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1. Economic developments and central bank policy – a summary

1.1 International economic and monetary developments

In 1987 the pace of economic growth in the industrialised countries remained largely unchanged from the previous year. The sharp decline in the value of the dollar and the collapse of stock market prices, which were the most striking economic events in 1987, triggered fears of a perceptible slowdown in growth. The dollar slide and the fall in share prices, however, hardly affected production in the industrialised countries until the end of 1987. The monetary authorities made efforts to arrest the decline in the dollar's exchange rate by concerted interventions in the foreign exchange markets. The stock market crash also prompted the monetary authorities to act. They provided the banking sector with additional liquidity.

Highlights

At the start of 1987 economic expansion in the industrialised countries began levelling off, only to pick up again in the following months. As in 1986, the overall increase in real GNP amounted to approximately 2¼%. Domestic demand was the chief pillar of the economy. In addition to the sustained brisk pace of private consumption, lively investment activity helped to boost growth. By contrast, only modest growth stimuli emanated from foreign trade. The volume of world trade expanded somewhat more markedly than in the previous year. The crumbling dollar rate had a palpable influence on real trade flows. Thus the growth of real exports gained momentum in the United States while exhibiting a decline in Europe, and particularly so in Japan.

Unchanged growth of the world economy

Employment and unemployment levels showed mixed development. In Europe and Japan real growth was not sufficient to reduce the number of unemployed persons. Unemployment figures in the United States, on the other hand, have been on the decline since 1983 owing to a steady rise in the number of new jobs. At the end of 1987 the unemployment rate in the European OECD countries was almost twice as high as in the United States whereas in Japan it was half the US rate. In the United States there was increasing evidence of a tightening labour market.

Mixed development on the employment front

In the United States the current account deficit persisted near the previous year's level which implied that capital imports from abroad remained consistently high. It was not until the end of 1987 that the deficit showed signs of a slight contraction. Since the monetary authorities intervened massively in favour of the dollar in 1987, the US current account deficit was financed largely by an increase in official foreign exchange reserves.

Uninterruptedly high US current account deficit

After having declined from an average of 14.1% in 1980 down to 2.5% in 1986 in the OECD countries the inflation rate rose to 3.3% in 1987. Raw ma-

A slight uptrend in inflation

terials prices remained stable in 1987 and thus no longer exerted downward pressure on inflation as in the previous year. In the European countries and in Japan the level of inflation remained low while in the United States it moved up conspicuously in the wake of an exchange-rate-induced rise in import prices.

High-flying share prices preceded stock market crash in October

The sustained world economic upswing since the beginning of the eighties, which was reflected in a marked improvement in corporate earnings, sparked off a stock market boom in 1987 that caused prices to soar to levels probably far in excess of the earning power and intrinsic value of corporations. On 19 October – Black Monday – this speculative bubble burst. In the wake of the stock market crash banks' liquidity requirements in a number of industrialised countries increased. The monetary authorities supplied the banking system with additional reserves in order to forestall a general liquidity crisis.

Efforts to coordinate economic policies

In 1987 the industrialised countries continued their efforts to coordinate their economic policies in order to halt the dollar slide and prevent the economic upswing from levelling off. In the Louvre accord the major industrialised countries agreed to keep exchange rate relations at the levels then obtaining by means of suitable economic and monetary policy measures. The transition to a restrictive monetary policy in the United States, coupled with a somewhat more relaxed monetary stance in the other countries, helped until autumn to prevent a further erosion in the value of the dollar. Following massive interventions by several central banks the dollar actually recovered some of the lost ground. After the stock market crisis the efforts to stabilise exchange rates were temporarily pushed into the background. This led to an easing of monetary policy. Soon after, the dollar embarked on a renewed downward slide. Various European countries and Japan decided to introduce stimulative fiscal policy measures in order to support the pace of economic activity.

Slight decline in real growth

Economic developments in Switzerland were characterised in 1987 by full employment and low inflation. At 2.5% the growth rate of real GDP fell a little short of the previous year's level and was roughly equivalent to the average growth rate in the European OECD countries.

Domestic demand is chief pillar of the economy

Growth stimuli emanated chiefly from investments. The shift of economic growth stimuli from export demand to domestic demand, which had already become apparent in 1986, thus continued. Real exports showed only

a slight increase. As in the previous year, the real external value of the Swiss franc vis-à-vis most currencies moved up steadily, leading to a deterioration in the competitiveness of the domestic export industry. Swiss exports grew at a slower pace than the volume of world trade.

Rising overall demand in 1987 was met by stepped-up production and higher real imports. The growth of imports in nominal terms was inhibited mainly by the development of oil prices, which, on an annual average for the year 1987, fell below the previous year's level. Notwithstanding lower import prices, the trade balance deficit widened slightly. Owing to substantial credit balances in capital income and services a current account surplus was nevertheless achieved once more in 1987.

Widening trade balance deficit

In 1987 interest rates in the money and capital markets showed a declining trend compared with the previous year. In the fourth quarter the Swiss stock markets were badly hit, as was the rest of the world, by the collapse of share prices. Investors subsequently attempted to replace their equity holdings by fixed-interest paper. As a result, the yield on Federal government bonds sank to its lowest level since 1979. Demand for short-term bank deposits also increased, inducing banks to raise the level of their cash holdings. The National Bank met the banks' additional liquidity requirements by expanding the monetary base during the fourth quarter by a billion francs or more over and above the seasonal peak customary at this time of the year.

Lowest yield on Federal government bonds since 1979

Measured by the consumer price index, inflation rose from 0.8% in 1986 to 1.4% a year later. Even though the pace of price increases on domestic goods continued to slow down, inflation showed a slight upward trend overall given that, unlike the previous year, prices for foreign goods receded only negligibly.

Slight rise in inflation

1.3 The monetary policy of the Swiss National Bank

The monetary policy pursued by the Swiss National Bank is oriented to price stability in the medium term; it is designed to promote real growth in keeping with productivity advances and the development of the working population in Switzerland. In order to achieve this goal, the Swiss National Bank sets an annual target for the expansion of the adjusted monetary base. In Switzerland real GDP is expected to grow by about 2% a year in times of full employment. Improvements in the payments system speed up the velocity of the central bank money supply by approximately 1% a year.

Monetary policy target

A money supply target of 2% is thus calculated to keep inflation at between 0 and 1% in the medium term.

