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Swiss Confederation

Federal Department of Finance FDF
Federal Finance Administration FFA

Fiscal Policy with a Fiscal Rule

on the federal level in Switzerland

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7. July 2011



Agenda

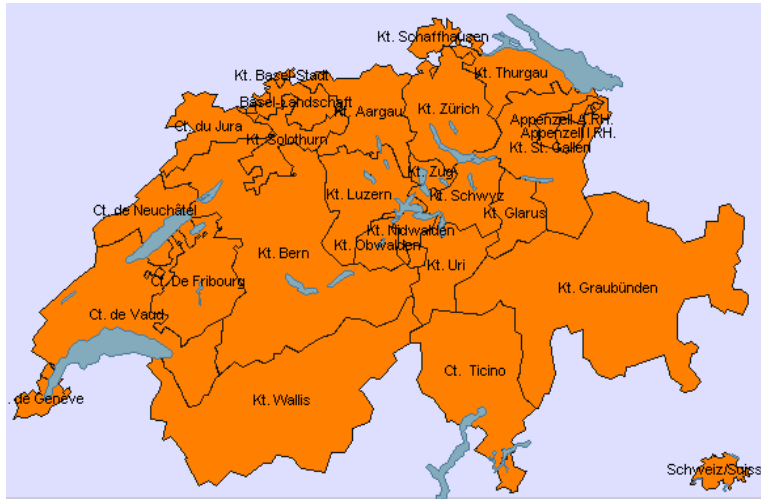
1. Public Finance in Switzerland: An Overview
2. Budget Process and Budget Implementation at the Federal Level
3. Macro Framework of the Federal Budget: Debt Brake
4. Questions & Discussion



