The Swiss balance of payments in 1996

Press release of 27 August 1997

Increase in the current account surplus

The current account surplus rose by Sfr 1.1 billion to Sfr 26.4 billion in 1996. Measured by gross domestic product, the surplus reached an internationally high level of 7.3%. The exchange of goods with other countries showed less dynamic development than in the previous year due to the weak economic performance of major European trading partners and the declining Swiss economy. The exchange of services with other countries increased in terms of value.

With stock markets booming and an abundance of bank liquidity, the volume of capital flows reached a peak. Compared with the previous year, capital exports rose mainly due to the massive increase in international interbank business - to a level in excess of Sfr 120 billion. In 1995, however, relatively low capital exports had been recorded. Stock market developments and the continuing international diversification of securities investment led to a vigorous expansion in foreign securities acquisitions. The outflow of capital for direct investment remained on the previous year's high level.

Capital inflows into banks and portfolio investment increased markedly. Foreign direct investment in Switzerland reached approximately the same volume as in 1995. The deficit in the financial account including net errors and omissions, which is allocated to the financial account, contracted from Sfr 25.3 billion to Sfr 22.8 billion. The reserve assets of the Swiss National Bank rose by Sfr 7.8 billion due mainly to the appreciation of the US dollar. In the previous year, reserves had declined by Sfr 3.7 billion owing to the depreciation of foreign exchange assets.

A detailed commentary (in German and French only) on Switzerland's balance of payments is published together with the Monthly Report of the Swiss National Bank at the end of September and will also appear as a supplement to the "Magazin für Wirtschaftspolitik" in October 1997.

Detailed information on individual positions

Current account

Exports of goods and services rose slightly compared to the previous year, and imports, too, recorded similar growth. In terms of value, expenses for imports of goods and services increased somewhat less markedly than export earnings. This caused net receipts from the balance on trade and services to expand by Sfr 0.5 billion; net investment income rose by Sfr 0.5 billion to Sfr 21.3 billion. The current account surplus increased by Sfr 1.1 billion to Sfr 26.4 billion.

For the fourth time in succession the trade balance showed a surplus, which - at Sfr 1.9 billion - slightly exceeded the previous year's level (Sfr 1.8 billion). Exports of goods rose by 2.4% in terms of value, imports increased by 2.3%. Import prices fell by 0.2%, while export prices moved up by 0.3%. This led to a slight improvement in the terms of trade.

Services exhibited a similar development to merchandise trade. Net receipts totalled Sfr 15.6 billion, exceeding the previous year's level by Sfr 0.4 billion. The surplus from travel diminished once more. Earnings dropped by 1% to Sfr 11.1 billion after already having declined a year earlier. Earnings from overnight stays decreased by 3.8% to Sfr 7.7 billion. The number of overnight stays in hotels and other accommodation receded once more. Switzerland recorded significantly fewer visitors from European countries and the United States, while demand from South and East Asia and Australia/Oceania showed favourable development.

Foreign travel of Swiss residents showed a renewed vigorous rise despite unfavourable currency development. The number of overnight stays rose by 5.3%, expenditures for personal and business travel increased by 6.7%.

The banks' income from commission increased by 17% to Sfr 7.8 billion. Brokerage income, fiduciary commissions and higher earnings from portfolio management contributed to this growth.

Net investment income rose by Sfr 0.5 billion to Sfr 21.3 billion. Earnings from Swiss financial assets and direct investment abroad expanded by 6% to Sfr 37.9 billion. Income from portfolio investment slightly exceeded the previous year's figure, and reinvested earnings from direct investment abroad rose vigorously. The banks' income from credit business remained virtually unchanged, whereas lower interest rates caused a loss of income from fiduciary investment. Interest and dividends paid out to other countries increased by Sfr 1.6 billion to Sfr 16.7 billion due to higher direct investment earnings and higher income on foreign investment in Swiss securities.

Financial account

In 1996 capital flows were characterised by a marked boom in the money and capital markets. In particular, interbank business, which is predominantly short-term, was vigorously expanded, leading to a massive increase in both capital exports and capital imports. Transactions by the banks accounted for more than half of all capital movements. Securities lending and repurchase agreements contributed significantly to this rise.

