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 framework of monetary policy

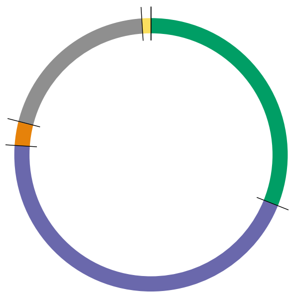
A considerable part of the National Bank's assets serve directly for implementing monetary policy. In order to supply the economy with base money and to steer money market rates, the National Bank purchases securities or foreign exchange from commercial banks on a temporary basis. In 2001, monetary policy was implemented almost exclusively by means of repo transactions, which are equivalent to security-backed money market loans.

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 National Bank can, at any time, sell foreign exchange reserves against Swiss francs in order to support the external value of the currency. 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 the gold reserves no longer required for monetary policy purposes (cf. 93rd Annual Report, page 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 the gold sales are managed separately, but are not shown separately in the books since they do not constitute separate assets in the legal sense.



Structure of National Bank assets
in percent

Gold 31

Foreign exchange reserves 45

Other foreign currency assets 3

Domestic financial assets 20

Other domestic assets 1

Total: Sfr 112 billion.
Balance sheet values, average

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. Within the framework of legal provisions, the risk limits set internally and the requirements of its monetary policy mandate, the National Bank manages its assets as profitably as possible.

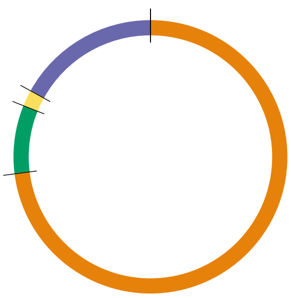
1.2 Monetary foreign exchange reserves

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 (see page 55) – 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 debtor
(without free assets)
in percent

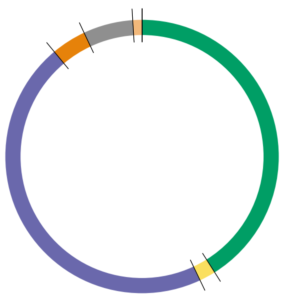
Government securities 73

Securities with indirect government guarantee 8

Monetary institutions 2

Banks 17

Total: Sfr 43.6 billion.
End 2001



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

US dollar 41

CA dollar 2

Euro 46

Danish krone 4

Pound sterling 6

Yen 1

Total: Sfr 43.6 billion.
End 2001

The foreign exchange reserves were reduced by approximately Sfr 4.5 billion in favour of a higher level of repos. A further Sfr 1.5 billion was used for profit distribution to the Confederation and the cantons. The average duration of investment of the foreign exchange reserves was extended from three to four years. In an environment of falling interest rates this had a positive effect on profits. The share of yen investments in the currency composition was reduced in the course of the year. Investment in German mortgage bonds was augmented somewhat due to their increased significance and liquidity. In addition to futures, the National Bank also used interest rate swaps for regulating the average duration of portfolios. The yield on total monetary foreign exchange reserves amounted to 5.2% compared with 5.8% in the previous year. At the end of 2001, they amounted to Sfr 43.6 billion, thus falling short of the previous year's level by Sfr 4.2 billion.

Investment activity and results

Annual results of monetary foreign exchange investments
Yields in percent

	1999		2000		2001	
Currency portfolio	Local currency	Swiss francs	Local currency	Swiss francs	Local currency	Swiss francs
US dollar	0.8	16.9	10.1	12.6	6.3	9.1
Euro	−0.2	−0.0	6.0	0.7	5.7	2.7
Yen	2.5	32.5	1.0	−8.1	1.9	−8.6
Pound sterling	1.1	14.4	8.6	2.8	5.7	5.0
Danish krone	0.8	0.9	5.5	−0.2	5.6	3.0
Canadian dollar[1]	1.1	7.6	7.9	6.9	7.9	4.0
Total foreign currrency reserves		9.7		5.8		5.2

1 since May 1999

External asset managers

External asset management companies had 8.2% of all foreign exchange reserves under management at the end of 2001. The management mandates open up 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 externally managed foreign exchange reserves.

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. Since mid-2000, it has been pursuing an investment policy which reproduces an index for Swiss franc bonds that is representative of the market. The index includes all the debtor categories permitted under the National Bank Law: the Federal Government, cantons and communes, domestic and foreign banks, mortgage bond institutions, foreign governments and international organisations.

