

The Swiss balance of payments in 1997

Press release of 27 August 1998

Current account surplus on a record level

Switzerland's current account surplus rose by Sfr 6 billion to Sfr 33.1 billion in 1997. This vigorous increase was brought about by markedly higher capital earnings and the strong expansion of exports of services. Measured by gross domestic product, the surplus rose to 8.9%, the highest level since statistical data was first collected (1948).

With economic activity picking up gratifyingly in the USA and in Western Europe and the domestic economy on the path to recovery, foreign trade showed very dynamic development. Services also recorded a significant increase due to a revival in tourism and strong growth in financial services.

High volume of capital flows

The capital exports of enterprises for direct investment abroad again exhibited a rise even though a number of large acquisitions which had been announced in 1997 will only be realised in 1998 and will consequently figure in this year's statistics. With the continuing stock market boom and declining interest rates, purchases of foreign securities (portfolio investment) also increased. Capital exports by the banks remained on the previous year's high level and derived almost exclusively from interbank business.

Capital imports attributable to foreign direct investment in Switzerland rose to the highest level since 1990. Foreign portfolio investment in Switzerland, by contrast, fell somewhat short of the previous year's figure. Capital inflows into banks grew perceptibly due mainly to the expansion of interbank business. The deficit in the financial account including net errors and omissions, which is allocated to the financial account, widened from Sfr 23.6 billion to Sfr 29.9 billion.

The reserve assets of the National Bank increased by Sfr 4.9 billion due to larger foreign exchange reserves and the increase in the reserve position in the International Monetary Fund (IMF). A year earlier, the SNB's reserves had risen by Sfr 7.8 billion.

A detailed commentary (in German and French only) on Switzerland's balance of payments is published together with the Monthly Statistical Bulletin of the Swiss National Bank at the end of September and will also appear as a supplement to the "Magazin für Wirtschaftspolitik" 10/1998. The commentary on the Swiss balance of payments is available on the Internet as from the end of September: [http://www.snb.ch/Publications/Balance of payments](http://www.snb.ch/Publications/Balance%20of%20payments).

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Detailed information on individual positions

Current account

Exports and imports of goods exhibited two-digit growth rates in terms of value in 1997. Such an impressive expansion of imports had last been recorded in 1989, and of exports in 1985. The growth was distributed across a wide range of industrial sectors. A breakdown of exports by economic areas, which showed a marked increase in merchandise exports to the USA, and a no more than modest increase to Japan, reflects the different economic situation in these countries. For the fifth time in succession, the balance of trade (special trade) closed with a surplus, which - at Sfr 0.3 billion - was, however, considerably lower than in the previous year (Sfr 1.9 billion).

Trade in services with other countries was also characterised by the economic upswing. Earnings from travel rose by Sfr 0.5 billion to Sfr 11.5 billion, after having declined in the previous two years. Visitors from abroad spent 3.4% more on sojourns in Switzerland than a year earlier. The number of overnight stays in hotels increased by 3.9%, while other accommodation recorded a decline.

The number of overnight stays of Swiss residents abroad receded slightly (-1.5%) with the average duration becoming somewhat shorter. Nevertheless, expenditures rose, since the decline of the Swiss franc made foreign travel more expensive. As expenditures for travel increased more markedly than earnings, the surplus from travel again contracted.

In the wake of the upswing in world trade, earnings from merchanting and from international transportation of passengers and freight recorded significant growth. The banks' receipts from financial services again rose vigorously by approximately one-quarter to Sfr 10 billion. Income from technological services, which comprise construction services and earnings from licences and patents, as well as commercial and technical advisory services, expanded by 20.4% to Sfr 4 billion.

Investment income receipts from other countries moved up by 20.2% to Sfr 47.2 billion, payments of investment

income to other countries by as much as 24.6% to Sfr 21 billion. The surplus on the investment income account rose by Sfr 3.8 billion to Sfr 26.2 billion. The steep rise in earnings and expenditures in 1997 is largely due to the strong growth of financial assets and direct investment holdings.

Financial account

Portfolio investment

The financial markets exhibited extremely dynamic development in 1997 following an already vigorous upswing in the previous year. The volume of international issues clearly exceeded the year-earlier level. Borrowing in the Swiss capital market in the form of bond issues of Swiss and foreign debtors was also higher than in 1996. Approximately one-quarter of total capital exports and one-seventh of capital imports were attributable to portfolio investment, which was characterised by the booming securities markets. Swiss portfolio investment abroad rose from Sfr 27.7 billion in 1996 to Sfr 30.4 billion in 1997. Purchases of fixed-interest securities increased to almost double the amount, while acquisitions of dividend paper declined from Sfr 18.2 billion to Sfr 13.3 billion. One-third of total portfolio investment derived from non-financial enterprises, one-third from financial enterprises (banks, insurance companies, pension funds and investment companies); approximately one-quarter of all securities purchases was accounted for by private households.

Foreign portfolio investment in Switzerland decreased by Sfr 2.8 billion to Sfr 13.1 billion in 1997, as foreign residents purchased less dividend paper than in the previous year. By contrast, they acquired more fixed-interest securities. In particular, foreign investors increased their holdings of fixed-interest securities of the public sector.

Direct investment

The strong growth of capital exports for direct investment abroad continued in 1997. Capital exports grew by Sfr 1.2 billion to Sfr 21 billion. Foreign investment in 1997 thus topped the 1993-level by approximately 50%. The industrial sector expanded its capital exports by Sfr 7 billion to Sfr 15.3 billion. By far the largest capital outflow (Sfr 8.2 billion) was recorded by the chemical industry. By contrast, service enterprises reduced their capital outflows by approximately half to Sfr 5.7 billion, due mainly to lower foreign investment by insurance companies. Only the banks and the trading sector stepped up their capital exports compared with the previous year. More than half of total investment in 1997 (1996: 60%) was accounted for by the European Union (EU), flowing almost exclusively into Germany, the United Kingdom and the Netherlands. Capital exports to the United States, the major location for direct investment, increased vigorously in 1997. Conversely, direct investment in the newly industrialised and developing countries receded by Sfr 0.4 billion to Sfr 2 billion.

For the first time in the nineties, the inflow of capital for direct investment in Switzerland exhibited a marked upswing. Capital imports almost doubled to Sfr 6.4 billion, a peak level since 1990. Decisive for the increase were the higher number of takeovers in the industrial sector. Investment in the chemical and metal industries rose conspicuously. Larger amounts of capital also flowed into the service sector due to the capital imports of finance and holding companies. Capital imports were dominated in 1997 by investment from Germany (Sfr 2.6 billion), Luxembourg (Sfr 1.6 billion) and the United States (Sfr 1.4 billion). Almost 90% of total capital imports originated from these countries.

Bank credits

The banks' cross-border credit business (domestic offices) expanded significantly and concentrated, as in previous years, mainly on the interbank market. This includes capital flows to and from foreign branches. Credit and deposit business with foreign customers also increased, albeit on a distinctly lower level. In 1997, three-quarters of capital exports and four-fifths of capital imports were transacted with Western European countries.

International reserves

The SNB's reserves, which consist mainly of gold holdings, foreign exchange and the reserve position in the IMF, rose by Sfr 4.9 billion in 1997 (previous year: Sfr 7.8 billion). Foreign exchange holdings increased mainly due to the appreciation of the US dollar by Sfr 3.9 billion (Sfr 7.5 billion). With financial funds for overcoming the financial crises in Asia being made available, the reserve position in the IMF grew by Sfr 0.7 billion.

Current account

