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# **The Swiss Debt Brake – Experiences since 2003**

**Conference "Perspectives of the Fiscal Policy  
in Latvia and the EU" – June 6, 2013**

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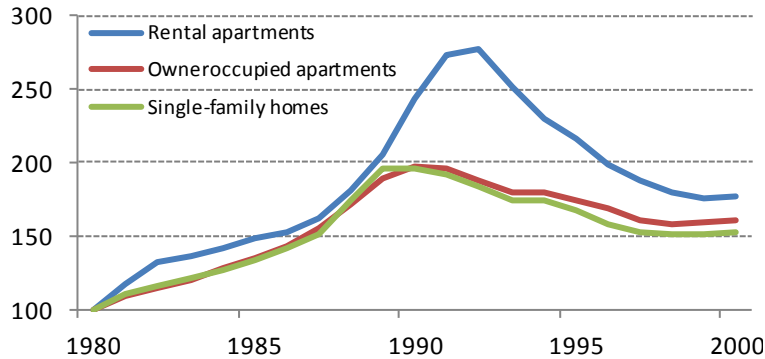
# Structure of the presentation

- **Background of the Swiss debt brake**
- **How it works**
- **Track record**
- **Current problems**
- **Conclusions**



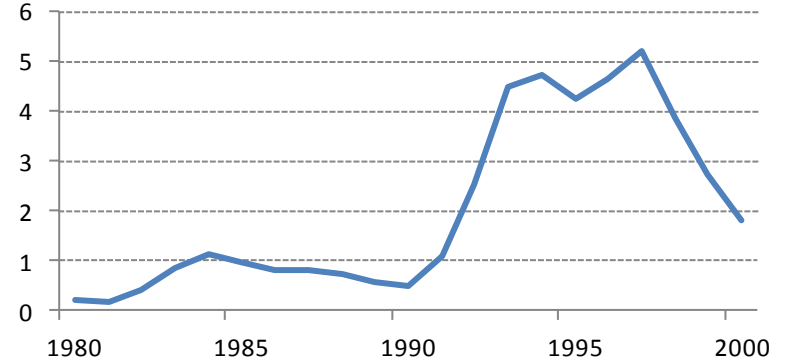
# Switzerland's real estate crisis of the 1990s

