Schweizerische Eidgenossenschaft
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Swiss Confederation

Federal Department of Finance FDF

Federal Finance Administration FFA

Brief report on financial statistics

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Public finance trends: 2013 results and 2014-2016 forecasts

Table of contents

This overview contains the definitive results for the consolidated accounts of the general government sector (Confederation, cantons, municipalities and social security funds) for 2013, as well as provisional results for the Confederation and social security funds for 2014. Moreover, an outlook for 2014 to 2016 is given for the entire general government sector and its sub-sectors.

Based on the consolidated accounts, which are prepared in accordance with the Harmonized Accounting Model for the Cantons and Municipalities (HAM2), the FFA also calculates financial statistics indicators according to the guidelines of the International Monetary Fund (IMF). For the first time, these have been calculated according to the Government Finance Statistics Manual (GFSM 2014), which is the new reference work, and revised with retroactive effect to 1990.

A brief report on the latest financial statistics results can be found below. Information on changes in methodology is provided in the appendix. A technical note on new items and changes, as well as comprehensive time series and detailed data pertaining to the individual sub-sectors of the general government can be found online[1]. The more detailed annual report, "Switzerland's financial statistics for 2013", will be published at the end of October 2015.

1. Consolidated accounts of the government units

For the national financial statistics, the closing accounts of the various government units are restated in a uniform structure based on the Harmonized Accounting Model for the Cantons and Municipalities (HAM2). This approach allows a direct comparison of the government units

1 http://www.efv.admin.ch/e/dokumentation/finanzstatistik/index.php

within Switzerland. Table 1 shows how the financing statements for 2010 to 2016 pan out. The *ordinary fiscal balance* refers to the balance of ordinary receipts and expenditure; the *overall fiscal balance* also includes extraordinary transactions and therefore corresponds to the overall result of the financing statement. It is thus preferable to describe economic aspects using the ordinary fiscal balance. The breakdown between ordinary and extraordinary effects is essentially the same as that used in the financial statements of the Confederation, cantons and municipalities in accordance with their legal framework. Contributions for the funding of pension funds are an exception; these are all recorded as extraordinary items for comparability reasons, especially for comparing personnel expenditure.

The general government's **ordinary fiscal balance** deteriorated further in 2013, but nonetheless posted a surplus of around CHF 1.4 billion. The Confederation's ordinary fiscal balance improved by CHF 217 million to almost CHF 1.2 billion in 2013. For the second year in succession, the cantons had a negative ordinary fiscal balance, amounting to CHF -741 million in 2013. The cantons' accounts were nonetheless up by CHF 647 million relative to 2012. Receipts grew by 2% primarily as a result of higher tax receipts from natural persons and legal entities. At the same time, ordinary expenditure growth was more moderate. The municipalities ended 2013 with a negative ordinary fiscal balance of CHF 1.2 billion. That deficit was primarily due to municipalities in the canton of Zurich, which ended the year with an ordinary fiscal balance of approximately CHF -768 million. Ordinary receipts were down somewhat, while expenditure rose, particularly in the "Obligatory schooling" and "Fuel and energy" functional groups. The cities of Zurich and Winterthur alone posted a deficit of CHF 665 million, essentially due to an increase in investment expenditure. The social security funds posted a surplus of CHF 2.1 billion in 2013, due primarily to the positive balances of old-age and survivors' insurance (AHV), unemployment insurance and disability insurance (IV).

Current forecasts are pointing toward a slight deterioration in the general government's ordinary balance, but it should nevertheless amount to CHF 1 billion in 2014 thanks to the social security funds' surplus of almost CHF 2.2 billion. The three ordinary balances of the Confederation, the cantons and the municipalities are set to be negative for the first time since 2003. Only the social security funds' ordinary fiscal balance is to remain positive, and this should enable the general government to offset the negative balances of the other sub-sectors.

The Confederation's ordinary fiscal balance fell by almost CHF 1.2 billion to end 2014 with a deficit of CHF 19 million. Relative to the previous year, receipts were down and expenditure grew somewhat. The decline in receipts was due primarily to direct federal tax, while value added tax receipts more or less stagnated[2]. Moreover, the Swiss National Bank (SNB) did not distribute any profits in 2014. According to the extrapolation based on current data, a surplus of CHF 684 million should be posted in 2015. Direct federal tax receipts should be up on the previous year, the profit distribution from the SNB will be higher and expenditure growth should be more moderate as a result of lower interest payable[3]. The inclusion of new decentralized entities following the revision of financial statistics will also contribute to this increase (see section 3.1.4 of the appendix). Specifically, the electricity consumption tax levied by the Foundation for Feed-in Remuneration at Cost (CRF) is recognized under the Confederation's tax receipts. Expenditure is also likely to increase, due in part to higher investment expenditure for the fund for major railway projects and the infrastructure fund. The Confederation is set to end 2016 with a surplus of almost CHF 1 billion taking account of the estimated unutilized credits and surpluses posted by the decentralized entities (primarily the CRF).

[2] Federal Finance Administration (2015). 2014 state financial statements slightly in the red – corrections necessary for 2016 budget. Press release of February 11, 2015. Bern

[3] Federal Finance Administration (2015). 2015 extrapolation: better result despite significant reduction in receipts. Press release of August 12, 2015. Bern

Table 1: 2010-2016 accounts, in CHF mn

		2010	2011	2012	2013	2014	2015	2016
General government	Receipts	193,821	200,427	200,736	205,902	207,068	213,648	217,334
	Expenditure	191,407	198,428	200,534	204,803	207,673	214,282	216,123
	Overall fiscal balance	**2,413**	**1,999**	**202**	**1,100**	**-605**	**-634**	**1,211**
	Ordinary fiscal balance	3,050	5,778	1,932	1,382	1,029	1,571	1,508
Confederation[1]	Receipts	63,460	65,193	64,410	67,004	64,914	67,516	68,188
	Expenditure	60,330	64,489	62,725	64,534	64,720	66,528	67,056
	Overall fiscal balance	**3,129**	**704**	**1,685**	**2,470**	**194**	**988**	**1,132**
	Ordinary fiscal balance	3,131	1,563	947	1,164	-19	684	987
Cantons	Receipts	77,244	79,291	79,752	81,355	82,744	86,262	87,632
	Expenditure	76,053	81,043	83,185	83,424	85,082	88,626	88,306
	Overall fiscal balance	**1,191**	**-1,753**	**-3,433**	**-2,068**	**-2,338**	**-2,363**	**-674**
	Ordinary fiscal balance	1,810	1,128	-1,388	-741	-491	146	-232
Municipalities	Receipts	42,691	44,082	44,195	44,568	45,500	46,474	47,632
	Expenditure	43,227	43,988	45,142	46,016	46,119	47,085	47,986
	Overall fiscal balance	**-536**	**94**	**-947**	**-1,449**	**-619**	**-610**	**-353**
	Ordinary fiscal balance	-517	134	-524	-1,187	-619	-610	-353
Social security funds	Receipts	54,449	58,619	59,563	60,814	61,960	62,731	63,857
	Expenditure	55,821	55,664	56,666	58,668	59,802	61,380	62,750
	Overall fiscal balance	**-1,372**	**2,954**	**2,897**	**2,146**	**2,157**	**1,351**	**1,107**
	Ordinary fiscal balance	-1,373	2,953	2,897	2,146	2,157	1,351	1,107

