Other central bank functions
1  Investment of assets

1.1  Fundamentals

The National Bank’s assets essentially consist of gold and foreign currency reserves as well as domestic financial assets (domestic 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.

Part of the National Bank’s assets serve directly for implementing monetary policy. In order to supply the economy with base money, the National Bank concludes securities and foreign exchange transactions. These are notably repo transactions and foreign exchange swaps. A repurchase agreement (repo) represents a money market credit hedged by securities (claims from repo transactions). Foreign exchange swaps constitute currency reserves which are hedged in the forward market.

Unhedged foreign exchange reserves are held mainly in major currencies. They represent an instrument that permits the National Bank to intervene in the market in the event of a Swiss franc weakness. It can sell unhedged foreign exchange reserves at any time against Swiss francs in order to support the external value of the currency. Unlike foreign exchange reserves, gold holdings cannot be used for interventions as the Swiss franc is linked to gold by law. This means that gold can only be bought and sold at the official price, which lies distinctly below the market price. Nevertheless, in addition to the foreign exchange reserves, gold holdings also play a role as a national emergency provision. They help to ensure that Switzerland remains able to pay vis-à-vis foreign countries in emergencies.

The National Bank Law specifies both the type of assets which the National Bank may acquire as well as the instruments it may employ for their management. Within the limits set by legal provisions and the monetary policy mandate, it is the National Bank’s endeavour to manage its assets as profitably as possible. The revision of the National Bank Law, which became effective on 1 November 1997 (cf. 90th Annual Report, p. 34), has increased the National Bank’s leeway for managing its gold and foreign exchange reserves. Since then, the National Bank has been able to invest its foreign exchange reserves in additional market segments, and therefore more profitably in the long term, without overall having to sustain greater fluctuations in earnings. Moreover, the revised law makes it possible to employ a part of the gold reserves for gold lending.

Structure of National Bank assets in percent

- Unhedged foreign exch. reserves 54
- Foreign exchange swaps 8
- Gold 15
- Other domestic assets 2
- Domestic financial assets 16
- Other foreign currency assets 5

Total: Sfr 78 billion. Balance sheet values, ann. average
1.2 Foreign exchange investments

The National Bank invests its foreign exchange reserves in safe and liquid securities, and a small proportion in time deposits at prime foreign banks. This enables it, in case of need, to sell the investments at short notice and without incurring undue losses. The National Bank Law permits liquid marketable debt certificates of foreign governments, international organisations and foreign banks to be acquired.

Since November 1997, the National Bank has applied a three-tier decision-making process concerning investments: the Governing Board issues investment policy guidelines in conformity with which the investment committee determines the detailed currency allocation and the permissible interest rate risk. The portfolio managers are guided by the reference portfolios for each individual currency. The yardstick for the success of the asset management are the yields achieved on the reference portfolios and the investment yield attained by an external portfolio manager with a part of the National Bank’s dollar investments.

The restructuring of the foreign exchange investments begun in November 1997 was largely completed in 1998. Since mid-February and the end of May respectively, the National Bank has also made investments in pounds sterling and Danish kroner. The dollar share was further reduced in favour of investments in D-marks, pounds sterling, Dutch guilders and Danish kroner. The possibilities offered by the revised National Bank Law were also used for the diversification of borrowers: the National Bank increasingly purchased bonds of international organisations and of US agencies (securities with indirect government guarantee) in the investment currencies. Approximately 82% of all investments are accounted for by government securities or by securities with virtual government guarantee. For the first time, the National Bank made a selective use of interest rate futures for regulating the average duration of portfolios. In the course of 1998, the duration of the entire foreign exchange investments was extended to three years.

