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 and gold reserves as well as 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.

Establishment of a portfolio of free assets

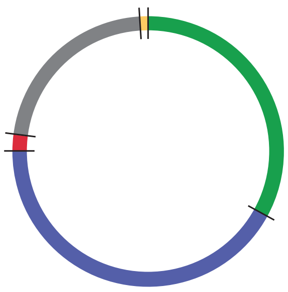
The legal steps which had been initiated for the purpose of a different utilisation of gold reserves no longer needed for the conduct of monetary policy (cf. page 43), led the National Bank to treat these assets in a special manner. Proceeds from the sale of gold as well as the additional gold earmarked for sale are pooled as free assets and managed as a separate portfolio. Free assets, however, do not figure in the annual financial statements as such, since they do not constitute separate assets in the legal sense.

Role of assets within the framework of monetary policy

A considerable part of the National Bank's assets directly serve for implementing monetary policy. In order to supply the economy with base money and to steer money market rates, the National Bank performs securities transactions or foreign exchange transactions. In 2000, monetary policy was controlled almost exclusively by means of repo transactions, which are equivalent to security-backed money market loans (cf. pages 34ff).

Foreign exchange reserves and gold holdings

International reserves are assets, especially foreign exchange reserves and gold holdings, that the National Bank can use for making international payments. The foreign currency reserves enable the National Bank to intervene in the market in the event of a Swiss franc weakness. The National Bank can, at any time, sell foreign exchange reserves against Swiss francs in order to support the external value of the currency. The holdings of monetary gold help to ensure that Switzerland remains able to pay vis-à-vis foreign countries in emergencies.



Structure of National Bank assets
in percent

Gold 33

Unhedged foreign exch. reserves 42

Other foreign currency assets 2

Domestic financial assets 22

Other domestic assets 1

Total: Sfr 115 billion.
Balance sheet values, avarage

Leeway for managing assets

The National Bank Law specifies both the types of assets which the National Bank may acquire as well as the instruments it may employ for their management. Furthermore, it provides for the possibility to set aside a part of the gold reserves for gold lending. Within the framework of legal provisions, the risk limits set internally and the requirements of its monetary policy mandate, it manages its assets as profitably as possible.

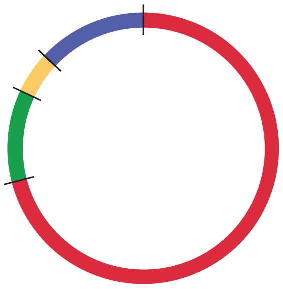
1.2 Monetary foreign exchange reserves

Investment principles

The National Bank invests the bulk of its monetary foreign exchange reserves – i.e. the foreign currency assets without the part allocated to the free assets – in safe and liquid securities, and a small proportion in time deposits at prime foreign banks. It ensures that, in case of need, it can 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.

Three-tier decision-making process concerning investments

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 success of managing the portfolios is the yield achieved on these reference portfolios.



Foreign exchange reserves by debtors
(without free assets)
in percent

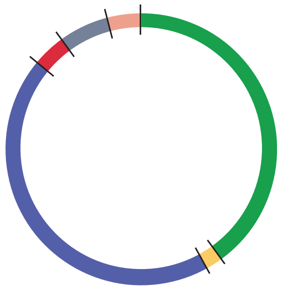
Government securities 71

Securities with indirect government guarantee 11

Monetary institutions 5

Banks 13

Total: Sfr 47.8 billion.
End 2000



Foreign exchange reserves by currency
(without free assets)
in percent

US dollar 40

CA dollar 2

Euro 44

Danish krone 4

Pound sterling 6

Yen 4

Total: Sfr 47.8 billion.
End 2000

Investment activity and results

In 2000, the National Bank continued to increase the diversification of its foreign exchange reserves. It expanded its investments in the European currencies euro, pound sterling and Danish kroner to the detriment of the US dollar and built up investments in US agency paper and German mortgage bonds. As a new investment, it bought mortgage-backed bonds from Denmark. It was therefore possible, within the framework of legal provisions, to expand the yield potential. In addition to futures, the National Bank also used interest rate swaps for regulating the average duration of portfolios. Duration was kept at approximately 3 years, which was last year's level. On the whole, the yield on monetary foreign exchange investments amounted to 5.8% compared with 9.7% in the previous year. At the end of the year, they amounted to Sfr 47.8 billion, thus falling short of the previous year's level by Sfr 6.8 billion. At the end of 1999, they had been at an extraordinarily high level since – in view of the 1999/2000 changeover – banks' liquid funds had been built up heavily with dollar-Swiss franc swaps.

