Contents

Accountability report

Accountability report

On 10 March 2010, the Governing Board of the Swiss National Bank submitted its accountability report for 2009 to the Federal Assembly in accordance with art. 7 para. 2 of the National Bank Act. The following accountability report is submitted to the Federal Council and the General Meeting of Shareholders for information purposes only and does not require their approval.

Summary

In accordance with art. 7 para. 2 of the National Bank Act (NBA), the Swiss National Bank (SNB) submits an annual accountability report to the Federal Assembly in which it outlines how it has fulfilled its mandate. This report on the year 2009 is structured in line with art. 5 NBA, with a separate section devoted to each of the eight tasks listed there.

Monetary policy

(1) The National Bank pursues a monetary policy serving the interests of the country as a whole. It must ensure price stability, while taking due account of economic developments. Monetary policy affects production and prices with a considerable time lag. Consequently, monetary policy is based on inflation forecasts rather than current inflation. The monetary policy strategy consists of three elements: the definition of price stability, a medium-term inflation forecast and an operational target range for the targeted money market rate.

At the end of 2008, the world economy entered a deep recession, brought on by the severe crisis that had shaken the global financial system in the autumn. This led to an abrupt loss of confidence on financial markets, a reduction in lending and heavy asset losses. As a result, economic activity declined markedly, both in the advanced industrial economies – above all the US and Europe – and in the emerging economies. Faced with a rapid deterioration of economic conditions and a high degree of uncertainty over the further repercussions of the financial crisis, a number of governments and central banks introduced extensive measures to stabilise the financial system and support the economy. After the first quarter of 2009, the situation on the financial markets eased, and the economic downturn came to a halt. Around mid-year, a strong recovery began in emerging Asia. The economic situation in the US and Europe also started to improve, albeit to a lesser extent. Despite this improvement, average annual global GDP for 2009 fell by an estimated 0.8%, the first decline since the Second World War.

In Switzerland, the recession lasted until mid-2009. The export industry was hardest hit, bearing the full brunt of the slump in global trade. By contrast, the economy was supported by private consumption and residential construction, with the latter benefiting from both the low level of interest rates and the economic stimulus measures implemented by the authorities. In the second half of the year, the nascent recovery in the world economy led to a slight improvement. Real GDP rose once again, but could not offset the fall in output experienced at the start of the year. In addition, unemployment increased markedly up to the end of the year.

The SNB continued to face major challenges in 2009. As a result of the slump in exports and the upward pressure on the Swiss franc, there was a risk that deflationary trends might be amplified. For the SNB, the primary objective was to contain this risk and support the economy. At its quarterly assessment in March, the SNB decided on another major relaxation of monetary conditions. It lowered the target range for the three-month Libor by 0.25 percentage points to 0.0–0.75%, aiming to bring the Libor down into the lower end of the range, at around 0.25%. At the same time, it announced that it would engage in foreign currency purchases to prevent any further appreciation of the Swiss franc and thereby counter the growing risk of deflation. In addition, it would purchase Swiss franc bonds issued by domestic borrowers, in order to improve funding conditions on the Swiss capital markets. The decisive intervention had the desired effect: buoyed by the easing of tension on financial markets across the globe, risk premia on the capital market declined over the months that followed, and the Swiss franc exchange rate stabilised. At its quarterly assessments in June and September, the National Bank decided to leave its target range for the three-month Libor unchanged at 0.0–0.75% and the desired level for the Libor at 0.25%. On each occasion, it stressed its intention to continue supplying generous amounts of liquidity, and to act decisively to prevent any further appreciation of the Swiss franc. At its December quarterly assessment, the SNB kept to its expansionary monetary policy, and to its policy of preventing any excessive Swiss franc appreciation by means of foreign currency purchases. Against the background of an incipient economic recovery and an improvement in funding conditions, however, it announced that it was discontinuing its bond purchases.

Liquidity supply

(2) The SNB provides the money market with liquidity. In this way, it implements monetary policy and, when necessary, acts as lender of last resort. Since autumn 2008, the SNB had been conducting money market transactions on an unprecedented scale. In so doing, it was reacting flexibly to the ongoing tensions on the money market and providing the banking system with liquidity by means of a variety of monetary policy operations. To reabsorb liquidity from the market, the National Bank regularly issued its own interest-bearing debt certificates (SNB Bills). The one-week repo rate was close to zero throughout the year. For a few weeks after the March quarterly assessment, the SNB engaged in repo operations with terms of up to one year, in order to lower the three-month Libor further. By May, this, combined with the foreign currency purchases and the EUR/CHF swaps, had led to a substantial expansion of the liquidity in the banking system. The level of liquidity could be reabsorbed over the months that followed, but demand during monetary policy operations continued to be high for the rest of the year.

At the end of 2009, the SNB announced that, in 2010, it would open the repo market to financial market participants in Switzerland (including Liechtenstein) that do not have bank or securities dealer status. The aim is both to further strengthen the secured money market, which proved to be exceptionally robust during the crisis, and to increase the resilience of the financial system.

Cash supply and distribution

(3) The National Bank is entrusted with the note-issuing privilege. Through the banks and the postal service, it supplies the economy with banknotes and coins, the latter on behalf of the Swiss Confederation. At around CHF 45 billion, the number of banknotes in circulation was substantially higher than the previous year's figure. This is mainly due to the fact that the majority of the banknotes issued to cover increased demand in autumn 2008 in response to the financial crisis (predominantly CHF 1,000 notes) are still in circulation.

In connection with the production of the new banknote series, the project activities revealed that additional development work would bring improvements as regards those technological security features which are being used for the first time. The SNB therefore decided to postpone the issue date of the new banknote series. It expects that the first denomination of the new series can be issued in 2012.

Payment systems

(4) The SNB facilitates and secures the functioning of cashless payment systems. It maintains sight deposit accounts for banks, manages the SIC interbank payment system, participates in the relevant payment system bodies and oversees payment and securities settlement systems. In 2009, the payment and securities settlement systems once again proved themselves capable of dealing with the high level of activity. The SNB assessed the system operators' compliance with the regulatory requirements and found it to be high. It argued for improvements to the financial sector's operational crisis prevention measures and supported the international efforts to strengthen the global market infrastructure for over-the-counter derivatives.

(5) The National Bank manages Switzerland's currency reserves. Asset management is governed by the primacy of monetary policy and is carried out according to the criteria of security, liquidity and return. The balance sheet total showed little change compared to the previous year, but the share of currency reserves increased, mainly driven by the foreign currency purchases undertaken to alleviate the upward pressure on the Swiss franc. The additional euros and US dollars acquired during the course of the year were invested in US and European short to medium-term government bonds. This also led to an increase in the shares of government bonds and the main investment currencies. The recovery on financial markets had a positive effect on all investment categories, resulting in a substantially improved investment performance compared to the previous year.

Asset management

(6) The SNB is charged with helping to secure the stability of the financial system. It endeavours to identify risks to the system at an early stage and works to create an environment conducive to stability. In 2009, the SNB's activities in the area of financial stability were once again shaped by the financial crisis. Together with the Swiss Financial Market Supervisory Authority (FINMA), the SNB continued to closely monitor developments in the banking system and the financial markets, and maintained its intensified oversight of the big banks. A major focus of attention was the implementation of measures to foster financial stability. This involved, in particular, work on new liquidity regulations for the big banks. The SNB also devoted itself to a closer examination of the 'too big to fail' issue – the fact that large, internationally interconnected banks cannot be allowed to fail for systemic reasons. Finally, it was actively involved in a number of international bodies that are looking at ways to improve financial system oversight.

Financial system stability

In March and April 2009, the SNB StabFund Limited Partnership for Collective Investment (stabilisation fund), set up in October 2008 and managed by the SNB, took over the last tranches of UBS illiquid assets scheduled for transfer. The active liquidation of assets began around the middle of the year. As a result of these sales, and the substantial interest payments and repayments, the risk carried by the SNB was considerably reduced.

Monetary cooperation

(7) The SNB participates in international monetary cooperation activities. Important bodies are the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Financial Stability Board (FSB) and the Organisation for Economic Co-operation and Development (OECD). The global financial and economic crisis led to a sharp increase in lending by the IMF in 2009, and in turn to a deterioration of its liquidity position. In order to secure the IMF's funding capability, a number of Fund member countries either provided bilateral financing contributions or, in the case of Switzerland, offered to do so. The BIS committees in which the SNB participated focused mainly on how to improve global financial system resilience. SNB technical assistance was once again primarily granted to the countries belonging to its IMF constituency.

Banker to the Confederation

(8) The SNB provides the Swiss Confederation with banking services in the areas of payment transactions as well as liquidity and securities management. In 2009, the SNB issued money market debt register claims and bonds for a total value of CHF 36.3 billion and CHF 2.9 billion respectively, and carried out roughly 184,000 payment transactions on behalf of the Confederation.

1 Monetary policy

Overview

In 2009, economic activity in both Switzerland and the rest of the world presented a very gloomy picture. The economic crisis and the concomitant risk of deflation led the Swiss National Bank (SNB) to maintain its very expansionary monetary policy throughout the year.

In March 2009, the SNB lowered the target range for the three-month Swiss franc Libor to 0.0–0.75%, and held it at this low level for the rest of the year. In addition, it took a series of exceptional measures to counter deflationary trends and support the Swiss economy. These included interventions on the foreign exchange market and purchases of Swiss franc bonds issued by domestic private sector borrowers.

1.1 Monetary policy strategy

Constitutional and legal mandate

Article 99 of the Federal Constitution entrusts the SNB, as an independent central bank, with the conduct of monetary policy in the interests of the country as a whole. The mandate is explained in detail in the National Bank Act (art. 5 para. 1 NBA), which requires the SNB to ensure price stability and, in so doing, to take due account of economic developments.

The SNB is thus charged with resolving in the best general interests any conflicts arising between the objective of price stability and business cycle considerations, giving priority to price stability. The requirement to act in the interests of the country as a whole also means that the National Bank must gear its policy to the needs of the entire Swiss economy rather than the interests of individual regions or industries.

Significance of price stability

Price stability is an important condition for growth and prosperity. Inflation and deflation, by contrast, hamper economic development. They complicate decision-making by consumers and producers, lead to misallocations of labour and capital, result in income and asset redistributions, and put the economically weak at a disadvantage.

By seeking to keep prices stable, the National Bank creates an environment in which the economy can fully exploit its production potential. The aim of the SNB's monetary policy is to ensure price stability in the medium and long term. Short-term price fluctuations, however, cannot be counteracted by monetary policy.

Appropriate monetary conditions

To secure price stability, the SNB must provide appropriate monetary conditions. If interest rates remain too low for a lengthy period, the supply of money and credit to the economy will be too high, triggering an inordinate demand for goods and services. There is also the risk of excesses on the asset markets. Although such excesses boost production initially, bottlenecks occur over time and production capacity is stretched, causing a rise in the level of prices. Conversely, if interest rates are too high for a lengthy period, the supply of money and credit to the economy will be reduced, leading to a shortage of aggregate demand. This will have a dampening effect on the prices of goods and services.

Taking economic activity into account

The economy is subject to numerous domestic and foreign shocks. These cause fluctuations in the business cycle which generate pressures on prices that are more or less pronounced. Such fluctuations are inevitable. Although monetary policy is medium and long-term in nature, it can nevertheless help to limit these fluctuations.

The SNB faces highly diverse situations. The most common cause of inflationary or deflationary phases is when aggregate demand for goods and services does not move in line with the economy's production capacity. Such situations can arise, for example, as a result of unforeseen developments in the international economy, major fluctuations in exchange rates, serious government budget problems or inappropriate money supply levels in the past. Inflationary pressures increase in phases of economic overheating and decrease when production capacity is not fully utilised. Thus, the National Bank must gradually restore price stability by tightening monetary policy in the first case and easing it in the latter. Consequently, monetary policy that is geared to price stability has a smoothing effect on aggregate demand and thus encourages steady economic development.

The situation is more complex when prices rise owing to shocks that increase firms' costs and cause them to curb production. A continuous rise in the oil price is an example of such a shock. In these circumstances, monetary policy must, on the one hand, make sure that the higher production costs do not give rise to an inflationary spiral, while, on the other, ensuring that the companies affected by the shocks are not overburdened. An overhasty restoration of price stability might have adverse effects on the business cycle and employment.

Even though the SNB considers economic developments when taking monetary policy decisions, it cannot be expected to fine-tune the economy. There are too many uncertainties with respect to the cause and duration of the shocks that impair economic performance, as well as with respect to the transmission mechanisms, the time lag that elapses before monetary policy measures impact on the business cycle and prices, and the extent of their impact.

Numerous uncertainties

The monetary policy strategy in force at the National Bank since 2000 consists of the following three elements: a definition of price stability, a medium-term inflation forecast and – at operational level – a target range for a reference interest rate, the three-month Swiss franc Libor (London Interbank Offered Rate).

Monetary policy strategy

The SNB equates price stability with a rise in the national consumer price index (CPI) of less than 2% per annum. In so doing, it takes into consideration the fact that not every price increase is necessarily inflationary, and that inflation cannot be measured accurately. Measurement problems arise, for example, when the quality of goods and services improves. Such changes are not fully taken into account in the CPI calculation; as a result, measured inflation tends to be slightly overstated.

Definition of price stability

The inflation forecast performs a dual function in the SNB's monetary policy strategy. While, on the one hand, it serves as the main indicator for the interest rate decision, on the other, it is also an important communication tool for the National Bank.

Purpose of inflation forecast

The SNB reviews its monetary policy on a regular basis to ensure that it is appropriate for the maintenance of price stability. With this in mind, it publishes a quarterly forecast on the development of inflation over the next three years. The period of three years corresponds more or less to the time required for the transmission of monetary policy stimuli to the economy. Forecasts over such a long horizon involve considerable uncertainties. However, by publishing a long-term forecast, the National Bank emphasises the need to adopt a forward-looking stance and to react at an early stage to any inflationary or deflationary threats.

Quarterly publication of inflation forecast

The National Bank's inflation forecast is based on a scenario for global economic developments and on the assumption that the reference rate published at the same time as the forecast will remain constant over the entire three-year forecasting period. The forecast issued by the SNB thus maps the future development of prices based on a specific world economic scenario and an unchanged monetary policy in Switzerland. For this reason, it is not directly comparable with forecasts which incorporate expected monetary policy decisions.

Indicators upon which inflation forecast is based

In the medium and long term, the price trend depends essentially on the supply of money. For this reason, the monetary aggregates and loans are important elements in a number of quantitative models used for forecasting inflation. As regards the path of inflation in the short term, indicators relating to economic developments, as well as exchange rates and commodities prices (crude oil), are generally of greater significance.

The SNB regularly issues statements on the development of the principal indicators factored into its inflation forecast. It provides details of the models it uses in a number of its publications.

Communicating through inflation forecast

Since the inflation forecast published by the SNB takes the Governing Board's last interest rate decision into account, the probable course of future monetary policy can be deduced from the shape of the inflation curve. The inflation forecast is thus an important communication tool.

Review of monetary policy based on inflation forecast

If the inflation forecast indicates a deviation from the range of price stability, an adjustment of monetary policy could prove necessary. Should inflation threaten to exceed 2% on a longer-term basis, the SNB would thus consider tightening its monetary policy. Conversely, it would tend towards relaxation if there were a threat of deflation.

The SNB does not react mechanically to its inflation forecast. It also takes account of the general economic situation in its monetary policy decisions. If inflation temporarily exceeds the 2% ceiling as a result of one-off factors, such as a sudden surge in oil prices or strong exchange rate fluctuations, monetary policy does not necessarily need to be adjusted. The same applies to short-lived deflationary pressures.

Libor target range

The National Bank implements its monetary policy by fixing a target range for the three-month Swiss franc Libor. The Libor is a reference interest rate in the interbank market for unsecured loans. It is a trimmed mean of the rates charged by 12 leading banks and is published daily by the British Bankers' Association. The National Bank publishes its target range regularly. As a rule, this range extends over 1 percentage point, and the SNB generally aims to keep the Libor in the middle of the range.

The SNB undertakes quarterly economic and monetary assessments at which it reviews its monetary policy. If circumstances so require, it will also adjust the Libor target range in between these quarterly assessments. It sets out the reasons for its decisions in press releases.

Repo transactions (repo = repurchase agreement) are the main instrument used by the SNB to manage the money supply and the Libor. To increase liquidity and lower the Libor, the SNB buys securities from a commercial bank and credits the latter's sight deposit account with the countervalue. At the same time, the commercial bank undertakes to repurchase the securities at a later point in time. For the duration of the transaction, the commercial bank receives a secured Swiss franc loan, on which it pays interest (repo interest rate).

Monetary policy instruments

In addition to repos, the SNB can also make use of a number of supplementary monetary policy instruments for the purposes of managing the Libor, supplying the money market with liquidity and influencing risk premia on the money and capital markets. They include currency swaps, purchases of foreign exchange and purchases of Swiss franc bonds issued by domestic private sector borrowers. These instruments are generally only used in exceptional circumstances, for example if short-term interest rates are close to zero but there is a need for further monetary policy relaxation.

The National Bank regularly issues its own interest-bearing debt certificates. In this way, it can absorb large amounts of liquidity as necessary, thereby increasing its room for manoeuvre in liquidity management.

1.2 International economic developments

At the end of 2008, the global economy fell into deep recession after having grown by 3% in the previous year. According to estimates by the International Monetary Fund (IMF), global gross domestic product (GDP) declined by 0.8% in 2009, the first drop since the second world war. The recession affected developed economies to the same extent as it did the emerging, strongly export-geared economies.

Global recession

The main cause of the economic crisis was the severe disruption of the global financial system following the collapse of the US investment bank Lehman Brothers in September 2008. This led to a drastic reduction in inventories and cutbacks in private consumption, particularly in the field of consumer durables. Manufacturing and world trade were particularly heavily affected by the decline in demand, with the latter additionally hampered by the difficulties in export financing.

Decisive action by governments

In view of the difficult situation on financial markets and the rapid deterioration in the economic environment, central banks reduced their reference interest rates to extremely low levels. At the same time, they made generous amounts of liquidity available to interbank markets and took measures to support credit markets. For their part, governments provided considerable resources for stabilising systemically important institutions and supporting demand.

Situation eases on financial markets

The decisive intervention by central banks and governments made a substantial contribution to halting the downward spiral. As confidence gradually returned, conditions improved on the financial markets. From the first quarter, markets for riskier instruments recovered. From March to December, share prices rose by almost 70% and volatility halved. On money and capital markets, risk premia fell to half their previous levels while the number of new issues increased sharply.

The improvement in financial conditions was a major prerequisite for a recovery in the economy. At the end of the first quarter, several leading economic indicators, such as business activity and consumer confidence, suggested a turn for the better. In the months that followed, manufacturing output and exports began to pick up again. The recovery was strongest in the emerging economies of Asia. In Europe, Germany and France were already posting positive GDP growth figures in the second quarter.

Gradual emergence from recession in the US

In the US, the substantial drop in economic activity at the beginning of 2009 gave way in the second half of the year to moderate growth. Over the year as a whole, GDP fell by 2.4%. Apart from public expenditure, all components of demand fell substantially. Residential and corporate investment, including inventories, were particularly strongly affected. Exports – which were hit by the drop in global demand – also tumbled.

As a result of the relaxation on the credit markets and government measures to support the economy, in particular the automobile industry and residential construction, GDP increased again in the third quarter. For the first time in almost four years, residential investment showed positive growth. However, the recovery did not check the rise in unemployment, which climbed by 2.6 percentage points during the year to reach 10.0% in December, the highest level since 1983.

Recovery in euro area, too

In the euro area, the decline in GDP in 2009 (–3.9%) was greater than in the US. This was chiefly due to the immense drop in exports in the first quarter (–32%, seasonally adjusted and annualised). This led to a major reduction in investment and weakened private consumption. The countercyclical government expenditure measures constituted the sole contribution to growth.

One of the countries most seriously affected by the crisis was Germany. On the one hand, it has a large export sector and therefore felt the effects of the global decline in demand more strongly than other countries. On the other, major industrial sectors such as the automobile industry are largely financed through bank lending. Consequently, the deterioration in lending conditions hit them with full force.

In the second half of the year, there was an upturn in economic activity in the euro area. Exports rose, particularly those destined for Asia, and the inventory liquidation process came to an end. At the same time, vehicle scrappage schemes aimed at stimulating automobile purchases also helped to support private consumption.

With unemployment up by 1.8 percentage points to 10% in December, the economic crisis had a noticeable impact on the labour market. However, in terms of the decline in GDP, the rise in unemployment was not nearly as acute as in the US. This is probably due, first and foremost, to the widespread introduction of short-time working, which allowed companies to avoid some lay-offs.

Sharp recession and strong recovery in Asia

The drop in global demand thrust the emerging economies of Asia – apart from China – into sharp recession. In January 2009, industrial production was almost 30% below the year-back figure. By contrast, the Chinese economy retained positive growth figures thanks to comprehensive government measures to stimulate domestic demand.

The second quarter saw a recovery in the Asian electronics and automobile industry which spread to the other sectors in the second half of the year. By the end of 2009, the emerging Asian economies had regained their pre-crisis levels of economic activity.

In addition to the expansionary monetary and fiscal policies and the conclusion of inventory liquidation, the strength of the recovery in Asia was due in particular to the normalisation of international export financing. In Japan, however, the recovery was comparatively moderate because of the persistently low level of residential construction and equipment investment. Over the year as a whole, Japanese GDP fell by 5.2%.

Clear drop in inflation – moderate core inflation

Following average global inflation in excess of 3% in 2008, the advanced economies experienced stable prices in 2009. In the euro area, the consumer price index (CPI) increased by 0.3%, while in the US it fell back by 0.3%. In Japan, the CPI declined by 1.4%. The difference between the rates of inflation in 2008 and in 2009 is mainly due to the plunging energy prices in the second half of 2008, which resulted in strongly negative base effects in the first three quarters of 2009.

On the whole, rising commodity prices and the disappearance of these base effects resulted in a return to positive inflation rates at the end of the year.

The decline in global demand also resulted in a gradual fall in core inflation (excluding food and energy), which in most regions was well below 2% at the end of 2009.

Expansionary economic policies

Most countries introduced very expansionary economic policies. Governments launched numerous stimulus programmes which consisted mainly of expenditure on infrastructure and transfer payments to households. A number of countries, including the US, Japan, Germany, France, Italy and South Korea, introduced measures designed to support their automobile industries, in particular. The IMF estimates that total stimulus measures taken by G20 countries in 2009 came to 2% of GDP and that they increased GDP growth by about 1 percentage point. However, government deficits and public debt increased considerably in many countries as a result of expansionary fiscal policies.

In the first months of the year, central banks adopted exceptionally expansionary monetary policies. By May, the European Central Bank (ECB) had reduced its reference rate by 150 basis points to 1%. In addition, it offered unlimited liquidity through its refinancing operations and extended the terms of its monetary policy operations to 12 months. The Fed and the Bank of Japan maintained their reference rates close to zero. In addition, many central banks carried out large-scale purchases of privately issued securities with the objective of lowering borrowing costs, which resulted in a significant expansion in central bank balance sheets. During the course of the year, the situation on the financial markets calmed down and a number of the support measures for the credit markets were withdrawn.

