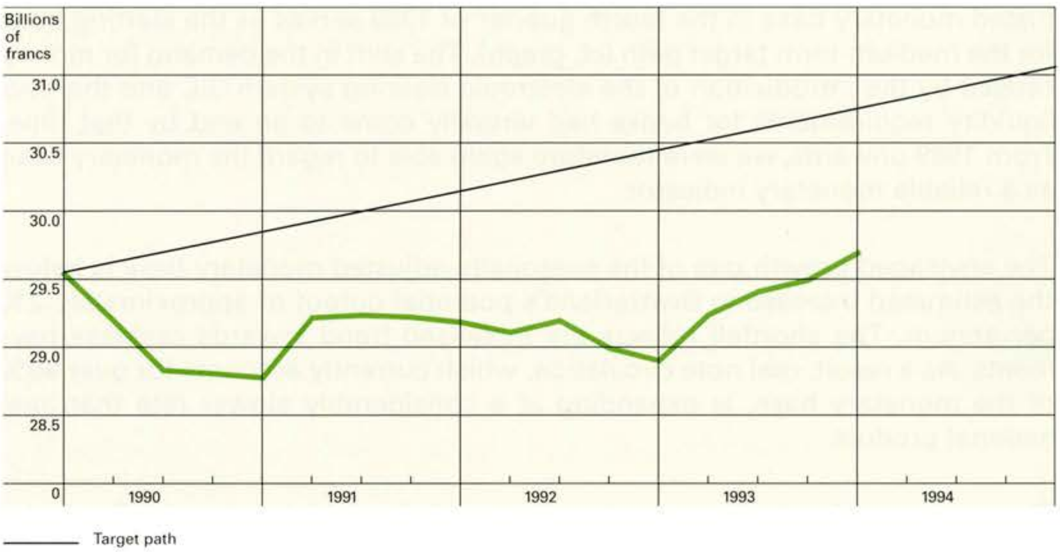
Restrictive monetary policy from 1990–1992; target path clearly undershot

The seasonally-adjusted monetary base contracted by an average of 0.7 % per annum between the fourth quarter of 1989 and the fourth quarter of 1992. This decline was attributable to persistently high inflation and the weakness of the Swiss franc which had induced us to steer a considerably more restrictive course than originally envisaged well into the first half of 1992. In the second quarter of 1992 inflation eased perceptibly. By the middle of 1992 the confidence of the foreign exchange markets in the Swiss franc had been largely restored, and we were gradually able to loosen the monetary reins.

Basic assumptions for SNB policy in 1993

In 1993 we expected to continue pursuing the easier monetary policy introduced in mid-1992. We assumed that the annual rate of expansion of the seasonally-adjusted monetary base would again clearly exceed 1%. We anticipated a further fall in the inflation rate and stagnating gross domestic product. Under these conditions it was to be expected that the demand for central bank money would change mainly because of the recent decline, and the likely further decline, in interest rates.

Seasonally-adjusted monetary base



Monetary base on course in 1993

In accordance with our intentions, the seasonally-adjusted monetary base expanded by 2.8% between the fourth quarter of 1992 and the fourth quarter of 1993. Unlike in previous years, it was possible, in 1993, to maintain monetary policy virtually without disruptions on the course envisaged at the end of the preceding year. The monetary base approached the medium-term target path. From the fourth quarter of 1989 until the fourth quarter of 1993 it grew on average by 0.2% per year (cf. table). Nevertheless, at the end of 1993 it still fell short of the target path by approximately 3.5%.

Seasonally-adjusted monetary base

(Change from the 4th quarter of the previous year)

	Medium-term target (%)	Actual growth (%)
1990	1*	-2.6
1991	1	1.4
1992	1	-1.0
1993	1	2.8
Annual average	1	0.2

* The medium-term target was set retroactively at the end of 1990

No forced approach to the medium-term path

Inflation receded to 2.5% by the end of 1993. Real economic activity also corresponded to our expectations. While preliminary figures point to a slight real decline in gross domestic product on an annual average, the signs of a gradual economic recovery increased in the second half of the year. We therefore refrained from additionally boosting the growth of the money supply. To this end, we would have had to permit the interest rate level to fall even more rapidly. Experience shows that this would only have provided little additional support to the economy in the short term, while conjuring up the danger of cyclical overheating in the medium term. The development of the broad measures of money clearly indicates that the expansion of the monetary base in 1993 was ample. Thus on an annual average the aggregate M_1 exceeded the corresponding level in the previous year by 11.5%. While temporary phases of strong growth of the money stock M_1 are a normal result of declining interest rates, such phases may, however, not be allowed to persist for any length of time if price stability is to be ensured in the medium term.

Steady development of the Swiss franc exchange rate – uncoupling from the European interest rate level

After showing a weaker trend at the beginning of the year, the Swiss franc appreciated in real terms. Nevertheless, the exchange rate level reached at the end of the year is unlikely to jeopardise the economic recovery. Swiss interest rates did not only fall in absolute terms from the year-earlier level, but also in relation to German interest rates. The flexible exchange rate of the Swiss franc thus permitted us to largely uncouple our interest rates from developments in the neighbouring countries and to orient monetary policy mainly to the domestic economy.

Monetary policy in 1994

The Swiss National Bank, in agreement with the Federal Government, will continue to pursue the goal of expanding the seasonally-adjusted monetary base by an average of 1% per annum in the medium term. In 1994 we are aiming at an increase in the seasonally-adjusted monetary base which will again exceed the medium-term target. The monetary base will thus continue to approach the medium-term growth path. We are, however, not planning to bring it right up to the level of the growth path already by the end of 1994. This would necessitate another extensive and rapid easing of monetary policy which could later have inflationary effects. As usual, we retain the option of deviating from the monetary course if unexpected developments in the foreign exchange and financial markets should threaten the goal of price stability and balanced economic growth.

Continued decline in the inflation rate

The monetary policy to be implemented in 1994 is based on the following assumptions: real gross domestic product will grow by an annual average of just over 1% in 1994, and in the fourth quarter of 1994 it is likely to exceed the previous year's figure by 1.5%. Inflation will probably decline to 1.5% on an annual average, and by the fourth quarter of 1994 be close to 1%.

2.2 Development of the monetary aggregates

Increase in bank note circulation and bank reserves

The seasonally-adjusted monetary base expanded markedly in 1993. In the fourth quarter it exceeded the previous year's level by 2.8%, after still having declined by 1% in 1992. Both bank note circulation and bank reserves held with the Swiss National Bank contributed to the rise in the seasonally-adjusted monetary base. The bank reserves, however, which grew for the first time since 1987, exhibited a larger increase in percentage terms than note circulation. The expansion of note circulation was attributable to lower interest rates and the revival of business activity in the second half of the year.

