Swiss Balance of Payments and International Investment Position 2017

SCHWEIZERISCHE NATIONALBANK
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Swiss Balance of Payments and International Investment Position 2017

Volume 4

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Overview

INTRODUCTORY REMARKS

The Swiss National Bank (SNB) compiles the Swiss balance of payments and international investment position according to the guidelines of the International Monetary Fund (IMF) laid down in the *Balance of Payments and International Investment Position Manual* (BPM6).

The balance of payments (current account, capital account and financial account) covers Switzerland's cross-border transactions with other countries during a given period. By contrast, the international investment position shows Switzerland's stocks of financial assets and liabilities abroad at the end of this period. Assets and liabilities in the international investment position are affected, on the one hand, by the transactions recorded in the financial account. On the other, valuation changes resulting from stock market and exchange rate movements, as well as other changes, also have an impact on capital stocks.

The Swiss balance of payments and international investment position data are available on the SNB's data portal (data.snb.ch) under 'International economic affairs'. The data are updated every quarter and explained in a press release.

This annual report is based on the dataset for the fourth quarter of 2017, which was published together with a press release on 26 March 2018. It consists of three sections. The overview takes up the findings of the review of the year 2017 published in the press release and describes them in detail. The main section focuses on longer-term changes in the balance of payments and international investment position. The special topic in the final section addresses portfolio investment – one of the five components of the financial account and the international investment position.

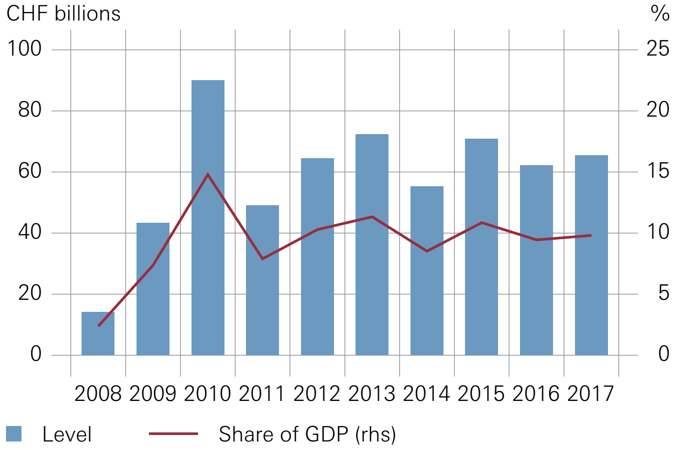
New publication series starting in 2019
This is the last edition of the *Swiss Balance of Payments and International Investment Position* annual report.

Comments on the figures for the past year will continue to be published in a press release, together with the data for the fourth quarter. The special topics included until now in the annual publication will appear in a dedicated publication series due to be launched in May 2019.

The new publication series will explore selected core topics relating to Switzerland's balance of payments and international investment statistics.

Chart 1

CURRENT ACCOUNT
Net



Source: SNB

CHANGES IN THE BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION IN 2017

Current account
In 2017, the current account showed a surplus of CHF 66 billion, CHF 4 billion higher than in 2016. The increase in the current account surplus was mainly attributable to primary income, where the receipts surplus was up by CHF 5 billion to CHF 9 billion. This was offset by a CHF 1 billion rise in the expenses surplus for secondary income (current transfers) to CHF 11 billion. The receipts surpluses for trade in goods and in services remained unchanged at CHF 48 billion and CHF 19 billion respectively.

In the case of trade in goods, the receipts surplus was on a par with 2016. Receipts from exports amounted to CHF 308 billion (2016: CHF 311 billion), while expenses for imports came to CHF 260 billion (2016: CHF 263 billion). The three most important components of trade in goods are 'foreign trade total 1' as defined by the foreign trade statistics of the Federal Customs Administration (FCA), trade in non-monetary gold, and merchanting. Receipts from 'foreign trade total 1' grew year-on-year by CHF 10 billion to CHF 220 billion, and expenses by CHF 12 billion to CHF 186 billion. The largest increases in both receipts and expenses were recorded by chemical and pharmaceutical products. For trade in non-monetary gold, receipts from exports decreased by CHF 16 billion to CHF 62 billion, and expenses for imports by CHF 13 billion to CHF 68 billion. Net receipts from merchanting rose by CHF 1 billion to CHF 25 billion.

As in the previous year, trade in services showed a receipts surplus of CHF 19 billion in 2017. Receipts came to CHF 119 billion (2016: CHF 117 billion) and expenses to CHF 100 billion (2016: CHF 98 billion). On the receipts side, three of the four largest items (financial services, licence fees, tourism) grew, while business services saw a decrease. On the expenses side, spending on tourism as well as telecommunications, computer and information services increased; spending on licence fees and business services, on the other hand, declined.

Primary income (labour income and investment income) registered a receipts surplus of CHF 9 billion (2016: receipts surplus of CHF 4 billion). While receipts amounted to CHF 139 billion (2016: CHF 141 billion), expenses came to CHF 129 billion (2016: CHF 137 billion). The increase in the receipts surplus was mainly attributable to income from direct investment. Although receipts as well as expenses recorded a decrease, the fact that expenses declined more significantly than receipts resulted in an increase in the receipts surplus.

Secondary income (current transfers) posted an expenses surplus of CHF 11 billion (2016: expenses surplus of CHF 10 billion). While receipts amounted to CHF 46 billion (2016: CHF 41 billion), expenses came to CHF 57 billion (2016: CHF 51 billion).

Capital account

The capital account showed a positive balance of CHF 1 billion in 2017 (2016: CHF 3 billion).

Financial account

In 2017, total net acquisition of financial assets amounted to CHF 50 billion (2016: net acquisition of CHF 148 billion). Switzerland acquired these mainly in the form of reserve assets, where net acquisition came to CHF 61 billion (2016: net acquisition of CHF 77 billion). The other investment item also showed a net acquisition. While banks reduced their cross-border interbank claims, this reduction was more than offset by the build-up of claims against non-resident customers. Furthermore, companies also registered an increase in claims abroad. Other investment thus registered a net acquisition of CHF 18 billion (2016: net reduction of CHF 11 billion). Direct investment saw a net reduction of CHF 17 billion (2016: net acquisition of CHF 84 billion). The decrease was due largely to parent companies in Switzerland withdrawing funds from their non-resident subsidiaries – both in the form of equity capital and through intragroup lending. Conversely, however, they reinvested earnings in their non-resident subsidiaries, which lessened the net reduction. Portfolio investment recorded a net reduction of CHF 12 billion (2016: net reduction of CHF 1 billion). As regards debt securities and shares issued by non-residents, the result was a net disinvestment by resident investors.

In 2017, net incurrence of liabilities amounted to CHF 11 billion (2016: net incurrence of CHF 81 billion). The liabilities side was dominated above all by transactions in connection with takeovers. Non-resident investors acquired majority holdings in resident companies whose shares had previously been held in free float by resident and non-resident portfolio investors. Accordingly, a net acquisition of CHF 38 billion (2016: net acquisition of CHF 60 billion) was recorded for direct investment. By contrast, portfolio investment showed a net reduction of CHF 35 billion (2016: net reduction of CHF 21 billion), which reflected the sale of free-float shares previously held by non-resident investors. Other investment recorded a net incurrence of liabilities totalling CHF 8 billion (2016: net incurrence of CHF 41 billion). While the SNB and companies increased their liabilities abroad, the banks scaled back their liabilities to non-resident customers.

With the inclusion of derivatives, the financial account balance came to CHF 37 billion (2016: CHF 74 billion).

Statistical difference

The statistical difference item includes all discrepancies arising from errors and omissions in statistical surveys. In 2017, the statistical difference amounted to CHF –29 billion (2016: CHF +10 billion). This corresponds to 3% of all current account transactions.

International investment position

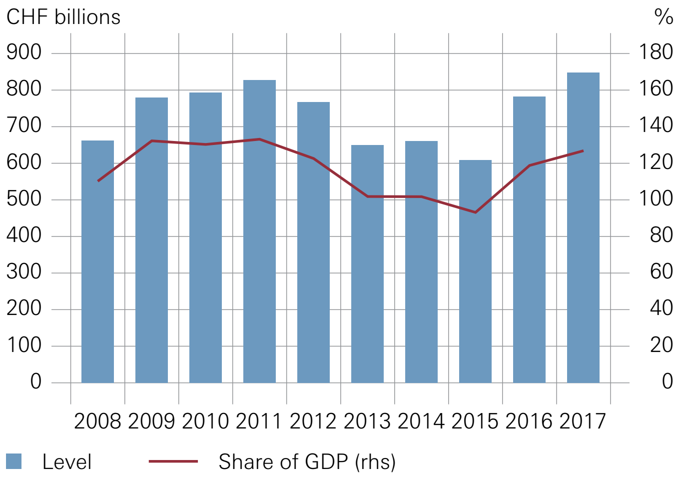
In 2017, stocks of foreign assets were up by CHF 220 billion year-on-year to CHF 4,768 billion, although the net acquisition of assets amounted to only CHF 50 billion. Valuation gains were the main factor behind the increase, with the appreciation of the euro against the Swiss franc leading to substantial exchange rate gains, while higher prices on foreign stock exchanges also contributed to the rise. Reserve assets, primarily driven by an increase in transactions, rose by CHF 102 billion to CHF 792 billion. Despite a net reduction in financial assets, stocks of portfolio investment climbed by CHF 92 billion to CHF 1,375 billion. This was due to valuation gains. Stocks of direct investment grew by CHF 43 billion to CHF 1,659 billion, and those of other investment by CHF 13 billion to CHF 858 billion. Stocks of derivatives fell by CHF 30 billion to CHF 84 billion.

Stocks of foreign liabilities increased by CHF 155 billion to CHF 3,920 billion. As on the assets side, the bulk of this rise was attributable to valuation gains. However, in contrast to the assets side, it was almost entirely due to the performance of the Swiss stock exchange. These price gains were largely reflected in portfolio investment, which grew by CHF 113 billion to CHF 1,175 billion. Direct investment increased by CHF 51 billion to CHF 1,452 billion. Stocks of other investment rose by CHF 18 billion to CHF 1,207 billion. By contrast, stocks of derivatives decreased by CHF 26 billion to CHF 86 billion.

The net international investment position grew in 2017 by a total of CHF 65 billion to CHF 848 billion. This increase was attributable to reserve assets, which were up CHF 102 billion. The net investment positions of the remaining components recorded a reduction, which weakened the increase. In total, the net international investment position stood at 127% of Swiss GDP.

Chart 2

NET INTERNATIONAL INVESTMENT POSITION



Source: SNB

Table 1

SWISS BALANCE OF PAYMENTS – OVERVIEW

In CHF millions

	2013	2014	2015	2016	2017
Current account, net	**72 324**	**55 350**	**70 959**	**62 234**	**65 536**
Receipts	597 211	588 585	582 026	610 539	611 695
Expenses	524 887	533 236	511 067	548 305	546 159
Goods and services, net	**70 120**	**70 192**	**69 142**	**67 798**	**67 276**
Receipts	452 406	412 427	400 771	428 355	427 447
Expenses	382 285	342 235	331 628	360 557	360 170
Goods, net	**49 794**	**50 764**	**51 588**	**48 716**	**48 346**
Receipts	346 436	301 544	291 899	311 172	308 697
Expenses	296 641	250 780	240 311	262 455	260 352
Services, net	**20 326**	**19 428**	**17 554**	**19 082**	**18 930**
Receipts	105 970	110 882	108 872	117 183	118 749
Expenses	85 644	91 454	91 317	98 101	99 819
Primary income, net	**13 708**	**2 392**	**14 375**	**4 290**	**9 296**
Receipts	110 667	140 139	144 657	140 959	138 699
Expenses	96 959	137 747	130 282	136 670	129 403
Labour income, net	**–20 595**	**–21 606**	**–22 462**	**–23 425**	**–23 763**
Receipts	2 258	2 202	2 421	2 460	2 460
Expenses	22 853	23 808	24 883	25 885	26 224
Investment income, net	**34 303**	**23 998**	**36 837**	**27 715**	**33 059**
Receipts	108 409	137 937	142 235	138 499	136 238
Expenses	74 106	113 939	105 399	110 784	103 179
Secondary income, net	**–11 504**	**–17 234**	**–12 558**	**–9 854**	**–11 036**
Receipts	34 138	36 020	36 599	41 225	45 550
Expenses	45 642	53 254	49 157	51 078	56 586
Capital account, net	**701**	**–10 571**	**–28 674**	**2 620**	**817**
Receipts	1 694	717	4 008	3 686	1 329
Expenses	992	11 288	32 682	1 066	512
Financial account (excluding derivatives), net	**107 018**	**44 354**	**42 674**	**67 707**	**39 215**
Net acquisition of financial assets	116 870	24 221	215 382	148 302	49 965
Net incurrence of liabilities	9 852	–20 133	172 708	80 596	10 750
Direct investment, net	**34 651**	**–8 506**	**11 555**	**23 817**	**–55 046**
Net acquisition of financial assets	11 705	9 842	123 727	83 559	–16 617
Net incurrence of liabilities	–22 947	18 348	112 173	59 742	38 429
Portfolio investment, net	**15 770**	**8 557**	**52 285**	**19 450**	**23 025**
Net acquisition of financial assets	19 337	8 302	37 879	–1 056	–12 418
Net incurrence of liabilities	3 567	–254	–14 406	–20 506	–35 443
Other investment, net	**43 654**	**10 343**	**–115 600**	**–52 635**	**9 877**
Net acquisition of financial assets	72 887	–27 884	–40 658	–11 275	17 641
Net incurrence of liabilities	29 232	–38 227	74 942	41 359	7 764
Reserve assets, net	**12 943**	**33 961**	**94 434**	**77 075**	**61 360**
Derivatives, net	**–779**	**–1 041**	**–4 350**	**6 779**	**–2 332**
Statistical difference	**33 214**	**–1 466**	**–3 962**	**9 631**	**–29 469**

Source: SNB

Table 2

SWITZERLAND'S INTERNATIONAL INVESTMENT POSITION – OVERVIEW

In CHF millions

	2013	2014	2015	2016	2017
Assets	**3 888 819**	**4 247 911**	**4 281 111**	**4 547 699**	**4 767 833**
Direct investment	1 300 380	1 435 858	1 503 500	1 615 802	1 658 817
Portfolio investment	1 158 151	1 240 899	1 223 274	1 283 590	1 375 495
Derivatives	105 012	149 153	117 240	113 021	83 499
Other investment	847 911	880 800	835 738	844 789	857 893
Reserve assets	477 364	541 201	601 359	690 497	792 129
Liabilities	**3 239 007**	**3 586 877**	**3 672 174**	**3 764 847**	**3 920 217**
Direct investment	965 925	1 157 530	1 255 551	1 400 988	1 451 962
Portfolio investment	1 026 491	1 142 149	1 132 182	1 062 345	1 175 000
Derivatives	100 268	146 281	113 179	112 242	86 210
Other investment	1 146 323	1 140 918	1 171 262	1 189 272	1 207 045
Net international investment position	**649 812**	**661 034**	**608 936**	**782 852**	**847 616**
Direct investment	334 455	278 328	247 949	214 814	206 855
Portfolio investment	131 661	98 750	91 092	221 246	200 495
Derivatives	4 744	2 873	4 061	779	–2 711
Other investment	–298 412	–260 118	–335 525	–344 483	–349 153
Reserve assets	477 364	541 201	601 359	690 497	792 129

Source: SNB

2
Balance of payments

CURRENT ACCOUNT

The current account covers trade in goods and services as well as primary and secondary income. Primary income (labour and investment income) is made up of earnings from direct investment, portfolio investment, other investment, reserve assets and labour income. Secondary income comprises current transfers.

