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Recent Economic Developments in Switzerland,  
June-August 1964

17 pages

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Recent Economic Developments in Switzerland, June-August 1964

Summary

Business activity continued to expand in Switzerland during June-August, and there is only limited evidence of the effectiveness of the anti-inflationary measures initiated in the spring to curb excess demand in the economy.<sup>1/</sup> Consumer demand has grown very rapidly, important industrial sectors experienced new expansion, and residential construction continued its fast pace, although speculation in real estate was reduced by the new credit controls. Continued demand on resources produced some further price rises, although prices had a tendency to level off at mid-year. The foreign component of the labor force increased even though the general demand for labor appears to have abated a bit. Imports rose to new records in June and July, creating trade deficits almost as large as the record deficits earlier in the year; because of the repatriation and retention at home of funds formerly placed abroad, however, the Banque Nationale Suisse (BNS) reported further reserve gains during the June-August period, and excess liquidity developed in the money market.

Higher Swiss interest rates and a high premium on the forward Swiss franc discouraged the return flow of funds into foreign centers after the end-June window-dressing operations this summer. In fact, short-term funds became so plentiful by early August that the BNS took special steps to mop up some of them, including:

1/ For a review of earlier developments, see Recent Economic Developments in Switzerland, March-May 1964, dated June 3, 1964.

- a. Transfer to the Swiss commercial banks of a sizable proportion of the \$100 million equivalent of lire acquired in a special swap arrangement with the Banca d'Italia in June;
- b. Issuance to the commercial banks of SF 225 million of renewable three-month Federal Government "rescriptions"<sup>1/</sup>. Such short-term instruments are completely new to the Swiss money market and raise possibilities for future open market operations; and
- c. Increase of its official discount rate in July in what was termed a "technical adjustment" to higher interest rates. Discount rate changes are not currently an effective instrument of monetary policy in Switzerland since ample commercial bank liquidity precludes bank borrowing from the central bank.

The frenzied new issue market of the first half-year was brought fully under control in July by the regulations on capital issues, but yields continued to rise slightly. New funds raised were reduced by 50 per cent, and some foreign issues were allowed in the market from time to time. Stock prices surged sharply after the end of June, partly in response to higher yields and partly because of a smaller supply of attractive new bond issues.

More important, however, to the new stock market activity was the report circulating in financial circles that the Federal Government has all but abandoned hope of popular acceptance of the anti-inflationary program by the time the measures constitutionally expire next March, and many security analysts are betting on further inflation. The government announced in early July that it would not submit the legislation to referendum this year. This decision may be interpreted in one of three ways: (1) either the authorities feel the measures will have accomplished

<sup>1/</sup> These so-called "rescriptions" are short-term Federal Treasury obligations quite similar to treasury bills except that they are "marketable" only with the BNS.

their mission by March 1965 and plan to let them expire; or (2) they are delaying action until the latest possible moment in the hope that current dissatisfaction will subside; or (3) they are delaying action in the hope that public opposition to direct controls will encourage increased public favor for indirect measures. Whatever the reason, the uncertainty surrounding the delay has weakened, at least for the moment, the strong position the government took against inflationary overheating earlier in the year.

Economic activity still at boom level

Switzerland's economy continued to operate at capacity during the second quarter and, although economic statistics for the summer months are not yet available, early signs point to a peak level of activity throughout the summer as well. There was little indication that the anti-inflationary measures inaugurated in early spring have done much more than dampen real estate speculation by limiting the credit base upon which it had been built. Consumer demand, which has spear-headed the business expansion for the past four years, remained exceptionally strong. Retail sales during March-May were up on an average more than 10 per cent over the comparable period of 1963. (See Table 1.)

