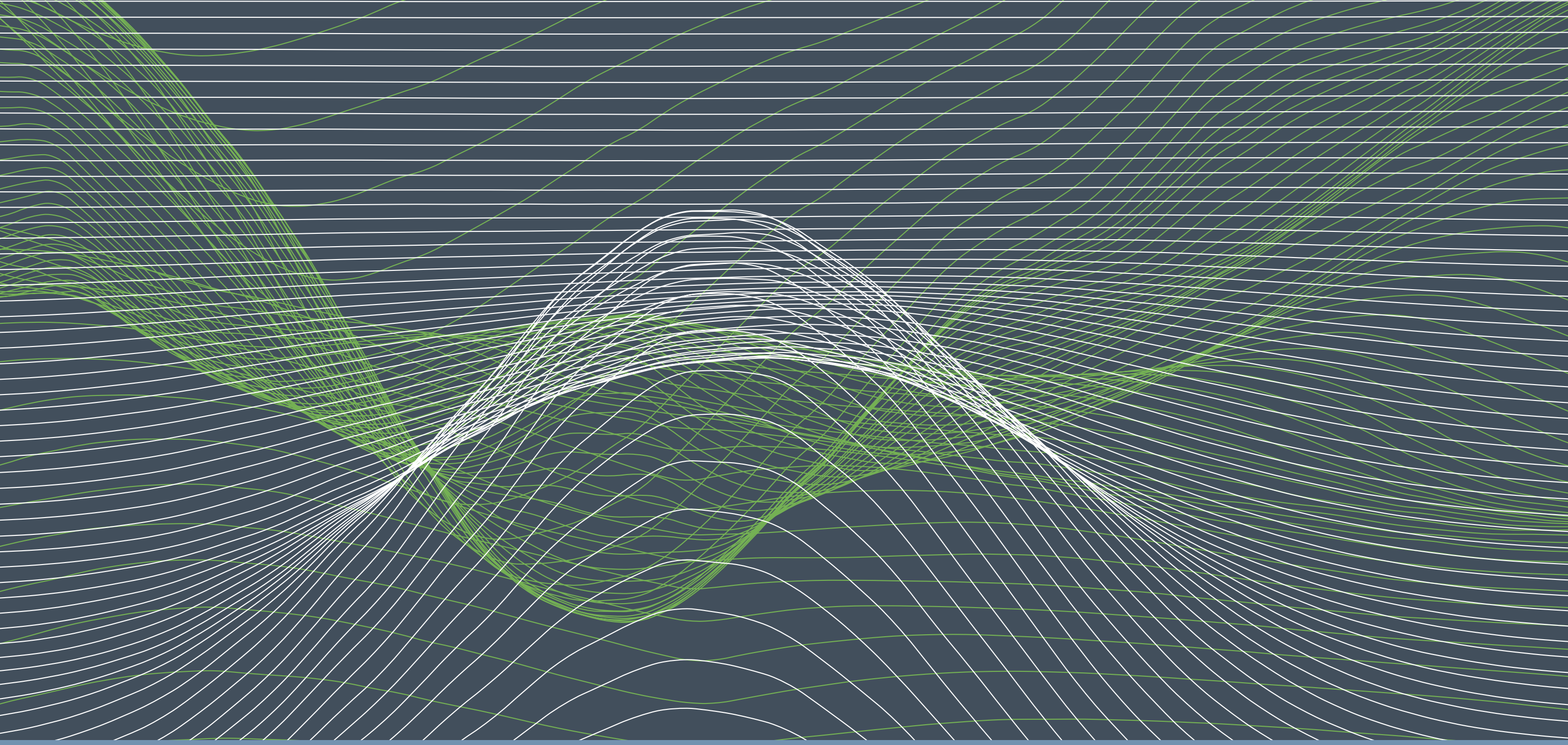

Direct Investment
2021

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

Direct Investment 2021

Volume 22

Contents

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Summary of direct investment in 2021

SPECIAL TOPICS ON PASS-THROUGH CAPITAL

As in previous years, the direct investment statistics in 2021 were shaped by developments at foreign-controlled finance and holding companies (FFHCs). The latter reduced their balance sheets by decreasing equity capital in non-resident subsidiaries on both the assets and liabilities sides. There were large-scale repatriations of capital under capital transactions and a considerable decline in capital stocks in both Swiss direct investment abroad and foreign direct investment in Switzerland.

Most of the capital held in or by FFHCs is 'pass-through capital'.[1] In these direct investments, entities are seeking to benefit from location-specific legal and fiscal advantages. To this end, companies 'pass' capital across borders without it generating any real economic impact (in terms of investment or employment) on the host economy.

Against this background, this year's report contains two special topics on the subject of pass-through capital. The first describes current developments in the data on pass-through capital by reference to direct investment statistics. The second looks at current developments in the identification and measurement of pass-through capital. In particular, it introduces the new definition of special purpose entities (SPEs) by the International Monetary Fund (IMF).

SWISS DIRECT INVESTMENT ABROAD

In 2021, resident companies once again repatriated capital from their non-resident subsidiaries. This disinvestment amounted to CHF 111 billion (2020: CHF 25 billion; 2019: CHF 50 billion). As in the two previous years, the finance and holding companies category was chiefly responsible for the disinvestment (CHF 107 billion). Corporate restructuring and the liquidation of non-resident subsidiaries led to substantial reductions in equity capital. In the services sector, withdrawals also exceeded investment outside the finance and holding companies category, in particular in the transportation and communications category (CHF 17 billion) and in banks (CHF 9 billion). Unlike the services sector, manufacturing increased its net foreign investment (CHF 18 billion). This rise was chiefly attributable to the chemicals and plastics category.

The withdrawals primarily affected holding company locations in Europe. Disinvestment by resident companies at their subsidiaries in Cyprus, Ireland and Luxembourg totalled CHF 149 billion. In 2021, investment by Swiss-domiciled entities exceeded disinvestment in only a few European countries: mainly Russia (CHF 5 billion) and Germany (CHF 4 billion). Regions outside Europe largely recorded a net inflow of Swiss direct investment. Resident entities invested primarily in Asia (CHF 14 billion), followed by Central and South America (CHF 11 billion) and the US (CHF 7 billion).

At the end of 2021, direct investment stocks abroad amounted to CHF 1,406 billion. Of this total, CHF 1,313 billion was equity capital (93%) and CHF 94 billion (7%) was intragroup loans. At CHF 502 billion (36% of the total), by far the largest capital stocks continued to be reported by finance and holding companies, this despite the disinvestment of recent years. They were followed by companies in the chemicals and plastics category at CHF 213 billion (15%).

Income from direct investment abroad recovered from the downturn caused by the coronavirus pandemic and increased year-on-year by CHF 26 billion to CHF 99 billion (up 35%). Higher income was recorded by subsidiaries in both the services sector (up CHF 20 billion to CHF 58 billion) and the manufacturing sector (up CHF 5 billion to CHF 41 billion).

FOREIGN DIRECT INVESTMENT IN SWITZERLAND

In 2021, non-resident investors again effected substantial withdrawals from resident companies. The net disinvestment amounted to CHF 143 billion (2020: CHF 151 billion). The withdrawals were primarily in the finance and holding companies category (CHF 153 billion). Foreign-controlled groups streamlined their corporate structures, thereby continuing the balance sheet reductions observed in this category since 2018. By contrast, non-resident investors expanded their net investments outside the finance and holding companies category: inward investment amounted to CHF 6 billion in the services sector, primarily in the trade category, and to CHF 4 billion in the manufacturing sector.

1 Cf. Special topic: 'Pass-through capital in Switzerland's direct investment statistics' in the Direct Investment 2016 report, pp. 21 et seq.

Stocks of foreign direct investment in Switzerland amounted to CHF 1,064 billion. Of this total, CHF 984 billion (93%) was equity capital and CHF 80 billion (7%) was intragroup loans. A breakdown by immediate investor shows that 66% of the capital stocks originated from investors domiciled in the EU and 16% from investors domiciled in the US. However, this breakdown does not fully reflect the domiciles of the ultimate beneficial owners in control of resident companies. This is because 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 domicile of the ultimate beneficial owner. This breakdown shows that investors from the US and the EU controlled 42% and 28% of the capital stocks respectively.

Income from direct investment in Switzerland increased year-on-year by CHF 13 billion to CHF 86 billion (up 18%), but remained below its pre-pandemic level. Direct investment income from subsidiaries in the services sector rose by CHF 13 billion to CHF 72 billion, while in manufacturing, at CHF 15 billion, it remained virtually on a par with the previous year.

OPERATIONAL DATA ON NON-RESIDENT SUBSIDIARIES AND THEIR RESIDENT PARENT COMPANIES

In 2021, the Swiss-controlled companies surveyed by the SNB controlled 19,100 non-resident subsidiaries, where they employed 2,140,000 people and generated annual turnover of CHF 796 billion. This corresponds to an increase in turnover of 14% compared to the previous year, when the non-resident subsidiaries suffered heavy losses in turnover owing to the coronavirus pandemic. In comparison with 2019, the year before the coronavirus crisis, turnover in 2021 increased by 6%. The number of employees abroad rose by 3% (up 2% compared with 2019). The Swiss-controlled companies surveyed by the SNB that have participations in non-resident enterprises are also significant employers in Switzerland, where they employed 538,000 people.

Table 1

DIRECT INVESTMENT 2021: OVERVIEW

		2020	2021
Swiss direct investment abroad			
Capital transactions	in CHF billions	–24.6	–111.3
Capital stocks	in CHF billions	1 496.7	1 406.4
Investment income	in CHF billions	73.2	99.1
Foreign direct investment in Switzerland			
Capital transactions	in CHF billions	–150.9	–143.4
Capital stocks	in CHF billions	1 239.3	1 063.9
Investment income	in CHF billions	73.4	86.4
Operational data on non-resident subsidiaries and their resident parent companies[1]			
Number of staff at non-resident subsidiaries	in thousands	2 068.2	2 139.8
Turnover of non-resident subsidiaries	in CHF billions	700.1	795.6
Number of non-resident subsidiaries		19 295	19 079
Number of staff at resident parent companies	in thousands	539.2	538.0

1 Only includes companies covered by the direct investment statistics.

Source(s): SNB

AVAILABILITY AND REVISION OF DATA

Comprehensive tables on direct investment and operational data on multinational enterprises are available on the SNB's data portal (data.snb.ch) under 'Table selection/ International economic affairs' and also 'Datasets/ Supplementary data on international economic affairs'. The data can be accessed in the form of charts and configurable tables. The data portal also has information on the methods used in direct investment statistics, under 'International economic affairs/Notes'.

As is customary, the Direct Investment 2021 report includes a revision of past years' figures, in this case for the period 2015–2020. The revisions from 2015 to 2016 mainly concerned the breakdown by industry category and SPEs; values for the latter have been adjusted in line with the new IMF definition. The revisions since 2017 affect all direct investment components in both directions as well as the operational data on non-resident subsidiaries.

The staff numbers at resident parent companies are published by the Swiss Federal Statistical Office (SFSO) as part of their enterprise groups statistics (STAGRE). The SNB publishes the staff numbers of those resident parent companies that are included in its surveys.

2
Swiss direct investment abroad

CAPITAL TRANSACTIONS

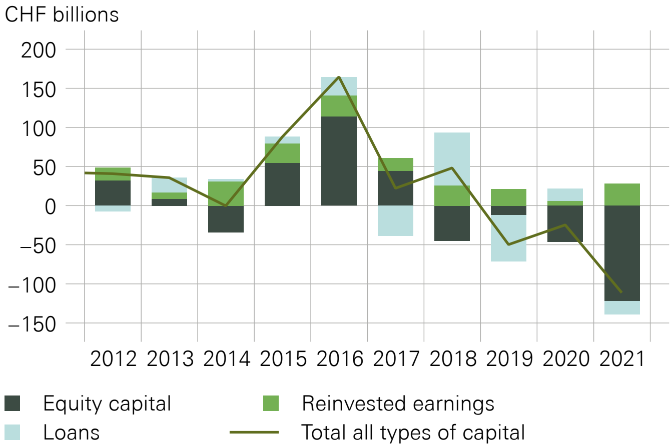
In 2021, resident companies repatriated CHF 111 billion in net terms from their non-resident subsidiaries, continuing the pattern of previous years (2020: CHF 25 billion; 2019: CHF 50 billion). This disinvestment primarily took the form of a net reduction in equity capital (CHF 122 billion). However, it also included a net reduction in the financing of non-resident subsidiaries via intragroup loans (CHF 17 billion). These withdrawals were mitigated somewhat by additional investment in the form of reinvested earnings (CHF 28 billion).

