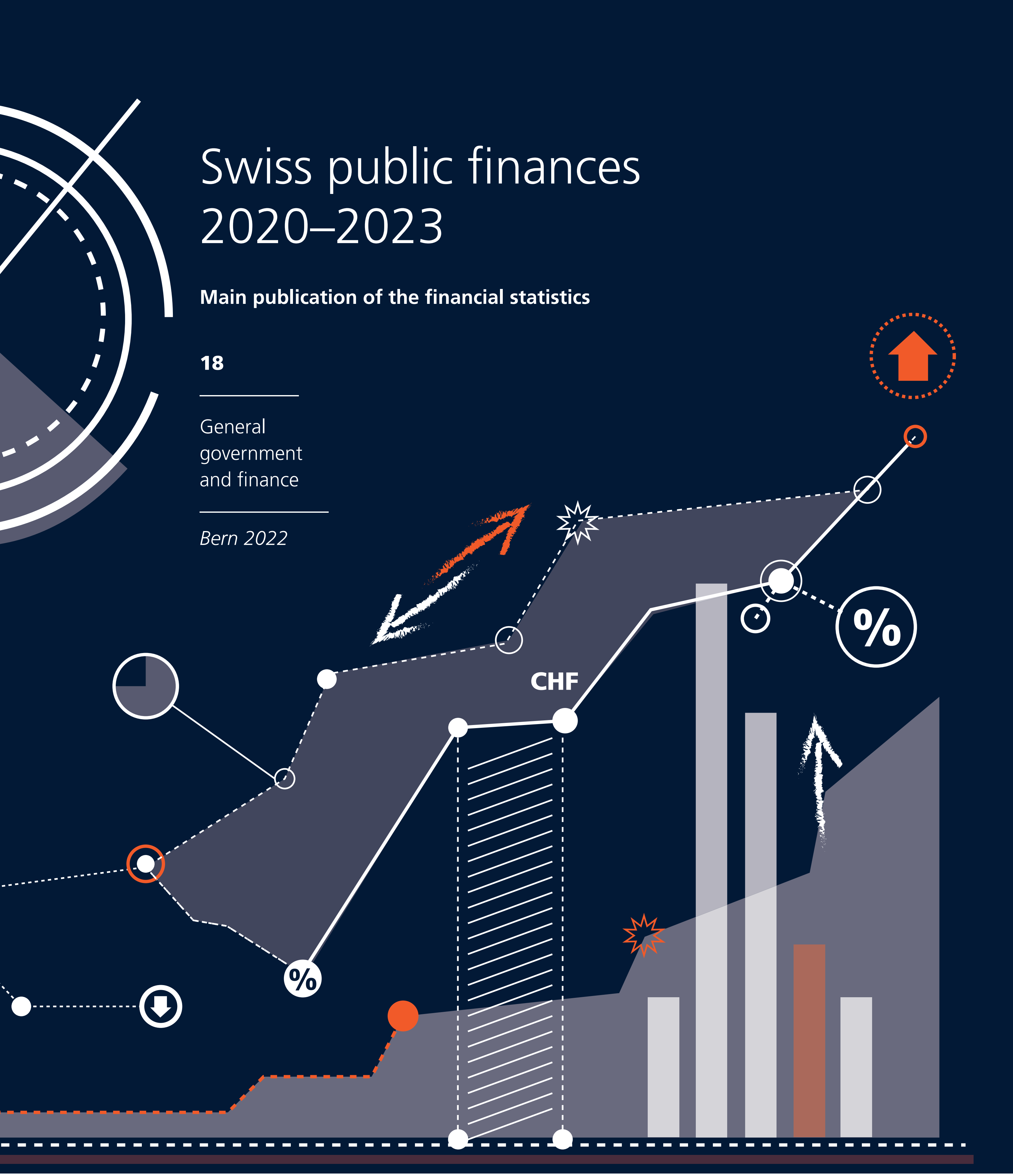
Swiss public finances 2020–2023

Main publication of the financial statistics

18

General government and finance

Bern 2022



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Contents

1 **Brief summary** 1

2 **Introduction** 3

3 **Switzerland's public finances in accordance with national guidelines (FS)** 4

3.1 Fiscal balance, receipts and expenditure 4

3.2 Statement of financial position and debt 11

4 **Switzerland's public finances in an international comparison (GFS)** 15

4.1 Net lending/borrowing, receipts and expenditure 15

4.2 Debt 20

5 **Appendix** 22

1 Brief summary

2022 - The Swiss economic recovery from the COVID-19 pandemic clearly continued in early 2022, but it is likely to slow sharply from Q3 onward due to persistent supply bottlenecks, higher inflation and generally tighter monetary policy. Nevertheless, funds not fully utilized to cushion the pandemic and solid tax growth for the cantons and municipalities will probably make a substantial contribution to the positive financial development of the general government sector. Thanks to the high positive net lending/borrowing of the cantons and social security funds, the general government sector is expected to post a surplus of 1.3 billion in the internationally comparable GFS Model. In relation to economic output, the anticipated surplus is 0.2%, while, by comparison, the member states of the Organisation for Economic Co-operation and Development (OECD) are reckoning on a deficit of 5.0% of nominal gross domestic product (GDP) on average. Aside from Switzerland, the other OECD countries expected to post a surplus in relation to GDP in 2022 are Norway (10.1%), Denmark (3.7%), Estonia (0.9%) and Luxembourg (0.8%). Norway and Denmark benefit to a very great extent from their oil and gas industries in times of high energy prices.

Switzerland's general government expenditure will probably be 33.6% in 2022, i.e. 1.6 percentage points above the pre-crisis level of 32.0%. Compared with the OECD area, however, it will remain well below average. The general government's gross debt ratio (as defined by the International Monetary Fund) is likely to be 42.2% for Switzerland, compared with 115% for the euro area and 124.4% for the OECD countries. Driven by the high funding requirements associated with the stabilization measures to combat the COVID-19 between 2020 and 2022, net debt will also rise significantly. In contrast, buoyed by the economic recovery and positive net lending/borrowing (partly thanks to the supplementary distributions by the SNB), Switzerland's net debt ratio has been declining again since 2021.

2023 - The largely discontinued COVID-19 expenditure and robust receipt growth should further improve the financial position of the government units in 2023. The cantons and social security funds are likely to generate surpluses of 3.8 billion and 2.5 billion, respectively, while a surplus of 0.6% of GDP is expected for the general government.

Bolstered by the strong economic output, Switzerland's general government expenditure ratio is likely to fall to 32.4% of GDP in 2023, i.e. 0.4 percentage points above the pre-crisis level. Compared with other OECD countries, Switzerland's general government expenditure ratio will remain low in the years ahead.

Risks - The greatest source of uncertainty for the public finances lies in the fact that the economic situation could deteriorate even more because of the impact of international developments (war in Ukraine, sharper rises in energy and commodity prices, further procurement and supply problems for raw materials and goods, and generally tighter monetary policy). This would result in higher government spending (e.g. on humanitarian aid, defense, fuel and energy, financial expenditure) and lower tax receipts, which would put a burden on the public finances. Moreover, the Swiss National Bank (SNB) announced a loss of CHF 95.2 billion for the first half of 2022. Depending on the SNB's business performance, there is thus uncertainty for the Confederation and the cantons regarding the amount of the SNB profit distribution.[1]

[1] Under the National Bank Act, the SNB is obliged to form provisions from its annual surplus in order to maintain the currency reserves at the level required for monetary policy purposes. The profit remaining after allocating funds to provisions is generally available for distribution to the Confederation and the cantons.

In the medium term, numerous projects that have not yet been financed are also up for discussion on the expenditure side, such as an expansion of daycare funding or additional transportation expenditure. The financial stabilization of Swiss Federal Railways, which suffered significant deficits during the COVID-19 pandemic in 2020 and 2021, could put a burden of several billion on the federal budget.

2 Introduction

This document, entitled “Swiss public finances”, is the main publication of the Financial Statistics Section of the Federal Finance Administration. This annual publication is usually issued in October and is only available in electronic format.

Since a wide range of financial statistics data tables is available on the FFA website, this main publication focuses on the visual presentation of the data. The data tables on which the charts are based can also be downloaded in Excel format by clicking on the icon on the right above the chart.

This publication deals primarily with the trend of the finances of the general government sector as a whole. The most important developments in the sub-sectors (Confederation, cantons, municipalities and social security funds) are presented in certain charts and explained in the text.

Section 3 of this main publication presents the trend and structure of receipts and expenditure by economic classification, the structure and trend of expenditure by function, and the structure and trend of the statement of financial position. Section 4 provides an international comparison of the main public finance indicators.

This publication contains the definitive 2020 financial statistics figures for the government units in accordance with national and international statistics standards. It also contains initial provisional results for 2021, as well as estimates and forecasts for the main aggregates for 2022 and 2023. Forecasts up to 2026 for certain aggregates can additionally be found on the FFA website.

