Other central bank functions

1 Investment of assets

1.1 Basis

Nature and purpose of the National Bank's assets

The National Bank's assets essentially consist of foreign currency, gold reserves and financial assets in Swiss francs (securities and claims from repo transactions). They represent a part of Switzerland's national wealth and perform important monetary policy functions. Their composition is determined mainly by the established monetary order and the requirements of monetary policy.

Role of assets within the monetary policy framework

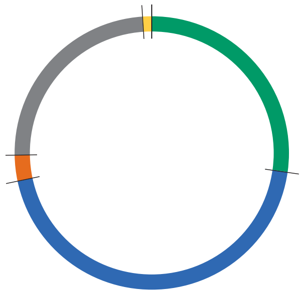
A considerable part of the National Bank's assets directly serve the implementation of monetary policy. In order to supply the economy with base money and to steer money market rates, the National Bank purchases securities (repos) or foreign exchange (swaps) from the banks on a temporary basis. In 2002, monetary policy was implemented exclusively by means of repo transactions.

Foreign exchange reserves and gold

International reserves are assets, especially foreign exchange reserves and gold holdings, that the National Bank can use for making international payments. The National Bank can sell foreign exchange reserves against Swiss francs at any time in order to support the external value of the currency. The National Bank's monetary gold holdings help to ensure that Switzerland is able to pay foreign countries in emergencies.

Free assets

In spring 2000, the National Bank began selling that part of the gold reserves no longer required for monetary policy purposes (cf. 93rd Annual Report, p. 51). The gold sales are effected within the framework of the agreement concluded between 15 European central banks in September 1999, which forms the basis of the annual sales quotas. The proceeds from gold sales are managed apart from other assets, but are not shown separately in the books since they do not constitute segregated assets in the legal sense.



Structure of National Bank assets
in percent

Gold 27

Foreign exchange reserves 44

Other foreign currency assets 3

Domestic financial assets 24

Other domestic assets 1

Total: Sfr 116 billion.
Balance sheet values, average

Scope for managing assets

The National Bank Law specifies both the types of assets which the National Bank may acquire and the instruments it may employ for their management. The National Bank manages its assets as profitably as possible within the framework of legal provisions, the risk limits set internally and the requirements of its monetary policy mandate.

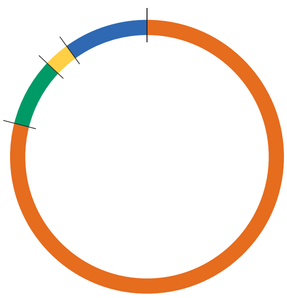
1.2 Monetary foreign exchange reserves

Investment principles

The National Bank invests the bulk of its monetary foreign exchange reserves – i.e. foreign currency assets excluding that part allocated to free assets (see p. 45) – in secure and liquid securities, and a small proportion in time deposits with foreign banks. It ensures that, if necessary, it can sell the investments at short notice without incurring undue losses. The National Bank Law permits the acquisition of liquid marketable debt certificates issued by foreign governments, international organisations and foreign banks. The currency risk inherent in holding foreign exchange reserves is not hedged, as this would limit scope for action if intervention were required or in the event of a crisis.

Three-stage decision-making process

The Governing Board issues investment policy guidelines, in conformity with which an internal investment committee determines the detailed currency allocation and the permissible interest rate risk. The National Bank's portfolio managers are guided by a reference portfolio for each individual currency. The benchmark for portfolio management success is the yield achieved on these reference portfolios.



Foreign exchange reserves by debtor
(excluding free assets)
in percent

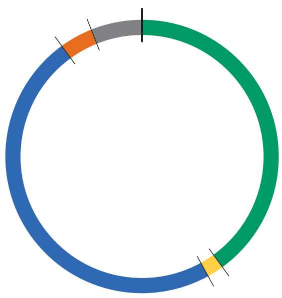
Government securities 79

Securities with indirect government guarantee 8

Monetary institutions 3

Banks 10

Total: Sfr 42.9 billion.
End 2002



Foreign exchange reserves by currency
(excluding free assets)
in percent

US dollars 40

Canadian dollars 2

Euros 48

Danish kroner 4

Pounds sterling 6

Total: Sfr 42.9 billion.
End 2002

The foreign exchange reserves were reduced by approximately Sfr 1.6 billion in favour of a higher level of repo holdings during 2002. The average duration of the foreign exchange reserves was extended from four to five years at the beginning of the year. Given a backdrop of falling interest rates, this had a positive effect on profits. Yen-denominated investments were disposed of. In addition to futures, the National Bank used interest rate swaps to regulate the average duration of portfolios. Overall, the yield on monetary foreign exchange reserves amounted to 0.4% compared with 5.2% in the previous year. At the end of 2002, these reserves came to Sfr 42.9 billion, thus falling short of the previous year's level by Sfr 0.7 billion.