1. Public Finance in Switzerland: an Overview



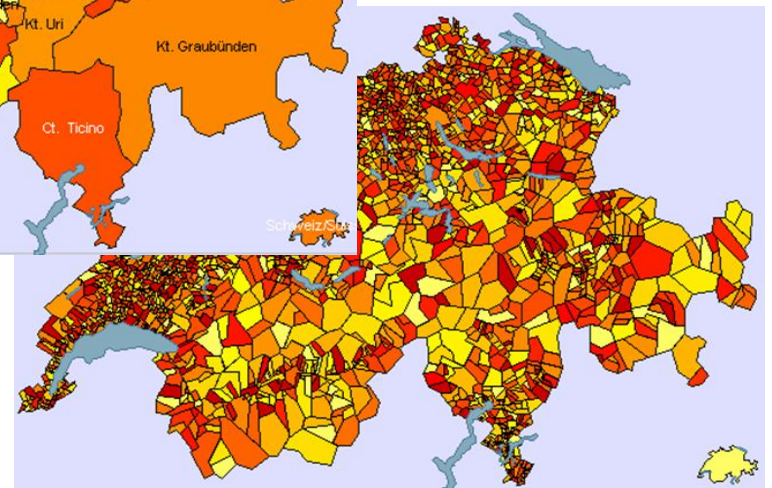
The three political levels



The Confederation



The 26 cantons



2'596 communes



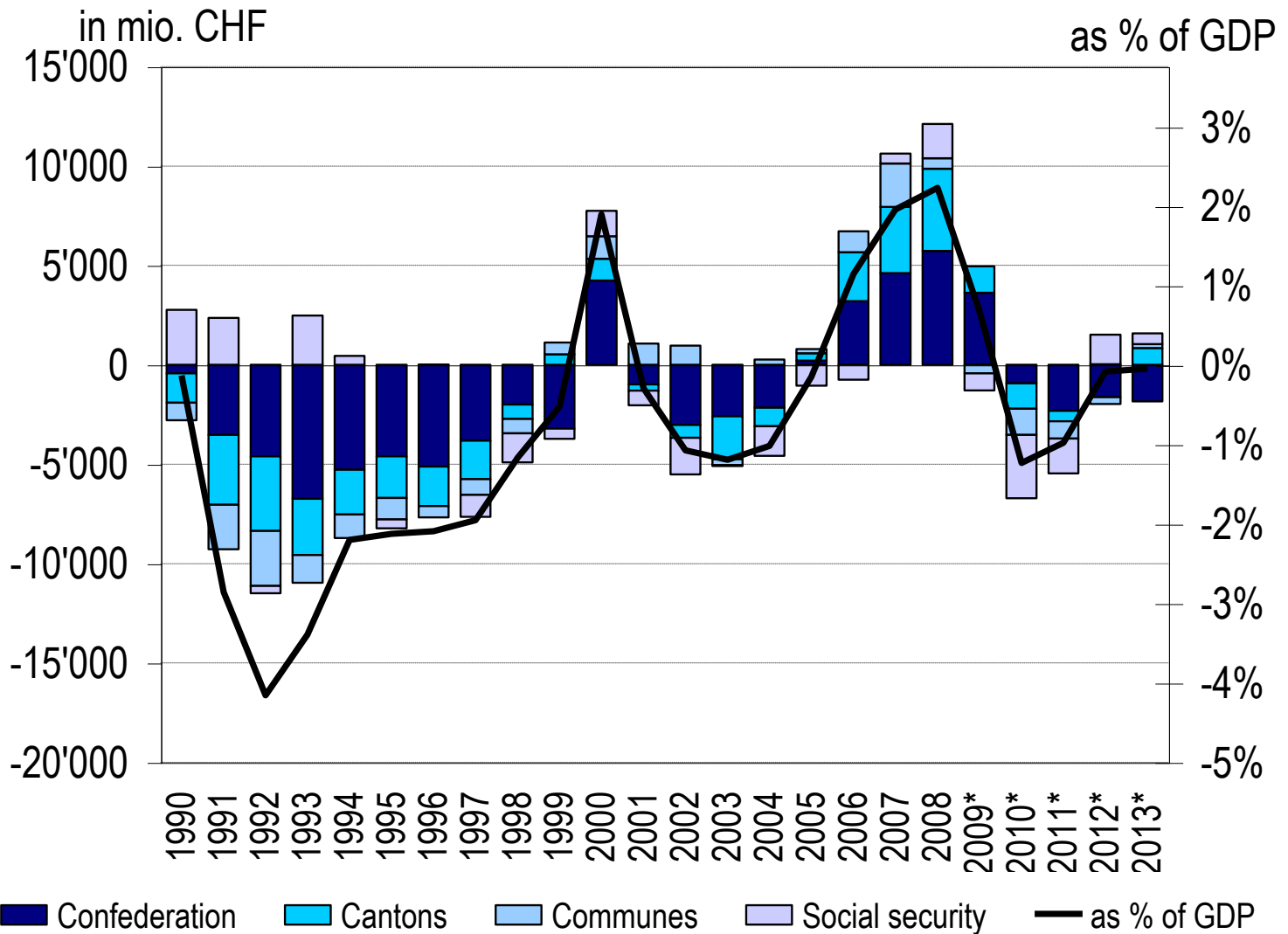
General government finance 2010

Billions of Swiss Francs

	Revenue	Expenditure	Net Lending / Borrowing
Confederation	57.0	57.9	-0.9
Cantons	75.0	76.3	-1.3
Communes	46.8	48.2	-1.3
Social Security	53.3	56.5	-3.2
General Government	189.6	196.3	-6.7
Subcentral Governments	64.3%	63.4%	38.6%



Net lending / borrowing





3. Budget Process and Budget Implementation at the Federal Level



Aspects of the federal budget (1)

- Maximum tax rates (revenues) stipulated in Constitution
- Expenditures are decided by Parliament
- Cabinet sets up budget proposal
- Parliament (both chambers) amends and decides on budget



Aspects of the federal budget (2)

- Parliament ultimately decides on budget as a whole
- Parliament allows and amends individual credits
- Supplementary credits during budget execution
- Fiscal rule determines ceilings for expenditures
- Federal Council guidelines represent top down approach based on the ceilings



Aspects of the federal budget (3)

- Between 1500 and 1700 budget items
- Central management of payments
- Procedure if annual credits to be exceeded:
 - Supplementary credits
 - Exceeding of credits
- «Inspectorate» at the level of departments
- «Financial Control» in charge of general accounts



Timetable

- February: budgetary targets and guidelines
- April: budgetary request are submitted
- June: 1st budget discussion by FC
- July: 2nd budget discussion by FC
- August: FC approves budget message
- September: Start of deliberations in fiscal committees
- December: Budget debate in both chambers



Impact of “fiscal rule” on budget procedure and fiscal policy

- More top-down elements
- Revenue forecasting is of particular importance
- Consolidation programs
- Short term effects on budget composition
- Pressure to define priorities