The components which make up the current account are predominantly influenced by movements in the domestic and global real economies, the corporate earnings situation and conditions on the financial markets.

In 2008, the current account balance registered a low when, as a result of the financial crisis, primary income showed a high expenses surplus instead of the normal receipts surplus. In the years that followed, the balance increased again, reaching an interim high in 2010 of CHF 90 billion. Following another decline in the subsequent year, the figure has since ranged between CHF 49 billion (2011) and CHF 72 billion (2013). In 2017, the current account balance amounted to CHF 66 billion.

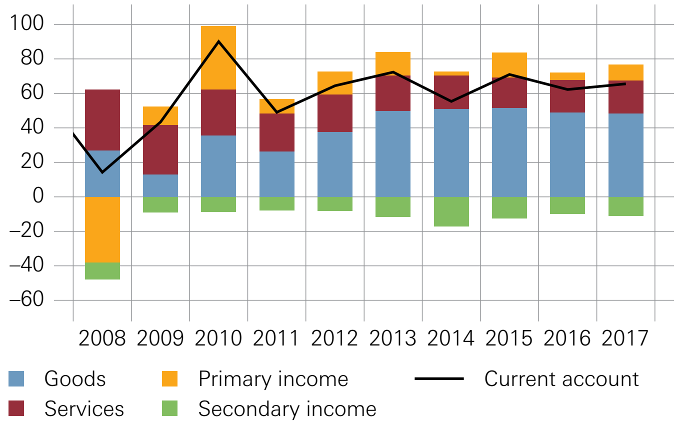
The receipts surpluses for goods trade trended upwards until 2013 and remained stable from then on. In 2017, a surplus of CHF 48 billion was recorded. By contrast, the surplus on trade in services has trended downwards since 2008, falling from CHF 35 billion (2008) to CHF 19 billion (2017). Under secondary income (current transfers), Switzerland traditionally records a surplus of expenses.

Chart 3

CURRENT ACCOUNT

Net

CHF billions



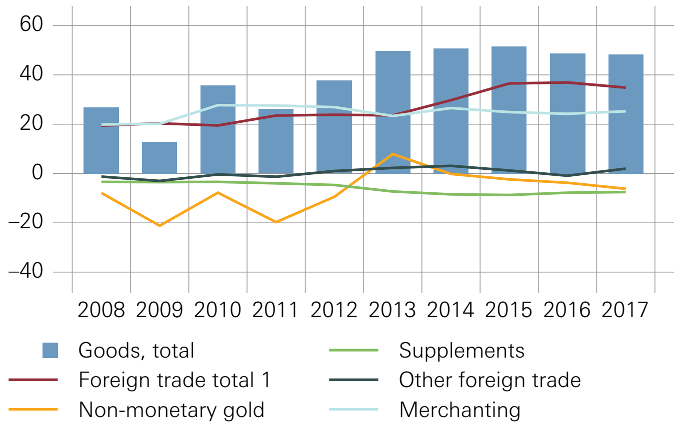
Source: SNB

Chart 4

GOODS

Net

CHF billions



Sources: FCA, SNB

GOODS

Goods trade recorded in the balance of payments is made up of foreign trade as defined by the Federal Customs Administration (FCA), supplements to foreign trade and merchanting.

Foreign trade as defined by the FCA covers, on the one hand, goods trade in its narrow sense, which is designated 'foreign trade total 1'. This is influenced by general domestic and foreign economic conditions and by movements in exchange rates. On the other hand, foreign trade also covers non-monetary gold trading, trade in other precious metals, precious stones and gems, as well as in objets d'art and antiques. Since trade in these categories of goods may be subject to considerable fluctuations in quantity and price, it is excluded from foreign trade total 1.

The FCA's foreign trade statistics do not correspond to the figures for goods trade in the current account. Under **supplements to foreign trade**, the data are adjusted to ensure that they are in line with the balance of payments methodology (BPM6). Consequently, goods that are imported or exported illegally, small consignments and goods procured in ports are added to the figure for foreign trade as defined by the FCA. By contrast, exports and imports of returned goods are deducted, as is trade in connection with cross-border processing traffic. As a result of the supplements to foreign trade item, the balance on trade in goods is somewhat lower.

Merchanting refers to goods trade in which companies based in Switzerland purchase goods on the world market and resell them to companies abroad, without the goods 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 earnings from merchanting (receipts minus expenses) are booked as receipts from goods trade.

The balance on trade in goods is determined by foreign trade and by merchanting. The largest component of foreign trade is foreign trade total 1. Over the past decade, it has shown an export surplus, which has increased from CHF 19 billion (2008) to CHF 35 billion (2017). The surplus has been mainly attributable to chemical and pharmaceutical products. In the past, there have been strong fluctuations in gold trade, and this had a big influence on the balance in goods trade in certain years.

Table 3

2017 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]	117.0	132.5	3.5%	6.4%	–15.6
Of which Germany	41.2	52.3	4.0%	7.7%	–11.2
Of which France	13.6	14.7	–3.0%	9.8%	–1.1
Of which Italy	13.5	18.0	7.7%	7.3%	–4.5
United States	33.7	12.7	7.0%	–10.9%	21.0
Asia	48.1	31.8	5.9%	15.1%	16.3
Of which China	11.4	13.0	15.6%	5.7%	–1.6
Latin America	6.3	2.3	5.0%	11.9%	3.9
Others	15.3	6.3	4.8%	26.0%	9.1
Total	**220.4**	**185.6**	**4.7%**	**6.9%**	**34.8**

1 EU28

Source: FCA

Over the last ten years, net earnings from merchanting have ranged between CHF 20 billion (2008) and CHF 28 billion (2011). In 2017, they amounted to CHF 25 billion. Energy sources accounted for the largest percentage of net earnings from merchanting; however, between 2012 and 2017, their share declined from 72% to just under 61%. The share of metals and non-metallic minerals rose from 15% in 2012 to 18% in 2017, while that of agricultural and forestry products was up from 4% to 9%.

According to FCA foreign trade statistics, Germany was the most important destination for Swiss goods in 2017, as in previous years. It was followed by the US, France and Italy. On the import side too, Germany was the most important supplier of goods, followed by Italy, France and China. Switzerland has registered an import surplus with respect to both the EU and Germany in recent years, while an export surplus has been recorded with the US and Asia.

SERVICES

In the past ten years, the receipts surplus in services trade has decreased sharply due to the increase in expenses for services imports having been greater than the receipts from services exports. The more pronounced rise in expenses was largely driven by business services, while the lower increase in receipts was primarily attributable to financial services. The receipts surplus fell from CHF 35 billion in 2008 to CHF 19 billion in 2017.

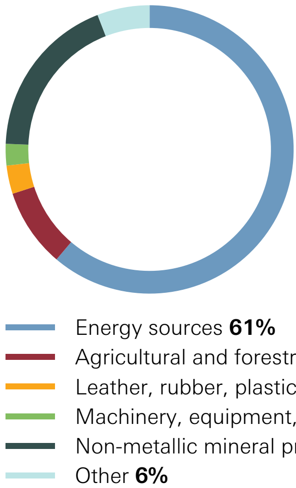
Between 2008 and 2017, **receipts from services exports** trended slightly upwards. Following a reduction in receipts between 2009 and 2011, they subsequently rose again and amounted to CHF 119 billion in 2017, which was about 14% higher than in 2008. The different categories of services showed disparities.

Receipts from financial services declined by more than one-third after their high in 2008, amounting to CHF 20 billion in 2017. In this period, their share in exports of services as a whole went down from 30% to around 17%. As a consequence of this significant decline, financial services were no longer the most important category within exports of services in 2016 and 2017. They were superseded by receipts from licence fees, whose share in exports of services as a whole increased from 9% to 18% between 2008 and 2017.

Chart 5

MERCHANTING

Sales proceeds for 2017, by category of goods in percent

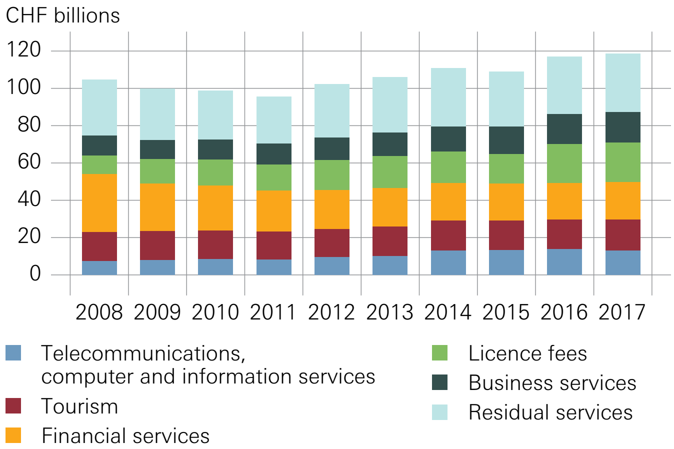


Source: SNB

Chart 6

EXPORTS OF SERVICES

Receipts

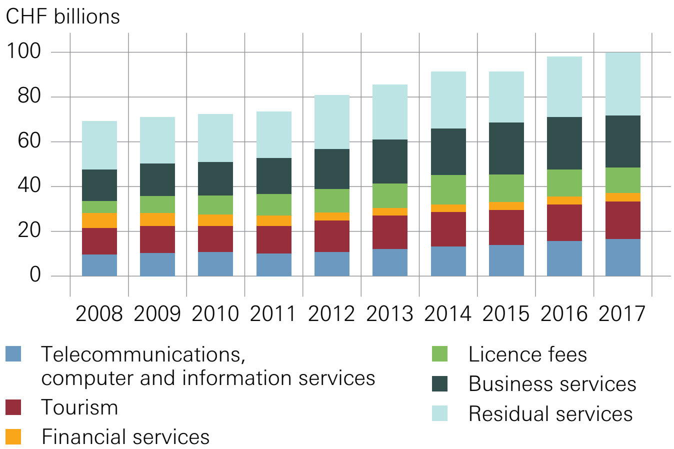


Source: SNB

Chart 7

IMPORTS OF SERVICES

Expenses



Source: SNB

The share of tourism receipts within services exports has remained relatively stable over the past few years (between 14% and 16%). Receipts from the export of business services (consulting; technical, trade-related and other business services) also rose in this period, reaching a share of 14% in 2017 (2008: 10%). The share of telecommunications, computer and information services in total receipts from trade in services also increased between 2008 and 2017, up from 7% to around 11%.

Residual services cover the following: manufacturing services on physical inputs, maintenance and repair services, construction services; insurance and pension services; transport services; research and development services; and other services.[1]

Within this group, transport services accounted for the largest share in total receipts from trade in services, although this share decreased from 13% to 10% between 2008 and 2017. By contrast, the share of receipts from research and development services rose in this period, from 1% to 2%. 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 around 7%.

1 For further information, cf. *Notes – International economic affairs* on the SNB data portal (data.snb.ch, *Resources, International economic affairs, Notes*).

Between 2008 and 2017, **expenses for services imports** trended upwards. They increased in all major categories, especially in business services and licence fees. In 2017, total expenses amounted to CHF 100 billion.

As in the two previous years, business services accounted for almost one-quarter of all expenses for services imports in 2017. Tourism, at 17%, was slightly higher on the import than on the export side; it has remained relatively stable in the past ten years. Over this period, expenses for telecommunications, computer and information services rose from 14% likewise to 17%. Between 2008 and 2014, licence fees trended upwards on the import side, too, but have since fallen back slightly to 11%. As in the past five years, imports of financial services amounted to just under 4% in 2017, after almost 10% in 2008.

Within the residual services category, research and development services have shown an increase in expenses since 2014. Their share in total expenses for services went up from 9% to 13% between 2008 and 2017. In the past, transport services accounted for a somewhat higher share on the expenses side than on the receipts side. However, the share of expenses decreased between 2015 and 2017, and at 10% was ultimately on a par with the share of receipts.

In 2017, the US was Switzerland's most important trading partner, both for services exports and for services imports (excluding tourism in each case). Overall, trade in services with the US showed an expenses surplus. The second largest trading partner for services was Germany.

Table 4

2017 TRADE IN SERVICES BY ECONOMIC AREA[1]

	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]	48.9	39.4	9.7%	0.3%	9.5
Of which Germany	11.2	11.0	–1.1%	2.4%	0.1
Of which France	4.3	4.1	–7.2%	–10.1%	0.1
Of which Italy	3.8	1.7	4.4%	–4.2%	2.1
United States	19.5	25.3	–14.2%	11.0%	–5.9
Asia	15.5	11.1	6.9%	5.2%	4.4
Of which China	2.6	1.7	2.7%	8.0%	0.9
Latin America	2.8	1.1	–12.6%	–50.1%	1.7
Others	15.3	6.1	–5.3%	–12.1%	9.3
Total[1]	**102.0**	**83.0**	**0.8%**	**1.5%**	**19.0**

1 Excluding tourism
2 EU28

Source: SNB

PRIMARY INCOME

Labour income

Labour income from abroad (receipts) consists mainly of 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. Labour income to other countries (expenses) represents the remuneration of non-resident cross-border commuters. Salaries and wages in this category continued to rise in 2017 as a result of higher numbers of non-resident cross-border commuters, and amounted to CHF 26 billion. Receipts from labour income have barely changed in recent years and came to only one-tenth of expenses in 2017.

Investment income

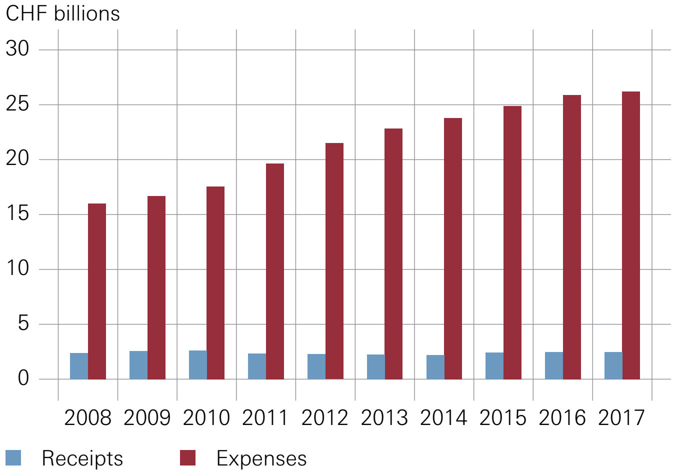
Investment income comprises receipts and expenses from cross-border stocks of financial assets. It is made up of investment income from direct investment, portfolio investment, other investment and reserve assets (the latter only receipts). Movements in this item depend, on the one hand, on the level of capital stocks in the international investment position. On the other, interest rates, corporate earnings and movements in exchange rates also play an important role.

Overall, considerable fluctuations were recorded in receipts from investment abroad (foreign assets) between 2008 and 2017. The lowest receipts were recorded in 2008, when they amounted to CHF 94 billion. They reached a peak of CHF 142 billion in 2015. In 2017, they amounted to around CHF 136 billion. In the period from 2008 to 2017, expenses for investment in Switzerland (foreign liabilities) ranged from a low of CHF 69 billion in 2011 to a high of CHF 118 billion in 2008. In 2017, they amounted to CHF 103 billion.

