

Communications

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Zurich, 21 December 2018

Swiss balance of payments and international investment position Q3 2018

Overview

In the third quarter of 2018, the current account surplus amounted to CHF 15 billion, CHF 7 billion higher than in the same quarter of 2017. The increase was primarily attributable to the higher receipts surpluses in investment income and in trade in goods. The expenses surplus in secondary income (current transfers) was also lower than in the corresponding quarter of 2017.

In the financial account, reported transactions showed a net reduction in the third quarter of 2018, for both assets (CHF 34 billion) and liabilities (CHF 56 billion). This development was attributable, on the one hand, to commercial bank transactions. These reduced assets and liabilities particularly in interbank business abroad, resulting in a net reduction in other investment on both the assets and the liabilities sides. On the other hand, foreign-controlled companies in Switzerland trimmed their balance sheets. As in the previous two quarters, these transactions were made against the backdrop of the tax reforms in the US (Tax Cuts and Jobs Act). The withdrawal of funds affected direct investment on both sides of the financial account, in each case in the form of a reduction in equity capital. Since there was a greater net reduction in liabilities than in assets, the financial account registered a positive overall balance of CHF 21 billion.

The net international investment position fell by CHF 54 billion to CHF 797 billion in the third quarter of 2018. Stocks of assets were down by CHF 91 billion to CHF 4,759 billion, and stocks of liabilities decreased by CHF 37 billion to CHF 3,962 billion. The decline in assets was attributable to the transactions reported in the financial account (net reduction of assets) and to exchange rate-related valuation losses. Both the US dollar and the euro

Press release

depreciated against the Swiss franc. The decline in liabilities was driven by the transactions reported in the financial account (net reduction of liabilities).

Current account**Receipts**

At CHF 78 billion, receipts from total goods trade exceeded the figure for the third quarter of 2017 by CHF 3 billion. The increase was attributable to higher receipts from goods exports according to the foreign trade statistics, which rose by CHF 4 billion to CHF 74 billion, mainly due to higher exports of non-monetary gold. By contrast, receipts from merchanting fell by CHF 1 billion to CHF 7 billion.

Receipts from foreign trade in services remained on a par with the year-back quarter at CHF 31 billion. While receipts from financial services and tourism increased, lower receipts were recorded for business services and licence fees.

At CHF 32 billion, receipts under primary income (labour and investment income) were down by CHF 4 billion on the year-back quarter. This was primarily attributable to lower earnings from direct investment abroad. Receipts under secondary income (current transfers) amounted to CHF 11 billion, down CHF 2 billion from the exceptionally high levels in the same quarter of 2017.

Expenses

Expenses for total goods trade amounted to CHF 67 billion, a CHF 1 billion rise from the third quarter of 2017. In particular, there was an increase in expenses according to the foreign trade statistics. These rose by CHF 2 billion to almost CHF 69 billion, with jewellery recording the largest increase in absolute terms.

Expenses for services imports amounted to CHF 26 billion, unchanged from the year-back quarter. While expenses in tourism increased, they reduced for telecommunications, computer and information services.

Expenses under primary income (labour and investment income) fell by CHF 7 billion to CHF 30 billion. This was mainly due to lower earnings from direct investment in Switzerland. Expenses under secondary income (current transfers) came to CHF 13 billion, a decline of CHF 5 billion from the year-back quarter when reinsurers' claims payments were exceptionally high.

Current account balance

The current account surplus amounted to almost CHF 15 billion, a CHF 7 billion increase from the third quarter of 2017. It is calculated as the sum of all receipts (CHF 151 billion) minus the sum of all expenses (CHF 137 billion).

Press release

Financial account

Net acquisition of financial assets

The assets side of the financial account registered a net reduction of CHF 34 billion (Q3 2017: net reduction of CHF 37 billion). This reduction was mainly due to other investment, which posted a net reduction of CHF 38 billion (Q3 2017: net reduction of CHF 11 billion). In particular, resident commercial banks reduced their claims abroad. Portfolio investment registered a net reduction of CHF 1 billion (Q3 2017: net reduction of CHF 2 billion). Resident investors sold both equity securities and short-term debt securities of non-resident issuers, but purchased long-term debt securities. Direct investment was affected by transactions in opposite directions. Resident companies withdrew funds in the form of equity capital from their non-resident subsidiaries in the context of the US tax reforms. At the same time, they granted intragroup loans and reinvested earnings abroad with the result that transactions balanced each other out overall (Q3 2017: net reduction of CHF 28 billion). Reserve assets registered a net acquisition of CHF 5 billion (Q3 2017: net acquisition of CHF 4 billion).