[1] Including separate accounts and decentralized entities

Grayed: forecasts

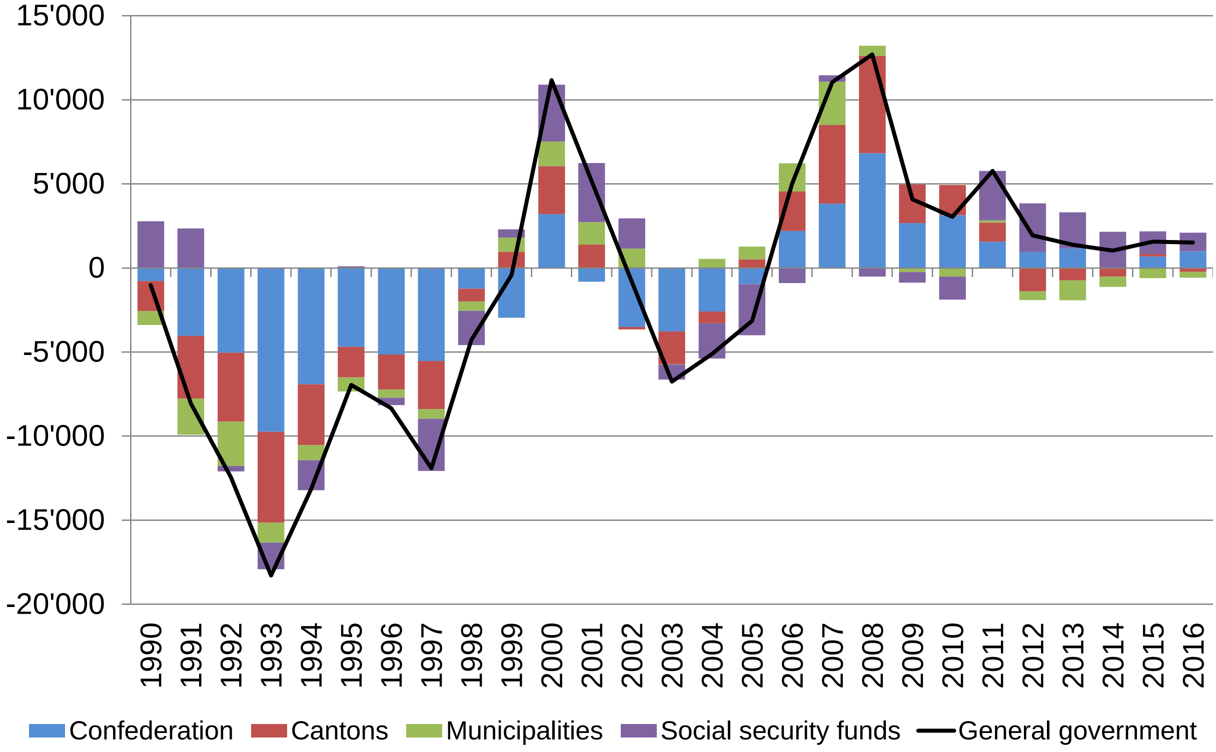
The currently available cantonal data is pointing to a slightly better ordinary fiscal balance for 2014. It should nevertheless remain in negative territory with a deficit of CHF 491 million. Several cantons had budgeted for an SNB profit distribution in 2014, but ultimately nothing was paid. The cantons' balance should improve in 2015 largely as a result of a supplementary distribution from the SNB, bringing the amount distributed to the cantons to CHF 1.3 billion[4]. This distribution should enable the cantons to post a positive ordinary balance in 2015. Their balance is nevertheless likely to be slightly negative again in 2016, due among other things to the impact of the 2015 economic slowdown on the labor market.

The municipalities' ordinary fiscal balance is likely to improve in 2014, but it will probably remain negative. Receipts are set to increase and expenditure should stay more or less at the 2013 level. The balance will most likely remain negative until 2016 because of the economic slowdown.

The social security funds' ordinary balance in 2014 was virtually the same as the previous year's. Due to the economic slowdown, current forecasts are reckoning on a significant drop in the social security funds' surplus from 2015 onward. Their surplus should nevertheless remain above the billion mark. The economic environment has a direct impact on the trend of social security funds' expenditure and receipts. Unemployment insurance expenditure is set to increase, while AHV, IV and unemployment insurance receipts are likely to fall.

[4] Federal Finance Administration (2015). FDF and SNB agree on supplementary distribution to Confederation and cantons. Press release of January 30, 2015. Bern

Figure 1: 1990-2016 ordinary fiscal balance, in CHF mn



In 2013, the **overall fiscal balance** of the general government was CHF 1.1 billion. Although the difference between the ordinary fiscal balance and the overall fiscal balance is small for the general government, it is greater depending on the sub-sector in question. This difference is due to various extraordinary receipts or expenses. In the case of the overall fiscal balance of the Confederation, the reduction in the Confederation's stake in Swisscom AG explains most of the difference. The proceeds of the sale of shares amounted to CHF 1.2 billion and the remainder came primarily from the Swiss Financial Market Supervisory Authority (FINMA) ordering a bank to disgorge profits. Regarding the cantons, the difference of CHF 1.3 billion between the two balances can be explained by the extraordinary recapitalization of several public-sector pension funds, primarily in the cantons of Vaud (CHF 788 mn), Ticino (CHF 470 mn) and Neuchâtel (CHF 223 mn).

In 2014, the overall fiscal balance of the general government will probably be approximately CHF 1.6 billion lower than the ordinary fiscal balance. In the case of the Confederation, in contrast, the positive difference between the two balances can be explained by FINMA ordering several banks to disgorge profits and the remaining proceeds of the sale of Swisscom AG shares, whereas the cantons' overall fiscal balance is severely impacted by the recapitalization of pension funds, primarily in the cantons of Basel Landschaft (approximately CHF 1 bn), St. Gallen (CHF 287 mn) and Geneva (CHF 203 mn).