The services sector recorded disinvestment of CHF 129 billion. As in the two preceding years, the finance and holding companies category was chiefly responsible for the disinvestment (CHF 107 billion).[1] Corporate restructuring as well as the liquidation of non-resident subsidiaries led to substantial reductions in equity capital. In the services sector, withdrawals also exceeded investment outside the finance and holding companies category, in particular in the transportation and communications category (CHF 17 billion). The withdrawals here were attributable to intragroup lending. Banks reduced their foreign investments by CHF 9 billion, mainly as a result of negative reinvested earnings. Unlike the services sector, manufacturing increased net direct investment (CHF 18 billion). This rise was chiefly attributable to the chemicals and plastics category. Although the manufacturing sector also recorded reductions in equity capital, these were outweighed by investments in the form of reinvested earnings and intragroup loans.

The withdrawals primarily affected locations in Europe. High levels of disinvestment were recorded by resident companies at their subsidiaries in Cyprus (CHF 88 billion), Ireland (CHF 42 billion) and Luxembourg (CHF 19 billion). While the disinvestment in these three countries was primarily caused by corporate restructuring at finance and holding companies, in France it was mainly attributable to the sale of participations (CHF 7 billion), and in the UK to negative reinvested earnings (CHF 6 billion). Investment by Swiss-domiciled companies exceeded disinvestment in only a few European countries: mainly Russia (CHF 5 billion) and Germany (CHF 4 billion). Regions outside Europe largely recorded a net inflow of Swiss direct investment. Resident entities invested primarily in Asia (CHF 14 billion), in particular in the United Arab Emirates

Chart 1

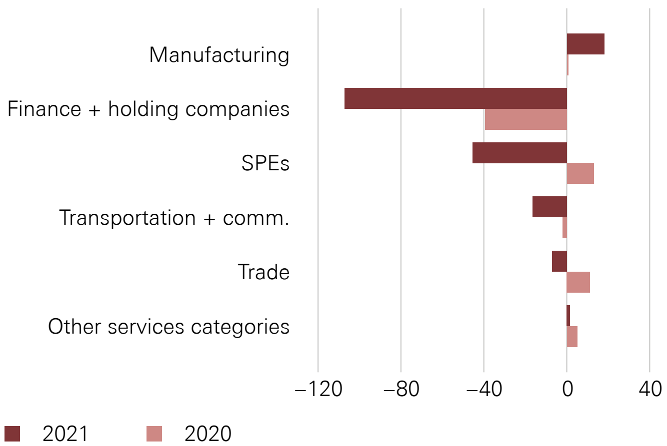
DIRECT INVESTMENT ABROAD
Capital transactions by type of capital



Source(s): SNB

Chart 2

DIRECT INVESTMENT ABROAD
Capital transactions by industry category, in CHF billions



Source(s): SNB

1 Cf. Special topic: 'Pass-through capital in Switzerland's direct investment statistics – current developments', pp. 25 et seq.

(CHF 6 billion), followed by India (CHF 5 billion), China and Japan (CHF 3 billion each). In Central and South America, direct investment amounted to CHF 11 billion, predominantly in the offshore financial centres there. A further CHF 7 billion was invested in the US. By contrast, companies domiciled in Switzerland made net withdrawals of CHF 3 billion from Africa.

CAPITAL STOCKS

At the end of 2021, stocks of direct investment abroad totalled CHF 1,406 billion, a year-on-year decrease of CHF 90 billion (down 6%). Direct investment capital stocks comprise equity capital and loans. Equity capital amounted to CHF 1,313 billion (93%) and loans to CHF 94 billion (7%). A net approach is adopted in the case of loans, whereby borrowing from non-resident subsidiaries and fellow enterprises totalling CHF 335 billion (liabilities) is deducted from lending to non-resident subsidiaries and fellow enterprises totalling CHF 429 billion (assets).[2]

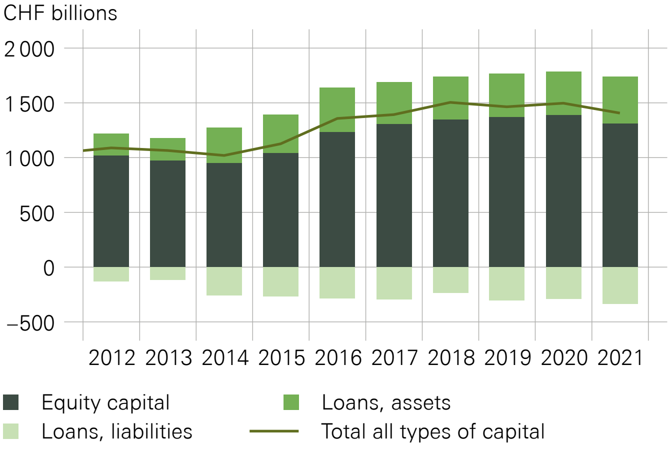
In comparison to other countries, Switzerland maintains high levels of direct investment abroad. Measured in terms of capital stocks, it is one of the world's largest direct investors (source: IMF, data.imf.org/CDIS). Reasons for this include the fact that numerous large multinationals are headquartered in Switzerland and that it is an attractive location for foreign-controlled holding companies.

In the services sector, capital stocks at non-resident subsidiaries declined by CHF 135 billion to CHF 905 billion (down 13%). Despite a substantial decrease during the year under review (down CHF 162 billion), the finance and holding companies category once again reported by far the largest capital stocks of all industry categories (CHF 502 billion, 36% of the total). It was followed by the trade category with CHF 153 billion, 11% of the total. In the manufacturing sector, by contrast, capital stocks rose by CHF 45 billion to CHF 501 billion (up 10%). In two industry categories in particular, capital stocks did not change to the degree that would have been expected on the basis of capital transactions. In the 'other manufacturing and construction' category, capital stocks barely declined despite disinvestment. This was due to the unusually large difference between market values (used for capital transactions) and book values (used for capital stocks). Capital stocks in the chemicals and plastics category increased in the absence of corresponding capital transactions. The primary reason for this was the reclassification of an enterprise group from another category.

Chart 3

DIRECT INVESTMENT ABROAD

Capital stocks by type of capital



Source(s): SNB

2 Loans to/from fellow enterprises abroad are included if the group headquarters is located in Switzerland.

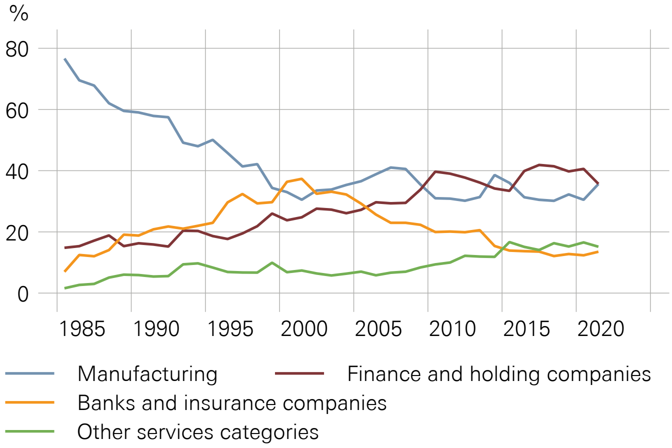
Chart 4 shows the movements in capital stocks since 1985. In the mid-1980s, the manufacturing sector still accounted for over 70%. This proportion receded steadily until the beginning of the 2000s, before levelling out and remaining fairly constant ever since (2021: 36%). The opposite development was observed in the services sector. Here, the finance and holding companies category, in particular, recorded a steep increase between 1985 and 2010, with its share of total direct investment stocks rising from 12% to 40%. Since then, this proportion has remained fairly stable (2021: 36%) despite the disinvestment observed in this category since 2018. Banks and insurance companies followed a different trajectory. Their share of total capital stocks was 14% in the year under review, similar to the level recorded 30 years previously. In the interim, however, this share had been considerably higher (2001: 37%).

Chart 5 shows the main target locations for Swiss direct investment in terms of capital stocks as at the end of 2021 (the area of the circles is proportionate to the size of the capital stocks). The x-axis depicts the average growth rate of capital stocks for the period 2011–2021, while the y-axis shows the year-on-year change in percent against 2020. The chart shows diverse development in capital stocks at the different holding locations. While the significance of Luxembourg has declined considerably over the last ten years, newer holding locations such as Hungary and Singapore have recorded annual growth of more than 10% over the same period. The high mobility of direct investment capital stocks was once again clearly demonstrated in the year under review. The UK (down 31%), Ireland (down 29%) and Luxembourg (down 19%) all recorded a substantial drop in their capital stocks compared with the previous year. The decline was even more pronounced in Cyprus, which recorded negative capital stocks in the year under review and thus no longer features among the top ten locations. The reduction in stocks in the above-mentioned countries reflected the development in capital stocks in Europe in general, where stocks decreased by CHF 120 billion to CHF 705 billion (down 15%). As a result, Europe's share in total Swiss direct investment capital stocks declined from 55% to 50%. Besides Europe, Africa also recorded a reduction in capital stocks, namely of 21% (down CHF 3 billion to CHF 12 billion). In the other regions of the world, by contrast, stocks of Swiss direct investment rose. The highest increase was recorded in North America with 7% (up CHF 23 billion to CHF 349 billion), followed by Asia with 3% (up CHF 6 billion to CHF 166 billion) and Central and South America with 2% (up CHF 3 billion to CHF 164 billion).

Chart 4

DIRECT INVESTMENT ABROAD

Capital stocks by industry category (in %)

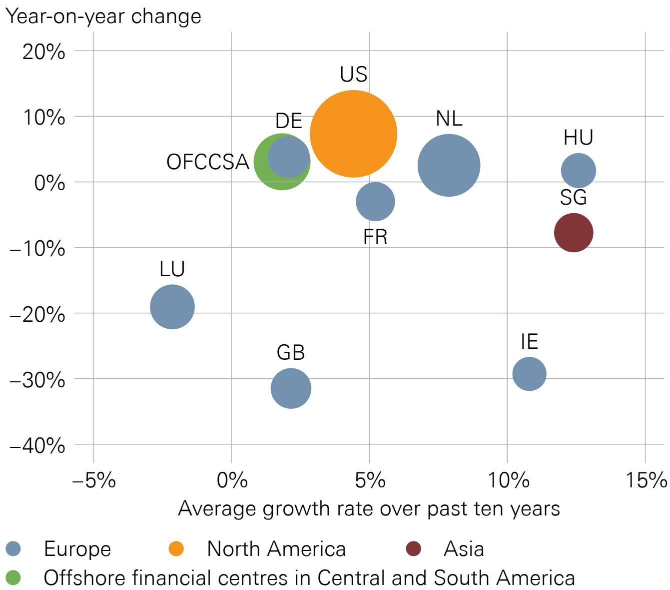


Source(s): SNB

Chart 5

DIRECT INVESTMENT ABROAD

Capital stocks of top ten investment locations (2021)



Source(s): SNB

INVESTMENT INCOME

Income from direct investment abroad recovered from the downturn caused by the coronavirus pandemic and increased by CHF 26 billion to CHF 99 billion (up 35%). Resident entities made use of the higher investment income primarily to strengthen the capital base of their non-resident subsidiaries. As a result, reinvested earnings increased significantly (up CHF 22 billion to CHF 28 billion). At the same time, dividends received by resident investors from their non-resident subsidiaries rose (up CHF 4 billion to CHF 68 billion). Interest income on intragroup loans remained unchanged at CHF 4 billion.

