

Annual report 1989
Abridged version

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1. Economic developments – a summary

1.1 International economic and monetary developments

The economic situation in the OECD countries was favourable in 1989. Growth remained vigorous and unemployment again declined markedly. The development of prices was less favourable, however, with most countries exhibiting a higher inflation rate than in 1988. According to preliminary estimates, real GNP rose by 3.6% in 1989; in the previous year it had increased at the rate of 4.4%. The slowdown was due mainly to developments in the United States and in Britain. In Continental Europe and Japan growth continued apace, while even accelerating in West Germany. The average inflation rate in the OECD countries climbed to 6% in 1989 (1988: 4.8%).

Continued vigorous economic growth in the OECD countries – rising inflation

The economic policies implemented in recent years contributed significantly to the strong expansion in the industrialised countries. In the course of the eighties the legal framework had improved – markets were deregulated and maximum tax rates lowered – thus enhancing the supply situation which, in turn, provided further stimuli to the economy. Moreover, demand in most countries was boosted by the aftereffects of the relaxation of monetary policy in 1988. In the OECD countries, investments and exports again showed particularly dynamic development, while private consumption grew at the same pace as in previous years. In numerous countries investment ratios reached the highest levels since the early seventies. In addition to high capacity utilisation and the sustained favourable earnings situation, the steps taken towards creating a European internal market have contributed to this result.

High investment levels – steady rise in consumption

In 1989 world trade again expanded markedly, exceeding the year-earlier level by 7.8% in real terms (1988: 9%), according to preliminary estimates. The substantial increase primarily reflects the high demand for imports in Japan and Western Europe. The current accounts of the industrialised countries showed inconsistent development. Japan's surplus contracted perceptibly. The shortfall on the US current account, by contrast, was only reduced gradually since the smaller trade deficit was offset by higher interest payments abroad. Within the EC, the external imbalances became more pronounced in 1989. West Germany's current account surplus rose to a new record figure, while the deficits of the other EC countries widened correspondingly. This development is in no small measure due to the fact that the countries of the European Monetary System (EMS) adhered to current parity exchange rates.

Slow diminution of current account imbalances

Most Eastern European countries experienced a radical upheaval in 1989 which completely changed the political system within a short time. This culminated in the ruling parties abandoning their absolute claim to power

The emergence of Eastern Europe

and in preparations for free elections. Various countries are planning the transition to a market economy and the introduction of freely convertible currencies.

New strategies for reducing international indebtedness

The economies of the less developed Latin American and African countries stagnated. The high level of foreign indebtedness proved a growing burden for these countries. Following an initiative by the US Secretary of State, Brady, a new debt strategy is to be implemented. This plan provides for a shift of emphasis from new loan extensions to the reduction of existing debts. The International Monetary Fund (IMF) and the World Bank are to contribute to the financing by setting aside funds for direct debt reduction as part of their financial rehabilitation programmes for heavily indebted countries.

Improved labour situation in Europe

The favourable economic situation led to a further rise in employment and this caused jobless figures to drop in almost all the OECD countries. Europe witnessed a particularly pronounced decline in the number of unemployed. Consequently, as in 1988, the labour situation in Europe improved markedly; prior to that, unemployment figures had been persistently high for years.

Higher inflation partly due to the oil price

Inflation rose in most industrialised countries. This may be attributed partly to the dynamic development in demand accompanied by high capacity utilisation and partly also to rising oil prices and to other special effects (increases in consumption taxes). Britain was the only country in which inflationary pressures emanated from labour costs.

Strength of dollar triggers worldwide interest rate rises

In the first half of the year the restrictive monetary course pursued by the Federal Reserve Board and the improvement in the US trade balance caused the dollar to appreciate against almost all major currencies. This induced the monetary authorities of various countries to resort to large-scale coordinated interventions in the foreign exchange markets; at first, however, these failed to produce any noticeable effects on exchange rates. Only after the European countries and Japan had reduced the supply of money and raised benchmark rates did the upward pressure on the US currency ease.

Tighter monetary policies in Europe and Japan – cautious relaxation in the US

Most industrialised countries tightened their monetary policies in 1989. Only the US central bank set about cautiously relaxing its restrictive course in early summer, following signs that the US economy was cooling off. The other industrialised countries implemented increasingly restrictive monetary policies: measures included the lifting of benchmark rates in several coordinated rounds in January, April, June and October. With this step the

central banks attempted to meet the increased inflationary threat in the wake of brisk economic growth and the high-flying dollar.

At the summit meeting in Madrid in June 1989 the European Council decided that the first of three stages of the realisation of economic and monetary union would begin in mid-1990. The first stage provides for better coordinated economic policies as a basis. Moreover, all EC currencies are to be included in the exchange rate mechanism.

First step to EC
monetary union

In the course of 1989, Switzerland's economic environment began to move towards more closely integrated policies within Europe. The EC and the EFTA commenced talks in order to determine whether a European economic area providing internal market conditions was a feasible proposition in the near future.

European economic area

The Federal Government reaffirmed its 1982 policy decision in favour of Swiss membership of the IMF and the World Bank. It decided, in conjunction with the Swiss National Bank and in consultation with leading member countries, to clarify further points with a view to a possible future membership in these organisations.

Switzerland's relations
with the IMF

1.2 Economic developments in Switzerland

Switzerland, too, witnessed continued economic growth. In 1989 real GDP increased by 3.1%, i.e. at approximately the same rate as in the previous year, exceeding the forecasts published at the end of 1988. In the second half of 1989 macro-economic output rose somewhat more slowly than in the first six months. This is due, in large measure, to bottlenecks on the supply side. After a seven-year upswing the Swiss economy had reached the limits of expansion.

Continued economic
boom in Switzerland

The accelerated pace of economic activity in Western Europe contributed significantly to further growth in exports. Moreover, the low Swiss franc rate enhanced the international competitiveness of Swiss exporters. The domestic economy benefited from steadily rising consumption. Capital expenditure continued to exhibit particularly brisk development. Notably in the building industry, production hardly managed to keep up with growing demand. Only in residential construction did the signs begin pointing to a slight easing of demand towards the end of the year, due to the rise in interest rates.

Vigorous foreign
demand – overheated
building boom

Markedly lower current account surplus

Lively domestic demand accompanied by a high level of utilisation of productive capacity led to a further surge in imports. The trade balance, which is traditionally in deficit, showed a considerably larger shortfall than in 1988. On the other hand the surplus from services transactions increased, particularly because the tourist trade profited from the Swiss franc's weakness. Including labour income and investment income the current account surplus, at Sfr 9.7 billion or 3.4% of GDP, fell short of the 1988 figure by Sfr 2.6 billion.

High capacity utilisation and tight labour market

Sales outlets remained favourable, causing the utilisation of technical capacity to rise once more. Notwithstanding the capital invested in extension projects in recent years, capacity utilisation in various sectors has risen to record levels unknown since the early seventies. On the labour market tight conditions also created considerable problems. With employment continuing to pick up, a serious shortage of qualified staff made itself felt. The unemployment figure, which had already been low in the previous year (0.7%), dropped to 0.6%.

Surge in inflation

In December 1989 the national consumer price index exceeded the previous year's level by 5%. On an annual average the inflation rate amounted to 3.2%, as compared to 1.9% in 1988. Due mainly to spiralling rents the cost of services in 1989 again rose more markedly than commodity prices. Prices for imported goods increased considerably faster during the year than those for domestic goods. Aside from the lower Swiss franc rate, this was primarily the result of a – partly weather-induced – price hike for fuel oil, which caused the overall level of import prices to soar towards the end of the year.

2. Central bank policy and financial markets in Switzerland

2.1 Some features of Swiss National Bank policy

The main objective of the Swiss National Bank's monetary policy is medium- to long-term price stability, and the principal instrument for achieving this goal is steering the monetary base. The chief components of the monetary base are notes in circulation and, to a lesser extent, sight deposits held by the commercial banks at the central bank. The Swiss National Bank considers an annual expansion of the monetary base by 2% as adequate to ward off protracted bouts of inflation without jeopardising potential development of the Swiss economy. For this reason, it publishes an annual growth target for the monetary base. However, it reserves the right to temporarily deviate from this target in the event of unforeseen developments.

Stabilising the price level is main objective of money supply policy

Basically, a central bank has two methods at its disposal for regulating the money supply. First, it can steer demand for base money through short-term interest rates by adjusting its benchmark rates. Thus, if the money supply is expanding excessively, the central bank takes measures to raise the level of interest rates; conversely, it lowers interest rates when demand for money is rising too slowly. Secondly, a central bank also has the possibility of exerting a direct influence on the monetary base. If the target aggregate is growing too rapidly, the central bank reduces the available liquidity in the banking system. On the other hand, if it is not growing fast enough, the central bank supplies the banks with more liquid funds. We apply the second method and steer the monetary base direct, primarily by purchasing and selling foreign exchange hedged forward. With this method, money demand has to adjust to our supply and this, in turn, triggers fluctuations in short-term interest rates. Their subsequent development gives us valuable indications as to the actual degree of restriction of our policy.

Direct or indirect money supply regulation

Since the start of 1988 the introduction of new liquidity requirements for the banks and the continued extension of the electronic interbank payments system SIC (Swiss Interbank Clearing) has made it difficult to adhere to the annual money supply targets. Both the liquidity requirements and SIC have drastically reduced the banks' demand for money. In the course of 1988, sight deposits held by the banks at the Swiss National Bank fell from more than Sfr 8 billion to approximately Sfr 4 billion. We duly had to take this decline into account and failed to achieve the money supply target, which had been set at 3% under the impact of the stock market crisis in October 1987. Even though the supply of money was gradually adjusted to the reduced demand and base money consequently receded by an average of 3.9% in 1988, monetary policy was considerably less restrictive than originally envisaged.