In 2015, the overall fiscal balance of the general government should remain in negative territory. The Confederation is anticipating extraordinary receipts as a result of the new allocation of mobile radio frequencies, an initial payment within the framework of the Swissair liquidation settlement proceedings, dividends from the liquidation of Sapomp Wohnbau AG and FINMA ordering profits to be disgorged. In contrast, the cantons are expecting extraordinary expenditure for the recapitalization of the pension funds of public-sector entities, primarily in the cantons of Bern and Solothurn in 2015 and the canton of Basel Stadt in 2016. The overall fiscal balance of the general government should nevertheless return to positive territory in 2016.

2. Financial statistics indicators in accordance with international guidelines

The finances of the government units are additionally published in accordance with the guidelines of the International Monetary Fund (IMF) to facilitate international comparisons. For the first time, the data and indicators published in this report have the IMF's new Government Finance Statistics Manual 2014 (GFSM 2014) as their methodological foundation, and they have been revised with retroactive effect to 1990. The effects of this revision can be seen primarily at the level of aggregates, but their trend is virtually unaffected. As the reconciliation of the results with the system of national accounts based on the European System of Accounts (ESA 2010) has not yet been completed, these results are provisional.

The government unit indicators used in financial statistics comprise a set of five aggregates, each of which is expressed as a percentage of nominal gross domestic product, GDP (Table 2). The GDP trend for 2015 and 2016 is based on the economic forecasts of the federal government's group of experts, published on June 16, 2015[5].

Table 2: 2010-2016 indicators, in % of GDP

		2010	2011	2012	2013	2014	2015	2016
Deficit/surplus ratio	**General government**	**0.3**	**0.5**	**0.0**	**-0.2**	**-0.1**	**-0.1**	**0.1**
	Confederation[1]	0.5	0.2	0.1	0.0	0.0	0.1	0.1
	Cantons	0.2	-0.2	-0.4	-0.3	-0.3	-0.3	-0.1
	Municipalities	-0.1	0.0	-0.1	-0.2	-0.1	-0.1	-0.1
	Social security funds	-0.3	0.5	0.5	0.3	0.3	0.2	0.2
Tax-to-GDP ratio	**General government**	**26.5**	**27.1**	**26.9**	**27.0**	**27.1**	**27.6**	**27.7**
	Confederation[1]	9.7	9.9	9.5	9.6	9.5	9.8	9.8
	Cantons	6.5	6.5	6.6	6.6	6.7	6.8	6.9
	Municipalities	4.0	4.1	4.1	4.1	4.1	4.2	4.2
	Social security funds	6.3	6.6	6.7	6.7	6.7	6.8	6.8
Expenditure ratio	**General government**	**32.1**	**32.6**	**32.6**	**32.9**	**33.0**	**34.1**	**34.0**
	Confederation[1]	10.3	10.7	10.4	10.6	10.4	10.8	10.7
	Cantons	12.8	13.4	13.6	13.5	13.7	14.2	14.1
	Municipalities	7.1	7.0	7.1	7.2	7.1	7.2	7.3
	Social security funds	9.1	8.9	9.0	9.2	9.2	9.5	9.5
Debt ratio (with reference to the Maastricht definition)	**General government**	**33.9**	**33.2**	**34.2**	**34.6**	**34.5**	**34.6**	**34.5**
	Confederation[1]	18.0	17.7	17.8	17.4	16.8	16.4	16.1
	Cantons	8.7	8.3	8.8	9.7	10.1	10.5	10.7
	Municipalities	7.6	7.5	7.6	7.7	7.8	7.9	7.9
	Social security funds	1.2	1.0	1.0	0.7	0.7	0.5	0.5
Gross debt ratio	**General government**	**44.6**	**44.8**	**45.6**	**45.5**	**46.4**	**46.5**	**46.3**
	Confederation[1]	23.1	23.1	23.3	22.3	22.7	22.3	22.0
	Cantons	11.7	11.7	12.1	13.1	13.4	13.8	13.8
	Municipalities	10.1	10.2	10.2	10.3	10.4	10.6	10.6
	Social security funds	1.2	1.0	1.0	0.8	0.7	0.5	0.5

[1] Including separate accounts and decentralized entities

Grayed: forecasts

The financial statistics indicators are stated in accordance with the current guidelines of the International Monetary Fund (IMF). In the case of the GFS Model, the **ratios** are determined using standards that are different from those used for the fiscal balance interpreted in the first part of this report (Appendix 3.2). The debt ratio is an exception, however, as it is calculated with reference to the Maastricht criteria of the EU. This ensures that the indicators are internationally comparable. As with the preceding data, the indicators are based on the consolidated results of the Confederation, cantons, municipalities and social security funds.

[5] State Secretariat for Economic Affairs (2015). Painful adaptation of the economy to the strong Swiss franc in 2015. Press release of June 16, 2015. Bern

The general government **deficit/surplus ratio** was negative in 2013, coming in at -0.2% of GDP. In the case of the Confederation, the rise in expenditure outstripped revenue growth and the ratio broke even at 0.0% of GDP. The deficit/surplus ratio in accordance with the IMF standards was significantly lower than the overall fiscal balance. For example, the proceeds of the sale of Swisscom AG shares have no impact on the operating statement and concern only the GFS Model's balance sheet. The ratio was -0.3% of GDP for the cantons, staying negative mainly as a result of the recapitalization of public-sector pension funds. It deteriorated to -0.2% of GDP in the case of the municipalities for the same reasons as those mentioned in the first part of the report. The social security funds' ratio fell but remained positive at 0.3% of GDP.

