

Swiss Balance of Payments and International Investment Position 2015

SCHWEIZERISCHE NATIONALBANK
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Swiss Balance of Payments and International Investment Position 2015

Volume 2

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CHANGES IN THE BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION IN 2015¹

Summary

In 2015, the current account surplus amounted to CHF 73 billion, CHF 16 billion higher than in 2014. This was primarily due to an increase in the receipts surplus in investment income, which was up by CHF 10 billion to CHF 36 billion. The surplus of receipts from trade in goods and services also rose compared to the previous year, by CHF 2 billion to CHF 70 billion. The expenses surplus for secondary income (current transfers) was down by CHF 5 billion to CHF 12 billion.

In the financial account, net acquisition of financial assets amounted to CHF 222 billion (2014: CHF 19 billion). For assets, this is the highest net acquisition figure since 2007. They were acquired by Switzerland mainly in the form of direct investment and reserve assets. For liabilities, a net incurrence of CHF 161 billion was recorded (2014: net reduction of CHF 30 billion). This was attributable, in particular, to direct investment and other investment. The balance on the financial account, resulting from the net acquisition of financial assets minus the net incurrence of liabilities, and including net derivatives, came to CHF 63 billion.

In the international investment position, stocks of foreign assets increased by CHF 42 billion to CHF 4,260 billion. Transactions reported in the financial account were largely offset by valuation losses on foreign assets, attributable to exchange rate movements which reduced the value of foreign currency positions. Stocks of foreign liabilities were up by CHF 116 billion to CHF 3,652 billion. As the foreign currency share in liabilities was comparatively low, the exchange rate losses had less of an impact here. Furthermore, liabilities increased due to stock exchange gains on securities issued by domestic borrowers. Since foreign liabilities grew much more substantially than foreign assets, the net international investment position decreased by CHF 74 billion to CHF 609 billion.

Current account

The receipts surplus from foreign trade in goods amounted to CHF 54 billion (2014: CHF 49 billion). According to the foreign trade statistics (foreign trade total 1 of the Federal Customs Administration; FCA), the receipts surplus grew by CHF 7 billion to CHF 37 billion. Although both exports and imports decreased, the decline in imports (down 7%) was greater than that in exports (down 3%). For this reason, the balance contracted. Net receipts from merchanting equalled the previous year's figure of CHF 25 billion. As regards trade in non-monetary gold, an import surplus of CHF 1 billion was recorded. In 2014, imports and exports had balanced each other out.

The receipts surplus from trade in services declined year-on-year by CHF 2 billion to CHF 16 billion. Receipts were down from CHF 109 billion to CHF 106 billion, while expenses decreased from CHF 90 billion to CHF 89 billion. The country breakdown of services exports and imports (excluding tourism in each case) showed the same sequence of countries – the most important trading partner was the US, followed by Germany and France.

Movements in the individual components of receipts varied. Financial services, the most important component of receipts, declined by 2%, as did receipts from tourism. A significant drop was also recorded in receipts from license fees (down 17%) and transport (down 16%). By contrast, exports of business services rose substantially (up 8%), as did those of telecommunications, computer and information services (up 15%).

An examination of expenses for foreign services also reveals differing movements for the individual components. On the one hand, a decline was recorded in expenses for tourism (down 2%), transport (down 25%) and license fees (down 8%). On the other, expenses rose for business services (the most important component of expenses), by 7%, and for telecommunications, computer and information services, by 5%. Imports of financial services remained unchanged, at CHF 4 billion.

For primary income (labour and investment income), receipts amounted to CHF 124 billion and expenses to CHF 109 billion, resulting in a receipts surplus of CHF 15 billion, compared to CHF 6 billion in 2014. Receipts from investment abroad were down by CHF 16 billion to CHF 122 billion due to lower income from direct investment. Income from foreign investment in Switzerland (expenses) declined by CHF 25 billion to CHF 86 billion, with decreasing direct investment income being the key factor on the expenses side as well. The expenses surplus on labour income increased by CHF 1 billion to CHF 21 billion.

¹ This report is based on the dataset for the fourth quarter of 2015, which was released with the press release of 21 March 2016, 'Swiss balance of payments and international investment position, Q4 2015 and review of the year 2015'.

Secondary income (current transfers) recorded an expenses surplus of CHF 12 billion, a decrease of CHF 5 billion from 2014.

Financial account

In 2015, net acquisition of financial assets amounted to CHF 222 billion (2014: CHF 19 billion). CHF 118 billion of this was accounted for by direct investment (2014: CHF 6 billion), with Swiss direct investors directing investments into existing foreign subsidiaries, in particular. Reserve assets recorded a net acquisition of assets amounting to CHF 95 billion (2014: CHF 34 billion). Furthermore, investors resident in Switzerland acquired securities issued abroad for CHF 38 billion (2014: CHF 8 billion); most of these were equity securities. Net reduction in assets under other investments, amounting to CHF 29 billion, was mainly due to the fact that domestic bank claims against foreign banks were reduced. A CHF 29 billion net reduction had already occurred under other investments in 2014.

Net incurrence of liabilities amounted to CHF 161 billion (2014: net reduction of CHF 30 billion), due mainly to direct investment and other investment. Direct investment came to CHF 116 billion (2014: CHF 16 billion). While foreign direct investors increased capital invested in their subsidiaries in Switzerland, Swiss direct investors borrowed considerable funds from their foreign subsidiaries. Incurrence of liabilities under other investments amounted to CHF 58 billion (2014: net reduction of CHF 48 billion), and resulted from cross-border interbank business, in particular. Domestic banks increased their claims against banks abroad. Under portfolio investment, however, investors domiciled abroad sold securities issued by domestic borrowers amounting to CHF 14 billion, thereby ensuring a net reduction in liabilities (2014: net incurrence amounting to CHF 2 billion).

Switzerland's international investment position

Stocks of foreign assets were up by CHF 42 billion year-on-year, to CHF 4,260 billion. This is a significantly lower figure than the CHF 222 billion of net acquisitions which Switzerland stated in its financial account. The difference is attributable, in particular, to high valuation losses on foreign currency positions, driven by movements in exchange rates. The strongest rise under foreign assets was recorded by direct investment, which grew by CHF 76 billion to CHF 1,487 billion. Purchases of foreign exchange caused reserve assets to increase by CHF 60 billion to CHF 601 billion. Stocks of the other investment item, however, decreased by CHF 45 billion to CHF 832 billion. Portfolio investment was down by CHF 17 billion to CHF 1,223 billion, with stocks of derivatives dropping by CHF 32 billion to CHF 118 billion.

Stocks of foreign liabilities rose by CHF 116 billion to CHF 3,652, although transactions in the financial account show a significantly higher figure (up CHF 161 billion). This was due to the exchange rate-related valuation losses which reduced the value of the stocks. As in the case of foreign assets, the increase in stocks of foreign liabilities was chiefly attributable to direct investment, which was up by CHF 108 billion to CHF 1,252 billion. Stocks of the other investment item rose by CHF 52 billion to CHF 1,152 billion. By contrast, stocks of derivatives declined by CHF 32 billion to CHF 115 billion, and those of portfolio investment by CHF 12 billion to CHF 1,132 billion.

Table 1

SWISS BALANCE OF PAYMENTS – OVERVIEW

In CHF millions

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|----------------|----------------|----------------|----------------|----------------|
| Current account, net | 47 369 | 64 346 | 70 776 | 56 714 | 72 970 |
| Receipts | 528 787 | 561 660 | 597 421 | 584 028 | 557 406 |
| Expenses | 481 419 | 497 314 | 526 644 | 527 315 | 484 436 |
| Goods and services, net | 48 167 | 59 296 | 70 300 | 67 788 | 70 238 |
| Receipts | 402 450 | 414 290 | 452 451 | 408 586 | 397 731 |
| Expenses | 354 283 | 354 994 | 382 150 | 340 798 | 327 493 |
| Goods, net | 26 111 | 37 789 | 49 931 | 49 499 | 53 758 |
| Receipts | 306 872 | 311 952 | 346 436 | 300 117 | 292 158 |
| Foreign trade | 286 460 | 292 958 | 332 137 | 285 179 | 279 128 |
| Of which foreign trade total ¹ | 197 907 | 200 612 | 201 213 | 208 357 | 202 817 |
| Of which non-monetary gold | 76 330 | 79 379 | 117 679 | 64 970 | 66 010 |
| Supplements to foreign trade ² | -7 189 | -7 920 | -9 047 | -10 181 | -11 996 |
| Merchanting | 27 601 | 26 914 | 23 345 | 25 120 | 25 026 |
| Expenses | 280 761 | 274 164 | 296 505 | 250 618 | 238 400 |
| Foreign trade | 283 972 | 277 544 | 298 394 | 252 505 | 242 454 |
| Of which foreign trade total ¹ | 174 388 | 176 781 | 177 642 | 178 605 | 166 196 |
| Of which non-monetary gold | 96 050 | 88 804 | 109 788 | 65 154 | 67 235 |
| Supplements to foreign trade ² | -3 211 | -3 380 | -1 890 | -1 886 | -4 054 |
| Services, net | 22 056 | 21 507 | 20 369 | 18 289 | 16 480 |
| Receipts | 95 578 | 102 337 | 106 015 | 108 469 | 105 573 |
| Expenses | 73 522 | 80 830 | 85 646 | 90 180 | 89 093 |
| Primary income, net | 7 028 | 13 218 | 12 169 | 5 886 | 14 609 |
| Receipts | 97 704 | 113 390 | 110 981 | 139 579 | 123 736 |
| Expenses | 90 675 | 100 172 | 98 812 | 133 693 | 109 128 |
| Labour income, net | -16 802 | -18 331 | -19 321 | -20 450 | -21 327 |
| Receipts | 2 318 | 2 265 | 2 259 | 2 150 | 2 150 |
| Expenses | 19 120 | 20 596 | 21 580 | 22 600 | 23 477 |
| Investment income, net | 23 830 | 31 548 | 31 490 | 26 336 | 35 935 |
| Receipts | 95 385 | 111 124 | 108 722 | 137 429 | 121 586 |
| Expenses | 71 555 | 79 576 | 77 232 | 111 093 | 85 651 |
| Secondary income, net | -7 827 | -8 167 | -11 693 | -16 960 | -11 876 |
| Receipts | 28 634 | 33 980 | 33 989 | 35 863 | 35 938 |
| Expenses | 36 461 | 42 148 | 45 682 | 52 823 | 47 815 |
| Capital account, net | -8 407 | -2 203 | 675 | -10 108 | -14 135 |
| Receipts | 483 | 345 | 1 694 | 445 | 3 716 |
| Expenses | 8 890 | 2 548 | 1 019 | 10 553 | 17 851 |

In CHF millions

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|----------------|----------------|----------------|----------------|----------------|
| Financial account (excluding derivatives), net | 28 230 | 89 110 | 106 543 | 48 898 | 61 170 |
| Net acquisition of financial assets | 86 649 | 200 512 | 116 905 | 18 737 | 221 734 |
| Net incurrence of liabilities | 58 419 | 111 402 | 10 362 | -30 161 | 160 565 |
| Direct investment, net | 17 500 | 25 616 | 34 637 | -10 014 | 1 385 |
| Net acquisition of financial assets | 39 186 | 49 858 | 11 717 | 5 981 | 117 653 |
| Net incurrence of liabilities | 21 686 | 24 242 | -22 921 | 15 995 | 116 268 |
| Portfolio investment, net | 12 810 | -16 896 | 15 770 | 6 172 | 52 223 |
| Net acquisition of financial assets | -6 992 | -4 490 | 19 337 | 7 888 | 38 058 |
| Net incurrence of liabilities | -19 802 | 12 407 | 3 567 | 1 716 | -14 165 |
| Other investment, net | -44 708 | -94 200 | 43 194 | 18 780 | -87 050 |
| Net acquisition of financial assets | 11 827 | -19 446 | 72 909 | -29 093 | -28 589 |
| Net incurrence of liabilities | 56 535 | 74 754 | 29 716 | -47 872 | 58 461 |
| Reserve assets, net | 42 628 | 174 591 | 12 943 | 33 961 | 94 612 |
| Derivatives, net | -491 | -1 485 | -779 | -143 | 1 365 |
| Statistical difference | -11 223 | 25 482 | 34 313 | 2 150 | 3 699 |

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

2 Additions: Unchecked goods trade, small consignments, goods procured in ports. Subtractions: Manufacturing services on physical inputs owned by others, returned goods, CIF/FOB adjustment on imports.

Source: SNB

Table 2

SWITZERLAND'S INTERNATIONAL INVESTMENT POSITION – OVERVIEW

In CHF millions

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|------------------|------------------|------------------|------------------|------------------|
| Assets | 3 607 415 | 3 861 173 | 3 888 943 | 4 218 373 | 4 260 301 |
| Direct investment | 1 284 229 | 1 350 943 | 1 300 504 | 1 410 597 | 1 486 527 |
| Portfolio investment | 1 054 714 | 1 123 427 | 1 158 151 | 1 239 877 | 1 222 903 |
| Derivatives | 151 741 | 128 297 | 105 012 | 149 445 | 117 703 |
| Other investment | 805 338 | 773 505 | 847 911 | 877 254 | 831 810 |
| Reserve assets | 311 394 | 485 001 | 477 364 | 541 201 | 601 359 |
| Liabilities | 2 778 726 | 3 073 065 | 3 230 616 | 3 535 666 | 3 651 607 |
| Direct investment | 923 447 | 966 223 | 967 665 | 1 144 391 | 1 252 278 |
| Portfolio investment | 655 725 | 869 385 | 1 026 491 | 1 143 792 | 1 132 251 |
| Derivatives | 155 083 | 126 088 | 100 268 | 147 485 | 115 186 |
| Other investment | 1 044 470 | 1 111 369 | 1 136 192 | 1 099 999 | 1 151 892 |
| Net international investment position | 828 689 | 788 108 | 658 327 | 682 707 | 608 694 |
| Direct investment | 360 782 | 384 719 | 332 839 | 266 206 | 234 249 |
| Portfolio investment | 398 989 | 254 042 | 131 661 | 96 085 | 90 652 |
| Derivatives | -3 343 | 2 209 | 4 744 | 1 960 | 2 517 |
| Other investment | -239 133 | -337 864 | -288 282 | -222 745 | -320 082 |
| Reserve assets | 311 394 | 485 001 | 477 364 | 541 201 | 601 359 |

Source: SNB

SPECIAL TOPIC: DIFFERENT PRESENTATION PRINCIPLES FOR DIRECT INVESTMENT

One of the consequences of introducing the new international standard for reporting the balance of payments and the international investment position (*Balance of Payments and International Investment Position Manual*, BPM6) was a change in the principle underlying the presentation of direct investment in the balance of payments and the international investment position. Direct investment is now being stated according to the asset/liability principle (gross principle), as are all other items. However, in the *Direct Investment* report, the directional principle (net principle) continues to be used.