Table 1. Switzerland: Retail Sales  
(Year-to-year percentage increases adjusted for sales days)

| <u>Year</u> | <u>Jan</u> | <u>Feb</u> | <u>Mar</u> | <u>Apr</u> | <u>May</u> | <u>Jun</u> | <u>Jul</u> | <u>Aug</u> | <u>Sept</u> | <u>Oct</u> | <u>Nov</u> | <u>Dec</u> |
|-------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|------------|------------|------------|
| 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       | ---        | ---        | ----       | ---         | ---        | ---        | ---        |

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

It appears that consumer expenditures continued to rise during the early summer months even though new credit restrictions on installment buying were introduced on June 1. Down payments on most installment purchases were increased from 20 per cent to 30 per cent and maximum credit periods reduced from 2-1/2 years to 2 years. More liberal terms were allowed on home furnishings, but more restrictive terms were applied to automobile purchases.

General industrial production rose seasonally during the spring months while some sectors, such as paper, textiles, and metals, which lagged behind the over-all expansionary pace of 1963, experienced a more than seasonal upturn in output. Raw material imports for the chemical industry were 19 per cent ahead of the same period last year in the second quarter. A new quarterly peak in industrial machinery and equipment imports indicates that heavy investment spending for plant improvement and production rationalization continued in the second quarter, also. (See Table 2.)

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

|        | Industrial Raw Materials<br>(000's metric tons) |           |                  |        | Machinery & Equipment<br>(millions of francs) |       |       |
|--------|---|-----------|------------------|--------|---|-------|-------|
|        | Fuels   | Chemicals | Paper & Textiles | Metals | Non-Elec.                                     | Elec. | Other |
| 1962   | 599   | 78        | 26               | 112    | 131   | 46    | 22    |
| 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    |
| Jan.   | 733   | 49        | 23               | 89     | 136   | 52    | 25    |
| Feb.   | 670   | 58        | 17               | 91     | 136   | 54    | 26    |
| Mar.   | 615   | 71        | 16               | 89     | 156   | 52    | 27    |
| Apr.   | 714   | 89        | 23               | 106    | 161   | 54    | 32    |
| May    | 779   | 119       | 19               | 90     | 144   | 50    | 25    |
| Jun.   | 924   | 132       | 28               | 116    | 158   | 56    | 27    |

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

Residential building was again at a very high level during the spring; more dwelling units were constructed in the second quarter than in any quarter since the October-December quarter of 1962, a peak year for residential construction. (See Table 3.) Residential building authorizations were down sharply, however, both from first quarter and from like periods of previous years; this could have been due either to the restrictiveness of building controls inaugurated on March 17 or to the exceptionally large number of authorizations made in the January-March period in anticipation of the controls. Several commentators have voiced doubt that the building licensing program, as currently applied, will curtail construction as drastically as may be desirable.

This doubt centers mostly on the fact that the program is administered at the local level where there is a greater tendency to grant exceptions and to take advantage of the loopholes in the regulations, and that it does not apply to construction by local governmental authorities.

Table 3. Switzerland: Residential Construction in the 65 Largest Cities, quarterly totals, 1962-64 (in number of units)

| Quarter | New Dwelling Units Constructed |       |       | New Dwelling Units Authorized |       |        |
|---------|--------------------------------|-------|-------|-------------------------------|-------|--------|
|         | 1962                           | 1963  | 1964  | 1962                          | 1963  | 1964   |
| I       | 4,323                          | 4,534 | 4,424 | 6,854                         | 5,887 | 10,440 |
| II      | 6,929                          | 5,494 | 5,829 | 6,997                         | 7,455 | 5,821  |
| III     | 5,647                          | 4,427 |       | 6,228                         | 6,705 |        |
| IV      | 6,773                          | 5,714 |       | 5,826                         | 6,273 |        |

Source: Banque Nationale Suisse, Bulletin mensuel.

Prices rise, demand for labor moderates

The strain on Swiss economic resources produced further price advances during the second quarter. Retail consumer prices rose almost 1 per cent above their first quarter levels. (See Table 4.) Wholesale prices rose almost as much during the second quarter. Since May, however, neither index (retail nor wholesale) has registered any monthly increase; retail prices have stabilized and wholesale prices have even fallen off 1.7 per cent. However, the decline in the latter is primarily due to lower wholesale prices for foods and agricultural raw materials. Wholesale prices of industrial raw materials have consistently advanced since May.