Results

By maintaining a firm grip on money supply growth, the National Bank has succeeded in cutting the inflation rate from over 7% in 1981 to under 2% in recent years. If one disregards the fluctuations in import prices, which in this brief period were subject to erratic exchange rate swings and other imponderables, curbing inflation was a steady and regular process. The cautious approach in the fight against inflation has promoted encouraging growth of production and employment as evidenced by the average increase in real GDP of 2% between 1980 and 1987, which is the growth rate recorded in times of full employment.

Need for flexibility

A monetary policy aimed at price stability in the medium term and oriented to a money supply target must be implemented with circumspection. The monetary authorities must be prepared for possible changes in the public's payment habits and unforeseen events that will have a sustained effect on the demand for money. For this reason, the National Bank regularly reviews the premises on which its policy is based. Moreover, the foreign dependence of the Swiss economy compels the National Bank to pay particular attention to the exchange rate of the Swiss franc vis-à-vis the major foreign currencies. If necessary, the National Bank must give added consideration to the exchange rate in implementing its policy.

Target exceeded in 1987

The National Bank adopted a flexible attitude in 1987 and exceeded its money supply target, which it had fixed at 2%, by almost one percentage point. The effective growth rate of the adjusted monetary base amounted to 2.9%. Thus, for example, the National Bank decided in the first half of the year, when a great deal of uncertainty was spread by the plunging dollar, not to reduce bank liquidity even though note circulation increased more than expected. Had it not acted thus, money market rates would have risen markedly. This, in turn, would have led to a general appreciation of the Swiss franc in the foreign exchange market.

Impact of the stock market crash

When the exchange rate of the dollar temporarily entered a phase of stability in summer and early autumn, the National Bank put a slight brake on money supply growth. The stock market crash and its aftermath then brought about a drastic change in the monetary environment. For one thing, the collapse of share prices and the concomitant general feeling of insecurity among the public prompted banks to hold more liquidity. In view of the risks involved this seemed a perfectly natural precaution. For another, the stock market crash resulted in a temporary relaxation of US monetary policy. This had the effect of undermining confidence in international monetary cooperation and thus led to a further fall of the dollar in the foreign ex-

change markets. In order to restore stable conditions to the financial markets the National Bank provided banks with additional reserves to the tune of more than one billion Swiss francs between October and December. It also significantly expanded the volume of end-of-month refinancing credits. In line with this, after due consultation with other European central banks, it lowered the official interest rates twice in succession, thereby, on the one hand, demonstrating its international solidarity and, on the other, avoiding giving any false signals to the financial markets.

At the end of 1987 the Governing Board, in agreement with the Federal Government, decided to set the money supply target at 3% for 1988. By aiming at a growth target which exceeds the 2% still considered optimal in the medium term, the National Bank gives proof of its flexibility in a particularly insecure economic environment and at the same time expresses its determination to abide by its long-term policy of maintaining price stability.

Money supply target for 1988

In 1988 the factors of uncertainty are expected to be more considerable than usual. To the customary exchange rate problems must be added possible consequences of the stock market crash, the fact that Swiss Interbank Clearing system is becoming fully operational and the new liquidity requirements for banks. The latter two changes are likely to reduce demand for bank reserves with the result that the adjusted monetary base might well expand less rapidly than anticipated. This would not, however, imply a tightening of monetary policy. Thus even more so than in the past the money supply target is meant as a guideline in 1988.

Exceptional factors of uncertainty

2. Central bank policy and financial markets in Switzerland

2.1 Development of the monetary aggregates

Money supply target exceeded markedly

The adjusted monetary base, which includes the banking system's sight deposits at the National Bank and notes in circulation less end-of-month refinancing credits granted by the National Bank, expanded by an average of 2.9% in 1987. The money supply target of 2% set by the National Bank was thus clearly surpassed. At 3.5%, the increase in note circulation exceeded the figure on which the National Bank had based its money supply target. The slight rise in inflation and the downtrend in interest rates since 1985 are possible reasons for this development. In view of the exchange rate situation the National Bank refrained from offsetting the unexpectedly strong expansion of notes in circulation by a corresponding reduction in its sight deposit liabilities. The National Bank also allowed for an increase in its sight deposit liabilities – which rose by an annual average of 4.2% – in excess of the planned level since notably the stock market crash had led it to provide the banking system with additional liquidity. Overall, the growth of the adjusted monetary base accelerated by almost one percentage point compared to the previous year.

Strong expansion of M₂ and M₃

The other money supply aggregates also underwent a more marked expansion than in the previous year (M₁: 7.4%, M₂: 9.7% and M₃: 9.5%. Previous year: 5%, 5.9% and 6.7% respectively). The strong growth of all types of de-

Development of monetary aggregates¹

Yearly and quarterly averages compared with previous years' figures

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	Billions of francs ⁶	Change % ⁷	Billions of francs ⁶	Change % ⁷	Billions of francs ⁶	Change % ⁷
1983	29.7	3.6	59.4	7.5	99.3	-5.1	226.1	6.9
1984	30.5	2.6	61.0	2.6	104.8	5.6	240.1	6.2
1985	31.1	2.2	61.1	0.1	112.4	7.3	251.7	4.8
1986	31.8	2.0	66.4 ⁸	5.0 ⁸	126.2 ⁸	5.9 ⁸	277.1 ⁸	6.7 ⁸
1987	32.7	2.9	71.3	7.4	138.5	9.7	303.4	9.5
1987								
1st quarter	32.6	3.2	68.8	6.1	131.4	9.2	292.0	8.2
2nd quarter	32.3	2.6	70.0	6.2	136.2	9.0	299.4	8.8
3rd quarter	32.3	3.0	70.3	8.1	139.6	8.9	305.3	9.7
4th quarter	33.7	3.0	76.2	9.3	146.6	11.8	317.1	11.1

¹ Cf. Monthly Report of the SNB, tables 11 and 12: from 1986 onwards the Principality of Liechtenstein is included in domestic figures.

² Adjusted monetary base = Note circulation plus banking system's deposits with the SNB less end-of-month refinancing credits.

³ Money stock M₁ = Currency in circulation plus sight deposits in Swiss francs (without precious metals).

⁴ Money stock M₂ = M₁ plus time deposits in Swiss francs plus sight and time deposits in foreign currencies held by private residents with banks.