The special topic explains the reasons for using different presentation principles for direct investment, and shows how this affects geographical and industrial breakdowns.

COMMENTS

Comprehensive tables covering the balance of payments and international investment position can be found on the SNB's data portal, <https://data.snb.ch>, *Tables, International economic affairs*. The data can be accessed in the form of configurable web tables.

The data portal also has a section called 'Notes – International economic affairs' which provides further information on the individual components and their composition.

2 Balance of payments

CURRENT ACCOUNT

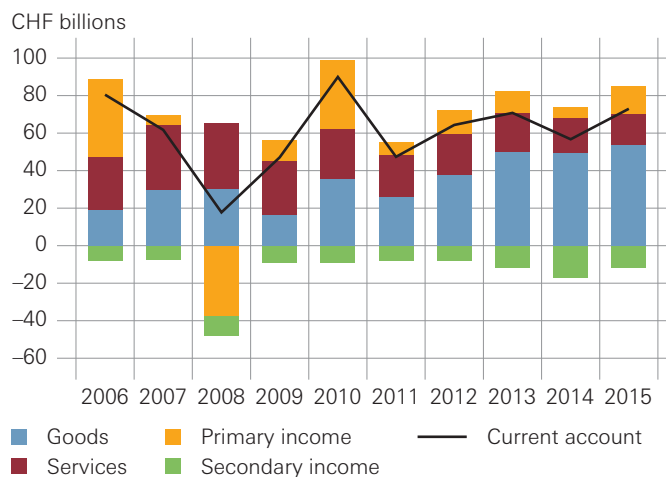
The most important current account components are trade in goods and services on the one hand, and primary income, i.e. income from direct investment, portfolio investment, other investment, reserve assets and labour income, on the other. These components are significantly influenced by domestic and foreign economic developments, the corporate earnings situation and conditions on the financial markets. Until 2010, the current account was largely determined by primary income; since then, however, trade in goods has played the most dominant role. Of the primary income components, income from direct investment is subject to the strongest fluctuations. In the case of trade in goods, which comprises not only foreign trade in the narrower sense (foreign trade total 1), an item heavily dependent on the state of the economy, but also non-monetary gold trade and merchanting, it is especially trade in gold that exhibits high volatility. As regards services, the current account is most strongly impacted by changes in the areas of tourism, financial services, licence fees, business services and transport. Secondary income (current transfers) typically runs an expenses surplus, since in both the public and private sector, expenses outweigh receipts.

The current account balance registered a low in 2008, when, as a result of the financial crisis, primary income showed an expenses surplus. Trade in goods has recorded increasing surpluses since 2011. In the past three years, they have resulted mainly from foreign trade in the narrower sense, which is dependent on the state of the economy. Net primary income registered major changes between 2006 and 2011, due predominantly to strong fluctuations in net income from direct investment. Since then, fluctuations have diminished considerably. The surplus on trade in services has declined over the last eight years. In the past three years, the expenses surplus for secondary income was significantly higher than in former years.

The current account balance recorded very substantial changes between 2006 and 2010, after which it reverted to a more stable course. In the year under review, it amounted to CHF 73 billion, or 11% of GDP (2014: 9%).

Chart 1

CURRENT ACCOUNT, NET



Source: SNB

Chart 2

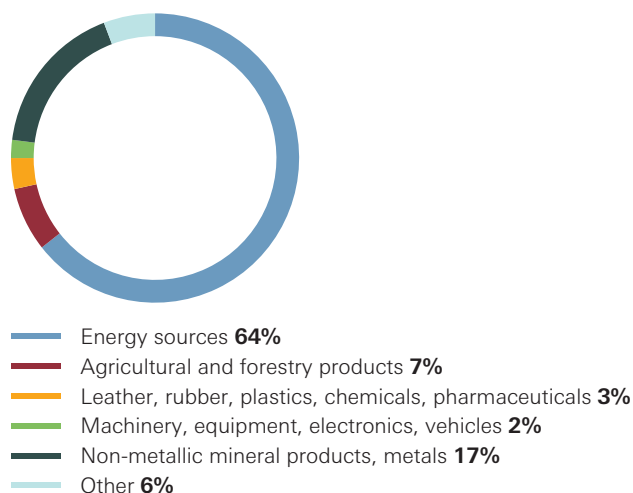
GOODS, NET



Sources: FCA, SNB

Chart 3

MERCHANTING, SALES PROCEEDS FOR 2015, BY CATEGORY OF GOODS IN PERCENT



Source: SNB

GOODS

Trade in goods as defined in the balance of payments is made up of different components: foreign trade, merchanting and supplements to foreign trade. Foreign trade total 1, as defined by the FCA, is influenced by domestic and foreign economic conditions and by exchange rates.

Movements in gold trade as well as other foreign trade, which is determined by trade in precious stones and gems, can be affected by considerable fluctuations in quantity and price. Merchanting is largely driven by the global economic situation and foreign demand for raw materials, but can also be impacted by price volatility. Merchanting refers to international goods trade in which companies based in Switzerland purchase goods on the world market and resell them abroad, without the goods ever being imported into or exported from Switzerland. These goods include raw materials – especially energy sources – but also semi-manufactured goods and finished products. In the current account, net receipts from merchanting are booked as receipts from goods trade. Under supplements to foreign trade, data from the foreign trade statistics according to the FCA are recorded as goods trade in the balance of payments. Unchecked goods trade, small consignments, goods procured in ports and trade in ships are added (included in total 1 since 2015). By contrast, exports and imports related to manufacturing services on physical inputs owned by others, as well as returned goods, are deducted. Both imports and exports are reported as ‘free on board’ (FOB) estimates. In the foreign trade statistics, however, imports are declared as ‘cost insurance freight’ (CIF).

Movements in the goods trade balance within the balance of payments are generally determined by gold trade, which occasionally recorded very considerable negative values between 2006 and 2012. A surplus was registered in gold trade in 2013. In 2014, exports and imports were almost on a par, and in 2015 the balance was again slightly negative. The surplus on foreign trade total 1 has increased in the last ten years, from CHF 12 billion to CHF 37 billion. The high surplus in the year under review was a result of imports (down 7%) receding more sharply than exports (down 3%). The decline both on the import and the export side was mainly due to lower prices. The following goods categories accounted for the exports surplus in 2015: chemical and pharmaceutical products, precision instruments, watches and jewellery, and machinery, equipment and electronics. An import surplus was recorded in the remaining goods categories.

Net income from merchanting doubled over the past ten years to CHF 25 billion. In 2015, it remained stable year-on-year despite lower raw material prices. Sales proceeds (turnover) in merchanting receded in 2013 and even dropped by roughly 25% in 2015. The share taken up by energy sources declined from 70% to 64%.

According to the foreign trade statistics of the FCA, the most important market for Swiss goods in 2015 was Germany, with a share of around 18%, followed by the US with about 14%. Other significant markets were France with around 7% and Italy with 6%. Germany’s share was down year-on-year, while that of the US recorded an increase. On the import side, Germany was the main supplier of goods, with a share of around 28%. France

Table 3

2015 FOREIGN TRADE TOTAL 1 BY ECONOMIC AREA

| | Exports In CHF billions | Imports In CHF billions | Exports Year-on-year change in percent | Imports Year-on-year change in percent | Net In CHF billions |
|------------------|----------------------------|----------------------------|--|--|------------------------|
| EU ¹ | 109.0 | 120.5 | -4.4% | -7.7% | -11.5 |
| Of which Germany | 36.6 | 47.0 | -5.1% | -8.3% | -10.4 |
| Of which France | 14.0 | 13.3 | -6.8% | -7.9% | 0.7 |
| Of which Italy | 12.8 | 16.1 | -7.2% | -8.8% | -3.3 |
| United States | 27.4 | 11.6 | 6.0% | 6.5% | 15.8 |
| Asia | 45.2 | 26.6 | -0.1% | -3.5% | 18.6 |
| Of which China | 8.9 | 12.3 | 1.4% | 1.6% | -3.4 |
| Latin America | 6.2 | 2.7 | -4.9% | -5.1% | 3.6 |
| Others | 15.0 | 4.9 | -9.5% | -27.2% | 9.8 |
| Total | 202.9 | 166.3 | -2.6% | -6.9% | 36.6 |

1 EU28.

Source: FCA

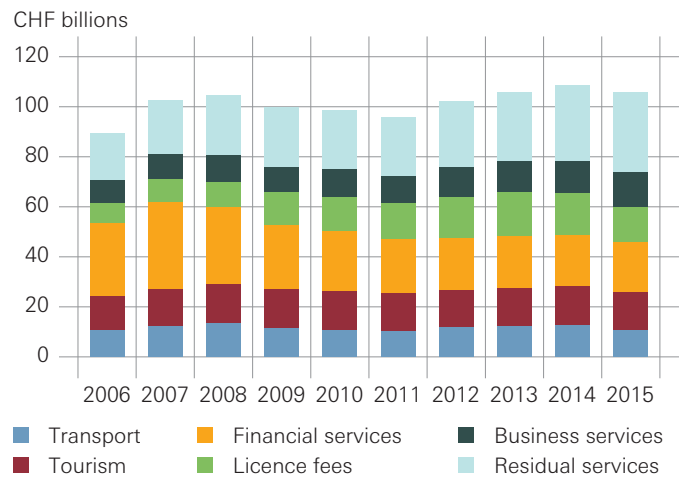
accounted for 8%; Italy for 10%. In recent years, Switzerland has registered an import surplus vis-à-vis both the EU and Germany, its most important trading partner. An export surplus was recorded against the US and Asia. The surplus against the US has risen significantly in recent years.

SERVICES

Financial services remain the most important component of services exports, although they have receded by more than one-third since 2007. Their share in exports of services as a whole has continually declined from 34% to around 19%. The share of tourism receipts has remained relatively stable at 15% in recent years, as has that of transport, which, however, receded slightly to 10% at the current end of the time series. The share of business services – which comprise consulting as well as technical and trade-related services – advanced from 12% to 13%. Receipts from licence fees have also shown an upward trend, their share rising from 9% to 16% between 2006 and 2013. In the past two years, however, it dropped again to 13%. Residual services comprise manufacturing services on physical inputs owned by others; maintenance and repair services; construction services; insurance and pension services; telecommunications, computer and information services; research and development services; other services. Within this group, significant growth was registered especially in telecommunications, computer and information services. These reached a new record high in 2015, with a share of 13% (2006: 8%). The share of income from research and development rose from 1% to 4% over the same period. There were no major changes in the other components. The share of insurance and pension services in particular has remained stable in the past few years at 6%.

Chart 4

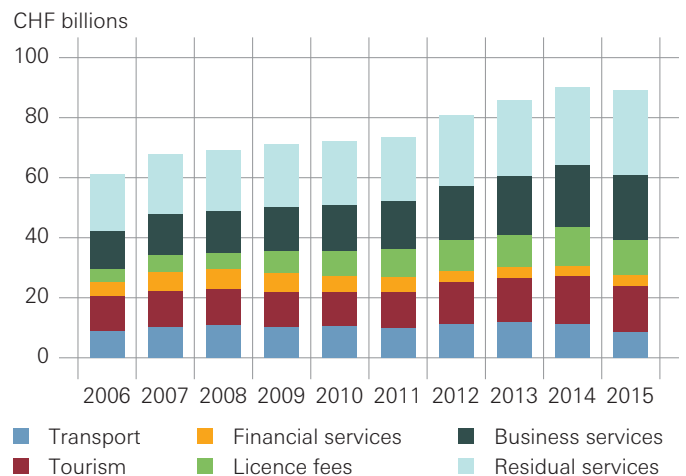
EXPORTS OF SERVICES



Source: SNB

Chart 5

IMPORTS OF SERVICES



Source: SNB

In contrast to exports of services, the largest component on the import side is business services, which accounted for some 24% in 2015. Tourism, at 17%, was slightly higher on the import than on the export side, but has remained relatively stable in recent years. Similarly, the share of transport was somewhat higher on the import than on the export side in the past. In 2015, however, the former receded by 3% and is now on a par with the export side (10%). Licence fees trended upwards on both the import and the export side over the last few years, before declining slightly to 13% in 2015. The share of financial services amounted to 4% in the past four years. In 2008, it had still accounted for 10%. The remaining components within residual services showed little or no change in recent years. The share of expenses for telecommunications, computer and information services came to 13–15%, that for research and development to between 8% and 11%.

The value of services exports in absolute terms decreased slightly between 2008 and 2011, then rose until 2014, before weakening again in 2015. Growth was recorded particularly in business services, licence fees, and the telecommunications, computer and information services category, while tourism, transport, and insurance and pension services tended to stagnate. After reaching their highest level to date in 2007, financial services declined by more than one-third, amounting to CHF 20 billion in 2015. Services imports had been rising since 2006, before receding marginally in 2015. Expenses increased in all major categories, especially those for business services and licence fees.

The most important market for services exports (excluding tourism) in 2015 was the US, followed by Germany. The same applied to imports of services, too.

Table 4

2015 TRADE IN SERVICES BY ECONOMIC AREA¹

| | Exports In CHF billions | Imports In CHF billions | Exports Year-on-year change in percent | Imports Year-on-year change in percent | Net In CHF billions |
|--------------------------|----------------------------|----------------------------|--|---|------------------------|
| EU ² | 41.4 | 39.2 | 2.6% | 4.8% | 2.2 |
| Of which Germany | 9.7 | 10.0 | -6.4% | -6.3% | -0.3 |
| Of which France | 4.6 | 5.0 | -10.3% | -4.9% | -0.4 |
| Of which Italy | 3.3 | 1.8 | 6.2% | -14.6% | 1.5 |
| United States | 17.1 | 18.4 | 4.8% | 6.2% | -1.4 |
| Asia | 11.4 | 8.5 | 1.5% | 3.0% | 2.9 |
| Of which China | 2.2 | 1.3 | -0.3% | 5.0% | 0.8 |
| Latin America | 9.9 | 4.9 | -0.6% | 1.0% | 5.0 |
| Others | 25.8 | 18.0 | -0.6% | -9.4% | 7.7 |
| Total¹ | 105.6 | 89.1 | -2.7% | -1.0% | 16.3 |

¹ Excluding tourism.