Investment performance

At the end of 2001, the market value of the portfolio – without the part allocated to the free assets – amounted to Sfr 5.5 billion, compared with Sfr 5.2 billion in the previous year. In connection with adjusting the investment strategy, the duration increased from 3.5 to 4.4 years. The yield on the portfolio rose from 3.3% in the previous year to 4.3%.

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 2001, the amount of gold lent was 322.2 tonnes. The National Bank's counterparties are some twenty first-class domestic and foreign financial institutions. They pay interest on the temporary loan of gold.

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

Confederation 21
Cantons 9
Communes 6
Mortgage bond institutions 19
Banks 13
International organisations 9
Foreign borrowers 23

Total: Sfr 5.5 billion.
End 2001

The National Bank concludes a part of its gold lending transactions against securities collateral. Depositing such collateral lowers the credit risk considerably, yet at the same time it reduces income. At the end of 2001, 26.3% 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 2001, the National Bank achieved a yield of 1.6% with gold lending. At the end of the year, the average residual maturity of the gold lending portfolio amounted to 11.3 months.

Return on investment

1.5 Free assets

The National Bank continuously sells gold, totalling 1,300 tonnes, no longer required for monetary policy purposes on the market. The proceeds are invested in various financial assets which are managed separately from the other assets. The investment process is structured similarly to that of 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

In 2001, the National Bank sold 220.8 tonnes of gold at an average price of 272.4 dollars per ounce. The proceeds amounted to Sfr 3.3 billion. Of the planned 1,300 tonnes, 391.6 tonnes were thus sold by the end of the year. The sales were concluded at regular intervals and in quantities that protected the market as much as possible.

Gold sales

The possibilities of hedging additional gold holdings earmarked for sale against an unfavourable development of the gold price in Swiss francs are severely 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, reduce the currency risk of 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 roughly one-third of the future proceeds in dollars. In 2001, the unexpected rise of the dollar exchange rate resulted in a loss of Sfr 317 million from hedging transactions, following a profit of Sfr 82.8 million in the previous year.

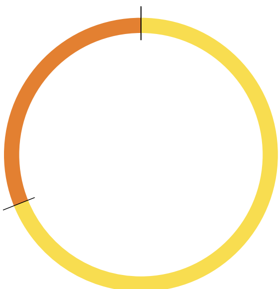
Partial hedge against the currency risk on future gold sales

Investment of the proceeds from gold sales

Proceeds from gold sales are invested exclusively with counterparties with an excellent rating. The portfolio consists mainly 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. At the end of 2001, 9% of the investment portfolio consisted of Swiss-franc denominated bonds, and another 45% was hedged against currency risks. The rest of the portfolio was invested in euros (26%), US dollars (12%) and other currencies (8%). The duration of the portfolio was three years. A yield of 4.4% was achieved.

Level of the free assets at year-end

At the end of 2001, the market value of the free assets amounted to Sfr 19.4 billion, Sfr 13.4 billion of which was accounted for by the additional gold reserves earmarked for sale and a total of Sfr 6.0 billion by foreign exchange investments and investments denominated in Swiss francs. The market value of the free assets was Sfr 0.2 billion higher than the provision for the assignment of the free assets in the amount of Sfr 19.2 billion. The difference results from the fact that the income received from managing the proceeds from gold sales is not included in this provision.



Market value of free assets
in percent

Gold (earmarked for sale) 69

Investments in foreign currencies and Swiss francs 31

Total: Sfr 19.4 billion.
End 2001

1.6 Risk management

Purpose of risk management

The risk management identifies, limits and controls all relevant financial risks which the National Bank incurs by virtue of its activities on the financial 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 crucial. In addition, within the framework of its investment and monetary policy, the National Bank also incurs certain credit risks. Investment is limited to counterparties with an above-average rating. 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.

Risk limitation and control process

Risk is controlled by means of a system of guidelines and limits. The strategic guidelines for the market risk are established by the Governing Board, those for the credit risk by the bank authorities. An internal risk committee translates these guidelines into concrete allocations and is responsible for the control process. The observance of the guidelines and limits is monitored systematically. The results of risk control are 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 of the Bank Committee assuming special responsibility for risk control.