### Real estate price indices 1980=100



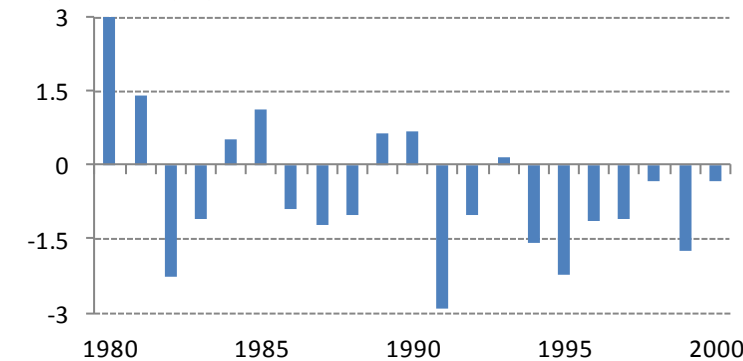
Source: SNB

### Jobless rate in percent



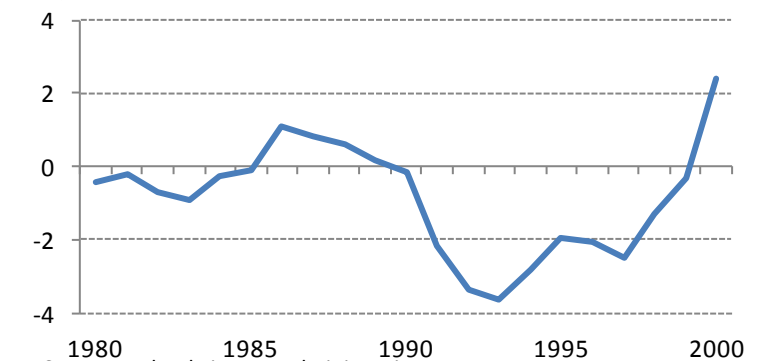
Source: SNB

### Growth difference CHE vs EU-15 in percentage points



Source: OECD

### Public Deficit in percent of GDP

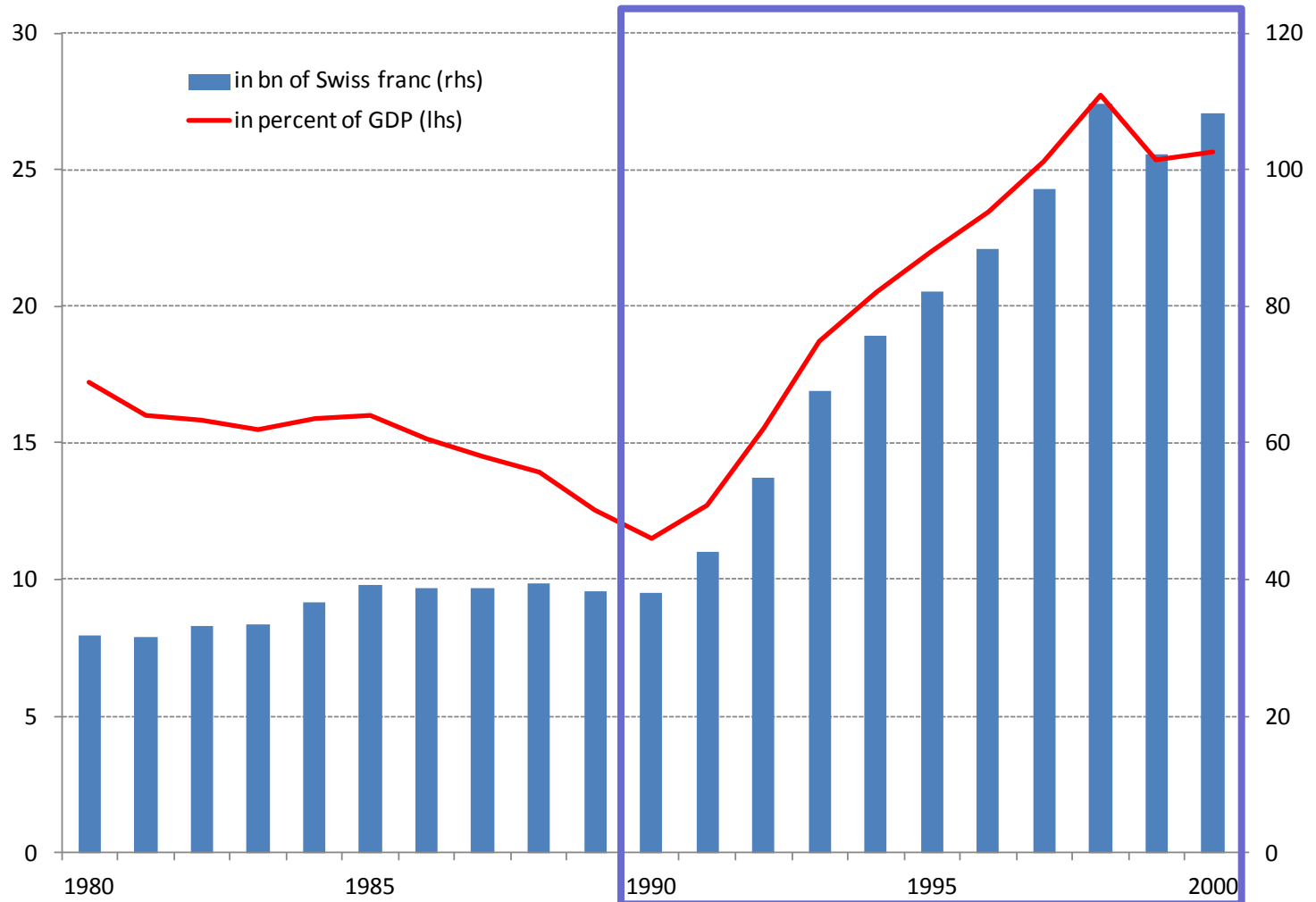