Movements in investment income between 2008 and 2017 were mainly driven by earnings from **direct investment**. Stocks of foreign assets under direct investment were consistently higher than those of foreign liabilities. Hence receipts were also higher than expenses. The one exception in this latter regard was 2008, when losses by banks' non-resident subsidiaries gave rise to exceptionally low receipts (CHF 11 billion). Throughout this period, both receipts and expenses under direct investment earnings were heavily influenced by economic developments and corporate earnings. This led to significant fluctuations in both receipts and expenses. In 2017, receipts amounted to CHF 82 billion, and expenses to CHF 59 billion.

Chart 8

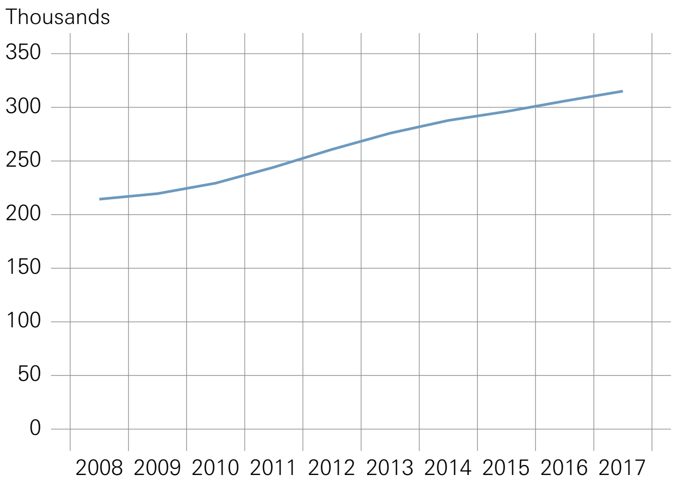
LABOUR INCOME



Source: SNB

Chart 9

CROSS-BORDER COMMUTERS

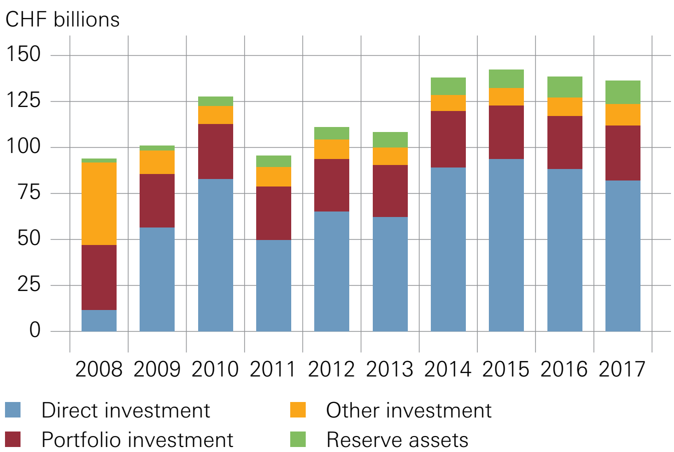


Source: Swiss Federal Statistical Office

Chart 10

INVESTMENT INCOME

Receipts



Source: SNB

Investment income from **portfolio investment** generally exceeded expenses in the past. This changed in 2015, since when expenses have dominated. One reason for this was that receipts from portfolio investment abroad trended downwards as a consequence of lower interest income. Another was that expenses for portfolio investment in Switzerland increased as a result of higher dividend payments. In 2017, receipts amounted to CHF 30 billion, and expenses to CHF 32 billion.

Receipts and expenses for the **other investment** item are determined by interest on the claims and liabilities of banks and non-financial companies. Receipts and expenses moved largely in tandem. Between 2008 and 2014, receipts from other investment dropped from CHF 45 billion to CHF 9 billion, and have since shown a slightly positive trend (2017: CHF 12 billion). Expenses fell from CHF 46 billion (2008) to CHF 9 billion (2015), after which a slight upward movement was in evidence (2017: CHF 13 billion). These developments were attributable to lower holdings and declining interest rates.

Receipts from reserve assets rose continually between 2008 and 2017. This increase was due mainly to the higher stocks of reserve assets. The share of **reserve assets** in total receipts from primary income came to 9% in 2017 (CHF 13 billion); in 2008, the share only amounted to 2% (CHF 2 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 further significant expenses item for private transfers is transfers by immigrants to their home countries. Under private transfers, receipts rose from CHF 27 billion to CHF 38 billion between 2008 and 2017. Expenses increased within the same period, from CHF 35 billion to CHF 46 billion.

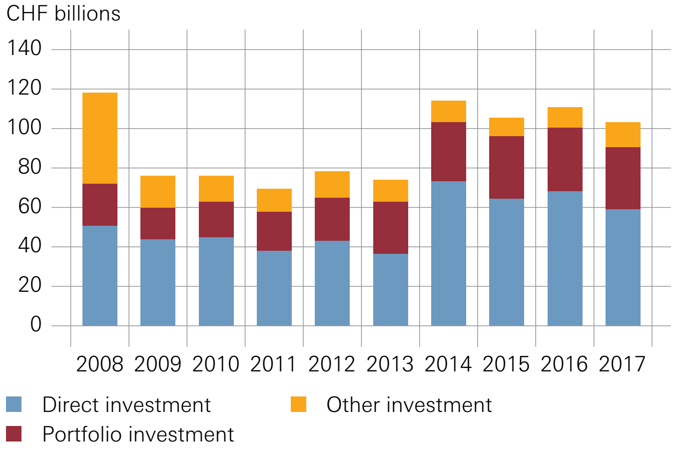
In addition to private transfers, there are also public transfers. These cover contributions to Swiss social security received from non-residents, pension payments to non-residents, and cross-border public sector receipts and expenses. The receipts side consists mainly of taxes and fees, while the most important elements on the expenses side are transfers to international organisations. From 2008 to 2017, receipts and expenses under public transfers both accounted for a share in total secondary income of around 20% on average.

Overall, receipts from secondary income rose from CHF 32 billion to CHF 46 billion between 2008 and 2017, while expenses increased from CHF 42 billion to CHF 57 billion.

Chart 11

INVESTMENT INCOME

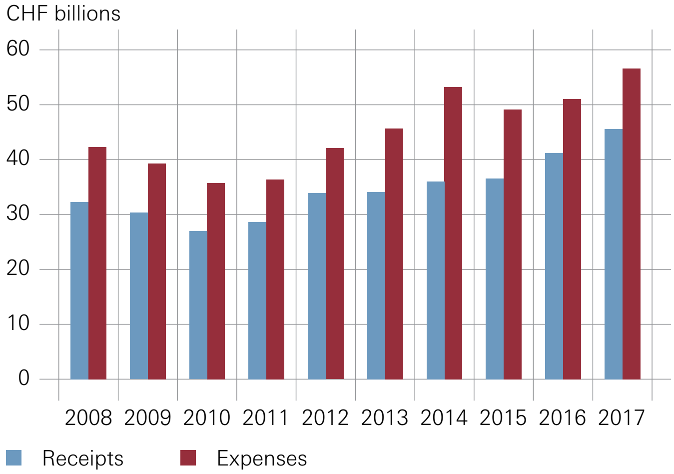
Expenses



Source: SNB

Chart 12

SECONDARY INCOME



Source: SNB

CAPITAL ACCOUNT

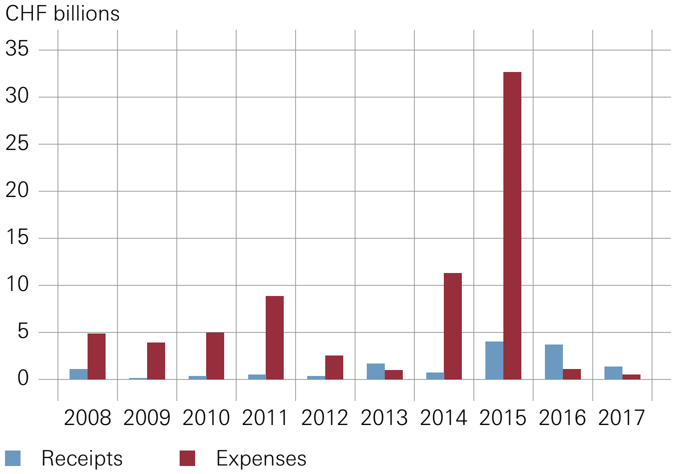
Capital transfers cover trade in non-produced, non-financial assets, for example purchase and sales of franchises and trademarks, as well as other capital transfers, for example debt forgiveness, payments of compensation, guarantees and inheritances.

In recent years, capital transfers have been dominated by expenses for non-produced, non-financial assets. Expenses, in particular, were subject to significant fluctuations.

Between 2008 and 2017, the capital account balance ranged between CHF –29 billion (2015) and CHF 3 billion (2016). The exceptionally high balance in 2015 was attributable to expenses for franchises and trademarks linked to corporate restructuring.

Chart 13

CAPITAL ACCOUNT



Source: SNB

FINANCIAL ACCOUNT

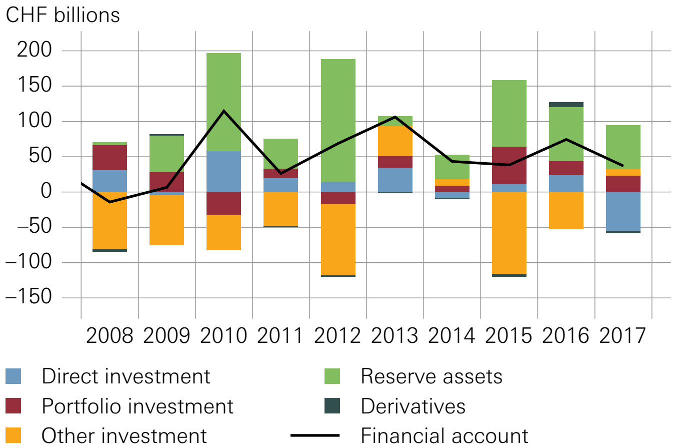
The financial account shows transactions between residents and non-residents over a specified period of time. Together with the valuation changes and other changes items, these transactions account for the change in stocks in the international investment position. Like the international investment position, the financial account has an assets and a liabilities side. Transactions are stated at net value, i.e. the net acquisition of financial assets and the net incurrence of liabilities.

The financial account balance comprises the sum of all net acquisitions of financial assets minus the sum of all net incurrences 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 positive current account balance (receipts surplus) and a savings surplus in the economy. The Swiss economy traditionally shows a savings surplus of this kind.[2]

Chart 14

FINANCIAL ACCOUNT

Net



Source: SNB

Until 2008, the financial account balance was largely dominated by net acquisitions of financial assets/net incurrences of liabilities in direct investment and portfolio investment. In subsequent years, however, all components of the financial account fluctuated considerably. Until 2008, the other investment item was dominated mainly by commercial banks' foreign lending and deposit business. From 2008 to 2017, though, the SNB's transactions also played an important role. Until 2008, reserve assets did not influence the financial account to any great extent. This changed in 2009, when the SNB increasingly purchased foreign exchange, thereby making a major contribution to the movements in the financial account balance between 2009 and 2017.

In 2017, the financial account balance amounted to CHF 37 billion, with reserve assets (balance: CHF +61 billion), direct investment (balance: CHF –55 billion) and portfolio investment (balance: CHF +23 billion) all having a significant impact.

2 Further information can be found in the special topic section of the 2016 report: 'Balance of payments and international investment position – important statistics explained in simple terms' (www.snb.ch, *Publications, Statistical publications, Swiss Balance of Payments and International Investment Position, Archive*).

DIRECT INVESTMENT

The objective of direct investment is to exert a direct and lasting influence on the operations of a company abroad. A direct investment is categorised as such if an investor (direct investor) owns at least 10% of the voting stock of a company (direct investment company) abroad or sets up a subsidiary or branch abroad. As soon as a direct investment relationship has been established, all cross-border intragroup financial linkages generally qualify as direct investment. Chief among the investing company's concerns are its long-term interest in the investment and influencing the business activities of the acquired company. These two criteria distinguish direct investment from portfolio investment.

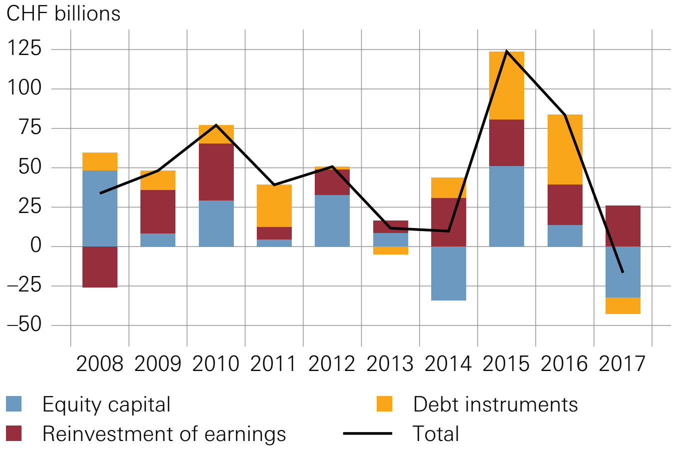
Between 2007 and 2014, cross-border investment activity by resident companies (net acquisition of financial assets) was lower than in previous years. This was due to high losses incurred by banks and insurance companies on their direct investment in non-resident subsidiaries as a result of the financial crisis. Persistent fluctuations accompanied direct investment throughout the entire period. In 2014, net acquisition of financial assets reached a new low of CHF 10 billion. Following high net acquisitions in the two subsequent years, a net reduction in assets of CHF 17 billion was recorded in 2017. While Swiss direct investors had provided their non-resident subsidiaries with substantial funds in the form of equity capital and loans in 2015 and 2016, they withdrew funds in both of these categories in 2017. Only reinvested earnings remained relatively constant in 2017 compared with the previous years.

Cross-border investments by non-resident companies (net incurrence of liabilities) followed a similar pattern to transactions on the assets side. From 2007 to 2014, they also fell short of the levels recorded in previous years. Non-resident parent companies notably invested less capital (i.e. equity capital and reinvested earnings) in their resident subsidiaries. In 2015, resident companies again received significantly more direct investment funds (CHF 112 billion) than in the previous years, predominantly in the form of equity capital. In the two following years, however, direct investment comprised mainly reinvested earnings and intragroup lending. In 2017, the total net incurrence of liabilities stood at CHF 38 billion.

Chart 15

DIRECT INVESTMENT

Net acquisition of financial assets

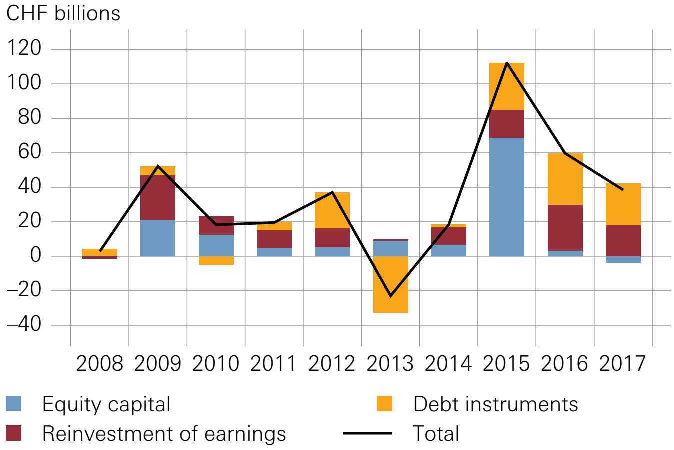


Source: SNB

Chart 16

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 direct investment or reserve assets. Unlike direct investment, the emphasis is on earning income rather than exerting influence on the business activities of a company. For portfolio investment, net acquisition of financial assets (resident investors' purchases minus sales of securities issued by non-residents) is generally considerably greater than net incurrence of liabilities (non-resident investors' purchases minus sales of securities issued by residents). 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 Swiss capital market.

