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THE ROLE OF THE SWISS BANKS IN INTERNATIONAL FINANCE

During the past few years there has been much talk about the Swiss banks, but generally, with the exception of professional circles, the important role that they play in international finance is unknown. It therefore seems to us to be useful to provide some information on this subject based on a presentation given by Mr. Iklé, a member of the general management of the Swiss National Bank.

First of all, it can be stated that nothing, neither from the geographical nor from the historical point of view, destined Switzerland to one day becoming a centre of international finance. It was only at the end of the nineteenth century that the first big Helvetic banks were founded with the help of foreign capital. At this time, a flourishing textile industry began to attract money to Switzerland. Due to a lack of sufficient investment possibilities in the country, businessmen and industrialists invested part of their assets abroad. It was therefore at this time that the export of private capital began. Having avoided the First World War and the subsequent inflationary cycles which resulted, Switzerland became renowned as a haven for foreign capital. However, its efforts to develop its role as a financial centre were soon thwarted by the currency crises of the 1930's. After the Second World War, in order to open the way for Swiss exports, the Confederation was obliged to grant large credits to the principal countries of Western Europe, on which it sustained heavy losses during the ensuing currency devaluations. Since the European economy had first of all to repair the devastation caused by the war, Switzerland, whose production machine had remained intact, soon found itself in the position of creditor. Consequently, the Confederation had to effect rather large exports of capital. It therefore invested funds in Germany, France, Italy and also in Austria, and then corrected its budget surplus by investments in the International Payments Bank and also in the American money market; it also granted a medium term loan to the World Bank. In 1960, the short term investments of Switzerland on the money market attained a total of 1.2 billion Swiss francs and, at the end of 1965, their book value was still 1,080 million francs in spite of the liquidations carried out in the interim.

During the period of the European Payments Union, Switzerland was the only country in Europe who could not only effect regulated payments within the framework of the Union, but also freely convert its money into dollars. This particularity allowed it to play an intermediary role and to become the centre of "transferable" pound sterling operations. However, a financial position worthy of this name cannot be content only with making money and capital circulate; it must also have its own resources in order to be able to place long term capital at the disposal of the rest of the world. This implies a surplus balance of current payments and an active financial market — which was precisely the case. In spite of this favourable situation, the power of the Swiss financial market does not only depend on the surplus savings of the population of the country. Actually, the Swiss banks are engaged in investing large amounts of foreign funds, the income of which is partly available for investments.

Of course, the banking system of Switzerland contributed in large measure to the importance acquired by this country in the financial sector; however, only the big banks, the private banks and a few other establishments play a role in international operations. The operations of the big banks are probably as important — perhaps even more so — on the foreign as on the domestic market. Since Swiss

liquid assets and those entrusted to Switzerland from abroad cannot all be invested in the country, they are placed in the international money markets of London, Paris, the United States and Canada. This resulted in an interdependence between the Swiss and foreign banking system.

Space does not allow us to speak here about currency support credits granted by Switzerland to various economies. On the other hand, we wish to mention the direct investments of Swiss industry abroad. Actually, it is mainly the food and chemical industries which have carried out large investments abroad. These were estimated at 8 billion francs in 1960 and at about 11 billion at the end of 1965. According to American statistics, the Swiss chemical industry, with \$352 million, occupied first place in the United States at the end of 1963 for direct foreign investments. As for foreign investments of the Swiss machinery and metallurgical industries, they were evaluated at 1.7 billion francs in 1960, while they are at present around 2.7 billion. In the other sectors, the direct foreign investments are mainly those of the construction materials, shoe and textile industries. The amounts invested were evaluated at a little more than 600 million francs in 1960 and must be between 800 and 900 million today. At the end of 1960, the direct investments of the Swiss holding companies could be evaluated at a little more than a billion francs. During the same period, the foreign investments of Swiss companies engaged in international trade, shipowners, transport and forwarding companies, as well as sales organisations of the watch industry and other branches, amounted to 750 million francs, while today they are probably at least 1.3 billion francs. As for the insurance companies, their foreign holdings must be evaluated at 1.5 billion francs after deduction of technical reserves. The direct investments of the Swiss economy at the end of 1960, excluding the insurance companies, have been evaluated at 10 billion francs and must have been more than 17.5 billion francs at the end of 1965, not taking into account the re-evaluation of certain holdings and currency depreciation.

As for exports of capital, they amounted to 558 million francs in 1960. Since then, the annual amount of issues has been maintained at around this figure, except in 1961 when it exceeded the billion mark. These loans not only interest Swiss capital in search of employment, but also the foreign clientèle of Swiss banks, and it can be estimated that of the some 6 billion francs of loan certificates presently in circulation, about a third have been subscribed to by foreign clientèle. Therefore, the foreign issues only partially tap the Swiss financial market. According to a conservative estimate, the value of foreign certificates in private hands in Switzerland was 11 billion francs in 1960 and would be 13 billion today. Also under the heading of exports of capital, it should be noted that another 2.7 billion francs was contained in the portfolio of investment funds in 1963.

If a statement of Swiss holdings and obligations abroad at the end of 1965 were to be drawn up, the assets column would show 21.3 billion francs in short term credits and 46.4 billion in long term credits, or a total of 67.7 billion francs, to which should be added currency reserves of 12.3 billion francs, so that the assets, in round figures, can be evaluated at 80 billion francs. On the liabilities side, 17 billion francs in short term debts and 19.4 bill. in long term debts would be found, or a total of 36.4 billion francs in debts. The balance of assets would therefore show 43.6 billion francs.

These few figures amply illustrate, without comment, the importance of Switzerland as a financial centre in international business.

[O.S.E.C.]