Risk development in 2001

Both the gold price in Swiss francs and the investment currencies exhibited fewer fluctuations in 2001 than in the previous year. Total income fluctuations resulting from exchange rate and gold price movements were also more moderate. In the course of the year, all investment currencies with the exception of the dollar lost ground vis-à-vis the Swiss franc, while the gold price in Swiss francs rose slightly. In the bond markets, price fluctuations were more pronounced than in earlier years, notably in the second half of the year. Compared with the beginning of the year, yields on long-term bonds remained virtually unchanged; some yields on bonds with maturities of less than seven years, however, dropped steeply. Due to an increase in duration to four years, slightly higher interest rate risks were accepted for foreign exchange reserves. At approximately 85%, currency risks, however, were the main factor in the overall risk of foreign exchange reserves. The role of the National Bank calls for a largely unhedged currency risk in foreign exchange reserves. In the case of the free assets, the currency risk may be considerably limited by concluding foreign currency forward transactions. Yet the gold price risk on the free assets remains significant despite the partial hedging of the inherent dollar risk. The price risk on the gold reserves remaining with the National Bank is unhedged.

Temporary liquidity risks

In the wake of the terrorist attacks of 11 September, liquidity and the conduct of business in the US markets were temporarily impaired. The National Bank's business activity was not directly affected.

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. The operative side of electronic payments is handled by the Telekurs Group, a joint venture of the banks. The National Bank oversees the Swiss Interbank Clearing (SIC) system and keeps the participants' accounts in this system. Since it processes nearly all interbank clearings – from large-value payments to retail payments – SIC is the major payment system in Switzerland. In the last few years, processing of all interbank services of retail payment transactions has been integrated into SIC step by step.

2.2 Cashless payment transactions

Increase of payment flows in SIC

At the end of 2001, there were 313 participants in SIC versus 302 at the end of 2000. During 2001, an average of 644,000 payments per day totalling Sfr 182 billion were processed compared with 596,000 payments (Sfr 178 billion) in the previous year.

Payment flows in SIC

	1997	1998	1999	2000	2001
Transactions per day in thousands					
Average	480	529	556	596	644
Maximum	1303	1323	1384	1821	2078
Volume per day in billions of Swiss francs					
Average	182	182	170	178	182
Maximum	305	270	296	291	274
Liquidity per day average in millions of Swiss francs					
Sight deposits (end of day)	3204	3710	3503	3336	3339
Intraday credits			2221	2074	2566

Total credits

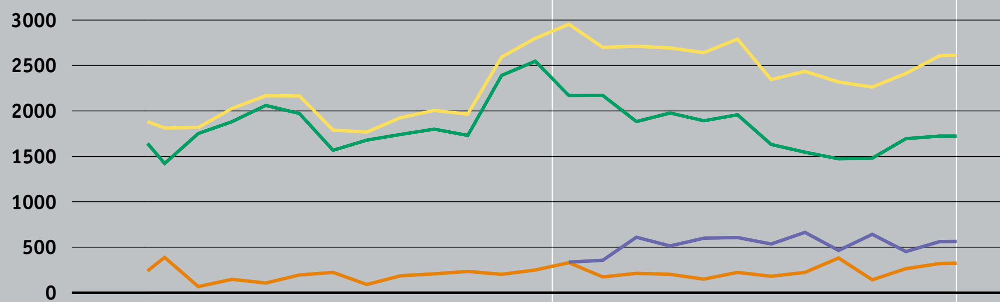
Credits on previous day

Credits at 8 a.m.

Flexible credits

Monthly averages
in millions of Swiss francs.

Intraday liquidity



2000
2001

Integration of Postfinance into SIC

Postfinance has been settling its customer payments in SIC since November 2001. In a first step in November 2000, the company had started to process its money market transactions via SIC.

Retail payment systems of banks

In 2001, the volume of retail payment systems of the banks settled via SIC amounted to 0.7% of the total SIC turnover. This figure includes 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 card.

Development of intraday credits

Since the beginning of 2001, in addition to previous-day drawdowns, banks have been able to conclude intraday repos with the National Bank at any time between the hours of 8:00 a.m. and 2:45 p.m. This had previously only been possible at 8:00 a.m. The additional liquidity which is thus created facilitates the processing of the individual payments in SIC and allows banks to further optimise their liquidity management. Daily drawdowns on intraday loan facilities averaged Sfr 2.6 billion in 2001; on some days the volume went up as high as Sfr 4 billion.

Euro payment transactions

To access 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, a clearing system similar to SIC. Many Swiss banks and Postfinance execute their euro payments through this bank. The transaction volume fell slightly in 2001 and averaged 1.5 billion euros per day compared with 1.6 billion euros a year earlier.

