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Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

State financial statements

Report on federal financial
statements

2015

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Dispatch on the Swiss state financial statements for 2015

of March 23, 2016

Dear Mrs President of the National Council,
Mr President of the Council of States,
Ladies and gentlemen,

With this dispatch, we hereby submit the *Swiss state financial statements for 2015* to you, and propose that you approve them in accordance with the enclosed draft resolutions.

We also request, in accordance with Article 34 paragraph 2 of the Federal Act of October 7, 2005 on the Federal Financial Budget (SR 611.0), that you approve the *credit limit excesses* that proved inevitable after consuming the budgetary and supplementary credits.

Respectfully yours,

Bern, March 23, 2016

On behalf of the Swiss Federal Council

President of the Swiss Confederation:
Johann N. Schneider-Ammann

Federal Chancellor:
Walter Thurnherr

Report on federal financial statements

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CHF mn	Fin. stmt. 2014	Budget 2015	Fin. stmt. 2015
Financing statement			
Ordinary receipts	63 876	67 527	67 580
Ordinary expenditure	64 000	67 116	65 243
Ordinary fiscal balance	-124	411	2 337
Extraordinary receipts	213	139	493
Extraordinary expenditure	-	-	-
Overall fiscal balance	89	549	2 831
Debt brake			
Structural surplus (+) / structural deficit (-)	259	73	3 081
Maximum admissible expenditure	64 259	67 189	68 324
Room for maneuver (+) / need for adjustment (-)		73	
Compensation account balance	21 439		24 520
Amortization account balance	1 631		2 125
Statement of financial performance			
Ordinary revenue	64 877	67 504	67 259
Ordinary expenses	63 880	66 673	65 993
Ordinary result	997	831	1 265
Extraordinary revenue	196	139	759
Extraordinary expenses	-	-	-
Surplus/deficit for the year	1 193	969	2 025
Statement of investments			
Ordinary investment receipts	272	209	231
Ordinary investment expenditure	7 630	7 917	7 604
Statement of financial position			
Net assets/equity	-22 790		-20 748
Gross debt	108 797	109 600	103 805
Indicators			
Expenditure ratio in %	10.0	10.6	10.2
Tax ratio in %	9.4	10.0	9.9
Gross debt ratio in %	16.9	17.2	16.2
Macroeconomic reference values			
Real GDP growth in %	1.9	2.6	0.9
Nominal GDP growth in %	1.2	3.1	-0.4
Change in the National Consumer Price Index in %	-	0.4	-1.1
Long-term interest rates in % (annual average)	0.7	1.3	-0.1
Short-term interest rates in % (annual average)	0.0	0.1	-0.8
USD to CHF exchange rate (annual average)	0.92	0.90	0.96
EUR to CHF exchange rate (annual average)	1.21	1.20	1.07

Notes:

- Interest rates: Annual average for 10-year federal bonds or 3-month Libor. Source: SNB
- Exchange rates: Annual average. Source: SNB

The Confederation ended 2015 with an *ordinary financing surplus* of 2.3 billion, whereas a surplus of 411 million had been expected in the budget. The improvement was due to expenditure coming in below budget (-1.9 bn). Receipts deviated only slightly from the budget overall (+54 mn). The substantially lower receipts from cyclically dependent taxes (particularly VAT) were offset by the higher receipts from withholding tax and the Swiss National Bank's profit distribution.

At the time of drawing up the budget (summer 2014), dynamic *economic growth* was expected. Accordingly, it was assumed that the output gap would close and that domestic economic output would reach normal capacity utilization. The unexpected abrupt appreciation of the Swiss franc in January 2015 curbed economic growth and inflation fell into negative territory. Over the course of the year, gross domestic product (GDP) grew by only 0.9% in real terms (budget: 2.6%), and nominal GDP actually declined by 0.4% (budget: 3.1%).

The *debt brake* permitted a cyclical deficit of 0.7 billion for 2015 because of the weaker economic growth. Together with the ordinary surplus of 2.3 billion, there was a structural balance of 3.1 billion. The structural surplus is to be credited to the compensation account, bringing that account balance to 24.5 billion.

Ordinary receipts were up by 3.7 billion, or 5.8%, on the previous year, clearly moving in the opposite direction to nominal GDP (-0.4%). While receipts remained weaker than nominal economic growth in 2014, they posted a disproportionately high increase in 2015. Although cyclically dependent receipts such as VAT (-0.2 bn) and other consumption taxes (-0.3 bn) declined, significantly influenced by the weak economic growth and the

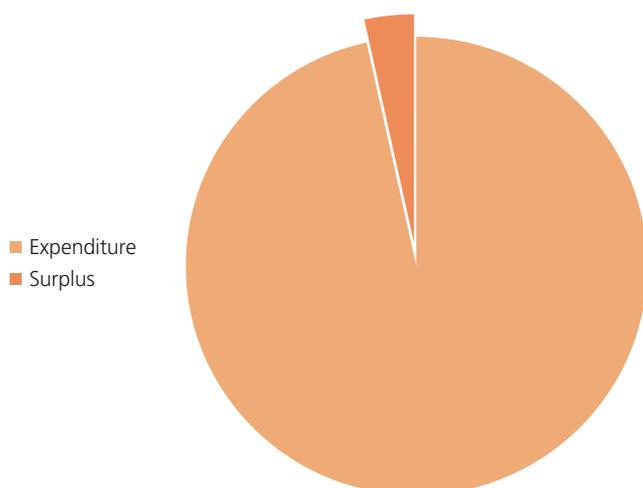
strength of the franc, this decline was more than offset by the vigorous growth in direct federal tax (+2.2 bn) and withholding tax (+1.0 bn). Both types of receipts were influenced by the negative interest rate environment, which prompted taxpayers to pay their tax bills as quickly as possible, or in advance, and in the case of withholding tax to postpone refunds. Direct federal tax receipts were additionally affected by major isolated cases. Finally, stamp duty (+0.2 bn) and the double profit distribution from the SNB (+0.7 bn) also contributed to the strong growth in receipts.

Relative to the previous year, *ordinary expenditure* grew by 1.2 billion to 65.2 billion (+1.9%). Social welfare expenditure posted a year-on-year increase of 0.6 billion, whereby the main reasons for the expenditure growth in this area were migration, health insurance and old-age and survivors' insurance. Strong growth was additionally recorded by the various applications of the CO₂ tax (+0.2 bn) and international relations (+0.2 bn). The increase in direct federal tax and withholding tax receipts also led to a sharp increase in the cantons' shares of federal receipts (+0.5 bn). In contrast, interest expenditure decreased once again (-0.5 bn).

The *budget underruns* of 1.9 billion with regard to expenditure were higher than the average level for the past ten years. Expenditure came in below budget in virtually all task areas. Low interest rates resulted in high premiums for capital procurement (-0.5 bn). Disability insurance expenditure was also lower than expected (-0.3 bn) because of the weak development of VAT, and the partial association in the EU research program gave rise to unutilized credits (-0.3 bn) in the area of education and research. Further budget underruns were seen in the areas of national defense (-0.2 bn) and transportation (-0.2 bn).

2015 financial statements: appropriation of receipts

Ordinary financing statement



The ordinary budget posted a surplus of 2.3 billion. These funds were not needed for expenditure and are available for debt reduction.

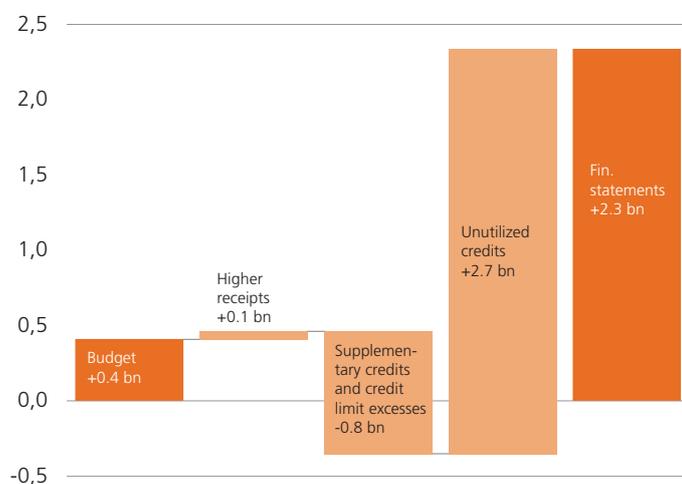
Receipts of 493 million were recognized in the *extraordinary budget*. Competition Commission (COMCO) fines resulted in receipts of 186 million. In addition, the new allocation of mobile radio licenses in 2012 (second payment tranche) gave rise to receipts of 139 million. Moreover, extraordinary receipts of 135 million were recognized from the ongoing debt restructuring liquidation of Swissair. Finally, there was revenue from the liquidation of SAPOMP Wohnbau AG (+29 mn) and as a result of FINMA ordering profits to be disgorged because of violations of Swiss financial market legislation (+4 mn). Including extraordinary receipts, the financing surplus came to 2.8 billion. Extraordinary receipts are to be credited to the amortization account, thereby bringing its balance to 2.1 billion.

Gross debt declined by 5.0 billion to 103.8 billion last year. The debt reduction trend thus continued in 2015 as well. The good annual results and high inflow of funds made the respectable reduction possible. Primarily short-term financial liabilities (money market debt register claims -3.5 bn) and long-term financial liabilities (bonds -1.2 bn) were reduced. Net debt declined by 5.3 billion to 71.3 billion.

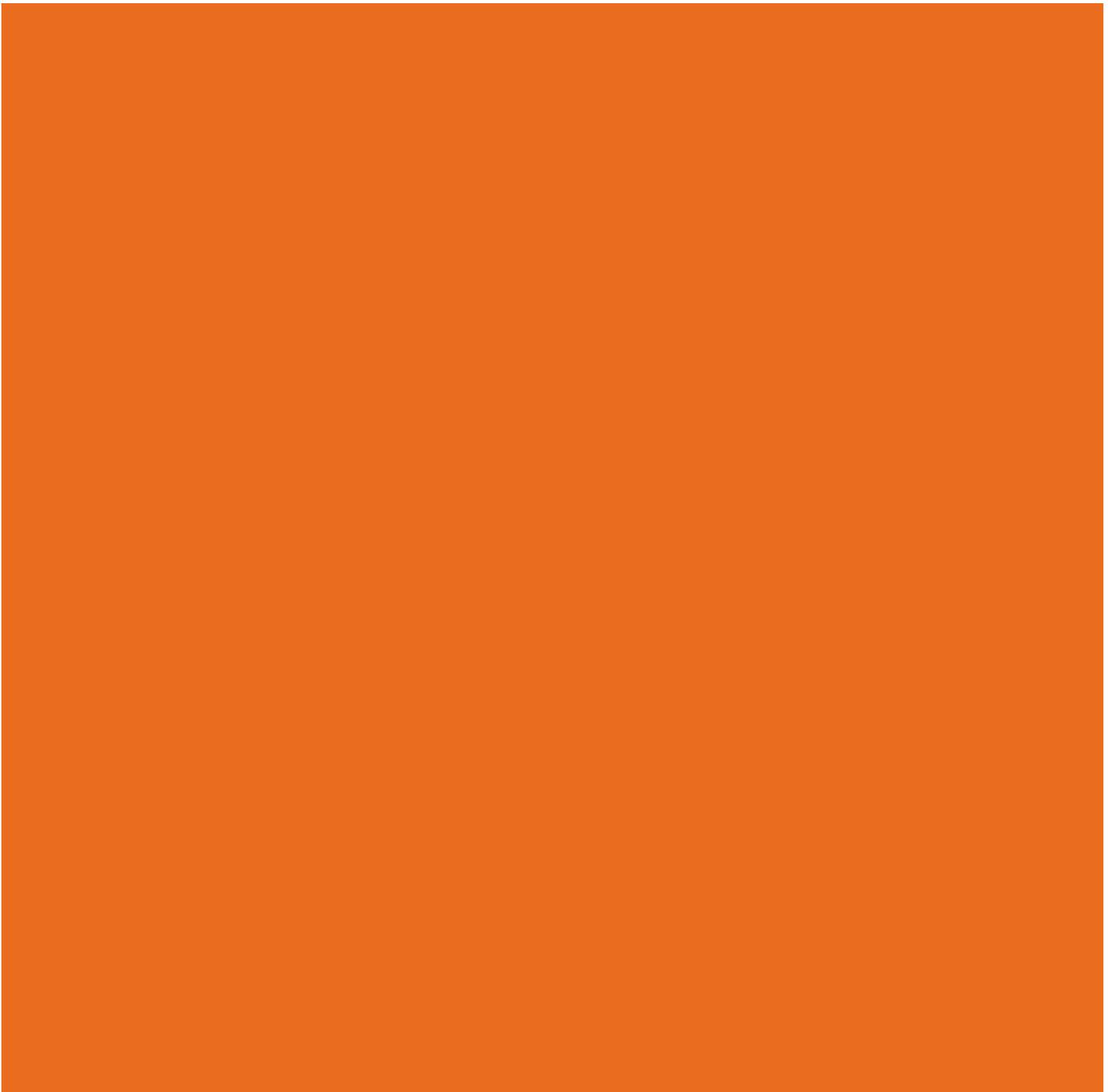
The *statement of financial performance* recorded an ordinary surplus of 1.3 billion. There were four main reasons for the difference relative to the financing statement (-1 bn). First, the provisions for possible withholding tax refund claims were increased (500 mn) in the statement of financial performance. Second, there were accrued expenses in the case of basic contributions for the promotion of higher education (639 mn). This was based on the Federal Administrative Court ruling of November 10, 2015, whereby the annual basic contributions to universities consist of a subsidy system on an arrears basis, and on the accounting specifications, whereby expenses are to be recognized on an accrual basis. Furthermore, there was the recognition of premiums that are distributed over the maturity of the bonds in the statement of financial performance (0.5 bn) and finally, like in previous years, depreciation and amortization and value adjustments remained lower than value adjustments in the financing statement (-0.7 bn).