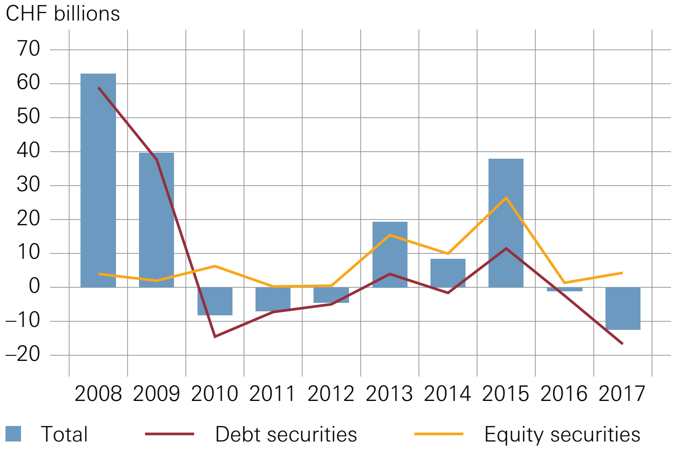
Portfolio investment by resident investors in securities issued by non-residents (net acquisition of financial assets) was consistently positive until 2009, with debt securities making up the majority of this investment. In 2010, purchases of debt securities plunged, together with the entire assets side of portfolio investment. Subsequently, resident investors mostly acquired equity securities, in part as a consequence of low interest rates. In 2017, resident investors sold securities to the value of CHF 12 billion. While they invested in equity securities, they disinvested substantial quantities of debt securities at the same time (i.e. they sold more debt securities than they bought).

Between 2008 and 2012, portfolio investment by non-resident investors in securities issued by residents (net incurrence of liabilities) was subject to significant fluctuations. The high net incurrence of liabilities on equity securities in 2008 was related to the fact that the Swiss big banks increased their borrowing. Between 2010 and 2011, movements in debt securities were largely the result of purchases of SNB Bills issued in 2010 that were repaid or repurchased a year later. The net incurrence of liabilities then trended increasingly downward, culminating in an ever larger net reduction in liabilities between 2014 and 2017. This was due to the upturn in net sales of equity securities. In 2017, disinvestment by non-resident investors amounted to CHF 35 billion. These transactions reflected the sale of free-float shares held by non-resident investors and disposed of in the wake of takeovers.

Chart 17

PORTFOLIO INVESTMENT

Net acquisition of financial assets

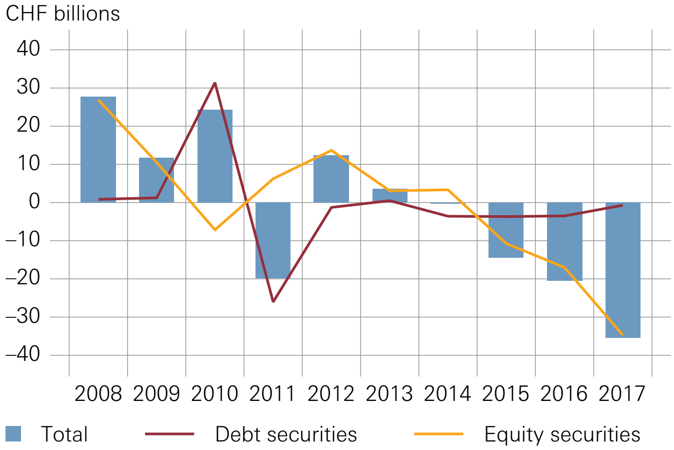


Source: SNB

Chart 18

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 the other investment category, both net acquisition of financial assets (claims) and net incurrence of liabilities are typically dominated by currency and deposits transactions.

The breakdown by sector shows that other investment is determined by the banks, on both the assets and liabilities sides. It is used to record banks' transactions with banks (interbank business) and non-resident customers, with the former predominating.

In 2007, **banks** expanded their claims (net acquisition of financial assets) and liabilities (net incurrence of liabilities) with respect to non-resident banks considerably. However, in 2008, these were substantially reduced in connection with the financial crisis. This decline continued in the years that followed, with the result that, for the area of cross-border interbank business, stocks of assets and liabilities in the international investment position have fallen by more than half since 2007. In 2017, interbank claims and liabilities showed a net reduction of CHF 15 billion and CHF 10 billion respectively.

Between 2008 and 2014, banks' business with non-resident customers resulted in a high net inflow of customer deposits (net incurrence of liabilities). In 2009, it amounted to over CHF 100 billion. This inflow was partly attributable to a shift from fiduciary investments abroad to bank deposits in Switzerland. Thereafter, this net incurrence diminished. Between 2015 and 2017, there was an upward trend in the net outflow of customer deposits (net reduction in liabilities). In 2017, non-resident customers withdrew funds in the amount of CHF 35 billion from Switzerland, following a reduction of CHF 12 billion the year before.

Other sectors mainly comprise transactions carried out by companies that are not included under direct investment or portfolio investment. Intragroup lending transactions by finance companies (excluding banks) are particularly significant. In 2017, both claims and liabilities of companies showed a relatively high net acquisition/incurrence of CHF 22 billion and CHF 26 billion respectively.

Table 5

OTHER INVESTMENT

In CHF billions

	2013	2014	2015	2016	2017
Net acquisition of financial assets (claims)	**72.9**	**−27.9**	**−40.7**	**−11.3**	**17.6**
Currency and deposits	64.5	−29.6	−35.1	−1.4	−4.1
Of which banks	53.4	−34.4	−52.2	−44.7	−14.9
Of which other sectors	8.1	−1.6	−1.0	25.5	18.0
Loans	8.4	1.7	10.3	4.2	22.2
Of which banks	15.2	6.4	11.4	−3.5	28.1
Of which other sectors	−6.8	−4.7	−1.1	7.7	−5.9
Other net acquisition of financial assets	0.0	0.0	−15.9	−14.1	−0.5
Net incurrence of liabilities	**29.2**	**−38.2**	**74.9**	**41.4**	**7.8**
Currency and deposits	35.6	−27.2	67.3	9.5	−16.0
Of which banks	31.7	−46.9	42.6	−7.5	−44.1
Of which other sectors	0.1	−1.6	0.2	1.1	1.7
Loans	−2.7	−8.0	−21.6	4.1	24.2
Of which banks	–	–	–	–	–
Of which other sectors	−2.5	−7.9	−21.6	4.1	24.7
Other net incurrence of liabilities	−3.6	−3.0	29.2	27.7	−0.5

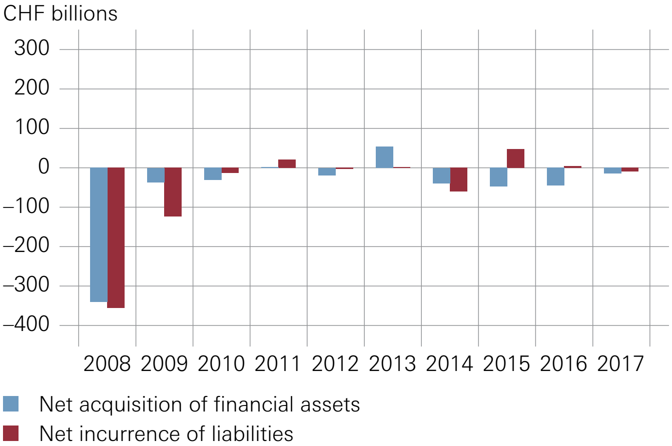
Source: SNB

The **Swiss National Bank** sector comprises 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 remaining claims and liabilities with respect to other central banks and non-resident banks that are not included under reserve assets. Until 2007, the extent of the SNB's transactions was minor. In 2008, as a result of the financial crisis, both a high net acquisition of financial assets and a high net incurrence of liabilities were registered. These subsided again in subsequent years. Between 2013 and 2016, a net acquisition of financial assets and a net incurrence of liabilities were recorded. In 2017, the SNB reported a net reduction in claims of CHF 7 billion and a net incurrence of liabilities of CHF 26 billion.

Chart 19

OTHER INVESTMENT: BANKS

Claims against and liabilities towards banks

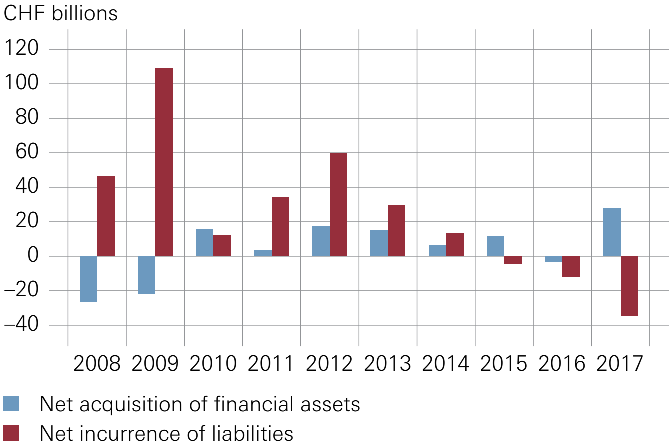


Source: SNB

Chart 20

OTHER INVESTMENT: BANKS

Claims against and liabilities towards customers

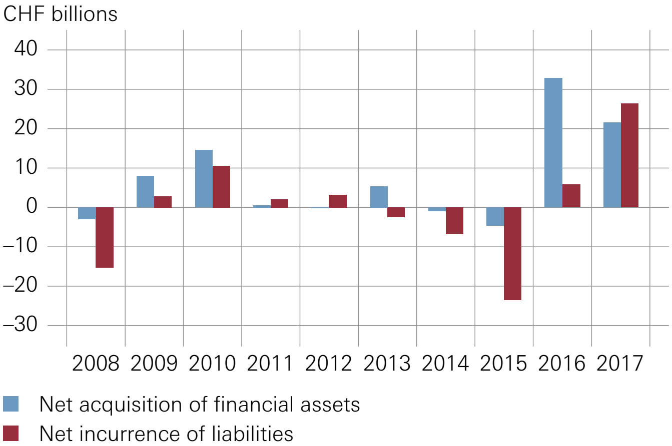


Source: SNB

Chart 21

OTHER INVESTMENT: CORPORATES

Claims and liabilities

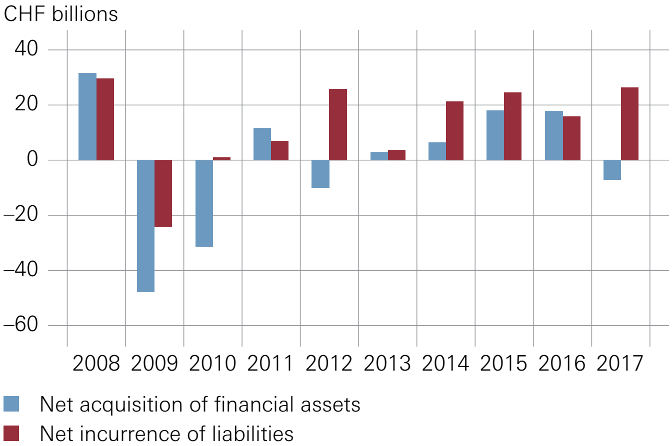


Source: SNB

Chart 22

OTHER INVESTMENT: SWISS NATIONAL BANK

Claims and liabilities



Source: SNB

RESERVE ASSETS

Reserve assets are central bank assets (e.g. securities) that are available at short notice. They mainly consist of gold and foreign currency investments. Reserve assets transactions comprise purchases and sales of these financial assets by the central bank.

From 2009 to 2017, as part of the implementation of its monetary policy, the SNB intervened in the foreign exchange market, at times making sizeable purchases. As a result, the reserve assets increased substantially. In 2017, net acquisition of financial assets in this category amounted to CHF 61 billion.

DERIVATIVES

Derivatives are forward transactions whose values depend on one or more underlying financial instruments, indices or goods. One distinctive feature is that when derivatives contracts are taken out, in many cases this is not immediately recorded in the balance of payments, but only later during the term of the contract or at maturity.

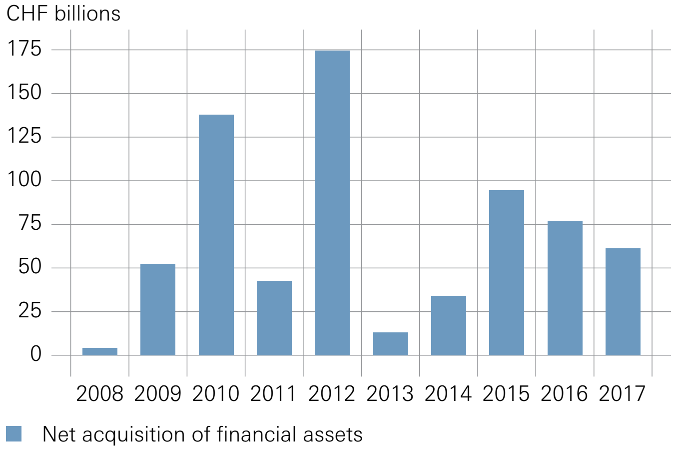
The Swiss balance of payments shows only the net figure for derivatives. This is because some transactions cannot be allocated to assets or liabilities, given that derivatives may be an asset item at one time and a liability item at another depending on the performance of the underlying financial instruments.

Between 2008 and 2017, derivatives fluctuated between a negative net figure of CHF 4 billion (2008) and a positive net figure of CHF 7 billion (2016). They ultimately showed a negative net figure of CHF 2 billion.

Chart 23

RESERVE ASSETS

Net acquisition of financial 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. In practice, however, it is not always possible to fully comply with this principle, due to errors and omissions in the collection of statistical data and estimates. A statistical difference arises, which is calculated as the financial account balance minus the sum of the current account balance and the capital account balance.

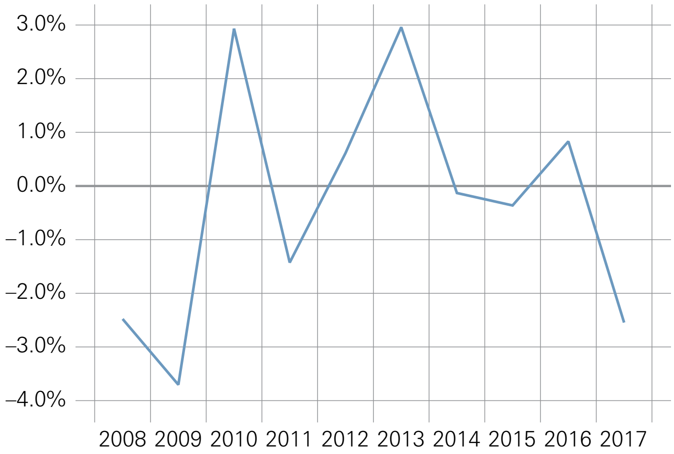
Between 2008 and 2017, the statistical difference showed changing plus and minus values, indicating a negative figure of CHF 29 billion in 2017. This figure suggests either that current account receipts/net incurrence of liabilities have been overestimated or that current account expenses/net acquisition of financial assets have been underestimated.

In order to quantify the statistical difference, it is set in relation to all transactions included in the current account (i.e. the sum of receipts and expenses). On this basis, in 2017, the statistical difference amounted to around 3% of all current account transactions.

Chart 24

STATISTICAL DIFFERENCE

As percentage of current account transactions



Source: SNB

3 International investment position

FACTORS INFLUENCING THE INTERNATIONAL INVESTMENT POSITION

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

Three factors influence movements in the stocks of assets and liabilities in the international investment position:

- Transactions recorded in the financial account (net acquisition of financial assets/net incurrence of liabilities)
- Valuation changes resulting from price and exchange rate movements
- Other changes

With regard to the transactions recorded in the financial account, the accumulation and reduction of financial assets and liabilities are summarised into a net acquisition/incurrence. The net acquisition of financial assets and the net incurrence of liabilities flow as transactions into the assets and liabilities sides, respectively, of the international investment position. When the net acquisition of assets exceeds the net incurrence of liabilities (i.e. the balance of the financial account is positive), the transactions have a positive impact on the net international investment position; the latter is reduced when the balance is negative.