Direct investment abroad attained more or less the previous year's level in 1996 (Sfr 14.4 billion). Given lower investment than in the previous year by the chemical as well as the metal and machinery industries, capital exports of the industrial sector declined by almost Sfr 1 billion. In each of the three previous years the chemical industry had invested the highest amount of all sectors. With notably insurance, finance and holding companies and enterprises in the field of transport and communications increasing their direct investment, the service sectors expanded their capital exports by Sfr 0.9 billion to Sfr 6.4 billion.

Capital exports to EU countries moved up from Sfr 6.2 billion to Sfr 7.8 billion. Swiss enterprises particularly strengthened their establishments in the United Kingdom and Germany. Direct investment was also considerably higher than a year earlier in the newly industrialised and developing countries of Asia. Capital outflows to the United States, until last year the major investment country of the Swiss business sector, were halved from the previous year's figure.

The inflow of capital for direct investment in Switzerland rose negligibly to Sfr 2.7 billion. In 1996 more than half of the invested funds derived from retained earnings of subsidiaries. Sfr 0.9 billion flowed into Switzerland for takeovers and capital increases, compared to Sfr 2.5 billion in the previous year. Acquisitions of Swiss companies by foreign enterprises announced in 1996 have so far been only partially reflected in capital imports.

The chemical, electronic and energy, trade and banking sectors recorded a distinct rise in capital inflows. The inflow of funds into the insurance sector dwindled while a year earlier takeovers had triggered massive capital imports. Disinvestment by foreign finance and holding companies amounted to Sfr 0.5 billion in 1996. Already a year earlier they had reduced their capital in Switzerland by Sfr 0.8 billion. Foreign enterprises in the metal and machinery industries also continued to decrease their capital in 1996. Capital imports from the EU declined from Sfr 2.5 billion to Sfr 1.8 billion. Italy and the United Kingdom actually reduced their capital in Switzerland. By contrast, capital imports from the United States doubled to Sfr 0.9 billion.

The securities markets exhibited a marked upswing in 1996. The issuing volume of international bonds reached a new peak. Share prices on most stock markets rose steeply. In the Swiss stock markets price rises were particularly pronounced in the wake of a declining interest rate level and the intensive restructuring under way in numerous enterprises. The domestic bond market was characterised by substantial repayments, which caused net borrowing in the market to decline.

