

Communications

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Swiss balance of payments and international investment position Q1 2018

Overview

The current account surplus amounted to CHF 18 billion in the first quarter of 2018, an increase of CHF 5 billion over the same quarter of 2017. This rise was attributable to the higher receipts surplus on trading in non-monetary gold, which is recorded under trade in goods. In the case of services as well as primary and secondary income, the balances remained stable.

In the first quarter of 2018, the transactions reported in the financial account showed a net reduction both on the assets side (CHF 14 billion) and for liabilities (CHF 27 billion). These net decreases were primarily the result of transactions by foreign-controlled finance and holding companies, which trimmed their balance sheets in light of the tax reforms introduced under the Tax Cuts and Jobs Act in the US. As regards assets, they mainly reduced foreign loans, while on the liabilities side their non-resident parent companies withdrew equity capital from these resident companies. Since there was a greater net reduction in liabilities than in assets, the financial account, including derivatives, registered a positive balance of CHF 12 billion.

In the international investment position, stocks decreased on the assets and liabilities sides alike in the first quarter of 2018, with the former declining by CHF 35 billion to CHF 4,733 billion, while the latter were CHF 60 billion lower at CHF 3,861 billion. Besides the net reduction recorded in the financial account, valuation losses in particular were a significant factor in this respect. As regards assets, these losses were attributable to the weaker US dollar exchange rate as well as declining prices on foreign markets. In the case of liabilities, meanwhile, the valuation losses stemmed almost exclusively from the markedly lower share prices on the Swiss Exchange. With stocks on the liabilities side showing a more pronounced

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decline than those on the assets side, the net international investment position rose by CHF 25 billion to CHF 872 billion.

Current account

Receipts

At CHF 80 billion, receipts from total goods trade exceeded the figure for the same quarter of 2017 by CHF 5 billion. This rise was, on the one hand, attributable to higher receipts from goods exports according to the foreign trade statistics (total 1), which increased by CHF 2 billion to CHF 57 billion, mainly thanks to higher exports of chemical and pharmaceutical products as well as watches. On the other hand, receipts from non-monetary gold trading increased by CHF 2 billion to CHF 15 billion, while net merchanting receipts rose by CHF 1 billion to CHF 7 billion.

Receipts from foreign trade in services remained stable at CHF 29 billion. Whereas receipts were higher in the case of tourism, financial services and transport services, they were lower for licence fees as well as insurance and pension services.

Receipts for primary income (labour and investment income) were down CHF 2 billion at CHF 30 billion, this being attributable to lower earnings from direct investment abroad. The receipts for secondary income (current transfers) were down by CHF 1 billion to CHF 10 billion.

Expenses

Expenses for total goods trade amounted to CHF 65 billion, CHF 1 billion less than in the year-back quarter. In the case of non-monetary gold trading, expenses receded markedly by just under CHF 7 billion to CHF 13 billion. By contrast, there was a clear CHF 6 billion increase to CHF 51 billion in expenses according to the foreign trade statistics (total 1), with chemical and pharmaceutical products recording the largest rise.

Expenses for services imports were up CHF 1 billion to CHF 24 billion, this rise being driven mainly by the transport services, tourism and licence fees categories.

Expenses for primary income (labour and investment income) declined by CHF 2 billion to CHF 29 billion. This was primarily due to lower income from direct investment in Switzerland. With regard to secondary income (current transfers), expenses were just under CHF 1 billion lower at CHF 12 billion, this being attributable to the decrease in payments of claims abroad by reinsurance companies.

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Current account balance

The current account surplus amounted to CHF 18 billion, a CHF 5 billion increase over the year-back quarter. It was calculated as the sum of all receipts (CHF 149 billion) minus the sum of all expenses (CHF 131 billion).

