

Communications

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Swiss balance of payments and international investment position Q2 2018

Overview

In the second quarter of 2018, the current account surplus amounted to CHF 22 billion, CHF 2 billion more than in the year-back quarter. The increase was due to the higher receipts surplus on trade in goods and services. The net balances for both primary income (labour and investment income) and secondary income (current transfers) showed little change compared to the year-back quarter.

In the financial account, reported transactions showed a net reduction in the second quarter of 2018, for both assets (CHF 50 billion) and liabilities (CHF 60 billion). As in the first quarter, in the second quarter too these net decreases were primarily the result of transactions by foreign-controlled finance and holding companies, which trimmed their balance sheets against the backdrop of the tax reforms in the US. As regards assets, they mainly reduced intragroup lending to non-residents, while on the liabilities side their non-resident parent companies withdrew equity capital from these resident companies. Other factors also contributed to the net reduction: on the assets side, for instance, sales by resident investors of securities issued by non-residents led to a net reduction in portfolio investment. On the liabilities side, banks reduced their liabilities towards non-residents. Since there was a greater net reduction in liabilities than in assets, the financial account registered a positive balance of CHF 10 billion.

As regards the international investment position, in the second quarter of 2018, both the assets and liabilities sides were affected by two opposing trends. The stronger US dollar caused capital stocks to rise, but this was partly offset by transactions reported in the financial account. On the assets side, valuation effects were stronger; assets duly increased by a total of CHF 9 billion to CHF 4,763 billion compared to the previous quarter. On the liabilities side, valuation effects were less pronounced and were outweighed by a transaction-driven decline;

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liabilities fell by CHF 34 billion to CHF 3,844 billion. As a result, the net international investment position rose by CHF 43 billion to CHF 919 billion.

Current account**Receipts**

At CHF 82 billion, receipts from total goods trade exceeded the figure for the same quarter of 2017 by CHF 4 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 5 billion to CHF 60 billion, mainly thanks to higher exports of chemical and pharmaceutical products. On the other hand, receipts from merchanting increased by almost CHF 2 billion to CHF 8 billion. Receipts from non-monetary gold trading, by contrast, declined by CHF 4 billion to CHF 14 billion.

Receipts from foreign trade in services came to CHF 30 billion, up CHF 1 billion on the year-back quarter, mainly driven by licence fees, the category ‘manufacturing services, maintenance and repair services, construction services’, and financial services.

At CHF 35 billion, receipts under primary income (labour and investment income) were down by CHF 3 billion on the year-back quarter. This was attributable to lower earnings from direct investment abroad. Receipts under secondary income (current transfers) were unchanged, at CHF 11 billion.

Expenses

Expenses for total goods trade amounted to CHF 67 billion, CHF 3 billion more than in the year-back quarter. In particular, there was an increase in expenses according to the foreign trade statistics (total 1). The latter rose by CHF 5 billion to CHF 52 billion, with jewellery recording the largest rise. Expenses for non-monetary gold trading, by contrast, declined by CHF 2 billion to CHF 14 billion.

Expenses for services imports were up by nearly CHF 1 billion to CHF 25 billion, driven mainly by tourism, licence fees, and research and development services.

Expenses under primary income (labour and investment income) fell by CHF 3 billion to CHF 31 billion. This was mainly due to lower earnings from direct investment in Switzerland. Expenses under secondary income (current transfers) were largely unchanged, at CHF 13 billion.

Current account balance

The current account surplus amounted to CHF 22 billion, a CHF 2 billion increase over the year-back quarter. It is calculated as the sum of all receipts (CHF 159 billion) minus the sum of all expenses (CHF 137 billion).

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Financial account

Net acquisition of financial assets

The assets side of the financial account registered a net reduction of CHF 50 billion (Q2 2017: net acquisition of CHF 60 billion). With the exception of reserve assets, all components recorded a net reduction. The assets side was dominated by other investment transactions, which recorded a net reduction of CHF 36 billion (Q2 2017: net incurrence of CHF 49 billion). This reduction was mainly driven by resident, foreign-controlled finance and holding companies, which scaled back their intragroup lending to non-residents in light of the tax reforms in the US. The net reduction in portfolio investment came to CHF 14 billion (in Q2 2017, transactions balanced each other out). Resident investors sold both equity securities and debt securities of non-resident issuers. Direct investment recorded a net reduction of CHF 3 billion (Q2 2017: net reduction of CHF 8 billion), due to the fact that resident parent companies withdrew equity capital from their non-resident subsidiaries. These transactions were partly offset by reinvested earnings and intragroup lending. Reserve assets registered a net acquisition of CHF 3 billion (Q2 2017: net acquisition of CHF 19 billion).

