

# SWITZERLAND

FEDERAL COUNTRY

## BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: SWISS FRANC (CHF)

### POPULATION AND GEOGRAPHY

**Area:** 41 290 km<sup>2</sup>**Population:** 8.452 million inhabitants (2017), an increase of 1.2% per year (2010-2015)**Density:** 205 inhabitants / km<sup>2</sup>**Urban population:** 73.8% of national population**Urban population growth:** 1.1% (2017 vs 2016)**Capital city:** Bern (5.0% of national population)

### ECONOMIC DATA

**GDP:** 547.9 billion (current PPP international dollars), i.e. 64 712 dollars per inhabitant (2017)**Real GDP growth:** 1.1% (2017 vs 2016)**Unemployment rate:** 4.8% (2017)**Foreign direct investment, net inflows (FDI):** 37 864 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 24.5% of GDP (2017)**HDI:** 0.944 (very high), rank 2

## MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The Swiss Confederation is a parliamentary federal state composed of 26 cantons. Swiss federalism is a bottom-up system where cantons enjoy far-reaching autonomy to the extent that their sovereignty is limited by the Federal Constitution. Both cantons and municipalities have a large degree of political, administrative and fiscal autonomy.

The 1848 and 1999 Swiss Constitutions also define a system of direct democracy, also called half-direct or representative direct democracy. Therefore, Switzerland has a particularly developed direct democracy system beyond direct election voting, whose main components are the submission of laws by way of popular initiatives, and optional and mandatory referendums.

At the federal level, legislative power is vested in a bicameral parliament made up of the National Council (lower house) and the Council of States (upper house). Members of both houses, directly elected for four-year terms, represent the cantons: the 200 seats in the National Council are distributed in proportion to each canton's population, whereas each canton has a determined number of seats, between one and two, in the Council of States (46 seats in total). The executive power is vested in the Federal Council, composed of seven members, elected by Swiss citizens for four-year terms, and headed by the President of the Federal Council, elected yearly by the Federal Assembly. Art. 175 of the Constitution specifies that the composition of the Federal Council shall reflect the regional and linguistic diversity of the country as Switzerland is composed of four linguistic regions (German, French, Italian and Romansh).

At subnational level, the Constitution defines the federation and establishes the autonomy and sovereignty of the cantons (Art. 1 and 3) and grants them both organisational and financial autonomy (art. 47) in the determination of their tasks based on the subsidiarity principle (art. 5). Municipal autonomy is also enshrined in the Constitution (art. 50).

At the regional level, the 26 cantons are subdivided into 20 cantons and six half-cantons but this subdivision is historical and has less significance today. The 26 cantons each have their own constitution, parliament, government and courts. Cantonal governments comprise five to seven members, directly elected by the people. Cantonal parliaments (the great council), named under various appellations depending on the canton, have a single chamber comprising between 50 to 180 members directly elected by the canton's population, whose mandate varies from one canton to another. They are presided by a president usually for one year but it can be for the entire legislative period (Vaud and Geneva). The executive body is the state council and is composed of members elected by the great council or by citizens. Its mandate differs from one canton to another.

The democratic functioning of the two cantons of Appenzell Rhôdes-Intérieures and Glaris is unique: once a year, the citizens of the canton as a whole gather in the cantonal capital and collectively elect, by a show of hands, the canton's executive authorities, and discuss cantonal laws.

At the local level, the municipalities (communes) are governed by two types of deliberative bodies according to their size, called municipal parliaments: the municipal assembly and the municipal/general/local council. The first type is more common (80% of cases) and consists of a system of direct democracy as it is composed of citizens who have the right to vote; the second, the municipal council, is a parliament composed of representatives elected by the citizens by direct universal suffrage for a mandate that varies depending on the canton. Below 1 000 inhabitants, the choice between the two formulas is open but over 1 000 inhabitants it must be a municipal council. The executive power is called an administrative, municipal or local council and is composed of members either elected by direct universal suffrage or by the municipal council for a mandate varying from four to five years, depending on the canton. It is presided by a mayor, syndic or president, also depending on the canton. Most communes hold an annual assembly where citizens can vote on issues put before them.

