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Swiss Confederation

State financial statements

Report on federal financial statements

2010

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Dispatch on the Swiss state financial statements for 2010

(of March 30, 2011)

Dear Mr. Presidents, ladies and gentlemen,

With this dispatch, we hereby submit the *Swiss state financial statements for 2010* to you, and propose that you approve them in accordance with the enclosed draft resolutions.

We also request, in accordance with Article 34 para. 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 additional credits. Respectfully yours,

Bern, March 30, 2011

On behalf of the Swiss Federal Council

President of the Swiss Confederation:
Micheline Calmy-Rey

Federal Chancellor:
Corina Casanova

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Macroeconomic reference values			
Real GDP growth in %	-1,9	-0,4	2,6
Nominal GDP growth in %	-1,6	0,7	2,0
Change in the National Consumer Price Index in %	-0,5	0,9	0,7
Long-term interest rates in % (annual average)	2,2	2,5	1,7
Short-term interest rates in % (annual average)	0,4	0,5	0,2
USD to CHF exchange rate (annual average)	1,09	1,10	1,04
EUR to CHF exchange rate (annual average)	1,51	1,50	1,38

Notes:
– Interest rates: Annual average for 10-year bonds or 3-month Libor. Source: SNB, Monthly Statistical Bulletin.
– Exchange rates: Annual average. Source: SNB, Monthly Statistical Bulletin.

11 Introduction

Economic recovery is evidenced in the 2010 financial statements. They report a surplus of 3.6 billion, 850 million up on last year's figure. This increase is partly attributable to the strong growth in receipts of 3.1%, which is actually considerably higher than nominal GDP growth (2.0%). At the same time, expenditure growth remained relatively modest at 1.8%. This was largely due to significantly lower spending on economic stabilization in 2010 (phase 3) compared to last year (phases 1 and 2). The financial statements thus also attest to the economic recovery on the expenditure side. The extraordinary budget shows spending of over 400 million, consisting of payments relating to the redistribution of CO_2 tax receipts from 2008–2010. This extraordinary expenditure is offset by equivalent levels of extraordinary receipts from 2008 and 2009.

The financial statements are 5.6 billion better than the budget. This swing from budget deficit to surplus is largely attributable to the *surprisingly* strong performance of the Swiss economy: showing a deficit of more than 2 billion, the 2010 budget was "marked by the financial crisis" as the Federal Council maintained in its dispatch dated August 19, 2009. The budget was based on economic forecasts that pointed to a severe recession in 2009 followed by a tentative recovery in 2010 (cf. table). Although in retrospect the recession was the worst since the 1970s, it was not as severe as predicted at the time of budgeting, and the strength of the recovery exceeded all expectations. This explains to a considerable extent the improvement in receipts relative to the budget (4.6 bn).

Real GDP growth in 2009 and 2010

	2009	2010
June 2009 forecasts (budgetary basis)	-2.7%	-0.4%
March 2011 estimate (financial statements)	-1.9%	+2.6%

Despite the good results, gross federal debt at the end of 2010 was just under 400 million below the prior-year level. However, a closer examination of the statement of financial position reveals that net fund inflows made it possible to reduce *interest-bearing* debt further by roughly 2 billion. In contrast, there was an increase in current liabilities (which are also included in gross debt), with receivables from third-party shares and withholding tax refund requests due to the higher receipts having a significant impact. The steady reduction in debt since 2005 is also reflected in interest expenditure in 2010. This decreased a further 300 million relative to 2009, and was thus almost 1.2 billion below its 2006 peak. Therefore, the fiscal discipline seen since the introduction of the debt brake also paid dividends in the last fiscal year. Additionally, lower interest rates also had a positive effect.

Parliament's cautious approach to the phase 3 stabilization measures resulted in budgeted expenditure for 2010 of roughly 400 million below the debt brake requirements. The Federal Council is now proposing to use this structural balance in line with the "extended debt brake" rules to amortize the 2 billion in extraordinary expenditure forecast for 2011 (SBB pension fund, single deposit paid into the infrastructure fund). This will reduce the level of future amortizations, with the positive 2010 results helping to ease pressure on the federal budget.

The 2010 financial statements can also be viewed as an interim report on stabilization policy during the recession. The report findings are positive: focusing on the role of automatic stabilizers (especially unemployment insurance) and adopting a cautious approach to discretionary measures have paid off from a budgetary point of view. The debt brake mechanism also proved effective in the crisis. The method of factoring the economic situation into the calculation of the expenditure ceiling proved productive, allowing pro-cyclical spending cuts to be avoided, and even providing scope for further stabilization measures. The exception clause provided additional flexibility, enabling CO_2 tax receipts from 2008–2010 to be simultaneously redistributed last year to boost purchasing power. In retrospect, the phased approach to stabilization has been particularly successful: adopting a controlled, incremental approach at a time of high uncertainty allowed measures to be aligned with economic performance, thus avoiding unnecessary interventions on a large scale. As well as contributing to pleasing economic growth, this also determined in no small measure the good health of the federal budget following the crisis. See section 6 for an international comparison of the state finances.

12 Economic development

The draft budget for 2010 was finalized in the early summer of 2009 against a backdrop of global financial and economic crisis. According to the GDP growth estimates available at the time, the Swiss economy had also contracted significantly during the first quarter, following on from six months of negative growth. The leading indicators were pointing to a persistent decline in growth through to the summer of 2010, followed by a slow emergence from the crisis. Forming the macro-economic basis for the 2010 budget, the forecasts of the Confederation's panel of experts, published in mid-June 2009, were pointing toward a decline in GDP of 0.4% for the whole of 2010.

Contrary to expectations, economic activity started to improve considerably already in the second half of 2009, and was then exceptionally strong in the first half of 2010. Consequently, in the second quarter of 2010, GDP virtually returned to its pre-crisis level of the second quarter of 2008. For the entire year, real GDP growth was 2.6% (provisional estimate of March 1, 2011), i.e. a deviation of 3.0 percentage points from the estimate (-0.4%) on which the budget was based. Growth was largely driven by domestic demand, as well as by the recovery seen in foreign trade despite the significant appreciation of the franc. However, GDP increased by only 2.0% in nominal terms given that the GDP deflator, i.e. the GDP price index, fell by 0.5%, its first drop since 1997.

Comparison of the macro-economic parameters for the 2010 budget and financial statements

	Budget	Fin. stmt.	Dev. in percentage points
	Variation in %		
Real GDP	-0.4	2.6	+3.0
Nominal GDP	0.7	2.0	+1.3
	Rates in %		
Inflation	0.9	0.7	-0.2
Unemployment	5.5	3.9	-1.6

The situation on the labor market has improved. The rapid, continuous increase in the number of unemployed due to the recession in 2009 ceased in January 2010, and gave way to a gradual decrease through to October. Nevertheless, the average rate of unemployment for the year was slightly higher than the level seen in 2009, due to the situation prevailing at the start of the year. It was 3.9% in 2010, compared with 3.7% in 2009. Inflation as measured by the consumer price index trended upward again, after having been negative in 2009 (-0.5%). It amounted to 0.7%, which is close to the increase of 0.9% foreseen in the budget.

13 Stabilization measures

As a reaction to the rapidly deteriorating economic situation, the Federal Council decided its *principles for economic policy during a downturn* on November 12, 2008: the focus was on the SNB's stability-oriented monetary policy, the unhindered functioning of automatic stabilizers and the strength of long-term growth drivers. Against this backdrop, the primary task of fiscal policy was not to compromise the budgetary mechanisms that support the economy. Regarding active fiscal policy measures, the Federal Council opted for a phased approach. A total of *three phases of economic stabilization measures* were taken.

A *first phase*, with additional expenditure in 2009 of *432 million* (without the release of job creation reserves of 550 million), was approved by parliament on December 16, 2008 with the 2009 budget. The package contained the following measures: removal of the credit freeze of 1% in the draft budget (205 million), anticipated investments for construction-ready projects (flood protection 66 million; housing promotion 45 million; maintenance work on federal buildings 20 million), contributions for building renovation (86 million), OSEC export promotion (5 million).

The Federal Council launched the *second phase* in February 2009, when the economic situation deteriorated further. The criteria for choosing the measures were timely, targeted and temporary, i.e. in terms of economic policy, the execution of the projects had to be timely and targeted, and the projects themselves had to be temporary. Within the scope of the addendum to the 2009 budget, parliament approved measures worth *710 million* on March 9, 2009: road (158 million) and rail (252 million) infrastructure, new regional policy projects (100 million), research (50 million), environmental protection (26 million), renewable energy sources (50 million), renovation of existing buildings (52 million), tourism (12 million), photovoltaics (10 million).

The Federal Council decided on the *third phase* on June 17, 2009 in light of the still grim economic outlook. The measures were aimed at curbing the rise in unemployment and improving the conditions in order to profit fully from the upturn. Parliament approved the package, worth *944 million*, on September 25, 2009: labor market measures (247 million), establishment of export platforms for SMEs (25 million), further development of the SuisseID digital signature (25 million), early redistribution of revenue from the CO_2 tax (647 million).

The implementation of the stabilization measures was very satisfactory on the whole:

- The funds made available as part of the *first phase* were virtually fully utilized by the relevant federal offices in 2009.
- The *phase 2* funds were largely authorized and paid out in 2009. It was possible for most of the projects to be completed by the end of 2010. Objections caused longer implementation delays for the road infrastructure measures.