⁵ Money stock M₃ = M₂ plus savings deposits held by private residents with banks.

⁶ Averages based on monthly figures.

⁷ Averages of monthly growth rates compared with previous year's figures.

⁸ Revised figures.

posits reflects a higher demand for liquid funds deriving from the down-trend in interest rates and the uncertain economic prospects. While the 9.8% growth rate of sight deposits corresponded more or less to the previous year's rate, time deposits increased more rapidly, by 12.3% (1986: 6.9%). Savings deposits, which also expanded at an accelerated pace from April onwards, grew at an annual average rate of 9.3% (1986: 7.5%).

2.2 The financial markets

Money market

Money market rates remained fairly stable in 1987. The sole exception was a temporary rise – by approximately one percentage point – between the end of September and mid-October. This rise was attributable to the National Bank's attempt to slow down somewhat the expansion of the monetary base, which had already exceeded the 2% target since spring. In the wake of the stock market crash money market rates eased once more. The National Bank promoted the decline in interest rates by supplying the banking system with additional liquidity.

Stable interest rates on the money market

Interest rate differentials vis-à-vis foreign countries showed irregular development. With US money market rates moving up from the previous year's levels, the interest differential vis-à-vis the dollar – which had narrowed in

Irregular development of interest rate differentials

The National Bank's credits to the banking system

Month	Credits in millions of francs, monthly averages							
	Swap credits		Discount and lombard advances		Total		of which: end-of-month refinancing credits ¹	
	(1)		(2)		(3) = (1) + (2)		(4)	
	1986	1987	1986	1987	1986	1987	1986	1987
January	15 191	15 041	914	437	16 105	15 478	710	285
February	14 469	14 308	904	1 117	15 373	15 425	206	430
March	14 187	14 490	1 024	717	15 211	15 207	432	676
April	13 844	13 727	628	999	14 472	14 726	257	1 004
May	14 126	14 005	723	681	14 849	14 686	239	329
June	13 378	13 174	1 319	1 333	14 697	14 507	507	952
July	13 532	13 258	1 022	1 066	14 554	14 324	579	888
August	13 997	13 226	671	1 006	14 668	14 232	209	456
September	14 035	12 799	1 297	904	15 332	13 703	846	667
October	13 349	12 902	1 009	926	14 358	13 828	473	791
November	14 306	13 249	885	1 192	15 191	14 441	401	741
December	16 757	16 883	1 142	1 126	17 899	18 009	910	1 471

¹ Corresponds to the difference between the monetary base and the adjusted monetary base.

1986 – again widened markedly. The interest differential vis-à-vis the D-mark, on the other hand, contracted. In March and again near the end of the year money market rates for D-marks even slipped a little below the level obtaining for Swiss francs.

More liberal supply of liquidity by the National Bank at end-of-month settlement

As measured by the banks' sight deposits at the National Bank, average liquidity on the money market amounted to Sfr 8.6 billion. The policy of allowing banks a more liberal supply of end-of-month liquidity introduced in June 1986 was continued. The National Bank made end-of-month liquidity available as usual mainly in the form of traditional central bank credits.

Lowering of benchmark rates

The discount and lombard rates were lowered in three steps on 23 January, 6 November and 4 December by a total of one-and-a-half percentage points down to 2½% and 4% respectively. Since prior to this the banks had already made ample use of the limits for the traditional central bank credits at the month-ends, these reductions hardly affected the composition of the refinancing credits.

Foreign exchange market and exchange rates

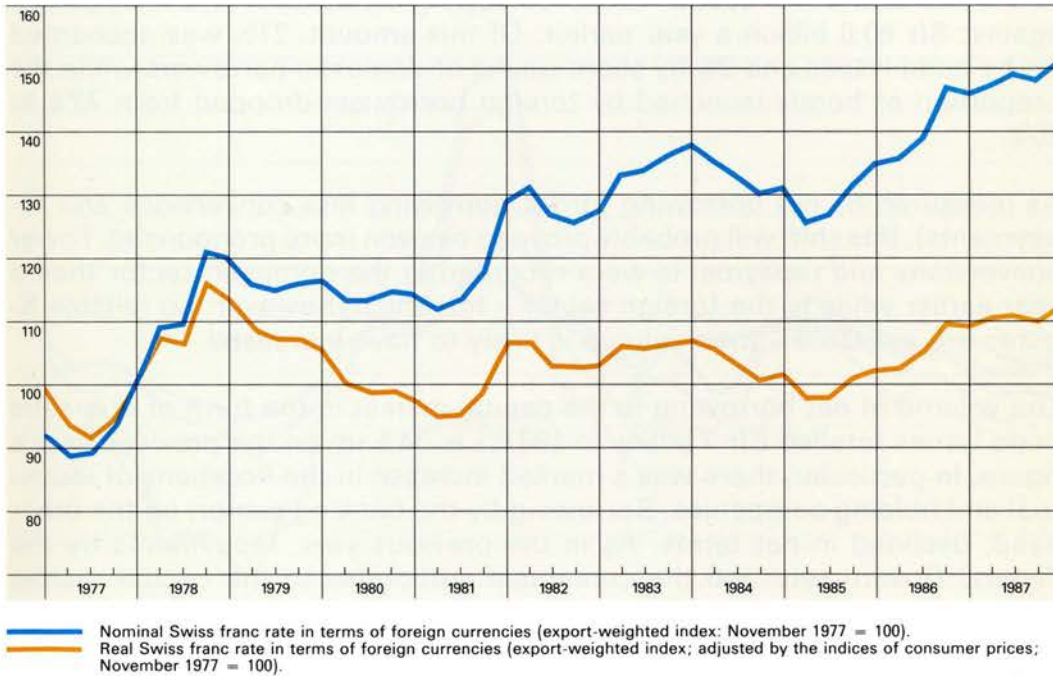
Lower dollar rate, stable D-mark

In the course of 1987 the external value of the Swiss franc showed irregular development vis-à-vis those currencies that are of major significance for the Swiss economy. The Swiss franc rate of the US dollar continued its decline by undulating down to its lowest point ever of Sfr 1.27 in December. By contrast, the exchange rates of the yen and the D-mark remained stable, moving within narrower bands than in 1986. While the French franc and the Italian lira depreciated somewhat against the Swiss franc, sterling advanced steadily in the first half of the year, only to decline again subsequently. On an annual average for the year 1987, the exchange rates of the Swiss franc exceeded the previous year's level vis-à-vis all currencies except the D-mark. It appreciated most pronouncedly against the US dollar (20.6%) and the pound sterling (8%).