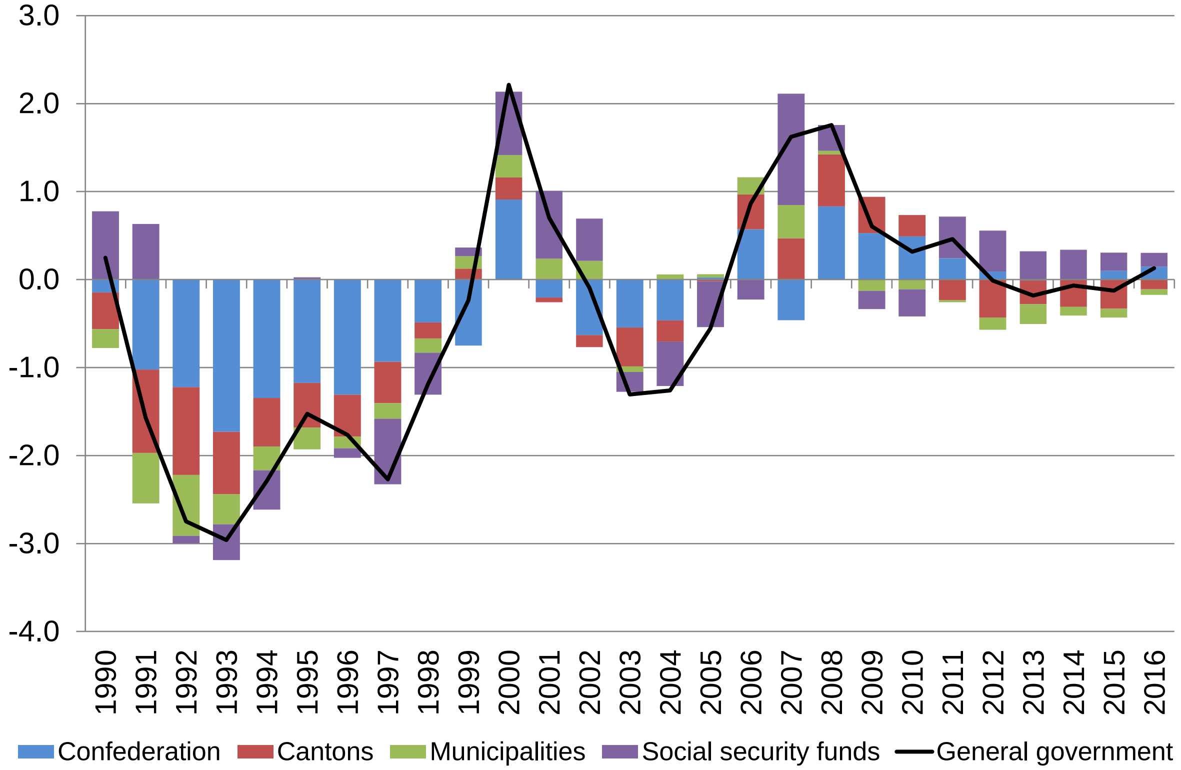
The general government deficit/surplus ratio is likely to improve in 2014, but it will probably stay in negative territory. The deficit/surplus ratio of the social security funds was positive at 0.3% of GDP and that of the Confederation broke even. The decline in the Confederation's revenue was offset by a reduction in its expenditure. Moreover, the SNB did not distribute any profits to the Confederation and cantons in 2014. The cantons' ratio is likely to remain negative in 2014. The restructuring of pension funds is continuing to weigh heavily on the cantons' results. The municipalities' deficit/surplus ratio should improve somewhat, but it will probably stay negative.

According to the forecasts of the federal government's group of experts published on June 16, 2015, the economic slowdown is continuing and real GDP growth should amount to only 0.8% in 2015, compared with 1.9% the previous year. The general government deficit/surplus ratio is set to be negative once again in 2015. It should improve slightly in the case of the Confederation. The Confederation's consolidated revenue is increasing primarily as a result of the new decentralized entities (CRF) taken into account following the revision of financial statistics (Appendix 3.1.4) and the supplementary distribution from the SNB[6]. The cantons' ratio is likely to remain negative in 2015, essentially as a result of the already known recapitalization of public-sector pension funds (primarily in the cantons of Bern and Solothurn). The municipalities' deficit/surplus ratio will probably remain negative in 2015. Finally, the social security funds' ratio should be positive in 2015, but it will probably decline slightly as a result of the economic slowdown.

The economic environment should improve in 2016, allowing the general government deficit/surplus ratio to return to positive territory. The ratios of the cantons and municipalities will probably stay negative, while those of the Confederation and social security funds should be positive.

[6] See note 4

Figure 2: 1990-2016 deficit/surplus ratio, in % of GDP

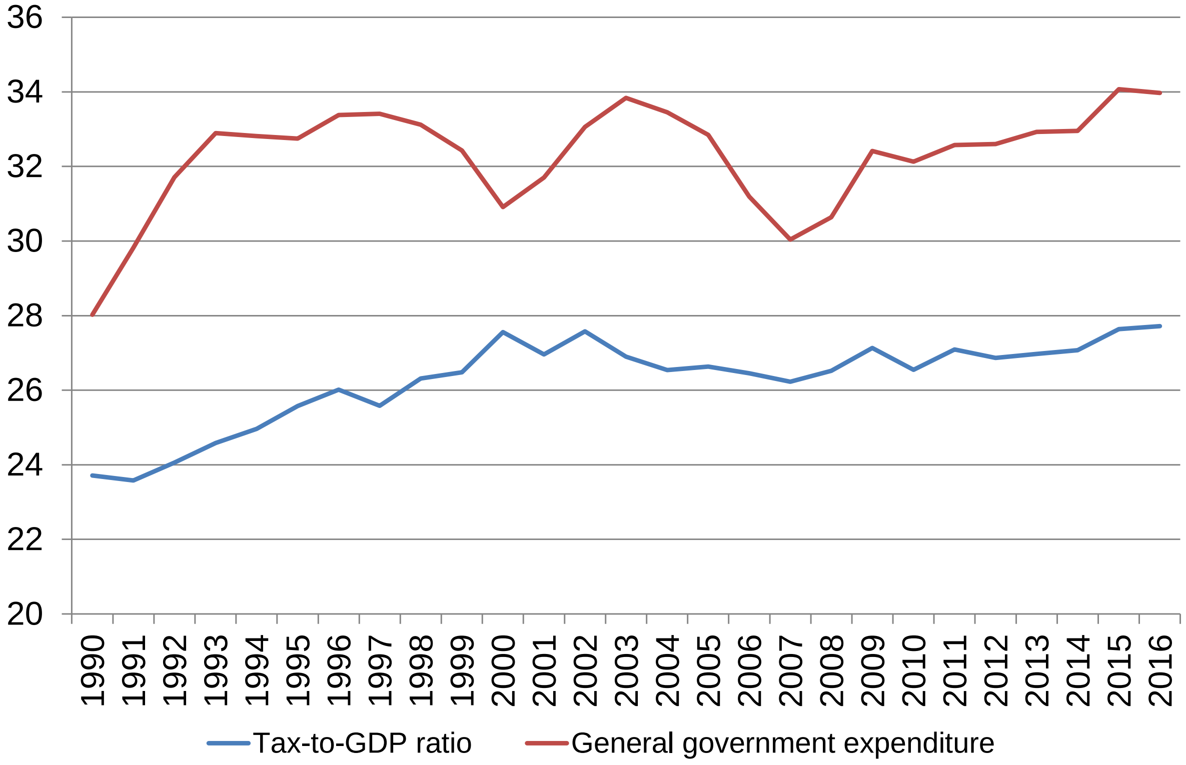


After rising in the 1990s, the general government sector's **tax-to-GDP ratio** has been stable at between 26% and 28% of GDP since the turn of the millennium (Figure 3).

In 2013, the general government's tax-to-GDP ratio was 27.0% of GDP. The Confederation's tax revenue was up primarily as a result of a rise in withholding tax revenue in 2013, causing the ratio to climb to 9.6% of GDP. The cantons' tax revenue growth was in line with GDP growth, causing the tax-to-GDP ratio to stay unchanged at 6.6% of GDP. This ratio also remained unchanged at 6.7% of GDP for the social security funds and at 4.1% of GDP for the municipalities.

