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Vo Glück u schöne Fraue,
D'Herre au si handsome all
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Gwürzt mit viele weise Rede
Isch a Gnuss das festlich Mahl,
As guets Tröpfli git der Säge
U heiteri Stimmg überall.

Verlockend spielt das Tanzorchester
Gs'sprächig chömet Paar u Paar,
Sogar die alte Gescht verschwindet
I der fröhlich, zwirbelnd Schaar.

Im Walzertakt tue si sich drehe
Uf em glänzige Parkett,
Gar oft isch Tanz für Dame u Herre
D's Vorspiel zum ideale Duett.

Tuet nur d'Fründschaft sorgsam walte
B'sunders zu der böse Zyt,
Wo Not u Zwytracht d'Wält hei g'spalte
Und's ach kei Zähmehang me git.

H.E.

BANKING IN SWITZERLAND.

By WERNER G. J. KNOP-BOOTH.
(*Bankers Magazine*).

The problems of the Swiss banks are not of recent origin. They have their root in the waves of instability which periodically have been sweeping the world during the post-war period. The events of the last nine months in the Swiss banking world can, with the late Federal Councillor Schultess, be described as the "manifestation of losses." Those losses, that is to say, which were incurred in the years of the world economic crisis are only now having to be written off in the banks' balance sheets.

It must be borne in mind that, compared with the banking system in this country and Germany, the Swiss structure is relatively decentralised. Most foreign reviewers are inclined to ignore this point and assess the banking situation as a whole according to the position of the big banks alone. Actually, however, the Swiss structure includes four other groups; the Cantonal banks, the local banks, the savings banks and the Raiffeisen banks. They do not differ so much from each other in the nature of their business activity as in their relative importance within the national credit system and above all the size of their transactions. The total deposits of all Swiss banks at the end of 1934 amounted to frs. 15,900,000,000, while their Share Capital and Reserves aggregated frs. 2,379,500,000. The following table shows the share of each group in the total funds.

	DEPOSITS.		SHARE CAPITAL AND RESERVES.		
	In mill.	In per	In mill.	In per	
	frs.	cent.	total.	frs.	cent.
Cantonal banks	7,010	44.14	826.5	34.73	
Big banks ...	3,810	24.01	958.0	40.26	
Local banks ...	3,350	21.10	490.6	20.62	
Savings banks ...	1,370	8.63	88.5	3.72	
Raiffeisen banks	0,340	2.12	15.9	0.62	
	15,880	100.00	2,379.5	100.00	

It is at once obvious from these figures that the big banks represent only the smaller part of the Swiss banking system. The Cantonal banks though ranging behind the big banks in their Share Capital and Reserves are far ahead of them in so far as the deposits are concerned. Moreover the relative importance of the Cantonal banks in the Swiss credit system is growing daily. This, for instance, is shown by the fact that the largest bank in the country is the Zurich Cantonal Bank with a balance sheet total of frs. 1,360,000,000, and no longer one of the "big" banks. The Cantonal banks enjoy the particular confidence of the small depositor.

The big banks are, therefore, not representative of the whole Swiss credit system. They are also not typical for Swiss banking as they have their peculiar difficulties. But on the other hand the big banks are almost the only ones which have been concerned with foreign lending. Consequently their own particular troubles are so much more serious and complicated than those of the other banks. They are the most vulnerable part of the Swiss banking system, and as they, at the same time, represent a very large section in the whole credit organisation their present position and outlook are of the greatest significance for Swiss banking as a whole. Naturally the other banks cannot be disregarded. And though this survey has as its primary object the position of the big banks it automatically includes other groups whenever Swiss banking as a whole is dealt with.

For many decades, thanks to the specific nature of the Swiss economic system, the Swiss banks have cultivated an important international business. Considerable amounts of foreign capital have been entrusted to them and still larger sums have been invested by them abroad. As a large part of the Swiss population has to earn its livelihood in the export trade and through other international commercial activities, this would have been normal had it not been for the repercussions of the world economic crisis on the position of the debtors of the Swiss banks, both at home and abroad.