Moderate recovery in the global economy in 2010

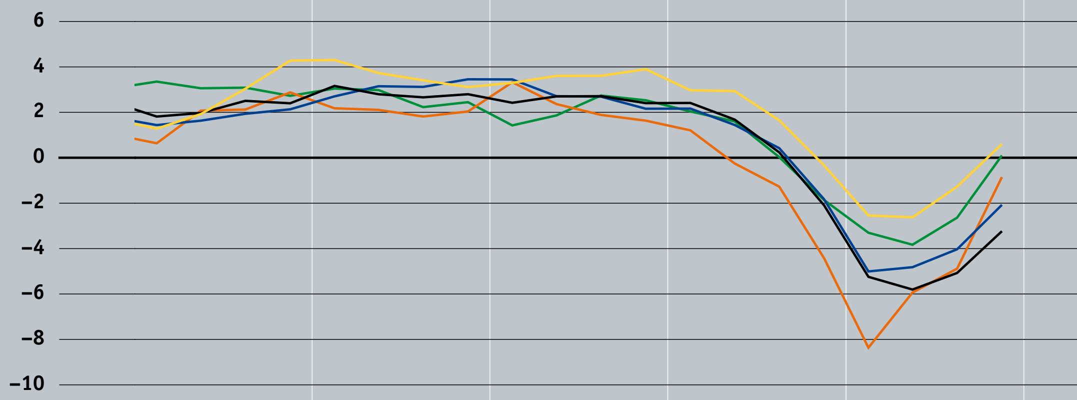
At the end of 2009, the international economic outlook brightened, and the world economy is likely to grow again in 2010. The recovery will be driven by increasing confidence, the improvement of the situation on the financial markets and favourable monetary conditions. However, it is likely to be moderate by comparison with former recovery phases and its impact on labour markets will be very slow. One reason for this is the fact that government stimulus measures will gradually come to an end. In addition, lending conditions in some countries, especially the US, will remain restrictive, in particular for individuals and small companies. Finally, households are likely to maintain their high propensity to save, due to the loss of wealth in the form of capital and real estate, and this will affect private consumption.

2005 2006 2007 2008 2009

United States
Japan
Euro area
United Kingdom
Switzerland

Year-on-year change
in percent, in real terms
Sources: SECO, Thomson
Financial Datastream

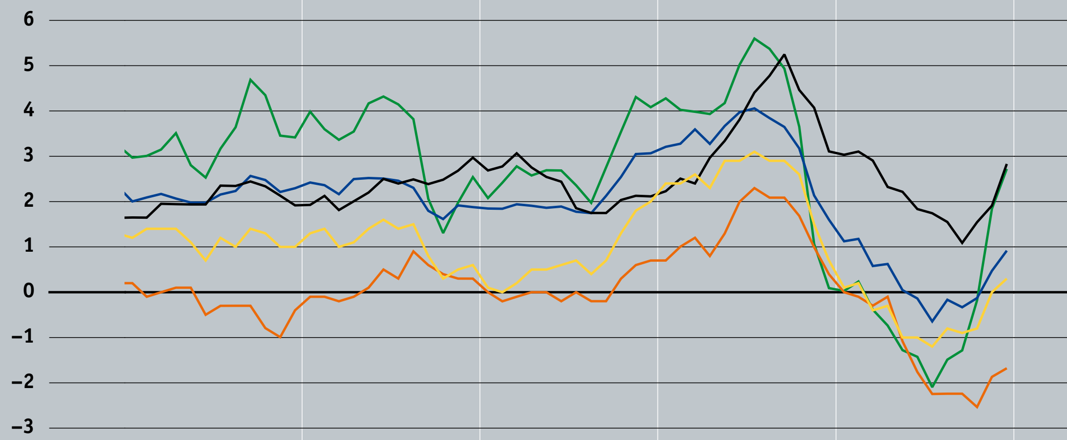
Gross domestic product



United States
Japan
Euro area
United Kingdom
Switzerland

In percent
Sources: SFSO, Thomson
Financial Datastream

Inflation



2005 2006 2007 2008 2009

Considerable uncertainties attached to economic outlook

With the normalisation of the situation on the financial markets, the danger of the global economy collapsing has been averted. However, uncertainty about the future outlook for the economy remains considerable. For example, the withdrawal of government support measures and the increase in household saving rates could prove to be a greater constraint on the recovery than expected. Conversely, if economic agents in the US and the emerging economies, in particular, quickly regain confidence, the recovery could be stronger than expected.

1.3 Economic developments in Switzerland

2009, a year of recession

The Swiss economy experienced a difficult year. The sharp fall in economic activity, which had begun in the second half of 2008, continued in the first half of 2009. In the third quarter, GDP began to rise again. Over the year as a whole, GDP dropped by 1.5%, the sharpest decline since 1975.

Real gross domestic product
Year-on-year change in percent

	2005	2006	2007	2008	2009
Private consumption	1.7	1.6	2.4	1.7	1.2
Consumption by government and social security schemes	1.2	0.3	0.5	–0.1	2.5
Investment	3.8	4.7	5.2	0.4	–3.7
Construction	3.5	–1.4	–2.3	0.9	1.3
Equipment	4.0	10.1	11.1	0.1	–7.5
Domestic demand	**1.8**	**1.4**	**1.3**	**0.4**	**1.7**
Exports of goods and services	7.8	10.3	9.5	2.9	–10.0
Aggregate demand	**3.8**	**4.5**	**4.3**	**1.4**	**–2.9**
Imports of goods and services	6.6	6.5	6.0	0.4	–5.9
Gross domestic product	**2.6**	**3.6**	**3.6**	**1.8**	**–1.5**

Sources: SECO, SFSO

Swiss goods exports plummeted from the third quarter of 2008 as a result of the contraction in world trade and the appreciation of the Swiss franc. In the second quarter of 2009, they were 18% below the level in the corresponding period one year earlier. In a year-on-year comparison, this is the steepest decline ever recorded. Exports of services also fell sharply, in particular due to the fall in receipts from commodity trading and banking services.

Sharp fall in exports in first six months

In the second half of the year, the revival of global demand led to a recovery in Swiss exports. Fiscal stimulus programmes introduced by other countries, in particular, aided exports of goods. As regards exports of services, income from bank commissions increased for the first time since early 2007 due to rising asset prices. Nevertheless, at the end of 2009, export volumes were still below those of autumn 2008, just before the financial crisis intensified.

Recovery in second half of year

The decline in economic activity also resulted in lower imports of goods and services. However, due to relatively robust domestic demand and a strong Swiss franc, imports fell less markedly than exports. During the latter half of the year, imports picked up momentum again with the improvement in the economic outlook and the upturn in new orders in manufacturing.

Moderate fall in imports

As a result of the slump in exports, the rapid drop in capacity utilisation and the high level of uncertainty, investment in equipment plunged in the first half of 2009. In the second half of the year, capacity utilisation was at the lowest level since 1975. In the third quarter, equipment investment rose considerably as a result of the revival in investment in the area of transportation and communications. However, the levelling-off observed in the fourth quarter suggests that the willingness to invest is not yet firmly anchored.

Steep decline in equipment investment

According to SNB estimates, the output gap widened considerably in 2009. This reflects the increasing under-utilisation of production capacity and the deterioration of the labour market situation. If the decline in equipment investment continues, it could have a negative impact on the growth potential of the Swiss economy in the medium term.

Wider output gap

Unlike equipment investment, construction investment increased in 2009. The fiscal stimulus programmes put in place by the Swiss federal government and the cantons, the low interest rate and a reduction in construction costs were all particularly effective in supporting the economy. Residential and public sector construction were the main beneficiaries. Investment in commercial construction, by contrast, declined.

Construction activity robust

Labour market

	2004	2005	2006	2007	2008	2009
Employment in terms of full-time equivalents[1]	0.0	0.2	1.4	2.8	2.8	–0.1
Unemployment rate in percent	3.9	3.8	3.3	2.8	2.6	3.7
Number of job seekers in percent	5.6	5.5	5.0	4.2	3.9	5.2
Swiss nominal wage index[1, 2]	0.9	1.0	1.2	1.6	2.0	2.1
Compensation of employees, nominal[1, 2]	0.1	3.7	4.2	5.3	5.3	4.1

1 Year-on-year change in percent
2 2009: SNB forecast.

Sources: SFSO, SECO.

Stagnating employment

The recession had a noticeable impact on the labour market. After two exceptionally good years, new job creation weakened substantially in 2009. Expressed in terms of full-time positions, employment dropped by 0.1%. However, since the number of part-time jobs increased at the expense of full-time positions, the number of employees rose slightly.

The level of employment varied from one sector to another. In manufacturing, which was particularly hard hit by the crisis, it fell sharply to around the level recorded at the end of 2006. The hotel and restaurant industry and trade also experienced substantial lay-offs. By contrast, new jobs were created in public administration, education and health. At the end of the year, a series of important employment indicators were pointing upwards, suggesting a gradual stabilisation of the labour market situation.

Rising unemployment

Amid stagnating employment levels and the growth of the working population, the increase in the rate of unemployment had been gathering pace since autumn 2008. In seasonally adjusted terms, the rate of unemployment rose from 2.8% at the beginning of 2009 to 4.2% at the end of the year. The number of unemployed people was up by about 50,000 to 165,000.

In 2009, many companies, particularly in manufacturing, introduced short-time working. From January to May, the number of people affected by short-time working rose from 5,800 to 60,000. Thereafter the number declined as the economic situation improved; however, 49,000 people were still affected in November. By resorting to short-time working, many companies were able to maintain staff numbers, and this provides some explanation for the relatively robust employment figures.

Strong increase in wages

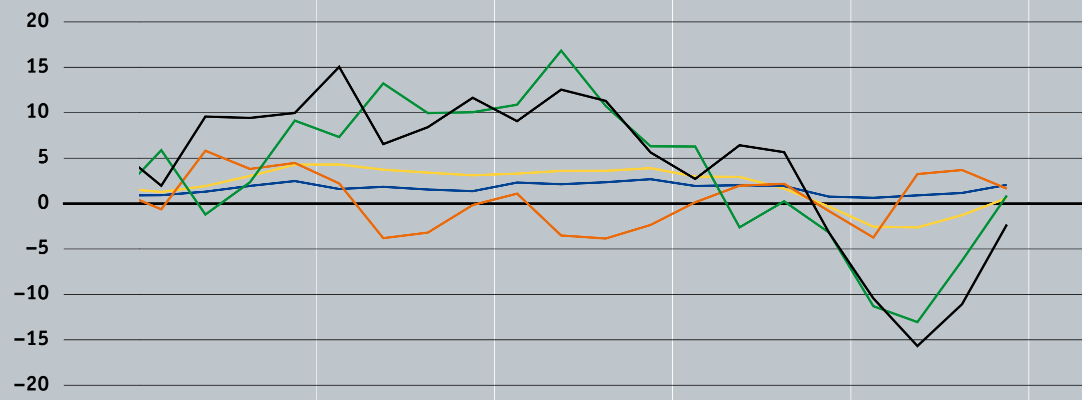
In 2009, wages rose sharply despite the difficult economic situation. According to SNB estimates, nominal wages as measured by the Swiss wage index showed a 2.1% increase. The compensation of employees in the national accounts (which factor in the change in the structure of employment as well as mobility between sector and bonus payments) rose by approximately 4.1%.

2005 2006 2007 2008 2009

Gross domestic product and components

GDP
Private consumption
Investment in construction
Investment in equipment
Exports

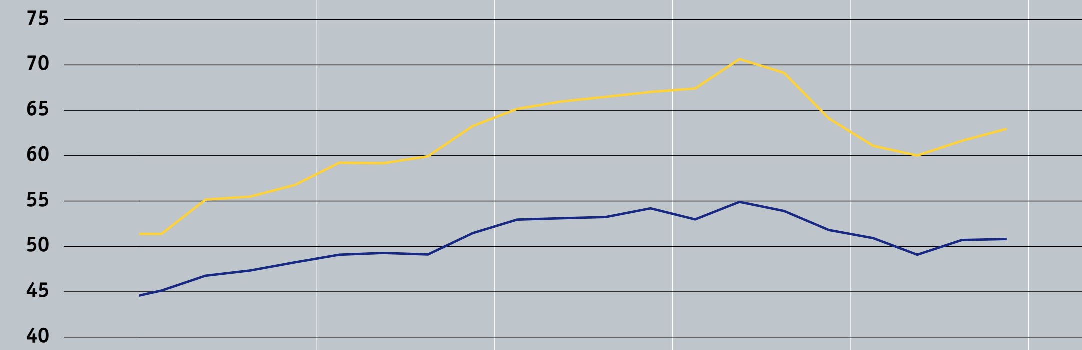
Year-on-year change
in percent, in real terms
Source: SECO



Foreign trade

Imports of goods and services
Exports of goods and services

In CHF billions,
in real terms,
seasonally adjusted
Source: SECO



Labour market

Unemployed persons
Job seekers

In thousands,
seasonally adjusted
and smoothed
Source: SECO

2005 2006 2007 2008 2009

To some extent, this strong growth is explained by the favourable environment in which salary negotiations were conducted at the end of 2008. At that time, the labour market had not yet suffered any significant deterioration, and this had a positive impact on salary agreements. Moreover, because the CPI had increased by slightly over 2% in 2008, many employees received a substantial inflation adjustment in 2009.

Because of the fall in the CPI by 0.5%, real wages also increased strongly in 2009. The Swiss wage index showed a 2.6% rise in real wages, while according to the national accounts they were up by 4.6%.

Slight slowing in consumption growth

Due to the favourable movements in real wages, private consumption continued to grow despite rising unemployment, even if the rate of increase was lower than in the previous year. Areas registering the strongest growth in consumption were housing, energy and health. Consumption of goods in retail trade also developed favourably. By contrast, the demand for new cars declined, particularly at the beginning of the year.

Public consumption showed strong growth after having stagnated in the previous three years. This reflected the economic support measures adopted by the Swiss federal government and the cantons.

Sectors differently affected by crisis

The crisis affected different sectors of the economy in different ways. Financial intermediaries, which had experienced a massive decline in 2008, already emerged from the crisis in the third quarter of 2009. In manufacturing, which suffered heavily from the slump in exports, the decline in added value came to a halt in the fourth quarter. Although the fall in output was moderate by international standards, the recovery was longer in coming. The hotel and restaurant industry also had a difficult year. However, the crisis only had a slight impact on trade, which continued growing slowly. The construction industry, public administration and health were totally unaffected.

Despite some signs of overheating in individual regions, the Swiss real estate market as a whole has not experienced any speculative bubble over the past few years. Consequently it is relatively resilient by comparison with foreign markets. Thus, no significant price reductions in residential real estate were recorded in 2009. Moreover, the number of vacant housing units remained very low, despite an increase in supply. However, the waning demand for industrial real estate was very noticeable.

Economic activity to recover gradually in 2010

In 2010, a further recovery in economic activity can be expected. The SNB anticipates GDP growth of around 1.0%. The main stimulus will probably be derived from exports and from equipment investment. By contrast, construction is likely to lose momentum, since the positive effects of low interest rates and fiscal support measures will gradually fade. Private consumption is likely to continue driving growth. Although the levelling-off in real wages and rising unemployment rates will have a dampening effect, this will probably be more than offset by positive movements in consumer confidence and household financial assets. However, government savings measures will probably have a noticeable impact on public consumption.

Supply prices affected by base effects

In 2009, aggregate supply prices were strongly influenced by a base effect related to oil prices. Having reached a maximum of USD 134 per barrel in July 2008, the crude oil price plummeted to an average of USD 41 by December 2008. In 2009, it increased again. However, as an average for the year (USD 62 per barrel), it was considerably below the 2008 level of USD 97, so that the inflation impulse exerted by oil was strongly negative.

The base effect resulted in significant fluctuations in the aggregate supply price index, which comprises import and producer prices. In a year-on-year comparison, the rate of decline in import prices increased further from –4.7% in January to –10.4% in July. In the same time period, producer prices moved from a 1.0% rate of increase to a 3.8% rate of decrease. From August, the gradual disappearance of the base effect and the rising prices for energy and intermediate goods checked the decline in prices, which amounted to –3.4% for import goods and –2.0% for producer prices by the end of the year.

Slight decline in consumer prices

Annual inflation, as measured by the CPI, fell from 0.1% in January to –1.2% in July. It then began growing again, reaching 0.3% in December. Over the year as a whole, the CPI fell by 0.5%; compared to 2008 this represented a 2.9% decrease, of which 2.1 percentage points were directly attributable to the movements in oil prices.

The rate of inflation, excluding oil, fell from 1.5% in January to 0.1% in December. This was due, first, to lower import prices resulting from the appreciation of the Swiss franc against major currencies such as the US dollar, the pound sterling and the yen. Second, it was also because the slowdown in economic activity helped to curb inflation.

Positive core inflation

Numerous short-term fluctuations can have a significant impact on inflation, as measured by the CPI. The use of a core inflation rate makes it possible to carry out an analysis of inflation trends.

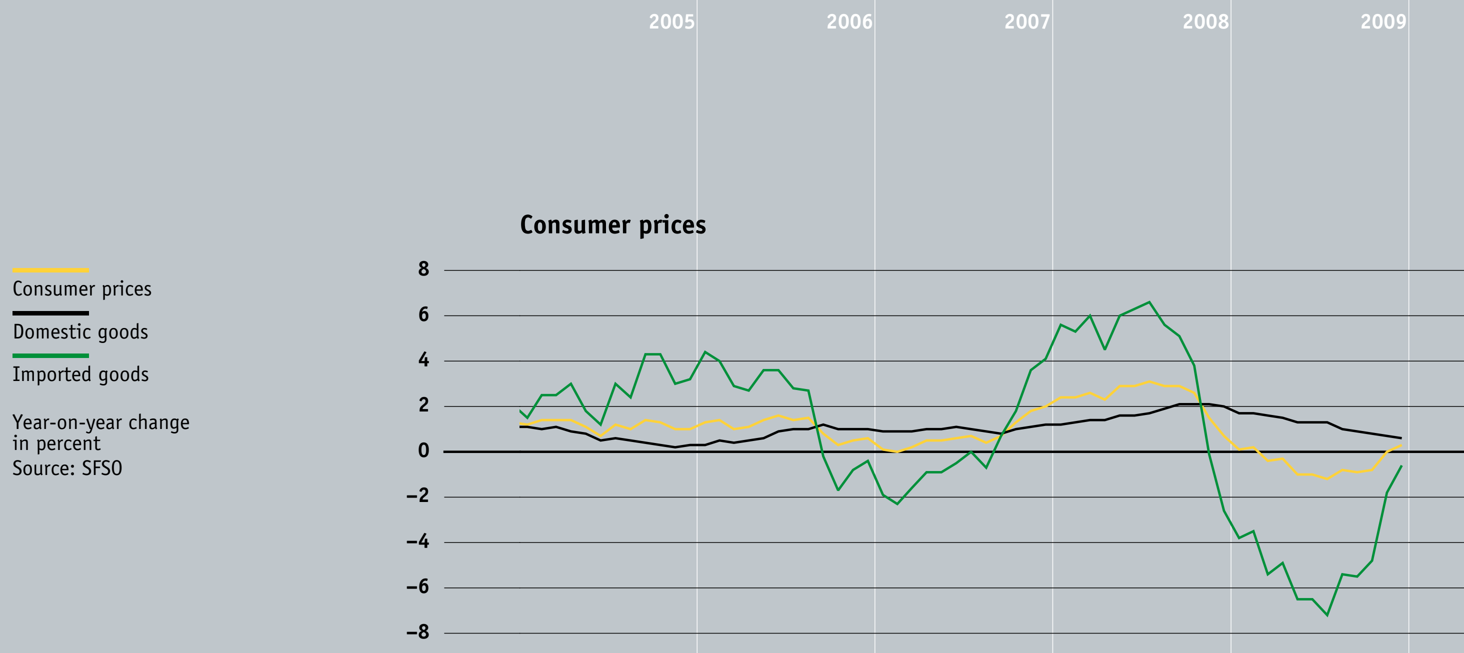
The SNB calculates core inflation using a trimmed mean which, each month, excludes goods whose prices have recorded the strongest fluctuations. The core inflation rate declined steadily from 1.6% in January to 0.7% at the end of the year, thereby remaining in positive territory throughout the year.

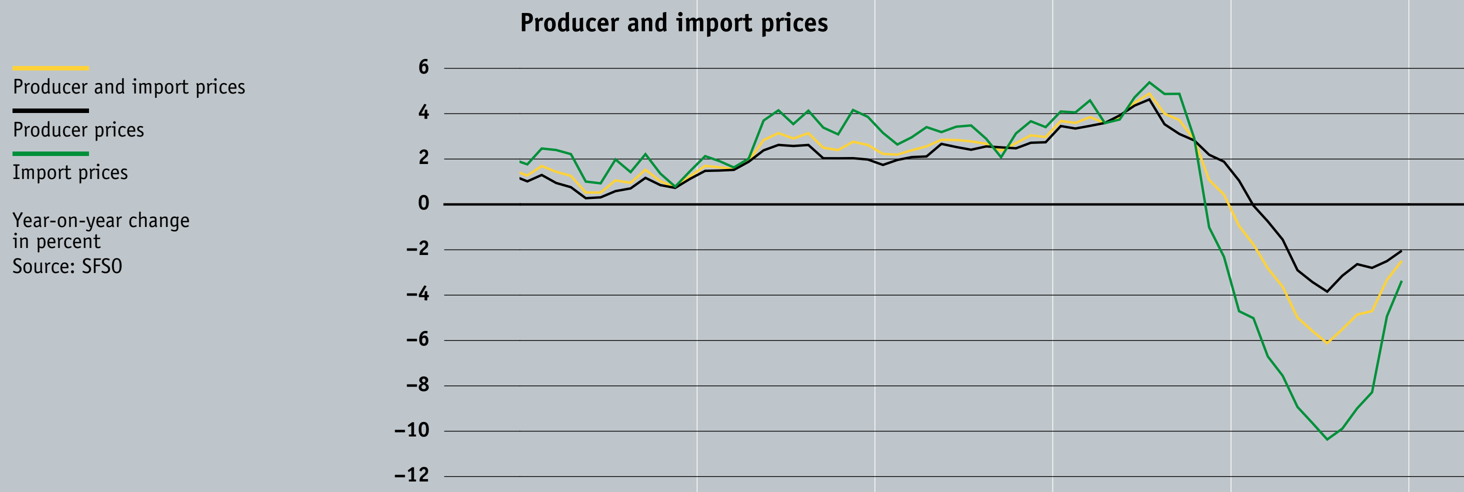
Dynamic factor inflation (DFI) – a measure of core inflation that takes account of inflation contained in the real, monetary and financial variables as well as price developments – also fell, dropping from 0.8% in January to 0.2% at the end of the year. At the end of 2008, the DFI had factored in the downward pressures associated with the economic slowdown and the falling import and producer prices on the CPI. Accordingly, the record low level for the DFI attained in October 2009 (0.1%) now signalled a reduction in the risk of deflation.