Annual results monetary foreign exchange investments
Yields in percent

	1998		1999		2000	
Currency portfolio	Local currency	Swiss francs	Local currency	Swiss francs	Local currency	Swiss francs
US dollars	7.8	2.1	0.8	16.9	10.1	12.6
Euros	–	–	−0.2	−0.0	6.0	0.7
D-marks	7.4	8.6	–	–	–	–
Dutch guilders	8.4	9.6	–	–	–	–
Yen	0.5	8.7	2.5	32.5	1.0	−8.1
Pounds sterling[1]	9.6	3.9	1.1	14.4	8.6	2.8
Danish kroner[2]	4.8	3.7	0.8	0.9	5.5	−0.2
Canadian dollars[3]	–	–	1.1	7.6	7.9	6.9
Total foreign currency reserves	–	5.9	–	9.7	–	5.8

1 since March 1998

2 since June 1998

3 since May 1999

External asset managers

Up to then, a small portion of the foreign exchange reserves had been managed by an external management company. In 2000, the National Bank appointed three additional external managers. At the end of the year, the external asset management companies had a total of 7.6% of the foreign currency reserves under management. The management mandates open up special investment segments such as mortgage-backed securities in the United States and international bond portfolios. A specialised global custodian processes the business transactions for the foreign exchange reserves managed by external managers.

1.3 Swiss franc bonds

Investment principles

The 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. The National Bank therefore pursues an investment policy bound by rules. In 2000, the National Bank examined its investment strategy and decided that, in future, it would reproduce an index for Swiss franc bonds that is representative of the market.

Purchases of Swiss franc bonds of domestic and foreign borrowers

The National Bank considers all debtor categories permitted by law: the Federal Government, cantons and communes, domestic and foreign banks and mortgage bond institutions, foreign governments and international organisations.

Investment results

At the end of 2000, the market value of the portfolio – without the part allocated to the free assets – amounted to Sfr 5.2 billion, compared with Sfr 4.9 billion in the previous year. In connection with adjusting the investment strategy, the duration increased from 2.6 to 3.5 years. The yield on the portfolio rose from 0.7% in the previous year to 3.3% in 2000.

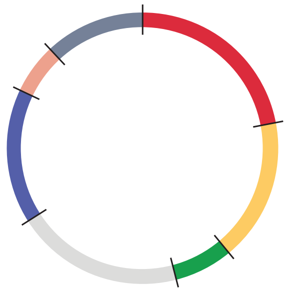
1.4 Gold lending

Investment principles

Since the market for gold lending is a relatively tight one, the National Bank, in order not to disrupt the price structure, only uses a modest proportion of its gold holdings for lending. Its partners are some twenty first-class domestic and foreign financial institutions. They pay interest for the temporary loan of gold.

Decreased lending volume as a result of agreement on gold

The agreement on gold sales concluded in September 1999 between 15 European central banks (cf. 92nd Annual Report, page 45), also requires the National Bank to limit its gold lending to the previous level of 328 tonnes. It therefore kept its lending volume constant on that level; at the end of 2000, the amount of gold lent was 323.8 tonnes.



Swiss franc securities by debtors
(without free assets)
in percent

Confederation 22
Cantons 17
Communes 7
Mortgage bond institutions 20
Banks 16
International organisations 6
Foreign borrowers 12

Total: Sfr 5.2 billion.
End 2000

The National Bank concludes a part of its gold lending transactions against securities collateral. Depositing such collateral lowers the credit risk considerably, yet it also reduces income. At the end of 2000, 26.3% of all gold lending was backed by securities collateral. This gold lending concentrated on long-term transactions with maturities ranging from one to five years.

Long-term lending against securities collateral

In 2000, the National Bank achieved a yield of 1.8% p.a. with gold lending. At the end of the year, the average residual maturity of all gold lending transactions concluded amounted to 9.3 months.

Return on investment

1.5 Free assets

The National Bank sells gold no longer required for monetary policy purposes totalling 1,300 tonnes successively over a period of time on the market. The proceeds are invested in various financial assets which are managed separately from the other assets. The investment process is structured similar to the 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 measures. The yardstick for success is the yield achieved on benchmark portfolios.

Principles

The sale of the gold no longer needed began at the beginning of May. By the end of December, the National Bank had sold 170.8 tonnes of gold on the market at an average price of US dollars 275.58 per ounce. The proceeds from these sales amounted to Sfr 2.6 billion. The Bank for International Settlements (BIS) was entrusted with the sale. The sales were concluded at regular intervals and in quantities that protected the market as much as possible. They are effected within the framework of the agreement on gold sales concluded between 15 European central banks in September 1999. The agreement fixes annual sales quotas.

