



Press release

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Federal Council comes to positive conclusion after ten years of debt brake

During its meeting today, the Federal Council adopted a report on experience with the debt brake since it was introduced ten years ago. The debt brake has been guiding fiscal policy since 2003. The report's conclusion is positive. The debt brake has made it possible to balance the Confederation's finances, reduce debt and also apply a fiscal policy that is attuned to the economic cycle during the financial and debt crisis.

The Confederation's debt brake has a decade of practical application behind it. This permits an analysis of the rule-based fiscal policy in different economic and political situations. The report was drawn up in response to a postulate submitted by National Councillor Jean-Pierre Graber. It shows the advantages and disadvantages of the debt brake and comments on topical issues.

Balanced finances and debt reduction

The Confederation's finances have developed positively under the debt brake. After it was first applied to the 2003 budget, the Federal Council and parliament quickly managed to re-establish a structural balance for the Confederation's finances. Subsequently, the surprisingly good economic development and fiscal discipline under the debt brake made it possible to reduce debt from CHF 130 billion in 2005 to CHF 112 billion in 2012. At 19%, the Confederation's debt ratio is currently at around the same level as in 1994. The savings on interest expense have provided valuable leeway for priority tasks. Thanks to the debt brake, fiscal policy has also become more consistent and more in line with the economic situation, as cyclical fluctuations in receipts do not have repercussions for expenditure. The debt brake permits a deficit during a recession and requires a surplus when the economy is booming.

The reduction in debt has been due primarily to pleasant surprises regarding the development of the economy, forecasting errors with respect to receipts and budget underruns in terms of expenditure. Improvements in the methodology applied have made it possible to considerably reduce the forecasting errors for receipts. Consequently, the forecasting errors with respect to the economy and receipts are likely to cancel each other out in the future. By contrast, the budget underruns on the expenditure side are systemic in nature. Because the budgetary credits approved by parliament may not be exceeded, the Federal Administration is rather cautious on the whole in its budgeting. This causes expenditure in the budget to be slightly overestimated on a systematic basis. The associated unutilised credits amount to around a billion on average. Because of how the debt brake is structured, they are likely to maintain their tendency to bring about a reduction in nominal

debt. This is highly desirable, as it increases Switzerland's ability to withstand crises and lowers interest expenditure, which in turn provides greater fiscal policy leeway.

Economic cycle appropriately taken into consideration and stable proportion of investment

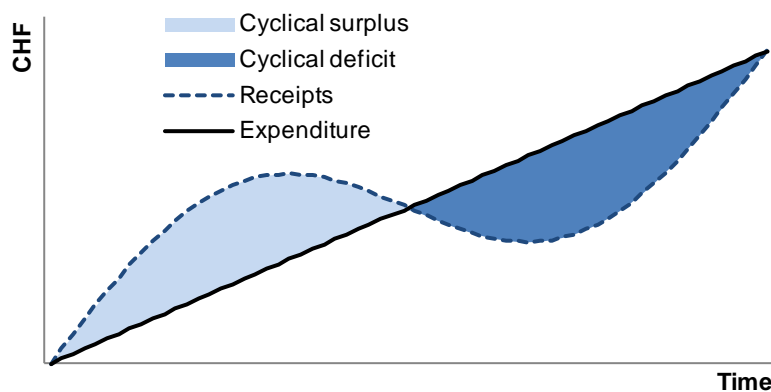
When the debt brake was introduced, it was feared that the cyclical adjustment would not portray the economic trend very realistically and therefore that fiscal policy could burden the economy. However, the report shows that the cyclical factor painted a realistic picture of economic development over the last ten years.

The fear that investment could suffer under the debt brake also proved to be unfounded. The analysis demonstrates that investment has not been displaced by current expenditure. The proportion of federal expenditure accounted for by investment was 12.3% on average from 2003 to 2012, which is slightly higher than the average for the 1990s (12.0%).

Outlook

The debt brake has turned out to be an efficient fiscal rule for managing the budget. It has proved its worth and is thus widely accepted. However, it cannot solve long-term structural problems such as the ageing of the population and the implications of this for social security funds. Challenges of this kind need to be tackled by means of reforms in the individual areas concerned. By contrast, a further reduction in the Confederation's debt ratio can provide future generations with the best possible starting point for tackling the problems of the future.

How the debt brake works: consistent expenditure curve despite cyclical fluctuations in receipts



Further details:

Serge Gaillard, Director of the Federal Finance Administration FFA
Tel. 031 322 60 05, serge.gaillard@efv.admin.ch

Relevant department:

Federal Department of Finance FDF

The following can be found as an enclosure to this press release at www.finance.admin.ch:

- Report on the debt brake