Appreciation in real terms less marked than in nominal terms

In the first half of the year the exchange value of the Swiss franc weighted according to exports to Switzerland's fifteen major trading partners rose by 8.1% above the previous year's level and then stabilised. As the inflation rate in Switzerland tended to be lower than in other countries, the external value of the Swiss franc in real terms rose less markedly than the nominal index.

Nominal and real exchange rates of the Swiss franc



Capital market

Events in the capital market were strongly influenced by developments on the stock exchanges in 1987. The stock market crisis in New York also led to a collapse of share prices in Switzerland. As measured by the Swiss Bank Corporation overall index of Swiss stocks, share prices tumbled by 11% on 19 October 1987 and by the end of the year they had slipped to approximately one-quarter below the level recorded prior to the stock market crisis. The most severe setbacks were suffered by bearer shares and participation certificates while registered shares lost less in value.

Capital market affected by stock markets

The bond market was extremely quiet until the end of August, with the yield on Federal government bonds remaining stable at around 4%. In September the uptrend in long-term interest rates, which had begun in the United States in spring and spread to the European countries in the course of the summer, started to make itself felt in Switzerland. After the price slide on the stock markets long-term interest rates began to fall again. At 3.84%, the average yield on Federal government bonds reached the lowest point for 1987 in the second half of November after still having stood at 4.39% on Black Monday.

Decline in long-term interest rates

Shift from foreign to domestic borrowers

The total volume of bond and share issues floated in the Swiss capital market diminished in 1987, while there was a slight shift in composition from foreign to domestic issues. Gross borrowing amounted to Sfr 55 billion, against Sfr 60.6 billion a year earlier. Of this amount, 21% was accounted for by bond issues and 9% by share issues of domestic borrowers while the proportion of bonds launched by foreign borrowers dropped from 72% to 70%.

Fewer conversions in the domestic sector

As measured by net borrowing (gross borrowing less conversions and repayments), this shift will probably prove to be even more pronounced. Fewer conversions and repayments were recorded in the domestic sector than a year earlier while in the foreign sector – for which, however, no reliable figures are available – their volume is likely to have increased.

More capital raised by the industrial sector

The volume of net borrowing in the capital market in the form of domestic bond issues totalled Sfr 7 billion in 1987, i. e. 34% up on the previous year's figure. In particular, there was a marked increase in the flotations of industrial and holding companies. Borrowing by the banking sector, on the other hand, declined in net terms. As in the previous year, repayments by the Federal Government and the communal authorities to the capital market exceeded the total value of new issues.

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

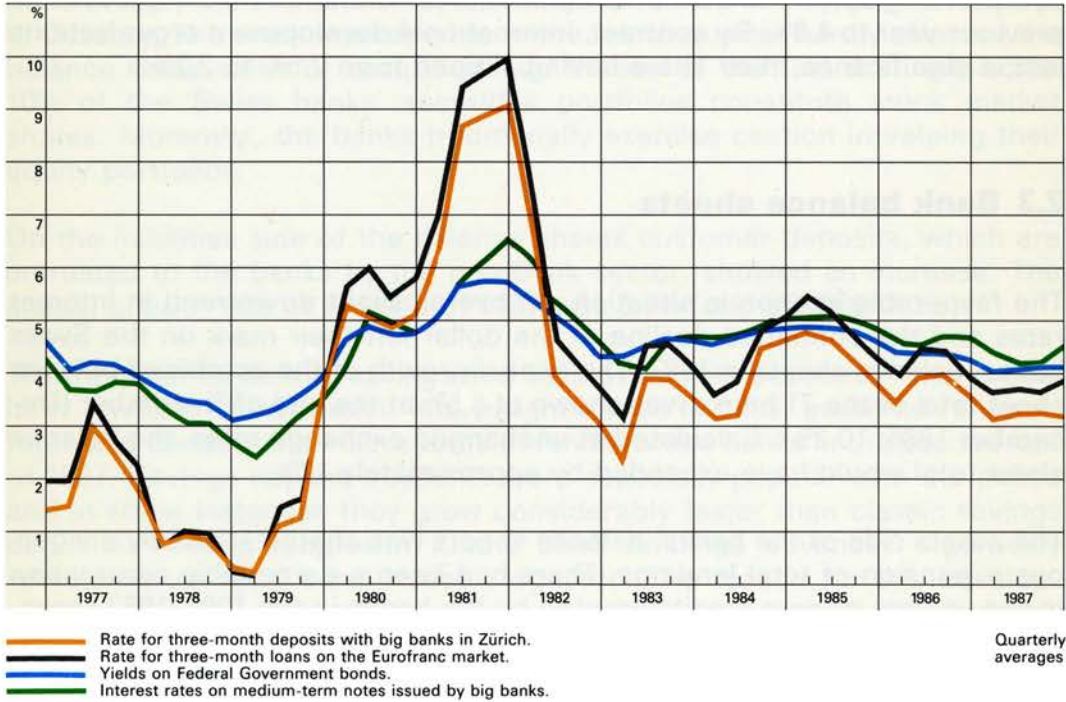
Financial instruments	1983	1984	1985	1986	1987
Bonds ¹	25.6	27.4	37.5	84.2 ²	77.3
Notes	51.4	47.6	41.5	—	—
Loans	22.9	25.0	21.0	15.6	22.7
Total	100.0	100.0	100.0	100.0	100.0
Groups of countries					
Industrial countries	78.7	73.7	79.2	85.6	89.8
Developing countries	8.5	8.8	4.7	2.8	4.8
Centrally planned economies	1.1	2.3	3.6	2.9	3.2
OPEC	0.6	1.0	0.2	1.2	—
International organisations ³	11.1	14.2	12.3	7.5	2.2
Total	100.0	100.0	100.0	100.0	100.0
Total, billions of francs	40.2	40.9	46.1	51.4	49.3

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



In 1987 the National Bank bought bonds with a nominal value of Sfr 391 million. After the deduction of repayments the net increase amounted to Sfr 210 million. The bond purchases are part of the diversification of National Bank assets begun in 1982.