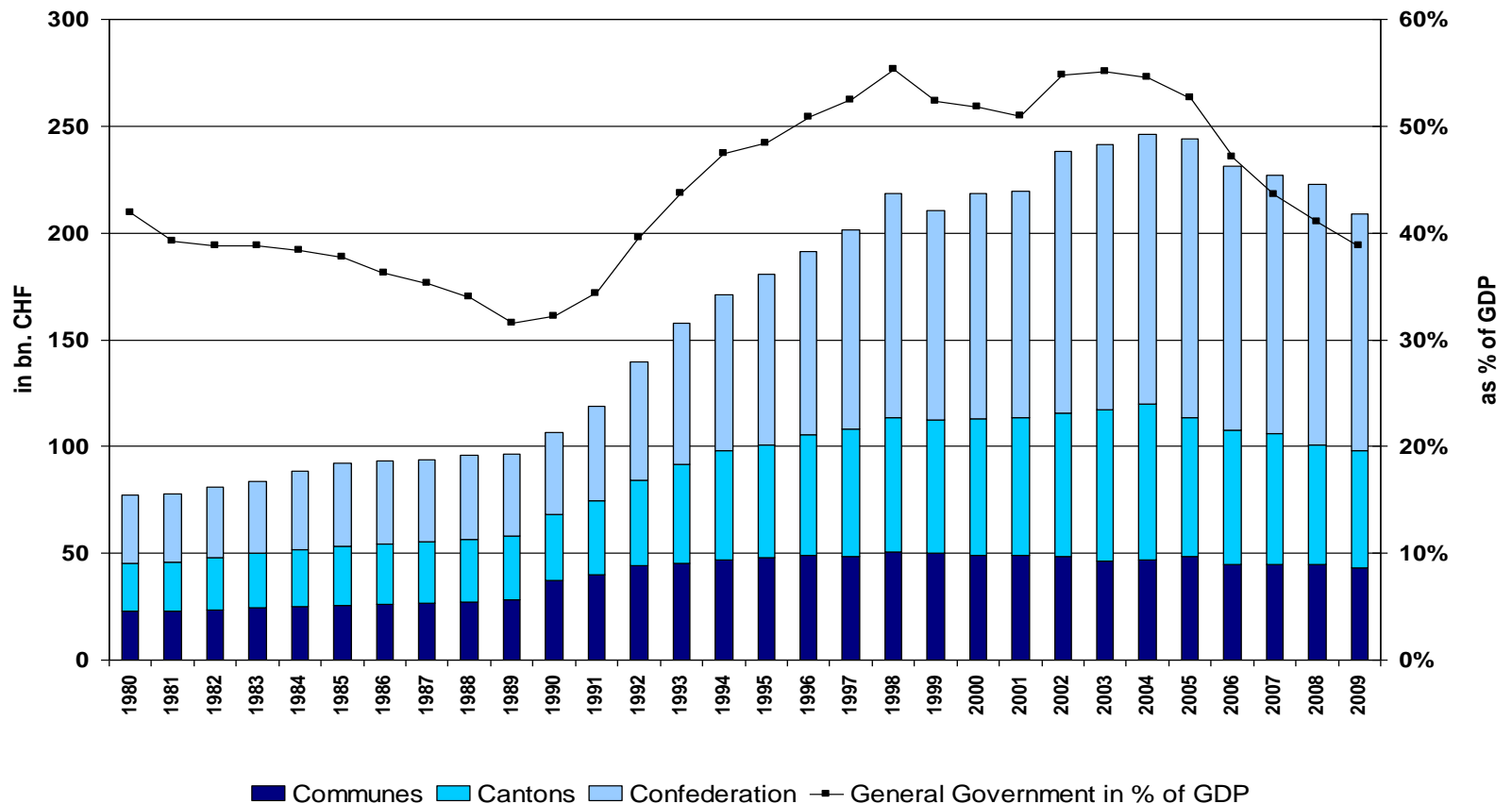


2. Macro Framework of the Federal Budget: Debt Brake



General Government - Gross Public Debt 1980-2009

- Nearly all 26 Cantons have fiscal rules – the first since 1929
- Central Government since 2003