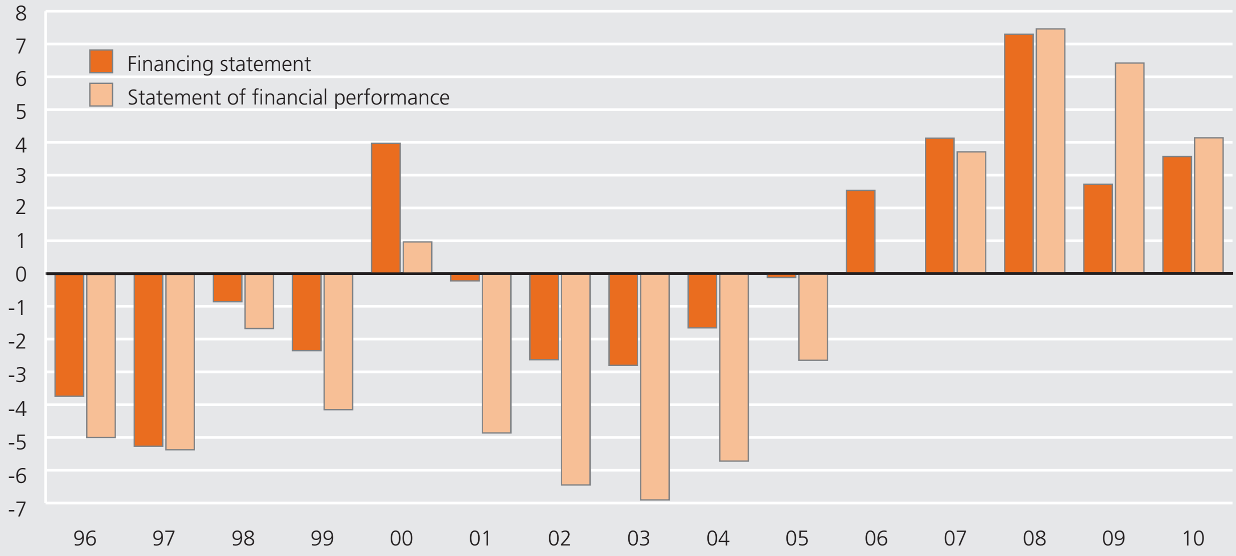
- Within the scope of *phase 3*, the measures to combat long-term unemployment (150 million) were not triggered, as the rate of unemployment did not reach 5% in 2010. The remaining funds were largely pledged and paid out. The Federal Council will accept any credit transfer applications where a wise use of funds is still possible in 2011.

A comprehensive evaluation of the stabilization measures was conducted at the start of 2011 by the State Secretariat for Economic Affairs, in collaboration with the Swiss Federal Audit Office.

21 Financing statement

Financing statement and statement of financial performance results in bn

Without extraordinary budget; 1995–2006 statement of financial performance results in accordance with statistical statement of financial performance before NAM



CHF mn	Fin. stmt. 2009	Budget 2010	Fin. stmt. 2010	Deviation vs. FS 2009 Absolute	%
Overall fiscal balance	**9 745**	**-2 460**	**3 140**	**-6 605**	
Ordinary financing result	**2 721**	**-2 029**	**3 568**	**846**	
Ordinary receipts	60 949	58 208	62 833	1 884	3,1
Ordinary expenditure	58 228	60 237	59 266	1 038	1,8
Extraordinary receipts	7 024	–	–	-7 024	
Extraordinary expenditure	–	431	427	427	

The *ordinary financing result* for 2010 was 3.6 billion, up 0.8 billion on the previous year, primarily on the back of strong growth in receipts. Having fallen sharply in the 2009 recession, ordinary receipts climbed back up to 62.8 billion, around one billion *below* their peak in 2008 (63.9 bn). This increase reflects the normalization of economic conditions since 2009.

The ordinary financing result as *compared to the budgeted figure* fully reflects the economic upturn. Over 80% of the 5.6 billion increase was attributable to the rise in receipts. While receipts increased by 4.6 billion (+7.9%), expenditure declined by 1.0 billion (-1.6%). Two thirds of the increase in receipts was generated by withholding tax (+1.7 bn) and direct federal tax (+1.4 bn). The decline in expenditure is comparable to the previous year.

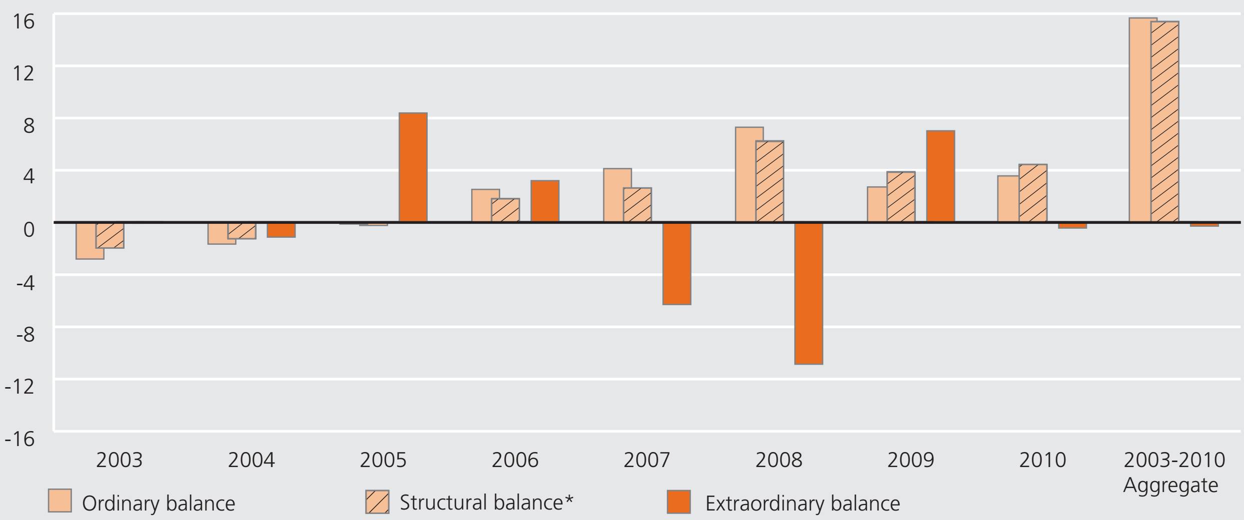
Part of the expenditure in connection with the advance redistribution of CO_2 tax was charged to the *extraordinary budget* in 2010. Under phase 3 of the stabilization measures initiated in 2010, a combined total of 1 billion in tax revenue from 2008-2010 was distributed. Of this total amount, 200 million was spent on the building program and 427 on extraordinary expenditure items (receipts from 2008 and 2009).

The diagram overleaf shows the federal budget since the introduction of the debt brake in 2003, which requires a minimum of a structurally balanced budget. The development of the budget can be subdivided into three separate phases in line with cyclical fluctuations: in the first phase (2003–2005), structural deficits were successfully eliminated by the debt brake requirements. Between 2006 and 2008, when the economy was strong, the debt brake stopped any further spending funded by the high tax receipts. Instead, substantial surpluses were generated. This meant that the Confederation was able to respond to the financial and economic crisis between 2008 and 2010 from a position of strength, with the debt brake proving an effective mechanism in adverse conditions. In 2008, the debt brake allowed for extraordinary expenditure on the UBS support package, and provided scope for implementation of the three phases of economic stabilization measures between 2009 and 2010, including the advance redistribution of CO_2 tax referred to above.

The debt brake has generally proved to be an effective mechanism for controlling the federal budget over the economic cycle. Structural surpluses in the federal budget have led to a sharp decline in federal debt in the past four years (cf. also section 26), providing significant room for maneuver by reducing interest expenditure. The development of the extraordinary budget is also positive: on a cumulative basis over the years, extraordinary receipts and expenditure have essentially remained in balance. A major contributory factor was the net proceeds of more than 1 billion from the Confederation's investment in UBS, of which around 900 million accrued to the extraordinary budget.

Ordinary receipts were up 3.1% on the prior-year level. All major tax receipts, except for direct federal tax, benefited from the economic upturn. Direct federal tax remained at the previous year's (high) level. Due to the process by which tax is assessed and collected, there is a one- to two-year time lag before the effects of economic changes are felt. Although the effects of the 2009 recession are still ongoing, direct federal tax has performed surprisingly well in the circumstances. Growth in withholding tax, which is a volatile revenue source, was particularly strong (+7.8%). Excluding withholding tax, receipts increased by 2.7%.

Ordinary and extraordinary budget in bn



*Deviation of ordinary balance from debt brake requirements

Development of ordinary expenditure excluding transitory items

CHF mn	Fin. stmt. 2009	Budget 2010	Fin. stmt. 2010	Deviation vs. FS 2009 Absolute	%
Ordinary expenditure incl. transitory items	**58 228**	**60 237**	**59 266**	**1 038**	**1,8**
Transitory items	**6 595**	**6 204**	**6 747**	**151**	**2,3**
Cantons' share in direct federal tax	3 066	2 823	3 072	6	
Cantons' share in withholding tax	432	292	466	34	
Cantons' share in military service exemption tax	30	28	31	2	
Cantons' share in heavy vehicle charge	472	418	484	12	
VAT percent for AHV	2 148	2 188	2 239	91	
Casino tax for AHV	449	455	455	6	
Ordinary expenditure excl. transitory items	**51 632**	**54 033**	**52 519**	**887**	**1,7**
Expenditure ratio (% GDP)					
Incl. transitory items	10,9	11,5	10,8		
Excl. transitory items	9,6	10,3	9,5		

Ordinary expenditure grew 1.8%, which is slightly below the nominal economic growth rate (2.0%), due mainly to low growth in the seven financially most significant task areas (1.1% in total). If transitory items are eliminated, expenditure growth declined 1.7%. Transitory items comprise cantonal and AHV shares in receipts. These transfers cannot be used to fund federal functions and are extraneous to the fiscal prioritization process.

Fiscal stimulus
One aim of the debt brake is to ensure a consistent fiscal policy that is responsive to economic cycles, i.e. a policy that is both constrained by the debt brake (passive) and mitigates the cyclical tendencies in the economy (countercyclical). Did the debt brake succeed in its objective in 2010? Changes in the ordinary financing balance give a first indication of whether the objective was met. These show the "primary stimulus" of the federal budget on aggregate demand through a number of different channels. Any reduction or increase indicates either an expansionary or contractionary stimulus, due to the net expansion or contraction in funds flowing from the Confederation into the economy and public finances. The ordinary financing result was up 0.8 billion on the prior-year level. Allowance must also be made for the effect on demand of extraordinary expenditure arising from the redistribution of CO_2 tax (-0.4 bn). This results in a slightly contractionary fiscal stimulus totaling 0.4 billion. It should also be noted that the introduction of a value added tax increase to fund the disability insurance scheme has been deferred from 2010 to 2011. Without this measure, the amount of excess purchasing power absorbed would be 0.9 billion higher. In these circumstances and in view of last year's economic upturn, the slightly contractionary fiscal response seems reasonable.