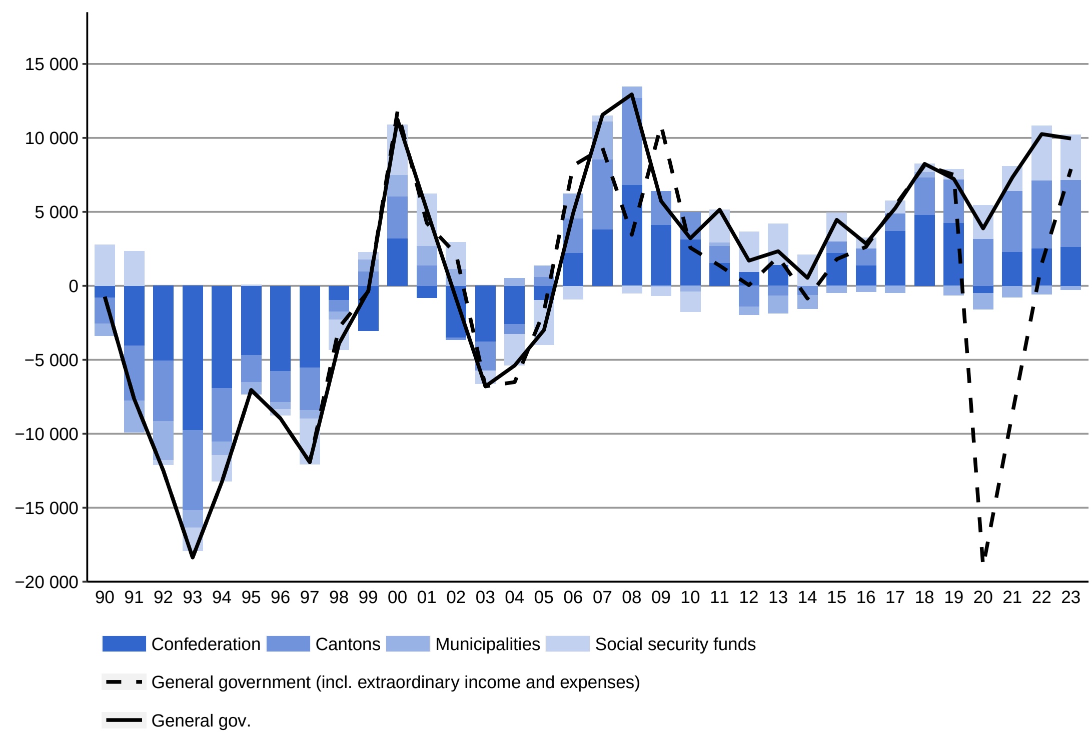
3 Switzerland's public finances in accordance with national guidelines (FS)

The FS Model is used for the national comparability of government units. It is based on the national accounting models for the cantons and municipalities (HAM1 and HAM2) and the Confederation (NAM). This section presents the main financial aggregates (balance, receipts, expenditure, statement of financial position and debt) for the general government sector in accordance with the FS Model.

3.1 Fiscal balance, receipts and expenditure

Fiscal balance - Figure 1 shows the trend of the government units' fiscal balance for the period from 1990 to 2023. The black curve and the blue bars show the ordinary fiscal balance, i.e. the difference between ordinary receipts and ordinary expenditure, for the general government sector and its sub-sectors (Confederation, cantons, municipalities and social security funds). The black dashed line shows the overall fiscal balance, which includes extraordinary receipts and expenditure. Accordingly, the overall fiscal balance measures the overall result of the government units' financing statement.

Figure 1: Overall fiscal balance 1990-2023 (CHF mn)



Source: Swiss financial statistics – Main aggregates and forecasts with the FS Model (13.10.2022)

Between 2014 and 2019, the general government's ordinary fiscal balance and the balance of extraordinary receipts and expenditure tended to improve. The COVID-19 pandemic led to the biggest economic crisis in decades and left deep scars on the government units' finances in 2020. Soaring expenditure in the Confederation, social security funds and cantons sub-sectors and substantial shortfalls in tax receipts for the Confederation (especially withholding tax) resulted in a deficit of 19 billion in the general government's financing statement in 2020. Much of the additional expenditure was used to support incomes and preserve jobs (e.g. loss of earnings and short-time working compensation) and to finance health measures (e.g. procurement of medical supplies and COVID-19 tests).

2021 - The stabilization measures were extended to include hardship assistance for businesses in order to support particularly affected sectors. Despite the parallel increase in tax revenue in all four sub-sectors, the burden on the government units (especially the Confederation) remained very substantial in 2021. As a result, the general government posted a deficit of 8.6 billion in 2021. Like the previous year, this was covered by short-term liabilities toward financial intermediaries and bonds, and the reduction of cash and cash equivalents. Gross debt rose by 7.1 billion to 233.6 billion in 2021, while net debt climbed by 9.3 billion to 125.3 billion.

2022 - The government units' financial situation is likely to improve in 2022 as the Swiss economy recovers in late 2021/early 2022. Funds not fully utilized to cushion the COVID-19 pandemic and solid tax growth for the cantons and municipalities will make a major contribution to the positive financial development of the general government sector. A surplus of 1.5 billion is expected for general government in the FS Model, thanks mainly to the high positive fiscal balances of the cantons and social security funds. In 2022, the Confederation sub-sector will post its third consecutive financing deficit in the wake of the COVID-19 pandemic; it is expected to amount to around 6 billion.

The general government's extraordinary expenditure is likely to be lower than the previous two years and should amount to around 9 billion in 2022. Most of this is incurred in the Confederation sub-sector and is aimed at combating the pandemic and its economic consequences. The Confederation's extraordinary expenditure also includes 1.7 billion as social welfare lump sums for the cantons for people from Ukraine seeking protection. The extraordinary expenditure of the consolidated general government stands against extraordinary receipts of 295 million.

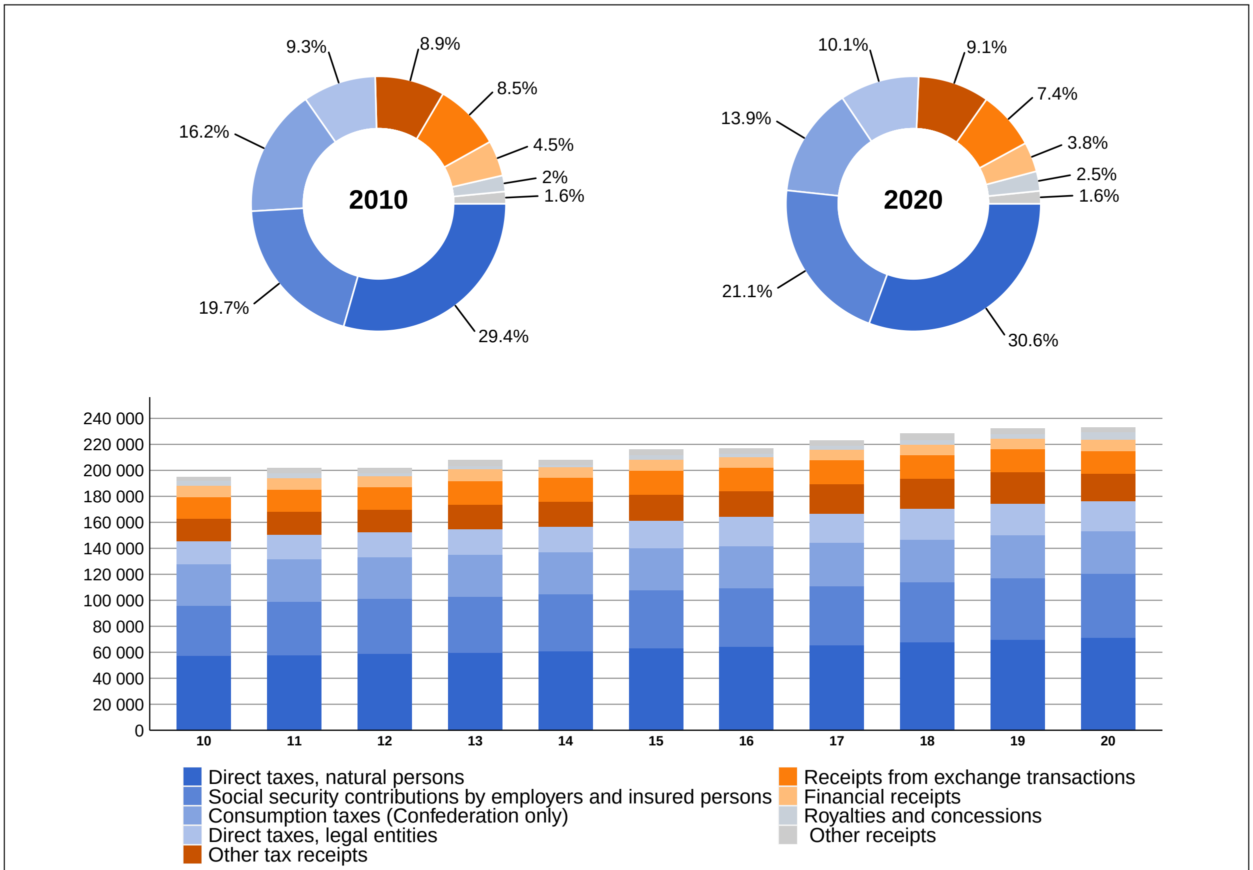
2023 - The economic recovery following the COVID-19 pandemic is likely to weaken significantly in 2023 due to softer global demand (even higher inflation, subdued demand, supply bottlenecks). With expenditure totaling 247 billion, the general government is expected to post a positive fiscal balance of 7.9 billion thanks to the high surpluses of the cantons and social security funds sub-sectors. The Confederation sub-sector is also likely to have a positive fiscal balance, as most of the coronavirus-related expenditure will cease to exist. As a result of the anticipated financing surpluses, the general government's gross debt is expected to decline further from 2023 onward and net debt from 2022 onward.

Risks - The greatest source of uncertainty for the public finances lies in the fact that the economic situation could deteriorate because of the impact of international developments (war in Ukraine, sharper rises in energy and commodity prices, further procurement and delivery difficulties for raw materials and goods, and generally tighter monetary policy). For the coming years, this would result in higher government spending (e.g. on humanitarian aid, defense, fuel and energy, financial expenditure) and lower tax receipts, which would put pressure on public finances than assumed in the forecast. Moreover, the SNB announced a loss of CHF 95.2 billion for the first half of 2022. Depending on the SNB's business performance, there is thus uncertainty for the Confederation and the cantons regarding the amount of the SNB profit distribution.