An important federalism reform, adopted in 2004 and entered into force in 2008, improved the fiscal equalisation system and clarified the assignment of responsibilities between the federal government and the cantons. It also provided incentives and the mechanism for the formalisation of inter-cantonal cooperation agreements, in order to avoid fragmentation and unproductive "beggar-thy-neighbour" scenarios. The reform reaffirmed the principles of subsidiarity and fiscal equivalence. Since 2008, Switzerland has further clarified federal and cantonal roles in specific policy areas. However, the process of improving tasks and cost-sharing between the Confederation and the cantons is still on the agenda. Recently, the federal parliament has also asked the Federal Council to undertake an assessment of the tasks shared between the Confederation and the cantons and note for each whether it should remain a joint task or whether it should be transferred in full to the federal or the state level.

There is no institutionalised vertical coordination (such as through a council or forum) between the Confederation and the Cantons. However, the federation may cooperate and participate in some inter-cantonal agreements and conferences. In addition, since 2001, the Tripartite Conference on Agglomerations (TCA) has served as a political forum to increase cooperation between the Confederation, cantons, towns and municipalities on the implementation of a joint policy for the Swiss agglomerations. In 2017 the TCA became the “Tripartite Conference” and its scope was extended to rural areas and mountainous regions, becoming a collaboration forum between the Confederation, the cantons and the municipalities focusing on different political issues. The cantons institutionalised horizontal collaboration in various policy areas through so-called “cantonal conferences” and, since the 2004 fiscal federal reform, through the “house of the cantons”.

## TERRITORIAL ORGANISATION

| 2017 | MUNICIPAL LEVEL   | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL                         | TOTAL NUMBER OF SNGS |
|------|---|--------------------|---|----------------------|
|      | 2 222 municipalities<br>( <i>commune, gemeinden, comuni</i> ) |                    | 26 states<br>( <i>canton, kanton, cantone</i> ) |                      |
|      | Average municipal size: 3 804 inhabitants                     |                    |   |                      |
|      | <b>2 222</b>  |                    | <b>26</b>                                       | <b>2 248</b>         |

**OVERALL DESCRIPTION.** The Swiss Confederation has two tiers system of SNGs composed of 26 cantons and 2 222 municipalities in 2017 (2 212 as of January 1, 2019).

**REGIONAL LEVEL.** Cantons play an important role in Switzerland’s decentralised government, as they define former states that gathered in 1848 to create the Confederation, devolving part of their sovereignty. The canton of Jura is the only exception as it was created in 1979 after its secession from the Berne canton. Their organisation varies across jurisdictions. The most populous canton as of 2017 is Zurich (1.4 million inhabitants), while the least populous is Appenzell Rhôdes-Intérieures (15 500 inhabitants), the cantonal average size being around 326 000 inhabitants in 2017.

Regional economic disparities in Switzerland are among the lowest within the OECD. Regional disparities in terms of GDP per capita have slightly decreased in Switzerland over the last 16 years, with Eastern Switzerland having a GDP per capita equivalent to 72% of Zurich’s GDP per capita in 2015.

**MUNICIPAL LEVEL.** Municipalities are governed by the constitution and legislation of the cantons they belong to. As a result, municipal organisation differs from one canton to the next. Swiss municipalities are small on average, compared to the OECD average municipal size of 9 700 inhabitants. The median size is even much smaller (1 370 inhabitants). 84% of municipalities have fewer than 5 000 inhabitants and even 61% fewer than 2 000 inhabitants while only 5% have more than 20 000 inhabitants. In 10 cantons, the average size of municipalities is fewer than 3 000 inhabitants. However, 49% of the population lives in cities of more than 50 000 inhabitants and 30% in cities with more than 500 000 people (vs 55% in the OECD area).

To reduce municipal fragmentation, several cantons (Thurgovie, Fribourg, Vaud, Tessin, Grisons, etc.) have encouraged mergers through financial and political incentives. The number of municipalities has progressively decreased, resulting in a reduction of 30% of the number of municipalities between 2000 and 2017. In 2019, the number of municipalities has again decreased to 2 212. Inter-municipal cooperation is another way of reducing fragmentation that has been chosen by certain cantons. In fact, inter-municipal arrangements are becoming increasingly popular and have many different legal structures.

## SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to the principle of subsidiarity, which is enshrined in the Constitution, competences are vested at the cantonal level and can only be transferred to the Confederation when the lower level is no longer able to provide a service “efficiently” (art. 5). Only very few policy areas fall exclusively under the competences of the Confederation (foreign affairs, monetary policy and armed forces). As specified in Article 3, all tasks not assigned to the Confederation remain with the cantons (security and police, education including universities, healthcare, welfare, utilities, etc.). The Constitution also provides for shared competences between both the Confederation and the cantons. Therefore, the Confederation and cantons assume joint responsibility in some areas (regional traffic, regional development, environmental protection, flood protection, etc.). Finally, the cantons are responsible for the administrative implementation of the federal law, but they are free to adopt different approaches in its implementation.