<table>
<thead>
<tr>
<th>Foreign exchange reserves by debtor category in percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government securities 73</td>
</tr>
<tr>
<td>Securities with indirect government guarantee 9</td>
</tr>
<tr>
<td>International institutions 11</td>
</tr>
<tr>
<td>Banks 7</td>
</tr>
<tr>
<td>Total: Sfr 52.8 billion. End 1998</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Foreign exchange reserves by currency in percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollar 43</td>
</tr>
<tr>
<td>Dollar hedged 9</td>
</tr>
<tr>
<td>D-mark 29</td>
</tr>
<tr>
<td>D-mark hedged 6</td>
</tr>
<tr>
<td>Dutch guilder 3</td>
</tr>
<tr>
<td>Pound sterling 3</td>
</tr>
<tr>
<td>Danish krone 2</td>
</tr>
<tr>
<td>Yen 5</td>
</tr>
<tr>
<td>Total: Sfr 52.8 billion. End 1998</td>
</tr>
</tbody>
</table>
1.3 Investment in domestic securities

Since the early 1980s, the National Bank has been expanding its portfolio of domestic bonds by Sfr 100 million annually. It manages its bond holdings subject to the condition that the investment decisions may neither disrupt monetary policy nor profit from it. It therefore pursues an investment policy bound by rules and checks its quality based on comparative indices. Purchases are spread evenly over the year. The law only permits the acquisition of domestic public sector bonds, mortgage bonds and marketable bonds of domestic banks. The National Bank considers these debtor categories more or less in relation to their market capitalisation. A concentration of investments on individual debtors is avoided by means of limits.

At the end of 1998, the market value of the portfolio amounted to Sfr 5,010 million, compared to Sfr 4,941 million in the previous year. The duration decreased from 3.8 to 3.3 years in 1998. The yield on the portfolio amounted to 4.8%, compared to 5.9% in the previous year.

### Investment principles

#### Domestic securities by debtor category in percent
- Confederation 20
- Cantons 28
- Communes 12
- Mortgage bonds 20
- Banks 20
- Total: Sfr 5 billion. End 1998

### Investment results

#### Annual results foreign exchange investments Yields in percent

<table>
<thead>
<tr>
<th>Currency portfolio</th>
<th>1997</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>local currency</td>
<td>Swiss francs</td>
</tr>
<tr>
<td>Dollars (without swaps)</td>
<td>5.8</td>
<td>14.0</td>
</tr>
<tr>
<td>D-marks (without swaps)</td>
<td>3.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Yen</td>
<td>0.2</td>
<td>3.4</td>
</tr>
<tr>
<td>Dutch guilders</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Pounds sterling (since March 1998)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Danish kroner (since June 1998)</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

Total foreign exchange investments – 10.9 – 5.9
1.4 Gold lending

Gold lending takes place in a relatively tight market. In order not to disrupt the price structure, the National Bank practises it with great restraint and only uses a modest proportion of its gold holdings for lending. Its partners are first-class domestic and foreign banks and securities houses. They pay the National Bank interest for the temporary loan of gold.

At the end of 1998, lending transactions covered 187 tonnes of gold. At the end of the year the average residual maturity of all gold lending transactions concluded amounted to approximately 4.5 months. In 1998, a yield of 1.9% p.a. was achieved with gold lending.

1.5 Risk management

Risk management has gained increasingly in significance also for the National Bank in recent years. The permissible transactions and the credit competences are laid down in detail in the National Bank Law and in other directives. Risk control and risk limitation primarily extend to those National Bank assets that are managed with a view to achieving a profit. Foreign exchange reserves are the most important among them.

The core of risk management is the identification, measurement and assessment of risks. The National Bank uses standard procedures and modern tools such as sensitivity and scenario analyses and value-at-risk calculations. At the centre are risk limits and detailed investment guidelines. The latter lay down, among other things, the bands for the currency proportions and the duration of foreign exchange investments, as also the upper limits for certain investment segments. The counterparty risks from foreign exchange investments and gold lending are controlled by means of credit limits. Multi-tier risk reporting to the responsible decision-making and supervisory bodies of the National Bank is also part of risk management.