In 2014, the general government's tax-to-GDP ratio is set to rise to 27.1% of GDP because of nominal GDP growth being slightly weaker than tax revenue growth. In 2015, the general government's tax-to-GDP ratio is set to reach 27.6% of GDP. This increase can be explained entirely by the nominal GDP growth of virtually zero expected in 2015. The tax-to-GDP ratio should remain more or less at the same level in 2016.

Figure 3: 1990-2016 general government tax-to-GDP ratio and expenditure ratio, in % of GDP



Between 2003 and 2007, the **general government expenditure ratio** was marked by the very healthy economic conditions and various relief measures, and it was possible for it to be lowered considerably from 33.8% to 30.0% (Figure 3). Moreover, the new delimitation of the general government sector triggered a decline in the general government expenditure ratio in 2007 and 2008. The surge in the general government expenditure ratio seen in 2009 was attributable to the poor economic climate, which caused additional government expenditure in all sub-sectors.

The general government expenditure ratio was 32.9% of GDP in 2013, representing a mild year-on-year increase. The Confederation and cantons sub-sectors had opposing trends. In the case of the Confederation, the rise can be explained primarily by expenditure growth in the "Defense" and "Basic research" functional groups. Furthermore, the sale of mobile radio frequencies had enabled the Confederation to reduce its net investments in 2012. These were thus higher in 2013. The cantons' expenditure growth was slower than that of GDP, causing the expenditure ratio to fall slightly. However, just like in 2012, the cantons posted a sharp increase in expenditure in the "Health" functional group. The municipalities' ratio edged up to 7.2% of GDP, driven by an increase in the municipalities' expenditure largely in the "Education" and "Health" functional groups.

The general government expenditure ratio is set to rise slightly to 33.0% of GDP in 2014. Expenditure growth was significantly slower than GDP growth for the Confederation, causing its ratio to fall, whereas for the other general government sub-sectors the ratio values should be close to those of the previous year.

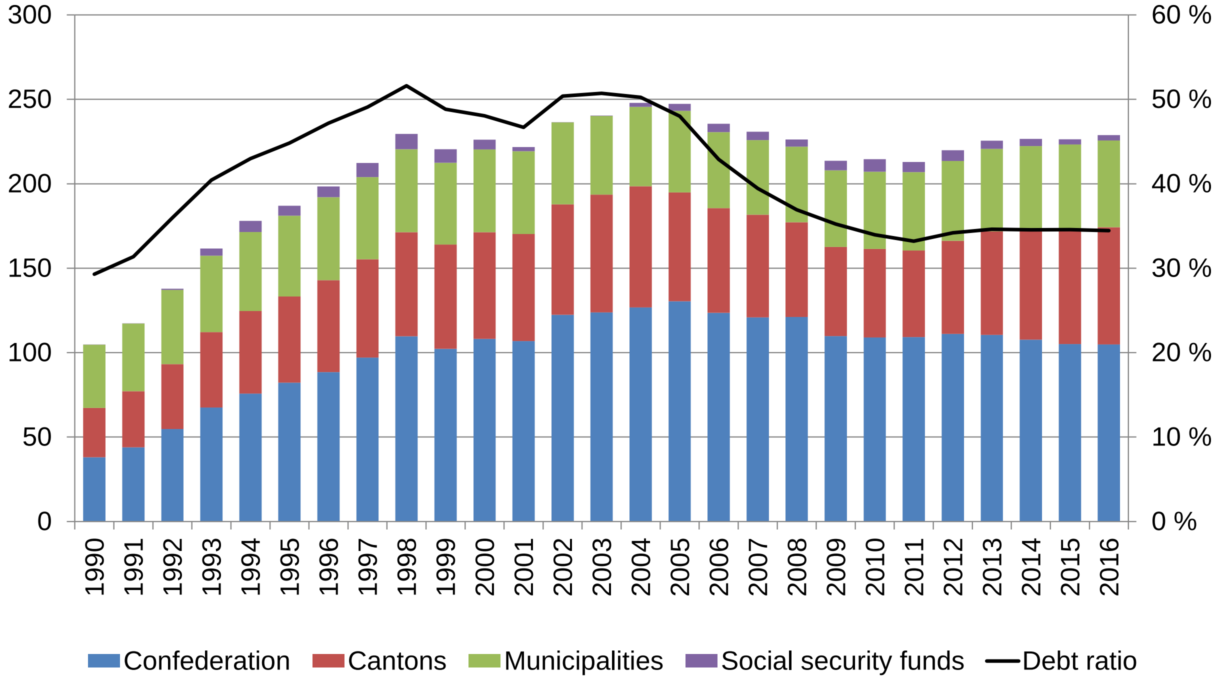
The general government expenditure ratio is set to gain more than one percentage point in 2015 and reach 34.1% of GDP. This increase can be explained by the combination of the zero nominal GDP growth expected and the extraordinary expenditure envisaged by the cantons to restructure their public pension funds. The general government expenditure ratio should decline somewhat in 2016.

The **debt ratio** of the government units is stated in the financial statistics with reference to the EU's Maastricht criteria. Since 2003, the gross debt ratio of the individual sub-sectors has been reduced thanks to sometimes high surpluses. It has been below 40% of GDP since 2007 and was lowered to 33.2% in 2011 (Figure 4).

This downward trend was interrupted in 2012. The general government's debt ratio rose to 34.2% of GDP that year, and then to 34.6% in 2013. With regard to the Confederation, it had to build up liquidity in 2012 to redeem a bond maturing in 2013. In the case of the cantons, the debt ratio has been on an upward trend since 2012. It rose by 0.9 percentage points in 2013, largely as a result of the trend in the cantons of Geneva, Basel Stadt, Zurich and Ticino, which was probably caused by the deterioration of their financial situation in recent years, as well as the changeover to the HAM2 harmonized accounting model in certain public administrations.

The economic slowdown is making debt ratio forecasts highly unreliable. Nevertheless, the debt ratio should be stable from 2014 onward in the general government sector, but trend differently depending on the sub-sector in question. The currently available data is pointing to an increase in several cantons' debt levels due to the changeover to the HAM2 harmonized accounting model in certain public administrations, as well as the deterioration of their financial situation in recent years. The cantons' debt ratio is set to continue to rise in 2015. The debt ratio of the social security funds should remain at 0.5% of GDP in 2015 and 2016, largely due to the unemployment insurance debt vis-à-vis the Confederation. Based on the long-term debt reduction in the Confederation and social security funds sub-sectors, a debt ratio of 34.5% of GDP is expected for the general government in 2016.

