

Ladies and Gentlemen

1996 proved to be a difficult year for the Swiss economy. Real gross domestic product decreased while unemployment rose.

Declining domestic demand gave particular cause for concern. Notably the building industry was badly hit by a lack of demand for housing and fiscal tightening. In other domains competitive pressure also increased, leading to a continued restructuring of the economy. Numerous enterprises stepped up their efforts at modernisation and rationalisation, which, in the medium term, will improve the growth opportunities of the Swiss economy. This development, however, clearly left its mark on the labour market: redundancies increased, and the number of unemployed rose steeply. With consumer sentiment consequently deteriorating, no noteworthy stimuli emanated from private consumption. Foreign demand was unable to compensate for the decline in domestic demand. On the one hand, some major trading partners were suffering from weak economic growth, on the other hand, the strong Swiss franc had an adverse effect on the competitiveness of the Swiss export industry.

The silver lining on this dark cloud is to be seen in the development of prices. The average increase in Swiss consumer prices of 0.8% is regarded as price stability.

Due to the low level of economic activity, we further relaxed our monetary policy. The monetary base showed a vigorous expansion, exceeding the medium-run target path in summer. At the end of September, the National Bank lowered the discount rate, thereby underlining its willingness to keep interest rates at a low level for the time being. The situation in the foreign exchange markets eased and the Swiss franc began to weaken. The low interest rate level and the decline of the Swiss franc improved the monetary conditions for economic recovery.

Notably the strong rise of the US dollar, but also the non-recurring extraordinary income due to changes in the valuation principles, raised the level of aggregate income in the 1996 annual accounts. This will permit the National Bank to make good the 1995 shortfall by distributing approximately Sfr 458 million to the Confederation and the cantons from the 1996 account, in addition to the Sfr 600 million per year agreed on with the Federal Government. In 1995 profits only sufficed for an allocation of Sfr 142 million.

In 1996, Switzerland's role in the Second World War became a much-discussed topic. In this context, the Swiss National Bank's gold transactions during the war again were an issue. These transactions have already been the subject of research by various historians, especially after the National Bank opened its archives at the beginning of the eighties. Nonetheless, we understand the need for a further detailed study of Switzerland's financial relations in the Second World War and therefore welcome the measures taken by the Federal Council and by parliament.

We wish to thank the Bank's staff for the responsible way in which they have fulfilled their tasks.

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Jakob Schönenberger

President of the Bank Council

Hans Meyer

Chairman of the Governing Board