

Direct Investment 2016

SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA
SWISS NATIONAL BANK



Direct Investment 2016

Volume 17

Contents

	Page
1 Summary of direct investment in 2016	4
2 Swiss direct investment abroad	6
Capital transactions	6
Capital stocks	8
Investment income	10
3 Foreign direct investment in Switzerland	11
Capital transactions	11
Capital stocks	13
Investment income	16
4 Operational data on Swiss subsidiaries abroad and their parent companies in Switzerland	17
Number of staff at Swiss subsidiaries abroad	17
Staff numbers at parent companies in Switzerland	18
5 Special topic: Pass-through capital in Switzerland's direct investment statistics	21
Introduction	21
Concepts for the estimation of pass-through capital	22
Pass-through capital in Switzerland's international economic affairs statistics	24
Pass-through capital in the long term	27
Breakdown by country	29

1

Summary of direct investment in 2016

SWISS DIRECT INVESTMENT ABROAD

In 2016, companies domiciled in Switzerland invested CHF 71 billion abroad. Swiss direct investment abroad thus fell short of the CHF 90 billion recorded in 2015, due primarily to lower investment activity by finance and holding companies. All other industry categories combined actually exceeded the level of the previous year with investment abroad of CHF 62 billion (2015: CHF 46 billion). Of this total, CHF 29 billion was accounted for by manufacturing and CHF 33 billion by services.

Of this investment abroad, CHF 58 billion went to countries in Europe, mainly to the Netherlands and the UK. To a large extent, this direct investment was attributable to group reorganisation, with foreign-controlled holding companies incorporating participations abroad. Companies in Switzerland invested CHF 36 billion in the US, partly in the form of acquisitions. By contrast, CHF 22 billion was withdrawn from offshore financial centres in Central and South America.

Stocks of direct investment abroad rose by CHF 90 billion, or 8%, to CHF 1,215 billion.¹ The increase was mainly due to capital transactions, while valuation changes played a subsidiary role. Finance and holding companies reported the highest capital stocks abroad, with a total of CHF 452 billion. At CHF 168 billion, chemicals and plastics were a distant second.

Income from direct investment abroad amounted to CHF 81 billion, a decline by CHF 6 billion compared to the previous year. This was primarily the result of lower income in two categories of manufacturing: electronics, energy, optical and watchmaking, on the one hand, and chemicals and plastics, on the other. By contrast, investment income from subsidiaries in the services sector registered a slight growth year-on-year.

FOREIGN DIRECT INVESTMENT IN SWITZERLAND

Foreign-domiciled companies invested CHF 47 billion in companies in Switzerland (2015: CHF 78 billion), mostly in the form of increased lending to subsidiaries in Switzerland and the reinvestment of earnings achieved by these companies. The main recipients of these investments were finance and holding companies (CHF 27 billion),

followed by the other services category (CHF 9 billion). Direct investment in manufacturing companies amounted to CHF 4 billion.

Stocks of foreign direct investment in Switzerland climbed by CHF 123 billion, or 15%, to CHF 965 billion. The increase primarily affected the equity capital of finance and holding companies, and was mainly the result of higher valuation of their participations in Switzerland. A breakdown by immediate investor shows that 78% of capital stocks originated from investors in the EU and a further 13% from investors in the US. However, this breakdown only provides a limited idea of the countries of origin of investors in control of companies in Switzerland. This is due to the fact that foreign direct investment stocks in Switzerland are largely held via intermediate companies controlled by groups headquartered in a third country. The SNB therefore publishes an alternative breakdown of capital stocks by country of origin of the ultimate beneficial owner. This breakdown shows that investors from the US and the EU controlled 43% and 37% of the capital stocks respectively.

Investment income from foreign direct investment in Switzerland increased by CHF 3 billion to CHF 62 billion. This was mainly attributable to higher earnings by finance and holding companies.

OPERATIONAL DATA ON MULTINATIONAL COMPANIES

In their subsidiaries abroad, Swiss companies employed a total of 2,044,000 people, of whom 895,000 (44%) were in Europe and 535,000 (26%) in Asia. The number of people employed advanced by 37,000, or 2%, compared with the previous year. The increase in Europe was slightly above the average for the past ten years, whereas no growth was registered in Asia for the first time since 2001. Swiss parent companies with participations abroad were also significant employers in their home country, providing jobs for 853,000 persons in Switzerland,² equivalent to 17% of overall employment in manufacturing and services.³

² Including companies not covered by the direct investment survey. Staff numbers for these companies are provided by the Swiss Federal Statistical Office (SFSO), Neuchâtel.

³ Sources: Employment statistics (JOBSTAT) published by the SFSO, Neuchâtel, and employment statistics from the Office of Statistics, Vaduz.

¹ Measured in capital stocks, Switzerland is thus one of the world's ten largest direct investors (source: IMF, <http://data.imf.org/CDIS>).

SPECIAL TOPIC: PASS-THROUGH CAPITAL IN SWITZERLAND'S DIRECT INVESTMENT STATISTICS

Since the mid-1990s, Switzerland and other countries with high appeal as a location for finance and holding companies have registered a sharp increase in direct investment stocks. To a certain extent, this is caused by major, globally operating groups who transfer capital via a chain of group companies in various countries, in the process of which capital may be 'passed through' a country without having any significant impact on the local real economy. This year's special topic reveals the importance of such 'pass-through capital' for Switzerland's direct investment statistics.

AVAILABILITY AND REVISION OF DATA

Comprehensive tables on direct investment and operational data for multinational companies are available on the SNB's data portal (data.snb.ch) under 'International economic affairs'. The data can be accessed there in the form of configurable tables. The data are currently available for 1998 to 2016. The data portal also contains notes and information on methods used.

Operational data on foreign subsidiaries in Switzerland (staff numbers and number of companies) are no longer contained in the report on direct investment. The Swiss Federal Statistical Office (SFSO) now provides these data in a separate publication. They will continue to be compiled jointly by the SFSO and the SNB. The SFSO will publish data for 2014 and 2015 on 21 December 2017. Previous time series for the period 2003 to 2015 remain available on the SNB's data portal. They will, however, no longer be updated.

Direct Investment 2016 contains the usual revision of figures from previous years (2014–2015). These revisions are mainly based on information about business transactions or group structures relating to the respondent companies which only becomes available after the previous year's report has gone to press. Most strongly affected by the revisions for 2015 were Swiss direct investment abroad by finance and holding companies and foreign direct investment in Switzerland in the other services category.

Table 1

DIRECT INVESTMENT 2016: OVERVIEW

		2015	2016
Swiss direct investment abroad			
Capital transactions	in CHF billions	90.1	70.7
Capital stocks	in CHF billions	1 124.9	1 214.7
Investment income	in CHF billions	87.6	81.5
Foreign direct investment in Switzerland			
Capital transactions	in CHF billions	78.4	47.3
Capital stocks	in CHF billions	842.2	965.5
Investment income	in CHF billions	58.4	61.6
Operational data on Swiss subsidiaries abroad and their parent companies in Switzerland			
Number of staff at Swiss subsidiaries abroad	in thousands	2 006.8	2 044.1
Staff numbers at parent companies in Switzerland ¹	in thousands	849.4	852.9

¹ Including companies not covered by the survey on direct investments since they are below the reporting limit. Staff numbers for these companies are provided by the SFSO, Neuchâtel.

Source: SNB

2 Swiss direct investment abroad

CAPITAL TRANSACTIONS

In 2016, companies domiciled in Switzerland invested CHF 71 billion abroad. Swiss direct investment was thus below the amount of CHF 90 billion recorded in 2015, due primarily to lower investment activity by finance and holding companies. All other industry categories together actually exceeded the level of the previous year with investment abroad of CHF 62 billion (2015: CHF 46 billion).

The majority of transactions were accounted for by loans to subsidiaries abroad, amounting to CHF 32 billion. Moreover, this intragroup lending was substantially higher than in the previous year (CHF 10 billion). However, a year-on-year decline was recorded in the two other capital forms possible for direct investment: Investment in the form of equity capital decreased to CHF 13 billion (2015: CHF 51 billion), while investment in the form of reinvested earnings (retained profits) fell to CHF 25 billion (2015: CHF 29 billion).

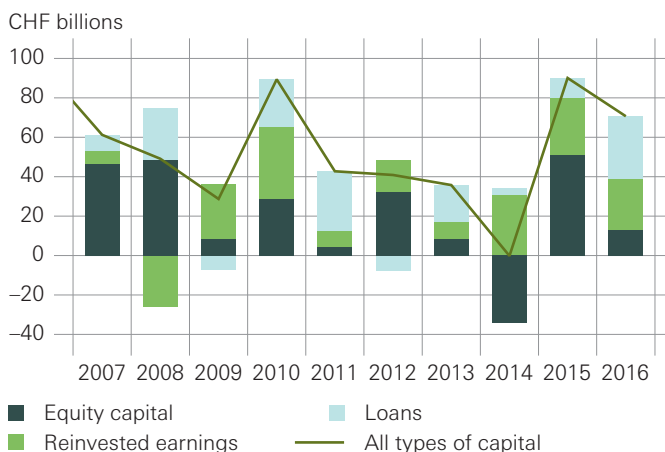
At CHF 29 billion, manufacturing invested significantly more abroad than in the year before (CHF 13 billion). All categories of manufacturing except other manufacturing and construction recorded an increase in direct investment. The largest amount of investment – CHF 9 billion – came from electronics, energy, optical and watchmaking, especially through the acquisition of companies abroad. Chemicals and plastics invested CHF 8 billion.

At CHF 33 billion, direct investment by companies in the services sector (excluding finance and holding companies) remained on a par with the previous year. By far the heaviest investors in this sector were insurance companies at CHF 20 billion, with loans to subsidiaries abroad, in particular, registering an increase. Direct investment from the other services category amounted to CHF 5 billion. This was primarily due to the acquisition of companies abroad. The trade category also invested CHF 5 billion; this was predominantly profits earned and retained abroad.