Table 4. Switzerland: Price Indices  
(August 1939 = 100; month or monthly averages)

|          | <u>Consumer<br/>Price Index</u> | <u>Wholesale Price Index</u> |                 |                |
|----------|---------------------------------|------------------------------|-----------------|----------------|
|          |                                 | <u>Total</u>                 | <u>Domestic</u> | <u>Foreign</u> |
| 1961     | 187                             | 215                          | 213             | 217            |
| 1962     | 195                             | 222                          | 224             | 220            |
| 1963     | 202                             | 231                          | 231             | 230            |
| 1963 I   | 199                             | 230                          | 231             | 228            |
| II       | 201                             | 231                          | 231             | 231            |
| III      | 202                             | 228                          | 227             | 229            |
| IV       | 205                             | 235                          | 234             | 234            |
| 1964 I   | 206                             | 234                          | 232             | 236            |
| II       | 208                             | 236                          | 236             | 235            |
| January  | 205                             | 234                          | 233             | 236            |
| February | 206                             | 234                          | 232             | 236            |
| March    | 206                             | 233                          | 231             | 235            |
| April    | 207                             | 237                          | 237             | 237            |
| May      | 208                             | 236                          | 237             | 234            |
| June     | 208                             | 234                          | 234             | 234            |
| July     | 208                             | 233                          | 233             | 234            |

Source: Banque Nationale Suisse, Bulletin mensuel.

In the labor market, demand as reflected in registered job vacancies was down; registered vacancies were about 1,000 lower in July than in February, just the reverse of the usual seasonal pattern. (See Table 5.) Most industrial sectors, however, continue to register a heavy demand for additional labor; much of the summer decline in registered vacancies may have been due to the large number of seasonal farm workers brought into the country this year. The Farmers' Union announced at the close of June that it had been successful this summer (for the first time in years) in obtaining all the foreign workers (about 5,500) required.

Table 5. Switzerland: Unemployment and Job Vacancies, 1962-64  
(numbers)

| End of<br>Month | Registered Unemployed |       |       | Registered Job Vacancies |       |       |
|-----------------|-----------------------|-------|-------|--------------------------|-------|-------|
|                 | 1962                  | 1963  | 1964  | 1962                     | 1963  | 1964  |
| January         | 2,022                 | 4,896 | 1,049 | 5,563                    | 5,044 | 6,039 |
| February        | 882                   | 2,174 | 303   | 6,161                    | 5,571 | 7,134 |
| March           | 377                   | 454   | 242   | 6,474                    | 6,210 | 6,996 |
| April           | 249                   | 261   | 174   | 6,699                    | 6,288 | 6,760 |
| May             | 238                   | 230   | 129   | 6,313                    | 6,269 | 6,411 |
| June            | 170                   | 185   | 139   | 6,342                    | 6,374 | 6,207 |
| July            | 177                   | 148   | 111   | 6,259                    | 6,545 | 6,018 |
| August          | 185                   | 142   | ---   | 6,262                    | 6,701 | ---   |
| September       | 199                   | 171   | ---   | 6,085                    | 6,902 | ---   |
| October         | 324                   | 194   | ---   | 5,847                    | 6,739 | ---   |
| November        | 484                   | 263   | ---   | 5,053                    | 5,912 | ---   |
| December        | 1,886                 | 778   | ---   | 4,741                    | 4,954 | ---   |

Source: Banque Nationale Suisse, Bulletin mensuel.

The federal census of foreign workers taken in May counted 676,611 foreigners registered and working in Switzerland (including 173,715 seasonal workers) compared with 690,013 in August 1963. However, the May census did reveal an increase of over 3 per cent in the number of nonseasonal workers; if another count had been made in August (instead of May), when the number of seasonal workers was at a high, the 1964 total would have exceeded the total of August 1963 and thus have given rise to more stringent application of the controls on foreign workers.

Demand for credit moderates, interest rates stabilize

Despite the continued business advances, demand pressures on interest rates lessened during the June-August period. However, easier demand conditions have not produced any significant lowering of the current interest rates, which are high by Swiss standards.