SIC access by participants abroad

Since 1998, financial institutions abroad (banks, securities dealers, processing and settlement organisations) have – subject to certain conditions – been able to become SIC participants without a license from the Swiss Federal Banking Commission. Moreover, in June 2001 access was made possible through SWIFT.

2.3 Provision of currency

Higher volume of currency in circulation

Banknote circulation increased significantly in 2001 compared with the previous year. The extraordinary expansion in the fourth quarter – as in the case of dollar and pound sterling notes – is probably attributable to the imminent introduction of euro notes and coins at that time. Averaged over the year, banknote circulation amounted to Sfr 33.2 billion, thus exceeding the previous year's figure by 5.1%. Notably circulation of the two biggest denominations registered a sizeable increase. Averaging Sfr 2.3 billion, coins in circulation equalled the previous year's figure.

Banknotes

In 2001, the National Bank put 99.4 million freshly printed banknotes with a face value totalling Sfr 5.6 billion into circulation. It destroyed 99.2 million damaged or recalled notes with a face value of Sfr 7.3 billion.

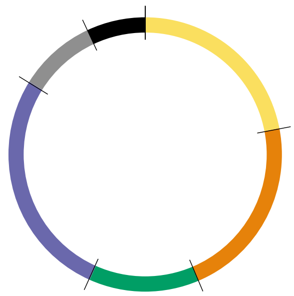
Decrease in currency turnover

In 2001, the National Bank's offices registered a 25% decrease in currency turnover in value terms, bringing the total to Sfr 125 billion. They received roughly 384 million or 18.6% fewer notes than in the previous year and checked them for authenticity and quality. The massive decrease in turnover is attributable to Swiss Post and the banks having outsourced the processing of notes and coins to cash processing facilities. These are specialised companies which handle the sorting and distribution of cash. The services offered by cash processing facilities result in banknotes and coins remaining in circulation for a longer period of time and thus flowing back to the National Bank's offices less frequently.

Regional concentration

As a result of the concentration in the Zurich area of cash processing facilities operating in larger regions, the Zurich head office registered a higher volume of incoming banknotes. By contrast, incoming banknotes in the Berne, Geneva and Lugano offices levelled off considerably. The National Bank reacted to the change in the flows of cash by adapting its sorting capacities. The cash turnover of the network of agencies and correspondents which are responsible for the local receipt and distribution of banknotes and coins also declined markedly.

In processing banknotes received, the National Bank's offices secured 504 counterfeits during the period under review and handed them to police. The number of falsifications which were discovered to have been put into circulation in Switzerland is about three times as high.



Banknotes in circulation
Denom. units (number in millions)

10s 57
20s 56
50s 34
100s 70
200s 24
1000s 18

Annual average

3 Statistical tasks

Basis

The National Bank collects those statistical data from banks, securities dealers, investment funds and other enterprises that it requires for performing its tasks. 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 as well as 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, the statement of the international investment position and the financial accounts. All these statistics are compiled by agreement with the data-reporting institutions and enterprises and conform as closely as possible to international standards. The data are used for analyses concerning monetary policy, for the survey of economic developments, for economic forecasts, and for analysing developments in the financial markets. The growing significance of statistical information activity over the last few years has led to a marked expansion of administered time series. At the end of 2001, the National Bank maintained approximately 1.2 million time series.

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, in the Quarterly Bulletin on banking statistics and in the statistical yearbook of the Swiss banks. These publications are supplemented by reports on Switzerland's balance of payments, on the international investment position and direct investment.

Survey of foreign exchange and derivatives

In 2001, the National Bank participated in the triennial survey of foreign exchange and derivatives market activity, which was internationally coordinated by the Bank for International Settlements (BIS). It collected data on turnover and the amounts outstanding from the leading institutions in this line of business. The data reported were analysed according to different criteria. The survey showed that the Swiss franc accounted for 6% of international foreign exchange business compared with 7% in the last survey. The Swiss franc's share in Switzerland's foreign exchange business dropped from 39% in 1998 to 34% in 2001.

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 determines that most of these services be rendered free of charge. 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.

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. It pays interest on the Confederation's time deposits at market rates and on sight deposits up to a limit of Sfr 600 million at the call money rate. Postfinance places its liquid funds directly on the money market.

Money market business

In 2001, the National Bank arranged 52 issues of money market debt register claims (MMDRC) and 14 bond issues on behalf of the Confederation – both by auction. MMDRCs to the total amount of Sfr 53.0 billion were subscribed, and Sfr 39.7 billion were allocated. Federal bonds were subscribed for a total amount of Sfr 12.6 billion, of which Sfr 7.5 billion were allocated. The auctions of MMDRCs and Confederation bonds have been held since February 2001 and March 2001 respectively via the auction system of the electronic trading platform Eurex Repo.

