L.5.2

RFD 543

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

June 7, 1965

Economic Developments in Switzerland,
December 1964-May 1965

23 pages

Carl H. Stem

June 7, 1965

Carl H. Stem

Economic Developments in Switzerland, December 1964-May 1965

Summary

Economic activity in Switzerland continued at near-capacity levels during the period under review, boosted by strong public spending for capital improvements, increased residential construction and business investment in machinery and equipment, and expanding foreign demand.[1/] However, some clear signs of easing became apparent for the first time--results of the anti-inflationary measures taken in the spring of 1964 and approved for up to two more years by a popular referendum in February. New commercial and industrial building was sharply reduced, and some sectors--such as food products, textiles and metals--experienced a slowing down of activity. In other industries, backlogs were down from previous levels, and the rise in domestic consumption continued to level off. Furthermore, home building appears to be slowing down as new building permits taken out continue to drop.

Further efforts by the Federal authorities to reduce the number of foreign workers in the country have produced increased strain on the labor market. This policy has placed an effective ceiling on any business expansion requiring additional labor. Businesses are being forced to decrease by 5 per cent the number of foreign laborers in their employment by the end of June. This has necessitated the curtailment of

1/ For the previous review of Swiss economic developments see "Economic Developments in Switzerland, September-November 1964," dated January 14, 1965.

production in some industries and has created considerable uncertainty as to the effects on the economy as a whole. Wage rates showed their greatest annual increase since 1947 last year--up 8 per cent over 1963--and this increase is being transferred on to prices. Although wholesale prices have actually declined recently, consumer price increases have quickened somewhat since October 1964, almost entirely due to higher labor costs in services.

Financial conditions, on the other hand, have been determined primarily by external factors. Easier conditions developed in Swiss financial markets after the first of the year largely because the large volume of funds repatriated from abroad during November and December remained in Swiss markets. By mid-April, the Zurich three-month deposit rate was down to 3.25 per cent from 3.75 per cent in December, and the yield on long-term government bonds had fallen to 3.88 per cent from 4.04 in January. Even though the Banque Nationale Suisse (BNS) attempted to absorb some of the excess liquidity from the markets in January, rates did not begin to firm upward until March-May when a combination of factors increased foreign payments--taking liquidity out of the money market--and a larger supply of new issues came on the long-term market.

The high degree of monetary liquidity and a large open position against sterling hurt the Swiss franc exchange rate, driving it to its lowest point in fifteen years. The BNS lost almost all the reserve gains that it realized in the fourth quarter 1964 ($270 million) reversing year-end swaps with the commercial banks, making payments abroad for the Confederation, and moderating the decline in the Swiss franc rate on the exchange market.

Economic activity continues rapid pace; some signs of easing appear

Business activity in Switzerland maintained near-capacity levels during the December 1964-May 1965 period. Although some clear signs of easing--results of the anti-inflationary measures taken in the spring of 1964[2/]--became evident for the first time, the economy continued to be underpinned by strongly expansive forces, which were limited mostly by supply stringencies, particularly the critical shortage of labor.

Public spending for capital improvements--especially highways and essential public buildings--was one of the strongest expansive factors. Increased residential building also contributed to the high level of construction activity. Over 4,600 new dwelling units were completed in the 65 largest cities in Switzerland during January-March, compared with 4,424 during the same 1964 period. (See Table 1.) The number of projects involving the installation of new machinery and equipment were above the very high year-earlier level in the first quarter, in face of a rather sharp decline in other forms of business construction. Also, some industrial sectors, such as chemicals and watch manufacturing, continued to experience increasing demand. Finally, expanding foreign buying offset easier domestic demand; winter tourism was up from 1964, and export demand was up sharply in January-March, in spite of reduced trade with the United Kingdom due to the import surcharge there.

2/ See "Economic Developments in Switzerland, March-May 1964," dated June 1, 1964, pp. 2-4.

Table 1. Switzerland: Residential Construction in the 65 Largest Cities, quarterly totals, 1963-65 (in number of units)

Quarter	New Dwelling Units Constructed 1963	1964	1965	Residential Building Permits Granted 1963	1964	1965
I	4,534	4,424	4,604	5,887	10,440	4,550
II	5,494	5,829		7,455	5,821	
III	4,427	4,807		6,705	5,942	
IV	5,714	5,813		6,273	4,666	

Source: Banque Nationale Suisse, Bulletin mensuel.

