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High Swiss current account surplus: consequences for SNB monetary policy?

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Introduction

Switzerland has had a surplus on its current account ever since the 1980s. In simple terms this means that, in our economic exchanges with other countries, we have more receipts than expenses. In 2016, this surplus stood at around 10% of GDP – and it has even approached 15% in some earlier years.

Textbook economic theory suggests that a current account surplus is a function of an undervalued currency. In order to restore balance in future years, the currency of a country running a surplus would need to appreciate, leading to a reduction in net exports.

However, this contrasts with the Swiss National Bank's (SNB) assessment that the Swiss franc has been highly valued for years, and at times even hugely overvalued. Despite a slight weakening of the exchange rate, our monetary policy thus continues to be geared towards easing the pressure on the Swiss franc and making investments in Swiss francs less attractive.

How can the persistent current account surplus, textbook economic theory and the SNB's own assessment be reconciled? Is the surplus in Switzerland perhaps even the result of a monetary policy designed to deliberately push down the exchange rate in order to boost exports?[1]

International debate about certain countries' current account surpluses and unfair exchange rate policy has intensified in recent years. In this context, Switzerland has been on the US Treasury's 'monitoring list' since 2016, although it is not designated a 'currency manipulator' in the associated report as it does not meet all the relevant criteria. However, Switzerland is being specially monitored. We are maintaining a constructive dialogue on this matter with the responsible government agencies in the US.

Foreign authorities and international organisations recognise Switzerland's special position, and appreciate the rationale for the SNB's monetary policy measures. According to the latest *External Sector Report* of the International Monetary Fund (IMF) of July 2017, Switzerland's current account is in line with macroeconomic conditions, and its monetary and fiscal policy is considered appropriate.

Yet, international debate about current account surpluses and deficits has at times been heated and not always objective. Some observers have repeatedly denounced Switzerland for its persistent surplus. As criticism has focused on the SNB's monetary policy, I am naturally keen to give you my analysis of the situation.

Before we get into the details, let me outline the crux of my argument.

In the specific case of Switzerland, the current account is not a good measure for assessing trade flows and changes in the international investment position or a suitable metric on which to base monetary policy. If we had let ourselves be guided by the development of the current

[1] Cf. Jordan, Thomas (February 2013), 'Strong Swiss franc and large current account surplus – a contradiction?', www.snb.ch/de/mmr/speeches/id/ref_20130219_tjn, and Jordan, Thomas (October 2013), 'Reconciling Switzerland's minimum exchange rate and current account surplus', www.snb.ch/de/mmr/speeches/id/ref_20131008_tjn.

account in recent years, we would have had to allow the Swiss franc to appreciate even further. This would have caused a recession and falling prices. Furthermore, stronger appreciation of the Swiss franc would neither have placated the critics of our current account surplus nor would it have been in the interests of other countries. First, not even a significantly stronger Swiss franc would have reduced the current account surplus to any great extent. The reason for this is that Switzerland's current account surplus, as reported according to international standards, is chiefly attributable to statistical distortions and to structural factors which are not significantly affected by the exchange rate. Second, with a domestic recession, Switzerland's contribution to global demand for goods would have declined, which in turn would have had a negative impact on other countries.

Our monetary policy, with the negative interest rate and our willingness to intervene in the foreign exchange market as necessary, is not designed to give Switzerland an unfair advantage in international trade – to support an expansion of the current account surplus in any mercantilist sense. Rather, it is a necessary response to excessive upward pressure on the Swiss franc due to its perceived safe-haven status and is intended to ensure price stability. After all, the Swiss franc remains highly valued – even if, at first glance, the current account seems to suggest otherwise.

Let me begin by putting the debate on the current account into context. I will then analyse the key factors for the current account surplus in Switzerland in more detail and draw some conclusions for our monetary policy.

Basis for the current account

First, I would like to remind you of the definition of the current account.

Definition of the current account

The current account balance corresponds to receipts minus expenses from trade in goods and services, net labour and investment income, as well as the net current transfers of an economy.[2] Equation 1 describes this relationship.

The trade account has a surplus when a country exports more goods and services than it imports. And vice versa, a country has a trade account deficit when it imports more goods and services than it exports.

Net investment income receipts include, in particular, interest on foreign bonds and dividends on foreign equity held by resident investors. Under net labour income, salary payments to cross-border commuters who work in Ticino but live in Milan, for example, are included

[2] The special topic in the SNB publication *Swiss Balance of Payments and International Investment Position 2016* (pp. 31–38) summarises the methodology for drawing up the balance of payments and the relationships between the main aggregates.

under expenses. The current transfers item comprises, among other flows, expenses of the Swiss Confederation for economic development cooperation.

In most countries, the trade balance dominates the current account balance and the other components often contribute very little.[3]

By definition, the current account balance also corresponds to the difference between savings and domestic investment in an economy. This relationship is represented in equation 2.[4]

If a country has a current account surplus, it is saving more than it is investing domestically. In this case, the surplus capital is exported abroad. By contrast, a country with a current account deficit imports capital from the rest of the world because it is investing more than it is saving. This view – the so-called financial account – is the mirror image of the current account. A country with a current account surplus – or a financial account surplus – accumulates claims (or credits) vis-à-vis counterparties abroad, so-called foreign assets. A country with a current account deficit, on the other hand, accumulates liabilities, i.e. debt vis-à-vis counterparties abroad, so-called foreign liabilities. The difference between foreign assets and foreign liabilities is termed the net international investment position.

Equation 3 illustrates the relationship between the current account balance as a flow and the net international investment position as a stock. The current account balance in a particular year corresponds to the change in the net international investment position in that year, adjusted for other influencing variables. Or, put another way, the net international investment position consists of the accumulated current account balances over the period.

The other influencing variables, besides the current account balance, which can affect the net international investment position include exchange rate movements as well as changes in domestic and foreign asset prices. An appreciation of the local currency usually reduces the net international investment position, irrespective of the current account balance, as foreign assets are mainly denominated in foreign currency, and foreign liabilities in local currency. Since such valuation effects now play a major role, the current account does not offer a complete picture of developments in the net international investment position.

Switzerland's current account

After this quick refresher of the relevant interrelationships concerning the current account, let's look at the development of the current account in Switzerland from a slightly more long-term perspective.

Chart 1 shows the annual balances on the current account in Switzerland during the period 1960–2016 as a share of GDP. The current account has been in surplus since the 1980s. The

[3] Prior to the financial crisis, Switzerland's current account balance had long been dominated by net investment income.

[4] In statistics, deviations from this equation cannot be avoided. They result from errors or omissions in the data which inevitably occur given the many different data sources for such statistics. Capital transfers should also be taken into account, but they have been excluded here for the sake of simplicity.

surplus increased significantly until the onset of the financial crisis. During the crisis, the current account balance fluctuated sharply. In recent years, the surplus has stabilised at 8–11% of GDP, and in 2016, as I said earlier, it stood at some 10%.

Since Switzerland consistently generates a current account surplus, one would expect the net international investment position to rise over time. However, chart 2 shows quite clearly that this is not the case.

The chart depicts Switzerland's net international investment position during the period 2000–2016, again relative to GDP. We can see large fluctuations from year to year that cannot be explained by developments in the current account surplus. If these fluctuations are factored out, it becomes clear that the net international investment position has not increased significantly over the observation period.

