ECONOMIC WORLD

Excerpt from a speech by Dr. G. Tobler, General Manager of the Union Bank of Switzerland, delivered at a meeting of the European Union of Crafts and Small and Medium-sized Enterprises in Montreux.

Finance for the smaller businessman

THE extraordinarily sharp competition among the Swiss banks guarantees that every legitimate credit requirement will be met at favorable terms and conditions.

Access to credit sources is in no way dependent on the size of an enterprise. All Swiss-controlled banks equally seek to serve small and medium-sized enterprises.

I will base my comments on the hypothesis that small and medium-sized enterprises are characterized by a lack of access to the capital market, or, in other words, that they do not have any possibility of procuring venture capital through public issues of shares or bonds.

Apart from private participations or loans, these enterprises therefore depend entirely on bank financing.

The Swiss banks are in a position to offer their customers not only short-term but also long-dated credits. Working capital credits, which are of a short-term nature, can also be made available in the form of unsecured loans. In those cases where collateral must be required, both real estate and personal cover may be eligible.

On frequent occasions the credit is granted simply against the assignment of receivables, especially if it serves the purpose of financing large orders. This means that the bank is not initially covered, since the claim cannot be collected until the order has been executed in conformity with the terms of the contract.

In such instances the adance is made exclusively on the basis of the trust in the reliability and proficiency of the borrower.

Switzerland is the country with the highest per capita mortgage indebtedness in the world. For this and other reasons mortgage credit is by far the most important instrument for raising long-term or investment credits.

Strictly speaking, the long-term feature of the loan is only de facto because as a rule mortgages, too, can be called for repayment at any time. But owing to the high productive capacity of Switzerland's capital market, mortgages are hardly ever called by lenders. A debtor under a mortgage can therefore safely assume that his debt is indeed long-term.

Time does not permit a complete listing of all financing instruments provided by the banks. Nevertheless, attention should be drawn to one gap. It consists of the fact that it has not been common practice in Switzerland to grant unsecured loans fixed for several years. The "classic" fixed-date credit has a fixed term of six months.

Reasons of liquidity or the wish to benefit from favorable interest conditions over a period of several years can prompt a firm to aim for a maturity of three, four or five years. It goes without saying that only borrowers of a certain size and secure earning conditions can be considered for such loans.

These borrowing companies are on the threshold of the ability to tap the capital market. Credit requests by such would-be borrowers will have to be given greater attention in future.

Financing from outside sources, in other words, borrowing, must remain within certain limits. In the classical credit business we find the hallowed principle that a credit should never assume the character of a participation or equity holding.

"Having an equity character" would mean that lender and borrower are inseparably linked to one another. Repayment of the loan, which in principle should be feasible at any time in the interest of preserving the necessary independence of creditor and debtor, would then be a difficult undertaking to accomplish.

This ideal condition — namely that equity is one thing and a credit another — cannot be implemented in actual practice, however. The more comprehensive or far-reaching the credit, the more will it assume the character of an equity participation. The transition is fluid, the borderline is not marked.

It is part of the duties of a bank not simply to abandon the customer as soon as he encounters difficulties but itself to shoulder a greater amount of risk if the need arises.

The bank will initially take this position by continuing existing credits despite the deteriorating situation or even by granting additional loans. If the deterioration in the customer's financial position continues, the point will be reached sooner or later at which the debtor will have to be reorganised in order to regain his health.

The measure of participation in the reorganization, that is, the attempt to save the enterprise in contrast to allowing a forced liquidation to take place, will depend on the answer to the question if the firm is regarded as viable or not.

The contribuion to the reorganization or restructuring can consist of a partial debt remission or of converting part of the debt into venture capital. The outside financing is thus changed into equity financing.

In addition to the case outlined here it may well happen that risk capital is needed to pay off a partner or to finance expedient and desirable expansion, to name only two possibilities. The services of the bank are then employed primarily to search for one or several new participants.

Depending on the posture of the company, the economic environment and the conditions prevailing on the capital market, this search will be more or less difficult. The bank is therefore on many occasions faced with the question if it should not itself step into the breach.