Surplus higher than in budget

Ordinary financing statement for 2015 in bn



The Confederation ended the year with a surplus of 2.3 billion, whereas a surplus of 0.4 billion had been expected in the budget. Receipts deviated only slightly from the budget, while there was a budget underrun of 1.9 billion in the case of expenditure. Unutilized credits exceeded the additional demand for supplementary credits and credit limit excesses to that extent.



11 Budgeting for 2015

The 2015 budget was adopted by the Federal Council with a surplus of 0.5 billion. Parliament increased expenditure by 113 million, such that a surplus of 0.4 billion resulted in the budget. Adjusted for the cyclical component, a structural surplus of 0.1 billion actually resulted.

The 2015 budget was adopted by the Federal Council in the summer of 2014, when there were signs of a further improvement in the economic outlook. Overall, the global economy was expected to stage a moderate recovery, with a positive growth outlook for the US economy and mixed prospects within Europe and emerging market economies. Against this backdrop, a significant pick-up in economic growth was expected for Switzerland. The macro-economic parameters for 2015 were based on real economic growth of 2.6% and inflation of 0.4%.

With a budgeted surplus of 0.5 billion, the situation expected for the federal finances was favorable.

The budget amendments by Parliament primarily involved increasing the agriculture budget by 98 million. Regarding the items affected, primarily the measures of the 2014 consolidation

and task evaluation package (56 mn) and the compensation for lower receipts as a result of the auctioning of meat import quotas (37 mn) were reversed. Compared with the Federal Council's draft budget of August 2014, higher expenditure of 113 million was decided upon, resulting in a smaller surplus of 411 million. The structural surplus thus fell from 186 to 73 million.

During budget implementation, the scale of supplementary credits with a financing effect approved by Parliament was 406 million, or 0.5%, which was slightly higher than the empirical level of 0.4%, after taking compensation into account. In addition, the Federal Council made credit transfers of 79.1 million, of which 7 million within the scope of the closing accounts. Credit limit excesses amounted to 108 million. They will be submitted to Parliament for retroactive approval.

12 Economic development

Switzerland avoided a recession in 2015 despite the shock of the franc. Momentum in manufacturing suffered the most, whereas public and private consumption bolstered the economy. Prices fell by 1.1% in 2015.

Current figures indicate that Switzerland managed to avoid slipping into recession despite the sudden appreciation of the Swiss franc in January 2015. After having fallen in the first three months of the year, value creation rose again slightly in the second quarter of 2015. Nevertheless, the expansion in economic output was significantly weaker than expected overall. Gross domestic product (GDP) grew by only 0.9% over the course of the year, whereas the budget had been reckoning on 2.6%.

On the one hand, the franc's strength led to low import prices and forced domestic providers to lower their prices. At the same time, it caused weaker export demand, lower profit margins and thus less dynamic economic growth.

The repercussions of the franc's strength were perceptible primarily in manufacturing, although export-oriented services such as tourism also suffered. On the other hand, domestic consumption in the public and private sector had a stabilizing effect on the economy.

The economic situation was reflected also in employment figures. Unemployment is likely to have risen to 3.3% in 2015 (2014: 3.2%), and a further increase is to be expected as a result of the difficult circumstances, particularly in the secondary sector.

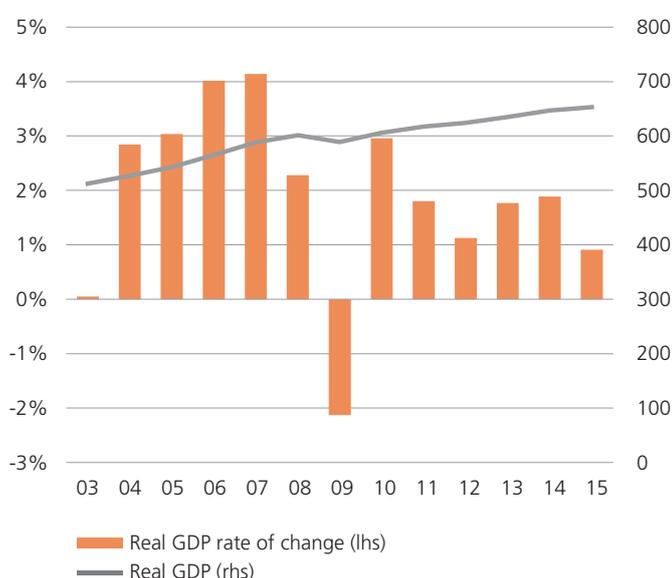
This trend in the real economy was accompanied by a still highly expansive monetary policy, as reflected in the negative money market interest rates. In spite of attempts by the Swiss National Bank (SNB) to put an end to the deflationary pressures and weaken the currency by selling francs, prices fell by 1.1% in 2015. An increase of 0.4% had been expected in the budget.

Consequently, nominal GDP, which is generally crucial for the level of tax receipts, also remained considerably lower than expected. Instead of the expected growth of 3.1%, there was a decline of 0.4%.

Comparison of the macro-economic parameters for the 2015 budget and financial statements

	Budget	Fin. stmt.	Dev. in percentage points
			Variation in %
Real GDP	2.6	0.9	-1.7
Nominal GDP	3.1	-0.4	-3.5
			Rate in %
Inflation (CPI)	0.4	-1.1	-1.5

Real GDP (in bn) and rate of change (in %)



In 2015, the Swiss economy suffered because of the sudden appreciation of the franc, but a recession was avoided in a still stable economic environment. Industrial production fell significantly, while private and public consumption provided support.

21 Financing statement

The Confederation's financing statement ended 2015 with a surplus of 2.3 billion. The considerably better result than the previous year (+2.5 bn) was due primarily to the robust development of receipts. Including extraordinary receipts, the total surplus came in at 2.8 billion.

Financing statement

CHF mn	Fin. stmt. 2014	Budget 2015	Fin. stmt. 2015	Deviation vs. FS 2014	
				Absolute	%
Overall fiscal balance	89	549	2 831	2 742	
Ordinary fiscal balance	-124	411	2 337	2 461	
Ordinary receipts	63 876	67 527	67 580	3 704	5.8
Ordinary expenditure	64 000	67 116	65 243	1 243	1.9
Extraordinary receipts	213	139	493	280	
Extraordinary expenditure	-	-	-	-	

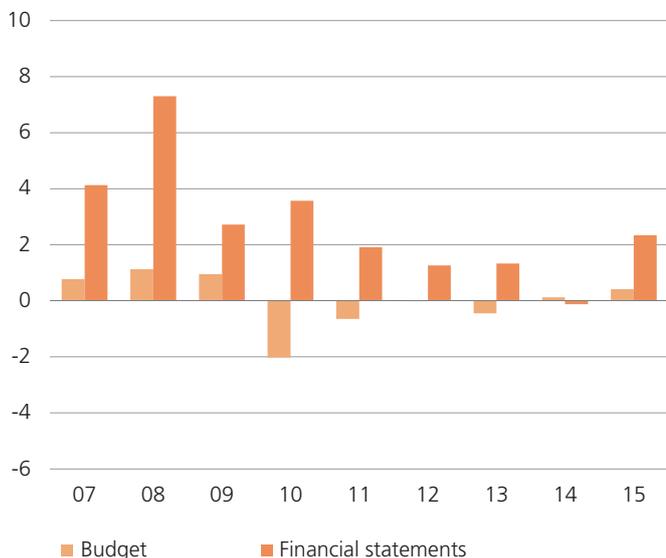
The ordinary fiscal balance for 2015 showed a surplus of 2.3 billion, with ordinary receipts of 67.6 billion and ordinary expenditure of 65.2 billion. The budgeted surplus of 411 million was exceeded by 1.9 billion because of lower-than-expected expenditure.

The result was almost 2.5 billion better than the 2014 figure. That was attributable mainly to the development of receipts, which once again experienced vigorous growth after unexpectedly dropping the preceding year.

The picture painted by the extraordinary budget was similarly positive. A competition sanction against Swisscom resulted in receipts of 186 million. The second tranche of payments for the sale of mobile radio licenses in 2012 generated another 139 million. There was also 135 million from the debt restructuring liquidation of Swissair. Finally, another 29 million came from a dividend from the liquidation of SAPOMP Wohnbau AG, and 4 million from FINMA ordering profits to be disgorged due to violations of Swiss financial market laws. There was no extraordinary expenditure in 2015, so overall, the extraordinary receipts led to a surplus of 2.8 billion in the financing statement.

Trend of financing statement results

in bn
Ordinary budget



Following the small deficit seen in 2014, the Confederation once again posted a surplus in the ordinary financing statement for 2015. The result was based primarily on the robust momentum of receipts.

Ordinary receipts were up by a hefty 5.8%, or 3.7 billion, on the previous year. The development of receipts therefore deviated considerably from nominal GDP growth (-0.4%). Cyclically dependent receipts such as VAT and other consumption taxes declined, significantly influenced by the weak economic growth and the strength of the franc. However, this decline was more than offset by the vigorous growth in receipts from direct federal tax and withholding tax. Both receipt items benefited from the robust development of income and profits in 2014, and were additionally influenced by the negative interest rate environment, which prompted taxpayers to pay their tax bills as quickly as

possible, or in advance, and in the case of withholding tax to postpone refunds. Direct federal tax receipts were additionally affected by major isolated cases.

Receipt growth was distorted by various special factors also in 2015. However, they explain only some of the robust growth in receipts. Particularly worthy of mention is the double SNB profit distribution based on the 2014 business year, which led to an increase in receipts of 667 million relative to 2014. Another structural break was caused by the aftereffects of the increase in the CO₂ tax rate as of January 1, 2014 (+330 mn).

Unutilized credits

The following tables give an overview of unutilized credits. The proportion of 4.0% of approved expenditure is above the long-term empirical value. This was due to lower interest expenditure and credits that were not fully utilized for EU research programs, among other things. The lower-than-budgeted VAT also had a tangible impact. As a result, there was a decline in the federal contribution to disability insurance, which is linked to value added tax growth, as well as in the AHV and IV receipt shares.

Generally speaking, budget deviations are part and parcel of the budget implementation process. Actual funding requirements are partly dependent on unforeseeable events and therefore cannot be planned to the last centime. As credits may essentially be underutilized but not exceeded without approval, the administrative units tend to be cautious when budgeting. Finally, the thrifty use of funds also contributes to the occurrence of unutilized credits.