The economic structure of Switzerland is one of high capitalisation, both in industry and agriculture. Expensive foreign raw materials together with the high costs of freight and insurance — a direct consequence of Switzerland's geographical position — and high wages, necessitate a relatively much higher demand for industrial capital than in any other country. The same is true for agriculture, where the capital investment per hectare of cultivated soil amounts to as much as approximately frs. 8,000. On this basis Swiss banking, together with its extensive international business has developed into an organisation the relative size of which is reached in no other country.

In the years of tottering currencies and general economic and political instability abroad, Switzerland appeared to many as a happy oasis of stability and safety. Huge sums from countries with unstable currencies found their way into Switzerland, where the maintenance of the stability of the currency was beyond question.

As there are no figures available about the Swiss balance of payments for the last few years, the extent of the total capital import is unknown. It is, however, estimated that the total amount of short- and medium-term foreign capital invested in Switzerland before the attack on the Swiss franc amounted to between frs. 800,000,000 to frs. 1,400,000,000.

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It was this influx of capital which confronted the banks with innumerable difficulties. The table below shows the effects of the capital import on the banks' balance sheets. Of course, the changes shown are not only due to capital movements, for other factors have contributed their share. If, for instance, Swiss exports between 1929 and 1935 have declined from frs. 2,097,000,000 to frs. 844,300,000 the accompanying shrinkage in Swiss business activity could not remain without influence on the balance sheet total of the bank.

BALANCE SHEET TOTAL OF ALL SWISS BANKS.

(in mill. frs.)

1927.	1928.	1929.	1930.	1931.	1932.	1933.	1934.
17,189	18,619	20,494	21,781	20,467	19,945	19,149	18,645

The grave question facing the Swiss banker was: What was he to do with this excess of foreign capital, which was only looking for a short-term refuge? To keep it as mere deposits was regarded as unbusinesslike. And to invest it in domestic industry was a possibility open only to a small proportion of the foreign capital. The very size of the Swiss economic system kept such investments within narrow limits.

The obvious way out, therefore, was to reinvest such refuge seeking money abroad. The Swiss banks have been blamed, and in some cases rightly so, for the extent of their foreign lending. But on the whole the banks only did what every banker would have done in similar circumstances. There was no precedent to warn them how, and with what effects, currency depreciations can spread. The banks found themselves on entirely unknown ground. It can hardly be wondered that they seized the opportunity to regain their former position in the international credit organisation.

It must not be forgotten, when criticising the Swiss banks' foreign investment policy, that the export of capital is an economic necessity for the country. In order to maintain its economic equilibrium, Switzerland has to cover her adverse balance of trade by a corresponding item on the asset side of her balance of payments. The income derived from capital investments abroad is thus an essential factor for the maintenance of her standard of living.

Moreover, the banks' foreign investments of "refuge capital" is often considerably exaggerated. Recognising its unreliability, the banks deposited part of it on *giro* account with the Swiss National Bank, where it was reflected in the form of rising gold holding. Between 1930 and 1932 the gold reserves of the Central Bank accordingly increased from frs. 607,300,000 to frs. 2,546,000,000.

An indication as to the extent of the big banks' foreign investments, and the lack of discrimination employed in some cases, is offered by the recent history of the Banque Commerciale de Bâle, though it must be realised that the Banque Commerciale has been exceptionally "enterprising" in comparison with the other big banks.

In 1922 the Banque Commerciale made its first attempt to obtain a footing in other countries, by acquiring interests in the Viennese Bank Corporation and the State Bank of Bosnia and Herzegovina. In 1923 it participated in the foundation of the General Bank Corporation in Poland, and in 1928 in that of the General Bank Corporation of Yougo Slavia. It also acquired an interest in the Bohemian Union Bank of Prague.