Chart 1

DIRECT INVESTMENT ABROAD

Capital transactions by type of capital

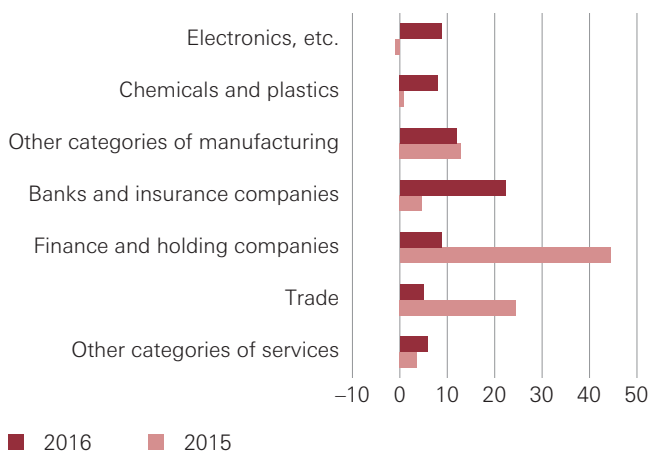


Source: SNB

Chart 2

DIRECT INVESTMENT ABROAD

Capital transactions by economic activity, in CHF billions



Source: SNB

Direct investment by finance and holding companies amounted to CHF 9 billion, well below the level of the previous year (CHF 44 billion). All the same, numerous transactions were conducted by companies in this category, both in the form of equity capital withdrawals from subsidiaries abroad and additional loans granted to these subsidiaries.

In 2016, companies domiciled in Switzerland invested mainly in Europe (CHF 58 billion) and in the US (CHF 36 billion). A major portion of investment in the US was accounted for by acquisitions. Within Europe, the holding locations Netherlands (CHF 23 billion) and the UK (CHF 11 billion) were the main destinations of Swiss direct investment. In both cases, investments were related to group reorganisation, with foreign-controlled holding companies domiciled in Switzerland incorporating participations abroad. Companies in Switzerland also made significant investments in Luxembourg (CHF 8 billion) and in Germany (CHF 6 billion). In both cases, domestic parent companies' main activity was to provide existing subsidiaries with additional resources.

Companies domiciled in Switzerland withdrew CHF 21 billion from Central and South America, predominantly from offshore financial centres. Such withdrawals were mostly effected by foreign-controlled finance and holding companies. This was part of restructuring activities by global groups with strong international networks which were dismantling participations abroad held through Switzerland. Another striking factor was the development of Swiss direct investment in Asia. For the first time since 2008, investors withdrew more funds from Asia than they invested there. On balance, disinvestment amounted to CHF 1 billion. Investments were made in Indonesia and Japan, but this was outweighed by withdrawals from the United Arab Emirates and Singapore.

CAPITAL STOCKS

Direct investment stocks abroad amounted to CHF 1,215 billion, a year-on-year rise of CHF 90 billion (8%).

The increase was mainly attributable to capital transactions, while valuation changes played a subsidiary role. Equity capital made up CHF 1,044 billion (86%) of the total Swiss direct investment stocks abroad. Regarding loans to subsidiaries abroad, assets (claims) amounted to CHF 404 billion, while liabilities came to CHF 233 billion, resulting in net loan stocks of CHF 171 billion.

By comparison with other countries, Switzerland maintains high levels of direct investment abroad. Measured in capital stocks, it is one of the world's ten largest direct investors (source: IMF, <http://data.imf.org/CDIS>). Reasons for this include the fact that numerous headquarters of large multinationals are located in the country and that Switzerland is attractive as a location for foreign-controlled holding companies.

In manufacturing, capital stocks in subsidiaries abroad rose by CHF 18 billion to CHF 414 billion. As a result, the share of manufacturing in the total stocks of Swiss direct investment abroad came to 34%. Of all manufacturing categories, chemicals and plastics easily accounted for the largest share of capital stock abroad, namely CHF 168 billion (14% of the total).

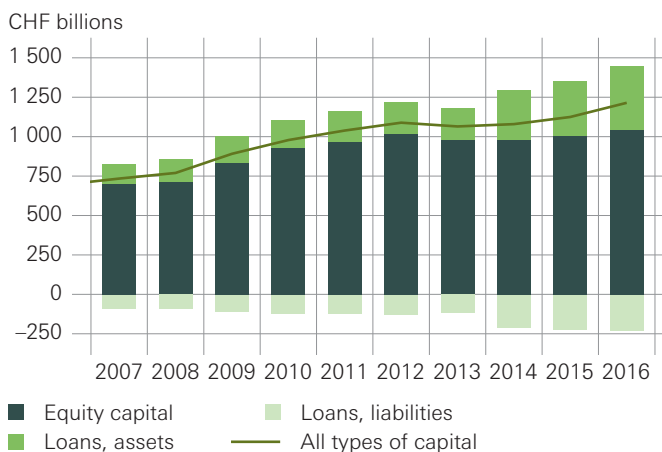
The capital stocks of the services sector, excluding finance and holding companies, also recorded an increase, by CHF 15 billion to CHF 349 billion (29% of the total). Half of this was accounted for by banks and insurance companies, which registered the strongest rise in the services sector, by CHF 13 billion to CHF 169 billion. However, by far the largest increase in direct investment capital stocks, in absolute terms, was seen in the finance and holding companies category. Its stocks in subsidiaries abroad climbed by CHF 57 billion to CHF 452 billion, raising its share to 37%. Here, the most marked growth was recorded by loans, which came to almost double the amount of the previous year (up CHF 39 billion to CHF 82 billion).

From a geographical point of view, subsidiaries in Europe recorded the biggest increase in capital stocks, in absolute terms, advancing by CHF 82 billion to CHF 678 billion. Chart 5 shows the most important locations for Swiss direct investment in terms of capital stocks (size of circles). As in the previous years, capital stocks climbed significantly in the holding locations of Ireland, Luxembourg and the Netherlands (up CHF 55 billion to CHF 402 billion). The importance of these holding locations thus continued to rise. Between 2007 and 2016, their share in the total capital stocks of Swiss direct investment abroad advanced from 11% to 33%. Although

Chart 3

DIRECT INVESTMENT ABROAD

Capital stocks by type of capital

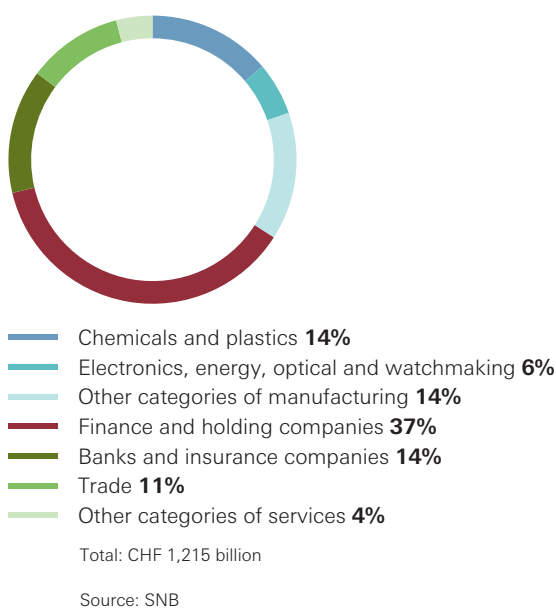


Source: SNB

Chart 4

DIRECT INVESTMENT ABROAD

Capital stocks by economic activity in percent (2016)



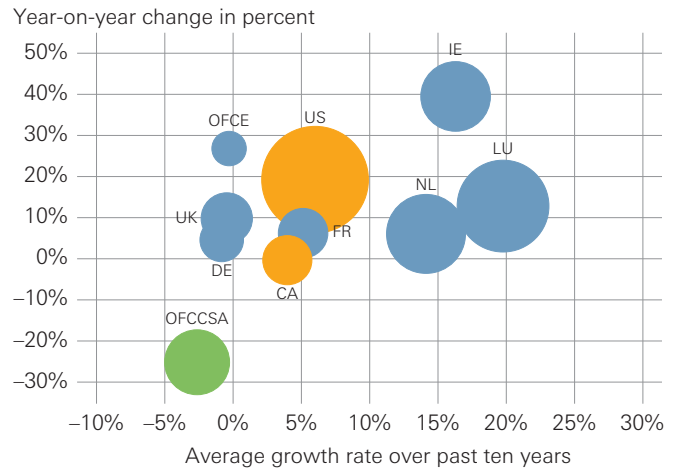
this development is partly a result of the change in the statistical method in 2014, it does reflect the increasing tendency of corporations to organise global direct investment via intermediate companies in holding locations (cf. special topic). In this connection, Europe's share in capital stocks rose from 50% to 56% during the period in question.

Apart from Europe, North America was the only region to record an increase in Swiss direct investment stocks (up CHF 38 billion to CHF 284 billion). Its proportion of total capital stocks amounted to 23%. In Central and South America, by contrast, capital stocks contracted by CHF 29 billion to CHF 114 billion. This reflects the diminished importance – in comparative terms – of the region's offshore financial centres for Swiss direct investment. Between 2014 and 2016, Central and South America's portion of total capital stocks declined from 18% to 9%. By contrast, the totals of Swiss direct investment stocks in Asia, Africa and Oceania changed only slightly.

Chart 5

DIRECT INVESTMENT ABROAD

Capital stocks of top ten investment locations



Colour code: Blue – Europe; Yellow – North America; Green – Offshore financial centres in Central and South America
 OFCCSA: Offshore financial centres in Central and South America
 OFCE: Offshore financial centres in Europe

Source: SNB

INVESTMENT INCOME

Income from direct investment abroad amounted to CHF 81 billion, representing a moderate CHF 6 billion decrease year-on-year. Of this total, 69%, i.e. CHF 56 billion, were transferred earnings, comprising CHF 51 billion in dividends and CHF 5 billion in net interest on intragroup lending. The remaining 31%, i.e. CHF 25 billion, were accounted for by non-distributed profits of subsidiaries abroad (reinvested earnings).

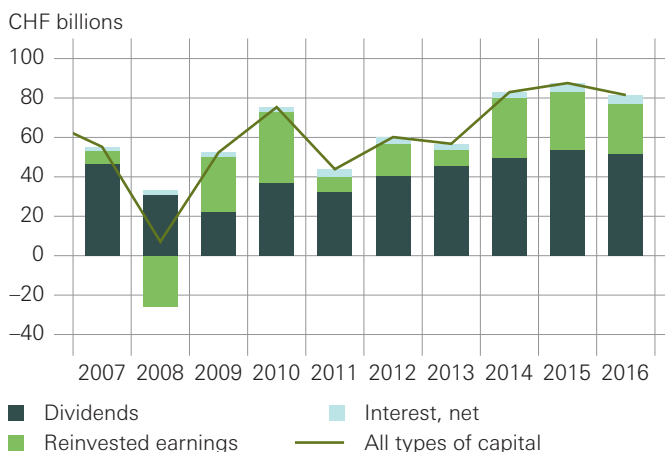
Manufacturing recorded a decline in investment income from direct investment abroad, by CHF 7 billion to CHF 37 billion. This was primarily due to decreases in two categories, namely electronics, energy, optical and watchmaking, where investment income halved to CHF 4 billion, and chemicals and plastics with a decline of CHF 3 billion to CHF 17 billion.