The high fluctuations illustrate how important the other influencing variables already mentioned are in the development of the net international investment position. I will go into this in more detail later.

Let me just add something here: Although the net international investment position has not increased, Switzerland's gross claims and liabilities abroad have continued to rise, particularly since the 1990s. In 2016, Switzerland's foreign assets were almost seven times its GDP, while its foreign liabilities were more than five times its GDP. By international standards, Switzerland continues to rank well above the average in terms of its integration with the global economy, not only in relation to trade in goods and services but also in relation to portfolio and direct investment.

As we saw earlier, the current account balance corresponds to the difference between savings and domestic investment. In the international perspective, it is often argued that countries with current account surpluses invest too little or save too much. Where does Switzerland fit in here?

Chart 3 shows average saving and investment rates during the period 2010–2015 in various groups of countries and in Switzerland. Saving rates are depicted in red, investment rates in blue.

As the chart shows, while Switzerland invests relatively heavily by international standards, it also saves far more than other countries. At 24%, Switzerland's investment rate exceeds the average for both the advanced economies and the OECD countries; and, at 36%, our saving rate is among the very highest.

Switzerland's high investment rate shows that the current account surplus is far more a function of a comparatively high saving rate than of low domestic investment.

Global current account balances

Let me now give you an overview of the chronological and geographical development of global current account surpluses and deficits.

Chart 4 shows the development of these surpluses and deficits as a percentage of global GDP over the past 20 years. Positive values represent a current account surplus; negative values a current account deficit. I would like to highlight trends in a few selected economies.

Looking first at the countries which have a current account deficit, we see that the US is among them. It is represented by the blue section of the bar. The pink section denotes all the other current account deficits in the world. In 2016, this group comprised 106 countries.

Let's turn now to the countries that have a current account surplus. These are China, shown in red, Germany in orange, and Japan in green. Switzerland is depicted with a very small, dark blue bar. All other current account surpluses are aggregated in the light blue bar. This bar comprised 42 countries in 2016.

The chart illustrates three facts.

First, due to the small size of our country, the Swiss surplus is relatively insignificant in the global picture of current account balances. Switzerland's contribution to global current account balances is small and did not play a role in the growth of global current account balances before the financial crisis.

Second, the size and evolution of global current account balances is defined by four major economies. China, Germany, Japan and the US today make up almost half of global current account balances. The remaining 150 or so countries together make up the other half. It is interesting that, whether positive or negative, the current account balances of individual countries have had the same sign for prolonged periods. Germany, for example, has registered a surplus since 2002, while the US has had a deficit since 1992.

Third, total current account surpluses or deficits increased steadily until the onset of the financial crisis. After the crisis, however, they declined and have remained more or less stable since then.

To summarise: Although global current account surpluses and deficits have not increased further since the financial crisis, some countries have persistently high current account surpluses/deficits. Switzerland is one of them. The question is: is this sustainable?

This leads me to my next point – the question of why it is that many countries have persistent current account surpluses or deficits.

Drivers of current account balances

In principle, current account surpluses and deficits allow countries to optimally distribute consumption over time. This desired intertemporal distribution is driven by structural factors such as demographics and future potential output.

Let me explain this using two examples.

India is an emerging economy with a young population. The country needs to invest a lot today but does not have enough domestic savings available. In order to finance current consumption and investment, it imports capital from abroad and has a current account deficit.

The opposite is true in Japan. A rich, advanced economy, it has a shrinking – and, above all, a rapidly ageing – population. The country is therefore saving today in order to consume in the future. Moreover, it is more profitable for Japan to invest abroad since there are fewer domestic investment opportunities and growth prospects are muted. Japan therefore exports capital abroad and has a current account surplus.

There are thus structural reasons why countries have a current account balance above or below zero for an extended period. Surpluses or deficits therefore do not necessarily indicate an overvalued or undervalued currency, or present a risk for the country and the global economy.[5]

How can we distinguish between those current account surpluses or deficits that can be explained by fundamental factors, and those that cannot?

The IMF has developed a model for conducting a thorough analysis of the impact of various economic drivers on individual countries' current account balances. These drivers include demographics, the level of development of a country, and fiscal policy – in other words, factors that influence savings and investment. The results of the model are incorporated into an annual report, the *External Sector Report*, which I mentioned in my introduction.

Nevertheless, it is not enough just to apply the model in a mechanistic way. The IMF therefore also takes country-specific circumstances and features of balance of payments data into account in its assessments. In Switzerland's case, it concludes that the current account surplus is in line with macroeconomic conditions and is not the result of an undervalued currency or inappropriate monetary or fiscal policy.

This brings me to the factors contributing to the persistent current account surplus in Switzerland.

Factors contributing to the persistent current account surplus in Switzerland

Switzerland's current account surplus, reported in accordance with international standards, is driven by special factors. First, our current account surplus or savings surplus is overstated due to statistical distortions. Second, structural factors are in play that tend to contribute to a savings surplus. One of these is demographics, which have a decisive impact on the high levels of household saving in Switzerland.

[5] High current account deficits may occasionally lead to refinancing problems, so-called balance of payments crises. This speech does not address the financing side of current account deficits in any detail, but focuses solely on the current debate concerning exchange rate manipulation in connection with current account surpluses.

Then, third, we must consider the industrial structure of the Swiss economy, which means that the current account and the economy as a whole do not necessarily move in parallel when the exchange rate changes. In Switzerland, two industries are largely responsible for the trade surplus, namely pharmaceuticals and merchanting, the net exports of which are only slightly impacted by exchange rate movements. At the same time, these two industries are much more important for the development of the current account than for that of the economy as a whole.

Let me now explain these three factors in more detail.

Statistical distortions

Statistical distortions in the current account lead to the surplus in Switzerland being overstated. These distortions can partially be put down to the ownership structure of listed multinational companies headquartered in Switzerland, and also to the traditionally lower rates of inflation in Switzerland compared to other countries.

Chart 5 illustrates the overstatement of the current account surplus based on these two distortions. The distortions shown here are calculated using internal SNB estimates. These estimates are valuable pointers to understanding and analysing Switzerland's current account.

The first distortion is attributable to Switzerland being a location for multinational companies. For the size of the country, an above-average number of multinationals – that is to say, large companies listed on the stock exchange with extensive activities throughout the world – are headquartered in Switzerland. A substantial percentage of these companies are held in free float by foreign investors. This kind of ownership structure can lead to an overstatement of the current account balance when compiling the balance of payments and international investment position according to the IMF guidelines. This is particularly the case when such foreign-controlled companies reinvest substantial portions of their earnings instead of distributing them as dividends.[6] These savings by multinational companies are allocated entirely to Switzerland although a large proportion actually belongs to foreign investors.

The extent of this distortion can be seen from the red bars in chart 5. While the contribution of the red bars fluctuates considerably, on average it is firmly in positive territory and explains a substantial part of the Swiss current account surplus. This is an example of how the increasing global integration has made the preparation of current accounts in line with international statistical methods more vulnerable to distortions.

