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Switzerland's role with regard to international financial
transactions and international monetary policy

by Dr. J. Lademann, Manager of the Swiss National Bank in
Zurich

While Switzerland has been playing a role in international banking and has been known as a capital exporting country for a long time already, it is mainly in the period after the Second World War that she has developed to become a financial centre of international importance and renown. A few figures may help to illustrate this.

Since the last war, the amount of short-term and medium-term assets held by the Swiss commercial banks has increased roughly sevenfold (the same applies also to their liabilities), whereas the gross national product has grown in the same period to the extent of approximately three and a half times the figure attained after the war. Thus the banks' foreign assets, at the end of 1966, reached more than a quarter of gross national product, whilst in the United States the corresponding ratio was only about 6 %. According to the statistics which are now being compiled within the framework of "Multilateral Surveillance" by the Bank for International Settlements (BIS) in Basle on behalf of the so-called "Group of Ten"-Countries, the foreign assets (and the liabilities) of the Swiss commercial banks rank third in absolute amounts, being only behind those of the two reserve-currency countries and equalling the overall figure for Germany, Belgium and the Netherlands taken as a whole. Finally, estimates made in 1965 in respect of Switzerland's total foreign assets and liabilities show the following figures: Sw.fcs 80 billion for her total foreign assets, including the monetary reserves of the Swiss National Bank (Sw.fcs 12.4 billion), of which Sw.fcs 18 billion relate to short-term bank assets and Sw.fcs 17.5 billion to direct investments abroad (in plants and equipment etc.) and, on the other side of the balance sheet, Sw.fcs 36.5 billion for her total foreign liabilities, leaving a net surplus of assets of Sw.fcs 43.5 billion.

Not only do these figures illustrate the importance to the Swiss economy of foreign banking and of capital movements, the volume of which is enormous in proportion to the size of the country's population, its national income or its productive capacity. They also hint at the two main factors that have contributed to make Switzerland a rather significant financial centre: first of all her capacity with regard to capital formation through savings and foreign lending - since 1945 foreign bonds floated in Switzerland plus bank credits to foreigners requiring authorisation, have reached an amount of over Sw.fcs 11 billion - and secondly the attraction exercised by her political, social and monetary stability on foreign capital and funds.

Taking into consideration this highly intense interrelationship of her monetary and banking system with foreign markets, and adding to it her dependence on exports of goods and services (approximately 30 % of gross national product), it is quite obvious that the maintenance of an orderly and stable international monetary system is of absolutely vital interest to Switzerland. In recognising this, her authorities have therefore been ready to assist or to participate in such measures or actions deemed necessary - mainly since the restoration of convertibility of the major European currencies at the end of 1958 - to avoid a breakdown or crisis of the international monetary system. Thus, some of the new forms of international monetary cooperation that have been developed in the "sixties" actually originated in Switzerland based in part on Swiss imagination and initiative. This refers in particular to the instrument of currency swaps which was first tried out on a moderate scale between the Federal Reserve System of the United States and the Swiss National Bank in the winter of 1961/62. The Swiss National Bank has since signed a bilateral swap agreement with the Federal Reserve Bank of New York with a reciprocal credit line amounting at present to 250 million dollars. It is furthermore involved in another swap agreement between the BIS and the Federal Reserve Bank, having assured the BIS to provide it with the Swiss francs it may require up to a limit of also 250 million dollars. Before that, in the spring of 1961, after the difficulties which followed the revaluation of the German mark and the Dutch guilder, the National Bank had offered the Bank of England a dollar deposit of 200 million dollars, an operation which subsequently helped to initiate the

more extensive central bank cooperation that became known later as the "Basle Agreement". Similarly, the so-called Roosa bonds were introduced to a large extent as a consequence of close consultations and deliberations between the Federal Reserve Bank of New York and the Swiss National Bank, when in the autumn of 1961 the US authorities worried about the liquidation of their forward Swiss franc commitments vis-à-vis the Swiss central bank. The endeavours made to solve this problem resulted finally in the creation of a US Treasury Bond denominated in Swiss francs, a kind of paper which later on was to be called Roosa-Bond after the then acting Under Secretary of the US-Treasury Robert V. Roosa.

