PRESS REPORTS #11
Neue Zürcher Zeitung
No. 329
December 1, 1962
Translation

The Association of Switzerland with the Monetary Fund

The recent announcements from the Federal Government to the effect that Switzerland has given its agreement of principle to the authorities of the International Monetary Fund (IMF) to participate in the program of stand-by credits for use in the event of major monetary crises has now been followed by a communiqué from the IMF in which the agreement sought is described as an "association" of our country with the so-called "borrowing arrangements" with the ten industrial member countries of the Monetary Fund. What has been agreed does not, however, constitute a direct association with the Monetary Fund. But, as Switzerland will be participating in making available special resources to the IMF for extraordinary requirements and will be granting the Fund authorities certain powers to make use of the Swiss resources, it can be said to represent an indirect association with the Fund.

The so-called "borrowing arrangements" with which Switzerland is associating itself in a special way were initiated at the beginning of this year and recently came into force. They are designed to enable the International Monetary Fund "to fulfill more effectively its role in the conditions of convertibility, including the resultant greater freedom for short-term capital movements," and to provide lasting relief especially in the event of strong pressure on one of the reserve currencies. The agreement lays down precise rules for the procedure whereby the head of the Monetary Fund can himself propose measures of assistance in case of need. The Fund authorities also fix the extent of the payments and the currencies in which the individual member countries are to make their contributions. The carrying out of the measures is, however, dependent in every case on the consent of the parties concerned. With regard to the conditions laid down for the use of the funds, the arrangements state that the Fund's general practices shall apply. This is also true of the duration of the loans, for which a maximum of five years is set. The lending arrangements of the ten countries make available a total amount of $6 billion distributed as follows: United States $2 billion, German Federal Republic DM 4 billion ($1 billion), United Kingdom £357 million ($1 billion), France NF 2.715 billion ($550 million), Italy Lit 344 billion ($550 million), Japan ¥ 90 billion ($250 million), Canada Can$ 209 million (US$200 million), the Netherlands f. 724 million ($200 million), Belgium BF 7.5 billion ($150 million), and Sweden SKr 517 million ($100 million).

The fact that Switzerland plays a very important part as a place of refuge when there are international monetary crises and heavy movements of short-term funds connected therewith makes its inclusion in the collective measures designed specially for such cases extremely useful, indeed essential. Since, however, it is not a member of the IMF, there could be no question of its direct accession of the "borrowing arrangements," which are related, in a number of instances, to the Fund's Articles of Agreement. Nor would the IMF be able under Article VII of its Articles of Agreement to accept the currency of a nonmember country in order to increase its resources. Therefore the method of a special association had to be employed in order to enable our country to join in the ten-country stand-by arrangements.

The basic features of the arrangement with Switzerland have now been fixed. They consist, as has already been briefly reported in this paper, in the conclusion of a framework agreement between the International Monetary Fund and Switzerland in the form of an exchange of letters by which Switzerland will state that, if the ten countries which are parties to the "borrowing arrangements" agree to undertake assistance measures, Switzerland will participate in these. This would make the Swiss assistance more automatic in nature than the undertakings of the ten countries, which, as mentioned before, make the use of their stand-by credits dependent in every case on their own consent. The amount of any Swiss contribution required would be fixed by the head of the Monetary Fund. His decision would, however, have to keep within the over-all limit of $200 million proposed by Switzerland and would also be governed by the framework agreement and by the conditions of bilateral agreements which Switzerland still has to conclude, for the purpose of the actual provision of any aid, with the two reserve currency countries, which are the most likely recipients of assistance. Through the framing of these bilateral agreements, Switzerland can exercise in advance a material influence on the practical terms and conditions of its assistance.

Since, for reasons of principle, and also because of the tendency of our balance of payments to show deficits, it is not certain that our country can always remain a supplier of funds, Switzerland attaches importance to the point that the bilateral stand-by agreements should be reciprocal in nature. They may consist of fairly long-term swap arrangements, reciprocal currency credits, or other measures. Exactly what will be the details of the arrangements is not yet fixed. A representative of the National Bank is going to discuss these next month with the U.S. Treasury and the Federal Reserve Bank; subsequently similar talks will also be held with the Bank of England. A further visit to Switzerland by the head of the International Monetary Fund in January of next year will provide an opportunity of giving concrete form to the framework agreement on the basis of the bilateral discussions which will have taken place in the meantime. Thanks to the bilateral credit agreements, it will be possible to avoid the obstacles raised by the Fund's Articles of Agreement, under which direct credits from nonmember countries of the Fund in their national currencies are not permissible.

The importance of the proposed Swiss stand-by arrangement will lie in the fact that our country will make provision in advance for longer-term assistance up to a certain limit in the event of major monetary crises. Switzerland has already in the past spontaneously helped through its central bank, in times of violent capital movements, to offset these movements by compensatory measures in order to check the development of critical situations. In doing so it has not only acted in the interest of the currencies under pressure and the preservation of the international monetary system but has also served its own best interests, by reducing or eliminating the inflationary dangers of heavy capital inflows. But help from the central bank can only be of a short-term nature; the burden must be taken over by other, governmental, bodies if longer-term assistance is required. That was so in the case of last year's sterling crisis, when part of the short-term central bank assistance was taken over and consolidated by the Confederation in the form of a SF 215 million Federal loan. The basic purpose of the assistance measures now being planned is merely to provide a firm commitment and a fixed framework in advance for such longer-term measures as may prove necessary and thus to create greater international security in the monetary field. But since the power to grant longer-term loans ultimately lies not with the Swiss National Bank but only with the Confederation, the Confederation must give an undertaking to refinance such loans.

This will mean that these measures will require a special Federal Decree. As the Confederation must reckon with the possibility of having to grant the credits itself, the over-all amount of $200 million, or SF 870 million, is a very substantial one in relation to the size of the Federal budget. This should also not be forgotten in those circles abroad which criticize the fact that the credit commitment of Switzerland, despite the great importance of the country as a financial center, is no greater than that of Canada or the Netherlands.

From the monetary point of view it must, moreover, be borne in mind that the stand-by arrangements in question relate only to the longer-term assistance, i.e., only that part of the central bank assistance spontaneously given in monetary crises which may have to be consolidated. In the case of the sterling crisis, this applied to only one sixth of the funds originally provided by the Swiss National Bank.

In view of the important position occupied by Switzerland in the field of international financial transactions, we shall not be able to avoid assuming the substantial commitments which are here imposed on us by our world responsibility. It is thanks to the growing cooperation between central banks during the past year and a half and the growing readiness of the IMF to give assistance that the sterling crisis, the financial repercussions of the Berlin crisis, the stock exchange slump and the Cuba crisis, and also the Canadian dollar crisis, were overcome without major monetary upheavals. It is in the general interest, and also in our own interest, that we should fully recognize the task which falls to us in this monetary cooperation.