Public Debt and Fiscal Rules

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International debt crisis

Public Deficit and Debt

In percent of GDP

Source: IMF, WEO Sep. 2011
Fiscal Consolidation

Public Deficit and Debt

*In percent of GDP*

![Graph showing public deficit and debt in percent of GDP for various countries. The graph displays the percentage deficit and debt for countries such as Switzerland, Germany, Spain, Italy, Japan, and the United Kingdom. The circle surface represents nominal gross debt. Source: IMF, WEO Sep. 2011.](image-url)
Switzerland’s real estate crisis of the 1990s

Real estate price indices 1980=100

- Rental apartments
- Owneroccupied apartments
- Single-family homes

Source: SNB

Growth difference CHE vs EU-15 in percentage points

Source: OECD

Jobless rate in percent

Source: SNB

Public Deficit in percent of GDP

Source: Feder Finance Administration

Switzerland’s real estate crisis of the 1990s

Federal Department of Finance FDF
Federal Finance Administration FFA
A Decade of Debt

Federal Government Gross Debt

- In billion of Swiss franc (right axis)
- In percent of GDP (left axis)


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Swiss debt brake: concept

maximum expenditures = revenues adjusted for business cycle

nominal debt remains constant (over an entire business cycle)
Factors for a successful fiscal rule

1. The rule should be simple and transparent \(\Rightarrow\) heart of the debt brake is an expenditure rule

2. The rule should take due account of the business cycle \(\Rightarrow\) no procyclical fiscal stance

3. Comprehensive scope for application \(\Rightarrow\) no exclusion of investment spending

4. The rule should take into account exceptional circumstances \(\Rightarrow\) escape clause for exceptional spending

5. The rule must include a sanction mechanism for deviations \(\Rightarrow\) consolidation measures mandatory by law if certain limits are exceeded
Track record (I)

Federal Government Structural Deficit

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<th>Deficit</th>
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<td>2003</td>
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<tr>
<td>2004</td>
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<td>2009</td>
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<tr>
<td>2010</td>
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<tr>
<td>2011</td>
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</tbody>
</table>
Track record (II)

Federal Government Gross Debt

- In billions of Swiss francs (right-hand side)
- In percent of GDP (left-hand side)

Introduction of fiscal rule
Long-term challenges: aging population

Increase in demographics-related spending by 2060

In GDP percentage points

Source: Federal Finance Administration; European Commission: 2009 Ageing Report

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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