

CURRENCY IN CIRCULATION AND ITS SUPPLY IN SWITZERLAND

For one hundred years, the right to put Swiss banknotes into circulation has been reserved for the Swiss National Bank. It supplies the economy with high-quality bills that meet even the most stringent security requirements. Currently, the preparations for a new banknote series for Switzerland are running in high gear.

One of the most important responsibilities of the Swiss National Bank is to supply Switzerland with cash in an optimal way; it has to ensure that desired number of bills and coins are in the right place at the right time. At the same

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time, the National Bank is committed to the highest possible security standards whilst ensuring that costs are kept to a minimum. It isn't always easy to find the perfect balance in this situation. Although the current banknotes are still adequately protected against counterfeiting, the Bank must nevertheless strive to remain one step ahead of technological developments.

The first banknotes should be ready for production in 2008 so that they can be put into circulation in 2010. In February 2007, the Swiss National Bank decided that preparations for a new banknote series for Switzerland should be pursued further with the Swiss graphic artist Manuela Pfunder.

THE DEMAND FOR CASH

Consumers and manufacturers generate the demand for bills and coins; the National Bank meets those demands without limitations. Cash is widespread and very popular among consumers due to its practicality and anonymity – it can be used simply and discretely at any time. Banknotes remain the only legal tender without limitations. Of course, cash bears its own set of risks: It can be lost or destroyed.

In Switzerland, the 100 franc note is the most widespread one. It accounts for approximately 30% of all bills in circulation. The 1000 note is the most common denomination in terms of value: With 20 billion CHF, it makes up one half of the total value of banknotes in circulation.

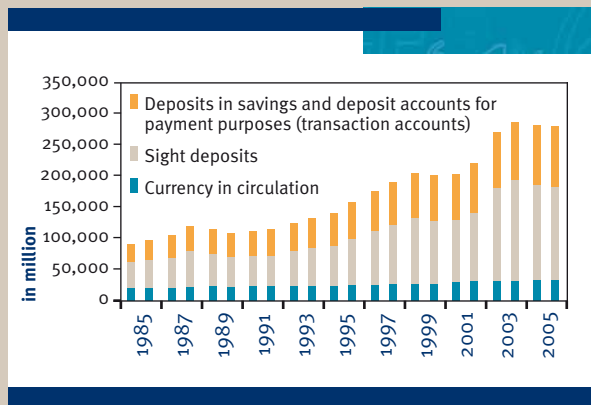
Cash plays an immensely important role in Switzerland. At the end of 2005, every resident owned an average CHF 5,600 in cash. In the USA, average cash on hand is the equivalent of approximately CHF 3,300. Residents of the euro zone generally have cash funds at their disposal of about CHF 2,800, and the British own the equivalent of CHF 1,400. Only the Japanese stockpile more cash than the Swiss – on average, the equivalent of CHF 6,500. However, this international comparison must be interpreted with caution: banknotes circulate not only nationally, but also abroad. According to a 1997 survey, approximately 40% of all the Swiss banknotes were outside of Switzerland. The CHF 1,000 bill is especially popular abroad as a store of value.

Looking at the long-term picture, the amount of banknotes in circulation increases with economic growth, albeit more

«Only the Japanese stockpile more cash than the Swiss.»

slowly. In 1945, there were 3.5 billion CHF in cash circulation, making up 25% of the nominal gross domestic product (GDP).

MONEY STOCK M1 AND ITS COMPONENTS



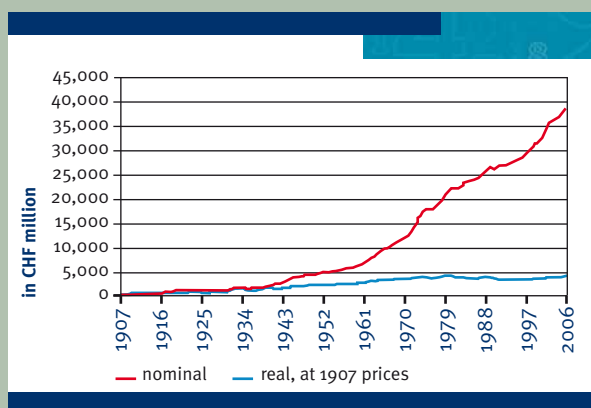
In 2006, the cash amount was at 38.2 billion CHF, only corresponding to 8% of the GDP. This development can probably most directly be accredited to improvements in payment traffic that allow individual households to execute many transactions electronically. Thus, the development of cash-less payment traffic has a direct impact on the amount of cash in circulation.

ORGANIZING CASH CIRCULATION

In order for the National Bank to be able to meet specific cash demands at any given time, it has developed an elaborate logistical infrastructure. It has a network of locations (two seats and a branch) as well as 16 agencies and 195 correspondents. The latter are usually managed by cantonal or regional banks. The National Bank manages depots at strategic locations in order to guarantee cash supply at any moment, as well as to be prepared for any unexpected incidents. The locations are not only responsible for always providing sufficient cash, but they also ensure that those bills no longer in use are withdrawn from circulation and destroyed, meeting security requirements. Approximately 270 million bank-notes are in circulation. The National Bank adds more than 100 million bills to circula-

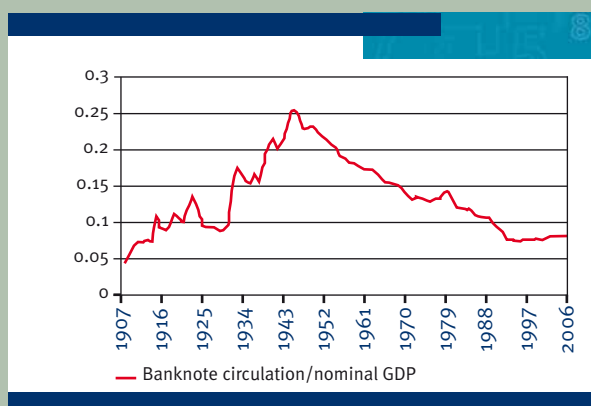
«The total number of banknotes in circulation amounts to approximately 270 million.»

BANKNOTE CIRCULATION 1907 - 2006



tion each year. This confirms that the average life of a bill is about three years. Basically, about the same number of new banknotes is printed as is withdrawn. The issuing institution makes an effort to withdraw as few bills as possible from circulation in order to lower costs. As long as the banknotes are in good condition, they are put back into circulation. Bills circulating in good condition hamper the introduction of counterfeit bills.

THE RATIO BETWEEN BANKNOTE CIRCULATION AND GDP



It is true that the National Bank is responsible for supplying the cash in circulation, but it was never its goal to replace the efficient distribution systems of banks and the Swiss Post. They take on the role of «retailers», as it were, and supply end users with cash through their tight network of counters and ATMs all over Switzerland. The issuing institution is content to take on the role of «distributor». ■

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