The long-term average shows that the expenditure actually incurred during the fiscal year systematically turns out to be below the level of expenditure approved by Parliament. Unutilized credits are responsible for these budget underruns. An unutilized credit occurs when the funds approved by Parliament for a given item are not fully utilized. While unutilized credits stand against additional expenditure as a result of supplementary credits and credit overruns, a significant underrun of budgeted expenditure nevertheless remains in general when the entire budget is taken into consideration.

Systematically occurring unutilized credits result in a reduction in debt. Unutilized credits are not to be seen in a negative light with regard to the thrifty use of funds. What is a disadvantage, however, is that funds are committed as a result in the budget and are not available for other purposes.

	Unutilized credits in mn	in % of approved expenditure
Total	2 692	4.0
Operating expenditure	463	4.5
Personnel expenditure	94	2.1
General, administrative and operating expenditure	267	8.8
Armament expenditure	11	1.3
MPM functional expenditure ¹	91	4.8
Transfer expenditure	1 182	2.5
Financial expenditure	497	25.0
Investment expenditure	550	6.7

	Unutilized credits in mn	in % of approved expenditure
Total	2 692	4.0
International relations – international cooperation	102	2.7
National defense	274	5.8
Education and research	344	4.7
Social welfare	645	2.9
Transportation	243	2.8
Agriculture and food	43	1.2
Finances and taxes	564	5.7
Other tasks	478	7.0

¹ Including other MPM expenditure

22 Debt brake

Receipt growth significantly outstripped expenditure growth despite the weak economic environment, which resulted in a financing surplus. Because the debt brake would have permitted a cyclical deficit, the structural surplus was even higher.

Debt brake

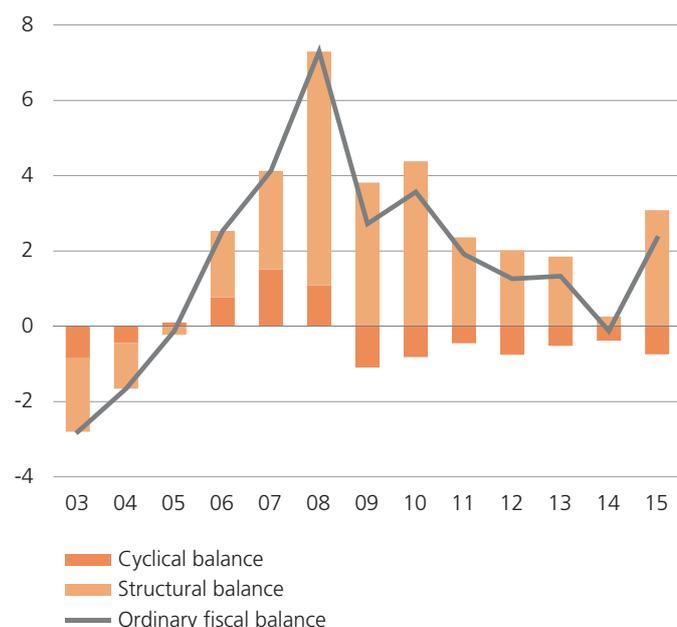
CHF mn	Fin. stmt. 2011	Fin. stmt. 2012	Fin. stmt. 2013	Fin. stmt. 2014	Fin. stmt. 2015
Ordinary fiscal balance	1 912	1 262	1 332	-124	2 337
Cyclical	-450	-756	-520	-383	-743
Structural	2 362	2 018	1 852	259	3 081
Compensation account credit	2 197	1 583	1 786	259	3 081
Compensation account balance	17 811	19 394	21 180	21 439	24 520
Amortization account credit	-1 542	1 173	1 372	213	493
Amortization account balance	-1 127	46	1 418	1 631	2 125

Economic slump at the start of the year

At the end of 2014 and start of 2015, the Swiss economy was in good shape, with growth close to its potential rate. This changed when the Swiss National Bank allowed the exchange rate to float freely in mid-January 2015. Since then, there have been signs of weakness particularly in manufacturing, as well as in tourism and retail trade. The rates of expansion for real and nominal val-

ue creation dropped to 0.9% and -0.4%, respectively, as a result. The fiscal policy leeway for the federal budget in accordance with the debt brake increased accordingly. The deficit permissible cyclically amounted to 0.7 billion; a surplus had still been necessary in the budget.

Federal budget from a debt brake viewpoint in bn



Economic output has remained below its potential since the 2009 recession. The debt brake has thus permitted deficits for cyclical reasons. The debt brake requires a minimum of a balanced structural position. This stipulation has been exceeded every year since 2006, allowing for a debt reduction of almost 25 billion.

High structural surplus

Receipts reached the budgeted level despite the weak economic environment. This development was due to the delayed reaction in terms of direct federal tax and withholding tax, as well as the effects of negative interest rates. Meanwhile, expenditure remained below budget. The combination of high receipt growth and low expenditure growth led to an overall fiscal balance of 2.3 billion (2014: -124 mn). A cyclical deficit of 0.7 billion would have been permitted based on the weak economic growth. As a result, there was a structural surplus of 3.1 billion. The last time there was a larger structural surplus was in 2010 (3.6 bn).

Record balance for the compensation account

The structural balance was credited to the compensation account, thereby continuing the unbroken series of credits seen since 2006. The compensation account now has a record high balance of 24.5 billion. The structural surpluses have allowed for a debt reduction of a similar magnitude.

Credit for the amortization account

Extraordinary receipts and expenditure are booked to the amortization account. Fiscal 2015 ended without any extraordinary expenditure and with extraordinary receipts of 493 million, credited to the amortization account and bringing its balance to 2.1 billion as a result. A negative account balance would have had to be offset with structural surpluses in subsequent years.

Cyclical structuring of the federal budget

One aim of the debt brake is to ensure an economically compatible fiscal policy (Art. 100 para. 4 of the Cst). The impact of the federal budget on the economy can be determined using three simple indicators. These show that the federal budget had a restrictive impact on the economy in 2015:

- The primary stimulus is the change in the ordinary fiscal balance. The primary stimulus is a rough indicator of the federal budget's impact on aggregate demand. The ordinary fiscal balance went from a deficit of 124 million in 2014 to a surplus of 2.3 billion in 2015, meaning that there was a restrictive primary stimulus of 0.4% of GDP from the federal budget. Fiscal policy consequently tended to strengthen the cyclical fluctuations. The pro-cyclical effect was essentially due to the surprisingly high withholding tax and direct federal tax receipts, as well as the exceptional interest rate environment.
- The primary stimulus can be broken down into the impact of the automatic stabilizers of the federal budget and the fiscal stimulus as an indicator of the impact of discretionary fiscal policy decisions. It is clear that the expansionary impact of the automatic stabilizers (increase of 0.4 bn in the deficit permissible cyclically) was much milder than the restrictive fiscal stimulus (rise of 2.8 bn in the structural surplus).

23 Statement of financial performance

The statement of financial performance ended with an ordinary surplus of 1.3 billion. The negative financial result cut 809 million off the operating result of 2.1 billion. The extraordinary revenue of 759 million came primarily from COMCO fines, the debt restructuring liquidation of Swissair and the new allocation of mobile radio licenses.

Surplus/deficit

CHF mn	Fin. stmt. 2014	Budget 2015	Fin. stmt. 2015	Deviation vs. FS 2014	
				Absolute	%
Surplus/deficit	1 193	969	2 025	832	
Ordinary result	997	831	1 265	269	
Operating result	1 131	1 795	2 074	944	83.5
Financial result	-134	-965	-809	-675	503.4
Extraordinary revenue	196	139	759	563	
Extraordinary expenses	-	-	-	-	

The *surplus/deficit for the year* showed a revenue surplus of 2 billion, which corresponds to the ordinary result of 1.3 billion and extraordinary revenue of almost 0.8 billion.

Relative to 2014, the ordinary result was up by 269 million. The improved operating result (+944 mn) was caused by significantly higher revenue, particularly tax revenue (+2,501 mn) and royalties and concessions (+627 mn). Meanwhile, transfer expenditure was up (+2,109 mn); operating expenses remained virtually unchanged on the previous year. The weaker financial result (-675 mn) was due to lower holding gains on significant interests (-813 mn). Financial expense changed very little.

Relative to the budget, the ordinary result was up by 434 million, helped by both the operating result (+279 mn) and the financial result (+156 mn).

Compared with the financing statement, the ordinary statement of financial performance ended the year 1,072 million worse off. There were two main reasons for the difference. First, the provisions for possible withholding tax refund claims were increased (500 mn) in the statement of financial performance. Second, there were accrued expenses in the case of basic contributions for the promotion of higher education (639 mn). Other significant differences concerned interest expense (497 mn), which was higher in the statement of financial performance because

premiums are distributed over the maturity of bonds. In addition, the depreciation of administrative assets and value adjustments on loans and investment contributions amounting to a total of 6.9 billion were somewhat lower than the total investment expenditure of 7.6 billion in the financing statement.

The *extraordinary revenue* of 759 million was generated by the following items:

- The fines imposed by the Competition Commission COMCO on Swisscom AG (2009) and BMW (Schweiz) AG (2012) generated revenue of 186 million and 157 million, respectively, in 2015.
- A total of 244 million was collected in 2015 from the debt restructuring liquidation of Swissair.
- The auctioning of mobile radio licenses in 2012 generated extraordinary revenue of 139 million in the year under review (second payment tranche).
- The Confederation booked a dividend payment of 29 million from SAPOMP Wohnbau AG in 2015.
- Extraordinary revenue of 4 million was generated in 2015 as a result of the Swiss Financial Market Supervisory Authority FINMA ordering profits to be disgorged.

24 Statement of financial position

The negative net assets/equity declined by 2.0 billion to 20.7 billion due to the surplus shown in the statement of financial performance. This development is reflected in the statement of financial position in the form of a decrease in interest-bearing debt and an increase in non-administrative assets.

Statement of financial position

CHF mn	2014	2015	Deviation vs. 2014	
			Absolute	%
Assets	110 924	112 022	1 098	1.0
Non-administrative assets	32 904	33 574	670	2.0
Administrative assets	78 021	78 448	428	0.5
Liabilities and equity	110 924	112 022	1 098	1.0
Short-term liabilities	37 475	36 918	-557	-1.5
Long-term liabilities	96 239	95 853	-387	-0.4
Net assets/equity	-22 790	-20 748	2 042	9.0
Other net assets/equity	6 746	7 083	337	5.0
Accumulated deficit	-29 536	-27 832	1 705	5.8

The negative *net assets/equity* decreased by 2.0 billion, thanks to the annual result. Of this, 0.3 billion was entered in favor of restricted funds in net assets/equity (particularly the special financing for FTA/WTO accompanying measures for the agri-food sector), and the remainder was used to reduce the accumulated deficit.

Non-administrative assets increased by 0.7 billion. This was primarily caused by the following opposing factors: while cash and cash equivalents (+1.6 bn, particularly bank account with the SNB) and short-term financial investments (+1.0 bn, particularly unemployment insurance loan) increased, the level of long-term financial investments dropped significantly (-2.0 bn). In the case of long-term financial investments, the loans to unemployment insurance declined by 2.6 billion, whereby 0.7 billion was repaid and 1.9 billion was transferred to short-term financial investments. The increase in short-term financial investments was not quite so big, however, as fixed-term deposits with cantons and cities amounting to 0.8 billion were repaid at the same time.

Administrative assets rose largely because the holdings of tangible fixed assets were up by 0.5 billion. The rise in tangible fixed assets was due mainly to motorway construction (increase in assets under construction).

Liabilities fell by 0.9 billion for the following reasons:

- *Short-term liabilities* declined by a total of 0.6 billion. Behind this lies a significant reduction in short-term financial liabilities (-3.5 bn, particularly money market debt register claims) and an increase in liabilities from accrued expenses and deferred income (+3.1 bn, particularly basic contributions for the promotion of higher education, withholding tax and bond premiums).
- The reduction of 0.4 billion in *long-term liabilities* was largely due to the decline in long-term financial liabilities (-1.3 bn, particularly bonds) and the increase in long-term provisions (+0.4 bn, particularly withholding tax) and in liabilities toward restricted funds in liabilities (+0.4 bn, particularly nuclear damage fund).