Marked decline in the banks' demand for liquidity in 1988

Money supply target of 2% for 1989

At the end of 1988 the Swiss National Bank assumed that the decline in the banks' demand for money resulting from the institutional changes had by and large come to an end. Therefore, the money supply target for the monetary base was set at 2% for 1989. The basis of computation was the average level of the seasonally adjusted monetary base in the fourth quarter of 1988. Since it was expected that the economic situation would remain favourable and the inflation rate would rise, this target was a clear sign for a restrictive course. It meant tighter liquidity in the banking system and a rise in short-term interest rates. This stability-oriented policy was designed to prevent the inflationary trends – which were already making themselves felt – from developing into a proper inflationary spiral. We could not, however, be certain that all the banks had already adjusted to the new monetary environment in Switzerland. We therefore laid particular emphasis on the fact that the money supply target was meant as a guideline and, as always, explicitly reserved the right to deviate from the target if necessary.

Money supply target not reached in 1989

In 1989 the money supply target of 2% was not reached. The seasonally adjusted monetary base contracted by 1.9% compared with the fourth quarter of 1988. Approximately half of this shortfall by nearly four percentage points was due to a further decline in the banks' demand for sight deposits. The remaining shortfall resulted from a tightening of the monetary reins.

Further decline in the banks' demand for liquidity

A number of banks delayed considerably in adjusting their sight deposits at the Swiss National Bank to the new conditions introduced at the beginning of 1988. As soon as this reduced demand for liquidity on the part of the banks became evident, we lowered the average level of sight deposits in order to prevent a decline in interest rates and the associated relaxation of monetary policy. However, it proved no easy task to identify the shifts in demand for money since they occurred at a time when rising interest rates were generally inducing banks to reduce their non-interest bearing sight deposits at the Swiss National Bank.

Irregular demand for money by the banks in the first half of 1989

In the spring of 1989 we witnessed a major adjustment in the banks' demand for liquidity. It was extremely difficult to ascertain since at that time short-term interest rates and the banks' demand for money both fluctuated wildly. This was due mainly to the fact that the Lombard rate, i.e. the interest rate we charge banks for loans against securities deposited by them (so-called Lombard loans) was at that time not yet constantly being adjusted to money market conditions. The movements in call money rates were therefore also reflected in the differential vis-à-vis the Lombard rate and thus exacerbated the short-term fluctuations in demand for money. The differential between the Lombard rate and money market rates may be

compared with an insurance premium payable by the banks when procuring money from the Swiss National Bank to tide over unforeseen liquidity shortages. Just as a private household will take fewer precautions when risks may be provided against free of charge, a number of banks planned their liquidity requirements less carefully when the differential between money market rates and the Lombard rate became negligible or even disappeared altogether. In the event of an unexpected liquidity shortage, they could have recourse to a Lombard loan from the Swiss National Bank without any additional cost. On the one hand, the Lombard loan is a useful instrument for overcoming liquidity difficulties encountered by the banks for unpredictable reasons. On the other hand, it is not meant to be a safety net for banks with inadequate liquidity planning. We therefore decided to leave credit commitments unchanged but at the same time to ensure that the "insurance premium" never falls below a certain minimum amount.

For this reason the Swiss National Bank introduced the system of a floating Lombard rate on 26 May 1989. This step was made easier by the fact that in Switzerland the money supply is steered direct by the liquidity put at the disposal of the banks and not by variations in short-term interest rates. Technically, the Lombard rate is now computed daily and exceeds the average level of call money rates of the two preceding days by a fixed percentage amount. Initially, the increase amounted to one percentage point. The introduction of a floating Lombard rate no doubt significantly helped to stabilise the banks' demand for liquid funds in the second half of 1989. A few banks, however, had such inadequate liquidity planning that frequent problems arose in the SIC system last autumn. The Swiss National Bank therefore made recourse to Lombard loans more expensive by widening the differential to call rates to two percentage points on 14 December. In so doing, it reaffirmed its determination to adhere to a restrictive monetary policy.

The failure to achieve the money supply target – a shortfall of four percentage points – in 1989 is only partly attributable to declining demand for money. A further reason was the tightening of monetary policy. Already in the first few months of 1989 it became evident that the Swiss economy was set to grow more rapidly than forecast as a result of the vigorous export boom. In addition, the Swiss franc depreciated markedly for a variety of reasons. In order to counteract these two developments, which gave a further boost to inflation, we decided, in the first half of the year, to curb the supply of money more drastically than had originally been envisaged. Prior to the introduction of a floating Lombard rate, the official discount and Lombard rates were raised on two separate occasions. After yet another adjustment in October the official discount rate stood at 6% at the end of the year, i.e. 2.5 percentage points higher than a year earlier.

Introduction of a floating
Lombard rate

Tighter monetary policy
in the first six months of
1989 ...

... Adherence to a more restrictive monetary policy in the second half of the year

In the third quarter, demand for sight deposits stabilised and we were able to keep their total amount at approximately Sfr 3.2 billion. Interest rates consolidated at a high level, while the external value of the Swiss franc remained more or less at the point it had reached following the marked firming after the introduction of a floating Lombard rate. However, the monetary base continued to decline since, under the influence of rising interest rates – notably the increase in savings deposit rates in June and October – notes in circulation expanded less rapidly. It would have been ill-advised to offset weaker demand for bank notes by raising the level of sight deposits. Such compensation would have lowered money market rates at a time when inflation was picking up and the Swiss franc was again exhibiting a weaker trend against the European currencies.

Money supply target for 1990

Since the symptoms of overheating continued in the course of 1989 and inflation gathered considerable momentum near the end of the year, the Swiss National Bank had no option but to adhere to its restrictive monetary policy. We therefore decided, in agreement with the Federal Government, to again set the money supply target at 2% for 1990. As in 1989, the computation of the target rests on the average level of the adjusted monetary base in the fourth quarter of the previous year.

Expected effects of monetary policy in 1990

The money supply target of 2% implies that the money market rates in 1990 will surpass the level obtaining in the second half of 1989. The Swiss National Bank estimates the growth of real GDP between the fourth quarter of 1989 and the fourth quarter of 1990 at around 2%, while the inflation rate during the same period is expected to ease to 4%. Real growth and inflation are likely to push up demand for base money by 3 to 4%. However, demand for money does not depend solely on production and the price level, but also on interest rate developments. Since bank note circulation reacts to interest rate adjustments with a time lapse, demand for central bank money in 1990 can be limited to 2% as a result of the interest rate rally in 1989 without triggering any further appreciable rises. However, there seems to be little scope for an actual decline in interest rates in 1990. A slight fall-off may ensue in the second half of the year if economic activity slackens as anticipated.

The money supply target for 1990 as a guideline

The money supply target of 2% rests on the assumption that demand for sight deposits will not recede any further in 1990. Even though the banks have for the most part adjusted to the new liquidity requirements and to SIC, it is possible that these two innovations will still influence demand for central bank money in 1990. We will therefore again consider domestic money market rates as additional monetary indicators in 1990 and adjust the supply of money to unexpected shifts in demand. Moreover, it cannot be ruled out that domestic inflation will be further exacerbated by foreign

trade. Particularly undesirable from a monetary point of view is the weak trend of the Swiss franc vis-à-vis the European currencies, which has persisted since the middle of 1988. We shall not tolerate excessive exchange rate fluctuations and shall adjust monetary policy if conditions in the foreign exchange market warrant this. For these reasons, the money supply target for 1990 is once more meant as a guideline. The Governing Board reserves the right to deviate from the target if this is indicated.

2.2 Development of the monetary aggregates

On an annual average, the seasonally-adjusted monetary base for 1989 was 1.9% below the level in the fourth quarter of 1988. The Swiss National Bank thus fell short of the money supply target of 2% by almost four percentage points. On a non-adjusted basis, the monetary base showed similar development. While the seasonally-adjusted aggregate contracted by 2.3% in the fourth quarter of 1989 compared with the same period of the previous year, the corresponding decline in the non-adjusted monetary base even amounted to 3.1%. Normally, the two annual rates of variation for such

Decrease of the
monetary base

Development of monetary aggregates¹

Yearly and quarterly averages

Year/ Quarter	Adjusted monetary base ²		Money stock M ₁ ³		Money stock M ₂ ⁴		Money stock M ₃ ⁵	
	Billions of francs ⁶	Change % ^{7,8}	Billions of francs ⁶	Change % ⁷	Billions of francs ⁶	Change % ⁷	Billions of francs ⁶	Change % ⁷
1985	31.1	2.2	61.1	0.1	112.4	7.3	251.7	4.8
1986	31.8	2.0	66.4	5.0	126.2	5.9	277.1	6.7
1987	32.7	2.9	71.4	7.5	138.5	9.7	303.4	9.5
1988	31.4	-3.9	81.6	14.5	149.3	7.9	332.8	9.8
1989	29.9	-1.9	77.1	-5.5	179.9	20.4	353.3	6.2
1989								
1st quarter	30.3	-0.9	78.4	-2.9	163.5	13.0	346.2	6.6
2nd quarter	30.0	-2.1	76.8	-7.4	178.1	20.1	353.3	6.1
3rd quarter	29.8	-2.2	75.3	-6.1	185.6	23.2	354.1	5.7
4th quarter	29.6	-2.4	77.7	-5.7	192.2	25.4	359.6	6.2

¹ Cf. Monthly Report of the SNB, tables 8 to 12: from 1986 onwards the Principality of Liechtenstein is included in the domestic figures.