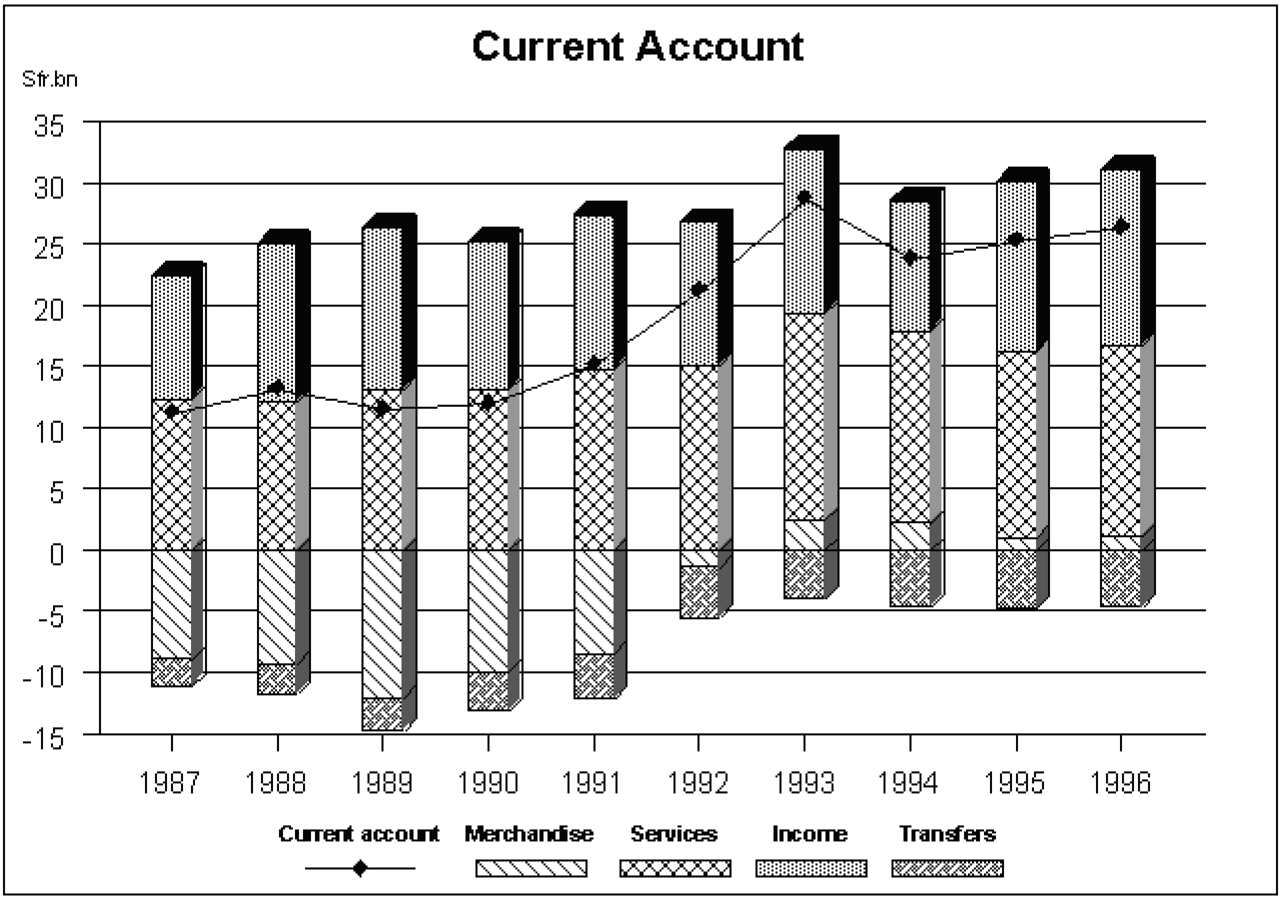
In 1996 Swiss investors increased their acquisitions of foreign securities by more than double to Sfr 24.5 billion. With share markets booming, purchases of equity securities rose by Sfr 10.1 billion to Sfr 14.9 billion. At Sfr 9.6 billion, the volume of debt securities purchased exceeded the previous year's level by Sfr 3.9 billion. Approximately one-third was invested in Swiss franc issues of foreign borrowers in Switzerland.

Foreign portfolio investment in Switzerland was characterised by massive acquisitions of dividend paper (shares and investment funds) in 1996. Foreign investors doubled their purchases in this line of business from Sfr 6.9 billion to Sfr 14.4 billion. They invested Sfr 1.5 billion in fixed-interest bonds and medium-term notes, most of them public sector bonds. A year earlier foreign investors had sold securities totalling Sfr 1.1 billion. Overall foreign securities purchases in 1996 amounted to Sfr 15.9 billion, compared to Sfr 5.9 billion in the previous year.

Capital movements of the banks (domestic offices) were characterised by high domestic bank liquidity the bulk of which was invested abroad. Domestic banks invested funds totalling Sfr 58.2 billion in financial institutions abroad (previous year: Sfr 8.1 billion) and accepted deposits to the amount of Sfr 47.4 billion from financial institutions abroad (previous year: reduction of deposits by Sfr 7.4 billion).

Commercial loans with foreign customers picked up slightly. Capital exports in the banks' loan business totalled Sfr 2.2 billion in 1996 following a decline in outstanding loans by Sfr 1.9 billion in the previous year. The equivalent of Sfr 8.3 billion (previous year: Sfr 4 billion) flowed into the banks from foreign nonbanks; just under half was accounted for by Swiss francs. The geographical breakdown of the banks' capital movements shows that the funds went largely to the United States and the United Kingdom.

The National Bank's reserve assets consist mainly of gold holdings, foreign exchange investment and the reserve position in the International Monetary Fund. The currency reserves rose by Sfr 7.8 billion in 1996, due largely to the exchange rate-induced appreciation of unhedged foreign currency holdings.


Current Account
Sfr.bn
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Current account
Merchandise
Services
Income
Transfers