**Building on the frameworks of Atkeson et al. (2022) and Gourinchas & Rey (2007),** this study explores whether Switzerland benefits from an “exorbitant privilege” comparable to that of the United States. Our analysis is guided by the following core questions:

* Does Switzerland benefit from an “exorbitant privilege” in its external balance sheet?
* Are valuation gains or losses offsetting its sustained current account surpluses?
* To what extent does the composition of the SNB’s assets — particularly gold and foreign exchange reserves — shape these valuation effects?
* Unlike the U.S., might Switzerland instead bear an “exorbitant duty” due to losses on its foreign asset holdings?

Our empirical approach follows the logic of the above-mentioned studies but is adapted to Switzerland’s unique economic structure and its external position.

**1. Decomposing Changes in Net Foreign Assets (NFA)**

We begin by decomposing the change in Switzerland’s NFA position into two main components:

Where:

* : Change in net foreign assets- over the period (1985–2024)
* ​: Current account balance
* ​: Valuation effects (including capital gains/losses and exchange rate impacts)

This decomposition allows us to ask: Is Switzerland’s NFA improving due to persistent current account surpluses, or is it earning superior returns on its external assets?

This section will draw heavily from the analysis in your second draft. We'll use that material to structure the argument clearly and respond directly to your supervisor’s comments. We may reuse or update some graphs as needed, depending on clarity and relevance.

**2. Return Differentials and the “Exorbitant Privilege”**

To assess whether Switzerland earns a premium on its external assets, we compute the average returns on assets and liabilities:

*And*

Where:

* : ​ Investment income from foreign assets
* ​: Investment income paid on liabilities
* ​ : Foreign assets and liabilities at the beginning of the period

The **return differential** is then:

A positive differential suggests that Switzerland earns more per unit of assets than it pays on liabilities — a potential indicator of “privilege.”

**3. Decomposing Valuation Effects**

Valuation effects are a crucial channel in explaining changes in NFA beyond the current account. These include:

* **Exchange rate effects:** Due to currency mismatches on balance sheets
* **Price effects:** Driven by changes in the value of asset classes (e.g., equities, bonds)

If direct data are unavailable, valuation effects can be estimated residually:

When possible, we break this down further:

Where:

* : Financial account flows for assets
* : Financial account flows for liabilities

This more detailed decomposition helps isolate how valuation changes — not just flows — shape Switzerland’s external position. As in Part 1, this section will build on your second draft and incorporate or improve the relevant figures.

**4. Key Time Periods**

To understand how Switzerland’s external position responded to global shocks, we analyze specific sub-periods:

* **2007–2009:** Global financial crisis
* **2010–2012:** Eurozone crisis
* **2020–2022:** COVID-19 pandemic
* **Post-2022:** Period of rising global interest rates and asset revaluations

These episodes provide useful lenses for assessing whether the “exorbitant privilege” (or duty) is persistent, cyclical, or crisis-dependent.

**Conclusion**

The final step is to assess whether Switzerland truly enjoys an “exorbitant privilege” — or whether, unlike the U.S., it may face the opposite: a systematic loss on its external position, driven by valuation losses or unfavorable return differentials. This analysis should feed directly into the broader question posed by your supervisor and clarify how Switzerland’s unique asset structure shapes its role in the global financial system.