The legend of the Swiss banks and their mysteries

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THE LEGEND OF THE SWISS BANKS AND THEIR MYSTERIES

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THE SWISS FRANC

In its 1966 annual report, the National Bank which is the Swiss Confederation's Central Bank, noted that in Autumn 1966 the assets of the Swiss banks in other countries totalled 4,100 million dollars, not counting investments in securities, and that their liabilities abroad amounted to 3,900 million dollars.

The fact that the Swiss banks have been able to develop their business abroad to this extent and that they receive funds from all over the world is due at least in part to the confidence enjoyed by the Swiss franc.

Since a country's currency reflects its national economy, it is astonishing that a country so poor in natural resources should possess such a strong currency.

This is explained in the first place by the favourable conditions which the Swiss economy has long been enjoying. The political stability of Switzerland, the absence of social conflicts and the fact that Switzerland was not involved in the two world wars have all greatly helped the development of its economy. In addition, the direction taken by the Swiss economy has helped to strengthen the position of the Swiss franc internationally.

As Switzerland does not have natural resources of its own and can rely only on the work of its inhabitants, it was forced at a very early stage to turn its attention to commerce and international trade. Swiss industry, specialising in high-quality products like watches and machinery, exports about two-fifth of its total production.

Added to the income from exports are the receipts from invisible earnings, principally from tourism and capital invested abroad. In normal times, receipts from exports and the invisible earnings ensure a surplus in the Swiss balance of payments and make it possible to export a certain amount of capital.

The accumulated surpluses in the balance of payments have made the Swiss franc an extremely strong currency. In absolute value, the monetary reserves of the Swiss Central Bank rank sixth in the Western world, and per head of the population, they rank first. They would be sufficient to cover the cost of all Swiss imports for more than eight months. The gold reserves alone give more than 100% cover to the total banknote circulation.

If it were not an anachronism, Switzerland could therefore replace its banknotes by gold coinage at any time for the purpose of payments within the country. Today, these impressive gold and foreign currency reserves serve mainly to guarantee the convertibility and external stability of the Swiss franc. Thanks to them the convertibility of the Swiss franc has always been maintained, even during the major economic crisis of the 1930's and during the second world war. This convertibility has been only temporarily restricted in respect of countries which introduced exchange controls, but the convertibility of the Swiss franc into dollars has never been suspended.

Proof of the external stability of the Swiss franc is the fact that this currency, more than one century old, has been devalued only once. That was in 1936. At present, the exchange rate of the Swiss franc is fixed by a law. Authority to vary its parity is not held by the Government, but by parliament which has always been very conservative in monetary matters.

The stability of the Swiss franc, its complete convertibility and the importance of the gold and foreign currency reserves which back it up have all given the franc an attraction which is further strengthened by Switzerland's permanent neutrality and respect for foreign property.

The soundness of the franc has led Switzerland to play the role of an international financial centre and refuge for floating capital. This is a source of liquidity for its banking system and allows its economy to benefit from interest rates which are among the lowest in the world.

On the other hand, the major movements of foreign capital which take place in times of international crisis often threaten to unbalance the Swiss economy which is of relatively modest importance. These are the advantages and disadvantages of a strong currency. When the influx of funds from abroad creates a danger of inflation, the Swiss monetary authorities attempt simultaneously to reduce both the causes and effects of the large-scale movements of international capital.

They are thus closely associated with mutual aid measures aimed at keeping the international monetary system as stable as possible. On the domestic front, the Swiss monetary authorities have several times had to take temporary measures to re-export or sterilise newly-imported foreign capital.

This policy is the only one guaranteeing the long-term stability of the Swiss franc both at home and abroad and also giving a small country like Switzerland the chance to make its contribution to the stability of the international monetary system.