² EU28.

Source: SNB

PRIMARY INCOME

Labour income

Labour income from abroad (receipts) mainly consists of the salary and wage payments to Swiss residents employed by international organisations in Switzerland. International organisations are considered to be extraterritorial entities with non-resident status. Salaries and wages to other countries (expenses) represent the remuneration of foreign cross-border commuters. Salaries and wages in this category continued to rise in 2015 as a result of higher numbers of foreign cross-border commuters and amounted to CHF 24 billion. Receipts from labour income barely changed in recent years and amounted to only one-tenth of the expenses in 2015.

Investment income

Movements in receipts from Swiss investment abroad and expenses on foreign investment in Switzerland depend, on the one hand, on the level of capital stocks; this is reported in the international investment position. On the other, interest rates, corporate earnings and exchange rates also play a central role.

In the international investment position, assets (stocks abroad) are substantially higher than liabilities (stocks in Switzerland) for both direct investment and portfolio investment. Consequently, receipts generally exceed expenses in both components.

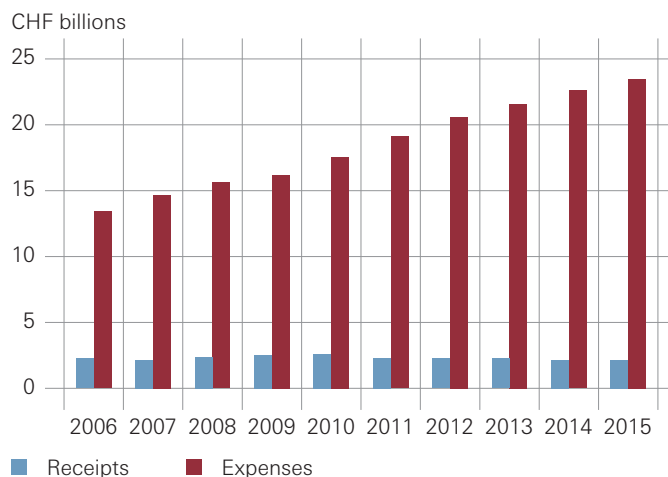
As a rule, income from direct investment drives movements in investment income on assets and liabilities abroad. Over the last ten years, movements in income have largely been influenced by company earnings, and less so by capital stocks. It should be noted that direct investment holdings are stated at book value, not at market value.

The composition of income from portfolio investment differs between the assets side and the liabilities side. While Swiss investors mainly hold debt securities abroad, foreign investors in Switzerland place a large proportion of their funds in shares. This difference is reflected in the breakdown of receipts and expenses for portfolio investment. Interest income makes up the bulk of receipts from Swiss investment abroad, whereas dividends paid on Swiss shares account for the largest proportion of expenses for foreign investment in Switzerland.

Income from other investment is determined by the interest on the claims and liabilities of banks and non-financial companies. Bank claims and liabilities abroad fluctuate considerably, although these fluctuations are roughly synchronous. Receipts and expenses on these items thus vary substantially.

Chart 6

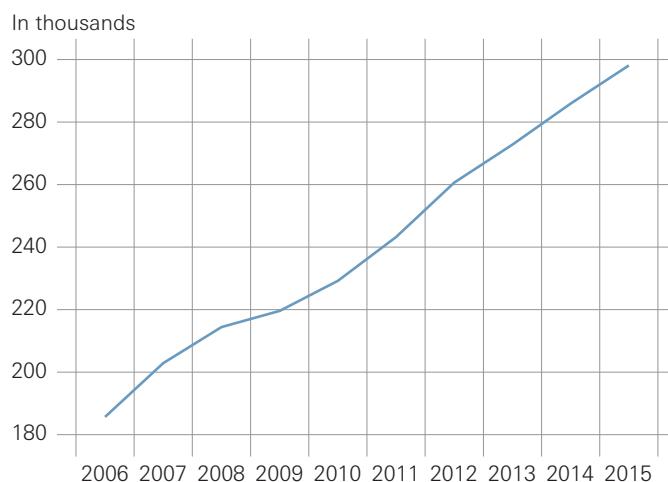
LABOUR INCOME



Source: SNB

Chart 7

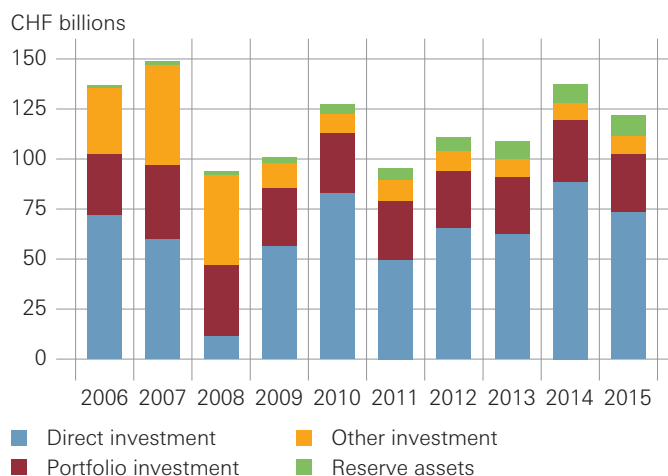
CROSS-BORDER COMMUTERS



Source: Swiss Federal Statistical Office

Chart 8

INVESTMENT INCOME, RECEIPTS



Source: SNB

Receipts from investment abroad was subject to considerable fluctuations over the past ten years. After reaching a peak of CHF 149 billion in 2007, they dropped to CHF 94 billion a year later. In 2015, they amounted to CHF 122 billion. Income from direct investment, in particular, fluctuated strongly. In 2008, for example, losses by banks' foreign subsidiaries led to the exceptionally low income level of CHF 11 billion. In 2015, income from direct investment amounted to CHF 73 billion. Income from portfolio investment has remained almost unchanged since 2009, at an average of CHF 29 billion. It had been significantly higher in 2007 and 2008. Income from other investment has decreased from CHF 50 billion to CHF 9 billion since 2007. By contrast, income from reserve assets has increased steadily since 2008. This increase occurred in parallel to a strong rise in reserve assets. At CHF 10 billion, the share of reserve assets in total receipts amounted to 8% in 2015, compared to 2% in 2008.

Expenses on investment income in Switzerland fluctuated between CHF 72 billion and CHF 131 billion in the period from 2006 to 2015. Following a brief dip in 2009, income from portfolio investment (expenses) rose steadily from CHF 16 billion to CHF 32 billion. Income from direct investment (expenses) is usually subject to large fluctuations. It came to CHF 45 billion in 2015, down from CHF 70 billion the year before. Income from other investment (expenses) dropped from CHF 52 billion in 2007 to CHF 9 billion.

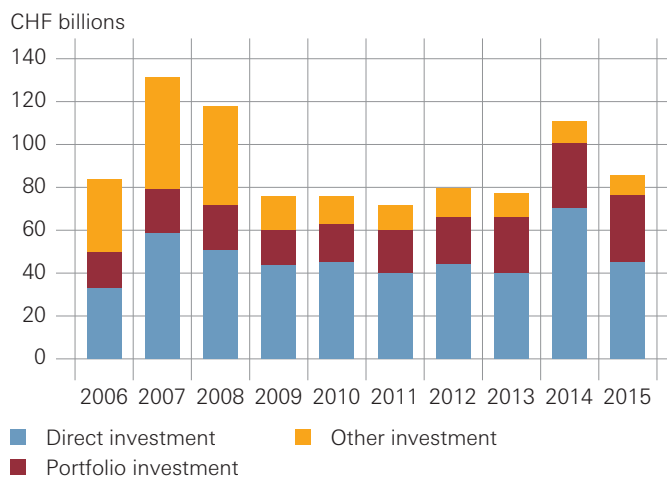
SECONDARY INCOME

On both the receipts and the expenses side, movements in secondary income (current transfers) are driven by private insurance companies (private transfers). Premium income earned by insurance companies (excluding the service component) is shown under receipts, and claims payments under expenses. A significant item under expenses for private transfers is transfers by immigrants to their home countries. Public transfers cover contributions to Swiss social security schemes received from abroad, pension payments to other countries, and public sector receipts and expenses. The receipts side consists mainly of taxes and fees, while the most important elements on the expenses side are transfers to international organisations. Both on the receipts and the expenses side, the share of public transfers in secondary income amounts to 20% on average.

Receipts and expenses have both gone up since 2010, although expenses receded again for the first time in 2015. During this period, receipts from private transfers increased from CHF 21 billion to CHF 30 billion, and expenses from CHF 27 billion to CHF 43 billion in 2014 and CHF 39 billion in the year under review. Public transfers have also risen slightly on both sides since 2010.

Chart 9

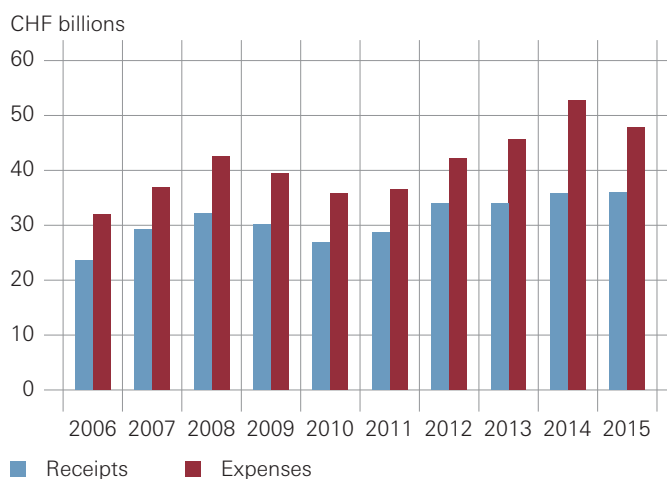
INVESTMENT INCOME, EXPENSES



Source: SNB

Chart 10

SECONDARY INCOME



Source: SNB

CAPITAL ACCOUNT

Capital transfers include trade in non-produced, non-financial assets, for example purchase and sales of franchises and trademarks, as well as other capital transfers, for example debt forgiveness, payments of compensation, guarantees and inheritances. In recent years, capital transfers have been dominated by expenses for non-produced, non-financial assets. These expenses can be subject to significant fluctuations. Other capital transfers – mainly expenses of the Swiss Confederation for economic development cooperation (especially financial aid donations) – are considerably lower.

FINANCIAL ACCOUNT

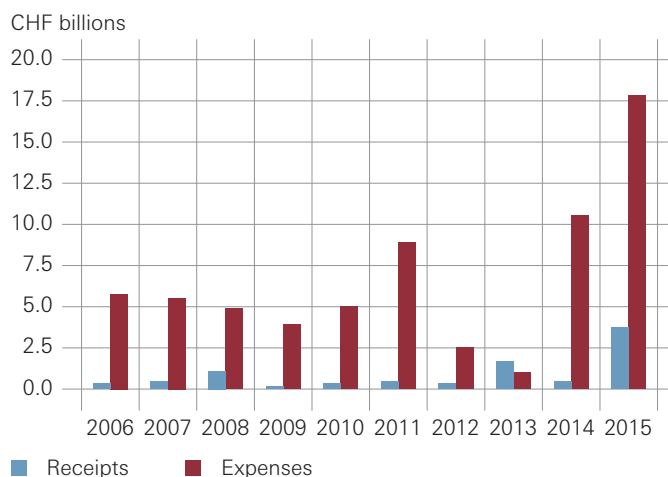
In the financial account, financial transactions are recorded and reported as net acquisition of financial assets or net incurrence of liabilities. Together with valuation changes and other changes, these transactions interpret the change in stocks in the international investment position.

The financial account balance comprises all net acquisition of financial assets minus all net incurrence of liabilities plus the balance from derivatives transactions. A positive financial account balance corresponds to an increase in the net international investment position resulting from cross-border investment and reflects a receipts surplus in the current account. As a result of the savings surplus, the Swiss economy traditionally shows a receipts surplus in the current account and thus also a positive financial account balance.

Until 2008, the financial account balance was dominated by net acquisitions of financial assets/net incurrences of liabilities in direct investment and portfolio investment. Since then, however, the direction and size of all components of the financial account have shown significant fluctuations. In the past, other investment was dominated mainly by commercial banks' foreign lending and deposit business; but since 2008, the SNB's transactions have also played a key role. Up to 2008, reserve assets did not influence the financial account to any great extent. This changed in 2009. Since then, the SNB has been purchasing large amounts of foreign currency, thereby making a major contribution to the net acquisition of financial assets.

Chart 11

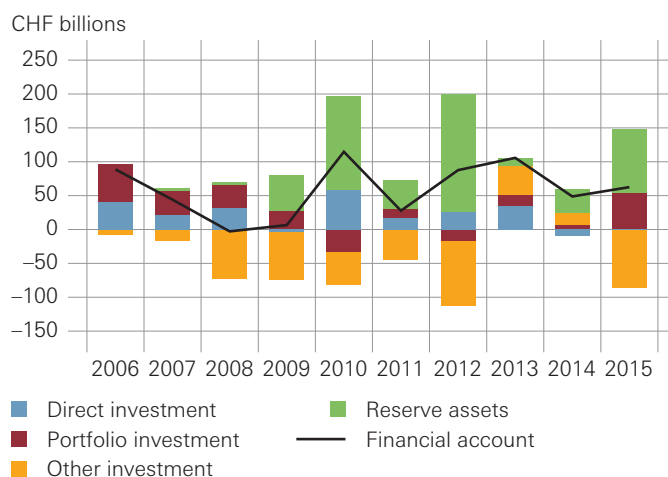
CAPITAL ACCOUNT



Source: SNB

Chart 12

FINANCIAL ACCOUNT, NET



Source: SNB

DIRECT INVESTMENT

The objective of direct investment is to exert a direct and lasting influence on the operations of a company abroad. As a rule, a direct investment is categorised as such if an investor (direct investor) owns at least 10% of the voting stock of a company abroad or sets up a subsidiary or branch abroad (direct investment company). As soon as a direct investment relationship has been established, all cross-border intragroup financial linkages generally qualify as direct investment.