In an investigation published in January, the Swiss Bankers

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Consumer prices index on the way up

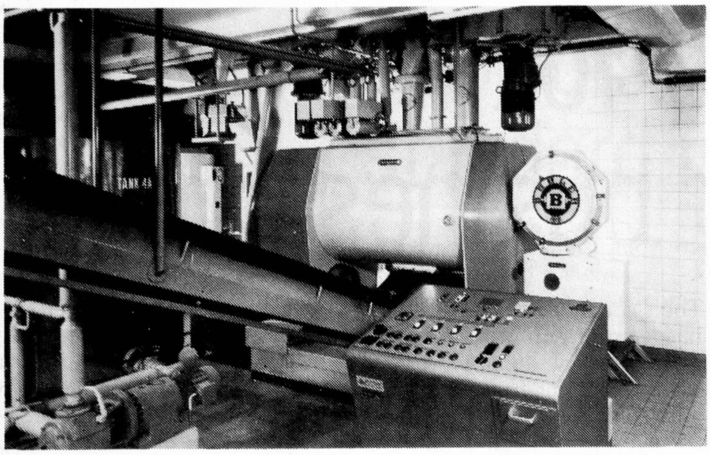
THE Swiss index of consumer prices, which registers the price trends of the principal goods and services used by private households, went up by 0.5 per cent to 107.5 points in April (September 1977 = 100 points).

This increase, the steepest within one month since September 1979, is the result of price rises for the items transportation (+ 1.2 per cent), heat and utilities (+ 1.1 per cent), food (+ 0.8 per cent) and medical and personal care (+ 0.7 per cent). The remaining five index components were not newly evaluated.

The annual rate of inflation stood at 4.1 per cent in April, with 1.4 per cent being due to price increases for heating oil and gasoline.

The wholesale price index, which reflects the price trends of raw materials, semi-manufactured products and consumer goods, moved up by 0.6 per cent to 156.0 points in April (1963 = 100).

This increase was due primarily to price rises for imported goods (+ 1.2 per cent) while domestic products went up by 0.5 per cent. Compared to April 1979, the wholesale price index edged up by 6.3 per cent (domestic goods + 4.5 per cent; imported products + 10.7 per cent).



THE British National Oil Company have placed a contract with Sulzer Bros. (UK) Ltd for four crude oil loading pumps for the Nigg terminal in Scotland.

The pumps will be manufactured at Sulzer's Leeds works.

New areas open up for Buler SA

MR W. Rufli, president of Buler SA, has bought back the shares in his company previously held by SSIH. Mr Rufli, who was owner of the company for 16 years, sold his shares in 1971.

Buler, whose UK sales office is in Weybridge, Surrey, is now a completely independent company. It will be free to extend its range and activities in areas not previously possible due to group marketing policy.

Over the next year, several new watch collections will be announced to complement the present range of quartz analogue and LCD watches. At the Basle Fair, Buler showed its new LCD collection, including a solar chrono/alarm with seven-year battery life. A new collection of both ladies' and mens' quartz analogue watches was also shown.

The company is now the largest Swiss manufacturer of LCD watches and has proved that the Swiss can compete in world markets in digital watches and still maintain the high quality standards of the Swiss watchmaking industry.

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Association commented in detail on the subject of providing venture capital for the Swiss economy. In regard to equity financing the report comes to the conclusion that several institutions were already active in the field of conventional risk capital financing so that a competitive situation exists which is to the advantage of enterprises in search of financing.

Unless the economic scenario undergoes a radical change, the existing companies and their capacity should be sufficient to completely satisfy present and future requirements. The report concluded that there was no need for other institutions to become active in the field of conventional venture capital financing.

My own experience prevents me from sharing this conclusion. The need for venture capital on the part of small and medium-sized enterprises is only partly met, and further capital sources will have to be opened up in order to satisfy all requirements.

In its business policy targets, the Union Bank of Switzerland has expressed its opinion on the question of acquiring equity participations as follows: "We acquire significant holdings in non-banking enterprises only in special cases, primarily for the purpose of placing them with other parties (for example, to broaden the capital base of growing small or medium-sized companies), to preserve the Swiss character of an enterprise or to serve the overall interest of a business relation".

I regard it as a critical factor that it can make little sense in the long run to take over new equity holdings as a result of reorganization on repeated occasions but to reject outright the acquisition of a participation offered by a healthy business partner.

It should be mentioned, however, that there are a number of reasons which argue against the acquisition of holdings in other companies by the banks. The most important of these reasons are:

- The risk involved.
- The need to monitor the activities of the holding.
- The possibility that the acquisition may offer competition to customers of the bank.
- Finally, an undesired identification.

A bank will have to endeavour under all circumstances to return the participation it acquired as soon as possible or to pass it on to other hands. Nevertheless, a banking institution will not be able to evade the task of providing venture capital as well in selected cases.

