



Communications

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Swiss balance of payments and international investment position Q4 2018 and review of the year 2018

Key developments in 2018

The current account surplus for 2018 was CHF 71 billion, CHF 26 billion more than in the previous year. Changes in primary income (labour and investment income) had the greatest impact: Whereas one year earlier an expenses surplus of CHF 9 billion was recorded, owing to exceptionally large expenses for direct investment receipts in 2017, in the year under review there was a receipts surplus amounting to CHF 3 billion. The receipts surplus in goods trade increased by CHF 7 billion to CHF 57 billion. This was attributable mainly to higher receipts from merchanting. The receipts surplus from trade in services rose by CHF 2 billion to CHF 20 billion. Secondary income (current transfers) registered a decrease in net expenses by CHF 4 billion to CHF 9 billion. In 2017, exceptionally high claims payments abroad by resident reinsurance companies had been recorded under this item.

In the financial account, reported transactions showed a net reduction in 2018, for both assets (CHF 49 billion) and liabilities (CHF 122 billion). The main factor affecting the financial account was the impact of tax reforms under the Tax Cuts and Jobs Act in the US. In the context of the reforms, foreign-controlled finance and holding companies domiciled in Switzerland reduced their balance sheets. This was reflected in the financial account through, first, a net reduction in assets (other investment), as companies scaled back their lending to non-residents; and, second, through a net reduction of liabilities (direct investment) because non-resident parent companies withdrew equity capital from companies in Switzerland.

However, the US tax reforms were not the only factor affecting the financial account; other transactions, too, had an impact. On the assets side, like other investment, portfolio investment too recorded a net reduction in assets, as investors in Switzerland sold equity securities and debt securities issued by non-residents. Direct investment, by contrast, saw a

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net acquisition of assets because companies in Switzerland reinvested their earnings abroad, as well as granting loans to their subsidiaries. On the liabilities side, not only direct investment, but also other investment and portfolio investment registered a net reduction. In the case of portfolio investment, this was due to foreign investors selling Swiss shares. In the case of other investment, both the SNB and commercial banks reduced their liabilities towards non-residents. The financial account, including derivatives, reported a positive balance of CHF 74 billion.

In the international investment position, stocks of both assets and liabilities contracted in 2018. Assets declined year-on-year by CHF 88 billion to CHF 4,785 billion, and liabilities by CHF 181 billion to CHF 3,901 billion. In both cases, the decrease was partly a reflection of the transaction figures reported in the financial account (net reduction of assets/net reduction of liabilities), and partly the result of valuation losses from the sharply falling prices on global stock markets. Since liabilities decreased more markedly than assets, the net international investment position increased by CHF 93 billion to CHF 884 billion.

Q4 2018**Overview**

In the fourth quarter of 2018, the current account surplus amounted to CHF 15 billion, CHF 2 billion more than in the year-back quarter. The increase was mainly due to the higher receipts surplus in investment income and the lower expenses surplus in secondary income (current transfers). This was partly offset by a lower receipts surplus in goods trade.

In the financial account, transactions in the fourth quarter of 2018 registered a net acquisition of assets of CHF 9 billion and a net reduction of liabilities of CHF 12 billion. On the assets side, the largest transactions were recorded in other investment (net acquisition) and portfolio investment (net reduction). On the liabilities side, direct investment was responsible for the net reduction. Overall, the financial account reported a positive balance of CHF 21 billion.

In the fourth quarter of 2018, stocks in the international investment position fell compared to the previous quarter, on both the assets and the liabilities side. Assets declined by CHF 9 billion to CHF 4,785 billion as a result of the sharply falling prices on international stock markets. The decline would have been even more pronounced were it not for the significant offsetting effect of statistical adjustments arising out of newly available information from reporting institutions. Stocks of liabilities decreased by CHF 79 billion to CHF 3,901 billion. As on the assets side, the decline on the liabilities side was due to valuation losses; prices on Swiss stock exchanges also dropped considerably. Since stocks of liabilities showed a more pronounced decline than stocks of assets, the net international investment position rose by just under CHF 70 billion to CHF 884 billion.

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Current account

Receipts

At CHF 80 billion, receipts in the fourth quarter of 2018 from total goods trade were CHF 2 billion less than in the year-back quarter. The decrease was attributable to lower receipts from goods exports according to the foreign trade statistics; such receipts fell owing to lower exports of non-monetary gold.

Receipts from foreign trade in services amounted to CHF 30 billion, down CHF 1 billion on the year-back quarter. Decreases were recorded above all in business services, insurance and pension services, and licence fees.

At CHF 35 billion, receipts under primary income (labour and investment income) were down by CHF 8 billion on the year-back quarter. This was mainly attributable to lower earnings from direct investment abroad.

Expenses

Expenses for total goods trade were unchanged year-on-year, at CHF 65 billion.