The figures shown give only a rough indication of the stabilizing effect of the federal budget. The extent to which federal finances affect economic performance depends on many other factors, such as expenditure and receipt structures or the practices of cantons, communes and social insurance.

22 Debt brake

CHF mn	Fin. stmt. 2006	Fin. stmt. 2007	Fin. stmt. 2008	Fin. stmt. 2009	Fin. stmt. 2010
Ordinary financing result	**2 534**	**4 127**	**7 297**	**2 721**	**3 568**
Cyclical	769	1 510	1 086	-1 097	-691
Structural	1 766	2 616	6 210	3 818	4 259
Deficit reduction	1 000	–	–	–	–
Compensation account credit	2 766	2 616	6 210	3 818	3 843
Compensation account balance	**–**	**2 616**	**8 827**	**12 645**	**15 489**
Amortization account credit	–	–	–	–	416
Amortization account balance	**–**	**–**	**–**	**–**	**416**

Note: The compensation account was set at zero in 2006, and reduced by 1 billion in 2010 (Art. 66 FBA, revision of October 7, 2005 and amendment of March 20, 2009).

The debt brake rule aims to maintain a balanced federal budget in the medium term, and thus prevents an increase in debt caused by structural deficits. The expenditure rule takes into account the situation in the economy, which made an unexpectedly strong recovery last year. However, GDP has not yet returned to trend level, indicating that capacity is still underutilized within the economy. In the 2010 financial statements, this is clearly reflected in the excess expenditure over receipts, which is in line with the economy's capacity underutilization rate and translates into a *cyclical deficit* of 0.8 billion.

The actual reported surplus in the ordinary financing statement exceeds the debt brake minimum by at total of 4.4 billion. This *structural surplus* is attributable mainly to 3.1% growth in receipts, which significantly exceeded nominal economic growth (2.0%). At the same time, expenditure rose only a modest 1.8%, which also contributed to the high cyclically adjusted balance.

The structural surplus for 2010 is appropriated as follows: an amount consistent with the structural budget surplus (0.4 bn) is to be credited to the *amortization account*. The amortization account introduced under the "extended debt brake" rules provides a statistical measure of extraordinary expenditure and receipts. If the account is in deficit, the loss must be compensated through recourse to structural surpluses in the ordinary budget. The amount credited in 2010 will partially compensate for foreseeable financial burdens from planned extraordinary expenditure in 2011 (1,148 million restructuring contribution to the SBB pension fund; 850 million in infrastructure fund deposits).

The remainder of the structural surplus (4.0 bn) is credited to the *compensation account*, bringing the account balance to 16.6 billion. However, the applicable statutory provisions stipulate that the compensation account must be reduced by 1 billion after the extended debt brake rule takes effect on January 1, 2010. Accordingly, the compensation account posted a balance of 15.6 billion at the end of 2010. This high balance has resulted from overshooting the debt brake minimum requirements since 2006, leading to the reduction of federal debt in recent years. In addition to measuring results, the compensation account also functions as a fluctuation reserve. In the event that a sharp drop in receipts creates a structural deficit despite cyclical adjustment, the fluctuation reserve would stop the compensation account from instantly going into deficit, necessitating consolidation measures.

Finally, based on an examination of the change in the fiscal balance and its various components, it is worth noting that the 800 million increase is attributable to changes in the cyclical and structural balance. The cyclical balance (+0.3 bn) reflects the restrictive effect of automatic stabilizers on the federal budget on the back of the economic recovery, while the improvement in the structural balance (+0.6 bn) indicates a discretionary restrictive impetus. However, the structural balance was essentially neutralized by extraordinary expenditure (cf. also section 21).

23 Statement of financial performance

CHF mn	Fin. stmt. 2009	Budget 2010	Fin. stmt. 2010	Deviation vs. FS 2009 Absolute	%
Surplus or deficit	**7 291**	**-1 714**	**4 139**	**-3 152**	
Ordinary result (incl. financial result)	**6 420**	**-1 714**	**4 139**	**-2 281**	
Ordinary revenue	64 146	58 201	63 523	-622	-1,0
Ordinary expenses	57 726	59 915	59 385	1 659	2,9
Extraordinary revenue	1 060	431	427	-632	
Extraordinary expenses	189	431	427	239	

The statement of financial performance reports a *surplus* of 4.1 billion (surplus or deficit for the year), which corresponds to the *ordinary result* (result from operating activities including the financial result). *Extraordinary* expenses and revenue are in balance for the year under review. Extraordinary expenses and revenue consist of transactions relating to the redistribution of revenue from the CO_2 tax on fuel. Revenue for 2008, 2009 and 2010 has been redistributed to families and companies as part of the third phase of the economic stabilization package. For this purpose, receipts from 2008 and 2009 (0.4 bn) were withdrawn from the relevant restricted funds (extraordinary revenue) and distributed (extraordinary expenses). Revenue for 2010 and the appropriation of this revenue (0.4 bn in redistributions; 0.2 bn for the building program) were recognized in the ordinary budget.

Compared with the financing statement, the result for the statement of financial performance was one billion higher. On the expenses side, the difference can be attributed to the recognition of accruals and deferrals, value adjustments, depreciation and amortization which are not recognized in the financing statement. Valuation gains on significant interests are especially relevant on the revenue side, impacting strongly on financial revenue (1.2 bn higher than financial receipts). Tax revenue was reduced by the increase in provisions relating to withholding tax (0.4 bn). Under operating expenses – value erosion for federal government operations – personnel expenses differ only marginally from personnel expenditure, while general, administrative and operating expenses are 0.5 billion higher than the equivalent expenditures in the financing statement largely as a result of deliveries ex stock. Total depreciation on administrative assets is 2.1 billion (including 1.4 bn for motorways, and 0.5 bn for buildings). When total investment expenditure is compared with the slightly lower total for depreciation and impairments, the relatively small difference between the two values (around 0.6 bn) reflects the consistently stable investment volumes.

Compared with the 2010 budget, the ordinary result was 5.8 billion higher (it thus more or less corresponds to the budget deviation of the financing statement). This discrepancy is due to 4.1 billion in net additional revenue and a 0.7 billion reduction in expenses in relation to the operating result, and a 1 billion higher financial result than budgeted. *Tax revenue* accounts for 3.9 billion of the additional revenue, with withholding tax (+1.3 bn), value added tax (+0.4 bn) and direct federal tax (+1.4 bn) all significantly higher than the amounts budgeted for. The strong financial result is attributable mainly to valuation gains on significant interests (increased equity values).

Further information on the statement of financial performance is set out in section 52.

24 Statement of financial position

CHF mn	2009	2010	Deviation vs. 2009 Absolute	%
Assets	**100 220**	**104 222**	**4 002**	**4,0**
Financial assets	27 360	30 193	2 833	10,4
Administrative assets	72 860	74 029	1 169	1,6
Liabilities and equity	**100 220**	**104 222**	**4 002**	**4,0**
Short-term liabilities	29 507	33 787	4 280	14,5
Long-term liabilities	104 582	99 938	-4 644	-4,4
Net assets/equity	-33 869	-29 502	4 366	12,9
Other net assets/equity	4 304	5 449	1 145	26,6
Accumulated deficit	-38 173	-34 951	3 221	8,4

The statement of financial position gives an overview of the Confederation's asset and capital structure. As is customary with public finances, *assets* are divided into financial assets and administrative assets for credit appropriation reasons. *Liabilities* are broken down into liabilities and equity. The accumulated deficit is recognized as negative equity.

Financial assets increased by 2.8 billion. This was due primarily to the increases in fixed-term deposits (1.2 bn) and unemployment insurance loans (1.8 bn). *Administrative assets* rose by 1.2 billion due mainly to significant interest value increases (1 bn). *Liabilities* declined by a total of 0.4 billion. This can be explained primarily by the result of opposing movements: the reduction in federal bonds (-4.6 bn), on the one hand, and increases in current accounts (1.2 bn) and short-term money market claims (2.2 bn) on the other.

The Confederation's negative *equity* declined due to the statement of financial performance surplus of 4.1 billion as well as valuation changes (subsequent capitalization) of 0.2 billion. The *accumulated deficit* did not decline to the same extent, as *other net assets/equity* increased by 1.1 billion. This was largely due to deposits in the "agri-food free trade agreement/WTO accompanying measures" restricted fund (1.2 bn).

25 Statement of investments

CHF mn	Fin. stmt. 2009	Budget 2010	Fin. stmt. 2010	Deviation vs. FS 2009 Absolute	%
Statement of investments balance	**-1 564**	**-7 083**	**-6 925**	**-5 361**	
Ordinary statement of investments balance	**-6 944**	**-7 083**	**-6 925**	**18**	
Ordinary investment receipts	295	183	333	38	12,7
Ordinary investment expenditure	7 239	7 266	7 258	19	0,3
Extraordinary investment receipts	5 380	–	–	-5 380	
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 used over successive periods (administrative assets). It also shows the receipts resulting from the sale or redemption of these assets.

Proprietary investments account for just over a third of *ordinary investment expenditure* (mainly buildings and motorways), while transfers account for two thirds of the total (mainly loans and contributions). The increase compared with 2009 is only 0.3%. This small increase is attributable mainly to the resolutions adopted on economic stabilization measures. In the 2009 financial statements, investment expenditure was impacted by additional payments of around 0.5 billion resulting from the stabilization measures. Although the effects of the stabilization measures were still evident in 2010, they had significantly less impact than the previous year. The slightly higher investment expenditure year-on-year is due namely to higher spending on motorway construction and maintenance, deposits in the infrastructure fund, deposits in the fund for major railway projects, and the building renovation program.

Ordinary investment receipts consist almost exclusively of loan repayments (mainly concerning housing construction promotion and licensed transportation companies), as well as proceeds from the sale of tangible fixed assets (mainly in the area of defense). Ordinary investment receipts are relatively insignificant, accounting for just 0.5% of total receipts. However, it is often difficult to make projections for ordinary investment receipts, which can result in major deviations from the budget.

In contrast to the previous year, no *extraordinary* investment receipts or expenditure was reported.