25 Statement of investments

With a slight drop of 0.3%, the development of ordinary investment expenditure fell short of that of the overall budget (+1.9%). Investment expenditure as a percentage of total expenditure thus decreased somewhat in 2015.

Statement of investments

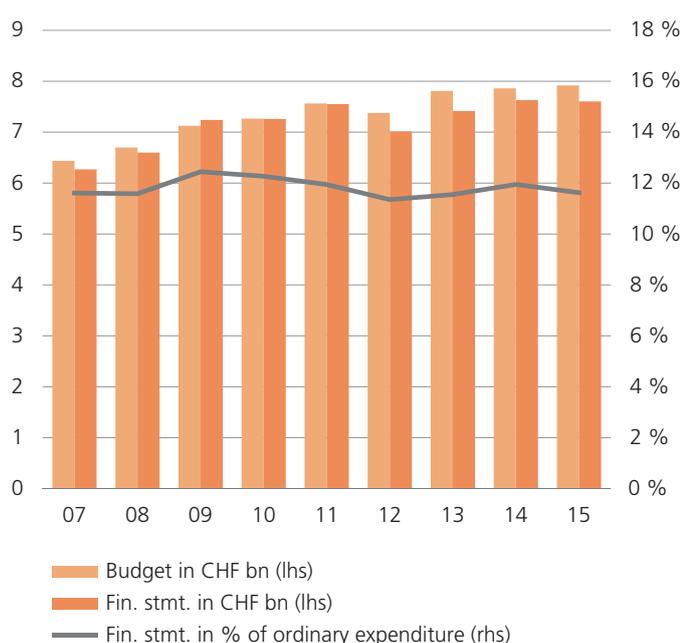
CHF mn	Fin. stmt. 2014	Budget 2015	Fin. stmt. 2015	Deviation vs. FS 2014	
				Absolute	%
Statement of investments balance	-7 289	-7 708	-7 238	51	
Ordinary statement of investments balance	-7 357	-7 708	-7 373	-15	
Ordinary investment receipts	272	209	231	-41	-15.2
Ordinary investment expenditure	7 630	7 917	7 604	-26	-0.3
Extraordinary investment receipts	68	-	135	67	
Extraordinary investment expenditure	-	-	-	-	

The *statement of investments* includes expenditure incurred for the acquisition and accumulation of assets which are required for the performance of functions and are used over successive periods (administrative assets). It also shows the receipts resulting from the sale or redemption of these assets. Proprietary investments accounted for just over a third of *investment expenditure* (mainly buildings and motorways), while transfers accounted for almost two thirds of the total (mainly loans and invest-

ment contributions). *Investment receipts* consist primarily of loan repayments, as well as proceeds from the sale of buildings. It is generally difficult to make projections for them, which is why there can be major deviations between the financial statements and the budget.

Ordinary investment expenditure posted a slight year-on-year decline of 26 million (-0.3%) due to opposing factors.

Development of investment expenditure in bn and %



The proportion of the overall budget accounted for by investments decreased in 2015 after having increased slightly in the two preceding years. When viewed from a long-term perspective, the proportion of the overall budget accounted for by investments has remained more or less constant at almost 12% in recent years.

In the area of education and research, investment expenditure fell by 74 million: on the one hand, expenditure was 50 million higher in 2014 because of the special need for building projects concerning universities of applied sciences that were progressing rapidly; on the other, the statutory basis for federal investment contributions to cantonal vocational education and training institutions expired at the end of 2014 (-28 mn).

Relative to 2014, additional funds of 70 million were spent on the energy-efficient renovation of buildings. This was due partly to an increase of 13 million in restricted tax revenue. In addition, the funds were increased by 41 million in order to compensate for the 2013 payments, which were too low relative to receipts. The remaining 16 million was attributable to the fact that 2014 payments were reduced by that amount to adjust for the excessively high payments in 2012.

Expenditure in the area of international relations rose by 29 million due to the increase in the share capital of SIFEM AG (+25 mn) and in the loan to the Building Foundation for International Organisations (FIPOI; +5 mn).

Other main contributors to the decline in investment expenditure were agriculture (implementation of transversal reductions; -24 mn), national defense (lower purchases; -18 mn), transportation (-16 mn) and social welfare (lower lending to non-profit construction companies; -10 mn). In contrast, there was a rise in environmental expenditure (+15 mn) and in expenditure in the area of institutional and financial conditions (+7 mn).

Ordinary investment receipts were down by 41 million, or 15.2%, on the previous year, due primarily to falling revenue from the sale of buildings (-33 mn) and lower repayments in the area of subsidized housing (-12 mn).

Coming in at 135 million, *extraordinary investment receipts* were up by 67 million on 2014. As a result of the debt restructuring liquidation of Swissair, the Confederation received repayments of 135 million based on the former federal stake.

26 Debt

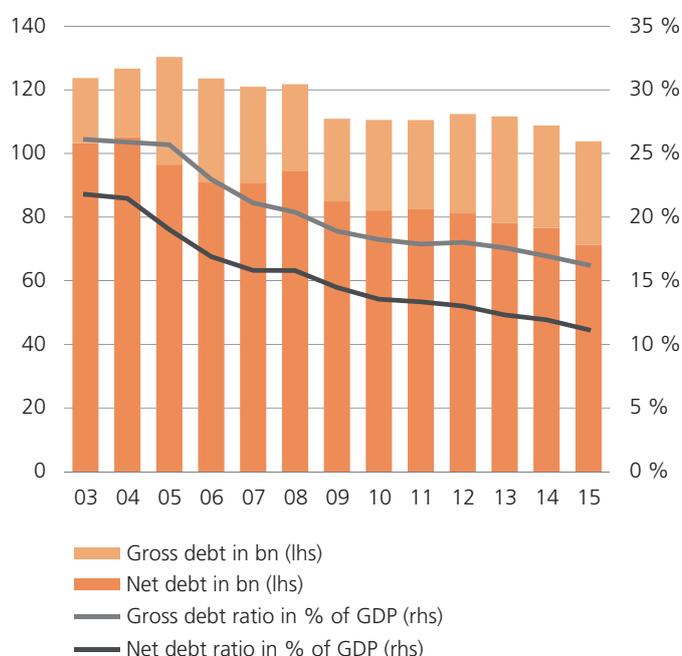
The debt reduction trend continued in 2015, with gross debt falling by 5 billion to 103.8 billion. The decline of 5.3 billion in net debt was slightly greater, as non-administrative assets rose by 0.3 billion.

CHF mn	2003	2008	2013	2014	2015
Gross debt	123 711	121 771	111 638	108 797	103 805
Net debt	103 270	94 359	78 160	76 593	71 294

The 5.0 billion decrease in *gross debt* was due primarily to the reduction in short-term financial liabilities (money market debt register claims -3.5 bn) and long-term financial liabilities (bonds -1.2 bn; SERV fixed-term deposits -0.2 bn). Current liabilities likewise fell slightly (-0.1 bn).

Net debt also declined (-5.3 bn) and amounted to 71.3 billion. The slightly bigger drop relative to gross debt was due to the decrease of 0.3 billion in non-administrative assets (net debt = gross debt less non-administrative assets). The increase in non-administrative assets was driven by opposing movements: while there was an increase in cash and cash equivalents (+1.6 bn) and short-term financial investments (+1.0 bn), there was a decrease in long-term financial investments (-2.0 bn) and receivables (-0.3 bn).

Debt and debt ratio in bn and % of GDP



Gross debt fell by 5 billion last year due to lower short- and long-term financial liabilities. Net debt (gross debt less non-administrative assets) declined to a somewhat greater extent (-5.3 bn).

31 Development of receipts

Ordinary receipts were up by 5.8%, or 3.7 billion, on the previous year. The increase was attributable primarily to the dynamic development of direct federal tax and withholding tax. The double SNB profit distribution also contributed to the rise.

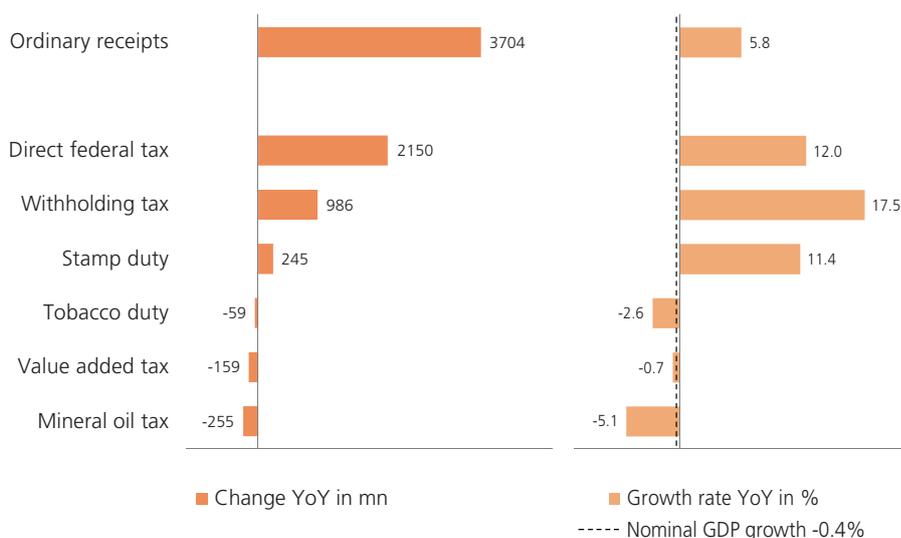
Development of receipts by account group

CHF mn	Fin. stmt. 2014	Budget 2015	Fin. stmt. 2015	Deviation vs. FS 2014		Deviation vs.
				Absolute	%	budget 2015
						Absolute
Ordinary receipts	63 876	67 527	67 580	3 704	5.8	54
Tax receipts	60 197	63 755	63 192	2 994	5.0	-563
Direct federal tax	17 975	20 369	20 125	2 150	12.0	-244
Withholding tax	5 631	5 314	6 617	986	17.5	1 303
Stamp duty	2 148	2 425	2 393	245	11.4	-32
Value added tax	22 614	23 770	22 454	-159	-0.7	-1 316
Other consumption taxes	7 342	7 328	7 029	-313	-4.3	-299
Misc. tax receipts	4 487	4 549	4 573	85	1.9	24
Nontax receipts	3 679	3 772	4 389	710	19.3	617

Ordinary receipts surged by 5.8% (+3.7 bn) in 2015. Revenue moved in the opposite direction to nominal GDP, which posted a decline of 0.4%. This divergence can be explained by two factors: first, direct federal tax and withholding tax were still largely based on the income and profit development seen in 2014; second, the monetary policy framework with negative interest rates

prompted taxpayers to pay their tax bills as quickly as possible, or in advance, and in the case of withholding tax to postpone refunds. This contributed to the robust receipt growth in the case of not only withholding tax, but also direct federal tax. The chart below shows the growth rates for the six main tax receipt volumes:

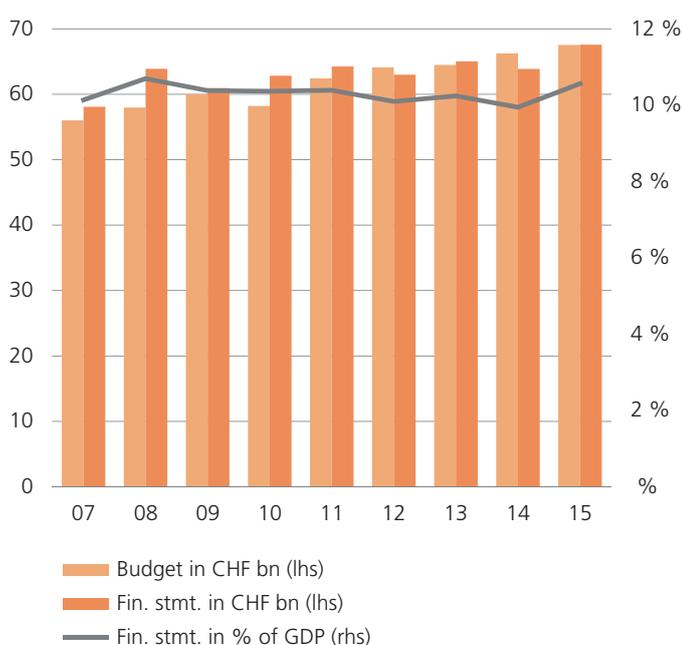
Development of 2015 receipts in mn and %



While nominal GDP dropped slightly (-0.4%), ordinary receipts moved in the opposite direction. With a rate of 5.8% (+3.7 bn), their growth was robust and was driven largely by the strong momentum of direct federal tax (+12.0%) and withholding tax (+17.5%).