Figure 4: 1990-2016 gross debt for all sub-sectors, in CHF bn (left scale) and in % of GDP for the general government (right scale)



The **gross debt ratio** states government debt according to the IMF definition as a percentage of GDP. It includes more balance sheet items than Maastricht debt (Appendix 3.2).

Thanks to the high surpluses achieved in previous years, the gross debt ratio declined until 2010, when it reached 44.6% of GDP (Table 2). In 2013, it posted a minor year-on-year decline to 45.5% of GDP. The Confederation pursued its debt reduction efforts and the fair value of Confederation bonds fell. In contrast, the ratio rose for the cantons, essentially for the same reasons given above. The gross debt ratio should be up by almost one percentage point in

2014, primarily as a result of a rise in the fair value of Confederation bonds. Subsequently, the gross debt ratio should reach around 46.3% of GDP in 2016.

3. Appendix

3.1. Information on methodology

The Financial Statistics Section of the Federal Finance Administration (FFA) is in a changeover phase. The finances of the government units are additionally published using the so-called GFS Model in accordance with the guidelines of the International Monetary Fund (IMF) to facilitate international comparisons. These are calculated on the basis of the results of the FS Model. For the first time, the data and indicators being published today have the IMF's new Government Finance Statistics Manual 2014 (GFSM 2014) as their methodological foundation, and they have been revised with retroactive effect to 1990.

With the implementation of conceptual changes, it is necessary to review not only the basic data and data sources used, but also the calculation methods. Because of the introduction of the GFSM 2014, there are also adjustments to the basic statistics, i.e. the national FS Model, on which the GFS Model is built. The individual changes made in the FS and GFS Model are described in a technical note[7] posted online.

The latest round of revisions has provisionally been completed with the first publication of the international financial statistics model (GFS Model) in accordance with the GFSM 2014. Such comprehensive revisions of the methodological and conceptual calculation basis occur approximately once every 15 to 25 years and aim to take account of the changed economic circumstances and issues. The GFSM 2014 is specifically targeted to what is needed for analyzing the government's revenue, financial and asset situation in an economic territory (country). Just like the current European System of Accounts (ESA 2010), the GFSM 2014 is also based on the standard reference work for national accounts, the System of National Accounts (SNA 2008) of the international organizations (UNO, OECD, IMF, World Bank, European Commission).

Striking conceptual changes within the framework of the GFS Model concern expenditure on military weapon systems and research and development expenditure:

- Military weapon systems: Previously, the procurement of military weapon systems, e.g. fighter jets, was considered as the purchase of goods and services and thus as intermediate consumption. Consequently, they were part of government final consumption expenditure in the system of national accounts. As military weapon systems can be used for more than a year and can possibly be resold, they are now treated as capital formation. Their acquisition is recorded as capital expenditure and they are capitalized under non-financial assets in the general government's balance sheet. Previously, military facilities that could also have civilian uses such as barracks or motor vehicles for civilian use were already recorded as capital formation.
- Research and development: Because expenditure on research and development (R&D) has a lasting impact on a country's national economy that is measurable over a period of several years, this is now treated as capital formation as well. Investment in research and development can optimize or improve the production process. In the GFS Model of financial statistics, only the general government's investment share is taken into account; likewise, only that part is capitalized under non-financial assets in the balance sheet.

As part of the changeover to the GFSM 2014, a reconciliation is also being performed with the Swiss system of national accounts established by the Federal Statistical Office (FSO). This was published in accordance with the ESA 2010 for the first time as of 30 September 2014. The Financial Statistics Section's results for the GFS Model are of a provisional nature for the

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7 See *technical notes* at http://www.efv.admin.ch/e/dokumentation/finanzstatistik/methoden.php

time being, as the reconciliation with the Swiss system of national accounts has not yet been completed. Items that are currently outstanding include issues associated with the recording, coverage and valuation of contributions for the financial restructuring and funding of public-sector pension funds, as well as the amount of the resultant employee retirement benefits.

3.1.1. Overview of financial statistics models

The statistics on Switzerland's public finances, or financial statistics for short, give an overview of the revenue, financial and asset situation of the government units in Switzerland. The financial statistics data is recorded, processed and evaluated in the so-called FS Model, the core of which is based on the Harmonized Accounting Model for the Cantons and Municipalities (HAM2). The Swiss Public Sector Financial Reporting Advisory Committee[8] (SRS-CSPCP) publishes information on the current status of the HAM2 as well as interpretations concerning individual specialist recommendations and frequently asked questions online on its website.

The FS Model is a model for financial statistics that allows the financial results supplied by the Confederation, cantons, municipalities and social security funds to be standardized and made comparable. At the same time, it forms the basic statistics for mapping, statistical operations and evaluations in accordance with the international GFS Model (Government Finance Statistics Model) of financial statistics, in which the public finance guidelines of the International Monetary Fund (IMF) are implemented.

The HAM2 chart of accounts forms the basis for the economic classification used in the FS Model. On the one hand, it is streamlined to simplify matters and on the other, items "not elsewhere classified" are added, as the cantons and municipalities are still partly supplying their accounts according to the earlier HAM1. These additional items are needed because the HAM1 is less detailed in parts. Consequently, these positions cannot be clearly mapped to HAM2 items. Apart from quite minor exceptions, the functional classifications of the HAM1 and HAM2 are the same. The data from the Confederation's separate accounts and state financial statements, as well as the social security funds, is also integrated in this model and is incorporated directly into the GFS Model.

In the case of the general government sector, both models use the same delimitation criteria for determining the consolidation scope as those used in the national accounts. This sector is subdivided into the economic sub-sectors Confederation (including separate accounts and decentralized entities), cantons, municipalities and social security funds. The consolidated general government sector thus covers all government units. Public enterprises are not included.

However, the FS and GFS Models serve different purposes (Table 3). The inclusion of separate accounts and decentralized entities in the Confederation sub-sector, for example, leads to indicators that are not directly comparable with those produced in the Confederation's financial reporting.

8 See http://www.srs-cspcp.ch/srscspcp.nsf/vwBaseDocuments/HOSRS01?OpenDocument&lng=en

Table 3: Overview of the financial statistics models published

	FS Model	GFS Model
Basis	National accounting models for the cantons and municipalities (HAM2) and the Confederation (NAM)	International financial statistics guidelines of the IMF (GFSM 2014)
Objective	National comparability of government units	International comparability of the general government sector and its sub-sectors
Results	Statements of financial performance and investments, financing statement and statement of financial position	Operating statement, transactions in non-financial assets and balance sheet
Scope	Economic sub-sectors (Confederation, cantons, municipalities, social security funds) and the general government sector down to the level of individual budgets (cities and cantonal capitals, cantons, social security funds)	Only at the level of the economic sub-sectors (Confederation, cantons, municipalities, social security funds) and the general government sector

3.1.2. Government Finance Statistics Model

Like the FS Model, the GFS Model also uses the accrual basis of accounting, the main feature of which is the allocation of business transactions to the corresponding accounting period. The GFS Model does not provide a breakdown between ordinary and extraordinary results, and instead distinguishes between transactions and other economic flows. While the net operating balance[9] and net lending/borrowing[10] are derived from transactions and can be controlled by fiscal policy, unanticipated events[11] such as changes in the value of stocks are considered other economic flows, which are beyond policy control. Stocks are valued in accordance with the "true and fair view" principle, whereby negotiable assets and liabilities in particular are recognized in the balance sheet[12] at fair value.