There are however some overlaps, coordination challenges as well as significant differences among cantons in the provision of services. The last federalism reform 2004-2008 reassigned several policy areas to either the federal or cantonal level in order to clarify the division of tasks between the Confederation and cantons in areas such as schools and higher education, culture, waste management, wastewater treatment and urban transport. It also set up several coordination mechanisms between the Confederation and regional governments, hence the existence of many coordinating bodies and partnership agreements in several sectors (e.g. Swiss Conference of Federal Ministers of Education - EDK, etc.). Of the 53 tasks that used to be jointly financed by the Confederation and the cantons, in the end only 21 were split off and clearly reassigned following the reform and tasks have not been always been divided optimally between the Confederation and the cantons.

Municipalities have extremely varied competences and autonomy, depending on the canton’s legislation. Municipalities’ autonomous and non-autonomous tasks are assigned by their respective cantons. They typically relate to education, social services, water and electricity, and traffic, local roads, land use planning, natural resource management, recreation and culture and municipal police. In principle, municipal competences are full and exclusive, but some have been transferred and shared in a context of inter-municipal cooperation, in particular in sectors such as firefighting, medical care and schools.

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## MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

|  | CANTONS   | COMMUNES  |
|--|---|---|
| <b>1. General public services</b>            | Internal administration; Justice  | Internal administration; Citizenship  |
| <b>2. Public order and safety</b>            | Civil defence; Security and police; Emergency and rescue services                           | Local police (fire department, traffic police, regulation of trade and commerce); Civil protection                            |
| <b>3. Economic affairs/transport</b>         | Regional development (shared); Regional traffic (shared)                                    | Electricity supply; Traffic; Public transport; Local roads and streets  |
| <b>4. Environmental protection</b>           | Environmental protection (shared); Flood protection (shared)                                | Environmental protection; Waste water; Waste collection and treatment; Natural resource management; Conservation of landscape |
| <b>5. Housing and community amenities</b>    | Spatial planning; Public works; Building regulations  | Local development and land-use planning; Building regulations and permits; Water supply                                       |
| <b>6. Health</b>                             | Hospitals; Nursing homes; Prevention and promotion of health                                | Prevention and promotion of health  |
| <b>7. Recreation, culture &amp; religion</b> | Culture   | Sport facilities; Cultural facilities; Heritage   |
| <b>8. Education</b>                          | Pre-school, primary, lower and upper secondary education; Higher education and universities | Pre-school, primary and secondary school (schools operation)  |
| <b>9. Social protection</b>                  | Social policy; Family benefits; Maternity; Unemployment assistance                          | Social assistance; Home care services; Care for the elderly; Responsibilities linked to the social insurance system           |

## SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: at regional level, cantons; at local level, municipalities and nonfinancial special purpose entities.

SNA 2008

Availability of fiscal data:  
**High**

Quality/reliability of fiscal data :  
**High**

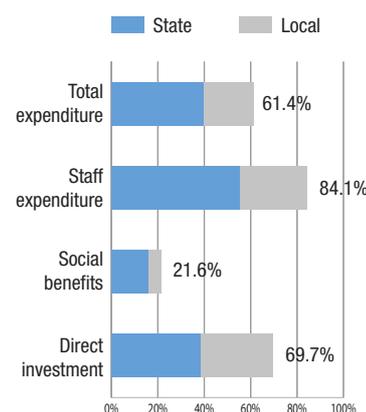
**GENERAL INTRODUCTION.** Art. 3 of the Constitution states that Swiss cantons have discretion over their revenues and taxes, provided they are not assigned to the Confederation. Cantonal laws enact the financial autonomy and competences of municipalities. Fiscal equalisation is enshrined in the Constitution and the federal government has the authority to equalise fiscal disparities. A significant constitutional reform enacted in 2008, which was one of the most comprehensive reforms of federalism since the creation of the Swiss federation in 1848, aimed at modifying the allocation of responsibilities between the Confederation and the cantons and improving the system of financial equalisation. This reform had five components: improving the horizontal and vertical financial equalisation scheme; equalise charges; disentangle the tasks of the Confederation from those of the cantons and their financing; and improve vertical cooperation for joint tasks between the Cantons and the Confederation. A new reform of the equalisation system is on-going.