In the medium term, numerous projects that have not yet been financed are up for discussion on the expenditure side, such as an expansion of daycare funding or additional transportation expenditure. Switzerland is seeking agreements with the EU in the areas of Erasmus+, Horizon, Copernicus and health. These agreements could burden the general government with considerable additional expenditure. In addition, receipts of around 1 billion could be lost in connection with the reform of the taxation of married couples and families (individual taxation).

Receipts by economic classification - The definitive figures for the 2020 financial statistics shed some light on the structure of the general government sector's receipts and expenditure. Figure 2 shows the trend and structure of the general government sector's receipts according to the economic classification set out in the Harmonized Accounting Model for the Cantons and Municipalities (HAM2).

Figure 2: Receipts by economic classification (in CHF mn and % of total)

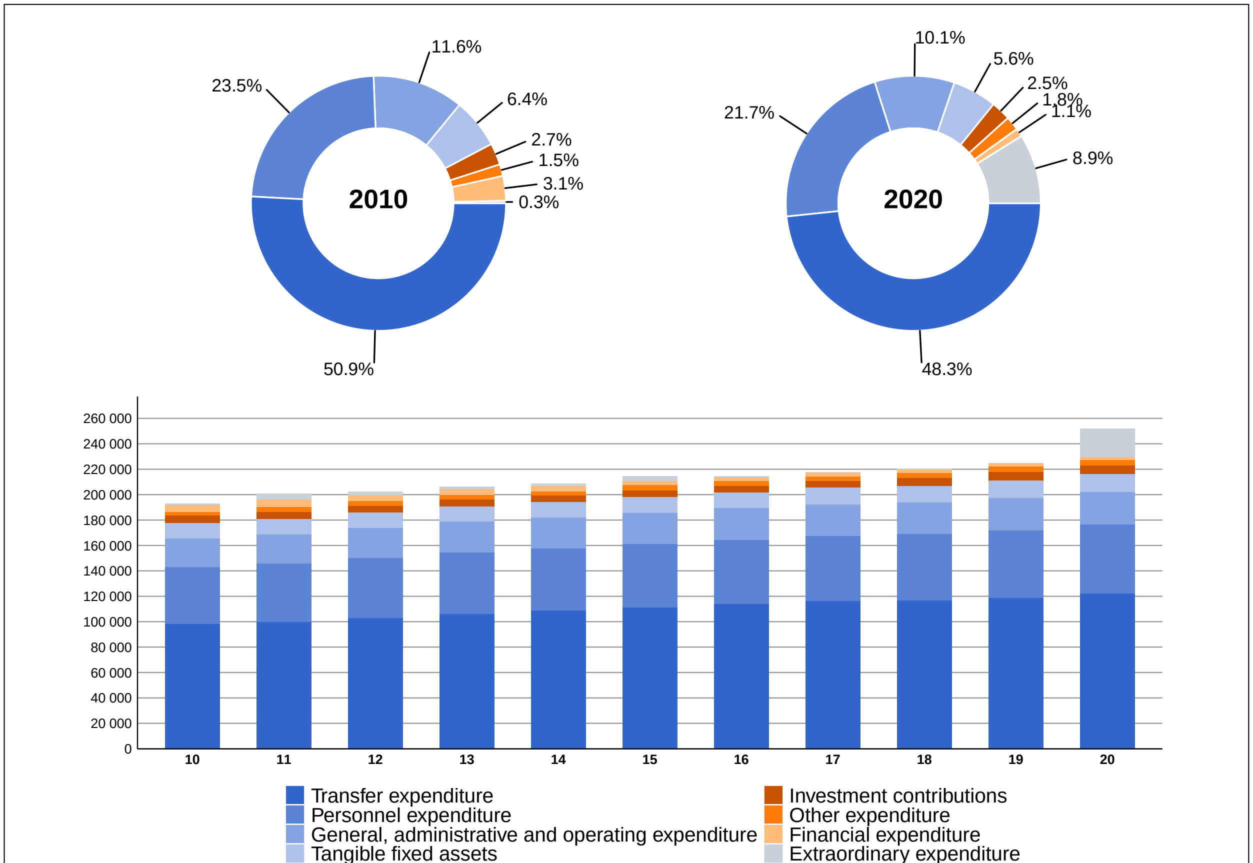


Source: Swiss financial statistics – FS Model (30.08.2022)

The general government's receipts have grown by 37.8 billion since 2010, with ordinary receipts climbing by 19.3%. As illustrated in Figure 2, the financing structure of the general government sector remained very stable from 2010 to 2020. Accounting for 84.7% of total receipts in 2020, taxes are the main source of government financing. Around 197 billion of the total receipts of 233 billion came from various types of tax. Coming in at 30.6%, receipts from direct taxes of natural persons accounted for the largest share of total receipts in 2020. Social security contributions by employers and insured persons were the second-largest category, with receipts of 49.1 billion, or 21.1% of the total, in 2020. Both of these main receipt categories have accounted for around half of the general government sector's receipts since 2010. This is likely to remain the case in the years ahead.

Expenditure by economic classification - The structure of expenditure by economic classification appears to be more volatile than that of receipts, as shown in Figure 3. Most of the general government sector's funds flowed to the other economic sectors (companies, households) via transfer expenditure. This also applies to the measures taken in response to the COVID-19 crisis, which in 2020 mainly benefited businesses, salaried workers and self-employed persons affected by the crisis in the form of extraordinary transfer payments.

Figure 3: Expenditure by economic classification (in CHF mn and % of total)



Source: Swiss financial statistics – FS Model (30.08.2022)

Over a 10-year period, ordinary transfer expenditure has grown by 23.8 billion. It is the largest expenditure category in terms of total expenditure. Its share of total expenditure fell from 50.9% in 2010 to 48.3% in 2020. The proportion of financial expenditure also fell from 3.1% of the total in 2010 to 1.1% in 2020. During this period, financial expenditure dropped by a total of 3.4 billion, which can be explained, among other things, by persistently falling interest rates and the debt reduction that took place.

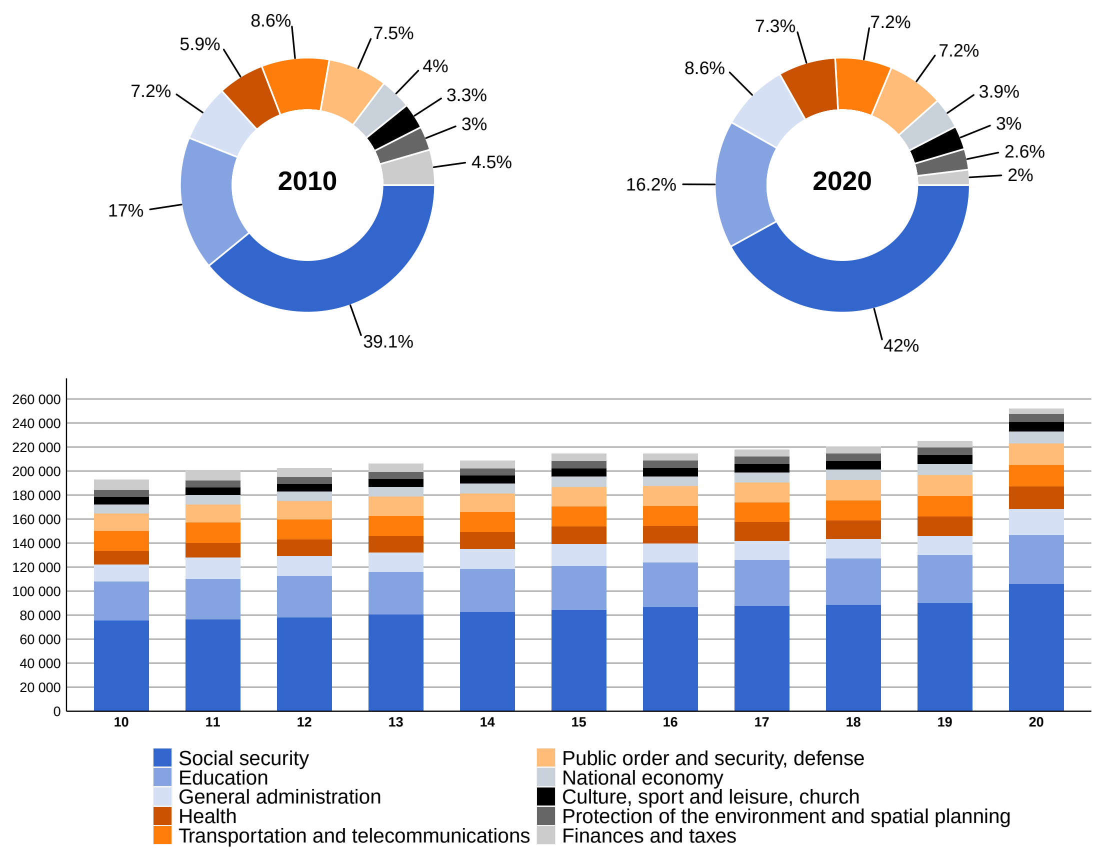
As can likewise be seen in Figure 3, personnel expenditure and general, administrative and operating expenditure have risen by 20.9% and 14.6%, respectively, since 2010, while their proportion of total expenditure has decreased by 1.8 and 1.4 percentage points, respectively.

Expenditure by function - Figure 4 shows the trend and structure of the general government sector's expenditure according to the functional classification set out in the Harmonized Accounting Model for the Cantons and Municipalities (HAM2). Total expenditure amounted to 252 billion in 2020, i.e. an increase of 59.4 billion relative to 2010 (+30.8%). In 2020, the social security and education task areas accounted for 42% and 16.2%, respectively, of total general government expenditure.

