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Swiss Confederation

State financial statements

Report on federal financial statements

2016

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Dispatch on the Swiss state financial statements for 2016

of March 22, 2017

Dear Mr 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 2016* to you, and propose that you approve them in accordance with the enclosed draft resolutions.

Respectfully yours,

Bern, March 22, 2017

On behalf of the Swiss Federal Council

President of the Swiss Confederation:
Doris Leuthard

Federal Chancellor:
Walter Thurnherr

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Ordinary receipts	67 580	66 733	67 013
Ordinary expenditure	65 243	67 229	66 261
Ordinary fiscal balance	2 337	-496	752
Extraordinary receipts	493	145	478
Extraordinary expenditure	–	–	–
Overall fiscal balance	2 831	-351	1 230
Debt brake			
Structural surplus (+) / structural deficit (-)	3 081	104	1 489
Maximum admissible expenditure	68 324	67 333	67 750
Room for maneuver (+) / need for adjustment (-)		104	
Compensation account balance	24 520		26 008
Amortization account balance	2 125		2 603
Statement of financial performance			
Ordinary revenue	67 259	66 193	67 029
Ordinary expenses	65 993	66 748	67 394
Ordinary result	1 265	-554	-366
Extraordinary revenue	759	145	300
Extraordinary expenses	–	–	–
Surplus/deficit for the year	2 025	-409	-66
Statement of investments			
Ordinary investment receipts	231	729	711
Ordinary investment expenditure	7 604	8 473	8 294
Statement of financial position			
Net assets/equity	-20 748		-20 727
Gross debt	103 805	105 900	98 819
Indicators			
Expenditure ratio in %	10.1	10.2	10.2
Tax ratio in %	9.8	9.5	9.6
Gross debt ratio in %	16.1	16.1	15.2
Macroeconomic reference values			
Real GDP growth in %	0.8	1.6	1.3
Nominal GDP growth in %	0.3	1.4	0.7
Change in the National Consumer Price Index in %	-1.1	0.3	-0.4
Long-term interest rates in % (annual average)	-0.1	0.2	-0.4
Short-term interest rates in % (annual average)	-0.8	-0.8	-0.8
USD to CHF exchange rate (annual average)	0.96	0.95	0.99
EUR to CHF exchange rate (annual average)	1.07	1.05	1.09

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 2016 with an *ordinary financing surplus* of 750 million, whereas a deficit of almost 500 million had been expected in the budget. The improvement was due to expenditure growth being weaker than expected in the budget (-1.0 bn) and receipts declining less than expected (+0.3 bn). The result was lower than the high surplus of 2.3 billion recorded in 2015, due primarily to the lower level of receipts.

In 2016, the *Swiss economy* continued to recover from the previous year's currency shock. In a generally favorable global economic environment, economic output expanded by 1.3% and was thus stronger than the previous year. However, inflation was negative once again (-0.4%; CPI). Nominal gross domestic product, which is decisive for tax receipts, therefore grew by only 0.7%, whereas 1.4% had been expected in the budget. Given the absence of inflation, the Swiss National Bank continued to keep interest rates low. Short and long-term rates remained in negative territory.

The impact of *negative interest rates* on the federal budget was reflected in advance payments of direct federal tax and premiums on the reopening of bonds, which increased once again in 2016. Advance payments were 0.8 billion higher than budgeted, and premiums were 0.5 billion higher than budgeted. Excluding these temporary factors, the federal budget would have ended the year with a deficit.

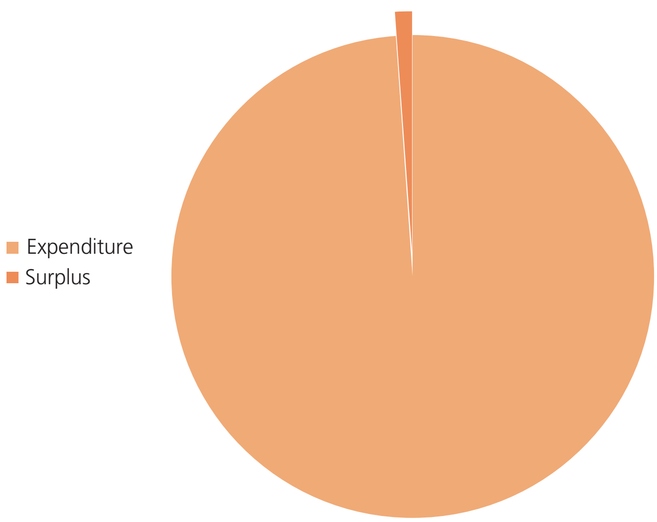
Due to the ongoing economic capacity underutilization, the *debt brake* would have permitted a cyclical deficit of 0.7 billion for 2016. Together with the realized surplus of 0.8 billion, there was a structural balance of 1.5 billion. The structural surplus is to be credited to the compensation account, bringing that account balance to 26.0 billion.