The Conference of the Cantonal Directors of Finance aims at coordinating the cantons in fiscal and public finance matters. It is in charge of finding a joint position among the cantons and negotiating with the federal government.

Switzerland's fiscal framework is also characterised by the active participation of citizens regarding fiscal matters. Any constitutional amendment, including provisions on the distribution of fiscal power, must be adopted by a double majority of the cantons and the people, while any legislative amendment must be subject to a compulsory or optional referendum.

## SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

| 2016                             | DOLLARS PPP / INH. |       |       | % GDP        |       |       | % SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE |       |       | % GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY) |       |
|----------------------------------|--------------------|-------|-------|--------------|-------|-------|---|-------|-------|--|-------|
|                                  | SNG                | State | Local | SNG          | State | Local | SNG   | State | Local | State  | Local |
| <b>Total expenditure</b>         | <b>13 467</b>      | 8 722 | 4 745 | <b>21.1%</b> | 13.7% | 7.4%  | <b>100%</b>   | 100%  | 100%  | 61.4%  |       |
| <b>Inc. current expenditure</b>  | <b>11 684</b>      | 7 671 | 4 013 | <b>18.3%</b> | 12.0% | 6.3%  | <b>86.8%</b>  | 88.0% | 84.6% | 84.1%  |       |
| Staff expenditure                | <b>4 069</b>       | 2 663 | 1 406 | <b>6.4%</b>  | 4.2%  | 2.2%  | <b>30.2%</b>  | 30.5% | 29.6% |  |       |
| Intermediate consumption         | <b>2 389</b>       | 991   | 1 398 | <b>3.7%</b>  | 1.6%  | 2.2%  | <b>17.7%</b>  | 11.4% | 29.5% |  |       |
| Social expenditure               | <b>1 596</b>       | 1 154 | 442   | <b>2.5%</b>  | 1.8%  | 0.7%  | <b>11.8%</b>  | 13.2% | 9.3%  | 21.6%  |       |
| Subsidies and current transfers  | <b>3 484</b>       | 2 791 | 693   | <b>5.5%</b>  | 4.4%  | 1.1%  | <b>25.9%</b>  | 32.0% | 14.6% |  |       |
| Financial charges                | <b>146</b>         | 72    | 74    | <b>0.2%</b>  | 0.1%  | 0.1%  | <b>1.1%</b>   | 0.8%  | 1.6%  |  |       |
| Others                           | <b>0</b>           | 0     | 0     | <b>0.0%</b>  | 0.0%  | 0.0%  | <b>0.0%</b>   | 0.0%  | 0.0%  |  |       |
| <b>Incl. capital expenditure</b> | <b>1 783</b>       | 1 051 | 733   | <b>2.8%</b>  | 1.6%  | 1.1%  | <b>13.2%</b>  | 12.0% | 15.4% | 69.7%  |       |
| Capital transfers                | <b>395</b>         | 287   | 108   | <b>0.6%</b>  | 0.4%  | 0.2%  | <b>2.9%</b>   | 3.3%  | 2.3%  |  |       |
| Direct investment (or GFCF)      | <b>1 388</b>       | 764   | 625   | <b>2.2%</b>  | 1.2%  | 1.0%  | <b>10.3%</b>  | 8.8%  | 13.2% |  |       |