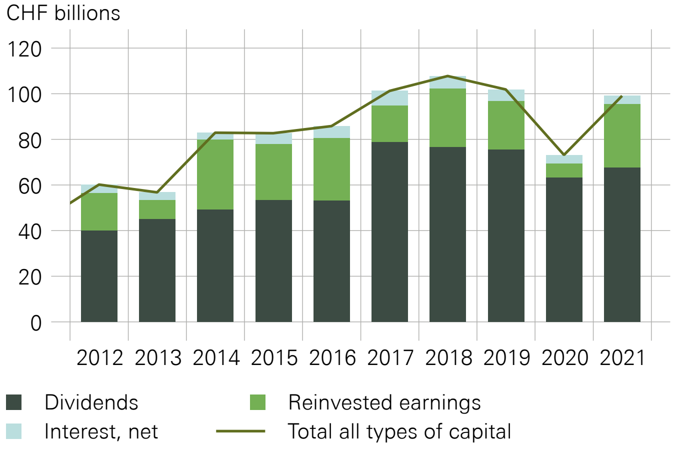
Investment income in the services sector rose by CHF 20 billion to CHF 58 billion (up 55%), with all categories, excepting the banks, earning higher investment income at their non-resident subsidiaries. Slightly over half the increase in services was accounted for by the finance and holding companies category (up CHF 11 billion to CHF 26 billion). Higher investment income was also recorded by insurance companies (up CHF 6 billion to CHF 14 billion) and trade (up CHF 6 billion to CHF 13 billion). Investment income at manufacturing subsidiaries came to CHF 41 billion, up CHF 5 billion or 15%. This rise was somewhat less pronounced than in services, but the decline in 2020 had also been smaller in manufacturing than in services. The largest increase within manufacturing was recorded in the electronics, energy, optical and watchmaking category (up CHF 4 billion to CHF 8 billion).

Chart 8 shows the geographic breakdown of investment income from direct investment abroad. Income from subsidiaries in Europe showed the strongest rise, totalling CHF 38 billion (up CHF 14 billion). Asia (up CHF 4 billion) and North America (up CHF 7 billion) each accounted for CHF 25 billion. Investment income from subsidiaries in the ‘Rest of world’ category remained at the previous year’s level of CHF 11 billion.

Chart 6

DIRECT INVESTMENT ABROAD

Investment income by type of capital

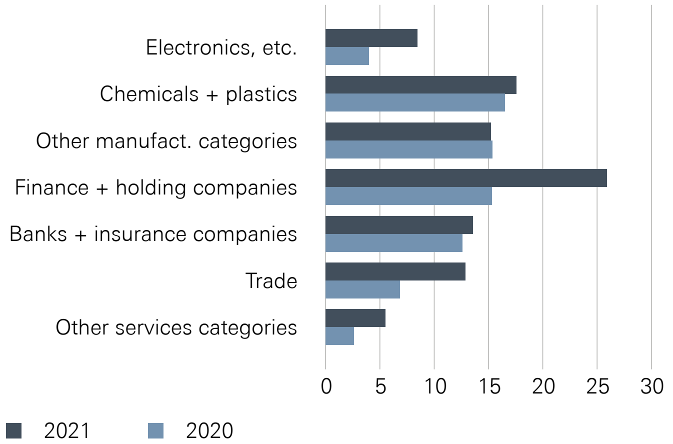


Source(s): SNB

Chart 7

DIRECT INVESTMENT ABROAD

Investment income by industry category, in CHF billions

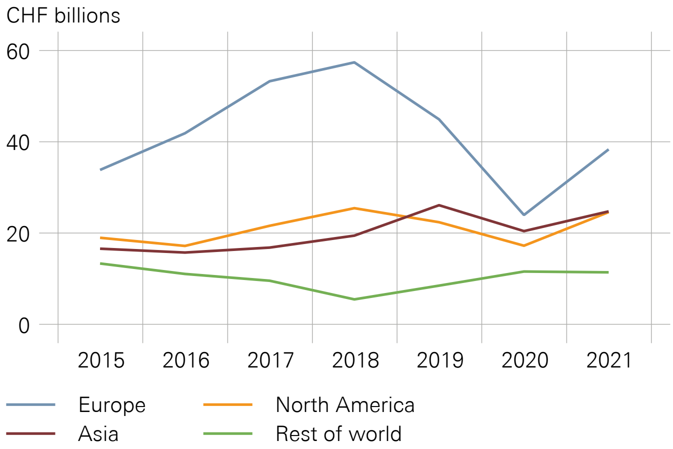


Source(s): SNB

Chart 8

DIRECT INVESTMENT ABROAD

Investment income by region



Source(s): SNB

3
Foreign direct investment in Switzerland

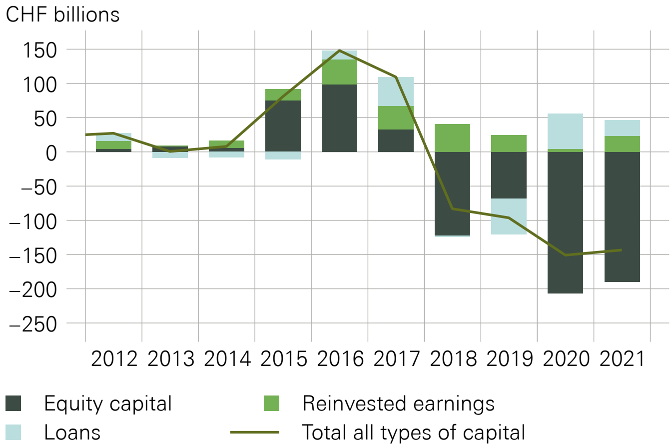
CAPITAL TRANSACTIONS

In 2021, non-resident entities again effected substantial withdrawals from resident companies. The net disinvestment amounted to CHF 143 billion (2020: CHF 151 billion). As part of corporate restructuring, non-resident investors reduced equity capital in resident subsidiaries (CHF 190 billion). These outflows in equity capital were somewhat mitigated by inflows of reinvested earnings and from intragroup lending (CHF 23 billion each).

The largest withdrawals (CHF 153 billion) were in the finance and holding companies category. Foreign-controlled groups streamlined their corporate structures, thereby continuing the balance sheet reductions observed in this category since 2018.[1] Categories outside the finance and holding companies category registered net inflows. In the services sector, non-resident entities predominantly invested in companies in the trade category (CHF 5 billion), largely in the form of reinvested earnings, while CHF 4 billion was invested in the manufacturing sector, primarily through intragroup lending and mainly in companies in the chemicals and plastics and the metals and machinery categories.

Chart 9

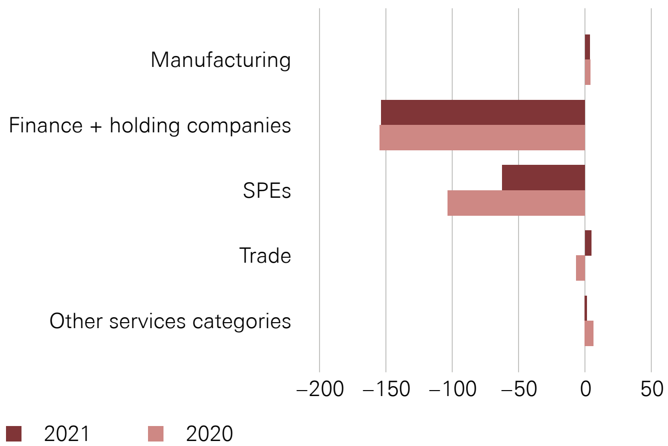
DIRECT INVESTMENT IN SWITZERLAND
Capital transactions by type of capital



Source(s): SNB

Chart 10

DIRECT INVESTMENT IN SWITZERLAND
Capital transactions by industry category, in CHF billions



Source(s): SNB

1 Cf. Special topic: 'Pass-through capital in Switzerland's direct investment statistics – current developments', pp. 25 et seq.

Non-resident parent companies make direct investments in Switzerland largely via intermediate companies domiciled in European holding company locations (cf. also section on country breakdown of capital stocks, pp. 14–16). As a result, once again in the year under review disinvestment was chiefly effected by immediate investors in the following holding company locations: investors from Luxembourg withdrew CHF 83 billion from resident subsidiaries, followed by Ireland (CHF 51 billion) and the Netherlands (CHF 41 billion). However, the disinvestment was not restricted exclusively to the above-mentioned countries: investors from the UK (CHF 7 billion) and from the offshore financial centres of Central and South America (CHF 4 billion) also withdrew capital from resident companies.

In the year under review, Switzerland only recorded a net inflow of direct investment from a few locations, the largest one by far being from the US (CHF 32 billion). A large part of these inflows, however, was directly connected with the disinvestment described above: in the context of corporate restructuring, US-domiciled parent companies liquidated intermediate companies domiciled in the EU and replaced them with entities domiciled in the US. Further new investment inflows were received at resident companies, mainly in the form of intragroup lending, from entities domiciled in Germany (CHF 5 billion), France (CHF 3 billion), and Japan (CHF 2 billion).

CAPITAL STOCKS

At the end of 2021, stocks of foreign direct investment in Switzerland totalled CHF 1,064 billion, a year-on-year reduction of CHF 175 billion (down 14%). This decrease was primarily due to repatriations of capital. It was exacerbated by corporate restructuring, which is not recorded in Swiss direct investment statistics as a transaction, but instead is included directly under stocks as 'other changes'. Exchange rate movements had no significant impact on capital stocks in the year under review.

The capital stocks of resident direct investment enterprises comprise equity capital and loans. Equity capital stocks came to CHF 984 billion (93%) and loan stocks to CHF 80 billion (7%). A net approach is adopted in the case of loans,[2] whereby lending to non-resident parent companies and fellow enterprises totalling CHF 194 billion (assets) is deducted from borrowing from non-resident parent companies and fellow enterprises totalling CHF 274 billion (liabilities).[3]

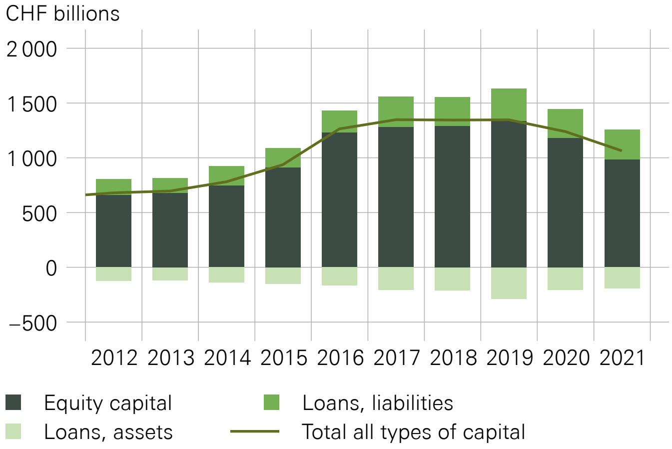
The decline in capital stocks of foreign direct investment was attributable to the finance and holding companies category. Capital stocks in this industry category declined by CHF 192 billion to CHF 506 billion (down 28%). Somewhat less than half of the reduction in this category was accounted for by SPEs. Overall, the reduction in capital stocks at finance and holding companies was greater than would have been expected on the basis of transactions. Redomiciliations of subsidiaries from Switzerland to other countries as well as crossborder mergers were contributory factors. In Swiss direct investment statistics, both of these are booked as 'other changes' under stocks, rather than as transactions.

In services sector categories outside the finance and holding companies category, capital stocks recorded a slight increase overall (up CHF 8 billion to CHF 379 billion). The main contributor here was the trade category (up CHF 6 billion to CHF 260 billion). The growth in capital stocks in the manufacturing sector (up CHF 9 billion to CHF 179 billion) was primarily attributable to the chemicals and plastics and also the metals and machinery categories.

Chart 11

DIRECT INVESTMENT IN SWITZERLAND

Capital stocks by type of capital



Source(s): SNB

2 Cf. Direct Investment 2013 report, pp. 25 et seq., Special topic: 'Presenting direct investment according to the directional principle and the asset/liability principle'.
3 Loans between non-resident fellow enterprises are included if the group headquarters is located abroad.

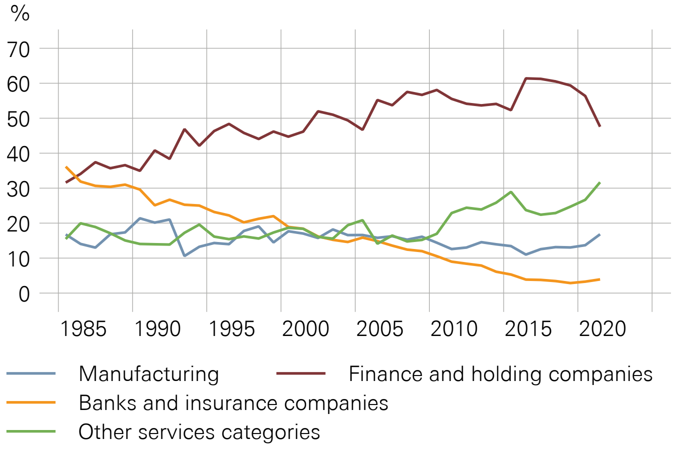
Chart 12 shows the movements in capital stocks since 1985. The proportion of foreign direct investment attributable to the manufacturing sector has consistently ranged between 10% and 20% (2021: 17%). Conversely, the proportion accounted for by the services sector has been relatively constant overall (2021: 83%), albeit with marked shifts within the sector itself. While the finance and holding companies category accounted for around 30% of foreign direct investment capital stocks in the mid-1980s, by 2016 its share had risen to over 60%. This share subsequently receded, falling below 50% in 2021, for the first time since 2005. In a long-term comparison, the share of capital stocks attributable to banks and insurance companies has declined considerably. At the beginning of the 1990s, it stood at approximately 30%. Since then, however, this share has almost continuously contracted and amounted to just 4% in the year under review. By contrast, the significance of other industry categories in the services sector increased substantially between 2010 and 2021 (from 17% to 32%), mainly due to growth within the trade category.

