Schweizerische Eidgenossenschaft
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Swiss Confederation

Federal Department of Finance FDF

Federal Finance Administration FFA

Press release

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Sound Swiss public finances despite crisis

In 2018 and 2019, the government units benefited from a favorable financial situation. All of the general government sub-sectors posted surpluses, including the municipalities, which had been recording deficits for several years. From 2020, Swiss public finances will have to overcome the worst economic crisis in decades due to the COVID-19 crisis and will be significantly in the red. This situation is likely to trigger a surge in the government units' gross debt. When compared internationally, Switzerland's public finances remain sound and should withstand the crisis better than those of most other industrialized countries.

With a surplus ratio of 1.3% of gross domestic product (GDP) in **2018**, the general government achieved its best result since 2008. All sub-sectors posted surpluses, with the Confederation achieving the highest surplus (0.7%). The municipalities' results were balanced after nine years of deficits.

The general government's surplus is likely to remain high at 1.4% in **2019**. Thanks to strong growth in tax receipts, the surplus ratios of the Confederation and the cantons are expected to reach 0.8% and 0.5% of GDP, respectively. The results of the municipalities are set to be balanced (0%) and those of the social security funds should be positive (0.1%).

In **2020**, Swiss public finances will have to overcome the worst economic crisis in decades due to the COVID-19 crisis. The general government sector is thus likely to post a major deficit of 3.7% of GDP. Nominal GDP is likely to weaken unprecedentedly and thus cause a massive decline in tax receipts at all levels of government. In view of the exceptional situation related to the pandemic, the authorities have also adopted extraordinary fiscal measures, particularly at federal level. The cost of the measures adopted by the Confederation is set to be around 17.8 billion, and the deficit ratio of the Confederation sub-sector should be 3.1% of GDP in 2020. The substantial rise in unemployment is set to trigger a sharp increase in expenditure by the social security funds (+16 bn), which will thereby play their role as automatic stabilizers of the economy. Although a significant proportion of the deficit should be financed from liquidity reserves, it will nevertheless lead to a surge in the general government sector's debt. The gross debt ratio is expected to climb by 5.1 percentage points to 45.7% in 2020, while the Maastricht debt ratio should rise by 3.3 percentage points to 29.1%. When compared internationally, Switzerland's public finances remain sound and should withstand the crisis

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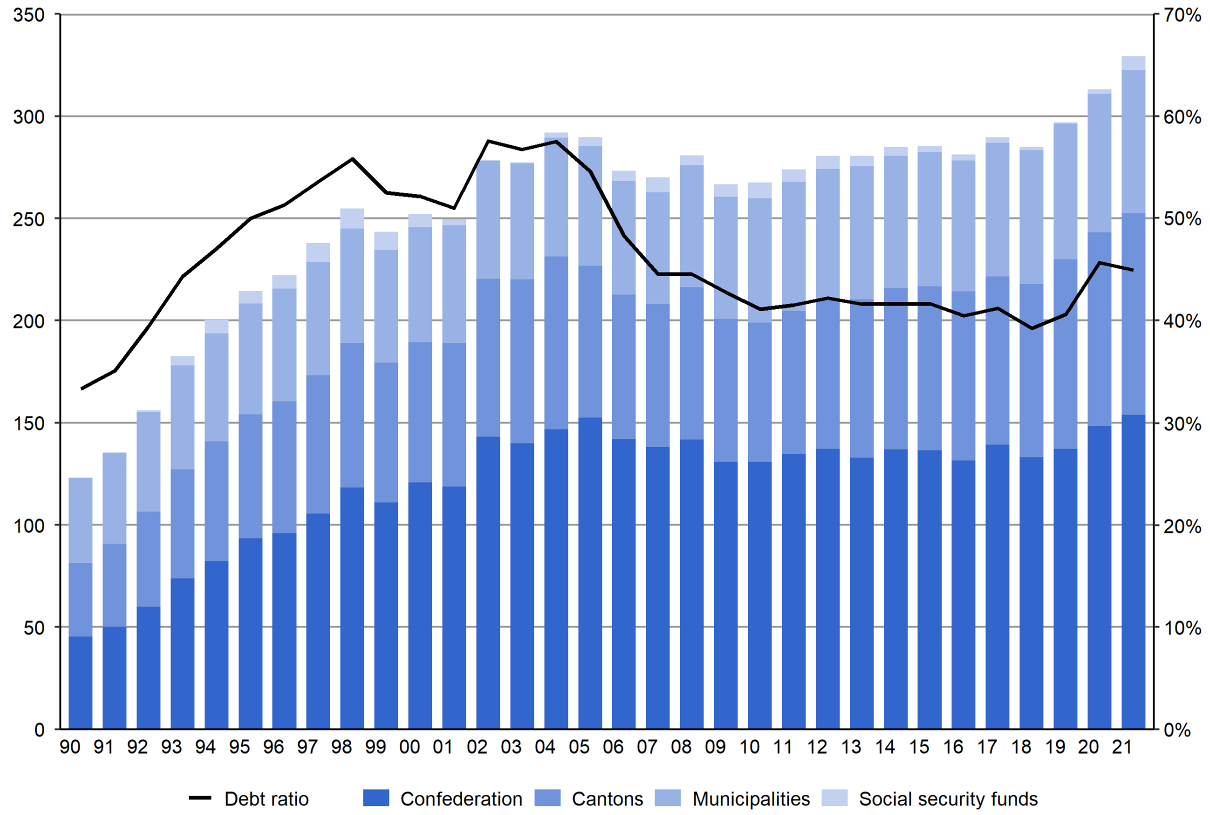
better than those of most other industrialized countries.

In **2021**, the general government is expected to close its financing statement with a deficit ratio of -1.2% of GDP. Catch-up effects will probably trigger substantial GDP growth. Nevertheless, this economic performance should enable the general government sector's tax receipts to grow again in 2021. Given that most of the extraordinary crisis-related measures are unlikely to be extended into 2021, expenditure in the general government sector is expected to plunge (-11 bn). However, expenditure in the social security funds sub-sector is set to be 8 billion above the pre-crisis level as a result of unemployment continuing to rise in 2021. The general government sector's gross debt is likely to increase by 11.6 billion. As a result of GDP growth, the gross debt ratio should edge down to 44.9%. The Maastricht debt ratio is expected to be 28.7%.

Debt development: 1990-2021 gross debt for all sub-sectors, in CHF bn (lhs) and in % of GDP for the general government sector (rhs)



Risks – The resurgence of the COVID-19 pandemic in Switzerland and its main trading partners is the main downside risk for Switzerland's public finances in the short term. Uncertainty also exists with respect to the amount of withholding tax receipts. The crisis associated with COVID-19 could curb the robust receipt growth observed in recent years. However, some of the indicators available suggest that the economic recovery could be swifter than anticipated. Such a scenario would have a positive impact on the development of public finances.

The Financial Statistics Section of the Federal Finance Administration is hereby publishing the definitive results for 2018, as well as estimates and forecasts for the subsequent three years on the financial situation of the general government sector (Confederation, cantons, municipalities and social security funds).

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

- Report on Swiss public finances: 2018-2021
- Detailed financial statistics data
- FAQ