Investment activity and performance

Annual performance of monetary foreign exchange investments
Yields in percent

	2000		2001		2002	
Currency portfolio	Local currency	Swiss francs	Local currency	Swiss francs	Local currency	Swiss francs
US dollar	10.1	12.6	6.3	9.1	12.1	−7.3
Euro	6.0	0.7	5.7	2.7	9.2	7.1
Yen	1.0	−8.1	1.9	−8.6	–	–
Pound sterling	8.6	2.8	5.7	5.0	8.3	−9.3
Danish krone	5.5	−0.2	5.6	3.0	9.4	7.5
Canadian dollar	7.9	6.9	7.9	4.0	8.7	−0.2
Total foreign currency reserves		5.8		5.2		0.4

External asset managers had 9.7% of all foreign exchange reserves under management at the end of 2002. With these management mandates, the Bank is able to tap into investment segments such as mortgage-backed securities in the United States and international bond portfolios. A specialised global custodian processes transactions involving the externally managed foreign exchange reserves.

External asset managers

1.3 Swiss franc bonds

Investment principles

The Swiss National Bank keeps a part of its assets in Swiss franc bonds. It manages this portfolio subject to the condition that the investment decisions may neither disrupt monetary policy nor profit from it. It thus pursues a passive investment policy, i.e. it replicates an index for Swiss franc bonds that is representative of the market. The index includes all the debtor categories permitted by the National Bank Law: the Federal Government, cantons and municipalities, domestic and foreign banks and mortgage bond institutions, foreign governments and international organisations.

Investment performance

At the end of 2002, the market value of the portfolio – without that part allocated to free assets – amounted to Sfr 6.0 billion, compared with Sfr 5.5 billion in the previous year. At 4.6 years, the duration of the portfolio was in line with that of the benchmark. Owing to the fall in interest rates, portfolio yield was substantially higher – up from 4.3% in 2001 to 10.0%.

1.4 Gold lending and gold reserves

Investment principles

The agreement on gold sales concluded in September 1999 between 15 European central banks requires the Swiss National Bank to limit its gold lending to 328 tonnes, the level at that time. At the end of 2002, the amount of gold lent was 254.6 tonnes. The National Bank's counterparties are some twenty domestic and foreign financial institutions, which pay interest on the temporary loan of gold.

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

Confederation 25

Cantons 9

Communes 5

Mortgage bond institutions 17

Banks 9

International organisations 8

Foreign borrowers 27

Total: Sfr 6.0 billion.
End 2002

The National Bank concludes a part of its gold lending transactions against securities collateral. Depositing such collateral lowers the credit risk considerably, although it reduces income at the same time. At the end of 2002, 37.7% of all gold lending was backed by securities collateral. Secured gold lending transactions concentrated on maturities of one to five years.

Long-term lending against securities collateral

In 2002, the National Bank achieved a yield of 1.2% on its gold lending activities. The sharp fall in short-term gold lending rates prompted the National Bank to reduce its portfolio of unsecured lending transactions. At the end of the year, the average residual maturity of the gold lending portfolio amounted to 12.3 months.

Investment performance

1.5 Free assets

On 22 September 2002, the people and the cantons rejected both the gold initiative and the Federal Assembly's counter-proposal (see p. 38). That part of the gold reserves not required for monetary policy purposes will therefore remain with the National Bank for the time being, but will continue to be sold off gradually. The proceeds from these sales will be invested in a range of financial assets that will be managed separately from the monetary reserves. The investment process is structured similarly to that for foreign exchange reserves. Within the framework of the investment strategy fixed by the Governing Board, an internal steering committee determines the detailed investment guidelines and management procedures. The yardstick for success is the yield achieved on benchmark portfolios.

Principles

In 2002, the National Bank sold 281.9 tonnes of gold at an average price of USD 310.3 per ounce. The proceeds amounted to Sfr 4.4 billion. Of the planned 1,300 tonnes, 673.5 tonnes had thus been sold by the end of the year. The sales were concluded at regular intervals and in quantities that kept any disruption of the market to a minimum.

Gold sales

The agreement on gold sales of September 1999 substantially limits the options for hedging additional gold holdings that are earmarked for sale against an unfavourable movement in the Swiss franc gold price. The National Bank may therefore not use derivative instruments to hedge against the gold price risk. It can, however, reduce the currency risk attached to future US dollar-denominated proceeds from gold sales. For this reason, the National Bank concluded dollar forward sales against Swiss francs and euros to the extent of 35% of the future proceeds in dollars. In 2002, the drop in the dollar exchange rate resulted in a profit of Sfr 741.3 million from hedging transactions, following a loss of Sfr 317.0 million in the previous year.