The SNB publishes two country breakdowns for capital stocks in Switzerland, one by domicile of the immediate investor, and the other by domicile of the ultimate beneficial owner. Broken down by country of immediate investor, a large proportion of domestic capital stocks was held by EU-domiciled entities: CHF 699 billion, or 66% of total foreign capital stocks in Switzerland. Of this total, CHF 544 billion was attributable to investors from the three largest European holding company locations – the Netherlands, Luxembourg and Ireland. Investment from holding company locations is mainly carried out by intermediate companies, which in turn are controlled by groups in a third country. The share of equity capital in resident subsidiaries held via intermediate companies peaked at 75% in 2018 (cf. chart 13). The trend reversed with the reduction in capital stocks in the finance and holding companies category. By 2021, the share of capital stocks in Switzerland held via intermediate companies domiciled in third countries had fallen back to 63%.

Chart 12

DIRECT INVESTMENT IN SWITZERLAND

Capital stocks by industry category (in %)

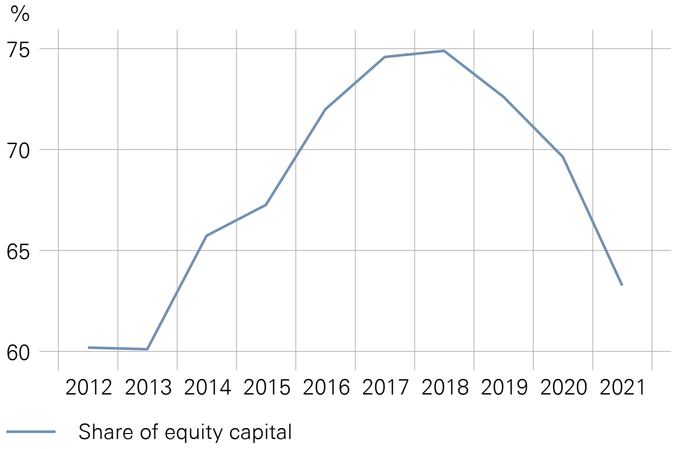


Source(s): SNB

Chart 13

DIRECT INVESTMENT IN SWITZERLAND

Capital stocks held via intermediate companies in third countries



Source(s): SNB

Given the large proportion accounted for by intermediate companies, the SNB also provides a breakdown of capital stocks by domicile of the ultimate beneficial owner. The US, in particular, had significantly higher capital stocks (CHF 447 billion) using this approach than in the breakdown by immediate investor (cf. chart 14). This shows that US-domiciled entities continued to invest in Swiss-domiciled companies chiefly via third countries. The same applies to investors from Central and South America, the 'Other European countries' category, and China.

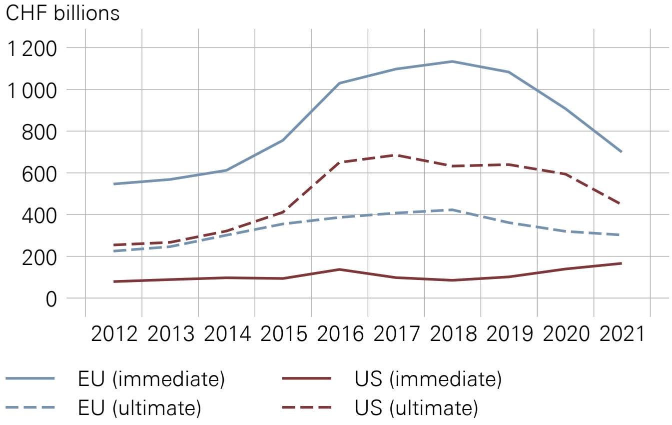
Holding company locations generally exhibit lower capital stocks from the ultimate beneficial owner perspective than from the immediate investor perspective. Thus, capital stocks ultimately controlled by Luxembourg investors amounted to CHF 10 billion, i.e. only a fraction of the figure arrived at when assessed by immediate investor (CHF 202 billion). For the Netherlands, the share was CHF 40 billion, compared with CHF 308 billion. In Ireland, by contrast, far larger capital stocks were controlled by ultimate beneficial owners (CHF 104 billion) than by immediate investors (CHF 34 billion). The reason for this is that Ireland is not just a holding company location, but is also home to the headquarters of many multinationals.

Switzerland, too, figures as a domicile of ultimate beneficial owners. This means that direct investors from Switzerland also invest in resident companies via intermediate companies in third countries. With this practice, referred to as round tripping, capital originating in a country is reinvested back into that country in the form of foreign direct investment. In 2021, capital stocks invested in this way totalled CHF 57 billion (2020: CHF 55 billion).

Chart 14

DIRECT INVESTMENT IN SWITZERLAND

Capital stocks by domicile of immediate investor and ultimate beneficial owner



Source(s): SNB

Table 2

CAPITAL STOCKS FOR 2021: BREAKDOWN BY DOMICILE OF IMMEDIATE INVESTOR AND ULTIMATE BENEFICIAL OWNER

	Breakdown by immediate investor		Breakdown by ultimate beneficial owner		Difference
	In CHF billions	Share in %	In CHF billions	Share in %	In CHF billions
Europe	**799.0**	**75%**	**445.0**	**42%**	**–354.0**
EU	**699.4**	**66%**	**302.2**	**28%**	**–397.2**
Other European countries	**99.6**	**9%**	**142.8**	**13%**	**43.2**
Selected countries					
Germany	19.7	2%	42.1	4%	22.3
France	40.8	4%	48.2	5%	7.4
Ireland	33.9	3%	104.4	10%	70.5
Luxembourg	202.4	19%	9.6	1%	–192.8
Netherlands	308.0	29%	40.4	4%	–267.6
Switzerland	.	.	57.2	5%	57.2
United Kingdom	62.1	6%	40.0	4%	–22.1
North America	**167.0**	**16%**	**472.7**	**44%**	**305.6**
Of which United States	166.2	16%	447.5	42%	281.3
Central and South America	**33.1**	**3%**	**52.6**	**5%**	**19.5**
Asia, Africa, Oceania	**64.7**	**6%**	**93.6**	**9%**	**28.8**
Japan	30.3	3%	34.6	3%	4.3
All countries	**1 063.9**	**100%**	**1 063.9**	**100%**	**0.0**

· Not applicable.

Source(s): SNB

INVESTMENT INCOME

Income from direct investment in Switzerland increased year-on-year by CHF 13 billion to CHF 86 billion (up 18%), but remained below its pre-pandemic level. Non-resident entities used this higher investment income entirely to strengthen the capital base of their resident subsidiaries. As a result, reinvested earnings rose substantially, up CHF 19 billion to CHF 23 billion. Despite the increase in investment income, resident subsidiaries paid out lower dividends to non-resident investors than in the previous year (down CHF 6 billion to CHF 62 billion). Interest income on intragroup loans remained unchanged at CHF 1 billion.

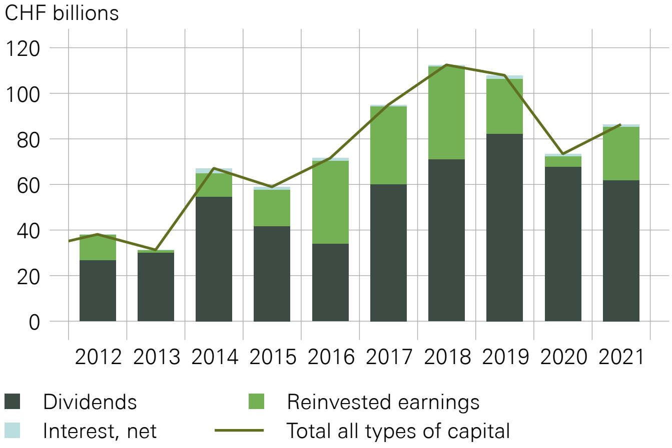
The rise in investment income was almost exclusively attributable to subsidiaries in the services sector (up CHF 13 billion to CHF 72 billion). Higher income was recorded by the finance and holding companies category, up CHF 11 billion to CHF 34 billion, and by companies in the trade category, up CHF 8 billion to CHF 29 billion. By contrast, industry categories outside finance and holding companies did not register any significant increase in investment income; in the 'other services' category, income even declined (down CHF 6 billion to CHF 4 billion). Subsidiaries in the manufacturing sector did not report any major rise in investment income, which at CHF 15 billion remained virtually on a par with the previous year.

As in the case of capital stocks, the SNB publishes two country breakdowns for investment income from direct investment in Switzerland: one by domicile of the immediate investor, and the other by domicile of the ultimate beneficial owner. Chart 17 shows the movements in investment income since 2015 for both breakdowns. It gives a similar picture to that for capital stocks (cf. chart 14). The breakdown by immediate investor is dominated by investors from the EU. In 2021, they accounted for CHF 63 billion of the total investment income of CHF 86 billion. According to the breakdown by ultimate beneficial owner, however, US-domiciled investors generated more than half of all investment income (CHF 47 billion), considerably more than investors domiciled in the EU (CHF 23 billion). Ultimate beneficial investors outside the EU and the US accounted for just CHF 17 billion, although their share of total investment income has risen significantly since 2015.

Chart 15

DIRECT INVESTMENT IN SWITZERLAND

Investment income by type of capital

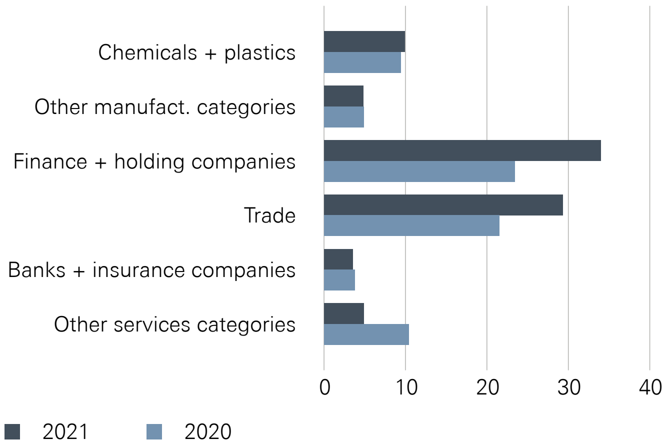


Source(s): SNB

Chart 16

DIRECT INVESTMENT IN SWITZERLAND

Investment income by industry category, in CHF billions

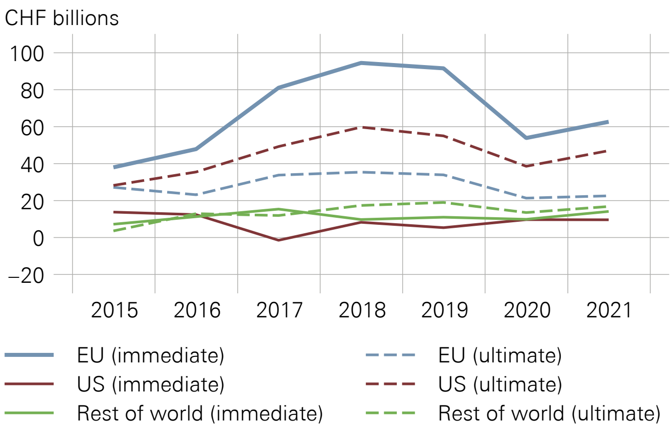


Source(s): SNB

Chart 17

DIRECT INVESTMENT IN SWITZERLAND

Investment income by domicile of immediate investor and ultimate beneficial owner



Source(s): SNB

4

Operational data on non-resident subsidiaries and their resident parent companies

NUMBER OF STAFF AT NON-RESIDENT SUBSIDIARIES OF RESIDENT COMPANIES

In 2021, the number of staff employed by Swiss-controlled companies at their non-resident subsidiaries totalled 2,140,000.[1] This is 3% more than in the previous year, meaning the rate of growth is slightly above the long-term average. Manufacturing accounted for somewhat less than two-thirds of this (up 22,000 to 1,332,000), while the services sector reported 808,000 (up 49,000).[2]

In manufacturing, all industry categories recorded slight increases in foreign employment, with the exception of the textiles and clothing category. Companies in the 'other manufacturing and construction' category had by far the highest share of foreign employment, increasing by 6,000 or 1% to 466,000. The electronics, energy, optical and watchmaking category employed 218,000 staff abroad (up 7,000 or 3%).