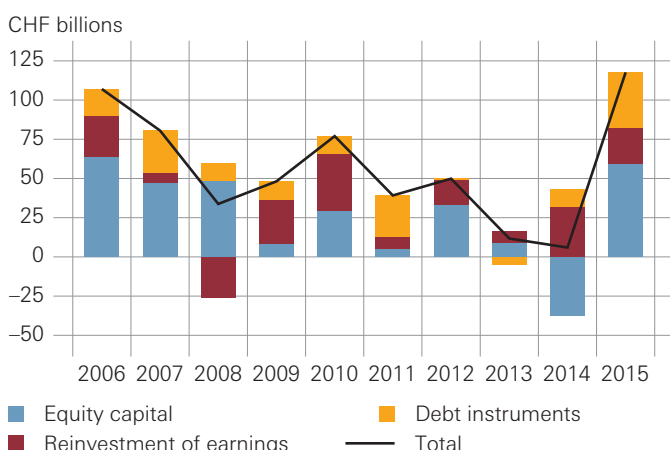
Transactions are reported on equity capital (paid-up capital; the establishment, acquisition or liquidation and sale of subsidiaries and participations; the provision of capital stock and operating capital to branches) as well as reinvestment of earnings and transactions in the form of intragroup lending. Cross-border net acquisition of real estate is also recorded under direct investment. The focus of the investing company is, on the one hand, the long-term interest in the investment and, on the other, the influence on the business activities of the acquired company. These two criteria distinguish direct investment from portfolio investment. A key motivation for direct investment is to open up new markets. Obtaining access to resources (labour, capital and land) and technology, as well as different production costs in Switzerland and abroad, are also important to the investment decision. For direct investment in the finance and holding companies category, tax aspects play a particularly important role. In this category, the development of direct investment often depends on company-specific factors.

In 2006, direct investment reached a temporary record high of over CHF 100 billion in net acquisition of financial assets, primarily as a result of large acquisitions in manufacturing. In subsequent years, however, investment activity by Swiss companies declined significantly as a result of the financial crisis. The main cause of this was losses recorded by banks and insurance companies. This declining trend was accompanied by continuing fluctuation. In 2014, net acquisition reached a low (CHF 6 billion). Only a year later, in 2015, net acquisition attained a new record high (CHF 118 billion). Due to intragroup restructuring and acquisitions, Swiss companies acquired assets in the form of equity capital abroad on a large scale. In addition, intragroup lending to their Swiss subsidiaries abroad also resulted in a considerable net acquisition of financial assets. This was mainly due to the fact that international groups increasingly carried out their financing activities via Switzerland.

Transactions related to direct investment liabilities follow a similar pattern to those related to direct investment assets. In 2006, liabilities amounted to CHF 67 billion, before starting to show a downward trend. In 2015, however, companies in Switzerland received significantly more funds from abroad than in previous years (CHF 116 billion). On the one hand, finance and holding companies domiciled in Switzerland were provided with additional equity capital from their parent companies abroad. On the other, the transfer of financial activities to Switzerland led to a high net incurrence of liabilities in connection with intragroup lending to subsidiaries abroad.

Chart 13

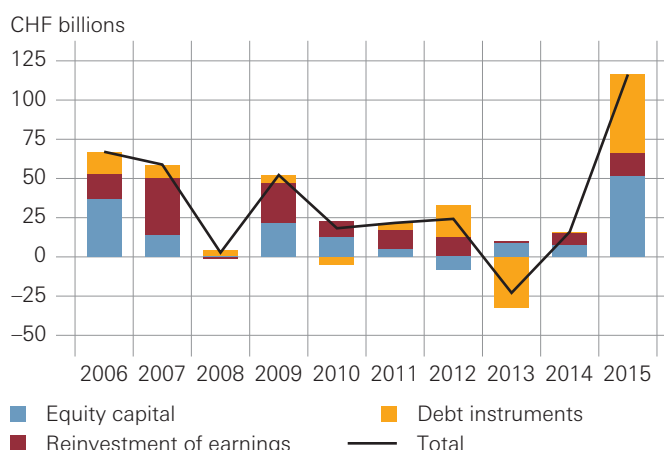
DIRECT INVESTMENT: NET ACQUISITION OF FINANCIAL ASSETS



Source: SNB

Chart 14

DIRECT INVESTMENT: NET INCURRENCE OF LIABILITIES



Source: SNB

PORTFOLIO INVESTMENT

Transactions in portfolio investment comprise cross-border purchases and sales of equity securities (shares and collective investment schemes) and debt securities (bonds and money market instruments) that do not fall under the category of direct investment or reserve assets. Unlike direct investment, the emphasis is on income rather than exerting influence on the business activities of a company.

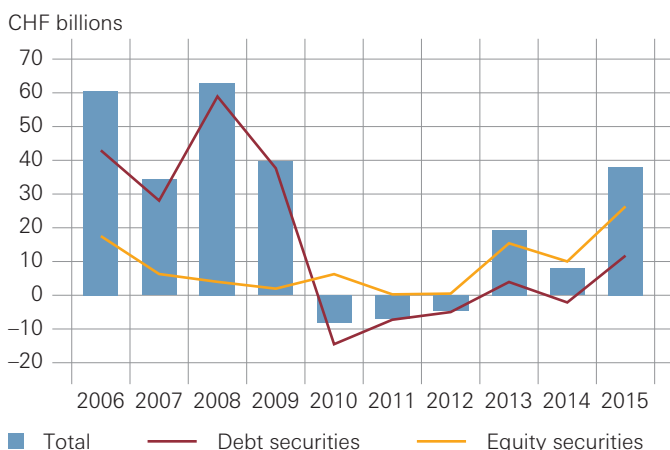
For portfolio investment, net acquisition of financial assets (purchases of foreign-issued securities by investors in Switzerland) is generally considerably greater than net incurrence of liabilities (purchases of domestic securities by investors abroad). This is related, on the one hand, to the savings surplus in Switzerland, and, on the other, to the relatively low issue volumes on the domestic capital market.

Until 2009, investors domiciled in Switzerland mainly purchased foreign-issued debt securities (roughly 85% on average). Since the decline in purchases of debt securities in 2010, however, equity securities have prevailed. Between 2010 and 2012 for the first time, Swiss investors sold considerably more foreign-issued securities than they bought, resulting in a net reduction of financial assets. Investment recovered over the subsequent years. In contrast to earlier years, however, purchases of equity securities dominated. This is likely to be a result of low interest rates. In 2015, domestic investors purchased foreign-issued securities in the amount of CHF 38 billion, CHF 26 billion of which in the form of equity securities.

In contrast to investors domiciled in Switzerland, investors domiciled abroad mainly channel their funds in Switzerland into shares. Between 2008 and 2012, the net incurrence of liabilities was subject to strong fluctuations. The high level of equity securities in 2008 was related to the fact that the Swiss big banks increased their borrowing. Developments in debt securities between 2010 and 2011 were largely the result of purchases of SNB Bills that were repaid or repurchased a year later. In the subsequent years, investment normalised, once again reaching its pre-crisis level. In 2015, however, sales of equity securities in particular led to a net reduction in liabilities of CHF 14 billion.

Chart 15

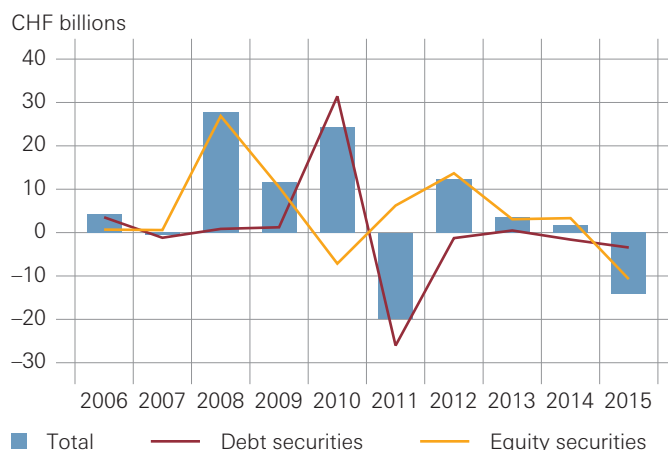
PORTFOLIO INVESTMENT: NET ACQUISITION OF FINANCIAL ASSETS



Source: SNB

Chart 16

PORTFOLIO INVESTMENT: NET INCURRENCE OF LIABILITIES



Source: SNB

OTHER INVESTMENT

Other investment is divided into currency and deposits, loans, and other net acquisition of financial assets/net incurrence of liabilities. Both the currency and deposits and the loans categories are broken down by sector according to the national accounts, i.e. Swiss National Bank, banks, public sector, and other sectors. In this sectoral breakdown, other investment is dominated by the banks.

The banks sector is primarily used to record transactions with banks and customers abroad, with interbank business predominant. In 2007, banks expanded their claims abroad (net acquisition of financial assets) and liabilities abroad (net incurrence of liabilities) considerably. However, in 2008 these were substantially reduced in connection with the financial crisis. This decline continued in the two years that followed, meaning that stocks of assets and liabilities in cross-border interbank business have fallen by more than half since 2007.

Since 2008, banks' lending and deposit business with customers abroad has resulted in a high net inflow of customer deposits (net incurrence of liabilities). In 2009, it was over CHF 100 billion. This inflow was partly attributable to a shift from fiduciary investments abroad to bank deposits in Switzerland. Thereafter, however, this net incurrence decreased steadily. In 2015, a net outflow of customer deposits (net reduction of liabilities) was recorded for the first time, in the amount of CHF 5 billion.

'Other investment: corporates' covers transactions carried out by a company that are not included under direct investment or portfolio investment. Intragroup lending transactions by finance companies (excluding banks) that are not included under direct investment are particularly significant. In the last two years, a net reduction was recorded for both assets and liabilities.

'Other investment: Swiss National Bank' includes the SNB's cross-border claims (net acquisition of financial assets) and liabilities (net incurrence of liabilities) in connection with swap and repo transactions, as well as the remaining claims and liabilities with respect to central banks and other foreign banks that are not included under reserve assets. Banknotes held by people abroad are also included under net incurrence of liabilities. Until 2007, the extent of the SNB's transactions was minor. High net growth of assets and liabilities resulted from the 2008 financial crisis. However, these were rapidly reduced again. Since 2013, both net acquisition of financial assets and net incurrence of financial assets increased. In 2015, they amounted to CHF 18 billion and CHF 25 billion respectively.

Table 5

OTHER INVESTMENT

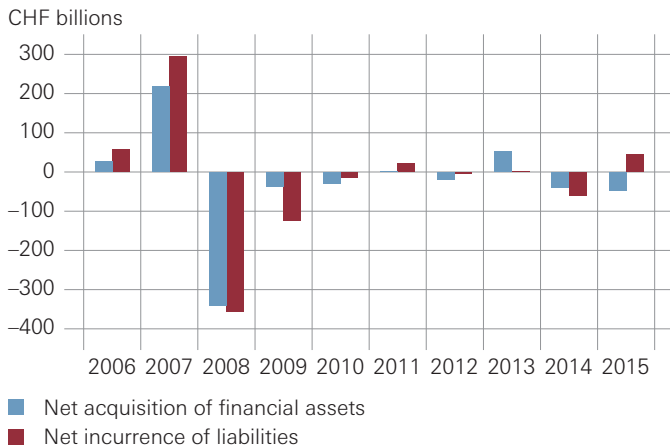
In CHF billions

| | 2013 | 2014 | 2015 |
|---|-------------|--------------|--------------|
| Net acquisition of financial assets (claims) | 72.9 | -29.1 | -28.6 |
| Currency and deposits | 64.5 | -29.7 | -38.0 |
| Of which banks | 53.4 | -34.4 | -52.9 |
| Of which other sectors | 8.1 | -1.7 | -3.3 |
| Loans | 8.4 | 1.3 | 10.0 |
| Of which banks | 15.2 | 6.4 | 11.5 |
| Of which other sectors | -6.8 | -5.1 | -1.4 |
| Other net acquisition of financial assets | -0.0 | -0.7 | -0.6 |
| Net incurrence of liabilities | 29.7 | -47.9 | 58.5 |
| Currency and deposits | 36.1 | -32.9 | 65.2 |
| Of which banks | 31.7 | -46.9 | 40.4 |
| Of which other sectors | 0.1 | -1.6 | 0.2 |
| Loans | -2.7 | -11.3 | -21.7 |
| Of which banks | - | - | - |
| Of which other sectors | -2.5 | -11.2 | -21.7 |
| Other net incurrence of liabilities | -3.6 | -3.6 | 15.0 |

Source: SNB

Chart 17

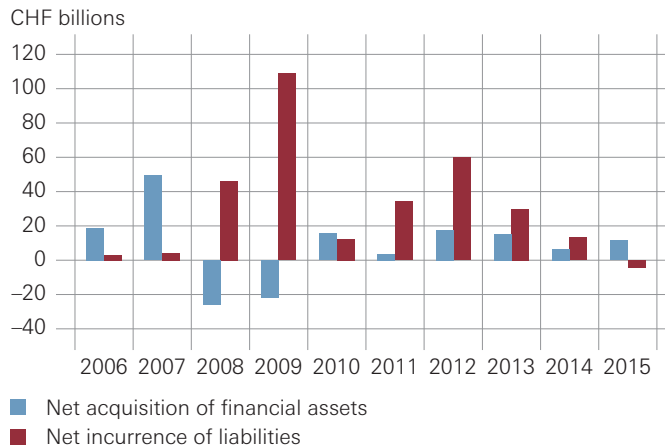
OTHER INVESTMENT: BANKS, CLAIMS AGAINST AND LIABILITIES TOWARDS BANKS



Source: SNB

Chart 18

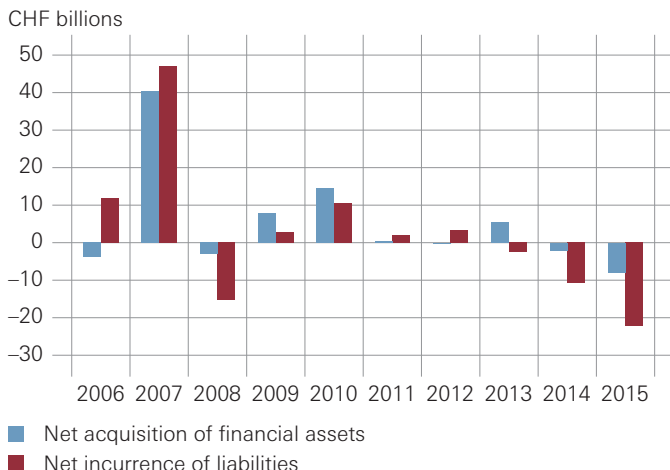
OTHER INVESTMENT: BANKS, CLAIMS AGAINST AND LIABILITIES TOWARDS CUSTOMERS



Source: SNB

Chart 19

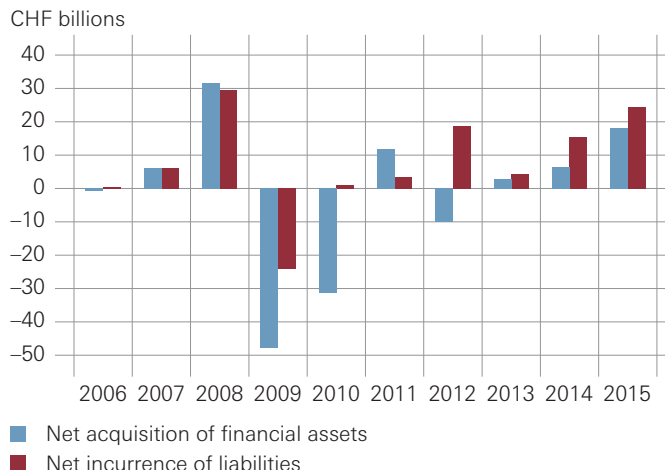
OTHER INVESTMENT: CORPORATES



Source: SNB

Chart 20

OTHER INVESTMENT: SWISS NATIONAL BANK



Source: SNB

RESERVE ASSETS

Reserve assets mainly consist of gold and foreign currency investments. Since 2009, when implementing its monetary policy, the SNB has been active in the foreign exchange market as necessary. As a result, reserve assets increased very substantially in 2010 and 2012 in particular. In 2015, net acquisition of financial assets in this category amounted to CHF 95 billion.