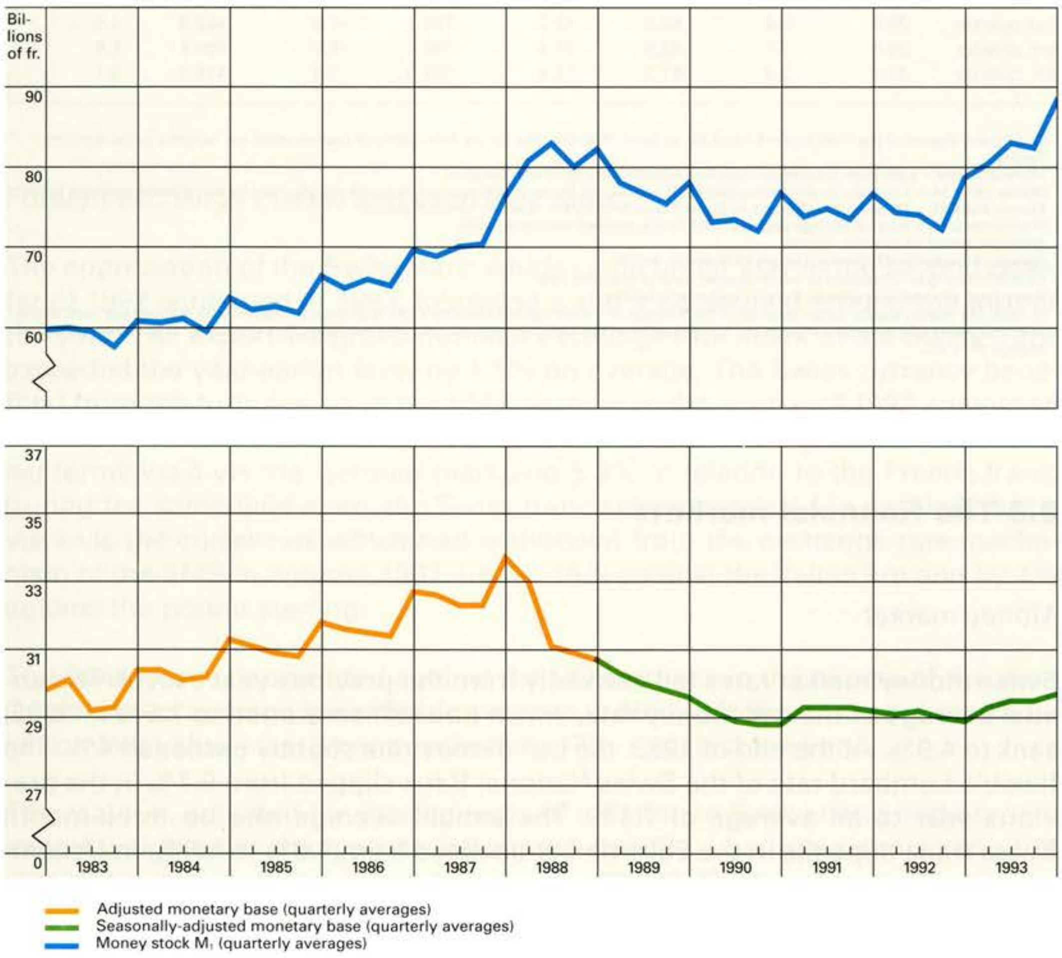
Strong growth of the money stock M_1

The money stock M_1 showed similar development to the seasonally-adjusted monetary base. After still having declined in the first half of 1992, it began to advance quite rapidly. In 1993, its growth rate surged to an average of 11.5% (previous year: 0.1%). While the cash component increased by 1.8%, sight deposits expanded by 16.4%. The pronounced interest rate decline, which had started a year earlier, led to a shift out of time deposits into sight deposits. Experience shows that M_1 fluctuates much more markedly than the monetary base.

Shifts out of time deposits into sight deposits and savings deposits continued in the wake of the interest rate decline in 1993. Time deposits therefore diminished substantially by –17.1% (previous year: +0.9%). Concomitantly, the growth rate of the money stock M_2 fell from 0.6% in the previous year to –6.9%. The rate of increase of savings deposits, by contrast, soared from 5.6% in the previous year to 20.1%. This development offset the decline in the monetary aggregate M_2 and caused the expansion of the money stock M_3 to rise to 5.4%, compared to 2.8% a year earlier.

Shifts in deposits characterise M_2 and M_3

Monetary base and money stock M_1 in billions of francs



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]
1988	31.5	−11.0	81.5	14.2	149.1	7.6	333.1	9.8
1989	29.9	−2.4[9]	77.0	−5.5	179.0	20.1	353.7	6.2
1990	28.9	−2.6	73.8	−4.2	202.3	13.0	362.1	2.4
1991	29.2	1.4	74.7	1.2	208.9	3.2	373.7	3.2
1992	29.1	−1.0	74.8	0.1	210.2	0.6	384.2	2.8
1993	29.5	2.8	83.4	11.5	195.7	−6.9	404.8	5.4
1993								
1st quarter	29.3	0.7	80.4	8.2	200.6	−3.1	397.8	4.6
2nd quarter	29.5	0.9	83.0	12.2	195.7	−7.9	402.8	4.5
3rd quarter	29.5	1.7	82.6	14.4	192.5	−9.0	403.4	5.6
4th quarter	29.7	2.8	87.7	11.4	193.9	−7.4	415.3	6.7

1 Cf. Monthly Report of the SNB, tables B1 and B2; as from 1986, the data for the Principality of Liechtenstein are included in the domestic figures.
2 Monetary base = bank note 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 year.
8 Percentage change 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 the seasonally-adjusted monetary base in the fourth quarter of the previous year, centred on November. This method of calculation results in a change of −1.9%.

2.3 The financial markets

Money market

Distinctly lower money market rates

Swiss money market rates fell markedly from the previous year's level. The annual average of the call money rate, which had still amounted to 7.5% in 1992, sank to 4.9%. At the end of 1993, the call money rate slightly exceeded 4%. The flexible Lombard rate of the Swiss National Bank slipped from 9.7% in the previous year to an average of 7.1%. The annual average rate on three-month Swiss franc deposits in the Euromarket declined from 7.8% to 4.8%. In December the rate amounted to 4.1%. The three-month time deposit rates of the big banks followed this development as usual on a level lower by about half a percentage point. In keeping with previous experience, yields on newly issued federal money market debt register claims with three-month maturity conformed to the corresponding Eurofranc rate. The average yield fell from 7.8% in 1992 to 4.8%.

