Annual report 1990
Abridged version

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1. Economic developments – a summary

1.1 International economic and monetary developments

Gulf crisis and German unification as significant political events

1990 was a year marked by significant political events. In Eastern Europe, the old political structures collapsed, bringing democratically elected governments into power in several countries; these now seek to replace the centrally administered economic system by a market economy. In Germany, the process of unification was completed by the incorporation of the five East German Länder into the Federal Republic. These developments were welcomed in both East and West. The prevailing positive mood was, however, dampened by the crisis in the Persian Gulf. At the beginning of August Iraq occupied the neighbouring state of Kuwait. The United Nations reacted by imposing an embargo, and the United States and a number of other countries established a strong military force in the region with the approval of the UN. The loss of Iraqi and Kuwaiti oil supplies was quickly offset by stepped-up production in other supplier countries. Nevertheless, oil prices soared, a clear indication of the risks represented by a war in the Gulf region for the supply of energy to the world economy.

Slowdown in growth in the OECD countries

In the OECD countries the estimated rate of economic growth was 2.8% in 1990, compared to 3.4% a year earlier. Until spring, growth continued at more or less the previous year's pace, while the second half of 1990 saw a lower rate. This slowdown was due mainly to the restrictive monetary policies implemented in 1988 and 1989, when the authorities tightened the monetary reins in order to counter the threat of an overheating economy. The Gulf crisis and developments in Eastern Europe did not yet make a perceptible impact on economic growth in 1990.

Clearly divergent growth

The leading industrialised countries showed clearly divergent development in 1990. In the United States, Britain and Canada economic expansion slowed markedly. All three countries exhibited only modest growth rates of 1% to 1½%. By contrast, the pace of economic activity accelerated in Japan (6.1%) and West Germany (4.6%). It was partly due to the impressive development of the West German economy that the decline in growth rates remained within relatively narrow bounds in most European countries.

Reduction in external imbalances

Due to the varying pace of growth the current account imbalances exhibited by the United States, Japan and Germany diminished. The weakness of the US dollar, which strengthened the competitiveness of American producers, was conducive to this development. The improved equilibrium was one of the reasons why the major industrialised countries did not see a need for closer coordination of their economic policies in 1990.

Marked inflation differentials

Inflation, which had already increased somewhat in the first half of the year, was further boosted by the massive rise in the price of oil. At the same time, inflation differentials between the leading industrialised countries widened slightly. While Japan, West Germany and France succeeded in containing inflation within a limit of 2½% to 3½%, the United States, Italy and Britain recorded inflation rates of over 5%.

Weak dollar, recovery of the yen

The US dollar embarked on a clear downtrend in April. The decline continued after the outbreak of the Gulf crisis. In contrast, the Japanese yen, which had been extremely weak in 1989 and in the first quarter of 1990, appreciated markedly. Sterling, which joined the European Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) in October, also gained considerably in value up to this date.

Declining share prices, fragility of the banking system

Share prices showed a distinct decline from the beginning of the year. This trend became increasingly pronounced after the outbreak of the Gulf crisis. In Japan, where shares experienced a particularly drastic fall, the capital adequacy of numerous banks was lowered. Greater attention was, however, focused on the fragility of the US banking system. After the thrift institutions, it was the turn of various commercial banks to suffer from the deteriorating quality of their assets.

Adjustment of monetary policy

The slackening of economic activity in the United States induced the Federal Reserve Board to relax its restrictive monetary policy in summer 1990. The Bank of Japan, on the other hand, raised its interest rates significantly in order to ward off a potential surge in inflation and a depreciation of the yen. In the EMS countries, interest rates in general exceeded the previous year's level. The German Bundesbank adhered to its restrictive monetary policy. Accordingly, the scope of the other EMS countries to lower their interest rates was limited.

European economic and monetary union

Continued endeavours were made in 1990 towards creating a European economic and monetary union. The first stage consisted chiefly in lifting all foreign exchange controls and restrictions on capital movements, effective from 1 July. In December, the heads of state and government of the European Community decided to initiate the second stage at the beginning of 1994, which provides primarily for the establishment of a European central bank.

European Economic Space

The speed with which the unification of Germany was achieved and the accelerated pace of European integration changed Switzerland's environment from the point of view of integration policy. In mid-year negotiations started between the EFTA countries and the EC on the establishment of a European Economic Space (EES). The purpose of these negotiations is to create a European single internal market more or less along the lines of the EC's single internal market. However, the applications for exemptions submitted by the EFTA countries and the EC Commission's demand to rule out institutional questions soon led to a hardening of positions. In December, the ministers of the EC and the EFTA countries decided to resume negotiations after both parties had signalled their willingness to show some flexibility.

Switzerland applies for IMF and World Bank membership

In early June, the Swiss Federal Government submitted an application for membership to the International Monetary Fund (IMF) and the World Bank group. This application was preceded by detailed exploratory talks between the Department of Finance and the Swiss National Bank, and leading IMF member countries. By the end of the year the IMF had not yet decided what quota (capital share) to allot to Switzerland.

1.2 Economic developments in Switzerland

High inflation

The main feature of economic development in Switzerland was the acceleration of inflation, triggered largely by the overheated economy, spiralling rents due to mortgage rate increases, and the steep rise in oil prices. In the first half of the year inflation – measured by the national consumer price index – still hovered around 5%; by October it had increased markedly before receding again in November and December. On an annual average, the inflation rate rose from 3.2% in 1989 to 5.4% in 1990. Broken down into domestic and imported goods, prices climbed by 5.8% and 4.4% respectively.

Uninterruptedly strong economic growth

Economic expansion in Switzerland amounted to 2.6% in 1990. While not achieving the 1989-level (3.5%), it nevertheless remained strong. The chief pillars of growth were exports of goods and equipment investment. There was a marked slowdown in growth of capital expenditure on building in the course of the year. Consumption, on the other hand, the dominant factor in total demand accounting for more than 40%, rose, as in the previous year, by 2%.

Slowdown in the second half-year

Signs of an economic slowdown were not confined to the building trade during the year. Various macro-economic indicators also pointed to a decline. The number of job vacancies fell below the level of unemployed persons in the fourth quarter. Surveys among entrepreneurs revealed that they were assessing economic prospects more pessimistically at the end of 1990 than twelve months earlier.

Improved current account

The current account exhibited a surplus of Sfr 13.5 billion in 1990. The increase of Sfr 1.3 billion from the previous year's level is attributable mainly to a reduction in the trade deficit from Sfr 11.7 billion to Sfr 9.2 billion. The impact of oil price rises on the trade balance was more than offset by the higher valuation of the Swiss franc.

2. Central bank policy and financial markets in Switzerland

2.1 Some features of Swiss National Bank policy

Stable price level as aim

The Swiss National Bank pursues a monetary policy which aims at stabilising the price level in the medium term while allowing the economy sufficient leeway to achieve a growth rhythm conducive to full employment. It strives to limit expansion of the monetary base to comply with its medium-term goals. At the same time, it tries to react adequately to unexpected disruptions. Thus it duly took account of the strong decline in demand for central bank money triggered in 1988 and 1989 by the revision of the liquidity requirements and the introduction of the electronic interbank payment system SIC, as also of the marked depreciation of the Swiss franc at the turn of the year 1989/1990.

Economic upswing ...

Inflation rose more vigorously in Switzerland in 1990 than had been anticipated at the end of 1989. Initially, the additional inflationary stimuli emanated chiefly from foreign trade. Towards the end of 1989, the Swiss franc rate – which had already been weakening since mid-1988 – began to fall more rapidly. This development threatened to fuel inflation through rising Swiss franc prices for international goods and services. In addition, the economic upswing in Western Europe stimulated foreign demand for Swiss products, thereby contributing to the overheating of the Swiss economy.