Financial account

Net acquisition of financial assets

Overall, the assets side of the financial account showed a net reduction of CHF 14 billion (Q1 2017: net acquisition of CHF 24 billion). The other investment item posted a net reduction of CHF 33 billion (Q1 2017: net reduction of CHF 30 billion). The decrease was above all attributable to finance and holding companies in Switzerland, which significantly reduced their foreign assets in light of the tax reforms in the US. By contrast, portfolio investment recorded a net acquisition of CHF 15 billion (Q1 2017: net acquisition CHF 4 billion). Resident investors acquired both equity securities and debt securities of foreign issuers. In the case of direct investment, the transactions balanced each other out (Q1 2017: net acquisition of CHF 15 billion). Although resident parent companies increased their investment in the equity capital of their non-resident subsidiaries and reinvested the earnings generated, they also reduced the volume of loans granted to their non-resident subsidiaries. Reserve assets recorded a net acquisition amounting to CHF 3 billion (Q1 2017: net acquisition of CHF 36 billion).

Net incurrence of liabilities

The liabilities side of the financial account registered a net reduction totalling CHF 27 billion (Q1 2017: net incurrence of CHF 13 billion). This was primarily attributable to direct investment, where there was a net reduction of CHF 34 billion (Q1 2017: net incurrence of CHF 16 billion). This came against the backdrop of non-resident parent companies withdrawing funds in the form of equity capital from resident finance and holding companies in light of the tax reforms in the US. Portfolio investment showed a net reduction of CHF 7 billion (Q1 2017: net reduction of CHF 4 billion), as non-resident investors sold shares of resident issuers. As regards the other investment item, the net incurrence of liabilities totalled CHF 15 billion, compared with Q1 2017 when transactions balanced each other out. Although the SNB reduced its foreign liabilities, companies and commercial banks recorded a marked rise in theirs, with liabilities increasing in the interbank business in particular.

Financial account balance

As in the first quarter of 2017, the financial account balance came to CHF 12 billion. This figure is calculated as the sum of all net acquisitions of assets minus the sum of all net incurrences of liabilities plus the balance from derivatives transactions. The financial account

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balance corresponds to the change in the net investment position resulting from cross-border investment.

International investment position

Assets

Compared with the previous quarter, stocks of assets declined by a total of CHF 35 billion to CHF 4,733 billion. This decrease was primarily attributable to the other investment item, where stocks were down CHF 31 billion to CHF 827 billion, mainly as a result of transactions. Stocks were also lower in the case of portfolio investment, declining by CHF 12 billion to CHF 1,363 billion, this despite the fact that the transactions reported in the financial account showed a net acquisition. The decrease was partly due to valuation losses stemming from lower prices on foreign markets, and in part also to exchange rate losses on assets in US dollars. Stocks in reserve assets declined by CHF 7 billion to CHF 785 billion owing to valuation losses. Meanwhile, direct investment stocks were CHF 11 billion higher at CHF 1,670 billion and stocks of derivatives rose by CHF 4 billion to CHF 87 billion.

Liabilities

Stocks of liabilities were CHF 60 billion lower quarter-on-quarter at CHF 3,861 billion. Besides the transactions reported in the financial account (net incurrence of liabilities), this decrease was above all attributable to valuation losses. The latter were particularly prevalent in the case of portfolio investment, where stocks declined by CHF 62 billion to CHF 1,113 billion owing to the lower share prices on the Swiss Exchange. Stocks of direct investment decreased by CHF 12 billion to CHF 1,440 billion. Stocks rose in the remaining components, however, with other investment recording a CHF 10 billion increase to CHF 1,217 billion on the back of transactions and derivatives rising CHF 5 billion to CHF 91 billion.

Net international investment position

Given that stocks of liabilities showed a more pronounced decline than stocks of assets (CHF –60 billion vs CHF –35 billion), the net international investment position increased by CHF 25 billion to CHF 872 billion.

Remarks

The balance of payments (current account and financial account) covers Switzerland's cross-border transactions with other countries over a given period. The international investment position shows the stocks of Switzerland's foreign financial assets (claims) and liabilities abroad at the end of this period. Changes in assets and liabilities in the international investment position are the result, first, of transactions recorded in the financial account.

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Second, capital gains and losses from stock market and exchange rate movements, as well as other changes in stocks, have an impact on the capital stocks.