The window-dressing preparations made in June by the commercial banks were quite extensive this year and produced a considerable liquidity after-affect in the Swiss money market that lingered throughout July and August and allowed deposit rates to drop back to early March levels. The official estimate of the average deposit rate paid by all banks on three-month deposits was recently down to 2.88 per cent per annum from an earlier 3.25 per cent, although large Zurich banks continued to pay 3.25 per cent. (See Table 6.) The most important factors contributing to money market liquidity were the lower rate for Euro-Swiss francs and the high premium on forward Swiss francs; together, the net yield has discouraged reinvestment of domestic funds abroad when compared with the high domestic rates now in effect.

Table 6. Switzerland: Selected Financial Indicators

|   | 1964        |             |           |            |            |                    |
|---|-------------|-------------|-----------|------------|------------|--------------------|
|   | March<br>27 | April<br>24 | May<br>29 | June<br>26 | July<br>31 | Aug.<br>28         |
| <u>Interest rates</u>                                   |             |             |           |            |            |                    |
| 3-month yields:   |             |             |           |            |            |                    |
| Zurich banks <sup>a/</sup>                              | 3.19        | 3.37        | 3.44      | 3.25       | 3.12       | 3.12 <sup>c/</sup> |
| Euro-dollars <sup>b/</sup>                              | 3.82        | 4.51        | 4.19      | 3.67       | 3.25       | 3.60               |
| U.S. Treasury bills <sup>b/</sup>                       | 3.09        | 3.75        | 3.46      | 2.74       | 2.38       | 2.81               |
| Euro-Swiss francs                                       | 3.62        | 4.12        | 3.94      | 3.88       | 2.75       | 3.69               |
| Deposit certificates<br>(3 to 8 years):                 |             |             |           |            |            |                    |
| 12 cantonal banks                                       | 3.88        | 3.90        | 4.11      | 4.11       | 4.13       | 4.13 <sup>c/</sup> |
| 5 large banks   | 3.85        | 3.85        | 4.14      | 4.14       | 4.14       | 4.14 <sup>c/</sup> |
| Long-term government bonds                              | 3.90        | 3.85        | 3.93      | 4.05       | 4.08       | 4.08               |
| <u>Stock prices</u> (1958=100)                          | 246.2       | 238.7       | 229.1     | 228.5      | 247.3      | 242.8              |
| <u>Exchange rates</u>                                   |             |             |           |            |            |                    |
| Spot francs (U.S. cents)                                | 23.11       | 23.18       | 23.18     | 23.18      | 23.12      | 23.14              |
| Forward premium (+) discount (-) on franc <sup>d/</sup> | +0.43       | -0.32       | 0.00      | +0.71      | +1.06      | +0.65              |

a/ Most frequently quoted rates of the five large Swiss banks in Zurich.

b/ Return in Swiss francs after cost of exchange cover.

c/ Preliminary figures subject to adjustment.

d/ Per cent per annum.

In order to reduce liquidity in the money market, the BNS in early August executed two operations that took sizable amounts of funds from the domestic market. First, it transferred to the big commercial banks a sizable amount of the \$100 million equivalent of lire that it had acquired in a swap operation with the Banca d'Italia in late June. (See page 16 for details of this swap.) Second, it issued SF225 million worth of 1-3/4 per cent Federal Government short-term obligations ("rescriptions") to the large commercial banks, the proceeds from which it used to purchase the equivalent of U.S. Treasury bills denominated in Swiss francs. (The U.S. Treasury then used the Swiss francs to reduce BNS dollar holdings.) However, the operations were not as successful in mopping up liquidity as had been hoped since a reduction in note circulation and other accruals to the banks' liquid reserves (mainly liquidation of forward contracts) replaced within a week almost one-half of the funds taken from the market.