In the following years, Switzerland has participated in practically all the various central bank operations to support the price of gold (gold pool of a number of leading central banks) and the key currencies, especially the pound sterling. So far, however, Switzerland is not a member of the so-called Bretton Woods Institutions, i.e. the International Monetary Fund and the International Bank for Reconstruction and Development and its affiliates, whose authorities are gathering for their regular annual meeting at the end of this month in Rio de Janeiro. Without going into any details as to why Switzerland has not joined these international organisations - which would be impossible in the limited space available here - it can be said that this is mainly due to the particular circumstances prevailing at the time immediately after the Second World War, when Switzerland was faced with the question of membership. At that time Switzerland was the only country, apart from the United States, with substantial foreign reserves and a freely convertible currency. According to the Articles of Agreement of the International Monetary Fund Switzerland would have been forced to apply the rules governing a fully convertible currency, whilst most of the other countries would have been authorised to discriminate against Swiss goods without running the risk of retaliation. With conditions as they prevailed during those years up to the fifties, the export of Swiss goods and services would thus have been deadly hurt. There were, and there still are in part, some additional difficulties preventing the Swiss authorities from applying for full membership in the Fund, such as, for instance, the spread fixed for foreign exchange rates which is wider

in Switzerland than the Fund rules admit. As the participation in the Fund is compulsory for becoming a member of the International Bank and its affiliates, it was not possible either for Switzerland to become a member of the World Bank. The question of membership in the Bretton Woods Institutions will no doubt be reconsidered by the Swiss authorities before long, as the conditions in the international scene have undergone considerable changes during the last few years. It must be added in this context that, though not a member, Switzerland has already maintained good and close relations with both the International Bank and the International Monetary Fund. The Swiss government concluded in 1951 an agreement with the World Bank, and was granting it the same rights and privileges as this institute enjoys in member countries. It furthermore opened the Swiss capital market to the Bank. Since 1951 the latter has floated 13 bonded loans on the Swiss market totalling an amount of 840 million Swiss francs. Thus for many years Switzerland has been the second largest capital supplier to the Bank after the United States. In July of this year the Federal government furthermore agreed to grant the International Development Association, an affiliate to the Bank, an interest-free loan of 52 million Swiss francs for a duration of fifty years. Similarly, the Swiss authorities have been gladly willing to respond to the Monetary Fund's request to associate themselves with the General Arrangements to Borrow, which was concluded early in 1962 with the ten leading western industrial countries, by opening a line of credit to the Fund. However, upon entering into negotiations it was discovered that the Fund, according to its Articles of Agreement, is authorized only to borrow member countries' currencies. A way out of this dilemma was found by an arrangement between the Fund and the Swiss government, according to which the latter agreed to participate in credit transactions of the "Ten" with the Fund by granting credits bilaterally and directly to the country in need of Fund assistance on the same terms and conditions as applicable among the Ten. This association agreement has in fact been made use of twice already, in May 1964 and in November 1965 when the Swiss National Bank concurrently with a corresponding Fund assistance extended loans on a medium-term basis to the Bank of England of 80 million and 40 million dollars respectively. (The first credit of 80 million dollars was repaid by the

Bank of England prematurely in May of this year). This participation by Switzerland has been acknowledged in that she was invited to be represented by observers in the international monetary discussions that were taken up at the end of 1964 and have been held ever since within the framework of the "Group of Ten" and, of late, also in the "Joint Meetings" of the "Ten" with the Executive Directors of the Monetary Fund. It may be mentioned in this connection that Switzerland participates as a full member in the activities of the Bank for International Settlements in Basle and also in the European Monetary Agreement, the institution which has succeeded the European Payments Union, as well as in Working Party Number Three of the OECD, a body set up especially for the study of international balance-of-payments and monetary developments.