Valuation changes – gains or losses resulting from price and exchange rate movements – also influence the international investment position. Price changes occur due to movements in the prices of precious metals or securities, particularly shares. Since the composition of assets differs significantly from that of liabilities in Switzerland's international investment position, the effect of price and exchange rate movements on assets deviates substantially from that on liabilities in the following ways:

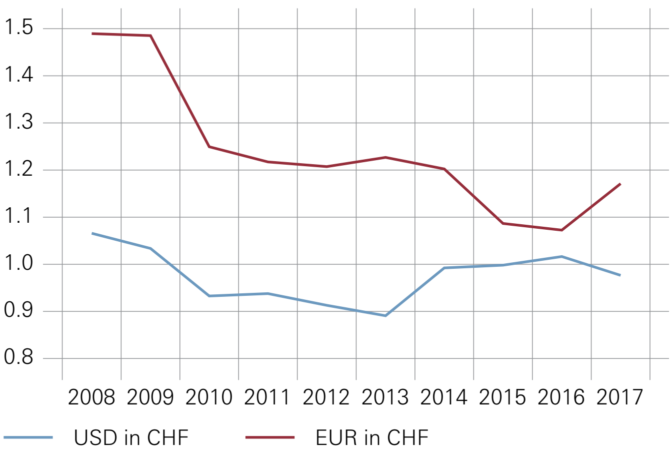
- The share of foreign currency positions on the assets side is over 90%, while the share on the liabilities side is approximately 35%. This explains why the assets are more strongly affected by exchange rate fluctuations than the liabilities. An appreciation of the Swiss franc thus has a negative, and a depreciation a positive impact on the net international investment position.
- As regards portfolio investment, share holdings of non-resident investors in Switzerland (liabilities) are more than twice as high as those held by resident investors abroad (assets). Consequently, in absolute terms, a similar movement in share prices in Switzerland and abroad will have a stronger impact on the liabilities side.

The third influencing factor is other changes. These are changes which are not attributable to transactions and valuation changes, such as an expansion in the reporting population (i.e. the number of companies surveyed), as well as the inclusion of items or events not previously covered.

Chart 25

EXCHANGE RATES

Year-end rates

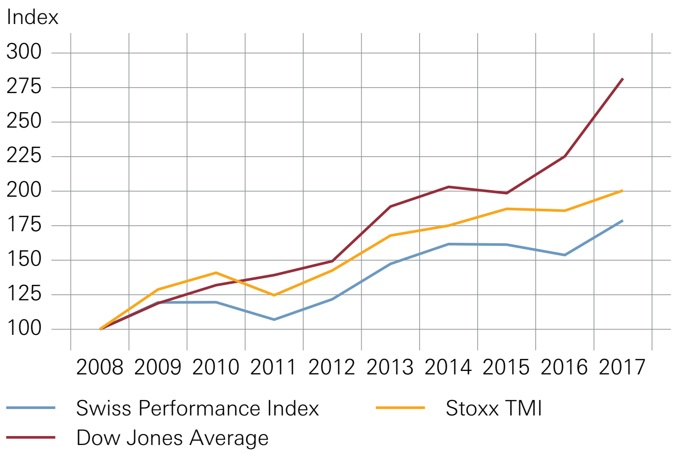


Source: SNB

Chart 26

SHARE PRICES

Year-end prices (2008 = 100)



Sources: Bloomberg, Thomson Reuters Datastream

FOREIGN ASSETS – SUMMARY

When the financial crisis broke out, foreign assets declined sharply, with stocks falling year-on-year by CHF 500 billion to CHF 3,248 billion in 2008. This was mainly attributable to three factors. First, banks reduced their capital stocks abroad, particularly in interbank business. Second, plummeting share prices resulted in a decrease in stocks of portfolio investment. And third, the appreciation of the Swiss franc led to a lower valuation of capital stocks held in foreign currency.

Foreign assets rose again continually in the years that followed. In 2017, stocks of assets increased by CHF 220 billion to CHF 4,768 billion, with CHF 50 billion resulting from transactions recorded in the financial account (net acquisition of financial assets).

In the past, the structure of the foreign assets has experienced significant shifts both in terms of components and currency breakdown.

Among the foreign assets, the share of other investment witnessed the most significant decline, falling from 31% to 18% between 2008 and 2017. Conversely, the share of reserve assets grew from 2% to 17%. The share of direct investment rose to 35%, whereas the shares of portfolio investment and derivatives decreased slightly.

The share of foreign currencies on the assets side rose from almost 80% to over 90%, with the share of Swiss francs losing ground correspondingly. Between 2008 and 2017, the share of US dollars rose from 26% to 38% and in 2014 replaced euros as the most significant currency on the assets side. The share of euros increased slightly to 32% between 2008 and 2017, while that of the other currencies fell from 26% to 21% in the same period.

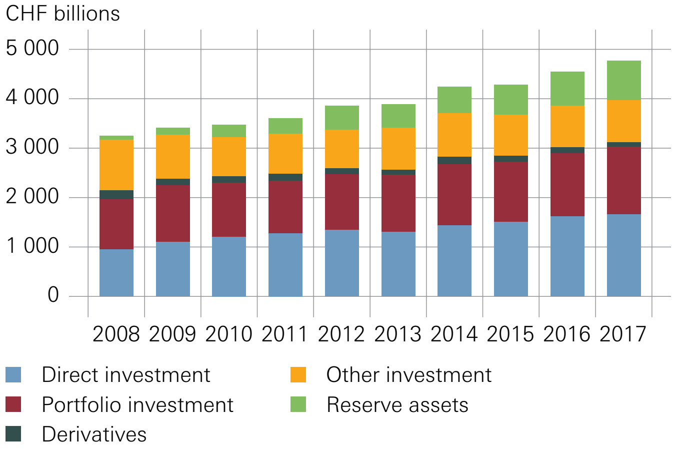
DIRECT INVESTMENT

Direct investment assets record the assets side of intragroup capital relationships of companies in Switzerland with entities abroad. Thus, in contrast to portfolio investment, this reflects a long-term investment motive. Direct investment assets are composed of equity in non-resident subsidiaries and branch offices, as well as cross-border intragroup lending (assets). Unlike the stocks in the other categories, direct investment is stated at book rather than market value.

Chart 27

INTERNATIONAL INVESTMENT POSITION

Foreign assets, by component

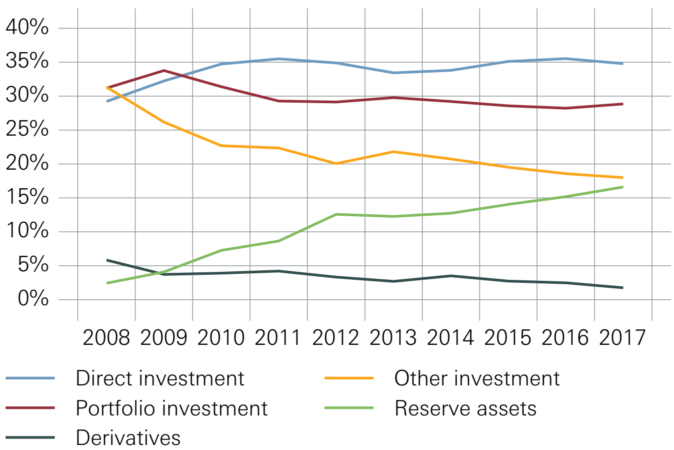


Source: SNB

Chart 28

INTERNATIONAL INVESTMENT POSITION

Foreign assets, by share of component

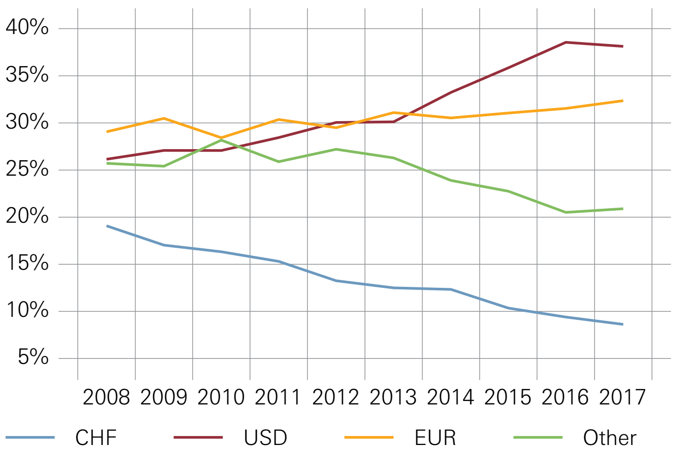


Source: SNB

Chart 29

INTERNATIONAL INVESTMENT POSITION

Foreign assets, by share of currency



Source: SNB

Stocks of assets increased substantially between 2008 and 2017. Resident companies acquired participations outside Switzerland on a large scale, and the income earned abroad was subsequently reinvested. These investments far exceeded exchange rate-related valuation losses. Although equity accounted for most direct investment, the relative importance of intragroup lending increased significantly from 2014 on, climbing 10 percentage points to 35% between 2014 and 2017. In addition to economic developments, these higher levels of direct investment are attributable to the introduction of new surveys on cross-border capital linkages.[1]

In 2017, stocks of direct investment increased by CHF 43 billion to CHF 1,659 billion, comprising equity and intragroup lending of CHF 1,085 billion and CHF 574 billion respectively.

PORTFOLIO INVESTMENT

The assets reported under portfolio investment in the international investment position are securities issued by non-resident borrowers which are held by resident investors and are not covered by direct investment or reserve assets.

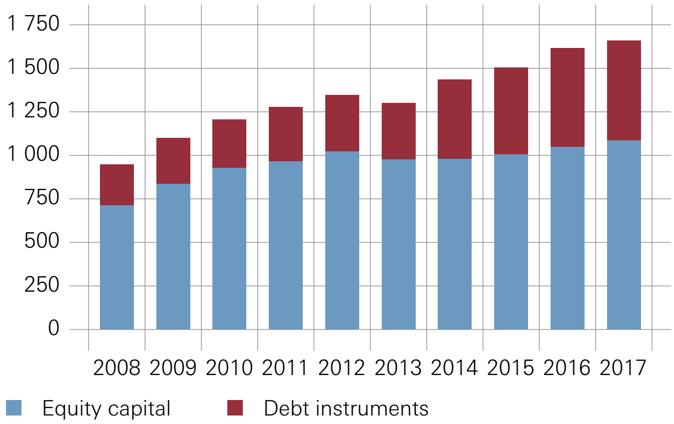
Despite new investment (net acquisition of financial assets), stocks of portfolio investment dipped sharply in 2008, down 20% year-on-year. This was due to equity securities (shares and units in collective investment schemes) devaluing substantially during the financial crisis. The stocks of equity securities recovered in subsequent years, reaching the 2007 level for the first time again in 2015. This was largely attributable to valuation gains on equity securities on the back of positive stock exchange performance abroad.

1 Detailed information on the introduction of the new surveys on cross-border capital linkages can be found in the special topic section of the 2014 *Direct Investment* report.

Chart 30

DIRECT INVESTMENT

Foreign assets

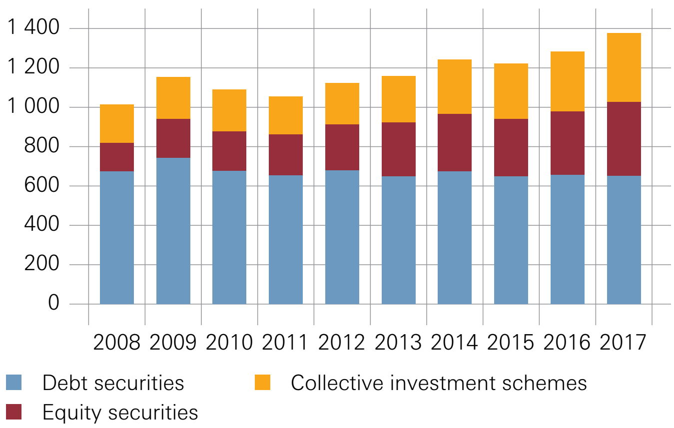


Source: SNB

Chart 31

PORTFOLIO INVESTMENT

Foreign assets



Source: SNB

Table 6

OTHER INVESTMENT: ASSETS

In CHF billions

	2013	2014	2015	2016	2017
Total assets	**847.9**	**880.8**	**835.7**	**844.8**	**857.9**
Currency and deposits	597.4	652.2	604.2	606.6	590.8
Of which banks	371.1	344.5	278.5	230.8	220.3
Of which other sectors	218.2	292.8	292.0	325.0	324.6
Loans	249.5	213.2	214.3	218.6	240.9
Of which banks	174.1	191.1	199.0	195.6	223.5
Of which other sectors	74.4	21.0	14.3	22.0	16.4
Other assets	1.0	15.4	17.3	19.7	26.1

Source: SNB

In 2017, stocks of portfolio investment amounted to CHF 1,375 billion, comprising CHF 724 billion of equity securities and CHF 652 billion of debt securities.

DERIVATIVES

Derivatives are forward transactions whose values depend on one or more underlying financial instruments, indices or goods. Outstanding derivative financial instruments with non-resident counterparties have been reported at their positive replacement values in the international investment position since 2005, the year of their inclusion.

The increase in stocks of derivatives in 2008 was due principally to an expansion in the reporting population; since then they have generally trended downwards. 2017 saw a decrease of CHF 30 billion to CHF 84 billion.

OTHER INVESTMENT

As in the balance of payments, other investment is broken down into currency and deposits, loans, and other assets.

Other investment assets are principally made up of the currency and deposits category, primarily involving the interbank market, and loans. Between 2008 and 2012, stocks of other investment declined from CHF 1,018 billion to around CHF 774 billion. This decrease was attributable to the banks, which very substantially reduced their claims abroad. In subsequent years, other investment has shown a slight upward trend.

In 2017, the other investment category increased by CHF 13 billion to CHF 858 billion.

RESERVE ASSETS

Reserve assets are central bank assets (e.g. securities) that are available at short notice. They mainly consist of gold and foreign currency investments.

The SNB conducted extensive foreign currency purchases between 2009 and 2017, with reserve assets climbing from CHF 140 billion to CHF 792 billion. In 2017, the year-on-year increase in stocks totalled CHF 102 billion.

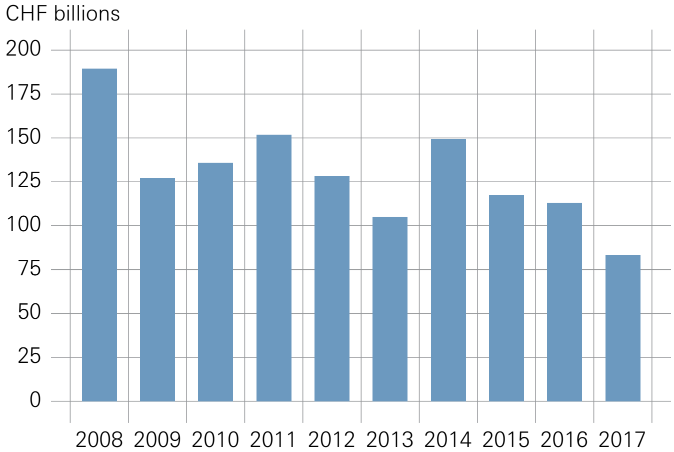
These foreign currency purchases strongly affected the composition of the reserve assets. Between 2008 and 2017, the share of foreign currency investments in the reserve assets increased from 60% to 94%, while the share of gold declined from 39% to 5%, although gold stocks remained relatively stable in absolute terms.