² Adjusted monetary base = Note circulation plus banking system's deposits with the SNB less end-of-month refinancing credits. As from 1989 seasonally adjusted monetary base = monetary base divided by the respective seasonal factors.

³ Money stock M₁ = Currency in circulation plus sight deposits in Swiss francs (without precious metals) held by the resident nonbank public.

⁴ Money stock M₂ = M₁ plus time deposits in Swiss francs held by the resident nonbank public.

⁵ Money stock M₃ = M₂ plus savings deposits held by the resident nonbank public.

⁶ Averages based on monthly figures.

⁷ Averages of monthly growth rates in relation to the previous year's figures.

⁸ As from 1989: annualised rate of change compared with the average level of the seasonally adjusted monetary base in the fourth quarter of the previous year, centred on November. The annual and quarterly values correspond to the arithmetic mean of the monthly figures.

comparable periods should be identical. In Switzerland, however, there is a difference between seasonally-adjusted and non-adjusted annual rates of variation. This difference is due to the biennial income and property tax assessments on a federal level and in many cantons. At the end of even years, when taxpayers have to submit a statement of assets, notes in circulation – and consequently also the monetary base – exhibit a temporary increase. Since the seasonal adjustment by the Swiss National Bank cancels out this tax effect, the rates of change of the seasonally-adjusted monetary base and of notes in circulation exceeded those of non-adjusted values. Bank note circulation on a seasonally-adjusted basis rose by 1% between the fourth quarter of 1988 and the fourth quarter of 1989, while on a non-adjusted basis it remained virtually unchanged at 0.1%.

Decline in the money stock M1

Like the monetary base, the money stock M1 also declined in 1989. On an annual average, the money stock M1 fell 5.5% below the previous year's level. This reduction primarily reflects the restrictive monetary policy pursued by the Swiss National Bank in the year under review. The concomitant sharp rise in domestic interest rates induced the public to switch from sight deposits at the banks to time deposits and other high-yield assets. In contrast to sight deposits, time deposits are not included in the money stock M1.

Strong expansion of the money stock M2

The money stock M2, which has little significance in relation to monetary policy, showed excessively strong expansion and, in 1989, exceeded the year-earlier level by an average of 20.4%. The money stock M2 comprises time deposits in addition to the aggregate M1, while not including savings deposits. Since interest rates on savings have not risen at the same pace as money market rates, the public took to converting savings deposits into time deposits. A rapid rise in domestic interest rates usually goes hand in hand with the accelerated growth of M2. This development was duly observable in 1989.

Marked slowdown in growth of the money stock M3

In contrast to the money stock M2, the growth of the monetary aggregate M3, which also includes savings deposits, slowed down perceptibly. The money stock M3 exceeded the previous year's level by an average of 6.2%, as compared with 9.8% in 1988.

2.3 The financial markets

Money market

In 1989 Swiss money market rates rose steeply. The rate on three-month deposits on the Eurofranc market climbed from 4¾% at the end of 1988 to approximately 8% in May 1989. After a temporary decline in summer, it again moved up in autumn, reaching a level just short of 9% at year-end. The rate was 6.9% on an annual average in 1989, as against 3.1% a year earlier. Time deposit rates at the big banks followed developments in the Eurofranc market. The yield on three-month time deposits soared from 4.5% at the end of 1988 to 8.1% a year later. Following a recommendation by the Swiss Cartel Commission, the big banks have fixed their time deposit rates on an individual basis since mid-1989. Prior to that, they laid down uniform rates in keeping with cartel agreements.

Strong rise in money market rates

The yield on money market debt register claims of the Swiss Confederation with three-month maturities also rose markedly. The last issue in December 1989 produced a yield of 7.3%, compared to 4.7% a year earlier. Public interest in money market debt register claims of the Confederation grew considerably in 1989. Such paper is now increasingly in demand from small-scale investors with no access to time deposits at the banks. Starting in October, issuing series have been stepped up from one to two a month.

Mounting public interest in money market debt register claims of the Swiss Confederation

The National Bank's credits to the banking system

in millions of francs, monthly averages based on daily values

Month	Swap credits (1)		Lombard advances (2)		Discount credits (3)		Domestic correspondents (4)		Total (5) = (1) + (2) + (3) + (4)	
	1988	1989	1988	1989	1988	1989	1988	1989	1988	1989
January	14 293	10 510	148	67	190	415	65	148	14 696	11 140
February	13 789	10 938	2	52	74	477	45	143	13 910	11 610
March	12 486	11 454	6	36	72	536	67	159	12 631	12 185
April	11 128	10 753	16	103	71	393	67	170	11 282	11 419
May	11 309	11 189	15	291	71	419	79	207	11 474	12 106
June	10 907	12 458	38	64	71	415	99	233	11 115	13 170
July	11 816	12 134	51	20	72	490	125	222	12 064	12 866
August	11 735	11 568	9	17	81	1 082	58	177	11 883	12 844
September	12 114	11 519	10	15	69	1 366	66	169	12 259	13 069
October	10 986	11 912	51	18	67	999	82	176	11 186	13 105
November	10 646	11 771	59	57	86	1 157	118	184	10 908	13 169
December	12 077	13 468	72	85	221	808	202	246	12 572	14 607

Decline and turnaround
in interest differentials

At the end of 1988 Swiss money market rates still fell more than four percentage points short of interest rates on corresponding deposits in the Eurodollar market. The steep rise in Swiss money market rates, accompanied by a slight decline in US interest rates, not only progressively reduced the interest rate advantage of dollar investments in the course of 1989 but even brought about a turnaround by the end of the year. The interest differential vis-à-vis D-mark investments was at times also inverted. Between May and September, and also in the second half of December 1989, Swiss money market rates topped those in Germany. In previous years they had practically always been below the level of German rates.

Change in compulsory
stockpile financing

In early July 1989 the Swiss National Bank modified its refinancing practices for compulsory stockpile bills. The latter are issued by companies which keep stocks of certain essential commodities as part of the country's emergency provisions. Compulsory stockpile bills are equipped with a federal guarantee and discounted by the commercial banks. Until recently, the banks could pledge all compulsory stockpile bills under a repurchase agreement to the National Bank for five days at month-ends at a special discount rate and thus procure temporary liquidity. For a long time this repurchasing privilege had a certain justification, as demand for money reached absolute record levels at month-ends. However, it ceased to be justified when end-of-month peaks practically disappeared after the new liquidity requirements were introduced. For this reason, the Swiss National Bank abolished the repurchasing privilege for compulsory stockpile bills. However, a transitional arrangement has provided the banks with the possibility of submitting compulsory stockpile bills up to one-third of their holdings to the Swiss National Bank for discounting at the official rate. The banks had frequent recourse to this facility; in the second half of the year compulsory stockpile discount credits averaging a total of Sfr 1 billion were extended. The new arrangement is valid for a period of two years; until then a new regulation is to be worked out.

Foreign exchange market and exchange rates

Swiss franc rate lower
than a year earlier

The exchange rates of the major currencies vis-à-vis the Swiss franc showed more or less similar development until the end of October 1989. At the beginning of the year the Swiss franc depreciated noticeably against all other currencies. The Swiss franc rates of major currencies reached a peak in mid-May. Subsequently, the Swiss franc rate, benefiting from the introduction of a floating Lombard rate by the Swiss National Bank on 26 May, again gained ground until the end of October. From then until the end of the year the Swiss franc appreciated vis-à-vis the US dollar, the Japanese yen and the pound sterling, while once more weakening against the curren-

Nominal and real exchange rates of the Swiss franc



— Nominal Swiss franc rate in terms of foreign currencies (export-weighted index; November 1977 = 100).
 — Real Swiss franc rate in terms of foreign currencies (export-weighted index; adjusted by the indices of consumer prices; November 1977 = 100).

cies of the European Monetary System (EMS). Until the middle of December the Swiss franc rate of the D-mark climbed to over 91, a level not reached since May 1981. In the wake of a slight tightening of Swiss monetary policy in mid-December, it again receded somewhat until the end of 1989.

The decline of the export-weighted real Swiss franc rate under way since the start of 1988 continued in the first six months of 1989. In the second half of the year the real Swiss franc rate again showed a slight upward trend as a result of the nominal appreciation and rising inflation in Switzerland. The average real exchange rate of the Swiss franc in 1989 fell short of the previous year's level by 7.1%.

Decline in
export-weighted
exchange rate

Usually in coordination with other central banks, the Swiss National Bank intervened repeatedly in the foreign exchange market in 1989. From January to June, August to October and in December it sold a total of 2.3 billion dollars.

Interventions in the
foreign exchange
market

Capital market

Reverse interest rate pattern

Interest rates showed an upward trend not only in the money market, but also in the capital market, where the rise, however, was much less pronounced. Short-term interest rates had already slightly exceeded long-term rates towards the end of the previous year; accordingly, the reverse maturity pattern of interest rates emerged even more clearly in the course of 1989. On an annual average, the yields on Federal Government bonds fell some 1.8 percentage points short of the interest rate on three-month deposits in the Eurofranc market in 1989. A year earlier they had still exceeded this Euromarket rate by 0.9 percentage point.

Rising yields notably in the first half-year

In the course of the year the yields on Federal Government bonds, computed with due regard to redeemability, advanced from an average of 4.1% to 5³/₄%. The rise occurred primarily in the first five months of 1989. From late summer onwards yields moved up once more. The annual average of 5.1% exceeded the 1988-level by 1.1 percentage points.