On the other hand, some previously strong expansionary forces showed signs of moderating. New commercial and industrial building was sharply reduced--directly through controls on new construction and indirectly through the decreased availability and higher cost of credit--during the October (1964)-March (1965) period. Construction projects to increase work floor space were down 18 per cent in the fourth quarter (1964) and over 30 per cent in the first quarter (1965) from year-earlier levels. The volume of new plant floor space for which construction permits were issued in January-March was down 48 per cent--even more sharply from year-earlier figures.

Although residential construction is exempted from the building control program, tighter credit conditions appear to be discouraging new home building. Residential building permits granted were substantially below year-earlier levels in October (1964)-March (1965). (See Table 1.) Homes under construction at the end of 1964 were also down--59,700 compared with 61,900 at the end of 1963. However, implementation of a federal subsidy program for low-cost housing in the latter half of the year may offset some of this developing slack in residential construction.[3/]

In some sectors--such as food products, textiles, and metals--a general slowing of activity was indicated by less use of overtime and lower imports of industrial raw materials. (See Table 2.) The backlog of new orders--from both domestic and foreign sources--was also lower in several industries at the end of March than at the same time last year.

Table 2. Switzerland: Imports of Industrial Raw Materials, Machinery and Equipment (month or monthly average)

	Industrial Raw Materials (000's metric tons)				Machinery & Equipment (millions of francs)		
	Fuels	Chemicals	Paper & Textiles	Metals	Non-Elec.	Elec.	Other
1963	783	89	24	108	137	48	24
I	548	50	19	107	129	44	22
II	918	95	26	105	144	46	24
III	988	132	26	111	138	47	24
IV	679	81	25	110	138	56	28
1964 I	673	59	19	90	142	52	26
II	805	113	23	104	154	53	28
III	758	112	29	120	138	58	26
IV	691	83	32	124	146	66	31
Oct.	628	91	37	120	144	69	30
Nov.	653	88	32	114	152	66	31
Dec.	793	71	26	139	141	63	33
1965							
Jan.	820	58	21	121	112	48	25
Feb.	760	69	17	121	112	58	27

Source: Banque Nationale Suisse, Bulletin mensuel; Commission de recherches économiques, La Situation Economique.

3/ See "Economic Developments in Switzerland, September-November 1964," dated January 14, 1965, pp. 6 and 13.

Finally, the rise in domestic consumption continued to level off. Year-to-year gains in retail sales from January to March averaged 6.7 per cent, compared with 12.2 per cent in the same period of 1964. (See Table 3.) Most observers attribute the slower rate of consumption increase to the decreasing influx of foreign workers.

Table 3. Switzerland: Retail Sales
(Year-to-year percentage increases adjusted for sales days)

Year	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.
1963	9.4	8.9	12.0	3.6	11.2	7.0	7.2	14.2	6.6	8.3	9.3	8.8
1964	9.0	10.9	16.7	-0.6	15.3	-0.6	5.8	7.1	6.8	14.1	5.0	5.0
1965	9.3	4.4	6.5									

Source: Département Fédéral de L'économie Publique, La Vie Economique.

Recently released national account estimates show that Swiss gross national product grew 9.7 per cent in 1964 to SF 55.5 billion ($12.9 billion). Adjusted for price changes, the increase in real terms was slightly over 5 per cent compared with 4.7 per cent in 1963. Private consumption posted a 7.5 per cent increase (compared with 9 per cent in 1963), and gross domestic investment was up 15 per cent (65 per cent of this gain went into new construction).

