



Sprechnotiz

Joint Ecofin 10.11.2009: Exit Strategies and Sustainability of Public Finances

Importance of exit strategies

The severe economic crisis has required rapid and decisive action by most governments. Fiscal and monetary policies were loosened significantly. This has allowed to reduce at least partially the negative impact of the global recession on our economies.

However, these policies also come at a high price. In many countries discretionary fiscal measures have caused public deficits to explode and debt levels are expected to increase dramatically. If we want to ensure sustainable public finances in the future, we need to focus on exit strategies now. Delaying action will only increase the problems.

Favourable initial conditions

Let me now turn to the situation in Switzerland. **First**, we were fortunate to enter the current recession in good shape. Switzerland recorded remarkable budget surpluses in re-

cent years and constant debt reductions at all levels of government. General public debt to GDP ratio fell from 55% in 2003 to 42% in 2008.

An important element for the success at the Federal level was our fiscal rule, the «debt brake». Introduced in 2003, the «debt brake» aims to balance the federal budget over the economic cycle.

Thanks to the favourable initial condition, we were able to allow automatic stabilizers to operate freely during the current recession. It also permitted us to use the fiscal space under the «debt brake» rule to support the recovery with targeted discretionary spending.

**Exit-strategy:
stick to the
debt brake rule**

Second, the recession will have permanent effects on the fiscal situation in the medium term. Projections show increasing structural deficits at the federal level from 2011 onwards. The «debt brake» does not allow such deficits.

Just as our fiscal rule has been a key element in maintaining budgetary discipline during the good times, it is also crucial in dealing with the fiscal challenges in the medium term. The limits imposed by the «debt brake» must be respected. As you can see, sticking to the «debt brake» will ensure our exit strategy.

The Federal Council is committed to implement the fiscal rule consistently, thereby ensuring a balanced budget over the medium term. In fact, last week, the Federal Council decided on a consolidation program which will reduce spending from 2011 onwards by CHF 1.5 billion (or 2.5 % of total expendit-

ures) in order to comply with the requirements of the «debt brake». The measures mainly involve the unwinding of the fiscal stabilization programs and further expenditure reduction measures.

Long-term fiscal pressure due to aging related costs

Third, I am convinced that fiscal rules are critical to maintain a successful fiscal policy. However, fiscal rules alone cannot achieve fiscal sustainability. When facing long-term fiscal costs due to ageing populations, we also need deep structural reforms.

The long-term sustainability report issued last year by the Federal Ministry of Finance marks an important step in recognizing the tasks ahead and the actions needed to insure long-term fiscal sustainability.

The results of the report show that public spending of the three levels of government will increase by 5.0 percentage points of GDP by 2050. This increase is similar with that of other European countries. Unless countermeasures are taken, the level of debt measured by the debt ratio will rise from just about 40% of GDP at present to around 130% of GDP.

The challenges posed by ageing populations are enormous. In order to ensure long-term fiscal sustainability, structural reforms are unavoidable. We have already implemented important reforms regarding the insurance for disabled persons, which was facing the most urgent problems. However, strong efforts will be necessary in the areas of health care and old age pension insurance.