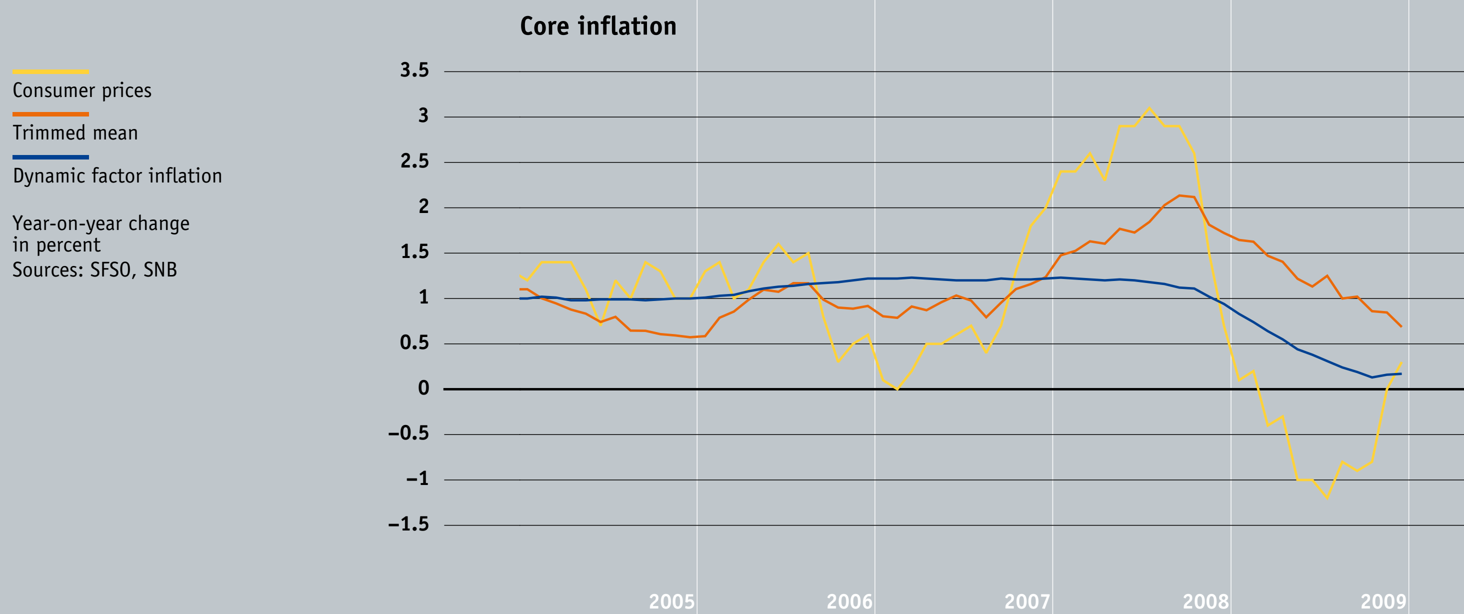
National consumer price index and components
Year-on-year change in percent

	2008	2009	2009			
			Q1	Q2	Q3	Q4
Overall CPI	**2.4**	**–0.5**	**0.0**	**–0.7**	**–1.0**	**–0.2**
Domestic goods and services	1.7	1.2	1.7	1.4	1.1	0.7
Goods	1.7	1.0	1.2	1.3	1.3	0.0
Services	1.7	1.3	1.8	1.4	1.0	0.9
Private services (excluding rents)	1.4	0.8	1.3	0.8	0.5	0.5
Rents	2.4	2.5	3.3	2.9	2.2	1.6
Public services	0.9	0.8	0.6	0.8	0.9	0.8
Imported goods and services	4.3	–4.7	–4.2	–6.0	–6.0	–2.4
Excluding oil products	1.7	0.3	1.3	0.6	0.1	–0.7
Oil products	17.8	–25.9	–27.2	–32.1	–30.5	–10.9
Core inflation						
Trimmed mean	1.8	1.1	1.6	1.3	1.1	0.8
Dynamic factor inflation	1.2	0.4	0.7	0.5	0.2	0.2

Sources: SFSO, SNB


Consumer prices
Consumer prices
Domestic goods
Imported goods
Year-on-year change in percent
Source: SFSO
8
6
4
2
0
−2
−4
−6
−8
2005
2006
2007
2008
2009


Producer and import prices
Producer and import prices
Producer prices
Import prices
Year-on-year change in percent
Source: SFSO
6
4
2
0
−2
−4
−6
−8
−10
−12


Core inflation
Consumer prices
Trimmed mean
Dynamic factor inflation
Year-on-year change in percent
Sources: SFSO, SNB
3.5
3
2.5
2
1.5
1
0.5
0
−0.5
−1
−1.5
2005
2006
2007
2008
2009

Libor declining throughout the year

Stable yield on government bonds

Swiss franc steady against euro

Swiss franc strengthens against US dollar

Export-weighted Swiss franc rises

In addition to information on the real economy and prices in Switzerland, developments on the money, capital and foreign exchange markets are just as important for the SNB.

At the beginning of the year, the three-month Libor stood at 0.6%. It moved gradually down until November, when it reached 0.25%, the level which the SNB had been targeting since March 2009. The average level for the year came to 0.4%.

The yield on ten-year Confederation bonds stood at 2.2% for most of the year. In the first quarter it edged down temporarily to 2%, due to widespread portfolio reallocations in favour of high-quality borrowers, and in the middle of the year it rose to 2.6%. Uncertainties related to the funding of the growing government deficits in the rest of the world led to increasing risk premia on international capital markets, and this also affected yields in Switzerland. By December, yields on ten-year Confederation bonds had again edged back to 2%.

The appreciation of the Swiss franc in early 2009 came to an abrupt halt following the SNB announcement in mid-March that it would prevent further appreciation by intervening in the foreign exchange market. Within a very short period of time, the Swiss franc had depreciated by 7 centimes to CHF 1.54 against the euro. Until the end of the year, the average rate stood at CHF 1.52. The volatility of the exchange rate also declined, with the CHF/EUR rate varying between 1.48 and 1.54 from April to December. The average rate during the month of December was 1.50 CHF/EUR.

After having depreciated against the US dollar in the early months of 2009, the Swiss franc then gradually appreciated against the US currency. In December the US dollar traded at an average CHF 1.03.

Throughout 2009, the export-weighted external value of the Swiss franc continued to increase, marked at times by considerable fluctuations. By the end of the year, its nominal level was 3.5% above the year-back level, while in real terms it was 3.2% higher than a year previously.

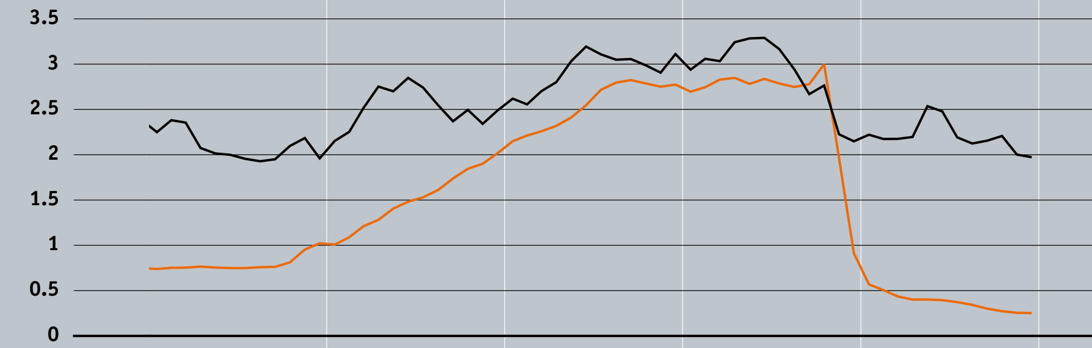
2005 2006 2007 2008 2009

Money and capital market rates

Three-month Libor

Yield on ten-year Swiss Confederation bonds (spot interest rate)

In percent

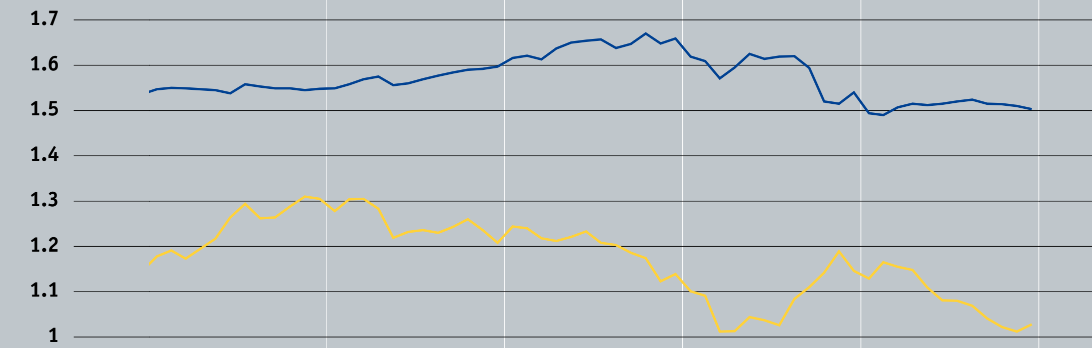


Exchange rates

CHF/USD

CHF/EUR

Nominal

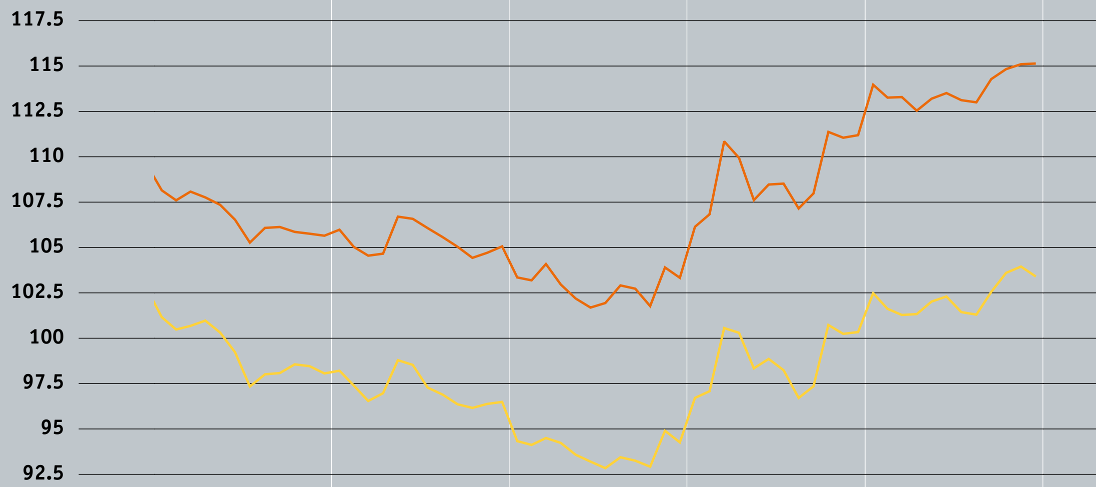


Export-weighted Swiss franc exchange rates

Real

Nominal

24 trading partners
Index: January 1999 = 100



2005 2006 2007 2008 2009

Continued generous supply of liquidity

The SNB's provision of liquidity to the economy was extremely generous and flexible in 2009. This could be seen in the development of the monetary base, which expanded strongly until April. Thereafter it shrank steadily until, at the end of the year, it had reached approximately the same level as at the beginning of the year. Compared with the year-back figure, the increase came to about 15%, after having reached a record level of 160% in April 2009.

The powerful growth in the M1 and M2 monetary aggregates, which had begun in autumn 2008, continued throughout 2009. The pace slowed somewhat in the second half of the year, but nevertheless remained strong. To a large extent, the substantial increase in the two aggregates reflects a preference on the part of the general public for liquid assets, at the expense of time deposits. This preference, in its turn, resulted from the fall in interest rates and the uncertain situation on financial markets. In 2009, the M3 aggregate increased at a slightly higher rate than in 2008. This shows that, to a large extent, the generous supply of liquidity was hoarded by the banks and only a modest amount was passed on to the rest of the economy.

1.4 Monetary policy decisions

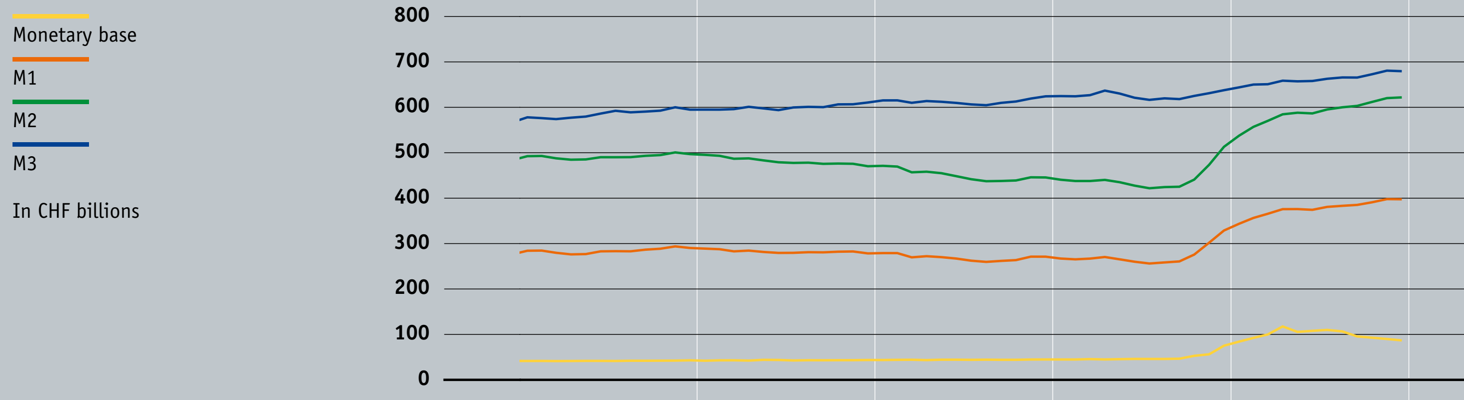
Schedule

The SNB's Governing Board conducts an in-depth assessment of the monetary policy situation in March, June, September and December. Each of these assessments results in an interest rate decision. If circumstances so require, the Governing Board may adjust the target range for the three-month Swiss franc Libor between regular assessment dates. In 2009, however, this was not the case.

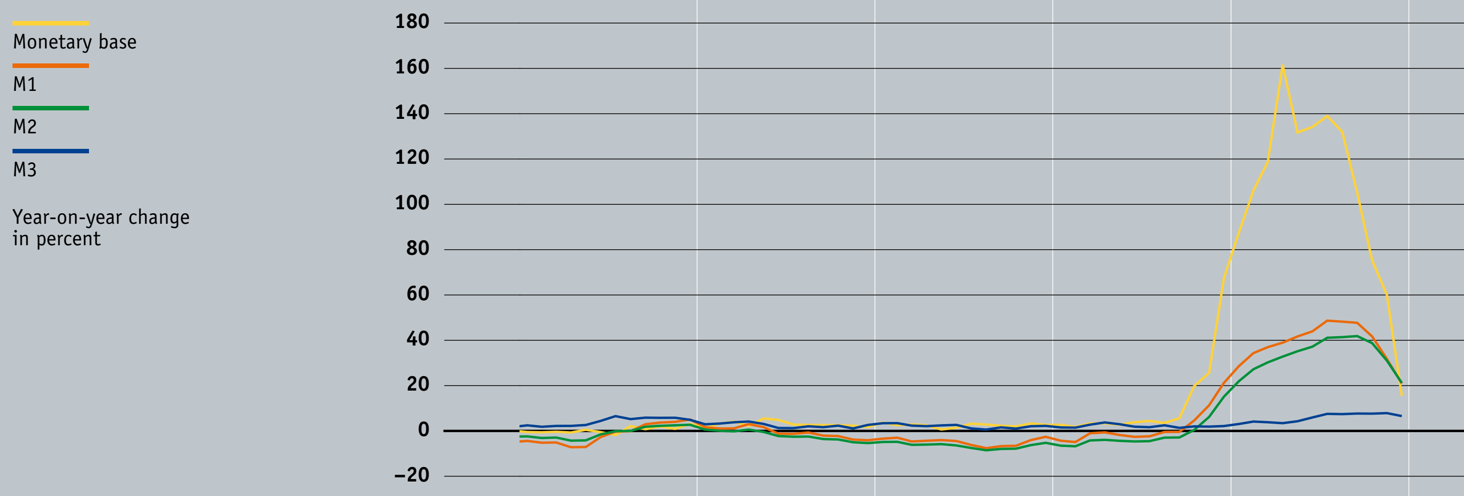
Monetary policy challenges in 2009

As in the previous year, monetary policy was rendered more complicated by the high level of uncertainty about how the main macroeconomic and financial variables would develop. The SNB faced major challenges concerning both its immediate goals and the implementation of its monetary policy. It was mainly motivated by the desire to dampen the effects of the economic and financial crisis on the Swiss economy and to limit deflation risks, without losing sight of the objective of maintaining price stability in the medium and long term.

Level of monetary aggregates



Growth in monetary aggregates



Supporting the economy

In an effort to support the economy and lessen the impact of the economic and financial crisis, the SNB successively lowered the Libor target range to 0.0–1.0% during the last quarter of 2008. In March 2009, it reduced the range by 25 basis points, and retained this new target range of 0.0–0.75% for the rest of the year. The National Bank's intention was to bring the Libor down into the lower end of the target range, at around 0.25%. The one-week repo rate, which is used to manage the Libor, had already been at 0.05% since the end of 2008.

Countering the risk of deflation

In addition to the difficult economic climate and the substantial degree of uncertainty on financial markets, the high risk of deflation was a further area of concern for the SNB. In spring, the economic crisis and the appreciation of the Swiss franc began to pose a serious threat to medium-term price stability. Any further appreciation would have amplified the deflation risk by, on the one hand, creating unfavourable conditions for exports and thereby exacerbating the recession, and, on the other, leading to a decline in import prices.

For this reason, the SNB decided in March to relax monetary conditions even further by substantially increasing the supply of liquidity. In addition to reducing the target range for the three-month Libor, it introduced exceptional instruments for this purpose, including currency swaps, repos with longer terms, purchases of Swiss franc bonds issued by domestic private sector borrowers and foreign exchange market interventions. It maintained this expansionary monetary policy course practically unchanged throughout the rest of 2009.

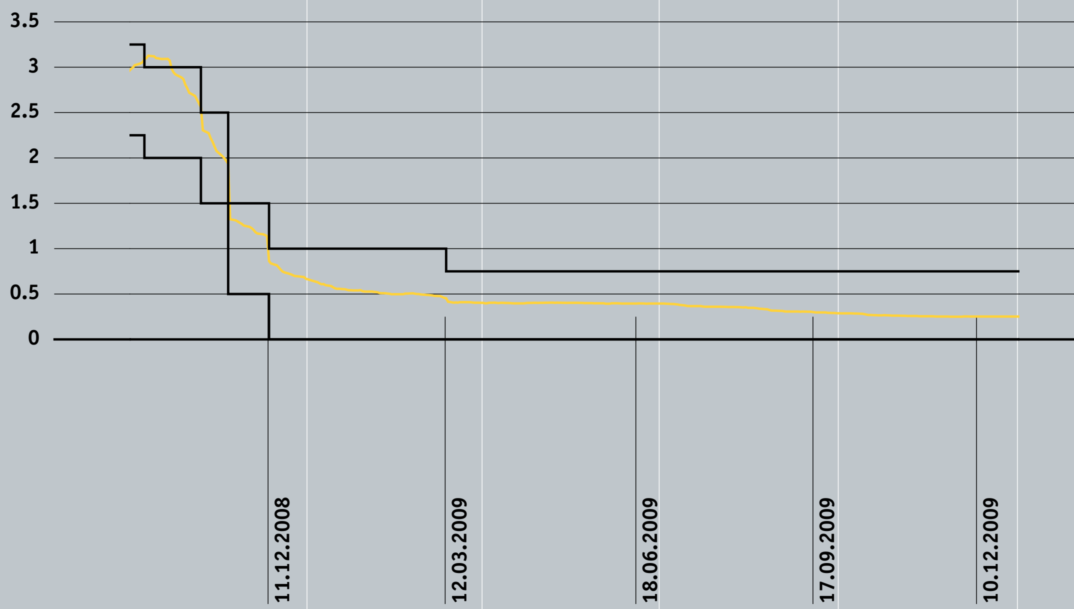
Guaranteeing price stability

With the risk of deflation receding somewhat as the economy recovered, monetary policy at year-end faced the challenge of how to reconcile short and long-term requirements. The long-term inflation outlook called for a gradual tightening of monetary policy, whereas the uncertainty over the way in which the economy and prices would develop in the short term suggested that tightening could be postponed.

The inflation forecast published in December 2009 gave the SNB sufficient leeway to maintain its expansionary monetary policy. The SNB also announced that it would take firm action to prevent any excessive appreciation of the Swiss franc against the euro. It noted, however, that it would not be possible to maintain such a policy indefinitely without compromising medium and long-term price stability.

Three-month Libor
Target range
Daily values in percent

Three-month Libor



Q4 2008 Q1 2009 Q2 Q3 Q4

Quarterly assessment of 12 March

In the months preceding the first assessment of 2009, economic activity declined sharply in the US and Europe. The crisis, which had started in the financial markets, had spilled over to the non-financial economy, and its effects were being felt throughout the global economy. Against this background, the SNB made a substantial downward revision to its growth forecasts for the major economies, in particular for the US (2009: –1.8%; 2010: 1.9%) and Europe (2009: –1.1%; 2010: 0.5%).

In Switzerland, annualised GDP had fallen by 1.2% in the fourth quarter of 2008. By the time of the assessment in March, the economy was being severely affected by the crisis, with Swiss exports particularly hard hit by the collapse in global demand. Moreover, unemployment was rising steadily, bringing the risk of a levelling-off in private consumption. Consequently, the National Bank revised its forecast downwards and projected that GDP for 2009 would be between –2.5% and –3%.

At the time of the assessment, the growth rates for the M1 and M2 monetary aggregates were relatively high, while M3 growth remained moderate. The volume of base money had doubled within the space of a year, reflecting a huge increase in the demand for liquidity from the banking sector.

The rate of growth in lending volumes had been slowing since the beginning of the year. Yet mortgage loans remained unaffected – growth in this segment had gathered pace since autumn 2008, reaching 3.8% in January 2009. Overall, therefore, the situation on the Swiss lending market was better than that in the rest of the world.

The Swiss franc had gained markedly in value since the onset of the international financial crisis in August 2007. This trend had accelerated after the December 2008 assessment, and, by the time of the March 2009 assessment, had given rise to an unwelcome tightening of monetary conditions.

Inflation, having peaked at 3.1% in July 2008, had fallen back to 0.2% by February. This was largely attributable to the slump in oil prices and the appreciation of the Swiss franc. The SNB expected that inflation would turn negative over the course of 2009.

In response, the National Bank decided to bring interest rates down further, and narrowed the target range for the three-month Libor to 0.0–0.75%. Its aim was to bring the Libor down into the lower end of the target range, at around 0.25%. It also decided to substantially increase the supply of liquidity by entering into long-term repos, purchasing Swiss franc bonds issued by domestic private sector borrowers and buying foreign currency on the foreign exchange market, in order to prevent the Swiss franc from appreciating further against the euro, as well as to improve financing conditions.

In addition, from autumn 2008, the SNB negotiated EUR/CHF swap agreements with a number of countries to facilitate refinancing for banks that had granted loans in Swiss francs in those countries. This allowed the SNB to counter the rise in the Libor generated by additional demand for Swiss francs from abroad.

The inflation forecast published together with the interest rate decision was based on a three-month Libor of 0.25%, and showed negative inflation for 2009, partly as a result of a base effect from falling oil prices. For 2010 and 2011, inflation was expected to remain low due to the weak state of the economy, despite the low interest rate environment. At the end of the forecast horizon, inflation increased slightly, reflecting the fact that a Libor of 0.25% would not guarantee price stability in the medium and long term.

Quarterly assessment of 18 June

During the first quarter of 2009, economic activity had declined more sharply than the SNB had expected, especially in Europe and Japan. By contrast, at the time of the June assessment, the financial markets, business activity and consumer confidence were all sending out positive signals. The SNB thus judged the economic risks to be slightly lower, but left its scenario for the global economy essentially unchanged. It now projected that growth rates would already turn positive in the second half of the year in the US and at the beginning of 2010 in Europe.

At the start of 2009, the Swiss economy had deteriorated further, with annualised GDP declining by 3.2% in the first quarter. Exports plummeted around the time of the assessment, and the level of capacity utilisation in manufacturing fell substantially. Against a background of rising unemployment, domestic demand stagnated. The SNB projected that this situation would persist for the next few months, and continued to forecast GDP growth of between –2.5% and –3% for 2009 as a whole.

M1 and M2, which are highly sensitive to changes in interest rates, were showing very strong growth at the time of the assessment. As hitherto, this was attributable to the public's preference for the most liquid assets possible, which was also reflected in a decrease in time deposits. M3 was still growing at a moderate pace, suggesting that banks were hoarding liquidity, and only passing limited amounts on to other segments of the economy.

The total volume of lending was increasing at an annual rate of more than 3%, with mortgage lending growing particularly strongly as a result of the interest rate cuts. There was thus no sign of a credit crunch in Switzerland.