Investments are also reported differently in the GFS Model than in the FS Model. A key variable in transactions in non-financial assets in the GFS Model is what is termed the net acquisition of non-financial assets. This is defined as acquisitions less disposals of non-financial assets and less the consumption of fixed capital. Unlike in the FS Model, however, loans granted to other government units and associated increases in financial interests are not recognized as investments and are thus not included when calculating transactions in non-financial assets. They are treated as transfers to other general government levels and are thus considered part of the operating statement.

[9] Net operating balance = revenue – expense

[10] Net lending/borrowing = net operating balance – net acquisition of non-financial assets
= receipts – expenditure

[11] Unanticipated events in the GFS Model are not to be confused with extraordinary transactions in the FS Model. For example, the recapitalization of pension funds is not considered as an unanticipated event in the GFS Model. In contrast, the consequences of a natural disaster or valuation changes due to changes in market prices are considered as unanticipated events that are beyond the control of fiscal policy.

[12] The term "balance sheet" is used in the GFS Model instead of the term "statement of financial position".

3.1.3. Data sources

The financial statistics are based on the data disclosed in the state financial statements of the Confederation and all the cantons, as well as the annual reports of some 900 municipalities. All cities and cantonal capitals as well as random samples per canton are taken into account. Based on the accounts of the municipalities surveyed, estimates and extrapolations are made for the other municipalities per canton. Social security funds are also included (old-age and survivors' insurance, disability insurance, compensation for loss of earnings and unemployment insurance, agriculture family allowances, maternity insurance in Geneva). Institutions that are counted in the government units but not included in the state and municipal accounts are integrated into the statistics for the sake of comparability and completeness. In contrast, public enterprises that are consolidated in the state and municipal accounts are excluded (see 3.1.4.). For these reasons, the evaluations in the financial statistics do not necessarily correspond to the financial statements published by the Confederation, cantons, municipalities or social security funds.

Due to the vast workload involved in compiling and harmonizing the data caused by the federal structure of the government units, there is generally a time lag of some 18 months before publication of the definitive results for each fiscal year. However, estimates can be used to provide more up-to-date statements and forecasts for the general government sector and the individual sub-sectors, i.e. Confederation, cantons, municipalities and social security funds, (Table 4). The financial statistics are based on the financial statements up to 2013. For the Confederation (including separate accounts and decentralized entities), the 2014 figures are also based on the corresponding financial statements. The 2015 forecasts are based on the current extrapolation, and the 2016 forecasts are based on the budget. The forecasts for the cantons are based on the currently available accounting data (2014), a survey of cantonal budgets (2015) and forecasts made using various indicators (2016). The 2014-2016 forecasts for the municipalities are based on several indicators. The 2014 figures for the social security funds are based on their financial statements, and the 2015-2016 forecasts are based on their budget or financial plan figures.

In the case of the cantons and municipalities, it needs to be borne in mind that the budgets and financial plans used for preparing the forecasts are not uniform. Consequently, discretionary measures (e.g. relief programs, funding of pension funds) of these government units are not always incorporated into the forecasted data. For this reason, the figures are to be interpreted with all due caution as the length of the forecast horizon increases.

The updated results were published on September 24, 2015. All data tables and information on the methods are available online[13].

Table 4: Sources for financial statistics data, September 2015

Sub-sector	Up to 2013	2014	2015	2016
General government	**Financial statements**	**Forecasts**	**Forecasts**	**Forecasts**
Confederation[1]	Financial statements	Financial statements	Extrapolation	Budget/financial plans
Cantons	Financial statements	Data available	Budget survey	Forecasts
Municipalities	Financial statements	Forecasts	Forecasts	Forecasts
Social security funds	Financial statements	Financial statements	Budget/financial plans	Budget/financial plans

[1] Including separate accounts and decentralized entities

Grayed: forecasts

[13] http://www.efv.admin.ch/d/dokumentation/finanzstatistik/index.php

3.1.4. Differences between financial statistics and state financial statements

The differences between the figures published by the Financial Statistics Section and the government units' own state financial statements are explained below. Such discrepancies can occur in all sub-sectors of the general government (Confederation, cantons, municipalities and social security funds). They generally arise as a result of differences in the understanding of the scope of consolidation, i.e. the sectoring of financial statistics. For the purpose of financial statistics, the entities included in the general government sector are defined in accordance with the criteria of the European System of Accounts (ESA 2010). Thus, in addition to the Confederation as the parent entity, the cantons, municipalities and social security funds, all other entities meeting these criteria are included. In financial statistics, general government units are all entities that are independent institutions under state control and which either:

- collect taxes,
- redistribute income and wealth, or
- fund less than half of their production costs via sales or fees.

Institutions not meeting these criteria are not included or are removed from the state financial statements. Thus, public enterprises like hospitals, electricity, gas and district heating plants, transportation companies, waterworks, waste incineration plants and antenna installations that cover over half of their production costs through the sale of goods and services or through fees do not fall under the general government sector. Likewise, the general government sector does not include state financial institutions and financial service providers such as the Swiss National Bank, cantonal banks or public-sector pension funds. These are classified as financial corporations. Financial and non-financial corporations are recorded as separate economic sectors in the Swiss system of national accounts, with no distinction being made between public and private enterprises.

The differences between the financial statistics and the state financial statements in accordance with the financial reporting are explained below using the Confederation as an example. According to the financial statistics, the Confederation sub-sector comprises the Confederation itself as the parent entity as well as the separate accounts that appear in the Confederation's financial reporting but which are not consolidated with the parent entity: the Swiss Federal Institutes of Technology Domain (ETH), the Swiss Alcohol Board (SAB), the Infrastructure fund, the FinPT fund for the financing of major railway projects, and from 2016 the railway infrastructure fund (RIF), which is to replace the FinPT fund. It also includes the decentralized entities that are more than 50% funded by the Confederation, as set out in the ESA 2010 criteria: Swiss National Science Foundation (SNSF), Swiss Federal Institute for Vocational Education and Training (SFIVET), Pro Helvetia Arts Council, Swiss National Museum, Switzerland Tourism, Swiss Federal Institute of Metrology (METAS), grid supplement fund (CRF) and Building Foundation for International Organisations (FIPOI). On the other hand, FINMA and its predecessors are funded mainly through fees and supervisory duties paid by the regulated bodies and are thus not included; they are no longer included in the Confederation's state financial statements. The differences between the national FS Model and the international GFS Model also have to be taken into account. These exist primarily through the separate booking of other economic flows in the GFS Model. This leads to a narrower definition of revenue and expense in the GFS Model. Table 5 shows the sequence for moving from the balances in the state financial statements in accordance with the Confederation's financial reporting to the balances calculated using the GFS Model.