Partial hedge against the currency risk on future gold sales

Investment of the proceeds of gold sales

Proceeds from gold sales are invested exclusively with top-rated borrowers. The portfolio consists mainly of bonds issued by institutions under public law, as well as a small proportion of time deposits with domestic and foreign banks. At the end of 2002, 11% of the investment portfolio consisted of Swiss-franc denominated bonds, and another 57% was hedged against currency risks. The rest of the portfolio was invested in euros (21%), US dollars (4%) and other currencies (7%). The duration of the portfolio was three years, and net yield was 5.2%.

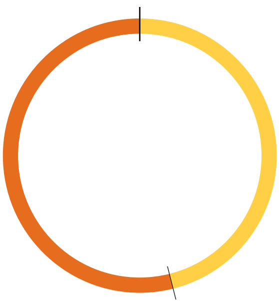
Free assets at year-end

At the end of 2002, the market value of free assets amounted to Sfr 21.0 billion, Sfr 9.7 billion of which was accounted for by the gold reserves that are earmarked for sale, and a total of Sfr 11.0 billion by investments denominated in both foreign exchange and Swiss francs. The market value of free assets was Sfr 0.7 billion higher than the Sfr 20.3 billion provision for their assignment. The difference results from the fact that the income received from managing the proceeds from gold sales is not included in this provision.

1.6 Risk management

Purpose of risk management

The risk management process identifies, assesses, limits and controls all relevant financial risks which the National Bank incurs by virtue of its activities on the money and capital markets. Risk management focuses on those National Bank assets that are managed with the intention of achieving a profit, particularly foreign exchange reserves and free assets. Market risks, i.e. currency, gold price and interest rate risks are of crucial importance. In addition, the National Bank incurs certain credit risks within the framework of its investment and monetary policy. Investments are limited to borrowers with above-average credit ratings. Risk measurement is based on standard risk ratios and procedures. In the case of market risks, the emphasis is on sensitivity and value-at-risk analyses, and in the case of credit risks on publicly accessible rating information.



Market value of free assets
in percent

Gold (earmarked for sale) 46

Investments in foreign currencies and Swiss francs 54

Total: Sfr 21.0 billion.
End 2002

Risk limitation and control

Risk is controlled by means of a system of guidelines and limits. The strategic guidelines for market risk are laid down by the Governing Board, while those for the credit risk are set by the bank authorities. An internal risk committee translates these guidelines into concrete allocations and is responsible for the supervision process. Compliance with the guidelines and limits is monitored systematically and the outcome of this process reported direct to the responsible line and supervisory bodies of the National Bank. Overall supervision lies with the Bank Council, with a two-person delegation from the Bank Committee assuming special responsibility for risk control.

Risk trends in 2002

The National Bank made slight adjustments to its investment policy in 2002. A greater degree of interest rate risk was accepted as the duration of foreign exchange reserves was extended from four to five years. At the same time, the foreign exchange reserves held in yen were disposed of in favour of the euro and US dollar. Credit risk was reduced in the course of the year by lowering the limits for bank investments and investments with the major US mortgage institutions. There was a modest shift in the risk profile of assets as interest rate risk took a somewhat higher proportion of the total. By far the greatest share of aggregate risk still derives from exchange rates and the gold price, however.

Greater fluctuations in return

Fluctuations in returns were higher overall compared with the previous year. The gold price and the prices of bonds, in particular, recorded greater swings than in 2001. The marked decline in yields on the bond markets generated price gains on investments, and the gold price in Swiss francs also rose. By contrast, there were losses on all investment currencies, most notably the dollar. While the role of the National Bank requires that currency risk on monetary foreign exchange reserves be left unhedged, this risk was limited significantly by the foreign exchange forward transactions conducted in respect of the free assets. The hedging ratio was raised year-on-year, such that the depreciation of the dollar had only a minor impact on the return on free asset investments. The aggregate risk attached to free assets was dominated by the price risk relating to still-unsold gold holdings, despite partial hedging of the inherent dollar risk.

Diversification of liquidity risk

The National Bank counters liquidity risks by holding the majority of its investments in the world's most liquid currencies and investment markets. This diversifies liquidity risk across the most important financial centres world-wide.

2 Payment transactions

2.1 Basis

Overview

In Switzerland, payment transactions are handled primarily by the National Bank, the commercial banks and the postal service (Swiss Post). The National Bank supplies the economy with cash via the banking system and Swiss Post, while the operative side of electronic payments is handled by the Telekurs Group (which is jointly owned by the banks), and Swiss Post. The National Bank oversees Swiss Interbank Clearing (SIC) and keeps the participants' accounts in this system. SIC is the major payment system in Switzerland, processing almost all interbank clearings from large-value transactions to retail payments. SIC is adapted continuously in line with the prevailing needs.