26 Debt

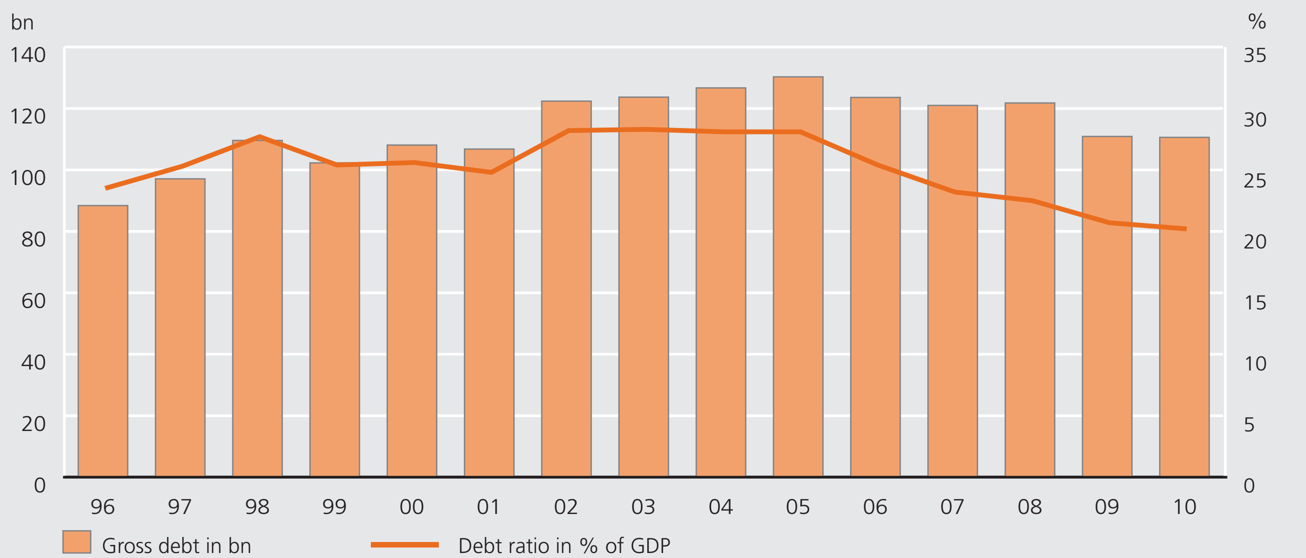
	1995	2000	2005	2008	2009	2010
Gross debt (CHF mn)	82 152	108 108	130 339	121 771	110 924	110 561
Interest-bearing debt (CHF mn)	80 130	104 046	123 460	110 185	100 989	99 097
Gross debt ratio (% GDP)	22,0	25,6	28,1	22,4	20,7	20,1

Gross debt amounted to 110.6 billion at year-end, which is approximately 0.4 billion less than at the end of 2009. After the extraordinary receipts resulting from the sale of the UBS mandatory convertible notes made it possible to significantly reduce debt the previous year, gross debt in 2010 persisted more or less at the 2009 level. As the flow of funds from the financing statement (3.1 bn) was offset by significant financing requirements (particularly an increase in the treasury loan for unemployment insurance in the amount of 1.8 bn), limits were imposed on further debt reduction. Moreover, current liabilities increased significantly (+1.4 bn), particularly as a result of higher receipts (receivables from third-party shares and withholding tax refund requests).

Despite this development, *interest-bearing debt* was further reduced by approximately 1.9 billion, whereby the corresponding items in the statement of financial position moved in the opposite direction. While long-term financial liabilities fell by 4.5 billion, an increase of 2.8 billion was seen in short-term financial liabilities. A further decrease (-0.2 bn) resulted from changes in current liabilities.

Thanks to the strong economic growth, the *debt ratio* (gross debt as a percentage of GDP) was lowered yet again, going from a peak in 2003 (28.3%) to 20.2% in the year under review.

Federal debt and debt ratio



31 Development of receipts

CHF mn	Fin. stmt. 2009	Budget 2010	Fin. stmt. 2010	Deviation vs. FS 2009 Absolute	Deviation vs. FS 2009 %	Deviation vs. budget 2010 Absolute
Ordinary receipts	**60 949**	**58 208**	**62 833**	**1 884**	**3,1**	**4 625**
Tax receipts	**55 890**	**53 822**	**58 157**	**2 267**	**4,1**	**4 335**
Direct federal tax	17 877	16 485	17 886	9	0,0	1 401
Withholding tax	4 380	3 010	4 723	343	7,8	1 713
Stamp duty	2 806	2 650	2 855	49	1,8	205
Value added taxes	19 830	20 260	20 672	842	4,2	412
Other consumption taxes	7 279	7 390	7 602	323	4,4	212
Misc. tax receipts	3 718	4 027	4 418	701	18,9	391
Nontax receipts	**5 059**	**4 386**	**4 677**	**-383**	**-7,6**	**291**

Ordinary receipts were up by 1.9 billion or 3.1% *on the previous year*. Growth in ordinary receipts therefore outstripped nominal economic growth of 2.0%, having previously declined at a faster rate than nominal economic growth (-4.6% compared with -1.2%) in the 2009 recession.

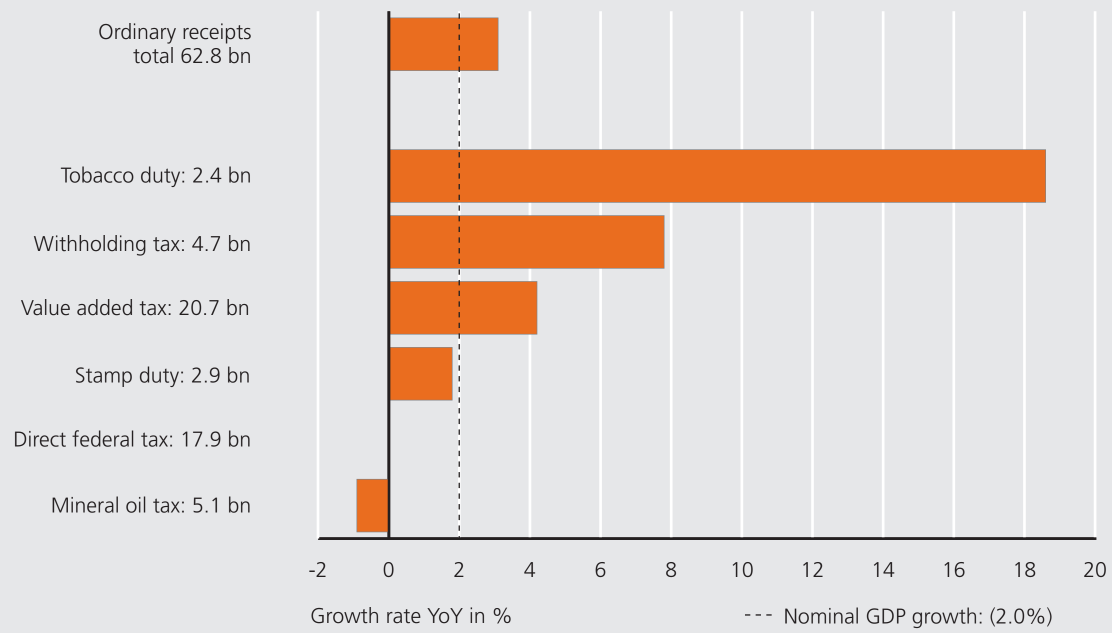
It can be seen from the table that this growth was driven by tax receipts (4.1%), which account for 92.6% of ordinary receipts. By comparison, nontax receipts were down 7.6%, amounting to a 7.4% share of the revenue pie.

The chart below shows the growth rates for the six highest tax receipt volumes relative to GDP. Two separate trends are evident:

- *Positive growth rates predominate*, although direct federal tax remained at its previous (high) level, and mineral oil tax declined (-0.9%). However, the majority of tax receipts increased, confirming the broad-based improvement in economic conditions.

- *There are significant discrepancies in growth rates*, attributable both to time delays (e.g. in the case of direct federal tax) as well as the distortionary effect of special factors (e.g. changes in tax rates). Different tax bases also have varying direct impacts on economic performance. For example, withholding tax and stamp duty tend to be loosely correlated with economic growth.

Development of 2010 receipts in %



The following developments can be identified compared with the previous year:

- The key *growth drivers* were value added tax (+842 million), CO_2 tax on fuel (+589 million; shown in the table under "misc. tax receipts"), tobacco duty (+367 million) and withholding tax (+343 million). The strong growth in value added tax was due to the catch-up effect following up on an equally strong decline in 2009. CO_2 tax was recorded in the 2010 ordinary budget for the first time and the tax rate was tripled. The growth in tobacco duty was attributable mainly to the introduction of bonded warehouses in 2009 (+283 million). Finally, there was strong growth in withholding tax receipts (especially from dividends) compared with the reimbursement rate for the prior year, which remained at a fairly constant (low) level.

- The proportion of advance payments due in respect of direct federal tax also increased in 2010 (+350 million). Excluding this structural effect, direct federal tax was down 1.9% on the previous year, due to the delayed impact of the 2009 recession caused by the assessment process.

- The largest *receipt decreases* were recorded for nontax receipts (-383 million). Ordinary receipts from the sale of UBS mandatory convertible notes, recognized in 2009, were eliminated (-250 million), while interest receipts declined due to the very low interest rates (-175 million).

- *Adjusted* for the special factors referred to above (CO_2 tax, tobacco duty, advance direct federal tax, and UBS in 2009), *receipts grew* 1.5%, yielding a receipt elasticity of 0.8 (1.6 unadjusted) relative to economic growth. This low rise relative to economic growth seems reasonable given the decrease on an adjusted basis in direct federal tax, which accounts for just over a quarter of total receipts.

Receipt estimates have taken on greater significance since the introduction of the debt brake, which requires expenditure to be budgeted on the basis of estimated receipts. Ordinary receipts were 7.8% (+4.6 bn) above the budgeted level. This large discrepancy was attributable mainly to the following factors:

- The *2010 recovery*: at the time of the budget in June 2009, it was assumed that nominal growth would remain weak at 0.7%, whereas nominal growth was ultimately 2.0% (+1.3 percentage points). This increase impacted positively on receipts across the board, especially on value added tax, which was 2.0% over the budgeted figure.