2 Payment transactions

2.1 Basis

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 (by way of the banks and Swiss Post) with banknotes and coins. It also acts as a settlements centre for cashless payments between the banks and between Swiss Post and the banks.
Over the last few years, many of the companies with which the National Bank does business (such as the commercial banks, Swiss Post and security transport companies) have been rationalising their cash handling processes. Commercial banks with networks of branches are increasingly clearing cash positions within their own organisations. This trend has been reinforced by the various bank mergers. Moreover, the banks and Swiss Post are tending to outsource cash handling tasks to security transport firms. At the same time, flows of cash within the National Bank’s network of branches are becoming more centralised.

The Bank took account of these developments in its new cash distribution concept, which sets out to concentrate cash handling services at four locations – Berne, Geneva, Lugano and Zurich – as of the year 2000. The decentralised network of agencies will be retained for the local receipt and distribution of banknotes and coins.

The electronic Swiss Interbank Clearing system SIC is operated by Telekurs on behalf of the National Bank. The banks execute their payments through SIC. Thanks to a link between SIC and the SECOM securities clearing system of SEGA (Swiss Securities Clearing Corporation), delivery and payment of securities are performed simultaneously. This means that the repo transactions recently introduced on the Swiss money market can be settled on the “delivery versus payment” principle. Since June 1998, two other payment services provided by the banks – data carrier exchange and direct debiting – have also been performed through SIC.

Until last year, access to SIC was limited to banks domiciled in Switzerland and a number of joint undertakings. In 1998, however, in order to meet market needs, eligibility was extended to non-bank securities dealers. The National Bank also decided that, owing to the increasingly international nature of payments, remote SIC access should also be granted – subject to certain provisos – to international joint undertakings and clearing organisations as well as to the banks participating in these bodies. By the end of 1998, about 60 foreign banks had opted for this remote access facility. The institutions in question were German banks, which, owing to the merger of SOFFEX and Deutsche Terminbörsen to form EUREX, now handle an increased volume of transactions in Swiss francs.

The central banks of the countries participating in the European Monetary Union set up the TARGET system (Trans-European Automated Real-Time Gross Settlement Express Transfer System) to interlink their national payment systems. TARGET facilitates implementation of the monetary policy of the European Central Bank as well as cross-border payments in euros. SIC cannot be linked to TARGET as only the payment systems of EU member states are eligible.

To facilitate euro-denominated payment flows from Switzerland to EU countries, the Swiss banks set up a special institution in Frankfurt known as the Swiss Euro Clearing Bank (SECB). The SECB, which is subject to German banking supervision, has direct access to TARGET and thus enables Swiss banks to perform euro transactions. The euroSIC system set up by the SECB for settlement processes corresponds broadly to SIC. One difference is that the account may be overdrawn during the course of a day subject to the furnishing of collateral (in the form of securities) acceptable to the ECB. EuroSIC is linked with the Swiss Exchange (SWX) and the SECOM securities settlement system.
2.2 Provision of currency

In 1998, the average banknote circulation was Sfr 29.6 billion, i.e. 2% more than in 1997. At Sfr 2.1 billion, coins in circulation equalled the previous year’s figure.

The National Bank obtained 93 million freshly printed banknotes with a face value totalling Sfr 9.3 billion from Orell Füssli Graphic Arts Ltd and added them to its stock. 200.5 million damaged or recalled notes with a face value of Sfr 36.4 billion were destroyed.

In 1998 the National Bank’s branches registered an 18.1% increase in currency turnover in value terms, bringing the total to Sfr 180.8 billion. The branches received approximately 493 million notes (9.6% more than in 1997) and checked them for authenticity, quality and quantity.

On 1 April 1998 the National Bank issued the new 1000-franc note, the fifth in its new series. This was followed on 1 October 1998 by the sixth new issue, the 100-franc note. The 1000-franc note features the historian of culture Jacob Burckhardt while the 100-franc note depicts the sculptor Alberto Giacometti. Like the 200-franc note, these two banknotes have an additional security feature – a “perforated” image of the respective denomination.