... and Gulf crisis as causes of the unexpected rise in inflation

The increase in oil prices following the invasion of Kuwait by Iraq put further upward pressure on inflation. In Switzerland, domestic prices for petrol and fuel oil react with only a small time lag to the fluctuations in the Rotterdam oil market quotations. The rise in oil prices therefore impacted sooner and more forcefully on the consumer price index in Switzerland than in most other industrialised countries. In October 1990 the annual inflation rate soared to 6.4%. Due to a favourable base level effect and the decline in oil prices it again receded to 5.3% in December 1990.

Tightening of monetary policy to strengthen the Swiss franc

The Swiss National Bank tightened its monetary policy at the turn of the year 1989/90 in order to arrest the decline of the Swiss franc. Subsequently, Swiss money market rates rose perceptibly and remained above German levels until summer. Moreover, during the entire year they exceeded money market rates in the United States. As a result of the more restrictive monetary stance, the Swiss franc firmed both vis-à-vis the European currencies and against the US dollar. The renewed strength of the Swiss currency was particularly pronounced in May, after the German government had announced the terms and conditions for exchanging Ostmarks for D-marks. The Swiss franc exchange rate returned to a level below 0.85 Swiss francs per D-mark for the first time since the start of 1989.

Slight relaxation of restrictive course in autumn

In the course of the year it gradually became clear that the Swiss economy had passed a turning point and that a period of slower growth was in the offing. This trend intensified after the outbreak of the Gulf crisis and the rise in oil prices. The Swiss franc was increasingly being resorted to as a haven currency and quoted at distinctly higher rates in the foreign exchange markets. The Swiss National Bank made use of the resulting additional room for manoeuvre by somewhat moderating its restrictive course. Consequently, Swiss money market rates decreased by about ¾ percentage point. A temporary expansion in the supply of liquidity sufficed to bring about this decline in interest rates. The Swiss National Bank did not, however, fundamentally alter its restrictive monetary policy. In view of persistently high inflation and the slight weakening of the Swiss franc in November and December, it saw no need for such a step.

Renewed rise in interest rates and adjustment of mortgage rates

Towards the end of the year Swiss money market rates moved up once more as a result of a marked increase in the German interest rate level. Capital market rates, which had receded until July following a steep increase at the beginning of the year, began to rise again after the outbreak of the Middle East crisis. Numerous banks thus found it necessary to raise their rates on both old and new mortgages. This was the second increase in the year under review and the fourth within 18 months. The adjustment of mortgage rates led to a short-term price surge because rents, which are linked to mortgage rates under Swiss tenants' protection regulations, were increased massively. At the end of 1990, rents exceeded the previous year's level by 9.5%.

Mortgage rates made subject to price control

The political unrest and social problems usually generated by a massive increase in mortgage rates induced the Federal Council to submit a proposal to the National and State Councils that parliament issue a federal emergency decree making mortgage rates subject to price supervision. The bill provided for authority to be delegated to the price controller to prevent mortgage rate increases for economic policy reasons. Parliament, however, decided in favour of supervision being exercised only in the absence of competitive mortgage rates. This eliminated the danger that direct state intervention into the process of interest rate formation would impair the effectiveness of monetary policy.

Money supply target not reached in 1990

As early as spring it had become clear that the renewed tightening of monetary policy undertaken at the turn of the year 1989/90 was not consistent with the money supply target of 2% which the Swiss National Bank had set for 1990. The seasonally-adjusted monetary base declined instead of expanding, as originally planned. After the Swiss National Bank had reduced its supply of bank reserves by approximately Sfr 150 million between early January and mid-February 1990, these fluctuated around Sfr 3 billion until the end of the year. In the wake of rising interest rates, the circulation of bank notes – notably in the first half of the year – also slowed perceptibly. The decline of the seasonally-adjusted monetary base thus mainly reflected the tighter monetary policy. The implications of the revised liquidity regulations and the introduction of the interbank payment system SIC, which had considerably influenced demand for base money in 1988 and 1989, however, had ceased to significantly complicate Swiss monetary policy. The seasonally-adjusted monetary base declined by 2.6% between the fourth quarter of 1989 and the fourth quarter of 1990; the target was thus undershot by 4.6 percentage points.

Monetary policy outlook in 1991

In view of the uncertain international environment the Swiss National Bank decided against fixing an annual growth rate for the seasonally-adjusted monetary base in 1991. Nevertheless, it continues to employ the seasonally-adjusted monetary base as the main indicator of Swiss monetary policy. Although this aggregate often leaves much to be desired as a short-term indicator, it fulfils a useful function as a leading indicator, i.e. it anticipates the development of inflation over the following two to three years. The same applies to the money stock M_1 which is, however, even more interest-sensitive than the monetary base. Setting annual targets for M_1 would therefore also prove difficult. The money stock M_3 usually exhibits fewer short-term fluctuations than the narrowly-defined aggregates. However, current research shows the quality of the money stock M_3 as a leading indicator of price developments to be inadequate. The Swiss National Bank is therefore not considering substituting another aggregate for the monetary base.

Reduction from 2% to 1% in medium-term expansion of monetary base envisaged

The monetary base will serve mainly as a medium-term monetary indicator. The Swiss National Bank intends to increase this aggregate in 1991 to approach the medium-term expansion path envisaged. The speed with which it will move towards this path will depend largely on exchange rate developments. In the past, the Swiss National Bank regarded an annual expansion of the seasonally-adjusted monetary base of 2% as compatible with medium-term price stability in Switzerland. Upon reconsideration, the Swiss National Bank concluded that a medium-term money supply growth of around 1% would be more adequate in future. There are two reasons for this change. On the one hand, the innovations in the field of payments transactions seem to have somewhat reduced the growth trend in demand for bank notes and thus also for central bank money. On the other hand, note circulation has become relatively more important as a component of the monetary base due to the revised liquidity requirements and the introduction of Swiss Interbank Clearing SIC. Experience has shown that the growth potential of the Swiss economy leads to a stronger increase – percentage-wise – in sight deposits than in bank note circulation. The added significance of note circulation thus calls for a slight reduction in money supply expansion aimed at in the medium term.

Possibility of deviations from the envisaged growth path

The considerations in favour of the envisaged medium-term growth of the seasonally-adjusted monetary base do not, however, imply that the Swiss National Bank should increase this aggregate by 1% year by year. Temporary deviations from the medium-term expansion path aimed at may become necessary. Thus demand for central bank money is clearly influenced by adjustments in domestic interest rates. In the event of surging domestic inflation the interest rate rise triggered by the steady growth of the seasonally-adjusted monetary base is not always sufficiently pronounced to render the restrictive course of the Swiss National Bank effective. The efficacy of the restrictive monetary policy is particularly impeded when a weak Swiss franc or a vigorous economic upswing abroad exerts increased pressure on prices in Switzerland. Under these circumstances, it may be indicated to temporarily reduce the growth in central bank money below the medium-term expansion path envisaged in order to stimulate interest rate rises. Conversely, it may prove necessary to exceed the medium-term expansion path when interest rates and inflation are once more on the decline.

Lower inflation and stagnation of GDP expected in 1991

In 1991, Switzerland's inflation rate is likely to ease again due to a restrictive monetary policy. The decline will, however, not set in until the second half of the year since, in the first half of 1991, rents and numerous administered prices are likely to be raised again. By the end of 1991, inflation is expected to have dropped to around 4%. A distinct slowdown in growth of real gross domestic product is also anticipated.