2.2 Cashless payment transactions

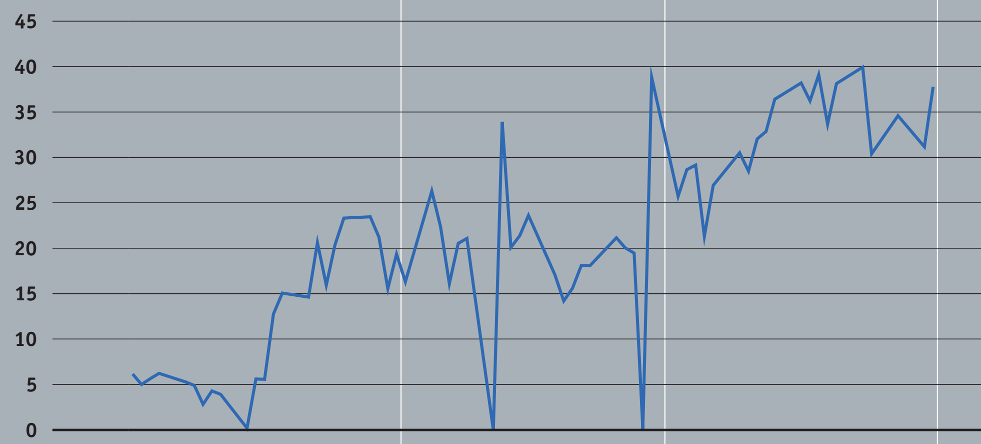
More payments but lower volume through SIC

At the end of 2002, there were 314 participants in SIC, compared with 313 at the end of 2001. SIC handled an average of 705,000 payments a day, worth some Sfr 180 billion. Although this represents 61,000 more payments than the previous year, volumes were down by Sfr 2 billion.

Payment flows in SIC

	1998	1999	2000	2001	2002
Transactions per day in thousands					
Average	529	556	596	644	705
Maximum	1323	1384	1821	2078	1874
Volume per day in billions of Swiss francs					
Average	182	170	178	182	180
Maximum	270	296	291	274	270
Liquidity per day average in millions of Swiss francs					
Sight deposits (end of day)	3710	3503	3336	3339	3327
Intraday credits		2221	2074	2566	3897

Volume of transactions in the CLS System



Sfr billions

Daily quotations.
CLS: Continuous Linked
Settlement System

Mass payment systems at SIC

The volume of mass payments handled by SIC in 2002 amounted to 0.7% of its total turnover. SIC provided the following interbank services: the data carrier exchange system (DTA), payments from direct debiting (LSV), ATM withdrawals, EFTPOS payments (debit card payments), cheque payments, automated refuelling machines and payments with the CASH facility.

Payment transactions in euros

To give them access to TARGET (Trans-European Automated Real-Time Gross Settlement Express Transfer System), the Swiss banks and Swiss Post run a special clearing bank in Frankfurt, the Swiss Euro Clearing Bank (SECB). The SECB operates the euroSIC clearing system, which is structured in a similar way to SIC. Most Swiss banks, in addition to Swiss Post, execute their euro payments through this bank. The transaction volume increased slightly in 2002, averaging 1.7 billion euros per day, compared with 1.5 billion euros in 2001. The number of euroSIC payments rose to 1.6 million, around 40% of which were cross-border transactions.

Start of the Continuous Linked Settlement System

September 2002 saw the start of the Continuous Linked Settlement (CLS) system. CLS is a global payments system that settles both sides of a foreign exchange transaction simultaneously (delivery-versus-payment principle) and thereby eliminates settlement risks. The settlement via CLS of amounts in Swiss francs is made possible via a direct link between SIC and the CLS Bank, which operates the CLS system. An average of 1,418 transactions a day, worth a total of Sfr 20.5 billion, were processed between October and December 2002.

2.3 Provision of currency

Higher volume of currency in circulation

There was a further significant year-on-year rise in banknote circulation in 2002. The percentage increase was lowest in the fourth quarter, owing to inflated figures for the previous year in anticipation of the launch of the euro in note and coin form. Averaged over the year, banknote circulation amounted to Sfr 35.1 billion, thus exceeding the previous year's figure by 6.4%. Circulation of the two largest denominations, in particular, was very high. Averaging Sfr 2.3 billion, coins in circulation equalled the previous year's figure.

Banknotes

During the year under review, the National Bank put 114 million freshly printed banknotes with a face value totalling Sfr 7.9 billion into circulation. It destroyed 116.6 million damaged or recalled notes with a face value of Sfr 8.5 billion.