The second distortion is attributable to our low rate of inflation. The estimated extent of the distortion is depicted by the blue bar in chart 5. Inflation, and thus nominal interest rates, are traditionally higher in other countries than they are in Switzerland. This means that Switzerland generates a higher nominal income on its foreign financial assets than foreign countries do on their financial assets in Switzerland. Switzerland is thus continuously earning positive net investment income as, first, we have a substantial net international investment

[6] Reinvested earnings from portfolio investments are not included in the current account, in line with IMF guidelines.

position and, second, interest rates are higher because inflation is higher in other countries. However – and this is a significant point – this rise in the current account balance because of the higher inflation or interest rate differential does not lead to an increase in Switzerland's net international investment position in the long term. Due to higher inflation abroad, the franc tends to appreciate nominally, which in turn reduces Switzerland's net international investment position. The relationship between interest rates, inflation rates and exchange rates is referred to as the theory of interest rate parity. The higher nominal rates in other countries inflate the Swiss current account balance. The reported balance is too high because nominal appreciation of the franc is not taken into account. And vice versa, for the same reason, the figure reported for income from foreign investment in Switzerland is too low.

Our estimates show that inflation differentials play an important role in explaining the Swiss current account surplus. The blue bars in the chart are striking – and they are consistently positive; they explain a substantial share of the surplus.

If we were to correct for (i.e. factor out) both of these statistical distortions, the current account surplus would almost halve. The corrected value is represented by the orange bars in the chart. It is still positive, but it is considerably smaller than the surplus when the distortions are factored in. Of course, this perspective implies that Switzerland's savings surplus is also overstated.

As we have seen, statistical distortions are responsible for a significant part of the Swiss current account surplus or savings surplus, but how is the remainder of this surplus explained?

Demographics

The bulk of the remaining current account surplus or savings surplus is attributable to demographic developments.

Chart 6 shows the size of the various age groups of the Swiss population over time. In the last 45 years, the share of the population in the 40–64 age range (yellow line) has steadily grown. More than 35% of the Swiss population is currently between 40 and 64 years old and it is this age range that demonstrates the highest propensity to save. Moreover, life expectancy has grown sharply in the last 45 years, meaning that generally it is now necessary to save for a longer retirement period.

The relatively well-financed occupational pension plans in Switzerland – one of the few countries in the world to have a mandatory system – also contribute to the high saving rate. This system helps to accumulate the savings that will be necessary in future to support the growing numbers of pensioners and years spent in retirement.[7] Many countries with ageing populations do not have a comparable system in place. Contributions to occupational pension schemes are currently recorded as savings in the national accounts. This mandatory pension

[7] It can be assumed that even more capital will have to be saved in future to maintain occupational pension benefits at their current levels.

system with its high contribution rates thus also influences the high saving rate in Switzerland.

The saving rate in Switzerland is at this high level because the Swiss population is rapidly ageing and we have a relatively well-financed pension system compared with other countries. In other words, there is an economically plausible reason why Switzerland has a current account surplus. Against the backdrop of demographic developments, when corrected for statistical distortions, the current account surplus or savings surplus is not excessive but entirely legitimate.

I will now turn to the last factor contributing to the persistently high current account surplus, and that is the distinctive industrial structure of the Swiss economy.

Pharmaceutical companies and merchanting

For some time now, the Swiss current account surplus has primarily been driven by two industries: pharmaceuticals and merchanting.[8] It is notable that net exports for these two industries have increased strongly over the last ten years despite the appreciation of the Swiss franc. This stands in contrast to many industries (e.g. machinery and tourism), which are exchange rate-sensitive and have suffered noticeably as a result of the strong franc. The decline in net exports for these industries has been largely offset by the positive developments in pharmaceuticals and merchanting.

Chart 7 presents the nominal change in net exports in selected manufacturing and services industries as well as merchanting from 2007 to 2016. The net exports of goods and of services are represented by the red bars at the bottom of the chart. Net exports of goods went up by CHF 23 billion from 2007 to 2016. As already stated, this increase can mainly be attributed to pharmaceuticals and merchanting. Despite the strong appreciation of the Swiss franc, net exports in both of these industries rose sharply during this period. Why is this?

In recent years, the pharmaceutical industry has profited from a growing demand for healthcare products from all over the world. The demand for these products is only slightly impacted by the price and/or exchange rate. At the same time, Switzerland has developed into a leading hub in the global commodities trade. Merchanting is also much more dependent on global economic trends than on the exchange rate.

Not only are the pharmaceutical industry and merchanting relatively insensitive to exchange rate fluctuations; they are also much more important for the development of the current account than for the economy as a whole. This can be seen, for example, in employment statistics. The pharmaceutical industry and merchanting companies together employed approximately 50,000 people here in Switzerland in 2016. By contrast, the exchange rate-

[8] Merchanting is defined as the purchase of goods in a third country and the subsequent resale of the same goods to another third country. The goods are neither imported into nor exported from the country.

sensitive industries of the other five goods categories pictured here accounted for more than 325,000 employees.[9]

In sum, three special factors are particularly responsible for Switzerland's persistently high current account surplus. First, statistical distortions lead to the current account surplus in Switzerland being overstated. These distortions can be attributed to special ownership structures of multinational companies in Switzerland as well as lower inflation rates in Switzerland than abroad. Second, after correcting for these distortions, the current account surplus can be explained by the ageing population and a well-funded occupational pension system. Third, the current account is dominated by two industries which are relatively insensitive to the exchange rate and which are much more important for the development of the current account than for the economy as a whole.

The current account is not an indicator on which the SNB should base its monetary policy

So what does this mean for monetary policy?

As I mentioned at the outset, textbook economic theory would hold that Switzerland's persistent current account surplus is a function of a rather weak Swiss franc.

Such a view stands in direct contradiction to our assessment and, consequently, our current monetary policy. This is based, first, on the negative interest that banks and other financial market participants pay on their sight deposits at the SNB, and second, on our willingness to intervene in the foreign exchange market as necessary. The goal of these measures is to ease pressure on the Swiss franc and thus ensure price stability, as the exchange rate has a strong influence on monetary conditions in Switzerland and, hence, on price stability.

Let me illustrate the correlation between exchange rate developments and price stability as shown in chart 8. The blue line in the chart shows the development of the Swiss franc exchange rate against all trading partners, adjusted for inflation differentials. Upward movement of the blue line means that the Swiss franc appreciated in real terms. As you can see from the chart, the Swiss franc has appreciated substantially since the onset of the financial crisis, at times reaching approximately 25% more than its long-term average. The Swiss franc has weakened slightly in recent months, but remains highly valued.

The high value of the Swiss franc is critically important for the direction of monetary policy. You can see this clearly in chart 8. Both inflation and the output gap show a strong correlation with the development of the exchange rate. Appreciation of the Swiss franc equates to a tightening of monetary conditions. It leads via lower import prices to lower inflation. At the same time, the appreciation of the Swiss franc has a negative impact on utilisation of overall production capacity and thus also on general price developments.

[9] The Swiss Federal Statistical Office and the Swiss Academies of Arts and Sciences (2016), *Switzerland and the Commodities Trade*, Swiss Academies Factsheets, Vol. 11, No. 1.

It is not only the export-oriented companies trading in goods on the global markets that are affected by exchange rate fluctuations. Geographically, the Swiss economy lies at the centre of the European Economic Area. Even in the domestic market, Swiss companies are in direct competition with foreign companies and cannot set their prices as high as they would like above those of their competitors in neighbouring border regions. An appreciating franc erodes the competitiveness of these companies, too. In an exceptionally open economy like Switzerland that is highly integrated internationally, exchange rate fluctuations have a major impact on price stability and economic activity.

