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SWITZERLAND AND INTERNATIONAL MONETARY TREND

By Dr. W. Schwegler, President, Swiss National Bank.

FROM the monetary point of view, Switzerland has passed through uneasy times of late. As often in periods of political and monetary crisis, since the summer of 1960 she has again and again become the target of international capital movements. World political tensions and confidence crises of a monetary nature have caused the repatriation of Swiss capital from abroad and the transfer of foreign funds to Switzerland. For other countries such capital inflows might have meant a welcome strengthening of monetary reserves; for Switzerland, however, they were anything but welcome since, in view of her extremely strained economy, every increase in the volume of liquid funds available on the domestic market brought with it the danger of additional inflationary impacts. When, therefore, in July 1960, the first wave of capital movements towards Switzerland occurred, set off by political events in Cuba and the Congo, the Swiss National Bank, as the institution responsible for the monetary and credit policy of the country, could not remain inactive. In order, in the first place, to check the inflow of foreign funds into Switzerland, the Swiss National Bank suggested to the Swiss banks the conclusion of a Gentlemen's Agreement designed to curb the influx of foreign funds and to decrease already existent foreign balances. Under the terms of this agreement, which came into force on August 18, 1960, the banks concerned undertook no longer to accept foreign funds at sight but only subject to a period of notice of at least three months, these conditions being applied to all sight deposits in Swiss francs received since July 1, 1960; furthermore, the banks agreed to pay interest on such deposits. Deposits received for a period of less than six months are subject to a commission of 1% p.a. In addition, the banks committed themselves to prevent, as far as possible, the use of new foreign funds for the purchase of Swiss franc investments, such as bonds, shares, property and mortgages. On the other hand, there are exceptional provisions for foreign funds serving the purpose of maintaining and cultivating traditional business relations with clients abroad and enabling the banks to carry out normal commercial operations between Switzerland and abroad.

With the introduction of the Gentlemen's Agreement on foreign capital, nothing decisive had yet been done to check the enormous expansion of liquid resources available on the market. In order to absorb at least part of the accrued surplus funds, the Swiss National Bank, in agreement with the Federal Council, sold the banks at the beginning of October 1960 short-term government securities to the value of 400 million francs, taking interest charges to its own account. The banks took over these securities in proportion to their liquidity. The equivalent of the

funds thus withdrawn from the market was credited to the Confederation on blocked account.

A fresh and heavy inflow of foreign exchange occurred in the second half of October in connection with the international rise in gold prices, which was coupled with fears as to the future of the U.S. dollar. This time it was not so much a question of foreign funds, but of transfers originating from the liquidation of Swiss investments abroad.

In March 1961, international capital movements were again focused on Switzerland. After the revaluation of the German mark on March 6 and of the Dutch guilder on the same day, the view was widely held abroad that Switzerland would follow the example of Western Germany and the Netherlands. As a result, sizeable capital transfers to Switzerland took place for speculative purposes, causing monetary reserves to grow. In a single day, i.e. on March 6, the Swiss National Bank had to take over dollars from the market to the value of 800 million francs. Official statements made to the general public to the effect that there was no question of revaluing the Swiss franc had a calming effect, although the rumours of a possible revaluation of the Swiss franc still remained alive for some time. However, in the spring of 1961, international pressure on the pound sterling unleashed new massive capital transfers to Switzerland. The fact that large amounts of money were withdrawn from London and transferred to Switzerland, as well as to other Continental countries, gave birth to the idea of putting part of the funds withdrawn at Great Britain's disposal again, so as to strengthen British monetary reserves and enable the Bank of England to ward off further attacks on the pound. To this effect, the Swiss National Bank opened up a dollar deposit of considerable magnitude with its British sister institution. Furthermore, it sold to the Bank of England appreciable amounts of gold against pound sterling on a forward basis by means of various swap transactions. The sterling amounts thus obtained and covered against exchange rate risks by the forward operations were made available by the central bank to the big Swiss banks for investment in British Treasury Bills.

However, there still remained to be solved the problem of the extremely heavy increase in cash resources at home. Sight deposits held with the central bank by the economy (banks, trade and industry) had grown by more than 1.4 billion francs on account of the heavy inflow of foreign exchange as a result of the DM revaluation and of the sterling crisis. In view of the inflationary dangers inherent in such an expansion of the money supply, the Swiss National Bank was faced with the urgent need to take measures to avoid any detrimental effects of the large expansion of liquid resources on the Swiss economy and, in particular, on the wage and price structure. Thanks to the understanding shown by the big banks, where by far the largest part of the money transfers had accumulated, it was possible to come to an agreement with the

institutions concerned whereby the foreign funds transferred to our country subsequent upon the Western German and Dutch revaluations had to be deposited with the central bank on a special blocked account. In principle, the blocking is to be maintained until such time as the funds which have flowed into Switzerland since March are withdrawn.

The Confederation, too, has actively contributed towards cutting down the volume of liquid resources available on the market. Despite large budget surpluses, it has refrained from redeeming existing debts for economic reasons and having regard to the position of the capital market, depositing any excess funds with the central bank or employing such money for short-term investments abroad. In this way, the surplus in actual purchasing power has been skimmed off appreciably.

Finally, some of the excess funds available on the market have been re-directed abroad by way of capital exports. Foreign loan issues in Switzerland, offered to the public for subscription between summer 1960 and the end of November, 1961, amounted to 1.2 billion Swiss francs, not taking into account the credits granted by Swiss banks to foreign borrowers. The Swiss National Bank has, as a matter of principle, exercised its authorisation right with regard to the issue of bonded loans and the granting of banking credits in a liberal fashion.

Thus, the Swiss National Bank has not followed a policy solely on national considerations; it has also tried to make a contribution towards bringing about normal conditions, and easing monetary tension, on an international plane, wherever and whenever opportunity arose. The transactions concluded with the Bank of England have already been pointed out. There also exists close co-operation with the U.S. monetary authorities on matters affecting monetary policy. Besides this, the Swiss National Bank has been endeavouring for a long time to keep interest rates at a low level and as stable as possible. In order not to encourage further inflows of money and with a view of facilitating, as far as possible, the outflow of funds abroad, it has refrained from interventions in the market which might have caused interest rates to rise.

The success of these monetary endeavours is reflected in the freely disposable balances held by the banks with the central bank. At the end of October, 1961, these were distinctly below the level reached at the corresponding time last year, and even somewhat lower than two years ago. Considering the fact that since the summer of 1960 Switzerland has been flooded with foreign exchange to the equivalent of more than 3.5 billion francs, this is indeed a remarkable achievement. If it has been possible to prevent the enormous influx of capital from having serious repercussions on the money and capital market, on interest rates and on the price level, this may largely be ascribed to the above-mentioned measures taken by the central bank, to the financial policy of the Confederation and to the willingness of the banks to co-operate.

(Reprinted from "Swiss Industry and Trade.")