Beginning of gold sales

The possibilities of hedging additional gold holdings earmarked for sale against an unfavourable development of the gold price in Swiss francs are considerably limited by the agreement on gold sales of September 1999. The National Bank may therefore not hedge against the gold price risk with derivative instruments. It can, however, manage the currency risk of future US dollar-denominated proceeds from gold sales. For this reason, the National Bank has concluded dollar forward sales against Swiss francs and euros to the extent of roughly one-third of the future proceeds in dollars. A complete hedge of the currency risk is not necessary because, as a rule, any weakening of the dollar against the Swiss franc regularly coincided with a rise in the dollar price of gold. Moreover, broad-based hedging could lead to disturbances in the Swiss franc forward market. In 2000, hedging transactions resulted in a profit of Sfr 82.8 million.

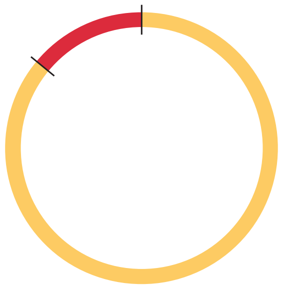
Partial hedge against the currency risk on future gold sales

Investment of the proceeds from gold sales

Proceeds from gold sales are invested exclusively with counterparties with excellent rating. The portfolio mainly consists of bonds of public-law institutions, and banks in Switzerland and abroad as well as a small proportion of time deposits with domestic and foreign banks. Approximately 10% of the portfolio consists of Swiss franc denominated bonds, and another 50% is hedged against currency risks. The rest of the portfolio is invested in euros (20%), US dollars (10%) and other currencies (10%). The duration of the portfolio is approximately three years. In the eight months since the portfolio has been in existence, a yield of 4.2% was achieved.

Level of the free assets at year-end

At the end of 2000, the market value of the free assets amounted to Sfr 18,904.6 million, of which Sfr 16,187.5 million was accounted for by the additional gold reserves earmarked for sale and a total of Sfr 2,717.1 million by foreign exchange investments and investments denominated in Swiss francs. The gross replacement values from transactions concluded to hedge the currency risks are included in the market value. The market value of the free assets was Sfr 44.2 million higher than the provision for the assignment of the free assets in the amount of Sfr 18,860.4 million (cf. item no. 46 in the balance sheet). The difference results from the fact that the income received from managing the proceeds from gold sales is not allocated to this provision. Since the free assets do not constitute special assets, the income is reflected in the National Bank's income statement.



Market value of free assets
in percent

Gold (earmarked for sale) 86

Investments in foreign currencies and CHF 14

Total: Sfr 18.9 billion.
End 2000

1.6 Risk management

Purpose of risk management

The National Bank's risk management compiles, limits and controls all relevant financial risks it incurs by virtue of its activities on the financial and capital markets. Risk management focuses on those National Bank assets that are managed with a view to achieving a profit, notably foreign exchange reserves and free assets. Market risks, i. e. currency, gold price and interest rate risks are crucial. In addition, within the framework of its investment and monetary policy, the National Bank also incurs certain credit risks.

Market risks

The National Bank controls market risks with standard procedures and modern tools such as sensitivity and scenario analyses and value-at-risk calculations. Risk control is performed by means of limits and detailed investment guidelines for the individual portfolios managed internally and externally. Among other things, the bands for the currency proportions, the duration as also the upper limits for certain investment segments are defined. The strategic guidelines are established by the Governing Board. In 2000, the currency risk from foreign exchange reserves continued to be reduced by diversification. It is, however, still considerable because the role of the National Bank calls for a largely unhedged currency risk in foreign exchange reserves. In the case of free assets, however, it can be greatly reduced by concluding foreign currency forward transactions. Yet, the gold price risk on free assets remains significant.

Credit risks

Credit risk management is carried out in accordance with established rules for the allocation and control of credit limits. The bank authorities define strategic guidelines in the form of sector limits and requirements regarding the financial standing of debtors, and they set upper limits for individual credit lines. An internal risk committee translates these guidelines into concrete allocations for the individual business types and is responsible for the control process. Domestic borrowers are now also included in the bank-wide risk limitation.

Control process and risk reporting

The observance of the investment guidelines and risk limits is monitored systematically. The responsible Section reports the results of risk control directly to the responsible line and supervisory bodies of the National Bank. Overall supervision lies with the bank authorities, with a two-person delegation from the Bank Committee assuming special responsibility for risk control.

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 (by way of the banks and Swiss Post) with cash. It also acts as a settlements centre for cashless payments between the banks and between Swiss Post and the banks. In addition, since November 2000, Swiss Post has carried out its money market transactions via the Swiss Interbank Clearing system (SIC).