The issue of the 100-franc note completes the new series of banknotes, all of which have extremely sophisticated security features. The banknotes from the previous series – which were in circulation between 1976 and 1998 – will remain legal tender until further notice. The notes issued between 1957 and 1979 (which were recalled in 1980) as well as the 5-franc notes, are redeemable by the National Bank up to 30 April 2000.
Daily pattern of incoming, pending and settled payments

Payments entered
Payments in queue
Payments settled

Percent of the volume of payments in value terms.
2.3 SIC payment transactions

At the end of 1998 there were 288 participants in SIC (end-1997: 222). During the year under review, an average of about 529,000 payments per day totalling approximately Sfr 182 billion were processed. About every two days, therefore, a volume roughly equivalent to Switzerland’s annual GNP is handled by the system.

### Development of payment flows

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<tbody>
<tr>
<td>Average SIC</td>
<td>349</td>
<td>382</td>
<td>427</td>
<td>480</td>
<td>529</td>
</tr>
<tr>
<td>of which SECOM</td>
<td>–</td>
<td>13</td>
<td>20</td>
<td>39</td>
<td>51</td>
</tr>
<tr>
<td>Maximum SIC</td>
<td>925</td>
<td>1154</td>
<td>1156</td>
<td>1303</td>
<td>1323</td>
</tr>
<tr>
<td>Maximum SECOM</td>
<td>–</td>
<td>24</td>
<td>40</td>
<td>89</td>
<td>98</td>
</tr>
</tbody>
</table>

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<tr>
<th>Volume per day Sfr billions</th>
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<tbody>
<tr>
<td>Average SIC</td>
</tr>
<tr>
<td>of which SECOM</td>
</tr>
<tr>
<td>Maximum SIC</td>
</tr>
<tr>
<td>Maximum SECOM</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Frequency of turnover per day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
</tbody>
</table>

Payments are only settled in the SIC system if the requesting bank has sufficient sight deposits on its account at the National Bank. If there is insufficient cover, the payment instruction is automatically held in a queue until incoming payments bring the level of funds up to the required amount. SIC participants are able to directly monitor incoming and outgoing payments currently pending in their own clearing account. Having access to this information makes cash management easier for the banks. The volume of payments in this queue rises during the course of the morning to reach a peak at around noon.

The structure of the payments flow varies greatly in terms of volumes and amounts: a breakdown of the individual payments by size shows that 99% of payments together account for just 12% of the total fund flows handled by SIC.
Daily payments flow, broken down by size of payment

Vertical axis: percentage share of volume of payments in value terms (logarithmic scale).

Horizontal axis: percentage share of volume of transactions.
3 Statistical tasks

The National Bank collects from banks and other enterprises the statistical data necessary for performing its tasks. This data is used for analyses concerning monetary policy and economic activity and for drawing up the balance of payments. The information on the banks’ balance sheets serves mainly for calculating the monetary aggregates. The data supplied by business enterprises and service sector companies on their direct investment is reflected in the balance of payments. The National Bank is also responsible for compiling investment fund statistics and collects information on the money and capital markets. These statistics are drawn up by agreement with the data-reporting institutions and conform closely to international standards.

In the field of investment fund statistics, a new wording for Article 85 of the Investment Funds Ordinance has been drafted by the Federal Banking Commission, the Investment Fund Association and the National Bank which meets the statistical data requirements of all three institutions. The National Bank will thus gain additional information for conducting its monetary policy. At the same time, the transparency of investment fund business in Switzerland is improved.

In close cooperation with the banks, the National Bank developed a database concerning securities transactions. The collection of data on securities holdings of third persons at the banks began in 1998. The National Bank took due account of the launch of the euro by expanding its statistics. Data on direct investment is now collected on a quarterly rather than an annual basis. In this way the requirements of the International Monetary Fund (IMF) to draw up a quarterly balance of payments are met.