Diversification of National Bank assets

After declining at the start of 1987, capital exports subject to authorisation expanded again in the second and third quarters, reaching a peak of Sfr 6.7 billion in July. At the end of the third quarter fund-raising by foreign borrowers started to recede once more and after the collapse of share prices issuing operations for the purpose of raising equity capital almost came to a standstill.

Decline in capital exports subject to authorisation

Capital exports subject to authorisation amounted to Sfr 49.3 billion in 1987, falling short of the previous year's level by 4%. Renewed attention was again paid to the traditional bank credit, particularly in the aftermath of the stock market crash.

Higher level of traditional bank credits

Bulk of capital exports accounted for by industrialised countries

At 89.8%, the bulk of capital exports subject to authorisation was, as usual, accounted for by the industrialised countries; Japan again headed the list by absorbing 29.3%. The developing countries' share rose from 2.8% in the previous year to 4.8%. By contrast, international development organisations lost in significance, their share having slipped from 7.5% to 2.2%.

2.3 Bank balance sheets

Growth of bank balance sheets

The favourable economic situation, an overall slight downtrend in interest rates and the continued decline of the dollar left their mark on the Swiss banks' balance sheets in 1987. The annual growth of the combined balance sheet total of the 71 banks was shown at 6.6% at the end of December (December 1986: 10.3%). Calculated at unchanged exchange rates, the balance sheet total would have expanded by approximately 12%.

Vigorous expansion in the volume of credits

The assets side of the banks' balance sheets was characterised by a vigorous expansion of total lendings. There had been a perceptible contraction in the volume of new credits granted by the banks in the 1982–1983 recession. During the upturn of 1984–1985 credit-granting gained new momentum, peaking at Sfr 40.1 billion in 1987, the highest level so far in the current business cycle. At the end of 1987 the total volume of outstanding credits topped the previous year's level by 10.1% (end of 1986: 7.5%) owing to the propitious investment climate. This striking increase in lendings also finds expression in the growing significance of this item in the balance sheets. After declining for several years in succession, the proportion accounted for by credits granted (both with and without mortgage collateral) rose in 1987 to 57.7%. In contrast to 1986, there was brisk demand for foreign credits, which constitute about one-sixth of the total volume. This trend emerged very clearly in the second half of the year, with loans being in particularly heavy demand. In the domestic sector the high growth rates of mortgages were the salient feature. Credits to government entities expanded at a rather modest rate only since the borrowing requirements of domestic public authorities remained limited and the banks practised restraint vis-à-vis public borrowers from abroad.

Lower level of investments

Investments, which are the second most important item on the assets side, exhibited growth until October as the inflow of new customer deposits exceeded the volume of credits granted, notably in the first half of the year. At the end of 1987, however, total financial assets (in net terms, i. e. after the balancing of interbank business) fell short of the previous year's level (end of 1986: +5.9%) by 1.8%. The individual components of the financial

assets showed varying development. While the item "Bills and money market paper", approximately 75% of which are denominated in dollars, fell more steeply than investments, securities advanced briskly, particularly until October. The stock market crisis in the fourth quarter hardly affected the balance sheet value of securities held in view of the fact that only some 10% of the Swiss banks' securities portfolios constitute stock market shares. Moreover, the banks traditionally exercise caution in valuing their equity portfolios.

On the liabilities side of the balance sheets customer deposits, which are entrusted to the banks by the non-bank sector, showed an increase. The annual growth rate at the end of 1987 was 6.7% (end of 1986: 7.2%).

Growth of customer deposits

The inflow of funds into savings and savings deposit accounts – the largest item – which had dwindled into insignificance in 1985, gathered renewed force and became the main source of funds for the banks in the second half of 1987. Savings deposit accounts were especially popular with the public and in some instances they grew considerably faster than classic savings deposits. Among long-term funds, bond holdings advanced vigorously while medium-term bond issues stagnated. The reason for this development is to be seen in the less than attractive issuing terms for medium-term bonds issued by banks; these failed to achieve the yields on the banks' outstanding bond issues. The volume of fixed-term deposits also expanded after substantial outflows had been recorded throughout the previous year with the exception of the fourth quarter. Once interest rates on savings had been lowered Swiss-franc-denominated time deposits became more attractive.

Increase in savings and deposit funds

At the end of 1987 fiduciary business was slightly up on the previous year's level (+0.6%). As in 1986, fiduciary business denominated in foreign currency suffered a decline; in this sector the dollar, accounting for a share of 60%, played a decisive role.

Stagnating fiduciary business

2.4 Other measures of central bank policy

Medium-term bonds issued by banks

According to Article 10 of the Banking Law banks with a balance sheet total of Sfr 20 billion or more must give advance notice to the National Bank of any increases in interest rates on their medium-term bonds. With effect from 25 May 1987, the National Bank shortened the advance notification period for raising interest rates on such bonds in order to allow the banks

Change in the reporting system for interest rates on medium-term notes

flexibility in adjusting the terms of issue to developments in the capital market. The new regulation permits banks to raise their interest rates within a period of two to ten working days after notifying the National Bank. The National Bank, however, reserves the right to reintroduce a statutory two-week advance notification period if changed circumstances warrant this.

Bank liquidity

New liquidity regulations
for banks

On 25 November 1987 the Federal Council decided, following a joint application by the Federal Banking Commission and the Swiss National Bank, to amend the existing liquidity regulations in the Banks' Implementing Ordinance (Articles 15–20) with effect from 1 January 1988. The regulation providing for compulsory minimum ratios of cash resources and overall liquidity which the banks are required to maintain will remain in force. The calculation of both types of liquidity will, however, be simplified by the abolition of the progressively graduated scale of ratios applicable in the past; at the same time it has become easier to plan the legally prescribed liquidity. Moreover, the liquidity ratios required of Swiss banks, which are excessive from today's vantage point, will be reduced to a level conforming to international standards.

Different functions of
cash holdings and
overall liquidity

The regulations on cash liquidity are designed to ensure – both in the interest of creditor protection as well as of direct money supply control – that the banking system has sufficient central bank money for cushioning the effects of an unexpected flow of liquidity into the Federal government account or an increase in the level of currency in circulation. The new rules applying to overall liquidity rest on the recognition that a bank should have an adequate emergency supply of easily marketable assets at its disposal in order to be able to meet any obligations falling due during a period of 1 to 2 weeks should it face a confidence crisis. This is the time it is estimated to take until other banks, and possibly the authorities, will have devised ways and means of coming to its rescue.