Since 2009, we have repeatedly been confronted with situations in which the appreciation of the Swiss franc has led to an undesirable tightening of monetary conditions so that production capacity has not been fully utilised and inflation has temporarily dipped into negative territory.

If we are to fulfil our legal mandate to ensure price stability while taking due account of the development of the economy, we have to implement expansionary measures in such circumstances, in order to counter the strong franc. In the current environment of very low interest rates worldwide, it is not possible to steer monetary conditions exclusively via the interest rate channel. In addition to the negative interest rate (–0.75%), the SNB influences monetary conditions by intervening directly on the foreign exchange market as necessary. The goal of this policy is to reduce pressure on the currency and to make Swiss franc investments less attractive.

Our foreign exchange market interventions do not amount to a mercantilist policy at the expense of Switzerland's trading partners or a beggar-thy-neighbour strategy; rather, this policy provides the SNB with a necessary instrument for ensuring price stability and for fulfilling its mandate.

What would happen if we were to interpret the current account surplus as an indicator of the Swiss franc tending to be too weak, or of the economy growing strongly, without taking these particularly Swiss circumstances into account? We would misjudge the risks to price stability and economic development, with which we have repeatedly been confronted in the recent past. And we would not make any appreciable reduction to the current account surplus, even if the franc were stronger.

Allow me to illustrate this point with a simple chart. If Switzerland's current account surplus were the result of the currency being too weak, there would have to be a stable correlation between exchange rate movements and the current account balance. Appreciation of the Swiss franc would result in a smaller current account surplus. Chart 9 shows that is not the case. The chart is based on the last ten years, during which time there were periods of Swiss franc appreciation that saw a falling current account surplus and other periods that were accompanied by a rising current account surplus. A conclusive correlation cannot be found.

This assessment comes as no surprise in light of my earlier arguments. Rather, it illustrates once again the sheer size of the impact of a few industries in the Swiss economy – which are largely immune to exchange rate movements.

The current account is therefore of no help in determining the direction of Switzerland's monetary policy. The persistent surplus is neither a good indicator for the strength or weakness of the franc, nor for price stability and economic developments. The SNB takes a wide range of exchange rate models into consideration when assessing the currency situation. Due to the considerable importance of the exchange rate for inflation and economic development, reliable signals for assessing the value of the Swiss franc can also be directly deduced from both inflationary developments and the utilisation of production capacity.

Allow me to conclude with a summary of my core messages.

Conclusion

The persistently high current account surplus in Switzerland is not a reflection of an overly weak Swiss franc. Rather, this surplus can be explained by three factors.

First, statistical distortions mean that Switzerland's current account surplus tends to be overstated. A considerable percentage of multinational companies in Switzerland are held in free float by foreign investors. If these companies reinvest their profits, they are entirely attributed to Switzerland, even though a large proportion actually belongs to the foreign investors. The higher nominal interest rates abroad inflate the current account surplus in Switzerland. The reported balance is too high because the nominal appreciation of the Swiss franc is not taken into account. Overall, these statistical distortions have the effect that Switzerland's net international investment position does not steadily increase despite persistent current account surpluses.

Second, there are structural reasons for the current account surplus or savings surplus in Switzerland. These include, in particular, the rapidly ageing population. If the statistical distortions are factored out of Switzerland's current account balance, it shows a savings surplus, which in light of the demographic developments and a well-financed pension system is entirely justified.

Third, the size and development of the current account balance in Switzerland are driven by two industries whose net exports are relatively insensitive to exchange rate fluctuations and whose importance for the current account is considerably larger than it is for the economy as a whole.

As a result of all of these factors, the current account reported for Switzerland is not a good measure for assessing trade flows and changes in the international investment position or a suitable metric on which to base monetary policy. The Swiss current account cannot be used either to assess the fair external value of the Swiss franc or to adequately reflect the risks in relation to price stability and economic development. Therefore, the SNB does not base its monetary policy on the current account.

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Basel, 23 November 2017

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EQUATION 1

$$\begin{aligned} \textit{Current account balance} &= \textit{Trade account balance} \\ &+ \textit{Net labour and investment income} \\ &+ \textit{Net current transfers} \end{aligned}$$

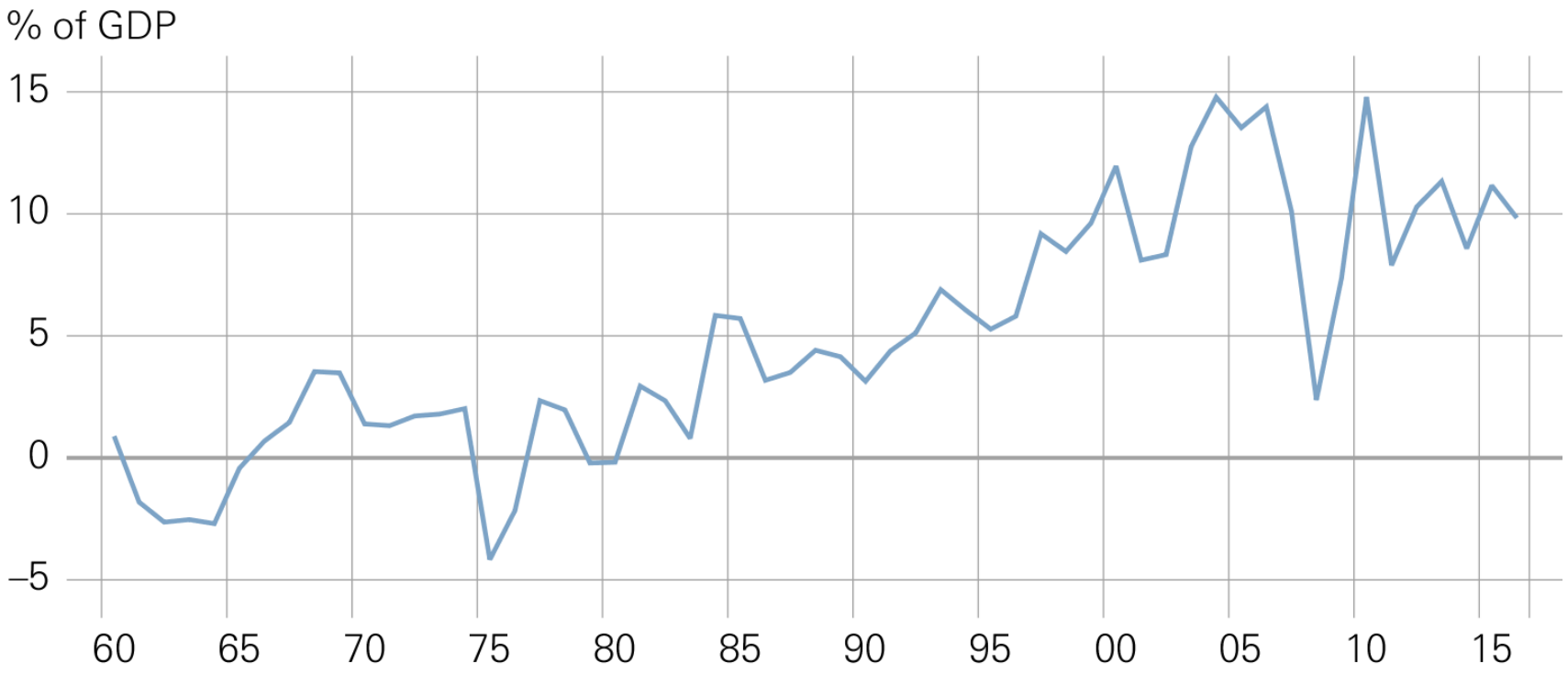
EQUATION 2

$$\begin{aligned} \textit{Current account balance} &= \textit{Savings of an economy} - \textit{Domestic investments} \\ &= \textit{Financial account balance} \end{aligned}$$