- *Budgeted withholding tax figure*: in retrospect, the budgeted estimate for withholding tax was clearly too low (+1.7 bn). Withholding tax receipts are notoriously difficult to estimate due to their volatility. As a result, point forecasts for withholding tax were abandoned in 2005 in favor of using a long-term average of 3 billion as the budgeted value. The projection method will be adjusted for the 2012 budget with a view to minimizing future budget discrepancies.

- *Advance payments of direct federal tax*: advance payments of tax (tax deducted at source, advance payments by installment in three cantons so far) have become increasingly important in the past two years. For 2010, the total value of advance payments due was around 1.6 billion, 1.3 billion higher than the amount budgeted. If this effect were eliminated, the figure for direct federal tax would be lower than the budgeted total.

In general, the 7.9% *forecast error for ordinary receipts* was significantly higher than the average forecast error for the last ten years (1.7%).

32 Development of expenditure by task area

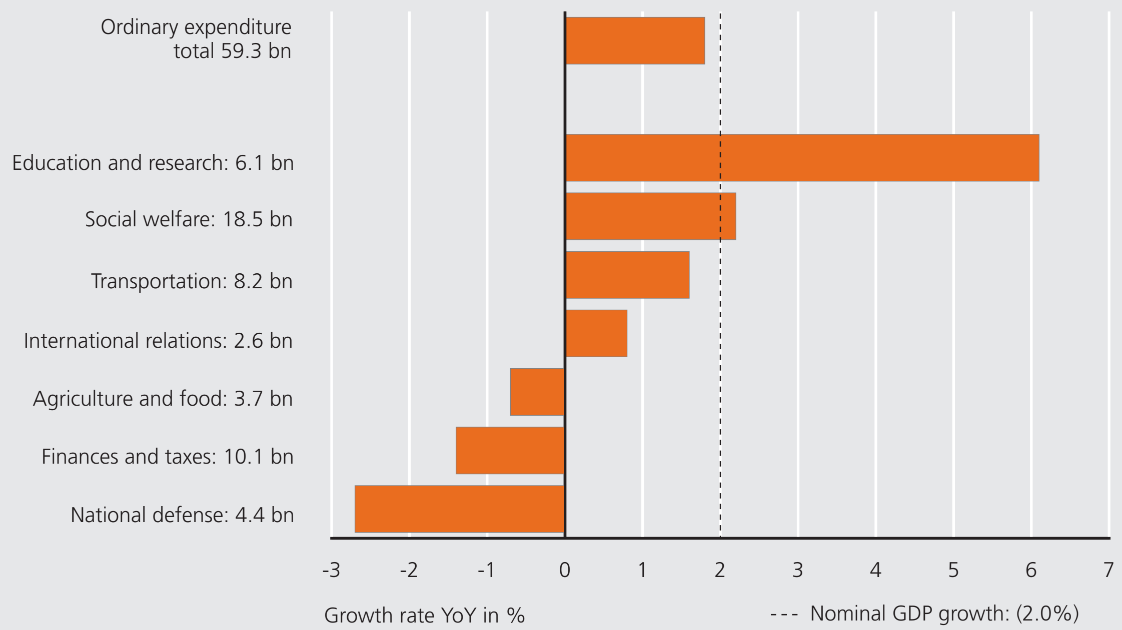
CHF mn	Fin. stmt. 2009	Budget 2010	Fin. stmt. 2010	Deviation vs. FS 2009 Absolute	Deviation vs. FS 2009 %	Deviation vs. budget 2010 Absolute
Ordinary expenditure	**58 228**	**60 237**	**59 266**	**1 038**	**1,8**	**-972**
Social welfare	18 049	19 065	18 454	404	2,2	-612
Finances and taxes	10 241	9 620	10 102	-139	-1,4	482
Transportation	8 099	8 065	8 225	126	1,6	160
Education and research	5 715	6 136	6 067	351	6,1	-69
National defense	4 515	4 918	4 395	-120	-2,7	-523
Agriculture and food	3 692	3 701	3 666	-27	-0,7	-35
International relations - international cooperation	2 587	2 748	2 607	20	0,8	-141
Other task areas	5 329	5 984	5 751	422	7,9	-233

Federal expenditure rose by one billion in 2010, an increase of 1.8%. This moderate increase compared with economic growth (GDP: +2.0%) was due mainly to minimal increases in the seven financially most significant task areas. Expenditure in these task areas grew only 1.1%, due mainly to favorable economic conditions (lower unemployment, interest rates), delays in project implementation (armament procurement, EU cohesion contributions), and structural effects in the area of social insurance (impact of 4th and 5th revisions of disability insurance, no adjustment to AHV pensions). Another important factor was the termination of economic stabilization measures, which led to high concentrations of spending in 2009, especially in relation to transportation. Consequently, expenditure growth in this task area was down on last year.

Expenditure patterns in the seven financially most significant task areas are outlined below in order of spending level. The level of expenditure for 2010 and year-on-year growth are indicated in parentheses for each task area.

Social welfare (18.5 bn, +2.2%): the 2.2% growth rate in social welfare expenditure in 2010 was slightly higher than the overall budget (+1.8%). The 400 million increase was due mainly to additional spending on old age and survivors' insurance (AHV) (+264 million) and higher expenditure in respect of individual premium reductions (+161 million). While the AHV increase was linked to demographic trends (increase in the number of retirees) and higher levels of VAT revenue, individual premium reductions were impacted mainly by the further rise in compulsory health insurance costs. In contrast, expenditure on disability insurance (IV) decreased. The 4th and 5th revisions of disability insurance resulted in fewer new retirees, reducing the federal contribution by 58 million, or 1.6%. The Confederation made a one-time lump-sum payment of 68 million to the can-

Development of 2010 expenditure by task area in %



tons in 2009, which explains the decrease in federal contributions to supplementary benefits. If this effect were eliminated, supplementary benefits would be 2.3% up on the previous year, due both to an increase in supplementary benefit recipients and higher average supplementary benefit levels.

Finances and taxes (10.1 bn, -1.4%): the lower expenditure levels in this task area were due to low financing requirements as well as persistently low interest rates, which further reduced debt servicing costs (interest paid) (-283 million). Additional expenditure of just under 100 million on financial equalization had the opposite effect (due to the increase in the cantons' resource potential) and an increase in third parties' share in federal revenue (+50 million) boosted by growth in receipts.

Transportation (8.2 bn, +1.6%): expenditure on transportation was up 126 million or 1.6% on the prior-year level. This increase was the result of higher spending on road transportation (+236 million) and reduced spending on rail transportation. Expenditure on road transportation was boosted by an increase in infrastructure fund deposits allocated to motorways. The lower levels of spending on public transportation can be attributed to the termination of economic stabilization measures, which increased operation and investment contributions for railway infrastructure in 2009. This non-recurring additional expenditure was not incurred in 2010, which resulted in a 110 million decrease in public transportation spending.

Education and research (6.1 bn, +6.1%): the 6.1% increase in education and research spending clearly exceeded federal expenditure growth, which averaged 1.8%. Key drivers for this growth included higher expenditure on basic research (+154 million), primarily benefiting the Swiss Federal Institutes of Technology (ETH) and the Swiss National Science Foundation (SNSF). Vocational education showed the highest growth (+10.1%, +68 million), due primarily to the increase in lump-sum contributions. Almost 90% of education and research expenditure was on loans relating to the Dispatch on the Promotion of Education, Research and Innovation. The expenditure growth rate for this area was higher (+6.4%) than for other areas of education and research (+4.4%).

National defense (4.4 bn, -2.7%): although growth of around 7% was planned in the 2010 budget, defense spending was down 2.7% year-on-year. This significant deviation from budget was largely attributable to project delays concerning the procurement of armaments (-345 million) and less investment in tangible and intangible fixed assets and inventories (especially motor-vehicle and other fuels, -49 million). In contrast, increased spending levels were recorded for the procurement of equipment and replacement materials and for weapon systems maintenance (+83 million).

Agriculture and food (3.7 bn, -0.7%): there was a 1% increase in expenditure on direct agricultural payments (+27 million), due mainly to transfers of resources away from market support measures toward direct payments. Market support measures were significantly down on the prior-year level (-59 million), reducing agricultural expenditure by 0.7% overall. However, market support expenditure items (milk and livestock sectors, crop production) within the dairy industry were only slightly down on the prior-year level (-6 million), essentially due to 10.5 million in supplementary credit to stabilize the milk market.

International relations – international cooperation (2.6 bn, +0.8%): growth in expenditure on international relations and international cooperation was only just above the 2009 level at 0.8% (+20 million). This slight cost increase was attributable mainly to project delays relating to contributions to EU enlargement. Expenditure in this area declined by 32 million compared with the 2009 financial statements, coming in at 107 million below the budgeted figure, while spending on assistance to developing countries increased by 38 million overall (Southern and Eastern countries). This increase was due to the replenishment of the financial resources of the International Development Association (IDA), financial aid for humanitarian operations and the promotion of bilateral initiatives in the context of technical cooperation.

33 Development of expenses by account group

CHF mn	Fin. stmt. 2009	Budget 2010	Fin. stmt. 2010	Deviation vs. FS 2009 Absolute	%
Ordinary expenses	**57 726**	**59 915**	**59 385**	**1 659**	**2,9**
Operating expenses	**11 929**	**12 496**	**12 039**	**110**	**0,9**
Personnel expenses	4 812	4 927	4 824	12	0,2
General, administrative and operating expenses	4 120	4 180	4 071	-49	-1,2
Defense expenses	1 095	1 355	1 001	-94	-8,6
Deprec., amortiz. tangible/intangible fixed assets	1 902	2 034	2 143	241	12,7
Transfer expenses	**42 445**	**44 282**	**44 024**	**1 579**	**3,7**
Third parties' share in federal income	7 116	7 151	7 705	589	8,3
Compensation to public bodies	778	843	807	29	3,7
Contributions to own institutions	2 723	2 838	2 850	127	4,7
Contributions to third parties	13 279	14 176	13 608	329	2,5
Contributions to social insurance	14 280	14 820	14 493	213	1,5
Value adjustment on investment contributions	4 065	4 069	4 302	237	5,8
Value adjustment on loans and financial interests	203	385	259	56	27,5
Financial expense	**3 341**	**3 137**	**3 299**	**-41**	**-1,2**
Interest expense	3 042	3 004	2 902	-139	-4,6
Decrease in equity values	5	–	95	89	1 632,4
Other financial expense	293	134	302	9	2,9
Net expense for restricted funds in liabilities	**11**	**–**	**22**	**11**	**97,3**

Ordinary expenses for 2010 were up almost 1.7 billion on the previous year, representing an increase of 2.9%. This was driven by a sharp rise in transfer expenses (+1.6 bn) and higher operating expenses (+0.1 bn). Financial expenses, in contrast, continued to decline (-41 million).