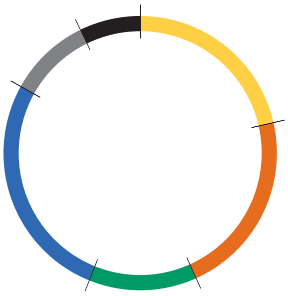
Increase in currency turnover

In 2002, the National Bank's offices registered an 8.6% increase in currency turnover to Sfr 135.8 billion in value terms. They received around 448 million or 16.7% more notes than in the previous year and checked them for authenticity and quality. This increase in turnover is attributable to an increase in transactions with cash processing facilities. These are specialised companies which handle the sorting and distribution of cash on behalf of third parties.

Regional concentration

The reorganisation of Swiss Post's cash processing activities, as well as the nationwide operations of cash processing facilities, are reducing the cash turnover of the agency network and correspondents which offer local banknote and coin acceptance and issuing services. Consequently, the agencies in Weinfelden and Bellinzona closed as of the end of 2002. More and more financial institutions that are entitled to deal directly with the National Bank are outsourcing their cash activities to cash processing facilities. These organisations generally concentrate their processing operations in the major urban areas of Zurich, Berne and Geneva and prefer to deal with the local National Bank offices in those cities. As a result, offices in Berne, Geneva and Zurich registered a growing volume of incoming banknotes, while in Lugano, fewer notes were received than in the previous year.

While processing banknotes received, the National Bank secured 342 counterfeits (2001: 504) and handed them over to the police. The total number of counterfeit Swiss banknotes registered in Switzerland was approximately ten times this figure.



Banknotes in circulation
Denom. units (number in millions)

Sfr 10 57

Sfr 20 58

Sfr 50 34

Sfr 100 72

Sfr 200 26

Sfr 1000 19

Annual average

3 Statistical tasks

Basis

The National Bank collects those statistical data from banks, securities dealers, investment funds and other enterprises that it needs to fulfil its mandate. This data is used for analyses related to monetary policy, monitoring and forecasting economic developments, analysing system stability and monitoring developments on the financial markets. The National Bank compiles statistics on the banks' balance sheets and on other important aspects of banking business, notably credit business, securities management on behalf of non-banks, and payment transactions. Furthermore, the National Bank gathers information on the money and capital markets, particularly on short and long-term interest rates and the issuing volume. It also draws up Switzerland's balance of payments and statement of the international investment position. All of these statistics are compiled by agreement with the data-reporting institutions and enterprises and conform as closely as possible to international standards. The growing significance of statistical information activity over the last few years is reflected in a marked expansion in the number of time series administered by the National Bank – the figure had grown to approximately 1.3 million by the end of 2002.

Statistical publications

The National Bank regularly publishes the results of its statistical surveys and provides the public with a variety of data both in printed form and on the Internet. Statistical information is made available primarily in the Statistical Monthly Bulletin, the Monthly Bulletin on Banking Statistics and the statistical yearbook of the Swiss banks. These publications are supplemented by reports on Switzerland's balance of payments, the international investment position and direct investment.

Monthly Bulletins on the Internet

In 2002, the National Bank began to offer the Statistical Monthly Bulletin and the Monthly Bulletin on Banking Statistics in electronic form on the Internet. This type of presentation facilitates the transfer and further processing not only of the series that have been published in the past, but also of new and additional time series.

IMF portfolio survey

In 2002, the National Bank participated for the first time in the IMF portfolio survey covering securities of foreign issuers held by domestic bank customers in safekeeping accounts. This internationally coordinated survey is designed to help reduce the statistical differences that exist around the world in capital flows and positions between borrower and creditor countries. At the end of 2001, banks in Switzerland managed Sfr 830 billion in foreign securities in the safe custody accounts of domestic customers. Just over 60 percent of this figure was accounted for by securities issued by borrowers in the United States, Luxembourg, Germany, the Netherlands, France and the United Kingdom (incl. Jersey).

Preparatory work for financial accounts

In collaboration with the Swiss Federal Statistical Office, the National Bank has been involved in preparatory work for the production of a set of financial accounts for Switzerland. These financial accounts are intended to close a major gap in the system of national accounts. They also offer valuable information for monetary policy, because they show the flow of funds between different sectors of the economy.

Banking statistics committee

The National Bank is advised on the content of all its surveys by the banking statistics committee, which comprises representatives of the banks, the Swiss Bankers Association and the Swiss Federal Banking Commission. In 2002, the National Bank convened a group of bank economists and representatives of the Swiss Federal Statistical Office to discuss issues of how to measure banks' added value and other topics affecting the Swiss financial sector from a macroeconomic viewpoint.

The National Bank gathers data for banking supervision purposes on behalf of the Swiss Federal Banking Commission. Where banking statistics and macroeconomic data are concerned, the Bank fosters a close working relationship with the Swiss Federal Statistical Office, the Bank for International Settlements (BIS), the OECD, the EU statistical office Eurostat, and the IMF. This cooperation is aimed at harmonising statistical survey methods and analyses.