Ordinary receipts were down by almost 0.6 billion on the previous year (-0.8%) meaning that receipts moved in the opposite direction to nominal GDP (+0.7%) in 2016. The decline in receipts was due mainly to withholding tax (-1.4 bn) and stamp duty (-0.4 bn). The sharp increase in direct federal tax (+0.9 bn) only partly offset those decreases.

Relative to the previous year, *ordinary expenditure* grew by 1 billion to 66.3 billion (+1.6%). The main expenditure growth drivers were the task areas of transportation, with the introduction of the railway infrastructure fund (+0.8 bn), and social welfare (+0.5 bn), namely due to higher migration expenditure. High premiums were generated on reopened Confederation bonds due to sub-zero interest rates. Consequently, finances and taxes expenditure was down by 0.4 billion. In addition, less was spent on international relations than in 2015 due to significant savings measures concerning development assistance (-0.2 bn).

The expenditure actually incurred was significantly lower than the scope approved by Parliament also in 2016. Overall, the *reduction in expenditure* was almost 1 billion, or 1.4%, and around half of that drop was attributable to higher premiums on Confederation bonds.

2016 financial statements: appropriation of receipts
Ordinary financing statement



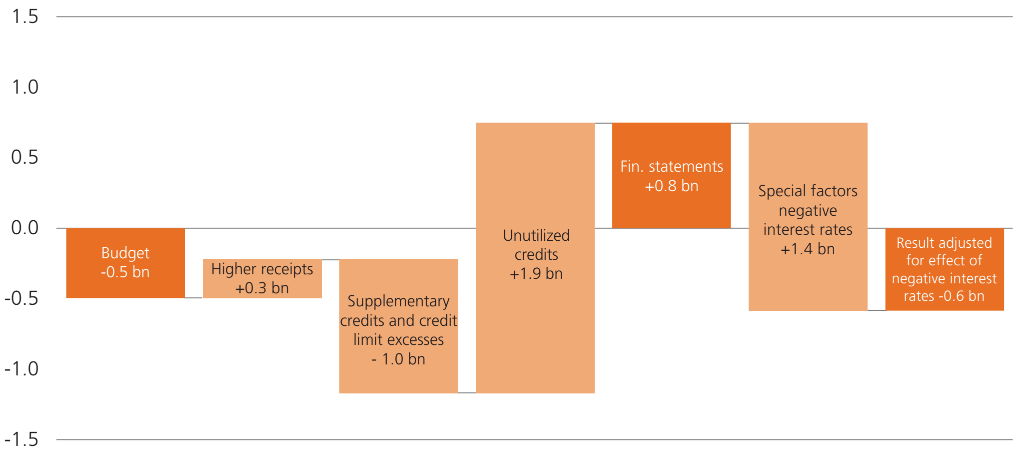
The ordinary budget posted a surplus of 0.8 billion. These funds were not used for expenditure and are available for debt reduction.

Receipts of 478 million were recognized in the *extraordinary budget.* Aside from the budgeted receipts as a result of the allocation of mobile radio frequencies in 2012 (144 mn), there were further payments due to two fines ordered by the Competition Commission (170 mn). In addition, extraordinary investment receipts of 165 million resulted from the ongoing debt restructuring liquidation of Swissair. Including extraordinary receipts, the financing surplus came to 1.2 billion. Extraordinary receipts are to be credited to the amortization account, thereby bringing its balance to 2.6 billion. This surplus serves the purposes of counter-financing future extraordinary expenditure.