Although these "rescription" obligations have an initial currency of two months, they are renewable at three-month intervals and mark the first time such a short-term instrument has been available to the Swiss money market. They are designed to give the banks a short-term government security in which they can invest at home funds formerly invested abroad. They have the advantage that they can be rediscounted at the BNS, unlike the outstanding Federal sterilization rescriptions, which can only be used as collateral for a limited period of time for advances at the central bank. The new rescriptions do not rank as liquid assets under the terms of the Banking Law, but since they may

be quickly monetized at the BNS, they reduce the necessity of repatriating substantial amounts of funds from abroad during window-dressing periods and the disturbances to the foreign exchange markets that usually accompany these quarterly make-up dates. The national bank hopes that the commercial banks will resort first to rediscounting the short-term rescriptions and only afterwards turn to repatriating funds from abroad. Once ample rescriptions are outstanding, they also may provide the BNS with a limited means for conducting open market operations.

In what was termed a "technical adjustment" to higher interest rates, the BNS raised its official discount rate on July 3 from 2 to 2-1/2 per cent, and its rate for collateral loans from 3 to 3-1/2 per cent. Since the Swiss official discount rate has not in post-war years been an effective instrument of monetary policy, the recent change--the first in over five years--is perhaps more significant as a signal of official determination to restrain inflationary tendencies in the Swiss economy than as a measure to limit the pace of further monetary expansion.

Medium-term funds continued scarce during the June-August period and most new sales of 3- to 8-year certificates of deposit (Kassenobligationen) appeared to reflect conversion of savings deposits. In June this development forced some major banks to begin paying 3-1/4 instead of 3 per cent on savings deposits. At times, some of the major banks even found themselves offering higher rates than the smaller cantonal banks, a reverse of the normal situation.

The heavy volume in the new issue market earlier in the year has been brought fully under control by the regulations that were placed on capital issues in May. Total capital raised in Swiss markets was

down to \$43 million in July, one-half the first quarter monthly average. (See Table 7.) However, more attractive terms were required; the average gross effective yield to maturity (an indication of the cost to borrowers) on the ten domestic issues in July-August was 4.65 per cent compared with 4.61 per cent on the ten previous issues offered in May and June. Yields on outstanding issues were driven up in June and July--the yield on long-term government bonds rose from 3.93 per cent at the end of May to 4.08 by end-July--but have since stabilized.

Table 7. Switzerland: New Capital Market Issues, 1962-64  
(month or monthly average, millions U.S. dollars)

|                                    | 1962 |      | 1963 |      |      |      | 1964 |      | July |
|------------------------------------|------|------|------|------|------|------|------|------|------|
|                                    | III  | IV   | I    | II   | III  | IV   | I    | II   |      |
| Swiss borrowers <sup>1/</sup>      |      |      |      |      |      |      |      |      |      |
| Bonds                              | 16.6 | 18.8 | 38.2 | 32.3 | 36.0 | 55.5 | 66.9 | 37.1 | 19.4 |
| Stocks                             | 5.3  | 6.9  | 14.5 | 10.0 | 3.6  | 12.5 | 11.9 | 24.3 | 8.0  |
| Total                              | 21.9 | 25.7 | 52.7 | 42.3 | 39.6 | 68.0 | 78.8 | 61.4 | 27.4 |
| Foreign borrowers <sup>1/</sup>    |      |      |      |      |      |      |      |      |      |
| Bonds                              | 7.0  | 10.5 | 9.3  | 18.1 | 4.3  | 13.9 | 7.6  | 10.1 | 16.0 |
| Total <sup>1/</sup>                | 28.9 | 36.2 | 62.0 | 60.4 | 43.9 | 81.9 | 86.4 | 71.5 | 43.4 |
| Foreign borrowing<br>as % of total | 24.2 | 29.0 | 15.0 | 30.0 | 9.8  | 17.0 | 8.8  | 14.1 | 36.9 |

<sup>1/</sup> Amounts are gross.

Source: Banque Nationale Suisse, Bulletin mensuel.

The number of new foreign issues offered in the Swiss market has been kept quite low although funds raised recently for foreign borrowers have been a higher percentage of total funds raised than at any time since second quarter 1963. (See Table 7.) For a while, market talk was that foreign issues would be shut out of the market until late fall at least, but the increasing probability of private placements of foreign issues has apparently convinced the BNS to permit a reduced volume of foreign

bonds rather than cut off foreign issues altogether and risk losing control over the market. In early July it approved a \$15 million Imperial Chemical Industries (U.K.) 4-1/2 per cent issue and in late August a \$14 million 4-1/2 per cent German electric power company issue. Also, in early July the Swiss Credit Bank joined an international syndicate in underwriting a \$20 million loan to Portugal, placing its share of the issue privately. This was the first foreign currency loan underwritten by a Swiss bank since 1961.