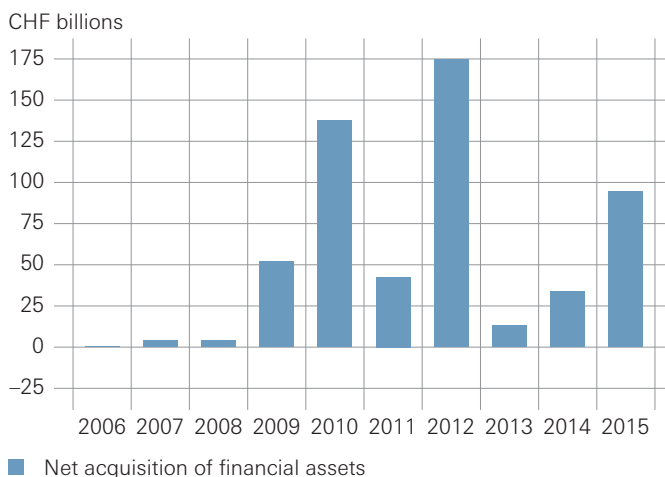
DERIVATIVES

Derivatives are forward transactions whose value depends on one or more underlying financial instruments, indices or goods. In the balance of payments, reporting covers net payments made and received abroad. Because of price movements in the financial instruments underlying the positions, the balance of these payments can change over the term of the derivative. It is therefore usual to report net values in the balance of payments. A further particularity is that when derivatives contracts are taken out, there is no payment flow. This happens during the term of the contract or at maturity. The derivatives item has been recorded in the balance of payments since 2005. Despite turnover usually being high, experience has shown the reported payment flow to be low.

Between 2005 and 2015, derivatives fluctuated between a positive net figure of CHF 3 billion and a negative net figure of CHF 4 billion. In 2015, derivatives reported a positive balance of CHF 1 billion.

Chart 21

RESERVE ASSETS



Source: SNB

STATISTICAL DIFFERENCE

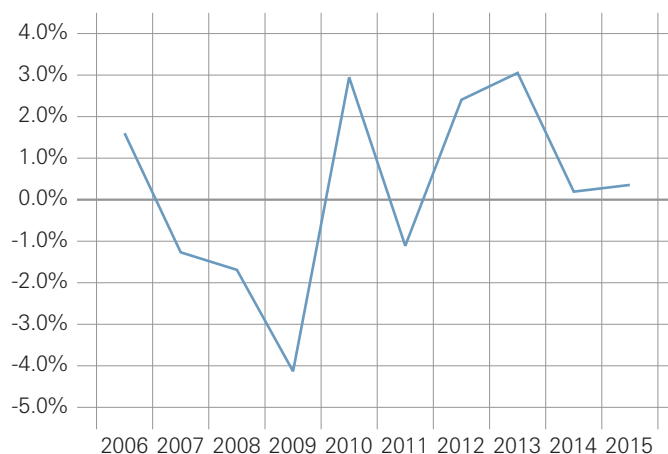
In principle, the balance of payments should be balanced, since it is drawn up according to the system of double-entry bookkeeping. This means that all transactions must be recorded once as a credit (current account receipts, capital transfers from abroad, net incurrence of liabilities or net reduction of financial assets) and once as a debit (current account expenses, capital transfers abroad, net acquisition of financial assets and net reduction of liabilities).

In practice, however, it is not always possible to fully comply with this principle, due to errors and omissions in the collection of data and estimates. If, for example, the acquisition of a company abroad is shown under direct investment, but the associated flow of payments is not recorded, the missing value is shown under the statistical difference item.

Over the last ten years, the statistical difference has been positive in six out of ten years. This suggests either that current account receipts (net incurrence of liabilities) have been underestimated or that current account expenses (net acquisition of financial assets) have been overestimated. In 2015, the statistical difference amounted to CHF 4 billion. This accounts for less than 1% of the total transactions recorded in the current account.

Chart 22

STATISTICAL DIFFERENCE IN PERCENT OF CURRENT ACCOUNT TRANSACTIONS



Source: SNB

3

International investment position

FACTORS INFLUENCING THE INTERNATIONAL INVESTMENT POSITION

As with the balance of payments, the assets and liabilities in the international investment position are broken down into direct investment, portfolio investment, derivatives and other investment. The foreign assets side also contains reserve assets.

Three factors drive the development of foreign assets and liabilities: the net acquisition of financial assets and net incurrence of liabilities (transactions), valuation changes resulting from stock market and exchange rate movements, and changes in statistical sources.

The first factor – the net acquisition of financial assets and net incurrence of liabilities – is included under the financial account in the balance of payments. When the net acquisition of assets is greater than the net incurrence of liabilities, the net international investment position increases, and vice versa.

Valuation changes which occur as a result of changes in the value of stocks of foreign assets and foreign liabilities are a second factor. They are due to fluctuations in exchange rates and the prices of precious metals or securities, particularly shares. As the composition of foreign assets differs significantly from that of foreign liabilities with respect to currencies and components, the effect of valuation changes on assets deviates from that on liabilities in the following ways:

- In the case of foreign assets, the stocks of foreign currency positions is around three times higher than in the case of foreign liabilities. Consequently, foreign assets react more strongly to exchange rate fluctuations than foreign liabilities. An appreciation of the Swiss franc therefore has a negative impact and a depreciation a positive impact on the net international investment position.
- The stocks of shares held by foreign investors in Switzerland (foreign liabilities) is more than twice as high as that held by Swiss investors abroad (foreign assets). Consequently, in absolute terms, a similar movement in share prices in Switzerland and abroad will have a stronger impact on the liabilities side of the account.

The third factor influencing developments in foreign assets and liabilities is changes in statistical sources. These include an expansion in the reporting population (e.g. the number of companies surveyed) as well as the inclusion of items or events not previously covered.

FOREIGN ASSETS – SUMMARY

Foreign assets rose markedly until 2007. This increase was driven, on the one hand, by a substantial increase in share prices, which significantly boosted the value of portfolio investment abroad. On the other, banks increased their interbank claims abroad (other investment) considerably. Stocks of direct investment abroad also rose substantially as a result of investment activity by Swiss companies.

The beginning of the financial crisis put a stop to this upward trend and led to a marked decline in foreign assets, which fell sharply in 2008. This decrease was attributable to three factors. First, capital stocks abroad were reduced, particularly by banks. Second, plummeting share prices resulted in a drop in stocks of portfolio investment abroad, and, third, the appreciation in the Swiss franc led to a lower valuation of capital stocks held in foreign currency. Since 2009, foreign assets have been rising again, up by CHF 42 billion in 2015 to CHF 4,260 billion.

There have been shifts in the structure of foreign assets since 2006, affecting the breakdown by both component and currency. Thus the shares of direct investment and reserve assets rose, while other investment and portfolio investment decreased. The foreign currency share over the last ten years has fluctuated between 81% (2008) and 90% (2015), meaning that the share of the Swiss franc has been steadily declining since 2008. While the euro's share of total assets remained relatively stable (roughly 30%), the share of the US dollar fell at the beginning of the period under review before picking up again and reaching 36% in 2015, its highest level in the last ten years.

DIRECT INVESTMENT

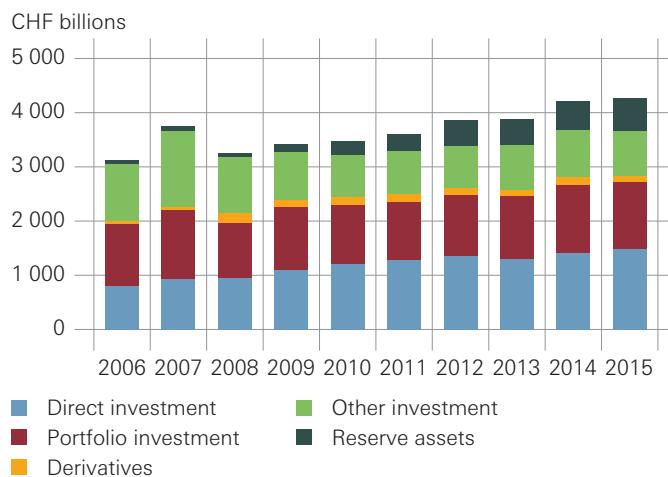
This item represents the assets side of intragroup capital relationships of companies in Switzerland with entities abroad. Thus – in contrast to portfolio investment – it reflects a long-term investment motive. Stocks of direct investment assets are composed of equity in subsidiaries and branch offices abroad as well as stocks of cross-border intragroup lending, i.e. debt instruments (assets). Unlike most other stocks, direct investment is stated at book values rather than market values.

The stocks of direct investment abroad has almost doubled in the last ten years. During this period, Swiss companies acquired participations abroad on a large scale and reinvested the income earned. These investments far exceeded the exchange rate-related valuation losses. Although equity accounted for most direct investment, the relative importance of intragroup lending has increased significantly in recent years. Their share in direct investment has climbed from approximately one-fifth to one-third in recent years. The share of direct investment in total foreign assets has risen from approximately one-quarter to one-third since 2006.

In 2015, direct investment amounted to CHF 1,487 billion, of which CHF 996 billion was equity and CHF 491 billion was made up of intragroup lending.

Chart 23

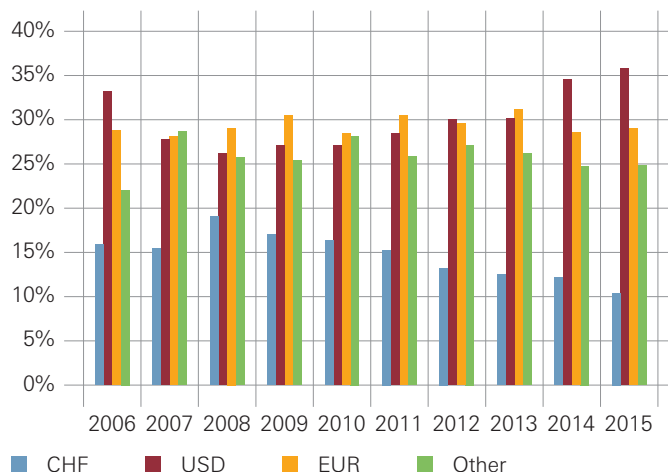
FOREIGN ASSETS, BY COMPONENT



Source: SNB

Chart 24

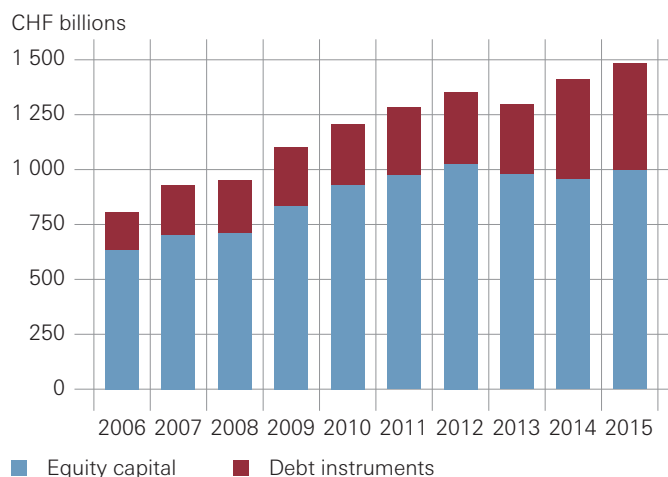
FOREIGN ASSETS, BY CURRENCY



Source: SNB

Chart 25

FOREIGN ASSETS: DIRECT INVESTMENT



Source: SNB

PORTFOLIO INVESTMENT

The assets under portfolio investment in the international investment position report securities issued abroad, which are held by Swiss investors and are not covered by direct investment or reserve assets.

Cross-border holdings held by investors resident in Switzerland primarily comprise foreign-issued debt securities. The latter's share in portfolio investment amounted to almost 60% over the last ten years. Overall, stocks of portfolio investment rose strongly until 2007. This increase was due, on the one hand, to purchases of securities and, on the other, to rising share prices. In 2008, shares lost considerable value in the wake of the financial crisis; despite new investment, stocks of portfolio investment fell to the level of 2005. Since 2009, stocks have been mainly driven by exchange rate and stock market-related valuation changes. Between 2010 and 2012, investors engaged in net sales of foreign-issued securities, causing stocks to decline. In subsequent years, however, investments have picked up again. Rising share prices also contributed to an increase in stocks. In 2015, stocks declined by CHF 17 billion to CHF 1,223 billion despite purchases of securities. This was due to valuation losses caused by exchange rate movements.