Interbank clearing system SIC

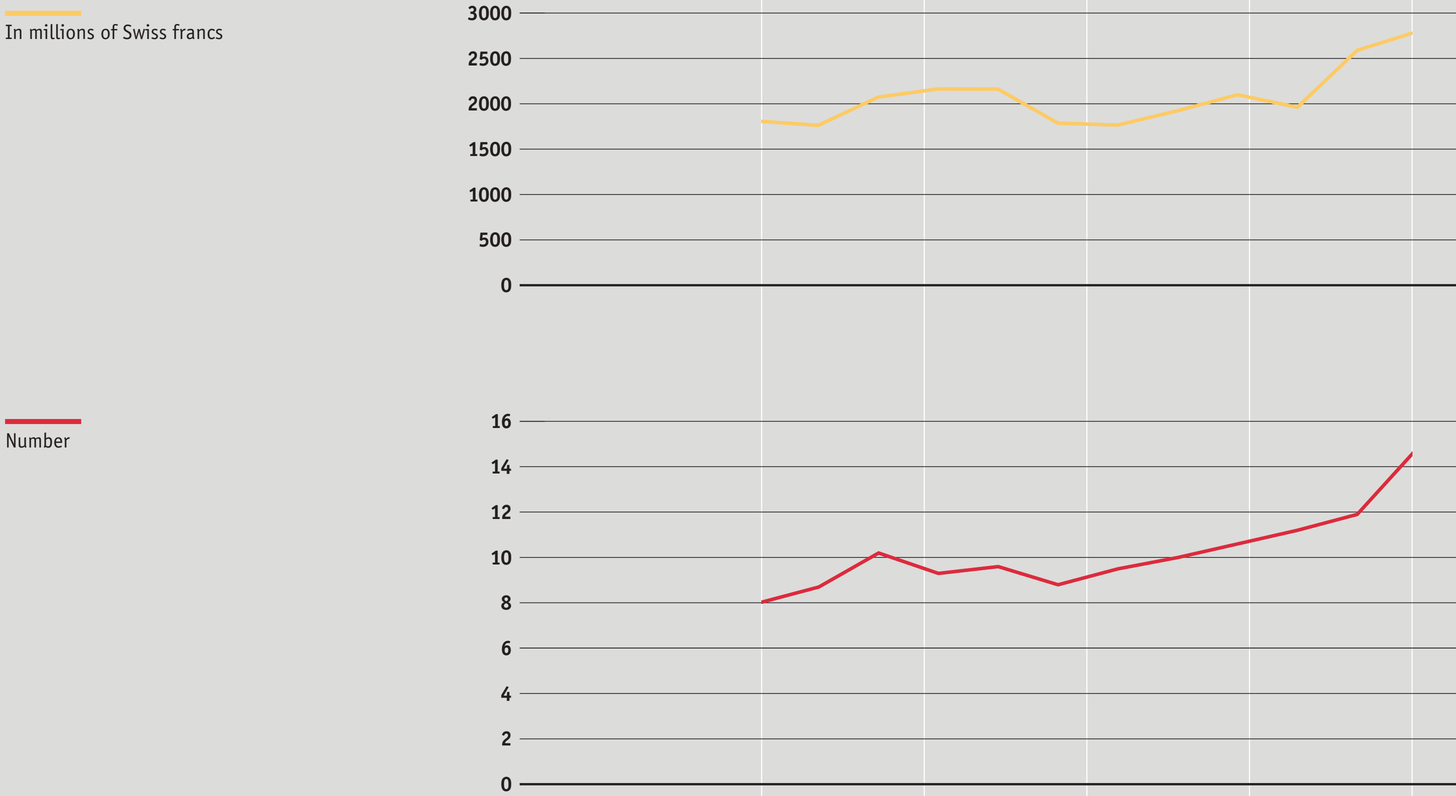
The electronic Swiss Interbank Clearing System (SIC) is operated by Swiss Interbank Clearing AG (formerly Telekurs SIC AG) on behalf of the National Bank. The banks, and to some extent also Swiss Post, execute their payments through this system. SIC has a direct link to SECOM, the securities clearing system of SIS SegaInterSettle (formerly SEGA). This link makes it possible for securities and repo transactions to be carried out with simultaneous delivery and payment. Since May 2000, cheque transactions have been settled via SIC. Data carrier exchange, automatic debits (LSV) as well as transactions at ATMs, automated refuelling machines and ec-direct payments had already been integrated into SIC in previous years. With the integration of cheque transactions, all types of payment services offered by banks are now processed via SIC.

Developments relating to cash transactions

The process of reorganising the cash distribution concept continued in 2000. Swiss Post and several banks outsourced their cash handling tasks to specialised companies. The appearance of cash handling companies operating nationwide has led to flows of cash converging at individual bank offices. The National Bank had already made adjustments in line with market conditions at the end of 1999 and suspended cash distribution services in the Basel, Lausanne, Lucerne and St Gallen branch offices. Since then, cash handling services have been concentrated at the locations Berne, Geneva, Lugano and Zurich. In return, the decentralised network of agencies for the local receipt and distribution of banknotes and coins was expanded by the establishment of agencies in Basel and Lucerne.