Labor shortage more critical as further steps taken to reduce foreign workers

Although the demand for labor seems to have eased slightly--registered job vacancies and overtime authorized in February and March were down from previous years' levels (see Table 4)--further efforts by the Federal authorities to reduce the number of foreign workers has produced increased strain on labor conditions.[4/] The level of employment in individual firms has been effectively frozen at March 1, 1964 levels by

4/ The August 1964 census showed 720,901 foreign workers in the country, roughly one-third of the total labor force.

regulations allowing the employment of new foreign workers only when the total work force of the firm (both foreign and domestic) falls below a certain percentage of the company's March 1, 1964 total work force. (This percentage was reduced from the original 97 per cent to 95 per cent on November 1, 1965.[5/])

Table 4. Switzerland: Unemployment and Job Vacancies, 1963-65
(numbers)

End of Month	Registered Unemployed 1963	Registered Unemployed 1964	Registered Unemployed 1965	Registered Job Vacancies 1963	Registered Job Vacancies 1964	Registered Job Vacancies 1965
January	4,896	1,049	818	5,044	6,039	6,499
February	2,174	303	667	5,571	7,134	5,359
March	454	242	264	6,210	6,996	5,937
April	261	174		6,288	6,760	
May	230	129		6,269	6,411	
June	185	139		6,374	6,207	
July	148	111		6,545	6,018	
August	142	130		6,701	6,133	
September	171	119		6,902	6,283	
October	194	196		6,739	5,954	
November	263	237		5,912	5,813	
December	778	631		4,954	5,685	

Source: Banque Nationale Suisse, Bulletin mensuel.

These measures slowed the rate of growth of the foreign labor contingent during 1964, although variations in administration (which is carried out at the cantonal level) resulted in a larger inflow of foreign workers than expected. In spite of tighter restrictions in November, however, the number of foreign workers issued entrance permits for the first time rose considerably during the first three months of 1965, compared with the same period in 1964.

5/ See "Economic Developments in Switzerland, September-November 1964," dated January 14, 1965, p. 8.

Two new executive decrees were promulgated in February, which, it is hoped, will reduce the number of foreign laborers in the country:

(a) The first makes it practically impossible for a foreigner to enter Switzerland in search of employment. Effective from February 15, any incoming foreign worker must have in his possession, at the time he crosses the border, a valid work permit and a signed contract with his prospective employer.

(b) The second, effective from March 1, requires all firms to reduce the number of foreigners in their employment by 5 per cent of the March 1 base by June 30. The decree allows for another 5 per cent reduction by June 30, 1966--the exact rate and procedures to be fixed after the August 1965 census of foreign workers. Agriculture, forestry, hospitals and firms employing less than 10 foreigners are exempted, as is the construction industry, which has a ceiling of 145,000 seasonal workers set for it.

It is estimated that 27,000 workers will be required to leave the country under this decree by June 30, 1965.

The increased competition for workers has prompted the two leading Swiss employers organizations to establish guidelines restraining recruitment practices in an effort to reduce the high labor turnover (now 30 per cent of the labor force) and prevent as much additional upward pressure on wages as possible. For instance, an effort is being made to restrain employers from approaching employed persons directly with new job offers, and they are not to mention salaries or special benefits in advertising job openings.

The ceilings on employment and the acute shortage of labor is also producing major changes in the corporate structure of big Swiss companies and altering their investment patterns in a way that is expected to become even more pronounced in the future. Leading Swiss firms with large international operations are finding it necessary to center the bulk of their new activity on locations abroad, where labor is at least available, rather than in Switzerland. A gradual shifting of manufacturing and other operations from Swiss to foreign locations is also expected.[6/]

Furthermore, a recent survey by Business Week magazine showed that more U.S. companies left Switzerland in 1964 than moved in, entirely because of the inability to hire sufficient staff. Over the past two years, one-fourth of the 100 major U.S. subsidiaries in Switzerland interviewed moved their operations to other European bases because of the strictures on investment and the shortage of labor.[7/]

Wages and salaries up sharply; prices rise

Spurred by the increased competition for manpower, wages and salaries posted their largest gains since 1947 last year. Results of the annual survey[8/] of hourly wage rates and average monthly salaries in a wide range of representative industries, commerce, banking and insurance, and private transport showed that wages paid in October 1964 were about 8 per cent above those paid in October 1963. Salaries were 7 per cent higher. (See Table 5.) Wage increases were spread fairly evenly across all categories of workers, with younger workers and semi- and unskilled labor making the sharpest gains. Industry-wise, increased wage rates were highest in clothing, paper, woodworking, commerce and private transport.

