LETTER FROM SWITZERLAND.

The Swiss Economic Situation in mid-1957.

The economic prosperity Switzerland has enjoyed since the end of the war has in recent months reached a level such as neither the authorities nor the man in the street can contemplate with entire composure. The expansion of recent years has given way to over-expansion and to obviate the risk of inflation it was necessary to apply some restraint.

There is no doubt whatever that the root cause of this abnormal situation must be sought in the unduly large volume of investments effected in the preceding years.

Building in particular has greatly profited from the credits which it had no difficulty in obtaining in spite of the restrictions agreed upon in 1951 by the parties interested. These measures did not succeed in preventing the building industry from expanding its activity, which has increased by almost 50% in the space of three years, from Fr. 3,050 millions in 1953 to Fr. 4,300 millions in 1956.

Industry, too, has made the most of the liberal supplies of capital available. Moreover, being unable to find sufficient labour on the spot, it has called upon a large number of foreign workers — 326,000 in 1956 — to stop the gaps. There has thus been a substantial increase in Swiss productive capacity, but in many quarters there are indications that it has reached a ceiling beyond which it will not be able to go, at least in the immediate future. Unsatisfied, the ever-increasing demand has been obliged to look abroad for what it could not obtain on the home market. This has resulted in a very substantial increase in imports, and although exports have also shown an upward trend, it is nonetheless true that the deficit in the Swiss trade balance has risen from Fr. 320 millions in 1954 to Fr. 1,394 millions in 1956, *i.e.* it has quadrupled. And this trend, which some consider disquieting, is very far from being at an end, for during the first six months of this year the excess of imports has been more than Fr. 1,000 millions, a record figure which has not been equalled since the corresponding period of 1948, when, of course, heavily depleted stocks were being replenished.

It is not difficult to imagine how such an imbalance, aggravated by the transfer to their home countries of the savings made by the foreign labour force, is denuding the market of money.

Truth to tell, responsible heads in business circles did not wait for these figures before evincing concern. Already in 1956 the National Bank, acting in consort with the banks and insurance companies, blocked a certain amount of floating capital, *viz.* Fr. 370 millions at that juncture. However, this sterilisation did not prove adequate and it has recently been necessary to enact certain measures calculated to be effective not only monetarily but also psychologically in as much as they constitute a serious warning to the Swiss people.

The first was a decision by the National Bank to raise, as from 15th May 1957, the official discount rate from $1\frac{1}{2}$% (at which it has remained unchanged since 1936) to $2\frac{1}{2}$%. The Bank believed that it could thus influence the volume of credit, and consequently the demand for goods and loans. It should be noted that, although this increase appears, and indeed is, substantial, Switzerland still remains one of the countries with the lowest bank rate. It is higher in the United States (3%), in Belgium (3.5%), in France (4%), in Germany (4.5%) and in England (5%).

Then there are the recommendations made by the Federal Council to financial institutions with the purpose of securing a marked reduction in building credits and mortgage loans for business premises, industrial buildings and dwelling houses (with the exception of inexpensive flats) and of avoiding as far as possible the financing of schemes which would involve the demolition of house property still fit for habitation and thus of halting speculation, a potent cause of rising prices.

These measures — more especially the increase in the bank rate — have been under heavy fire from critics in certain quarters, but there is no doubt that they were necessary. And although it is premature as yet to attempt any assessment of the results, a downward tendency on the stock market and a more stable situation on the land and real property market are already noticeable. But it will be many a long month before the desired effects will make themselves felt in full.

Thus, although there is no threat to the Swiss economy, it will, thanks to the forethought of the authorities, nevertheless have had an opportunity to awaken to the realities of a situation to which the heady wine of prosperity had rendered it oblivious.