The increased foreign currency purchases were made chiefly in securities denominated in US dollars and euros. The share of US dollars increased from 17% to 33% between 2008 and 2017. In the same period, the share of euros increased from 30% initially to 47% (2011), after which it trended down, amounting to 33% in 2017. Between 2008 and 2013, the share of the other currencies rose by 10 percentage points to 24% and has since remained stable.

Chart 32

DERIVATIVES

Foreign assets

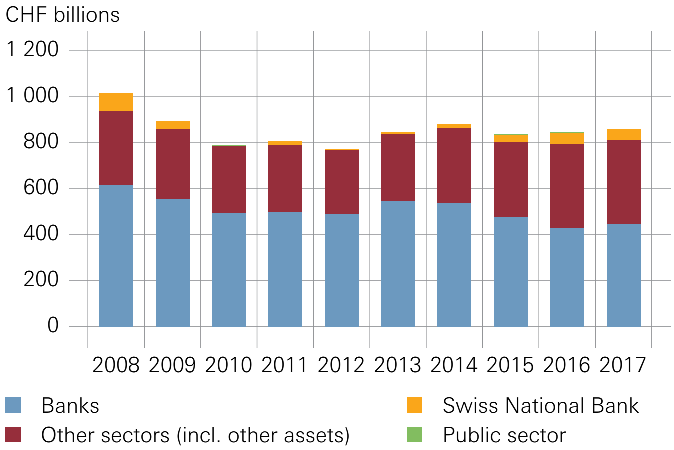


Source: SNB

Chart 33

OTHER INVESTMENT

Foreign assets

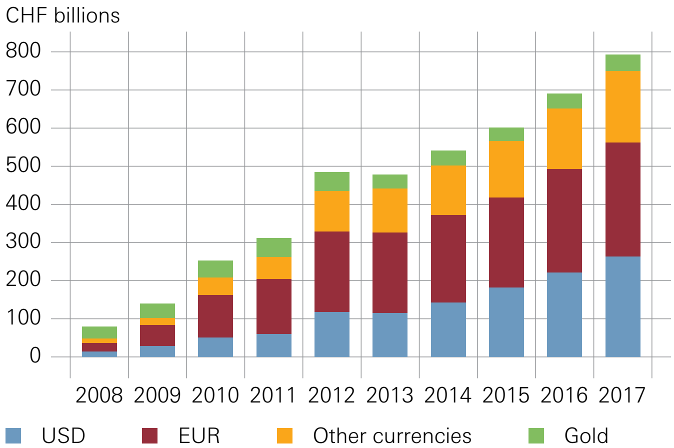


Source: SNB

Chart 34

RESERVE ASSETS

Foreign assets



Source: SNB

FOREIGN LIABILITIES – SUMMARY

As with foreign assets, foreign liabilities decreased sharply during the financial crisis. 2008 saw stocks fall year-on-year by CHF 429 billion to CHF 2,586 billion. There were essentially three factors behind this: First, commercial banks scaled back their liabilities abroad very substantially, with a corresponding decrease in the other investment category. Second, stocks of portfolio investment dropped significantly due to the downturn in share prices. And third, the lower value of foreign currencies in all components contributed to a decline in foreign liabilities. Only stocks of direct investment were unaffected by this development; they continued to increase.

In the following years, stocks of foreign liabilities recovered again. An increase in liabilities was observed above all between 2012 and 2014, as well as in 2017. These rises were largely due to valuation gains as a result of higher share prices on the Swiss stock exchange. In 2017, stocks of liabilities increased by CHF 155 billion to CHF 3,920 billion, with transactions recorded in the financial account totalling just CHF 11 billion (net incurrence of liabilities).

Between 2008 and 2017, foreign liabilities, like foreign assets, experienced shifts within the components and in terms of currency breakdown.

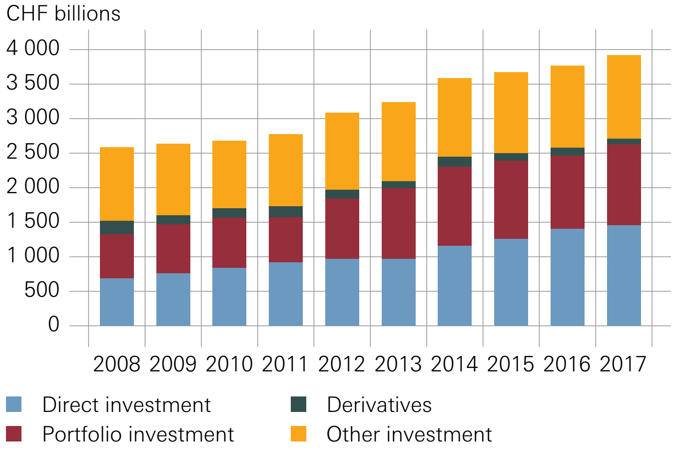
The share of direct investment in total foreign liabilities grew from 27% to 37% between 2008 and 2017, while the share of other investment declined from 41% to 31%. Until the onset of the financial crisis, the share of portfolio investment had at times been significantly in excess of 30%. In 2008, it declined to 25%, but moved closer to its original level again over the subsequent years.

Broken down by currency, the share of the Swiss franc on the liabilities side rose from 55% to 66% between 2008 and 2017. At the same time, the share of euros and other currencies decreased. The share of US dollars remained stable at an average of 20%.

Chart 35

INTERNATIONAL INVESTMENT POSITION

Foreign liabilities, by component

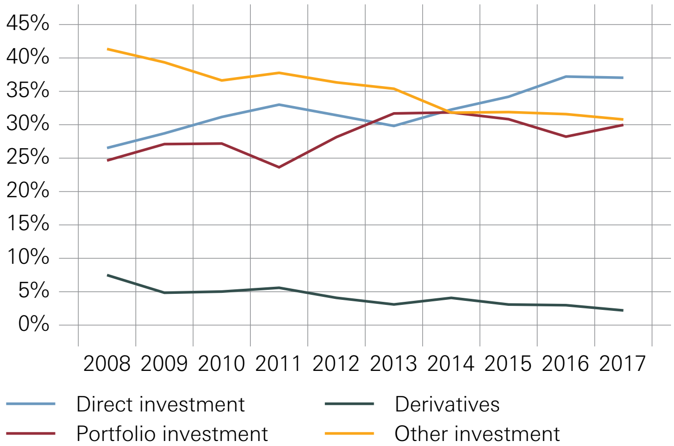


Source: SNB

Chart 36

INTERNATIONAL INVESTMENT POSITION

Foreign liabilities, by share of component

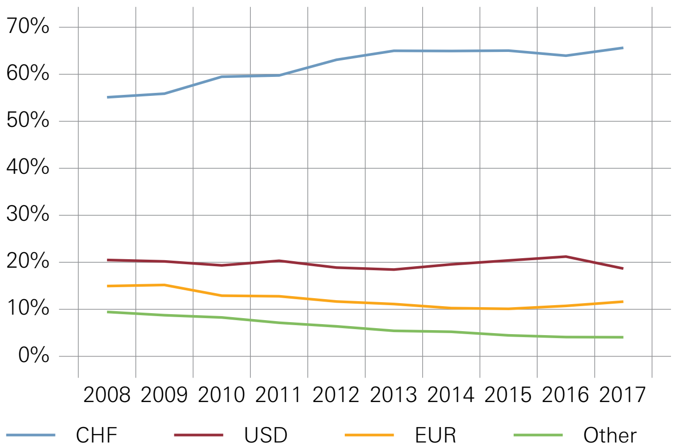


Source: SNB

Chart 37

INTERNATIONAL INVESTMENT POSITION

Foreign liabilities, by share of currency



Source: SNB

DIRECT INVESTMENT

Direct investment liabilities represent the liabilities side of intragroup capital relationships of companies in Switzerland with entities abroad. Thus, in contrast to portfolio investment, they reflect a long-term investment motive. Direct investment liabilities are composed of equity in resident subsidiaries and branch offices owned by non-resident investors, and stocks of cross-border intragroup lending, i.e. debt instruments (liabilities).

Stocks of direct investment liabilities more than doubled between 2008 and 2017. A large portion of the increase was attributable to finance and holding companies. As on the assets side, the relative importance of lending also increased on the liabilities side – albeit to a lesser degree. In addition to economic developments, the higher levels of direct investment from 2014 onwards are attributable to the introduction of new surveys on cross-border capital linkages, as is the case on the assets side.

In 2017, stocks of direct investment increased by CHF 51 billion to CHF 1,452 billion, due largely to intragroup lending.

PORTFOLIO INVESTMENT

The liabilities reported under portfolio investment in the international investment position are securities issued by resident borrowers which are held by non-resident investors and are not included in direct investment.

Most of the holdings by non-resident portfolio investors in Switzerland are equity securities (shares and units in collective investment schemes). Between 2008 and 2017, the share of equity securities averaged 90%. This is why fluctuations in share prices affect the liabilities side particularly strongly.

In the wake of collapsing share prices, portfolio investment stocks fell year-on-year by almost CHF 300 billion to CHF 637 billion in 2008. This loss in value as a result of stock market movements far exceeded transactions (net incurrence of liabilities) in the financial account, even though the latter were high, particularly in the case of banks.

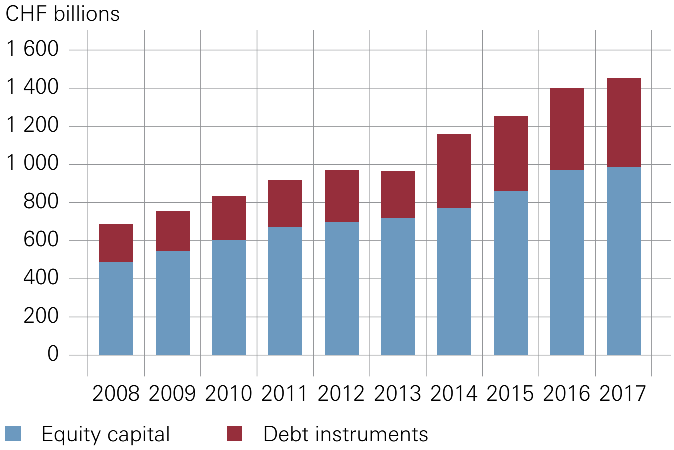
In subsequent years, share prices recovered and the 2008 losses were partly recouped. Above all between 2012 and 2014, as well as in 2017, stocks of portfolio investments witnessed substantial rises, due primarily to a positive performance by the Swiss stock exchange. The increase reported in 2012 was also attributable to an expansion in the reporting population for portfolio investment.

In 2017, stocks of portfolio investment grew by CHF 113 billion to reach a new high of CHF 1,175 billion. The increase was attributable almost exclusively to equity securities.

Chart 38

DIRECT INVESTMENT

Foreign liabilities

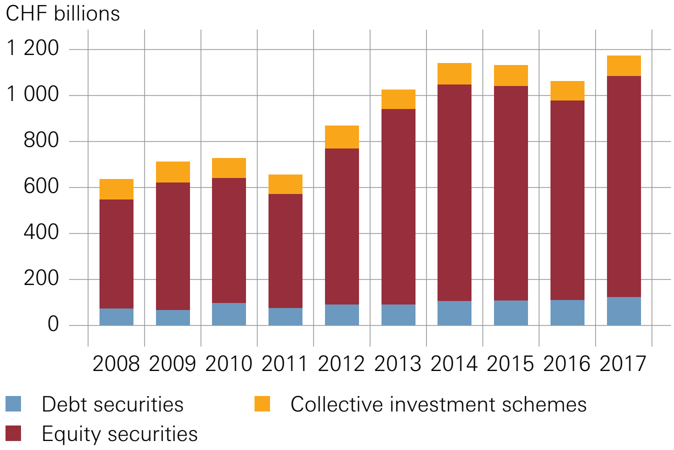


Source: SNB

Chart 39

PORTFOLIO INVESTMENT

Foreign liabilities



Source: SNB

DERIVATIVES

In the foreign liabilities, outstanding derivative financial instruments with non-resident counterparties are reported at their negative replacement values.

The increase in stocks of derivatives in 2008 was mainly attributable to an expansion in the reporting population. Since then – as on the assets side – derivatives have trended downwards. In 2017, stocks decreased by CHF 26 billion to CHF 86 billion.

OTHER INVESTMENT

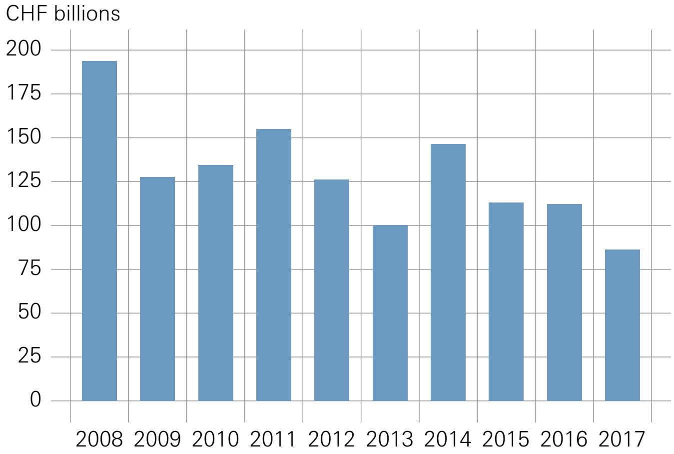
As in the balance of payments, other investment is broken down into currency and deposits, loans, and other liabilities.

As per the assets side, movements in other investment liabilities were determined by the currency and deposits category. In 2008, stocks of liabilities fell by almost CHF 350 billion to CHF 1,069 billion as a result of the financial crisis. This fall was attributable to the reduction in banks' liabilities in the interbank market, which was mitigated by an increase in bank liabilities towards non-resident customers. The decline in stocks of other investment continued until 2010. Stocks increased in the subsequent years, reaching CHF 1,207 billion in 2017.