Unlike manufacturing, investment income at services sector subsidiaries rose by a further CHF 1 billion over the previous year's high level to CHF 45 billion. This development was mainly attributable to the trade category, where income from direct investment doubled year-on-year, from CHF 4 billion to CHF 8 billion. Finance and holding companies' investment income, by contrast, receded by CHF 3 billion to CHF 23 billion. Banks also recorded a drop in investment income (down CHF 2 billion to CHF 1 billion), whereas it rose slightly at insurance companies (up CHF 1 billion to CHF 9 billion).

Chart 6

DIRECT INVESTMENT ABROAD

Investment income by type of capital

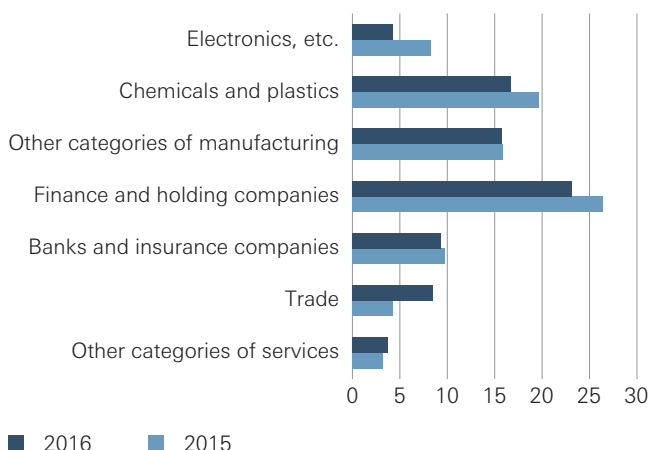


Source: SNB

Chart 7

DIRECT INVESTMENT ABROAD

Investment income by economic activity, in CHF billions



Source: SNB

CAPITAL TRANSACTIONS

Foreign countries invested CHF 47 billion in companies in Switzerland – significantly less than the previous year. At that time, however, foreign direct investment in Switzerland had been unusually high (CHF 78 billion). A large proportion of direct investment in 2016 was attributable to reinvested earnings (retained profits), totalling CHF 27 billion, a CHF 11 billion increase year-on-year. Foreign subsidiaries in Switzerland received another CHF 18 billion in the form of intragroup lending, unlike the previous year, when funds amounting to CHF 6 billion were withdrawn. The most significant change in foreign direct investment was recorded in equity capital, however. Following investment of CHF 68 billion in the previous year, this item came to only CHF 3 billion in the year under review. While some foreign subsidiaries in Switzerland received funds from abroad in the form of equity capital, nearly the same amount was withdrawn from others.

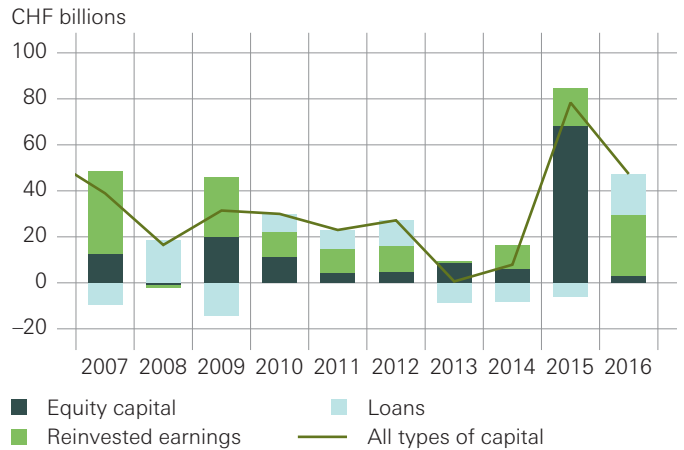
Almost all foreign direct investment – CHF 44 billion – flowed into companies in the services sector. Within this sector, investment in finance and holding companies dominated, accounting for CHF 27 billion. The largest share was in the form of retained profits in Switzerland. CHF 9 billion of foreign direct investment flowed into companies from the other services category. In this category, investments mainly consisted of lending by foreign parent companies to subsidiaries in Switzerland. A further CHF 7 billion of foreign direct investment flowed into companies in the trade category. By contrast, foreign investors repatriated CHF 1 billion from banks.

Foreign companies invested a total of CHF 4 billion in manufacturing, the bulk of it in the form of reinvested income. In particular, additional capital flowed into companies in the electronics, energy, optical and watchmaking category. The remainder of direct investment in manufacturing was accounted for equally by companies in the chemicals and plastics category and the other manufacturing and construction category.

Chart 8

DIRECT INVESTMENT IN SWITZERLAND

Investment income by type of capital

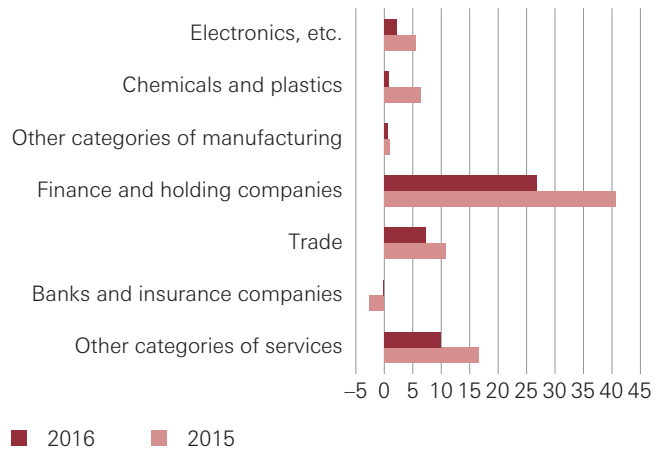


Source: SNB

Chart 9

DIRECT INVESTMENT IN SWITZERLAND

Capital transactions by economic activity, in CHF billions



Source: SNB

Most investment, i.e. 89% or CHF 42 billion, originated in Europe, with shifts between holding locations linked to group reorganisation evident. While the Netherlands invested CHF 55 billion, Austria repatriated funds amounting to CHF 16 billion. The UK invested CHF 6 billion in Switzerland, with a substantial portion of these inflows due to acquisitions. Furthermore, there was significant investment from companies in Germany (CHF 3 billion). By contrast, investors from France repatriated funds from companies in Switzerland (CHF 3 billion).

Of the non-European activity, investors from the US dominated, placing CHF 10 billion worth of funds in companies in Switzerland. Investors from Central and South America withdrew CHF 5 billion, with offshore financial centres accounting for CHF 2 billion of this sum. Investment from companies based in Asia, Africa and Oceania totalled CHF 1 billion.

CAPITAL STOCKS

Stocks of foreign direct investment in Switzerland amounted to CHF 965 billion, a year-on-year increase of CHF 123 billion, or 15%. This increase is mainly due to revaluations in domestic participations, which resulted in substantially higher stocks of equity capital. Regarding loans to parent and fellow companies abroad, assets (claims) amounted to CHF 165 billion, while liabilities came to CHF 197 billion, so that, in net terms, the loans item in foreign direct investment in Switzerland recorded CHF 32 billion.

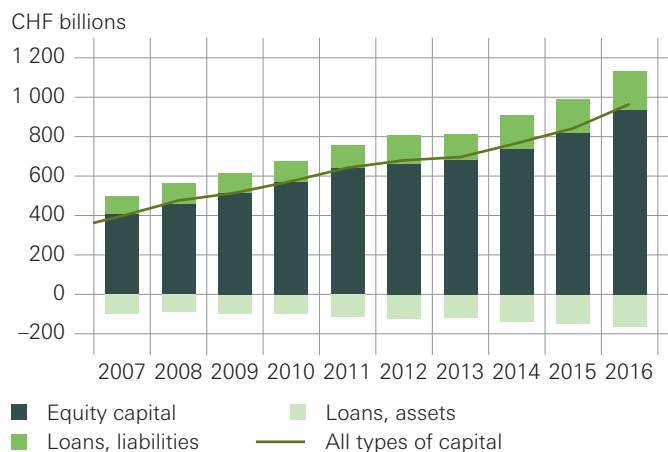
Stocks of foreign direct investment in the services sector were up by CHF 117 billion, to CHF 832 billion. Finance and holding companies recorded both the highest stocks and, in absolute terms, the strongest growth. With a rise of CHF 102 billion to CHF 550 billion, these companies' share in total foreign direct investment stocks increased to 57%. The trade category continued to record the second-highest foreign-controlled capital stocks. The increase was only minor, however (up by CHF 3 billion, to CHF 161 billion). Capital stocks in manufacturing grew by CHF 7 billion to CHF 133 billion, which is 14% of total capital stocks. Within manufacturing, chemicals and plastics accounted for half of the foreign capital stocks (CHF 67 billion).

The SNB publishes two breakdowns by country of domestic capital stocks, one by country of origin of the immediate investor, and the other by country of origin of the ultimate beneficial owner. Broken down according to country of immediate investor, a large proportion of domestic capital stocks are held by EU-domiciled investors. This portion amounted to CHF 757 billion, or 78% of foreign capital stocks in Switzerland. Of this, CHF 559 billion was attributable to investors in the three holding locations of the Netherlands, Luxembourg and Austria. The Netherlands strengthened its position among the three holding locations and its capital stocks grew by CHF 107 billion to CHF 323 billion. Therefore, almost one-third of foreign capital stocks in Switzerland was held via companies in the Netherlands. Investment from holding locations is mainly carried out by intermediate companies, which in turn are controlled by companies in a third country. The share of equity capital in subsidiaries in Switzerland that was held through intermediate companies amounted to 63% (cf. chart 12). In 2007, this share came to 38%.