Expenses for services imports amounted to CHF 26 billion, CHF 2 billion lower than the year-back quarter. The decrease was mainly attributable to business services, licence fees, and telecommunications, computer and information services.

Expenses under primary income (labour and investment income) fell by CHF 9 billion to CHF 36 billion. This was mainly due to lower earnings from direct investment in Switzerland. Expenses for secondary income (current transfers) receded by CHF 2 billion to CHF 14 billion, following unusually high figures in the fourth quarter of 2017, which stemmed from claims payments abroad by resident reinsurance companies.

Net

The current account surplus amounted to CHF 15 billion, a CHF 2 billion increase over the year-back quarter. It was calculated as the sum of all receipts (CHF 156 billion) minus the sum of all expenses (CHF 141 billion).

Financial account

Net acquisition of financial assets

Overall, the assets side of the financial account registered a net acquisition of CHF 9 billion (Q4 2017: net acquisition of CHF 15 billion). The other investment item recorded a net acquisition of CHF 14 billion, the same as in the year-back quarter – the SNB increased its claims abroad, as did finance and holding companies. This was partly offset by a reduction in amounts due to banks from foreign customers. Portfolio investment showed a net reduction of CHF 11 billion (Q4 2017: net reduction of CHF 13 billion), as resident investors sold both

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equity securities and long-term debt securities of non-resident issuers. Direct investment and reserve assets posted a net acquisition of CHF 3 billion each (Q4 2017: net acquisitions of CHF 11 billion and CHF 3 billion, respectively).

Net incurrence of liabilities

Overall, the liabilities side of the financial account registered a net reduction of CHF 12 billion (Q4 2017: net incurrence of CHF 26 billion). The largest reduction was recorded by direct investment, at CHF 21 billion (Q4 2017: net incurrence of CHF 27 billion), with parent companies abroad withdrawing equity capital from their Swiss subsidiaries. In addition, there was a reduction in liabilities under intragroup lending, although this was partly offset by parent companies abroad reinvesting their earnings in their Swiss subsidiaries. Portfolio investment also registered a net reduction; it amounted to CHF 6 billion (Q4 2017: net reduction of CHF 2 billion) and resulted from sales by foreign investors of equity securities from resident issuers. Other investment posted net incurrence totalling CHF 15 billion (Q4 2017: net incurrence of CHF 1 billion) as a result of resident banks increasing their liabilities to banks abroad (interbank business). However, companies also increased their liabilities abroad. This was partly offset by the fact that the SNB reduced its liabilities abroad.

Net

The financial account balance came to CHF 21 billion (Q4 2017: CHF –10 billion). It 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.

International investment position**Assets**

Stocks of assets declined by a total of CHF 9 billion to CHF 4,785 billion compared with the third quarter of 2018. This was mainly the result of valuation losses caused by sharply falling prices on international stock exchanges. The impact was felt in portfolio investment in particular and partly also in reserve assets. Stocks of portfolio investment fell by CHF 36 billion to CHF 1,322 billion. This decrease would have been even more pronounced were it not for the significant offsetting effect of statistical adjustments. These adjustments arose out of newly available information from reporting institutions. Stocks of reserve assets contracted by CHF 8 billion to CHF 776 billion. Direct investment assets increased by CHF 4 billion to CHF 1,725 billion as a result of transactions recorded in the financial account. Likewise, transactions were behind the CHF 22 billion increase in other investment to CHF 855 billion. Derivatives increased by CHF 8 billion to CHF 107 billion.

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Stocks of liabilities contracted by CHF 79 billion to CHF 3,901 billion. This was mainly attributable to the substantial valuation losses under portfolio investment as a result of the sharply falling prices on the Swiss stock exchange. Stocks of portfolio investment fell by CHF 82 billion to CHF 1,070 billion. Direct investment liabilities decreased by CHF 19 billion to CHF 1,527 billion. However, in contrast to portfolio investment, this decrease was almost entirely transaction-based (net reduction of liabilities). Stocks of other investment rose by CHF 17 billion to CHF 1,196 billion, also driven by transactions recorded in the financial account. Derivatives increased by CHF 6 billion to CHF 108 billion.

Net international investment position

Since stocks of liabilities (down CHF 79 billion) showed a more pronounced decline than stocks of assets (down CHF 9 billion), the net international investment position rose by just under CHF 70 billion to CHF 884 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 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*.

To date, a complete breakdown of services data by country has not been available on the data portal because there was no country breakdown for the tourism component. This has been rectified, and time series for total services with a corresponding country breakdown are now available.