EQUATION 3

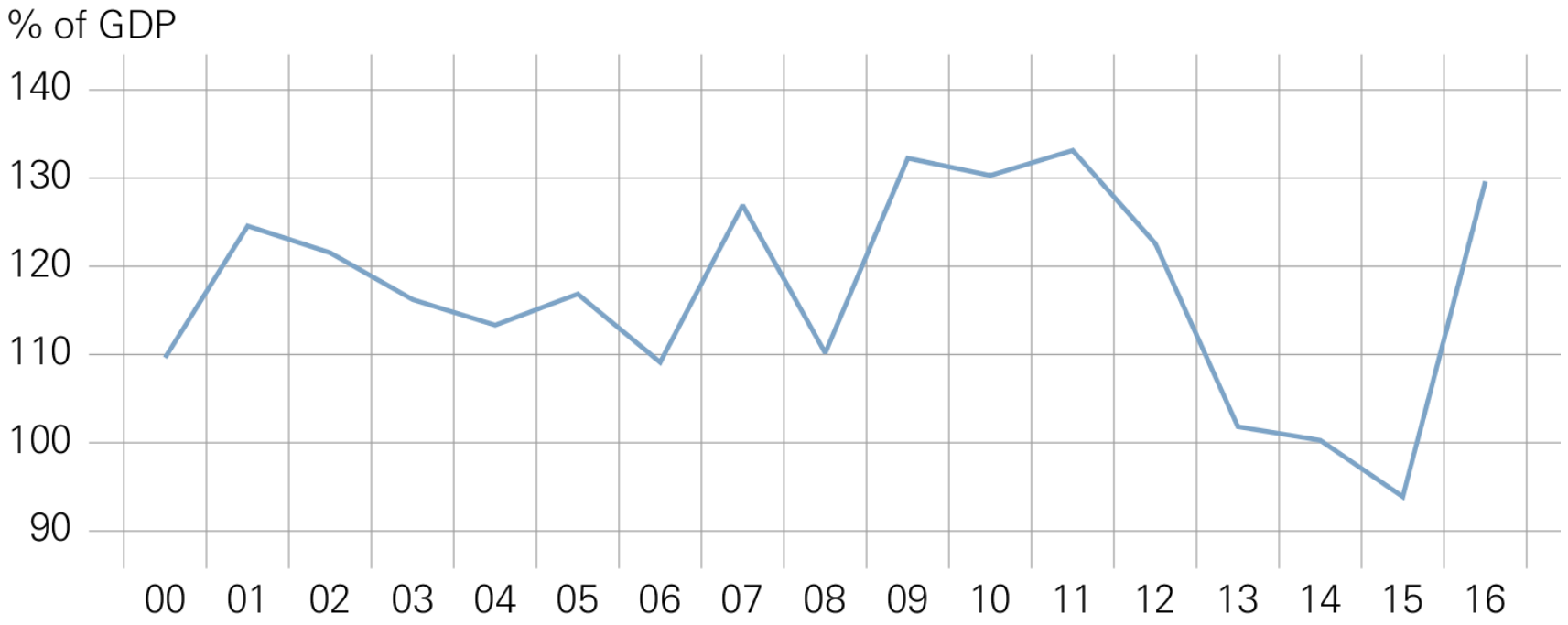
$$\begin{aligned} &\textit{Change in net international investment position} \\ &= \textit{Current account balance} + \textit{Other influencing factors} \\ &= \textit{Financial account balance} + \textit{Other influencing factors} \end{aligned}$$

CHART 1: SWISS CURRENT ACCOUNT BALANCE



Sources: JST macrofinancial database (until 1982), SNB

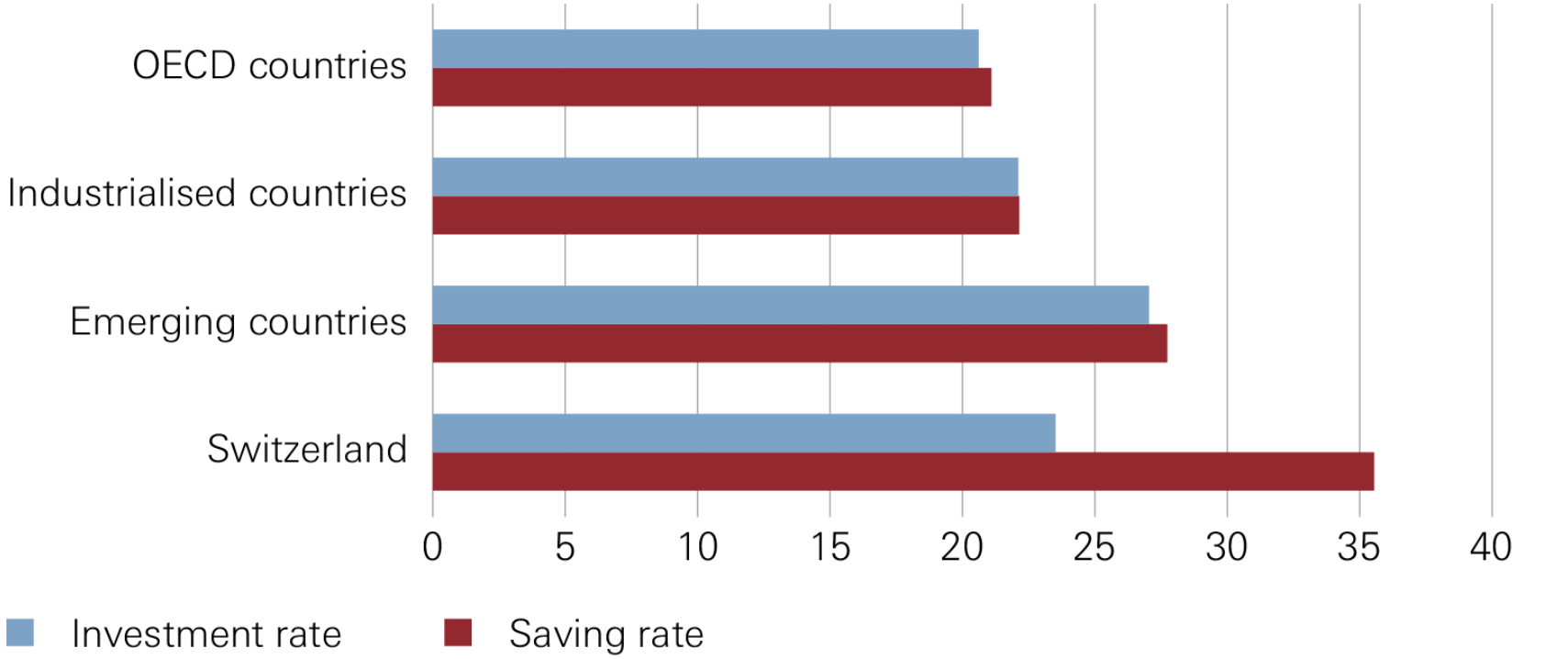
CHART 2: SWITZERLAND'S NET INTERNATIONAL INVESTMENT POSITION