Operating expenses grew by almost 1% compared to the previous year. However, stripping out the increase in depreciation and amortization of 240 million, operating expenses were around 1% lower than the prior-year level, due mainly to the following factors:

- *Personnel expenses* remained nearly constant, increasing by only 0.2% (+12 million). Staff compensation and employer contributions grew by a total of 52 million, due primarily to increased employee headcount and wage measures. The 30 million increase in employer contributions was mainly attributable to the increase in pension provisions for members of the Federal Council, judges of the Federal Supreme Court, and the Federal Chancellor and Vice-Chancellor (+25 million). Finally, personnel expenses financed by credit for goods and services also increased (+12 million), due primarily to reorganization within the Federal Department of Foreign Affairs/Swiss Agency for Development and Cooperation. This was offset by a 79 million reduction in social plan costs (restructuring) caused by the suspension of workforce reduction in the Federal Department of Defense, Civil Protection and Sport (Armed Forces Logistics Organization) and the associated reversal of provisions.

- *General, administrative and operating expenses* decreased by a total of around 50 million, due to a number of opposing factors. There was a decrease in operating costs (-72 million), which include buildings, consultancy and IT expenses as well as army operating expenditure. All of these expense categories decreased, with the exception of army operating expenditure. This was partly the result of special factors (discontinuation of the procurement of pandemic vaccines, a strong Swiss franc, spin-off of the National Museum, totaling -70 million) and partly due to prioritization, project delays and a reduction in procurements, e.g. hardware (totaling -60 million). The increase in army operating expenses was attributable to the procurement of more complex systems and higher maintenance costs. The decrease in operating expenses was offset by a slight increase in the cost of purchased materials (+22 million), due mainly to an increase in the number of coins in circulation (creation of provisions) and higher metal prices (coin production).

- *Defense expenses* were down 94 million, due mainly to project delays concerning the procurement of armaments, caused by uncertainty regarding the development of the armed forces and staff shortages affecting the commissioning and procurement agencies.

- 75% of the sharp increase in *depreciation expenses* (+241 million) was attributable to the higher levels of depreciation of land and property (+180 million), with FOBL and armasuisse accounting for half each. The increase was due to portfolio adjustments in 2009. The retroactive capitalizations (e.g. Swisscom cable equipment) were recognized as reducing expenses regarding depreciation. The remaining increase in expenses was due to the amortization of intangible fixed assets (+23 million) and the depreciation of motorways (+34 million).

Transfer expenses accounted for 95% of the total increase in ordinary expenses (+1579 million). This increase can be spread across five main account groups:

- *Third parties' share in federal income*: the growth in expenses was mainly attributable to the redistribution of CO_2 tax on fuel, which was increased in 2010 (+437 million), and the higher percentage of value added tax in respect of old age and survivors' insurance (AHV) relative to receipts (+91 million, or 4.2%).

- The increased contribution to the ETH area (+88 million) was the main reason for the 127 million increase in *contributions to own institutions*. The higher expenses for the National Museum (+47 million) resulted from the spin-off of the museum on January 1, 2010. Expenses relating to the National Museum, which were previously recognized in operating expenses, are now allocated to transfer expenses.

- Financial equalization (+93 million, increased resources available to the cantons), contributions to international organizations (+101 million, particularly the UN and EU Research Framework Programs), and other contributions to third parties (+135 million, particularly education and research contributions) each accounted for roughly a third of the *increase in contributions to third parties* (+329 million).

- *Social insurance contributions* rose by 1.5% (+213 million), due mainly to the higher federal contribution to AHV (+164 million) and individual premium reductions (+161 million). In contrast, disability insurance (IV) contributions (-54 million), supplementary AHV and IV benefits (-40 million), and military insurance expenses (-46 million) declined.

- There was a 237 million year-on-year increase in *value adjustments* on investment contributions (especially contributions to rail infrastructure and the building renovation program), and a 56 million increase in value adjustments on loans.

The decrease in *financial expense* seen in recent years continued in 2010, mainly owing to further reductions in bond holdings (-4.6 bn), resulting in a decline in interest expense (-139 million). The decrease in equity values was due to one-off value adjustments made by RUAG at the end of 2009, resulting in a net loss.

The increase in *net expense for restricted funds in liabilities* (+11 million) was due to a higher deposit in the contaminated site fund (+17.1 million). However, no funds were deposited in the CO_2 tax fund in 2010 (-5 million).

The 2010 results confirm the view that the Swiss economy has rebounded from the recession faster than expected. They suggest that the phased approach to economic stabilization has been effective and that the debt brake is sufficiently responsive in the long term to fulfill its intended function, even in a crisis.

The positive results for 2010 have implications for fiscal policy:

- The significant excess receipts over budget will result in an upward adjustment of estimates for later years. Because the 2011 budget and 2012–2014 financial plan from August 2010 predicted only some of this excess, it is now necessary to increase these planned figures in terms of a baseline effect.

- Budgetary discrepancies regarding receipts have also focused attention on receipt estimation methods. Discrepancies within one year are obviously not automatically indicative of inaccurate receipt forecasts as such. This applies in particular to 2010, where the budget was based on the assessment of the economic outlook at the time. However, in addition to making the changes referred to above, the estimation methods will also need to be adjusted in light of the results. This concerns mainly the planned withholding tax figures, which will need to be revised upward again to better take account of the tax trend.

- The further reduction in interest-bearing debt in 2010 will bring the interest paid down further and provide some more room for maneuver.

- Finally, the allocation of the 416 million budgeted structural surplus for 2010 to the amortization account, as proposed by the Federal Council, will reduce the future need to amortize extraordinary expenditure items incurred in 2011. This will thus also ease pressure on the ordinary budget in subsequent years.

All of these factors suggest a brighter fiscal outlook than the one implied by the Federal Council in August of last year. The need for adjustment according to the debt brake requirements as indicated in the 2012–2014 financial plan will thus be eliminated in view of current conditions.

On this basis, the Council of States resolved in the 2011 spring session not to adopt the 2012–2013 consolidation program (COP 12/13). However, this does not mean a complete abandonment of the consolidation measures, but merely a suspension of the short-term initiatives to review the functions of government as part of COP 12/13. The remaining measures, accounting for more than 80% of the total relief package, remain essential in order to meet the debt brake requirements in the medium term. Therefore, this decision does not amount to a u-turn on fiscal policy but simply an adjustment of direction.

It should also be noted that the crisis is not over yet and the federal budget is still exposed to major risks, due mainly to the prevailing situation in the euro area and the associated exchange rate movements. Pressure on exports due to the stronger Swiss franc remains an area of uncertainty for the Swiss economy and by extension the federal budget. A more direct channel for the influence of exchange rates on the federal budget goes through the Swiss National Bank (SNB) given that there is significant uncertainty at present about the level of future distributions of its profits to the Confederation and cantons. Aside from the risk of a temporary suspension, there is also the issue of the medium-term potential for these amounts. It is uncertain whether the annual payments of 833 million, which are now still included in the financial plan, can continue after 2012.

The medium-term federal budget outlook revised at the start of 2011 – including the partial suspension of COP measures – suggests a relatively large structural surplus for 2012, which will provide an adequate buffer against adverse budgetary changes. However, the debt brake requirements will be met only by a very narrow margin in subsequent years. It would therefore be irresponsible to sound the all-clear on fiscal policy on the back of the good 2010 results. Based on current conditions, there is no scope in the medium term for major additional financial burdens and in an unfavorable case it may be necessary to reactivate the suspended consolidation measures. The Federal Council will be making policy decisions on these matters in the fall of 2011 at the latest, when it materially approves the financial plan for 2013–2015.

51 Financing and flow of funds statement

CHF mn	Fin. stmt. 2009	Budget 2010	Fin. stmt. 2010	Deviation vs. FS 2009 Absolute	%
Overall fiscal balance	**9 745**	**-2 460**	**3 140**	**-6 605**	
Ordinary financing result	**2 721**	**-2 029**	**3 568**	**846**	
Ordinary receipts	**60 949**	**58 208**	**62 833**	**1 884**	**3,1**
Tax receipts	**55 890**	**53 822**	**58 157**	**2 267**	**4,1**
Direct federal tax	17 877	16 485	17 886	9	0,0
Withholding tax	4 380	3 010	4 723	343	7,8
Stamp duty	2 806	2 650	2 855	49	1,8
Value added taxes	19 830	20 260	20 672	842	4,2
Other consumption taxes	7 279	7 390	7 602	323	4,4
Misc. tax receipts	3 718	4 027	4 418	701	18,9
Royalties and concessions	**1 354**	**1 323**	**1 391**	**37**	**2,8**
Financial receipts	**1 608**	**1 212**	**1 233**	**-375**	**-23,3**
Financial interest receipts	771	775	790	20	2,5
Other financial receipts	837	437	443	-394	-47,1
Other current receipts	**1 802**	**1 668**	**1 720**	**-83**	**-4,6**
Investment receipts	**295**	**183**	**333**	**38**	**12,7**
Ordinary expenditure	**58 228**	**60 237**	**59 266**	**1 038**	**1,8**
Operating expenditure	**9 533**	**10 126**	**9 487**	**-47**	**-0,5**
Personnel expenditure	4 828	4 927	4 894	66	1,4
General, administrative and operating expenditure	3 611	3 844	3 592	-19	-0,5
Defense expenditure	1 095	1 355	1 001	-94	-8,6
Current transfer expenditure	**38 194**	**39 900**	**39 536**	**1 342**	**3,5**
Third parties' share in federal receipts	7 116	7 151	7 705	589	8,3
Compensation to public bodies	780	851	801	21	2,6
Contributions to own institutions	2 723	2 838	2 850	127	4,7
Contributions to third parties	13 290	14 177	13 616	326	2,5
Contributions to social insurance	14 285	14 883	14 564	279	2,0
Financial expenditure	**3 255**	**2 945**	**2 972**	**-283**	**-8,7**
Interest expenditure	3 135	2 802	2 834	-302	-9,6
Other financial expenditure	120	142	139	19	15,5
Investment expenditure	**7 245**	**7 266**	**7 270**	**25**	**0,3**
Tangible fixed assets and inventories	2 512	2 663	2 585	73	2,9
Intangible fixed assets	39	55	46	7	17,6
Loans	599	446	307	-292	-48,8
Financial interests	30	35	30	1	3,1
Investment contributions	4 065	4 066	4 302	237	5,8
Extraordinary receipts	**7 024**	**–**	**–**	**-7 024**	
Extraordinary expenditure	**–**	**431**	**427**	**427**	

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) as well as which liquidity changes will be recognized in the statement of financial position as a result (federal fund). The FFFS differs from the cash flow statement in accordance with International Public Sector Accounting Standards (IPSAS) in terms of the structure and the content of the "Federal fund":

- While IPSAS prescribes a three-level structure according to operating activities (operating cash flow), investing activities (investing cash flow) and financing activities (financing cash flow), the FFFS, because of the debt brake requirements, 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 commonly used in the private sector and which is relevant for IPSAS, the "Federal fund" includes amounts due from debitors (receivables) and amounts due to creditors (current liabilities) in addition to cash flows. This extended fund definition is based on the requirements resulting from budget management with the debt brake. A booked account payable already constitutes expenditure on the credit side. Restricting recognition to pure cash flows would not be in line with the debt brake concept.