Chart 10

DIRECT INVESTMENT IN SWITZERLAND

Capital stocks by type of capital

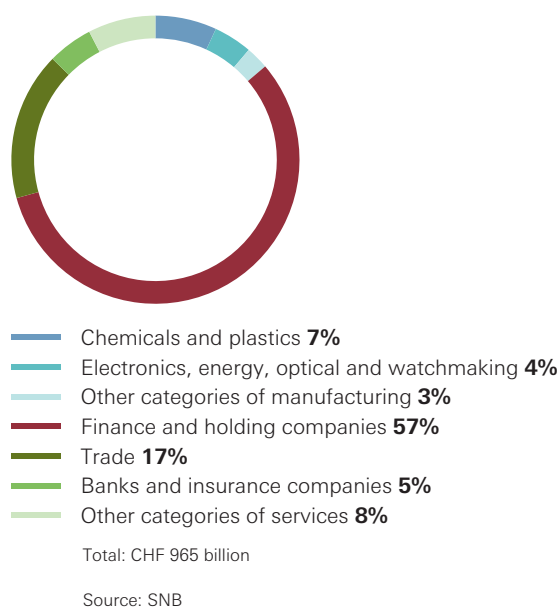


Source: SNB

Chart 11

DIRECT INVESTMENT IN SWITZERLAND

Capital stocks by economic activity in percent (2016)



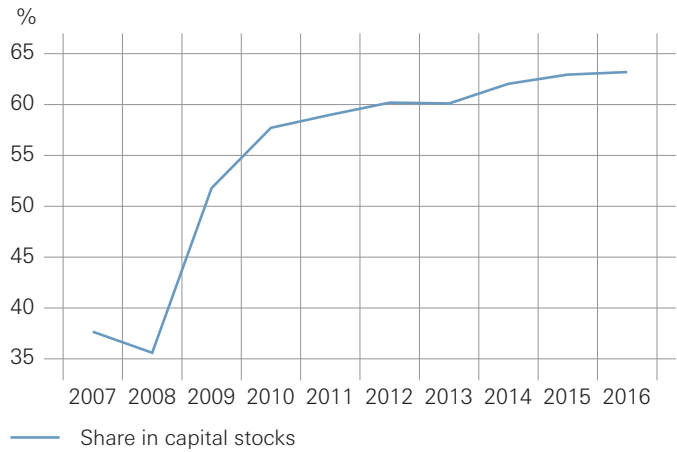
Because of the high share of intermediate companies, the SNB also provides a breakdown of capital stocks by country of origin of the ultimate beneficial owner. Using this approach, the US, in particular, had significantly higher capital stocks (CHF 419 billion) than when assessed according to immediate investor. This shows that US investors mainly invested in companies in Switzerland via third countries. The same applies to investors from other European countries, as well as investors from Central and South America domiciled outside the offshore financial centres located there. The European holding locations of Luxembourg, the Netherlands and Austria were the most important of these third countries. According to the evaluation by ultimate beneficial owner, capital stocks of Luxembourg investors amounted to CHF 27 billion, only a fraction of the level according to the evaluation by immediate investor (CHF 194 billion). For the Netherlands and Austria, the figures were CHF 96 billion compared to CHF 323 billion, and CHF 7 billion compared to CHF 43 billion respectively.

Switzerland is also listed as a country of origin of ultimate beneficial owner. This means that direct investors from Switzerland also invest in companies in Switzerland via intermediate companies in third countries. This is a practice referred to as 'round tripping', whereby capital originating in a country is reinvested back into that country in the form of foreign direct investment. In 2016, the capital stock invested in this way amounted to CHF 39 billion (2015: CHF 31 billion).

Chart 12

DIRECT INVESTMENT IN SWITZERLAND

Capital stocks held via intermediate companies in third countries

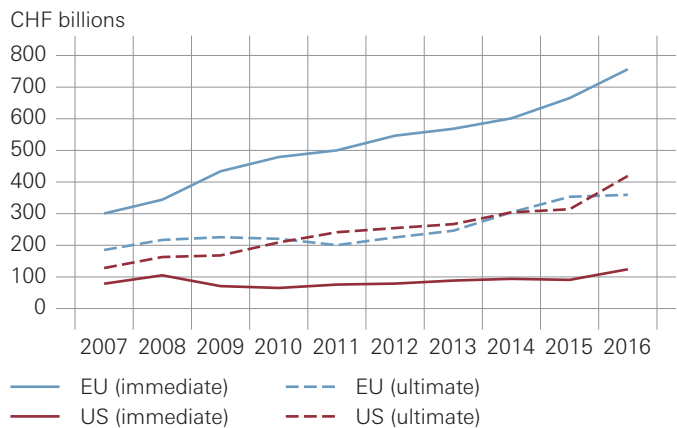


Source: SNB

Chart 13

DIRECT INVESTMENT IN SWITZERLAND

Capital stocks by country of immediate investor and ultimate beneficial owner



Source: SNB

Table 2

**CAPITAL STOCKS FOR 2016: BREAKDOWN BY COUNTRY OF IMMEDIATE INVESTOR
AND ULTIMATE BENEFICIAL OWNER**

	Breakdown by immediate investor		Breakdown by ultimate beneficial owner		Difference In CHF billions
	In CHF billions	Share in percent	In CHF billions	Share in percent	
Europe	767.9	80%	419.3	43%	-348.6
EU	756.6	78%	359.6	37%	-397.0
Other European countries	11.3	1%	59.7	6%	48.4
Selected countries					
Germany	25.2	3%	31.5	3%	6.3
France	37.9	4%	39.8	4%	1.9
Luxembourg	193.9	20%	26.9	3%	-167.0
Netherlands	322.8	33%	95.9	10%	-226.9
Austria	42.7	4%	7.3	1%	-35.4
Switzerland	.	.	39.1	4%	39.1
United Kingdom	51.6	5%	31.1	3%	-20.5
North America	124.0	13%	454.7	47%	330.7
Of which United States	124.2	13%	419.2	43%	295.0
Central and South America	63.5	7%	68.1	7%	4.6
Asia, Africa, Oceania	10.0	1%	23.3	2%	13.3
All countries	965.5	100%	965.5	100%	0.0

· Not applicable.

Source: SNB

INVESTMENT INCOME

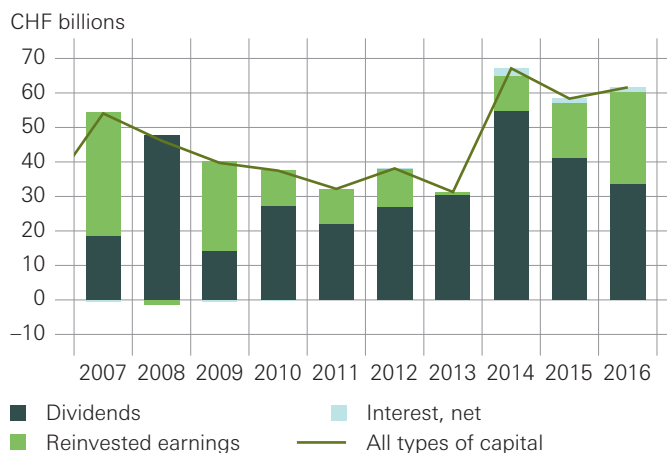
Investment income from foreign direct investment in Switzerland increased by CHF 3 billion to CHF 62 billion. A breakdown of investment income by type of capital shows that parent companies abroad reinvested a larger proportion of their earnings in their domestic subsidiaries than in the previous year (up CHF 11 billion to CHF 27 billion). By contrast, earnings (dividends and net interest) transferred by subsidiaries to their parent companies abroad fell by CHF 7 billion to CHF 35 billion. The share of earnings transferred abroad thus declined year-on-year from 72% to 56%.

Subsidiaries in the services sector registered investment income of CHF 47 billion (up CHF 3 billion). This was mainly attributable to finance and holding companies. At CHF 28 billion, they boosted their earnings by CHF 4 billion year-on-year. The other services category (up CHF 1 billion to CHF 4 billion) and insurance companies (up CHF 1 billion to CHF 3 billion) also posted an increase in their earnings. By contrast, companies in the trade category no longer matched the high level of investment income of the previous year (down CHF 3 billion to CHF 10 billion). Investment income in manufacturing amounted to CHF 15 billion; in all categories, figures were at a similar level to those of the previous year.

Chart 14

DIRECT INVESTMENT IN SWITZERLAND

Investment income by type of capital

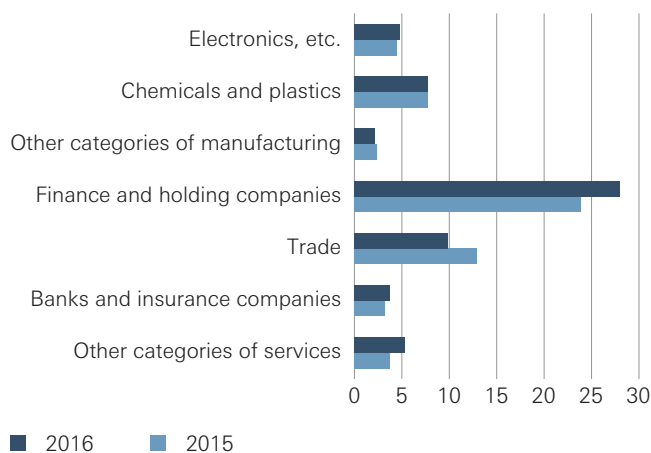


Source: SNB

Chart 15

DIRECT INVESTMENT IN SWITZERLAND

Investment income by economic activity, in CHF billions



Source: SNB

Operational data on Swiss subsidiaries abroad and their parent companies in Switzerland

NUMBER OF STAFF AT SWISS SUBSIDIARIES ABROAD

The number of staff employed by Swiss companies at their subsidiaries abroad totalled 2,044,000 (up 37,000).¹ At 1,350,000, two-thirds of these people were accounted for by manufacturing (up 9,000). Within manufacturing, the other industries and construction category accounted for the highest share of foreign employment with 497,000 employees (down 9,000). The strongest increase in manufacturing was registered by metals and machinery, up by 20,000 to 291,000. This rise was mainly attributable to domestic parent companies newly included in the survey, whose foreign employment had not been covered previously. By contrast, companies in the textiles and clothing category reduced their staff abroad by 7,000 to 44,000. The services sector employed 694,000 people abroad (up 28,000). Companies in the trade category, in particular, continued to strengthen their position (up 35,000 to 162,000 people). The growth of this category was mainly attributable to the fact that groups transferred their domicile to Switzerland. Consequently, their employees at subsidiaries abroad are now included under the foreign employment figures for Swiss companies. With a headcount of 145,000 and 99,000 respectively, staff numbers at subsidiaries abroad of the other services category and the transport and communication category was below the previous year's level (down 5,000 and 6,000 respectively).