In the course of 1993, the Swiss National Bank took account of the decline in interest rates by lowering the official discount rate in five steps by a total of 2 percentage points.

Gradual adjustment of the discount rate

After Swiss money market rates had risen to almost the German level in mid-1992, the average interest differential vis-à-vis Germany again widened in 1993. At the beginning of 1993, three-month interest rates in Switzerland fell nearly 3 percentage points short of the German level. By the end of the year, the interest differential had narrowed to just under 2 percentage points. By contrast, as in the previous year, Swiss money market rates exceeded the yields on corresponding dollar investments. The interest differential vis-à-vis short-term dollar holdings, however, declined from more than 2 percentage points to less than one percentage point in the course of 1993.

Negative interest differential vis-à-vis the D-mark – smaller interest rate advantage vis-à-vis dollar investments

Foreign exchange market and exchange rates

The appreciation of the Swiss franc which came under way in the second quarter of 1992 continued in 1993, following a slight weakening around the turn of the year. The export-weighted nominal exchange rate index of the Swiss franc exceeded the year-earlier level by 4.1% on average. The Swiss currency benefited from the turbulences in the EMS, firming in the course of 1993 against all EMS currencies. Since the start of the year, the Swiss franc gained 5% in nominal terms vis-à-vis the German mark and 5.3% in relation to the French franc. During the same time span, the Swiss franc also appreciated in nominal terms vis-à-vis the currencies which had withdrawn from the exchange rate mechanism of the EMS in autumn 1992, i.e. by 16% against the Italian lira and by 1% against the pound sterling.

Appreciation of the Swiss franc vis-à-vis the European currencies

The Swiss franc depreciated against the US currency in the course of the year. On an annual average it was 5% lower than in 1992. It lost much more markedly in nominal value – i.e. by approximately 17% – against the yen.

Depreciation against the dollar and the yen

The real (i.e. adjusted for varying rates of inflation in Switzerland and abroad) export-weighted exchange rate index rose steadily – barring a short period of weakness early in the year – in the course of 1993. On an annual average, the real appreciation of the Swiss franc compared with 1992 amounted to just over 3%.

Appreciation in real terms of the Swiss franc

The Swiss National Bank did not intervene in the foreign exchange markets in 1993.

No interventions in the foreign exchange market

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

Decline in bond yields

After reaching a peak in mid-1992 and falling by up to 1.5 percentage points in the second half of the year, bond yields underwent a further decline on a similar scale in1993. The average yield on federal bonds decreased from 7% in mid-1992 to 4% at the end of 1993; it averaged 4.6% in 1993, as compared to 6.4% a year earlier.

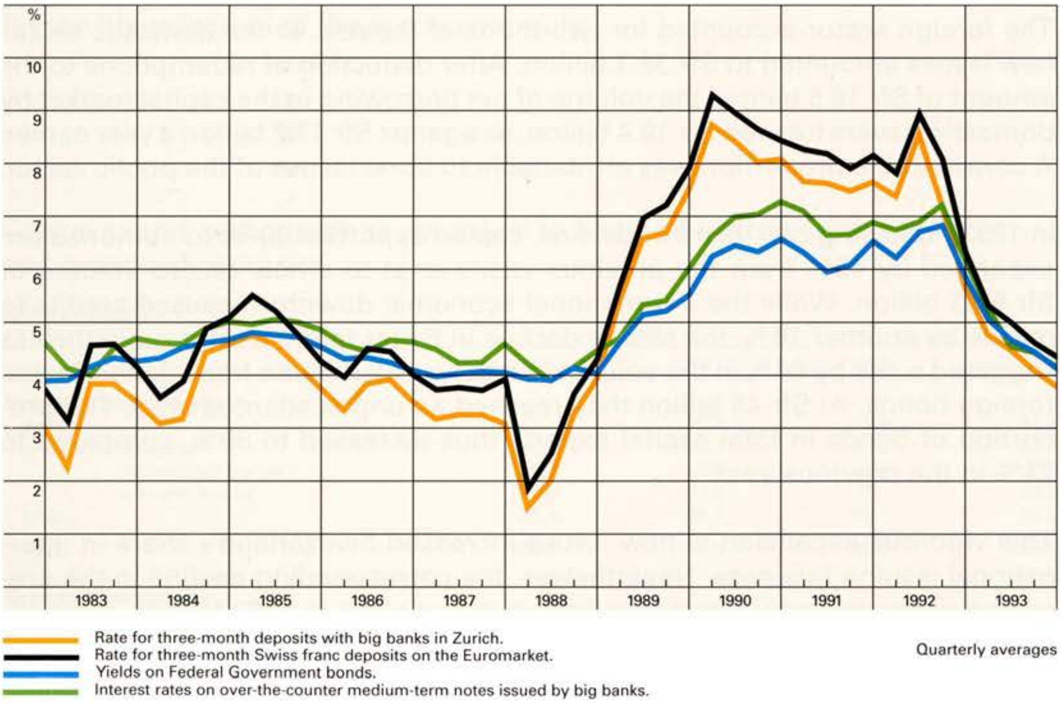
Normalisation of the interest rate structure

Measured by the spread between the average yield on federal bonds and the three-month Eurofranc rate, the maturity structure of interest rates had evened out by the end of 1993, after having exhibited an inverse pattern for five consecutive years.

Lower interest rates on medium-term notes and savings deposits

In view of the falling interest rates in the money and bond markets the banks lowered the rates on their newly issued medium-term notes. At the end of 1993, the average rate on medium-term notes of the cantonal banks stood at 4.25%, considerably down from the previous year's level of just over 6%. The interest rate on savings deposits was lowered by 1.3 percentage points to 3.8% in the course of the year.

Money and capital market rates



More favourable refinancing conditions permitted the banks to cut their lending rates. Thus the cantonal banks lowered the rates on new mortgage loans by a total of 2 percentage points to 5.6% over the year. The corresponding rates on existing mortgages, however, only started moving in spring; by the end of the year they had declined by 1 percentage point to 6%.

Reduction in mortgage rates

On the share market, the Swiss Performance Overall Index rose by approximately 50% during 1993. This marked increase was due mainly to the decline in interest rates. The especially interest-sensitive shares of banks and insurance companies as well as the shares of enterprises with above-average profit prospects in the coming years benefited primarily from this development.