Capital export authorisations according to financial instruments and groups of countries (percentages)

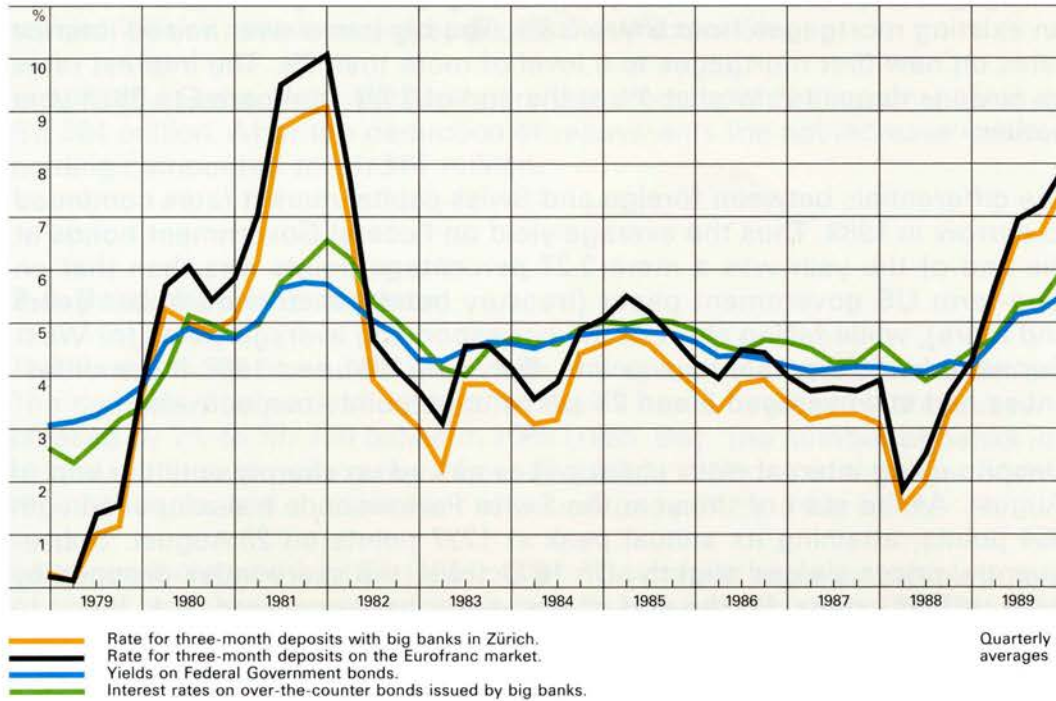
Financial instruments	1984	1985	1986	1987	1988	1989
Bonds ¹	26.0	38.2	84.3 ²	76.2	78.7	74.7
Notes	48.6	41.0	—	—	—	—
Loans	25.4	20.8	15.7	23.8	21.3	25.3
Total	100.0	100.0	100.0	100.0	100.0	100.0
Groups of countries						
Industrial countries	73.7	79.2	85.6	89.8	85.5	80.1
Developing countries	8.8	4.7	2.8	4.8	4.9	6.6
Centrally planned economies	2.3	3.6	2.9	3.2	3.1	7.6
OPEC	1.0	0.2	1.2	—	0.5	0.2
International organisations ³	14.2	12.3	7.5	2.2	6.0	5.4
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total, billions of francs	39.8	46.7	51.0	47.3	50.9	42.2

¹ Including foreign currency and dual currency bonds.

² Abolition of technical distinctions between public bonds and medium-term Swiss franc notes with effect from 29 May 1986.

³ IBRD, AsDB, AfDB, IDB, EIB, Coal and Steel Community, Euratom, Council of Europe Resettlement Fund.

Money and capital market rates



Borrowers and issuing syndicates misinterpreted market developments in various phases. Thus a number of bond issues proved a failure in 1989 because the issuing terms were no longer in line with market conditions at the time of issue. Other bond issues could only be placed with difficulty by the issuing syndicates. On the other hand, rising interest rates had the effect of stimulating demand for interest options (options on the purchase or sale of fixed-interest securities); trade in these instruments, however, was indirectly hampered by the stamp tax levied on the paper to which the option attaches. In order to avoid this tax, a synthetic bond, i.e. a zero bond consisting of put and call options on the Swiss Market Index, was launched in Switzerland for the first time.

Less favourable issuing terms for bonds

On average, at 5.4%, interest rates on newly issued medium-term notes of the big banks exceeded the year-earlier level by approximately 1.2 percentage points in 1989. Near the end of the year banks were mostly offering interest rates of 6½% for three-year maturities, 6⅙% for four to five years and 5¾% for six to eight-year maturities. The steep rise in yields on the money and capital markets induced the banks to also lift mortgage rates and sav-

Higher rates on bank issued medium-term notes, mortgage loans and savings deposits

ings deposit rates. The cantonal banks increased interest rates on new first mortgages in the course of the year on average from 5% to 6.5% and those on existing mortgages from 5% to 5.9%. The big banks even raised interest rates on new first mortgages to a level of more than 7%. The interest rates on savings deposits stood at 4% at the end of 1989, compared to 3% a year earlier.

Narrowing of interest differentials

The differentials between foreign and Swiss capital market rates continued to narrow in 1989. Thus the average yield on Federal Government bonds at the end of the year was a mere 2.27 percentage points less than that on long-term US government paper (treasury bonds; maturities of ten years and more), while falling short of the corresponding average yields for West Germany by 1.85 percentage points. Between 1981 and 1988 these differences had still averaged 6 and 2¾ percentage points respectively.

Bullish mood in the share market until late summer

Despite rising interest rates share prices moved up sharply until the end of August. At the start of the year the Swiss Performance Index opened with 954 points, attaining its annual peak at 1227 points on 28 August. Subsequently, prices yielded slightly. On 16 October the share index dropped by 9.4% to 1074 points. By the end of the year it had recovered to 1138.

Domestic share issues doubled

In 1989 bonds and shares to the tune of Sfr 51.1 billion were issued. This amount fell short of the corresponding level in the previous year by 9%. In the domestic sector new issues totalled Sfr 19.4 billion, i.e. approximately 21% up on the previous year's figure. The value of share issues more than doubled to Sfr 5.2 billion, thus again reaching the level of 1987. After deduction of Swiss redemptions of bond issues and the repayment of share capital to a total value of Sfr 8 billion, the volume of net borrowing in the domestic sector of the capital market amounted to Sfr 11.4 billion in 1989, compared to Sfr 7.7 billion a year earlier. In contrast to 1987 and 1988, new issues of the Swiss Confederation totalling Sfr 972 million in the medium and long term exceeded repayments of Sfr 930 million.

Strong decline in foreign bond issues

Borrowing in the capital market in the form of foreign bond issues (including notes) diminished from Sfr 40 billion in 1988 to Sfr 31.7 billion in 1989. Together with credits subject to authorisation totalling Sfr 10.7 billion, gross capital exports amounted to Sfr 42.2 billion, a decline of 17% from the previous year's level. Lendings decreased by 2% and new issues by 21%. Straight bonds were reduced by as much as 65%, while bonds equipped with conversion rights and warrants increased by 61%. The proportion of the total issuing volume of foreign borrowers accounted for by equity-related bond issues thus rose from 35% in the corresponding period of the previous year to 71% in 1989. As in past years, the bulk of capital exports subject to authorisation (80%) was accounted for by industrialised coun-

tries. Japan's share of capital exports expanded from 30.5% to 50%, thus further strengthening its leading position. The less developed countries absorbed 7% and development banks just well above 5%.

In 1989 the Swiss National Bank purchased bonds with a nominal value of Sfr 304 million. After the deduction of repayments the net increase in bond holdings amounted to Sfr 201 million.

Bond purchases by the Swiss National Bank

2.4 Bank balance sheets

The banks' balance sheets grew with the favourable economic situation. The combined balance sheet total of the 69 banks covered by statistics increased by 7% to Sfr 750 billion in 1989 (1988: 6%). The number of banks included in the survey decreased from 71 to 69 in 1989 due to a merger of two regional banks and the takeover of a savings bank by a big bank.

Growth of bank balance sheets

Lendings increased by 16% (1988: 14%). The current vigorous development of credit business surpasses credit growth in the boom years 1980/81, even taking inflation into account. Since 1987 the banks have expanded the volume of credits granted year by year. In the first half of 1989 the (net) amount of lendings again showed a steep rise. After three years of strong expansion credits accounted for 67% of the balance sheet total (end of 1988: 62%). Foreign credits (borrowers domiciled abroad), which constituted one-fifth of the total volume of loans, increased by 17%, thus making an above-average contribution to the growth of credits. In the domestic sector credits topped the previous year's level by 15%, with both debtors and – despite higher mortgage rates – mortgage loans showing an increase, by 18% and 13% respectively.

Vigorous expansion in the volume of credits

In 1989 the banks extended a considerably larger number of new credits than they were able to finance from incoming customer deposits. Accordingly, they reduced the overall volume of financial assets (liquid funds, balances from interbank business, bills and money market paper as well as securities) by 27% (1988: –9%). This had also been the case in earlier boom phases since banks adjust savings deposit rates and mortgage rates to market developments with a time lag. Demand for mortgage loans therefore usually surpasses the inflow of savings when interest rates are on the rise. The banks thus find themselves compelled to reduce liquid assets. In 1989 this reduction affected chiefly net interbank business (–84%) (1988: +21%). Securities increased by 8% in 1989 (1988: +1%). Liquid funds (cash, balances on sight deposit accounts and postal cheque accounts) fell 1% below the previous year's level; in the Swiss franc sector the decline was 4%.

Decline in investments

Liquidity management
by the banks

In 1989 the banks (505 institutions) improved their liquidity management, consequently lowering the level of cash liquidity (available liquid funds in percent of required funds) between November/December 1988 and November/December 1989 from 180% to 154%. Overall liquidity (available liquid funds and easily realisable assets in percent of required liquid funds and easily realisable assets) also declined. The level of bills and money market paper, however, was higher at the end of 1989 than a year earlier.

