



Press release

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First extrapolation for 2020: considerably weaker results due to COVID-19 pandemic

The Confederation is expecting a financing deficit of CHF 20.9 billion for this year. In the ordinary budget, a deficit of CHF 3.1 billion is projected. A surplus of CHF 0.3 billion had been budgeted. The poor results stem from a substantial reduction in receipts (-5.2 bn), which was only partly offset by lower expenditure (-1.8 bn). According to initial estimates, the extraordinary budget measures to combat the COVID-19 pandemic amount to CHF 17.8 billion.

The Federal Council was informed about the current extrapolation on 12 August 2020. Based on the figures up to the end of June, the Confederation expects a financing deficit of CHF 3.1 billion in the 2020 *ordinary budget*. The *extraordinary budget* contains the extensive measures taken by the Confederation to combat the COVID-19 pandemic. According to initial estimates, these amount to CHF 17.8 billion. Thus, it currently appears that the extraordinary expenditure provided for in the addenda (30.9 bn, incl. Addendum IIb and compensation) will not be fully used. Overall, this will result in a financing deficit of CHF 20.9 billion.

Table: 2020 financing statement – extrapolation as of 30 June 2020

CHF bn	2020 budget	June extrap.	Diff. betw. budget & extrap.
Ordinary receipts	75.7	70.4	-5.2
Tax receipts	71.2	65.3	-5.8
Non-tax receipts	4.5	5.1	+0,6
Ordinary expenditure	75.3	73.5	-1.8
Current expenditure	64.0	62.6	-1.3
Investment expenditure	11.4	10.9	-0.5
Ordinary fiscal balance	0.3	-3.1	-3.4
Extraordinary receipts	–	0.0	+0,0
Extraordinary expenditure	–	17.8	+17,8
Overall fiscal balance	0.3	-20.9	-21.3

Any discrepancies in the totals are due to rounding.

Substantial reduction in receipts in the ordinary budget

Receipts are projected to undershoot the budget by around CHF 5.2 billion (-6.9%). The reduction in receipts relates mainly to VAT and direct federal tax. There will be a reduction in VAT receipts of 6.7%, owing to the expected fall in nominal GDP. Moreover, it is anticipated that some receipts will be pushed out to next year (800 mn), due to the delayed arrival of some companies' VAT returns, among other things. Overall, the budget will be undershot by CHF 2.8 billion. As regards direct federal tax, receipts are expected to be around CHF 2 billion lower. The receipts for 2020 stem above all from the relevant fiscal year of 2019, when the economy performed very well. However, since the Confederation is forgoing default interest until the end of 2020 in response to the COVID-19 crisis, it is expected that tax payments amounting to CHF 2.2 billion will be postponed to subsequent years.

On the expenditure side, it is projected that the budget will be undershot by CHF 1.8 billion (2.4%), considerably more than the average for the last ten years (1.8%). The largest budget underrun is expected for receipts-driven expenditure, where the fall in receipts will have an impact: the cantonal share of direct federal tax (433 mn), the VAT percentage for AHV (351 mn) and the deposit in the motorway and urban transportation fund (282 mn).

Extraordinary expenditure of CHF 17.8 billion

The Federal Council and Parliament have approved Addenda I and IIa, which provide for substantial extraordinary expenditure of CHF 30.8 billion (incl. compensation) to cushion the impact of the COVID-19 pandemic. The largest amounts concern the extraordinary federal contribution to unemployment insurance to cover short-time working compensation in 2020 (20.2 bn), COVID-19 loss of earnings compensation for self-employed persons (5.3 bn), procurement of medical materials by the Armed Forces Pharmacy (2.3 bn) and the losses expected for 2020 from guarantees on bridging loans (1.0 bn). Addendum IIb provides for additional extraordinary expenditure of CHF 0.2 billion (incl. compensation).

It currently appears that the expenditure approved to date by Parliament will not be utilized in all areas. Based on the available information, the effective burden should be much lower, at around CHF 17.8 billion. The lower expenditure mainly relates to the areas mentioned above. However, these estimates are still subject to considerable uncertainty.

Classification of the extrapolation

The Parliament Act stipulates that the Federal Council shall arrange for projections on the expected annual result to be issued as of 30 June and 30 September and shall notify Parliament thereof. The extrapolation is an **estimate** and thus has to be interpreted with caution. The budget is not adjusted based on the extrapolation.

Forecasting errors are unavoidable for budgeted **receipts**, as the trend of receipts is subject to relatively sharp fluctuations. Higher and lower receipts due to forecasting errors balance each other out over time. In terms of **expenditure**, budget underruns are part and parcel of the current system. As the budgetary credits approved by Parliament may not be exceeded, the administrative units tend to be cautious when budgeting, as well as economical with the use of funds.

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

- Federal tax receipts up to the end of June 2020
- Information note for the Finance Committees