Marked rise in share prices

Distinctly higher volume of new issues

Bonds and shares totalling Sfr 81.2 billion were issued in the Swiss capital market in 1993, an increase of 55% over the corresponding level a year earlier. The foreign sector accounted for two-thirds of the rise. In the domestic sector new issues amounted to Sfr 36.1 billion. After deduction of redemptions to the amount of Sfr 16.5 billion, the volume of net borrowing in the capital market by domestic issuers totalled Sfr 19.4 billion, as against Sfr 17.2 billion a year earlier. A considerable proportion was attributable to bond issues of the public sector.

Strong rise in capital exports

In 1993, following two years of decline, capital exports subject to authorisation expanded by 45% from the previous year's level to a new record volume of Sfr 54.3 billion. While the international economic downturn caused credits to recede by another 15%, the steady decline in Swiss interest rates nevertheless triggered a rise by 66% in the volume of newly issued Swiss franc denominated foreign bonds. At Sfr 46 billion they reached an unprecedented level. The proportion of bonds in total capital exports thus increased to 85%, compared to 74% in the previous year.

Only slightly larger share in international business

This vigorous expansion in new issues increased Switzerland's share in international issuing business. Nevertheless, the corresponding decline in the preceding years was only offset to a limited extent since in 1993 foreign competitive markets also grew considerably.

Doubling of equity-related bond issues

Ordinary bonds (straights) amounted to Sfr 28.1 billion, as against approximately Sfr 19.2 billion in the previous year. At the same time, a substantial increase was recorded in large issues as well as in bond issues with a reopening clause. The favourable development of stock market prices stimulated issuing activity in the field of equity-related bond issues. At overall Sfr 17.9 billion, it doubled the previous year's figure, accounting for 39% of the total issuing volume compared with 31% a year earlier. Japanese borrowers continued to dominate the equity-related bond sector. Their share of such new issues, however, decreased from 81% of the total in 1992 to 68%.

Only small changes in regional distribution

As in the previous years, the industrial countries absorbed nine-tenths of capital exports. There were some shifts in the regional distribution. Western Europe's share declined from 54% to 52%, that of North America from 13% to 8%, while Japan's share rose from 22% to 27%. The international development organisations accounted for 4.5% of the total as against 6.7% in the previous year.

Liberalisation of capital exports following the abolition of stamp duty

The placement of Swiss franc bonds of foreign borrowers was facilitated from April onwards by the revision of capital export regulations, which provided for a new composition of the underwriting syndicate based on the lead manager rule (cf. section 2.6 below). The liberalisation makes it possible, among other things, to include Swiss franc tranches in the new issues programmes of Euro medium-term notes. The Federal Government's decision to abolish turnover tax on Swiss franc issues of foreign borrowers as of 1 April 1993 had paved the way for the liberalisation of the syndication rule.

Capital export authorisations according to financial instruments and groups of countries

(percentages)[1]

	1990	1991	1992	1993
Financial instruments				
Bonds[2]	73.7	70.9	73.9	84.7
of which: straights[3]	*48.0*	*43.2*	*51.2*	*51.8*
convertible bonds	*20.2*	*9.9*	*5.6*	*7.9*
warrant bonds	*5.5*	*17.8*	*17.1*	*25.0*
Loans	26.3	29.1	26.1	15.3
Total	100.0	100.0	100.0	100.0
Groups of countries				
European Community	31.6	32.6	41.6	37.0
European Free Trade Association	6.8	9.4	12.0	14.9
United States, Canada	17.6	15.2	13.3	8.1
Japan	29.7	30.4	22.3	26.8
Other countries	14.2	12.5	10.7	13.3
Total	100.0	100.0	100.0	100.0
of which development organisations[4]	*5.6*	*5.2*	*6.7*	*4.5*
Total amount, billions of francs	**43.6**	**42.5**	**37.5**	**54.3**

[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

Out of the trough

The development of bank balance sheets in 1993 exhibited the pattern which is typical at the end of a recession. The inflow of funds from the nonbank public exceeded net lending. By way of compensation, the banks increased their financial assets. At the end of 1993, the banks' combined balance sheet total topped the year-earlier figure by 6%.

Expansion of financial assets

The proportion of financial assets (liquid funds, balances from interbank business, bills and money market paper as well as securities) in the balance sheet total advanced from 26% to 27%. This figure, however, still falls considerably short of the long-term average. Notably securities holdings were increased massively by 43%. The expansion reflects, on the one hand, the higher market value and, on the other, higher bond inventories.

Sustained cash liquidity

At the end of 1993, the liquid assets of the banks (cash, sight deposits and postal checking accounts) exceeded the previous year's level by 1%. The liquidity ratio I (actually available liquid funds as a percentage of legally required liquid funds, measured as an average from the 20th of each month until the 19th of the following month) stood at 130% at the end of 1993, compared to 125% a year earlier.

Credit expansion still slow

The persistent weak state of the economy became clearly evident in lending activity. In 1993, loans rose by a mere 1%, following a similarly small increase of only 2% in the previous year. Lending to the domestic sector, which accounts for four-fifths of the total, was only 1% up on the year-earlier figure. Mortgage lending slightly exceeded this rate of change, while short-term loans fell a little short of it. At 4%, foreign credits exhibited the strongest growth. The development of building loans, which precede mortgage loans, reflects the slump in building activity. Both the limits granted and the credits utilised declined significantly (by 11% and 12% respectively) from the previous year's levels. Open limits, i.e. the difference between the limits granted and the credits utilised thus narrowed by 8%. The increase in public-sector borrowing clearly exceeded the average rate: limits and credits utilised surpassed the year-earlier levels by 8% and 10% respectively.

Stronger inflow of customer deposits

After having virtually dried up at times in 1992, the net inflow of customer deposits strengthened again to Sfr 20 billion in 1993. The level of customer deposits accordingly rose by 3% in the course of 1993. At 21%, savings and deposit accounts exhibited the highest growth rate of all customer deposits. This development – as also the strong increase in sight deposits (+20%) – primarily reflects the interest rate-induced decline in time deposits. At the end of 1993, these fell 9% short of the previous year's level. While the banks reduced the volume of outstanding bank-issued medium-term notes by 13%, they increasingly resorted to issuing straight bonds (+5%).

Decline in fiduciary business

At the end of 1993, the banks' outstanding fiduciary funds showed a decline of 5% from the end-1992 level. This change was likewise brought about by the fall in short-term interest rates since fiduciary funds are an alternative – exempt from withholding tax – to time deposits. Approximately a quarter of the fiduciary liabilities originated in Switzerland; the bulk of fiduciary funds were invested abroad.

2.5 Structural change and financial innovations

The Swiss banking sector continued to undergo structural change in 1993. Mergers and takeovers led to a further decline in the number of banks. Moreover, as in the previous year, the banks again reduced their staff.