2.2 Development of the monetary aggregates

Declining monetary base, target not reached

In the fourth quarter of 1990 the seasonally-adjusted monetary base was 2.6% below the year-earlier level. The envisaged target – a growth rate of 2% – was thus clearly undershot. The target was originally defined as the average of the annualised monthly rates of variation compared with the fourth quarter of the previous year. This definition, however, did not prove satisfactory. It overstated the decline of the seasonally-adjusted monetary base in the first months of the year. Consequently, the annual average would also have distorted the true extent of the shortfall. The Swiss National Bank therefore decided to orient the target to the rate of change of the seasonally-adjusted monetary base between the fourth quarter of 1989 and the fourth quarter of 1990.

Bank reserves held with the Swiss National Bank fluctuated around an average of approximately Sfr 3 billion during the whole of 1990. The low level is largely a reflection of the tightening of monetary policy which the Swiss National Bank introduced at the turn of 1989/90. Part of the decline from the year-earlier level is probably attributable to difficulties arising from the application of the new liquidity requirements. A number of banks applied an accounting method that overstated their cash liquidity. They entered incoming payments on the day on which a transaction was concluded, while outgoing payments only appeared in their books on the value date, i.e. approximately two days later. This had the effect that the bank reserves reported by the banks in their liquidity statements regularly exceeded the amounts actually held with the Swiss National Bank. The differences varied between Sfr 300 million and Sfr 700 million in the course of 1990.

Tighter monetary policy – low level of bank reserves

In order to avoid future discrepancies, the Federal Banking Commission and the Swiss National Bank modified their joint circular letter on liquidity. As from 20 March 1991, the banks, in reporting their liquidity position, will be required to base the computation of their bank reserves on the statements of account from the Swiss National Bank.

Computation of bank reserves more precisely defined

On an annual average, bank note circulation in 1990 declined by 2.1% from the previous year's level. This reduction is due to higher interest rates, which promoted the incentive to reduce cash holdings in favour of interest-bearing assets. Since a regrouping of assets follows the development of short-term interest rates with a time lag, the substantial reduction in note circulation in 1990 is still to some extent a belated consequence of the interest rate increase in the previous year. As usual, the interest rate effect was confined to the larger denominations of Sfr 500 and Sfr 1000, whose circulation declined by 4.4% (1989: +1.4%), while the smaller denominations still rose by 1.5% (1989: +3.8%).

Interest rate-induced decline in bank note circulation

The monetary aggregate M_1, which comprises currency in circulation and sight deposits of the nonbank public, showed a similar decline as in 1989 (1990: –5%; 1989: –5.9%). The higher interest rates which resulted from the restrictive monetary policy caused low-yield sight deposits to be switched to time deposits and other higher-yielding assets (1990: –6.4%; 1989: –9.4%). Currency circulation fell for the same reason as note circulation (1990: –2.1%; 1989: 2.2%).

Continued decrease of the money stock M_1

Due to the sustained high level of interest rates, domestic Swiss franc time deposits rose almost as markedly in absolute terms as in the previous year; in percentage terms, however, their growth rate fell from 50% to just under 30%. Nevertheless, the rise in time deposits still more than offset the de-

Smaller increase in the money stock M_2

cline of the money stock M_1, and the aggregate M_2 subsequently expanded by 13.5% (previous year: 20.2%).

Marked slowdown in growth of the money stock M_3

Savings deposits dwindled even more rapidly in 1990 than a year earlier (1990 : –8.3%; 1989 : –5.2%). The increase in M_2 and the decline in savings deposits balanced each other out; the monetary aggregate M_3 consequently remained at a level of about Sfr 360 billion throughout the year. The monthly rates of change, however, declined from the corresponding levels in 1989 in the course of the year. While the average growth rate had still amounted to 6.2% in 1989 it now stood at 2.5%.

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]
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	81.5	14.4	149.1	7.8	333.1	9.8
1989	29.9	–1.9 [8]	76.6	–5.9	179.3	20.2	353.6	6.2
1990	28.9	–3.7	72.8	–5.0	202.9	13.5	362.6	2.5
1990								
1st quarter	29.2	–4.0	72.3	–7.2	197.4	21.1	360.7	4.1
2nd quarter	28.9	–4.8	72.3	–5.5	201.4	13.5	360.6	2.0
3rd quarter	28.8	–3.3	71.0	–5.2	203.8	10.1	360.5	1.7
4th quarter	28.8	–2.6 [9]	75.6	–2.2	209.2	9.2	368.7	2.5

[1] Cf. Monthly Report of the SNB, tables 8 to 12 (as from September low 1990 cf. tables B1 and B2); from 1986 onwards the Principality of Liechtenstein is included in the domestic figures.
[2] Adjusted monetary base = bank note circulation plus the banking system's deposits with the SNB less end-of-month refinancing credits. As from 1989 seasonally-adjusted monetary base = monetary base (bank note circulation plus bank reserves held with the SNB) divided by the respective seasonal factors.
[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.
[8] 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.
[9] Relevant for the deviation from the 1990 target.

2.3 The financial markets

Money market

Renewed rise in money market rates

In 1990 Swiss money market rates again clearly exceeded the previous year's level. As a result of the restrictive policy implemented by the Swiss National Bank they rose by almost 2 percentage points to an average of

8.3% on call money and 8.8% on three-month Eurofranc deposits. The higher Euromarket rates also impacted on the banks' time deposit rates; the yield on three-month customer deposits at the big banks rose to an average of 8.3%. The yield on newly issued money market debt register claims of the Swiss Confederation showed a similar increase. Three-month maturities earned an average of 8.3%, compared to 6.6% in the previous year.

Secondary market for debt register claims facilitated

With the issue of federal money market debt register claims on 8 November, the securities clearing office Schweizerische Effekten-Giro AG (SEGA) assumed responsibility from the Swiss National Bank for keeping the debt claim register. This facilitates transfers in the register, which is a precondition for the development of a secondary market in debt register claims. Since debt register claims are not converted into security form they are exempt from stamp duty. Aside from the Confederation, other public and private borrowers have started to issue SEGA-eligible money market debt register claims.

No adjustment of the official discount rate

The Swiss National Bank left its official discount rate unchanged at 6%. By contrast, the central bank Lombard rate, which is linked – with an increment – to the development of the call money rate, rose from an average of 7.8% in the previous year to 10.7%.

The National Bank's credits to the banking system

in millions of francs, monthly averages based on daily values

Month	Swap credits (1)		Lombard advances (2)		Discount credits (3)		Domestic correspondents (4)		Total (5) = (1) + (2) + (3) + (4)	
	1989	1990	1989	1990	1989	1990	1989	1990	1989	1990
January	10 510	13 059	67	48	415	736	148	217	11 140	14 060
February	10 938	11 914	52	21	477	809	143	176	11 610	12 920
March	11 454	10 974	36	38	536	776	159	193	12 185	11 981
April	10 753	9 762	103	59	393	757	170	241	11 419	10 819
May	11 189	9 258	291	39	419	783	207	245	12 106	10 325
June	12 458	9 952	64	15	415	752	233	228	13 170	10 947
July	12 134	9 612	20	26	490	761	222	278	12 866	10 677
August	11 568	9 988	17	19	1082	794	177	182	12 844	10 983
September	11 519	10 134	15	21	1366	721	169	160	13 069	11 036
October	11 912	9 541	18	30	999	680	176	231	13 105	10 482
November	11 771	9 565	57	44	1157	659	184	231	13 169	10 499
December	13 468	11 657	85	39	808	686	246	283	14 607	12 665

Interest rate edge of the Swiss franc into second half-year

The interest rates on three-month Swiss franc deposits on the Euromarket exceeded those on the corresponding D-mark deposits by an average of 0.5 percentage point in 1990. As a result, the Swiss franc firmed markedly vis-à-vis the D-mark. When, in the course of the summer, the Swiss National Bank began to take advantage of the strength of the Swiss franc to somewhat relax its restrictive monetary policy, the interest differential vis-à-vis the D-mark was inverted and the Swiss franc weakened slightly. The Swiss currency had an average interest rate edge over the US dollar of 0.7 percentage point in 1990.

