

Zeitschrift: The Swiss observer : the journal of the Federation of Swiss Societies in the UK

Herausgeber: Federation of Swiss Societies in the United Kingdom

Band: - (1951)

Heft: 1151

Rubrik: Commercial news

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COMMERCIAL NEWS

Swiss Federal Credits to Foreign Countries.

The bilateral payments agreements of the immediate post-war period opened a new chapter in the history of Swiss finance. Until then, private capital in Switzerland, and not the Federal State, had been the international money lender. The new trend started as early as 1944 when the first liberated European countries concluded agreements with credit facilities (swing). The system worked as follows: Each of the two National Banks in the countries concerned opened a line of credit for current transactions; any debt beyond the swing credit was to be settled in gold or an agreed currency. The Swiss Federal Council was at that time faced with a double issue: helping the European countries which had suffered war and occupation, and ensuring full employment for the Swiss people, whose welfare depends to a very large extent on exports. The swing credits granted in that connection amounted to no less than 682 million francs, whereof France (300m.) and the United Kingdom (260m.) were the chief beneficiaries. Because of the inflationary forces that such credits by the National Bank would have released, the State, and not the Bank, had to provide the funds. The summer of 1949 saw the widest utilization of the credit lines (648 million francs). European currencies were overrated in terms of the Swiss franc, causing a very large demand for Swiss products and, on the other hand, making European goods much too expensive for importation into Switzerland. The devaluation of the pound and other European currencies that followed brought a radical change. Switzerland increased her imports, the prices of which rose very sharply in 1950, with the result that she entered the European Payments Union on the 1st November, 1950, in a debtor's position totalling 55 million francs. Anglo-Swiss trade figures give a striking example of this change: on April 1st, 1950, Switzerland's sterling balance was £12 million; seven months later, at the time of her accession to EPU, this credit had turned into a deficit of £5 million.

Switzerland's adhesion to the European Payments Union meant in its turn a new departure, since credits were no longer being granted to individual partners but to a collective body. Each member State must open to the Union a line of credit equal to 60% of the quota, which itself represents approximately 15% of a year's trade with all the other 15 members. Our quota having been fixed at \$250 million, our credit to the Union can amount up to 657 million Swiss francs. Should this line of credit threaten to become overdrawn, there is the risk that the creditor country may be discriminated against by its debtors.

This possibility weighed heavily over the debates that preceded our accession, so widespread was the belief that Switzerland was bound to be in a creditor's position. Therefore, paradoxical as it may sound, it was good news to find out that instead of acceding to the Union with over 200 million francs to our credit, originating from bilateral trade, we entered as debtor with the full scope of the credit line ahead.

The future will tell whether we shall be in the next two years in a debtor's or a creditor's position to the Union. A few months ago, as already mentioned, everyone was convinced that Switzerland was

going to be a permanent creditor. Devaluations, a strengthened European production, and smaller supplies from the dollar area because of rearmament, might bring an unexpected change, as long, it is true, as European prices remain competitive in spite of the inflationary forces released by rearmament programmes. Here also quite a lot may depend on further facilities in respect of touristic allowances, and on the resumption of financial payments from Germany as well.

To sum up these considerations, it may be said that the chapter of five post-war years' State credits has been favourably wound up. Indeed, the refund of credits is usually bound to entail higher imports combined with lower exports. This again can mean less employment. It is gratifying to see that our country has steered clear of these dangers.

The Dollar's Weakness in Switzerland.

The Swiss franc is the only currency in the world to be quoted higher than the dollar. Up to the devaluation of the pound in September, 1949, there existed in Switzerland different rates of exchange for the dollar, the official one being applied only to current transactions. One remembers the financial dollar, quoted at a discount because the Swiss National Bank was not in a position to accept the large amounts of dollars being offered. For the last fifteen months, only one rate of exchange has again prevailed.