Chart 40

DERIVATIVES

Foreign liabilities

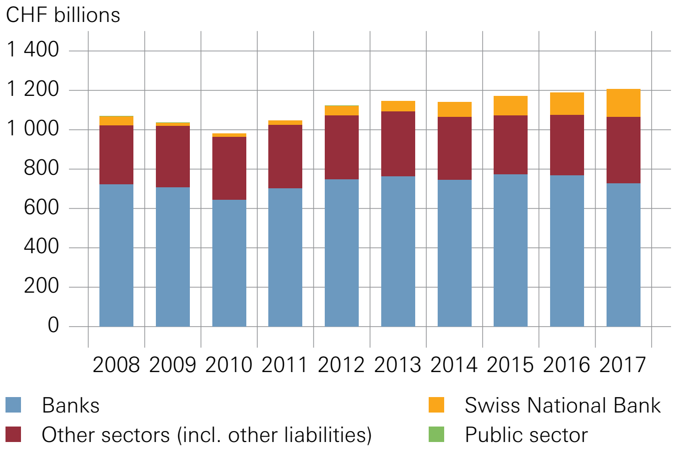


Source: SNB

Chart 41

OTHER INVESTMENT

Foreign liabilities



Source: SNB

Table 7

OTHER INVESTMENT: LIABILITIES

In CHF billions

	2013	2014	2015	2016	2017
Total liabilities	**1 146.3**	**1 140.9**	**1 171.3**	**1 189.3**	**1 207.0**
Currency and deposits	821.6	823.8	876.0	886.8	874.7
Of which banks	762.6	744.7	773.8	768.2	725.8
Of which other sectors	5.7	4.3	2.4	3.6	5.2
Loans	236.7	215.5	190.0	192.6	213.9
Of which banks	–	–	–	–	–
Of which other sectors	236.0	215.0	189.4	192.0	213.8
Other liabilities	88.1	101.6	105.3	109.8	118.4

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 consistently positive throughout this period. This reflects the high saving rate as well as the limited investment possibilities in Switzerland. By international standards, Switzerland's net international investment position is very high. Countries with the highest net international investment positions include the major economies of Japan, China and Germany, as well as smaller ones like Hong Kong, Singapore and Norway.[2]

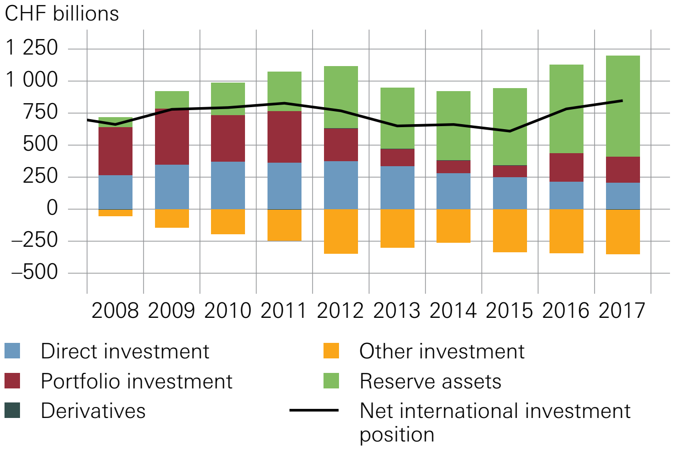
In the last ten years, the net international investment position has undergone considerable fluctuations. From 2009 to 2011, it experienced strong growth, latterly amounting to CHF 827 billion. Subsequent years saw a clear downward trend, with CHF 609 billion recorded in 2015. The next two years saw a renewed sharp rise, however, and a new record high of CHF 848 billion was registered in 2017.

Between 2008 and 2017, the composition of the net international investment position likewise experienced significant shifts. Initially, it was mainly influenced by portfolio investment and direct investment. Over the years, however, the significance of these two components receded considerably. From 2009 onwards, two components became visible which had previously had no substantial impact on the net international investment position: on the one hand, other investment had an increasingly dampening effect, and on the other, the SNB expanded its reserve assets, which contributed to the rise in the net international investment position.

Chart 42

NET INTERNATIONAL INVESTMENT POSITION

Components



Source: SNB

2 Source: IMF, *International Investment Position, Net* (data.imf.org, Balance of Payments and International Investment Position/IIP Surplus – Top Ten Economies).

4
Special topic: Portfolio investment in Switzerland's international investment position

4.1 INTRODUCTION

Portfolio investment covers cross-border transactions in securities with financial investment characteristics. It is one of the five components of the international investment position statistics. During the past ten years, its share in Switzerland's international investment position has averaged some 30%, both on the assets and the liabilities sides.

Portfolio investment is generally split into instrument categories. However, it is also possible to break it down by currency, sector or country. Moreover, subdivisions may be made on the basis of factors influencing changes in stocks. This special topic examines portfolio investment from all of these different perspectives to provide a more detailed understanding of its composition.

We will begin with an explanation of the theoretical principles of portfolio investment, followed by a presentation of the data sources and the data gaps which still exist. The data are then described from the various different perspectives.

4.2 PRINCIPLES

4.2.1 DEFINITION

Portfolio investment is one of the five components of the international investment position, alongside direct investment, reserve assets, derivatives and other investment.

It covers investment in both equity securities and debt securities, unless these have been included under either direct investment or reserve assets.[1] For portfolio investment, the primary emphasis is on earning income. The two criteria which differentiate it from direct investment and reserve assets are as follows:

– Equity securities are included under direct investment if participation in a company amounts to 10% or more of the voting power.

– Equity securities and foreign currency debt securities are included under reserve assets if investment is carried out by the SNB for monetary policy reasons.

Both equity securities and debt securities are negotiable instruments. They can be differentiated from one another as follows:

– The equity securities category covers two kinds of instrument: shares and collective investment schemes. Shares may listed on a stock exchange or unlisted, and investment in them entails a business risk given that they represent a claim on equity capital. The aim of placements in collective investment schemes (e.g. units in investment funds) is to make a joint capital investment.

– Debt securities represent a lender's claim on a borrower. Relative to equity securities of the same issuer, debt securities represent a lower risk for investors since lender claims are met before those of equity holders in the event of a liquidation. The maturity of debt securities is known at the time of issue, and the investor receives fixed future interest payments (coupons). A differentiation is made between short-term debt securities (original maturity of one year or less) and long-term debt securities (original maturity of more than one year).

Like the other components, portfolio investment is shown in the international investment position statistics in the form of assets and liabilities. The assets cover the stocks of foreign financial assets held by resident parties at the end of a given period, while the liabilities cover the stocks of domestic financial assets held by non-resident parties at the end of a period.[2]

Under portfolio investment, these (cross-border) stocks are differentiated using the distinction between investors and issuers. Thus the assets side in portfolio investment shows securities of non-resident parties held by resident investors.[3] By contrast, the liabilities side shows securities of resident parties held by non-resident investors.

1 Portfolio investment is reported in line with the standards set out by the International Monetary Fund in the *Balance of Payments and International Investment Position Manual*, 6th edition (BPM6), as is the case for all components in the international investment position statistics.

2 For additional information on the balance of payments and the international investment position, as well as on the accounting system, cf. special topic for 2016, 'Balance of payments and international investment position – important statistics explained in simple terms' (www.snb.ch, *Publications, Statistical publications, Swiss Balance of Payments and International Investment Position, Archive*).

3 The term resident covers residents of Switzerland or the Principality of Liechtenstein.

4.2.2 DATA

Data sources

Data used in the portfolio investment statistics are obtained, first, from the SNB's own surveys, and second, from internal SNB data. They are derived from the three following sources:

– Banks: Banks report on securities owned by their customers which are held in open custody accounts. Customers may be households or corporations (sector S.1P),[4] or the public sector (sector S.13). They also report on debt securities they hold themselves (sector S.122). All these data are reported to the SNB monthly, quarterly or annually.

– Corporations: Corporations report on securities they own (sector S.1P) which are not held in an open customer custody account with a bank in Switzerland (otherwise some securities already included under the Banks category would be counted double). They report these data to the SNB quarterly or annually.[5]

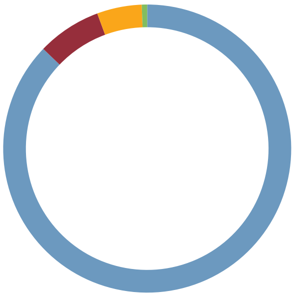
– Swiss National Bank (SNB): For its part, the SNB reports on debt securities which it owns (sector S.121) but which are not included under reserve assets. These are debt securities issued by non-resident borrowers in Swiss francs. They are reported monthly.

Data from all sources are available in aggregate form only. Information on individual securities or on the composition of individual portfolios is not available.

Of the three data sources, the Banks source is the most important. In 2017, 95% of data were derived from this source, with information taken from open customer custody accounts being pivotal. The Corporations source provided a comparatively small portion, while the SNB contribution was minimal.

Chart 1

SHARE OF DIFFERENT SOURCES IN PORTFOLIO INVESTMENT (ASSETS), 2017



Source: SNB

Data gaps

The National Bank Act authorises the SNB to collect data from natural persons and legal entities in Switzerland. However, it may not directly access the data of non-resident natural persons or legal entities. This presents a problem when it comes to collecting data for the liabilities side of portfolio investment, in particular. This therefore gives rise to a significant data gap in the case of some of the resident parties' securities that are owned by non-resident investors and held in a securities account at a non-resident bank. As a result of this gap, the liabilities side of the portfolio investment account is underestimated.

4 The sector definitions are based on the specifications of the *European system of accounts 2010* (ESA 2010). For a detailed definition, cf. *Notes – International economic affairs* on the SNB data portal (data.snb.ch, *Resources, International economic affairs, Notes, Definitions of sectors*).
5 For all surveys, the frequency of reporting is determined by the size of the individual institution (www.snb.ch, *Statistics, Surveys, Survey documents*).

Table 1

DATA SOURCES FOR PORTFOLIO INVESTMENT

	Source Banks	Source Corporations	Source SNB
Sector			
Swiss National Bank (S.121)			•
Banks (S.122)	•		
Public sector (S.13)	•		
Other sectors (S.1P)	•	•	
Of which corporations	•	•	
Of which households	•		

On the assets side, too, there is a significant data gap due to the fact that, at present, the SNB does not collect sufficiently detailed data on equity securities (i.e. shares and collective investment schemes) owned by banks (sector S.122). This gap results in an underestimation of the assets side of the portfolio investment account. The SNB's current revision of the securities statistics will close this gap.

As part of this revision, the SNB is examining a security-by-security survey procedure. Under this system, banks would transmit comprehensive information on individual securities to the institution responsible for them, where the data would be supplemented using master data information and processed.

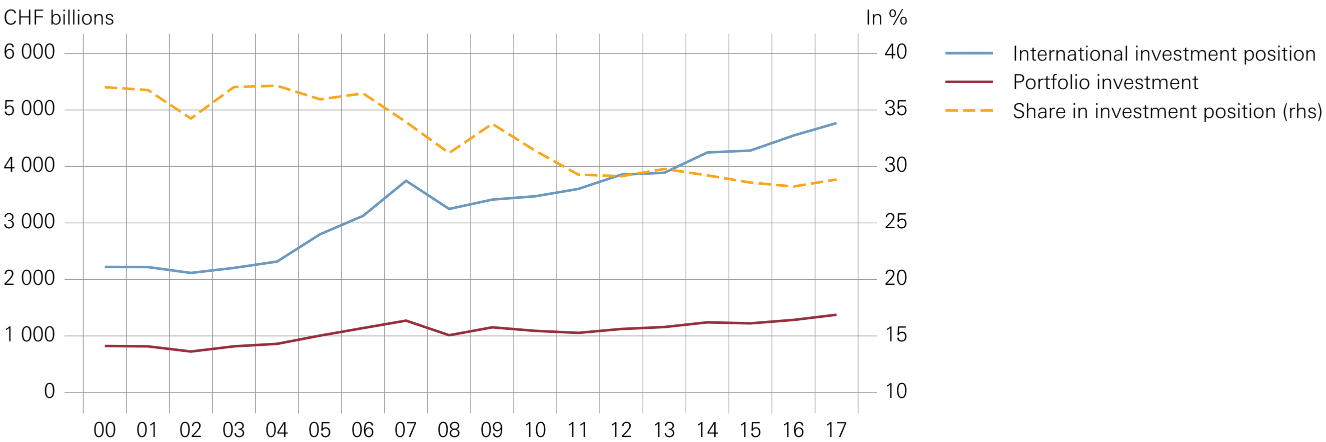
4.3 CHANGES IN PORTFOLIO INVESTMENT IN THE INTERNATIONAL INVESTMENT POSITION

4.3.1 OVERVIEW

Stocks of portfolio investment rose continually between 2000 and 2017, on the assets and the liabilities side alike. Stocks of financial assets increased from CHF 822 billion to CHF 1,375 billion, while on the liabilities side there was a rise from CHF 671 billion to CHF 1,175 billion. Their shares in the overall international investment position declined in relative terms, however, from 37% to 29% on the assets side and from 39% to 30% on the liabilities side. These decreases were attributable to the sharp rise in stocks of direct investment (assets and the liabilities sides) and in reserve assets (assets side).

Chart 2

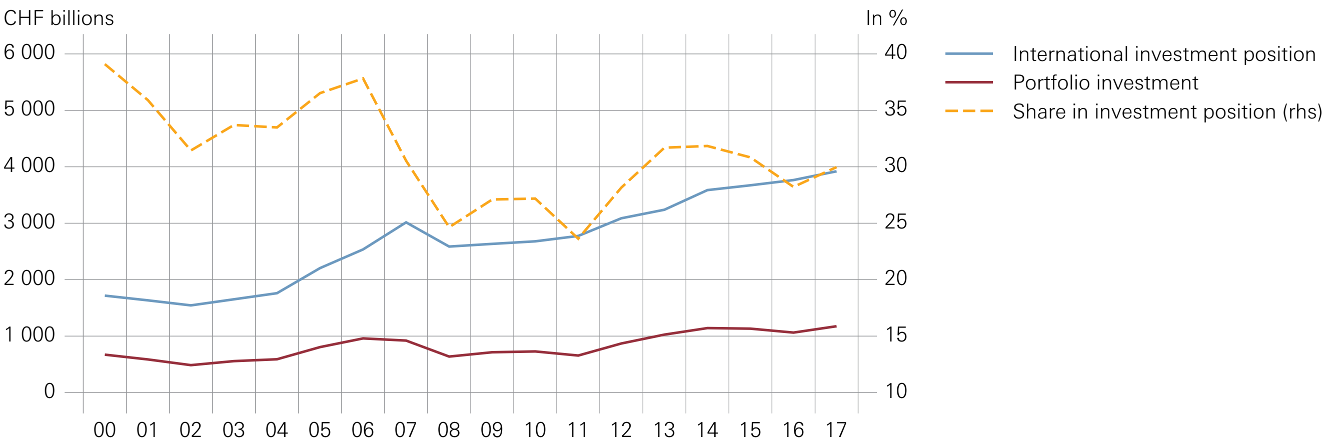
PORTFOLIO INVESTMENT AND THE INTERNATIONAL INVESTMENT POSITION
Assets



Source: SNB

Chart 3

PORTFOLIO INVESTMENT AND THE INTERNATIONAL INVESTMENT POSITION
Liabilities



Source: SNB

4.3.2 BREAKDOWN BY INSTRUMENT CATEGORY

There were pronounced differences in the composition of the assets and liabilities sides of portfolio investment during the period from 2000 to 2017. While portfolio investment abroad (assets) was split evenly between equity and debt securities, in the case of portfolio investment in Switzerland (liabilities) it was equity securities that held sway, accounting for nearly 80% of the total on average.

The dominance of equity securities in portfolio investment in Switzerland is above all attributable to two factors. First, the volume of the domestic market for debt securities is modest by international comparison, with public sector debt having been in decline for years and being at a relatively low level. Moreover, many companies use means other than debt issues to cover their financing needs (e.g. self-financing or bank loans).

Furthermore, the number of listed shares in Switzerland is rather high compared with other countries. This is attributable, in particular, to the fact that many international groups are headquartered in Switzerland, and their shares are accordingly deemed to be Swiss.