Between 2006 and 2015, the share of portfolio investment in total foreign assets decreased from 36% to 29%.

Chart 26

FOREIGN ASSETS: PORTFOLIO INVESTMENT

CHF billions



Source: SNB

Table 6

OTHER INVESTMENT: ASSETS

In CHF billions

| | 2013 | 2014 | 2015 |
|------------------------|--------------|--------------|--------------|
| Total assets | 847.9 | 877.3 | 831.8 |
| Currency and deposits | 597.4 | 650.2 | 602.9 |
| Of which banks | 371.1 | 344.5 | 277.8 |
| Of which other sectors | 218.2 | 290.8 | 291.4 |
| Loans | 249.5 | 213.1 | 214.1 |
| Of which banks | 174.1 | 191.1 | 199.1 |
| Of which other sectors | 74.4 | 21.0 | 14.0 |
| Other assets | 1.0 | 13.9 | 14.8 |

Source: SNB

DERIVATIVES

Derivatives are forward transactions whose values depend on one or more underlying financial instruments, indices or goods. The positive replacement values of outstanding derivative financial instruments with counterparties abroad have been stated in the international investment position since 2005.

In 2008, the stocks of derivatives rose significantly, due in particular to the expansion in the reporting population. Since 2008, the share of derivatives in total foreign assets has halved to the current 3%. In the year under review, stocks amounted to CHF 118 billion.

OTHER INVESTMENT

As in the balance of payments, other investment is broken down into currency and deposits, loans, and other assets. Within the currency and deposits and the loans categories, domestic creditors are differentiated by sector as follows: Swiss National Bank, banks, public sector, and other sectors. Other sectors mainly comprises corporate short-term claims abroad which are not part of direct and portfolio investment. Banks dominate other investment, while public sector assets are insignificant.

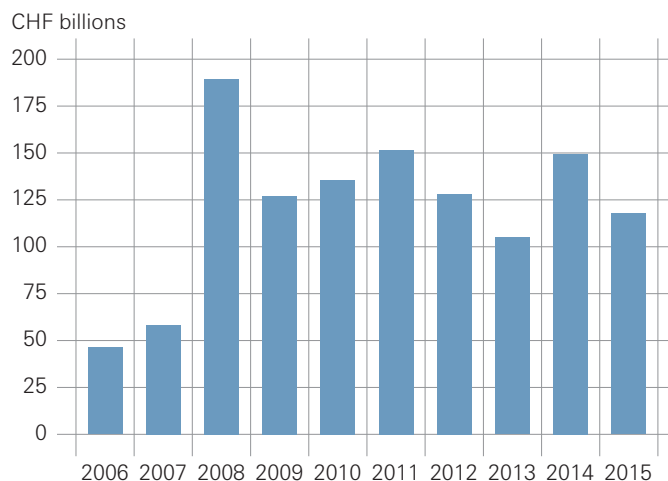
After peaking at over CHF 1,400 billion in 2007, foreign assets under other investment declined to CHF 774 billion in 2012. This considerable decrease was attributable to the banks, which very substantially reduced their claims abroad. In subsequent years, other investment has shown a slight upward trend, amounting to CHF 832 billion in 2015.

RESERVE ASSETS

Since 2009, the SNB has been conducting extensive foreign currency purchases, and as a result, reserve assets rose from around CHF 79 billion in 2008 to CHF 601 billion in 2015. The foreign currency purchases also affected the composition of the reserve assets. Between 2006 and 2015, the share of gold decreased from approximately 41% to 6%. By contrast, the share of the euro increased from around 27% to 39%, and that of the other foreign currencies rose from 13% to 25%. The US dollar's share temporarily dipped to below 20% before picking up again to 30% in 2015. From 2006 to 2015, the share of reserve assets in total foreign assets grew from 3% to 14%.

Chart 27

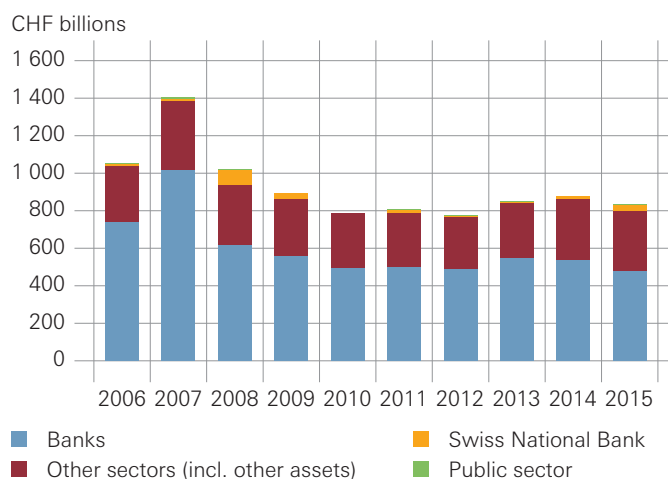
FOREIGN ASSETS: DERIVATIVES



Source: SNB

Chart 28

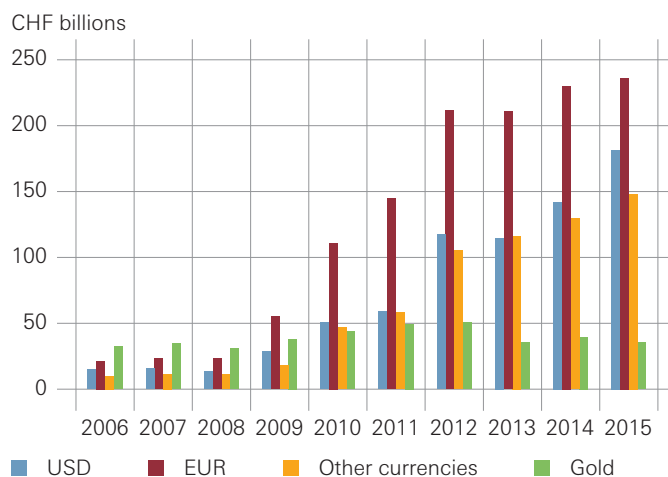
FOREIGN ASSETS: OTHER INVESTMENT, BY SECTOR



Source: SNB

Chart 29

FOREIGN ASSETS: RESERVE ASSETS



Source: SNB

FOREIGN LIABILITIES – SUMMARY

Like foreign assets, movements in foreign liabilities have been uneven since 2006. They grew strongly in 2007, mainly due to three factors – banks increased their liabilities abroad very substantially (other investment), stocks of Swiss securities held by foreign investors (portfolio investment, liabilities) rose due to higher share prices, and foreign direct investors provided their subsidiaries in Switzerland with additional financial resources on a large scale.

With the onset of the financial crisis, foreign liabilities decreased. In 2008, they fell sharply; banks, in particular, reduced their liabilities abroad very substantially (other investment). In addition, the lower value of foreign currencies contributed to a decline in foreign liabilities. Stocks of portfolio investment also decreased significantly due to the downturn in share prices. By contrast, direct investment stocks continued to increase. Since 2012, foreign liabilities have again risen substantially, mainly because of higher share prices. In 2015, foreign liabilities amounted to CHF 3,652 billion in total.

As in the case of foreign assets, there were a number of structural shifts in foreign liabilities. While the share of direct investment has risen steadily since 2006 from 18% to one-third, that of other investment has declined over the same period, from 42% to about 32%. Until the beginning of the financial crisis in 2008, the share of portfolio investment was, at times, well over 30%. During the years following the low of 25% in 2008, portfolio investment slowly recovered, reaching a share of 31% in 2015. As regards the breakdown by currency, the share of the euro has decreased in favour of the Swiss franc, while that of the US dollar has remained relatively stable.

Chart 30

FOREIGN LIABILITIES, BY COMPONENT

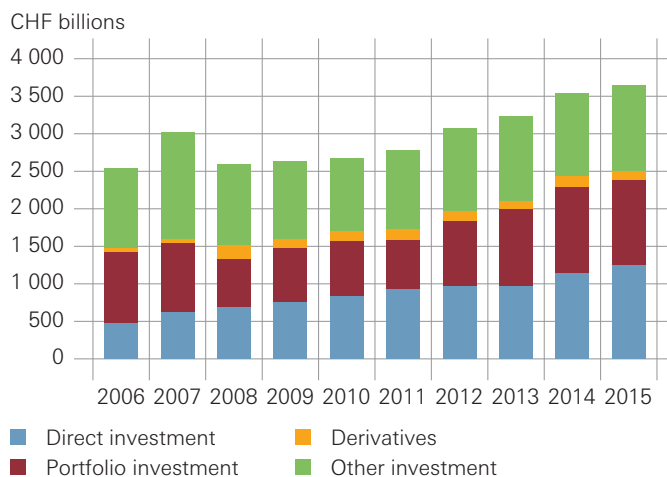
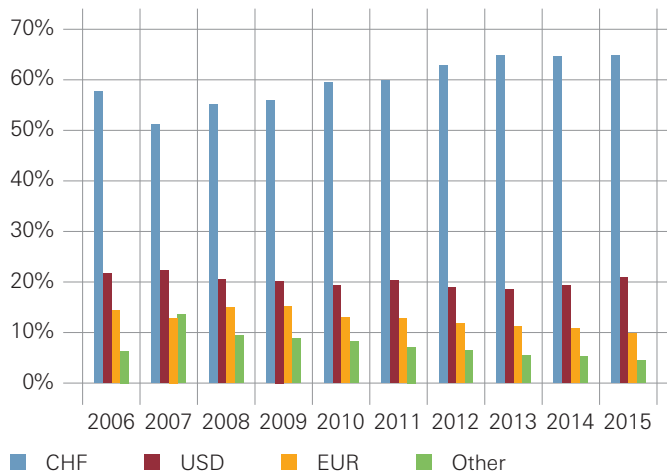


Chart 31

FOREIGN LIABILITIES, BY CURRENCY



DIRECT INVESTMENT

This item represents the liabilities side of intragroup capital relationships abroad of companies in Switzerland. It reflects a long-term investment motive, thereby differing from portfolio investment. Stocks of direct investment are composed of equity in domestic subsidiaries and branch offices owned by investors domiciled abroad, and stocks of cross-border intragroup lending, i.e. debt instruments (liabilities).

Stocks of direct investment liabilities have more than doubled in the last ten years. A large portion of the increase in capital stocks was attributable to finance and holding companies. In contrast to the assets side, the share of equity capital in direct investment liabilities remained virtually unchanged at approximately 70%. From 2006 to 2015, the share of direct investment in total foreign liabilities rose from 18% to more than one-third. In 2015, direct investment liabilities amounted to CHF 1,252 billion, of which CHF 838 billion was equity and CHF 414 billion was made up of intragroup lending.

PORTFOLIO INVESTMENT

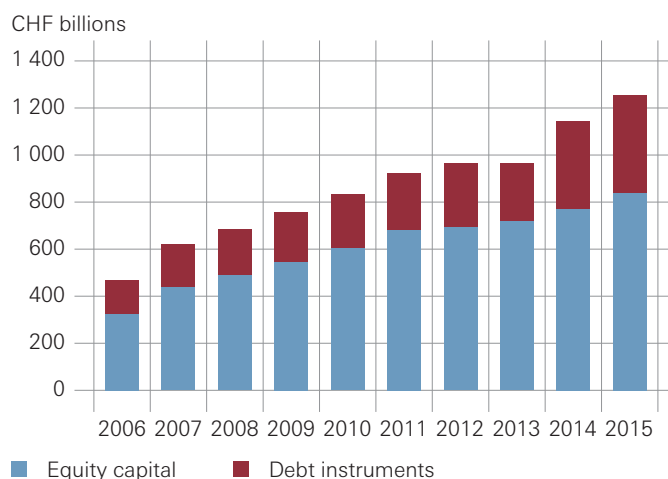
The liabilities of portfolio investment in the international investment position report securities issued domestically, which are held by investors domiciled abroad and are not included in direct investment.

Most of the holdings by foreign portfolio investors in Switzerland are equity securities. In the last ten years, the share of equity securities in portfolio investment has averaged 90%. Consequently, fluctuations in share prices have a particularly strong impact on portfolio investment. While stocks of portfolio investment amounted to CHF 959 billion in 2006, they dropped sharply to CHF 637 billion in 2008, due to the collapse in share prices. This loss in value as a result of stock market movements far exceeded portfolio investment transactions in the financial account, even though the latter were high, particularly in the case of banks. In subsequent years, share prices recovered and the losses of 2008 were partly recouped. Since 2012, share prices have risen substantially and with them the stocks of portfolio investment, which reached a new high of CHF 1,144 billion in 2014. In the year under review, the stocks declined slightly to CHF 1,132 billion as a result of sales of domestic securities by investors domiciled abroad.

The share of portfolio investment in total foreign liabilities averaged approximately 30% in the last ten years.

Chart 32

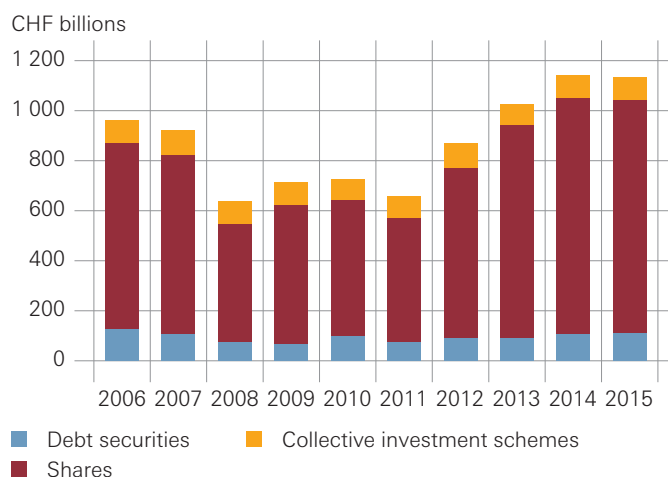
FOREIGN LIABILITIES: DIRECT INVESTMENT



Source: SNB

Chart 33

FOREIGN LIABILITIES: PORTFOLIO INVESTMENT



Source: SNB

DERIVATIVES

Since 2005, the negative replacement values of outstanding derivative financial instruments with counterparties abroad have been stated under foreign liabilities. The increase in stocks of derivatives in 2008 was mainly attributable to an expansion in the reporting population. Between 2008 and 2015, the share of derivatives in total foreign liabilities decreased from 8% to 3%.