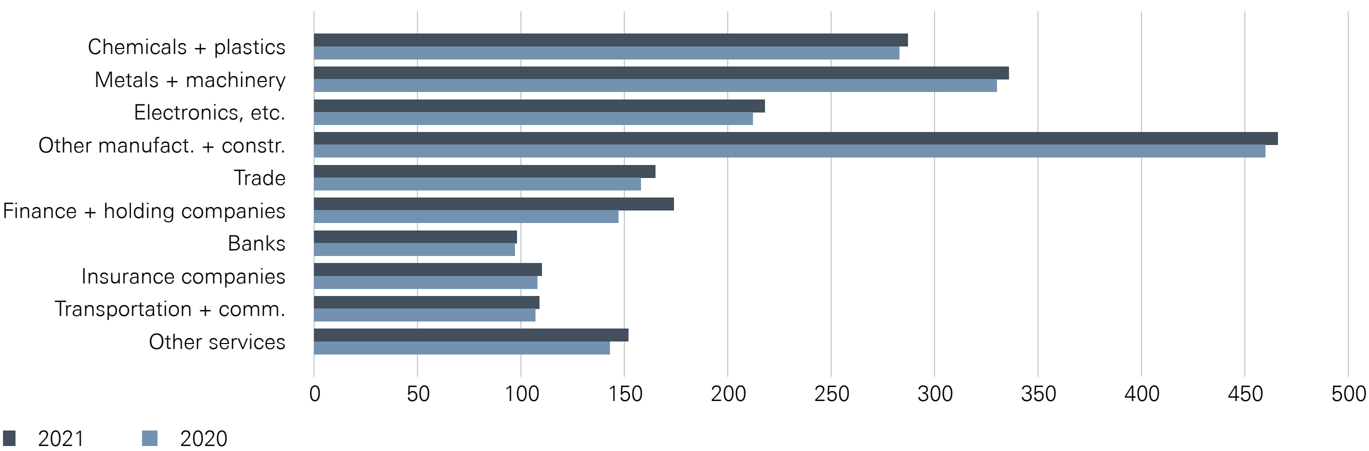
The growth in employment abroad in the services sector was mostly attributable to finance and holding companies and can largely be put down to restructuring and new inclusions in the reporting population. In terms of employment, finance and holding companies – with 174,000 employees (up 27,000 or 19%) – are now the largest category in the services sector, ahead of trade. Foreign employment in trade rose slightly, by 7,000 or 4% to 165,000, due both to acquisitions and to a recovery following the previous year's reduction caused by the coronavirus pandemic.

A total of 46% of the global staff of Swiss-controlled enterprise groups (991,000) were employed in Europe. In Asia, Swiss-domiciled groups employed 529,000 people, which accounted for 25% of total employment abroad. In North America, the number was 343,000, or 16% of the total. In all these regions, staff numbers were up slightly year-on-year.

1 Only in companies which are covered by the direct investment statistics. The foreign employment numbers of other resident companies are not known.
2 The breakdown by economic activity is determined by the principal activity of the enterprise group worldwide.

Chart 18

STAFF NUMBERS ABROAD
By industry category, in thousands



Source(s): SNB

Chart 20 shows the top ten locations of non-resident subsidiaries of resident companies according to the number of employees. The area of the circles is proportionate to the size of the workforce. The x-axis depicts the average growth rate of staff numbers for the period 2011–2021, while the y-axis shows the percentage change between 2020 and 2021.

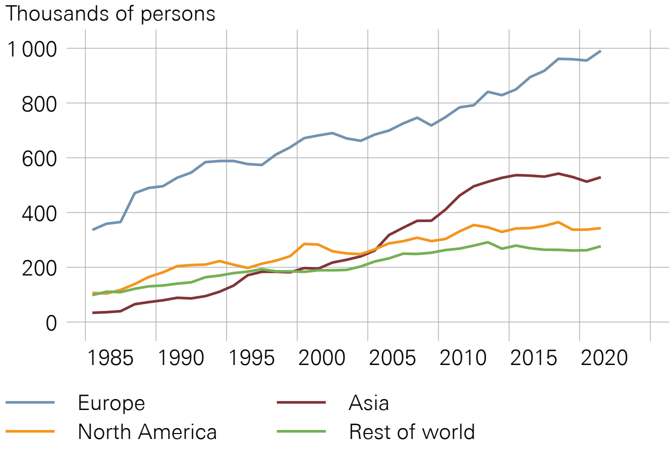
Six of the ten most important operational locations for Swiss-domiciled groups were in Europe. Here, Germany was the leading country with 278,000 employees. A total of 111,000 employees worked in France. The UK continued to decline in importance as an employment location with only 88,000 people working for resident subsidiaries, down 3% from the previous year. Poland has had the highest average growth rate in the last ten years, with staff totalling 57,000 in the year under review. Staff numbers in Spain rose by 10% to 52,000 in 2021, mainly as a result of acquisitions. The holding company locations of the Netherlands, Luxembourg and Ireland, which play an important role in direct investment, together employed only 37,000 people, which is just under 2% of the global total of staff employed abroad by Swiss groups.

Outside Europe, the US was the main location for the operational activities of resident companies, accounting for 311,000 employees. In Asia, China topped the list with approximately 163,000 employees. India recorded considerable expansion compared to the previous year, with the number of employees there rising by 10% to 101,000. In Brazil – the only representative of Central and South America in the top ten – 66,000 people worked for Swiss groups (up 6%). Mexico moved towards the top ten, with 48,000 staff, almost 20% more than in 2020.

Chart 19

STAFF NUMBERS ABROAD

Regional breakdown

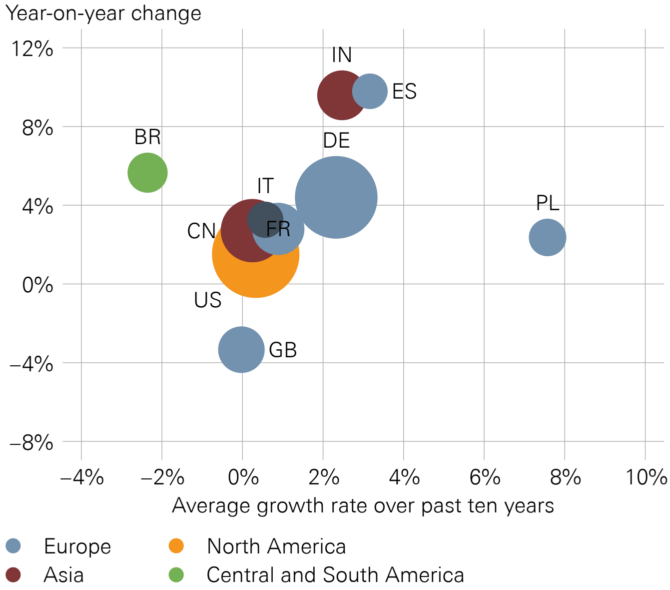


Source(s): SNB

Chart 20

STAFF NUMBERS ABROAD

Top ten employment locations (2021)



Source(s): SNB

NUMBER OF NON-RESIDENT SUBSIDIARIES OF RESIDENT COMPANIES

In 2021, resident parent companies held 19,100 majority participations in non-resident enterprises: 8,300 of these subsidiaries were in the manufacturing sector, and 10,800 in the services sector. The 'other services' category stands out, with over 5,300 non-resident subsidiaries. This can be explained by the business model of leading companies in this category, which is based on a dense global network of micro-agencies.

Chart 21 shows the ten locations with the most non-resident subsidiaries. The area of the circles is proportionate to the number of subsidiaries. The x-axis reflects the average growth rate for the period 2014–2021, while the y-axis shows the percentage change between 2020 and 2021. The majority of the non-resident subsidiaries (58%) were located in Europe. Swiss-domiciled groups had most subsidiaries in neighbouring countries: France (2,500 or 13% of the total), followed by Germany (1,800 or 9%) and Italy (900 or 5%). After a decrease of 22%, resident parent companies controlled 850 subsidiaries in the UK. The main non-European location was the US, where 2,400 or 12% of subsidiaries were domiciled. In China there were around 700 Swiss subsidiaries.

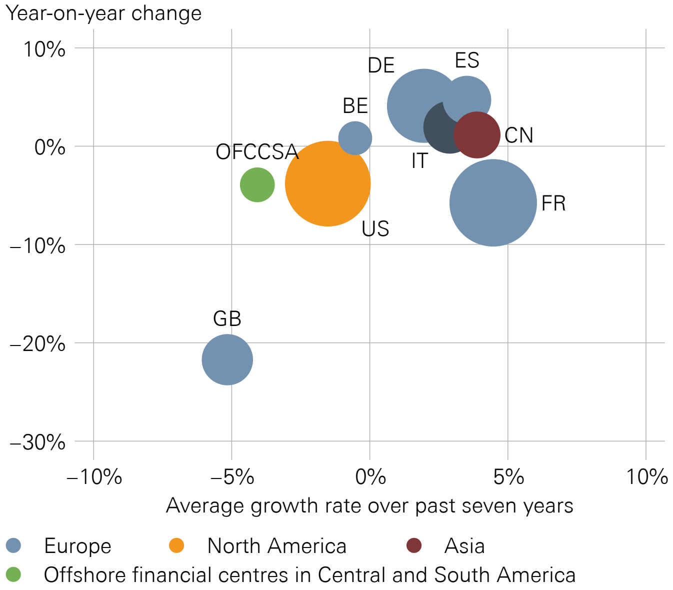
An average of 112 people worked at each non-resident subsidiary. Employment was highest in the 'other manufacturing and construction' category (218 people on average), followed by transportation and communications (201). It was lowest at banks (77) and in the 'other services' category (29).

Chart 22 shows a breakdown of average company size by region and the dispersion within the respective regions. Subsidiaries in Asia employed an average of 183 people; India topped the list with 415, followed by Pakistan with 352. At the other end of the spectrum was Europe (89 people), where there is also a broad dispersion in company size, this being partly due to the fact that there are many locations with a high density of SPEs which have low staff numbers. For example, the average company size in Europe's offshore financial centres was just six employees. Ukraine, Poland and Russia had the largest average company size (approximately 235 people) in Europe.

Chart 21

NUMBER OF NON-RESIDENT SUBSIDIARIES

Top ten locations (2021)

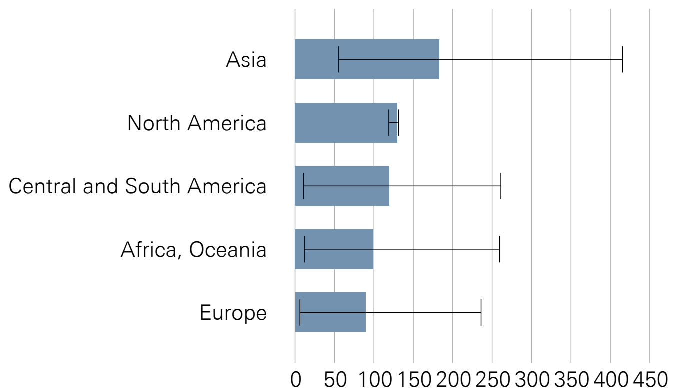


Source(s): SNB

Chart 22

AVERAGE COMPANY SIZE

Staff numbers and dispersion[1] by region (2021)



1 The ranges shown are between the countries with the smallest and largest average company size within each region.

Source(s): SNB

TURNOVER OF NON-RESIDENT SUBSIDIARIES OF RESIDENT COMPANIES

In 2021, non-resident subsidiaries of resident groups generated overall turnover of CHF 796 billion. Turnover comprises sales of goods and services invoiced by subsidiaries to third parties in the reporting period.

The non-resident companies of Swiss groups saw a rise in turnover of 14% year-on-year (2020: CHF 700 billion). It is worth bearing in mind that 2020 was a year beset by the coronavirus pandemic. When compared with 2019 (CHF 749 billion), the year before the coronavirus crisis, turnover increased by 6%.