Collaboration with domestic and foreign agencies

4 Services on behalf of the Confederation

Basis

The National Bank acts as banker to the Confederation. The National Bank Law lays down the services to be performed on behalf of the Confederation and stipulates that most of these services be rendered free of charge. They comprise payment transactions, coinage, borrowing in the money and capital markets as well as the investment of funds and safe custody.

Money market business

The Confederation holds its liquid funds in the form of sight deposits or short-term time deposits at the National Bank. In the event of liquidity bottlenecks, the National Bank assists the Confederation in taking out money market loans from banks. It pays interest at market rates on time deposits held with it by the Confederation, and on sight deposits up to a limit of Sfr 600 million at the call money rate. Swiss Post places its liquid funds direct on the money market.

Money market debt register claims and Confederation bonds

In 2002, the National Bank arranged 52 issues of money market debt register claims (MMDRCs) and 15 bond issues on behalf of the Confederation – both by auction – via the auction system of the electronic trading platform Eurex Repo. MMDRCs to the total amount of Sfr 54.7 billion were subscribed, and Sfr 40.6 billion were allocated. Federal bonds were subscribed for a total amount of Sfr 9.9 billion, of which Sfr 8.4 billion were allocated.

Confederation bonds and money market debt register claims

	1998	1999	2000	2001	2002
Number of issues[1]					
MMDRC	52	52	52	52	52
Confederation bonds	11	10	14	14	15
Total subscribed in billions of Swiss francs					
MMDRC	89.4	75.7	62.7	53.0	54.7
Confederation bonds[2]	10.8	8.1	15.6	12.6	9.9
Total allocated in billions of Swiss francs					
MMDRC	45.1	46.8	42.4	39.7	40.6
Confederation bonds[2]	5.2	4.1	9.3	7.5	8.4
Outstanding at year-end in billions of Swiss francs					
MMDRC	12.9	17.1	13.4	11.5	12.4
Confederation bonds[3]	43.3	46.5	54.1	62.1	70.2

1 based on date of payment
2 excluding the Confederation's own tranches
3 including own tranches placed in the market by the Confederation

Administration and settlement services, coinage

The National Bank settles certain payments of the Confederation in Switzerland and abroad. It also keeps the federal debt register and administers securities holdings and objects of value on behalf of federal agencies and associated enterprises. The National Bank also distributes, processes and stores large quantities of coins on behalf of the Confederation.

5 Cooperation with federal agencies

On a national level, the National Bank cooperates with the Federal Department of Finance and the Swiss Federal Banking Commission, but also with other federal agencies.

5.1 Partial revision of the Banking Law

Bank reorganisation, bank liquidation and depositor protection

Following the consultation procedure concerning the report of the commission of experts for "Bank reorganisation, bank liquidation and depositor protection" (cf. 94th Annual Report, p. 64), the Federal Council commissioned the Federal Department of Finance to draft a Message on the amendment to the Banking Law. The National Bank participated in this task. It dealt in particular with the question of the maximum amount that privileged bank deposits in a bankruptcy were to be guaranteed by the banks' depositor protection system, expressing its support for an increase from the current Sfr 1 billion to Sfr 4 billion. It also welcomed the proposal that every bank should be obliged to permanently hold liquid funds in excess of the legally required level for at least half of its contributory obligations. The Federal Council passed its Message on the amendment to the Banking Law on 20 November 2002.

5.2 Cooperation with the Federal Banking Commission

Closer cooperation on a technical level

In 2002, the Governing Board held two meetings with the Federal Banking Commission (FBC) for a detailed discussion of the economic situation and current developments in the banking system. Both bodies also cooperated closely in the Basel Committee on Banking Supervision. Within the context of the "System stability" steering committee set up in 2001, the National Bank and the Secretariat of the Federal Banking Commission continued to strengthen their cooperation on a technical level.

5.3 Special fund for needy victims of the Holocaust/Shoa

The Federal Council dissolved the Fund for needy victims of the Holocaust/Shoa as at the end of December 2002.

Background

This special fund had been set up by the Federal Council by an ordinance of 26 February 1997. Its purpose was to distribute donations from the banks, insurance companies, industry and the National Bank to needy survivors of the Holocaust.

The three big banks of the time participated in the Fund with a contribution of Sfr 100 million. On 31 October 1997, the Bank Council of the National Bank decided to pay Sfr 100 million into the Fund. The Bank Council intended the contribution as a humanitarian gesture in favour of persons who had suffered at the hands of the National Socialist regime. Other enterprises contributed approximately Sfr 70 million to the Fund.

Jointly with the Confederation and the big banks, the National Bank bore the administration and auditing costs of the Fund. It also kept the Fund's accounts on behalf of the Federal Finance Administration.

The Fund did not deal with any individual applications of victims; rather it treated applications of organisations representing victims. These organisations played a key role in the distribution of the Fund's money; the financial support, however, was paid direct to the victims.