Legal framework of the Swiss financial centre

In 1987 certain sections of the legal framework of the Swiss financial markets were brought into line with new developments, partly through measures introduced by the authorities and partly by means of voluntary regulations issued by the banks.

New definition of
bank-like finance
companies

The National Bank took due account of the growing significance of securities in bank balance sheets to the detriment of traditional credit business as a result of the new definition applied to bank-like finance companies which

do not solicit publicly for funds. In its circular letter of 5 June 1987 it adapted, in agreement with the Federal Banking Commission, the requirements which finance companies subject to Articles 7 and 8 of the Banking Law have to meet in order to provide evidence of the bank-like nature of their business activity. The minimum investments, which in the past have had to be maintained largely in the form of credits, may in future be held, according to preference, either in the form of credits or securities. The minimum amount must be equal to double the share capital, but no less than Sfr 10 million.

In April 1987 "Convention XIX on notes of foreign debtors" was negotiated under the auspices of the Swiss Bankers' Association. It replaced the agreement on notes concluded at the end of August 1984, which in the opinion of the Federal authorities did not offer sufficient protection for investors. Convention XIX particularly stipulates an obligation to issue a prospectus for Swiss franc bonds floated by foreign borrowers which are not due to be listed on the stock exchange, provided the minimum denomination is no less than Sfr 50 000.—. The contents of the issuing prospectus must conform to Article 1156 and, mutatis mutandis, to Article 651, paragraph 2 of the Swiss Code of Obligations. During the life of the notes the investor must also be provided with certain information on the debtor or the underwriter respectively. On the other hand, the issuing houses have not included any provisions in the agreement for promoting the functioning and transparency of the secondary market.

Investor protection in
the notes sector

The "Agreement on the observance of care by the banks in accepting funds and on the practice of banking secrecy" (ACB) expired on 30 September 1987 after formal notice of termination had been given by the National Bank on 4 May 1987. It was replaced by the "Agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence" (CDB) issued by the Swiss Bankers' Association and its members. The banks' code of conduct was amended in several material respects, notably as far as banking relations with persons bound by professional confidentiality are concerned. An oversight board composed of five members appointed by the Swiss Bankers' Association has taken the place of the former arbitration committee with equal representation, which was responsible for investigating and punishing violations of the agreement. This oversight board is also empowered to adjudge infringements of the former agreement on the observance of care by the banks according to the new procedure provided the case dates from before 1 October 1987 and has not been the subject of an action brought before the ACB arbitration committee prior to 30 September 1987.

Replacement of the
"Agreement on the
observance of care by
the banks"

Review of the activity of
the arbitration
committee

The ACB arbitration committee dealt with 62 cases between October 1977 and the end of December 1987. In 37 cases proceedings were suspended since preliminary investigations revealed that the respective bank could not be charged with any violations of the agreement. In 25 cases the banks involved were found guilty of infringing the agreement on the observance of care by the banks; they were sentenced to penalties of between Sfr 2000.- and Sfr 500 000.-.

Payments transactions

Introduction of Swiss
Interbank Clearing

The most noteworthy event in the field of payments transactions was the introduction of the electronic interbank payments system known as "Swiss Interbank Clearing" (SIC). By mid-1988 this system will have replaced traditional processing with the aid of vouchers and magnetic tapes. Telekurs AG has been commissioned by the National Bank to operate the system, with the National Bank exercising a regulatory function. SIC participants' sight deposit balances at the National Bank constitute the payment medium.

For security considerations SIC is being introduced in several steps. Operations were started on 10 June 1987 and involved eight institutions and 13 000 payments per day. By the end of 1987 a further 84 institutions had joined SIC. On peak days up to 70 000 payments were being processed via the new system. After the end of the introductory phase in mid-1988 more than 150 participants will be linked to SIC and the volume of transactions is expected to reach 200 000 to 300 000 payments a day.

Early experience with
SIC

So far the hopes placed in SIC have been fulfilled. The system is an efficient instrument for processing Swiss interbank payments.

Cooperation of the National Bank in international monetary measures

Repayment of a credit
by the central bank of
Mexico

On 13 February 1987 the Mexican central bank repaid the last tranche of the bridging loan to the tune of \$ 1.1 billion which had been granted to Mexico in August 1986. The National Bank had participated in this joint action by various monetary authorities by entering into a substitution undertaking (guaranteed by the Federal Government) to the amount of \$ 30 million for that part of the credit which was made available via the Bank for International Settlements (BIS).

In March 1987 the monetary authorities of the United States and a number of other countries granted Argentina a bridging loan totalling \$ 500 million. The National Bank entered into a substitution undertaking to the value of \$ 20 million for that tranche of the credit which was allotted via the BIS. The National Bank's participation was guaranteed by the Federal Government. On 15 July the Argentine central bank repaid the loan within the agreed time limit.

Switzerland participates in bridging loan for Argentina

At the end of October a second bridging loan was granted to Argentina with a total value of \$ 475 million. The National Bank entered into a substitution undertaking (with Federal Government guarantee) to the amount of \$ 14.25 million for the part of the credit provided by the BIS. On 30 December the Argentine central bank repaid the bridging loan within the specified time limit.

Second bridging loan in favour of Argentina

Participation of the National Bank in stand-by arrangements at the end of 1987

	Original undertakings	Outstanding credits		Outstanding undertakings
		End 1986	End 1987	
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 ¹
IMF "Witteveen" facility	SDR 650 million	SDR 369.8 million	SDR 221.5 million	0
Credit commitment to BIS in favour of IMF	SDR 180 million	SDR 176.4 million	SDR 87.1 million	0
3. Bilateral credits				
Turkey ²	\$ 45.5 million	\$ 15.5 million	0	0
Yugoslavia ²	\$ 80 million	\$ 58 million	\$ 43.5 million	0
4. Substitution undertakings				
Mexico ²	\$ 30 million	\$ 10.9 million	0	0
Argentina ²	\$ 20 million	0	0	0
	\$ 14.3 million	0	0	0

¹ It has been agreed that if the GAB are utilised the credits granted within the context of the SDR 180 million credit commitment vis-à-vis the BIS in favour of the IMF will be deductible. Thus the actual open undertaking at the end of 1987 amounted to SDR 932.9 million.

