

Ladies and Gentlemen

The hopes held at the beginning of 2003 of the economy gathering steam were initially dashed once again. During the course of the year, however, there were mounting signs of a pickup. This was particularly the case in the United States. While Japan started to emerge from years of stagnation, Europe ended the year on an optimistic note as well, with the prospect of an economic revival.

The disappointing performance of the economy in the first half of the year prompted some major central banks to further relax their monetary policy. In various countries, short-term interest rates consequently sank to lows not seen in years. In Switzerland, call money rates even trended towards zero.

Stock markets initially recorded further price losses in the first quarter before recovering significantly as the year progressed. The situation on the financial markets as well as in the banking and insurance industries thus stabilised. During 2003, the US dollar depreciated further. From the vantage point of the Swiss export industry, though, the strengthening of the euro against the Swiss franc was more significant, and the export-weighted exchange rate index of the Swiss franc weakened.

In October 2003, the Federal Assembly passed the total revision of the National Bank Law (NBL) with a large majority and with hardly any modifications to the original bill of the Federal Council. A referendum was not sought, and the new National Bank Law is expected to enter into force on 1 May 2004, one day after the Annual General Meeting. The National Bank will then have a lean central bank law that is compatible with international standards and oriented to the requirements of contemporary corporate governance.

In the past year as well, political discussion continued on the future appropriation of the proceeds from the sale of 1,300 tonnes of gold (free assets) no longer required for monetary policy purposes. As an interim solution, the Federal Department of Finance and the National Bank concluded, on 12 June 2003, a supplementary agreement on the distribution of income from the free assets. This agreement will remain effective until different legislation enters into force. As a consequence, the National Bank's CHF 2.5 billion annual profit distribution to the Confederation and the cantons (pursuant to the agreement of April 2002) will be increased by an additional CHF 300 million in spring 2004. With gold sales continuing, this additional amount to be distributed will reach CHF 500 million in spring 2006. After expiry of the main agreement in 2012, the profit distribution will fall significantly in line with the Bank's long-term earnings potential.

We wish to thank the bank authorities as well as the National Bank's staff for their valuable support over the past year.

Berne, 5 March 2004

**Hansueli Raggenbass**

President of the Bank Council

**Jean-Pierre Roth**

Chairman of the Governing Board