These banking interests led in turn to the partaking in the foundation of the *Union Financière Polonoise* of Brussels, the *Banque Belge et Internationale en Egypte* and the *Soc. Générale d'Exploitation Electriques de Lodz et Extensions* of Brussels. Moreover, the Banque Commerciale was represented on the board of the Albanian National Bank in Tirana. Then again the Banque has been the founder of a large number of financing trusts, such as the *Bank Für Transportwerte*, for the financing of railways in Austria; the *Indelec*, a financing company for electrical undertakings which was closely affiliated to the *Siemens & Halske* in Berlin. In addition the Banque Commerciale collaborated with the German mining concern *Hoesch-Koeln-Neuessen* in the formation of the *Montan-Union A.G.*.

In contrast the participations of the Banque Commerciale in Swiss undertakings have been exceedingly small and among all the big Swiss banks the Banque Commerciale had the smallest internal business. These circumstances explain the difficulties of the Banque Commerciale. In particular the commitments in Germany surpassed those of all other banks, and consequently the losses resulting are believed to have been extremely heavy.

The influx of large foreign funds not only reflected itself in a huge increase in the banks' balance sheet total, but also accelerated the growth in the number of banks. The primary cause for this growth are the general increase in business activity in the post-war years, but also the absence of a postal savings system. Thus a

large number of small local branches have been established, which, however, are not carrying out any real banking business except the collection of savings deposits. Partly too, statistical reasons are responsible for the increase shown in the table below in the number of banks, especially for the years 1925 to 1930.

	NUMBER OF BANKS INCLUSIVE OF ALL BRANCHES.			
	1932.	1930.	1925.	1913.
Swiss National Bank	25	25	—	—
Cantonal banks	877	838	777	—
Big banks	218	194	170	—
Big local banks	537	343	226	—
Medium and small local banks	168	162	114	—
Raiffeisen banks	572	516	375	—
Savings banks	305	287	377	—
Mortgage banks	—	190	140	—
Savings banks of the Christian social organisations	335	263	246	—
	3,012	2,793	2,425	1,880

In every respect, both in the size of its organisation and the extent of its business activities, the Swiss banking system was at the height of its power when the world economic crisis started. At first Switzerland, while other countries were swept by the crisis, stood out as one of the few happy islands, apparently untouched by what was happening abroad. Prosperity, it is true, came to a halt, but it did not disappear altogether. The international troubles seemed to have been largely arrested at the frontiers of Switzerland.

When, however, the crisis resulted in the devaluation of an increasing number of currencies, the economic position of Switzerland began to be attacked from two sides. First by increased difficulties met with in the export trade, and then by the destruction of the domestic price structure. While the countries with devaluated currencies succeeded in reducing their real wage level, similar attempts in Switzerland as in all the gold bloc countries failed after a temporary success.

At home bank investments in the hotel, the machine and other export industries became frozen and large sums had to be written off. A far more serious menace to the banks than originated from the internal economic deterioration, arose directly in connection with the aggravation of the economic and financial position in a number of other countries. On the one hand many foreign creditors withdrew their Swiss bank deposits, such as in the case of the German creditors who by law were forced to repatriate their foreign deposits and investments. On the other hand the simultaneous introduction of exchange restrictions and the declaration of transfer moratoriums abroad, and particularly in Germany, placed the Swiss banking authorities before an unprecedented dilemma. As shown in the following table the whole share capital and the reserves of the six leading banks, amounting to frs. 763,000,000 was invested in countries with transfer restrictions. And by far the largest part of the big banks' foreign investments subject to transfer restrictions are frozen in Germany.

IN MILL. FRs., AT THE END OF 1934.

	Foreign Investments.		
	Share Capital and reserves.	Total.	Subject to transfer restrictions.
Banque Commerciale de Bâle	88	224	153
Banque Fédérale	107	172	143
Crédit Suisse	206	?	200
Leu & Co.	47	102	100
Swiss Bank Corporation	200	?	150
Union de Banques Suisses	112	190	108

Though under the circumstances these commitments in countries with transfer restrictions represent a very heavy burden for the banks concerned, there is no reason to take too grave a view about their future. As regards the credits frozen in Germany the really bad debtors have been written off already before the outbreak of the crisis, and under the Swiss-German payments agreement interest payments are coming in regularly from the present debtors.

(To be continued).

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