Foreign exchange market and exchange rates

Higher valuation of the Swiss franc after weak spell

In the course of the year the Swiss franc recovered from the preceding weak spell. At the end of 1990, its export-weighted rate of exchange exceeded the year-earlier level by approximately 8%. On an annual average, the currency had appreciated by some 6% (1989: –5.3%). The most significant gains were recorded against the Japanese yen (23%), the US dollar (18%) and the pound sterling (8%). The advances vis-à-vis the Italian lira and the D-mark – by approximately 3% and 1% respectively – were much less pronounced, while the Swiss franc remained virtually unchanged on average against the French franc.

Also a higher real exchange rate

The real (i.e. adjusted for varying degrees of inflation in Switzerland and abroad) export-weighted value of the Swiss currency exceeded the previous year's level by an average of 5.7% (1989: –6.4%).

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).

In the early months of 1990 the Swiss National Bank occasionally participated in concerted central bank interventions in the foreign exchange market. In January, March and April it sold a total of US$ 85 million in exchange for Swiss francs and US$ 110 million against Japanese yen.

Interventions in the foreign exchange market

Capital market

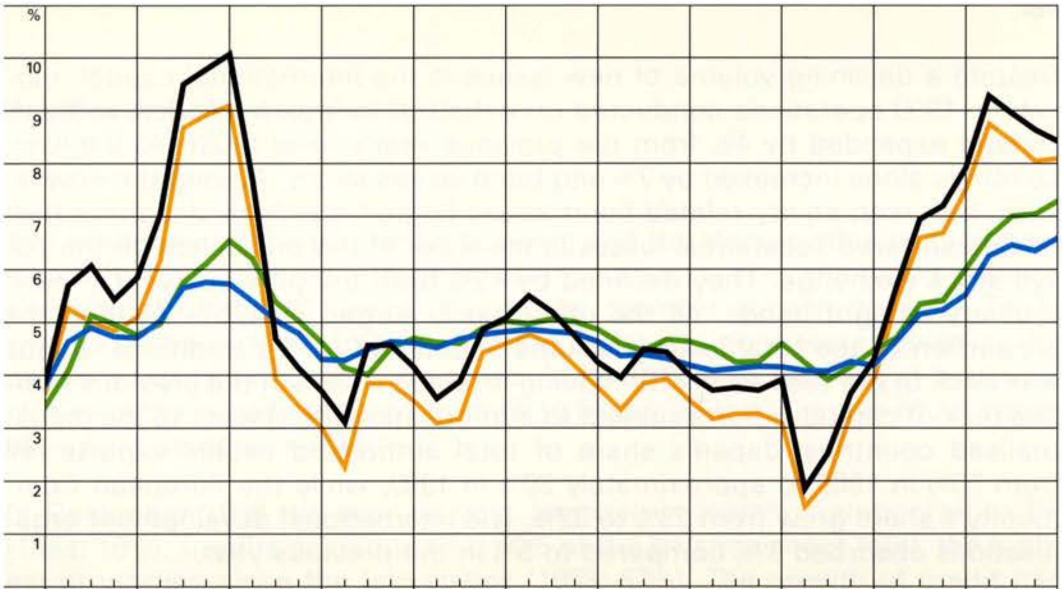
Under the impact of the renewed rise in money market rates at the beginning of the year yields on the capital market again rose perceptibly in 1990. The reverse interest rate pattern was still very pronounced, notably in the first half of the year. On an annual average, the yields on Federal Government bonds fell almost 2.5 percentage points short of the interest rate on three-month deposits in the Eurofranc market. A year earlier, the shortfall had amounted to 1.8 percentage points.

Continued inverse yield curve

The yields on Federal Government bonds moved up from 5¾% at the start of January to 6.6% in May, only to recede again to 6% until the outbreak of the Gulf crisis. In August, yields rose and remained high until the end of the year. The annual average of 6.4% exceeded the 1989-level by 1.3 percentage points. Bond yields of other domestic borrowers on the whole increased even more vigorously.

Rising yields until summer

Money and capital market rates



Rate for three-month deposits with big banks in Zürich.
Rate for three-month deposits on the Eurofranc market.
Yields on Federal Government bonds.
Interest rates on over-the-counter bonds issued by big banks.

Quarterly averages

Higher interest rates on medium-term notes, mortgages and savings deposits

The average interest rates on newly issued medium-term notes of the big banks stood at around 7% in 1990, compared to 5.4% in 1989. Near the end of the year the most frequent interest rates offered were 7¾% for three-year maturities, 7½% for five years and 7¼% for eight years. The banks also lifted mortgage rates and savings deposit rates. In 1990, the cantonal banks charged average rates of 6.3% (1989: 5.4%) on existing first mortgages and 7.4% (1989: 5.8%) on new first mortgages. The interest rates paid on ordinary savings deposits averaged 4.55% (1989: 3.45%). The big banks offered higher rates.

Sharp drop in share prices

Measured by the Swiss Performance Index, Swiss share prices fell by 20% in 1990. Added to this, the overall turnover on the Zurich stock exchange fell short of the previous year's level by 19%. The stock exchanges of Geneva and Basle also suffered severe losses in turnover.

Increase in domestic bonds and decline in share issues

In 1990 bonds and shares to the tune of Sfr 52.7 billion were issued. This amount topped the corresponding year-earlier level by 4%. In the domestic sector, new issues totalled Sfr 20.5 billion, exceeding the previous year's figure by 6%. The value of Swiss bond issues rose by 20% to Sfr 17.1 billion while Swiss share issues amounted to Sfr 3.4 billion, a decline of 35% from the 1989-level. After deduction of redemptions totalling Sfr 6.5 billion the volume of net borrowing in the domestic sector of the capital market amounted to Sfr 14.0 billion in 1990, compared to Sfr 11.4 billion a year earlier.

Rising capital exports

Despite a declining volume of new issues in the international capital markets in 1990 operations conducted on behalf of foreign borrowers in Switzerland expanded by 4% from the previous year's level to Sfr 43.6 billion. Lendings alone increased by 7% and bond issues by 3%. Among the new issues, however, equity-related bond issues floated mainly by Japanese borrowers suffered substantial losses in the wake of the price slide on the Tokyo stock exchange. They declined by 49% from the previous year's level; ordinary straight bonds, on the other hand, surged by 126%. At 65%, the proportion of the total issuing volume accounted for by traditional bonds was back to the 1988-level after having dropped to 30% in the previous year. The bulk of capital exports subject to authorisation (87%) went to the industrialised countries. Japan's share of total authorised capital exports fell from 50% in 1989 to approximately 30% in 1990, while the European Community's share grew from 23% to 32%. The international development organisations absorbed 6%, compared to 5% in the previous year.

Bond purchases by the Swiss National Bank

In 1990, the Swiss National Bank purchased bonds with a nominal value of Sfr 457 million. After deduction of repayments the net increase in bond holdings amounted to Sfr 325 million.