Last year, *gross debt* fell by 5 billion to 98.8 billion, or 15.3% of GDP. The contributory factors were not only the surplus, but also the fact that less liquidity had to be held at the end of the year and thus gross debt could be reduced relative to the previous year. Particularly the volume of outstanding Confederation bonds was reduced (-6.1 bn). In contrast, current liabilities rose by 1.3 billion. As non-administrative assets (-4.7 bn) declined to almost the same extent as gross debt, net debt fell by only 0.3 billion to 71.0 billion.

The *statement of financial performance* ended with a deficit of 366 billion. The negative financial result cut 1.4 billion off the positive operating result of 1.0 billion. The difference of 1.1 billion relative to the financing statement was largely due to higher interest expense (0.7 bn) and the lower valuation of significant interests (0.7 bn; decrease in equity values), which put a burden on the statement of financial performance.

Surplus higher than budgeted
Ordinary financing statement for 2016 in bn



A deficit of 0.5 billion had been budgeted for 2016. Higher-than-expected receipts and lower expenditure in net terms led to an ordinary surplus of 0.8 billion. However, a deficit would have resulted excluding special factors caused by negative interest rates (higher-than-anticipated advance payments of direct federal tax and premiums).

11 Budgeting for 2016

The 2016 budget was adopted by the Federal Council with a deficit of 0.4 billion. Extensive adjustment measures were decided on beforehand to comply with the debt brake. Parliament increased expenditure by almost 0.1 billion, such that a deficit of 0.5 billion resulted in the budget. Adjusted for the cyclical component, a structural surplus of 0.1 billion actually resulted.

At the start of the budgeting and financial planning process, the receipt forecasts had to be significantly revised downward early in 2015. The estimate correction was necessary because of the weak development of receipts seen in 2014, combined with the Swiss National Bank's discontinuation of the exchange rate floor against the euro on January 15, 2015. The subsequent sharp appreciation of the franc triggered a considerable weakening of real economic growth and curbed inflation. This required another sharp downward correction regarding expected receipts. To ensure a budgetary balance, the Federal Council cut expenditure by around 1.3 billion, and in particular made an inflation-related reduction of 0.7 billion with regard to expenditure and transversal reductions concerning personnel and consultancy expenses. These measures were in addition to the 2014 consolidation and task evaluation package adopted by Parliament in June 2015.

Thanks to the adjustment measures, there was zero expenditure growth in the 2016 budget relative to the previous year's budget. Because the deficit of 601 million permissible cyclically was not fully exploited with a deficit of 402 million, a structural buffer of 199 million arose. The debt brake requirements were thus met.

The budget amendments by Parliament primarily concerned agriculture. In the case of direct payments for agriculture, the inflation-related expenditure cut decided by the Federal Council was reversed (+61 mn). Likewise, the Federal Council's decision to reduce agriculture investment credits to compensate for the higher contributions to the Research Institute of Organic Agriculture was reversed (+5 mn). Finally, the export contributions for processed agricultural products were increased (+27 mn). Compared with the Federal Council's draft budget of August 2015, expenditure was increased by a total of 95 million, with the result that the budgeted deficit in the ordinary budget grew to 496 million. The structural surplus fell from 199 million to 104 million.

During budget implementation, the scale of supplementary credits with a financing effect approved by Parliament was 528 million, or 0.7%, which was slightly higher than the empirical level of 0.5%, after taking compensation into account. This was due to the sharp increase in asylum applications in 2015, which had not yet been fully factored into the 2016 budget. In addition, the Federal Council transferred credits of 50.6 million. Credit limit excesses amounted to 35 million. They will be submitted to Parliament for retroactive approval.

12 Economic development

In 2016, the Swiss economy slowly recovered from the previous year's currency shock, but nominal growth remained weak.

During the year under review, the Swiss economy continued to recover from the 2015 currency shock. In a generally favorable global economic environment, value added expanded by 1.3% and was thus was only slightly weaker than expected in the budget (1.6%).

Inflation came in below expectations, though, and the rate of inflation remained negative. Nominal gross domestic product, which is decisive for tax receipts, thus grew by only 0.7%, whereas 1.4% had been expected in the budget.