Several factors have contributed to the sharp upsurge in Swiss stock prices since the end of June: the industrial share index was up almost 6 per cent in early September from its end-June level. (See Table 8.) Improved yields resulting from the previous decline in stock prices, the smaller supply of more attractive new bond issues, and continued strong earnings reports for major Swiss companies have given impetus to stock market activity.

Table 8. Switzerland: Industrial Share Index, 1964  
(1958=100)

|          |    | <u>1964</u> |        |      |     |
|----------|----|-------------|--------|------|-----|
| January  | 3  | 256         | June   | 12   | 227 |
|          | 17 | 251         |        | 26   | 228 |
|          | 31 | 250         |        | July | 10  |
| February | 14 | 243         | 24     |      | 248 |
|          | 28 | 246         | August | 7    | 244 |
| March    | 13 | 246         |        | 21   | 244 |
|          | 26 | 246         |        | 28   | 243 |
| April    | 10 | 243         | Sept.  | 4    | 241 |
|          | 24 | 239         |        | 10   | 240 |
| May      | 8  | 234         |        |      |     |
|          | 22 | 234         |        |      |     |

Source: Swiss Bank Corporation

Swiss franc eases although official reserves rise slightly

The repatriation of funds for mid-year window-dressing kept the Swiss franc at the ceiling against the U.S. dollar for most of June; however, ensuing money-market liquidity caused the franc to ease against the dollar in the exchange markets for the rest of the summer, except during the BNS mopping-up operations in the money market in early August. (See Table 9.) Also, heavy demands for foreign exchange to cover import needs contributed to the July and August easing of the franc. Although the reflow abroad of funds repatriated for June-end window-dressing for bank statements was much slower than expected, the premium on the forward franc moved up as high as 1.25 per cent per annum on July 24. This high cost of forward cover, together with the higher domestic interest rates, worked to keep funds at home, increasing the supply of francs available to the domestic market and allowing the franc to ease in the spot exchange markets.

Table 9. Switzerland: Spot Rates for the Swiss Franc<sup>1/</sup>  
(U.S. cents per Swiss franc)  
Par Value--22.868; Lower Limit--22.472; Upper Limit--23.178<sup>2/</sup>

| <u>1964</u> |    |        |       |    |        |
|-------------|----|--------|-------|----|--------|
| March       | 6  | 23.105 | June  | 5  | 23.176 |
|             | 13 | 23.129 |       | 12 | 23.176 |
|             | 20 | 23.111 |       | 19 | 23.176 |
|             | 27 | 23.109 |       | 26 | 23.178 |
| April       | 3  | 23.113 | July  | 3  | 23.168 |
|             | 10 | 23.128 |       | 10 | 23.160 |
|             | 17 | 23.160 |       | 17 | 23.130 |
|             | 24 | 23.178 |       | 24 | 23.123 |
| May         | 1  | 23.176 |       | 31 | 23.125 |
|             | 8  | 23.175 | Aug.  | 7  | 23.150 |
|             | 15 | 23.170 |       | 14 | 23.153 |
|             | 22 | 23.175 |       | 21 | 23.146 |
|             | 29 | 23.176 |       | 28 | 23.145 |
|             |    |        | Sept. | 4  | 23.141 |

<sup>1/</sup> Selling rates in the New York market.

<sup>2/</sup> 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.

In June the BNS scored large increases in its reserves of gold and foreign exchange as it supported the U.S. dollar against the Swiss franc extensively by direct market intervention and by initiating short-term dollar/Swiss franc swap agreements with the commercial banks. (See Table 10.) Much of the foreign exchange accrued through these operations was converted into gold by short-term swaps with the Bank for International Settlements (BIS). Gold losses since July 1 have largely reflected the reversal of these swaps with the BIS, and foreign exchange reserves have fallen as the dollar/franc swaps with commercial banks were reversed. However, a net gain of about \$50 million in official reserves in the June-August period is indicative of the repatriated funds that did stay home after end-June.