Source: Federal Finance Administration



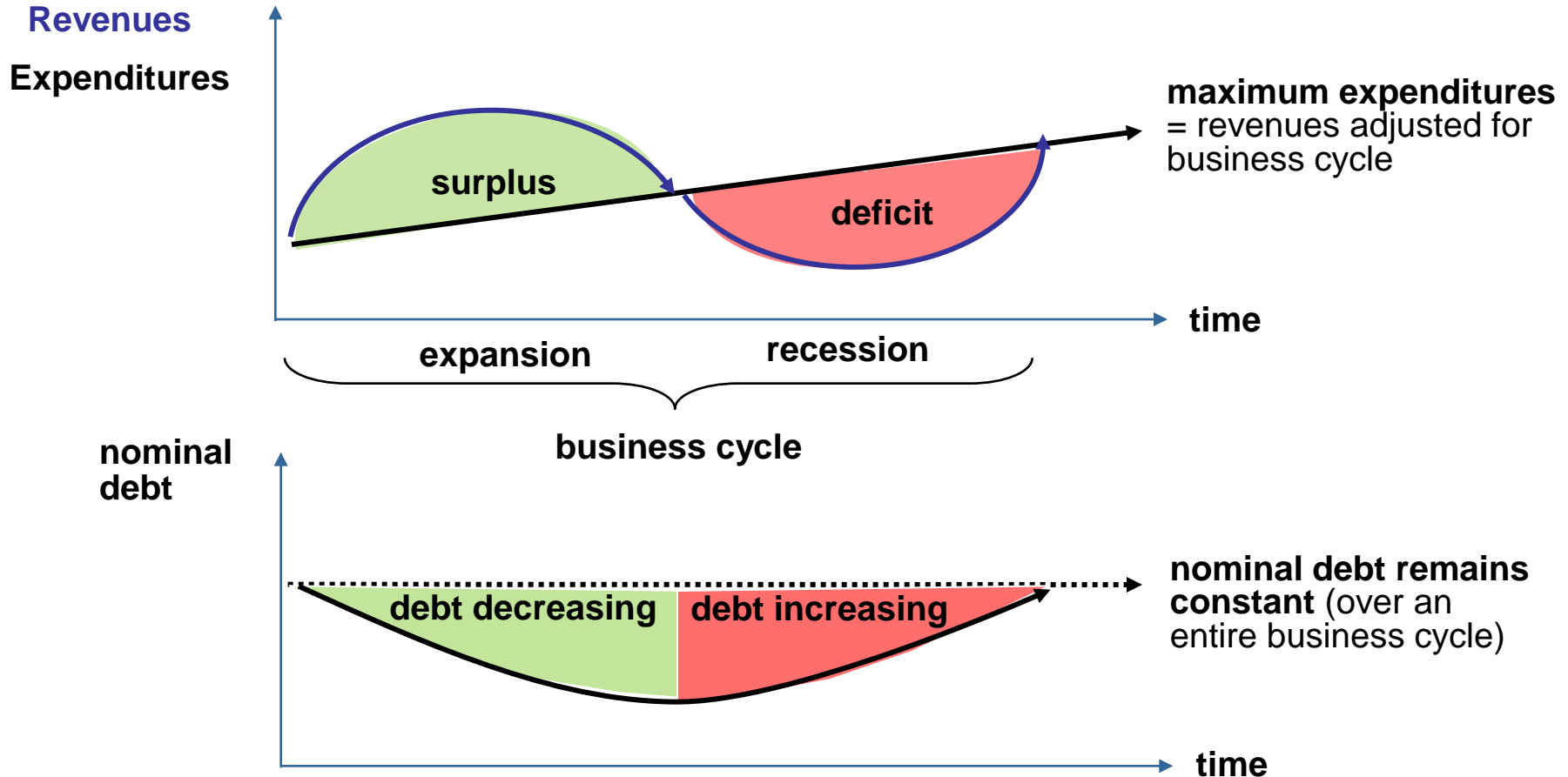
# A decade of debt

## Federal government gross debt





# Swiss debt brake: concept



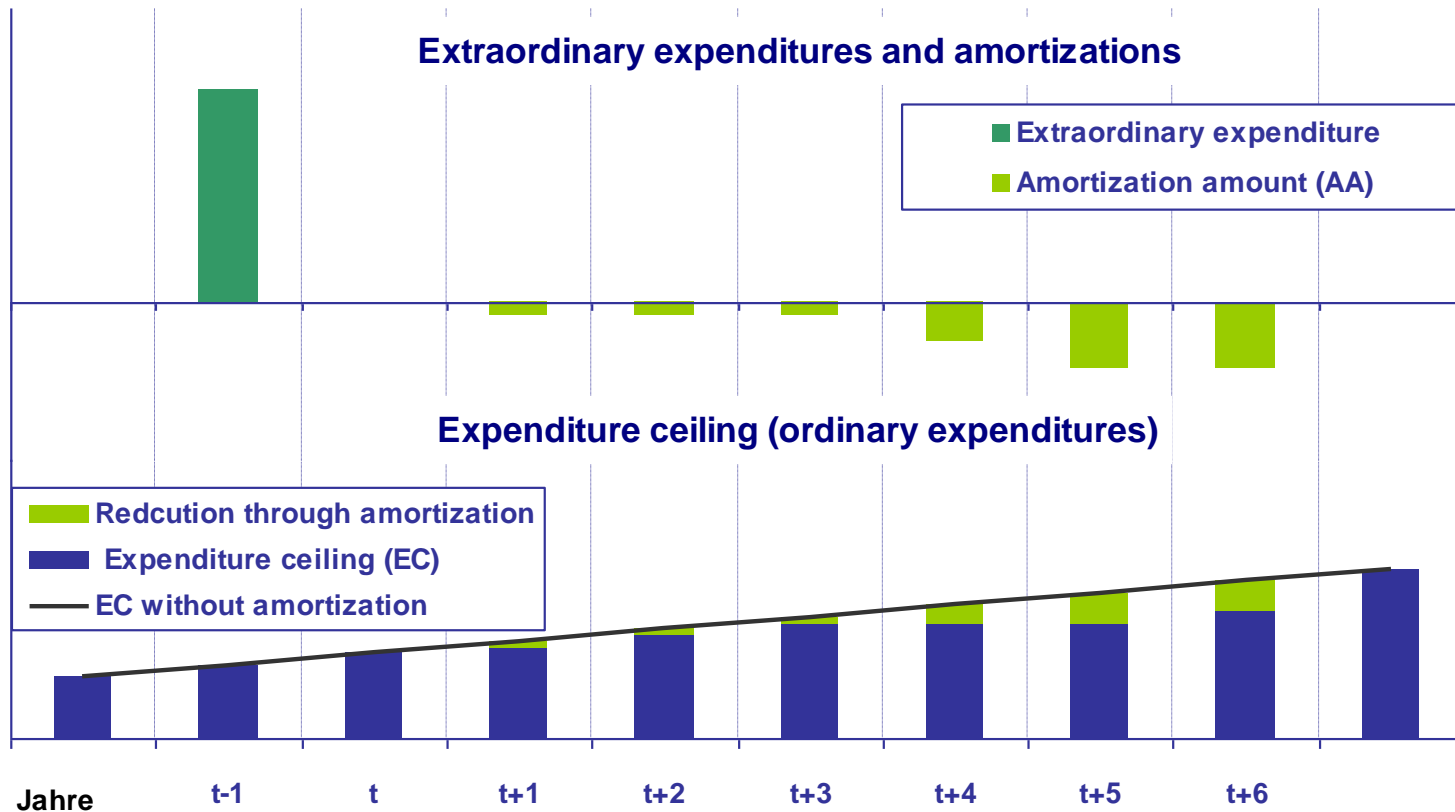


# Main elements of the debt brake

- **Expenditure ceiling:** revenues multiplied with business cycle adjustment factor ( $k = \text{trend GDP} / \text{real GDP}$ )
- **Compensation account:** Record of past structural deficits and surpluses
- **Amortization account:** Record of extraordinary receipt and expenditure. (Exemption: earmarked revenues and corresponding expenditures)