Net incurrence of liabilities

On the liabilities side, a net reduction of CHF 60 billion was recorded (Q2 2017: net incurrence of CHF 32 billion); this was mainly attributable to direct investment and the other investment item. Direct investment saw a net reduction of CHF 29 billion (Q2 2017: net incurrence of CHF 51 billion) as a result of parent companies withdrawing equity capital from their resident finance and holding companies. These transactions took place against the backdrop of tax reforms in the US. The other investment item registered a net reduction of CHF 30 billion (Q2 2017: net incurrence of CHF 8 billion). This was due partly to resident banks reducing their liabilities towards both non-resident customers and non-resident banks (interbank market), and partly to companies reducing their loan commitments to non-residents. Portfolio investment showed a net reduction of CHF 2 billion (Q2 2017: net reduction of CHF 27 billion).

Financial account balance

The financial account balance came to CHF 10 billion (Q2 2017: CHF 25 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 balance corresponds to the change in the net investment position resulting from cross-border investment.

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International investment position

Assets

Stocks of assets in the international investment position rose by CHF 9 billion to CHF 4,763 billion, although transactions in the financial account recorded a decrease (CHF 50 billion). The increase was due to significant valuation gains, largely as a result of the stronger US dollar. Direct investment stocks rose by CHF 10 billion to CHF 1,693 billion. Portfolio investment increased by CHF 4 billion to CHF 1,366 billion. Reserve assets grew by CHF 10 billion to CHF 796 billion. By contrast, other investment decreased by CHF 18 billion to CHF 816 billion. Derivatives were up by CHF 3 billion to CHF 93 billion.

Liabilities

Stocks of liabilities contracted by CHF 34 billion to CHF 3,844 billion. This was mainly attributable to transactions recorded in the financial account (net reduction in liabilities). As with the assets side, valuation gains resulting from US dollar appreciation were partly offset by this transaction-driven net reduction. However, these valuation gains did not have as much of an impact as on the assets side, since US dollar-denominated stocks on the liabilities side are comparatively low. Direct investment stocks fell by CHF 21 billion to CHF 1,430 billion. Other investment declined by CHF 18 billion to CHF 1,203 billion. Portfolio investment fell by CHF 1 billion to CHF 1,113 billion. Conversely, derivatives rose by CHF 5 billion to CHF 98 billion.

Net international investment position

The net international investment position came to CHF 919 billion, exceeding the previous year's figure by CHF 43 billion as a result of the increase in assets (up by CHF 9 billion) and the simultaneous decline in liabilities (down by CHF 34 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. Second, capital gains and losses resulting from stock market and exchange rate movements, as well as other changes in stocks (e.g. reclassifications or other statistical changes), have an impact on 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