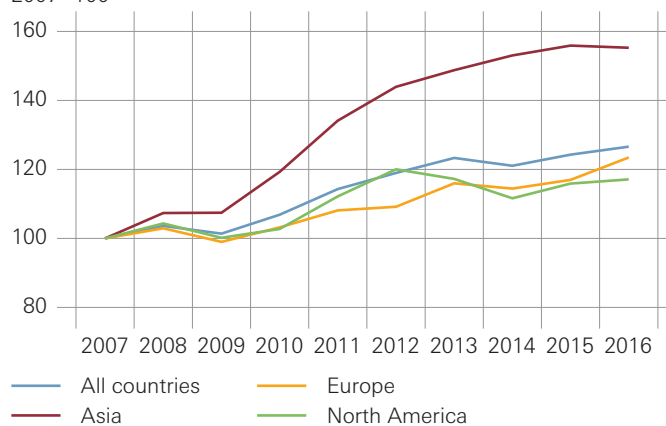
Swiss companies employed 895,000 persons at subsidiaries in Europe. These accounted for 44% of the staff of Swiss companies abroad. Average annual growth in Europe in the period from 2007 to 2016 stood at 2%. With a headcount of 261,000, Germany expanded its position as the most important location for Swiss employers in Europe, ahead of France (103,000) and the UK (96,000). Outside Europe, the US constituted another focus of operational activities for Swiss companies, with 313,000 employees. Staff in Asia totalled 535,000. This meant that, for the first time since 2001, there was no longer any growth in employment numbers in this region. In the last five years, average annual growth had been 3%, and in the five years previously it had been 7%.

Chart 16

NUMBER OF STAFF ABROAD

Indexed

2007=100



Source: SNB

¹ Only companies covered in the direct investment survey. The foreign employment numbers of Swiss companies not covered by the survey are unknown.

STAFF NUMBERS AT PARENT COMPANIES IN SWITZERLAND

Swiss companies which invest abroad are also major employers in Switzerland. They employed 853,000 people in Switzerland, or 17% of total employment in manufacturing and services.² Of these, approximately two-thirds were included in the SNB survey. The remaining 315,000 staff were employed in Swiss-controlled companies with participations abroad that were not included in the SNB's survey, since they had capital stocks of less than CHF 10 million. Staff numbers in these companies are determined in cooperation with the SFSO.

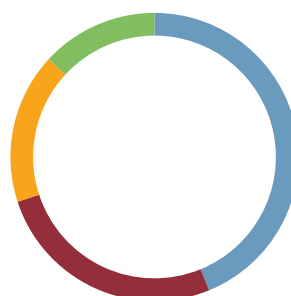
Parent companies in manufacturing employed 325,000 people in Switzerland. Within manufacturing, the category with the largest number of staff was electronics, energy, optical and watchmaking (92,000). A further 80,000 people worked in domestic parent companies in the metals and machinery category. Parent companies in the services sector employed 527,000 people in Switzerland, 190,000 of them in companies in the trade category and 132,000 in transport and communication.

² Sources: Employment statistics (JOBSTAT) published by the SFSO, Neuchâtel, and employment statistics from the Office of Statistics, Vaduz.

Chart 17

STAFF NUMBERS ABROAD

Regional breakdown in percent (2016)



Europe **44%**
 Asia **26%**
 North America **17%**
 Other **13%**

Total: 2.0 million employees
Source: SNB

Swiss-controlled companies in Switzerland and abroad thus employed at least 2,897,000 people: 853,000 employees in parent companies in Switzerland and 2,044,000 employed by the parent companies surveyed by the SNB in subsidiaries abroad. No information is available on foreign employment by companies not covered by this survey.

Table 3

STAFF NUMBERS AT SWISS-CONTROLLED PARENT COMPANIES BY ECONOMIC ACTIVITY

In thousands

	2012	2013	2014	2015	2016	Share In percent
Employees in Switzerland¹	760.9	772.8	840.9	849.4	852.9	29.4
Of which manufacturing	299.5	302.9	323.4	323.4	325.5	11.2
Of which services	461.4	469.9	517.5	526.0	527.4	18.2
Employees abroad	1 921.0	1 991.3	1 954.6	2 006.8	2 044.1	70.6
Of which manufacturing	1 302.3	1 320.7	1 306.2	1 340.4	1 349.6	46.6
Of which services	618.7	670.6	648.4	666.4	694.4	24.0
Total employees	2 682.0	2 764.1	2 795.6	2 856.2	2 896.9	100.0
Of which manufacturing	1 601.9	1 623.6	1 629.6	1 663.7	1 675.1	57.8
Of which services	1 080.1	1 140.5	1 165.9	1 192.4	1 221.9	42.2

¹ Including companies not covered by the direct investment survey. Staff numbers for these companies are provided by the SFSO, Neuchâtel.

Source: SNB

Special topic: Pass-through capital in Switzerland's direct investment statistics

5.1 INTRODUCTION

From the mid-1990s onwards, direct investment registered a significant increase worldwide. Whereas in 1995 stocks of direct investment amounted to 11% of global GDP in 1995, in 2016 they had risen to 35%.¹ In particular, countries that are attractive locations for holding companies recorded a sharp rise. Switzerland is one of them, ranking among the ten countries with the largest stocks of direct investment worldwide.²

With regard to direct investment linkages of holding company locations, reasons other than those traditionally associated with direct investment – i.e. market access, efficiency considerations and technology transfer – have now come to play a decisive role. Large global companies are in fact benefiting from differences in legal and fiscal conditions by shifting capital across borders from one group company to another, even though operational activities (e.g. the production of goods or the provision

of services) are not carried out in all the countries involved in the investment chain. This applies particularly to countries serving as capital hubs. In these countries, capital ‘passes through’ a company without generating any impact (investment, employment) on the domestic real economy. This type of capital is hereinafter referred to as ‘pass-through capital’ (cf. chart 18).

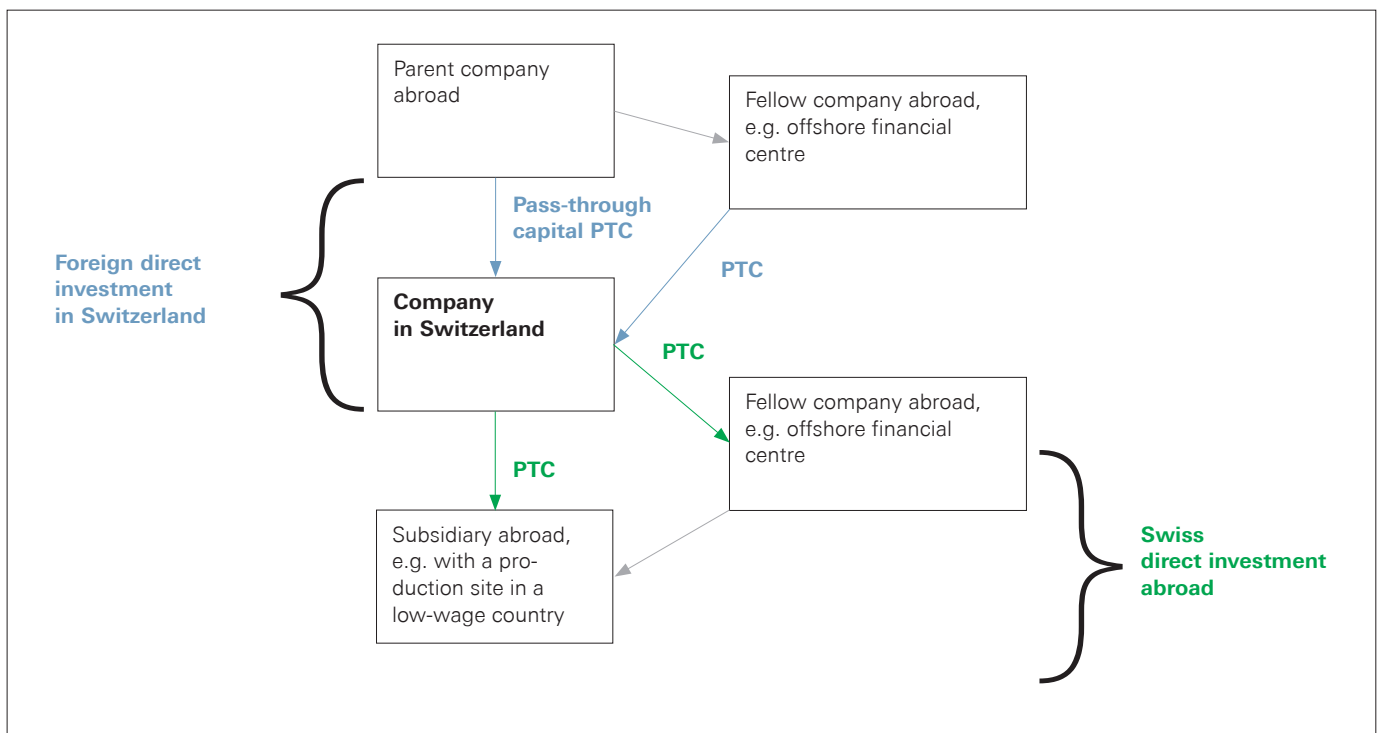
Pass-through capital influences direct investment statistics, especially in countries like Switzerland that serve as a location for group companies with a hub function. This fact needs to be taken into consideration in the analysis of Switzerland's direct investment figures. For example, assumptions about the attractiveness of Switzerland as a location for non-financial activities cannot automatically be drawn from high levels of foreign direct investment. Moreover, pass-through capital also has an impact on the breakdown of direct investment by region and by economic activity. This special article outlines the significance of pass-through capital for Switzerland's direct investment statistics.

1 UNCTAD (2017), *World Investment Report*, <http://unctad.org>.

2 IMF, <http://data.imf.org/CDIS>.

Chart 18

EXAMPLE OF A COMPANY'S STRUCTURE INCLUDING PASS-THROUGH CAPITAL (PTC)



5.2 CONCEPTS FOR THE ESTIMATION OF PASS-THROUGH CAPITAL

In practice, pass-through capital is not measured directly, as every single transaction and balance sheet position of the companies concerned would need to be examined. Therefore, pass-through capital has to be estimated. One approach is to identify companies whose main purpose can be assumed to be the management of pass-through capital.

In order to identify these companies, various estimation concepts have been developed on a national and international level. Special purpose entities (SPEs) is the concept now applied internationally, while foreign-controlled finance and holding companies (FFHCs) is implemented on a national level. Both concepts have been incorporated into the Swiss direct investment statistics and will be explained in more detail below.

