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**SWITZERLAND'S CAPITAL SURPLUS.**

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

(The following article is reproduced from the April 24th, 1950, issue of "The Financial Times" by courtesy of the Editor.)

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.

If we are to understand this phenomenon, we must recall at least two occurrences in the past which 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 has been the formation of capital since 1939.

*Money Plethora.*

Under the boom conditions that developed immediately after the end of the 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.

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.

*Dollar Position.*

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 realisation 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.

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, the swollen quick assets and advances and, on the liabilities side, the increase in customers' deposits. On the capital market, bonds prices eventually reached such a high level that the yield on Government stocks has fallen to about 2.35 per cent.

Of recent years, the supply of capital has increased considerably, whereas the demand has not kept pace.

*Relief Works.*

Moreover, external factors have been at work. The currency reserves of the Swiss National Bank rose by over 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.Frs.1,500 millions in each of the years 1947 and 1948, contracted to only Sw.Frs.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 rather than excess expenditure. Here, there is not only no fresh demand for funds, but a further source of capital.

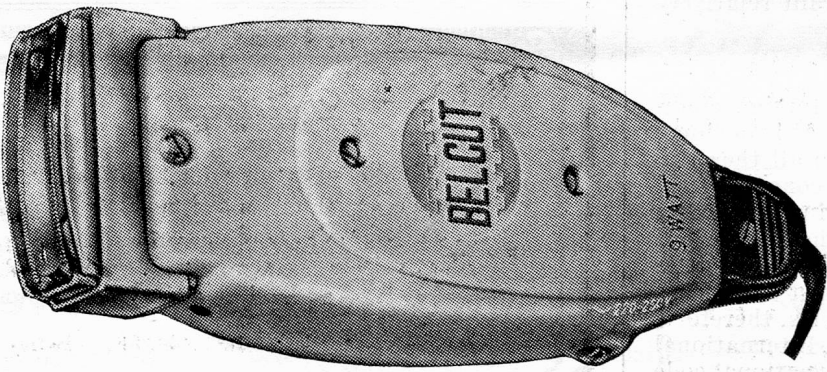
It is true, however, that at some future date there may be an increased demand for funds in connection with the financing of a relief programme of public and other works.

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.

*High Liquidity.*

The present state of the capital market was one of the main topics of the chairmen's statements at this

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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 further 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.

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.

#### *Makeshift Devices.*

All the devices discussed, except the export of capital, 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 Switzerland.

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.

Nevertheless the Swiss banks realise the necessity for 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.

#### *Long-term Loans.*

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 economies and public finances in order. The private investor is in principle once again ready to consider the attractions 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.

## LA CROIX-ROUGE AU PARLEMENT.

PAR GILBERT LUY,

Secrétaire général de la Croix-Rouge suisse

La Croix-Rouge a été à l'honneur, sous la coupole de notre Parlement, lors de la session de printemps des Chambres fédérales. Conseil national et Conseil des Etats ont en effet donné leur autorisation au Conseil fédéral de ratifier les quatre conventions issues de la Conférence diplomatique qui fut tenue à Genève d'avril à octobre 1949 sous la présidence de M. Max Petitpierre, chef du Département politique fédéral.

Cette ratification ayant eu lieu le 24 mars, notre pays se trouve être le premier à avoir notifié sa participation aux quatre nouvelles Conventions de Genève de 1949. On peut prévoir d'ailleurs qu'elle sera bientôt suivie d'une autre, puisque le Parlement tchécoslovaque vient également d'autoriser son gouvernement à annoncer l'adhésion officielle de la Tchécoslovaquie. Il convient de relever à cet égard que les nouvelles Conventions entreront en vigueur six mois après le dépôt de deux instruments de ratification et que c'est auprès de notre gouvernement que ces derniers doivent être déposés, ainsi que ce fut le cas déjà pour les précédentes Conventions de Genève.

Cette importante décision de nos Chambres fédérales ne donna pas lieu à un débat passionné. Les rapporteurs mirent très simplement, mais très clairement en évidence les avantages des nouveaux textes par rapport aux anciens et en recommandèrent l'approbation. Sans cérémonial aucun, mais à l'unanimité, conseillers nationaux et conseillers aux Etats se levèrent pour donner leur accord et affirmer ainsi, une fois de plus, au nom du pays tout entier, son adhésion complète aux efforts des hommes en vue d'adoucir le sort des victimes de guerre et sauvegarder les droits de la personne.

Le Conseil national entendit ensuite l'un de ses membres, M. Anderegg, président de la Ville de St-Gall et membre de la Direction de la Croix-Rouge suisse, développer un postulat invitant le Conseil fédéral à présenter un rapport sur les préparatifs et dispositions à prendre en vue de permettre à notre pays de faire face à ses nouvelles obligations conventionnelles et sur la manière dont le Comité international de la Croix-Rouge et la Croix-Rouge suisse pourraient être encouragés et appuyés dans l'accomplissement de leurs tâches respectives. M. Petitpierre, président de la Confédération, informa alors le Conseil national que le Conseil fédéral acceptait ce postulat et que ce dernier présenterait ultérieurement un rapport et des propositions.

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