6/ Journal of Commerce, May 12, 1965, p. 3.
7/ Business Week, May 8, 1965, pp. 90-94.
8/ Conducted by the Federal Office of Industry, Arts and Crafts, and Labor in association with management organizations every October.

Table 5. Switzerland: Annual Increase in Wages and Salaries, October to October, 1960-64
(per cent per annum)

Year	Nominal Increases		Real Increases	
	Wages	Salaries	Wages	Salaries
1960	5.2	3.7	3.3	1.8
1961	6.5	5.1	4.5	3.1
1962	7.6	6.6	3.4	2.4
1963	8.2	6.2	4.2	2.3
1964	7.9	7.0	5.0	4.1

Source: Le Département Fédéral de l'Economie Publique, La Vie Economique, April 1965.

Prices, more recently, have been reflecting almost entirely these higher labor costs. Consumer price increases intensified during the October (1964)-April (1965) period, when the consumer price index published by the BNS registered a 1.2 per cent gain, compared with a 2.2 per cent gain in the whole twelve-month (April 1964-April 1965) period. (See Table 6.) The two sub-indices for service items--which most reflect the cost of labor--rose 2.5 per cent and 3.7 per cent.

Wholesale prices, on the other hand, declined between October (1964) and April (1965), due to the drop in the cost of imported commodities. (See Table 6.)

For 1964 as a whole, price increases were slightly lower than previously. Consumer prices rose 3 per cent compared with 3.4 in 1963 and 4.3 per cent in 1962. Wholesale prices gained only 2.2 per cent compared with 3.8 per cent in 1963 and 3.4 per cent in 1962, primarily because the domestic commodity price component of the index failed to rise as much as the foreign commodity component.

Table 6. Switzerland: Price Indices
(August 1939 = 100; month or monthly averages)

	Consumer Price Index	Wholesale Price Index		
		Total	Domestic	Foreign
1963 IV	205	235	234	234
Year	202	231	231	230
1964 I	206	234	232	236
II	208	236	236	235
III	208	235	234	236
IV	210	237	237	237
Year	208	236	235	236
1965 January	210.0	234.8	236.4	232.1
February	210.7	235.2	235.9	234.0
March	210.8	235.6	236.3	234.2
I	210.5	235.2	236.2	233.4
April	211.5	235.9	n.a.	n.a.

Source: Banque Nationale Suisse, Bulletin mensuel.

Referendum approves anti-inflationary measures

A surprisingly large number of voters turned out at the polls on February 28, and equally surprising to many observers, approved the legislation basic to the government's anti-inflationary program. The two laws voted on--one to discourage the inflow of foreign funds and limit new capital issues and credit expansion, and the other to impose controls on public and private construction--were enacted in an emergency move by the Federal Assembly in March 1964. However, under the Swiss Constitution, the laws needed popular endorsement within a year of the parliamentary enactment. As a result of the referendum approval, the authorities have the option of continuing in force any part of the restrictive program for up to two more years.[9/]

9/ See "Economic Developments in Switzerland, March-May 1964," dated June 1, 1964, pp. 2-4; and "Economic Developments in Switzerland, September-November, 1964," dated December 30, 1964, pp. 3 and 14.

Financial conditions ease as repatriated funds remain in Swiss markets

Unusually liquid conditions persisted in the Swiss money market throughout most of the January-May period in spite of tighter Euro-currency markets and liquidity absorbing-operations undertaken by the BNS. Three-month deposit rates at large Zurich banks dropped from December's high of 3.75 per cent to 3.06 per cent in January--the lowest rate in a year--although they have firmed more recently to 3.38 per cent. (See Table 7.)

In December, the seasonal tightening in the money market was moderated by the heavy inflow of flight capital which began in November with the sterling crisis. Official Swiss reserves increased $280 million during the last seven weeks of 1964, indicative of the size of the inflow. These funds are thought to have come mostly from the Euro-dollar market: Swiss dollar balances in London were drawn down almost $250 million in the final quarter of 1964.

Several factors, however, restrained the usual return of funds abroad after the year-end window-dressing:

(a) the weakness of sterling and the international monetary uncertainty that it engendered,

(b) the small extent to which the commercial banks had used the over-year-end swap facilities of the BNS when they repatriated their funds from abroad in December, and

(c) the relatively high premium that developed on the forward franc.

