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THE SWISS MONEY MARKET AND THE BANKS.

By W. Kiefer, General Manager, Swiss Bank Corporation, Basle.

For the past eighteen months, the outstanding feature of the Swiss money and capital markets has been a growing liquidity, which, if seen from a purely Swiss point of view, has assumed quite exceptional proportions. The present yield on Swiss bonds is the lowest on record.

If we are to understand this phenomenon, we must recall at least two occurrences in the past that have had a decisive influence in Switzerland on the accumulation of liquid funds. The first was the repatriation of Swiss investments abroad during the world-wide economic depression of the Thirties, which was itself accompanied by a flight of foreign capital to Switzerland. The other was the formation of capital since 1939 stimulated by vast State spending during the war.

Under the boom conditions that developed immediately after the end of hostilities, this capital found ready employment. However, when business began to slacken and the economic situation reverted to normal, it became obvious that there was a plethora of funds.

What had in fact happened since the end of the war? It had been a relatively easy matter to resume trading with foreign countries and to divert back from the Swiss National Bank to the commercial banks a substantial part of the payments, although money transfers remained subject to the control of the governments concerned. True, export trade was facilitated mainly through the granting of currency credits by the Swiss Confederation under bilateral payment agreements with various countries, including the United Kingdom. In the case of imports, however, use was made of the banks' financial assistance to a rapidly increasing degree. The funds held in readiness by trade and industry proved insufficient for the financing of the deferred demand for imported goods. The building-up of fresh stocks created, large capital requirements, and the banks had at times to expand credit facilities to commercial firms right up to the aggregate limit stipulated by the Banking Law. Nevertheless, once the most pressing needs had been satisfied, conditions both at the banks and on the money and capital markets became much easier.

Simultaneously there came an increased influx of new funds from abroad. In view of their unpleasant experiences with the freezing of the Swiss assets in the United States, the Swiss investors made haste to transfer their money back home as soon as it was released. However, the Swiss National Bank was making every effort to prevent further expansion in the volume of liquid funds. It refused at the time to take over the dollars derived from the realization of Swiss investments in the United States, and all such exchange transactions had to be effected on the free dollar market, where the demand for Swiss francs vastly exceeded the supply. As a result the investors who wanted to convert their unblocked dollar balances had to bear a capital loss equivalent to the discount of the free dollar, i.e., some 10 to 15%.

Owing to the concurrence of these events, the easier conditions on the capital market developed into an unprecedented liquidity, particularly from the spring of 1948 onwards. Its symptoms are, for instance, the increase in the Swiss National Bank's sight liabilities, by the other banks the swollen quick assets and advances and, on the liabilities side, the increase in customers' deposits. On the capital market, bond prices eventually reached such a high level that the yield on government stocks has fallen to about 2.27%.

Of recent years, the supply of capital has increased considerably, whereas the demand has not kept pace. Particular examples of the former process are to be seen in the growth of private and, especially, public saving, the latter thanks to the rapid expansion of the newly instituted Federal Old Age and Dependents Insurance Fund, into which about 4% of the country's earned income is being poured. Moreover, external factors have been at work. The currency reserves of the Swiss National Bank rose by oved 500 million Swiss francs during the year 1949 alone. Foreign trade has been mainly responsible for this, because the traditionally adverse balance of trade, which had amounted to about Sw.Fcs. 1500 millions in each of the years 1947 and 1948, contracted to only Sw.Fcs. 334 millions in 1949.

The capital requirements of certain branches of industry and commerce instead of increasing with the expanding supply of funds have on the contrary decreased. Those of public bodies are also small. The budgets of the Confederation and of most of the Cantons are balanced or tend to show surplus revenue

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rather than excess expenditure. Here, there is not only fresh demand for funds, but a further source of capital, for the surpluses are being used for reducing indebtedness.

It is true, however, that at some future date there may be an increased demand for funds in connection with the financing of a relief programme of public and other works provided the execution of such a programme be rendered necessary by a pronounced change for the worse in labour market conditions, a problem which, fortunately, is not yet pressing.

The liquidity of the capital market is of course considered differently according to whether the standpoint is that of the borrower or of the lender. Every reduction in interest rates being welcomed by the debtor, both public and private borrowers are at present fairly active in carrying through conversion operations.

The present state of the capital market was one of the main topics of the Chairmen's statements at this year's annual general meetings of the banks. In theory, the position is simple: supply and demand must in the long run once again be brought into harmony. He who on the one hand opposes all measures hindering the formation of fresh capital and on the other wishes to avoid a further fall in interest rates must find new means of absorbing the surplus of funds.

As a method of combating present liquidity, it has repeatedly been suggested that the Swiss National Bank should resume selling gold to the investor. The chairman of the management of the Swiss National Bank has recently stated the official view on this expedient. He did not reject the proposal out of hand, but declared that the National Bank should consider selling gold to the public only if the measure offered some chance of success and when there were sufficient guarantees that no harm to the community would ensue in other directions. In general, however, he remained an upholder of the principle that gold should be held in the vaults of the central bank.

Another proposal made in recent months concerns the issue of a large long-term Federal loan for the purpose of consolidating the Confederation's floating debt, present rates of interest being so favourable to the borrower. This operation would be advantageous from the Confederation's point of view, yet it would not relieve the capital market of the surplus funds weighing so heavily upon it, as such a conversion would not bind any fresh money.

Other methods of influencing the money and capital markets, such as open market operations by the central bank are not practised in Switzerland.

All the devices discussed are mere makeshifts and have the great disadvantage of absorbing capital for totally unproductive purposes. They do not cause it to be invested where it is more urgently needed than in in Switzerland. Indeed, the export of capital is an economic necessity for a country such as Switzerland, with a traditional surplus in its income accounts. Moreover, from whatever point of view we examine the present excessive liquidity of the Swiss capital market, a more intensive export of capital than in the last few years would be welcome. So far, the export of capital, whether in the form of direct bankers' advances or of Swiss franc loans offered for public subscription has only gradually been resumed. Belgium has taken up four loans and Holland one, of Sw.Fcs.50 millions each. Nevertheless and quite generally, considerable reserve is still being shown where the export of capital is concerned. Since World War I both private investors and bank suffered severe losses on their investments abroad. These unfortunote experiences have not been forgotten.

None the less, the Swiss banks realise the necessity of the export of capital and they are encouraging it as far as it is economically justified. There are, however, rather narrow limits to what they can do, the sums at their disposal representing customers' short-term deposits, which they cannot invest as they please. For this reason, Swiss banks can only grant relatively short-dated advances. They have to watch their own liquidity and cannot make long-term investments abroad.

The granting of long-term loans in foreign countries is a matter for the private investor. It is obvious, then, that prospective borrowers must do all they can to inspire confidence by putting their economy and their public finances in order. The private investor is in principle once again ready to consider the attrac tions of a higher yield, provided the foreign borrower guarantees a ready transfer both of interest and of the principal at due date. Swiss banking circles therefore unhesitatingly support the efforts of the International Chamber of Commerce to draw up an International code for fair treatment of investments abroad and to obtain its general recognition.

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