Source: SNB

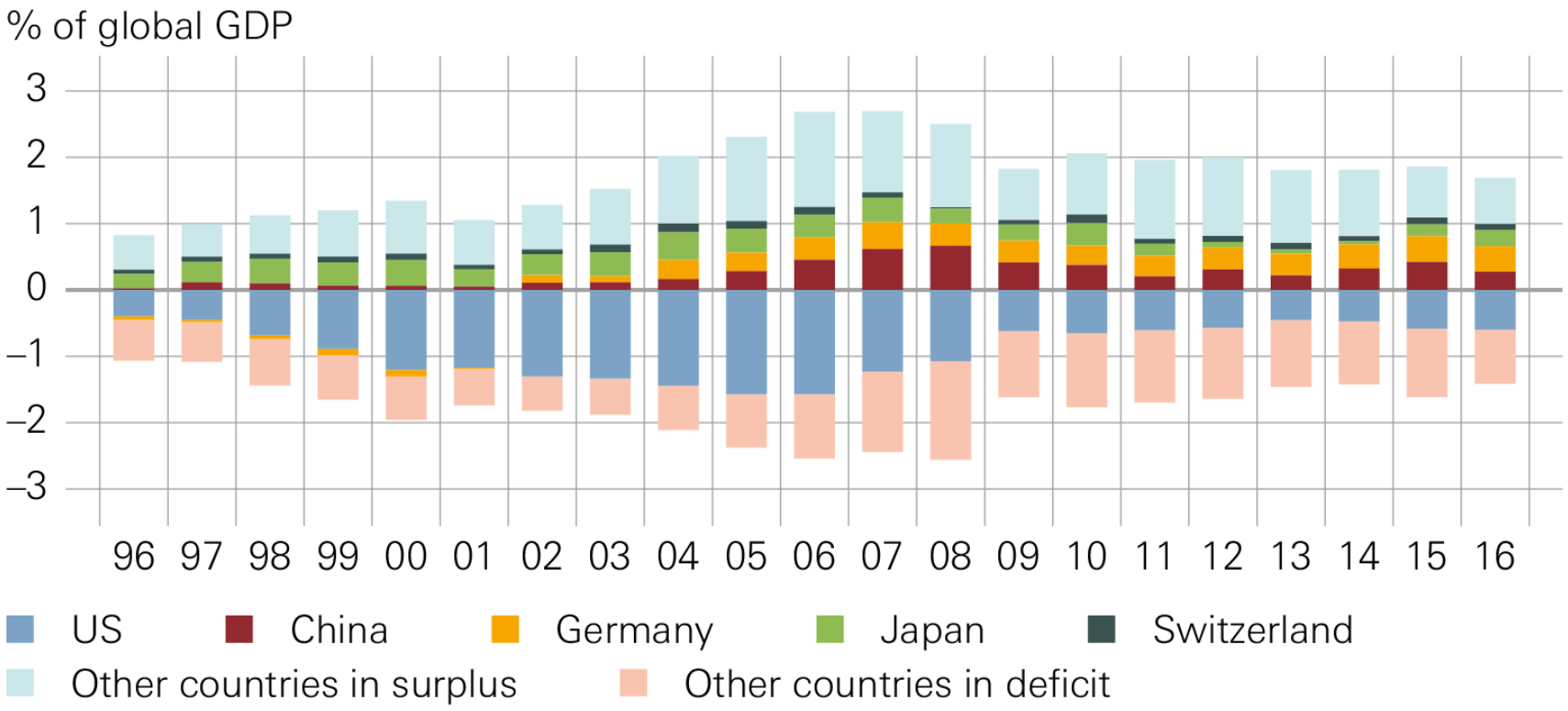
CHART 3: SAVING AND INVESTMENT RATES

Average 2000–2015, % of GDP



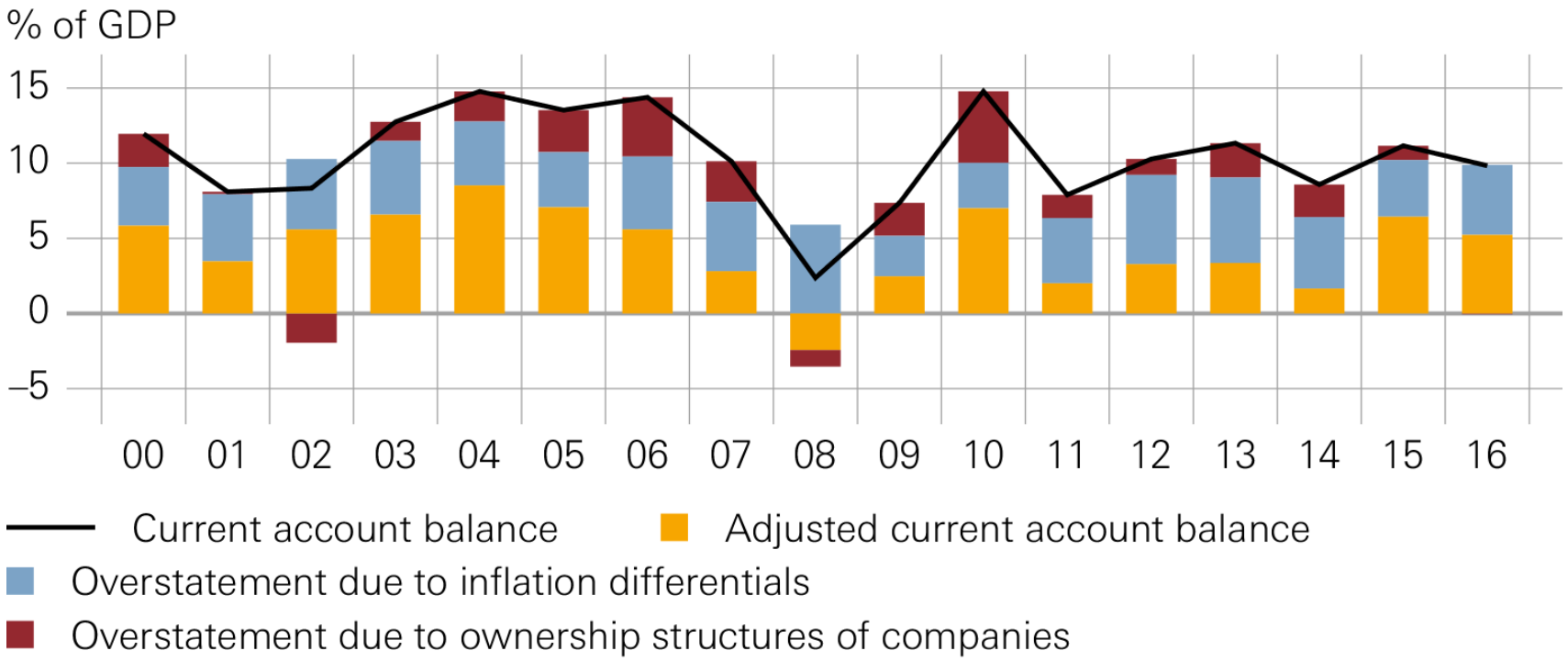
Source: World Bank

CHART 4: CURRENT ACCOUNT BALANCES



Sources: IMF, SNB, World Bank

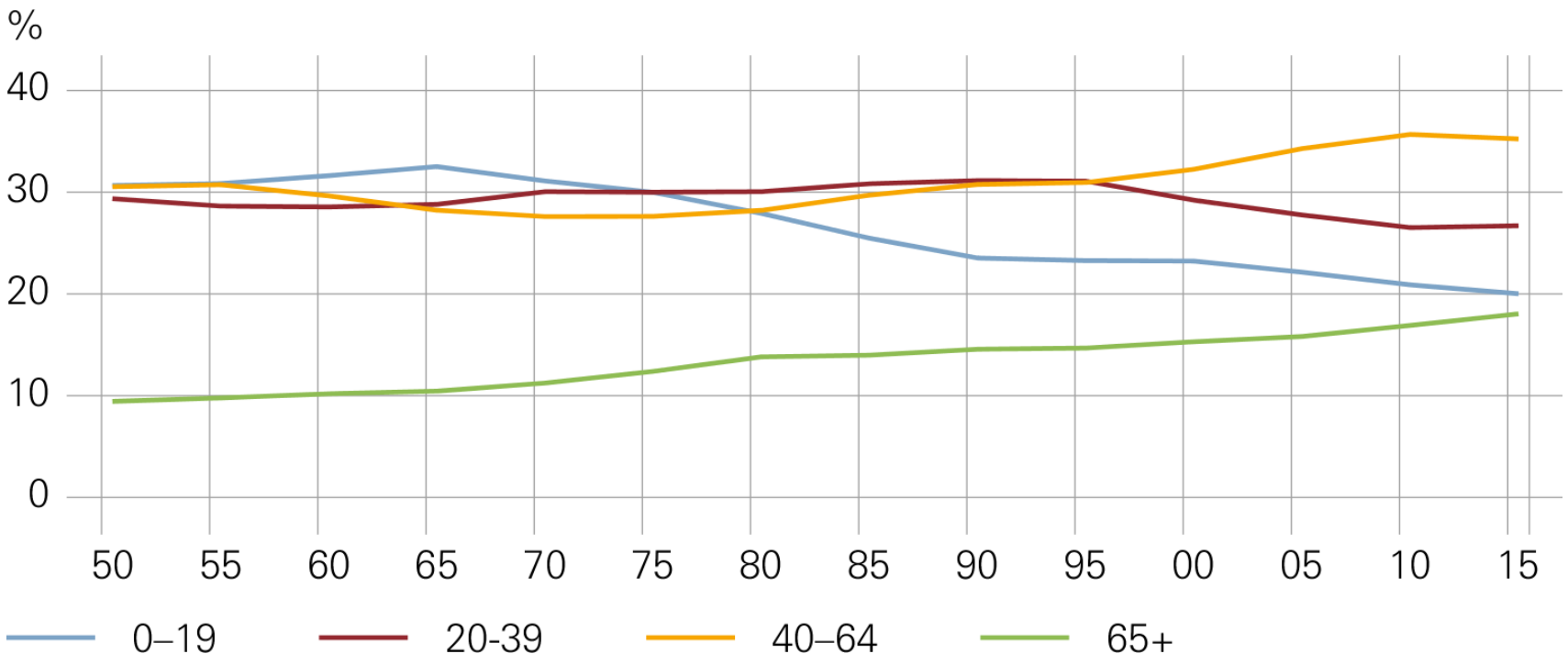
CHART 5: OVERSTATEMENT OF SWISS CURRENT ACCOUNT BALANCE