Q1 2000 Q2 Q3 Q4

Intraday credits



Q1 2000 Q2 Q3 Q4

2.2 Cashless payment transactions

Increase of payment flows in SIC

At the end of 2000, there were 302 participants in SIC versus 291 at the end of 1999. During the year 2000, an average of 596,000 payments per day totalling approximately Sfr 178 billion were processed compared with 556,000 payments in the amount of Sfr 170 billion in the previous year.

Payment flows in SIC

	1996	1997	1998	1999	2000
Transactions per day thousands					
Average	427	480	529	556	596
Maximum	1156	1303	1323	1384	1821
Volume per day Sfr billions					
Average	150	182	182	170	178
Maximum	290	305	270	296	291

Intraday credits

Since October 1999, banks have had the possibility to obtain intraday liquidity from the National Bank (cf. p. 37). Since this additional liquidity has been introduced, individual payments are pending in the system for a considerably shorter time. Daily drawdowns on intraday loan facilities averaged Sfr 2 billion in 2000; on some days the volume went up as high as Sfr 3.5 billion.

Euro payments

In order to have access to TARGET (Trans-European Automated Real-Time Gross Settlement Express Transfer System), the Swiss banks run a special clearing bank in Frankfurt, the Swiss Euro Clearing Bank (SECB). The SECB services euroSIC, the clearing system which is set up similar to SIC. Most Swiss banks execute their euro payments through this bank. In the course of 2000, the number of payments transacted through the SECB climbed steadily: the volume of payments, however, showed an erratic pattern.

Developments in retail payment transactions

In 1999, PayNet, an Internet-based payment system developed by EUROPAY (Switzerland) SA , was introduced. PayNet is the first Electronic Bill Presentment and Payment System (EBPP) in Europe. An EBPP system is a fully automated invoicing and payment infrastructure, i. e. both invoice and inpayment slips are generated electronically.

2.3 Provision of currency

Higher volume of currency in circulation

In connection with the 1999/2000 changeover there was an unusually sharp increase in currency in circulation which subsided again rapidly, however. In 2000, it averaged Sfr 31.6 billion, thus exceeding the previous year's level by 2.6%. At an average of Sfr 2.3 billion, coins in circulation equalled the previous year's figure.

Production and disposal of banknotes

The National Bank obtained 130 million freshly printed banknotes with a face value totalling Sfr 130 billion from Orell Füssli Security Printing Ltd. A total of 91.8 million damaged or recalled notes with a face value of Sfr 7.5 billion were destroyed.

Decrease in currency turnover

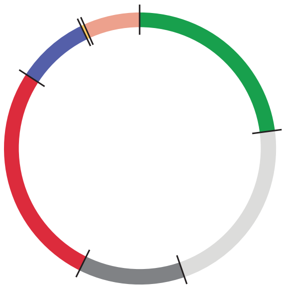
In 2000, the National Bank's bank offices registered a 2.3% decrease in currency turnover in value terms, bringing the total to Sfr 166.6 billion. The bank offices received approximately 472 million notes (1.5% more than in the previous year) and checked them for authenticity, quality and quantity.

Expiration of the conversion period for banknotes from the fifties and the 5-franc note

In accordance with the provisions of the Federal law on currency and payment instruments, on 4 May 2000, the National Bank transferred approximately Sfr 244 million to the Swiss Fund for Emergency Losses. This amount represented the countervalue of banknotes from the fifties and of the 5-franc note recalled as of 1 May 1980 which had not been submitted for conversion to the National Bank within the legal period of 20 years.

Recall of banknotes from the seventies

As of 1 May 2000, the National Bank recalled all banknotes from the seventies series. At that time 42 million of these were still in circulation. The public cashiers' offices of the Confederation (SBB, Swiss Post) accepted the recalled banknotes as legal tender, at their nominal value, until the end of October. At the end of December, the proportion of recalled banknotes was 13.5% of total banknotes in circulation, corresponding to 36.6 million pieces and a value of Sfr 3.7 billion. The National Bank will still exchange the notes at their nominal value for another 20 years, i. e. until 30 April 2020.



Banknotes in circulation
Denom. units (number in millions)

10s 58

20s 55

50s 32

100s 68

200s 22

500s 1

1000s 17

Annual average

3 Statistical tasks

Basis

The National Bank collects from the banks, securities dealers, investment funds and other enterprises the statistical data which it needs for performing its tasks. This data is used for analyses concerning monetary policy, for the survey of economic developments and for economic forecasts, and for analysing developments in the financial markets. The National Bank collects statistics on the banks' balance sheets and on other important aspects of banking business as well as on payment transactions. Furthermore, it gathers information on the money and capital markets, notably on short- and long-term interest rates. The National Banks' tasks also include drawing up Switzerland's balance of payments, notably regarding direct and portfolio investment. All these statistics are compiled by agreement with the data-reporting institutions and enterprises and conform as closely as possible to international standards.