Education is the second-largest expenditure item according to the functional classification. In 2020, the general government sector spent 40.9 billion on education. Ordinary education expenditure has grown by 8.1 billion since 2010. Obligatory schooling (+4 bn), tertiary-level institutions (+2 bn) and research (+1.3 bn) experienced the biggest increases over the 10-year period.

In the area of social security, ordinary expenditure has climbed by 17.3 billion, or 22.9%, since 2010. This is reflected chiefly in the rise in expenditure for old-age and survivors' insurance, with ordinary expenditure for the old age and survivors task area growing by around 10 billion to 50.3 billion during this period. The funding for social welfare and asylum affairs has seen an increase of 2.4 billion since 2010. Ordinary expenditure in the disability and sickness and accident functional groups rose by 3.2 billion during the same period. In 2020, the government units spent a total of 105.8 billion on social security, and 13.2 billion of this was extraordinary in nature. The extraordinary expenditure was predominantly for short-time working compensation as a result of the COVID-19 pandemic. An overview of the expenditure incurred to contain the COVID-19 pandemic is provided in the following section.

Figure 4: Expenditure by function with the FS Model (in CHF mn and % of total)



Source: Swiss financial statistics – FS Model (30.08.2022)

Expenditure for measures to contain the COVID-19 pandemic - Table 1 shows the COVID-19 expenditure of the Confederation and the cantons in millions of Swiss francs. In the case of the cantons, both expenditure using own funds and that including the federal contributions received are shown. The specific cantonal expenditure items by function are shown excluding federal contributions. The Confederation's COVID-19 expenditure accounted for 16.7% of total expenditure in 2020, 15.6% in 2021, and 8.0% in 2022. In contrast, the proportion for the cantons was 2.7% in 2020, 6.7% in 2021, and 1.1% in 2022. The combined COVID-19 expenditure of the Confederation and the cantons accounted for 7.0% of total general government expenditure in 2020, 6.6% in 2021 and 2.9% in 2022.

Table 1: COVID-19 expenditure by function with the FS Model (in CHF mn)

	2020 Calculation	2021 Calculation	2022 Estimation	2020-2022 Total
Confederation	**14 943**	**13 921**	**7 046**	**35 910**
General Administration	333	345	1	679
Public order and security, defense	9	5	1	14
Education	-	-	-	-
Culture, sport and leisure, church	311	414	230	954
Health	770	1 803	2 643	5 216
thereof contributions Confederation SARS-CoV-2 tests	*194*	*1 184*	-	*1 378*
Social security	12 982	6 137	2 834	21 952
thereof contributions Confederation to unemployment insurance	*10 775*	*4 338*	*2 520*	*17 633*
thereof payments to income compensation	*2 201*	*1 799*	*300*	*4 300*
Transportation and telecommunications	371	423	342	1 136
Protection of the environment and spatial planning	-	-	-	-
National economy	74	4 479	996	5 548
thereof hardship measures to corporations	-	*4 194*	*600*	*4 794*
Finances and taxes	-	-	-	-
Miscellaneous expenditures	94	316	-	410
Cantons without contributions Confederation	**2 579**	**2 529**	**284**	**5 393**
General Administration	21	16	-	37
Public order and security, defense	6	13	-	18
Education	22	23	-	45
Culture, sport and leisure, church	129	91	100	320
Health	1 532	1 113	-	2 645
thereof transfer expenditures to hospitals	*1 157*	*390*	-	*1 547*
Social security	182	40	-	222
Transportation and telecommunications	189	175	58	421
Protection of the environment and spatial planning	0	0	-	0
National economy	498	1 059	127	1 684
thereof hardship measures to corporations	-	*790*	*119*	*909*
Finances and taxes	0	-	-	0
Cantons with contributions Confederation	**2 733**	**6 902**	**1 111**	**10 746**

Source: Swiss financial statistics – Special evaluation (10.08.2022)

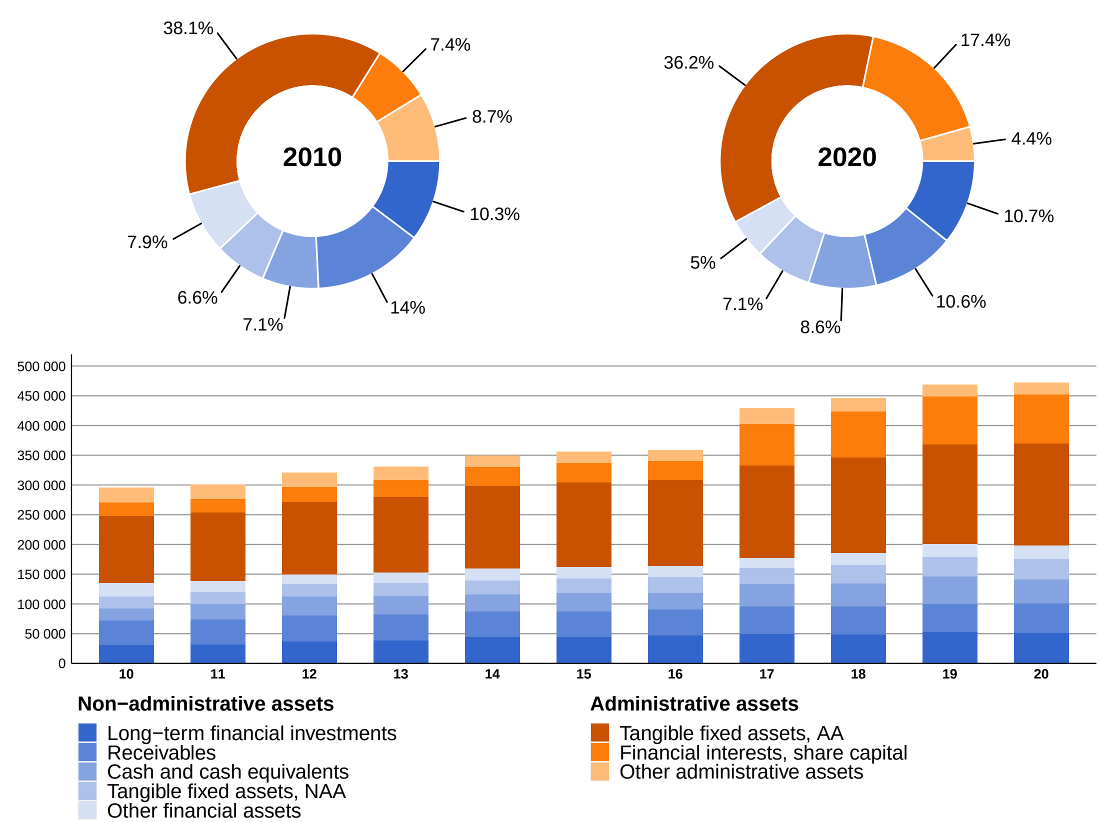
The "social security" task area is the largest expenditure item in the Confederation sub-sector, while in the cantons sub-sector it is the health task area. The breakdown of expenditure by task area differs from year to year. Whereas most of the social security expenditure for the Confederation and health expenditure for the cantons was earmarked in 2020, cantonal hardship assistance for businesses in the national economy task area also played an important role for the cantons in 2021. It is also evident from their proportion of COVID-19 expenditure relative to total expenditure in 2021 that the cantons implemented hardship measures for businesses, with COVID-19 expenditure as a percentage of the cantons' total expenditure rising sharply from 2.7% to 6.7% in 2021. However, since the Confederation assumed most of the hardship assistance costs, the cantons' expenditure using own funds remained relatively unchanged when compared with 2020.

3.2 Statement of financial position and debt

The sub-section on statement of financial position and debt discusses the trend and structure of the general government sector's statement of financial position from 2010 onward. It also covers the debt trend over the same period.

Assets - At the end of 2020, the assets on the general government's statement of financial position totaled 472.4 billion, i.e. 3.3 billion (0.7%) more than at the end of 2019. Over a 10-year period, total assets rose by 176.5 billion. That sharp increase can be largely attributed to the revaluation of assets by the cantons and municipalities when switching to the new Harmonized Accounting Model (HAM2). The value of tangible fixed assets under administrative assets alone climbed by 58.3 billion relative to the end of 2010 and accounted for 36.2% of total assets in 2020. Financial interests and share capital posted robust growth, with a rise of around 60 billion relative to 2010. Their proportion of total assets thus went from 7.4% in 2010 to 17.4% in 2020. With regard to non-administrative assets, cash and cash equivalents rose by 19.4 billion relative to 2010. Long-term financial assets likewise surged relative to 2010 (+20.3 bn).