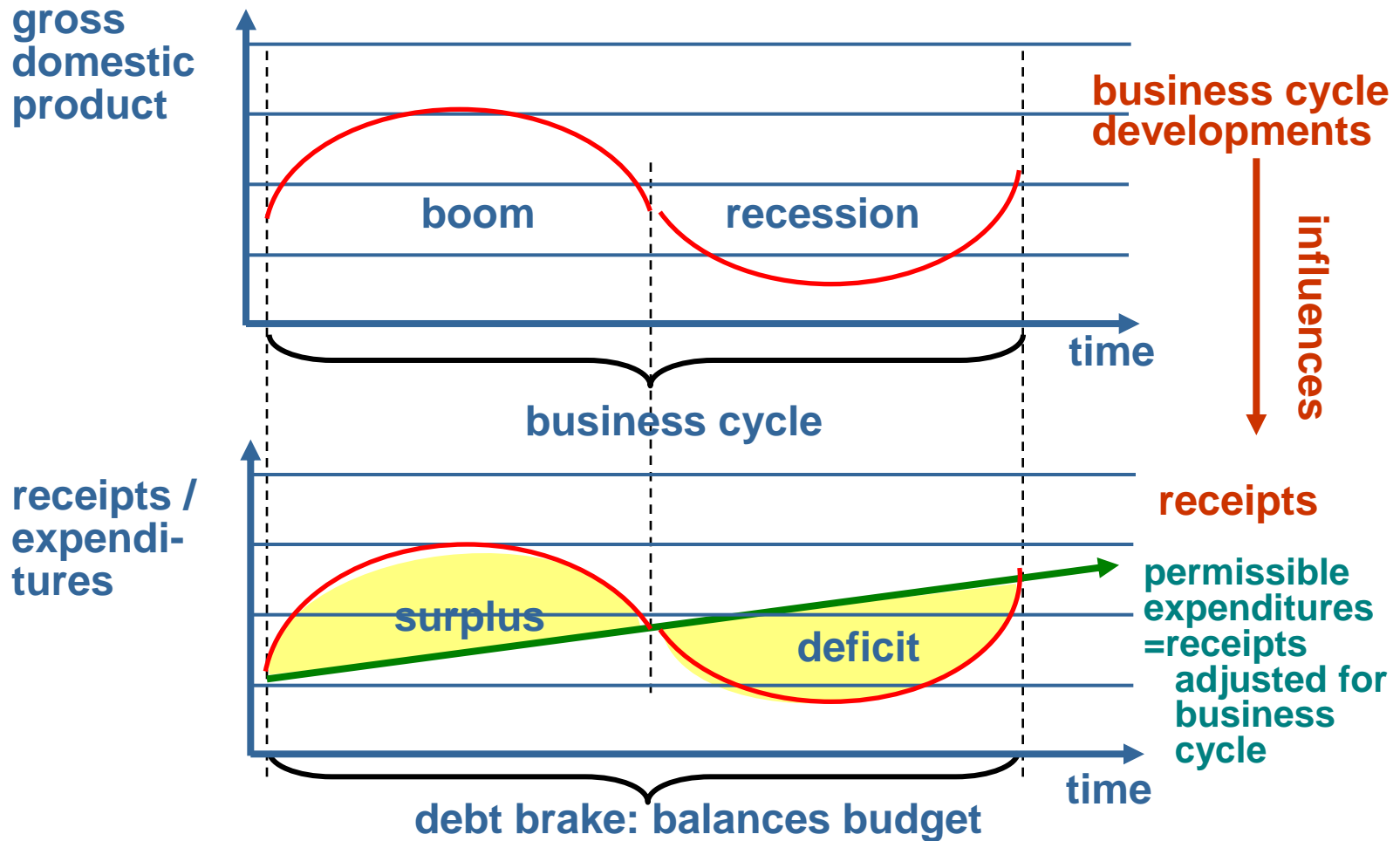


Why a fiscal rule ?

- Bias towards excessive deficits
- Institutional “weaknesses” that can be corrected
- Policy mix: automatic stabilisers and monetary policy
- Political process: ex ante agreement on principles



Debt brake principle





Main elements of the Debt Brake Rule at the Federal Level

- Simple and transparent rule:
Expenditure = cyclical factor x revenues
 ➔ balanced accounts over the business cycle
- Comprehensive coverage of expenditure items.
- Limited exceptions for extraordinary events.
- Notional account to track deviations.
- Pre-defined sanctions in the Finance Law for non-compliance.
- High legitimacy ➔ anchored in the Constitution
 ➔ mandatory popular vote in 2001
 (85% in favour)



Calculation of expenditure ceiling

permissible expenditures (G) = revenues (T) multiplied with
business cycle adjustment factor (k)

$$G = T \cdot k$$

with $k =$ trend GDP / real GDP



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 and composition must be solved by other instruments (e.g. Task Evaluation Program)
- Focus of debt brake is short term: no direct incentive to tackle long-term challenges



Conclusion

- Central government budget is characterized by three special features:
 - Political environment: direct democracy / federalism
 - Debt containment rule
 - Federal budget as a transfer budget



END