The growth figures for the real economy are the result of very different developments in the Swiss economy. While the pharma sector managed to increase its exports significantly, the other sectors succeeded to a lesser extent. Manufacturing in particular was unable to achieve its former momentum. Employment trends remained weak.

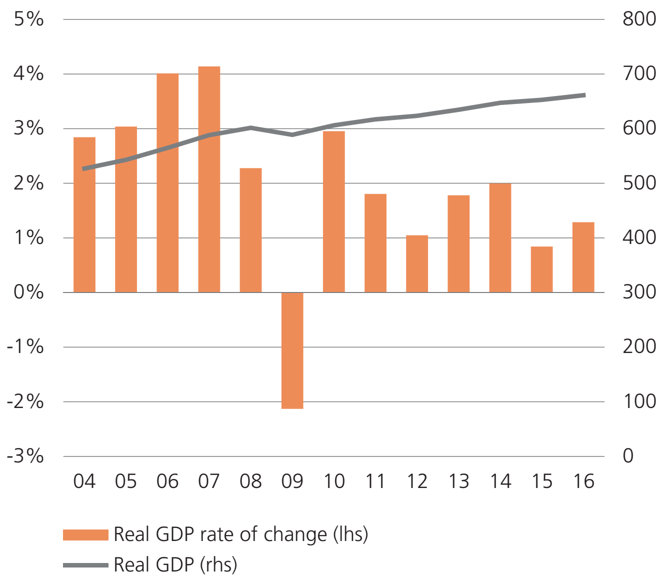
Aside from stronger export demand for pharmaceutical products, the economy was also bolstered by higher capital investment. The weak employment trends adversely affected private consumer demand, which expanded less than aggregate demand. Irrespective of the low mortgage rates, construction investment also lagged behind overall economic growth. Government consumption once again proved to be a mainstay for economic growth.

In view of the absence of inflation and the overvalued franc, the Swiss National Bank remained committed to negative deposit rates and the occasional use of forex market interventions. With the exception of the United States, the key interest rates of the other major central banks also remained low through to the end of the year.

Comparison of the macro-economic parameters for the 2016 budget and financial statements

	Budget	Fin. stmt.	Dev. in percentage points
		Change in %	
Real GDP	1.6	1.3	-0.3
Nominal GDP	1.4	0.7	-0.7
		Rate in %	
Inflation (CPI)	0.3	-0.4	-0.7

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



Economic output rose by 1.3% in 2016, which was more or less as expected and thus significantly more than the previous year. However, inflation remained in negative territory, which is why nominal economic growth fell well short of forecasts.

21 Financing statement

The Confederation had an ordinary surplus of around 750 million in 2016. A deficit of just under 500 million was expected in the budget. The improved result was due mainly to lower-than-budgeted expenditure. Including extraordinary receipts, the total surplus was 1.2 billion.

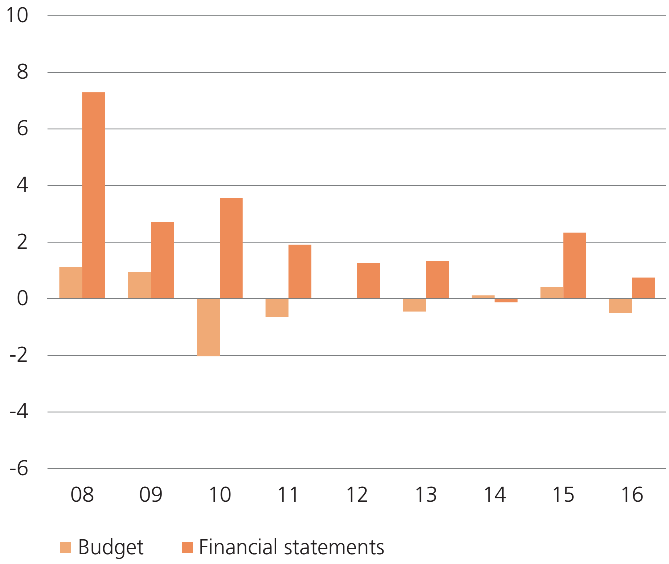
Financing statement

CHF mn	Fin. stmt. 2015	Budget 2016	Fin. stmt. 2016	Deviation vs. FS 2015 Absolute	%
Overall fiscal balance	**2 831**	**-351**	**1 230**	**-1 601**	
Ordinary fiscal balance	**2 337**	**-496**	**752**	**-1 586**	
Ordinary receipts	67 580	66 733	67 013	-567	-0.8
Ordinary expenditure	65 243	67 229	66 261	1 018	1.6
Extraordinary receipts	493	145	478	-15	
Extraordinary expenditure	–	–	–	–	