As regards the exchange rate, the measures introduced at the March assessment had borne fruit. Between March and June, the Swiss franc did not appreciate further against the euro and the volatility of the exchange rate was much reduced.

Inflation was close to zero in the first quarter. The SNB therefore projected that inflation would remain negative for the rest of the year, largely because of falling import prices. For domestic goods and services, however, inflation was expected to weaken over the course of the year, but to remain above 1%.

Given the ongoing risk of deflation, the SNB decided to keep the Libor target range at 0.0–0.75%, and the desired rate at 0.25%. It also announced that it would continue with the exceptional measures introduced in March.

The inflation forecast published together with the interest rate decision was thus still based on a three-month Libor of 0.25%. The forecast once again showed negative inflation for 2009 as a whole but had been revised upwards slightly as a result of the increase in the prices of commodities and energy. For the next two years, inflation was expected to be slightly positive, accelerating marginally at the end of the forecast period. This implied that the Libor could not remain at 0.25% indefinitely.

Quarterly assessment of 17 September

At its September assessment, the SNB projected that economic growth outside Switzerland would be higher than had been expected in June, and that the US and European economies would return to positive rates of growth before the end of the year. The SNB therefore made a substantial upward revision to its growth forecasts for the major economies in 2010, in particular for the US (2.4%) and Europe (2.2%).

The economic situation in Switzerland continued to be difficult. The rate of capacity utilisation was falling and unemployment was rising sharply. Nevertheless, the SNB revised its 2009 GDP forecast upwards, to between –1.5% and –2%. This was due to the fact that the global economy had returned to growth more quickly than expected, which also benefited Swiss exports. Moreover, the contraction in GDP in the second quarter had been less pronounced than anticipated.

Having grown strongly as a result of the generous supply of liquidity, base money decreased markedly in the months preceding the assessment. However, the amount of liquidity was still high at the time of the assessment, not just in the banking industry but also in the household and corporate sectors. The faster pace of M1 and M2 growth since the beginning of the year, as well as the more recent acceleration in M3 growth, were attributable to this.

The developments in lending and the monetary aggregates were a reflection of the very expansionary monetary policy. Mortgage lending, which accounts for around 80% of total lending, increased by 4.6% in July. At the time of the assessment, there was still no evidence of a credit crunch for either households or companies.

The export-weighted external value of the Swiss franc was stable just prior to the assessment, as was the exchange rate against the euro. This confirmed the effectiveness of the monetary policy measures implemented since March.

At the time of the assessment, inflation was still negative, and core inflation was trending downwards. Although the GDP forecasts had been revised upwards, inflation was still expected to be close to zero for 2010 and 2011. The risk of deflation thus persisted, despite having lessened since the June assessment.

In these circumstances, the SNB decided to leave its expansionary monetary policy unchanged. It held the Libor target range at 0.0–0.75% and continued to aim for a Libor of 0.25%. It also announced that it would continue to supply the economy with generous amounts of liquidity, and take firm action to prevent any appreciation of the Swiss franc against the euro.

The September inflation forecast was based on a three-month Libor of 0.25%. Both the negative inflation in 2009 and the acceleration of inflation projected for the beginning of 2010 were attributable to a base effect from energy prices. It was expected that, over the rest of 2010, inflation would remain persistently low, but that the output gap would close more rapidly than had previously been anticipated. Accordingly, the inflation forecast for 2011 rose, while that for 2012 exceeded 2%.

Quarterly assessment of 10 December

Since the September assessment, signs of a recovery in global economic activity had been gathering strength. The normalisation of conditions on the financial markets, as well as the monetary and fiscal stimuli, had prompted a recovery in manufacturing output. However, in a number of countries capacity utilisation was still low and access to credit remained difficult. Moreover, it was likely that the subdued labour market situation would weigh further on consumption. The SNB therefore kept its 2010 growth forecast for the US unchanged, but revised it slightly downwards for Europe (1.1%).

The Swiss economy, too, was on the road to recovery at the time of the assessment, with GDP having risen in the third quarter. Exports benefited from the recovery in global demand, making an improvement in the situation of the manufacturing industry probable. In view of the under-utilisation of production capacity, by contrast, there was unlikely to be any revival of equipment investment for the time being. In addition, consumption growth was expected to be held back by weakly growing income. For 2010, the SNB projected GDP growth of between 0.5% and 1%, following a figure of approximately –1.5% for 2009.

Having risen strongly until April 2009, base money declined again, while M1 and M2 showed substantial growth up to the time of the assessment. M3 growth, which had been modest for a long time, accelerated. This was a reflection of the public's increased preference for liquid assets and was thus no cause for concern.

Growth in mortgage lending rose to 5.1% in the months prior to the assessment. Although growth in other lending was slightly lower, there was nevertheless no credit crunch in Switzerland.

The export-weighted external value of the Swiss franc had increased slightly since the previous assessment, mainly as a result of the weaker US dollar. Against the euro, by contrast, the Swiss franc remained stable.

At the time of the assessment, inflation was still negative, largely as a result of fluctuating oil prices and the associated base effect. The economic outlook suggested, however, that inflation would turn positive from the beginning of 2010.

Against this background, the National Bank decided to leave the Libor target range unchanged at 0.0–0.75% and the Libor at 0.25%. It announced that it would still provide the economy with a generous supply of liquidity, but would discontinue its purchases of Swiss franc bonds issued by domestic private sector borrowers. It would also continue to act decisively to prevent any excessive appreciation of the Swiss franc against the euro. In addition, the SNB pointed out, both to banks and to firms and households, the risks inherent in a relaxation of discipline in real estate financing.

The inflation forecast published together with the interest rate decision was based on a three-month Libor of 0.25%. Inflation rose in the short term, as a result of the base effect linked to the trough in oil prices reached one year earlier. The forecast suggested that inflation would fall back again over the course of 2010, despite the fact that economic growth was expected to pick up. From the beginning of 2011, the forecast showed a clear upward trend, with inflation projected to breach the 2% mark in the first half of 2012. This indicated that the Libor would have to be raised sooner or later.

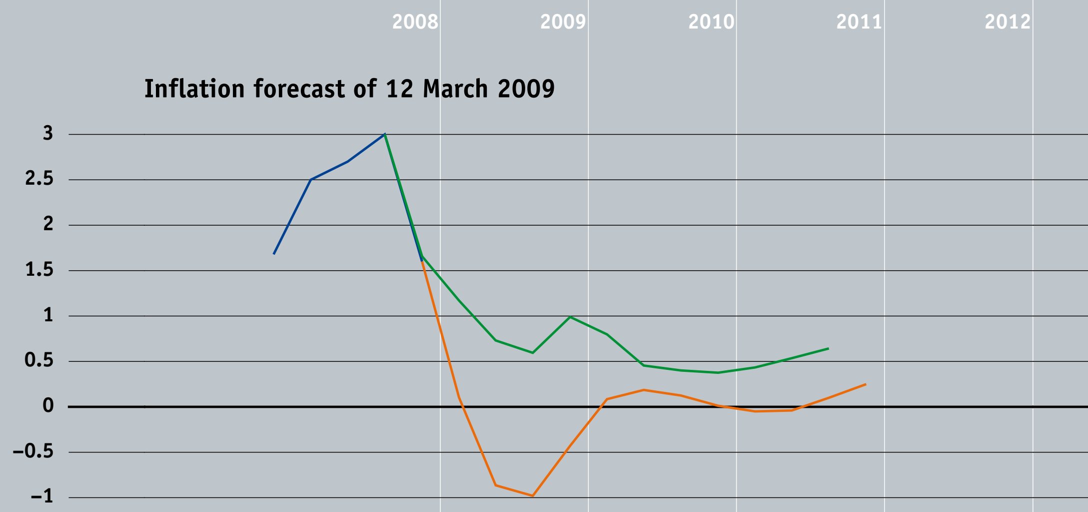
Inflation forecast of 12 March 2009

Inflation

December 2008 forecast:
three-month Libor 0.5%

March 2009 forecast:
three-month Libor 0.25%

Year-on-year change
in national consumer
price index in percent



Inflation forecast of 18 June 2009

Inflation

March 2009 forecast:
three-month Libor 0.25%

June 2009 forecast:
three-month Libor 0.25%

Year-on-year change
in national consumer
price index in percent

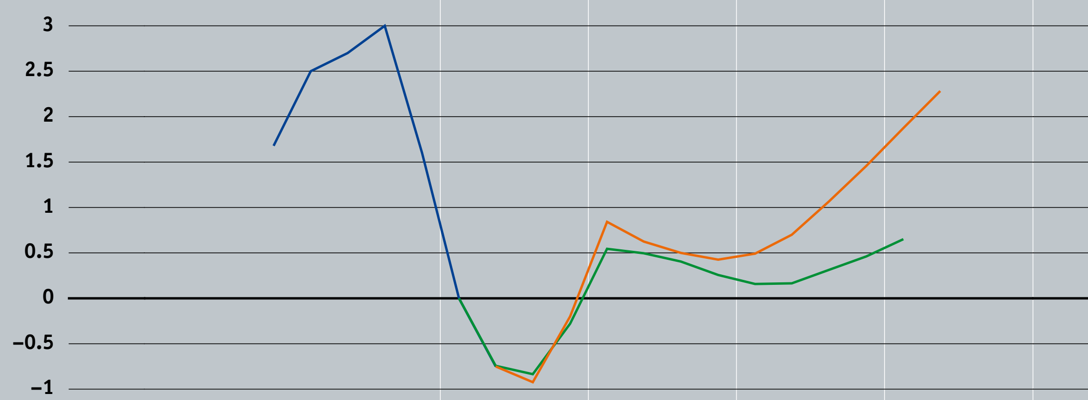
Inflation forecast of 17 September 2009

Inflation

June 2009 forecast:
three-month Libor 0.25%

September 2009 forecast:
three-month Libor 0.25%

Year-on-year change
in national consumer
price index in percent



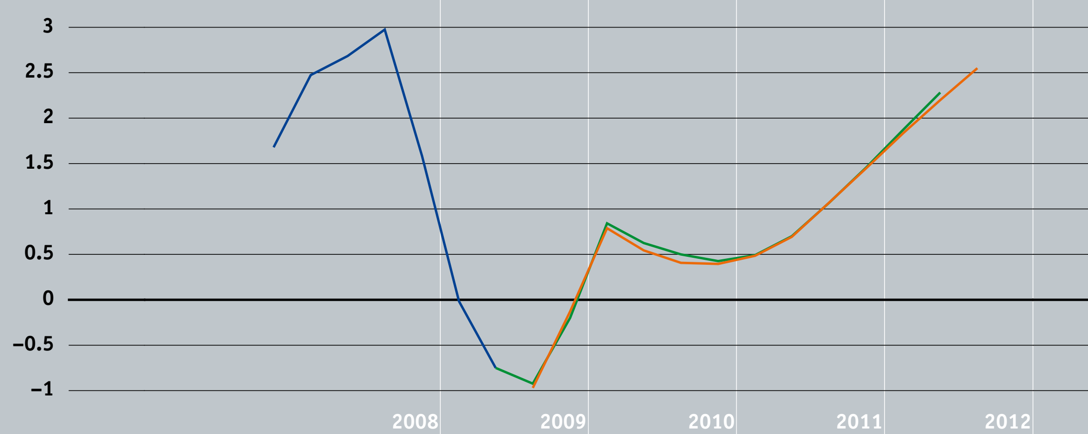
Inflation forecast of 10 December 2009

Inflation

September 2009 forecast:
three-month Libor 0.25%

December 2009 forecast:
three-month Libor 0.25%

Year-on-year change
in national consumer
price index in percent



1.5 Statistics

Purpose of activities in the field of statistics

The SNB collects the statistical data it requires to fulfil its statutory tasks on the basis of art. 14 NBA. It collects data for the conduct of monetary policy and the oversight of payment and securities settlement systems, for safeguarding the stability of the financial system and preparing both the balance of payments and the statistics on the international investment position. Statistical data compiled for purposes relating to international monetary cooperation are transmitted to international organisations.

Institutions required to provide data

Banks, stock exchanges, securities dealers, managers of Swiss investment funds and agents of foreign investment funds are required to provide the SNB with statistical data on their activities (art. 15 para. 1 NBA). Where necessary to analyse trends in the financial markets, obtain an overview of payment transactions or prepare the balance of payments or the statistics on Switzerland's international investment position, the SNB may also collect statistical data on the business activities of other private individuals or legal entities. This applies in particular to insurance companies, occupational pension schemes, investment and holding companies, and operators of payment and securities settlement systems as well as Swiss Post (art. 15 para. 2 NBA).

Survey activity kept to a minimum

The SNB limits the number and type of surveys to what is strictly necessary (art. 4 National Bank Ordinance (NBO)). It seeks in particular to minimise the demands placed on those required to provide information.

Confidentiality and exchange of data

The National Bank is required to ensure the confidentiality of the data it collects and may only publish them in aggregated form. However, the data collected may be supplied to the relevant Swiss financial market supervisory authorities (art. 16 para. 4 NBA).

Surveys and statistics

The SNB manages a database containing 4.7 million time series and publishes the results of its surveys in the form of statistics. An overview of the SNB's statistical surveys is contained in the appendix to the revised NBO, which came into force on 1 January 2010.

Statistical publications

Statistics are published in the *Monthly Statistical Bulletin*, the *Monthly Bulletin of Banking Statistics* and *Banks in Switzerland*, which appears annually. These publications are supplemented by reports on the balance of payments, the international investment position, direct investment and on the financial accounts and household wealth in Switzerland. In addition, at irregular intervals, the SNB publishes booklets of historical statistics relating to topics of importance for the formulation and implementation of past and/or present monetary policy. In 2009, a booklet of data on Swiss banking since 1906 was published with the title *Banks in Switzerland*. All SNB statistical publications appear in German, French and English and can be accessed on the SNB website, www.snb.ch, *Publications*. Data are also available online as Excel or text files, generally with longer time series than in the printed publications.

Supplementary survey on bank lending

If, in order to fulfil a statutory task, the SNB urgently requires additional data, it may conduct supplementary surveys, which must be limited to what is strictly necessary in terms of content and time (art. 6 NBO). On this legal basis, the National Bank has collected qualitative data on the lending policies of about 20 banks since the first quarter of 2008. Information on the effects of the financial crisis on domestic lending can be obtained by means of this supplementary quarterly survey. The results of the survey complement the quantitative data obtained from existing statistics. They are published together with the quarterly monetary policy assessments.

Revised surveys

The SNB has revised the credit volume statistics with effect from the reference date of 31 March 2009. Credits are now broken down according to the financial reporting guidelines of the Swiss Financial Market Supervisory Authority (FINMA). In addition, the breakdown of borrowers by industry has been updated, with the services sector, in particular, listed in greater detail.

Collaboration ...

In compiling statistical data, the SNB collaborates with the relevant federal government bodies, notably the Swiss Federal Statistical Office (SFSO) and FINMA, as well as the relevant authorities of other countries and international organisations (art. 14 para. 2 NBA). With regard to organisational and procedural issues, and when new surveys are introduced or existing ones modified, the reporting institutions – together with their associations – are given the opportunity to comment (art. 7 NBO).

... with the SFSO

The SNB has a close working relationship with the Swiss Federal Statistical Office (SFSO). Reciprocal data access is governed by a data exchange agreement; this agreement also covers the collaboration between the two institutions in drawing up the Swiss financial accounts. In addition, the SNB belongs to a number of different bodies that work with Swiss federal statistics. These include the federal statistics commission (*Bundesstatistikkommission/Commission de la statistique fédérale*) and the group of experts for economic statistics (*Expertengruppe für Wirtschaftsstatistik/Groupe d'experts de statistique économique*).

... with the FOH

Since June 2008, the SNB, on behalf of the Federal Office for Housing (FOH), has collected quarterly data on mortgage rates from about 80 banks. Based on these data, the FOH calculates the reference interest rate for tenancies. The sole responsibility for the contents of this survey lies with the FOH, which also publishes the reference interest rate.

... with FINMA

Under the agreement with FINMA on the reciprocal exchange of data in the financial sector, the SNB collects a variety of information, including data on the capital base of banks and securities dealers. 2009 saw the changeover to new capital reporting based on the revised Basel capital adequacy framework (Basel II) of the Basel Committee on Banking Supervision.

... in the banking statistics committee

The National Bank is advised on the content of its banking surveys by the banking statistics committee (art. 7 NBO). This committee is made up of representatives of the Swiss commercial banks, the Swiss Bankers Association and FINMA.

... in the group of experts on the balance of payments

A group of experts under the direction of the SNB provides assistance in the compilation of the balance of payments. It comprises representatives from industry, banking, insurance, various federal agencies and the KOF Swiss Economic Institute at ETH Zurich.

... with the Principality of Liechtenstein

Since 2007, the SNB has conducted surveys of Liechtenstein-based companies when preparing its balance of payments figures and statistics on Switzerland's international investment position. It works with the relevant authorities in Liechtenstein (the Office of Economic Affairs and the financial market supervision authority).

... with foreign agencies

In the area of statistics, the National Bank works closely with the Bank for International Settlements (BIS), the Organisation for Economic Co-operation and Development (OECD), the Statistical Office of the European Communities (Eurostat), and the International Monetary Fund (IMF). This collaboration is aimed at harmonising statistical survey methods and analyses.

2 Supplying the money market with liquidity

Mandate

It is the task of the Swiss National Bank (SNB) to provide the Swiss franc money market with liquidity (art. 5 para. 2 (a) National Bank Act (NBA)). The framework within which the National Bank may conduct transactions in the financial market is defined in art. 9 NBA. As lender of last resort, the National Bank also provides emergency liquidity assistance (art. 9 para. 1 (e) NBA). By supplying the money market with liquidity, the SNB implements its monetary policy. To this end, it influences the interest rate level in the money market. The three-month Swiss franc Libor serves as its reference interest rate. The Libor (London Interbank Offered Rate) is an interest rate for unsecured interbank loans. The SNB influences the three-month Libor indirectly via secured money market transactions.

Significance of liquidity for banks

In order for a bank to maintain its solvency, it must have sufficient liquidity at all times. The most liquid assets are sight deposits held at the SNB, since they can be used immediately for payment transactions and are deemed to be legal tender. In addition, banks hold sight deposits at the National Bank to satisfy minimum reserve requirements and as liquidity reserves.

Significance of the money market

The SNB supplies the financial system with liquidity by concluding transactions with its counterparties as part of its monetary policy operations. Liquidity is only provided against collateral. The individual financial market participants exchange liquidity on the money market. Banks with a short-term investment demand use loans to provide liquidity to other banks with a short-term refinancing demand. These loans can be granted on a secured or unsecured basis. A disruption in the money markets impairs the liquidity adjustment process between the market participants and threatens the solvency of the banks.

Situation eases gradually on international money markets ...

At the beginning of 2009, international money markets were still in the grip of the financial crisis. Risk premia, which had shot up in September 2008 after the bankruptcy of the US investment bank Lehman Brothers, were still high, indicating that banks remained cautious about lending to one another. In order to restore the smooth functioning of the money markets, central banks substantially expanded their liquidity-provision measures and reduced reference interest rates to historically low levels. In the US, UK, Japan and Switzerland, these rates were barely above zero in early 2009. In view of the serious recession that was looming, many central banks took further measures to improve funding conditions generally and on the capital market, in particular. During the course of the year, central banks' extremely expansionary monetary policies resulted in an easing on international money and capital markets. Risk premia and their volatilities declined markedly, and by the end of 2009 were below the levels recorded prior to the escalation of the money market crisis in September 2008.

… and on the Swiss franc money market

In 2009, the SNB maintained the generous provision of liquidity to the money market which had been initiated in autumn 2008. In mid-March it lowered the target range for the three-month Libor to 0.0–0.75%, continued to provide unlimited liquidity through repo transactions and extended the terms of these transactions. Simultaneously, it acted to prevent excessive appreciation of the Swiss franc against the euro by purchasing foreign currency, and began acquiring Swiss franc bonds issued by private sector borrowers in order to lower risk premia on the capital market. It also continued the concerted euro/Swiss franc swap operations with other central banks which had been introduced in 2008, in order to ease the international Swiss franc money market. Overall, these measures resulted in a substantial increase in liquidity and low opportunity costs of holding liquidity, which was reflected in a correspondingly high level of sight deposits. Although the situation on the Swiss money market eased substantially during the course of the year, the demand for liquidity during monetary policy operations remained high until the end of 2009, due to continued uncertainty.

2.1 Monetary policy instruments

Open market operations and standing facilities

Within its set of monetary policy instruments, the SNB differentiates between open market operations and standing facilities. In the case of open market operations, the SNB takes the initiative in the transaction. Where standing facilities are concerned, it merely sets the conditions under which counterparties can obtain liquidity. Repo transactions are usually the main instrument used for open market operations. An additional instrument is the issuance of SNB debt certificates (SNB Bills) as a liquidity-absorbing instrument. In 2009, as part of the substantial expansion of liquidity, further instruments such as foreign currency swaps, foreign exchange purchases and acquisitions of Swiss franc bonds issued by private sector borrowers were also used. Standing facilities include the liquidity-shortage financing facility and the intraday facility.

Guidelines on monetary policy instruments

The *Guidelines of the Swiss National Bank (SNB) on Monetary Policy Instruments* contain explicit information with regard to the SNB's scope of business as set out in art. 9 NBA and describe the instruments and procedures used by the SNB for the implementation of its monetary policy. They also define the conditions under which these transactions are concluded and which securities can be used as collateral for monetary policy operations. In principle, all Swiss banks and securities dealers (including banks and securities dealers in the Principality of Liechtenstein) are admitted as counterparties in monetary policy operations.

Expanding the list of participants in the repo market

Since 1999, the SNB has also admitted banks from outside Switzerland as counterparties in monetary policy operations, in particular in the repo market. It has decided to extend participation to domestic financial market participants (including Liechtenstein) without the status of a bank or securities dealer from 2010. The requirements attached to such admission include provisions that the new counterparties contribute to the liquidity of the secured Swiss franc money market and that they are supervised by FINMA (or the Liechtenstein supervisory body). The new counterparties are likely to be mainly insurance companies and managers of funds that are highly active in the money market. During the financial crisis, the repo market proved to be exceptionally robust. The SNB hopes that in expanding the list of participants, the further development of the secured money market can be encouraged, and thereby the stability and resilience of the financial system increased.

Open market operations

Repo operations

The purpose of SNB open market operations is to provide the money market with liquidity. The National Bank is able to create liquidity and reabsorb it. In a repo transaction, the principal monetary policy instrument in this area, the cash taker sells securities spot to the cash provider. At the same time, the cash taker enters into an agreement to repurchase securities of the same type and amount from the cash provider at a later point in time. The cash taker pays interest (repo interest rate) for the term of the repo agreement. From an economic perspective, a repo is a secured loan. For repo transactions within the context of open market operations, collateral eligible for SNB repos must cover at least 100% of the funds obtained at all times. The repo rate, the allocation of liquidity and the terms depend on monetary policy requirements. The terms of repo transactions vary from one day (overnight) to several months. The SNB generally sets the maturity of repo transactions in such a way that the commercial banks must request liquidity on an almost daily basis to be able to meet minimum reserve requirements.

The SNB can conduct repo transactions either in the form of auctions or by placing or accepting offers on Eurex Zurich Ltd's electronic trading platform. Auctions are generally conducted in the form of a volume tender. In this type of auction, each counterparty submits to the SNB an offer for the amount of liquidity it is willing to obtain for a given repo rate. If the total amount of all the offers exceeds the SNB's predetermined allotment volume, the SNB will reduce the amount allocated as a proportion of each counterparty offer.

