

**Zeitschrift:** The Swiss observer : the journal of the Federation of Swiss Societies in the UK

**Herausgeber:** Federation of Swiss Societies in the United Kingdom

**Band:** - (1939)

**Heft:** 915

**Artikel:** Switzerlands problems

**Autor:** Stakhelin, Max

**DOI:** <https://doi.org/10.5169/seals-692481>

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#### SWITZERLAND'S PROBLEMS.

By Dr. MAX STAHELIN,

Chairman, Swiss Bank Corporation, Bâle.

The question of the general evolution of banking in Switzerland during the past year can hardly be considered without a brief reference to the economic and financial conditions which accompanied it.

On the whole, the economic situation in Switzerland was not unfavourable in 1938, though the improvement recorded in the preceding year was not maintained. Nevertheless, it was affected in some degree by international events in the political and economic spheres; for industrial activity in Switzerland is intimately bound up with that in other countries.

As in most countries, wholesale prices fell slightly, but in Switzerland this may be attributed essentially to the fall in price of imported goods, for the prices of domestic products remained fairly stable. Mention may be made here of the reappearance of the gap which existed before the devaluation of the Swiss franc between the prices of these two classes of merchandise and which had almost disappeared during the early months of 1937. Thus at the end of 1938 the index number of the prices of goods of Swiss origin was 21 per cent. higher than that applying to goods of foreign origin. This differing trend tends to give the Swiss franc a greater purchasing power abroad than in Switzerland, a fact which is not without inconvenience for Swiss exporters and for the tourist industry.

The cost of living hardly altered in 1938; the index figure remained practically at the same level throughout the year, and was only 5.1 per cent. higher than before the devaluation of the Swiss franc in September, 1936.

The revival of industrial activity recorded in 1937 was on the whole maintained at the level which was then reached; in certain lines of business, however, notably in the watchmaking and textile trades, there was an unfortunate falling off.

The general volume of foreign trade contracted, but this was due solely to imports, exports increasing by 2.4 per cent. in value over the 1937 level. This movement reduced the deficit of the Swiss trade balance by a considerable amount, a fact which would normally have been a favourable element tending to assist the balancing of Switzerland's international payments accounts.

But two points must be borne in mind: (1) the reduction in imports is to a large extent due to diminished purchases of raw materials abroad — a fact which can be interpreted as a sign of approaching falling off in industrial activity; (2) the trend of our trade balance unfortunately tends to make still more difficult the settlement of payments between Switzerland and those countries with which clearing agreements exist.

Banking Results.

Small Decreases.

For most of the Swiss banks 1938 was a somewhat less favourable year than its predecessor, though many banks were again able to show better results. As a general rule revenue was affected by the abnormally high level of unproduc-

tive cash holdings, forced upon the banks by circumstances. For the seven leading Swiss commercial banks, for example, the falling off of receipts was less than 6 per cent., and thanks to a reduction of expenses due particularly to lower debit interest and less call for amortisation of bad and doubtful debts the net profits only work out at 1 per cent. less than those of 1937. All these banks paid the same dividends as in the previous year.

The aggregate total of the balance-sheets of these leading banks declined from 4,662 million francs at the end of 1937 to 4,487 million francs at the end of 1938, that is to say by 3.75 per cent.

As regards the 27 banks which are members of the Union of Swiss Cantonal Banks, whose activities are principally directed to mortgage business and the encouragement of savings, their balance-sheets have shown quite different tendencies. Their total figures continued to rise ever since 1930, when they reached 7,465 millions, but fell off for the first time in 1938, declining from 8,263 millions at the end of December, 1937, to 8,132 millions at the end of 1938. In this case the reduction is principally on account of "obligations" and short-dated bonds, but is offset to some extent by a slight increase in savings deposits (1.1 per cent.). On the assets side there was a slight falling off under most headings; mortgages, which form the principal item, decreased in amount from 5,006 million francs to 5,002 million francs from year to year.

Most of the Cantonal and local banks also showed a reduction in profits; their results were affected by the continual falling off of interest rates and the lack of opportunity for investment in mortgages.

#### Political Events.

#### Effect on Deposits.

Political events also left their mark on the accounts of the Swiss banks, and during the autumn of 1938 they had to face considerable withdrawals of deposits. The banks met all such calls upon them without any difficulty.

The principal problem which faced the leading Swiss banks in 1938 was to find a means of utilising the very large amounts of short-term capital at their disposal. Following in this matter in the steps of the banks in other countries — for example, the English banks — they invested a large proportion of these funds in short-dated Government loans. In general the Swiss banks manifested in 1938 a strong vitality.

*The Financial Times.*

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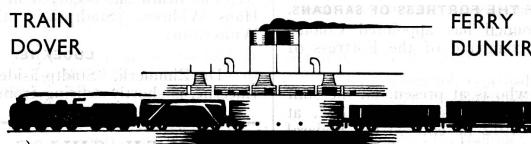
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