Net incurrence of liabilities

On the liabilities side, a net reduction of CHF 56 billion was recorded, to which all components contributed (Q3 2017: net reduction of CHF 42 billion). Other investment registered the strongest net reduction of CHF 31 billion (Q3 2017: net reduction of CHF 3 billion). As on the assets side this was largely due to commercial banks, with the latter reducing their liabilities towards non-resident banks and non-resident customers. Direct investment showed a net reduction of CHF 17 billion, primarily as a result of non-resident parent companies withdrawing equity capital from their resident subsidiaries (Q3 2017: net reduction of CHF 36 billion). These transactions took place in connection with the tax reforms in the US. The net reduction in portfolio investment came to CHF 8 billion (Q3 2017: net reduction of CHF 2 billion). Non-resident investors sold both shares and short-term debt securities of resident issuers.

Financial account balance

The financial account balance came to CHF 21 billion (Q3 2017: CHF 5 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.

Press release

International investment position

Assets

Stocks of assets declined by a total of CHF 91 billion to CHF 4,759 billion compared with the second quarter of 2018. This decrease was due to the transactions reported in the financial account (net reduction of assets) as well as to valuation losses on US dollar and euro-denominated assets. Stocks of other investment declined by CHF 47 billion to CHF 828 billion. Direct investment stocks fell by CHF 23 billion to CHF 1,691 billion. Portfolio investment reduced by CHF 10 billion to CHF 1,356 billion, with valuation losses from exchange rate movements set against valuation gains from higher prices on foreign stock exchanges. Reserve assets were CHF 12 billion lower at CHF 748 billion. Stocks of derivatives remained unchanged at CHF 99 billion.

Liabilities

Stocks of liabilities contracted by CHF 37 billion to CHF 3,962 billion. This decrease was mainly attributable to the transactions recorded in the financial account (net reduction of liabilities). Since only a small proportion of stocks on the liabilities side are held in foreign currencies, valuation losses from exchange rate movements played a more minor role than on the assets side. Other investment fell by CHF 48 billion to CHF 1,187 billion. Stocks of direct investment decreased by CHF 24 billion to CHF 1,523 billion. Derivatives were down by CHF 5 billion to CHF 100 billion. An increase of CHF 40 billion to CHF 1,152 billion was recorded in portfolio investment, where valuation gains as a result of higher share prices on the Swiss stock exchange had a significant impact.

Net international investment position

Given that stocks of assets (down CHF 91 billion) showed a more pronounced decline than stocks of liabilities (down CHF 37 billion), the net international investment position fell by CHF 54 billion to CHF 797 billion.

Data revisions

With the publication of this press release, data revisions stemming from retroactively delivered/revised data submitted by the companies surveyed come into effect. Substantial revisions were made to direct investment for 2016 and 2017, affecting capital stocks in the international investment position, capital transactions in the financial account and investment income in the current account.

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

Press release

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*.