In conclusion it must be emphasised that there are very definite limits to the part Switzerland can play in the international concert. Her role has to be confined to acting primarily as trustee and custodian of those foreign funds that are entrusted to her banks and other financial institutions. Never can she aspire, however, to play the part of an international reserve centre or an international monetary power. And even to the function of a trustee there are set borderlines which cannot be exceeded without endangering the domestic economy. After all, it is the domestic economy, its stability and prosperity, that constitute the basis and foundation of the solidity of the Swiss franc and of Switzerland's position in international finance and banking. The ratio of increase in foreign banking transactions as well as in foreign lending and capital exports has therefore to be kept in a certain relationship to the capacity of the domestic markets. Switzerland quite obviously cannot afford to have the money circulation at home inflated by an unchecked inflow of foreign funds, nor can she allow the domestic money and capital markets to be dried up by excessive capital exports. These problems have come to the fore quite manifestly by the extremely heavy fluctuations experienced in recent years. They also made it clear that the Swiss authorities need more powerful weapons against such fluctuations than have hitherto been available. That is why the government and the National Bank had to have recourse to emergency measures from 1964 until March of this year and it is also for this reason that steps are now being taken to revise the law on the Swiss National Bank.

On the other hand, the substantial growth of Switzerland's share in international finance has also brought in its wake increased responsibility and bigger tasks to be assumed by the Swiss authorities vis-à-vis the rest of the world. As has been tried to show in the preceding paragraphs, both the Federal government and the central bank have been well aware of this fact and they are perfectly willing and ready to continue their active participation in international monetary cooperation, as far as the country's resources permit. Switzerland, however, has always had a preference for problems to be tackled by pragmatic and practical solutions and not by highly theoretical and complicated schemes and constructions, however ingenious and attractive they may look on paper. That is why the Swiss authorities have followed the recent discussions on monetary reform with some reluctance and scepticism, maintaining that the creation of additional international monetary reserves in the form of new international reserve units, as was suggested at first, would be too big a leap forward. On the other hand, they fully realize that under present circumstances ^{some} precautionary measures are to be taken and that provisions designed to meet any possible shortage of international liquidity that might arise in the future are to be agreed upon. They welcome it therefore that - as would appear to-day - a general understanding will be reached at the forthcoming annual meeting in Rio on the setting up of a contingency plan which provides for the creation of additional international liquidity in a form that, from the Swiss point of view, looks like a reasonable adaptation to an already existing international credit instrument.

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POSTFACH 204, 8022 ZÜRICH 1
TELEGRAMME: DIRECTIONAL
TELEX DIRECTIONAL Nr. 52 400
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8022 Zürich, 22. August 1967 La/rf

Eidgenössisches Politisches
Departement
Abt. für Politische Angelegenheiten
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Sehr geehrte Herren,

Wir nehmen Bezug auf Ihr Schreiben vom 10.8.1967 an Herrn Präsident Dr. E. Stopper, der zur Zeit in den Ferien weilt. Sie bitten darin um Zustellung eines Artikels über die internationale Stellung der Schweiz in Währungsfragen zuhanden der schweizerischen Botschaft in Brasilien.

Wir beehren uns, Ihnen in der Beilage den Text eines Artikels zuzustellen, den der Rechtsunterzeichnete zu diesem Zwecke verfasst hat. Da sich der Artikel zum Teil auf einen in englischer Sprache gehaltenen Vortrag des Verfassers stützt, lassen wir Ihnen diesen Text in englischer und nicht in französischer Sprache zugehen in der Hoffnung, dass die Uebersetzung aus dieser Sprache ins Portugiesische keine grösseren Schwierigkeiten als aus dem Französischen bereitet.

Genehmigen Sie, sehr geehrte Herren, die Versicherung unserer vorzüglichen Hochachtung.

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Kull Lademan

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