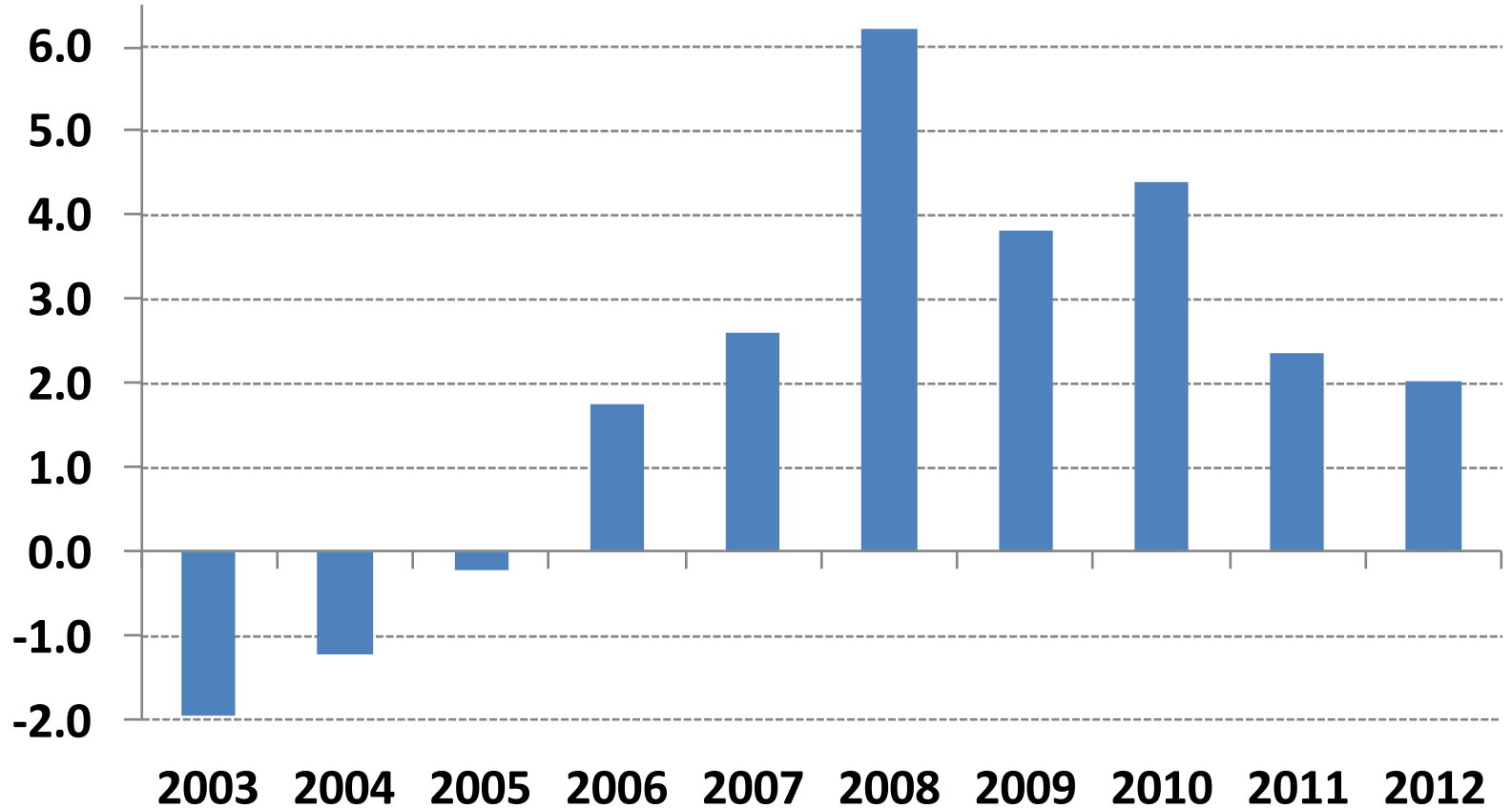
# Debt brake extension mechanism





# Track record (I)

## Federal government structural deficits / surpluses

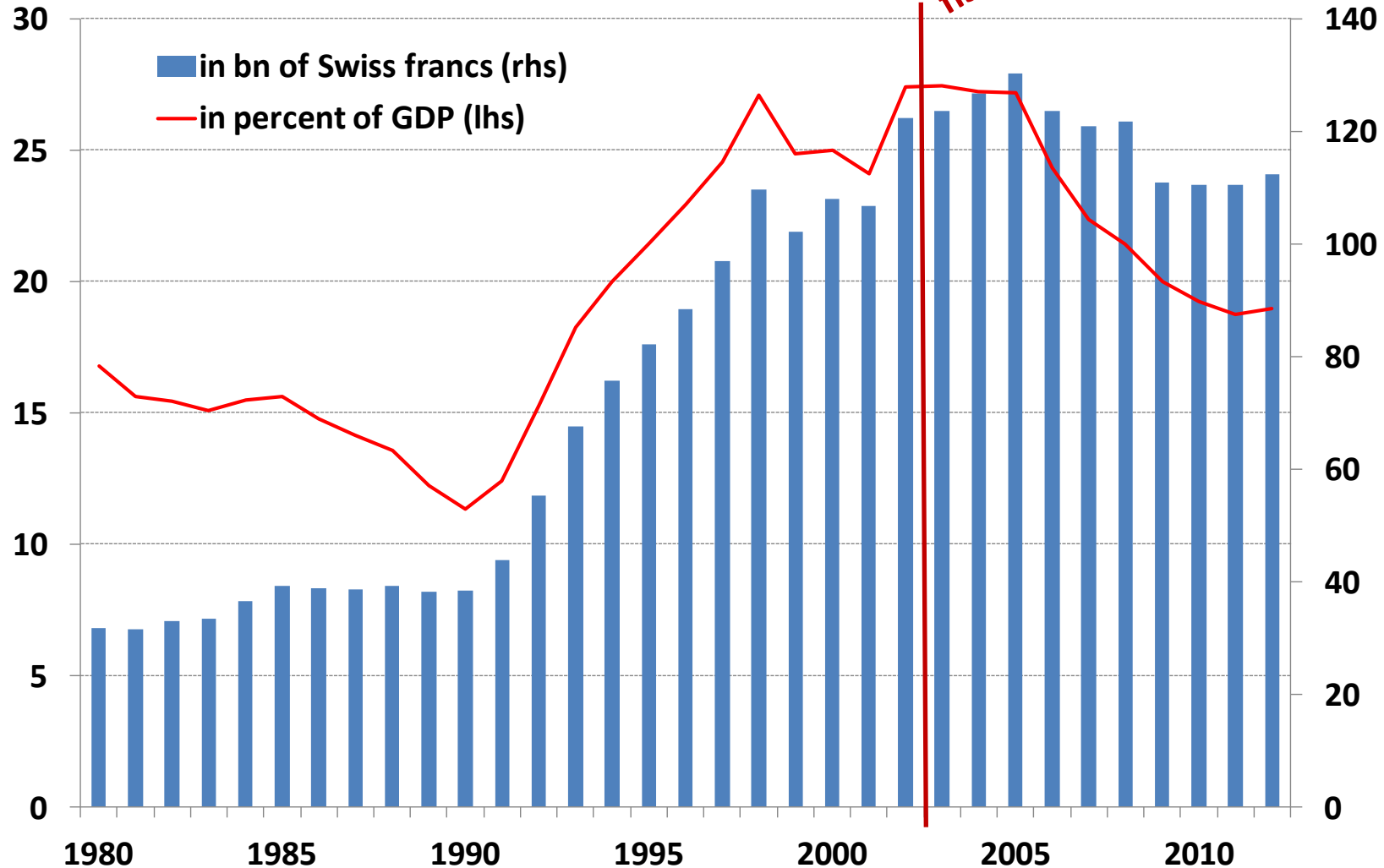






# Track record (II)

## Federal government gross debt





# Track record (III)

## Financial Statements 2012

CHF mn	Fin. stmt. 2008	Fin. stmt. 2009	Fin. stmt. 2010	Fin. stmt. 2011	Fin. stmt. 2012
<b>Ordinary fiscal balance</b>	<b>7 297</b>	<b>2 721</b>	<b>3 568</b>	<b>1 912</b>	<b>1 262</b>
Cyclical	1 086	-1 097	-817	-450	-756
Structural	6 210	3 818	4 384	2 362	2 018
Compensation account credit	6 210	3 818	3 969	2 197	1 583
<b>Compensation account balance</b>	<b>8 827</b>	<b>12 645</b>	<b>15 614</b>	<b>17 811</b>	<b>19 394</b>
Amortization account credit	–	–	416	-1 542	1 173
<b>Amortization account balance</b>	<b>–</b>	<b>–</b>	<b>416</b>	<b>-1 127</b>	<b>46</b>



# Current problems

## Estimation of receipts

- Criticized bias towards underestimation (!)

## Political pressure

- Compensation account (asymmetric management)
- Credit rests
- Bypassing the debt brake



# Conclusions: Experiences and limitations

## Positive experience so far

- Introduced top-down approach into fiscal policy, which facilitates budget process
- Rule-based fiscal policy strengthens fiscal responsibility within coalition government and within parliament
- Forces rapid reaction to changing budgetary situations

## However no panacea

- Problems of budget quality remain in the responsibility of the political system
- Focus of debt brake is short term: no direct incentive to tackle long-term challenges