Sources: Bloomberg, IMF, Thomson Reuters; Estimates: SNB

CHART 6: DEMOGRAPHIC DEVELOPMENTS IN SWITZERLAND

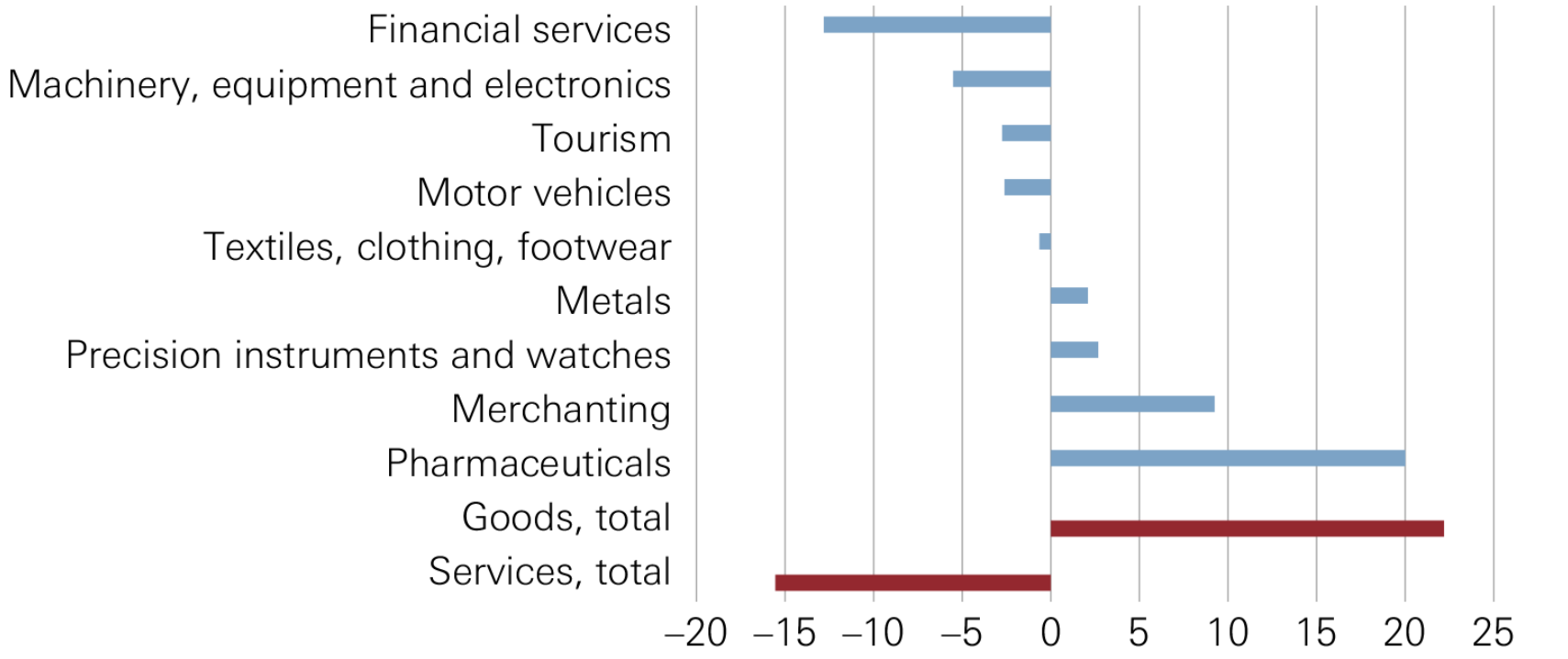
Age group as share of total population



Source: United Nations

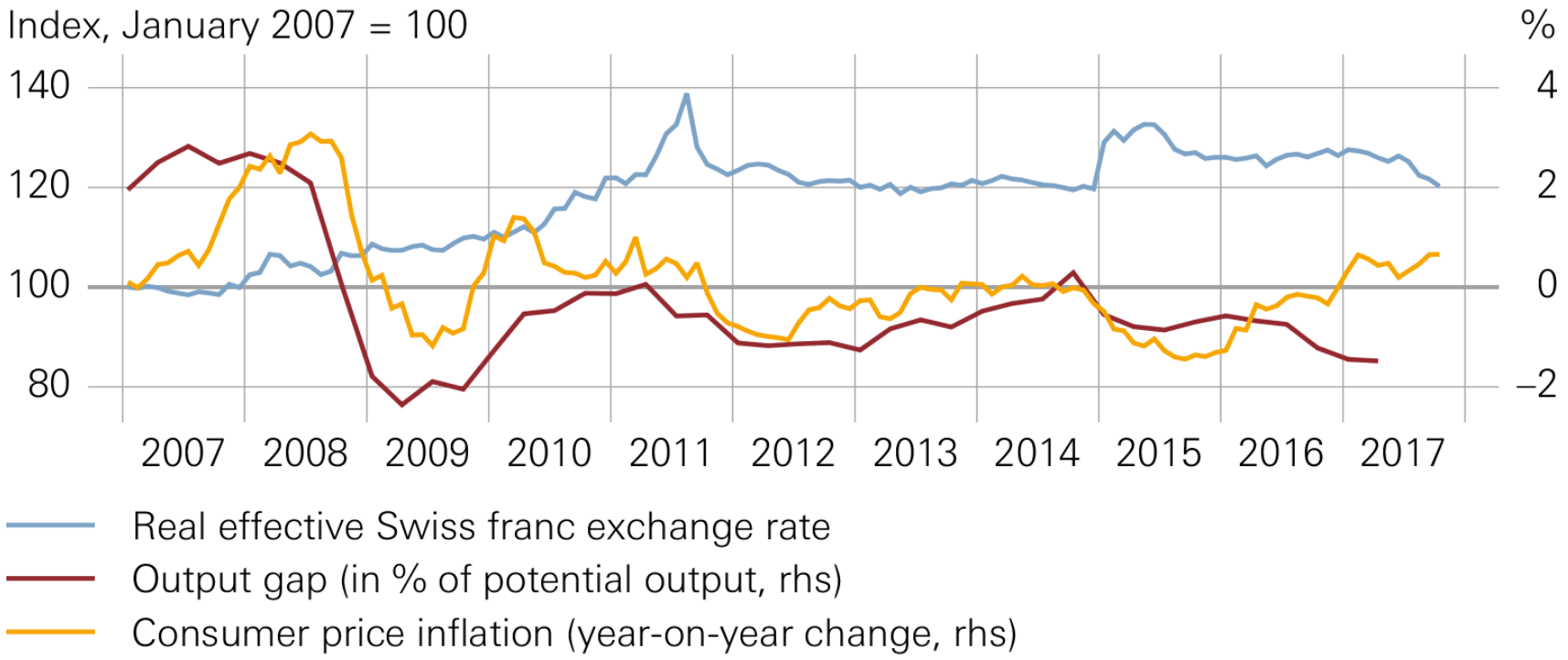
CHART 7: SWITZERLAND'S NET EXPORTS