Table 10. Switzerland: Official Reserves  
(end-of-month figures, million U. S. dollars)

|                  | 1963  |       |       | 1964  |       |       |       |       |       |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                  | Dec.  | Jan.  | Feb.  | March | April | May   | June  | July  | Aug.  |
| Gold             | 2,820 | 2,550 | 2,551 | 2,543 | 2,525 | 2,526 | 2,599 | 2,560 | 2,530 |
| Foreign Exchange | 254   | 224   | 202   | 201   | 280   | 267   | 352   | 350   | 312   |
| Total            | 3,074 | 2,774 | 2,753 | 2,744 | 2,805 | 2,793 | 2,951 | 2,910 | 2,842 |
| Change           | +373  | -300  | -21   | -9    | +61   | -12   | +158  | -41   | -68   |
| Gold Ratio       | 92    | 92    | 93    | 93    | 90    | 90    | 88    | 88    | 89    |

Source: Banque Nationale Suisse

Part of June's \$73 million increase in BNS gold holdings resulted from a swap operation involving three central banks: the Federal Reserve, the BNS, and the Banca d'Italia. The BNS exchanged \$100 million equivalent Swiss francs for Italian lire with the Banca d'Italia. (Current BNS requirements for lire are quite high because of the remittances to Italy by Italians working in Switzerland.) With this amount of Swiss

francs the Banca d'Italia purchased an equivalent amount of dollars from the Federal Reserve Bank of New York (FRBNY) in June and the FRBNY in turn used the Swiss francs to liquidate outstanding credits under the System's swap agreement with the BNS. The BNS then swapped a large part of the lire to the BIS for gold. A small amount of lire was kept on its own books, but a larger share was swapped (with cover) to Swiss commercial banks in order to reduce their liquidity. The Banca d'Italia's Swiss franc obligation will be reduced as the BNS needs additional lire. The Swiss Confederation has guaranteed in a repurchase agreement the BNS obligations that run longer than three months.

Foreign trade deficit increases

Although the high level of imports has served to ease some of the strain on Swiss resources, trade deficits in June and July close to the record deficits of January and February continue to disturb Swiss authorities. Peak-level economic activity pushed seasonally adjusted imports for June to a record high of \$306 million. (See Table 11.) However, for the second quarter as a whole, imports were up less than 1 per cent over the first quarter compared with almost 10 per cent in the same period of last year. Exports increased 4 per cent from the first quarter level compared with a 7 per cent increase in the comparable period of last year.

Table 11. Switzerland: Foreign Trade  
(Seasonally-adjusted monthly average or month, million U.S. dollars)

|                 | 1963 |     |     |     | 1964 |     |     |     |     |     |     |     |
|-----------------|------|-----|-----|-----|------|-----|-----|-----|-----|-----|-----|-----|
|                 | I    | II  | III | IV  | I    | II  | Feb | Mar | Apr | May | Jun | Jul |
| Imports, c.i.f. | 249  | 273 | 278 | 280 | 296  | 298 | 301 | 293 | 301 | 286 | 306 | 301 |
| Exports, f.o.b. | 191  | 204 | 200 | 210 | 212  | 221 | 215 | 214 | 226 | 215 | 222 | 220 |
| Deficit         | -58  | -69 | -78 | -70 | -84  | -77 | -86 | -79 | -75 | -71 | -84 | -81 |

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

Switzerland associates with "Club of Ten"

On June 11 the Swiss government and the International Monetary Fund (IMF) exchanged letters which constituted agreement for Switzerland to be associated with the Fund's General Agreements to Borrow. Under these agreements, ten industrial members of the IMF undertake to make available to the Fund up to \$6 billion in their national currencies. Since Switzerland is not a member of the IMF, it will make financial arrangements, which may be reciprocal, directly with the participating countries in amounts not exceeding an outstanding total of \$201 million equivalent.