5.2.1 SPECIAL PURPOSE ENTITIES

SPEs are companies with a specific activity set up for a narrowly defined task, e.g. the financing of groups or tax optimisation. Examples of SPEs include investment companies, special financing companies, refinancing companies, securitisation companies and leasing companies.³

The SPE concept was incorporated in the international direct investment methodology based on the fourth edition of the OECD's *Benchmark Definition of Foreign Direct Investment* (BMD4).⁴ In BMD4, the OECD defined criteria for the identifying companies and groups as SPEs. Identifying SPEs in this manner enables pass-through capital to be estimated.

The OECD criteria are as follows:

- (i) The main business of the domestic group consists of intragroup financing and holding activities.

Intragroup financing and holding activities primarily include the holding of group participations, liquidity and risk management for the group, as well as the active purchase and sale of participations and their financing. These activities all focus on the holding and management of capital within the group. It can be assumed that pass-through capital dominates the cross-border capital linkages of such companies.

- (ii) A group's highest-ranking domestic company is foreign-controlled.

A group is considered to be foreign-controlled if its ultimate beneficial owner is located abroad. The criterion of foreign control is based on the assumption that pass-through capital is generally 'steered' from abroad and has no connection with the domestic economy.

- (iii) Almost all assets/liabilities of the domestic group represent investment in or from other countries.

This criterion is based on the assumption that pass-through capital is channelled into Switzerland through a domestic group company and then channelled back abroad through the same, or another, domestic group company.

- (iv) The domestic group has no or only a few employees.⁵

If this criterion is met, it is assumed that any activities in the domestic real economy are only of minor importance. This serves as evidence of pass-through capital.

- (v) The domestic group companies are separate legal entities.

This criterion will not be discussed in more detail here as it is irrelevant for the estimation of pass-through capital.

A group is classified as an SPE if the above-mentioned criteria are met. Since 2014, the SNB has reported SPEs separately, according to this definition, in its direct investment statistics.

5.2.2 FOREIGN-CONTROLLED FINANCE AND HOLDING COMPANIES

The Swiss direct investment statistics use a separate concept to estimate pass-through capital – the concept of foreign-controlled finance and holding companies (FFHCs). This concept was introduced in the 1990s in order to account for Switzerland's growing importance as a location for FFHCs.⁶ In its publication *Development of direct investment in 2003*, the SNB included a 'special topic' article on FFHCs. Since 2004, it has published adjusted totals for transactions and stocks both including and excluding FFHCs.

Like SPEs, FFHCs are identified on the basis of the criteria listed in table 4. However, two of these criteria are applied less restrictively for FFHCs than for SPEs. Accordingly, SPEs are a subset of FFHCs and are thus reported as an 'of which' item under FFHCs in Switzerland's direct investment statistics.

⁵ Additional criteria applied by the OECD are the lack of a physical presence and the lack of activity in the real economy. In Swiss practice, employment has proved to be the most easily measurable factor.

⁶ As regards Swiss direct investment abroad, FFHCs are reported as an 'of which' item under 'finance and holding companies'. Foreign direct investment in Switzerland, by contrast, has no corresponding 'of which' item. This is because the 'finance and holding companies' item in this investment direction almost exclusively consists of foreign-controlled groups.

³ Cf. UNECE (2011), chapter 4.

⁴ OECD (2008).

Criteria iii and iv in table 4 are applied less restrictively for FFHCs. Whereas domestic assets and liabilities are only admissible to a very limited extent for SPEs, they may be substantial for FFHCs in individual cases (criterion iii). The situation for domestic employment (criterion iv) is similar; whereas SPEs may have very few employees in the domestic economy, staff numbers at FFHCs may also be significant domestically. In this case, the relationship between employment and the volume of cross-border capital linkages is decisive. A group is classified as an FFHC if its cross-border capital linkages are large compared to the number of its domestic employees.

5.2.3 COMPARISON AND LIMITS OF THE CONCEPTS

Both FFHCs and SPEs can be used to estimate pass-through capital. Due to the less restrictive interpretation of the identification criteria, pass-through capital estimates based on FFHCs are higher than those based on SPEs. However, both concepts have certain delimitation problems (cf. chart 19).

The comparatively narrow SPE concept has the advantage that the SPEs' cross-border capital linkages can be identified as pass-through capital in a relatively accurate manner. The concept's disadvantage is that, due to the fact that pass-through capital also occurs outside SPEs, it tends to underestimate actual pass-through capital.⁷

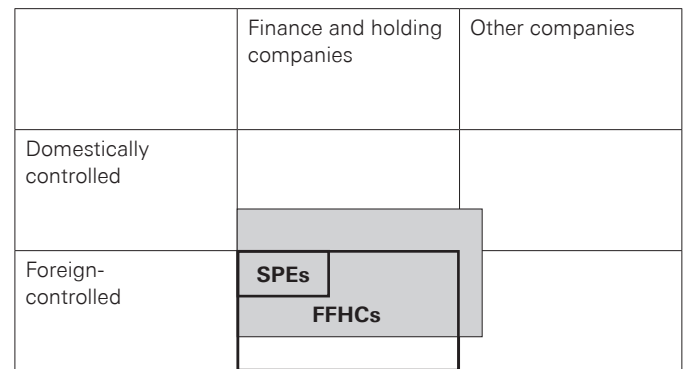
The broader FFHC concept also has its disadvantages. While capturing a larger portion of the actual pass-through capital, it generally overestimates the pass-through capital of FFHCs. Within FFHCs, capital linkages with an operational background are mistakenly also classified as pass-through capital.

⁷ This is one of the reasons why the SPE concept is currently being reviewed at an international level. Efforts are being made to improve the identification of pass-through capital in future and to develop alternative approaches.

In addition, it can be assumed that the phenomenon of pass-through capital also occurs outside FFHCs, which is thus not captured by either of the two concepts. This leads to the conclusion that neither of the two concepts is a priori better suited to estimate pass-through capital. As a consequence, the SNB uses both concepts and publishes the corresponding data in its direct investment statistics.

Chart 19

DELIMITATION OF ESTIMATED AND ACTUAL PASS-THROUGH CAPITAL



□ Approximate pass-through capital
 ■ Actual pass-through capital

Table 4

IDENTIFICATION CRITERIA FOR SPEs AND FFHCs

	Requirement for classification as an SPE	Requirement for classification as an FFHC
i. The main business of the domestic group consists of intragroup financing and holding activities	Yes	Yes
ii. A group's highest-ranking domestic company is foreign-controlled	Yes	Yes
iii. Almost all assets/liabilities of the domestic group represent investments in or from other countries	Yes	Partially
iv. The domestic group has no or only a few employees	Yes	Yes (in relation to cross-border capital linkages)
v. The domestic group companies are separate legal entities	Yes	Yes

5.3 PASS-THROUGH CAPITAL IN SWITZERLAND'S INTERNATIONAL ECONOMIC AFFAIRS STATISTICS

In this chapter, pass-through capital will first be quantified for the capital stocks in Switzerland's 2016 direct investment statistics according to the FFHC and SPE concepts. Next, the focus will be extended to two further international economic affairs statistics: the international investment position and the operational activity of multinational companies. Finally, the analysis will be complemented with an overview of long-term developments (cf. chapter 5.4) and a geographical breakdown of pass-through capital (cf. chapter 5.5).

5.3.1 DIRECT INVESTMENT STATISTICS

By definition, pass-through capital relates to direct investment statistics in both investment directions. Foreign direct investment in Switzerland is impacted by FFHCs or SPEs in Switzerland which receive capital from investors or fellow companies abroad. If this capital is subsequently channelled to subsidiaries abroad, it has an impact on Swiss direct investment abroad.

At the end of 2016, total capital stocks of foreign direct investment in Switzerland amounted to CHF 965 billion (cf. table 5). Of this total, CHF 508 billion (53%) was accounted for by FFHC pass-through capital, and CHF 131 billion (14%) by SPE pass-through capital. As regards capital stocks of Swiss direct investment abroad,

CHF 356 billion (29%) of the total of CHF 1,215 billion related to FFHCs, and CHF 110 billion (9%) was accounted for by SPEs. These data show the substantial impact of pass-through capital on direct investment statistics. The significant difference between the FFHC and SPE concepts highlights the importance of FFHCs in Switzerland. It can thus be concluded that pass-through capital in Switzerland exists not least in companies that undertake a certain degree of non-financial activities.

FFHC and SPE capital stocks are lower for Swiss direct investment abroad than for foreign direct investment in Switzerland. One reason for this difference is that FFHCs and SPEs have cross-border capital linkages that do not qualify as direct investment, and whose volume differs depending on the investment direction. In order to obtain a complete picture of the cross-border linkages of FFHCs and SPEs, the next section will use the statistics in the international investment position, which take account of all cross-border linkages.⁸

⁸ The international investment position consists of the following components: direct investment, portfolio investment, other investment, derivatives and reserve assets (the latter only on the assets side).

Table 5

DIRECT INVESTMENT OF FFHCs AND SPEs (2016)¹

In CHF billions

	Total	Share In percent	Of which pass-through capital			
			Of FFHCs	Share In percent	Of SPEs	Share In percent
Swiss direct investment abroad						
Capital stocks	1 214.7	100.0	355.7	29.3	110.3	9.1
Foreign direct investment in Switzerland						
Capital stocks	965.5	100.0	508.4	52.7	131.5	13.6

¹ The data in the table are also available on the SNB's data portal at data.snb.ch, *Table selection, International economic affairs, Switzerland's foreign economic affairs, Direct investment.*

Source: SNB

5.3.2 INTERNATIONAL INVESTMENT POSITION

As the published data on the international investment position are not broken down by FFHC and SPE, they do not provide any details on pass-through capital. However, pass-through capital can be determined for the portion of the international investment position taken from the SNB surveys on cross-border capital linkages of companies.⁹ It can be assumed that the portion of the international investment position taken from other sources (e.g. banking statistics) is not normally pass-through capital.

Table 6 shows the pass-through capital taken from the SNB surveys on cross-border capital linkages in relation to total foreign assets and liabilities. The analysis reveals that, in particular with regard to FFHC pass-through capital, a substantial share is not reported under direct investment. This share mainly consists of intragroup lending by finance companies, which is included in other investment rather than in direct investment.

Table 6 also lists FFHC and SPE net pass-through capital in the international investment position. When all components of the international investment position are taken into account, it becomes evident that the assets and liabilities of FFHCs and SPEs are more balanced than might appear to be the case when looking at direct investment alone in the previous section. In 2016, foreign liabilities exceeded foreign assets for both FFHCs and SPEs, resulting in a negative net international investment position of CHF 23 billion and CHF 7 billion respectively.