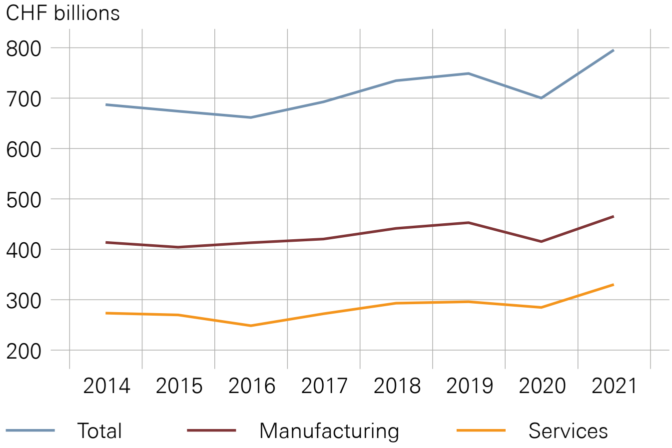
Subsidiaries in the manufacturing sector recorded turnover of CHF 465 billion, almost 60% of the total. The corresponding figure for services was CHF 330 billion. The highest turnover in manufacturing was reported by the 'other manufacturing and construction' category (CHF 151 billion), followed by the chemicals and plastics category (CHF 146 billion). This corresponded to a year-on-year increase of 10% and 6% respectively. Considerable increases in turnover were also recorded by the electronics, energy, optical and watchmaking category (up 24% to CHF 93 billion) and by the metals and machinery category (up 13% to CHF 70 billion).

In the services sector, insurance companies had the highest turnover; the corresponding figure in this category – gross premium income earned – stood at CHF 112 billion, a rise of 9% year-on-year. The trade as well as transport and communications categories, which had been particularly hard hit by the coronavirus pandemic in the previous year, posted an increase in turnover of 24% (to CHF 65 billion) and 51% (to CHF 37 billion) respectively.

Chart 23

TURNOVER ABROAD

Sectoral breakdown

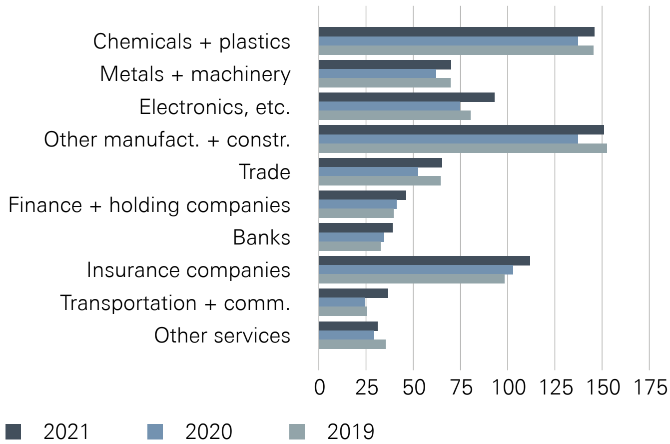


Source(s): SNB

Chart 24

TURNOVER ABROAD

By industry category, in CHF billions



Source(s): SNB

Chart 25 shows the top ten locations of non-resident subsidiaries of resident companies according to turnover. The area of the circles is proportionate to turnover. The x-axis shows the average growth in turnover for the period 2014–2021, while the y-axis shows the percentage change between 2020 and 2021.

Swiss-controlled companies achieved the highest turnover in their European subsidiaries (a total of CHF 333 billion or 42%). Within Europe, Germany recorded the highest turnover (CHF 77 billion), followed by France (CHF 49 billion), and the UK (CHF 31 billion). The UK was the only top location to record a decline in turnover over the last seven years. Outside Europe, subsidiaries in the US recorded the highest turnover (CHF 210 billion). With China and Japan, Asia has two countries in the top ten for highest turnover. The strongest rise in turnover in recent years was recorded in China where turnover of Swiss groups increased by an average of 8% per year.

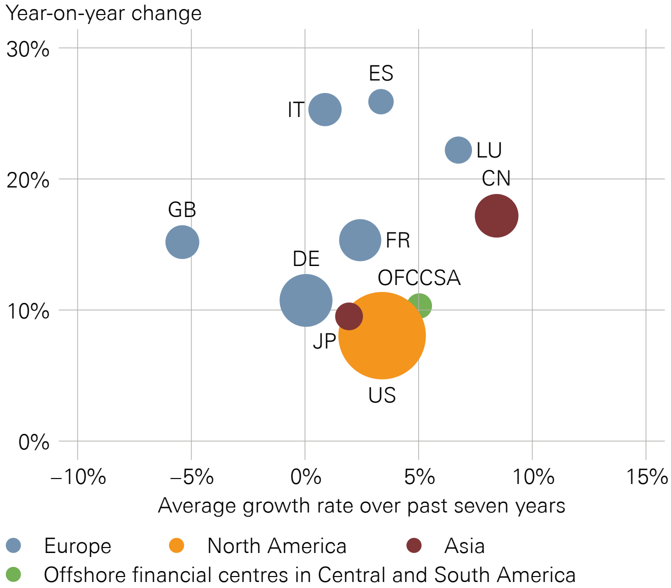
Swiss-controlled companies generated an average of CHF 372,000 in turnover per employee in their non-resident subsidiaries. In manufacturing, each employee accounted for CHF 350,000, while in services the corresponding figure was CHF 409,000. Within the manufacturing sector, the chemicals and plastics category had the highest turnover per employee, at CHF 508,000. In the case of services, insurance companies led the way with more than CHF 1 million per employee.

Chart 26 shows a regional breakdown of turnover per employee and its dispersion. At CHF 653,000, the North American subsidiaries generated the highest turnover per employee. While the differences between the other regions were moderate, between the individual countries they were very large. In Luxembourg, where there are many SPEs, turnover was 11 times higher than the European average (CHF 3.8 million compared with CHF 336,000). At CHF 4.2 million, turnover in the offshore financial centres of Central and South America was even 15 times higher than the regional average (CHF 281,000). As regards Asia, India and Vietnam, where labour-intensive production is significant, were at the lower end of the spectrum (CHF 106,000 and CHF 120,000 respectively), while Singapore and Japan were at the upper end (CHF 665,000 and CHF 574,000).

Chart 25

TURNOVER ABROAD

Top ten locations with the highest turnover (2021)

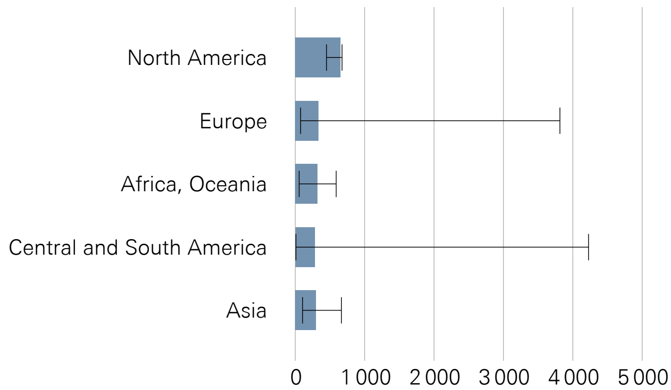


Source(s): SNB

Chart 26

TURNOVER PER EMPLOYEE

Dispersion[1] by region (2021; in CHF thousands)



1 The ranges shown are between the countries with the lowest and highest turnover per employee within a region.

Source(s): SNB

NUMBER OF STAFF AT RESIDENT PARENT COMPANIES

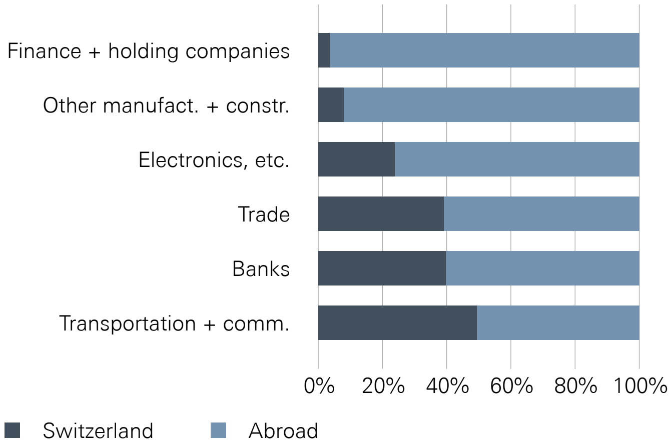
Resident companies which invest abroad are also major employers in Switzerland. They employed 958,000 staff in Switzerland,[3] which corresponds to 18% of total employment. Of these, 538,000 employees or 56% worked in companies included in the SNB's direct investment statistics. The remaining staff were employed at Swiss-controlled companies with participations in non-resident enterprises that were not included in these statistics since they had cross-border capital stocks of less than CHF 10 million.

If the number of staff in Switzerland is added to the number of staff at non-resident subsidiaries, the Swiss-controlled groups surveyed by the SNB employed a total of 2,678,000 people (cf. table 3). Thus, the proportion of employees abroad accounted for 80% of the total employment figure at groups. In manufacturing, the share was 86%, compared with 71% in the services sector. Within the manufacturing sector, the 'other manufacturing and construction' category accounted for the highest percentage of employment abroad at 92%. The lowest percentage (76%) was in the electronics, energy, optical and watchmaking category. In the case of services, the differences between the individual industry categories are considerable: Swiss-controlled finance and holding companies employed 96% of their staff abroad, trade and banks approximately 60%, and companies in the transportation and communications category around 50%.

Chart 27

STAFF NUMBERS IN SWITZERLAND AND ABROAD

In %, by industry category (2021)



Source(s): SNB

3 Source: SFSO, enterprise groups statistics (STAGRE).

Table 3

STAFF NUMBERS AT SWISS-CONTROLLED GROUPS BY SECTOR[1]

In thousands

	2017	2018	2019	2020	2021	Share In %
Employees in Switzerland	**543.1**	**556.7**	**549.8**	**539.2**	**538.0**	**20.1**
Of which manufacturing	210.2	216.8	214.8	211.8	210.4	7.9
Of which services	333.0	340.0	335.0	327.4	327.7	12.2
Employees abroad	**2 064.5**	**2 132.3**	**2 088.7**	**2 068.2**	**2 139.8**	**79.9**
Of which manufacturing	1 347.1	1 381.9	1 345.9	1 309.3	1 331.6	49.7
Of which services	717.4	750.4	742.8	758.8	808.2	30.2
Total employees	**2 607.7**	**2 689.0**	**2 638.5**	**2 607.3**	**2 677.8**	**100.0**
Of which manufacturing	1 557.3	1 598.6	1 560.7	1 521.1	1 542.0	57.6
Of which services	1 050.4	1 090.3	1 077.8	1 086.2	1 135.8	42.4

1 Only includes companies covered by the direct investment statistics.

Source(s): SNB

5 Special topics

Traditionally, direct investment is primarily motivated by such issues as market access, efficiency gains and technology transfer. For direct investors in holding locations such as Switzerland, however, sometimes the objective is rather to benefit from specific location-based legal and fiscal advantages. To this end, companies 'pass' capital across borders without it generating any real economic impact (in terms of investment or employment) on the host economy. This type of capital is referred to in the statistics as 'pass-through capital'.[1]

The present report includes two special topics on the subject of pass-through capital. The first describes current developments in the data on pass-through capital by reference to direct investment statistics. The second looks at current developments in the identification and measurement of pass-through capital. In particular, it introduces the new definition by the International Monetary Fund (IMF) for one of the concepts used in this context, namely special purpose entities (SPEs).

1 Cf. Special topic: 'Pass-through capital in Switzerland's direct investment statistics' in the Direct Investment 2016 report, pp. 21 et seq.

PASS-THROUGH CAPITAL IN SWITZERLAND'S DIRECT INVESTMENT STATISTICS – CURRENT DEVELOPMENTS

5.1 INTRODUCTION

The special topic in the Direct Investment 2016 report presented two concepts for measuring pass-through capital in the Swiss direct investment statistics: the perspective of special purpose entities (SPEs) and the perspective of foreign-controlled finance and holding companies (FFHCs). The first concept is used at an international level. Due to its narrow focus, however, capital channelled through SPEs provides a lower estimate of pass-through capital. The concept of FFHCs as applied by the SNB, on the other hand, is broader. The following section looks in more detail at current developments in pass-through capital on the basis of both concepts. These developments have had a strong impact on Swiss direct investment statistics in recent years.