Continued structural change in the Swiss banking sector

The Swiss Volksbank – which exhibited the fifth highest balance sheet total at the end of 1992 – was taken over by CS Holding as of 17 April 1993.

Takeover of the Swiss Volksbank

Several cantons revised their cantonal bank laws. The cantons of Berne, Geneva, Solothurn and Fribourg decided to make their state institutions subject to supervision by the Federal Banking Commission. On 1 January 1994 the Cantonal Bank of Geneva opened for business. The bank was the result of a merger of the two public-law institutions which had previously transacted business in the Canton of Geneva.

Institutional changes at the cantonal banks

The regional banks were again those most immediately affected by the structural change. Since numerous regional banks, including two of the largest ones, were taken over by banks from other categories, the market share of this group of banks shrank significantly in the past year. The aim of mergers, takeovers and cooperation agreements of various regional banks was to benefit from economies of scale in providing bank services.

Regional banks at the centre of structural change

The Swiss Bankers' Association revised Convention XVIII on depositors' protection. Since 1 July 1993, a new regulation has been in force to the effect that in case of a petition for proceedings for an arrangement with creditors or the bankruptcy of a signatory bank the other signatories will advance an amount up to a guaranteed maximum of Sfr 1 billion to cover savings accounts, salary accounts and certain categories of pension accounts with balances of Sfr 30000 or less.

Revision of Convention XVIII

The banks and brokers engaged in over-the-counter trading in options on the Swiss market decided to adopt a standard framework agreement for the over-the-counter (OTC) market. This set of rules meets the need for a comprehensive standardisation of contractual relations.

Self-regulation in the OTC market

The association «Swiss Stock Exchange» took up its activity. Its main task is the technical and organisational development of Switzerland's electronic stock exchange taken over from the Association Tripartite Bourses.

New organisation responsible for Switzerland's electronic stock exchange

The SOFFEX (Swiss Options and Financial Futures Exchange) decided to commence trading with interest rate futures on long-term federal bonds in January 1994. At the same time, a streamlined scale of charges with cheaper rates for most transactions entered into force.

SOFFEX

SECOM

The SEGA (Swiss Securities Clearing Corporation) launched the new electronic system SECOM (SEGA Communication) on 4 October 1993, designed for the administration and realtime book transfer of securities. In 1994 it is planned to link SECOM with SIC in order to create the conditions for the realisation of a strict «delivery-against-payment» procedure. In this way, risks arising from the time lag between the transfer of securities and funds are to be reduced.

2.6 Other aspects of central bank policy

Revision of the capital export regulations of the Swiss National Bank

Revised federal law on stamp tax enters into force

On 1 April 1993 the revised federal law on stamp tax entered into force. The Federal Government decided to make use of its powers to abolish turnover tax on Swiss franc issues of foreign borrowers.

Liberalisation of Swiss franc issuing business

In order to prevent Swiss franc issuing business from being transferred to foreign financial centres due to the levy of turnover tax, the Swiss National Bank had previously prescribed, based on Art. 8 of the Banking Law, that Swiss franc foreign bonds were only to be issued by domestic banks (syndication rule). The decision of the Federal Government enabled the Swiss National Bank, in line with other European countries, to introduce the lead manager rule for Swiss franc issues of foreign borrowers.

Revision of capital export regulations

Since 1 April 1993, the Swiss National Bank has therefore authorised Swiss franc issues of foreign borrowers even if only the leading bank of the underwriting syndicate has its domicile in Switzerland or Liechtenstein. The lead manager must engage, in Switzerland or Liechtenstein, in activities typical of a lead manager. With the lead manager rule the Swiss National Bank ensures that it will continue to receive all the necessary information on Swiss franc issuing business.

«Swisslex» – Revision of the Banking Law

Eurolex partially adopted under the heading «Swisslex»

Following Switzerland's rejection of membership in the European Economic Area (EEA) on 6 December 1992, the Federal Government decided to once more submit to parliament – under the heading «Swisslex» – a section of the Eurolex programme originally tied to EEA membership. This also includes a partial revision of the Banking Law which the Federal Government submitted to parliament in a message of 24 February 1993. The revision contains a number of reciprocity provisions which were added to the Eurolex document. They are designed to provide a basis for Switzerland's integration into the European internal financial market.

While the bill was under discussion in the respective committee of the State Council, the Federal Banking Commission and the Swiss Bankers' Association submitted a joint draft of additional amendments to the Banking Law with respect to supervision of the cantonal banks and financial reporting by the banks. The committee of the State Council subsequently recommended that the proposals be submitted to the interested bodies for comment.

Addition to the revision of the Banking Law

In its comments on the issue, the Swiss National Bank pronounced itself in favour of compulsory supervision of the cantonal banks by the Federal Banking Commission. Moreover, the Swiss National Bank submitted an application for certain amendments to the provisions pertaining to central bank policy in the Banking Law. It recommended that the regulations contained in Arts. 7 ff. of the Banking Law (banking statistics, authorisation of capital exports) be transferred into the National Bank Law; this is a long-standing proposal. Moreover, it proposed that two obsolete interventionary powers be deleted from the Banking Law, i.e. the obligation of the banks to inform the Swiss National Bank if they intend to increase the interest rate on their medium-term notes (Art. 10 of the Banking Law) and the so-called declaration of good conduct as a requirement to be met by foreign-controlled banks in order to obtain a licence (Art. 3^{bis}, para 1c of the Banking Law).

Concerns of the Swiss National Bank

While not following the Swiss National Bank's proposal to transfer Arts. 7 ff. of the Banking Law into the National Bank Law, the federal parliament was nevertheless ready to abolish the obligation of the banks to report increases in the interest rate on their medium-term notes and the declaration of good conduct for foreign-controlled banks. The changes in the sphere of responsibility of the Swiss National Bank already contained in the Eurolex programme were undisputed. Art. 8 of the Banking Law will be converted into a protective clause from a permanently applied regulation making capital export transactions of the banks subject to authorisation. The Federal Government will thus be empowered to make capital export transactions of the banks subject to authorisation if short-term excessive capital outflows seriously jeopardise monetary policy. In order to retain the lead manager rule for Swiss franc issuing business, an explicit legal basis is being created in Art. 7, para 5 of the Banking Law enabling the Swiss National Bank to make it compulsory to report such transactions in Switzerland.