In the comments on the balance of payments, period-by-period comparisons of transactions refer to the year-back quarter, since certain items are influenced by seasonal factors (e.g. tourism), especially in the current account. Seasonally adjusted data are not available. By contrast, the period-by-period comparisons in the international investment position refer to stocks at the end of the previous quarter. The focus in this case is on changes in stocks over the course of the period under review.

For comprehensive tables covering the balance of payments and the international investment position, cf. the SNB's data portal, data.snb.ch, *Table selection, International economic affairs*.

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SWISS BALANCE OF PAYMENTS – OVERVIEW

In CHF millions

| | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 2018 Q1 |
|---|---------------|---------------|---------------|---------------|---------------|
| Current account, net | 12,859 | 19,690 | 13,307 | 19,679 | 18,134 |
| Receipts | 146,233 | 155,955 | 152,334 | 157,172 | 148,550 |
| Expenses | 133,374 | 136,265 | 139,027 | 137,493 | 130,416 |
| Goods and services, net | 14,541 | 17,534 | 13,102 | 22,099 | 20,000 |
| Receipts | 103,723 | 106,787 | 105,357 | 111,579 | 109,183 |
| Expenses | 89,182 | 89,253 | 92,256 | 89,479 | 89,184 |
| Goods, net | 9,224 | 13,463 | 8,380 | 17,279 | 15,011 |
| Receipts | 74,870 | 77,755 | 74,597 | 81,476 | 79,905 |
| Foreign trade of which | | | | | |
| Foreign trade total ¹ | 71,506 | 74,992 | 69,731 | 78,747 | 76,050 |
| Non-monetary gold | 55,069 | 54,602 | 53,551 | 57,201 | 57,422 |
| Supplements to foreign trade ² | 13,596 | 17,933 | 13,342 | 17,289 | 15,242 |
| Expenses | -3,014 | -2,745 | -2,469 | -3,290 | -3,169 |
| Merchanting | 6,377 | 5,509 | 7,335 | 6,019 | 7,024 |
| Expenses | 65,646 | 64,292 | 66,216 | 64,197 | 64,894 |
| Foreign trade of which | | | | | |
| Foreign trade total ¹ | 66,693 | 65,178 | 66,809 | 65,672 | 66,271 |
| Non-monetary gold | 44,236 | 46,554 | 45,147 | 49,645 | 50,503 |
| Supplements to foreign trade ² | 19,875 | 16,195 | 19,144 | 13,140 | 13,386 |
| Services, net | -1,047 | -886 | -593 | -1,475 | -1,376 |
| Services, net | 5,318 | 4,071 | 4,721 | 4,820 | 4,989 |
| Receipts | 28,853 | 29,032 | 30,761 | 30,103 | 29,279 |
| Expenses | 23,536 | 24,961 | 26,040 | 25,282 | 24,289 |
| Primary income, net | 131 | 4,470 | 4,773 | -78 | 434 |
| Receipts | 31,667 | 38,397 | 34,481 | 34,154 | 29,608 |
| Expenses | 31,536 | 33,926 | 29,708 | 34,232 | 29,174 |
| Labour income, net | -5,875 | -5,943 | -5,990 | -5,955 | -6,034 |
| Receipts | 615 | 615 | 615 | 615 | 615 |
| Expenses | 6,490 | 6,558 | 6,605 | 6,571 | 6,649 |
| Investment income, net | 6,006 | 10,414 | 10,763 | 5,877 | 6,468 |
| Receipts | 31,052 | 37,782 | 33,866 | 33,539 | 28,993 |
| Expenses | 25,046 | 27,368 | 23,103 | 27,661 | 22,525 |
| Secondary income, net | -1,813 | -2,315 | -4,568 | -2,341 | -2,299 |
| Receipts | 10,844 | 10,771 | 12,496 | 11,440 | 9,759 |
| Expenses | 12,656 | 13,086 | 17,063 | 13,781 | 12,059 |
| Capital account, net | 50 | 163 | 553 | 50 | -987 |
| Receipts | 190 | 298 | 647 | 194 | 150 |
| Expenses | 140 | 135 | 94 | 144 | 1,138 |