Change between 2007 and 2016 in CHF billion



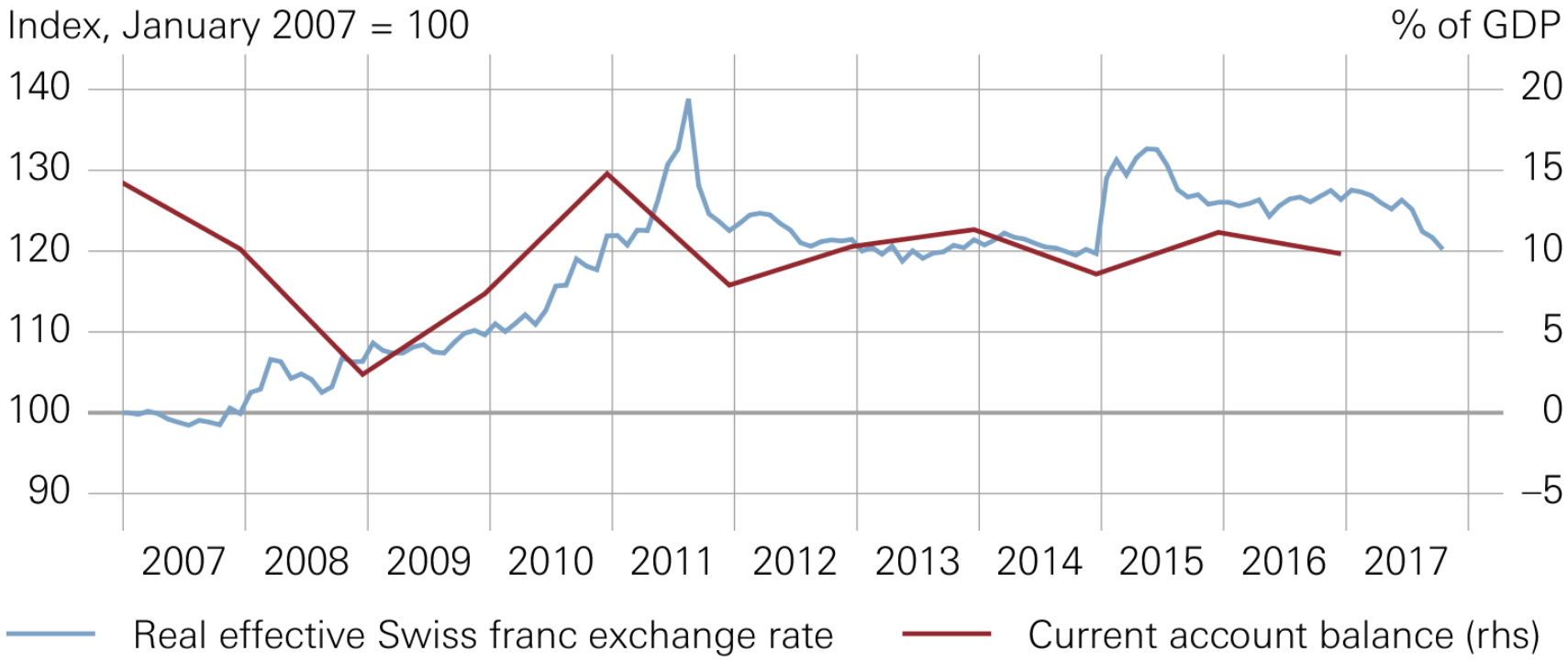
Sources: FCA, SNB

CHART 8: EXCHANGE RATE, INFLATION AND OUTPUT GAP IN SWITZERLAND



Source: SNB

CHART 9: SWITZERLAND'S EXCHANGE RATE AND CURRENT ACCOUNT BALANCE



Source: SNB