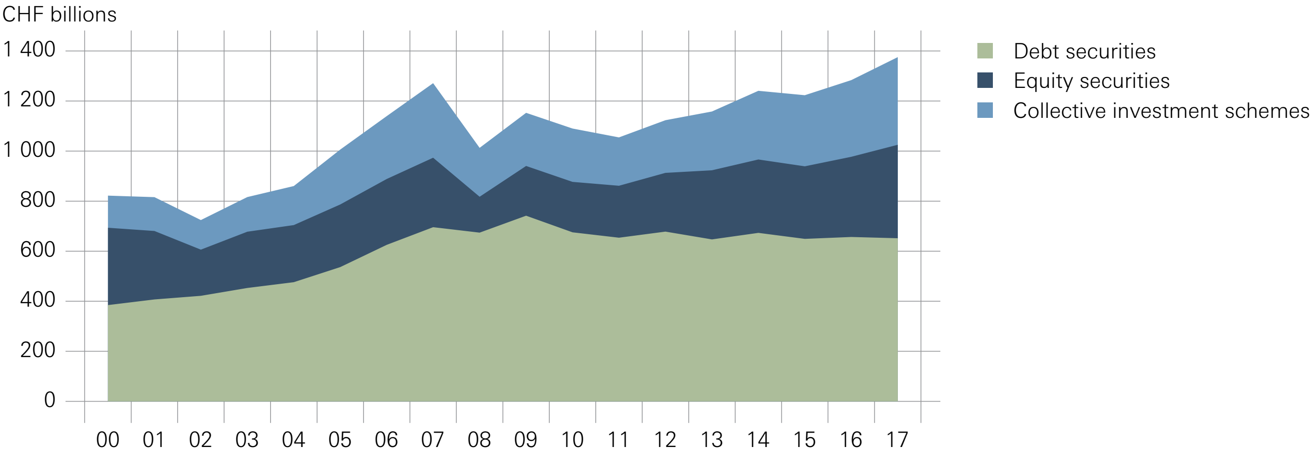
4.3.3 BREAKDOWN BY CURRENCY

Looking at the currency breakdown, as expected the assets and liabilities sides of portfolio investment displayed very different structures during the period from 2000 to 2017. Portfolio investment abroad (assets) mainly comprised securities issued in US dollars and euros, with the US dollar taking over from the euro as the most significant currency in 2013. By contrast, portfolio investment in Switzerland (liabilities) was made mostly in securities issued in Swiss francs.

Chart 4

PORTFOLIO INVESTMENT

Assets: instrument categories

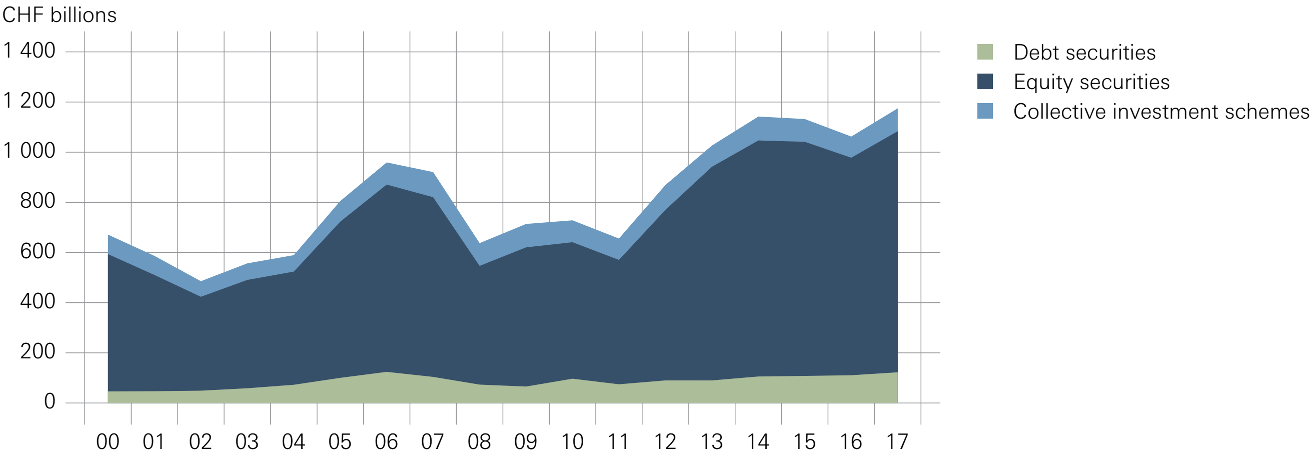


Source: SNB

Chart 5

PORTFOLIO INVESTMENT

Liabilities: instrument categories



Source: SNB

Part of the portfolio investment abroad was made up of securities issued in Swiss francs by non-resident issuers, predominantly long-term debt securities and collective investment schemes. This issuance was principally driven by the low level of interest rates in Switzerland. However, the significance of securities issuance by non-residents in Swiss francs waned as the interest rate level declined in other advanced economies.

4.3.4 FACTORS INFLUENCING CHANGES IN STOCKS

Examining the factors influencing the increase and decrease in stocks in the international investment position offers a further perspective on portfolio investment.[6] The changes in stocks can be broken down as follows:

6 Owing to the availability of data, the breakdown of changes in stocks can only be given from 2002.

– Transactions: These comprise net acquisition of financial assets and net incurrence of liabilities which are recognised in the financial account, resulting from the sales and purchases of securities (reported net, i.e. purchases minus sales).

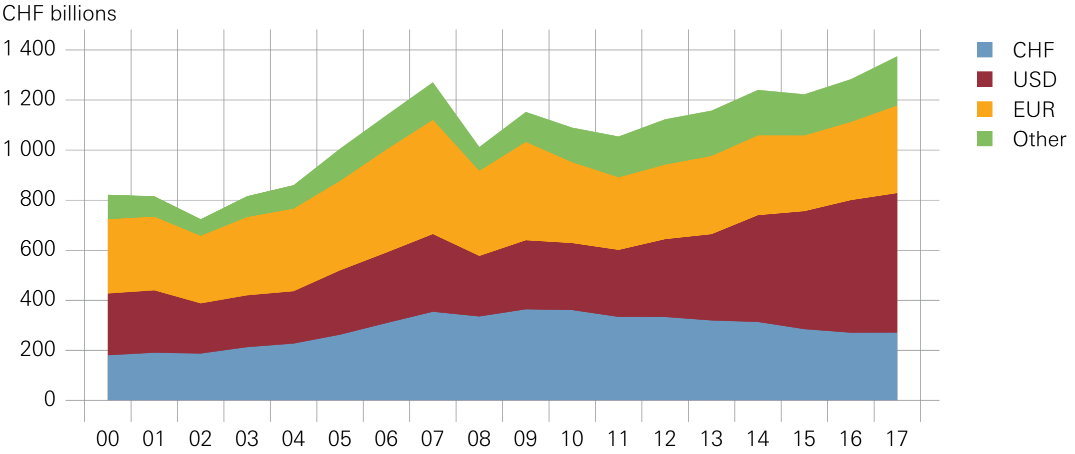
– Valuation changes: These cover valuation gains or losses resulting from price and exchange rate movements. The valuation changes are estimated using indices of securities and exchange rates.

– Other changes: These are changes that cannot be attributed to either transactions or valuation changes. They include, for example, expansions in the reporting population of reporting banks and companies, transfers of company domicile (from or to Switzerland), and transfers of securities accounts (again, from or to Switzerland).

Chart 6

PORTFOLIO INVESTMENT

Assets: currencies

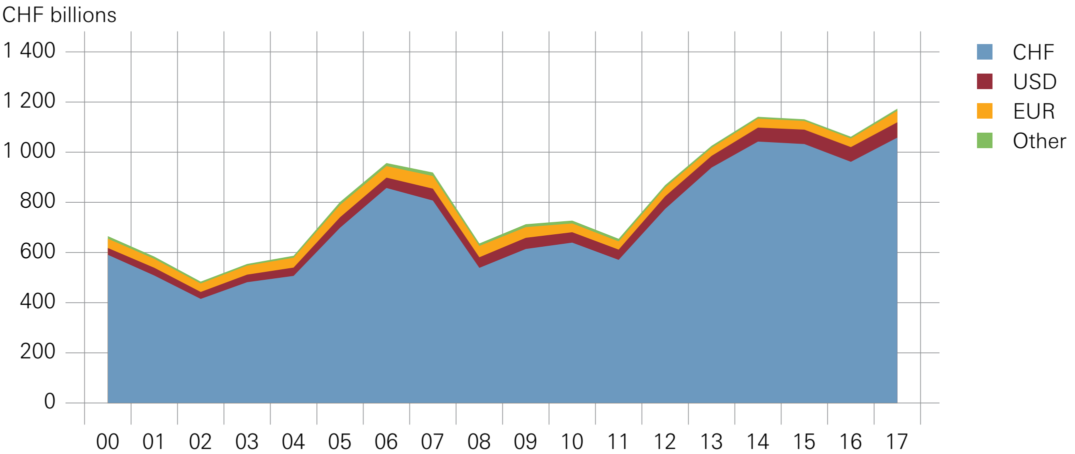


Source: SNB

Chart 7

PORTFOLIO INVESTMENT

Liabilities: currencies



Source: SNB

As set out in section 4.3.3 above, the assets side of the portfolio investment abroad comprises mainly securities held in foreign currencies. Hence valuation changes on the assets side stem from price movements on foreign exchanges on the one hand, and exchange rate fluctuations (above all against the US dollar and euro) on the other. Changes in stocks between 2002 and 2017 were primarily attributable to valuation changes. Barring a few exceptions,[7] transactions and 'other changes' played a subordinate role.

Aggregating the annual valuation changes, resident portfolio investors recorded valuation gains totalling around CHF 262 billion on their investment abroad between 2002 and 2017 as a result of price movements. Over the same period, they suffered valuation losses of CHF 279 billion on account of exchange rate movements.

By contrast with the assets side, the liabilities side of portfolio investment predominantly comprises shares issued in Swiss francs by resident companies, as set out in sections 4.3.2 and 4.3.3. The valuation changes on the liabilities side are therefore almost exclusively attributable to share price developments on the Swiss stock exchange. On the liabilities side as well, transactions and 'other changes' were only occasionally significant in helping to explain the changes in stocks between 2002 and 2017.[8]

Aggregating the annual valuation changes, as a result of price movements non-resident portfolio investors recorded valuation gains of CHF 406 billion between 2002 and 2017.

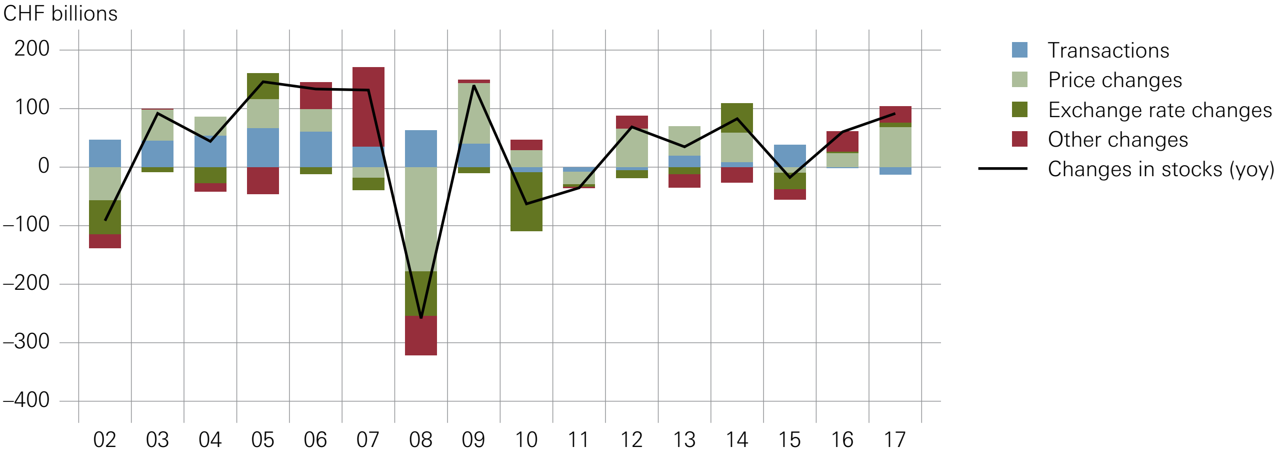
7 The 'other changes' in 2007, for example, were the result of transfers of securities accounts.

8 The 'other changes' in 2012 were the result of an expansion in the reporting population.

Chart 8

PORTFOLIO INVESTMENT

Assets: breakdown of changes in stocks

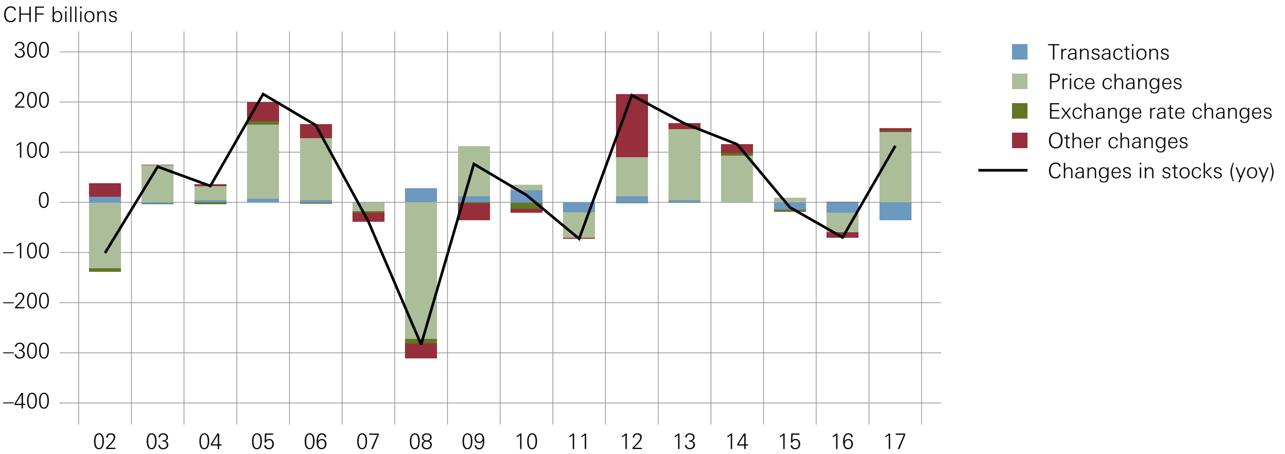


Source: SNB

Chart 9

PORTFOLIO INVESTMENT

Liabilities: breakdown of changes in stocks



Source: SNB

4.3.5 BREAKDOWN BY COUNTRY

The data for the breakdown of portfolio investment by country are collected by the SNB and sent to the International Monetary Fund (IMF) as part of the Coordinated Portfolio Investment Survey (CPIS). The IMF publishes these data every six months.[9] The breakdown by country is determined by issuer.

The key destinations for portfolio investment abroad (assets) in 2017 were the US, Luxembourg and offshore financial centres.[10]

A look at the securities categories in the key investment destinations reveals some interesting developments. In absolute terms, the stocks of portfolio investment in the US more than doubled between 2001 and 2017 (2017: CHF 317 billion). Here there were some shifts between the securities categories. In 2001, equities made up the majority of portfolio investment in the US (55%). However, by 2017 this figure had fallen to just under 42%, while the share of debt securities had increased from 44% to 54%.

Similarly, stocks in Luxembourg nearly doubled over the period from 2001 to 2017, reaching CHF 224 billion in 2017. Unlike in the case of the US, however, the shares of the different securities categories remained stable. Between 2001 and 2017, collective investment schemes on average accounted for 82% of portfolio investment. This unusually high figure is attributable to the large number of fund companies in Luxembourg.

In Germany, France and the UK, debt securities made up more than half of portfolio investment between 2001 and 2017, followed by equities. In all three of these countries, the share of collective investment schemes in portfolio investment over the period was minimal.

Chart 10

SHARE OF SELECTED COUNTRIES IN PORTFOLIO INVESTMENT (ASSETS), 2017

Source: SNB

9 The data from 2001 are available on the IMF website (data.imf.org, *Popular Datasets, Coordinated Portfolio Investment Survey*).
10 A list of the offshore financial centres can be found under 'Notes – International economic affairs' (data.snb.ch, *Resources, International economic affairs, Notes, Definitions of countries and country groups*).

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