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

	1988	1989	1990
Financial instruments			
Bonds[1]	78.7	74.6	73.7
of which: straights[2]	51.4	22.1	48.0
convertible bonds	22.0	42.3	20.2
warrant bonds	5.3	10.2	5.5
Loans	21.3	25.4	26.3
Total	100.0	100.0	100.0
Groups of countries			
European Community	35.4	22.5	31.6
European Free Trade Association	10.6	4.8	6.8
Unites States, Canada	11.2	6.9	17.6
Japan	30.5	49.5	29.7
Other countries	12.3	16.3	14.3
Total	100.0	100.0	100.0
of which development organisations	3.2	4.6	5.6
Total, billions of francs	50.9	42.0	43.6

[1] Including foreign currency and dual currency bonds.
[2] Including the issuance, purchase and placement of shares.
[3] IBRD, IDB, AfDB, AsDB.

2.4 Bank balance sheets

Development of bank balance sheets characterised by economic activity and dollar rate

The slowdown in the economic upswing and the depreciation of the dollar also left their mark on the bank balance sheets. The combined balance sheet total of the 68 banks covered by monthly surveys rose by 7% to Sfr 803 billion in 1990 (1989: 7%). If the dollar positions were valued at the previous year's rate the increase would be 10%. (The number of banks included in the survey declined from 69 to 68 due to the takeover of a savings bank by a cantonal bank).

Slowdown in credit expansion

In December 1990 the year-on-year increase in lendings amounted to 9% (1989: 16%). Credits accounted for 69% of the balance sheet total, the highest proportion since the late sixties (1989: 67%). The growth of credit had passed its cyclical peak at the end of 1989. Since then credit expansion has been slower. Account must, however, be taken of the fact that the fall of the dollar vis-à-vis the Swiss franc understates the expansion of foreign credits. In the domestic sector, credits exhibited an annual growth rate of 10% (1989: 18%). Given the worsened financial situation of the communes, outstanding credits to domestic public-law bodies rose markedly (22%) following a lengthy period of stagnation. Mortgage loans, in terms of volume the largest credit position, advanced by 8% (1989: 13%) despite a cyclical weakening in the construction sector. However, it must be duly taken into account that mortgage loans react with a time lag to changes in building activity since construction is at first usually financed by building loans.

Reduction in net financial assets through interbank borrowing

As in the previous year, the 68 banks extended a larger increase in credits in net terms than they were able to finance from added customer deposits. Accordingly, they continued to reduce their financial assets (liquid funds, balances from interbank business, bills and money market paper as well as securities). Overall, the financial assets diminished by 11% during 1990 (1989: –27%). The decline affected mainly interbank business: in May balances due to banks exceeded balances due from banks for the first time since the Second World War. The 68 banks covered by the monthly survey thus changed from creditors into debtors in interbank business in 1990. At the end of 1990 liquid funds fell short of the year-earlier level both in the Swiss franc sector and in the foreign currency sector. The banks appear to have largely adjusted their liquidity to the new regulations (new liquidity requirements, SIC). Securities holdings only rose by 3% above the previous year's level (1989: +8%) due to the protracted stock market slump. The only item among the financial assets at the end of 1990 to considerably exceed the level recorded in December 1989 were bills and money market paper (1990: +34%; 1989: +16%).

Shifting of customer deposits

Customer deposits (including foreign currencies) rose overall by 6% in 1990 (1989: 7%). The liabilities side of the bank balance sheets was again characterised by the shifting of funds, notably of sight deposits and savings deposits into time deposits. Sight deposits declined by 4% (1989: –6%), while time deposits rose by 14%. However, the outflow of savings and sight deposits slowed down in 1990. After decreasing month by month, savings deposits again topped the previous month's level from September onwards. At the end of the year, however, they still fell 4% short of the 1989-level (1989: –9%). Higher interest rates on bank-issued medium-term notes and rising bond yields caused outstanding amounts to expand by 10% in 1990 (1989: +7%).

Slight decline in fiduciary business

In off-balance sheet business, fiduciary funds diminished by 1% between December 1989 and December 1990. Two-thirds of the fiduciary liabilities originated from foreign countries, where the bulk of them were again invested. 35% of all fiduciary funds were denominated in US dollars, 27% in Swiss francs, 12% in D-marks and 26% in other currencies.

2.5 Financial innovations and structural adjustments

Process of concentration in the banking sector

The process of concentration in the banking sector continued with the takeover of Bank Leu by CS Holding, various takeovers of regional banks by big banks and cantonal banks, and cooperation and mergers between regional banks. In view of the takeover of Bank Leu by CS Holding, the former no longer figures as a big bank in SNB statistics. The Cantonal Bank of Berne, the «Hypothekarkasse des Kantons Bern» and the «Gewerbekasse» in Berne gave guarantees in favour of regional banks in the Canton of Berne which no longer fulfilled capital adequacy requirements due to the increased need to set aside special reserves in mortgage business. Moreover, in December 1990 they established a company called BF Finanz AG for the purpose of preserving the substance of the Bernese regional banks. On the other hand, an addition to the existing categories of banks proved to be the establishment of the «Alternative Bank Schweiz» (ABS). This new institution aims to support idealistic projects with the aid of creditors willing to accept a lower investment yield. Foreign banks showed an irregular trend in establishing a presence in Switzerland in 1990. Japanese, German and British banks expanded by opening new offices or taking over existing institutions. Moreover, in 1990 four Japanese finance companies were converted into banks. By contrast, a number of US banks reduced their presence by closing specific offices or departments.

Structural adjustments in securities trading

The stock market and the financial markets were further sectors in which changes were introduced in 1990. Securities trading is increasingly concentrated in the three stock exchanges of Zurich, Geneva and Basle. The regional stock exchanges in Berne, Lausanne and St Gall closed down. An exception is Neuchâtel, where the decision whether the stock exchange should continue to operate has been postponed. Moreover, a number of banks decided to give up their seat in 1990 due to the excessive cost of a direct stock market presence. Trading in Swiss securities is increasingly being shifted to other countries. Thus the proportion of overall trading in Swiss shares accounted for by turnover in London doubled to 20% in 1990. At the same time, turnover on the Swiss stock exchanges dropped rapidly. This shift towards trading abroad is partly attributable to stamp duty.

New financial instruments

In November SOFFEX (Swiss Options and Financial Futures Exchange) introduced a futures contract on the SMI share index. Index futures enable investors to establish and liquidate diversified share positions involving considerably lower transaction costs than in the market for individual shares included in the index. Important new information concerning the market as a whole therefore initially leads to reactions in the futures market. Arbitrage between the market for index futures and the stock markets ensures a corresponding adjustment in share prices. The Cantonal Bank of Lucerne was the first institution to float a real-interest bond issue in the Swiss capital market equipped with a coupon exceeding the inflation rate (i.e. the growth rate of the consumer price index) by 2½%. Call and put options on the money market rate for three-month Eurofranc deposits were issued for the first time in December by Swiss Bank Corporation.

New stock market index

In addition to the Swissindex and the Swiss Market Index, the Association Tripartite Bourses (ATB) now also publishes the Swiss Bid/Ask-Index (SBAI). The SBAI not only lists prices that have actually been paid but also bid and ask prices of securities permanently traded on the ATB stock exchanges in Zurich, Geneva and Basle.

2.6 Other aspects of central bank policy

Reform of stock market trading

Recommendations for reform

In February 1990, a study group on stock market trading set up by the Federal Department of Finance, in which the Swiss National Bank was represented, submitted its final report. The study group had drawn up a list of recommendations for improving the legal framework and the organisation of the Swiss securities markets. It suggested notably that a federal law on securities trading and a federal law on financial market services be passed. Given the trend towards centralisation of stock market trading, the study group considered it essential to subject the securities market to agreed standards of supervision.