Figure 5: Assets in accordance with the FS (in CHF mn and % of total)

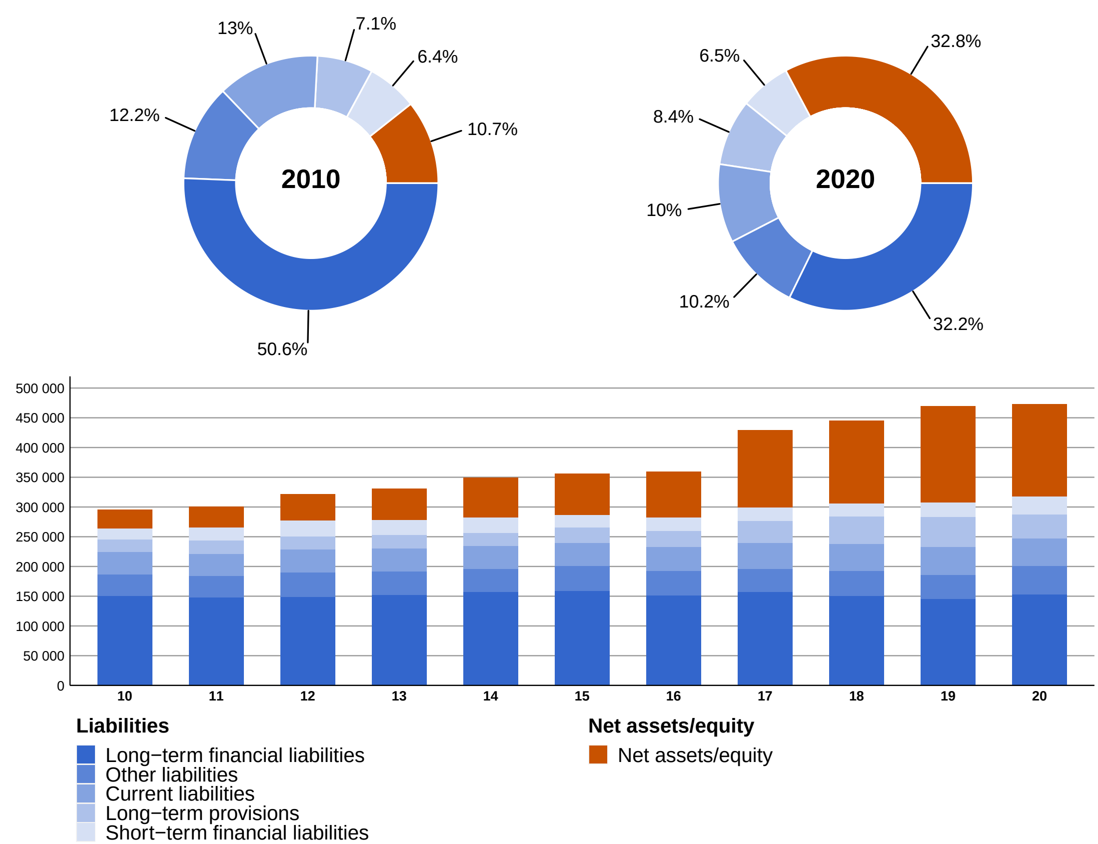


Source: Swiss financial statistics – FS Model (30.08.2022))

Liabilities and equity - According to the definitive financial statistics figures, the general government sector's liabilities amounted to 317.6 billion at the end of 2020. This represents a rise of 10.2 billion (+3.3%) on the previous year's figure and a 10-year increase of 53.3 billion (+20.2%). The change over the 10-year period was driven primarily by the increase in long-term provisions, which were 18.6 billion (+88.6%) higher than at the end of 2010. The increase in long-term provisions was largely attributable to the Confederation sub-sector, whose provisions for future refund claims rose sharply. Over a 10-year period, short-term financial liabilities and accrued expenses and deferred income likewise jumped by 11.5 billion and 13.2 billion, respectively. Finally, the sharp increase in net assets/equity at the general government level was due to good results and adjustments made in connection with the changeover to the HAM2. Relative to 2010, net assets/equity rose by 123.2 billion.

The development of the various liability items is shown in Figure 6. Since 2010, the proportion of long-term financial liabilities has dropped by 18.4 percentage points to 32.2% of total liabilities and equity. However, the proportion of net assets/equity increased by 22.1 percentage points to 32.8% during the same period.

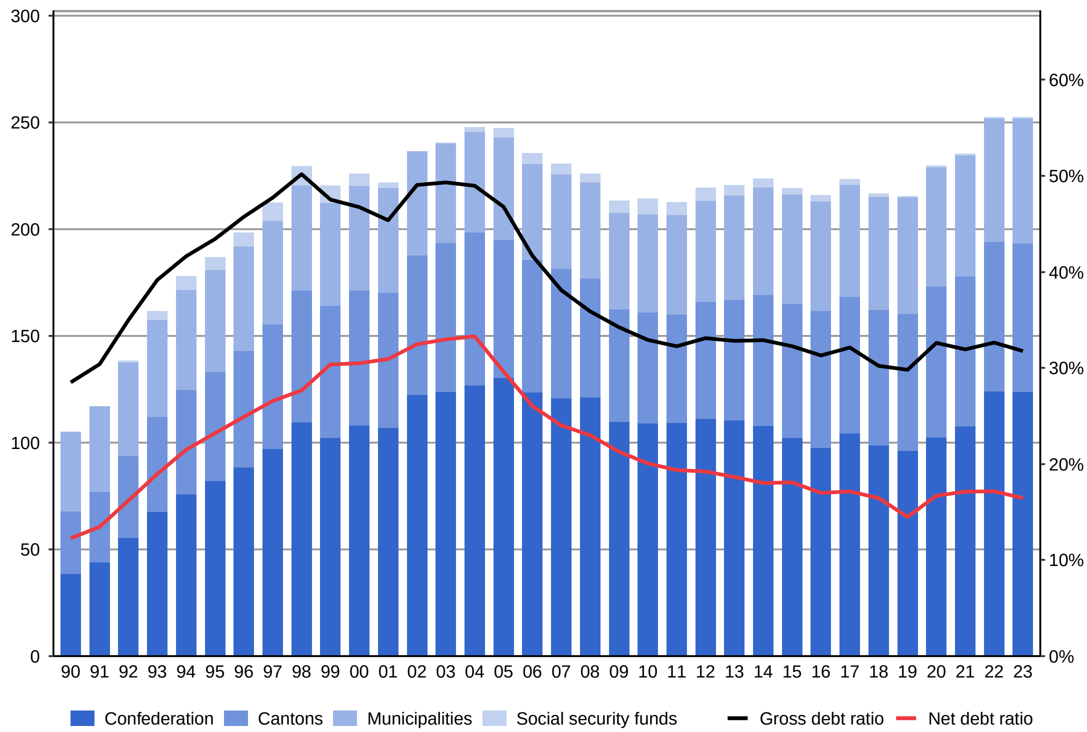
Figure 6: Liabilities and equity in accordance with the FS (in CHF mn and % of total)



Source: Swiss financial statistics – FS Model (30.08.2022)

Debt - Gross debt in accordance with the Harmonized Accounting Model for the Cantons and Municipalities (HAM2) is defined as the sum of current liabilities and short-term and long-term financial liabilities less the carrying amount of short-term and long-term derivative financial instruments and less the carrying amount of investment contributions recognized as liabilities. The HAM2 defines net debt as total liabilities less investment contributions recognized as liabilities and less non-administrative assets. Figure 7 illustrates the trend of nominal gross debt since 1990 for the general government sector and its four sub-sectors (blue bars), as well as that of gross debt (black curve) and net debt (red curve) as a percentage of nominal GDP for the general government sector.

Figure 7: Debt trend in accordance with the FS in CHF bn (lhs) and % of nominal GDP (rhs)



Source: Swiss financial statistics – Main aggregates and forecasts with the FS Model (13.10.2022)

Nominal gross debt grew at a rapid pace in the early 1990s and peaked at 245.9 billion in 2004. Starting in 2004, gross debt began to decline both in nominal terms and as a percentage of GDP thanks to the favorable economic situation, the introduction of the debt brake at federal level, and fiscal rules at cantonal and municipal level. This trend continued until 2011, after which it slowed significantly. Between 2012 and 2019, gross debt stabilized at 215 billion. To finance the coronavirus-related additional expenditure, the government units subsequently increased gross debt significantly. According to current estimates, the general government's gross debt is likely to peak at 251.3 billion at the end of 2023, after which a steady debt reduction is likely to begin.

Net debt follows a similar curve to gross debt, but at a lower level. The increase in net debt in 2020 and 2021 was attributable to the financing of expenditure in connection with the COVID-19 pandemic. This additional expenditure for the Confederation and the cantons was financed with a combination of funds from non-administrative assets and financial liabilities (money market debt register claims and bonds).

4 Switzerland's public finances in an international comparison (GFS)

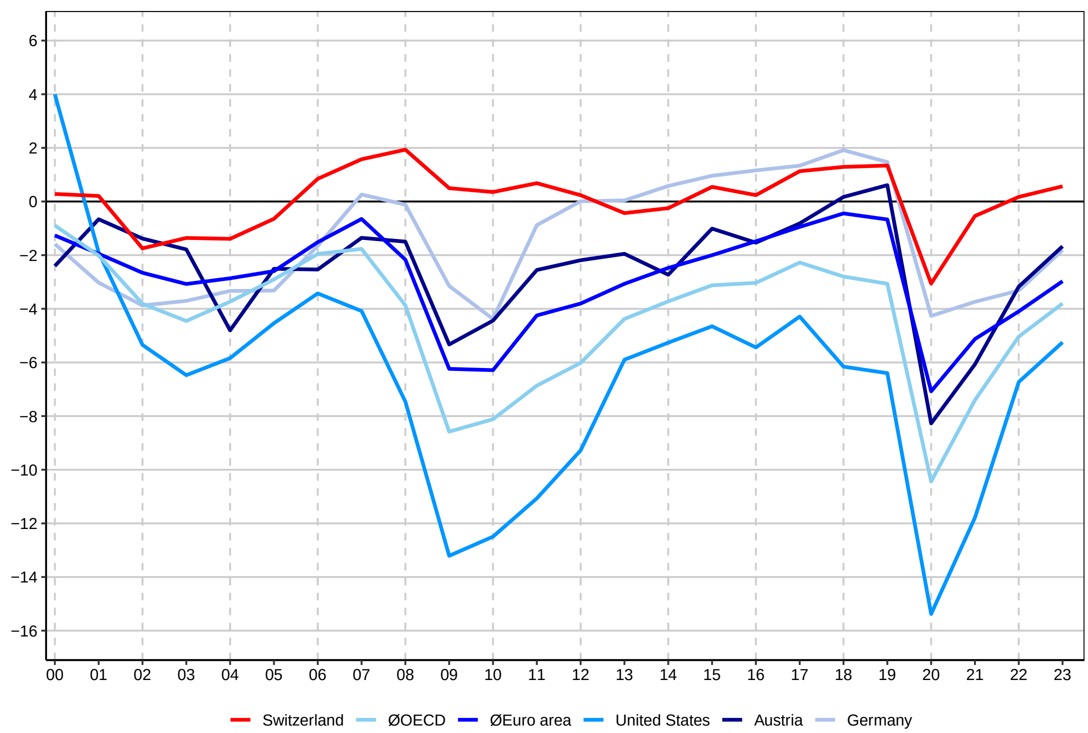
The finances of the government units are also published in accordance with the guidelines of the International Monetary Fund (IMF) to facilitate international comparisons.