● The Swiss money market continued to be characterized by the restrictive monetary policy of the Swiss National Bank in May. However, due to a decline in Eurofrank interest rates, the big banks were able to reduce time deposit interest rates to a uniform 5.25 per cent p.a. for all maturities on May 9 and further to 4.75 per cent p.a. on May 27, a 0.75 per cent lower rate continuing to be applied to amounts ranging from Fr. 100,000 to Fr. 250,000. A sign of the continuing liquidity squeeze on the Swiss money market is the extraordinarily strong demand for National Bank credits aggregating about Fr. 3 billion on the occasion of the April closing.

Venice: Misconceptions and good intentions

VENICE — Piazza San Marco and gondolas — provided the ideal setting for the latest in the series of economic summits which began in Rambouillet in 1975 and continued in Puerto Rico, London, Bonn and Tokyo.

Again, the leaders of the seven major industrialized countries agreed to fight inflation and unemployment and promised to overcome the energy problem.

Exchange rate stability is to be restored, imbalances in the balance of payments are to be avoided. Cooperation and help should be provided to LDC's and international trade be further developed.

Although more emphasis has been devoted to certain objectives than to others — depending on the special economic circumstances prevailing at the time of each particular summit — the whole set of "good intentions" has always been contained in the communiques issued at the end of the meetings.

In Venice the politicians focused on the solution of the energy problem which — according to them — must have first priority because inflation and other problems depend heavily on it. The rising cost of oil is seen as being responsible for simultaneously depressing growth and raising prices.

The track record of the last five years of economic summits has not exactly been very good and it is perhaps not surprising that the continued repetition of laudable resolutions has tended to provoke rather caustic comments in the financial press and amongst professional economists.

Contrary to the declared policy goals, we have in the second half of the last decade witnessed high and even accelerating inflation rates in the industrialized world coupled with persistently high unemployment.

At the same time exchange rate movements have been no less volatile than in the early 1970's when no economic summits took place. Furthermore, the fact that a number of countries now seem to be less vulnerable to oil price increases than in 1973/74 is unlikely to have been the result of deliberate policy actions.

A more convincing explanation is simply that the economies adapted themselves to rising real oil prices, i.e. the price of the non-renewable resource "oil" relative to renewable consumer and capital goods.

That the price of a non-renewable commodity relative to a renewable one must rise is a normal and frequently observed phenomenon which should not a priori be destabilizing.

Why, we might ask, are economic summits so prone to failure? We believe there are three closely interrelated categories of policy misconceptions which rule the game:

☐ Disparities between policy intentions and actually achievable results. Wage and price controls are one example of a policy unsuited to coping with the inflation problem. Attempting to bring down or to stabilize the oil price does not hold the key, either. Energy price increases undeniably push up costs and prices. The impact, however, is only transitory. Price stability does not rule out relative price movements which act as signals in a market economy and are also consistent with a stable general price level. The fundamental cause of inflation is to be found in an excessive supply of money in relation to the productive capacity of a country which in turn may have its roots in the high borrowing requirements of the government.

☐ A clash between irreconcilable policy-goals. The economy cannot be stimulated by fiscal and monetary measures without risking an "overshooting" effect which after a while leads to a higher inflation rate. This was clearly not understood when national leaders propagated the so-called "locomotive approach" at their meeting in Bonn (1978). Nor can the inflation rate be lowered without causing temporary unemployment, although the official communiques tend to gloss over this fact.

☐ Unrestricted policy-activism. This typically occurs in periods when restrictive monetary or fiscal policies as well as oil price impulses begin to exert a recessionary impact before getting through to the inflation rate. In these stagflationary phases expansionary measures are generally recommended instead of waiting for employment to recover to its "natural" level. Political considerations prevent governments from admitting the social costs of an anti-inflation programme.

It is these three categories of policy misconceptions — particularly the desire to achieve price and exchange rate stability plus full employment simultaneously and the well-known phenomena of stop-go policies — which have degraded top-level summits to meetings which never appear to get beyond the stage of reciting a catalogue of good intentions. Venice, it seems, has been just another exercise in this rather unfortunate tradition. — **Swiss Bank Corporation.**

Fashion centre dates

FAIRS and exhibitions to be held at the Textile and Fashion Centre in Zurich this month are:

August 17 to 19: TMC Monsieur — Fashion for Men.

August 18 to 23: Buying Days for Bathing Costumes.

August 25 to 27: Women's Fashions.

August 25 to 27: Intertex — 2nd Samples of Fabrics.

August 25 to 29: TMC Dessous — Lingerie and Corsetry Fair.

August 25 to 29: Children's Fashion Week TMC.