Changes in the sphere of responsibility of the Swiss National Bank

Revision of the Federal Law on Debt Collection and Bankruptcy: the legal basis for netting

In 1993 the federal parliament dealt with the bill for the revision of the Federal Law on Debt Collection and Bankruptcy. Under existing law, claims on the

The problem of «cherry-picking»

debtor are in principle only converted into unsecured bankruptcy claims. Art. 211, para 2 of the Federal Law on Debt Collection and Bankruptcy, however, authorises the receiver in bankruptcy to perform any bilateral contracts concluded by the debtor and not yet performed at the time of adjudication of bankruptcy. For example, in the case of outstanding forward foreign exchange contracts this «right to perform» permits the receiver to observe exchange rate developments with a view to performing only the contracts profitable to the receivership and to default on the rest («cherry-picking»).

Excluding the «right to perform» of the receiver in bankruptcy

The netting agreements concluded by the banks as a rule contain a declaration of set-off in the event of bankruptcy, thereby excluding the right of the receivership to perform outstanding contracts («close-out»). A proposal submitted by the Swiss Bankers' Association and revised by a group of experts under the guidance of the Swiss National Bank in July 1993 aims at establishing a clearly defined legal basis for such agreements. An amendment to Art. 211 of the Federal Law on Debt Collection and Bankruptcy is designed to clarify and limit the right to perform of the receiver in bankruptcy. This right to perform is ruled out in case of contracts which are intended to be performed at a precisely defined time and in case of financial forward, swap and options transactions; these contracts and transactions all involve assets with a market value. Special clauses on the liquidation of contracts in the event of bankruptcy which are increasingly being included in contracts in the financial sector are thus provided with a clear legal basis. This enhances the legal security for netting agreements, which in turn is likely to make the Swiss financial centre more attractive.

Positive reception in parliament

On motion of the advisory committee, the bill was passed by the State Council. It still has to be approved by the National Council. The advisory committee of the National Council decided to support the proposal of the State Council. The final vote will probably be held in the course of 1994.

Cooperation of the Swiss National Bank in international monetary measures and technical assistance

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

Based on a decree of the federal parliament on Switzerland's cooperation in international monetary measures, Switzerland had entered into an undertaking, in 1991, as part of a multilateral action, to grant Bulgaria balance-of-payments aid in the form of a medium-term loan amounting to US$ 32 million. The loan was paid in April following ratification of the respective agreement by the Bulgarian parliament in February 1993. The credit with a maturity of seven years is financed by the Swiss National Bank and guaranteed by the Federal Government.

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$ 7.2 million to Romania. The credit was granted as part of a multilateral action. The credit for a term of seven years is financed by the Swiss National Bank and guaranteed by the Federal Government.

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

Participation of the Swiss National Bank in stand-by arrangements at the end of 1993

	Original undertakings	Outstanding credits		Outstanding undertakings
		End 1992	End 1993	End 1993
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** [1]				
Hungary	$30 million	$30 million	$30 million	–
Czechoslovakia	$40 million	$40 million	– [2]	–
Czech Republic	–	–	$27 million	–
Slovak Republic	–	–	$13 million	–
Romania	$40 million	$40 million	$40 million	–
Romania	$ 7 million	–	$ 7 million	–
Bulgaria	$32 million	–	$32 million	–

[1] With Federal Government guarantee.
[2] The credit was divided up between the Czech Republic and the Slovak Republik.

Technical assistance

In the first year of Switzerland's membership in the Bretton Woods institutions the Swiss National Bank concerned itself with various monetary policy transactions of the International Monetary Fund (IMF). Moreover, it participated actively in technical aid granted by the Bretton Woods institutions. The main emphasis was on providing support to the central banks of the Swiss constituency in the IMF. In particular, it advised the central bank of Kyrgyzstan in developing and organising its foreign exchange section and strengthened its relations with the central bank of Poland. It also participated in World Bank projects for improving the payments system in the People's Republic of China and for the reorganisation of the central bank of Madagascar.

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. The surplus allocated to the cantons will be distributed as follows: 5/8 in proportion to their resident population figures and 3/8 in proportion to their financial strength.

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.

Volume of «reserve provisions» aimed at

	Growth of nominal GNP in % (averaging period)	Level of «reserve provisions» aimed at by year-end in millions of Swiss francs
1991	6.2 (1985–89)	18 843.2
1992	6.3 (1986–90)	20 030.3
1993	6.3 (1987–91)	21 292.2
1994	5.8 (1988–92)	22 527.1

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.

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 1993 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»		Distributable surplus	Distribution
			Actual level at year-end before distribution	Level aimed at by year-end		
	(1)	(2)	(3)=(1)+(2)	(4)	(5)=(3)-(4)	(6)
1992	21 860.8	3 149.5	25 010.3	20 030.3	4 980.0*	600
1993	24 410.3	3 017.3	27 427.6	21 292.2	6 135.4*	600
1994	26 827.6					

* This amount includes the non-realised surplus (valuation adjustment on foreign exchange), which amounted to Sfr 2389.7 million and Sfr 3153.8 million at the end of 1992 and 1993 respectively.

At the beginning of 1993, «reserve provisions» according to the annual balance sheet as per end of 1992 amounted to Sfr 24 410.3 million (reserve provisions and valuation adjustment on foreign exchange: Sfr 22 020.6 and Sfr 2 389.7 million respectively). As the Swiss National Bank achieved a surplus of Sfr 3 017.3 million in 1993, «reserve provisions» at year-end prior to distribution amounted to Sfr 27 427.6 million. The level of «reserve provisions» aimed at by the Swiss National Bank amounted to Sfr 21 292.2 million, leaving a distributable surplus of Sfr 6 135.4 million.

Distribution of Sfr 600 million

The Swiss National Bank will, however, not remit the entire distributable surplus of 1993 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 distribution surplus. Note must also be taken of the fact that the financial results for the business year 1993 were improved by an extraordinary profit of Sfr 334.3 million deriving from adjustments to the profit and loss account in keeping with the accounting rules laid down by the new company law. The surplus shown for 1993 includes, as a new feature, earnings accrued but not yet received, by the end of the year.

Remittance to the Federal Department of Finance at the start of 1995

As in the previous two years, a sum of Sfr 600 million from the 1993 annual profit will be remitted to the Federal Department of Finance at the start of 1995 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.