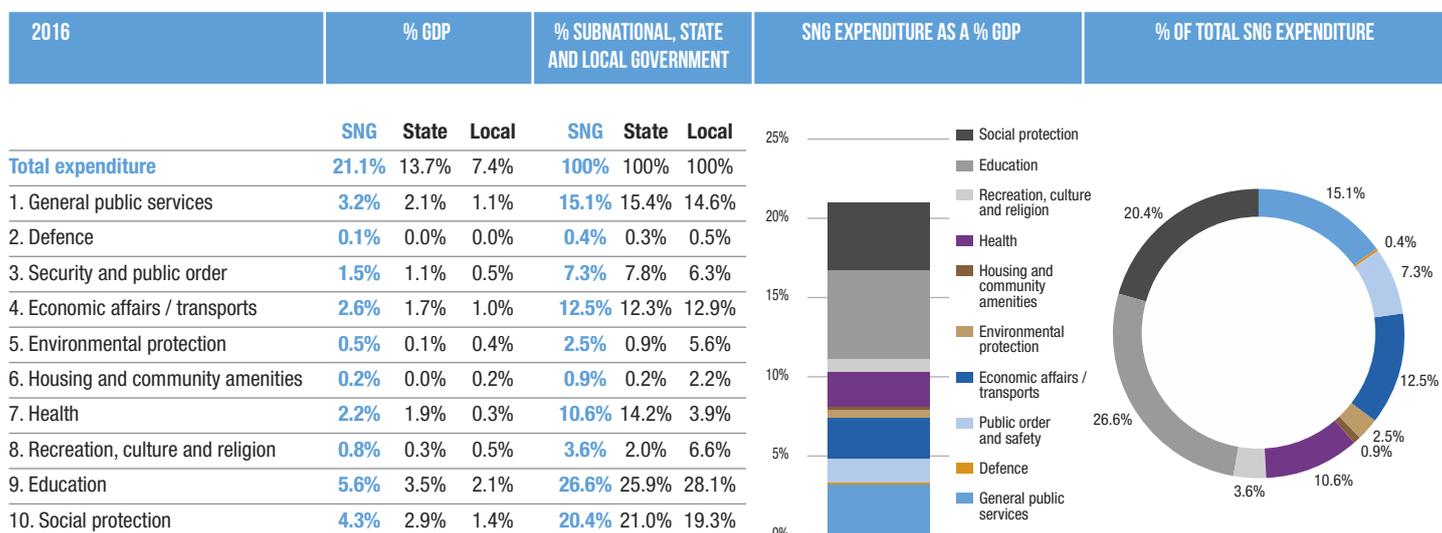
**EXPENDITURE.** The SNG share in GDP and public spending is among the highest of the OECD, well above the OECD average (16.2% of GDP and 40.4% of public spending in 2016) and even the OECD average for federal countries (19.2% and 50.0% respectively). Cantons at the regional level account for the majority of public spending in Switzerland (40%), whereas the federal government accounts for a slightly lower share, and municipalities for approximately 21.6%. Within the subnational sector, cantons account for 65% of subnational expenditure and municipalities 35%.

SNGs are key public employers (SNG share in public staff spending is 21 percentage points above the OECD average of 62.9% and 7 points above the average for federal countries of 76.5%), especially at cantonal level. Cantonal staff expenditure accounted for 55.1% of total public staff spending vs 29.1% for the municipalities.

**DIRECT INVESTMENT.** SNGs are also key public investors, with a share of SNG investment in public investment and GDP higher than the OECD average for federal countries, which amounted to 62.3% and 1.8% of GDP in 2016. In Switzerland, public investment is a shared responsibility across levels of government. Switzerland's 26 cantons accounted for the bulk of subnational investment (55% of SNG investments in 2016) and for 38.3% of total public investment. They have significant independence to shape investment policies and set incentives to attract investment, and over the last ten years, 16 cantons have financed their investments integrally through their own resources. In addition, a significant share of transfers from the central government are allocated to inter-cantonal investment projects. Contractual arrangements between the Confederation and cantons are implemented through eight-year multi-annual programmes. If the targets are not achieved, cantons may be required to return funds. In addition, inter-cantonal agreements focus on collaboration in specific fields (fishing, health-care services, road and police networks). Swiss municipalities also play a direct role in investment, as they were responsible for 45% of SNG investment in 2016. On average over the last ten years, only eight cities have financed their investment by relying essentially on their own resources.

In 2016, the main areas of SNG investment were general public services (35% of SNG investment), economic affairs/transport (24%) and education (21%). At local level, the primary area of investment was education (30% of municipal investment), economic affairs/transport (29%), general public services (11%) and environment (10%).

#### SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

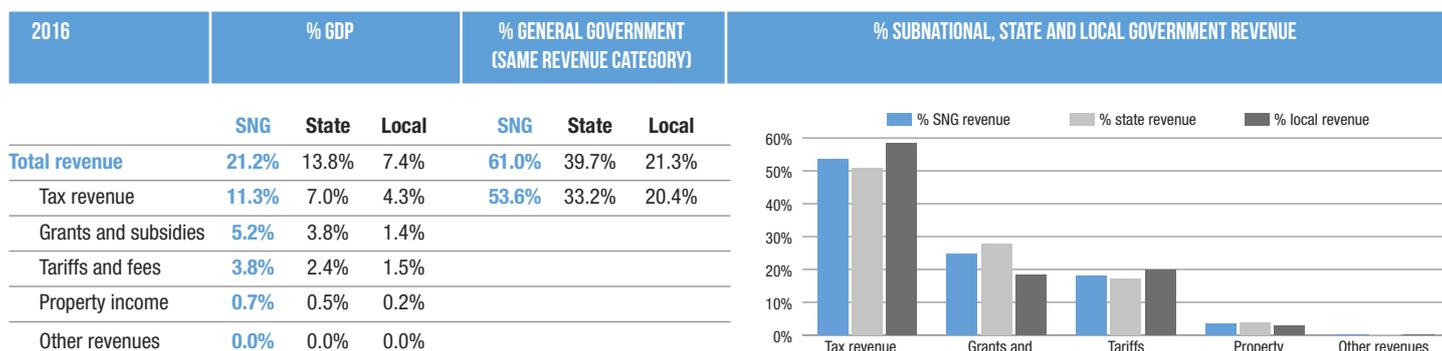


Overall, education is the primary area of SNG spending, for both state and local governments, representing more than one-quarter (26.6%) of subnational expenditure, and 91% of total public spending on education at the country level. It is followed by social protection (20.4% of SNG expenditure), general public services and economic affairs/transport. The recent increase in expenditures in social protection mostly resulted from increasing costs for unemployment, migration and ageing-related protection, which are shared with the federal government, as SNGs are responsible for one-quarter of total public spending in this sector.

Overall, the Swiss cantons are responsible for the bulk of the financing and implementation of public services, in particular in the fields of education (25.9%), social protection (21.0%), security and public order spending (15.4%) and healthcare (14.2%). Expenditure on health is primarily the responsibility of the cantons, which are responsible for nearly all public spending in this category. Health expenditure increased in 2016 in particular due to the weight of health protection and financing of hospitals on cantonal budgets.

Municipal spending is mainly targeted at education (28.1%), social protection (19.3%) and general public services. Municipalities are responsible for a large share of total public spending on housing and community amenities (they are responsible for 83% of total public spending in this sector), environmental protection (62% of total public spending) and recreation and culture (58% of total public spending).

#### SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY



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**GENERAL DESCRIPTION.** According to the Constitution, the cantons may determine their own revenue and taxes. While indirect taxation is part of the Confederation's responsibility, direct taxation is a shared competence of the municipal, state and Confederation levels. As a result, Switzerland is one of the most OECD decentralised countries in fiscal terms. The share of SNG tax revenue in total SNG revenue is one of the highest, well above the average for OECD federal countries (53.5% in 2016) while the dependence on transfers (from federal or state governments) is one of the lowest in the OECD, compared to the OECD average for federal countries of 31.5%. In addition, SNGs have a high degree of taxing power (rates and bases). Intergovernmental transfers comprise equalisation components to balance the discrepancies resulting from such autonomy. Yet, there are strong fiscal disparities, in particular between municipalities, and many small municipalities are heavily dependent on cantonal grants.

**TAX REVENUE.** In addition to representing a large share of SNG revenue, tax revenue accounted for 11.3% of GDP and 53.6% of public tax revenue, above the OECD average (7.1% of GDP and 31.9% of public tax revenue) and above the average of the OECD federations (8.8% of GDP and 42.4% of public tax revenue). In 2016, states represented 59.3% of SNG tax revenue and municipalities, 40.7%.

The 1993 Federal Law on Tax Harmonisation instituted a set of principles to be upheld by all cantons with regard to liability, purpose, tax calculation periods, procedure and criminal law on fiscal matters. Likewise, cantons and municipalities are free to set tax ranges, rates and tax exemptions.

Overall, at subnational level, the primary source of tax revenue was the personal income tax (63% of SNG tax revenue), followed by the property tax and the corporate income tax (both around 14-15% of SNG tax revenue).