Auctions can also be conducted in the form of a variable rate tender. In this case, the SNB counterparty submits an offer for the amount of liquidity it is willing to obtain and the price it is willing to pay for this amount. Each counterparty may submit as many offers as it wishes, and may also vary the interest rate from one offer to another. In a variable rate tender according to the Dutch allocation system, liquidity is uniformly allotted at the lowest interest rate accepted by the SNB to the participants which have offered that or a higher interest rate. In the American allotment system, liquidity is allotted – at the interest rate stated in the individual offer – to the participants that have offered at least the lowest interest rate accepted by the SNB.

By placing or accepting offers on the electronic trading platform for repo transactions, the SNB is able to influence interest rates in the money market at all times, and not just at the time of the auctions. Such fine-tuning transactions can be used for both providing and withdrawing liquidity.

Issuance of SNB Bills

The SNB may also issue its own interest-bearing debt certificates in Swiss francs (SNB Bills). In this way, large amounts of liquidity can be absorbed if the money market is oversupplied, thereby increasing flexibility in liquidity management. SNB Bills may be issued by auction or through private placement. They are included in the list of securities eligible for SNB repo transactions and can therefore be used as collateral in such transactions. The first SNB Bills auction was held in October 2008.

Standing facilities

Liquidity-shortage financing facility

To bridge unexpected liquidity bottlenecks, the SNB offers a liquidity-shortage financing facility. In order for a bank to obtain liquidity through this facility, the National Bank must grant a limit to be covered by 110% collateral eligible for SNB repos at all times. Each counterparty has the right to obtain liquidity up to the limit granted until the following bank working day. This limit is drawn down in the form of a special-rate repo transaction.

In 2009, banks requested that their limits under the liquidity-shortage financing facility be increased by a total amount of CHF 1.4 billion to CHF 35.9 billion. At the end of the year, 79 banks had been granted a limit (2008: 74). The special rate for obtaining liquidity provided through this facility was based on the Repo Overnight Index (SNB) – superseded on 25 August 2009 by SARON (Swiss Average Rate Overnight) – plus a surcharge of 50 basis points (on SARON, cf. chapter 2.6).

During the day, the SNB provides its counterparties with interest-free liquidity (intraday liquidity) through repo transactions so as to facilitate the settlement of payment transactions via Swiss Interbank Clearing (SIC system) and the settlement of foreign exchange transactions via Continuous Linked Settlement (CLS), the multilateral payment system. The cash amounts must be repaid by the end of the same bank working day at the latest. Intraday liquidity cannot be used to comply with minimum reserve requirements or liquidity requirements under banking law.

Intraday facility

Other monetary policy instruments

Under art. 9 para. 1 NBA, the SNB has other monetary policy instruments, such as spot and forward foreign exchange transactions and currency swaps, at its disposal; it can also purchase or sell securities in Swiss francs.

Foreign exchange swaps

In a foreign exchange swap, the purchase (sale) of foreign exchange at the current spot rate and the sale (purchase) of the foreign exchange at a later date are simultaneously agreed. Before the introduction of repo transactions in 1998, foreign exchange swaps were the most important monetary policy instrument for supplying the money market with liquidity. In October 2008, the SNB reapplied this instrument in order to supply banks abroad, which had no access to SNB repo auctions, with the Swiss franc liquidity they required. The foreign exchange swaps were conducted as auctions at a fixed price (volume tender).

Swap agreement with central banks

A large proportion of the foreign exchange swap transactions were conducted as part of the temporary swap agreement concluded with the European Central Bank and the Polish National Bank in autumn 2008, as well as the Hungarian central bank (from January 2009). The SNB made Swiss franc liquidity available to these three central banks through a foreign exchange swap facility, and they were then able to use auctions for allocating the funds to banks in their spheres of influence.

In April, the SNB also offered the US Federal Reserve a temporary foreign exchange swap facility until October 2009, so that US financial institutions could be supplied with Swiss franc liquidity. The facility was not used.

The swap agreement concluded with the Fed in December 2007, which enabled the SNB to obtain US dollars for Swiss francs, was extended to February 2010. It provided the basis for SNB repo auctions in US dollars (cf. chapter 2.7).

Purchase of foreign exchange and Swiss franc bonds

In 2009, as part of its additional measures aimed at easing monetary policy, the SNB purchased foreign exchange and Swiss franc bonds issued by private sector borrowers (cf. chapter 2.2).

2.2 Liquidity supply

High volume of money market transactions

Since autumn 2008, the SNB has been conducting money market transactions on an unprecedented scale to secure the supply of liquidity to banks. In doing so, it reacted flexibly to the continuing tensions on the money market and made use of a broad range of monetary policy instruments for supplying this market. Throughout the year, it also issued a moderate volume of SNB Bills in order to absorb liquidity.

Sight deposits of domestic banks at new record high

In 2009, sight deposits of domestic banks reached an all-time high due to the large-scale operations to provide liquidity and the SNB's simultaneous restraint in operations to absorb it. Sight deposits rose from CHF 39 billion at the beginning of the year to a record level of CHF 81 billion in May 2009 (weekly average). Over the rest of the year, they declined steadily to reach CHF 41 billion.

Steering the three-month Libor

At its quarterly assessment in mid-December 2008, the SNB lowered the target range for the three-month Libor by 50 basis points to 0.0–1.0%. In order to reach the desired Libor of 0.5%, it reduced the one-week repo rate to 0.05% – the lowest rate for repo transactions since this instrument was introduced in 1998 – and offered unlimited liquidity at this level. Together with the falling risk premia for unsecured money market transactions, this led to a decline in the three-month Libor from 0.86% to 0.45% by mid-March.

Longer-term repo transactions

At its quarterly assessment in March, the SNB decided to carry out another major easing in monetary policy. To this end, interest rates were to be reduced further and the continual appreciation of the Swiss franc against the euro halted. The SNB narrowed the target range for the three-month Libor to 0.0–0.75%, and now aimed for a three-month Libor of 0.25%. Since the one-week repo rate was already practically zero, the SNB supplemented the daily one-week repos with longer-term repo transactions at 0.05%, also without any volume limitation. From mid-March to the end of April it offered counterparties daily repo transactions with alternating terms of up to one year. Every two weeks from June to November, it offered three-month repos. As a result, the three-month Libor gradually declined, reaching the desired level of 0.25% in mid-November.

Further monetary policy measures

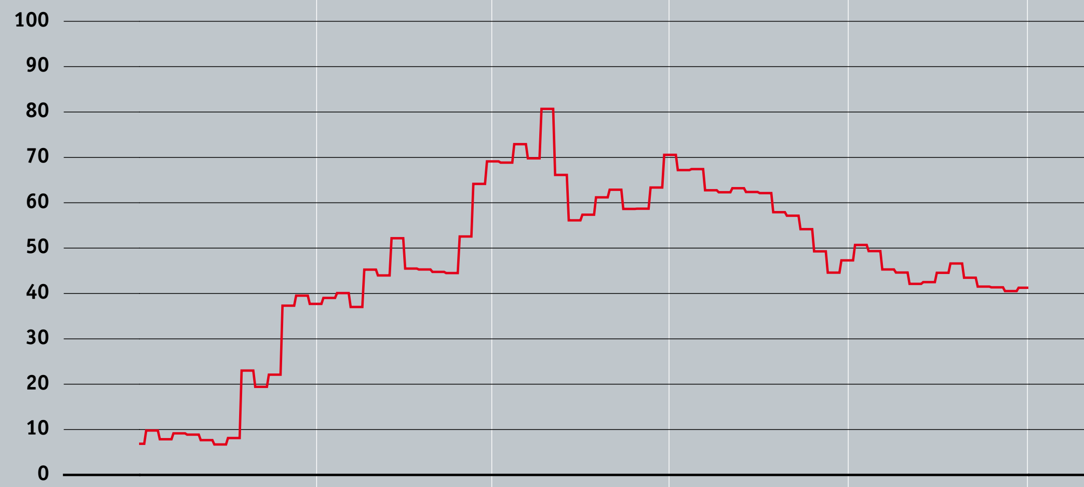
In addition to the longer-term repo transactions, the SNB purchased foreign exchange and Swiss franc bonds from mid-March. By intervening in the money, foreign exchange and capital markets as needed, it exerted strong and broadly based monetary policy stimuli.

Q4 2008 Q1 2009 Q2 Q3 Q4

Sight deposits

Sight deposits of domestic banks

Weekly averages, in CHF billions



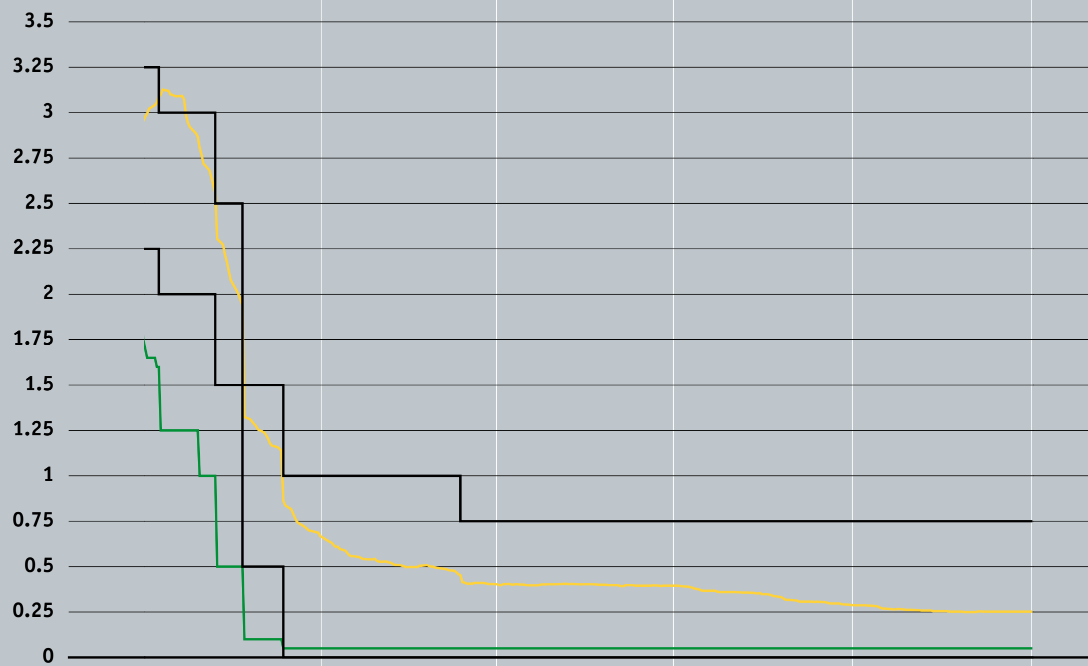
Three-month Libor and one-week repo rate

Three-month Libor

One-week repo rate

Target range

Daily values in percent



Q4 2008 Q1 2009 Q2 Q3 Q4

The purchase of Swiss franc bonds issued by private sector borrowers served to lower risk premia in the capital market, thereby easing private borrowers' access to capital. Initially, the SNB purchased only mortgage bonds; from April, it also bought corporate bonds. The situation on the Swiss franc bond market improved during the months that followed, partly because of falling risk premia worldwide. The SNB did not buy any more bonds after mid-September and at the quarterly assessment in December it announced that it had discontinued its acquisitions of bonds.

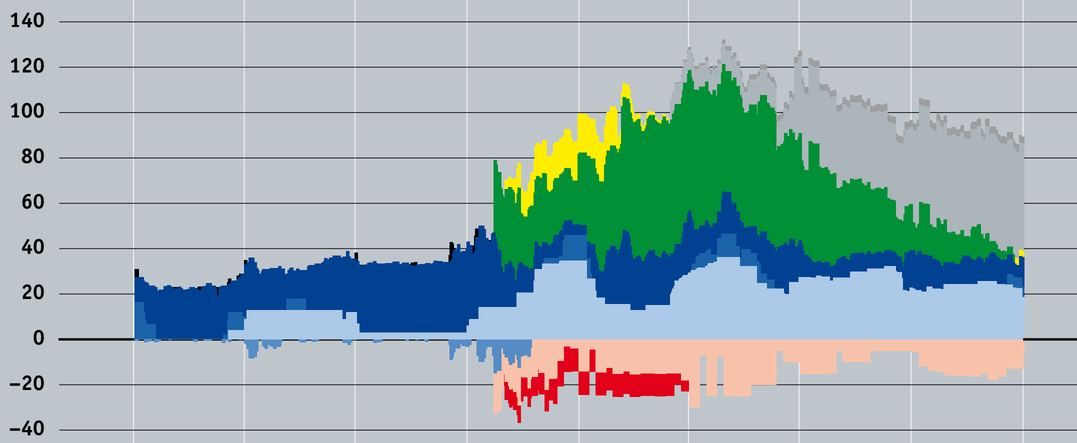
By purchasing foreign exchange from mid-March, the SNB prevented a further rise in the Swiss franc against the euro. It bought both euros and US dollars. For the first time, the interventions in the foreign exchange market were also conducted through electronic trading platforms.

Supplying the money market with liquidity in CHF billions

Monetary policy operations	2008 Outstanding Average[1]	Turnover	2009 Outstanding Average[1]	Turnover
Liquidity-providing operations	41.04	1 621.83	110.98	2 761.91
Repo transactions	33.30	1 300.90	40.05	799.84
Up to 3 days	0.26	69.27	0	0
4 to 11 days	21.74	1 139.85	13.52	709.96
12 to 35 days	1.50	40.81	1.50	27.92
36 days to 1 year	9.81	50.97	25.03	61.95
Euro/Swiss franc swaps	7.74	320.93	39.43	1 911.60
Up to 8 days	5.41	303.77	37.54	1 908.91
9 to 91 days	2.33	17.16	1.89	2.68
Foreign exchange purchases	0	0	28.78	47.34
Swiss franc bond purchases	0	0	2.72	3.13
Liquidity-absorbing operations	5.45	545.28	16.06	736.80
Repo transactions				
Up to 3 days	1.48	383.68	0	0
SNB Bills	3.97	161.60	16.06	736.80
Up to 8 days	2.33	134.03	13.78	711.78
9 to 28 days	1.64	27.57	2.28	25.03
Standing facilities				
Intraday facility	9.55	2 407.02	6.56	1 660.67
Liquidity-shortage financing facility	0.00	0.81	0.00	0.01

1 Average level of monetary policy operations outstanding at end of day (with the exception of the intraday facility).

Supplying the money market with liquidity



Repos up to 3 days (+)
Repos 4 to 11 days
Repos 12 to 35 days
Repos 36 days to one year
FX swaps up to 8 days
FX swaps 9 to 91 days
Foreign exchange purchases
Purchases of Swiss franc bonds
Repos up to 3 days (–)
SNB Bills up to 8 days
SNB Bills 9 to 28 days

Money market operations outstanding at the end of the day, in CHF billions

Positive figures: Liquidity provision
Negative figures: Liquidity absorption

Liquidity-providing operations

Liquidity-providing operations reached their highest level in April, at an outstanding volume of about CHF 132 billion. The average for the year as a whole amounted to CHF 110.98 billion, which was over twice as much as in 2008. Turnover, i.e. the sum of all liquidity-providing operations, reached CHF 2,761.9 billion, compared to CHF 1,621.8 billion in 2008.

In the case of repo transactions, the average level for the year was CHF 40.0 billion, while the turnover was CHF 799.8 billion. Roughly 89% of repo turnover was achieved with one-week transactions. For euro/Swiss franc swap transactions, the average level for the year was CHF 39.4 billion, while the turnover was CHF 1,911.6 billion. In both cases, the largest proportion was accounted for by transactions with central banks (average: CHF 25.7 billion; turnover: CHF 1,271.2 billion). Euro/Swiss franc swaps with commercial banks came to CHF 13.7 billion (average) and CHF 640.35 billion (turnover).

Banks' daily bids at the SNB's monetary policy repo auctions fluctuated between CHF 24 million and CHF 9 billion, with an average figure of CHF 2.7 billion. Of this amount, 8% was attributable to domestic banks, the remainder to international banks abroad. The SNB allotted 100% of banks' bids at all times. Banks' bids for euro/Swiss franc swaps with the SNB and other central banks climbed to CHF 107.7 billion. In most cases, these bids were fully satisfied.

In 2009, the SNB purchased foreign exchange for CHF 47 billion. A good two-thirds of this amount was accounted for by euros, and the rest by US dollars.

In addition, the SNB acquired Swiss franc bonds issued by private sector borrowers amounting to CHF 3.13 billion in the primary and secondary markets. The major part of these purchases was accounted for by mortgage bonds (CHF 2.8 billion), while the rest were bonds issued by Swiss industrial companies.

Liquidity-absorbing operations

The average level of liquidity-absorbing operations using SNB Bills amounted to CHF 16.1 billion while the turnover was CHF 736.8 billion. At SNB Bills auctions, the demand for SNB Bills ranged from CHF 5.4 billion to CHF 34.6 billion. An average of 66.6% of SNB Bills requested was allotted. The average rate of interest paid was 0.02%. In 2009, no liquidity-absorbing operations were conducted through repo transactions.

Standing facilities

Average use of the intraday facility by banks declined from CHF 9.6 billion to CHF 6.6 billion year-on-year due to the fact that provision of liquidity was generally ample compared to the previous year. Banks made use of the liquidity-shortage financing facility for only modest amounts and only in individual cases, and the average level for the year came to less than CHF 19,000.

2.3 Emergency liquidity assistance

Liquidity assistance conditions

Within the context of the emergency liquidity facility, the SNB can provide liquidity assistance to domestic banks if they are no longer able to refinance themselves on the market ('lender of last resort' function). The institutions requesting credit must be systemically important and solvent. In addition, the liquidity assistance must be fully covered by sufficient collateral at all times.

Systemic importance of a bank

A bank or group of banks is considered to be of systemic importance if its inability to pay would seriously impair the functioning of the Swiss financial system or major parts thereof, and have a negative impact on the economy. To assess the solvency of a bank or group of banks, the SNB obtains an opinion from the Swiss Financial Market Supervisory Authority (FINMA). The SNB determines what securities it will accept as collateral for liquidity assistance.

In 2009, the SNB did not provide any emergency liquidity assistance in the traditional sense. In autumn 2008, the SNB participated in a package of measures designed to strengthen the Swiss financial system. Assets were actually transferred to the SNB stabilisation fund from December 2008 to April 2009 (cf. chapter 6.5).

2.4 Minimum reserves

Main features of the regulation

The duty to hold minimum reserves (arts. 17, 18, 22 NBA) ensures that banks have a minimum demand for base money; it thus fulfils a monetary policy objective. Eligible assets in Swiss francs comprise coins in circulation, banknotes and sight deposits held at the SNB. The minimum reserve requirement is 2.5% of the sum of short-term liabilities in Swiss francs (up to 90 days) and 20% of all liabilities towards customers in the form of savings and investments.

If a bank fails to fulfil the minimum reserve requirement, it is required to pay interest to the SNB for the number of days of the reporting period for which there was a shortfall. The interest rate is 4 percentage points higher than the average call money rate over the reporting period in question. At the end of August 2009, the Repo Overnight Index was replaced by SARON (Swiss Average Rate Overnight), which has taken its place as the basis for calculation (cf. chapter 2.6).

Minimum reserves in CHF millions

	2008 Outstanding Average	2009 Outstanding Average
Sight deposits at the SNB	7 214	53 698
Banknotes	5 801	6 000
Coins in circulation	104	103
Eligible assets	13 119	59 801
Requirement	9 148	8 947
Compliance in excess of requirement	3 972	50 854
Compliance	143%	669%

In 2009 (from 20 December 2008 to 19 December 2009), statutory average minimum reserves amounted to CHF 8.9 billion. This was a 2% decline compared to the previous year. Eligible assets amounted to an average of CHF 59.8 billion, which was about four times as high as in the previous year. This huge increase reflects the substantial rise in sight deposits at the SNB and meant that banks exceeded the requirement by an annual average of about CHF 50.9 billion (2008: CHF 4.0 billion). Consequently, the average liquidity ratio, at 669%, was several times higher than in 2008 (143%).

In 2009, most of the 296 banks fulfilled the statutory minimum reserve requirements. Three banks breached the requirements for one reporting period. The amounts involved were negligible. The total amount in interest that the contravening banks were required to pay came to CHF 1,500.

2.5 Collateral eligible for SNB repos

Stringent requirements relating to collateral

To carry out its monetary policy operations, the SNB only accepts collateral that meets certain conditions. In so doing, the SNB protects itself against losses and ensures equal treatment of counterparties. Individual securities are subject to stringent requirements with regard to liquidity and credit rating.

To secure the liquidity of the internationally oriented Swiss banking system, a wide range of collateral eligible for SNB repos is of key importance. Banks with sufficient securities that qualify as eligible at the central bank may obtain liquidity, even in difficult conditions, since these securities can be transformed into liquid assets at central banks or in the interbank market through repo transactions.

The amount of collateral eligible for SNB repos rose from approximately CHF 9,000 billion at the end of 2008 to roughly CHF 10,000 billion a year later. Securities denominated in foreign currency accounted for 96% of this total.

2.6 Introduction of new Swiss franc reference rates

Swiss reference rates

In August 2009, the SNB and SIX Swiss Exchange Ltd (the Swiss stock exchange) jointly launched new Swiss franc reference interest rates for the financial markets. The Swiss reference rates are calculated for terms ranging from one day (overnight) to twelve months. They are based exclusively on data from the secured money market. This creates a risk-neutral Swiss franc interest rate curve and completes the range of reference rates for the Swiss franc money market. Consequently, market participants now have clear benchmarks for their liquidity management, and this enhances the attractiveness of the Swiss franc repo market.

SARON

On 25 August 2009, this reference rate group's call money rate – SARON (Swiss Average Rate Overnight) – replaced the Repo Overnight Index (SNB). It is used to calculate the minimum reserve penalty rate and the special rate for obtaining liquidity under the liquidity-shortage financing facility. Unlike the Repo Overnight Index, SARON is calculated on the basis of concluded repo transactions as well as trade quotes posted on the Eurex Zurich trading platform. Within the group of reference rates, the SNB attaches the greatest importance to SARON since this is an important indicator of changes in short-term interest rates and is the basis for calculating the Swiss franc interest rate curve.

2.7 Repo auctions in US dollars

Easing access to dollar liquidity

The SNB started conducting US dollar repo auctions in December 2007. The operations were carried out in coordination with a number of other central banks. The US Federal Reserve supplied the SNB with US dollars on the basis of a swap agreement. The SNB's repo transactions in US dollars were covered by collateral eligible for SNB repos. While these measures have no effect on the supply of money in Swiss francs, they enable the SNB's counterparties to gain easier access to US dollar liquidity.

Fall in demand for dollar liquidity

The average amount outstanding from US dollar repo transactions fell sharply due to the global easing of tensions on the money markets. In March 2009, it came to USD 5.4 billion, after an average level of USD 11.5 billion in 2008. By June 2009 it had fallen further to USD 3.1 billion. After July, there was no more demand for US dollars at repo auctions, and the SNB discontinued its auctions for 28-day and 84-day terms. The offer of one-week transactions remained in place.

2.8 SNB USD Bills

Under art. 9 para. 1 NBA, the SNB is authorised to issue its own debt certificates. Since 16 February 2009, the SNB has issued its own debt certificates in US dollars (SNB USD Bills) in addition to SNB Bills in Swiss francs. For the time being, they will be used to finance the SNB loan to the stabilisation fund (cf. chapter 6.5). SNB USD Bills may be issued through private placement or by auction. The SNB conducts auctions in the form of a variable rate tender according to the Dutch system (uniform allocation price). SNB USD Bills are offered every 14 days with terms of 28, 84 and 168 days. All parties admitted by the SNB as counterparties to monetary policy operations may take part in the auctions. SNB USD Bills have been included in the list of collateral eligible for SNB repos. Consequently, they can also be used in repo transactions with the SNB and can be counted as liquid assets in accordance with art. 16 of the Banking Ordinance. Issuing SNB USD Bills is neutral in monetary policy terms due to the fact that the volume of Swiss franc liquidity is not affected.

