

Capital exports and foreign lending

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Switzerland became a major exporter of capital in the late nineteenth and early twentieth centuries. Its high savings rate, its stable currency and its limited domestic investment opportunities led Swiss investors and banks to invest abroad on a large scale. Swiss banks placed foreign bonds with their clients, lent to foreign governments, municipalities and companies, and acquired shares in foreign enterprises. By the First World War, Swiss foreign assets were large relative to the size of the economy. In relation to its population, Switzerland was among the leading creditor nations of Europe.¹

After the First World War, Germany became the most important destination of Swiss capital. German companies, municipalities and banks borrowed abroad to finance reconstruction, investment and the payment of reparations, and Swiss banks, among them the Basel banks, lent heavily to German borrowers. Besides offering interest rates higher than those in Switzerland, Germany was an attractive market because of its proximity, the common language and the close economic ties. Basel, on the German border and with close connections to the German economy, was particularly involved in this lending.

The lending boom ended in 1931. The collapse of the Austrian Creditanstalt in May 1931 triggered a crisis of confidence that spread to Germany, where foreign creditors withdrew their funds and the German banking system came under pressure. In July 1931, after the Darmstädter und Nationalbank failed, the German government declared a bank holiday and introduced foreign exchange controls.² Foreign short-term credits to Germany were frozen under standstill agreements, negotiated in Basel among other places, which prevented creditors from withdrawing their funds and provided for their gradual repayment.

The standstill agreements immobilised a large part of the Swiss banks' assets in Germany. Unable to recover the short-term funds they had lent to

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German borrowers, the Swiss banks had to manage their own liquidity without these assets. Several Swiss banks suffered heavy losses. Some, among them the Basler Handelsbank, were weakened for years. The experience of 1931 showed the vulnerability of a financial centre that relied on foreign lending and the importance of liquidity in a crisis.

1 Notes

1. On Swiss capital exports and foreign assets before and after the First World War, see the literature on Swiss economic history, including the historical statistics of Swiss foreign assets. To be verified. ↩
2. On the collapse of the Austrian Creditanstalt (May 1931), the German banking crisis of July 1931 (failure of the Danatbank), the German exchange controls and the standstill agreements, see the standard literature on the financial crisis of 1931. To be verified. ↩

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