4 Services on behalf of the Confederation

The National Bank acts as the bank of the Confederation. The National Bank Law lays down the services to be performed, prohibits deficit financing by means of central bank credits and stipulates that most of the services must be rendered free of charge. On this basis, the National Bank performs tasks on behalf of the Confederation in the payments field and in coinage, in borrowing on the money and capital markets and in the investment of funds.

The Confederation holds its liquid funds in the form of sight deposits and short-term time deposits at the National Bank. The National Bank pays interest on the Confederation’s sight deposits up to an amount of Sfr 500 million at the call money rate, on time deposits at market rates. In the event of liquidity bottlenecks, it assists the Confederation in taking out money market credits from banks.

In 1998 the National Bank arranged 52 issues of money market debt register claims (MMDRC) and 11 bond issues on behalf of the Confederation. MMDRCs to the total amount of Sfr 89.4 billion were subscribed, and Sfr 45.1 billion were allocated. Bonds were subscribed for a total amount of Sfr 10.8 billion, of which Sfr 5.2 billion were allocated.
The National Bank accepts payments on behalf of the Confederation and carries out remittances to third parties both in Switzerland and abroad up to the amount of the Confederation’s sight balances. Federal agencies cover their cash requirements through withdrawals from the National Bank. The surplus liquid funds of the Confederation – notably those of Swiss Post and the Swiss federal railways – flow back to the National Bank via the banks. The National Bank also keeps the federal debt register and administers security holdings and objects of value on behalf of the Confederation and associated institutions.
5 Cooperation with federal agencies

5.1 Cooperation with the Federal Department of Finance

In June 1998 the Federal Council initiated the pre-legislative consultation procedure on the Federal law on the “Swiss Foundation for Solidarity”. This foundation is intended to renew the country’s humanitarian tradition. It is planned to release a part of the National Bank’s gold reserves equivalent to 7 billion Swiss francs – but not exceeding 500 tonnes of gold – as foundation capital. The income from managing the foundation capital is to be used both in Switzerland and abroad to help persons suffering severe hardship through no fault of their own.

In stating its position on the foundation law, the Swiss National Bank commented on two aspects. Firstly, it suggested that the purpose of the foundation should be defined more narrowly and more precisely in the law. Secondly, it offered its opinion on the question of whether the transfer of National Bank gold reserves to the foundation was in conformity with the Constitution. The National Bank took the view that the release of gold reserves as proposed in the foundation law would not be constitutional. The Swiss franc would not only have to be decoupled from gold on the constitutional level, but an additional provision would have to be inserted permitting a deviation from the constitutional profit distribution rule (two-thirds to the cantons, one-third to the federal government) with regard to the gains achieved from the new valuation of gold.

The National Bank participated in a working group chaired by the Federal Department of Finance which examined the repercussions of the European Monetary Union on the Swiss economy in general and on federal taxes in particular. The working group came to the conclusion that the European Monetary Union’s impact on the Swiss economy is likely to occur via increased price transparency, stiffer competition and a stronger orientation of the production structure to the EU market. This would require an adaptation of both the private and the public sector. Monetary policy would face a particularly big challenge. The working group also underscored the necessity of formulating a solid fiscal policy and creating optimal conditions for private economic activity. As to the effect on federal taxes, it was of the opinion that action needed to be taken concerning the turnover tax on domestic securities transactions. Higher efficiency and greater transparency of the European financial markets would increase tax-induced competitive disadvantages of securities dealers (mostly banks). This would lead to business being relocated abroad and consequently to a reduction of income from turnover tax. The working group, therefore, recommended a revision of turnover tax.
5.2 Cooperation with the Federal Banking Commission

On 1 December 1998, Article 54 of the Ordinance on Banks and Savings Banks issued by the Federal Council entered into force. The new article serves as a legal basis for the exchange of data which the Federal Banking Commission and the National Bank collect from banks, securities dealers, investment funds as well as on financial markets. Above all, the exchange of data facilitates data collection for statistical purposes. Data concerning individual customers of banks, securities dealers or the National Bank are excluded from the exchange. In the case of a crisis in the financial market or of individual institutions, however, a comprehensive exchange of information is permitted.