- *Direct federal tax* experienced vigorous growth of 12% relative to the previous year. Before then, the level of this receipt item had remained more or less unchanged for six years. The increase was driven by both profit tax and income tax, which grew by 14.6% (+1,247 mn) and 9.5% (+908 mn), respectively. The receipts were based primarily on income and profits from 2013 and 2014. However, the pleasing results were not due solely to the relatively good economic trend in both of those years. The negative interest rate environment also played a significant role, as it caused taxpayers to deliver their taxes in advance. The cantons also forwarded revenue to the Confederation as quickly as possible.
- Revenue from *value added tax* – the main category of receipts in financial terms – was down by 0.7% on the previous year. The decline was due mainly to the negative growth of nominal GDP, as its performance is closely linked to VAT receipts.
- *Withholding tax* receipts climbed much more sharply than refunds. Consequently, net revenue was up significantly on 2014 (+17.5%). This trend was heavily influenced by the extraordinary interest rate environment. Negative interest rates gave an incentive to pay tax bills early and to postpone refund claims.
- *Stamp duty* revenue likewise rose sharply (11.4%), driven primarily by the issue tax on equity capital. The corresponding receipts are determined by the formation of new companies and the refinancing needs of existing businesses, and are highly volatile.
- *Tobacco duty* receipts fell by 2.6% relative to 2014, due mainly to the increase in “shopping tourism” in neighboring countries, where cigarettes cost less than in Switzerland because of the strength of the franc among other things.
- Like in the two preceding years, *mineral oil tax* receipts fell also in 2015 (-5.1%), thereby continuing the negative trend observed over the past few years. The latest drop was caused not only by the underlying trend toward more efficient engines, but also by the lower receipts from fuel tourism due to the strength of the franc and the increasing blending of biogenic fuels, which are exempt from tax.
- Royalties, financial receipts and other current receipts are recognized under *nontax receipts*. The change relative to the previous year and the budget was marked by the profit distribution from the Swiss National Bank (SNB), which was suspended in 2014 and then turned out to be double the amount in 2015 (667 mn). Only half of the regular profit distribution had been factored into the budget (167 mn instead of 333 mn).

Development of ordinary receipts in bn and %



Ordinary receipts moved in the opposite direction to nominal GDP in 2015, increasing by 5.8% while nominal GDP fell by 0.4%. As a percentage of GDP, therefore, receipts rose from 9.9% to 10.6%.

Special factors taken into account when adjusting the development of receipts

CHF mn	Fin. stmt.	Fin. stmt.	Deviation vs. FS 2014	
	2014	2015	Absolute	%
Ordinary receipts	63 876	67 580	3 704	5.8
Special factors				
CO2 tax: increase in the tax rate	260	330		
Nontax receipts: profit distribution by the Swiss National Bank	-333	333		
Duties: free trade agreement	-20	-60		
Mineral oil tax: CO2 Act	-135	-60		
Direct federal tax: special factors and early payments	-150	750		
Withholding tax: deviation from the trend	255	773		
Total net increase (+) / decrease (-) in receipts due to special factors	-123	2 066		
Adjusted ordinary receipts	63 999	65 514	1 515	2.4

Development after adjusting for special factors

Experience shows that the Confederation's total receipts develop in proportion to nominal GDP, i.e. the growth of receipts displays a long-term elasticity of 1 with respect to nominal GDP growth. Based on that, the trend of receipts can be considered in relation to nominal economic growth. In order for a comparison to be made, the development of receipts first has to be adjusted for special factors such as tax increases. In 2015, the development of receipts was also distorted by special factors such as large-scale postponements of tax payments and by the impact of negative interest rates on early payments of direct federal tax and deferred refunds of withholding tax. Both factors are estimated to account for 400 million each.

The other special factors and the adjusted receipts for 2014 and 2015 are shown in the table. After adjustment, receipts increased by 1.7% between 2014 and 2015. This shows that the opposing

development of receipts and nominal GDP cannot be explained by special factors. This was essentially due to the surge in direct federal tax and withholding tax. Because the development of receipts last year was significantly lower than GDP growth and this year outstripped GDP growth, it can be assumed that the high tax revenue seen in 2015 was partly due to earlier tax periods as well.

Quality of receipt estimates

Receipt estimates have taken on greater significance since the introduction of the debt brake, as expenditure has to be budgeted on the basis of estimated receipts. Ordinary receipts were only 54 million above budget (0.1%). This precision constituted the most accurate budget forecast in decades. The average absolute forecasting error since the introduction of the debt brake is 3.7%.

32 Development of expenditure by task area

Relative to 2014, the Confederation's expenditure rose by 1.2 billion (1.9%), while nominal GDP declined slightly (-0.4%). Nearly half of the increase was attributable to social welfare (particularly migration, health insurance and old-age and survivors' insurance). The 2015 budget was undershot by almost 1.9 billion.

Development of expenditure by task area

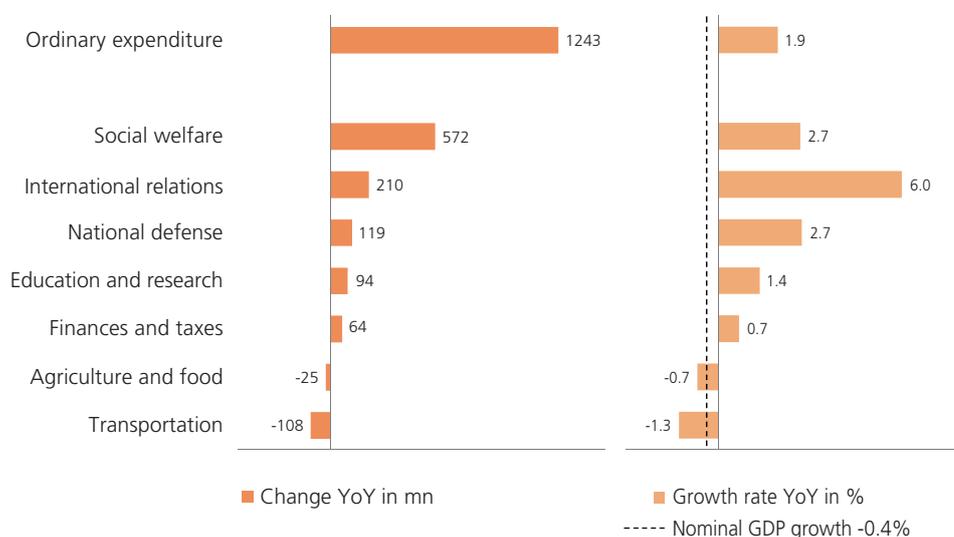
CHF mn	Fin. stmt. 2014	Budget 2015	Fin. stmt. 2015	Deviation vs. FS 2014		Deviation vs.
				Absolute	%	budget 2015
						Absolute
Ordinary expenditure	64 000	67 116	65 243	1 243	1.9	-1 873
Social welfare	21 414	22 367	21 987	572	2.7	-381
Finances and taxes	9 469	9 951	9 533	64	0.7	-417
Transportation	8 429	8 542	8 322	-108	-1.3	-220
Education and research	6 952	7 357	7 046	94	1.4	-311
National defense	4 348	4 710	4 466	119	2.7	-243
International relations - international cooperation	3 508	3 702	3 717	210	6.0	15
Agriculture and food	3 693	3 683	3 667	-25	-0.7	-16
Other task areas	6 187	6 804	6 505	318	5.1	-299

Ordinary federal expenditure amounted to 65.2 billion in 2015, representing an increase of 1.2 billion relative to the previous year. The biggest expenditure driver was social welfare (+572 mn). Migration (+269 mn), health insurance (+202 mn) and old-age and survivors' insurance (+146 mn) were the main growth vectors. The various uses of the CO₂ tax (+212 mn) and international relations (+210 mn) were also up significantly. The cantons' shares of federal receipts surged too (+468 mn) due to higher di-

rect federal tax and withholding tax receipts. In contrast, capital procurement expenditure (interest payable) fell by 457 million because of high premiums.

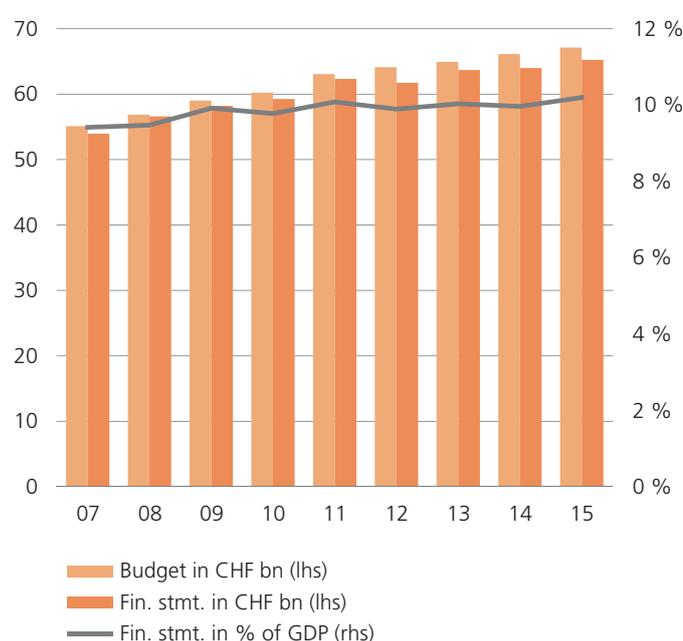
The budget was undershot by 1.9 billion. Expenditure came in below budget in almost all task areas. There were many reasons for the budget underruns. In the case of capital procurement expenditure, low interest rates resulted in high premiums (under-

Development of 2015 expenditure by task area in mn and %



The task areas international relations, social welfare and national defense posted the strongest growth rates in percentage terms. Coming in at approximately 900 million, these areas accounted for the majority of the growth also in actual terms.

Development of ordinary expenditure in bn and %



On average, the pace of the Confederation's expenditure growth has been more or less the same as that of nominal gross domestic product since 2009. Although the general government expenditure ratio has fluctuated slightly during this period, there is no discernible upward trend.

run of 497 mn), disability insurance expenditure was 304 million lower than expected because of the weak development of VAT, and the partial association in the EU research program gave rise to an unutilized credit of 270 million in the area of education and research. Moreover, less was spent on national defense (243 mn) and transportation (220 mn) than was planned.

The development of expenditure in the Confederation's seven largest task areas is explained in condensed form below.

Coming in at 22 billion, *social welfare* accounted for more than a third of the Confederation's total expenditure. It is also one of the fastest growing task areas. Old-age and survivors' insurance accounted for approximately half of the expenditure. Other major components were disability insurance, health insurance, supplementary benefits and migration expenditure. Social welfare expenditure increased by 572 million, or 2.7%, in 2015. The main drivers of this growth included the increase in asylum applications (migration: +269 mn, +22.9%), rising health costs and the offsetting of overpaid health insurance premiums (health insurance: +202 mn, +8.9%), as well as the Confederation's AHV contribution (old-age and survivors' insurance: +146 mn, +1.4%). Disability insurance expenditure edged down by -64 million.

The second-largest task area, *finances and taxes*, posted a comparatively moderate growth rate (+64 mn, +0.7%). Higher third parties' shares in federal receipts (+468 mn, +10.8%) stood against substantially lower interest expenditure (-457 mn, -23.5%), caused by exceptionally low interest rates. An additional 53 million was spent on fiscal equalization.

The decline in *transportation* expenditure (-108 mn, -1.3%) was due primarily to lower deposits in the infrastructure fund (-37 mn) and in the FinPT fund (-91 mn). Road transportation expenditure fell by 42 million, and that for public transportation dropped by 78 million. Air transportation saw a year-on-year increase of 12 million.