Growth of customer
deposits

Customer deposits rose overall by 7% in 1989. Due to the reverse interest rate pattern, funds were shifted within this sector, as had already previously been done under similar circumstances. The banks recorded a strong inflow of time deposits, leading, at the end of 1989, to an increase of 27% over the previous year's level (end of 1988: 15%). Bank issued medium-term notes and bonds exceeded the year-earlier level by 7% at the end of December 1989. By contrast, both sight deposits and savings deposits diminished by 6% (1988: -5%) and 9% (1988: +7%) respectively. The most significant decline in savings deposits occurred in the first six months of the year; subsequently, the outflow began to slow down. On the one hand, a number of banks lifted interest rates on savings; on the other hand, restrictions on withdrawals put a brake on a further rapid decline. The proportion of the balance sheet total accounted for by savings deposits fell to an unprecedentedly low level of 19% in 1989 (1988: 23%). Concurrently, time deposits, accounting for 27% of the balance sheet total, advanced to the leading position among customer deposits.

Expanding fiduciary
business

In fiduciary business – a line of business involving time deposits which is exempt from withholding tax – the 69 banks exhibited a 34% increase over the previous year's level at the end of 1989 (end of 1988: 26%). Swiss franc denominated fiduciary liabilities showed an above-average expansion of 59%, accounting for 23% of total fiduciary business at the end of the year (1988: 19%). The proportion of fiduciary business denominated in foreign currencies fell from 81% to 77% between December 1988 and December 1989.

2.5 Other aspects of central bank policy

Extension of banking supervision to financial intermediaries and issuing houses

On 23 August 1989 the Federal Council decided to extend the scope of banking supervision by amending the Banking Ordinance. As from 1 January 1990, financial intermediaries (enterprises which borrow extensively in the interbank market in order to extend credit for their own account to an indeterminate number of persons or enterprises) and issuing houses (enterprises that launch public offers of securities on the primary market) require a banking permit from the Federal Banking Commission.

Amendment to the
Banking Ordinance

The enterprises newly made subject to banking supervision in principle have to meet the same legal requirements as the banks. Foreign-controlled financial intermediaries and issuing houses, in addition to fulfilling the licensing conditions applying to Swiss-controlled institutions, must meet the precondition of reciprocity by their home country. They may, moreover, not bear a name which could indicate the Swiss character of the company. The banking requirements must be met within three years after the new regulations have entered into force; the Banking Commission has the right to extend or shorten this period in any given case.

Equality with banks

The extension of banking supervision to other participants in the financial markets is designed to ensure the smooth functioning of the credit and capital markets. It will also help to improve competitive equality in credit and issuing business. Moreover, investor protection in issuing business will be strengthened, and the reciprocity requirement will again increasingly have the intended effect of opening foreign markets for Swiss financial institutions. The Swiss National Bank welcomes the broadening of financial supervision thus achieved.

Protection of functions
and investors

Change in capital adequacy requirements of the Banking Ordinance

On 4 December 1989 the Federal Council decided to amend the regulations on capital adequacy requirements for the banks. The revision of the Banking Ordinance is based on the recommendations contained in the report «International convergence of capital measurement and capital standards» drawn up by the Basle Committee on Banking Supervision of the BIS in July 1988, without, however, incorporating them completely. The prime ob-

Inclusion of off-balance
sheet business

jective is risk-weighted capital adequacy in relation to all off-balance sheet business. In order to maintain the international competitiveness of the Swiss banks, certain capital ratios for on-balance-sheet items, which are considered excessively high from today's perspective, were also lowered. A further aim is to relieve the banks of part of the cost of raising equity capital by increasing the quota of subordinated loans and bond issues counted as equity from the current 10% to a maximum of 25% of required capital. The revised Ordinance on the Banking Law entered into force on 1 January 1990, while the new capital adequacy requirements already apply to the banks' balance sheets as at 31 December 1989.

EC compatibility

The Swiss National Bank welcomes the revision of the capital adequacy requirements. Capital requirements for all off-balance-sheet items weighted according to the insolvency risk serve to close a major gap in the existing capital adequacy regulations. Amendments to the Ordinance will bring about a slight reduction in overall capital adequacy requirements for most banking groups; this is justifiable as Switzerland's capital ratios are still extremely high by international standards. Conformity with the Basle capital adequacy framework is appropriate since the EC also orients itself to the Basle model in standardising the banks' capital adequacy requirements.

Agreement on the Admission Board

Withdrawal by the SNB

On 24 April 1989 the Swiss National Bank addressed a declaration to all co-signatories of the «Convention concerning the admission of foreign securities for official trading on the Swiss stock exchanges» (of 7 June 1938) terminating its partnership to the agreement. There were several reasons for this step: in the interest of an optimum capital allocation the issuers' access to the Swiss stock markets should be as unrestricted as possible. The listing of securities based on improved financial disclosure by issuers is thus preferable to a creditworthiness test as handled by the Admission Board; such a creditworthiness test can hardly be carried out in an objective manner and is no guarantee for the enduring quality of the securities in the future. Moreover, the decisions of the Admission Board are not subject to review in a procedure under the rule of law. Finally, the Swiss National Bank's right to objection laid down in the admission convention has lost its significance in view of the extensive liberalisation of capital exports.

Criticism by the Cartel Commission

In its report on the cartel agreements in the banking industry applicable to the country as a whole (of April 1989) the Cartel Commission noted that the Swiss Admission Board considerably inhibits competitiveness in the primary market. After the Swiss National Bank's withdrawal from the admis-

sion convention, the Cartel Commission refrained from any concrete propositions to the Federal Department of Economic Affairs and decided to wait until it became clear how the Admission Board would deploy its activities. The other signatories to the convention have agreed to continue operating the Admission Board in its present form for a limited period, though without the central bank's right to objection. However, the Swiss National Bank considers it a necessity to completely revise the procedure for listing securities on the Swiss stock exchanges.

New financial order of the Swiss Confederation

In its comments on the Federal Government's proposals for a new financial order of the Confederation the Swiss National Bank explicitly supports the target of reform, i.e. ensuring a budgetary equilibrium in the long term. A balanced federal budget facilitates the conduct of a stability-oriented monetary policy. The proposed four variants for tax on consumption are unlikely to have substantially different effects from the monetary policy point of view. For this reason, the Swiss National Bank has not discussed the advantages and disadvantages of these variants in detail.

Variants of tax on consumption

The draft bill for the revision of the federal law on stamp taxes, which was submitted for comment to the interested bodies by the Federal Department of Finance together with the proposals for the reform of tax on consumption, has been dealt with extensively by the central bank. The Bank holds the view that the stamp taxes currently in force threaten to undermine the international competitiveness of the Swiss financial centre. Stamp duties can become extremely arbitrary in that they are applied only to certain operations (the issuing and change in ownership of securities and specific written documents) forming part of financial services, which are so closely interconnected today. Accordingly, they disrupt market activities which – depending on the market segment – may lead to a partial or complete loss in demand.

Revision of stamp taxes

The proposals for revising stamp duties submitted by the Federal Department of Finance are designed to eliminate some of the adverse effects of this tax in the environment of central bank activity. The Swiss National Bank notably approves of the proposal to generally exempt money market paper of Swiss issuers with maturities of up to one year from stamp duty. This would provide a basis for creating a market for domestic commercial paper and other short-term investment instruments. The fact that the present level of stamp duty on transactions involving Swiss franc bonds of foreign borrowers is to be maintained for the time being does not, however, appear to be without risk. It is an open question how long the issue of such

Effects in the environment of the central bank

bonds can be restricted to Switzerland by means of the so-called syndication regulation applying to capital exports subject to authorisation. In view of the current worldwide deregulation, it is becoming increasingly difficult to prevent the use of the domestic currency for financial operations abroad. If the stamp duty were still in force in Switzerland at that time, this would inevitably lead to an outflow of Swiss franc issuing business to other countries.

Agreements in the banking industry affecting Switzerland as a whole

Cancellation of cartel agreements under discussion

In September 1989 the Federal Department of Economic Affairs asked the Swiss National Bank for its comments on the propositions submitted by the Cartel Commission concerning the cancellation of four agreements in the banking industry affecting Switzerland as a whole. For a number of reasons the Swiss National Bank has a strong interest in the conditions of competition in the Swiss banking industry. First, monetary policy can be pursued more reliably if there is as much freedom of competition as possible in the banking sector. Monetary stimuli are transmitted more easily and more predictably to the overall economy by a competitive banking system than by one hampered by cartellistic practices. Second, the central bank attaches considerable significance to competition within the Swiss financial centre; prices and fees for banking services must be competitive if they are to attract internationally active investors. Third, the Swiss National Bank, as lender of last resort of the Swiss banking system, has a vital interest in banks remaining solvent.

Competition and solvency: no conflicting goals

In the view of the Swiss National Bank intense competition and bank solvency are not conflicting goals. In the long run, restrictive competition clauses do not guarantee the solvency of the banking system, nor are they helpful in meeting the needs of customers. Even if, overall, the banking industry makes systematic profits based on the cartel agreements, it cannot be ruled out that individual institutions actually incur losses. Cartels provide no protection against bank failures. The most effective means of preventing bank failures are a stability-oriented monetary policy and efficient supervision. Fiercer competition is likely to improve the international competitiveness of the Swiss financial centre in the long term.