Since the devaluation of the Swiss franc in September, 1936, the currency has had no rigid parity, but is allowed to fluctuate freely, provided the value is not less than 190 milligrams or more than 215 milligrams of fine gold to the franc. These limits are in terms of the dollar Fr.4.28½ and Fr.4.37½. The Swiss National Bank intervenes as soon as either limit is reached. In autumn 1949, as a devaluation of the Swiss franc was rumoured, the higher extreme was reached for weeks. The pressure eased up during 1950, and there followed a fall that has been going on for the last few months. The rate touching 4.28½, the

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Swiss National Bank has to buy dollars against francs, converting the dollars into gold in New York. So again, Switzerland is faced with too large a supply of dollars. It has to be realised that the note circulation in Switzerland is already higher than desired, and the money and capital market much too liquid. In these circumstances, the gold changed against dollars cannot be turned in full into bank notes, but has to be sterilized by the Confederation, who have to raise the funds in the open market and pay interests for the issued treasury bills. At the end of July, 1949, the value of the sterilized gold was Fr. 144 million, and one and a half years later 480 million.

Now, what are the reasons for this appreciation of the Swiss franc in terms of dollar? One could imagine that the international situation would induce capital either to flow to the United States or to remain there. It appears, however, that the very stringent controls enacted in the States during the war still linger in the memory of many capitalists, who are afraid of having their non-resident balances blocked. The only currency into which dollars can advantageously be converted is precisely the Swiss franc, and there is no doubt that considerations of this sort are accounting for the present phenomenon. If we may feel proud on the one hand of the trust put in the stability of our currency, Switzerland has on the other hand very good reasons to distrust the vagrant capital, also called hot money, that is now seeking security in our franc.

Swiss Trade with Eritrea.

The General Assembly of the United Nations passed on December 2nd, 1950, a resolution entrusting to Ethiopia, on a federative basis, part of the foreign and economic policy of Eritrea, the former Italian colony on the Red Sea.

For the present, Eritrea is regarded for the purpose of Anglo-Swiss payments arrangements as being part of the sterling area. Although the United Nations' resolution might bring some changes in the future, it can be said that in the coming months the system now in force will be maintained.

Trade between Switzerland and New Zealand.

The talks that have been going on between the Swiss and New Zealand authorities have now come to a happy conclusion. The New Zealand Government have indeed accepted the Swiss request that Switzerland should be put on the list of non-scheduled countries that enjoy the full benefit of the liberalization

of imports into New Zealand. This liberalization comprises approximately 68% of New Zealand total imports and covers most of the Swiss export items. This relaxation comes into force immediately, and is expected to lead to a considerable increase of Swiss exports to New Zealand.

Trade between Switzerland and Japan.

A Japanese delegation is at present studying European markets, and especially the possibilities of obtaining essential supplies for the reconstruction of the Japanese economy. This delegation, consisting of three representatives of the International Trade Organisation in Tokio, will also pay a visit to Switzerland, where they will arrive in the first days of February. They will have official talks with the Federal authorities in Berne, and visit some factories. As the time for the conclusion of a Swiss-Japanese trade agreement has not yet come, exchanges will take place on a dollar basis.

Anglo-Swiss Trade Discussions.

As has become traditional since the end of the war. Anglo-Swiss economic discussions will again take place at the end of January/February for the conclusion of an agreement covering the twelve months beginning on March 1st, 1951. The Swiss delegation, headed by Mr. Schaffner, has already arrived in London and has started the talks. In spite of the liberalization of trade, there are still a great many unliberalized items that are of vital interest to Swiss exporters and for which the delegation will have to fight for additional United Kingdom import quotas. Besides trade matters, the negotiations will cover the very wide field of financial remittances between the sterling area and Switzerland. As to tourism, the Swiss entry into EPU has done away with all discrimination against our country, so that special arrangements are no longer necessary.

The results of the negotiations will in due course be reported in the Swiss Observer.

Swiss Furniture.

In last year's Anglo-Swiss trade agreement a quota of £41,000 was provided for imports of utility furniture from Switzerland. This facility has now been extended to non-utility types, and imports of all kinds of furniture will in future be possible. The validity of import licences issued against the 1950 quota for Swiss furniture has, as a special concession, been extended to the end of June, 1951.

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