The ordinary fiscal balance for 2016 showed a surplus of 752 million, with ordinary receipts of 67.0 billion and ordinary expenditure of 66.3 billion. A deficit of 500 million had been expected in the budget. The improved result was attributable to lower expenditure (-1.0 bn) and higher receipts (+0.3 bn) than in the budget.

Relative to the high surplus of 2.3 billion posted in the 2015 financial statements, however, the result was worse, as receipts declined by 0.6 billion despite nominal economic growth of 0.7%, and expenditure was 1.0 billion higher.

Trend of financing statement results
in bn
Ordinary budget



Following the 2014 deficit, the Confederation once again posted a surplus in 2016. The result was positive particularly because of unutilized credits. It was also thanks to that buffer that the federal budget fared better than budgeted in recent years (with the exception of 2014).

The picture painted by the extraordinary budget was positive too. Aside from the budgeted extraordinary receipts as a result of the new allocation of mobile radio frequencies (144 mn), there were further payments due to two fines ordered by the Competition Commission (170 mn). In addition, extraordinary investment receipts of 165 million resulted from the ongoing debt restructuring liquidation of Swissair. There was no extraordinary expenditure in 2016, so overall, the extraordinary receipts led to a surplus of 1.2 billion in the financing statement.

Ordinary receipts were down by almost 0.6 billion, or 0.8%, on the previous year, which meant that the development of receipts clearly deviated from nominal GDP growth (+0.7%) in 2016. However, the prior-year comparison is distorted by special factors (see section 31). Excluding these distortions for 2015 and 2016, we get receipt growth of 0.6%. The opposing development of receipts and nominal GDP was thus caused by special factors.

Ordinary expenditure grew by around 1 billion, or 1.6%, relative to the previous year. The expenditure growth was largely attributable to the two task areas transportation (introduction of the railway infrastructure fund) and social welfare (migration). The expenditure actually incurred was significantly lower than the scope approved by Parliament also in 2016. Overall, the reduction in expenditure was almost 1 billion and was essentially due to credits that were not fully utilized (see box).

Unutilized credits

The following tables give an overview of unutilized credits. The proportion of 3.0% of approved expenditure is below the long-term empirical value. High unutilized credits resulted from 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.

The expenditure 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 are not fully utilized. While unutilized credits stand against additional expenditure as a result of supplementary credits and credit overruns, these are generally smaller in scale than unutilized credits.

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 not be exceeded, the administrative units tend to be cautious when budgeting. Finally, the thrifty use of funds also contributes to the occurrence of unutilized credits. Consequently, 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	**2 067**	**3.0**
Operating expenditure	445	4.3
Personnel expenditure	104	2.3
General, administrative and operating expenditure	260	8.8
Armament expenditure	9	0.9
MPM functional expenditure[1]	66	3.4
Transfer expenditure	715	1.5
Financial expenditure	478	32.2
Investment expenditure	430	4.6

[1] Including other MPM expenditure

	Unutilized credits in mn	in % of approved expenditure
Total	**2 067**	**3.0**
International relations – international cooperation	87	2.4
National defense	131	2.8
Education and research	255	3.4
Social welfare	427	1.9
Transportation	169	1.8
Agriculture and food	45	1.2
Finances and taxes	502	5.4
Other tasks	450	6.4

22 Debt brake

From a debt brake viewpoint, the federal budget ended the year with a structural surplus of 1.5 billion. The debt brake requirements were thus met for the eleventh year in succession.

