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The euro is coming – and then what?

With euros in the hand through Switzerland

Soon almost the whole of Europe will be a single monetary area. This means that the currency of the European Monetary Union, the euro, will be a reality – for Switzerland too.

At the beginning of 1999, European Monetary Union (EMU) will set up shop. Most analysts are expecting a fairly wide EMU. They are at present assuming that all EU states except Denmark, Greece, Sweden and the

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United Kingdom, will take part – even if the criteria of the Maastricht Treaty will have to be fudged for some of them. This will be particularly the case for budget deficits, although interest rates have now converged substantially and have stabilised monetary relationships.

With 372 million inhabitants and an economic output of US\$ 8,600 billion per year, the EMU will be the biggest single market in the world. From July 2002 the euro will be the sole means of payment within it, so that Switzerland will then be isolated not only

For tourism the euro is coming

In future travellers in many parts of Switzerland will be able to pay with the Euro. The Euro will be accepted by the tourism branch very quickly and will become a second currency, Rolf-Peter Pfaff, head of Central Switzerland Tourism in Lucerne, is sure of it. Bankers and others operating in tourism are also assuming that, at least in holiday resorts, the Euro will soon become a parallel currency. But for many visitors it does not matter one way or the other: they pay in their own currencies anyway using credit cards.*

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politically but also in economic terms. The consequences of this cannot yet be foreseen.

Facilities certainly...

Thanks to the euro, businesses and travellers will realise economies by dealing in a single currency. Some currency traders will be on the losing end, but all others will save with the euro. For Switzerland, such savings will amount to about Sfr. 5.8 billion, estimates Hans Kaufmann, chief analyst at Bank Julius Bär.

The effects of the giant single market will be even more marked on competition, and consequently on prices. The various currencies we see today serve to disguise huge price differences. For example, a best-selling book may have a printed price of 44 Swiss francs, 44 German marks and 321 Austrian schillings. If the euro were used, the difference in price would leap to the eye. The ratio would be 58 to 44 to 52. This means that the book is a third dearer in Switzerland than in Germany. It will not take long for price convergence to set in, particularly in Switzerland where many people live very close to the frontiers. Those living in Basle, for example, tend to possess three purses for shopping in three countries.

...but high additional costs

Consumers will be happy to find that in high-price Switzerland many price bastions will fall. But this will also mean a further blow to a domestic economy which has thus far been protected from the chill winds of world markets. The increased pressure on prices will certainly darken the economic climate at the outset, even though those in favour of trade in goods and services being as liberal as possible see new opportunities for progress in the longer term.

Whether Switzerland emerges as a winner or loser will depend on the strength of the new currency. If the European central bank achieves real independence and

succeeds in following a tight monetary policy, then the Swiss franc and with it all Switzerland will face relatively quiet times ahead. But if the new central bank decides to assist in solving adjustment problems between regions with different economic development levels by printing money, then the Swiss franc will soar. In contrast to the USA, the EU does not cushion the varying economic weight of its member states by fiscal measures and compensation payments.

Adjustment means extra cost

A weak euro will mean a flight into the Swiss franc. This will drive up its value, which will be poison to exports and tourism. But the creation of a link between the Swiss franc and the euro would also bring high adjustment costs in its train. In particular, it would mean the loss of the present interest rate advantage over Germany of two percentage points. If Swiss interest rates were to rise to the EU level, the high rate of both public and private indebtedness would, according to chief analyst Kaufmann, result in about Sfr. 20 billion in higher interest costs. This would have a negative effect and would be very bad for business.

Will the Swiss franc remain alive?

Kaufmann draws the conclusion from this that Switzerland could not afford the consequences of such a link to the euro – and certainly not that

of joining EMU. But Peter Buomberger, chief economist at Union Bank of Switzerland, sees a possible scenario. "All the accounting of the big firms and banks would be in euros, with a quick conversion to Swiss francs taking place at the end of the year", he recently said in an interview.

"However, we would still pay our taxes in Swiss francs", he added in consolation.

Stock trading in euros is already under consideration. But Hans Meyer, president of the Swiss National Bank (SNB), does not agree that pressure from the financial markets could lead to the end of the Swiss

franc. "Historically speaking", he says, "domestic currencies have been squeezed out by foreign payment methods only in periods of extreme inflation". Since the SNB intends to maintain monetary stability, the Swiss franc should therefore in his view survive. ■

The single currency in everyday life

The euro is progressing, so let's open our eyes!

Switzerland is outside the European Union, and it will not take part in the great adventure of the single currency. But all Swiss people – consumers, tourists, savers and company employees – will be affected by the creation of the euro.

The single currency will be created in two stages. On January 1, 1999, the euro will not yet exist in the form of banknotes or coins. During a transition period of three years, it will be a "notional" currency, written down

*Albert Tille**

in the form of bank accounts and stock market prices, and it will be used as a means of payment only by those companies which so desire.

Consumers will have time to get ready for the new European currency. For three years, they will still pay for their purchases or hotel rooms in lire, marks, or florins. For them, the real change will come with the introduction of banknotes and coins. And for a

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further six months, euros will circulate in parallel with the old national currencies – which will then be gradually withdrawn from circulation. That will be the period during which we shall have to get used to the new prices. Comparison will be facilitated by means of double pricing in all businesses in countries using the single currency.

This double pricing may also be used in parts of Switzerland, e.g. in tourist resorts and frontier zones. Every consumer will have to calculate the value of all the goods and services he intends to purchase in the euro zone on the new basis. Conversion tables will certainly be available to help with this task.

No compulsion, but no prohibition

Apart from paying particular attention when the new currency arrives, consumers and tourists will not have to take masses of precautions. On the contrary, the process will be made as simple as possible for them. They will be able to manage throughout a large part of Europe just by buying euros before they set out. The number of foreign exchange transactions will be reduced greatly, so there will be savings on com-