New data

In 2000, several statistics were compiled for the first time, three of which in cooperation with the Federal Banking Commission. The National Bank for the first time also conducted a survey on cashless payment transactions which, among other data, is intended to provide information on the effects of new payment habits of the public on the demand for money. In addition, the National Bank developed a concept for a survey to compile the interest rates in the banks' credit business.

Expansion of existing statistics

The National Bank supplemented the existing statistics on the maturity structure of yields on Confederation bonds with data on other domestic debtor categories and on foreign bonds. Yields on foreign bonds are shown broken down by risk categories. In addition, the National Bank has introduced a new basis for calculating the exchange rate index.

4 Services on behalf of the Confederation

Basis

The National Bank acts as the bank of the Confederation. The National Bank Law lays down the services to be performed and determines that most of them are 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 as well as in the investment of funds and safe custody.

Agent in the money market

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, it assists the Confederation in taking out money market loans from banks. The National Bank pays interest on these time deposits at market rates, on sight deposits up to a certain limit at the call money rate. Since November 2000, Swiss Post has been placing its liquid funds directly on the money market, which is why the level of interest-bearing sight deposits of the Confederation was reduced from Sfr 800 million to Sfr 600 million.

Federal bonds and money market debt register claims

In 2000, the National Bank arranged 52 issues of money market debt register claims (MMDRC) and 14 bond issues on behalf of the Confederation. MMDRCs to the total amount of Sfr 62.7 billion were subscribed, and Sfr 42.4 billion were allocated. Federal bonds were subscribed for a total amount of Sfr 15.6 billion, of which Sfr 9.3 billion were allocated.

Federal bonds and money market debt register claims

	1996	1997	1998	1999	2000
Number of issues[1]					
Federal bonds	10	7	11	10	14
MMDRC	52	53	52	52	52
Total subscribed in billions of francs					
Federal bonds[2]	10.6	7.0	10.8	8.1	15.6
MMDRC	103.1	89.0	89.4	75.7	62.7
Total allocated in billions of francs					
Federal bonds[2]	4.5	3.7	5.2	4.1	9.3
MMDRC	49.9	49.8	45.1	46.8	42.4
Outstanding at year-end in billions of francs					
Federal bonds	33.8	37.5	43.3	46.5	54.1
MMDRC	14.7	14.1	12.9	17.1	13.4

1 Based on date of payment

2 Excluding the National Bank's own tranches

Administration and processing services

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 process cash transactions through the National Bank. The National Bank also keeps the federal debt register and administers securities 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

Group of experts Supervision of financial markets

The National Bank was represented in the group of experts on the supervision of financial markets set up by the head of the Federal Department of Finance in December 1998. These experts were entrusted with the task of investigating whether supervision of the financial markets in Switzerland still fulfils the generally recognised needs and whether, in particular, it meets international standards. In November 2000, the group of experts submitted its final report. This report contains 42 recommendations on supervision in general, banks, insurance companies, bankassurance and financial conglomerates, nonregulated financial services enterprises as well as on the organisation of supervision. In particular, the report proposes that the supervision of banks and insurance companies be concentrated in a single supervisory authority for the financial markets and that supervision be extended to include portfolio managers. The new supervisory authority would also monitor compliance with the money laundering law by those financial intermediaries that have so far not been subject to supervision.

Commission of experts Bank insolvency, bank liquidation and depositor protection

The commission of experts on bank insolvency, bank liquidation and depositor protection set up by the head of the Federal Department of Finance in March 1999 completed its work, in which the National Bank participated, at the end of 2000. In its final report, the commission recommends a revision of the Banking Law. The procedure for liquidating insolvent banks is to be streamlined. In the case of the Spar+Leihkasse Thun the applicable law had proved inadequate. A new instrument for ordering the reorganisation of a bank is to be created. This measure is designed to facilitate the recapitalisation and continued operation of banks in difficulties. Depositor protection is to be brought in line with EU standards. The chief instrument continues to be a privilege in bankruptcy of up to Sfr 30,000 which will in future apply to all deposits in Swiss banks. The guaranteed amount is to be paid out unconditionally by depositors' insurance. The commission is not in favour of a government depositors' insurance if insurance protection can be created through self-regulation.

Comments by the National Bank

The National Bank will submit its comments on the two expert reports in the consultation procedure.