Debt brake

CHF mn	Fin. stmt. 2012	Fin. stmt. 2013	Fin. stmt. 2014	Fin. stmt. 2015	Fin. stmt. 2016
Ordinary fiscal balance	**1 262**	**1 332**	**-124**	**2 337**	**752**
Cyclical	-756	-520	-383	-743	-737
Structural	2 018	1 852	259	3 081	1 489
Compensation account credit	1 583	1 786	259	3 081	1 489
Compensation account balance	**19 394**	**21 180**	**21 439**	**24 520**	**26 008**
Amortization account credit	1 173	1 372	213	493	478
Amortization account balance	**46**	**1 418**	**1 631**	**2 125**	**2 603**

The ordinary fiscal balance does not take account of extraordinary receipts and expenditure. Extraordinary receipts are credited to the amortization account. Credits to the amortization account correspond to the structural balance and are used for reducing debt.

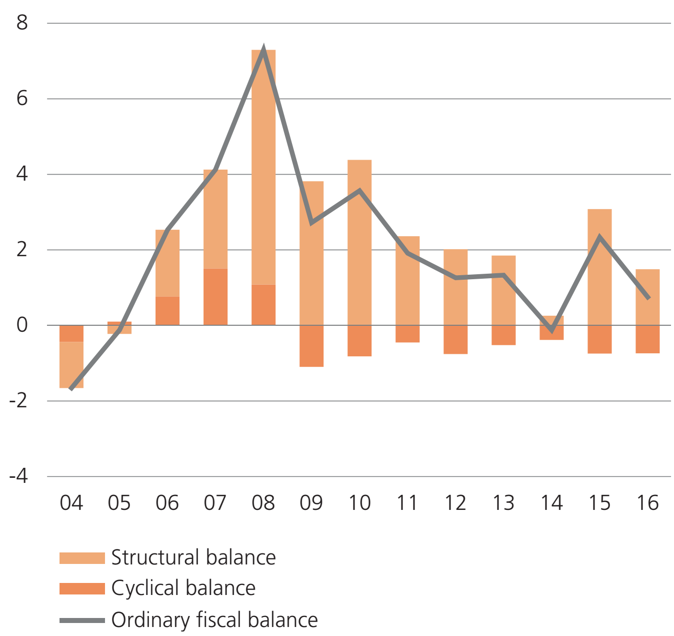
Slow recovery from appreciation shock

The repercussions of the previous year's surprising appreciation of the Swiss franc were still to be felt in 2016. Although exports recovered slowly, employment remained at a lower level than before the franc was unpegged by the Swiss National Bank. Consequently, Switzerland's economic capacity continued to be underutilized.

Another structural surplus

Based on the debt brake requirements, the deficit permissible cyclically was 737 million. However, the year ended with a surplus of 752 million. As a result, there was a structural surplus of 1.5 billion. The debt brake requirements were thus met for the eleventh year in succession. The structural surplus was caused primarily by lower-than-budgeted expenditure (1.0 bn). In addition, receipts

Federal budget from a debt brake viewpoint in bn



The Swiss economy's growth was below its potential in 2016. Accordingly, a cyclical deficit of 737 million was permitted. However, the year ended with a surplus of 752 million, which led to a structural balance of 1.5 billion.

were higher than expected (0.3 bn) and a structural surplus (0.1 bn) had already been envisaged in the budget. The structural surplus is to be credited to the compensation account.

Amortization account credit

Extraordinary receipts of 478 million are to be credited to the amortization account, thereby bringing its balance to 2.6 billion. The statistics should ensure that the extraordinary budget does not lead to an increase in debt. Consequently, extraordinary receipts and expenditure are booked to the amortization account and any deficits have to be offset.

Cyclical impact of federal budget

The debt brake also aims to ensure fiscal policy is aligned with the economic situation (Art. 100 para. 4 of the Cst). The economic impact of the federal budget can be determined using the 2016 financial statements. It can be seen that fiscal policy had an expansionary impact on aggregate demand.

- Positive primary stimulus: the year-on-year change in the ordinary fiscal balance is referred to as the primary stimulus. In 2015, the ordinary fiscal balance amounted to 2.3 billion, which was significantly more than the 752 million posted in 2016. The difference of 1.6 billion, or 0.2% of GDP, is the fiscal stimulus.

- Expansionary discretionary stimulus: if the fiscal stimulus is then further differentiated to see how strong the automatic stabilizers were and how big the discretionary impact of fiscal policy was, the primary stimulus can be subdivided into the changes in the cyclical deficit (automatic stabilizers) and the structural deficit (discretionary stimulus). Coming in at 737 billion, the cyclical deficit remained virtually unchanged on the previous year. The expansionary stimulus was thus entirely due to discretionary fiscal policy, which can be seen in the decline of 1.6 billion in the structural balance.