Task delegated to commission of experts

In June 1990 a commission of experts was entrusted with the task of preparing the draft of a federal securities trading law. This legislation is designed to guarantee adequate protection for investors and the functioning of the markets. The transparency and international competitiveness of the Swiss securities markets in a global environment are to be ensured. In practical terms, the law regulates the supervision of organised trading systems (stock markets) and of professional securities traders.

Framework law, self-regulation and international cooperation

The commission of experts consisting of representatives of the Federal Government, the Swiss National Bank, the Federal Banking Commission, the banks and the stock exchanges, and academics, submitted its draft of a law, together with an explanatory report, to the Head of the Federal Department of Finance in December 1990. By its nature, the draft is a framework law. On the subject of stock exchanges, it limits state supervision to general principles and provides considerable scope for self-regulation; regarding the supervision of traders, the draft has adopted the established concepts of Swiss banking supervision. The draft law also embodies the competences necessary for Switzerland to participate in international cooperation between securities supervisory authorities.

Financial relations between Liechtenstein and Switzerland

Appointment of a working group

In spring 1989, the Federal Banking Commission was requested by the Head of the Federal Department of Finance to draw up a detailed report of the differences in the legal framework of the Swiss and Liechtenstein banks. The study was to concentrate notably on divergences in the regulations concerning flight capital, money laundering, company law and bank supervision. The Banking Commission appointed a working group for this task, which included representatives of the Swiss National Bank.

Report on diverging legal framework of the banks

At the end of April 1990, the report on the financial relations between the Principality of Liechtenstein and Switzerland was presented. It reflects the dynamic development of Liechtenstein's financial sector in the past two decades and the close interconnection between the Liechtenstein banks and the Swiss financial centre. The report also reveals the shortcomings in Liechtenstein's bank supervision and discusses the high degree of anonymity which still characterises Liechtenstein company law. In addition, it analyses the competitive advantages for Liechtenstein banks which derive from the fact that international legal assistance is excluded in cases of tax fraud and from the fiscal treatment enjoyed by holding and domicile companies in Liechtenstein. In view of the Principality's plans to shortly enact penal provisions on insider transactions and money laundering, the gap between Swiss and Liechtenstein penal law should narrow. The Head of the Federal Department of Finance – expecting the current legal differences in the financial sectors between the Principality of Liechtenstein and Switzerland to lose in significance – has taken note of the report. The report was published at the end of June 1990.

Position of the Swiss National Bank

On the basis of the currency agreement concluded between Switzerland and Liechtenstein, regular consultations take place between the Liechtenstein government and representatives of the Swiss National Bank. The agreement adequately covers all monetary policy issues. The complete revision of Liechtenstein's banking law now under way will ensure professional supervision of the Liechtenstein banks; this new legislation is welcomed by the Swiss National Bank. The Swiss National Bank would consider it desirable to reassess the state of Liechtenstein legislation and supervisory practice after the lapse of another few years.

Central bank-related aspects of an EES agreement

Difficult negotiations concerning the creation of a European Economic Space

In coordination with the other EFTA countries, Switzerland conducted negotiations with the EC Commission on the creation of a European Economic Space (EES). Conditions similar to those applying in the EC's single internal market are envisaged for the EES. The EFTA countries made the dimensions of such an EES agreement subject to their participation in the decision-making process of the EC. In the course of negotiations they agreed, in principle, to transitional provisions and protective clauses in lieu of permanent exceptional provisions if, for its part, the EC accepts a genuine common decision-making procedure.

Comparison with European legislation

In the comparison initiated by the Federal Council between the legislation of the European Communities and Swiss legislation the Swiss National Bank reported on capital movements. The findings of the Swiss National Bank have been duly taken note of by the various working groups appointed by the Federal Government in view of the conclusion of an EES agreement, and by the EFTA negotiating delegation.

Few problems in the field of capital movements

It was found that, as regards Switzerland, the freedom of capital movements established within the European Communities as per 1 July 1990 (Council Directive of 24 June 1988) basically already exists. The general question arises what position Switzerland will adopt with respect to the acquisition of real estate by foreigners. The capital export regulations currently in force (Art. 8 of the Banking Law) are liberally applied by the Swiss National Bank; in actual practice, therefore, Switzerland permits free capital movements. However, the syndication rule governing new securities issues by foreign borrowers still being applied for fiscal reasons conflicts with the principle of freedom of services. The instruments for limiting capital imports contained in the National Bank Law (Art. 16i) are currently not employed by the Swiss National Bank. If Switzerland subjects itself to EC legislation, these measures, as also a more restrictive capital export policy, would only be possible under a system of protective clauses of the EES. The Swiss National Bank considers it feasible to forfeit this freedom of action provided there is an adequate institutional basis. On the other hand, the Swiss National Bank has pointed out that the regime of joint foreign exchange policy measures vis-à-vis third countries envisaged in the EC agreements and guidelines might pose a problem due to the close interconnection between the Swiss financial centre and non-European financial centres.

Reports on netting systems

Reports commissioned by the BIS

Based on a preliminary report by the Group of Experts on Payment Systems at the BIS, the central bank presidents of the Group of Ten countries established an ad hoc committee to analyse further the policy implications of cross-border and multi-currency netting arrangements. The findings contained in this report and also policy recommendations for the central banks were published by the BIS in November 1990.

Netting as a means of rationalisation

By designing and operating netting schemes, the participating financial institutions seek to reduce multilateral foreign currency payments between market participants by only remitting the difference resulting from setoff in each currency when payments become due. Existing national payment systems are utilised to a lesser extent due to the smaller number and volume of payments. This reduction may lower the cost of processing and also help to reduce the credit risks and liquidity risks of the market participants provided the netting arrangements are considered legally binding by all the countries concerned.

Recommendations regarding netting schemes

The central banks of the Group of Ten adopted minimum requirements for cross-border multi-currency netting schemes proposed by the ad hoc committee. Netting schemes should have a well-founded legal basis under all relevant jurisdictions. Participants should have a clear understanding of the financial risks associated with individual payments and of the impact of the scheme on these risks. In the case of multilateral schemes, limits should be placed on participants' credit exposure. Moreover, the system should remain operable even in the event of an inability to settle by the participant with the largest single net-debit position. Finally, clearly defined criteria for admission and a reliable technical infrastructure are needed.

Principles for the oversight

The ad-hoc committee also formulated principles for the oversight of netting schemes. The central bank of the country in which the netting system is operated should have primary responsibility for the observation and oversight of the system. The design and operation of a system are subject to oversight. If several countries are involved, their supervisory authorities should cooperate. The respective central bank should warn against using a netting system that does not fulfil minimum standards.

Cooperation of the Swiss National Bank in international monetary measures

Repayment of a bridging loan in favour of Mexico

In mid-February Mexico repaid in full a bridging loan which it had been granted by the monetary authorities of the United States in conjunction with the central banks of the other Group of Ten countries and of Spain in September 1989. This ended the Swiss National Bank's participation in the form of a substitution undertaking to the BIS amounting to $ 20.2 million.

Repayment of a bridging loan in favour of Poland

After having been granted credits totalling $ 2.5 billion by the IMF and the World Bank in February, Poland prematurely repaid a bridging loan of $ 500 million at the end of February. This loan had been extended to Poland at the end of December 1989 by the monetary authorities of the United States in conjunction with the central banks of the other countries represented in the Group of Ten and of Spain and Austria. The substitution undertaking of the Swiss National Bank for the part of the credit which was coordinated via the BIS had amounted to $ 7.5 million.