4.1 Net lending/borrowing, receipts and expenditure

In this sub-section, Switzerland's net lending/net borrowing and the receipts and expenditure of the government units are compared with selected individual countries and country averages. In addition, Switzerland's expenditure is compared internationally according to the Classification of the Functions of Government (COFOG).

Net lending/borrowing - The government units' net lending/net borrowing shows the difference between total receipts and total expenditure according to the IMF guidelines. In relation to nominal GDP, it corresponds to the deficit/surplus ratio of the general government sector. Normalization with GDP enables comparability between countries. The following chart shows the deficit/surplus ratios of Switzerland, the neighboring countries Germany and Austria, the United States, the OECD and the euro area. Switzerland's ratio is mostly higher than the other countries' ratios, with only Germany's slightly exceeding it between 2013 and 2019.

Figure 8: Development of deficit/surplus ratios (in % of nominal GDP)

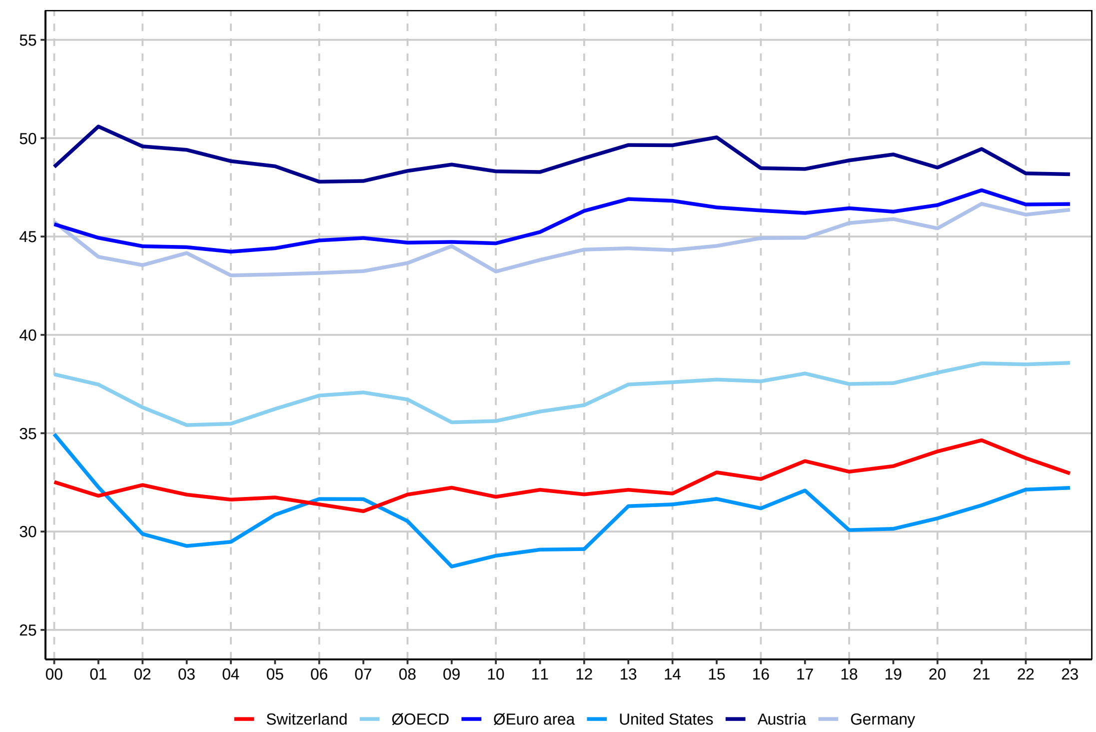


Source: IMF GFS database, updated and supplemented with OECD Economic Outlook 111 (June 2022)

The COVID-19 pandemic led to record deficits in the public finances in 2020. Switzerland's financing deficit was smaller than that in the OECD countries and the euro area.

Receipt ratio - The receipt ratio expresses the general government's receipts relative to economic output (GDP). Consequently, the trend of this ratio is determined by how much receipts and GDP move, and in which direction. Since 2000, the receipt ratios of the countries shown here have generally been stable, with a slight upward trend. The general government's receipts depend primarily on receipts and social security contributions from the private sector. Since private sector receipts generally follow the country's economic performance, general government receipts relative to GDP, and thus the receipt ratio, vary little. Only in the United States can a more volatile pattern be observed during the period shown.

Figure 9: Development of receipt ratios (in % of nominal GDP)



Source: IMF GFS database, updated and supplemented with OECD Economic Outlook 111 (June 2022)

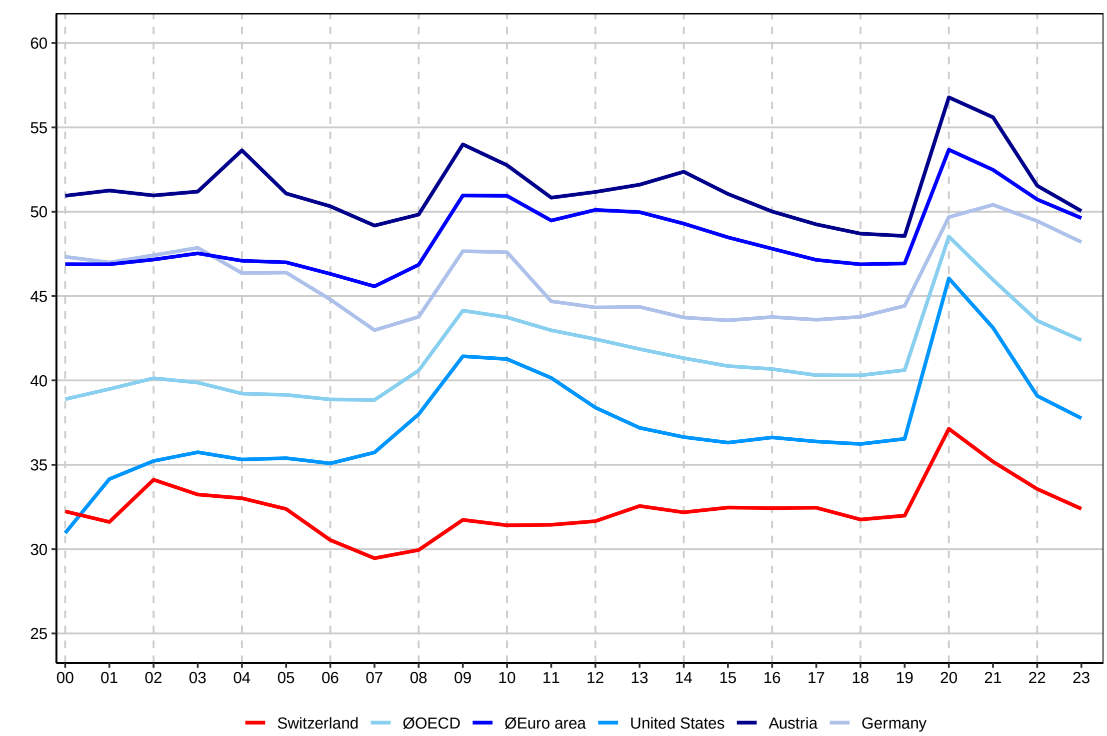
In 2020, the receipt ratio of euro area countries (+0.3 percentage points) and OECD countries (+0.5 percentage points) actually rose slightly despite the economic crisis caused by the COVID-19 pandemic. In the United States, the receipt ratio went from 30.1% to 30.7% of GDP. While Germany (-0.5 percentage points) and Austria (-0.7 percentage points) both saw a decline, the ratio in Switzerland increased by 0.7 percentage points. This can be explained primarily by the fact that economic output relative to general government receipts continued to decline during this period. Private sector receipts, and thus indirectly general government receipts, remained fairly constant thanks to unemployment insurance benefits and COVID-19 loss of earnings compensation, while economic output plummeted as a result of the COVID-19 pandemic.

In 2021, the receipt ratio rose again in most countries. On average, the receipt ratios of countries in the euro area and the OECD increased by 0.8 and 0.5 percentage points, respectively. While Germany and Austria saw their receipt ratios rise by 1.2 and 0.9 percentage points, respectively, Switzerland posted an increase of 0.6 percentage points, meaning that receipts grew more than economic output.

According to OECD Economic Outlook estimates, the receipt ratio is expected to decline in most countries in 2022, before stabilizing at the pre-crisis level in most countries in 2023. The receipt ratio for Switzerland is expected to be 33.7% in 2022, which would represent a decline of 0.9 percentage points. A decrease of 0.7 percentage points is anticipated for the euro area. A sharper decline in the receipt ratio is expected in Austria (-1.2 percentage points relative to 2021). In contrast, an increase of 0.8 percentage points is anticipated in the United States. The decline in the receipt ratio in most countries is generally likely to be explained by the expected recovery in economic output in 2022 and 2023. In Switzerland, GDP is currently expected to grow at a faster pace than general government receipts in 2023, resulting in a further decline in the receipt ratio. However, the economic consequences of the Ukraine crisis and persistent inflation are still unclear at the moment. Accordingly, the receipt ratio forecast is also affected by economic uncertainty.