Attitude adopted by the Swiss National Bank

For these reasons the Swiss National Bank has declared itself in favour of a cancellation, by the Federal Department of Economic Affairs, of the brokerage convention, the convention on uniform charges for open custody accounts, the convention on minimum conditions in documentary credit business, and of the regulations on lead management contained in the syndicate agreement of the big banks.

Cooperation of the Swiss National Bank in international monetary measures

A bridging loan of \$ 500 million extended to Argentina by various monetary authorities and central banks in mid-October 1988 was repaid at the end of February 1989. This ended the Swiss National Bank's participation in the form of a substitution undertaking to the tune of \$ 12.5 million.

Repayment of a bridging loan in favour of Argentina

In mid-September 1989 the monetary authorities of the United States, in conjunction with the central banks of countries represented in the Group of Ten and of Spain, granted Mexico a bridging loan totalling \$ 1.7 billion. The loan is intended to cover immediate liquidity requirements until the credit facilities agreed on between Mexico and the IMF, on the one hand, and the World Bank, on the other, at the end of May and in mid-June 1989 respectively become available. The Swiss National Bank entered into a substitution undertaking to the amount of \$ 20.2 million for the part of the credit

Bridging loan for Mexico

Participation of the National Bank in stand-by arrangements at the end of 1989

	Original undertakings	Outstanding credits		Outstanding undertakings
		End 1988	End 1989	
1. Swap agreements				
Federal Reserve Bank of NY	\$ 4 billion	0	0	\$ 4 billion
Bank of Japan	Yen 200 billion	0	0	Yen 200 billion
BIS	\$ 600 million	0	0	\$ 600 million
2. Multilateral credits				
General Arrangements to Borrow (GAB)	SDR 1020 million	0	0	SDR 1020 million
IMF "Witteveen" facility	SDR 650 million	SDR 102.2 million	SDR 31.6 million	0
3. Bilateral credits				
Yugoslavia ¹	\$ 80 million	\$ 29 million	\$ 14.5 million	0
4. Substitution undertakings				
Argentina ¹	\$ 12.5 million	0	0	0
Mexico ¹	\$ 20.2 million	0	\$ 10.0 million	0
Poland ¹	\$ 7.5 million	0	\$ 3.2 million	\$ 4.3 million

¹ With Federal Government guarantee.

which was coordinated via the BIS. The Swiss National Bank's participation is guaranteed by the Swiss Confederation. Repayment of the bridging loan will be effected by the end of February 1990.

Bridging loan in favour
of Poland

At the end of December 1989 the monetary authorities of the United States, in conjunction with the central banks of the countries represented in the Group of Ten and of Spain and Austria, granted a bridging loan of \$ 500 million to Poland. A first drawing took place on 28 December 1989. The bridging loan is to be replaced by credit facilities of the IMF and World Bank by the end of May 1990. The Swiss National Bank entered into a substitution undertaking of \$ 7.5 million for the part of the credit which was coordinated via the BIS. The Swiss National Bank's participation is guaranteed by the Swiss Confederation.

Repayment of medium-
and long-term credits

In 1989 the IMF repaid part of a credit extended to the Fund by the Swiss National Bank in 1979 under the «Witteveen» facility. A further tranche of the medium-term credit to the tune of \$ 80 million granted by the Swiss National Bank to Yugoslavia was also repaid. This loan, which is equipped with a Federal Government guarantee, had been made available in June 1983.

3. Balance sheet and profit and loss account

3.1 Main components of the balance sheet since 1951 (End-of-year values)

Assets

End of year	Gold holdings ¹	Foreign exchange investments	International payment instruments ²	Foreign currency loans ³	Domestic portfolio				Lombard advances	Securities	Balances with domestic correspondents	Loss on foreign exchange and gold holdings
					Swiss bills	Treasury bonds ⁴	Dis-counted bonds	Total				
<i>In millions of francs</i>												
1951	6 003,8	227,6	—	—	233,8	4,6	12,7	251,1	58,9	39,9	53,0	—
1952	5 876,1	490,9	—	—	243,9	—	1,8	245,7	64,0	40,1	37,5	—
1953	6 086,1	522,2	—	—	190,8	14,7	1,1	206,6	65,2	35,5	34,9	—
1954	6 323,4	649,8	—	—	91,6	2,0	9,6	103,2	116,6	46,5	41,3	—
1955	6 686,3	624,1	—	—	129,2	2,0	23,0	154,2	131,8	45,9	47,8	—
1956	7 102,9	627,0	—	—	170,9	21,5	80,0	272,4	186,9	45,7	56,1	—
1957	7 383,5	781,4	—	—	193,9	—	31,9	225,8	52,0	45,3	41,4	—
1958	8 329,3	560,9	—	—	56,0	—	2,3	58,3	21,8	44,6	33,0	—
1959	8 369,3	534,6	—	—	50,6	—	7,3	57,9	39,7	44,2	45,2	—
1960	9 454,7	583,0	—	—	49,2	—	4,3	53,5	37,8	43,3	45,1	—
1961	11 078,0	842,4	—	—	62,2	—	7,3	69,5	66,3	42,9	58,3	—
1962	11 543,3	867,4	207,0	—	67,4	45,0	11,2	123,6	71,7	42,8	77,8	—
1963	12 203,8	1 083,3	207,0	—	87,5	35,0	19,7	142,2	97,5	51,7	61,5	—
1964	11 793,6	1 679,1	432,0	431,3	109,8	24,8	28,0	162,6	77,7	65,3	75,3	—
1965	13 164,2	852,6	432,0	428,5	98,1	9,5	31,5	139,1	38,9	92,9	66,1	—
1966	12 297,4	2 060,3	432,0	518,9	97,8	16,7	43,3	157,8	109,3	181,7	81,5	—
1967	13 369,7	1 986,7	432,0	173,9	99,4	—	43,1	142,5	86,6	181,9	72,4	—
1968	11 355,8	5 601,2	1 442,0	108,3	256,2	6,8	25,5	288,5	160,1	180,6	99,7	—
1969	11 434,5	5 792,9	1 851,0	—	584,7	118,5	28,2	731,4	277,1	170,2	89,5	—
1970	11 821,3	8 441,1	1 851,0	—	306,6	71,0	21,4	399,0	223,5	156,0	82,8	—
1971	11 879,4	10 323,3	4 278,0	—	78,1	—	2,4	80,5	28,5	10,8	72,4	1 243,5 ⁵
1972	11 879,7	12 323,1	4 278,0	—	770,3	152,0	13,8	936,1	418,8	—	142,3	1 243,5 ⁵
1973	11 892,7	12 519,9	4 613,0	—	862,7	200,0	35,0	1 097,7	557,7	—	281,8	1 243,5 ⁵
1974	11 892,7	11 570,6	5 403,0	—	2 166,8	484,0	43,5	2 694,3	699,9	92,5	166,9	621,5 ⁵
1975	11 892,7	14 705,8	5 403,0	—	1 706,5	227,0	5,4	1 938,9	200,2	3,7	136,3	621,5 ⁵
1976	11 903,9	20 426,5	5 222,0	—	912,5	375,0	13,3	1 300,8	157,0	63,8	160,3	—
1977	11 903,9	20 514,2	3 949,0	—	1 207,4	267,0	44,7	1 519,1	197,5	559,1	171,6	—
1978	11 903,9	28 981,8	2 028,5	—	214,6	—	21,5	236,1	49,6	348,0	185,7	2 593,5 ⁶
1979	11 903,9	26 390,4	—	—	1 532,2	10,0	38,3	1 580,5	886,4	963,4	288,6	1 110,9 ⁶
1980	11 903,9	27 355,6	11,4	—	2 285,1	152,0	48,4	2 485,5	919,8	1 212,2	289,6	—
1981	11 903,9	25 494,8	0,2	—	2 710,0	256,0	40,9	3 006,9	2 513,9	1 018,4	399,6	—
1982	11 903,9	31 872,8	6,3	—	2 076,8	109,2	2,1	2 188,1	1 559,6	1 268,3	314,0	—
1983	11 903,9	32 677,5	28,7	—	2 524,5	149,2	2,6	2 676,3	2 408,6	1 562,5	346,4	—
1984	11 903,9	38 876,0	23,2	—	2 455,4	293,5	—	2 748,9	2 677,9	1 773,6	500,8	—
1985	11 903,9	38 133,8	6,8	—	2 465,9	372,5	—	2 838,4	2 973,6	1 911,1	529,7	—
1986	11 903,9	36 262,0	—	—	2 411,9	335,5	—	2 747,4	3 204,0	2 045,0	564,4	—
1987	11 903,9	37 439,9	18,5	—	2 246,8	54,9	—	2 301,7	3 126,9	2 190,8	460,1	—
1988	11 903,9	35 946,7	30,5	—	2 133,8	—	—	2 133,8	795,9	2 421,4	416,0	—
1989	11 903,9	39 620,2	123,6	87,1	542,7	—	—	542,7	704,1	2 574,0	458,3	—

¹ Valuation since 10 May 1971: 1 kg fine gold = Sfr 4595.74; previously: 1 kg = Sfr 4869.80.

² Until 1979, foreign treasury bonds in Swiss francs; as from 1980, Special Drawing Rights and (as from 20. 4. 1989) ECU.

³ 1964–1968 rate-hedged balances at foreign central banks; since 20. 4. 1989 foreign currency loans.

⁴ Since 1979 including money market debt register claims.

⁵ Liability of the Federal Government in accordance with the Decree of the Federal Parliament of 15 December 1971.

⁶ Covered by hidden reserves on gold.