At regional level, cantons can levy any kind of tax that is not exclusively attributed to the Confederation (the federal constitution only prohibits double taxation). These include in particular taxes on personal income (60% of cantonal revenue in 2016), on corporate income (14.5%), revenue from the property tax (13.5%), a tax on the earned income of foreigners without a residence permit, a wealth tax, a tax on equity, inheritance and gift taxes, a lottery income tax, taxes on motor vehicles, etc. Cantonal tax authorities are in charge of the income tax administration and collection. This incurs a high degree of fiscal competition in some cantons with a strong revenue potential related to both the corporate and individual income tax. Traditionally, Swiss tax regimes are characterised by lower tax rates for corporations mainly active abroad. In 2016, the "corporate tax reform III" reform package was designed to address this imbalance compared to other OECD and EU countries, but the reform was rejected by Swiss voters in a referendum in February 2017. The revised reform "tax proposal 17" has been released for consultation at the end of 2017 (Federal Act on Tax Reform and OASI Funding), and if approved in May 2019, will become effective in 2021. It comprises, among others, measures abolishing special cantonal tax regimes. In addition, cantons are expected to lower their corporate income taxes in the coming year in order to remain competitive.

Municipalities can levy taxes to the extent they are authorised to do so by the cantons. Municipal main taxes include PIT, CIT, a tax on net wealth, a real estate and real estate transfer taxes, etc. They are mostly levied as a percentage of the basic cantonal tax (*centimes additionnels*). In 2016, tax revenue from the PIT was the largest source of municipal tax revenue (67%), supplemented by revenue from the property tax (15%) and from the CIT (12%).

The recurrent tax on immovable properties, at both cantonal and communal levels, provided few tax revenues. It accounted for 1.7% of SNG tax revenue and 0.9% of SNG revenue, i.e. 0.2% of GDP, well below the OECD average of 1.1% of GDP in 2016. It is levied on land and buildings and paid by individuals and legal entities who are recorded in the land register as the owners or users (usufructuaries) of a property. The tax is calculated on the full taxable value of the property. Several cantons have decided not to levy this tax while the remaining cantons apply a variety of systems.

**GRANTS AND SUBSIDIES.** Intergovernmental transfers from the Confederation make up for 24.6% of SNG revenue, but almost 28% of state revenue and 18.5% of municipal revenue. In 2016, federal transfers to cantons were mainly composed of earmarked grants (65% in areas such as agriculture, health, social protection, elderly, road traffic management, research and higher education, etc.), non-earmarked funds (20% of transfers in 2016) and equalisation funds (15%). Overall, capital expenditure grants accounted for around 7% of total grants in 2016 and current grants, for the remaining 93%.

Transfers from the Confederation to the cantons include a large system of equalisation established in 1958 and further reformed in 2008. The system is both vertical and horizontal and is mainly based on three building blocks, based on revenue equalisation, cost equalisation and a transitional "neutrality" fund.

The revenue equalisation fund that aims to reduce fiscal disparities across cantons by ensuring each canton has a level of resources per inhabitant equivalent to at least 85% of the Swiss average. This fund accounted in 2016 for approximately 70% of total grants. Through both vertical and horizontal equalisation schemes, the fund is co-financed by both the Confederation (between 56% and 60%) and by cantons with high revenue potential (accounting for between 40% and 44% of the fund). According to the monitoring report submitted by the Federal Council on the efficiency of the national equalisation system, all Swiss cantons exceeded the threshold of 85% of their revenue potential in 2016. A new on-going reform of the equalisation system would make significant changes to the equalisation scheme. According to this reform, the amounts to be allocated to the poorest cantons will be set annually by the Federal Council, to reach an increased threshold of 85.5% of their revenue potential. Besides, the new reform also sets a fixed contribution for each rich canton contributing to the Fund, amounting to two-thirds of the Confederation share. The reform is expected to save approximately EUR 280 million yearly, half of which will be reallocated to the cost equalisation fund, and the other half to the neutralisation fund.

The cantonal equalisation system also comprises a cost equalisation fund that compensates for the excessive charges that some cantons incur because of their topography and socio-demographic characteristics, and that may increase the costs for the delivery of public services, especially in mountain areas. This Fund financed by the federal government, represents approximately 22% of total grants.

Finally, a temporary "neutralisation" fund was implemented to compensate, over a limited period of time, for the duration of the implementation of the new equalisation system. It is financed for two-thirds by the Confederation, and for one-third by the cantons depending on their population. Determined every four years by the Federal Parliament since 2007, the fund allocation for the 2016-2020 period will decrease by 5% each year. In 2016, this Fund benefitted seven cantons (Berne, Lucerne, Obwald, Glaris, Fribourg, Neuchâtel and Jura).