General government expenditure ratio - The jump in general government expenditure ratios in 2020 is striking in Figure 10. The measures to deal with the economic crisis resulting from the COVID-19 pandemic triggered a surge in expenditure in 2020. The plunge in economic output additionally exacerbated the rise in countries' general government expenditure ratios.

Figure 10: Development of general government expenditure ratios (in % of nominal GDP)



Source: IMF GFS database, updated and supplemented with OECD Economic Outlook 111 (June 2022)

In 2020, total general government expenditure in the euro area (19 countries) amounted to 53.7% of GDP, up 6.7 percentage points on the previous year due to the measures taken to mitigate the impact of the COVID-19 pandemic. Meanwhile, Switzerland's general government expenditure ratio rose by 5.1 percentage points to 37.1% of GDP. Among the euro area member states, only Ireland (+3.2 percentage points), Luxembourg (+3.6 percentage points), Finland (+3.8 percentage points) and Slovakia (+4.8 percentage points) reported a smaller rise.

According to the current forecasts of the Financial Statistics Section, Switzerland's general government expenditure ratio is expected to fall to 33.6% of GDP in 2022, which is +1.6 percentage points above the pre-crisis level. When compared with the other general government expenditure ratios shown, Switzerland's ratio remains low.

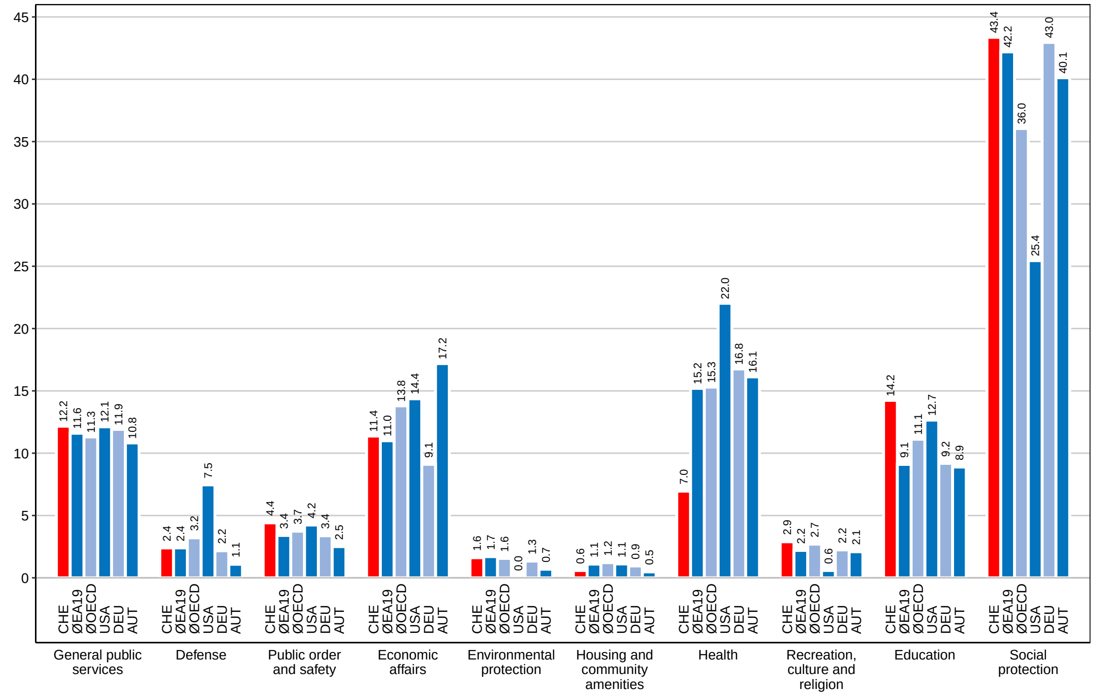
International comparison of expenditure according to COFOG - Figure11 shows on which task areas the most money was spent in 2020 in relation to total general government expenditure.

As in Switzerland, social protection accounts for the largest proportion of general government expenditure, including at the international level. The figure shows that more than half of total expenditure went to the two task areas of social protection and health in 2020. The national averages for the euro area were 42.2% of total expenditure for social protection and 15.2% for health. The other task areas that accounted for a large proportion of total general government expenditure in the euro area were general public services (11.6%), economic affairs (11.0%) and education (9.1%). Compared with Europe, the United States spent less on social protection (25.4%), but far more on health (22.0%) and defense (7.5%). In the course of combating the COVID-19 pandemic, the United States significantly increased its funding for social protection and economic affairs in 2020, raising their shares of total expenditure by 5.6 and 5.5 percentage points, respectively, versus the previous year.

In Switzerland, 43.4% of total expenditure went to social protection in 2020, which was slightly higher than the euro area average. Measured in terms of economic output, the proportion of general government expenditure allocated to social protection varied between 10.2% (Ireland) and 27.3% (France) of GDP. Nine euro area countries, including Austria (22.9%) and Germany (21.8%), spent at least 20% of GDP on social protection. In Switzerland, the social protection share rose from 12.6% of GDP in 2019 to 16.1% of GDP in 2020.

A striking difference can be seen between Switzerland and the other countries in the comparison of health expenditure. In 2020, health was the government units' second-largest expenditure item in the euro area, whereas it ranked fifth in Switzerland. This can be explained by the fact that the healthcare system in many European countries is financed by public finances rather than by private budgets like in Switzerland. As a percentage of total expenditure, health expenditure averaged 15.2% in the euro area in 2020, up from 11.3% in 1995. It accounted for 16.8% in Germany in 2020, and 7.0% in Switzerland. In relation to economic output, the United States spent far more on health than any other OECD country. In 2020, health expenditure exceeded 10% of GDP for the first time. Relative to 1995, its share grew by 4.0 percentage points in the United States and by 1.0 percentage points in Switzerland, while the average increase in OECD countries was 2.2 percentage points over the same period.

Figure 11: General government expenditure by function (COFOG) in 2020 (in % of total expenditure)



Source: IMF GFS database (countries) and Eurostat COFOG databases (EU and EA19)

Switzerland's proportion of total expenditure in the area of economic affairs was higher in 2020 than the average in euro area countries. The highest share was in Malta (21.9%) and the lowest in Finland and Germany (both around 9.1%). Within the area of economic affairs, transportation accounted for the largest share of expenditure in both the euro area and Switzerland, followed by general economic, commercial and labor affairs in the euro area and agriculture, forestry, fishing and hunting in Switzerland.

In 2020, Switzerland spent 36.7 billion on education, representing 14.2% of total expenditure. This was well above average when compared with OECD and euro area countries. For example, New Zealand and Australia (14.4% each) and Estonia (14.3%) had a similar share to Switzerland in 2020. In relation to economic output, however, these countries' 2020 education expenditure (between 5.9% and 6.6% of GDP) was higher than in Switzerland (5.3% of GDP).

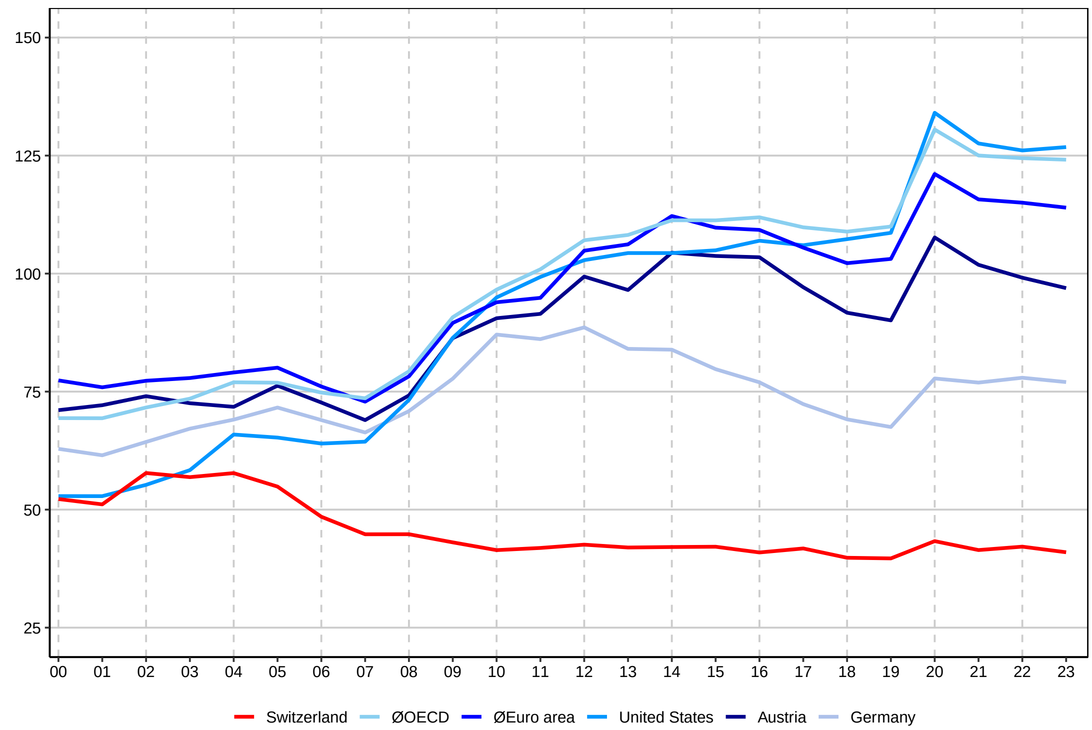
Switzerland spent more on general public services than neighbors Germany and Austria in 2020. In contrast, the proportion of total expenditure in the United States was similar to that in Switzerland. Meanwhile, the euro area and OECD countries averaged 11.6% and 11.3%, respectively, with Israel (7.7%), Japan (7.9%) and Lithuania (8.1%) reporting low values in 2020.