In 2009, there were 69 issues of SNB USD Bills. At the end of 2009, some USD 19 billion of SNB USD Bills were outstanding. The majority were issued with a term of 168 days.

3 Ensuring the supply of cash

3.1 Organisation of cash distribution

Mandate

Pursuant to art. 5 para. 2 (b) of the National Bank Act, the Swiss National Bank (SNB) is responsible for ensuring the supply and distribution of cash (notes and coins) in Switzerland. In conjunction with the commercial banks and their jointly operated organisations, as well as Swiss Post and SBB, it works to ensure an efficient and secure cash payment system.

Role of the SNB

The SNB offsets seasonal fluctuations in the demand for cash and replaces notes and coins that are unfit for circulation. The role of retailer, which includes the distribution and redemption of banknotes and coins, is assumed by commercial banks, Swiss Post and cash processing operators.

Turnover at offices

In 2009, the Swiss National Bank's offices registered currency turnover amounting to CHF 133.1 billion, as compared with CHF 126.7 billion a year earlier. They received a total of 482.1 million banknotes (2008: 436.8 million) and 1,729 tonnes of coins (2008: 1,761 tonnes). The SNB examined the quantity, quality and authenticity of the notes and coins. The incoming banknotes and coins were offset by an outflow of 483.7 million banknotes (2008: 456.0 million) and 2,289 tonnes of coins (2008: 2,305 tonnes).

Turnover at agencies

The agencies' turnover (incoming and outgoing) amounted to CHF 14.2 billion (2008: CHF 14.3 billion). Agencies are cash distribution services operated by cantonal banks on behalf of the SNB. They are responsible for the distribution and redemption of cash in the regions. In order to do this, the agencies have access to cash belonging to the SNB.

Deliveries by domestic correspondents

The SNB can grant banks the authority to act as correspondents in regions where it does not have its own operations. Together with the post offices, these banks perform part of the local cash redistribution transactions. The domestic correspondents delivered 1.9 million banknotes (2008: 1.8 million) with a total value of CHF 260.8 million (2008: 296.0 million) to the National Bank.

In August 2009, the SNB decided that, as of the end of May 2010, it would no longer support local cash redistribution between banks and post offices through its system of domestic correspondents. Over the past few years, this redistribution has steadily become less significant and has, most recently, contributed only very little to the supply and distribution of cash.

3.2 Banknotes

Mandate

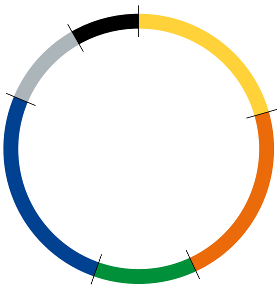
Pursuant to art. 7 of the Federal Act on Currency and Payment Instruments (CPIA), the SNB issues banknotes commensurate with demand for payment purposes and takes back any banknotes which are worn, damaged or surplus to requirements due to seasonal fluctuations. It also determines the denomination and design of the notes. Particular attention is paid to the security of the banknotes. Given the speed at which counterfeiting technology advances, the effectiveness of the security features on the banknotes must be continuously checked and, if necessary, adapted. In cooperation with third parties, the SNB develops new security features that make it possible to update the existing features on current banknotes and to better protect new banknotes.

Banknote circulation

In 2009, banknote circulation averaged CHF 45.3 billion, well above the previous year's average of CHF 41.3 billion. This is because only a small part of the banknotes that were additionally in demand owing to the financial crisis – predominantly CHF 1,000 banknotes – have returned to the SNB. In 2009, the total number of notes in circulation amounted to 315.6 million on average (2008: 303.4 million).

Issuance and disposal

In 2009, the SNB put 136.7 million (2008: 107.8 million) freshly printed banknotes with a face value of CHF 13.6 billion (2008: CHF 10.3 billion) into circulation, and destroyed 79.9 million (2008: 78.8 million) damaged or recalled notes with a nominal value of CHF 5.5 billion (2008: 4.9 billion).



Number of banknotes in circulation
In millions

CHF 10s: 65

CHF 20s: 71

CHF 50s: 39

CHF 100s: 82

CHF 200s: 33

CHF 1,000s: 26

Annual average for 2009

Roughly 4,900 counterfeit banknotes were confiscated in Switzerland in 2009 as compared with 3,100 a year earlier. The National Bank's offices discovered 84 counterfeit notes (2008: 70). By international standards, 16 seized counterfeit notes per million Swiss franc notes in circulation (2008: 10) is a relatively low figure.

Counterfeits

In connection with the production of the new banknote series, the project activities revealed that additional development work would bring improvements as regards those technological security features which are being used for the first time. The SNB therefore decided to postpone the issue date of the new banknote series. It expects that the first denomination of the new series can be issued in 2012. Given the consistently high security standard of the banknote series currently in circulation, a supply of high-quality banknotes to the economy remains guaranteed.

Development of new banknote series

3.3 Coins

The SNB is entrusted by the Confederation with the task of coin circulation. Its role is defined in art. 5 CPIA. It takes over the coins minted by Swissmint and puts into circulation the number required for payment purposes. Coins that are surplus to requirements are taken back against reimbursement of their nominal value. The National Bank's coinage services are not remunerated, as they constitute part of the mandate to supply the country with cash.

Mandate

In 2009, the average value of coins in circulation was CHF 2.7 billion (2008: CHF 2.6 billion), which corresponds to 4,661 million coins (2008: 4,535 million). Demand for coins remained high, in keeping with persistently robust consumer demand.

Coin circulation

4 Facilitating and securing cashless payment transactions

Mandate

In accordance with art. 5 para. 2 (c) of the National Bank Act (NBA), the Swiss National Bank (SNB) facilitates and secures the operation of cashless payment systems. Art. 9 NBA empowers the SNB to keep accounts (SNB sight deposit accounts) for banks and other financial market participants.

4.1 Facilitating cashless payment transactions

Banks and other selected financial market participants conduct a large proportion of their reciprocal payment transactions through the Swiss Interbank Clearing (SIC) system, which is steered by the SNB. Having an SNB sight deposit account is a prerequisite for participating in the SIC system.

SIC: a real-time gross settlement system

SIC is a real-time gross settlement system. Such systems settle payments individually – and only if there is sufficient cover for the transaction – on the accounts of the system participants. Once executed, transactions are irrevocable and final; they are comparable to cash payments. The SIC system is operated by SIX Interbank Clearing Ltd, a subsidiary of SIX Group Ltd, on behalf of the SNB.

SNB steers SIC

The SNB steers the SIC system. It transfers liquidity from the sight deposit accounts at the SNB to the settlement accounts in the SIC system at the start of each clearing day and transfers the balances from the settlement accounts back to the sight deposit accounts at the end of the clearing day. Legally, the two accounts form a unit. The clearing day in the SIC system starts at 5.00 pm and ends at 4.15 pm the following day. The SNB monitors operations and ensures that there is sufficient liquidity by granting, when necessary, intraday loans to banks against collateral. In addition, the National Bank is responsible for crisis management.

SIC agreements

The SIC agreement concluded between the SNB and SIX Interbank Clearing Ltd entrusts the latter with providing data processing services for the SIC system. The relationship between the SNB and the holders of sight deposit accounts is governed by the SIC giro agreement.

Based on the SIC agreement, the SNB requests and approves modifications and upgrades of the SIC system. It also has a seat on the Board of Directors of SIX Interbank Clearing Ltd and participates in various working groups on payments, through which it exerts its influence.

Participating in the SIC system

At the request of the SNB, SIX Group Ltd established a third data processing centre located outside the Zurich region. This new data centre, which can be swiftly put into operation should the two main data centres fail at the same time, became operational in October 2009.

Additional data processing centre

At the end of 2009, 376 participants were connected to the SIC system, as compared with 356 the previous year. Participants conducted approximately 1.5 million transactions each day amounting to CHF 225 billion. This is a year-on-year increase of 2.7% and decrease of 1.7%, respectively. On peak days, up to 4.8 million transactions were settled and transaction values of up to CHF 411 billion achieved.

Key figures on SIC system

Key figures on SIC system

	2005	2006	2007	2008	2009
Transactions (in thousands)					
Daily average	1 009	1 264	1 421	1 468	1 508
Peak daily value for the year	2 690	3 844	4 167	4 350	4 788
Value (in CHF billions)					
Daily average	161	179	208	229	225
Peak daily value for the year	247	318	337	343	411
Average amount per transaction (in CHF thousands)					
	160	141	146	156	149
Average liquidity (in CHF millions)					
Sight deposits, end of day	4 856	5 217	5 470	8 522	57 886
Intraday liquidity	6 340	7 070	8 828	9 515	6 362

Other bodies responsible for cashless payments

In addition to the banks, non-banks and other financial market participants also take part in the SIC system. Other financial market participants comprise companies that operate commercially on the financial markets. They include PostFinance, securities dealers and institutions that are of importance either for the implementation of monetary policy or for settling payment transactions (at present, five cash-processing institutions). All participants in the SIC system must have a sight deposit account with the SNB. By contrast, not all sight deposit account holders participate in the SIC system. SNB figures show a total of 485 sight deposit account holders as at 31 December 2009 (2008: 466), 376 (356) of which participated in the SIC system. The majority of SIC participants – 239 (238) – are domiciled in Switzerland, 15 (13) of which are non-banks and other financial market participants.

SIX Group as operator of the financial market infrastructure

The giro and SIC system steered by the SNB is a key element of the Swiss financial market infrastructure, which is operated by SIX Group Ltd, a financial holding company comprising SIX Interbank Clearing Ltd, the Swiss stock exchange (SIX Swiss Exchange Ltd), SIX SIS Ltd as the company operating the securities settlement system SECOM, and SIX x-clear Ltd as the central counterparty. It is through SIX Interbank Clearing Ltd and SIX SIS Ltd that the SNB settles the money market transactions with which it supplies the money market with liquidity. It is thus not just in the area of payments that SIX Group Ltd operates infrastructures that are important for the fulfilment of the SNB's mandate.

4.2 Oversight of payment and securities settlement systems

Mandate

The NBA (art. 5 para. 2 (c) and arts. 19–21 NBA) requires the SNB to oversee systems for the clearing and settlement of payments (payment systems) and transactions involving financial instruments, especially securities (securities settlement systems). It empowers the SNB to impose minimum requirements on the operation of systems that might be a source of risk to the stability of the financial system. The National Bank Ordinance (NBO) lays down the details of system oversight (arts. 18–39 NBO).

Focus on systemically important systems

At present, the systems that could harbour risks for the stability of the financial system include the SIC system, the SECOM securities settlement system and the central counterparty x-clear. The operators of these systems, SIX Interbank Clearing Ltd, SIX SIS Ltd and SIX x-clear Ltd, must meet the minimum requirements set out in arts. 22–34 NBO. The SNB has provided further details on these minimum requirements in its system-specific control objectives.

Liquidity in SIC

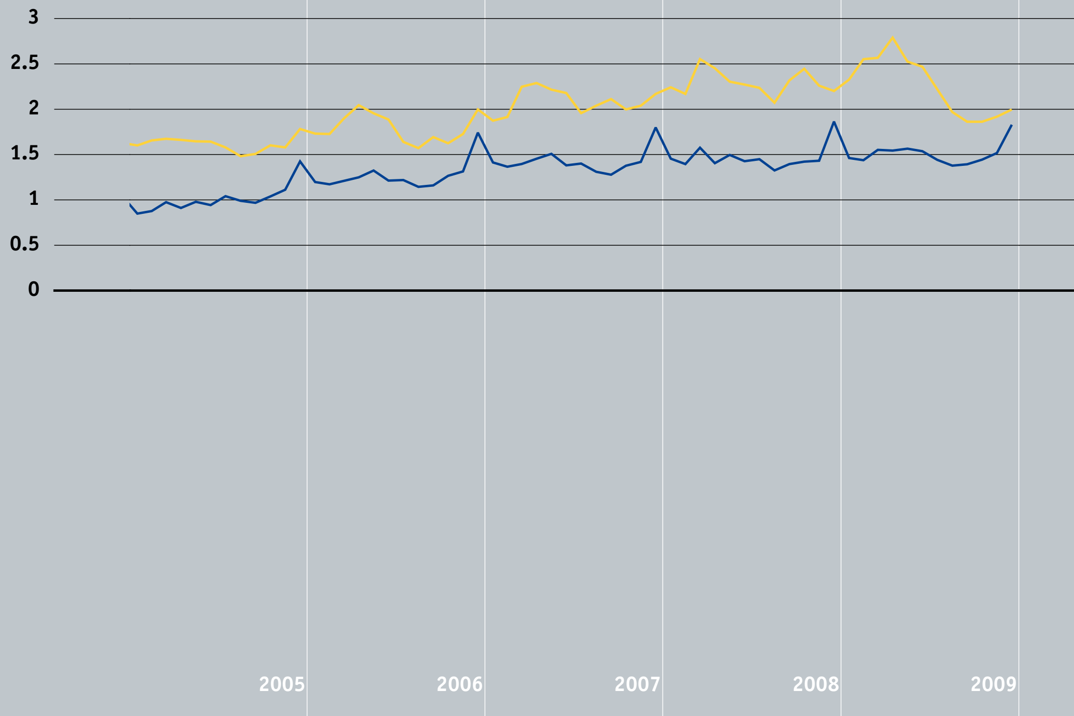
Intraday drawdowns by banks
Sight deposits

Monthly averages of daily figures, in CHF billions

Transactions and turnover in SIC

Number of transactions (in millions)
Turnover (in CHF 100 billions)

Monthly averages of daily figures



Other systems that are important for the stability of the Swiss financial system are the Continuous Linked Settlement (CLS) foreign exchange settlement system, whose operator is based in the US, and the central counterparty LCH.Clearnet Ltd (LCH) domiciled in the UK. CLS and LCH are exempted from the obligation to meet the minimum requirements because they are already subject to adequate oversight by their local regulators and there is a smooth exchange of information with the SNB.

Eurex Clearing as a systemically relevant system

In 2009, the SNB classified Eurex Clearing, which is domiciled in Germany, as relevant to the stability of the Swiss financial system. Eurex Clearing is the central counterparty for the Eurex exchanges, on which, among other securities, derivatives based on Swiss underlying assets and denominated in Swiss francs are traded. The key factors for this classification were the high clearing volume and the comparatively large number of Swiss participants, as well as the absence of alternatives for the clearing of derivatives based on Swiss underlying assets, and Eurex Clearing's links to systemically relevant Swiss financial market infrastructures.

Cooperation with FINMA

SIX SIS Ltd and SIX x-clear Ltd, which operate the SECOM and x-clear systems respectively, both hold banking licences and are subject to prudential supervision by the Swiss Financial Market Supervisory Authority (FINMA) as well as to system oversight by the SNB. While prudential supervision aims primarily at protecting individual creditors, system oversight focuses on the functioning of the financial system and the risks to which it is exposed. Although FINMA and the SNB exercise their supervisory and oversight powers separately, they coordinate their activities (art. 21 para 1 NBA and 23bis para 4 Banking Act). This applies in particular to the collection of information required for the supervision of institutions and the oversight of systems. When assessing whether a system operator complies with the minimum requirements, the SNB relies on the information already gathered by FINMA.

Cooperation with authorities abroad

The SNB cooperates with authorities abroad in the oversight of cross-border payment and securities settlement systems. In the case of CLS, the Federal Reserve Bank of New York – which is the authority with primary responsibility for its oversight – works with all central banks whose currencies are settled through this system. As regards the central counterparties LCH and x-clear (the latter qualifies as a recognised overseas clearing house (ROCH) in the UK), the SNB and FINMA cooperate with the Financial Services Authority (FSA) and the Bank of England.

In connection with the efforts of x-clear, the central counterparty, to extend its services to further exchanges and multilateral trading facilities in Europe, the SNB worked together with the Nederlandsche Bank (Dutch central bank) and with Nordic central banks as well as various supervisory authorities for the first time in 2009.

Finally, the SNB participates – together with the other central banks in the Group of Ten (G10) and under the leadership of the Belgian central bank – in the oversight of the Belgium-based Society for Worldwide Interbank Financial Telecommunication (SWIFT), which operates a global network for the transmission of financial information. Oversight focuses on those activities of SWIFT that are of significance for financial stability in general and for the functioning of financial market infrastructures in particular.

Compliance with regulatory requirements high

In 2009, the SNB assessed compliance with regulatory requirements by the system operators SIX Interbank Clearing Ltd, SIX SIS Ltd und SIX x-clear Ltd. The assessment covered the operators' corporate governance, the management and monitoring of settlement risk, and the systems' IT and information security. The SNB concluded that compliance with the requirements was high in all areas assessed.

Corporate governance

The assessment with regard to corporate governance showed that the system operators are appropriately structured and well managed, and have adequate internal systems of control.

Risk management

The SIC, SECOM and x-clear systems have rules and procedures in place which contribute to the reduction of settlement risk. The instruments they are using for the ongoing recording, limiting and monitoring of the credit and liquidity risks are adequate.

IT and information security

To assess the systems' IT and information security, the SNB relies mainly on external auditors. In 2009, the audits, whose scope and degree of detail are determined by the SNB, focused on electronic data exchange, access control and business continuity management. The external auditor's report concluded that the regulatory requirements were largely complied with and contains a series of recommendations.

Other principal areas of systems oversight

The SNB supported the establishment of a third national data processing centre by the system operators. It also worked towards further improving the financial sector's provisions for a possible operational crisis. This project is being coordinated by the steering committee on business continuity planning in the Swiss financial centre, which includes representatives from the system operators, the larger banks, FINMA and the SNB. At the beginning of September, the steering committee published a report informing on key milestones achieved in the past few years and on the tasks remaining to be done. At the end of November, the SNB organised, on behalf of the steering committee, a scenario-based, financial-sector-wide crisis exercise in order to test the existing alarm and crisis organisation. The insights gained in this exercise will be integrated in the further work of the steering committee.

Strengthening the global market infrastructure for derivatives

At the initiative of the Federal Reserve Bank of New York, the Over-the-Counter (OTC) Derivatives Regulators' Forum was set up by central banks and financial market regulators in the spring of 2009. As a member of this forum, which now comprises around 40 central banks and financial market supervisory authorities, the SNB supports its efforts to strengthen the global market infrastructure for clearing and settling over-the-counter derivatives transactions. These efforts are, on the one hand, aimed at centrally recording the most important derivatives transactions and thus enhancing market transparency. On the other, the intention is to have derivatives transactions increasingly cleared through central counterparties. Central counterparties facilitate the market participants' risk management and reduce the complexity of the financial system. A market infrastructure that reduces the interconnections between the individual financial institutions could, in the case of crisis, contribute to facilitating an orderly liquidation of financial institutions which, owing to their size and interconnectedness, cannot be allowed to go bankrupt ('too big to fail' and/or 'too interconnected to fail').

4.3 TARGET2-Securities

T2S in the euro area

In 2008, the European Central Bank (ECB) decided to launch the TARGET2-Securities (T2S) project, a new securities settlement system. T2S aims to replace the various national securities settlement systems currently in operation, either totally or partially, and to drastically reduce the cost of settling cross-border securities transactions within the euro area. The service is due to be operational in 2013.

Participation of SIX SIS Ltd

In July 2009, SIX SIS Ltd and other central securities depositories signed a memorandum of understanding with the ECB, in which the contracting parties expressed their intention of creating a joint framework agreement. This agreement, due to be signed in 2010, is to regulate the development and operation of T2S. Participation by SIX SIS Ltd in T2S with euro-denominated securities would enable Swiss financial market participants to settle cross-border securities transactions in a more cost-effective way. The SNB backs the participation on the condition that SIX SIS Ltd can continue to provide it with services of the same quality standards as at present.

5 Asset management

5.1 Basic principles

Mandate

Under art. 5 para. 2 of the National Bank Act (NBA), the Swiss National Bank (SNB) is responsible for managing the currency reserves. Asset management is governed by the primacy of monetary policy and is carried out in accordance with the criteria of security, liquidity and return. The SNB's own *Investment Policy Guidelines* define the scope for its investment activity and for the investment and risk control process. Within this framework, investments are made in line with the principles of modern asset management. Investment diversification aims at achieving an appropriate risk/return profile.

Function of assets

The SNB's assets consist, on the one hand, of currency reserves (foreign exchange and gold) and, on the other, of financial assets in Swiss francs (securities and claims from repo transactions). Both fulfil important monetary policy functions. Their composition is determined mainly by the established monetary order and the requirements of monetary policy. Some of the assets are used directly for the implementation of monetary policy – in particular, claims from repo transactions. Using repo transactions, the SNB supplies commercial banks with liquidity in the form of base money by purchasing securities from them. The SNB holds currency reserves in the form of foreign exchange and gold in order to ensure it has room for manoeuvre in monetary policy at all times. These reserves also serve to build confidence and to prevent and overcome potential crises.

Loan to stabilisation fund

The US dollar loan granted to the stabilisation fund in autumn 2008 is not part of the currency reserves. Its purpose is to finance the acquisition of illiquid assets from UBS. The stabilisation fund managed by the SNB plans to successively liquidate the assets that have been acquired. Income from the stabilisation fund portfolio (interest, sales and redemptions) is used to repay the loan. Since the SNB was able to fully refinance the loan in the market by issuing its own debt certificates in US dollars, no foreign exchange reserves had to be used for this purpose. Further information on the stabilisation fund may be found in chapter 6.5 of the accountability report and in the financial report, pp. 163 et seq.

5.2 Investment and risk control process

Responsibilities of Bank Council and Risk Committee

The NBA defines the SNB's responsibilities and describes in detail its mandate with regard to asset management. The Bank Council is charged with the integral oversight of the investment and risk control process. Its role is to assess the underlying principles and monitor compliance with them. The Risk Committee – which is composed of three members of the Bank Council – supports the Bank Council in this task. In particular, it monitors risk management. Internal risk management reporting is addressed directly to the Governing Board and the Risk Committee.

Responsibilities of Governing Board

The Governing Board defines the requirements with regard to the security, liquidity and return of investments, as well as the eligible currencies, investment categories, instruments and debtors. It decides on the level and composition of the currency reserves and other assets, and defines the investment strategy once a year. The investment strategy encompasses the allocation of total assets to the different portfolios and the guidelines for their management, in particular the allocation to different currencies and investment categories, and the scope for active management at the operational level.

Responsibilities of Investment Committee and Portfolio Management

An internal committee, the Investment Committee, determines the tactical allocation of the foreign exchange reserves at operational level. Within the strategically prescribed range, it adjusts currency weightings, terms and allocation to the different investment categories, to take account of changed market conditions. The management of the portfolios is the responsibility of Portfolio Management. The majority of investments are managed by internal portfolio managers. External asset managers are used to obtain efficient access to special investment categories and to conduct performance comparisons with internal portfolio management. To avoid conflicts of interest, operational responsibilities for monetary policy and investment policy operations are largely kept separate.

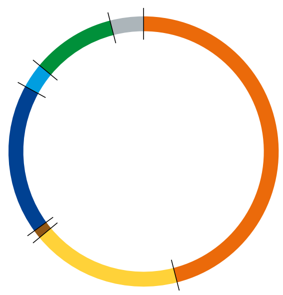
Responsibilities of Risk Management

The investment strategy is based on requirements specific to central banks as well as comprehensive risk/return analyses. Risk is managed by means of a system of reference portfolios, guidelines and limits. All relevant financial risks on investments are identified, assessed and monitored continuously. Risk measurement is based on standard risk indicators and procedures. In addition to these procedures, sensitivity analyses and stress tests are carried out on a regular basis. The SNB's comparatively long-term investment horizon is taken into account in all of these risk analyses. To manage and assess credit risk, information from major rating agencies, market indicators and in-house analyses are used. Credit limits are set, based on this information, and adjusted whenever the assessment of counterparty risk changes. Concentration and reputation are also factored in when determining risk limits. Risk indicators are aggregated across all investments. Compliance with the guidelines and limits is monitored daily. Quarterly risk reports to the Governing Board and the Bank Council's Risk Committee document the results of risk management activities.