Expenditure on *education and research* increased by 94 million (+1.4%) relative to the previous year. A key reason for this rather moderate growth by long-term standards was that full association in the EU research program Horizon 2020 was not possible in 2015 either, and the national substitution measures only started to take effect. These substitution measures are nevertheless the main reason for the expenditure growth in the area of education and research: applied research expenditure rose by 90 million. Slightly more was spent on vocational education (+12 mn) than in 2014, and slightly less on tertiary-level institutions (-3 mn) and basic research (-5 mn).

The Confederation spent 119 million (+2.7%) more on *national defense* than in 2014. The comparatively strong growth was attributable not least to a catch-up effect after low defense expenditure in 2014 because of the rejected procurement of new fighter jets. Army expenditure amounted to 4,249 million, whereas the budget was 4,452 million.

Agriculture expenditure edged down once again (-25 mn, -0.7%). Direct payments, which account for around three quarters of agriculture expenditure, fell by almost 20 million, and fundamental improvements and social measures were down by 25 million, primarily because of lower investment credits. In contrast, ex-

port contributions were increased by almost 26 million year on year in accordance with the so-called “Chocolate Act”.

In the case of *international relations*, the main issue in 2015 was once again achieving the objective of an ODA rate of 0.5% of gross national income. Expenditure rose accordingly by 210 million (+6.0%). The growth was even stronger in the case of devel-

opment assistance (+241 mn, +9.7%), which accounts for almost three quarters of the task area. There was also a year-on-year increase in expenditure on economic relations (+6 mn), particularly for the contribution to EU enlargement. In contrast, expenditure on political relations was down by 37 million (-4.8%), although this was partly the result of entry transfers in other task areas.

33 Development of expenses by account group

The Confederation's expenses in the statement of financial performance posted a year-on-year increase of 2.1 billion to 66 billion (+3.3%). This growth was driven solely by subsidies and other transfers. Operating expenses and financial expense stagnated. Total expenses came in around 680 million below budget.

Expenses by account group

CHF mn	Fin. stmt. 2014	Budget 2015	Fin. stmt. 2015	Deviation vs. FS 2014	
				Absolute	%
Ordinary expenses	63 880	66 673	65 993	2 113	3.3
Operating expenses	12 674	13 188	12 681	7	0.1
Personnel expenses	5 409	5 557	5 450	41	0.8
General, administrative and operating expenses	4 237	4 546	4 122	-115	-2.7
Defense expenses	799	833	843	44	5.5
Deprec., amortiz. tangible/intangible fixed assets	2 229	2 252	2 266	37	1.7
Transfer expenses	49 028	51 443	51 137	2 109	4.3
Third parties' share in federal income	8 903	9 616	9 441	538	6.0
Compensation to public bodies	1 038	1 107	1 291	253	24.4
Contributions to own institutions	3 024	3 051	3 522	498	16.5
Contributions to third parties	15 215	15 985	15 848	633	4.2
Contributions to social insurance	16 155	16 668	16 401	246	1.5
Value adjustment on investment contributions	4 303	4 621	4 200	-103	-2.4
Value adjustment on loans and financial interests	390	395	433	43	11.1
Financial expense	2 174	2 041	2 157	-17	-0.8
Interest expense	1 978	1 941	1 878	-101	-5.1
Decrease in equity values	-	-	53	53	-
Other financial expense	195	100	226	31	16.0
Net expense for restricted funds in liabilities	4	1	18	14	306.6

Operating expenses

Approximately 19% of the Confederation's total expenses is attributable to operating expenses, which include in particular personnel expenses, general, administrative and operating expenses, and defense expenses.

Personnel expenses posted a year-on-year increase of 0.8% (+41 mn). Staff compensation and employer contributions were up by 93 million. General wage measures accounted for approximately 10 million of that figure. The remainder was caused by additional positions, including as a result of hiring hitherto external staff internally, and the higher classification of Border Guard employees (increase of two salary classes). Overall, a total of 163 FTEs were added to the employee headcount, bringing it to 34,935 FTEs. Employer benefits declined by 54 million, due mainly to a smaller deposit in the provision for pension benefits for members of the Federal Council, judges of the Federal Supreme Court, and the Federal Chancellor and Vice-Chancellor (-38 mn) and lower expenses for bridging pensions (-9 mn). There was a year-on-year increase of 3 million in expenses for the early retirement of special categories of staff (e.g. career military officers and border guards).

General, administrative and operating expenses posted a year-on-year decline of 115 million (-2.7%). Expenses for goods and mate-

rials were virtually unchanged on the previous year's level (+2 mn). Operating expenses fell by 88 million, but this was largely due to the reversal of provisions in relation to buildings at armasuisse Immobilien; there was an increase primarily in army operating expenses and losses on taxes assessed but unlikely to be collected. Motorway expenses worked out 29 million lower than the previous year.

Relative to the previous year, *defense expenses* were up by 44 million (+5.5%) and *depreciation and amortization* by 37 million, partly due to value adjustments on the portfolio of armasuisse Immobilien.

Transfer expenses

Transfer expenses account for more than 75% of the Confederation's total expenses. During the year under review, transfer expenses were 2.1 billion (+4.3%) higher than the previous year. All categories of transfer expenses were up, with the exception of value adjustments on investment contributions.

Third parties' share in federal income posted a year-on-year increase of 538 million (+6%). The higher direct federal tax and withholding tax receipts led to correspondingly higher cantonal shares (+440 mn). The redistribution of incentive fees (CO₂,

VOC) was up too because of higher revenue from the CO₂ tax (+146 mn). In contrast, the social insurance shares fell (-47 mn).

Compensation to public bodies, almost 90% of which is attributable to the area of migration (global lump sums for refugees and temporarily admitted persons, integration measures), rose by 253 million (+24.4%), due to the sharp rise in the number of asylum applications.

Contributions to own institutions go largely to transportation companies and educational institutions. The main beneficiaries are the ETH Domain and the SBB. Much of the increase of 498 million (+15.6%) can be explained by reclassifications. Effective from the 2015 financial statements, subsidies for regional passenger transportation and for the operation of private railway infrastructures come under this account group provided they go to federal government companies (previously: contributions to third parties). That led to an increase of 457 million in this account group. Moreover, expenses for the ETH Domain were up by 33 million.

Contributions to third parties rose by 633 million (+4.2%). This was caused primarily by an accrual that had to be made with regard to basic contributions to tertiary-level institutions because of a Federal Administrative Court ruling; an annual result had to be accrued (639 mn). Otherwise, the key growth drivers were development assistance (+205 mn in total), the EU Research Framework Program and national substitution measures (+180 mn) and fiscal equalization (+53 mn). The subsidies for regional passenger transportation and for the operation of private railway infrastructures counted under contributions to third parties were 446 million lower than the previous year because of the aforementioned reclassification.

The Confederation spent 246 million more on *contributions to social insurance* than in 2014 (+1.5%). The contributions to AHV (+184 mn) and individual premium reductions (+113 mn) in-

creased the most. On top of this, there was the first contribution to offset overpaid health insurance premiums (89 mn). The additional requirement relative to the previous year in terms of supplementary benefits amounted to 25 million. In contrast, the Confederation spent less on disability insurance (-55 mn, federal contribution and interest payable on the IV debt vis-à-vis AHV) and military insurance (-108 mn, due among other things to the adjustment of the provision for these benefits).

Value adjustments on investment contributions (particularly to transportation infrastructures and within the framework of the building program) declined by 103 million, while those on *loans and financial interests* increased by 43 million.

Financial expense

Financial expense was also down in 2015 (-17 mn; -0.8%). Although interest expense once again dropped significantly (-101 mn), this was almost entirely offset by a reduction in the equity value (Confederation's share in net assets/equity) of federal companies recognized using the equity method (53 mn) and higher other financial expense (+31 mn, foreign exchange losses among other things).

Net expense for restricted funds in liabilities

Restricted funds in liabilities include primarily the special financing for incentive fees (CO₂, VOC, contaminated site tax) and for the casino tax. A net expense means that the restricted receipts worked out higher than the expenses financed by the fund. The Confederation is not entitled to such a surplus, however; consequently, it is neutralized in the statement of financial performance with corresponding expenses.

The net expense for restricted funds in liabilities totaled 18 million in the 2015 financial statements.

The 2015 surplus made it possible to reduce debt further, and the financial outlook has also improved somewhat. However, the full impact of the Swiss franc's appreciation will not be felt in the federal budget until 2016 onward. Moreover, the federal budget will have to cope with significant additional burdens. The 2017-2019 stabilization program thus remains necessary.

With a surplus of 2.3 billion in the ordinary budget, the result was significantly better than the previous year, when a small deficit was recorded. The budget looks even better after adjusting the result for the receipt losses of approximately 800 million expected for cyclical reasons. The structural surplus then amounts to 3.1 billion.

How sustainable is the good result?

The sustainability of the high surplus is questionable. Receipts dependent on 2015 economic growth turned out to be considerably lower than expected in the budget. In particular, value added tax dropped by 1.3 billion, but there was a decline also in mineral oil tax and tobacco duty (together -0.5 bn), whereby the appreciation of the franc played a major role.

These declines were more than offset by additional receipts in the case of direct federal tax and withholding tax. Here, the underlying income, profits, dividends and interest income largely came from 2014, before growth was curbed by the franc's appreciation in January 2015. Consequently, a much more subdued level of growth is to be expected in the future. Moreover, the additional receipts triggered by negative interest rates are of a temporary nature. While at the moment it is appealing to pay taxes early and – in the case of withholding tax – claim refunds late, this will change as soon as the monetary policy framework and the interest rate environment return to normal again.

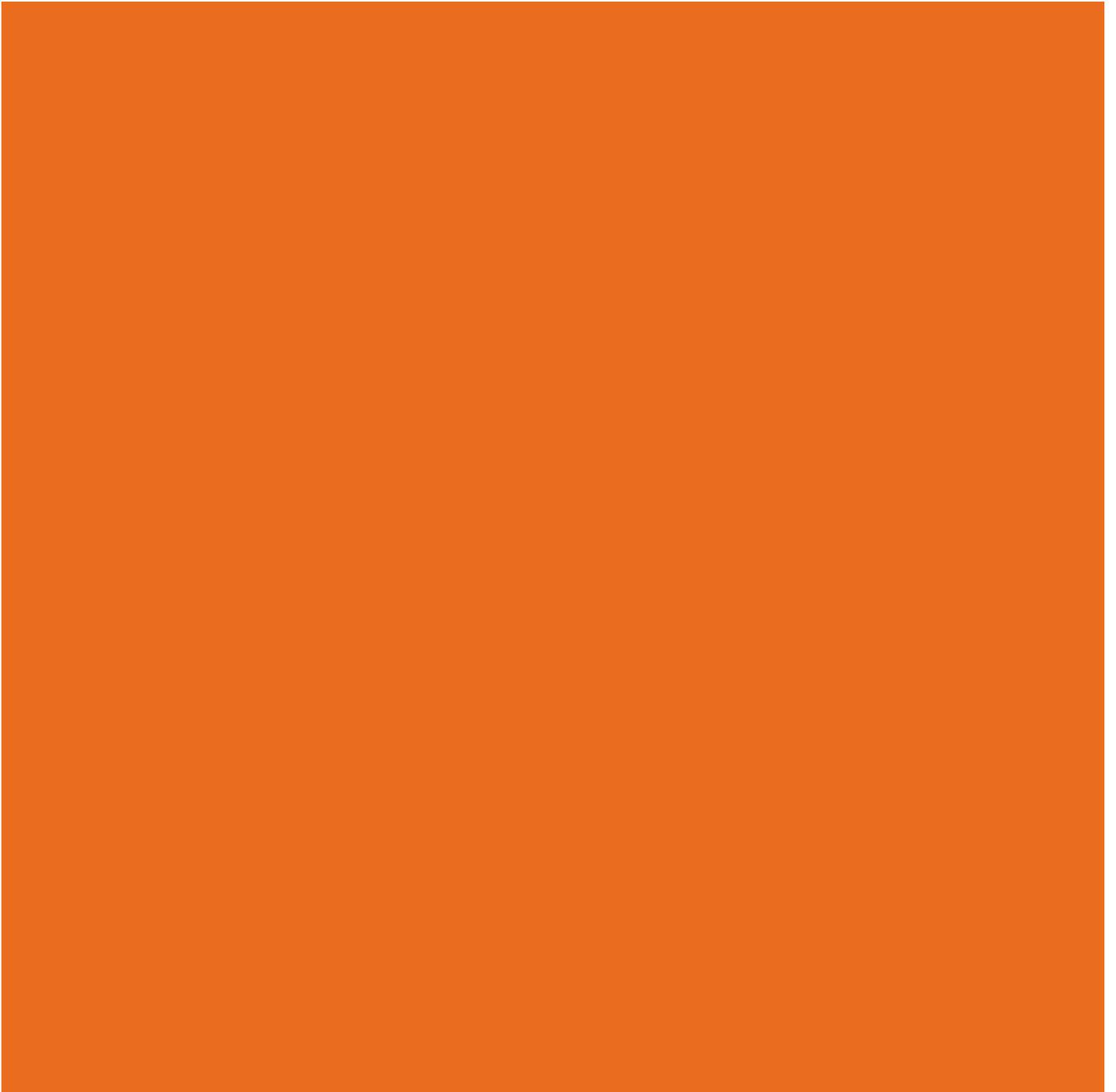
Improved outlook but stabilization program still necessary