Press release

SWISS BALANCE OF PAYMENTS – OVERVIEW

In CHF millions

	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Current account, net	7,942	12,856	18,148	22,724	14,596
Receipts	155,959	168,283	150,767	165,865	151,330
Expenses	148,018	155,428	132,619	143,140	136,734
Goods and services, net	14,339	19,883	20,544	18,430	15,504
Receipts	106,369	113,451	110,529	112,486	108,494
Expenses	92,031	93,568	89,986	94,056	92,990
Goods, net	9,018	16,472	14,944	13,798	10,476
Receipts	75,244	82,059	80,978	82,507	77,846
Foreign trade	69,587	78,816	76,248	78,342	73,839
Of which foreign trade total ¹	53,561	57,357	57,602	59,966	54,824
Of which non-monetary gold	13,188	17,184	15,232	14,031	14,861
Supplements to foreign trade ²	-2,467	-3,288	-3,169	-3,487	-3,107
Merchanting	8,124	6,531	7,899	7,652	7,113
Expenses	66,226	65,587	66,035	68,709	67,370
Foreign trade	66,761	67,007	67,351	70,309	68,520
Of which foreign trade total ¹	45,098	49,953	50,761	52,408	48,182
Of which non-monetary gold	19,144	14,019	14,055	15,285	18,584
Supplements to foreign trade ²	-535	-1,420	-1,316	-1,600	-1,150
Services, net	5,321	3,411	5,600	4,632	5,028
Receipts	31,126	31,392	29,551	29,980	30,648
Expenses	25,805	27,981	23,951	25,347	25,620
Primary income, net	-1,628	-2,902	-408	6,571	1,516
Receipts	36,311	42,825	30,095	43,178	31,969
Expenses	37,939	45,727	30,502	36,607	30,453
Labour income, net	-5,985	-5,970	-6,009	-6,013	-6,043
Receipts	604	604	604	604	604
Expenses	6,589	6,574	6,614	6,618	6,648
Investment income, net	4,357	3,068	5,601	12,584	7,559
Receipts	35,707	42,221	29,490	42,573	31,365
Expenses	31,350	39,153	23,889	29,989	23,805
Secondary income, net	-4,769	-4,126	-1,988	-2,277	-2,424
Receipts	13,279	12,007	10,143	10,200	10,868
Expenses	18,048	16,132	12,131	12,478	13,292
Capital account, net	1,281	-488	-1,031	1,359	-1,519
Receipts	1,356	135	111	1,726	192
Expenses	75	624	1,142	367	1,711

Press release

Financial account (excluding derivatives), net	5,025	-10,337	9,456	803	21,589
Net acquisition of financial assets	-37,092	15,439	-9,967	-53,257	-34,248
Net incurrence of liabilities	-42,117	25,776	-19,422	-54,059	-55,837
Direct investment, net	8,279	-15,695	41,122	15,374	17,319
Net acquisition of financial assets	-27,965	11,215	13,258	-6,656	103
Net incurrence of liabilities	-36,244	26,909	-27,864	-22,030	-17,216
Portfolio investment, net	229	-10,983	21,483	-14,036	6,490
Net acquisition of financial assets	-2,151	-13,210	14,202	-15,088	-1,207
Net incurrence of liabilities	-2,380	-2,227	-7,281	-1,052	-7,697
Other investment, net	-7,254	13,403	-56,328	-3,165	-7,102
Net acquisition of financial assets	-10,748	14,496	-40,604	-34,142	-38,026
Net incurrence of liabilities	-3,493	1,094	15,723	-30,977	-30,924
Reserve assets, net	3,772	2,938	3,179	2,629	4,882
Derivatives, net	-150	712	616	512	-764
Statistical difference	-4,348	-21,992	-7,046	-22,768	7,748

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 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
Assets	4,786,105	4,872,430	4,838,964	4,850,315	4,759,198
Direct investment	1,663,716	1,687,068	1,707,465	1,714,025	1,691,498
Portfolio investment	1,347,820	1,377,206	1,363,943	1,366,347	1,356,421
Derivatives	88,638	83,543	90,659	98,950	98,853
Other investment	913,849	932,484	891,604	875,391	828,398
Reserve assets	772,082	792,129	785,293	795,602	784,027
Liabilities	4,013,060	4,081,476	4,021,925	3,999,645	3,962,497
Direct investment	1,543,335	1,581,216	1,560,550	1,546,939	1,522,977
Portfolio investment	1,147,471	1,172,648	1,113,259	1,112,541	1,152,403
Derivatives	91,243	86,965	93,269	104,932	99,706
Other investment	1,231,011	1,240,647	1,254,847	1,235,234	1,187,411
Net international investment position	773,045	790,954	817,039	850,670	796,701
Direct investment	120,380	105,852	146,916	167,086	168,522
Portfolio investment	200,350	204,558	250,684	253,807	204,018
Derivatives	-2,605	-3,422	-2,610	-5,981	-854
Other investment	-317,162	-308,163	-363,244	-359,843	-359,012
Reserve assets	772,082	792,129	785,293	795,602	784,027

Source: SNB