If the actual pass-through capital were captured accurately, the net international investment position would have to be close to zero. In 2016, this was not the case for either FFHCs or SPEs, suggesting that both held domestic assets. This confirms the hypothesis that neither of the two concepts accurately captures pass-through capital.

⁹ To this purpose, the entire international investment position of FFHCs and SPEs is considered as pass-through capital, irrespective of whether the capital linkages exist inside or outside the group. However, intragroup capital linkages far outweigh any others for both FFHCs and SPEs.

Table 6

INTERNATIONAL INVESTMENT POSITION OF FFHCs AND SPEs BASED ON INV SURVEYS (2016)¹

In CHF billions

	Total	Share In percent	Of which pass-through capital			
			Of FFHCs	Share In percent	Of SPEs	Share In percent
Foreign assets	4 547.7		..	..	..	..
Of which from INV surveys	2 024.1	100.0	660.1	32.6	145.5	7.2
Of which direct investment	1 615.8	79.8	456.3	22.5	119.5	5.9
Of which other components ²	408.3	20.2	203.8	10.1	26.0	1.3
Foreign liabilities	3 764.8		..	..	..	..
Of which from INV surveys	1 629.2	100.0	683.2	41.9	152.9	9.4
Of which direct investment	1 401.0	86.0	609.0	37.4	140.7	8.6
Of which other components ²	228.2	14.0	74.2	4.6	12.2	0.7
Net international investment position	782.9		..	..	..	..
Of which from INV surveys	394.9	100.0	-23.1	-5.8	-7.4	-1.9
Of which direct investment	214.8	54.4	-152.7	-38.7	-21.2	-5.4
Of which other components ²	180.1	45.6	129.6	32.8	13.8	3.5

¹ INV surveys: SNB surveys on cross-border capital linkages (INQ and INA) and on cross-border participations (INP).

² Comprising portfolio investment, other investment and derivatives.

.. No data available.

Source: SNB

5.3.3 OPERATIONAL ACTIVITY OF MULTINATIONAL COMPANIES

Another international economic affairs statistic which can be used to analyse pass-through capital is the statistic on the operational activity of multinational companies.

Table 7 indicates the number of staff at FFHCs and SPEs in Switzerland as well as at their subsidiaries abroad in 2015. These numbers are compared to the number of staff at all foreign-controlled companies in Switzerland and their subsidiaries abroad. SPEs had hardly any employees in Switzerland, while FFHCs had a limited number of staff (7,400 persons or 3% of the total). By comparison, the number of staff at FFHC and SPE subsidiaries abroad was very high. This substantiates the hypothesis that operational activities in Switzerland play a minor role at FFHCs and SPEs and that, accordingly, their main focus is on the holding and management of pass-through capital.

If capital stocks per employee in Switzerland are also taken into account, the hypothesis is further corroborated. The measure in question averaged around CHF 150 million for FFHCs and over CHF 2 billion for SPEs; for foreign-controlled companies in other industries, it only came to approximately CHF 5 million.

Table 7

OPERATIONAL DATA OF FFHCs AND SPEs BASED ON INV SURVEYS (2015)¹

In thousands

	Total foreign- controlled companies	Share In percent	FFHCs	Share In percent	SPEs	Share In percent
Number of staff at subsidiaries abroad	1 245.3	100.0	689.2	55.3	274.7	22.1
Staff in Switzerland	239.8	100.0	7.4	3.1	0.1	0.0

¹ Includes only data from those companies that are covered in the direct investment survey because they are over the reporting threshold.

Source: SNB

5.4 PASS-THROUGH CAPITAL IN THE LONG TERM

This section looks at the movements in pass-through capital in Switzerland's direct investment statistics between 1998 and 2016, and is based on data for foreign-controlled finance and holding companies (the FFHC concept; cf. chapter 5.2.2). It focuses on the main components of the direct investment statistics – capital stocks, capital transactions and investment income – for both Swiss direct investment abroad and foreign direct investment in Switzerland.

5.4.1 CAPITAL STOCKS

Chart 20 shows that FFHC direct investment stocks increased significantly in both investment directions from 1998 onwards. While pass-through capital in Swiss direct investment abroad grew by 11% annually in the period under review, it was only up by around 8% in other direct investment. Accordingly, the share of pass-through capital in total Swiss direct investment abroad rose from 19% in 1998 to 28% in 2016.

A comparable development can be observed for foreign direct investment in Switzerland. Pass-through capital increased at an annual rate of 14% between 1998 and 2016, thus exceeding the growth rate of other direct investment stocks in Switzerland by 3 percentage points. As a result, the share of pass-through capital in total foreign direct investment in Switzerland rose from 35% to 56% during this period.

The generally stronger growth of pass-through capital stocks in Switzerland is also reflected in net capital stocks.¹⁰ Net capital stocks were largely balanced until 2006 and then turned clearly negative. This development is primarily due to finance companies domiciled in Switzerland increasing their intragroup lending to their participations abroad, which is not included in direct investment (cf. chapter 5.3.2).

5.4.2 CAPITAL TRANSACTIONS

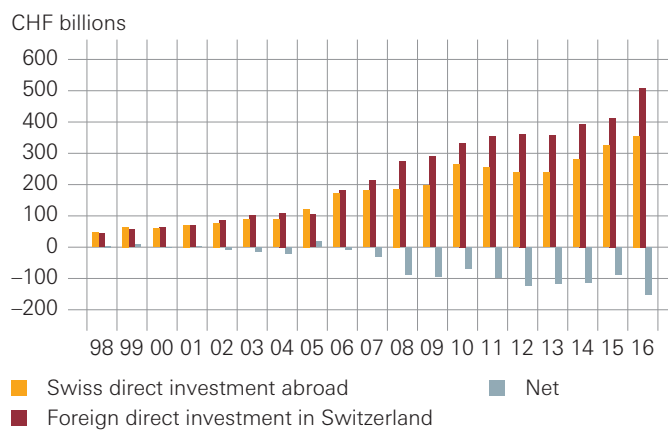
Chart 21 shows that FFHC capital transactions in direct investment fluctuate widely and in both investment directions, reflecting the volatile nature of pass-through capital. Frequently, these movements are unrelated to general developments in direct investment.

For pass-through capital, valuable insights are gained, in particular, from an analysis of the net position resulting from transactions in Swiss direct investment abroad and transactions in foreign direct investment in Switzerland. In the case of pure pass-through capital, the capital being channelled into Switzerland would be expected to flow out of the country again immediately. Accordingly, net transactions in pass-through capital should always be close to zero.

Chart 20

PASS-THROUGH CAPITAL IN FOREIGN DIRECT INVESTMENT

Capital stocks of foreign-controlled finance and holding companies



Source: SNB

¹⁰ Net capital stocks = Swiss direct investment abroad minus foreign direct investment in Switzerland.

However, chart 21 reveals that this has not usually been the case in the period under review. One reason for this is that the establishment of FFHCs in Switzerland by parent companies abroad often occurs gradually. FFHCs in Switzerland are first capitalised, and not until later is the capital transferred abroad, for example through the acquisition of participations abroad.

Yet transactions in pass-through capital do not necessarily have to be balanced, even in the long term. First, FFHCs also have assets and liabilities with respect to Switzerland, and, second, pass-through capital is not limited to direct investment (cf. chapter 5.3.2). This is also the case in Switzerland. Between 1998 and 2016, the cumulative inflow of funds in foreign direct investment in Switzerland was roughly one-third (around CHF 50 billion) higher than the cumulative outflow of funds in Swiss direct investment abroad. This was partly due to finance companies in Switzerland granting loans to their subsidiaries abroad. Intragroup lending by finance companies is included under other investment rather than in direct investment. Therefore, the corresponding outflow of funds is not captured under direct investment.

5.4.3 INVESTMENT INCOME

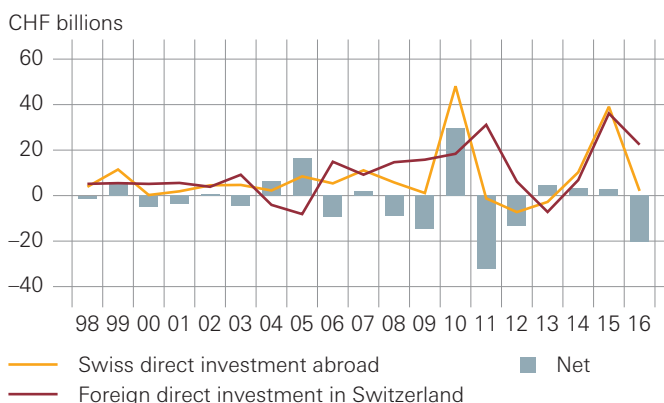
Chart 22 shows movements in FFHC investment income in direct investment. For both investment directions, a general increase can be observed for the period from 1998 to 2016. However, investment income from pass-through capital did not grow faster than investment income from other direct investment. Accordingly, the share of investment income accounted for by pass-through capital did not increase. Between 1998 and 2016, an estimated average of 25% of investment income in Swiss direct investment abroad was accounted for by pass-through capital. For foreign direct investment in Switzerland, this figure averaged about 50%.

A comparison of cumulative investment income from pass-through capital in Switzerland and cumulative investment income from pass-through capital abroad shows that the latter was around 20% lower. This was probably due largely to lower stocks of pass-through capital abroad.

Chart 21

PASS-THROUGH CAPITAL IN FOREIGN DIRECT INVESTMENT

Capital transactions of foreign-controlled finance and holding companies

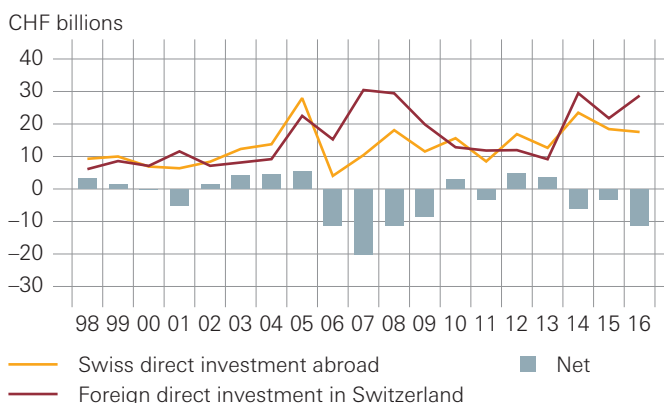


Source: SNB

Chart 22

PASS-THROUGH CAPITAL IN FOREIGN DIRECT INVESTMENT

Investment income of foreign-controlled finance and holding companies



Source: SNB

5.5 BREAKDOWN BY COUNTRY

Chart 23 shows the countries with respect to which Switzerland held the largest stocks of pass-through capital and of total direct investment in 2016. FFHC direct investment stocks are again used as an estimate of pass-through capital. Moreover, the chart differentiates between foreign direct investment in Switzerland (F-DI-CH) and Swiss direct investment abroad (CH-DI-A). F-DI-CH indicates how much capital the companies from the corresponding country held directly in FFHCs in Switzerland, i.e. how much pass-through capital originated in this country. CH-DI-A shows how much capital the FFHCs held in the corresponding country, i.e. how much pass-through capital was channelled into this country.