Money market debt register claims and Confederation bonds

Confederation bonds and money market debt register claims

	1997	1998	1999	2000	2001
Number of issues[1]					
MMDRC	53	52	52	52	52
Confederation bonds	7	11	10	14	14
Total subscribed in billions of Swiss francs					
MMDRC	89.0	89.4	75.7	62.7	53.0
Confederation bonds[2]	7.0	10.8	8.1	15.6	12.6
Total allocated in billions of Swiss francs					
MMDRC	49.8	45.1	46.8	42.4	39.7
Confederation bonds[2]	3.7	5.2	4.1	9.3	7.5
Outstanding at year-end in billions of Swiss francs					
MMDRC	14.1	12.9	17.1	13.4	11.5
Confederation bonds[3]	37.5	43.3	46.5	54.1	62.1

1 based on date of payment

2 excluding the Confederation's own tranches

3 including own tranches placed in the market by the Confederation

In 2001, the National Bank arranged – for account of the Confederation – a short-term bilateral bridging loan each for the Republic of Tajikistan and the Federal Republic of Yugoslavia. It undertook to negotiate the contracts in its own name and to transact the business, while the Confederation financed the two loans.

Bridging loans to Tajikistan and Yugoslavia

The National Bank processes a part of the payment transactions 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 the Confederation and associated institutions.

Administration and processing services

The National Bank distributes, processes and stores large quantities of coins on behalf of the Confederation. The expenditure for coinage services provided amounted to approximately Sfr 9.3 million in 2001.

Coinage

5 Cooperation with federal agencies

5.1 Cooperation with the Federal Department of Finance

Comments in response to recommendations …

In 2001, the Federal Department of Finance opened the consultation procedure on two bills in the financial sector which had been drafted by groups of experts of the Federal Department of Finance with the participation of the National Bank. The National Bank submitted comments on both bills.

… of the group of experts "Supervision of financial markets"

In its final report, the group of experts "Supervision of financial markets" particularly recommends that the supervision of banks and insurance companies be concentrated in a single supervisory authority. Furthermore it proposes a simplified and at the same time more nuanced regulation of the banking sector and the extension of the supervisory function to include all other suppliers of financial services. The National Bank welcomed the review of the existing financial market regulation. Comprehensive and adequate supervisory standards in the entire financial system make it easier for the central bank to take responsibility for monetary policy. In its comments, the National Bank particularly recommended that the possibility of an alignment of banking and insurance supervision be studied. It did not, however, consider it of prime importance to make foreign exchange brokers and independent asset managers subject to supervision.

… and of the commission of experts "Bank reorganisation, bank liquidation and depositor protection"

The National Bank also supported the report of the commission of experts "Bank reorganisation, bank liquidation and depositor protection". In view of its task to protect the stability of the financial system, the National Bank approved particularly of plans to establish an up-to-date bank insolvency law. Such a law would make it easier to reorganise a bank in difficulties and help to prevent a disruption of its business activity. The National Bank also agreed to the proposed extension of deposit protection in the form of preferential claims in bankruptcy to all deposits up to Sfr 30,000 per depositor.

5.2 Cooperation with the Federal Banking Commission

Successful cooperation …

In 2001, the Governing Board again held two meetings with the Federal Banking Commission 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. On a technical level, too, the National Bank and the Banking Commission continued to intensify their cooperation.

… supported by a centre for monitoring the stability of the financial system

In 2001, the National Bank set up a financial stability competence centre in Department II. In so doing, it took account of the fact that a stable and competitive financial system is an essential prerequisite for the successful conduct of monetary policy. The centre cooperates closely with the Banking Commission. The latter is responsible for the supervision of individual institutions, while the National Bank is concerned with systemic aspects of the financial sector that extend beyond the individual institution.

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 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 can be likened to a currency reserve and may be used as such by the National Bank at any time. At the end of 2001, Switzerland's reserve position amounted to 1,258.7 million SDRs (special drawing rights), compared with 963.7 million SDRs at the end of 2000. (At the end of 2001, 1 SDR was equivalent to Sfr 2.11.) The marked increase in the reserve position is due mainly to the drawings of the IMF for overcoming the financial crises in Argentina and Turkey.