Liabilities

Note circulation	Cover- age of note circu- lation by gold holdings	Sight liabilities					Banks' minimum reserves	Time liabilities	Foreign exchange valuation adjust- ment	Capital and reserves	Provisions for foreign exchange risks	others	Balance sheet total	End of year
		Total	of which sight deposit accounts of domestic banks and finance compa- nies ⁷	Ac- counts of the Confe- deration	Ac- counts held under payment and clearing agree- ments	Balan- ces of foreign banks ⁸								
In millions of francs	%	In millions of francs												
4 927,3	121,85	1 528,8	1 101,9	225,4	159,9	—	—	—	70,0	—	3,6	6 675,9	1951	
5 121,9	114,73	1 453,9	1 209,2	78,9	126,8	—	—	—	70,5	—	3,9	6 796,8	1952	
5 228,5	116,40	1 540,9	1 147,3	157,3	171,5	—	—	—	71,0	—	5,3	6 996,8	1953	
5 411,6	116,85	1 692,2	1 255,2	216,1	171,5	—	—	—	71,5	—	4,8	7 327,2	1954	
5 515,5	121,23	1 990,4	1 623,8	268,9	82,1	—	—	—	72,0	—	13,4	7 738,2	1955	
5 809,7	122,26	2 286,4	1 570,6	609,2	89,2	—	—	—	73,0	—	16,0	8 340,1	1956	
5 931,2	124,49	2 393,0	1 831,1	471,1	74,7	—	—	—	74,0	—	17,1	8 574,6	1957	
6 109,3	136,34	2 726,4	2 541,2	105,7	61,3	—	—	—	75,0	—	16,8	9 098,9	1958	
6 343,9	131,93	2 535,3	2 330,7	165,6	22,1	—	—	—	76,0	—	17,0	9 141,5	1959	
6 854,1	137,94	2 756,4	2 288,4	416,6	33,3	—	—	390,3	77,0	—	18,4	10 266,2	1960	
7 656,0	144,70	2 947,0	1 996,1	662,5	37,2	231,5	1 035,0 ⁹	293,5	78,0	—	21,7	12 206,6	1961	
8 506,1	135,71	2 799,7	2 294,2	355,9	30,0	98,0	1 035,0 ⁹	373,0	79,0	—	22,9	12 994,7	1962	
9 035,4	135,07	3 187,8	2 700,0	389,4	39,3	31,8	1 035,0 ⁹	357,3	80,0	—	26,1	13 910,2	1963	
9 721,8	121,31	3 270,6	2 907,9	291,5	24,4	25,6	1 035,0 ⁹	433,2	81,0	—	28,7	14 787,6	1964	
10 042,5	131,08	3 215,4	3 005,0	126,2	20,9	44,3	1 035,0 ⁹	602,0	82,0	—	37,1	15 287,6	1965	
10 651,1	115,46	3 430,5	2 982,2	375,2	23,3	34,4	1 035,0 ⁹	389,0	83,0	—	37,2	15 922,3	1966	
11 326,8	118,04	4 144,9	3 810,8	230,7	29,0	53,9	—	550,0	84,0	—	52,2	16 519,0	1967	
12 047,3	94,26	6 413,6	5 776,2	505,0	33,4	75,1	—	233,1	85,0	—	69,2	19 339,7	1968	
12 518,4	91,34	6 954,8	6 353,4	493,0	40,0	49,6	—	141,9	86,0	—	105,0	20 482,5	1969	
13 106,0	90,20	8 410,1	7 749,6	405,3	18,3	208,4	—	401,7	87,0	—	145,0	23 095,3	1970	
14 309,9	83,01	11 854,4	10 701,6	713,7	15,3	393,1	516,4 ¹⁰	313,1	88,0	665,2	160,0	28 014,6	1971	
16 635,0	71,41	11 020,8	9 312,6	1 380,3	17,0	279,5	2 029,3 ¹¹	75,2	89,0	783,7	210,0	31 362,9	1972	
18 296,2	65,00	9 036,1	8 234,9	458,2	7,8	296,7	2 872,0 ¹¹	229,6	90,0	547,7	290,0	32 297,8	1973	
19 435,8	61,19	10 367,1	9 505,0	714,5	—	114,8	347,8 ¹¹	1 233,2	91,0	157,7	360,0	33 260,6	1974	
19 127,8	62,17	13 296,0	11 478,5	1 623,8	—	150,0	165,3 ¹¹	379,8	92,0	389,7	380,0	34 991,0	1975	
19 730,9	60,33	16 648,7	12 643,7	3 817,5	—	146,2	246,2 ¹¹	954,8	93,0	—	390,0	39 324,0	1976	
20 396,8	58,36	16 330,2	13 622,8	2 513,8	—	149,3	—	772,2	94,0	—	226,2	38 921,0	1977	
22 499,1	52,91	20 062,8	15 583,9	3 437,7	—	990,6	—	2 893,2	95,0	—	190,2	46 421,0	1978	
23 760,9	50,10	17 735,6	13 207,1	2 209,4	—	2 252,8	—	630,1	95,0	—	143,5	43 244,5	1979	
24 106,3	49,38	16 376,1	13 661,0	402,8	—	2 254,0	—	273,5	95,0	2 157,1	270,0	44 318,7	1980	
23 336,7	51,01	14 958,0	12 466,7	1 513,9	—	908,0	—	500,0	96,0	4 531,3	340,0	44 584,5	1981	
24 477,0	48,63	15 713,5	13 992,7	798,9	—	852,0	—	250,0	97,0	6 564,6	450,0	49 374,2	1982	
24 759,4	48,08	15 229,4	14 229,2	812,0	—	125,4	—	—	98,0	8 565,8	500,0	51 869,2	1983	
26 489,3	44,94	15 537,1	14 227,8	1 102,9	—	130,1	—	—	99,0	10 811,7	490,0	58 748,8	1984	
25 861,6	46,03	16 872,7	14 105,2	2 537,1	—	128,1	—	—	100,0	13 467,7	490,0	58 546,7	1985	
27 018,9	44,06	16 113,7	14 911,8	1 042,3	—	86,7	—	—	101,0	13 056,2	490,0	56 980,4	1986	
27 342,3	43,54	18 643,0	17 044,8	1 362,9	—	163,1	—	—	102,0	10 934,0	490,0	57 715,7	1987	
28 979,2	41,08	9 475,6	6 691,6	2 530,1	—	167,6	—	—	103,0	12 741,6	630,0	53 930,4	1988	
29 168,4	40,81	7 724,7	4 948,4	2 571,9	—	119,0	—	—	104,0	15 534,9	630,0	56 290,6	1989	

⁷ Prior to 1986: Sight deposit accounts of banks, trade and industry.

⁸ Prior to 1961 under "Sight deposit accounts of banks, trade and industry".

⁹ Temporarily blocked sight deposit accounts of banks.

¹⁰ In accordance with the agreement of 16 August 1971 concerning extraordinary minimum reserves.

¹¹ Minimum reserves of banks in respect of domestic and foreign liabilities, in accordance with the Decree of the Federal Parliament of 20 December 1972 and 19 December 1975 respectively.

3.2 Profit and loss account since 1982

Expenditure (in Sfr 1000)

	1982	1983	1984	1985	1986	1987	1988	1989
Operating expenses	86 920	106 160	120 232	93 998	95 489	97 702	110 485	152 865
Bank authorities	688	722	726	718	714	705	707	734
Personnel	47 790	46 602	49 984	52 123	52 025	53 343	56 249	58 570
Premises	9 464	20 355	16 115	9 379	4 918	4 417	9 785	45 150
Furniture and fixtures	2 652	9 658	17 858	2 402	3 034	4 104	3 108	4 358
Business and office equipment and supplies	2 117	2 248	2 754	2 914	2 861	2 990	3 206	3 360
Information and communication	1 867	1 639	1 859	1 951	2 436	1 870	2 304	1 945
Printing, publications	1 045	615	548	635	693	644	731	852
Expenditure in respect of note circulation	16 116	18 659	18 601	17 105	18 689	19 485	24 037	21 292
Other expenditure on materials	5 181	5 662	11 787	6 771	10 119	10 144	10 358	16 604
Other expenses	182 890	197 099	132 687	122 193	181 917	127 711	141 546	95 233
Interest payable to depositors	2 664	2 409	2 767	3 077	2 926	3 012	3 395	4 267
Interest payable to Federal Government	24 086	42 289	39 296	56 767	58 492	41 244	40 444	55 161
Interest payable on bonds	34 600	13 126	—	—	—	—	—	—
Other sterilisation expenses	4 533	167	—	—	—	—	—	—
Write-down of own securities	114 510	138 467	90 624	62 349	94 499	66 320	96 407	35 805
Depreciation of bank buildings	2 497	641	—	—	26 000	17 135	1 300	—
Write-down of foreign exchange holdings	—	—	—	—	2 139 125 ¹	3 528 837	—	—
Transfer to the valuation adjustment to foreign exchange holdings account	—	—	—	—	—	—	1 970 906	1 089 907
Taxes	8 898	—	2 851	—	1 789	2 632	1 592	298
Appropriation to staff and pensioners' welfare facilities funds	3 000	2 500	5 000	3 000	3 000	2 000	2 000	2 000
Donation to the Gerzensee study centre foundation	—	—	32 733	—	—	—	—	—
Provisions	2 143 355	2 051 141	2 245 993	2 655 953	—	—	1 807 669	2 793 303
Provisions for foreign exchange risks	2 033 355	2 001 141	2 245 993	2 655 953	—	—	1 807 669	2 793 303
Other provisions	110 000	50 000	—	—	—	—	—	—
Net profit	7 593	7 593	7 593	7 593	7 593	7 593	7 593	7 593
Allocation to the reserves	1 000	1 000	1 000	1 000	1 000	1 000	1 000	1 000
Dividend	1 500	1 500	1 500	1 500	1 500	1 500	1 500	1 500
Payment to the Federal Finance Administration	5 093	5 093	5 093	5 093	5 093	5 093	5 093	5 093
Total	2 432 656	2 364 493	2 547 089	2 882 737	2 428 913	3 766 475	4 041 791	4 141 199