Table 7. Switzerland: Selected Financial Indicators

	1964		1965				
	Oct. 30	Dec. 31	Jan. 29	Feb. 26	March 12	April 23	May 21
Interest rates							
3-month yields:							
Zurich banks a/	3.50	3.70	3.06	3.00	3.06	3.25	p/3.38
Euro-dollars b/	4.50	3.91	3.28	3.41	3.62	3.78	4.60
U.S. Treasury bills b/	3.53	3.09	2.61	2.82	2.53	2.93	3.54
Euro-Swiss francs	4.25	3.50	3.12	3.25	3.75	3.88	4.62
Deposit certificates (3 to 8 years):							
12 cantonal banks	4.18	4.34	4.36	4.36	4.36	4.36	p/4.36
5 large banks	4.14	4.29	4.29	4.29	4.29	4.29	p/4.29
Long-term government bonds	4.03	4.06	4.05	3.96	n.a.	3.88	3.91
Stock prices (1958=100)	237.5	236.6	234.3	241.5	237.2	225.4	217.2
Exchange rates							
Spot francs (U.S. cents)	23.175	23.178	23.128	23.094	23.010	23.000	23.013
Forward premium (+) discount (-) on franc c/	0.00	+0.71	+1.22	+1.15	+1.38	+0.97	+0.34

a/ Most frequently quoted rates of the five large Swiss banks in Zurich.
b/ Return in Swiss francs after cost of exchange cover.
c/ Per cent per annum.
p/ Preliminary figures.

In an attempt to reduce excess liquidity, the BNS undertook operations in the third week of January that absorbed SF 473 million from the market. Dollars were sold to one of the large commercial banks, which, in turn, invested them in U.S. money-market paper; the Bank also transferred to two other large commercial banks Bank of England obligations which had been acquired through support of the pound sterling. However, these operations had little effect on the market. Rates did not begin to firm until mid-March when the sudden tightening in the Euro-currency markets attracted funds and the banks began to build up liquidity for the first quarter's window-dressing. More recently, increased payments abroad have reduced liquidity and caused rates to firm upward. (See Table 7.) Call money also has been in big demand, apparently to cover short, speculative positions in foreign exchange now falling due.

Some interest rates increased during the period. Rates paid <u>on savings deposits</u> were increased from 2.98 per cent to 3.17 per cent to discourage the heavy switching of funds into more lucrative certificates of deposit (Kassenobligationen). Also, in what was termed a technical adjustment to the generally higher level of interest rates, the large banks increased their discount rate from 2-1/2 per cent to 3 per cent, putting it 1/2 per cent above the BNS official discount rate.

<u>Capital market eases; new issues increase</u>

The large volume of repatriated funds was also reflected in lower yields on outstanding bonds and a more receptive climate for new issues. Yields on long-term government bonds, for example, declined from 4.05 in early February to 3.88 per cent in April, the first time they had fallen below 4 per cent in almost a year. However, recent demand on the market has put bond prices under pressure and caused a slight increase in yields. (See Table 7.)

New issue activity has pushed up steadily from December. Incomplete figures show that gross new issue volume in April almost tripled December's $29 million, and gross domestic issues in May should approximate April's level. (See Table 8.) This large volume of borrowing has put some pressure on the market: the attempt to reduce the coupon on power company issues from 5 per cent to 4-3/4 per cent was unsuccessful, and a good number of issues in May have been under-subscribed.

The authorities continue to block foreign borrowings although they did allow the International Bank for Reconstruction and Development (World Bank) to issue $14 million in 4-3/4 per cent, 18 year bonds, in April. This was the first foreign issue of any size offered since October 1964. It was heavily over-subscribed, drawing funds from foreign sources which are unable to invest in domestic issues because of current controls on foreign funds.[10/]

These controls, which have resulted in a drastic reduction in the foreign business of Swiss underwriters at the same time European international lending is growing, have recently stirred considerable concern for Switzerland's place as an international financial center and

10/ See "Economic Developments in Switzerland, March-May 1964," *op. cit.*, pp. 2-4.