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. 2009	Fin. stmt. 2010	Deviation vs. FS 2009 Absolute	%
Total flow of funds	**1 667**	**2 576**	**909**	**54,5**
Flow of funds from operations (overall fiscal balance)	**9 745**	**3 140**	**-6 605**	**67,8**
Flow of funds from financial investments	**1 922**	**1 777**	**-145**	**-7,6**
Short-term financial investments	3 482	3 780	298	8,6
Long-term financial investments	-1 560	-2 003	-443	-28,4
Flow of funds from debt financing	**-10 000**	**-2 341**	**7 660**	**76,6**
Short-term financial liabilities	-5 149	2 374	7 523	146,1
Long-term financial liabilities	-4 626	-4 482	144	3,1
Liabilities for separate accounts	-299	-194	104	34,9
Special funds	74	-39	-112	-152,3

"Federal fund" statement

CHF mn	2009	2010	Deviation vs. 2009 Absolute	%
Fund status as of 1.1.	**-7 746**	**-6 078**	**1 667**	**21,5**
Fund status as of 31.12.	**-6 078**	**-3 502**	**2 576**	**42,4**
Status as of 31.12.				
Cash and cash equivalents	2 949	6 015	3 066	104,0
Receivables w/o allowance for doubtful accounts	5 755	6 979	1 224	21,3
Current liabilities incl. withholding tax accrual	-14 782	-16 496	-1 714	-11,6

Note: Only fund-relevant changes are taken into account, and thus there may be deviations relative to the change in the corresponding items in the statement of financial position.

The *negative balance of the "Federal fund"* shows that current liabilities (including withholding tax accrual) exceed cash and other liquid assets and receivables. The *increase in the "Federal fund"* (2,576 million) is due primarily to a transfer of fixed-term deposits with a total term under 90 days in the amount of 4,880 million from "Short-term financial investments" to "Short-term deposits" (as part of the "Federal fund") (see section 24). Without this transfer, the constitution of short-term financial investments would have resulted in an *outflow* (-1,100 million instead of 3,780 million), and the "Federal fund" would have decreased rather than increased (-2,304 million instead of 2,576 million).

Guidance on reading the flow of funds statement

The *flow of funds from operating activities* shows the result of the financing statement (*overall fiscal balance*). Aside from the ordinary financing result – flows of funds from operating activities and administrative asset investments/disinvestments – it also includes extraordinary receipts and expenditure. A plus sign indicates a net inflow of funds, while a minus sign indicates a net outflow of funds.

The *flow of funds from financial investments and debt financing* covers Federal Treasury transactions such as borrowings or financial asset investments, as well as other transactions executed directly via the statement of financial position (e.g. advances to the FinPT fund). In the case of the flow of funds from financial investments, a plus sign indicates that on the whole financial investments were disposed of and thus liquid assets flowed into the "Federal fund". A minus sign in the flow of funds from debt financing indicates that liquid assets were withdrawn from the "Federal fund" to settle financial liabilities.

In the *"Federal fund"*, the flow of funds from task execution and financing activities is reflected in the changes in the Confederation's liquidity. In terms of a statement, the change in the "Federal fund" (2,576 million) must correspond to the total from the overall fiscal balance (3,140 million) and the flow of funds from financial investments (1,777 million) as well as the flow of funds from debt financing (-2,341 million).

52 Statement of financial performance

CHF mn	Fin. stmt. 2009	Budget 2010	Fin. stmt. 2010	Deviation vs. FS 2009 Absolute	%
Surplus or deficit	**7 291**	**-1 714**	**4 139**	**-3 152**	**-43,2**
Ordinary result (incl. financial result)	**6 420**	**-1 714**	**4 139**	**-2 281**	**-35,5**
Operating result (excl. financial result)	**6 685**	**152**	**4 992**	**-1 693**	**-25,3**
Revenue	**61 070**	**56 929**	**61 077**	**7**	**0,0**
Tax revenue	**56 790**	**53 822**	**57 757**	**967**	**1,7**
Direct federal tax	17 877	16 485	17 886	9	0,0
Withholding tax	5 280	3 010	4 323	-957	-18,1
Stamp duty	2 806	2 650	2 855	49	1,8
Value added taxes	19 830	20 260	20 672	842	4,2
Other consumption taxes	7 279	7 390	7 602	323	4,4
Misc. tax revenue	3 718	4 027	4 418	701	18,9
Royalties and concessions	**1 350**	**1 325**	**1 383**	**33**	**2,5**
Other revenue	**2 893**	**1 684**	**1 803**	**-1 090**	**-37,7**
Net revenue from restricted funds in liabilities	**37**	**99**	**135**	**98**	**262,0**
Expenses	**54 385**	**56 778**	**56 085**	**1 700**	**3,1**
Operating expenses	**11 929**	**12 496**	**12 039**	**110**	**0,9**
Personnel expenses	4 812	4 927	4 824	12	0,2
General, administrative and operating expenses	4 120	4 180	4 071	-49	-1,2
Defense expenses	1 095	1 355	1 001	-94	-8,6
Deprec., amortiz. tangible/intangible fixed assets	1 902	2 034	2 143	241	12,7
Transfer expenses	**42 445**	**44 282**	**44 024**	**1 579**	**3,7**
Third parties' share in federal income	7 116	7 151	7 705	589	8,3
Compensation to public bodies	778	843	807	29	3,7
Contributions to own institutions	2 723	2 838	2 850	127	4,7
Contributions to third parties	13 279	14 176	13 608	329	2,5
Contributions to social insurance	14 280	14 820	14 493	213	1,5
Value adjustment on investment contributions	4 065	4 069	4 302	237	5,8
Value adjustment on loans and financial interests	203	385	259	56	27,5
Net expense for restricted funds in liabilities	**11**	**–**	**22**	**11**	**97,3**
Financial result (expenditure surplus)	**-265**	**-1 866**	**-853**	**-588**	**-221,8**
Financial revenue	**3 075**	**1 272**	**2 446**	**-629**	**-20,5**
Increase in equity values	2 179	775	1 840	-339	-15,5
Other financial revenue	896	497	606	-291	-32,4
Financial expense	**3 341**	**3 137**	**3 299**	**-41**	**-1,2**
Interest expense	3 042	3 004	2 902	-139	-4,6
Decrease in equity values	5	–	95	89	1 632,4
Other financial expense	293	134	302	9	2,9
Extraordinary revenue	**1 060**	**431**	**427**	**-632**	**-59,7**
Extraordinary expenses	**189**	**431**	**427**	**239**	**126,3**

CHF mn	Fin. stmt. 2009	Budget 2010	Fin. stmt. 2010	Deviation vs. FS 2009 Absolute	%
Ordinary result (incl. financial result)	**6 420**	**-1 714**	**4 139**	**-2 281**	**-35,5**
Ordinary revenue	**64 146**	**58 201**	**63 523**	**-622**	**-1,0**
Revenue	61 070	56 929	61 077	7	0,0
Financial revenue	3 075	1 272	2 446	-629	-20,5
Ordinary expenses	**57 726**	**59 915**	**59 385**	**1 659**	**2,9**
Expenses	54 385	56 778	56 085	1 700	3,1
Financial expense	3 341	3 137	3 299	-41	-1,2

53 Statement of financial position

CHF mn	2009	2010	Deviation vs. 2009 Absolute	%
Assets	**100 220**	**104 222**	**4 002**	**4,0**
Financial assets	**27 360**	**30 193**	**2 833**	**10,4**
Current assets	**13 787**	**14 584**	**797**	**5,8**
Cash and cash equivalents	2 949	6 015	3 066	104,0
Receivables	5 246	6 459	1 213	23,1
Short-term financial investments	4 212	414	-3 798	-90,2
Prepaid expenses and accrued income	1 379	1 696	317	22,9
Non-current assets	**13 573**	**15 609**	**2 036**	**15,0**
Long-term financial investments	13 573	15 576	2 003	14,8
Receivables from restricted funds in liabilities	–	32	32	–
Administrative assets	**72 860**	**74 029**	**1 169**	**1,6**
Current assets	**297**	**285**	**-12**	**-4,0**
Inventories	297	285	-12	-4,0
Non-current assets	**72 564**	**73 745**	**1 181**	**1,6**
Tangible fixed assets	51 094	51 194	100	0,2
Intangible fixed assets	130	148	18	13,6
Loans	3 411	3 536	125	3,7
Financial interests	17 928	18 866	938	5,2
Liabilities and equity	**100 220**	**104 222**	**4 002**	**4,0**
Short-term liabilities	**29 507**	**33 787**	**4 280**	**14,5**
Current liabilities	12 659	14 024	1 365	10,8
Short-term financial liabilities	10 310	13 064	2 754	26,7
Accrued expenses and deferred income	6 094	6 377	284	4,7
Short-term provisions	443	321	-123	-27,7
Long-term liabilities	**104 582**	**99 938**	**-4 644**	**-4,4**
Long-term financial liabilities	87 955	83 473	-4 482	-5,1
Liabilities toward separate accounts	1 793	1 599	-194	-10,8
Long-term provisions	13 107	13 572	465	3,5
Payables to restricted funds in liabilities	1 727	1 294	-433	-25,1
Net assets/equity	**-33 869**	**-29 502**	**4 366**	**12,9**
Restricted funds in net assets/equity	2 934	4 048	1 114	38,0
Special funds	1 258	1 287	29	2,3
Reserves from global budget	111	114	3	2,6
Other net assets/equity	0	0	0	-100,0
Accumulated deficit	-38 173	-34 951	3 221	8,4