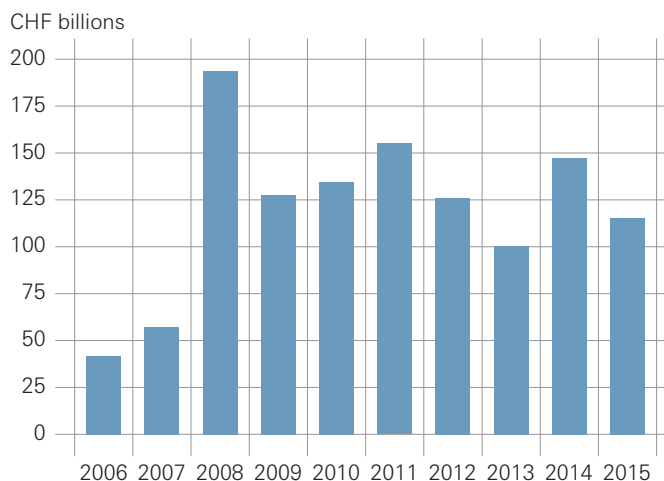
OTHER INVESTMENT

As in the balance of payments, other investment is broken down into currency and deposits, loans, and other liabilities. Within the currency and deposits and the loans categories, domestic creditors are differentiated by sector as follows: Swiss National Bank, banks, public sector, and other sectors. Other sectors is made up mainly of corporate short-term and long-term liabilities abroad, which are not included under direct or portfolio investment. Banks dominate other investment, while public sector liabilities are insignificant.

After the high of CHF 1,417 billion in 2007, foreign liabilities under other investment declined to CHF 981 billion in 2010. This substantial decrease was attributable to the banks, which reduced their liabilities abroad very considerably. In subsequent years, other investment increased again slightly, and in 2015, at CHF 1,152 billion, it again reached the dimensions it had attained in 2007 before the financial crisis.

Chart 34

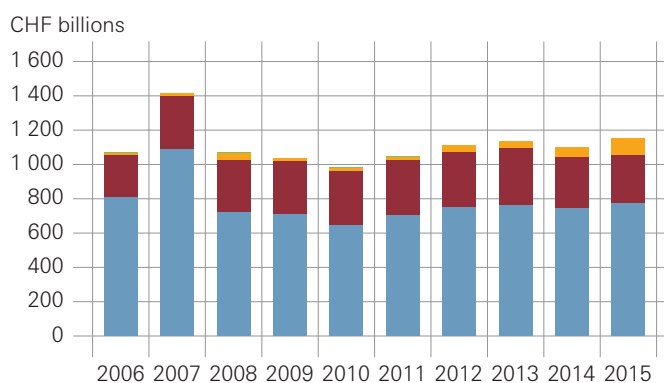
FOREIGN LIABILITIES: DERIVATIVES



Source: SNB

Chart 35

FOREIGN LIABILITIES: OTHER INVESTMENT, BY SECTOR



Legend: Banks (blue), Other sectors (incl. other liabilities) (red), Swiss National Bank (orange), Public sector (green)

Source: SNB

Table 7

OTHER INVESTMENT: LIABILITIES

In CHF billions

| | 2013 | 2014 | 2015 |
|--------------------------|----------------|----------------|----------------|
| Total liabilities | 1 136.2 | 1 100.0 | 1 151.9 |
| Currency and deposits | 811.4 | 807.9 | 876.0 |
| Of which banks | 762.6 | 744.7 | 773.8 |
| Of which other sectors | 5.7 | 4.3 | 2.4 |
| Loans | 236.7 | 192.3 | 170.5 |
| Of which banks | – | – | – |
| Of which other sectors | 236.0 | 191.7 | 170.0 |
| Other liabilities | 88.1 | 99.8 | 105.4 |

Source: SNB

NET INTERNATIONAL INVESTMENT POSITION

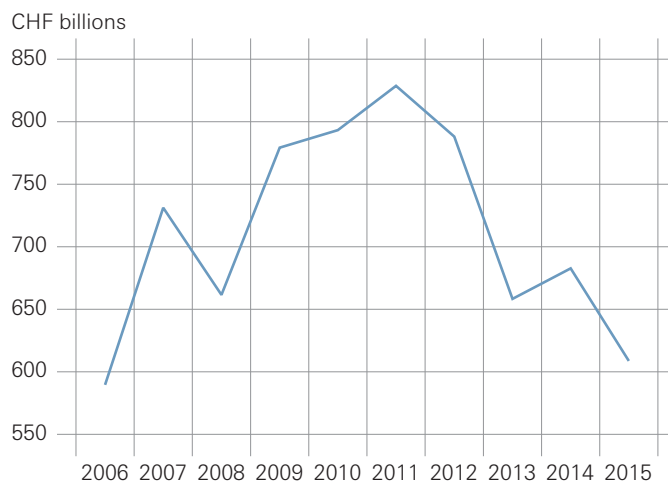
Since statistics on the international investment position were first collected in 1985, Switzerland's foreign assets have been higher than its foreign liabilities; its net international investment position has therefore been positive throughout this period. This reflects both the high saving rate and the limited investment possibilities in Switzerland. By international standards, Switzerland's net international investment position is very high, placing it seventh in the world. Countries with the highest net international investment position include major economies such as Japan, China and Germany, as well as smaller ones like Hong Kong, Singapore and Norway (source: *IMF, International Investment Position, Net*). As a share of GDP, the net international investment position in 2015 stood at 95%.

Over the last ten years, the net international investment position has undergone considerable fluctuations. After some significant increases between 2006 and 2011 to CHF 829 billion, a distinct downward trend has been evident in recent years. In 2015, the net international investment position amounted to CHF 609 billion. Although the reserve assets have doubled since 2011, net assets under portfolio investment declined substantially. Under other investment, foreign liabilities expanded more strongly than foreign assets.

From 2006 to 2015, the net international investment position grew by CHF 19 billion to CHF 609 billion. Yet if we add the balances for net acquisition of financial assets and net incurrence of liabilities in the financial account, we obtain an increase in the net international investment position of CHF 584 billion. The difference between the increase as per the international investment position and the cumulative increase based on net acquisition of assets and net incurrence of liabilities in the balance of payments (CHF 565 billion) is mainly attributable to exchange rate and share price fluctuations.

Chart 36

NET INTERNATIONAL INVESTMENT POSITION

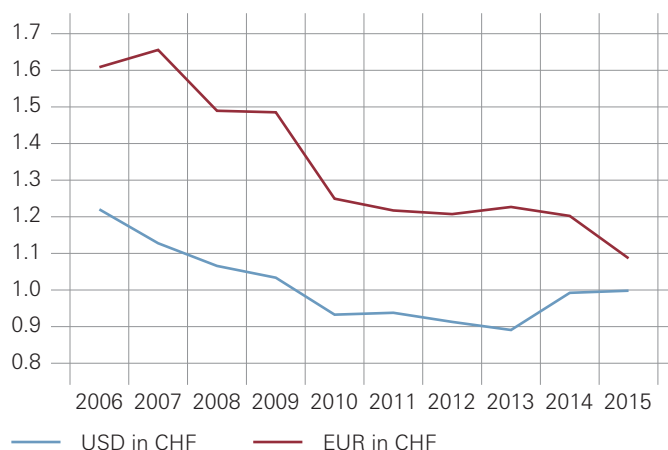


Source: SNB

Chart 37

EXCHANGE RATES

End of year

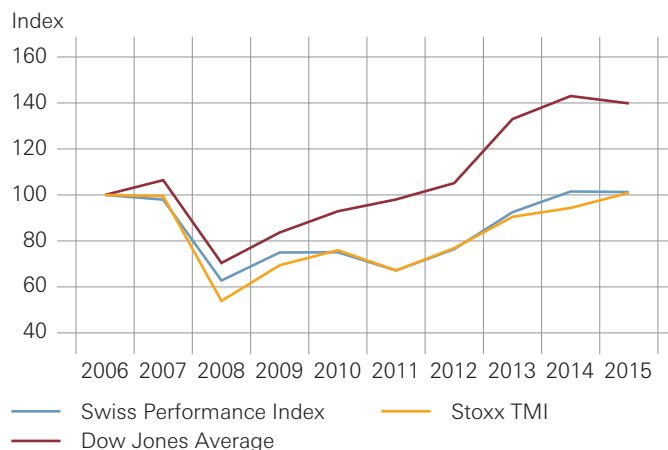


Source: SNB

Chart 38

SHARE PRICES

2006 = 100, end of year



Sources: Bloomberg, Thomson Reuters Datastream

INTRODUCTION

Since the 2014 reporting year, the SNB has been basing its publication of the balance of payments, Switzerland's international investment position and the direct investment statistics on the new international standard, the *Balance of Payments and International Investment Position Manual* (BPM6). The changeover to this standard means a change in the principle underlying the presentation of direct investment for both the balance of payments and the international investment position. It is now being stated according to the asset/liability principle (gross principle), and no longer according to the directional principle (net principle), as under the previous standard. By contrast, the new international standard specifies that the directional principle will still be applied for direct investment statistics. Accordingly, the SNB is continuing to publish data in the *Direct Investment* report in line with the directional principle.

This special topic is divided into two sections. The first section covers methodological aspects of the different presentation principles. It also explains why these different principles are used for direct investment. In the second section, capital stocks are taken as an example and are broken down according to countries and industries. This is done according to the two different principles for the two approaches.

METHODOLOGICAL ASPECTS

ASSET/LIABILITY PRINCIPLE AND DIRECTIONAL PRINCIPLE

Table 1 is a comparison of the two presentation principles for direct investment capital stocks.¹ The asset/liability principle breaks down direct investment into assets and liabilities, irrespective of the hierarchical relationship between the domestic and foreign companies. By contrast, the directional principle breaks down direct investment in line with the hierarchical relationship between the companies in Switzerland and the companies abroad.

In table 1, the asset/liability principle is presented in the columns as follows. 'Direct investment, assets' covers all intragroup assets abroad (A) of companies domiciled in Switzerland, irrespective of whether these are assets with respect to parent companies or subsidiaries. Consequently, it includes assets of domestic parent companies with respect to foreign subsidiaries (A_1) as well as assets of domestic subsidiaries with respect to foreign parent companies (A_2). 'Direct investment, liabilities' covers all intragroup liabilities abroad (L) of companies domiciled in Switzerland, irrespective of whether these are liabilities towards parent companies or subsidiaries. Consequently, it includes liabilities of domestic parent companies towards foreign subsidiaries (L_1) as well as liabilities of domestic subsidiaries towards foreign parent companies (L_2). The balance for direct investment is calculated from the difference between the assets (A) and the liabilities (L).

In table 1, the directional principle is presented in the rows. The directional principle, unlike the asset/liability principle, pays attention to the hierarchical relationship between the domestic and foreign companies. This means that, for assets and liabilities, a differentiation is made between capital linkages with respect to parent companies and those with respect to subsidiaries. Consequently, 'Swiss direct investment abroad' (1) covers capital linkages of domestic parent companies with subsidiaries abroad, with liabilities (L_1) being deducted from assets (A_1). 'Foreign direct investment in Switzerland' (2) covers capital linkages of domestic subsidiaries with foreign parent companies, with assets (A_2) being deducted from liabilities (L_2). The balance for direct investment is calculated from the difference between Swiss direct investment abroad (1) and foreign direct investment in Switzerland (2). Table 1 shows that the balance for direct investment according to the directional principle and that according to the asset/liability principle is identical.

¹ The different presentation principles can be used for capital transactions, capital stocks or direct investment income. This special topic looks only at capital stocks. For a detailed presentation of the theoretical basis underlying the different presentation principles for all types of capital, cf. *Direct Investment 2013*, pp. 25–36.

THE IMPORTANCE OF REVERSE INVESTMENT

As table 1 shows, the difference between the two presentation principles arises from reverse investment. Investments are described as reverse when they are made in the opposite direction to that which is customary. Reverse investment consists, on the one hand, of domestic parent company liabilities towards foreign subsidiaries (L_1) and, on the other, of domestic subsidiaries' assets with respect to foreign parent companies (A_2). The difference between the two presentation principles results from the fact that reverse investment is offset in the case of the directional principle, while it is added to capital stocks in the case of the asset/liability principle. This offsetting of reverse investment is also the reason why capital stocks under the asset/liability principle are always higher than under the directional principle.

In principle, either equity capital or intergroup lending can be involved in the case of reverse investment. However, because the share of equity capital in reverse investment is so low, Switzerland's direct investment statistics only cover the intragroup lending aspect.

REASONS WHY DIFFERENT PRESENTATION PRINCIPLES ARE USED FOR DIRECT INVESTMENT

The main reason the asset/liability principle is used to present direct investment in the balance of payments and the international investment position is to ensure that direct investment is consistent with other variables in these statistics.

Presenting direct investment according to the asset/liability principle can also be useful for a number of economic analyses, in particular, when they focus on financial interrelationships for the economy as a whole. Generally, the size or breakdown of items in the balance of payments and international investment position are important here, for instance, if the impact of external shocks on the Swiss economy is to be investigated.² When the economic or political situation in a country or region suddenly deteriorates, this is termed a negative external shock. It directly reduces the value of direct investment assets in that area. However, direct investment liabilities, in other words, Swiss liabilities towards the area in question, are less strongly affected by the negative external shock. Consequently, the risks for the domestic economy associated with foreign investment can be better identified by considering assets according to the asset/liability principle than according to the directional principle, under which assets and liabilities are offset.

² Cf. OECD (2014), Implementing the latest international standards for compiling foreign direct investment statistics. Asset/liability versus directional principle.