6 International cooperation

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

6.1 Cooperation in the International Monetary Fund

Switzerland’s IMF membership is exercised by the Federal Department of Finance and the National Bank. Switzerland’s participation in the IMF corresponds to the amount of its quota subscription. The fund finances its activities with the member countries’ quotas. The portion of the Swiss quota used by the IMF is equal to its reserve position in the IMF and is financed by the National Bank. It may be likened to a currency reserve and may be used by the National Bank at any time to finance a deficit in Switzerland’s balance of payments. At the end of 1998, Switzerland’s reserve position amounted to 1,597.8 million SDRs (special drawing rights), compared to 1,407.5 million SDRs at the end of 1997. (At the end of 1998, 1 SDR was equivalent to Sfr 1.92). The significant rise in the reserve position reflects Switzerland’s contribution to the financing provided by the IMF to help curb the financial crises in Asia, Russia and Latin America.

Based on the Federal Decree on Switzerland’s participation in the prolonged Enhanced Structural Adjustment Facility (ESAF II) at the IMF of 3 February 1995, the National Bank finances the Swiss contribution to the loan account of ESAF II. This facility serves to finance long-term loans at reduced interest rates to poor developing countries. In 1998, the IMF utilised a total of 39.4 million SDRs in two drawings from Switzerland’s loan commitment of 151.7 million
SDRs. The IMF had already drawn 69.9 million SDRs in the previous year; the still
unused loan commitment of 42.4 million SDRs can be utilised until the end of
December 2001. The individual drawings have a maturity of ten years, with
repayments in instalments beginning five-and-a-half years after payment. The
Confederation guarantees the National Bank the timely repayment of the ESAF
credits including interest payments. It also finances the interest-rate subsidies.

6.2 Cooperation in the Group of Ten

The National Bank participates in the meetings of the finance ministers
and central bank governors of the G-10 as well as in various of its working groups.

In June 1998, the federal parliament agreed to a prolongation of Switzerland’s participation in the General Arrangements to Borrow (GAB) to the end of 2003. In the event that the IMF finds itself short of funds, the GAB permit it to borrow additional funds to the amount of 17 billion SDRs for the purpose of warding off or mitigating an extraordinary crisis threatening the international monetary system. Switzerland has been associated with the GAB since 1964 and has been a participant since 1984. The loan commitment of the National Bank amounts to 1,020 million SDRs. The GAB are valid for five-year periods.

In order to finance an IMF loan for Russia the GAB were activated in July 1998 – the first time since Switzerland’s participation. In the context of this GAB activation the IMF is granted a loan totalling 6.3 billion SDRs. Switzerland’s portion amounts to 378 million SDRs, which corresponds to the 6% agreed upon. Until mid-August, the IMF borrowed funds to the amount of 86.6 million SDRs from the Swiss National Bank. The IMF programme for Russia has been suspended since mid-August as Russia’s economic policy is no longer in line with the requirements of the IMF.

The New Arrangements to Borrow (NAB) are parallel agreements to the GAB. They entered into force on 17 November 1998 after having been signed by the twenty-five participants, including the countries of the Group of Ten. In the NAB, the member countries undertake to grant loans to the IMF in exceptional circumstances and in the event of a shortage of funds according to a distribution key agreed upon in advance. Under the terms of the GAB and the NAB, the IMF can borrow up to 34 billion SDRs. That is double the amount previously available under the GAB alone. The loan commitment of the National Bank amounts to 1,557 million SDRs, which is 4.6% of the total amount. At the same time, this amount is the upper limit of the National Bank’s commitments under the GAB and the NAB since these two facilities cannot be drawn on with cumulative effect.