Table 5: Differences in the Confederation's financial reporting – FS Model – GFS Model, in CHF mn

Confederation	2010	2011	2012	2013	2014
Ordinary fiscal balance in accordance with financial reporting	**3568**	**1912**	**1262**	**1332**	**-124**
+ Extraordinary fiscal balance in accordance with financial reporting	-427	-1708	738	1306	213
Overall fiscal balance in accordance with financial reporting	**3140**	**205**	**2000**	**2638**	**89**
+ Balance from consolidation of seperate accounts of the federal fin.	-213	-511	-388	-248	42
+ Balance from consolidation of decentralized entities financed primarily by tax (2)	202	161	73	81	63
+ Balance of special factors (3)	0	850	0	0	0
Overall fiscal balance in accordance with FS Model	**3129**	**704**	**1685**	**2470**	**194**
- Balance sheet transactions adjustment (4)	-159	-169	-337	904	-228
- Other economic flows adjustment (4)	-3507	-4177	-2814	-3724	-3680
+ Accrual accounting (5)	-4323	-3620	-4153	-5086	-4011
+ Statistical operations (6)	1401	1299	16	557	518
- Net acquisition of non-financial assets (7)	907	1233	125	826	606
Net lending/borrowing in accordance with GFS Model	**2967**	**1496**	**574**	**-65**	**4**

(1) ETH, FinPT, IF, SAB
(2) Separate accounts in accordance with financial statistics (SFIVET, Swiss National Science Foundation, Pro Helvetia, Switzerland Tourism, Swiss National Museum, METAS, CRF, FIPOI)
(3) 2011: e.o. infrastructure fund deposit
(4) Not included in the balance in accordance with GFS
(5) Entries without a financial impact (included in the GFS balance)
(6) Statistical operations for the purpose of adjusting to the IMF's GFSM 2014
(7) Net lending/borrowing = revenue – expense – net acquisition of non-financial assets

3.2. Glossary of financial statistics indicators

The financial statistics indicators are stated using the international GFS Model of financial statistics in accordance with the standards of the International Monetary Fund (IMF). The debt ratio is an exception, as it is also calculated with reference to the EU's Maastricht criteria using the FS Model. This ensures that the indicators are internationally comparable. The indicators for the general government sector and its sub-sectors (Confederation, cantons, municipalities and social security funds) are based on five aggregates, each of which is expressed as a percentage of nominal gross domestic product (GDP). They serve primarily as a basis for international comparisons. The ratios are based on the revised GDP figures in accordance with the European System of Accounts (ESA 2010).

Tax-to-GDP ratio: The tax-to-GDP ratio measures the general government sector's total tax revenue (tax and social security contributions) in relation to nominal GDP. In addition, the tax ratios of the Confederation, cantons and municipalities as well as the social security funds can be calculated. Social security contributions include mandatory contributions for old-age and survivors' insurance, disability insurance, compensation for loss of earnings and unemployment insurance, agriculture family allowances and maternity insurance in the canton of Geneva. Although mandatory, health insurance, accident insurance and pension fund contributions are not taken into account, as these corporations do not belong to the general government sector. Therefore, the tax-to-GDP ratio is not to be understood as the ratio of compulsory payments. The tax-to-GDP ratio expresses the proportion of GDP used by the general government to finance its tasks using taxes and contributions. A major divergence between the general government expenditure ratio and the tax-to-GDP ratio indicates a debt-financed budget.

General government expenditure ratio: The tax-to-GDP ratio serves to finance the general government expenditure ratio, which is defined as total government expenditure in relation to GDP. Total expenditure (current expense and net acquisition of non-financial assets) in all sectors is taken into account in the process. Tax ratios can also be calculated for the individual sub-sectors of the general government sector.

Deficit/surplus ratio: The deficit/surplus ratio for the general government sector or one of its sub-sectors corresponds to net lending/borrowing in accordance with the GFS Model as a percentage of GDP. Net lending/borrowing can be calculated in two ways:

Net lending/borrowing = revenue – expense – net acquisition of non-financial assets
= government receipts – government expenditure

Debt ratio: The debt ratio as measured with reference to the Maastricht definition shows the relationship between the gross debt of the government units and nominal GDP. This indicator is based on the definition of the current Harmonized Accounting Model for the Cantons and Municipalities (HAM2). It is also calculated with reference to the EU's Maastricht criteria for the gross debt ratio. In accordance with the HAM2, gross debt is comprised of current liabilities, short-term debt, medium- and long-term debt and liabilities for separate accounts. The financial instruments taken into account are valued at face value. With reference to the Maastricht definition, the general government's debt comprises only liabilities in the form of currency and deposits, debt instruments and loans. As gross debt as defined by the Maastricht criteria is a subset of the IMF definition of gross debt, it is always lower than it.

Gross debt ratio: The gross debt ratio states general government debt according to the IMF definition as a percentage of GDP. With the exception of financial derivatives, it includes all liabilities on the liabilities side of the balance sheet and is thus more broadly defined than Maastricht debt and is therefore always higher in principle. Another important difference is that the IMF requires market valuation of debt capital insofar as possible. The IMF gross debt ratio is therefore subject to significantly greater fluctuations than the Maastricht debt ratio, where debt is included at face value. Bonds and other market-traded debt instruments, in particular, reached a relatively high level in the last few years compared with their face value. Nonetheless, the IMF gross debt ratio follows a similar trend to the Maastricht debt ratio and is a good 10 percentage points higher than it on average.

Government unit: The consolidated accounts of a government unit adjusted for internal transactions are made up of its own accounts (parent entity) and the separate accounts of all institutional entities for consolidation that are under the control of the executive and legislative bodies of said government unit. All controlled entities whose sales of goods and services do not cover at least 50% of production costs are for consolidation. If, however, the consolidated financial statements of a government unit include government-controlled entities that are largely self-financed via the sale of goods and services, these are removed. Such entities are treated as public market producers or public enterprises. The scope of the financial statistics is described in the annual report on Switzerland's financial statistics, which contains a list of added and eliminated entities.[14]

14 See http://www.efv.admin.ch/e/dokumentation/finanzstatistik/index.php