Participation of the Swiss National Bank in stand-by arrangements at the end of 1990

	Original undertakings	Outstanding credits		Outstanding undertakings
		End 1989	End 1990	End 1990
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 31.6 million	0	0
3. **Bilateral credits**				
Yugoslavia [1]	$ 80 million	$ 14.5 million	0	0
4. **Substitution undertakings**				
Mexico [1]	$ 20.2 million	$ 10.0 million	0	0
Poland [1]	$ 7.5 million	$ 3.2 million	0	0
Hungary [1]	$ 5.0 million	0	0	0

[1] With Federal Government guarantee.

In mid-June 1990, the monetary authorities of the United States and the central banks of the other Group of Ten countries and of Austria granted Hungary a bridging loan of $ 280 million. The credit helped to bridge the time gap until the World Bank and the Japanese Exim Bank were ready to provide longer-term financing. The Hungarian central bank completely repaid the loan by mid-September. The Swiss National Bank had entered into a substitution undertaking vis-à-vis the BIS to the tune of $ 5 million.

Bridging loan in favour of Hungary

The outstanding remainder of 31.6 million SDRs out of a total credit of originally 650 million SDRs granted under the «Witteveen» facility of the International Monetary Fund (IMF) was repaid by the Fund in 1990. The Swiss National Bank's participation in this special facility limited in time is thus ended. Furthermore, Yugoslavia repaid the last tranche of a medium-term credit of initially $ 80 million which the Swiss National Bank had granted in 1983 on behalf of, and guaranteed by, the Federal Government.

Repayment of medium and long-term credits

3. Balance sheet and profit and loss account

3.1 Main components of the balance sheet since 1956 (End-of-year values)

Assets

In millions of francs

End of year	Gold holdings[1]	Foreign exchange investments	International payment instruments[2]	Foreign currency loans[3]	Domestic portfolio: *Swiss bills*	*Treasury bonds*[4]	*Discounted bonds*	*Total*	Lombard advances	Securities	Balances with domestic correspondents	Loss on foreign exchange and gold holdings
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[5]
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[5]
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[5]
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[5]
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[5]
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[6]
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[6]
1980	11 903,9	27 355,6	11,4	—	2 285,1	152,0	48,4	2 485,5	919,8	1 212,2	289,6	—
1981	11 903,9	25 494,8	0,2	—	2 710,0	256,0	40,9	3 006,9	2 513,9	1 018,4	399,6	—
1982	11 903,9	31 872,8	6,3	—	2 076,8	109,2	2,1	2 188,1	1 559,6	1 268,3	314,0	—
1983	11 903,9	32 677,5	28,7	—	2 524,5	149,2	2,6	2 676,3	2 408,6	1 562,5	346,4	—
1984	11 903,9	38 876,0	23,2	—	2 455,4	293,5	—	2 748,9	2 677,9	1 773,6	500,8	—
1985	11 903,9	38 133,8	6,8	—	2 465,9	372,5	—	2 838,4	2 973,6	1 911,1	529,7	—
1986	11 903,9	36 262,0	—	—	2 411,9	335,5	—	2 747,4	3 204,0	2 045,0	564,4	—
1987	11 903,9	37 439,9	18,5	—	2 246,8	54,9	—	2 301,7	3 126,9	2 190,8	460,1	—
1988	11 903,9	35 946,7	30,5	—	2 133,8	—	—	2 133,8	795,9	2 421,4	416,0	—
1989	11 903,9	39 620,2	123,6	87,1	542,7	—	—	542,7	704,1	2 574,0	458,3	—
1990	11 903,9	37 209,8	112,9	—	711,1	—	—	711,1	165,7	2 814,0	567,0	—

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

Liabilities

Note circulation	Coverage of note circulation by gold holdings	Sight liabilities Total	of which sight deposit accounts of domestic banks and finance companies[7]	Accounts of the Federal Government	Accounts held under payment and clearing agreements	Balances of foreign banks[8]	Banks' minimum reserves	Time liabilities[9]	Foreign exchange valuation adjustment	Capital and reserves	Provisions for foreign exchange risks	others	Balance sheet total	End of year
In millions of francs	%	In millions of francs												
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[11]	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[11]	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[11]	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[11]	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[11]	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[11]	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[12]	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[13]	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[13]	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[13]	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[13]	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[10]	—	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[10]	—	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[10]	—	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[10]	—	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[10]	—	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[10]	—	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[10]	—	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[10]	—	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[10]	—	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[10]	—	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[10]	—	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

[7] Prior to 1986: Sight deposit accounts of banks, trade and industry.
[8] Prior to 1961 under "Sight deposit accounts of banks, trade and industry".
[9] 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 10).
[10] Including time deposits of the Federal Government not placed in the market (cf. footnote 9).
[11] Temporarily blocked sight deposit accounts of banks.
[12] In accordance with the agreement of 16 August 1971 concerning extraordinary minimum reserves.
[13] 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 1983

Expenditure (in Sfr 1000)

	1983	1984	1985	1986	1987	1988	1989	1990
Operating expenses	**106 160**	**120 232**	**93 998**	**95 489**	**97 702**	**110 485**	**152 865**	**143 896**
Bank authorities	722	726	718	714	705	707	734	792
Personnel	46 602	49 984	52 123	52 025	53 343	56 249	58 570	62717
Premises	20 355	16 115	9 379	4 918	4 417	9 785	45 150	20 305
Furniture and fixtures	9 658	17 858	2 402	3 034	4 104	3 108	4 358	15 966
Business and office equipment and supplies	2 248	2 754	2 914	2 861	2 990	3 206	3 360	3 984
Information and communication	1 639	1 859	1 951	2 436	1 870	2 304	1945	2 543
Printing, publications	615	548	635	693	644	731	852	850
Expenditure in respect of bank note circulation	18 659	18 601	17 105	18 689	19 485	24 037	21 292	20 463
Other expenditure on materials	5 662	11 787	6 771	10 119	10 144	10 358	16 604	16 276
Other expenses	**197 099**	**132 687**	**122 193**	**181 917**	**127 711**	**141 546**	**95 233**	**155 225**
Interest payable to depositors	2 409	2 767	3 077	2 926	3 012	3 395	4 267	5 810
Interest payable to Federal Government	42 289	39 296	56 767	58 492	41 244	40 444	55 161	101 145
Interest payable on bonds	13 126	—	—	—	—	—	—	—
Other sterilisation expenses	167	—	—	—	—	—	—	—
Write-down of own securities	138 467	90 624	62 349	94 499	66 320	96 407	35 805	48 270
Depreciation of bank buildings	641	—	—	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**	**—**
Taxes	**—**	**2 851**	**—**	**1 789**	**2 632**	**1 592**	**298**	**3 365**
Appropriation to staff and pensioners' welfare facilities funds	**2 500**	**5 000**	**3 000**	**3 000**	**2 000**	**2 000**	**2 000**	**6 000**
Donation to the Gerzensee study centre foundation	**—**	**32 733**	**—**	**—**	**—**	**—**	**—**	**—**
Provisions	**2 051 141**	**2 245 993**	**2 655 953**	**—**	**—**	**1 807 669**	**2 793 303**	**2 494 209**
Provisions for foreign exchange risks	2 001 141	2 245 993	2 655 953	—	—	1 807 669	2 793 303	2 494 209
Other provisions	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	**2 364 493**	**2 547 089**	**2 882 737**	**2 428 913**	**3 766 475**	**4 041 791**	**4 141 199**	**6 787 108**

[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)