Full utilisation of the credit provided 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. With its ninth and final drawing of 197,500 SDRs in March 2001, the IMF used the full Swiss loan commitment totalling 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.

Contribution to the interim PRGF

The funds of the current PRGF were used up by the end of 2001. From 2005 onward, the PRGF will be maintained as a self-supporting facility; until then, interim financing (interim PRGF) will be necessary. The National Bank contributes to the financing of the capital. At the beginning of December 2001, the National Bank entered into a loan agreement with the IMF for a credit to the maximum amount of 250 million SDRs, however not exceeding 6.25 % of all bilateral capital contributions. Similar to the PRGF, the individual drawings have a maturity of ten years with repayment in instalments beginning five-and-a-half years after payment of the loan. Until the end of 2001, no drawings were made under the interim PRGF. By Decree of the Federal Parliament on addendum I to the 2001 cost estimate of 13 June 2001, the Confederation guarantees the National Bank – similar to the PRGF – the timely repayment of the interim PRGF credits including interest payments. Moreover, the Confederation contributes to the financing of the interest subsidy of the interim PRGF.

6.2 Cooperation in the Group of Ten

Activities in the Group of Ten

The National Bank participates in meetings of the finance ministers and central bank governors of the Group of Ten and in various working groups. In 2001, the Group of Ten devoted itself to various issues relating to the international financial system. Emphasis was placed, on the one hand, on efforts to increasingly involve the private sector in crisis management; and, on the other, on the potential implications of excessive share price fluctuations for the entire financial system.

6.3 Cooperation with the Bank for International Settlements

BIS bodies

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

Basel Committee on Banking Supervision: capital adequacy recommendations ...

In 2001, the Basel Committee on Banking Supervision continued to concentrate its efforts on the review of the capital adequacy recommendations for internationally active banks. The Committee dealt with the comments by the banking sector on the consultation paper published at the end of 2000 (see 93rd Annual Report, page 63). Based on the large number of changes suggested, the Committee decided to publish a further consultation paper in summer 2002 before the final version of "Basel II" is due to be adopted at the end of 2002. In the course of 2001, working papers on various aspects of the capital adequacy recommendations were published. The Basel Committee will adhere to the goal of maintaining the total capital resources available at the banks.

... and other tasks

In addition, the Committee dealt with further questions pertaining to the stability of the international banking system. After prior consultation, it released recommendations on the relation between banks and external auditors, and on the observance of due diligence by bankers. It also delivered an opinion on the subjects of "risk management in electronic banking" and "hedge funds" (highly leveraged institutions). Furthermore, the Basel Committee was represented in the Financial Stability Forum.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems published three reports. The first report deals with core principles for payment systems from which a systemic risk is liable to emanate. The report contains a total of ten core principles which major payment systems must observe. The second report was drawn up in conjunction with the International Organization of Securities Commissions IOSCO, the international securities supervisory authority. This report, too, contributes to the setting of international standards. It contains 19 recommendations for securities settlement systems. The third report provides a broad overview of the use of electronic money in some 80 countries.

Committee on the Global Financial System

The Committee on the Global Financial System followed developments in the financial markets, notably in the markets of the emerging countries. Furthermore, it drew up a report on the financing of new technologies and adopted an adjustment to the international banking statistics published by the BIS.

6.4 Balance of payments support

No new balance of payments loans

The National Bank participates, in the context of the Federal decree on Swiss participation in international monetary measures, in support operations for countries with balance of payments problems. The loans are financed by the National Bank, while the Confederation guarantees repayment of the loans including interest payments. In 2001, no new loans were extended. At the end of the year, a balance of payments loan to Bulgaria to the amount of 14.3 million euros with a term until 2007 was outstanding.

6.5 Technical assistance and training

Technical assistance

In 2001, the National Bank provided technical assistance to the central banks of Ethiopia (foreign exchange trading), Costa Rica (payment systems), Georgia (payment systems), Yugoslavia (securities trading, risk management), Kazakhstan (payment systems), Kyrgyzstan (legislation, payment systems, information technology), Lebanon (payment systems), Tajikistan (legal issues, foreign exchange trading), Tanzania (foreign exchange trading) and Belarus (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 2001. The courses offered training in the fields of monetary policy, financial markets and bank regulation. They were attended by a total of 169 participants from 91 countries.

… international scientific conferences …

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

… and doctoral courses

The Study Center Gerzensee organised doctoral courses for students of Swiss universities; in these courses distinguished professors gave lectures in all the main fields of economic science.