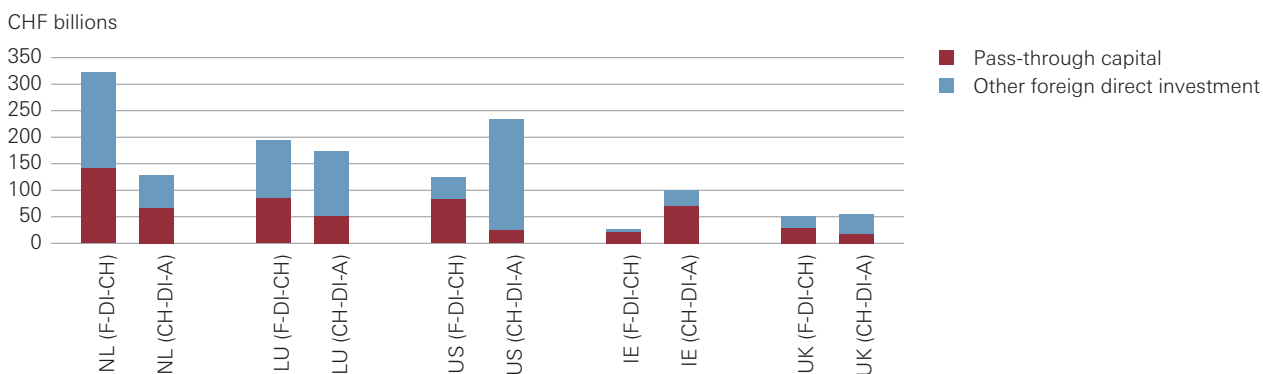
The findings confirm the hypothesis that the origin and destination of pass-through capital in Switzerland's direct investment statistics are limited to a relatively few countries. Thus a total of CHF 358 billion, or 70%, of pass-through capital stocks in Switzerland originated in the countries listed in chart 23, i.e. the Netherlands (NL), Luxembourg (LU), the United States (US), Ireland (IE) and the United Kingdom (UK). At the same time, these countries accounted for CHF 356 billion, or 66%, of pass-through capital held by investors from Switzerland. It is striking that some of these countries – the Netherlands, Luxembourg and Ireland – are holding locations themselves.

These findings highlight the structural complexity of multinational companies. In many cases, pass-through capital is not channelled through one country only, but through a chain of group companies in different countries (cf. chart 18). Therefore, the country of the immediate investor of pass-through capital in Switzerland is not usually the country of origin of the ultimate beneficial owner. Also, the countries which receive Swiss direct investment abroad are often not the final destinations of pass-through capital managed through Switzerland. Rather, the capital is being channelled to a third country through these locations.

Chart 23

PASS-THROUGH CAPITAL IN FOREIGN DIRECT INVESTMENT

Capital stocks of foreign-controlled finance and holding companies by country



CH-DI-A: Swiss direct investment abroad
F-DI-CH: Foreign direct investment in Switzerland

Source: SNB

Sources

Eggelte, J., M. Bijlsma, K. Carlier (2017), What shall we do with pass-through?, in: *Statistical implications of the new financial landscape*, Bank for International Settlements (BIS), Vol. 43.

IMF (2015), *Coordinated direct investment survey (CDIS)*, <http://data.imf.org/CDIS>.

IMF (2009), *Balance of payments and international investment position manual*, sixth edition (BPM6), Washington.

Leino, T., Ali-Yrkkö J. (2014), *How well does foreign direct investment measure real investment by foreign-owned companies? – Firm level analysis*, Bank of Finland Research Paper 12/2014.

OECD (2008), *Benchmark definition of foreign direct investment*, fourth edition (BMD4).

Oesterreichische Nationalbank (2016), *Direct Investment 2014: Austrian outward and inward direct investment*.

UNCTAD (2017), *World Investment Report*.

UNECE (2011), *Guide on the Impact of Globalization on National Accounts*.

Published by

Swiss National Bank
Statistics
P.O. Box, CH-8022 Zurich
Telephone +41 58 631 00 00

Further information

bop@snb.ch

Languages

German, French and English

Design

Interbrand Ltd, Zurich

Typeset and printed by

Neidhart + Schön Group AG, Zurich

Date of publication

December 2017

ISSN 1662-4327 (printed version)

ISSN 1661-1586 (online version)

Accessing SNB publications

Swiss National Bank publications are available at www.snb.ch, *Publications*.

Publication dates are listed at www.snb.ch, *Media, Time schedule*.

Many of the publications are available in printed form, either as single copies or in subscription, from:

Swiss National Bank, Library
P.O. Box, CH-8022 Zurich
Telephone +41 58 631 11 50
Fax +41 58 631 50 48
E-mail: library@snb.ch

**Copyright ©**

The Swiss National Bank (SNB) respects all third-party rights, in particular rights relating to works protected by copyright (information or data, wordings and depictions, to the extent that these are of an individual character).

SNB publications containing a reference to a copyright (© Swiss National Bank/SNB, Zurich/year, or similar) may, under copyright law, only be used (reproduced, used via the internet, etc.) for non-commercial purposes and provided that the source is mentioned. Their use for commercial purposes is only permitted with the prior express consent of the SNB.

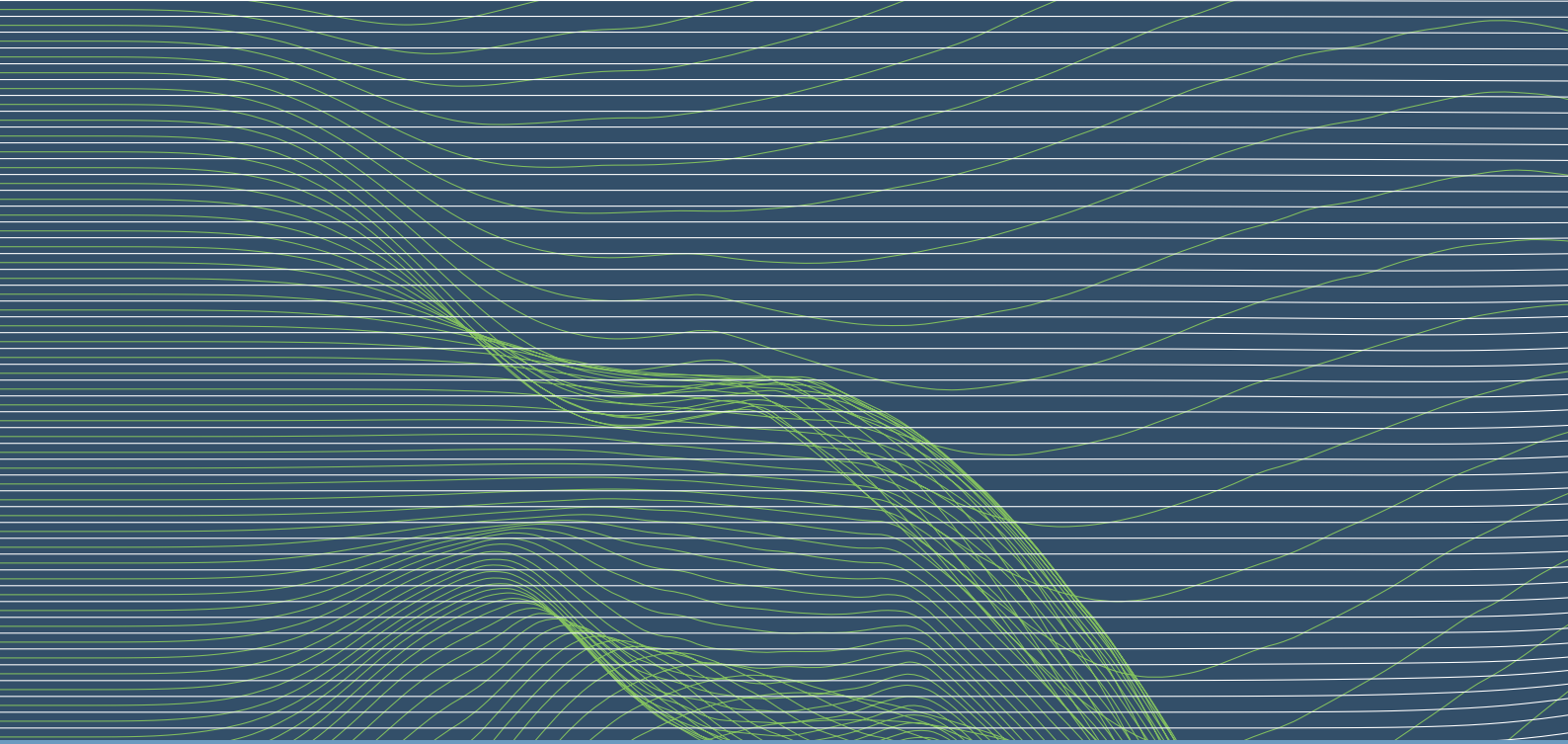
General information and data published without reference to a copyright may be used without mentioning the source.

To the extent that the information and data clearly derive from outside sources, the users of such information and data are obliged to respect any existing copyrights and to obtain the right of use from the relevant outside source themselves.

Limitation of liability

The SNB accepts no responsibility for any information it provides. Under no circumstances will it accept any liability for losses or damage which may result from the use of such information. This limitation of liability applies, in particular, to the topicality, accuracy, validity and availability of the information.

© Swiss National Bank, Zurich/Berne 2017



SCHWEIZERISCHE NATIONALBANK
BANQUE NATIONALE SUISSE
BANCA NAZIONALE SVIZZERA
BANCA NAZIUNALA SVIZRA
SWISS NATIONAL BANK