² With Federal Government guarantee.

Partial repayments of
credits by the IMF,
Yugoslavia and Turkey

In 1987 the IMF repaid part of a credit granted by the National Bank in April 1984. This loan to the amount of 180 million Special Drawing Rights (SDRs) represents the National Bank's contribution to a facility totalling 6 billion SDRs in favour of the IMF made available by the BIS and 19 industrialised countries and Saudi Arabia. Moreover, the IMF repaid a further tranche of the credit provided by the National Bank in 1979 under the "Witteveen" facility. In addition, in 1987 a tranche of the credit granted by the National Bank to Yugoslavia to the amount of \$ 80 million was also repaid. This loan is equipped with a Federal Government guarantee. In 1987 Turkey repaid, in accordance with the agreement, the rest of the credit of \$ 45.5 million it had received from the National Bank.

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	Foreign treasury bonds in Swiss francs; SDRs ²	Balances with foreign central banks covered by exchange rate guarantee	Domestic portfolio				Lombard advances	Securities	Balances with domestic correspondents	Loss on foreign exchange and gold holdings
					Swiss bills	Treasury bonds ³	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 ⁴
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 ⁴
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 ⁴
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 ⁴
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 ⁴
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 ⁵
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 ⁵
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	3 126,8	2 190,8	460,1	—

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

² Since 1980, Special Drawing Rights.

³ Since 1979 including money market debt register claims.

⁴ Liability of the Federal Government in accordance with the Decree of the Federal Parliament of 15 December 1971.

⁵ Covered by hidden reserves on gold.

Liabilities

Note circulation	Cover- age of note circulation by gold holdings	Sight liabilities					Banks' minimum reserves	Time liabilities	Foreign exchange valuation adjust- ment	Capital and reserves	Provisions for foreign exchange risks	Balance sheet total	End of year
		Total	of which sight deposit accounts of domestic banks and finance compe- nies ⁶	Ac- counts of the Conf- ederation	Ac- counts held under payment and clearing agree- ments	Balan- ces of foreign banks ⁷							
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	122,28	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 ⁸	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 ⁸	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 ⁸	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 ⁸	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 ⁸	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 ⁸	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	94,28	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 ⁹	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 ¹⁰	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 ¹⁰	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 ¹⁰	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 ¹⁰	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 ¹⁰	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

⁶ Prior to 1986: Sight deposit accounts of banks, trade and industry.

⁷ Prior to 1961 under "Sight deposit accounts of banks, trade and industry".

⁸ Temporarily blocked sight deposit accounts of banks.

⁹ In accordance with the agreement of 18 August 1971 concerning extraordinary minimum reserves.

¹⁰ 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 1980

Expenditure (in Sfr 1000)

	1980	1981	1982	1983	1984	1985	1986	1987
Operating expenses	80 731	71 604	86 920	106 160	120 232	93 998	95 489	97 702
Bank authorities	581	594	688	722	726	718	714	705
Personnel	34 401	40 815	47 790	46 602	49 984	52 123	52 025	53 343
Premises	14 354	6 083	9 464	20 355	16 115	9 379	4 918	4 417
Furniture and fixtures	6 351	1 829	2 652	9 658	17 858	2 402	3 034	4 104
Business and office equipment and supplies	1 782	1 720	2 117	2 248	2 754	2 914	2 861	2 990
Information and communication	1 183	1 355	1 867	1 639	1 859	1 951	2 436	1 870
Printing, publications	714	1 617	1 045	615	548	635	693	644
Expenditure in respect of note circulation	15 263	14 190	16 116	18 659	18 601	17 105	18 689	19 485
Other expenditure on materials	6 102	3 401	5 181	5 662	11 787	6 771	10 119	10 144
Other expenses	1 272 895	258 323	182 890	197 099	132 687	122 193	2 321 042	3 656 548
Interest payable to depositors	1 740	2 482	2 664	2 409	2 767	3 077	2 926	3 012
Interest payable to Federal Government	5 040	18 179	24 086	42 289	39 296	56 767	58 492	41 244
Interest payable on Federal Treasury bonds	2 644	33	—	—	—	—	—	—
Interest payable on bonds	32 127	19 772	34 600	13 126	—	—	—	—
Other sterilisation expenses	41 285	20 506	4 533	167	—	—	—	—
Write-down of own securities	54 166	183 038	114 510	138 467	90 624	62 349	94 499	66 320
Depreciation of bank buildings	24 950	14 313	2 497	641	—	—	26 000	17 135
Write-down of foreign exchange holdings	—	—	—	—	—	—	2 139 125 ¹	3 528 837
Amortisation of the loss on foreign exchange holdings entered in the balance sheet per 31. 12. 1978	1 110 943	—	—	—	—	—	—	—
Taxes	—	—	8 898	—	2 851	—	1 789	2 632
Appropriation to staff and pensioners' welfare facilities funds	10 000	4 000	3 000	2 500	5 000	3 000	3 000	2 000
Donation to the Gerzensee study centre foundation	—	—	—	—	32 733	—	—	—
Provisions	2 290 149	2 444 142	2 143 355	2 051 141	2 245 993	2 655 953	—	—
Provisions for foreign exchange risks	2 157 117	2 374 142	2 033 355	2 001 141	2 245 993	2 655 953	—	—
Other provisions	133 032	70 000	110 000	50 000	—	—	—	—
Net profit	7 516	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	5 016	5 093	5 093	5 093	5 093	5 093	5 093	5 093
Total	3 661 291	2 785 662	2 432 656	2 364 493	2 547 089	2 882 737	2 428 913	3 766 475

¹ Total write-down of foreign exchange holdings less liquidation of the balance sheet item "Valuation adjustment to foreign exchange holdings"
 Sfr 3 703 300
 Sfr 1 564 175
 Sfr 2 139 125

Income (in Sfr 1000)