54 Statement of investments

CHF mn	Fin. stmt. 2009	Budget 2010	Fin. stmt. 2010	Deviation vs. FS 2009 Absolute	%
Statement of investments balance	**-1 564**	**-7 083**	**-6 925**	**-5 361**	
Ordinary statement of investments balance	**-6 944**	**-7 083**	**-6 925**	**18**	
Ordinary investment receipts	**295**	**183**	**333**	**38**	**12,7**
Buildings	70	40	67	-3	-4,8
Property, plant and equipment	4	4	5	2	45,3
Motorways	–	–	6	6	–
Loans	212	139	237	25	11,8
Financial interests	9	–	18	9	97,2
Investment contributions	0	–	–	0	-100,0
Ordinary investment expenditure	**7 239**	**7 266**	**7 258**	**19**	**0,3**
Buildings	626	640	596	-30	-4,8
Property, plant and equipment	156	147	140	-16	-10,0
Inventories	224	188	141	-83	-37,2
Motorways	1 501	1 688	1 695	194	12,9
Intangible fixed assets	37	55	46	9	24,8
Loans	599	446	307	-292	-48,8
Financial interests	30	35	30	1	3,1
Investment contributions	4 066	4 066	4 302	236	5,8
Extraordinary investment receipts	**5 380**	**–**	**–**	**-5 380**	
Extraordinary investment expenditure	**–**	**–**	**–**	**–**	

The table above shows expenditure incurred in the period for the acquisition and accumulation of assets which are required for the performance of functions and used over successive periods. It also shows 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 and receipts shown in the tables also include accruals and deferrals which are not recognized in the financing statement. As a result, these values may differ slightly from the values shown in the financing and flow of funds statement (2009: -6 million; 2010: -12 million).

The reconciliation table below shows the proportion of changes in administrative assets attributable to *investment expenditure and receipts* and the proportion attributable to *other changes*. Other changes include acquisitions and disposals not recognized in the statement of investments (e.g. retroactive capitalizations in the statement of financial performance, transactions recognized 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 interests, or price changes in relation to inventories.

Reconciliation statement of investments and other changes in recognized administrative assets

2010 CHF mn	Total	Tangible fixed assets	Inventories	Intangible fixed assets	Loans	Financial interests	Investment contributions
Status as of 1.1.	**72 860**	**51 094**	**297**	**130**	**3 411**	**17 928**	**–**
Investment receipts	-333	-78	–	–	-237	-18	–
Investment expenditure	7 258	2 431	141	46	307	30	4 302
Other changes	-5 756	-2 253	-153	-29	55	925	-4 302
Status as of 31.12.	**74 029**	**51 194**	**285**	**148**	**3 536**	**18 866**	**–**

2009 CHF mn	Total	Tangible fixed assets	Inventories	Intangible fixed assets	Loans	Financial interests	Investment contributions
Status as of 1.1.	**75 916**	**49 921**	**224**	**97**	**9 475**	**16 199**	**–**
Investment receipts	-5 675	-74	–	–	-5 591	-9	0
Investment expenditure	7 239	2 283	224	37	599	30	4 066
Other changes	-4 620	-1 035	-152	-4	-1 072	1 709	-4 066
Status as of 31.12.	**72 860**	**51 094**	**297**	**130**	**3 411**	**17 928**	**–**

55 Statement of net assets/equity

CHF mn	Total net assets/equity	Restricted funds in net assets/equity	Special funds	Reserves from global budget	Accu-mulated deficit
Status as of 1.1.2009	**-41 187**	**2 808**	**1 229**	**79**	**-45 302**
Entry transfers in net assets/equity	–	126	–	33	-159
Change in special funds	29	–	29	–	–
Valuation changes	-1	–	–	–	-1
Total positions entered in net assets/equity	**28**	**126**	**29**	**33**	**-160**
Surplus or deficit	7 291	–	–	–	7 291
Total profit and loss entered	**7 319**	**126**	**29**	**33**	**7 131**
Other transactions	-1	–	–	–	-1
Status as of 31.12.2009	**-33 869**	**2 934**	**1 258**	**111**	**-38 173**
Entry transfers in net assets/equity	–	1 114	–	3	-1 117
Change in special funds	29	–	29	–	–
Valuation changes	200	–	–	–	200
Total positions entered in net assets/equity	**229**	**1 114**	**29**	**3**	**-917**
Surplus or deficit	4 139	–	–	–	4 139
Total profit and loss entered	**4 368**	**1 114**	**29**	**3**	**3 222**
Other transactions	-1	–	–	–	-1
Status as of 31.12.2010	**-29 502**	**4 048**	**1 287**	**114**	**-34 951**

The statement of net assets/equity provides information on the effects of financial transactions recorded in the reporting period for assets and equity. More specifically, it clearly 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.

Restricted funds in net assets/equity
Funds from unappropriated restricted receipts are recognized in net assets/equity insofar as the law expressly provides for flexibility in the use of the funds or the time at which they may be used. This applies to special financing for *road transportation* and the *FTA/WTO accompanying measures for the agri-food sector*, as well as to the restricted reserves for the *Swiss Confederation's war transportation insurance* and *investment guarantee*. There has been a decrease in the special financing for road transportation because the restricted ordinary receipts were 64 million less than the corresponding expenditure. The special financing facility for FTA/WTO accompanying measures in the agri-food sector has now been established with retroactive effect to 2009 by federal decree dated June 18, 2010. A total of 1,178 million from restricted customs revenue has been credited to this special financing facility for 2009 and 2010. The two other special financing items show only minor changes.

Special funds
Special funds are third-party funds granted to the Confederation subject to certain conditions, or inflows of funds from budget items pursuant to statutory provisions. Inflows to and outflows from special funds are recorded directly in the relevant balance sheet accounts, rather than in the statement of financial performance. The balance for special funds resulted in an asset inflow of 29 million.

Reserves from global budget
MPM administrative units have the option to create reserves and subsequently use these reserves to fund activities which are consistent with the objectives of their performance mandate. MPM reserves are recognized and appropriated in the accumulated deficit in a similar manner to an appropriation of net income within an enterprise. In 2010, the reserves from global budget increased by 3 million (balance of deposits less withdrawals).

Accumulated deficit
Valuation changes show transactions recognized directly in net assets/equity with some opposing effects. The largest component is attributable to a subsequent capitalization for accrued interest on loans amounting to 204 million net for public housing construction projects (acquisition value of 322 million less value adjustment of 118 million). A subsequent capitalization has also been made in the amount of 3 million in respect of previously unrecognized bank accounts of Swissnex (Swiss Houses for Scientific Exchange). Moreover, a correction of -6 million has been made in respect of military buildings.

The accumulated deficit has decreased by 3,221 million. While surplus revenue (4,139 million) and valuation changes (200 million) caused a corresponding reduction, surplus receipts generated from restricted funds in net assets/equity (1,114 million) and the bolstering of reserves from global budget (3 million) inflated the accumulated deficit. The spin-off of assets (1 million) to the Swiss National Museum, which acquired its own legal personality on January 1, 2010 and is managed as a decentralized administrative unit (reported under *other transactions*), also contributed slightly to the increase in the accumulated deficit.

in % of GDP	Tax-to-GDP ratio	General government expenditure ratio	Deficit/surplus ratio	Debt ratio	Gross debt ratio
Switzerland	**29,7**	**34,1**	**0,2**	**38,3**	**52,9**
EU - euro area	**n.a.**	**50,7**	**-6,3**	**84,3**	**91,6**
Germany	37,0	46,8	-4,0	76,9	79,9
France	41,9	56,2	-7,4	83,2	92,4
Italy	43,5	51,4	-5,0	119,5	131,3
Austria	42,8	52,9	-4,4	71,0	75,9
Belgium	43,2	53,9	-4,9	98,4	102,5
Netherlands	n.a.	51,2	-5,8	65,9	74,6
Norway	41,0	46,6	9,5	n.a.	51,8
Sweden	46,4	54,5	-1,2	41,2	51,3
United Kingdom	34,3	51,0	-9,6	77,1	81,3
USA	**24,0**	**42,2**	**-10,5**	**n.a.**	**92,8**
Canada	**31,1**	**43,5**	**-4,9**	**n.a.**	**84,4**
OECD Ø	**n.a.**	**44,6**	**-7,6**	**n.a.**	**96,9**

n.a.: not available

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 2009

When compared internationally, the Swiss public finance indicators (Confederation, cantons, communes and social insurance) are among the lowest, which constitutes an important locational advantage. The *tax-to-GDP ratio*, which measures total tax receipts (tax and social insurance charges) in relation to GDP, amounted to 29.7% in 2009. Switzerland's *general government expenditure ratio*, defined as state expenditure in relation to GDP, is one of the lowest in the entire OECD. Switzerland's *net lending/borrowing* was more or less balanced in 2010, with a surplus ratio of 0.2 percentage points. The *level of state debt* is low by international standards both with reference to the Maastricht definition and in terms of liabilities. Thus Maastricht-based debt is below the 60% mark which is important for the euro area.

The OECD data and estimates (Economic Outlook 88, November 2010) are generally used for international comparisons of public finances. The information for Switzerland is based on the Financial Statistics data and estimates (2009 interim report, March 2011). Their results are determined in accordance with the finance statistics standards of the International Monetary Fund and are compatible with the European System of Integrated Economic Accounts. However, there could be minor differences relative to the results published by the OECD for Switzerland due to the use of a different data basis. With the exception of the tax-to-GDP ratios for 2009, all figures refer to 2010.

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