Shortly after they entered into force, the NAB were activated in favour of Brazil. The IMF was granted a loan totalling 9.12 billion SDRs for Brazil. Since some of the participants were unable to make a contribution under the NAB, the National Bank’s share amounted to 455 million SDRs, i.e. 4.99%.
6.3 Balance of payments aid

At the beginning of 1998, the Group of Ten, along with Australia and New Zealand, pledged loans to South Korea to the amount of $22.2 billion. Switzerland’s commitment amounts to a maximum of $312.5 billion. The loan is extended in the context of the Federal Decree on Switzerland’s cooperation in international monetary measures. The Federal Government guarantees the National Bank the regular performance of the credit agreement. The loans to South Korea are to be drawn on in case of need only. They were not used in 1998.

In mid-November an international financing package in favour of Brazil was put together. The IMF extended – under a stand-by arrangement – a credit to the amount of $18 billion; the World Bank and the Inter-American Development Bank gave credit undertakings for $4.5 billion each. In addition, the BIS pledged a credit facility of $14.5 billion guaranteed by the members of the Group of Ten as well as nine additional countries. The substitution undertaking by Switzerland amounts to a maximum of $250 million. It is granted by the National Bank in the context of the Federal Decree on Switzerland’s cooperation in international monetary measures; the Federal Government guarantees the National Bank the regular performance.

6.4 Cooperation with the Bank for International Settlements

The central bank governors of the G-10 countries meet once a month at the BIS. Moreover, the National Bank is represented in various committees of the BIS including the Basle Committee on Banking Supervision, the Committee on Payment and Settlement Systems and the Euro-currency Standing Committee.

The central bank governors of the G-10 countries entrusted the three committees with the task of taking stock of gaps in international security measures to combat financial market problems and of determining the desirability and feasibility of setting up international standards to close these gaps.

Together with the Federal Banking Commission, the National Bank participated in the tasks of the Basle Committee. In 1998, the committee dealt with the implementation of the core principles of effective banking supervision developed in the previous year together with supervisors from non-G-10 countries. As a step toward specifying these principles in the area of transparency, the committee presented a report on the principles of information disclosure by the banks. In addition, the committee worked toward the banks’ careful preparation for the year 2000 transition. In particular, it carried out a broad survey on the measures taken by the banks and supervisory authorities designed to deal with this problem. Furthermore, it published a report on the topic of risk control in connection with using electronic money (e-money).
The Committee on Payment and Settlement Systems published two reports. The first one is a follow-up report on the performance risks in foreign exchange transactions. It concludes that further progress has been made in assessing, monitoring and reducing the performance risk. The situation is still deemed to be unsatisfactory, however. The second report, which was written in cooperation with the Euro-currency Standing Committee, deals with the risks of over-the-counter derivatives markets. It states that collateral security as a means to set off risks is becoming ever more important. Even though collateral security reduces the credit risk, legal and operational risks are increasing. The report recommends the use of standardised master agreements.

The Euro-currency Standing Committee carefully studied the Asia crisis and drew initial conclusions. It made an effort to monitor and assess developments in emerging markets more closely and issued recommendations on the disclosure of official foreign currency reserves.

6.5 Technical assistance and specialist training

The National Bank provides technical assistance to central banks that have either been newly established or are undergoing reorganisation. This assistance is given partly in response to requests from the IMF or the respective central banks and partly within the context of the Confederation’s development programme. In 1998, the National Bank continued counselling the central bank of Tanzania on managing foreign currency reserves and on how to build up a foreign currency trading and treasury bill market. Furthermore, it held seminars for various central banks on selected topics of monetary policy.

The “Studienzentrum Gerzensee” (Gerzensee Study Centre) again offered courses on monetary policy and financial markets. In 1998, the study centre held five courses with roughly 120 participants.