The Federal Council carried out a fiscal policy assessment in mid-February. It factored in the 2015 closing accounts and updated the figures and estimates for the 2017-2019 legislature financial plan. According to this, there is an improvement in each structural result of around 300 million. There is a small structural surplus of approximately 50 million in 2017, but there are once again structural deficits of around 500 million for 2018 and 2019. Therefore, the debt brake requirements continue not to be met. The results would turn out to be approximately 1 billion poorer without the 2017-2019 stabilization program measures.

The good result in terms of withholding tax and direct federal tax in 2015 is the main reason for the improved outlook. The higher estimated receipts can also offset the higher migration expenditure. While migration expenditure of approximately 1.3 billion p.a. was expected before the refugee crisis, it is likely to be between 2.2 billion and 2.4 billion in the next financial plan. Depending on how the first few months of this year proceed, further increases could still be necessary.

Aside from the higher migration expenditure, the federal budget will have to cope with higher expenditure also in other important political areas in the years ahead. These include the introduction of the motorway and urban transportation fund, the 2020 retirement provision reform, the gradual increase in the military expenditure ceiling and the third series of corporate tax reforms. It will thus be important from a fiscal policy perspective for Parliament to stay within the financial framework determined by the Federal Council.

ANNUAL FINANCIAL STATEMENTS



51 Financing and flow of funds statement

CHF mn	Fin. stmt. 2014	Budget 2015	Fin. stmt. 2015	Deviation vs. FS 2014	
				Absolute	%
Overall fiscal balance	89	549	2 831	2 742	
Ordinary fiscal balance	-124	411	2 337	2 461	
Ordinary receipts	63 876	67 527	67 580	3 704	5.8
Tax receipts	60 197	63 755	63 192	2 994	5.0
Direct federal tax	17 975	20 369	20 125	2 150	12.0
Withholding tax	5 631	5 314	6 617	986	17.5
Stamp duty	2 148	2 425	2 393	245	11.4
Value added tax	22 614	23 770	22 454	-159	-0.7
Other consumption taxes	7 342	7 328	7 029	-313	-4.3
Misc. tax receipts	4 487	4 549	4 573	85	1.9
Royalties and concessions	591	677	1 202	611	103.4
Financial receipts	1 068	1 047	1 218	150	14.1
Financial interest receipts	781	804	802	21	2.7
Other financial receipts	287	243	416	129	45.0
Other current receipts	1 747	1 838	1 738	-10	-0.6
Investment receipts	272	209	231	-41	-15.2
Ordinary expenditure	64 000	67 116	65 243	1 243	1.9
Operating expenditure	10 051	10 705	10 258	206	2.1
Personnel expenditure	5 371	5 557	5 467	96	1.8
General, administrative and operating expenditure	3 880	4 315	3 947	67	1.7
Defense expenditure	801	833	844	43	5.4
Current transfer expenditure	44 352	46 503	45 907	1 555	3.5
Third parties' share in federal receipts	8 903	9 616	9 441	538	6.0
Compensation to public bodies	1 040	1 107	1 288	248	23.8
Contributions to own institutions	3 024	3 051	3 528	504	16.7
Contributions to third parties	15 288	15 986	15 196	-92	-0.6
Contributions to social insurance	16 097	16 743	16 454	357	2.2
Financial expenditure	1 951	1 991	1 495	-456	-23.4
Interest expenditure	1 887	1 977	1 381	-506	-26.8
Other financial expenditure	65	15	115	50	77.7
Investment expenditure	7 645	7 917	7 583	-62	-0.8
Tangible fixed assets and inventories	2 838	2 773	2 879	41	1.4
Intangible fixed assets	44	40	27	-17	-37.9
Loans	438	437	413	-26	-5.8
Financial interests	21	46	64	43	205.0
Own investment contributions	4 304	4 621	4 200	-103	-2.4
Extraordinary receipts	213	139	493	280	
Extraordinary expenditure	-	-	-	-	

The financing and flow of funds statement (FFFS) is used on the one hand for determining the total financing requirements resulting from the difference between the Confederation's expenditure and receipts (financing statement). On the other, it shows how these requirements are to be covered (flow of funds statement; see next page) as well as which items in the statement of financial position change as a result ("Federal fund" statement).

The FFFS is prepared according to the direct method. All flows of funds are taken directly from the individual items in the statement of financial performance, the statement of investments and the statement of financial position.

Flow of funds statement

CHF mn	Fin. stmt.	Fin. stmt.	Deviation vs. FS 2014	
	2014	2015	Absolute	%
Total flow of funds	-3 499	-944	2 555	-73.0
Flow of funds from operations (overall fiscal balance)	89	2 831	2 742	3 080.2
Flow of funds from financial investments	-671	914	1 585	236.2
Short-term financial investments	-865	-1 060	-195	-22.5
Long-term financial investments	194	1 974	1 780	918.1
Flow of funds from debt financing	-2 917	-4 688	-1 772	-60.7
Short-term financial liabilities	-1 932	-3 582	-1 650	-85.4
Long-term financial liabilities	-1 106	-1 357	-251	-22.7
Liabilities for separate accounts	81	190	109	134.9
Special funds in net assets/equity	40	60	20	49.3

Result of the financing and flow of funds statement

An outflow of funds of 944 million was posted in 2015. This resulted from opposing factors. On the one hand, the financing statement showed a surplus (2.8 bn; flow of funds from operating activities) and there was an inflow of funds due to the reduction in financial investments (914 mn; flow of funds from financial investments). On the other, financial liabilities were reduced

(-4.7 bn; flow of funds from debt financing). The negative balance of the "Federal fund" in 2015 (-3.2 bn) shows that current liabilities (including the withholding tax accrual recognized in the financing statement) exceeded cash and other liquid assets and receivables at the end of the year. The decrease in the "Federal fund" (-944 mn) corresponds to the total flow of funds for 2015.

"Federal fund" statement

CHF mn	2014	2015	Deviation vs. 2014	
			Absolute	%
Fund status as of 1.1.	1 203	-2 296	-3 499	
Fund status as of 31.12.	-2 296	-3 240	-944	41.1
Status as of 31.12.:				
Cash and cash equivalents	9 030	10 587	1 558	17.3
Receivables w/o allowance for doubtful accounts	6 990	6 666	-324	-4.6
Current liabilities incl. withholding tax accrual	-18 316	-20 493	-2 177	-11.9

Note: Only fund-relevant changes are taken into account, which is why there may be deviations from the change in the corresponding items in the statement of financial position.

Differences relative to the cash flow statement

The financing and flow of funds statement (FFFS) differs from the cash flow statement in accordance with the International Public Sector Accounting Standards (IPSAS) in terms of the structure and the content of the underlying fund:

- While the IPSAS prescribe a three-level structure according to operating activities (operating cash flow), investing activities (investing cash flow) and financing activities (financing cash flow), the FFFS makes a distinction between two levels, which are the overall fiscal balance and the flow of funds from financial investments as well as the flow of funds from debt financing.
- Unlike the "Cash and other liquid assets" fund which is relevant for IPSAS, the "Federal fund" includes amounts due from creditors (receivables) and amounts due to creditors (current liabilities) in addition to cash flows. This extended fund definition is based on the specifications of the Budget Act. A recognized account payable already constitutes expenditure on the credit side. Restricting recognition to pure cash flows would not be in line with the statutory requirements.

52 Statement of financial performance

CHF mn	Fin. stmt. 2014	Budget 2015	Fin. stmt. 2015	Deviation vs. FS 2014	
				Absolute	%
Surplus/deficit	1 193	969	2 025	832	69.7
Ordinary result	997	831	1 265	269	27.0
Operating result	1 131	1 795	2 074	944	83.5
Revenue	62 837	66 428	65 911	3 074	4.9
Tax revenue	60 188	63 755	62 689	2 501	4.2
Direct federal tax	17 975	20 369	20 125	2 150	12.0
Withholding tax	5 631	5 314	6 117	486	8.6
Stamp duty	2 148	2 425	2 393	245	11.4
Value added tax	22 608	23 770	22 453	-155	-0.7
Other consumption taxes	7 342	7 328	7 029	-313	-4.3
Misc. tax revenue	4 484	4 549	4 572	88	2.0
Royalties and concessions	525	634	1 152	627	119.4
Other revenue	2 065	1 884	1 882	-183	-8.9
Net revenue from restricted funds in liabilities	59	154	188	129	217.7
Expenses	61 706	64 632	63 836	2 130	3.5
Operating expenses	12 674	13 188	12 681	7	0.1
Personnel expenses	5 409	5 557	5 450	41	0.8
General, administrative and operating expenses	4 237	4 546	4 122	-115	-2.7
Defense expenses	799	833	843	44	5.5
Deprec., amortiz. tangible/intangible fixed assets	2 229	2 252	2 266	37	1.7
Transfer expenses	49 028	51 443	51 137	2 109	4.3
Third parties' share in federal income	8 903	9 616	9 441	538	6.0
Compensation to public bodies	1 038	1 107	1 291	253	24.4
Contributions to own institutions	3 024	3 051	3 522	498	16.5
Contributions to third parties	15 215	15 985	15 848	633	4.2
Contributions to social insurance	16 155	16 668	16 401	246	1.5
Value adjustment on investment contributions	4 303	4 621	4 200	-103	-2.4
Value adjustment on loans and financial interests	390	395	433	43	11.1
Net expense for restricted funds in liabilities	4	1	18	14	306.6
Financial result	-134	-965	-809	-675	503.4
Financial revenue	2 040	1 076	1 348	-692	-33.9
Increase in equity values	1 701	804	888	-814	-47.8
Other financial revenue	338	272	460	122	36.0
Financial expense	2 174	2 041	2 157	-17	-0.8
Interest expense	1 978	1 941	1 878	-101	-5.1
Decrease in equity values	-	-	53	53	-
Other financial expense	195	100	226	31	16.0
Extraordinary revenue	196	139	759	563	287.0
Extraordinary expenses	-	-	-	-	-
Ordinary result	997	831	1 265	269	27.0
Ordinary revenue	64 877	67 504	67 259	2 382	3.7
Revenue	62 837	66 428	65 911	3 074	4.9
Financial revenue	2 040	1 076	1 348	-692	-33.9
Ordinary expenses	63 880	66 673	65 993	2 113	3.3
Expenses	61 706	64 632	63 836	2 130	3.5
Financial expense	2 174	2 041	2 157	-17	-0.8