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 *Total*	*of which Swiss bills*	*Money market paper*	Lombard advances	Securities and participations	Balances with domestic correspondents	Loss on foreign currency and gold holdings	Deferred items
1961	11 078,0	842,4	—	—	—	69,5	62,2	—	66,3	42,9	58,3	—	—
1962	11 543,3	867,4	—	207,0	—	123,6	67,4	45,0	71,7	42,8	77,8	—	—
1963	12 203,8	1 083,3	—	207,0	—	142,2	87,5	35,0	97,5	51,7	61,5	—	—
1964	11 793,6	1 679,1	—	432,0	431,3	162,6	109,8	24,8	77,7	65,3	75,3	—	—
1965	13 164,2	852,6	—	432,0	428,5	139,1	98,1	9,5	38,9	92,9	66,1	—	—
1966	12 297,4	2 060,3	—	432,0	518,9	157,8	97,8	16,7	109,3	181,7	81,5	—	—
1967	13 369,7	1 986,7	—	432,0	173,9	142,5	99,4	—	86,6	181,9	72,4	—	—
1968	11 355,8	5 601,2	—	1 442,0	108,3	288,5	256,2	6,8	160,1	180,6	99,7	—	—
1969	11 434,5	5 792,9	—	1 851,0	—	731,4	584,7	118,5	277,1	170,2	89,5	—	—
1970	11 821,3	8 441,1	—	1 851,0	—	399,0	306,6	71,0	223,5	156,0	82,8	—	—
1971	11 879,4	10 323,3	—	4 278,0	—	80,5	78,1	—	28,5	10,8	72,4	1 243,5[4]	—
1972	11 879,7	12 323,1	—	4 278,0	—	936,1	770,3	152,0	418,8	—	142,3	1 243,5[4]	—
1973	11 892,7	12 519,9	—	4 613,0	—	1 097,7	862,7	200,0	557,7	—	281,8	1 243,5[4]	—
1974	11 892,7	11 570,6	—	5 403,0	—	2 694,3	2 166,8	484,0	699,9	92,5	166,9	621,5[4]	—
1975	11 892,7	14 705,8	—	5 403,0	—	1 938,9	1 706,5	227,0	200,2	3,7	136,3	621,5[4]	—
1976	11 903,9	20 426,5	—	5 222,0	—	1 300,8	912,5	375,0	157,0	63,8	160,3	—	—
1977	11 903,9	20 514,2	—	3 949,0	—	1 519,1	1 207,4	267,0	197,5	559,1	171,6	—	—
1978	11 903,9	28 981,8	—	2 028,5	—	236,1	214,6	—	49,6	348,0	185,7	2 593,5[5]	—
1979	11 903,9	26 390,4	—	—	—	1 580,5	1 532,2	10,0	886,4	963,4	288,6	1 110,9[5]	—
1980	11 903,9	27 355,6	—	11,4	—	2 485,5	2 285,1	152,0	919,8	1 212,2	289,6	—	—
1981	11 903,9	25 494,8	—	0,2	—	3 006,9	2 710,0	256,0	2 513,9	1 018,4	399,6	—	—
1982	11 903,9	31 872,8	—	6,3	—	2 188,1	2 076,8	109,2	1 559,6	1 268,3	314,0	—	—
1983	11 903,9	32 677,5	—	28,7	—	2 676,3	2 524,5	149,2	2 408,6	1 562,5	346,4	—	—
1984	11 903,9	38 876,0	—	23,2	—	2 748,9	2 455,4	293,5	2 677,9	1 773,6	500,8	—	—
1985	11 903,9	38 133,8	—	6,8	—	2 838,4	2 465,9	372,5	2 973,6	1 911,1	529,7	—	—
1986	11 903,9	36 262,0	—	—	—	2 747,4	2 411,9	335,5	3 204,0	2 045,0	564,4	—	—
1987	11 903,9	37 439,9	—	18,5	—	2 301,7	2 246,8	54,9	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	821,1	353,4	467,7	26,9	2 975,7	493,0	—	—
1993	11 903,9	47 031,1	1 221,6	332,7	218,4	752,5	—	752,5	13,5	2 973,2	595,8	—	390,6

[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*	*Balances of foreign banks*	Banks' minimum reserves	Time liabilities[7]	Deferred items	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	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	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	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	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	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	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	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	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	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	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	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	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	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
29 335,6	40,58	5 263,6	4 776,7	192,3	188,8	—	2 940,0	56,3	3 153,8	108,0	23 033,7	640,0	65 774,7	1993

[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 1986

Expenditure (in Sfr 1000)

	1986	1987	1988	1989	1990	1991	1992	1993
Operating expenses	**95 489**	**97 702**	**110 485**	**152 865**	**143 896**	**160 016**	**157 404**	**187 964**
Bank authorities	714	705	707	734	792	776	799	807
Personnel	52 025	53 343	56 249	58 570	62717	71 258	75 978	77 562
Premises	4 918	4 417	9 785	45 150	20 305	28 414	17 203	22 548
Furniture and fixtures	3 034	4 104	3 108	4 358	15 966	13 918	12 289	13 453
Business and office equipment and supplies	2 861	2 990	3 206	3 360	3 984	3 932	3 955	4 566
Information and communication	2 436	1 870	2 304	1945	2 543	2 924	8 608	3 440
Printing, publications	693	644	731	852	850	1 118	1 232	1 142
Expenditure in respect of bank note circulation	18 689	19 485	24 037	21 292	20 463	23 113	26 392	54 550
Other expenditure on materials	10 119	10 144	10 358	16 604	16 276	14 563	10 948	9 896
Other expenses	**181 917**	**127 711**	**141 546**	**95 233**	**155 225**	**126 479**	**133 950**	**364 017**
Interest payable to depositors	2 926	3 012	3 395	4 267	5 810	6 593	6 861	5 313
Interest payable to Federal Government	58 492	41 244	40 444	55 161	101 145	82 895	91 965	290 992
Write-down of own securities	94 499	66 320	96 407	35 805	48 270	36 991	35 124	67 712
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**	**764 100**
Taxes	**1 789**	**2 632**	**1 592**	**298**	**3 365**	**—**	**8 726**	**—**
Appropriation to pension fund	**3 000**	**2 000**	**2 000**	**2 000**	**6 000**	**5 000**	**3 000**	**1 000**
Increase in provision for dividends and cantonal shares of profit	**—**	**—**	**—**	**—**	**—**	**—**	**10 000**	**—**
Allocation to provision for foreign exchange risks	**—**	**—**	**1 807 669**	**2 793 303**	**2 494 209**	**2 420 560**	**1 846 842**	**1 653 172**
Annual profit	**7 593**	**7 593**	**7 593**	**7 593**	**7 593**	**607 593**	**608 405**	**607 999**
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	605 093	605 905	605 499
Total	**2 428 913**	**3 766 475**	**4 041 791**	**4 141 199**	**6 787 108**	**5 016 721**	**3 460 967**	**3 578 252**

[1] 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)