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SWISS BALANCE OF PAYMENTS – OVERVIEW

In CHF millions

	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Current account, net	12,856	16,791	22,088	16,513	15,182
Receipts	168,283	151,461	167,535	158,014	156,440
Expenses	155,428	134,670	145,447	141,501	141,259
Goods and services, net	19,883	21,468	19,482	16,978	19,071
Receipts	113,451	111,608	113,870	110,402	110,240
Expenses	93,568	90,139	94,388	93,424	91,169
Goods, net	16,472	16,018	14,713	11,047	14,841
Receipts	82,059	82,050	83,551	79,003	80,002
Foreign trade	78,816	76,245	78,333	74,140	75,049
Of which foreign trade total ¹	57,357	57,600	59,959	54,837	60,751
Of which non-monetary gold	17,184	15,232	14,030	15,055	10,068
Supplements to foreign trade ²	-3,288	-3,167	-3,485	-3,015	-2,862
Merchanting	6,531	8,972	8,704	7,878	7,816
Expenses	65,587	66,032	68,838	67,955	65,161
Foreign trade	67,007	67,346	70,436	69,047	66,145
Of which foreign trade total ¹	49,953	50,756	52,403	48,106	50,561
Of which non-monetary gold	14,019	14,055	15,399	19,071	12,958
Supplements to foreign trade ²	-1,420	-1,314	-1,597	-1,092	-984
Services, net	3,411	5,451	4,769	5,931	4,230
Receipts	31,392	29,558	30,318	31,400	30,237
Expenses	27,981	24,107	25,550	25,469	26,008
Primary income, net	-2,902	-2,694	4,884	1,976	-1,395
Receipts	42,825	29,710	43,470	36,411	34,848
Expenses	45,727	32,404	38,586	34,435	36,243
Labour income, net	-5,970	-5,948	-5,952	-5,926	-5,895
Receipts	604	604	604	604	604
Expenses	6,574	6,552	6,556	6,531	6,500
Investment income, net	3,068	3,254	10,836	7,902	4,500
Receipts	42,221	29,106	42,866	35,806	34,244
Expenses	39,153	25,852	32,030	27,904	29,744
Secondary income, net	-4,126	-1,983	-2,278	-2,441	-2,494
Receipts	12,007	10,143	10,195	11,201	11,353
Expenses	16,132	12,127	12,473	13,642	13,846
Capital account, net	-488	-1,040	1,359	4,258	-3
Receipts	135	111	1,726	5,969	199
Expenses	624	1,151	367	1,711	202

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Financial account (excluding derivatives), net	-10,337	13,123	899	37,471	20,972
Net acquisition of financial assets	15,439	-10,380	-29,970	-17,917	8,975
Net incurrence of liabilities	25,776	-23,504	-30,869	-55,388	-11,996
Direct investment, net	-15,695	44,570	15,871	26,906	24,268
Net acquisition of financial assets	11,215	12,994	18,855	10,709	3,443
Net incurrence of liabilities	26,909	-31,576	2,984	-16,197	-20,826
Portfolio investment, net	-10,983	21,610	-13,427	6,741	-5,145
Net acquisition of financial assets	-13,210	14,349	-15,153	-500	-11,229
Net incurrence of liabilities	-2,227	-7,261	-1,726	-7,241	-6,084
Other investment, net	13,403	-56,235	-4,174	-1,057	-941
Net acquisition of financial assets	14,496	-40,902	-36,301	-33,007	13,973
Net incurrence of liabilities	1,094	15,333	-32,127	-31,950	14,913
Reserve assets, net	2,938	3,179	2,629	4,882	2,789
Derivatives, net	712	616	908	-339	271
Statistical difference	-21,992	-2,012	-21,640	16,362	6,064

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 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Assets	4,872,430	4,834,176	4,869,174	4,794,024	4,784,826
Direct investment	1,687,068	1,701,211	1,733,056	1,720,840	1,724,643
Portfolio investment	1,377,206	1,364,090	1,366,429	1,357,221	1,321,571
Derivatives	83,543	90,126	98,940	98,790	106,779
Other investment	932,484	893,456	875,147	833,146	855,336
Reserve assets	792,129	785,293	795,602	784,027	776,498
Liabilities	4,081,476	4,013,693	4,014,588	3,979,346	3,900,667
Direct investment	1,581,216	1,558,276	1,569,513	1,546,578	1,527,097
Portfolio investment	1,172,648	1,113,280	1,111,898	1,152,225	1,070,345
Derivatives	86,965	93,277	105,199	101,441	107,511
Other investment	1,240,647	1,248,861	1,227,978	1,179,102	1,195,715
Net international investment position	790,954	820,483	854,586	814,678	884,159
Direct investment	105,852	142,935	163,543	174,262	197,546
Portfolio investment	204,558	250,811	254,531	204,996	251,226
Derivatives	-3,422	-3,152	-6,258	-2,651	-732
Other investment	-308,163	-355,405	-352,831	-345,956	-340,380
Reserve assets	792,129	785,293	795,602	784,027	776,498

Source: SNB