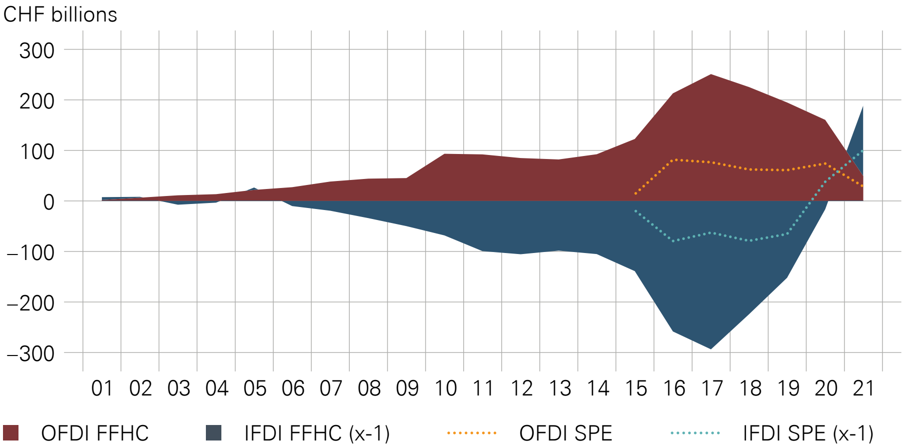
5.2 CAPITAL TRANSACTIONS

Chart 28 shows cumulated direct investment capital transactions of FFHCs (from 2001) and SPEs (from 2015). Both investment directions are shown: blue, in the negative domain, shows foreign direct investment in Switzerland (inward foreign direct investment, IFDI); red shows Swiss direct investment abroad (outward foreign direct investment, OFDI). The chart illustrates the widely symmetric development of IFDI and OFDI, which is typical of pass-through capital.

Chart 28

PASS-THROUGH CAPITAL IN DIRECT INVESTMENT STATISTICS

Cumulated transactions of FFHCs and SPEs



Source(s): SNB

Four different time periods can be distinguished:

– 2005–2010: non-resident entities increase pass-through capital in Switzerland, expanding the balance sheets of resident FFHCs;
– 2010–2014: stable period with no major movements;
– 2015–2017: period with renewed balance sheet expansion;
– 2018–2021: non-resident entities reduce pass-through capital in Switzerland, contracting the balance sheets of resident FFHCs and SPEs.

The following focuses on the period from 2018 to 2021. Chart 28 highlights two aspects: first, balance sheets contracted, reflected in both investment directions as a repatriation of capital; second, the reduction was much more pronounced for IFDI than for OFDI. On a cumulative basis, non-resident investors even repatriated capital invested in Switzerland. What lies behind these developments?

The balance sheet reductions were prompted by the tax reform that came into effect in the US in 2018 (the Tax Cuts and Jobs Act). This tax reform provided an incentive for US groups to repatriate capital from their subsidiaries domiciled in the rest of the world. The latter included, in particular, finance and holding companies domiciled in Switzerland. The main motivation for these withdrawals by US-domiciled groups was to repatriate profits.[2]

In addition, globally active groups adjusted their corporate structures. Although the reasons for this restructuring are not captured in the statistics, it took place in parallel with changes to the global tax regime, both implemented as well as anticipated. The general effect of those changes was to make entities with no or minimal real economic activity less attractive. This evidently led some groups to withdraw funds from FFHCs and SPEs domiciled in Switzerland.

The reduction was much more pronounced for IFDI than for OFDI. The reason for this is that, depending on the investment direction, the balance sheet reduction affected different types of capital, which are not included in the direct investment statistics to the same degree. On the liabilities side, the reduction was mainly in equity and is recorded in full as a repatriation of capital under IFDI. On the assets side, by contrast, the reduction was only partly in the form of equity; a large part was attributable to the repayment of intragroup loans by non-resident subsidiaries. These intragroup loans are only partially included under direct investment, which means that some of the reduction in this intragroup lending is not shown under OFDI.

That total outflows exceeded total inflows under IFDI is linked to the fact that capital repatriations tend to be higher than capital inflows in the statistics. Two particular factors are at play here: First, companies sometimes conduct upward balance sheet adjustments between the date of the original direct investment (booked at comparatively low values) and the date of the repatriation of capital (booked at higher values). Second, it is possible that the original investment is not recorded in the statistics. FFHCs and SPEs are companies with little physical presence in the host economy and their establishment is often not captured. Even when these companies are subsequently included in the SNB's surveys, it is not always possible to comprehensively determine the value of the original investment on a retrospective basis. As a result, while outflows of capital are recorded in their entirety, capital inflows are not fully captured in the statistics.

5.3 CAPITAL STOCKS

5.3.1 Development

Chart 29 shows the development in direct investment capital stocks at FFHCs (from 2001) and SPEs (from 2015). Essentially the same time periods can be identified in the development of capital stocks as in capital transactions (cf. section 5.2). Direct investment capital stocks held in resident FFHCs by non-resident entities (IFDI FFHC) recorded strong growth from 2015, reaching a peak of CHF 789 billion in 2017. However, with the onset of balance sheet reductions, these stocks declined, so that in 2021 they stood at CHF 465 billion (down 41%). The development in foreign direct investment at SPEs (IFDI SPE) was similar. Capital stocks held in resident SPEs under IFDI hit a record level of CHF 322 billion in 2018, before falling to CHF 154 billion in 2021 (down 52%). In the opposite investment direction, OFDI, the build-up and subsequent reduction of direct investment capital stocks held by resident entities in non-resident entities was less pronounced: In the year under review, capital stocks held by FFHCs (OFDI FFHC) stood at CHF 396 billion, 21% below their highest value of CHF 504 billion registered in 2020. Capital stocks held by SPEs (OFDI SPE) amounted to CHF 114 billion, down 34% from their previous peak of CHF 172 billion recorded in 2016.

Overall, the decline in direct investment capital stocks in both investment directions was less pronounced than would have been expected from the high level of capital transactions. This was mainly due to the upward balance sheet adjustments at resident FFHCs and SPEs as well as at their non-resident subsidiaries. These revaluations are not recorded as capital transactions. The corresponding increase in stocks is captured instead under 'other changes'. In this way, the revaluations help to counteract the reduction in capital stocks due to capital repatriation.

2 Cf. Direct Investment 2018 and 2019 reports.

5.3.2 Ultimate controlling investor (UCI)

Chart 30 shows the development in capital stocks held in resident FFHCs and SPEs broken down by domicile of the ultimate controlling investor (UCI).[3] It shows that investors from the US were primarily responsible for the reduction in pass-through capital. Between 2017 and 2021, direct investment capital stocks held by US-domiciled entities in resident FFHCs declined by 50%, and those in resident SPEs by 53%. However, the reduction in pass-through capital in Switzerland was not limited to US investors. A substantial reduction in the direct investment stocks held by entities domiciled in the rest of the world (RoW) was also observed. In 2021, these were down one-third at FFHCs and down 50% at SPEs compared with their respective previous maximum levels.

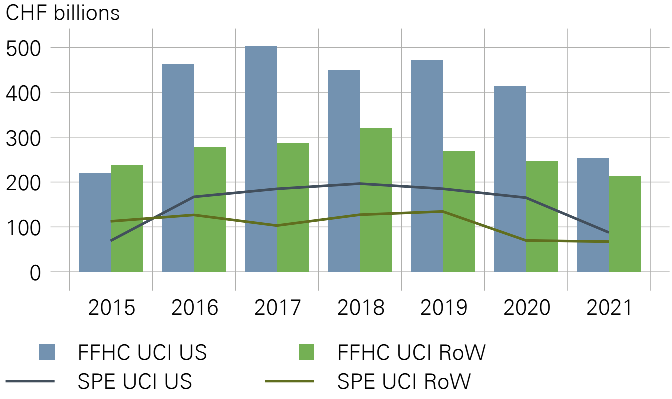
Chart 31 shows that despite large-scale capital repatriations in the direct investment statistics, there has so far been no general withdrawal of US-domiciled groups from Switzerland. Although average direct investment capital stocks held in resident FFHCs controlled by US-domiciled entities have declined significantly under the balance sheet reductions, the number of these FFHCs recorded in the direct investment statistics has continued to rise. By contrast, there has been less fluctuation in the number and in the average direct investment capital stocks held in FFHCs not controlled by US-domiciled investors.

3 On pp. 14–16, you can see the capital stocks of foreign direct investment by ultimate beneficial owner (UBO). The concepts of UBO and UCI are not exactly identical. Under the UCI concept, only direct investment relationships with more than 50% of voting rights are attributed to non-resident entities. Minority interests of 10–50% are automatically allocated to the reporting economy. By contrast, the concept of UBO also includes a geographical allocation of minority interests. Although the capital stocks reported under both concepts are the same, the country breakdown differs. However, since the vast majority of direct investment relationships are majority participations, the differences are slight.

Chart 30

PASS-THROUGH CAPITAL IN DIRECT INVESTMENT STATISTICS

Capital stocks of foreign direct investment (IFDI) in FFHCs and SPEs by domicile of ultimate controlling investor (UCI)

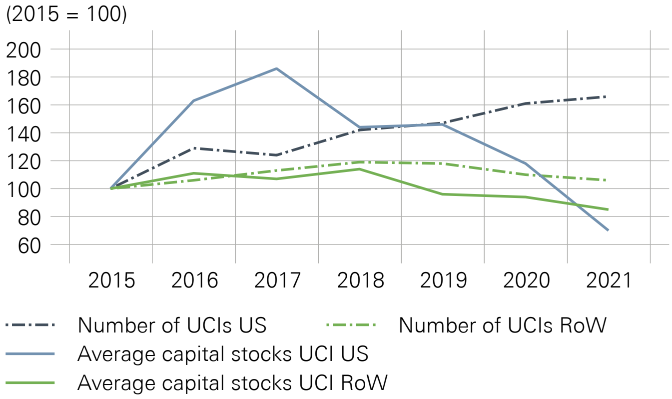


Source(s): SNB

Chart 31

PASS-THROUGH CAPITAL IN DIRECT INVESTMENT STATISTICS

Number of FFHCs and average foreign direct investment capital stocks per FFHC by UCI (indexed)

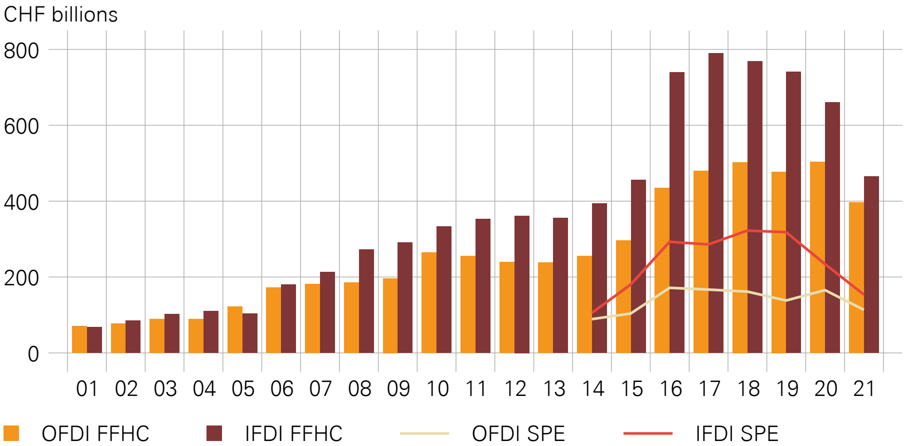


Source(s): SNB

Chart 29

PASS-THROUGH CAPITAL IN DIRECT INVESTMENT STATISTICS

Capital stocks of FFHCs and SPEs



Source(s): SNB

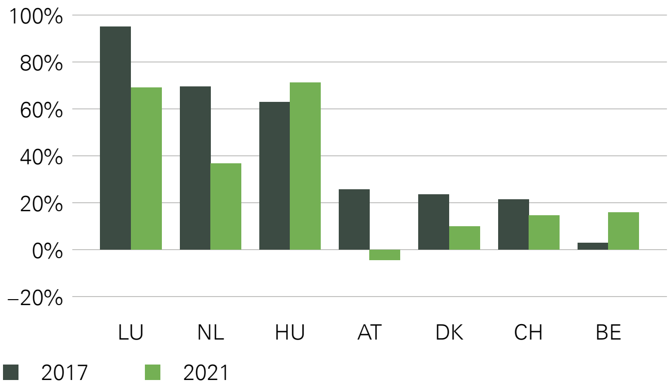
5.4 INTERNATIONAL COMPARISON

Switzerland was not the only holding location to be affected by the reduction in pass-through capital. Chart 32 shows the share of pass-through capital in total foreign direct investment capital stocks for various countries in Europe. The comparison is made using the internationally established concept of SPEs, contrasting the shares in 2017 with those in 2021.[4] It shows that the relative significance of SPEs as a vehicle for foreign direct investment is gradually diminishing. Furthermore, this development seems to be even more pronounced at a number of other locations than it is in Switzerland. While in Switzerland the share of foreign direct investment attributable to SPEs decreased from 21% to 15% between 2017 and 2021, in the Netherlands it fell from 69% to 37% over the same period. In Luxembourg, Austria and Denmark too, the relative importance of SPEs during the period in question declined more strongly than in Switzerland.