Results

The Fund's money was almost entirely distributed to Jewish victims of the Holocaust. Most of the funds flowed into Eastern Europe and the former Soviet Union, followed by Israel, North America, Western Europe, Australia and New Zealand. Judging by the reactions of the beneficiaries, the victim organisations and the foreign authorities, the fund's activity was considered to have been positive.

6 International cooperation

On an international level, the National Bank cooperates mainly with the International Monetary Fund (IMF), the Group of Ten (G-10) – comprising ten leading industrial countries and Switzerland – the Bank for International Settlements (BIS) and the Organisation for Economic Cooperation and Development (OECD). The National Bank participates in international cooperation by providing technical assistance and specialist training.

6.1 Participation in the International Monetary Fund

Switzerland's reserve position

Switzerland's IMF membership is exercised by the Federal Department of Finance and the National Bank. The IMF finances its activities with the member countries' quotas. The portion of the Swiss quota used by the IMF is equal to Switzerland's reserve position in the IMF, which is financed by the National Bank. It can be likened to a currency reserve and may be used as such by the National Bank at any time. At the end of 2002, Switzerland's reserve position amounted to 1,410.0 million SDRs (special drawing rights), compared with SDR 1,258.7 million at the end of 2001. (At the end of 2002, one SDR was equivalent to Sfr 1.89. This figure is calculated on the basis of weighted exchange rates for the dollar, euro, yen and pound.) The marked increase in the reserve position is due mainly to the drawings of the IMF to resolve the financial crises in Brazil, Uruguay and Turkey.

Start of repayments to the Poverty Reduction and Growth Facility (PRGF)

The National Bank finances the Swiss contribution to the loan account of the Poverty Reduction and Growth Facility (PRGF, formerly ESAF II). This facility is used to grant long-term loans at reduced interest rates to low-income developing countries. The individual drawings have a maturity of ten years, with repayments in instalments beginning five-and-a-half years after the loan has been paid out. The Confederation guarantees the National Bank the timely repayment of the PRGF loans, including interest payments. In 2001, the IMF exhausted the Swiss loan commitment of SDR 151.7 million in its entirety. At the end of 2002, repayments began with a first instalment of SDR 2.9 million.

First drawing under the interim PRGF

As the PRGF's resources were used up as of the end of 2001 and since it cannot be operated as a self-financing facility until 2005, interim funding is required in the form of an "interim PRGF". The National Bank has paid SDR 250 million towards the capital of the interim PRGF, but has capped its involvement at 6.25% of all bilateral capital contributions. The terms of the loan commitment to the interim PRGF correspond to those applicable to the PRGF. In December 2002 the IMF made use of the Swiss loan commitment for the first time, drawing SDR 6.07 million.

6.2 Participation in the Group of Ten

The National Bank participates in meetings of the finance ministers and central bank governors of the Group of Ten, as well as in various working groups.

Extension of participation in the IMF's General Arrangements to Borrow

With its Message of 20 November 2002, the Federal Council submitted the Federal decree on the extension of Switzerland's participation in the IMF's General Arrangements to Borrow (GAB) to Parliament. Switzerland has been associated with the GAB since 1964 and has been a member since 1984. The Swiss National Bank is the participating institution. In the event that the IMF finds itself short of funds, the GAB enable it to borrow supplementary resources of SDR 17 billion to prevent or resolve an extraordinary crisis threatening the international monetary system. The credit commitment of the National Bank amounts to SDR 1,020 million. The GAB are valid for five-year periods. Accordingly, any renewal of Switzerland's participation has, in the past, been decided by the Federal Parliament every five years. In future, this will be the responsibility of the Federal Council, with the prior agreement of the National Bank. The present GAB expire at the end of 2003.

Extension of participation in the IMF's New Arrangements to Borrow

On 20 November 2002, the Federal Council approved the extension of Switzerland's participation in the IMF's New Arrangements to Borrow (NAB) for a further five-year term. The NAB came into effect in 1998 and run until the end of 2003. They double from SDR 17 billion to SDR 34 billion the GAB resources that are available to the IMF in order to respond to financial emergencies. In addition to the participants in the GAB, 14 other countries (industrial countries and emerging economies) participate in the NAB. The credit commitment of the National Bank, which is also the participating institution in the NAB, amounts to SDR 1,557 million. This is the upper limit of commitments under the GAB and the NAB, since the two facilities cannot be drawn on cumulatively. The same domestic regulations as will in future apply to the GAB govern the extension of the NAB.

Federal Council approves inclusion of Chile in NAB

On 20 November 2002, the Federal Council declared its agreement with the inclusion of the central bank of Chile as a new participant in the NAB. The Latin American country became a new NAB member in mid-February 2003, with a credit commitment of SDR 340 million. As the maximum SDR 34 billion credit that is available to the IMF under the GAB and NAB facilities will remain unchanged, the credit commitments of existing members will be reduced pro rata by the Chilean contribution. The credit commitment of the National Bank thus decreases to SDR 1,540 million.

