“This project investigates whether Switzerland has gained an ‘exorbitant privilege’ in the post-2008 period, by examining the evolution of its net foreign asset position and the returns on its foreign assets relative to the returns earned by foreigners on Swiss assets. Using data from the Swiss National Bank and the Lane-Milesi-Ferretti dataset, I empirically decompose the drivers of Switzerland’s NFA dynamics and assess whether valuation effects or income asymmetries play a significant role, in light of recent findings that the U.S. may have lost its privilege.”

Great! Here's how you can **structure your empirical strategy** to analyze Switzerland’s net foreign asset position and investigate whether it benefits from an “exorbitant privilege.” The approach mirrors the logic in **Atkeson et al. (2022)** and **Gourinchas & Rey (2007)**, adapted to Switzerland.

**📊 1. Decomposition of the Change in NFA**

At the core of the empirical strategy is the decomposition of the change in the **net foreign asset (NFA)** position into two components:

ΔNFAt=CAt+VEt\Delta NFA\_t = CA\_t + VE\_tΔNFAt​=CAt​+VEt​

Where:

* ΔNFAt\Delta NFA\_tΔNFAt​: Change in Switzerland’s NFA position in year ttt
* CAtCA\_tCAt​: Current account balance in year ttt
* VEtVE\_tVEt​: Valuation effects in year ttt (capital gains/losses, exchange rate effects)

This equation lets you ask: *Is NFA improving because Switzerland runs surpluses, or because it earns high returns on its assets?*

**📈 2. Return Differentials: The “Exorbitant Privilege”**

To detect an “exorbitant privilege,” calculate **average returns** on external assets and liabilities:

rtA=NItAAt−1andrtL=NItLLt−1r^A\_t = \frac{NI^A\_t}{A\_{t-1}} \quad \text{and} \quad r^L\_t = \frac{NI^L\_t}{L\_{t-1}}rtA​=At−1​NItA​​andrtL​=Lt−1​NItL​​

Where:

* NItANI^A\_tNItA​: Investment income from foreign assets
* NItLNI^L\_tNItL​: Investment income paid to foreigners on Swiss liabilities
* At−1,Lt−1A\_{t-1}, L\_{t-1}At−1​,Lt−1​: Beginning-of-period foreign assets and liabilities

Then compute:

Return Differential:rtA−rtL\text{Return Differential:} \quad r^A\_t - r^L\_tReturn Differential:rtA​−rtL​

A **positive return differential** indicates that Switzerland earns more per unit of foreign assets than it pays on its liabilities — suggesting a form of privilege.

**🔍 3. Valuation Effects Decomposition**

Valuation effects are crucial. They include:

* **Exchange rate effects**: From currency mismatches in external balance sheets
* **Price effects**: From changes in asset values (e.g., equities, bonds)

You can estimate these effects as the residual:

VEt=ΔNFAt−CAtVE\_t = \Delta NFA\_t - CA\_tVEt​=ΔNFAt​−CAt​

If detailed data are available, further decompose VE:

VEt=(At−At−1−FAt)⏟Valuation on assets−(Lt−Lt−1−FLt)⏟Valuation on liabilitiesVE\_t = \underbrace{(A\_t - A\_{t-1} - FA\_t)}\_{\text{Valuation on assets}} - \underbrace{(L\_t - L\_{t-1} - FL\_t)}\_{\text{Valuation on liabilities}}VEt​=Valuation on assets(At​−At−1​−FAt​)​​−Valuation on liabilities(Lt​−Lt−1​−FLt​)​​

Where:

* FAtFA\_tFAt​: Net financial account (excluding valuation changes)
* FLtFL\_tFLt​: Similar for liabilities

**📂 4. Data Sources**

Use these:

* **Swiss National Bank (SNB)**: For current account, investment income, assets/liabilities by type (equity, debt, reserves)
* **Lane and Milesi-Ferretti (2020 update)**: For cross-checking and longer time series
* **IMF BPM6-compatible databases** (if needed for comparison with other countries)

**📅 5. Time Periods of Interest**

Choose sub-periods to match key global shocks:

* **2007–2009**: Global financial crisis
* **2010–2012**: Eurozone crisis
* **2020–2022**: Covid crisis
* **Post-2022**: Rising interest rates, global realignment

**🧪 6. Optional Advanced Add-ons**

If you're comfortable with econometrics or want to go deeper:

* Run **panel regressions** comparing Switzerland to other countries (e.g., Germany, Japan) on determinants of valuation effects.
* Estimate **risk-adjusted returns** by adjusting for portfolio composition (bonds vs equities).
* Consider structural differences (e.g., high reserve assets at SNB, wealth management industry).