	1980	1981	1982	1983	1984	1985	1986	1987
Operating income	5 776	6 933	7 389	9 319	8 245	7 569	8 069	5 771
Commissions	2 913	2 832	3 006	4 756	3 935	2 945	2 216	1 826
Income from bank buildings	2 161	2 465	2 603	2 892	2 816	3 170	5 313	3 446
Sundry income	702	1 636	1 780	1 671	1 494	1 454	540	499
Other income	3 655 515	2 778 729	2 425 267	2 355 174	2 538 844	2 875 168	2 009 363	1 638 459
Income from foreign exchange and gold	2 313 747	2 552 937	2 307 193	2 228 957	2 391 222	2 709 177	1 834 097	1 462 698
Valuation adjustment to foreign exchange holdings	1 264 579	90 019	—	—	—	—	—	—
Income from discounting	19 461	43 844	37 518	23 651	23 442	25 511	20 848	17 738
Income from secured advances	8 513	25 096	15 656	17 738	21 536	25 257	28 448	27 309
Income from own securities	47 880	64 840	62 801	83 232	100 691	113 281	123 449	128 782
Income from domestic correspondents	1 335	1 993	2 099	1 596	1 953	1 942	2 521	1 932
Drawings on provisions for currency risks	—	—	—	—	—	—	411 481	2 122 245
Total	3 661 291	2 785 662	2 432 656	2 364 493	2 547 089	2 882 737	2 428 913	3 766 475

Explanatory notes on the profit and loss account for the year 1987

A salient feature of the profit and loss account was again the high level of write-offs on foreign currency holdings. At Sfr 3.5 billion, these fell slightly short of the previous year's level of Sfr 3.7 billion. This adjustment was due to the decline of the dollar rate from Sfr 1.666 at the end of 1986 to Sfr 1.329 at the end of 1987 (in each case December averages). The write-off was covered by current income totalling Sfr 1.4 billion and by drawing on the provisions for currency risks to the amount of Sfr 2.1 billion. Following an allocation of Sfr 2 million to the staff welfare facilities a net profit of Sfr 7.6 million remained.

Foreign exchange earnings declined – chiefly as a result of currency losses on dollar income – from Sfr 1.8 billion in 1986 to Sfr 1.5 billion in 1987. At Sfr 45 million, income from discount and lombard business was also down from the previous year's level. The slippage is due in some measure to a drop in the utilisation of discount credits and also to three reductions in the discount and lombard rates by 0.5 percentage points in each case down to 2.5% and 4% respectively. Earnings from securities increased to Sfr 128.8 million due to a further expansion of the open market portfolio.

Total staff expenditure rose to Sfr 53.3 million in line with a slight increase in the number of employees. Expenditure on premises, comprising mainly the cost of upkeep, fell to a little below the previous year's level. The purchase price of Sfr 17.1 million for the premises on Stadthausquai 5, Zurich, was written off via the profit and loss account. "Other expenditure on materials" for the second time included an advance for running expenses to the Gerzensee Study Centre Foundation (Sfr 3.6 million; 1986: Sfr 4.2 million).

Expenditure in connection with the printing and circulation of bank notes rose to Sfr 19.5 million as a result of a temporary increase in production. Interest payments on the Federal Government's balance fell to Sfr 41.2 million (1986: Sfr 58.5 million) in view of the lower average annual level of the Federal Government's sight deposits.

Book profits on repayments of securities previously written off amounting to Sfr 41.7 million were set off against the cost of depreciation of newly acquired securities (Sfr 108 million). On balance, this resulted in a write-off totalling Sfr 66.3 million.

4. Organisation (as on 1 January 1987)

4.1 Supervisory authorities

Bank Council	40 members President: François Schaller Vice-President: Peter Gerber
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	Pierre Languetin, Zurich Markus Lusser, Berne Hans Meyer, 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	Pierre Languetin, Chairman of the Governing Board
Secretariat	Anna Elisabeth Heeb, Senior Officer
Press Relations	Werner Abegg, Senior Officer
Deputy Heads of Department	Peter Klauser, Director Georg Rich, Director
Economic Section	Georg Rich, Director
Economic Studies	Jean-Pierre Béguelin, Director Hans-Jürg Büttler, Economic Adviser Franz Ettlin, Economic Adviser Roberto Cippà, Senior Officer
Banking Studies	Max Baltensperger, Director Urs W. Birchler, Assistant Director Thomas Schlupp, Senior Officer
Banking Statistics	Christoph Menzel, Deputy Director Markus Zimmerli, Senior Officer Rolf Gross, Senior Officer
Legal and Administrative Section	
Legal Department	Peter Klauser, Director Peter Merz, Legal Adviser
Personnel	Gerhard Nideröst, Director
Staff Welfare Facilities	Peter Hadorn, Deputy Director
Technical Services	Theo Birchler, Senior Officer
Auditing and Controlling	Ulrich Willi Gilgen, Deputy Director

Department II (Berne)

Head of Department	Markus Lusser, Vice-Chairman of the Governing Board
Deputy Head of Department	Hans Theiler, Director
Banking Section	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	Johann Ammann, Director
Chief Cashier's Office	Roland Tornare, Chief Cashier
	Peter Trachsel, Deputy Chief Cashier
	Urs Suter, Senior Officer
	Alex Huber, Assistant Director
Security	

Department III (Zurich)

Head of Department	Hans Meyer, Member of the Governing Board
Deputy Heads of Department	Jean-Pierre Roth, Director
	Christian Vital, Director
Staff	Monique Dubois, Assistant Director (on leave)
Monetary Operations	Jean-Pierre Roth, Director
	Hans Stahel, Director
Foreign Exchange	Karl Hug, Assistant Director
Investment Group	Martin Papp, Assistant Director
Money Market Operations, Bills and Cheques	
Securities	Beat Spahni, Assistant Director
	Markus Steiner, Senior Officer
General Processing and Back Office	Christian Vital, Director
	Eugen Guyer, Deputy Director
Payments Transactions	Eugen Guyer, Deputy Director
Accounting	Werner Bolliger, Assistant Director
Correspondence	Walter Obi, Assistant Director
Cashier's Office	Roland-Michel Chappuis, Assistant Director
Electronic Data Processing	Raymond Bloch, Assistant Director
	Jürg Ziegler, Economic Adviser
	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 Georges Mounoud, Senior Officer
Lucerne	Max Galliker, Director Daniel Wettstein, Senior Officer (until 29. 2. 1988) Josef Huber, Senior Officer (as from 1. 3. 1988)
Lugano	Cesare Gaggini, Director Franco Poretti, Senior Officer
Neuchâtel	Jean-Pierre Borel, Director Jean-Pierre Veluzat, Senior Officer
St. Gall	René Kästli, Director (on leave) Hans Schmid, Director ad interim (until 15. 6. 1988) 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 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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