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|---|----------------|----------------|----------------|----------------|----------------|
| Financial account (excluding derivatives), net | 11,869 | 27,519 | -701 | 528 | 12,428 |
| Net acquisition of financial assets | 24,432 | 59,713 | -37,120 | 2,940 | -14,446 |
| Net incurrence of liabilities | 12,563 | 32,194 | -36,419 | 2,412 | -26,873 |
| Direct investment, net | -1,619 | -59,364 | 7,135 | -1,198 | 34,802 |
| Net acquisition of financial assets | 14,620 | -7,972 | -27,272 | 4,007 | 331 |
| Net incurrence of liabilities | 16,239 | 51,392 | -34,407 | 5,205 | -34,471 |
| Portfolio investment, net | 7,399 | 26,608 | -114 | -10,867 | 22,101 |
| Net acquisition of financial assets | 3,729 | -492 | -2,553 | -13,102 | 14,676 |
| Net incurrence of liabilities | -3,670 | -27,100 | -2,439 | -2,235 | -7,425 |
| Other investment, net | -29,537 | 41,251 | -11,493 | 9,655 | -47,655 |
| Net acquisition of financial assets | -29,543 | 49,153 | -11,066 | 9,097 | -32,632 |
| Net incurrence of liabilities | -6 | 7,902 | 427 | -558 | 15,023 |
| Reserve assets, net | 35,626 | 19,025 | 3,772 | 2,938 | 3,179 |
| Derivatives, net | -244 | -2,228 | -246 | 386 | -84 |
| Statistical difference | -1,285 | 5,439 | -14,808 | -18,815 | -4,803 |

¹ Foreign trade according to Federal Customs Administration (FCA).

² Additions: Unchecked goods trade, small consignments, goods procured in ports. Subtractions: Cross-border processing traffic, returned goods, CIF/FOB adjustment on imports.

SWITZERLAND'S INTERNATIONAL INVESTMENT POSITION – OVERVIEW

In CHF millions

| | 2017 Q1 | 2017 Q2 | 2017 Q3 | 2017 Q4 | 2018 Q1 |
|--|------------------|------------------|------------------|------------------|------------------|
| Assets | 4,561,350 | 4,584,534 | 4,692,412 | 4,767,833 | 4,732,640 |
| Direct investment | 1,617,621 | 1,626,268 | 1,639,814 | 1,658,817 | 1,670,188 |
| Portfolio investment | 1,310,201 | 1,301,320 | 1,346,625 | 1,375,495 | 1,363,072 |
| Derivatives | 89,576 | 89,505 | 88,561 | 83,499 | 87,359 |
| Other investment | 813,137 | 828,291 | 845,330 | 857,893 | 826,728 |
| Reserve assets | 730,815 | 739,149 | 772,082 | 792,129 | 785,293 |
| Liabilities | 3,798,284 | 3,848,710 | 3,879,011 | 3,920,217 | 3,860,674 |
| Direct investment | 1,402,758 | 1,465,339 | 1,441,421 | 1,451,962 | 1,439,789 |
| Portfolio investment | 1,122,861 | 1,113,909 | 1,147,408 | 1,175,000 | 1,113,208 |
| Derivatives | 89,870 | 89,039 | 90,247 | 86,210 | 91,045 |
| Other investment | 1,182,796 | 1,180,423 | 1,199,935 | 1,207,045 | 1,216,631 |
| Net international investment position | 763,066 | 735,824 | 813,401 | 847,616 | 871,966 |
| Direct investment | 214,863 | 160,930 | 198,393 | 206,855 | 230,399 |
| Portfolio investment | 187,340 | 187,411 | 199,216 | 200,495 | 249,864 |
| Derivatives | -294 | 467 | -1,685 | -2,711 | -3,687 |
| Other investment | -369,659 | -352,132 | -354,605 | -349,153 | -389,904 |
| Reserve assets | 730,815 | 739,149 | 772,082 | 792,129 | 785,293 |