5.3 Breakdown of assets

Breakdown of assets

At CHF 207 billion, total assets remained relatively stable year-on-year (CHF 214 billion). However, the composition has changed. While *balances from swap transactions against Swiss francs* and *claims from repo transactions* declined substantially, the level of currency reserves rose. At the end of 2009, currency reserves amounted to CHF 140 billion or CHF 61 billion higher than a year previously. This increase was mainly due to foreign exchange purchases (some CHF 45 billion); about CHF 7 billion was attributable to the rise in the price of gold and CHF 5 billion to the additional allocation of special drawing rights (SDR) by the International Monetary Fund (IMF). At the end of the year, balances from EUR/CHF swap transactions amounted to almost CHF 3 billion. In addition, at the end of 2009, the SNB held Swiss franc assets in the form of *claims from repo transactions* amounting to CHF 36 billion and *claims from bonds* for almost CHF 7 billion. At end-2009, the *loan to the stabilisation fund* came to CHF 21 billion. It is denominated in different currencies, with interest being paid at the one-month Libor for the currency in question plus 250 basis points.



Breakdown of SNB assets
In percent

Foreign exchange reserves 46

Gold reserves 18

EUR/CHF swaps 1

Claims from Swiss franc repo transactions 18

Securities in Swiss francs 3

Loan to stabilisation fund 10

Monetary institutions 4

Total: CHF 207 billion
At year-end 2009

Debtor categories and instruments

At the end of 2009, the bond portfolios in the foreign exchange reserves and the Swiss franc bond portfolio contained government and quasi-government bonds as well as bonds issued by international organisations, local authorities, financial institutions (essentially covered bonds) and other companies. In the case of foreign exchange reserves, a limited number of secured and unsecured short-term placements were also made at banks. The equity portfolios were managed on a purely passive basis, with broad market indices in euros, US dollars, yen, pounds sterling and Canadian dollars being replicated. A small portion of gold holdings was used in the form of secured gold lending transactions at year-end.

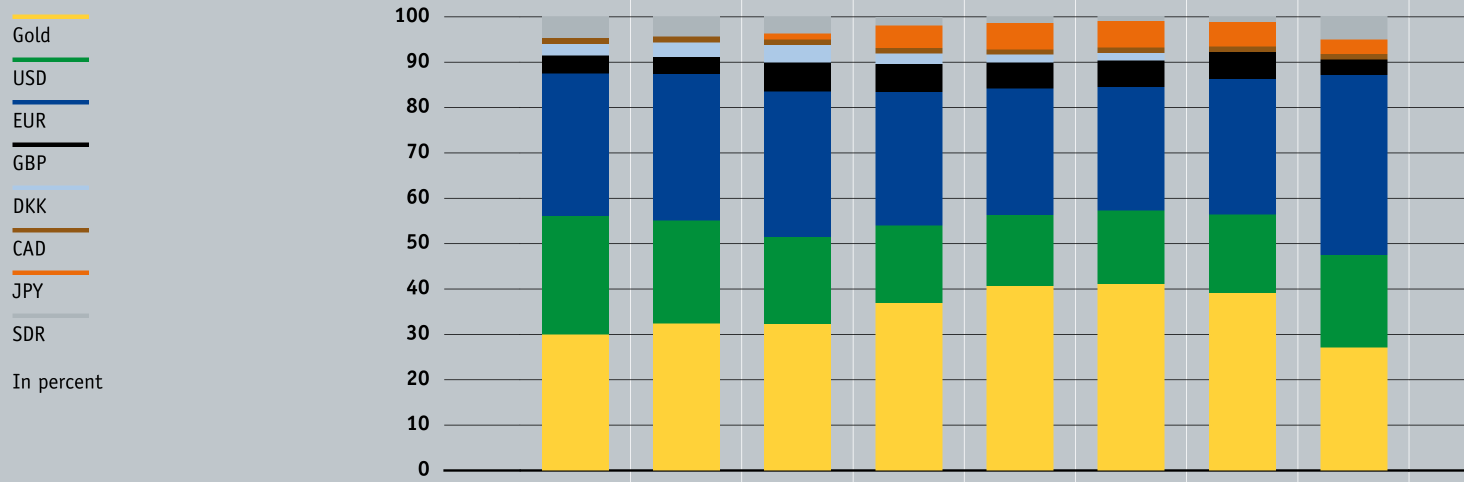
In the case of foreign exchange reserves, exchange rate and interest rate risks were managed using derivative instruments, such as interest rate swaps, interest rate futures, forward foreign exchange transactions and foreign exchange options. In addition, futures on equity indices were used to manage the equity investments.

Breakdown of foreign exchange reserves and Swiss franc bond investments

	2008		2009	
	Foreign exchange reserves	CHF bonds	Foreign exchange reserves	CHF bonds
Currency allocation, incl. derivatives positions				
CHF	–	100%	–	100%
USD	29%	–	30%	–
EUR	50%	–	58%	–
JPY	9%	–	5%	–
GBP	10%	–	5%	–
CAD	2%	–	2%	–
Investment categories				
Money market investments	3%	–	0%	–
Government bonds[1]	66%	40%	84%	19%
Other bonds[2]	19%	60%	9%	81%
Equities	12%	–	7%	–
Risk indicators				
Duration of bonds (years)	4.1	4.9	3.3	5.3

1 Government bonds in their own currencies; in the case of CHF investments, also bonds issued by Swiss cantons and municipalities.
2 Government bonds in foreign currencies as well as bonds issued by foreign local authorities and supranational organisations, covered bonds, corporate bonds, etc.

Breakdown of currency reserves



2002 2003 2004 2005 2006 2007 2008 2009

Changes in investment allocation

The additional euros and US dollars acquired during the course of the year were invested in short to medium-term government bonds. Consequently, the share of government bonds increased at the expense of other investment categories. The average duration fell and the share of the main investment currencies rose. At the end of 2009, the share of gold in the currency reserves was lower than a year previously because the level of foreign exchange reserves rose faster than the value of the unchanged gold holdings. Holdings of Swiss franc securities rose as a result of the purchases of bonds issued by private sector borrowers aimed at reducing risk premia in the capital market. Consequently, the share of government bonds in the Swiss franc portfolio declined. Most of the purchases related to Swiss mortgage bonds while the rest were for bonds issued by Swiss industrial companies.

5.4 Risk profile

Risk profile ...

The main risk to the assets is market risk, i.e. gold price, exchange rate, share price and interest rate risks. Market risk is managed primarily through diversification. The SNB counters liquidity risks by holding a considerable part of its investments in the world's most liquid currencies and bond markets. To a limited extent, it also takes credit risk. The risk incurred in connection with the loan to the stabilisation fund is discussed in chapter 6.5 of the accountability report and in the financial report, in the section Financial information on the stabilisation fund.

... of currency reserves

The allocation of currency reserves between gold and the different currencies and diversification into various investment segments has contributed to an even risk/return profile for the currency reserves. Nevertheless, the absolute risk increased substantially due to the increase in the overall level of currency reserves. The duration of fixed income investments at the end of 2009 was somewhat over three years. The SNB only took credit risk to a limited extent. The price of gold and exchange rates continued to be the most important risk factors, with exchange rate risk making an increased contribution to total risk due to the larger share of foreign exchange reserves. Exchange rate risk on foreign exchange reserves is not hedged against Swiss francs as a matter of principle, because such hedging would restrict the SNB's capacity to act. Changes in the value of the Swiss franc, therefore, have a direct impact on the value of the foreign exchange reserves.

The SNB considerably extended both the terms and the volumes of its monetary policy transactions during the first half of the year in order to combat the financial crisis. Alongside short-term repo transactions, it also concluded transactions with terms of up to one year. However, the credit risk on these transactions was minimal, since the claims were secured by first-class collateral. Collateral was valued twice a day and any shortfall had to be covered immediately. In the case of swap transactions against euros for the provision of Swiss franc liquidity, the SNB incurred no exchange rate or interest rate risk, and practically no credit risk. Credit risk was limited by deducting a percentage haircut from the reference exchange rate. Moreover, the SNB retained the right to request additional collateral, if the cover posted in euros were to fall below the Swiss franc amount outstanding.

… of monetary policy transactions

The Swiss franc bond portfolio contained first and foremost Swiss mortgage bonds. In addition there were bonds issued by the Confederation, the cantons and foreign borrowers as well as a small number of Swiss industrial bonds held as a result of the measures carried out in support of the Swiss franc capital market. The duration of the portfolio amounted to a good five years.

… of Swiss franc bonds

The SNB was exposed to credit risk through bond investments relating to various borrowers and borrower categories. These included bonds issued by public and supranational issuers as well as covered bonds and similar instruments. In addition, corporate bonds totalling CHF 2.6 billion were held in the foreign exchange reserves. Credit risk arising from non-tradable instruments with respect to banks existed in the form of short-term deposits (CHF 0.0 billion) and replacement values of derivatives (CHF 0.1 billion). Gold lending (CHF 3.4 billion) did not entail any significant credit risk, as these operations were secured by bonds with above-average credit ratings.

Credit risk

Overall, credit risk was relatively low, since most of the investments were held in the form of top-quality government bonds. An overwhelming proportion of the investments (84%) bore the highest rating (AAA). As in 2008, the lowest rating category still eligible for investment (BBB) accounted for approximately 1% of total investments at year-end.

The SNB has high standards with regard to the liquidity of its investments. At the end of 2009, almost 90% of foreign exchange reserves were denominated in the major two currencies, euros and US dollars, with highly liquid government bonds accounting for a large proportion of these.

Liquidity risk

Higher balance sheet risk

The rise in the number of risky assets was not matched by a comparable increase in equity capital. Consequently, the ratio of equity capital to risky assets deteriorated substantially. In addition, at the end of 2009, about one-third of equity capital was accounted for by the distribution reserve. Unlike the higher level of currency reserves, however, the distribution reserve will only remain on the SNB balance sheet for a limited period. Once it has been transferred, the SNB's financial resilience will no longer be guaranteed to the same extent as before the crisis.

Setting aside additional provisions

Consequently, the SNB decided to take measures to strengthen its equity capital and balance sheet in the long-term. This can only be achieved if the SNB steps up its provisioning above the current level. In the past, it has increased its provisions annually at a rate equivalent to average nominal GDP growth for the preceding five years. This allocation will now be doubled each year from 2009 to 2013 (cf. financial report, pp. 118 et seq.).

5.5 Investment performance

Investment performance is calculated for currency reserves (foreign exchange and gold reserves) and for Swiss franc bonds, while earnings on monetary policy operations are excluded from the calculation of return.

In 2009, financial markets recovered from the crisis. Risk premia on bonds declined and share prices rose. As a result, positive returns were achieved on all investments. On currency reserves, the return was 11%. The Swiss franc value of the gold reserves rose by 24% due to the surge in the price of gold. This gives a yield of 4.8% on the foreign exchange reserves, measured in terms of Swiss francs. The Swiss franc appreciated against the US dollar and the yen and lost value against the pound sterling and the Canadian dollar. It remained more or less steady against the euro. The return on Swiss franc bonds was 4.3%.

Return on investments[1]

	Currency reserves					CHF bonds
	Total	Gold	Foreign exchange reserves			Total
			Total	Currency return	Return in local currency	
1999			9.7%	9.2%	0.4%	0.7%
2000	3.3%	–3.1%	5.8%	–2.0%	8.0%	3.3%
2001	5.2%	5.3%	5.2%	–1.2%	6.4%	4.3%
2002	1.4%	3.4%	0.5%	–9.1%	10.5%	10.0%
2003	5.0%	9.1%	3.0%	–0.4%	3.4%	1.4%
2004	0.5%	–3.1%	2.3%	–3.2%	5.7%	3.8%
2005	18.9%	35.0%	10.8%	5.2%	5.5%	3.1%
2006	6.9%	15.0%	1.9%	–1.1%	3.0%	0.0%
2007	10.1%	21.6%	3.0%	–1.3%	4.4%	–0.1%
2008	–6.0%	–2.2%	–8.7%	–8.9%	0.3%	5.4%
2009	11.0%	23.8%	4.8%	0.4%[2]	4.4%	4.3%

1 Cumulated returns, time-weighted daily returns.
2 In the 'Currency return' column, a slightly positive return is stated for 2009. However, in absolute terms, an exchange rate loss was realised on the exchange rate reserves (cf. financial report, p. 145). The difference can be explained by the way in which the percentage return is calculated (cumulated daily returns). The limitations of this method become evident when the volume of assets changes substantially within the space of one year, as was the case in 2009 for the foreign exchange reserves. When calculating the percentage return, exchange rate profits on the smaller holdings in the first half of the year and exchange rate losses on the larger holdings in the second half of the year were given the same weighting. However, with respect to the absolute amounts, the exchange rate losses in the second half of the year exceeded the profits in the first half of the year.

6 Contribution to financial system stability

Mandate

Pursuant to art. 5 para. 2 (e) of the National Bank Act (NBA), the Swiss National Bank (SNB) is obliged to contribute to the stability of the financial system. The SNB makes every effort to identify any potential risks to the stability of the financial system at an early stage. It also plays an active role in creating a regulatory environment that promotes stability. In so doing, it works in conjunction with the Swiss Financial Market Supervisory Authority (FINMA). The SNB focuses on macroprudential oversight.

Lessons from the financial crisis and implementation of measures

In 2009, the SNB's activities in the area of financial stability were shaped extensively by the financial crisis. Together with FINMA, the SNB continued to closely monitor developments in the banking system and the financial markets. A major focus of attention was the implementation of measures to improve financial stability at national and international level. The new liquidity regulations for the big banks began to take shape in 2009. In addition, last year saw the start of efforts, together with FINMA, to tackle the 'too big to fail' issue. This describes the constraint imposed by the fact that, for systemic reasons, banks which are very large or highly interconnected at national and international level cannot be allowed to fail, and thus enjoy a de facto state guarantee. The SNB was also actively involved in a number of international bodies discussing how to improve regulation and resolve the 'too big to fail' issue (Basel Committee on Banking Supervision and Financial Stability Board).

6.1 Monitoring the financial system

Financial Stability Report

In June 2009, the SNB published its annual *Financial Stability Report*. The report's main focus was the rapid deterioration in the global economic and financial situation, and the consequences for Swiss banks. The different bank categories were affected to varying degrees. The big banks continued to face considerable risks. In addition to market risk, credit risk became more significant as a result of the global recession. The SNB assessed the big banks' total risk exposure as material, not just in absolute terms, but also relative to their ability to absorb future losses.

Compared to the big banks, banks with a domestic business focus – cantonal banks, regional banks and Raiffeisen banks – presented a more favourable picture. The average profitability of these banks in 2008 was still above the long-term average. Their capital base was high and they were able to build up their liquidity reserves. The report pointed out, however, that they would also feel the effects of the economic downturn in 2009.

Signs of stabilisation

In the second quarter of 2009, there were first signs that the global economy was stabilising. Financial markets began to rally and GDP forecasts were revised upwards for a number of countries. The recovery on financial markets had a favourable effect on international big banks' results in particular. In Switzerland, Credit Suisse announced a return to profit in 2009. UBS, which had been harder hit by the crisis, recovered more slowly.

Intensified oversight of big banks

In view of the fact that economic conditions remained difficult and leverage was still high, the SNB, in collaboration with FINMA, continued its intensified oversight of the two big banks in 2009. This oversight was based, first, on an assessment of bank-internal and publicly available information, as well as face-to-face discussions with the institutions. Second, it used FINMA's Loss Potential Analysis, which is in turn based on a scenario developed by the SNB. This analysis estimates the big banks' potential for loss in the event of a further severe deterioration in macroeconomic conditions. The results were published in October 2009. In addition, work continued on the development of new monitoring tools. For example, the SNB and FINMA jointly drew up a framework for standardised stress tests. This standardisation is aimed at improving the comparability of results, both over time and between the two big banks.

6.2 Measures to strengthen financial stability

Efforts in 2009 centred around the new liquidity regulations for the big banks, as well as the 'too big to fail' issue.

Higher capital requirements

Supported by the SNB, the Swiss Federal Banking Commission (FINMA's predecessor) had already decided in 2008 to raise the capital requirements for the big banks with effect from 2013. In order not to hamper the economic recovery, these requirements will be implemented gradually, starting in 2010. As of 2013 both the big banks will have to hold, in good times (i.e. in principle, whenever they are in profit), at least 100% more surplus capital than stipulated in the Banking Ordinance. As a complementary measure, a maximum leverage ratio was introduced for the big banks. From 2013 they must hold capital amounting to at least 3% of their consolidated balance sheet total at all times. In good times, the capital ratio must be 5%.

Liquidity regulations geared towards crisis scenarios

The new liquidity regulations for the big banks take into account all balance sheet and off-balance-sheet items of relevance in liquidity considerations, and are based – as far as possible – on the banks' own liquidity management principles. The qualitative requirements are aligned with the Basel Committee's *Principles for Sound Liquidity Risk Management and Supervision*. The quantitative liquidity requirements are based on stress scenarios defined by FINMA and the SNB. The big banks each estimate the impact of these scenarios on their liquidity. If the banks' resilience to the given scenarios proves insufficient, the authorities will require them to adjust their liquidity.

In the third quarter of 2009, the testing and calibration phase began, in which the big banks reported their liquidity according to the new principles and on a consolidated basis. The new liquidity regulations are due to come into force in 2010. In view of the ongoing tensions in the economic environment, they will be introduced gradually.

The 'too big to fail' issue

FINMA and the SNB examined the 'too big to fail' issue in great detail. A joint project was launched, in which the current state of affairs was assessed and potential solutions were formulated. They also considered measures relating to organisational structure, crisis management, size limitation and prudential requirements. The Swiss Confederation set up a group of experts to address the 'too big to fail' issue; FINMA and the SNB are represented in this group.

6.3 International cooperation on financial market regulation

Basel Committee on Banking Supervision

In 2009, the Basel Committee on Banking Supervision focused on further improvements to the Basel II capital adequacy framework, and approved a package of measures aimed at improving the identification of risks as part of capital adequacy regulation and at correcting false risk incentives. It also discussed five measures intended to further strengthen banking sector oversight.

First, as regards equity, the predominant form of Tier 1 capital must now be common equity and retained earnings, in order to increase the quality, consistency and transparency of the capital base.

Second, as a complement to the risk-weighted measures under Basel II, it is planned to introduce a leverage ratio. This should be internationally harmonised and should take account of divergences in accounting standards.

Third, in addition to the minimum capital requirements, a system of countercyclical capital buffers should be introduced. Capital should be built up in good times, so that it can be drawn upon in periods of stress. A variety of indicators are being examined for their potential use in steering the build-up and reduction of capital buffers. Also under discussion is the possibility of limiting dividends in order to conserve the capital base in the event of the buffer having to be drawn upon. Since these measures counteract excessive credit growth in boom periods, they help to prevent systemic risk in the banking system.

Fourth, to increase the resilience of international banks, the Basel Committee drew up a global minimum liquidity standard. The aim is to ensure that financial institutions build up a liquidity buffer which allows them to remain liquid under short and medium-term stress scenarios.

Finally, the Basel Committee plans to examine the need for additional capital requirements for systemically important banks.

Financial Stability Board

In April 2009, the Financial Stability Forum (FSF) was re-established as the Financial Stability Board (FSB), and was given a broadened mandate by the G20 to promote financial stability. Switzerland is represented on the Steering Committee of the FSB by the Chairman of the SNB's Governing Board. It is represented on the Standing Committee on Supervisory and Regulatory Cooperation by the Chairman of FINMA's Board of Directors, and on the Standing Committee on Standards Implementation by the Director of the Federal Finance Administration.

The reforms proposed by the FSB are aimed at increasing the resilience of the financial system and, in particular, ensuring that leverage levels no longer become excessive. Another objective is to prevent the financial system from taking on excessive risk at the expense of society as a whole. Important elements are higher capital requirements, improved liquidity regulation, a resolution of the 'too big to fail' issue and the introduction of sound compensation practices.

The SNB was actively involved in drawing up the associated package of measures. In addition, it headed a working group to draw up principles for sound compensation practices.

6.4 Survey on bank lending

No signs of a credit crunch

According to the quarterly survey of banks' lending operations, launched in early 2008, there was a further tightening of banks' lending policies in the first two quarters of 2009. However, the third quarter saw the first signs of a stabilisation, and this was confirmed in the fourth quarter. Credit volume growth continued to slow, but remained positive. Both the survey results and the SNB's lending statistics show that there was no credit crunch in Switzerland.

6.5 Stabilisation fund

Overview

In autumn 2008, the Federal Council, the Swiss Federal Banking Commission (SFBC; now FINMA) and the SNB adopted a package of measures to strengthen the Swiss financial system. This primarily involved the acquisition of mandatory convertible notes by the Confederation so as to strengthen UBS's capital base and the purchase of illiquid assets by the SNB from UBS in order to provide the big bank with liquidity and restore the confidence that was lost as a result of the crisis. Based on arts. 5 and 9 NBA, the Governing Board of the SNB approved the purchase of UBS assets on 15 October 2008.

Establishment of stabilisation fund

A special purpose vehicle was set up to carry out the transaction. The SNB StabFund Limited Partnership for Collective Investment (stabilisation fund) was licensed by the SFBC on 25 November 2008 and entered in the commercial register of the Canton of Berne on 27 November 2008. The stabilisation fund is managed by the SNB, which also holds the majority of seats on the five-member Board of Directors.

Assessment

The fact that the portfolio suffered a major loss in market value in the months following the assumption of the asset risk confirmed that the package of measures had indeed been necessary. Without the burden of the illiquid assets and strengthened by the Confederation's mandatory convertible notes, the situation at UBS stabilised to a large extent in 2009. This in turn made the stabilisation of the Swiss financial system possible.

Organisation and legal structure

Legal structure

Liability and tax law considerations were the main reasons for structuring the stabilisation fund as a limited partnership for collective investment. Owing to the diversity of the assets, an expansion of the fund's legal structure became necessary in the course of 2009. This involved setting up additional sub-companies so that certain assets could be purchased and managed in accordance with legal provisions. Such assets include non-securitised loans to borrowers domiciled abroad and real estate which was taken over from borrowers as a result of foreclosures.

Furthermore, both the foreclosures and the deterioration in the credit standing of borrowers called for constant monitoring and, where necessary, the transfer of assets within the fund.

Organisation

The stabilisation fund comprises two partners: StabFund (GP) AG, a general partner bearing unlimited liability, and LiPro (LP) AG, a limited partner bearing limited liability. The general partner is responsible for the management of the fund.

The Board of Directors of StabFund (GP) AG, which comprises three representatives from the SNB and two representatives from UBS, is in charge of the overall management, supervision and control of the fund.

The operational management is entrusted to the general manager, who is supported by a team responsible for the following functions: Risk Control, Market Intelligence/Portfolio Management, Legal and Compliance and the Corporate Secretariat. The team is made up of SNB members of staff. The SNB is also responsible for the financial and fund accounting, taxation and other infrastructure services, and is recompensed by the stabilisation fund.

The operational management of the portfolio was outsourced to UBS, which provides a team of specialists; largely located in New York and London. UBS receives a portfolio management fee for its services, which will only be paid out once the loan has been repaid in full.

Northern Trust was designated as the fund's custodian and is responsible for the custody and settlement of the assets. It also fulfils functions in the areas of accounting and reporting.

The stabilisation fund also receives specialist support from external advisors in connection with legal, organisational and asset management issues.

Purchase of assets

Assets acquired

The asset risk was assumed by the stabilisation fund on 30 September 2008. Although it was originally announced that the fund would purchase a maximum of USD 60 billion, it ultimately took over assets totalling USD 38.7 billion. The actual transfer was divided into three tranches and was carried out between December 2008 and April 2009.

