

GENERAL AGREEMENT ON TARIFFS AND TRADE

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MEASURES TO MODERATE OVERHEATING OF THE SWISS ECONOMY

The following communication, dated 9 February 1970, has been received from the Swiss Government.

I have the honour to inform you of the following:

At the meeting of the Council on 16 December 1969 the Swiss delegation informed the Contracting Parties of the Government's intention to introduce a series of measures designed to moderate overheating of the Swiss economy. By the present notification it has the honour to inform you that the Swiss Government has just made the necessary decisions.

Despite certain international forecasts announcing a slowing down in the current level of economic activity, the Federal Council in fact considers it unlikely, at least in the near future, that Swiss industry will be faced with any decline in overall demand. On the contrary, demand will be more and more difficult to satisfy, because any residual production capacity that might have been available appears to have been used up for the time being. The Federal Council is therefore endeavouring to contain, to the fullest possible extent, the inflationary tendencies that have been becoming more pronounced for more than one year already. On 1 September 1969, a convention came into force between the National Bank and the private banks, to limit expansion of credit. For 1970 the Federal Council has presented a national budget that is practically in balance and has urged the cantons likewise to pursue a budget policy consonant with the requirements of the current economic situation.

In addition to these initial measures, further decisions have been made. These include, on the one hand, provisions enacted by the Federal Council in respect of matters for which it has responsibility and, on the other hand, a proposal to the Federal Chambers, inviting them to adopt an emergency order introducing an export deposit scheme.

In particular these decisions are as follows:

- (a) The first three stages of the tariff reductions resulting from the Kennedy Round, which are to become effective in 1970, 1971 and 1972, in accordance with Article 2a of the Geneva (1967) Protocol will be made effective simultaneously on 1 March 1970, so that from that date Switzerland will implement in full the tariff concessions granted during the Kennedy Round.

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- (b) A linear reduction of 5 per cent is to be made in the rates of the export credit guarantee that may be granted by the Confederation. In practice the granting of the guarantee will become more restrictive.
- (c) The conditions for instalment sales (amount of down-payment and maximum period covered by subsequent instalments) have been made more severe.
- (d) The Federal Council also proposes to slow down, to some extent, activity by the Confederation in the construction sector; to reduce its purchases of equipment, while examining the possibility of placing a larger number of orders abroad, and to limit recruitment of staff. Lastly, the Federal Council has decided to neutralize some of its availabilities in order the credit restrictions applied by mutual agreement between the National Bank and the private banks should be more effective.
- (e) Lastly, the Federal Council is submitting to the Federal Chambers a draft Federal order providing for the introduction of a temporary export deposit scheme under which exporters would be required to deposit the equivalent of 5 per cent of the value of exports. Exemption from the deposit would be granted in respect of exports of limited value (not exceeding Sw F 1,000) and certain products (in particular agricultural products) included in a list of exceptions. Such deposits, which would be charged by means of monthly invoices payable by the exporter within ten days, would be frozen by the Confederation and would not bear any interest. The deposit scheme would be eliminated as soon as the current economic situation permitted but not later than three years following the entry into force of the order. The Federal Council would decide how and when reimbursement should be made, in the form of instalments or of a single payment, taking into account the evolution of the economy. Any entitlement to refund would lapse four years after the measure had been rescinded.

This emergency order will be discussed by the Federal Chambers at their March session.

This measure should have the effect of withdrawing from the money supply liquidities in an amount of approximately Sw F 1,000 million per year. The Federal Council intends thereby essentially to moderate for the time being the propensity to invest of the export industry. In other words the Federal Council is endeavouring to prevent inordinate and, above all, unduly rapid expansion of export industry, due to the growth of foreign demand.