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## SWITZERLAND CONSOLIDATES ECONOMIC STRUCTURE.

### Favourable Conditions created by Currency Devaluation.

By DR. MAX STAHELIN,  
Chairman, Swiss Bank Corporation.

When on the 26th of September, 1936, Switzerland reluctantly decided to devalue her currency lively misgivings were expressed, more particularly as to the effect this measure would have on the internal price level; for at that period prices were definitely rising and Switzerland is heavily dependent on foreign countries both for its raw materials and for its foodstuffs. There was a danger that this rise, if it continued, would largely counteract the economic advantages which Switzerland hoped to draw from this monetary change. It is now possible, at a distance of a year and a half, to appreciate that circumstances have turned out much more favourably for Switzerland than was at first expected.

Undoubtedly the second half of 1937 brought disappointment, for the favourable trend of business which had been evident in many branches of economic activity since 1936 was arrested last summer by a series reversal of tendency which made its first appearance on the American market. On the other hand, this new depression prevented an exaggerated rise in the price of these raw materials which were essential to Swiss industry and the latter could thus maintain its competitive power in the world's markets.

As a matter of fact, not only have the rises registered in Switzerland in the first few months of 1937 not been maintained but also prices had fallen by the end of the year to a level equivalent to the lowest of 1936. Thus the index number of WHOLESALE PRICES which moved from 93 to 113 (basis 1914=100) between August, 1936, and March, 1937, had reacted to 110 at the end of December, 1937. Instead of increasing proportionately, as might have been expected, the index number only went up by 17 per cent. over the level which preceded devaluation.

THE COST OF LIVING index number has only increased by 6 per cent. since the devaluation, which is a very small change and must be attributed principally to effective measures taken by the authorities to check unjustified increases in price.

#### GROWTH OF EXPORTS.

##### In the Home Market.

Thanks to the favourable conditions created by the devaluation of the franc and by the relative stability of domestic prices, the Swiss export industry was in a position to expand to an extent unparalleled in recent years. Those sections of industry which work for the home market, on the other hand, have profited less by the improved situation. They have nevertheless benefited by a modest revival in the BUILDING industry, the recovery in the HOTEL industry, due to a considerable influx of foreign visitors, and by measures taken by the authorities to combat the crisis and to increase and modernise the armament equipment of the country.

AGRICULTURE has been favoured by a series of satisfactory crops which could in part be sold at good prices. All these circumstances contributed to the sensible reduction of UNEMPLOYMENT, but the latter nevertheless continues to be a heavy charge on the public purse. At the end of 1937 there were still 87,300 persons unemployed, as compared with 104,800 the year before and 118,700 at the same date in 1935.

For the first time since the beginning of the economic crisis FOREIGN TRADE revived considerably. It is true that as a result of the devaluation and of the upward trend of world prices the value of exports increased much more than that of imports and that consequently the trade deficit has become proportionately aggravated, but there is nothing alarming in this deficit. It is a constant characteristic of the Swiss economic position and is normally balanced by the other elements, such as revenue from the tourist traffic, the return on capital invested abroad, services rendered, etc. Most probably the amounts returning to Switzerland from these sources have also increased thanks to the devaluation of the Swiss franc.

There is every reason to believe that the SWISS BALANCE OF PAYMENTS for 1937 was a favourable one.

This leads on to a consideration of the problem presented in Switzerland — and for that matter in several other countries where floating capital is wont to seek refuge — by the influx of large amounts of FOREIGN CAPITAL. The extensive inflow of gold which followed the release of hoarded stocks and the repatriation of Swiss and foreign capital ceased at the end of 1936. At the beginning of 1937 the withdrawal of German balances from Switzerland, followed by the transfer of the funds required for subscription to the French National Defence Loan, caused a temporary exodus of capital.

In April rumours of a revalorisation of the dollar and a reduction in the price of gold on

the world markets provoked a new withdrawal of capital. Later on the effect of monetary events in France and the political situation in general found their expression in a considerable influx into Switzerland and this became still more accentuated in the autumn.

#### TWO-FOLD DANGER. Hot Money.

These comings and goings represent a two-fold danger. In the first place the accumulation of gold might afford the opportunity for an unhealthy inflation of credit. Secondly, the possibility of sudden withdrawals is a menace to national economic life.

It is true that the importance of floating capital (hot money) is sometimes exaggerated, but it was decided nevertheless to adopt certain measures to counteract this movement and under the auspices of the Swiss National Bank a "gentlemen's agreement" was concluded last autumn between the Swiss banks with a view to reducing the excessive amount of foreign deposits in Swiss francs with the banks.

The abundance of CAPITAL brought about an extraordinary state of ease in the market for short and long term money. The official DISCOUNT RATE remained unchanged at 1½ per cent., which is the lowest rate hitherto touched in Switzerland, and the private discount rate has continued steady at 1 per cent. The net return from Government securities continued to decline in 1937 and is at present less than 3 per cent. Public bodies and other borrowers have taken general advantage of this state of affairs to effect conversions on unfavourable terms, and a state of great liquidity has reigned in the capital markets.

The Swiss banks have in a general way been able to benefit from the favourable circumstances resulting from the devaluation of the franc and have been able to continue the process of consolidating their position.

Various banks which had been placed under a special scheme of official control have recovered their solvency and have been able to resume dividends.

On the whole, the results of 1937 show an improvement on those of the preceding years, although the continued falling off of interest rates has reduced the margin of profit to more and more narrow limits, and as a consequence of the more liquid position of many concerns which are progressing satisfactorily the credit requirements of Swiss business houses have remained relatively unimportant.

Though there may still be many difficulties to surmount in the development of business both in Switzerland and abroad, there is nevertheless no reason to consider the future through too dark glasses, for it is certainly true to say that since the devaluation serious progress has been made in Switzerland towards consolidating the economic and financial structure of the country.

— Rudolf von Tavel, Financial Times.

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