53 Statement of financial position

CHF mn	2014	2015	Deviation vs. 2014	
			Absolute	%
Assets	110 924	112 022	1 098	1.0
Non-administrative assets	32 904	33 574	670	2.0
Current assets	18 852	21 443	2 590	13.7
Cash and cash equivalents	9 030	10 587	1 558	17.3
Receivables	6 572	6 270	-302	-4.6
Short-term financial investments	2 551	3 577	1 026	40.2
Prepaid expenses and accrued income	700	1 009	309	44.1
Non-current assets	14 051	12 131	-1 920	-13.7
Long-term financial investments	14 051	12 077	-1 974	-14.0
Receivables from restricted funds in liabilities	-	54	54	-
Administrative assets	78 021	78 448	428	0.5
Current assets	260	186	-75	-28.7
Inventories	260	186	-75	-28.7
Non-current assets	77 760	78 263	502	0.6
Tangible fixed assets	53 172	53 714	542	1.0
Intangible fixed assets	212	220	8	3.8
Loans	3 266	3 159	-106	-3.3
Financial interests	21 111	21 169	58	0.3
Liabilities and equity	110 924	112 022	1 098	1.0
Short-term liabilities	37 475	36 918	-557	-1.5
Current liabilities	16 225	16 107	-118	-0.7
Short-term financial liabilities	13 565	10 021	-3 545	-26.1
Accrued expenses and deferred income	6 903	10 017	3 113	45.1
Short-term provisions	781	773	-7	-0.9
Long-term liabilities	96 239	95 853	-387	-0.4
Long-term financial liabilities	79 006	77 678	-1 328	-1.7
Liabilities toward separate accounts	1 691	1 881	190	11.3
Long-term provisions	14 210	14 577	367	2.6
Payables to restricted funds in liabilities	1 332	1 716	385	28.9
Net assets/equity	-22 790	-20 748	2 042	9.0
Restricted funds in net assets/equity	5 279	5 607	328	6.2
Special funds in net assets/equity	1 280	1 296	16	1.3
Reserves from global budget	187	180	-8	-4.1
Accumulated deficit	-29 536	-27 832	1 705	5.8

54 Statement of investments

CHF mn	Fin. stmt. 2014	Budget 2015	Fin. stmt. 2015	Deviation vs. FS 2014	
				Absolute	%
Statement of investments balance	-7 289	-7 708	-7 238	51	
Ordinary statement of investments balance	-7 357	-7 708	-7 373	-15	
Ordinary investment receipts	272	209	231	-41	-15.2
Buildings	66	44	29	-37	-56.1
Property, plant and equipment	3	4	3	0	-12.3
Motorways	1	6	5	4	290.6
Intangible fixed assets	–	–	0	0	–
Loans	199	155	194	-6	-2.8
Financial interests	2	–	0	-2	-96.0
Repayment of own investment contributions	0	–	0	0	-55.5
Ordinary investment expenditure	7 630	7 917	7 604	-26	-0.3
Buildings	737	853	760	22	3.0
Property, plant and equipment	98	153	98	0	0.2
Inventories	116	99	85	-31	-26.9
Motorways	1 872	1 668	1 952	81	4.3
Intangible fixed assets	44	40	32	-12	-27.5
Loans	438	437	413	-26	-5.8
Financial interests	21	46	64	43	205.0
Own investment contributions	4 304	4 621	4 200	-103	-2.4
Extraordinary investment receipts	68	–	135	67	
Extraordinary investment expenditure	–	–	–	–	

The statement of investments shows expenditure incurred for the acquisition and accumulation of assets which are required for the performance of functions and used over successive periods (administrative assets). It also shows the receipts resulting from the sale or redemption of these assets. Investments are capitalized under administrative assets in the statement of financial position.

The investment expenditure shown in the tables also includes accruals and deferrals not recognized in the financing statement. As a result, these values may differ from the values shown in the financing and flow of funds statement (2014: -15 mn; 2015: 21 mn).

Reconciliation statement of investments and other changes in recognized administrative assets

2015 CHF mn	Total	Tangible fixed assets	Inventories	Intangible fixed assets	Loans	Financial interests	Investment contributions
Status as of 1.1.	78 021	53 172	260	212	3 266	21 111	-
Investment receipts	-366	-37	-	-	-328	-	-
Investment expenditure	7 604	2 810	85	32	413	64	4 200
Other changes	-6 810	-2 231	-159	-24	-191	-5	-4 200
Status as of 31.12.	78 448	53 714	186	220	3 159	21 169	-

2014 CHF mn	Total	Tangible fixed assets	Inventories	Intangible fixed assets	Loans	Financial interests	Investment contributions
Status as of 1.1.	76 724	52 642	305	201	3 372	20 204	-
Investment receipts	-340	-71	-	-	-199	-70	-
Investment expenditure	7 630	2 707	116	44	438	21	4 304
Other changes	-5 993	-2 106	-161	-32	-346	956	-4 304
Status as of 31.12.	78 021	53 172	260	212	3 266	21 111	-

The reconciliation table shows the proportion of changes in administrative assets attributable to the statement of investments and the proportion attributable to other changes. Other changes include primarily acquisitions and disposals not recognized in the statement of investments (e.g. retroactive capitalizations in the statement of financial performance, transactions recog-

nized directly in net assets/equity, deliveries ex stock for inventories), and changes in the carrying amount due to depreciation, value adjustments, reversals, increases and decreases in the equity value of financial interests, or price changes in relation to inventories.

55 Statement of net assets/equity

CHF mn	Total net assets/equity	Restricted funds in net assets/equity	Special funds	Reserves from global budget	Accumulated deficit
Status as of 1.1.2014	-24 008	4 891	1 256	221	-30 377
Entry transfers in net assets/equity	–	388	-1	-34	-353
Change in special funds	25	–	25	–	–
Total positions entered in net assets/equity	25	388	24	-34	-353
Surplus or deficit	1 193	–	–	–	1 193
Total profit and loss entered	1 218	388	24	-34	840
Other transactions	–	–	–	–	–
Status as of 31.12.2014	-22 790	5 279	1 280	187	-29 537
Entry transfers in net assets/equity	–	328	-1	-7	-320
Change in special funds	17	–	17	–	–
Total positions entered in net assets/equity	17	328	16	-7	-320
Surplus or deficit	2 025	–	–	–	2 025
Total profit and loss entered	2 042	328	16	-7	1 705
Other transactions	–	–	–	–	–
Status as of 31.12.2015	-20 748	5 607	1 296	180	-27 832

Negative net assets/equity declined from 22.8 billion to 20.7 billion in the year under review. The key contributory factor here was the surplus of 2.0 billion for the year. A further 587 million was credited to the special financing for FTA/WTO accompanying measures for the agri-food sector (transfer within net assets/equity).

Accumulated deficit

The accumulated deficit decreased by 1,705 million in the year under review. While the revenue surplus from the statement of financial performance (2,025 mn) and the release of reserves from global budgets (7 mn) and the entry transfer of building amortization from special funds (1 mn) caused the accumulated deficit to decrease accordingly, it increased as a result of the rise in restricted funds in net assets/equity (328 mn).

Restricted funds in net assets/equity

Major changes occurred in the following special financing items. The special financing for road transportation declined by 269 million, mainly as a result of lower mineral oil tax receipts (-173 mn). A total of 587 million from restricted customs revenue was credited to the special financing for FTA/WTO accompanying measures for the agri-food sector. No expenditure was incurred.

Special funds in net assets/equity

Overall, special funds recorded a positive result of 17 million. This does not include building amortization amounting to 1 million, which is recognized as an expense and then charged to the special fund assets via entry transfers in net assets/equity.

Reserves from global budgets

The reserves from global budgets declined by 7 million (balance of deposits less withdrawals).

Function of the statement of net assets/equity

The statement of net assets/equity provides information on the effects of financial transactions recorded in the reporting period for assets and equity. Specifically, it indicates the expense and revenue items that are recognized directly in net assets/equity rather than in the statement of financial performance, and the impact of changes in reserves and restricted funds in net assets/equity.

61 International comparison

When compared internationally, the Swiss public finance indicators (Confederation, cantons, communes and social insurance) are still among the lowest, which constitutes an important locational advantage.

International comparison of public finance indicators for 2015

in % of GDP	Tax-to-GDP ratio	General government expenditure ratio	Deficit/surplus ratio	Debt ratio	Gross debt ratio
Switzerland	27.0	33.9	0.0	34.4	46.0
EU - euro area	n.s.	48.7	-1.9	94.1	111.2
Germany	36.1	43.9	0.9	71.2	78.5
France	45.2	57.1	-3.8	96.5	120.1
Italy	43.6	51.0	-2.6	134.3	160.7
Austria	43.0	51.7	-1.8	84.7	107.3
Belgium	44.7	54.5	-2.6	107.6	130.5
Netherlands	n.s.	44.9	-2.0	68.1	80.8
Norway	39.1	47.7	6.9	n.s.	34.1
Sweden	42.7	50.5	-1.1	43.9	53.9
United Kingdom	32.6	43.6	-3.9	87.8	116.4
USA	26.0	37.9	-4.5	n.s.	110.6
Canada	30.8	40.1	-1.9	n.s.	94.8
OECD Ø	34.4	41.1	-3.3	n.s.	115.2

n.s.: not shown

Sources: OECD (Economic Outlook 98, November 2015; Revenue Statistics, December 2015). Switzerland: Financial Statistics (Swiss public finances, February 2016); due to the use of a different data basis, there could be minor differences relative to the results published by the OECD for Switzerland.

Notes:

- Debt ratio: gross debt in accordance with financial statistics (FS model), with reference to the Maastricht definition
- Gross debt ratio: debt in accordance with the IMF definition (liabilities without financial derivatives)
- Tax-to-GDP ratio: based on figures for 2014

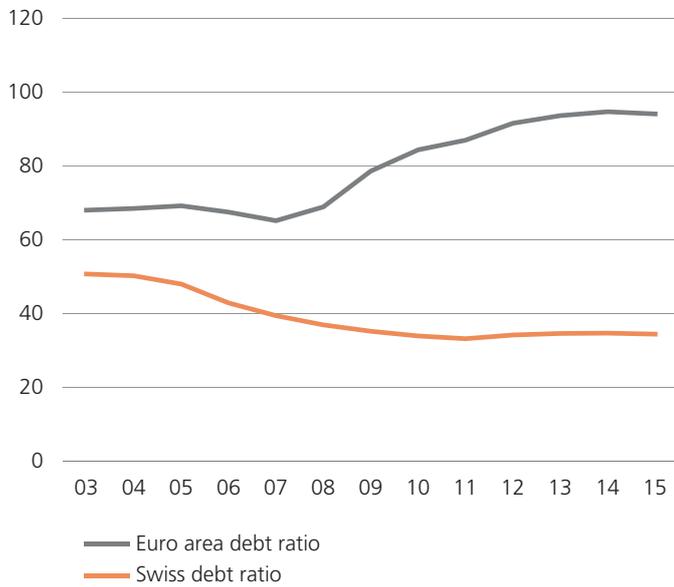
The tax-to-GDP ratio, which measures total tax receipts (tax and social insurance charges) in relation to GDP, amounted to 27.0% in 2014. Based on the provisional results, it is likely to have risen to 27.9% in 2015, thereby staying below the 30% mark.

Switzerland's general government expenditure ratio, defined as government expenditure in relation to GDP, remained one of the lowest in the OECD area in 2015. Despite the Swiss National Bank's discontinuation of the exchange rate floor of CHF 1.20 per euro on January 15, 2015 and the subsequent cooling-off of the economy, the overall fiscal balance for the general government sector, or its deficit/surplus ratio, is likely to have leveled off at 0%. Consequently, Switzerland is still one of the few countries, together with Germany, not to have posted a significant deficit in 2015.

Government debt remained low by international standards both with reference to the Maastricht definition and in terms of liabilities. Coming in at 34.4%, the debt ratio was still significantly below the 60% mark which is important for the euro area (see chart on next page).

The OECD data and estimates (Economic Outlook 98, November 2015; Revenue Statistics, December 2015) are used for international comparisons of public finances. The information for Switzerland is based on the data and estimates of the Federal Finance Administration's Financial Statistics Section (as of February 29, 2016).

Comparison of Swiss and euro area debt ratios
in % of GDP



From 2008 onward, shortly after the start of the financial crisis, government debt literally soared in the euro area. By contrast, Switzerland's debt ratio remained far below the 60% mark which is relevant for the countries of the euro area. Nothing will change in that respect in the near future.