	1986	1987	1988	1989	1990	1991	1992	1993
Operating income	**8 069**	**5 771**	**6 663**	**6 251**	**6 123**	**6 556**	**14 147**	**17 824**
Commissions	2 216	1 826	1 756	1 696	1 626	1 671	1 906	1 920
Income from bank buildings	5 313	3 446	4 462	4 088	4 100	4 518	11 949	4 715
Sundry income	540	499	445	467	397	367	292	11 189
Other income	**2 009 363**	**1 638 459**	**2 064 222**	**3 045 041**	**2 804 165**	**3 313 092**	**2 754 180**	**2 796 328**
Income from foreign exchange	1 834 097	1 462 698	1 924 021	2 848 708	2 585 097	3 084 661	2 512 481	2 408 724
Income from discounting	20 848	17 738	3 275	33 906	44 197	37 136	31 618	3 996
Income from money market paper	—	—	—	—	—	—	11 162	59 011
Income from secured advances	28 448	27 309	2 832	5 672	3 895	2 593	2 466	1 795
Income from own securities	123 449	128 782	132 877	149 504	160 163	176 113	184 290	315 940
Income from domestic correspondents	2 521	1 932	1 217	7 251	10 813	12 589	12 163	6 862
Appreciation of foreign exchange holdings	**—**	**—**	**1 970 906**	**1 089 907**	**—**	**1 697 073**	**692 640**	**764 100**
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	**2 428 913**	**3 766 475**	**4 041 791**	**4 141 199**	**6 787 108**	**5 016 721**	**3 460 967**	**3 578 252**

Explanatory notes to the profit and loss account for the year 1993

The profit and loss account is characterised by the foreign exchange position. US dollar holdings were, as usual, valued at the average December rate, which stood at Sfr 1.4640, compared to Sfr 1.4220 in the previous year. The net book profit of Sfr 764.1 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.

Accrued and deferred items were taken into account for the first time, with corresponding effects on the positions foreign exchange earnings, earnings from money market paper and securities and interest payable to the Federal Administration. Accruals and deferrals yielded net surplus earnings amounting to Sfr 334.3 million. The earnings surplus of Sfr 2 261.2 million was divided up into annual net profit in the amount of Sfr 608 million and provisions for currency risks totalling Sfr 1 653.2 million.

Earnings deriving from foreign exchange holdings and trading diminished – due to lower interest rates – in all major currencies with the exception of the US dollar by Sfr 103.8 million to Sfr 2 408.7 million (1992: Sfr 2 512.5 million). Sfr 267.4 million of this figure was attributable to accruals and deferrals taken into account for the first time.

Following the Swiss National Bank's withdrawal from compulsory stockpile financing, no compulsory stockpile bills were rediscounted from January 1993 onwards. An income of Sfr 4 million (1992: Sfr 31.6) resulted from compulsory stockpile bills maturing until the end of March 1993. Open market transactions in federal money market debt register claims introduced in September 1992 yielded Sfr 59 million.

Lombard business rose only slightly from the previous year's level; due to the marked decline in interest rates, income shrank by Sfr 0.7 million to Sfr 1.8 million.

Interest income from securities holdings rose from Sfr 184.3 million to Sfr 315.9 million; of this amount, Sfr 113 million is attributable to broken-period interest, taken into account for the first time.

The discount rate, which was lowered from 6% to 4% in the course of the year, is the applicable rate on credits to domestic correspondents. At Sfr 6.9 million (1992: Sfr 12.2 million), interest earnings were considerably reduced.

Pay rises and cost-of-living allowances for retired staff pushed up total staff expenditure by Sfr 1.6 million to Sfr 77.6 million.

Regular maintenance costs, outlays for renovations in various branch offices and rent for hired office space totalled Sfr 22.5 million.

Expenditure on equipment rose to Sfr 13.5 million; in addition to new furnishings and vehicles, this item includes mainly the costs for the acquisition of data processing hardware and software.

The steep rise in outlays for the printing and circulation of bank notes (from Sfr 26.4 million to Sfr 54.6 million) is chiefly attributable to preparatory work in connection with the new bank note series.

Interest payments in favour of the Federal Government rose from Sfr 92.0 million to Sfr 291.0 million, despite lower interest rates; this is due to the massive increase in federal time deposits, of which a smaller share was placed in the market. Interest payments on federal balances to the tune of Sfr 302.8 million (including broken-period interest to the amount of Sfr 56.3 million shown for the first time) were offset by interest income from placements to the tune of Sfr 11.8 million (including broken-period interest amounting to Sfr 8.3 million).

The cost of writing down the value of newly acquired securities by Sfr 275.3 million was offset against book profits of Sfr 207.6 million on repayments and matured securities swaps of paper which had previously been written down. This resulted in a net write-off totalling Sfr 67.7 million.

4. Organisation (on 1 March 1994)

4.1 Supervisory authorities

Bank Council	40 members President: Jakob Schönenberger Vice-President: Eduard Belser
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, Chairman, Zurich Hans Meyer, Vice-Chairman, Berne Jean Zwahlen, Member, Zurich
Secretariat General	
Secretary General	Andreas Frings, Director, Zurich
Deputy Secretary General	Hans-Ueli Hunziker, Senior Officer, Berne
Translation Service	Michel Gremaud, Senior Officer, Zurich
Library	Anne-Marie Papadopoulos, 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	Erich Spörndli, Deputy Director
Research	Michel Peytrignet, Assistant Director
Economic Analysis	Eveline Ruoss, Assistant Director
International Monetary Relations Section	Monique Dubois, Deputy Director
Banking Studies Section	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
Balance of Payments	Thomas Schlup, Senior Officer
Data Bank	Rolf Gross, Assistant Director

Legal and Administrative Division	Peter Klauser, Director
Legal Service	Peter Merz, 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
Security	Alex Huber, Assistant Director
Banking Division	Theodor Scherer, Director
Securities	Hans-Christoph Kesselring, Deputy Director
Central Accounting	Peter Bechtiger, Assistant Director
Correspondence, Bills and Cheques	Daniel Ambühl, Assistant Director
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
Investment Section	Markus Zimmerli, Deputy Director
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
Cashier's Office	Roland-Michel Chappuis, Assistant Director
Correspondence	Markus Steiner, Assistant Director
Accounting	Werner Bolliger, Assistant Director
Informatics Section	Rudolf Hug, Director
Staff	Raymond Bloch, Assistant Director
Banking Applications	Roger Arthur, Assistant Director
Statistical Applications	Jürg Ziegler, Deputy Director
Office Automation/ Communication	Peter Bornhauser, Assistant Director
Systems Engineering	Jules Troxler, Assistant Director
Computer Centre Zurich	Peter Künzli, Assistant Director
Computer Centre Berne	Bruno Beyeler, Assistant Director

Branches

Aarau	Heinz Alber, Director Deputy of the director (vacant)
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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