4.2 Debt

This sub-section compares Switzerland's debt situation with individual selected countries. For the gross debt ratio, officially published country averages are also available for the OECD and the euro area.

Gross debt ratio - The gross debt ratio measures the general government sector's gross debt in relation to economic output in accordance with the IMF guidelines. Figure 12 shows the development of gross debt ratios. It is evident that Switzerland has a low ratio by international standards and has had a stable ratio since 2010.

Figure 12: Development of gross debt ratios (in % of nominal GDP)



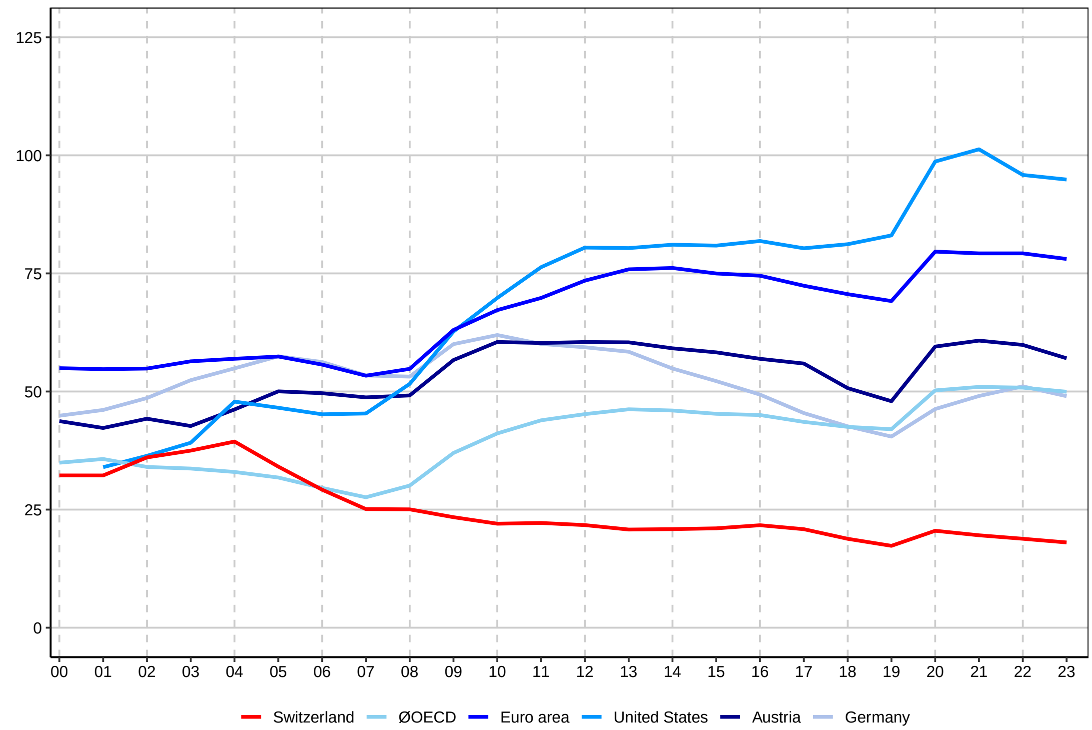
Source: IMF GFS database, updated and supplemented with OECD Economic Outlook 111 (June 2022)

In 2020, the gross debt ratio surged in many countries as a result of the stabilization measures to cushion the economic impact of the COVID-19 pandemic, jumping by 18 percentage points in the euro area, by 20.5 percentage points in OECD countries and by as much as 25.4 percentage points in the United States. By comparison, Luxembourg (+1.9 percentage points), Ireland (+2.8 percentage points) and Switzerland (+3.7 percentage points) experienced much smaller increases.

According to current estimates, the liabilities of Switzerland's general government (especially the Confederation) are likely to rise further in nominal terms and reach a new peak of 324 billion in 2022/2023. However, the gross debt ratio is expected to decline from 2023 onward as a result of the anticipated increase in economic output. It is expected that the gross debt ratio will tend to remain stable in Germany over the next few years, while it is set to decline in most euro area and OECD countries.

Net debt ratio - The net debt ratio expresses net debt as defined by the IMF in relation to GDP and is shown in Figure 13. Net debt as defined by the IMF (GFS) is comprised of gross debt less non-administrative assets. As no forecast is made for the net debt ratio as part of the OECD Economic Outlook, the data from the IMF's World Economic Outlook (publication date: April 19, 2022) is used.

Figure 13: Development of net debt ratios (in % of nominal GDP)



Source: IMF World Economic Outlook (April 19, 2022)

Negative net debt means that such countries have no net debt, and instead have assets. This is the case in Norway, for example. In contrast, the net debt ratios of Japan (from 2008), Italy (from 2009) and Portugal (from 2011) are over 100% of GDP.[2] Switzerland's net debt ratio fell from its peak of 39.4% of GDP at the end of 2004 to 17.3% of GDP at the end of 2019. The net debt ratio also declined in the years following the financial crisis, while it rose sharply in the other countries shown, as did the country averages, and it remained fairly constant in subsequent years; only in Germany did it decline from 2013 until the COVID-19 crisis.

Due to the high funding requirements for the stabilization measures to combat the COVID-19 crisis, net debt was significantly higher in most countries in 2020. Switzerland's net debt ratio rose by 3.2 percentage points to 20.5% of GDP. In contrast, the other countries shown experienced much bigger increases. The net debt ratio climbed by 15.6 percentage points in the United States, by 10.5 percentage points in the euro area and by an average of 8.2 percentage points in the OECD member states.

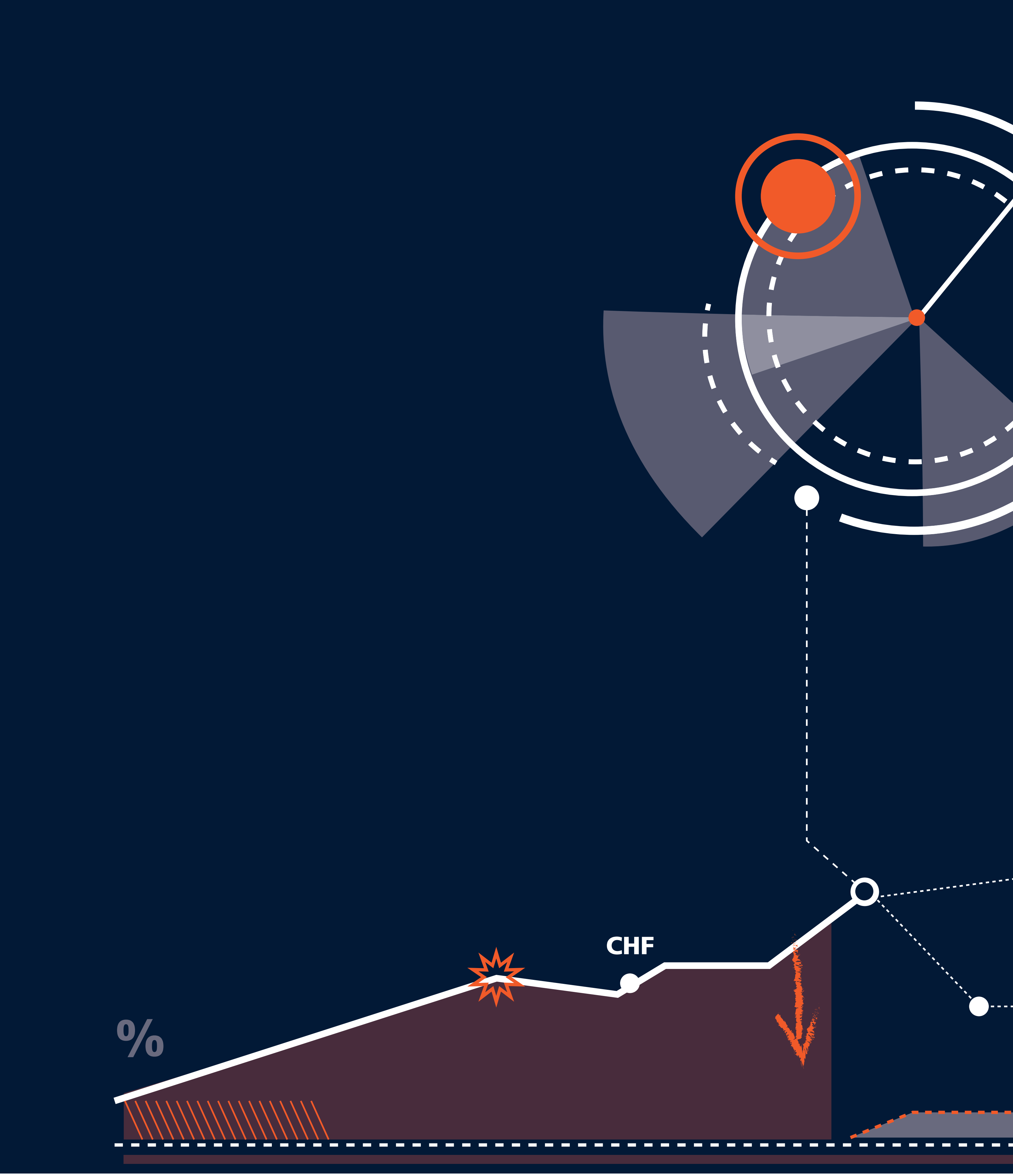
[2] Can be seen in the data table on which the chart is based

5 Appendix

The appendices to this publication are published on the website of the Federal Finance Administration. The corresponding links are listed below:

Overview of financial statistics methods and models

Scope of financial statistics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