3 703 300
1 564 175
2 139 125

¹ Total write-down of foreign exchange holdings less liquidation of the balance sheet item "Valuation adjustment to foreign exchange holdings"

Income (in Sfr 1000)

	1982	1983	1984	1985	1986	1987	1988	1989
Operating income	7 389	9 319	8 245	7 569	8 069	5 771	6 663	6 251
Commissions	3 006	4 756	3 935	2 945	2 216	1 826	1 756	1 696
Income from bank buildings	2 603	2 892	2 816	3 170	5 313	3 446	4 462	4 088
Sundry income	1 780	1 671	1 494	1 454	540	499	445	467
Other income	2 425 267	2 355 174	2 538 844	2 875 168	2 009 363	1 638 459	2 064 222	3 045 041
Income from foreign exchange and gold	2 307 193	2 228 957	2 391 222	2 709 177	1 834 097	1 462 698	1 924 021	2 848 708
Income from discounting	37 518	23 651	23 442	25 511	20 848	17 738	3 275	33 906
Income from secured advances	15 656	17 738	21 536	25 257	28 448	27 309	2 832	5 672
Income from own securities	62 801	83 232	100 691	113 281	123 449	128 782	132 877	149 504
Income from domestic correspondents	2 099	1 596	1 953	1 942	2 521	1 932	1 217	7 251
Appreciation on foreign exchange holdings	—	—	—	—	—	—	1 970 906	1 089 907
Drawings on provisions for currency risks	—	—	—	—	411 481	2 122 245	—	—
Total	2 432 656	2 364 493	2 547 089	2 882 737	2 428 913	3 766 475	4 041 791	4 141 199

Explanatory notes on the profit and loss account for the year 1989

The profit and loss account of the Swiss National Bank closed with an earnings surplus of Sfr 2800.9 million in 1989 (1988: Sfr 1815.3 million). The surplus was achieved mainly on dollar holdings and was used largely to augment provisions for foreign exchange risks (Sfr 2793.3 million).

Earnings from foreign exchange holdings and foreign exchange dealings totalled Sfr 2848.7 million (1988: Sfr 1924 million). Dollar holdings, which are not hedged against exchange rate risks, were valued at the average December rate of Sfr 1.568 (1988: Sfr 1.477). The appreciation surplus on foreign exchange holdings amounted to Sfr 1089.9 million (1988: Sfr 1970.9 million). It was again transferred to the «valuation adjustment to foreign exchange holdings» account via the profit and loss account.

The changes effected in compulsory stockpile financing (cf page 16) led, in the second half-year, to a significantly higher average utilisation of discount credits. Income from discount business rose to Sfr 33.9 million, ten times the amount recorded in the previous year.

Income from Lombard business doubled to Sfr 5.7 million. Originally this rise was accounted for by the considerable increase in demand for Lombard credits until May 1989. When the floating Lombard rate was introduced at the end of May, (cf page 11), Lombard credits receded to approximately the previous year's level; the average Lombard rate, however, was markedly higher than a year earlier.

Income from domestic correspondents rose by Sfr 6 million to Sfr 7.3 million. The comparatively favourable financing terms (discount rate) prompted domestic correspondents to borrow more extensively from the Swiss National Bank between cover days (5th and 20th of each month).

The expansion in securities holdings led to a higher interest yield, totalling Sfr 149.5 million at the end of the year (1988: 132.9 million).

Staff expenditure rose slightly to Sfr 58.6 million. At Sfr 45.1 million, expenditure on premises clearly exceeded the previous year's figure. The increase is attributable chiefly to building renovations at the Lugano branch and to the general extension of storage capacity.

Expenditure in connection with the printing and circulation of bank notes declined by Sfr 2.7 million – to Sfr 21.3 million – compared with a year earlier.

Interest payments in favour of the Federal Government increased by Sfr 14.8 million to Sfr 55.2 million. The rise is due mainly to the new agreement concluded with the Federal Government concerning interest payments on federal funds. On balance, deposit interest rates were affected to a greater extent by the steep rise in interest rates than sight deposits, which were lower on average, and the reduced volume of investments held by the Confederation at the Swiss National Bank.

Book profits on securities previously written off amounting to Sfr 29.9 million were set off against the cost of depreciation of securities acquired in the year under review. This results in a write-off totalling Sfr 35.8 million.

4. Organisation (as on 1 January 1990)

4.1 Supervisory authorities

Bank Council	40 members President: Peter Gerber Vice-President: Dr. Jakob Schönenberger
Bank Committee	10 members of the Bank Council, including its president and vice-president
Local Committees	3 members each; at both head offices and the eight branches
Auditing Committee	Chairman: Gilbert Grenier

4.2 Bank management

Governing Board	Markus Lusser, Zurich Hans Meyer, Berne Jean Zwahlen, Zurich
Secretariat General	
Secretary General	Andreas Frings, Director, Zurich
Deputy Secretary General	Hans-Christoph Kesselring, Assistant Director, Berne Michel Gremaud, Senior Officer, Zurich
<i>Department I (Zurich)</i>	
Head of Department	Markus Lusser, Chairman of the Governing Board
Press Relations	Werner Abegg, Assistant Director
Deputy Heads of Department	Peter Klauser, Director Georg Rich, Director
Economic Division	Georg Rich, Director
Economic Studies Section	Jean-Pierre Béguelin, Director Roberto Cippà, Assistant Director (on leave) Monique Dubois, Assistant Director Erich Spörndli, Assistant Director Hans-Jürg Büttler, Economic Adviser Franz Ettl, Economic Adviser
Banking Studies Section	Urs W. Birchler, Deputy Director Robert Fluri, Senior Officer (on leave)
Statistics Section	Christoph Menzel, Director Markus Zimmerli, Assistant Director Rolf Gross, Senior Officer Thomas Schlup, Senior Officer
Legal and Administrative Division	
Legal Service	Peter Klauser, Director Peter Merz, Deputy Director Gerhard Nideröst, Director Beat Blaes, Senior Officer
Personnel	Elsa Schürch, Senior Officer
Pension Fund	Peter Hadorn, Deputy Director
Premises, Technical Services	Theo Birchler, Senior Officer
Internal Auditors	Ulrich Willi Gilgen, Deputy Director Othmar Flück, Senior Officer

Department II (Berne)

Head of Department	Hans Meyer, Vice-Chairman of the Governing Board
Deputy Head of Department	Hans Theiler, Director
Adviser	Max Baltensperger, Director
Banking Division	Theodor Scherer, Director
Central Accounting	Hans-Peter Dosch, Deputy Director
Cashier's Office (Berne)	Paul Bürgi, Assistant Director
Correspondence, Bills and Cheques	
Securities	Daniel Ambühl, Assistant Director
	Max Isenschmid, Deputy Director
Cash and Collection, Security, Services Division	Johann Ammann, Director
Chief Cashier's Office	Roland Tornare, Chief Cashier
	Peter Trachsel, Deputy Chief Cashier
	Urs Suter, Senior Officer
Security	Alex Huber, Assistant Director

Department III (Zurich)

Head of Department	Jean Zwahlen, Member of the Governing Board
Deputy Heads of Department	Jean-Pierre Roth, Director
	Christian Vital, Director
Monetary Operations Division	Jean-Pierre Roth, Director
Foreign Exchange Section	Karl Hug, Deputy Director
	Erich Maurer, Senior Officer
Investment Section	Martin Papp, Assistant Director (until January 31, 1990)
Money Market Operations, Bills and Cheques	Beat Spahni, Assistant Director
General Processing and Informatics Division	Christian Vital, Director
General Processing	(vacant)
Payments Transactions	Eugen Guyer, Deputy Director
	Walter Gautschi, Senior Officer
Cashier's Office	Roland-Michel Chappuis, Assistant Director
Correspondence	Markus Steiner, Assistant Director
Accounting	Werner Bolliger, Assistant Director
	Ulrich Kläntschi, Senior Officer
Informatics Section	Rudolf Hug, Deputy Director
	Jürg Ziegler, Deputy Director
	Raymond Bloch, Assistant Director
	Bruno Beyeler, Senior Officer
	Peter Bornhauser, Senior Officer
	Peter Künzli, Senior Officer
	Jules Troxler, Senior Officer

Branches

Aarau	Heinrich Herzog, Director Fritz Merz, Senior Officer
Basle	Anton Föllmi, Director Karl Schär, Senior Officer
Geneva	Yves Lieber, Director Jean-Daniel Zutter, Senior Officer
Lausanne	François Ganière, Director Nivardo Zanini, Senior Officer
Lucerne	Max Galliker, Director Josef Huber, Senior Officer
Lugano	Cesare Gaggini, Director Franco Poretti, Senior Officer
Neuchâtel	Jean-Pierre Borel, Director Senior Officer (vacant)
St. Gall	René Kästli, Director Alfred Geiger, Senior Officer

Sub-Branch

La Chaux-de-Fonds (attached to Neuchâtel branch)	Jacques Jolidon, Head of Sub-Branch
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Agencies at other banks:

The Swiss National Bank maintains agencies operated by cantonal banks in the following towns:

Altdorf, Appenzell, Bellinzona, Bienne, Chur, Delémont, Fribourg, Glarus, Herisau, Liestal, Sarnen, Sion, Solothurn, Schaffhausen, Schwyz, Stans, Thun, Weinfelden, Winterthur, Zug.

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