Table 8. Switzerland: New Capital Market Issues, 1964-65
(month or monthly average, million U.S. dollars)

	1964				1965				
	I	II	III	IV	I	Jan.	Feb.	Mar.	Apr.
Swiss borrowers 1/									
Bonds	66.9	37.1	37.3	52.2	45.7	36.5	48.7	52.0	69.8
Stocks	11.9	24.3	5.0	2.5	7.8	1.9	12.9	8.7	n.a.
Total	78.8	61.4	42.3	54.7	53.5	38.4	61.6	60.7	n.a.
Foreign borrowers 1/									
Bonds	7.6	10.1	10.0	1.9	3.1	0.0	0.0	9.3	14.0
Total (gross)	86.4	71.5	52.3	56.7	56.7	38.4	61.6	70.0	n.a.
Total (net)	85.8	65.8	50.7	31.4	49.8	20.0	60.3	69.0	n.a.
Foreign borrowing as % of total (gross)	8.8	14.1	19.1	3.4	5.5	0.0	0.0	13.3	n.a.

1/ Amounts are gross.
Source: Banque Nationale Suisse, Bulletin mensuel.

have incurred increased opposition.[11/] The Swiss share of total foreign issues placed in Europe, which was as high as 90 per cent in 1960, fell to only 11 per cent in 1964.[12/] Furthermore, Swiss banks are effectively prevented from competing with London underwriters in heading foreign-currency flotations by the 1.2 per cent tax on the value of the loans which have their names on the placing list.

Stock prices on the Swiss exchanges rallied briefly in February--the increased interest coming from buyers betting on defeat of the government's anti-inflationary program in the referendum on February 28--but have since fallen off sharply. The success of the referendum and the imposition of measures to reduce the foreign labor force produced selling

11/ The Neue Zürcher Zeitung ("Handelsteil" April 11, 1965, Blatt 10) in a recent editorial surprisingly reversed its support of the Federal authorities and attacked the government's capital control program.
12/ The Economist, April 10-16, 1965, p. 219.

pressures throughout the March-May period. By May 25, the Swiss Bank Corporation's industrial share index had fallen 12 per cent from the March 5 level and was at its lowest point since November 1960 (excepting the sharp sell-off at the time of the Cuban crisis in October 1962). (See Table 9.)

Table 9. Switzerland: Industrial Share Index
(1958=100)

1964-65	High:	258.1	Jan. 6, 1964
1964-65	Low:	213.7	May 25, 1965

1964					
January	31	249.5	March	5	242.6
June	26	228.5		12	237.2
September	25	238.9		26	226.5
October	30	237.5	April	2	220.3
November	27	238.5		9	219.5
December	31	236.6		15	226.2
				23	225.4
1965				30	224.6
January	15	234.0	May	7	224.4
	29	234.3		14	221.4
February	12	237.4		21	217.2
	26	241.5		25	213.7

Source: Swiss Bank Corporation.

Swiss franc drops to fifteen-year low; official reserves down

Highly liquid monetary conditions weakened the Swiss franc considerably more than seasonally in the exchange market. From its ceiling of 23.178 U.S. cents per dollar at the end of 1964, the spot rate fell slightly below 23.000 U.S. cents in late April, its lowest point since 1952. (See Table 10.) Several factors were responsible for this movement in the rate:

(a) commercial demand for foreign currencies strengthened;

(b) the lower cost of forward cover, higher Euro-currency rates, and continuing easy money attracted funds abroad;

(c) proceeds from foreign issues sold in Switzerland were converted;

(d) demand from American subsidiaries lining up European financing in compliance with the U.S. voluntary credit restraint program increased; and

(e) speculators were reportedly seeking to cover open positions they had taken against sterling during the November crisis.

Table 10. Switzerland: Spot Rates for the Swiss Franc 1/
(U.S. cents per Swiss franc)
Par Value--22.868; Lower Limit--22.472; Upper Limit--23.178 2/

1964	December	4	23.178	April	2	23.026
		18	23.178		9	23.035
		31	23.178		16	23.028
					23	23.000
1965	January	29	23.128		30	22.999
	February	19	23.083			
	March	5	23.065	May	7	23.008
		19	23.011		14	23.008
		26	23.003		21	23.003
					28	23.025

1/ Selling rates in the New York market.
2/ Recent upper limit imposed by the BNS in the Swiss market; however, the Swiss authorities are not committed to hold the rate below 23.283.
Source: Federal Reserve Board.