Table 1

DIRECT INVESTMENT ACCORDING TO THE ASSET/LIABILITY AND DIRECTIONAL PRINCIPLES

| | | Asset/liability principle according to the <i>Swiss Balance of Payments and International Investment Position</i> report | | |
|--|---|--|--|---|
| | | Assets (A) | Liabilities (L) | |
| Directional principle according to the <i>Direct Investment</i> report | Capital linkages of domestic parent companies with subsidiaries abroad (1) | A_1 | L_1 | Swiss direct investment abroad: (1) = $A_1 - L_1$ |
| | Capital linkages of domestic subsidiaries with foreign parent companies (2) | A_2 | L_2 | Foreign direct investment in Switzerland: (2) = $L_2 - A_2$ |
| | | Direct investment, assets: (A) = $A_1 + A_2$ | Direct investment, liabilities: (L) = $L_1 + L_2$ | Balance of direct investment (net figure): $N = (A) - (L) = (1) - (2)$ |

When presenting direct investment according to the directional principle, the focus is on hierarchical relationships within groups. It is assumed that the investment decision is always taken by the direct investor, in other words, the parent company; for this reason, the directional principle is the right approach when examining the motivation for direct investment. This might include an investigation of the countries where investors from Switzerland choose to invest, or the domestic industries which invest the greatest sums abroad. Generally speaking, it is always preferable to choose the directional principle over the asset/liability principle when focusing on an industry or country examination of direct investment.

Since foreign assets and liabilities are offset under the directional principle, the sum stated is the actual capital made available. It is the right variable to use when analysing the real economic effects of direct investment, such as its impact on growth in productivity or employment, or on the transfer of knowledge or technology.

BREAKDOWN OF DIRECT INVESTMENT BY MEANS OF THE TWO PRESENTATION PRINCIPLES

CLASSIFICATION BY COUNTRY

Table 2 compares the breakdown of capital stocks by country according to the directional principle with that according to the asset/liability principle.³ It shows that capital stocks according to the asset/liability principle are always higher than those according to the directional principle. It is also apparent that, looking at the various sequences of direct investment by country for capital stocks, the countries and orders are almost identical. With regard to the sequence of the five most important destinations, there is no difference at all. In the case of the five most important investing countries, which are the same five countries or regions as in the case of the destinations, the offshore centres of Central and South America are positioned before Austria according to the asset/liability principle, while under the directional principle, Austria is ahead of the offshore centres.

Consequently, in the context of the Swiss direct investment statistics, it is true to say that both according to the asset/liability principle and according to the directional principle the same countries have the largest direct investment stocks.

³ No breakdown by country according to the asset/liability principle is available on the SNB's data portal. However, as long as they are not confidential, the SNB will make these data available upon request. A breakdown by country according to the directional principle is available on the data portal (<https://data.snb.ch>, Tables, Switzerland's foreign economic affairs, Direct investment).

Table 2

COUNTRY BY COUNTRY COMPARISON OF THE TWO PRESENTATION PRINCIPLES

Capital stocks (2014)

| Asset/liability principle: Five most important destinations Direct investment, assets | In CHF billions | Directional principle: Five most important destinations, Direct investment abroad | In CHF billions |
|---|--------------------|---|--------------------|
| (1.) United States | 248 | (1.) United States | 192 |
| (2.) Offshore financial centres in Central and South America | 219 | (2.) Offshore financial centres in Central and South America | 158 |
| (3.) Luxembourg | 168 | (3.) Luxembourg | 127 |
| (4.) Netherlands | 136 | (4.) Netherlands | 97 |
| (5.) United Kingdom | 80 | (5.) United Kingdom | 59 |
| Asset/liability principle: Five most important investing countries, Direct investment, liabilities | In CHF billions | Directional principle: Five most important investing countries, Direct investment in Switzerland | In CHF billions |
| (1.) Luxembourg | 229 | (1.) Luxembourg | 189 |
| (2.) Netherlands | 217 | (2.) Netherlands | 178 |
| (3.) United States | 156 | (3.) United States | 100 |
| (4.) Offshore financial centres in Central and South America | 107 | (4.) Austria | 60 |
| (5.) Austria | 61 | (5.) Offshore financial centres in Central and South America | 46 |

The different levels of direct investment capital stocks – depending on the presentation principle – reflect the amount of reverse investment between Switzerland and other countries. Table 3 lists the five countries with the largest amount of reverse investment. It shows that, in 2014, Switzerland recorded the highest level of reverse investment with respect to the offshore financial centres in Central and South America, at CHF 61 billion. The United States (CHF 56 billion) and Luxembourg (CHF 40 billion) followed in second and third places.

Furthermore, it can be seen that reverse investment only accounted for a comparatively small proportion of total direct investment assets and liabilities. In the countries listed in table 3, the share in question amounted to between 10% and 19%. The reason why both presentation principles lead to a similar result when focusing on a country examination is that reverse investment only accounts for a comparatively small proportion of direct investment capital stocks.

BREAKDOWN BY ECONOMIC ACTIVITY

At this point, the comparison between the two representation principles in the economic activity breakdown only covers intragroup lending. This makes the differences between the two presentation principles more recognisable, as in the Swiss direct investment statistics, all reverse investment pertains to intragroup lending. Chart 1 shows intragroup lending abroad in manufacturing, chart 2 intragroup lending abroad in the services sector (excluding holding companies) and chart 3 intragroup lending abroad of holding companies.

Intragroup lending in manufacturing abroad (cf. chart 1) increased significantly, both on the assets and on the liabilities side.⁴ Since assets rose more sharply than liabilities, the balance increased accordingly.⁵ However, the presentation according to the directional principle shows that the higher balance was attributable to Swiss direct investments abroad. This matches the picture we would expect from a distinctly export-gearred industry. The high volume of intragroup lending on both the asset and liability side of the balance sheet reflects the strong financial linkages with subsidiaries abroad.

4 The rise in the stocks of assets and liabilities in intragroup lending between 2013 and 2014 is a break in the series, attributable to the introduction of the new financial account surveys.

5 The balance (net figure) is identical for both presentation principles. Using the abbreviations in table 1, this can be presented as follows: Net (N) = assets (A) – liabilities (L) = (A₁+A₂)-(L₁+L₂) = Swiss direct investment abroad (1) – foreign direct investment in Switzerland (2) = (A₁-L₁)-(L₂-A₂) = (A₁+A₂)-(L₁+L₂).

Table 3

COUNTRIES/REGIONS WITH THE HIGHEST LEVEL OF REVERSE INVESTMENT (2014)

| Country/Region: | In CHF billions | In percent of the sum of direct investment assets and liabilities |
|--|-----------------|---|
| (1.) Offshore financial centres in Central and South America | 61 | 19% |
| (2.) United States | 56 | 14% |
| (3.) Luxembourg | 40 | 10% |
| (4.) Netherlands | 38 | 11% |
| (5.) United Kingdom | 21 | 16% |

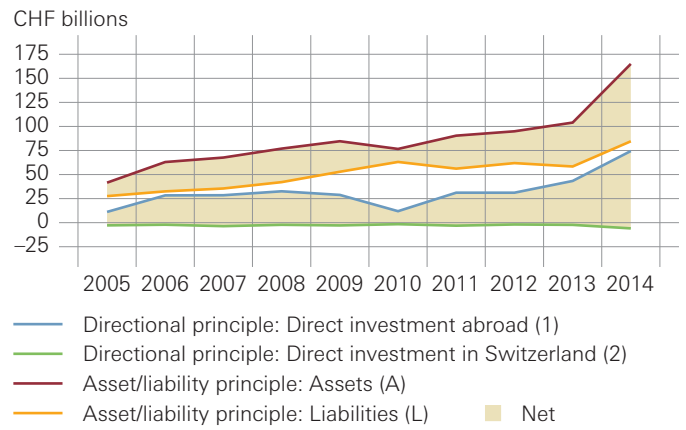
The services sector (excluding holding companies) (cf. chart 2) also recorded a significant growth in intragroup lending abroad on both the asset and liability sides of the balance sheet.⁶ Unlike manufacturing, intragroup lending in direct investment abroad did not show a significant balance for this sector under the directional principle. We can therefore conclude that intragroup lending is less important for financing subsidiaries abroad in the services sector (excluding holding companies) than it is in manufacturing.

Movements in intragroup lending abroad for holding companies (cf. chart 3) show a different picture to that seen in manufacturing or the services sector. Holding companies also recorded a significant rise in intragroup lending abroad on both the asset and liability sides of the balance sheet. However, the curves showing intragroup lending according to the two presentation principles were more or less parallel and, in contrast to the situation for manufacturing, high net positions were not recorded at any time. The interpretation of this finding is that holding companies domiciled in Switzerland often serve as a hub for the financing of international groups.

Chart 1

INTRAGROUP LENDING IN MANUFACTURING ACCORDING TO BOTH PRESENTATION PRINCIPLES

Capital stocks

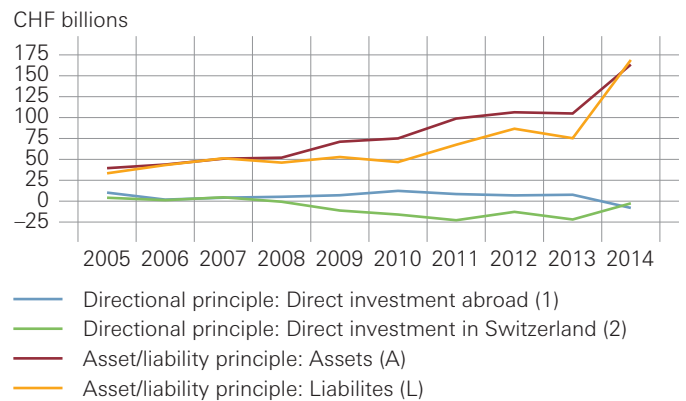


Source: SNB

Chart 2

INTRAGROUP LENDING IN SERVICES (EXCLUDING HOLDING COMPANIES) ACCORDING TO BOTH PRESENTATION PRINCIPLES

Capital stocks

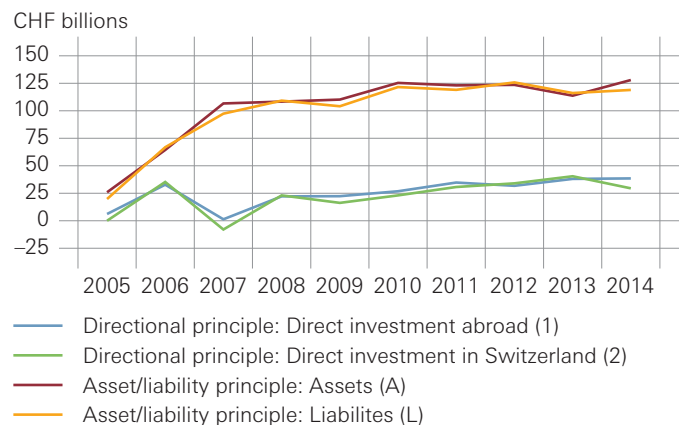


Source: SNB

Chart 3

INTRAGROUP LENDING BY HOLDING COMPANIES ACCORDING TO BOTH PRESENTATION PRINCIPLES

Capital stocks



Source: SNB

⁶ The rise in the stocks of assets and liabilities in intragroup lending between 2013 and 2014 is a break in the series, attributable to the introduction of the new financial account surveys.

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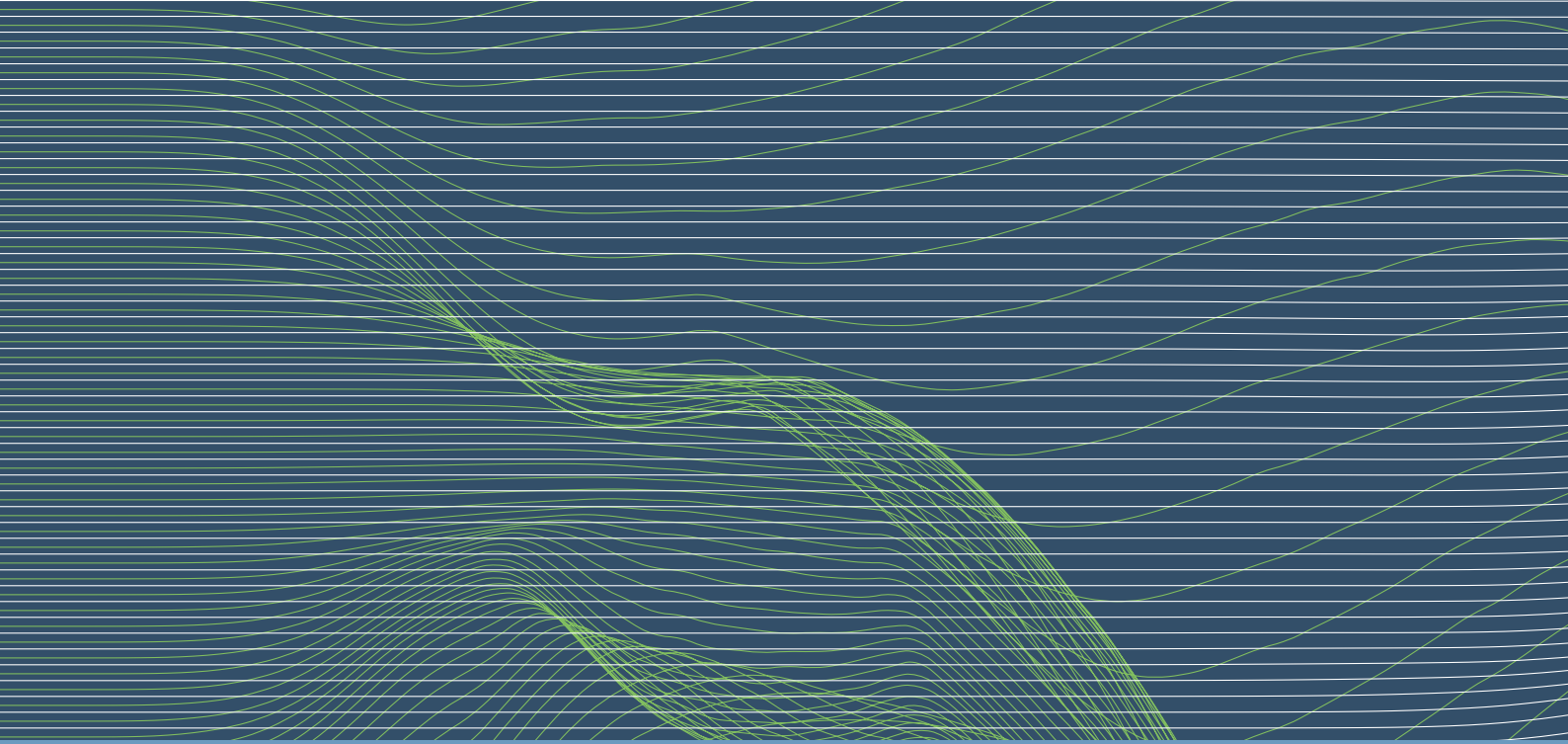
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