5.2 Cooperation with the Federal Banking Commission

Discussion of developments in the banking system

In 2000, the Governing Board again held two meetings with the Federal Banking Commission (FBC) for a detailed discussion of the economic situation and current developments in the banking system. Given the favourable economic environment, the banking sector experienced no major problems. One exception were the difficulties encountered by the Cantonal Bank of Geneva dating back to the early nineties. The financial problems of the Swiss local authorities' underwriting institution – which is not subject to federal supervision – created by the insolvency of individual communes also gave rise to discussions. Technical cooperation between the FBC and the National Bank concentrated on their joint participation in national bodies, notably in the working groups of the Confederation and in international bodies such as the Basel Committee on Banking Supervision.

5.3 Consultation procedure on the revision of the Cartel Law

Direction in which revision aims

In September, the Federal Department of Economic Affairs invited the interested parties to submit their comments on the planned revision of the Cartel Law. The main aim of the revision is to introduce direct sanctions in the event of violations of the Cartel Law. For constitutional reasons deriving from the fact that the Cartel Law has been based on the abuse principle, not all violations, only hard cartels and the abuse of market power, are to be punished with sanctions.

Comments by the National Bank

The National Bank is interested in competition functioning as efficiently as possible since flexible prices are a precondition for an effective monetary policy. In its comments submitted in December it therefore supported the introduction of direct sanctions since this seems to be a suitable means of further strengthening competition and adding weight to competition law. From the point of view of the National Bank, the massive tightening of Cartel Law only five years after its total revision should, however, be justified in more detail than has been done in the explanatory report. A careful justification is particularly important as the envisaged introduction of direct sanctions touches on the concept of abuse embedded in the Constitution. The National Bank also welcomed the proposed reduction of the competition commission to seven members since it expects a gain in efficiency from this step.

6 International cooperation

On an international level, the National Bank cooperates mainly with the International Monetary Fund (IMF), the Group of Ten (G-10) – which represents 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 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 may be likened to a foreign-exchange reserve and may be used as such by the National Bank at any time. At the end of 2000, Switzerland's reserve position amounted to 963.7 million SDRs (special drawing rights), compared with 1,218.1 million SDRs at the end of 1999. (At the end of 2000, 1 SDR was equivalent to Sfr 2.14.) The decline in the reserve position is due to the fact that in 2000 an increasing amount of funds from loan repayments flowed back to the IMF.

Loan drawings by the Poverty Reduction and Growth Facility (PRGF)

According to the Decree of the Federal Parliament of 3 February 1995, the National Bank finances the Swiss contribution to the loan account of the Poverty Reduction and Growth Facility (PRGF, formerly ESAF II). This facility serves to finance long-term loans at reduced interest rates to poor developing countries. Until the end of December 2000, the IMF utilised a total amount of 151.5 million SDRs from Switzerland's loan commitment of 151.7 million SDRs. The individual drawings have a maturity of ten years, with repayments in instalments beginning five-and-a-half years after payment of the loan. The Confederation guarantees the National Bank the timely repayment of the PRGF credits including interest payments. It also finances the interest rate subsidies.

Yugoslavia is readmitted to the IMF and joins the Swiss constituency

On 20 December, the Federal Republic of Yugoslavia was admitted to the IMF as successor of the Socialist Federal Republic of Yugoslavia. At the same time, the country joined the Swiss constituency at the IMF. Other members of this constituency are Azerbajan, Kyrgyzstan, Poland, Tajikistan, Turkmenistan and Uzbekistan. Yugoslavia's accession to the IMF will come into force in autumn 2002, when the next election of the Executive Board will be held. The combined proportional voting power of all eight countries of the constituency will then increase from 2.65% to 2.86%. In the meantime, the constituency led by Switzerland will represent the interests of the Federal Republic of Yugoslavia in the IMF.

In order to facilitate Yugoslavia's admittance to the IMF, the National Bank granted the country two short-term credits. On the one hand, the National Bank provided a bridging loan amounting to 51.1 million SDRs to the Federal Republic of Yugoslavia to enable it to pay off its share of the old debts of socialist Yugoslavia vis-à-vis the IMF, which was a condition of readmittance. On the other hand, the National Bank granted the Federal Republic of Yugoslavia a loan of 61.1 million SDRs for financing the latest increase in the quota at the IMF. The country repaid both loans on the same day by drawing an IMF loan and its reserve tranche at the IMF.

Intraday credits to Yugoslavia

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 Group of Ten and in various working groups. In 2000, the Group of Ten dealt with the strengthening of the international financial system, notably with the possibilities of better involving the private sector in the prevention and resolution of crises. Furthermore, a working group assessed the anticipated effects of increasing concentration in the financial sector.