In addition, each canton also has its own grants and equalisation system for its municipalities, for which transfers make up less than 20% of their revenue. With the 2008 reform, the share of non-earmarked transfers to municipalities increased from 24% to 40%, while the specific earmarking of certain transfers was stopped. In 2016, most transfers to municipalities were used to fund local expenditure for social welfare (social assistance, asylum rights).

**OTHER REVENUES.** The share of other revenue, comprising tariffs and fees and revenue from properties, is significant for both Swiss cantons and municipalities compared to other OECD countries, amounting to more than 20% of total SNG revenue.

User charges and fees are particularly significant (18.1% of revenues compared to 14.9% in the OECD) while revenue from property (including assets sales, rents) accounted for 3.5% of total SNG revenue, also above the OECD average of 2.0% in 2016. At local level, tariffs and fees in particular represented 20% of the revenue of municipalities alone, and property income 3.0%. Interestingly, the net property assets of cantons and municipalities have been increasing in recent years, partly due to favourable market conditions.

## ■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

| 2016                          | DOLLARS PPP/INH. |       |       | % GDP        |       |       | % GENERAL GOVERNMENT DEBT |       |       | % SNG DEBT  |       |       |
|-------------------------------|------------------|-------|-------|--------------|-------|-------|---------------------------|-------|-------|-------------|-------|-------|
|                               | SNG              | State | Local | SNG          | State | Local | SNG                       | State | Local | SNG         | State | Local |
| <b>Total outstanding debt</b> | <b>17 516</b>    | 9 701 | 7 816 | <b>22.6%</b> | 12.5% | 10.1% | <b>52.5%</b>              | 29.1% | 23.4% | <b>100%</b> | 100%  | 100%  |
| Financial debt*               | 12 417           | 6 919 | 5 498 | 16.0%        | 8.9%  | 7.1%  | 48.2%                     | 26.9% | 21.4% | 70.9%       | 71.3% | 70.3% |

\* Currency and deposits, loans and bonds

**FISCAL RULES.** Federal and cantonal level set their fiscal rules independently, the federal level has no power over the cantons, and there is no formal fiscal policy coordination between the federal and cantonal level. Most Swiss cantons introduced self-imposed balanced budget rules and fiscal rules, including debt brake, spending brake and sanctions in case of non-compliance. In 2003, the Federal government introduced a federal fiscal rule ("debt brake") through popular vote, imposing budget-balance requirements over the budget cycle, with surpluses used to pay down debt, as structural deficits shall be offset in future budgets. Although a few cantons have no budget rules at all, fiscal rules vary greatly across cantons. While in some cantons fiscal rules impose strict budget discipline with balanced payment of accounts and sanctions mechanisms, other cantons enable debt increases in case of recession. Similarly, fiscal rules set by cantons for the communes vary substantially across jurisdictions (mostly the "golden rule"). By the way of the fiscal referendum implemented at the cantonal level, expenditure which exceeds a certain limit is subject to a popular referendum.

**DEBT.** Cantons' borrowing is not restricted, but fiscal rules include debt brakes. Municipalities also have the right to borrow but with some constraints which vary across cantons, depending on each canton constitution and fiscal law. Overall, SNG debt as a percentage of GDP is in line with the OECD average (24.5% of GDP) and below the OECD average for federal countries (31.3%). Swiss SNG debt is, however, significantly higher when considering the share in total public debt compared to the OECD (20.7%) and the OECD federations (27.1%). This share has been increasing for both municipalities and cantons since the last decade. 55% of SNG outstanding debt is held by the cantons and 45% by the municipalities. Therefore, cantons and municipalities have relatively close levels of debt, with outstanding debt amounting to respectively 12.5% and 10.1% of GDP in 2016.

SNG outstanding debt is made up of financial debt (71%), other accounts payable (27%) and pension liabilities (2%). In 2016, the financial debt was composed of loans for 57% of debt stock and bonds for the remaining part (43%). Cantons rely primarily on bond issuance (which makes up for 53% of their financial debt, against 47% for loans), whereas for municipalities, loans are the primary source of borrowing (70% of local debt, and 30% for bonds). Significant disparities exist regarding SNG debt across Swiss regions, with a higher SNG debt level in cantons in southern regions compared to lower level in the northern regions.



World Observatory on Subnational Government Finance and Investment

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**Socio-economic indicators:** OECD // World Bank // UNDP // UN DESA // ILO // Federal Statistical Office.

**Fiscal data:** OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Federal Statistical Office // Répertoire officiel des communes de Suisse.

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