Since November 1964 the BNS has operated on both sides of the foreign exchange market, buying dollars during the sterling crisis and the year-end window-dressing that followed and furnishing dollars during March-May to moderate the weakness in the franc rate.

The reversal of over-year-end foreign exchange swaps with the commercial banks in January and the intervention in the exchange market during March-May drew official BNS reserves down $253 million, just slightly less than the reserve accruals realized during the unsettled fourth quarter of 1964. On May 21, BNS gold and foreign exchange were $2,867 million, compared with $2,800 a year earlier. (See Table 11.)

Table 11. Switzerland: Official Reserves
(end-of-month figures, million U.S. dollars)

	1963	1964			1965				
	Dec.	June	Sept.	Dec.	Jan.	Feb.	Mar.	Apr.	May 21
Gold	2,820	2,599	2,532	2,726	2,703	2,703	2,703	2,714	2,694
Foreign Exchange	254	352	318	394	312	300	247	178	173
Total	3,074	2,951	2,850	3,120	3,015	3,003	2,950	2,892	2,867
Change	+373	-123	-101	+270	-105	- 12	- 53	- 58	- 25
Gold Ratio	92	88	89	87	90	90	92	94	94

Source: Banque Nationale Suisse.

Gold losses in January and May were the result of reversing Swiss franc/gold swaps that had been made with the Bank for International Settlements (BIS) in December. The BNS at that time acquired $100 million equivalent in gold from the BIS. In addition to direct dollar sales on the foreign exchange market, official foreign exchange holdings were drawn down in March as a result of further Bank of England drawings on the "support package" which the BNS participated in last November for the pound.[13/] These BNS assets with the Bank of England (called "rate secured balances with foreign central banks"

13/ As of May 21, Bank of England drawings of Swiss francs from the BNS under this borrowing arrangement were $40 million equivalent.

on its statement) are not included in the calculation of foreign exchange reserves; the Swiss francs drawn by the Bank of England in this case were sold to the Federal Reserve which used them in turn to reduce BNS dollar holdings.

Under the Agreement of June 11, 1964 between Switzerland and the International Monetary Fund (IMF), by which the Swiss associated themselves with the General Arrangements to Borrow (GAB), the BNS has made available (effective from May 5, 1965) to the Bank of England the equivalent of $40 million in medium-term credit in conjunction with the recent British drawing of $1.4 billion equivalent from the IMF. This is the second time Switzerland has made funds available to the United Kingdom in association with activation of the GAB. In December 1964 the BNS put $80 million equivalent at the disposal of the British authorities.

Foreign trade deficit improves

In January and February an unexpected increase in exports (seasonally adjusted) decreased Switzerland's large foreign trade deficit by more than one-third from year-earlier figures. (See Table 12.) Total exports were up 7.2 per cent during the period from November-December levels (less than 1 per cent in the comparable periods in 1963-64) in spite of decreased exports to the United Kingdom as a result of the special import surcharge there. However, unadjusted figures for the first quarter indicate that the trade balance in March may not have been as improved as in the two previous months.

Table 12. Switzerland: Foreign Trade
(Seasonally-adjusted monthly average or month, million U.S. dollars)

	1963	1964							1965	
	IV	I	II	III	IV	Oct.	Nov.	Dec.	Jan.	Feb.
Imports, c.i.f.	280	296	296	302	306	305	307	307	289	303
Exports, f.o.b.	210	212	219	225	227	235	223	223	238	240
Deficit	-70	-83	-77	-77	-79	-70	-84	-84	-51	-63

Source: OECD, Main Economic Indicators; Neue Zürcher Zeitung.

During 1964, sharply increased imports pushed the Swiss foreign trade deficit up 15 per cent above the previous year's level to a record $948 million. Imports grew by 11.1 per cent (7.7 per cent in 1963) while exports rose only 9.8 per cent (8.8 per cent in 1963). Imports of manufactured goods, especially machine tools and consumer items, made particularly high gains, reflecting the high level of expenditure during the year for investment and consumption.