Activities in the Group of Ten

6.3 Cooperation with the Bank for International Settlements

The central bank governors of the G-10 countries meet regularly at the BIS for an exchange of information. The National Bank also cooperates in various committees of the BIS. These include the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems and the Committee on the Global Financial System.

BIS bodies

In 2000, the Basel Committee on Banking Supervision intensified its efforts directed at a fundamental review of the capital adequacy recommendations of 1988. The National Bank participated in the work done by the Basel Committee and in several of its subcommittees. At the end of the year, the Committee adopted a second consultation paper. This paper takes into account the comments of a first consultation carried out in 1999 and completes the recommendations in all three parts of the New Accord (capital adequacy requirements, review by the supervisory authority, market discipline; cf. 92nd Annual Report, page 61).

Basel Committee on Banking Supervision

In September 2000, the National Bank, the Federal Banking Commission and the BIS jointly hosted the 11th International Conference of Banking Supervisors (ICBS) in Basel. Approximately 300 supervisors from 120 countries and representatives of international organisations discussed capital adequacy requirements, implementation of the core principles on effective banking supervision and prospects for the financial industry in the 21st century.

11th International Conference of Banking Supervisors

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems published a report dealing with clearing and processing methods in retail payment transactions. The report clearly shows that there is a much greater diversity of systems in this field than in the case of large-payment systems. For the first time, moreover, the Committee published a survey of the distribution of electronic money (e-money) in approximately 70 countries. The publication shows that in most countries e-money is at least offered in pilot projects but that general distribution has remained relatively modest to date.

Committee on the Global Financial System

The Committee on the Global Financial System followed developments in the financial markets, notably in the emerging market countries. In addition, it published a report on the introduction of stress tests by large financial institutions which test the groups' resistance to change in certain risk factors. Furthermore, the Committee published a report on how to improve the international banking statistics published by the BIS.

6.4 Balance of payments support

Repayment of loans extended as balance of payments support by Bulgaria ...

At the end of April 2000, the central bank of Bulgaria repaid a loan to the amount of $ 32 million which it had been granted by Switzerland in 1993 in the context of the Federal decree on Switzerland's cooperation in international monetary measures. The National Bank had financed this loan, with the Confederation providing a guarantee. This loan represents the Swiss contribution to a loan totalling $ 613.7 million for supporting Bulgaria's transition to a market economy with the participation of the EU and eight other countries.

... and Romania

In October 2000, the central bank of Romania repaid a loan to the amount of $ 7.2 million which it had received as balance of payments support. This loan totalling $ 119.3 million, in which Switzerland also participated, had been provided by the EU and six other countries in October 1993 as international support for the transformation in Romania. The loan was financed by the National Bank within the context of the Federal decree on Switzerland's cooperation in international monetary measures, with the Confederation providing a guarantee.

Substitution agreement to the credit facility of the BIS to Brazil ended

In April 2000, the central bank of Brazil repaid a loan to the amount of $ 14.5 billion to the BIS which the latter had made available as balance of payments support at the end of 1998 as part of an international financial assistance package. The members of the Group of Ten and nine other countries had guaranteed the loan; Switzerland's substitution agreement amounted to a maximum of $ 250 million. The National Bank had entered into the substitution agreement based on the Federal decree on Switzerland's cooperation in international monetary measures. With the repayment of the loan by Brazil the facility was ended and the National Bank's substitution agreement expired.

In August 2000, the Federal Government decided to grant Bulgaria balance of payments support to the amount of $ 12 million. The loan, with a seven-year maturity, is part of a concerted action by the Group of 24 (G-24) to bridge a financing gap of approximately $ 350 million. The loan is granted within the context of the Federal decree on Switzerland's cooperation in international monetary measures and is guaranteed by the Confederation. Payment was made in euros by the National Bank at the end of December.

New balance of payments loan for Bulgaria

6.5 Technical assistance and training

Technical assistance

In 2000, the National Bank provided technical assistance to the central banks of Kyrgyzstan (library and cash management), Slovenia (securities processing systems), Tajikistan (library, management of commercial banks, payment systems) and the organisation of the East Caribbean countries (payment systems).

Study Center Gerzensee: courses on monetary policy, financial markets and bank regulation, ...

The Study Center Gerzensee organised six courses for employees of foreign central banks in 2000. The courses offered training in the fields of monetary policy, financial markets, and bank regulation. They were attended by a total of 152 persons from 89 countries.

... international scientific conferences ...

In addition, the Study Center Gerzensee held two scientific conferences and two summer symposiums on economic theory and financial markets. Internationally renowned researchers took part in these conferences.

... and post-graduate courses

The Study Center Gerzensee organised post-graduate courses for students of Swiss universities; in these courses renowned professors provided specialised instruction in all the main fields of economic science.