Valuation

Each transfer was preceded by a valuation process, whereby the UBS book value as at 30 September 2008 was compared with the average valuations carried out by one or more independent valuation agents on the same reference date. The lower of the two valuations determined the purchase price. The difference between the purchase price and the UBS valuation was USD 1 billion – or 2.5% of the portfolio – at the expense of UBS.

Assets not acquired

In January 2009, it was agreed that assets totalling USD 16.4 billion would be excluded from the transfer. Among the assets to be excluded were securities backed by student loans as well as assets that had been wrapped by monoline insurers. The decision to exclude these assets was taken after an in-depth assessment of the situation and having previously briefed FINMA.

Capitalisation and loss protection

The asset transfer was financed by an SNB loan accounting for 90% of the transfer; the remaining 10% – which also serves as primary loss protection for the SNB – was financed by UBS. The National Bank received further loss protection in the form of a warrant for 100 million UBS shares at nominal value should it incur a loss on its loan upon liquidation of the assets. In return, UBS was granted the option to repurchase the stabilisation fund in the event of full repayment of the SNB loan.

Portfolio as at 30 September 2008

The following table shows the composition of the portfolio – broken down by region and investment category – that was actually acquired.

Stabilisation fund portfolio as at 30 September 2008
In USD billions, at transfer price

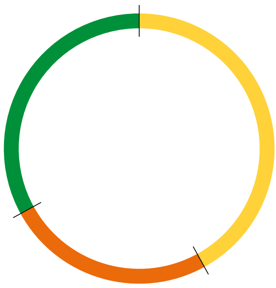
Total for United States	**25.5**
Assets linked to residential real estate	10.2
Assets linked to commercial real estate	6.8
Assets backed by student loans	0.9
Other asset-backed instruments	3.9
Collateralised debt obligations (CDO) and others	3.2
Corporate bonds	0.5
Total for Europe	**12.9**
Assets linked to residential real estate	6.0
Assets linked to commercial real estate	2.7
Other asset-backed instruments	1.3
Collateralised debt obligations (CDO) and others	2.9
Total for Japan	**0.3**
Assets linked to commercial real estate	0.3
Total	**38.7**

Overall, approximately 4,800 positions in five different currencies (US dollars, euros, pounds sterling, yen, Swedish kronor) were transferred, with those denominated in US dollars accounting for 67%.

The assets can be divided into the following three categories: securities, loans, derivatives.

Securities, loans and derivatives

The bulk of the securities acquired consists of debt obligations in a structured finance process (securitisation) and backed by US residential and commercial mortgages. Such securitised assets can include any number of loans, ranging from just a few to several thousand loans. Investors in securitised asset portfolios are entitled to a portion of the cash flow generated by the underlying asset pool.



Portfolio by category
In percent

Residential real estate 42

Commercial real estate 25

Other 33

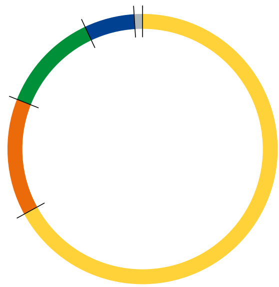
As at 30 September 2008

The loan portfolio of the stabilisation fund mainly consists of commercial mortgages and – to a lesser extent – residential mortgages and student loans.

The derivatives held by the stabilisation fund are primarily credit default swaps (CDS), with which the buyer hedges against the default of a specific security or loan. The stabilisation fund acts as the protection seller in respect of the CDS, i.e. it grants protection against a premium.

The assets transferred were funded by the UBS contribution and the loan advanced by the SNB. Of the total of USD 38.7 billion in assumed portfolio risk, USD 8.8 billion consisted of contingent liabilities that the SNB did not need to fund at the time. The amount the SNB contributed to the funding – calculated with regard to the assumption of portfolio risk as at 30 September 2008 – came to USD 25.8 billion; that of UBS, USD 3.9 billion. When the loan was disbursed, the changes that had occurred between the assumption of the portfolio risk and the actual transfer were taken into account in calculating the required funding.

SNB loan



Portfolio by currency
In percent

USD 67

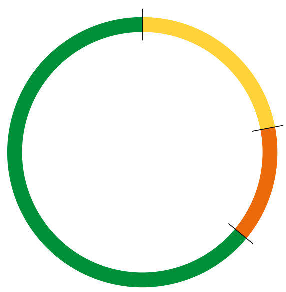
EUR 14

GBP 12

SEK 6

JPY 1

As at 30 September 2008



Portfolio by instrument
In percent

Derivatives 22

Loans 14

Securities 64

As at 30 September 2008

Portfolio management

Investment guidelines

Once the asset transfer was concluded, the stabilisation fund's Board of Directors adopted a liquidation strategy for the portfolio. The main objective of this strategy and the associated investment guidelines is full repayment of the SNB's loan, while at the same time maximising the proceeds from the portfolio. Whenever reasonable, assets are to be held for as long as their intrinsic value can be realised. Earlier sales are possible if there are any grounds for liquidating the assets prematurely. The right to restructure and to make modifications to certain loan agreements should be exercised actively. The investment guidelines are assessed by the fund's Board of Directors on a quarterly basis.

Cash flow models

Since the intrinsic value represents a key element in managing the portfolio and in the accounting valuation, major efforts were made to generate meaningful cash flow models. Based on different macroeconomic scenarios, these models forecast the cash flows to be expected for the individual portfolio positions, making it possible to evaluate the intrinsic values in various scenarios. On the basis of this information, decisions can be made on the management of the different assets. Independent valuation agents provide assessments of the intrinsic values for comparison purposes.

Market developments

The first few months after the assumption of asset risk by the stabilisation fund (October 2008 to February 2009) saw a significant worsening of the market environment for the fund's investment categories. As a result of the difficult situation in the real estate markets, the decline in economic activity and the uncertainties in the financial markets, prices of securitised assets in the US and Europe continued to fall. Several governments and central banks took measures to support the real estate and securitisation markets. Measures taken in the US included the Term Asset-Backed Securities Loan Facility (TALF), a programme created for investors in securitisations, purchases of mortgage-backed securities and measures to cut down on foreclosures. As a result, financial and securitisation markets in the US and Europe gradually recovered. Real estate markets also stabilised, but remained fragile.

Cash flows

The improvement in the market environment allowed the stabilisation fund to actively begin liquidating assets in June. In 2009, a net total of USD 1.5 billion worth of assets were sold, USD 0.3 billion of this in the euro area and the UK. Furthermore, the portfolio benefited from considerable interest payments and repayments, which also contributed to greatly diminishing the risk borne by the stabilisation fund.

Reduction of synthetic risk

The non-funded assets decreased primarily as a result of maturing CDS and credit events for CDS (e.g. default of creditors). In addition – in agreement with the protection buyer – a large CDS contract denominated in Swedish kronor was closed out in May (the only position in this currency).

The table below provides an overview of the development of the funded and unfunded loan and the resultant overall risk for the SNB.

Loan and overall risk

Development of loan to the stabilisation fund

In USD billions	Funded	Non-funded	Overall risk
Assets	29.8	8.8	38.7
UBS equity capital	–3.9	–	–3.9
Total as at 30 September 2008	**25.8**	**8.8**	**34.7**
Interest on SNB loan	0.6	–	0.6
Sales	–1.5	–	–1.5
Repayments	–5.0	–0.2	–5.2
Interest and premia received	–2.2	–	–2.2
Other[1]	1.9	–4.8	–2.9
Total as at 31 December 2009	**19.7**[2]	**3.8**	**23.5**

The loan outstanding fell from the original level of USD 25.8 billion to USD 19.7 billion at the end of 2009. During the same period, the overall risk for the SNB was reduced by USD 11.2 billion to USD 23.5 billion.

Risks

Risks for the stabilisation fund

On the level of the stabilisation fund, credit and market risk on investments are the main concern.

For derivatives, whose risk the stabilisation fund assumed by concluding back-to-back swaps with UBS, there is a counterparty risk vis-à-vis UBS. This risk is collateralised by a cash contribution. In addition, the liquid funds that are accumulated in the portfolio within the course of a month constitute part of the stabilisation fund's assets. These funds are intended to earn interest on the SNB's loan – if there is a surplus – to repay it. During the time period from one payment date to the next, the funds are transferred to securities and money market funds, which are administered by the custodian and are invested in top-rated investments.

The stabilisation fund's interest and currency risk is largely eliminated by interest and currency-congruent financing.

The fund also incurs operational risk, which is addressed by an internal control system.

Risks borne by the SNB

The National Bank incurs risks on two fronts. First, the loan to the stabilisation fund entails the risk that – in line with the assets' performance – value adjustments have to be made. Second, the SNB bears currency and interest risks in connection with the refinancing of the loan. While currency-congruent financing deals with the currency risk, the interest risk remains marginal due to the short-term refinancing via SNB USD Bills. Although the short-term borrowing exposes the SNB to a certain refinancing risk, it is limited owing to existing alternative refinancing channels. Risks arising from foreign exchange swaps also concluded for refinancing purposes are confined to counterparty risk, which is monitored as part of the SNB's risk control.

Preparation of accounts

IFRS

The Federal Act on Collective Capital Investment Schemes (CISA) stipulates that the valuation of investments organised in the form of a limited partnership such as the stabilisation fund be guided by international standards. Financial statements for the stabilisation fund are drawn up in accordance with the International Financial Reporting Standards (IFRS). There has been no active market for the securitised and non-securitised loans contained on the books of the stabilisation fund for some time now. According to the IFRS, such positions may be classified as loans and receivables. When the positions are acquired, they are recorded at amortised cost. All future valuations are made based on regular impairment tests conducted on positions' performance. If a position's book value is overstated, a value adjustment (impairment) has to be recorded. In addition, the premium or discount repayment will be amortised over the life of the investment.

Positions which – in accordance with the IFRS – may not be classified as loans and receivables (mainly derivatives), are valued at market value (IFRS category 'fair value through profit and loss').

Annual result

The loss posted by the stabilisation fund in 2009 is covered by the equity contribution from UBS and the SNB's purchase option (warrant) for 100 million UBS shares at nominal value (cf. pp. 163 et seq., Financial information on the stabilisation fund).

7 Involvement in international monetary cooperation

7.1 International Monetary Fund

Swiss interests

The International Monetary Fund (IMF) works to promote stable monetary conditions worldwide and support free trade and international payment flows. As an open economy with an internationally important financial sector, Switzerland is particularly committed to these aims.

Responsibilities

The Chairman of the Governing Board of the Swiss National Bank (SNB) sits on the Board of Governors of the IMF, the Fund's highest policy-making body. The Head of the Federal Department of Finance (FDF) represents Switzerland on the International Monetary and Financial Committee (IMFC). Switzerland is part of a voting constituency whose other members are Azerbaijan, the Kyrgyz Republic, Poland, Serbia, Tajikistan, Turkmenistan and Uzbekistan. As the constituency member with the most votes, Switzerland appoints an executive director, who holds one of the 24 seats on the Executive Board, the IMF's most important operational body, thereby actively participating in the formulation of IMF policy. The Swiss seat on the Executive Board is held alternately by a representative of the SNB and of the FDF. The SNB and the FDF determine Switzerland's policy in the IMF and support the Swiss executive director in his or her activities.

Slow recovery of international economy

In 2009, the IMF's activities were largely shaped by the global financial and economic crisis. Although the situation of the global economy and the financial markets improved somewhat towards the end of the year, the recovery of the international economy is likely to remain sluggish. The IMF emphasised the need to create a resilient financial system, rebalance demand from the public to the private sector and, in some systemically important countries, reach a better balance between domestic and export demand. According to the IMF, another key challenge will be to cut back the state support measures in good time. According to the IMF, credible exit strategies need to be drawn up for this purpose.

New regulations on lending practices

In order to improve the efficiency and flexibility of its lending practices and to be better prepared for financial crises, the IMF established new regulations in the course of the year. The reform includes a doubling of the former access limits for all credit facilities and the introduction of a new facility, the Flexible Credit Line (FCL). The aim of the FCL is to provide substantial pre-financing for member countries with strong macroeconomic fundamentals. Due to strict qualification criteria, FCL drawings are, unlike traditional IMF drawings, not bound to pre-set economic policy goals agreed with the country in question. For countries which do not meet the criteria for an FCL, there is now the option to conclude a precautionary standby credit agreement with extraordinary access limits.

In addition, the IMF modified the conditions for financial support to low-income countries. For instance, a new Poverty Reduction and Growth Trust (PRGT) was created. The PRGT comprises the following three lending instruments: an extended credit facility, which replaces the Poverty Reduction and Growth Facility (PRGF), a standby credit facility modelled on that for middle-income countries, and a rapid credit facility, which provides limited and fast financial support with few restrictions.

Expanded lending

The global financial and economic crisis has led to a significant expansion of IMF lending. Between September 2008 and December 2009, the IMF concluded 19 standby arrangements in the total amount of 55.8 billion Special Drawing Rights (SDRs), most of them with extraordinary access restrictions. As part of its FCL, the IMF provided three countries with precautionary funds in the amount of SDR 52 billion. In addition, 23 countries drew on financial support through the PRGF, and 6 countries through the Exogenous Shocks Facility.

IMF financial resources

As a result of the expansion of IMF lending, the liquidity position of the Fund has considerably worsened. By the end of June 2009, the IMF's one-year forward commitment capacity (FCC) only totalled just under SDR 33 billion. The FCC indicates the amount which the Fund is able to provide for new (non-concessional) lending in the following 12 months. Owing to bilateral financing contributions by the IMF member countries, the FCC has risen again to SDR 149 billion. At a later date, it is planned that the bilateral financing contributions will be integrated in the revised New Arrangements to Borrow (NAB). As part of the NAB, a group of countries is willing to make additional funds available to the IMF if necessary. In 2009, the participants in the NAB agreed to an increase in the NAB credit lines to USD 600 billion.

Credit agreement with Switzerland

In autumn 2009, the SNB – based on the Federal Act on International Monetary Assistance – concluded a credit agreement in the maximum amount of USD 10 billion with the IMF to fill the gap until the NAB are revised. The loan, which is financed by the SNB and guaranteed by the Confederation, will only enter into force as soon as the Federal Assembly has approved a temporary increase in the maximum loan amount specified by the Monetary Assistance Act from currently CHF 2.5 billion to CHF 12.5 billion. In addition, the SNB announced that it would increase its credit undertaking from USD 2.5 billion to USD 17.5 billion as part of the New Arrangements to Borrow.

SDR allocations

The IMF allocated SDRs to its member countries, in order for them to be able to increase their reserve holdings. As part of a general allocation of SDRs in the amount of USD 250 billion, all IMF member countries received SDRs in proportion to their quotas. In addition, the Fourth Amendment to the IMF Articles of Agreement entered into force with a special allocation of SDRs in the amount of USD 21.5 billion, after the US had given its approval. As a result of these two allocations, Switzerland is receiving a net allocation of SDRs in the total amount of SDR 3.3 billion.

A member country may exchange its SDRs for reserve currencies. Through Two-Way Arrangements with various member countries, including Switzerland, the IMF ensures that this exchange takes place smoothly. Following the SDR allocation, the SNB adapted the Two-Way Arrangement with the IMF. It declared its willingness to buy or sell SDRs in exchange for US dollars or euros, for as long as its SDR holdings were between 50% and 150% of its cumulative net allocation.

Switzerland's reserve position

The IMF's equity consists of the quotas of its member states. In terms of Special Drawing Rights, total quotas in the IMF amount to SDR 217.4 billion (CHF 351 billion), with Switzerland's quota coming to SDR 3,458.5 million (CHF 5.6 billion). The Swiss quota is financed by the Swiss National Bank. The portion of this quota that is used by the Fund is Switzerland's reserve position in the IMF. For the SNB, this represents a currency reserve that it can draw down at any time. With one SDR being equivalent to CHF 1.62 at the end of 2009, Switzerland's reserve position amounted to SDR 761.8 million at that time, compared with SDR 442.3 million at the end of 2008. The value of an SDR is calculated on the basis of weighted exchange rates for the US dollar, euro, yen and pound sterling.

Article IV consultation

The annual Article IV consultation with Switzerland was held in spring 2009 and approved by the Executive Board. Within the framework of the Article IV consultation, the IMF regularly reviews the economic policy of its member countries and issues recommendations. The IMF welcomed the fact that Switzerland took early and extensive measures to address the financial crisis. In particular, the Fund approved of the support measures to promote the banking system, including the purchase of illiquid assets from UBS. At the same time, the IMF emphasised the need to reduce the risks emanating from the financial sector and to strengthen financial market supervision. Moreover, the Fund supports the easing of monetary policy and the adoption of unconventional monetary policy measures to counter the risk of deflation.

7.2 Bank for International Settlements

BIS as forum for central banks

The Bank for International Settlements (BIS) is an organisation which has its head office in Basel. It fosters monetary and financial cooperation, and acts as the central bankers' bank. In addition to the annual general meeting, the presidents of central banks which belong to the BIS meet every two months for an exchange of information on developments in the global economy and the international financial system. The SNB participates in four standing committees of the BIS: the Basel Committee on Banking Supervision, the Committee on Payment and Settlement Systems, the Committee on the Global Financial System and the Markets Committee.

In the course of the past 15 years, the BIS has strongly expanded its member base. In 2009, it comprised 56 central banks and monetary authorities. Due to the increasing importance of the G20, the number of members of the BIS committees increased as well in 2009. The countries which joined one or more committees in 2009 include Argentina, Australia, Brazil, China, Hong Kong, India, Indonesia, Mexico, Russia, Saudi Arabia, Singapore, Spain, South Africa, South Korea and Turkey.

Basel Committee

The Basel Committee on Banking Supervision serves as a platform for regular cooperation in matters of banking supervision. Its activities are described in more detail in chapter 6.3, which looks at international cooperation with regard to financial market regulation.

Committee on Payment and Settlement Systems

The Committee on Payment and Settlement Systems (CPSS) is concerned with the developments in national and international payment and securities settlement systems. In 2009, the CPSS undertook various activities aimed at strengthening the global financial market infrastructure.

The Committee on the Global Financial System (CGFS) monitors developments in the international financial markets and analyses their impact on financial stability. In 2009, the CGFS published three reports. The first one dealt with the vulnerability of the emerging economies to large and rapid capital movements. It contained a provisional assessment of the impact of the financial market crisis on this group of countries. The second report analysed to what extent market price based accounting procedures result in procyclical fluctuations in capital ratios. It lists measures that would reduce the identified procyclical effects. The third report addresses the BIS derivatives statistics and discusses what changes need to be made to the credit default swap statistics to enhance the traceability of credit risk distribution in global markets.

Committee on the Global Financial System

The Markets Committee serves as a platform for central bank officials responsible for financial market operations. It examines current developments in money, currency, capital and commodity markets, as well as the functioning of these markets. In 2009, the financial crisis and its consequences were once again the main topic of discussion. In particular, the committee looked at the unconventional monetary policy measures which central banks had taken as part of their crisis management, and at the signs of recovery in the markets.

Markets Committee

7.3 OECD

Switzerland is a founding member of the Organisation for Economic Co-operation and Development (OECD). On the organisation's intergovernmental committees, it works to promote the development of relations among the 30 member states with regard to economic, social and development policies. Together with the federal government, the SNB represents Switzerland on the Economic Policy Committee (EPC), the Committee on Financial Markets (CFM) and the Statistics Committee (CSTAT). The EPC and its working parties deal with current developments in the global economy on a political and academic level, as well as with structural policy. The CFM analyses ongoing developments in the international financial markets and looks at regulatory issues. The CSTAT drafts standards for the national accounts in association with other supranational organisations. In addition, through a project on Measuring the Progress of Societies, it searched for ways to improve the measurement of GDP and for alternatives to it.

OECD membership

Dealing with the financial crisis

In 2009, the OECD closely monitored the financial crisis and its impact on economic development. It drew up proposals for a reorganisation of the financial market architecture, and strategies for sustainable government finances and long-term economic growth. The main elements were recommendations on how and when the unconventional monetary and fiscal measures taken by central banks and governments could be discontinued, without jeopardising the economic recovery.

Economic Survey of Switzerland

In October 2009, the experts of the Economic and Development Review Committee (EDRC) discussed the OECD's *Economic Survey of Switzerland*. They welcomed the fast reaction of the SNB to the global financial crisis, but stressed the risks involved in terminating the unconventional monetary policy measures.

7.4 Technical assistance

Principles

Upon request, the SNB provides technical assistance to the central banks of developing countries and emerging markets. Technical assistance includes the transfer of knowledge specific to central banks and is part of the good relations maintained by central banks worldwide. The SNB primarily provides technical assistance to the central banks of the countries with which it cooperates in the IMF (cf. chapter 7.1). With their support, Switzerland is able to head a constituency in the IMF and claim one of the 24 seats on the Executive Board.

Technical assistance to countries in the Swiss constituency

In 2009, the bulk of the SNB's technical assistance for its constituency group was again provided to the National Bank of the Kyrgyz Republic (NBKR). It advised the NBKR in the areas of monetary policy, IT security, financial market operations, risk management, banking operations and accounting. To promote transparency, the NBKR for the first time published a press release on its quarterly monetary policy assessment. The SNB also continued to assist the central banks of Azerbaijan (in matters relating to cash, internal auditing and IT), Serbia (investment of currency reserves) and Tajikistan (monetary policy). In addition, it successfully completed its support to the central bank of Turkmenistan in connection with a currency changeover. On 1 January 2009, the change of currency became effective and the new coin and banknote series was introduced.

For the sixth time, the SNB – together with the National Bank of Poland – organised a seminar for central banks in the Swiss constituency at the IMF as well as other countries of the former Soviet Union and south-eastern Europe. The seminar on central bank challenges in the global financial crisis was held in Zurich in June 2009.

International events

In 2009, the SNB – in cooperation with the State Secretariat for Economic Affairs (SECO) and the Emerging Markets Forum (EMF) – set up a regional forum focused on the Caucasus and Central Asia (Eurasia EMF). The forum is open to political and business leaders as well as international experts and provides a centre for discussion and the development of strategies to meet regional challenges. Thematic priority was given to the implications of the global crisis, the business climate and the economic integration of the region.

Technical assistance to other countries

Outside its IMF constituency, the SNB provided support on payment systems to the central banks of India and Peru. In addition, as part of the South Asia Payments Settlement Initiative (SAPI) launched by the World Bank, it assisted the central banks of Bhutan and Nepal in their efforts in the area of payment transactions and securities settlement.

Study Center Gerzensee

In 2009, the Study Center Gerzensee, a Swiss National Bank foundation for the training of central bankers, bankers and business specialists from Switzerland and abroad, organised several courses for employees of foreign central banks. They offered training in the fields of monetary policy and financial markets and were attended by a total of 152 participants from 86 countries.

8 Banking services for the Confederation

Mandate

Based on art. 5 para. 4 and art. 11 of the National Bank Act (NBA), the Swiss National Bank (SNB) provides banking services to the Swiss Confederation.

Remuneration for banking services

These services are provided in return for adequate compensation. However, they are provided free of charge if they facilitate the implementation of monetary policy. Services subject to remuneration comprise: payment transactions, liquidity management, the custody of securities and the issue of money market debt register claims (MMDRCs) and Confederation bonds. The details of the services to be provided and the remuneration are laid down in an agreement concluded between the Swiss Confederation and the National Bank.

Issuing activities

In 2009, the SNB issued both MMDRCs and Confederation bonds on behalf of and for the account of the Confederation. MMDRCs amounting to CHF 36.3 billion were subscribed, of which CHF 94.1 billion was allocated. The corresponding figures for Confederation bonds were CHF 6.4 billion and CHF 2.9 billion respectively. The auction procedure was used for these issues. The auction yield the of MMDRCs was almost always 0%.

Payments

In the area of payment transactions, the SNB carried out roughly 170,000 payments in Swiss francs on behalf of the Swiss Confederation and approximately 14,000 payments in foreign currencies.