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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 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Current account, net	20,400	14,381	15,709	17,435	22,144
Receipts	156,689	154,130	159,600	149,738	158,641
Expenses	136,289	139,750	143,891	132,304	136,497
Goods and services, net	18,271	14,339	19,883	20,246	19,858
Receipts	107,273	106,369	113,451	109,740	112,463
Expenses	89,002	92,031	93,568	89,494	92,605
Goods, net	14,213	9,018	16,472	14,472	15,247
Receipts	78,516	75,244	82,059	80,158	82,417
Foreign trade	74,987	69,587	78,816	76,266	77,787
Of which foreign trade total ¹	54,598	53,561	57,357	57,620	59,562
Of which non-monetary gold	17,932	13,188	17,184	15,232	13,880
Supplements to foreign trade ²	-2,744	-2,467	-3,288	-3,184	-3,358
Merchanting	6,272	8,124	6,531	7,076	7,988
Expenses	64,303	66,226	65,587	65,686	67,170
Foreign trade	65,131	66,761	67,007	67,014	68,668
Of which foreign trade total ¹	46,507	45,098	49,953	50,743	51,885
Of which non-monetary gold	16,195	19,144	14,019	13,825	14,361
Supplements to foreign trade ²	-827	-535	-1,420	-1,328	-1,498
Services, net	4,058	5,321	3,411	5,773	4,611
Receipts	28,757	31,126	31,392	29,581	30,046
Expenses	24,699	25,805	27,981	23,808	25,435
Primary income, net	4,519	4,811	-48	-826	4,770
Receipts	38,388	34,482	34,142	29,854	35,485
Expenses	33,869	29,671	34,190	30,679	30,716
Labour income, net	-5,939	-5,985	-5,970	-6,009	-5,987
Receipts	604	604	604	604	604
Expenses	6,544	6,589	6,574	6,614	6,591
Investment income, net	10,459	10,796	5,921	5,184	10,757
Receipts	37,784	33,878	33,538	29,249	34,881
Expenses	27,325	23,082	27,616	24,066	24,124
Secondary income, net	-2,391	-4,769	-4,126	-1,985	-2,484
Receipts	11,028	13,279	12,007	10,145	10,692
Expenses	13,419	18,048	16,132	12,130	13,176
Capital account, net	145	1,281	-488	-1,031	1,327
Receipts	274	1,356	135	111	1,560
Expenses	129	75	624	1,142	233

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Financial account (excluding derivatives), net	27,519	-701	528	24,900	9,973
Net acquisition of financial assets	59,713	-37,120	2,940	-2,421	-50,348
Net incurrence of liabilities	32,194	-36,419	2,412	-27,321	-60,322
Direct investment, net	-59,364	7,135	-1,198	45,513	26,037
Net acquisition of financial assets	-7,972	-27,272	4,007	8,338	-2,635
Net incurrence of liabilities	51,392	-34,407	5,205	-37,175	-28,673
Portfolio investment, net	26,608	-114	-10,867	20,766	-12,366
Net acquisition of financial assets	-492	-2,553	-13,102	13,972	-13,876
Net incurrence of liabilities	-27,100	-2,439	-2,235	-6,794	-1,509
Other investment, net	41,251	-11,493	9,655	-44,558	-6,327
Net acquisition of financial assets	49,153	-11,066	9,097	-27,910	-36,467
Net incurrence of liabilities	7,902	427	-558	16,649	-30,140
Reserve assets, net	19,025	3,772	2,938	3,179	2,629
Derivatives, net	-2,228	-246	386	682	27
Statistical difference	4,746	-16,609	-14,306	9,178	-13,471

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.

Source: SNB

SWITZERLAND'S INTERNATIONAL INVESTMENT POSITION – OVERVIEW

In CHF millions

	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
Assets	4,584,534	4,692,412	4,767,833	4,754,215	4,762,877
Direct investment	1,626,268	1,639,814	1,658,817	1,682,855	1,692,567
Portfolio investment	1,301,320	1,346,625	1,375,495	1,362,005	1,365,630
Derivatives	89,505	88,561	83,499	89,621	92,689
Other investment	828,291	845,330	857,893	834,440	816,390
Reserve assets	739,149	772,082	792,129	785,293	795,602
Liabilities	3,848,710	3,879,011	3,920,217	3,878,465	3,844,026
Direct investment	1,465,339	1,441,421	1,451,962	1,450,466	1,429,715
Portfolio investment	1,113,909	1,147,408	1,175,000	1,113,944	1,112,767
Derivatives	89,039	90,247	86,210	92,624	98,059
Other investment	1,180,423	1,199,935	1,207,045	1,221,430	1,203,484
Net international investment position	735,824	813,401	847,616	875,751	918,852
Direct investment	160,930	198,393	206,855	232,389	262,851
Portfolio investment	187,411	199,216	200,495	248,061	252,863
Derivatives	467	-1,685	-2,711	-3,003	-5,370
Other investment	-352,132	-354,605	-349,153	-386,989	-387,093
Reserve assets	739,149	772,082	792,129	785,293	795,602

Source: SNB