	1983	1984	1985	1986	1987	1988	1989	1990
Operating income	**9 319**	**8 245**	**7 569**	**8 069**	**5 771**	**6 663**	**6 251**	**6 123**
Commissions	4 756	3 935	2 945	2 216	1 826	1 756	1 696	1 626
Income from bank buildings	2 892	2 816	3 170	5 313	3 446	4 462	4 088	4 100
Sundry income	1 671	1 494	1 454	540	499	445	467	397
Other income	**2 355 174**	**2 538 844**	**2 875 168**	**2 009 363**	**1 638 459**	**2 064 222**	**3 045 041**	**2 804 165**
Income from foreign exchange and gold	2 228 957	2 391 222	2 709 177	1 834 097	1 462 698	1 924 021	2 848 708	2 585 097
Income from discounting	23 651	23 442	25 511	20 848	17 738	3 275	33 906	44 197
Income from secured advances	17 738	21 536	25 257	28 448	27 309	2 832	5 672	3 895
Income from own securities	83 232	100 691	113 281	123 449	128 782	132 877	149 504	160 163
Income from domestic correspondents	1 596	1 953	1 942	2 521	1 932	1 217	7 251	10 813
Appreciation on foreign exchange holdings	—	—	—	—	—	**1 970 906**	**1 089 907**	—
Transfer from the foreign exchange valuation adjustement account	—	—	—	—	—	—	—	**3 060 814**
Drawings on provisions for currency risks	—	—	—	**411 481**	**2 122 245**	—	—	**916 006**
Total	**2 364 493**	**2 547 089**	**2 882 737**	**2 428 913**	**3 766 475**	**4 041 791**	**4 141 199**	**6 787 108**

Explanatory notes on the profit and loss account for the year 1990

The profit and loss account of the Swiss National Bank was, as usual, dominated by interest income and valuation adjustments to foreign exchange holdings. Notably the decline of the dollar from Sfr 1.5680 to Sfr 1.2776 (average December rates 1989/90) led to a book loss of Sfr 3976.8 million in foreign exchange holdings, which are not hedged against exchange rate risks. The loss was covered by liquidating the item «valuation adjustment to foreign exchange holdings» to the value of Sfr 3060.8 million and by drawing on the provisions for foreign exchange risks in the amount of Sfr 916 million. The balance of the remaining items in the profit and loss account totalling Sfr 2501.8 million (1989: Sfr 2800.9 million) was used to increase the provisions for foreign exchange risks and as net profit.

Earnings from foreign exchange holdings amounted to Sfr 2585.1 million (1989: Sfr 2848.7 million). The decline from the previous year's figure is due mainly to effective exchange losses and lower dollar interest rates.

The banks have made full use of the possibility to rediscount up to one-third of their compulsory stockpile bills. Income from discount business consequently rose to Sfr 44.2 million (1989: Sfr 33.9 million).

The favourable interest terms (discount rate 6%) for domestic correspondents resulted in more extensive borrowing, lifting interest income from Sfr 7.3 million to Sfr 10.8 million.

The main items of expenditure on equipment totalling Sfr 16 million (1989: Sfr 4.4 million) were installations for decentralised bank note sorting and new computer facilities.

Outlays in connection with the printing and circulation of bank notes amounted to Sfr 20.5 million, as compared to Sfr 21.3 million a year earlier.

Interest payments in favour of the Federal Government rose from Sfr 55.2 million to Sfr 101.1 million in the year under review. The increase is attributable to higher interest rates.

Book profits on the repayment of securities partly written off previously (a total of Sfr 39.5 million) were set off against the cost of depreciation in the amount of Sfr 87.8 million of newly acquired securities. This resulted in a write-off totalling Sfr 48.3 million.

4. Organisation (as on 1 January 1991)

4.1 Supervisory authorities

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

4.2 Bank management

Governing Board	Markus Lusser, Zurich Hans Meyer, Berne Jean Zwahlen, Zurich
Secretariat General	
Secretary General	Andreas Frings, Director, Zurich
Deputy Secretary General	Hans-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, Assistant Director
Deputy Heads of Department	Peter Klauser, Director Georg Rich, Director
Economic Division	Georg Rich, Director
Economic Studies Section	Jean-Pierre Béguelin, Director
Research	Erich Spörndli, Assistant Director Hans-Jürg Büttler, Economic Adviser Franz Ettlin, Economic Adviser Michel Peytrignet, Economic Adviser
Economic Analysis	Eveline Ruoss, Senior Officer
Monetary Relations	Monique Dubois, Assistant Director Roberto Cippà, Assistant Director (on leave)
Banking Studies Section	Urs W. Birchler, Deputy Director
European Integration	Urs W. Birchler, Deputy Director
Studies	Werner Hermann, Senior Officer
Capital Exports	Mauro Picchi, Senior Officer
Statistics Section	Christoph Menzel, Director
Publications	Robert Fluri, Senior Officer Willi Heyden, Senior Officer

Balance of Payments	Thomas Schlup, Senior Officer
Data Bank	Rolf Gross, Senior Officer
Legal and Administrative Division	Peter Klauser, Director
Legal Service	Peter Merz, Deputy Director Martin Hess, Assistant Director
Personnel	Gerhard Nideröst, Director Beat Blaesi, Senior Officer Elsa Schürch, Senior Officer
Pension Fund	Peter Hadorn, Deputy Director
Premises, Technical Services	Theo Birchler, Assistant Director
Internal Auditors	Ulrich Willi Gilgen, Director Othmar Flück, Senior Officer

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 Division	Theodor Scherer, Director
Central Accounting	Hans-Peter Dosch, Deputy Director
Cashier's Office (Berne)	Paul Bürgi, Assistant Director
Correspondence, Bills and Cheques, Dispatch	Daniel Ambühl, Assistant Director Eric Berthoud, Senior Officer
Securities	Max Isenschmid, Deputy Director Niklaus Wyss, Senior Officer
Cash and Collection, Security, Services Division	Johann Ammann, Director
Chief Cashier's Office	Roland Tornare, Chief Cashier Peter Trachsel, Deputy Chief Cashier Urs Suter, Senior Officer
Security	Alex Huber, Assistant Director

Department III (Zurich)

Head of Department	Jean Zwahlen, Member of the Governing Board
Deputy Heads of Department	Jean-Pierre Roth, Director Christian Vital, Director
Monetary Operations Division	Jean-Pierre Roth, Director
Foreign Exchange Section	Karl Hug, Deputy Director Erich Maurer, Senior Officer
Investment Section	Markus Zimmerli, Deputy Director Urs Oberhänsli, Senior Officer

Money Market Operations, Bills and Cheques	Beat Spahni, Assistant Director
General Processing and Informatics Division	Christian Vital, Director
General Processing	Daniel Wettstein, Deputy Director
Payments Transactions	Eugen Guyer, Deputy Director Walter Gautschi, Senior Officer
Cashier's Office	Roland-Michel Chappuis, Assistant Director
Correspondence	Markus Steiner, Assistant Director
Accounting	Werner Bolliger, Assistant Director Ulrich Kläntschi, Senior Officer
Informatics Section	Rudolf Hug, Deputy Director Raymond Bloch, Assistant Director
Banking Applications	Roger Arthur, Assistant Director
Statistical Applications	Jürg Ziegler, Deputy Director
Office Automation/ Communications	Peter Bornhauser, Senior Officer
Systems Engineering	Jules Troxler, Assistant Director Werner Knecht, Technical Consultant
Computer Centre Zurich	Peter Künzli, Senior Officer
Computer Centre Berne	Bruno Beyeler, Senior Officer

Branches

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

Agencies 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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