Activities in the Group of Ten

In 2002, the Group of Ten devoted itself to various issues relating to the international financial system. One of the main areas of focus was the drafting of collective action clauses for loan agreements involving sovereign borrowers. These collective action clauses lay down a procedure whereby, in the event of default, the debts of government borrowers can be restructured by means of a majority decision by the creditors. Particular attention was also devoted to issues of the insolvency procedure for private financial institutions in various countries, as well as the impact of policy measures on the stability of the financial system.

6.3 Cooperation with the Bank for International Settlements

BIS bodies

The central bank governors of the G-10 countries and the ECB meet regularly at the BIS for an exchange of information. In addition, the National Bank participates in the four standing committees of the BIS: the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the Committee on the Global Financial System and the Markets Committee (formerly the Committee of Experts on Gold and Foreign Exchange).

Basel Committee on Banking Supervision: capital adequacy recommendations …

In 2002, the Basel Committee on Banking Supervision continued to concentrate its efforts on the review of capital adequacy recommendations for internationally active banks. Work focused on the treatment of securitisation, claims against small and medium-sized enterprises and private clients, as well as operational risks. In October, the Committee published full regulations regarding minimum capital requirements. Working on the basis of these regulations and in close collaboration with government authorities and the banks, the Committee has quantified the new capital adequacy requirements in a special study. Furthermore, during the second quarter of 2003 it will present a revised version of the new agreement for public consultation. The Committee aims to finalise the new agreement in the fourth quarter of 2003 so that the new regulations can enter into force in all countries at the end of 2006.

… and other tasks

In addition, the Committee dealt with further questions pertaining to the stability of the international banking system. Specifically, it presented a public consultation paper constituting the reformulation of the sound practices for the management and supervision of operational risk. The Committee also published recommendations on the steps that supervisory authorities should take with regard to problem banks.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems published two reports. Drawn up in collaboration with the international securities supervisory authorities, the first of these is intended as a guideline in examining whether or not securities settlement systems are complying with the recommendations. The second report addresses the role of the central banks in retail payment markets. Unlike the payment systems handling large single payments (in which all central banks are heavily involved) there has been comparatively little agreement about the role that central banks should play in the retail sector.

Committee on the Global Financial System

The Committee on the Global Financial System concerned itself with the stability of the international financial markets, notably in the emerging markets. It also produced reports on the increasingly important market for credit risk transfer and on the impact of the growing importance of institutional investors.

Markets Committee

The Markets Committee devoted itself primarily to the ongoing monitoring of key financial markets and coordinating preparations for the next Central Bank Survey of Foreign Exchange and Derivatives Market Activity. The Committee was chaired during 2002 by the head of Department III of the National Bank.

6.4 Balance of payments support

No new balance of payments loans

In the context of the Federal decree on Swiss participation in international monetary measures, the National Bank participates in support operations for countries with balance of payments problems. The loans are financed by the National Bank, while the Confederation guarantees their repayment, including interest. No new loans were extended in 2002. There was one outstanding balance of payments loan at the end of the year – 14.3 million euros to Bulgaria with a maturity of 2007.

6.5 Technical assistance and training

Expansion

During 2002, the National Bank expanded the technical assistance that it offers to other central banks. Several person years were devoted to this area as a result. Once again, assistance was concentrated on the Swiss constituency within the Bretton Woods institutions. The central bank of Azerbaijan was advised on a number of business areas, most notably the implementation of monetary policy and cash handling processes. Support was given to the Yugoslavian central bank in the investment of foreign exchange reserves, and to the central bank of Kyrgyzstan on information technology, cash management and developing the financial system. The National Bank also provided consultancy services to the central banks of Jamaica and Lebanon with regard to modernising their payment systems and to Vietnam in connection with the appropriate structuring of a central bank, and also advised the central bank of Tanzania on short-term liquidity planning. Other central banks were given assistance in areas in which the National Bank has specialist expertise.

6.6 Study Center Gerzensee

Courses for staff of foreign central banks

The Study Center Gerzensee, a National Bank foundation, organised seven courses for employees of foreign central banks in 2002. The courses offered training in the fields of monetary policy, financial markets and bank regulation. They were attended by a total of 187 participants from 98 countries.

International scientific conferences

In addition, the Study Center Gerzensee hosted two specialist conferences on monetary policy and two summer symposia on financial markets and economic theory. They were attended by internationally renowned researchers.

Doctoral courses

The Study Center Gerzensee organised doctoral courses for students of Swiss universities. These courses featured lectures from leading academics in all the main fields of economic science.