Chart 32

PASS-THROUGH CAPITAL IN DIRECT INVESTMENT STATISTICS

Share of SPEs in the foreign direct investment capital stocks of selected countries



Source(s): OECD, SNB

4 Values for Switzerland taken from this report. Values for other countries taken from stats.oecd.org (retrieved on 12 October 2022). For Belgium, the reference year is 2020.

NEW DEFINITION OF SPECIAL PURPOSE ENTITIES (SPEs)

5.5 BACKGROUND

The Swiss National Bank has been publishing figures on special purpose entities (SPEs) in its direct investment statistics since 2015. SPEs are companies exercising a specific activity set up for a narrowly defined task, e.g. the financing of groups or tax optimisation. The special topic in the Direct Investment 2016 report presented SPEs as one of the concepts for measuring pass-through capital.[5] It included a more detailed look at the identification of SPEs using the criteria set out in the OECD Benchmark Definition.[6] The concept of SPEs has since been further developed at international level with the aim of improving the cross-national comparability of pass-through capital measurement. At the same time, the plan was to integrate SPEs not only in direct investment statistics, but also in the balance of payments and international investment position statistics. In 2018, the International Monetary Fund (IMF) presented its final report on SPEs.[7] Among other things, it contains a definition and a typology of SPEs. It is expected that the IMF definition will be incorporated in the updated international benchmark definition.[8]

With the publication of this report, the SNB is retroactively adopting the IMF's new definition. This special topic shows what conceptual changes this entails for the identification of SPEs. It also shows that the adoption of the new definition has only minimal material effects on the SPE aggregates published in the direct investment statistics.

5 Cf. Special topic: 'Pass-through capital in Switzerland's direct investment statistics' in the Direct Investment 2016 report, pp. 21 et seq.
For current developments, cf. Special topic: 'Pass-through capital in Switzerland's direct investment statistics – current developments' in this report, pp. 25 et seq.
6 OECD (2008): Benchmark Definition of Foreign Direct Investment, fourth edition (BMD4).
7 IMF (2018): Final Report of the Task Force on Special Purpose Entities.
8 The IMF is already publishing details on SPEs based on the new definition in the balance of payments and international investment position (data.imf.org).

5.6 NEW IMF DEFINITION

Based on the new definition by the IMF, a series of criteria have been identified that must be cumulatively fulfilled in order for a company to be classified as an SPE. Table 4 compares the new IMF criteria with the previous OECD criteria. It shows that, although no new criteria have been added, three out of five criteria have been adjusted.

The most important difference between the IMF and OECD criteria concerns the main activity of the company. According to the OECD, to be considered an SPE, a company should belong to the finance and holding companies category. By contrast, the IMF is guided by a typology of SPEs that also includes companies outside the finance and holding companies category. In establishing its typology, the IMF focuses on the company's objective. To qualify as an SPE, the company must have been set up to obtain specific advantages provided by the host jurisdiction. These advantages include:

(i) reduction in regulatory or tax burden
(ii) access to capital markets or sophisticated financial services
(iii) isolation from financial risks
(iv) safeguarding confidentiality of ownership structures or specific transactions

The second change concerns the proportion of assets and liabilities arising from relationships with non-residents. According to the OECD criteria, 'almost all' the assets and liabilities of the company must arise from relationships with non-residents, whereas for the IMF merely a 'large part' of these assets and liabilities must arise from relationships with non-residents. By relaxing this criterion, the IMF wanted to take into account the fact that SPEs increasingly also hold domestic assets. In particular, the importance of SPEs established for the commercial use of intangible assets has grown.

Table 4

	Previous criteria based on OECD		New criteria based on IMF definition
i.	The core business of the resident enterprise group consists of group financing and holding activities.	i.	The core business of the resident enterprise group consists of obtaining specific advantages provided by the host jurisdiction in line with the IMF's typology.
ii.	The highest resident group entity is controlled by non-residents.	ii.	The highest resident group entity is controlled by non-residents.
iii.	Almost all the assets/liabilities of the resident enterprise group represent investments in or from other countries.	iii.	A large part of the assets/liabilities of the resident enterprise group represents investments in or from other countries.
iv.	The resident enterprise group has no or few employees.	iv.	Upper limit of five employees
v.	The resident group companies are separate legal entities.	v.	The resident group companies are separate legal entities.

The third change concerns staffing levels. While the OECD had refrained from setting an explicit threshold, the IMF sets an upper limit of five employees. There were no relevant changes in operational implementation with regard to non-resident control or to the requirement to be subject to fiscal and other legal obligations of the economy in which it is resident.

5.7 IMPACT ON SWISS DIRECT INVESTMENT STATISTICS

5.7.1 Number of SPEs

Chart 33 shows the number of companies identified as SPEs before and after application of the new definition. It shows that as a result of the IMF's new definition, around a dozen additional companies were classified as SPEs between 2015 and 2021, which corresponds to an average increase of 15% compared with the method used to date. In the year under review, the new definition leads to an increase of 12% (from 90 to 101 SPEs). This suggests that the new IMF criteria are less restrictive overall than the criteria applied to date by the OECD.

5.7.2 Capital stocks

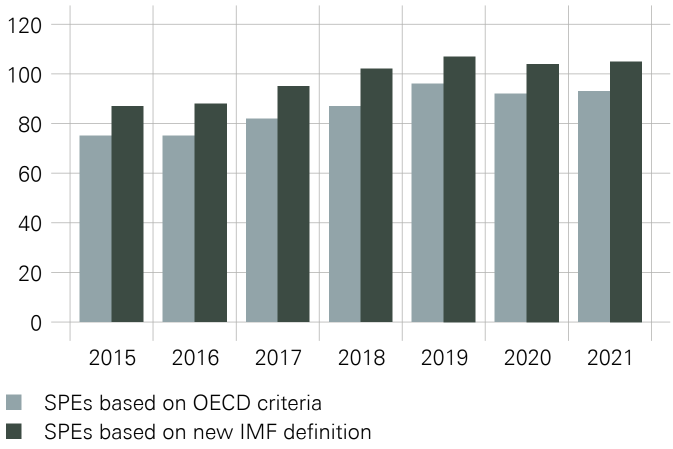
Charts 34 and 35 show the impact of the new definition on the direct investment capital stocks of SPEs in both investment directions. The current values according to the new IMF definition are compared with the previous values according to the OECD criteria.[9]

It appears that the new definition has only a minor impact on capital stocks held by or in SPEs. In the case of the capital stocks held by resident SPEs in non-resident entities, the changes in practice lead to on average 3% higher capital stocks in the period from 2015 to 2021 (cf. chart 34). In the case of capital stocks held in resident SPEs by non-resident entities, the new definition only leads to on average 1% higher capital stocks over the same period (cf. chart 35). The new definition therefore has much less effect on their direct investment capital stocks than on the number of SPEs. This suggests that the newly identified SPEs are smaller companies with below-average capital stocks.

Chart 33

SPEs IN DIRECT INVESTMENT STATISTICS

Number of companies

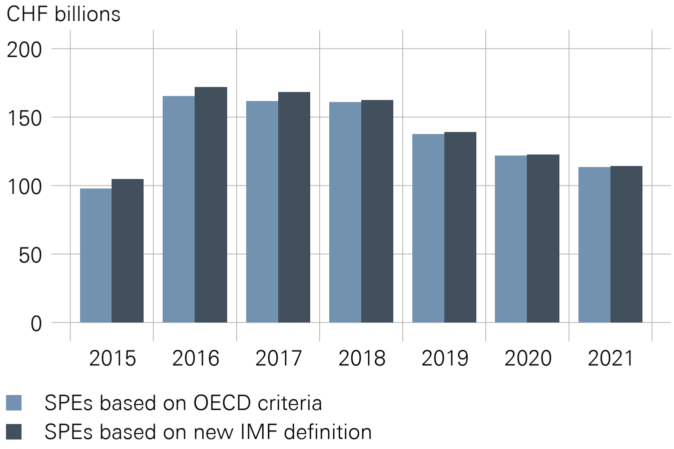


Source(s): SNB

Chart 34

SPEs IN DIRECT INVESTMENT STATISTICS

Capital stocks in non-resident entities held by resident SPEs

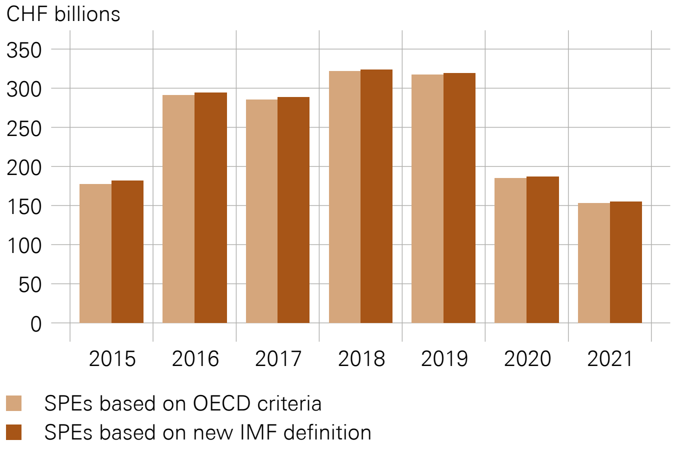


Source(s): SNB

Chart 35

SPEs IN DIRECT INVESTMENT STATISTICS

Capital stocks in resident SPEs held by non-resident entities



Source(s): SNB

9 The differences shown in charts 34 and 35 exclusively reflect the impact of the new SPE definition. The data published on SPEs in this year's report also include revisions due to other corrections.

5.7.3 Breakdown by economic activity

This section looks at the impact of the new definition on SPE classification by economic activity. While SPEs were previously limited to finance and holding companies, under the new definition they can now also be found in other industry categories. As can be seen from chart 36, with the new definition, 10% of all SPEs are companies outside the finance and holding companies category. On the one hand, these include SPEs through which merchanting transactions are conducted. On the other, they are SPEs whose objective is to provide intragroup insurance services. However, even according to the new definition, 90% of all SPEs belong to the finance and holding companies category. These are almost exclusively companies that were already classified as SPEs according to the previous OECD criteria.

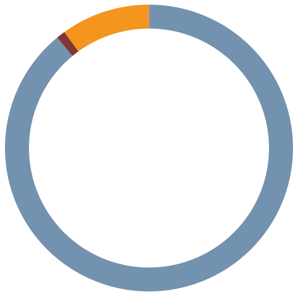
Looking at direct investment capital stocks (sum of assets and liabilities), the impact of the new definition on the breakdown by economic activity is, however, very limited (cf. chart 37). In the year under review, newly identified SPEs outside the finance and holding companies category contributed less than 1% to the total capital stocks of direct investment.

Despite the limited material impact of the new SPE definition, it requires a structural adjustment in the presentation of data by economic activity. SPEs are no longer a subset of the finance and holding companies category and consequently can also no longer be reported as a mere 'of which' item under this category. Two additional series have therefore been introduced in the web tables on direct investment: an 'of which special purpose entities' under 'services' and a new subtotal called 'total excluding special purpose entities'.

Chart 36

SPEs IN DIRECT INVESTMENT STATISTICS

Number by industry category, in % (2021)



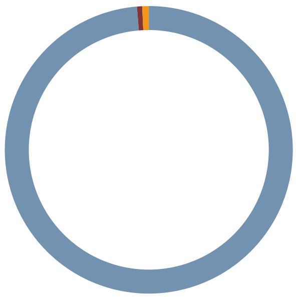
- SPEs in finance and holding companies, previous criteria **89.0%**
- SPEs in finance and holding companies, new definition **1.0%**
- SPEs in other categories, new definition **10.0%**

Source(s): SNB

Chart 37

SPEs IN DIRECT INVESTMENT STATISTICS

Direct investment capital stocks (sum of assets and liabilities) by industry category, in % (2021)



- SPEs in finance and holding companies, previous criteria **98.7%**
- SPEs in finance and holding companies, new definition **0.6%**
- SPEs in other categories, new definition **0.7%**

Source(s): SNB

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