23 Statement of financial performance

The statement of financial performance ended with an ordinary deficit of 366 million. The positive operating result of 1 billion was dragged down by the negative financial result of 1.4 billion. The extraordinary revenue of 300 million came primarily from the debt restructuring liquidation of Swissair and the allocation of mobile radio licenses.

Surplus/deficit

CHF mn	Fin. stmt. 2015	Budget 2016	Fin. stmt. 2016	Deviation vs. FS 2015 Absolute	%
Surplus/deficit	**2 025**	**-409**	**-66**	**-2 090**	
Ordinary result	**1 265**	**-554**	**-366**	**-1 631**	
Operating result	2 074	206	986	-1 088	-52.5
Financial result	-809	-760	-1 352	-543	-67.2
Extraordinary revenue	759	145	300	-459	
Extraordinary expenses	–	–	–	–	

The *surplus/deficit for the year* showed an expense surplus of 66 million, which corresponds to the ordinary result of -366 million and extraordinary revenue of 300 million.

Relative to the previous year, the ordinary result was down by 1.6 billion. Both sub-results, the operating result and the financial result, were down on the previous year (-1.1 bn and -0.5 bn). The operating result was hampered by higher expenses (+1.1 bn), while revenue remained stable. The decline in the financial result was caused primarily by unrealized losses on significant interests (decrease in equity values: 691 mn). They resulted from the valuation of defined benefit pension plans of Swiss Post and Swisscom.

Relative to the budget, the ordinary result was up by 188 million. The lower financial result (-0.6 bn) detracted from the significantly higher operating result (+0.8 bn).

Compared with the financing statement, the ordinary statement of financial performance ended the year 1.1 billion worse off. The difference was largely due to two factors. First, interest expense was higher in the statement of financial performance (707 mn) because premiums are distributed over the maturity of bonds. Second, the statement of financial performance was adversely affected by the decrease in equity values (691 mn).

The *extraordinary revenue* of 300 million was generated by the following items. As a result of the debt restructuring liquidation of Swissair, the Confederation received payments of 165 million in 2016, 56 million of which had not yet been factored into the loan valuation. The Confederation is also expecting further payments of 87 million. Accordingly, the loan was revalued by 144 million. Further revenue came from the allocation of mobile radio licenses (144 mn) and Competition Commission fines (13 mn).

24 Statement of financial position

Following the redemption of Confederation bonds, non-administrative assets and long-term liabilities fell by around 5 billion each. Net assets/equity remained virtually unchanged on the previous year.

Statement of financial position

CHF mn	2015	2016	Deviation vs. 2015 Absolute	%
Assets	**112 022**	**106 843**	**-5 179**	**-4.6**
Non-administrative assets	33 574	28 663	-4 912	-14.6
Administrative assets	78 448	78 181	-268	-0.3
Liabilities and equity	**112 022**	**106 843**	**-5 179**	**-4.6**
Short-term liabilities	36 918	36 506	-412	-1.1
Long-term liabilities	95 853	91 065	-4 788	-5.0
Net assets/equity	-20 748	-20 727	21	0.1
Other net assets/equity	7 083	7 631	547	7.7
Accumulated deficit	-27 832	-28 358	-527	-1.9

Non-administrative assets decreased by 4.9 billion. This was essentially due to a decline in cash and cash equivalents (-3.7 bn) and receivables (-1.2 bn).

Edging down by 268 million, *administrative assets* were more or less stable. With the exception of the plunge in the value of the financial interest in Swiss Post (-888 mn), there were no significant changes within the individual administrative asset items either.

Liabilities fell by 5.2 billion for the following reasons:

- The decline in short-term liabilities (-412 mn) was due to higher liabilities concerning withholding tax (+405 mn) and deposit accounts (+376 mn), as well as considerably lower withholding tax accruals (-1.6 bn).
- *Long-term liabilities* were down by 4.8 billion. This was attributable mainly to the redemption of Confederation bonds worth 6.1 billion. In addition, there was a 550 million rise in liabilities for separate accounts (IF and RIF) and an increase of 648 million in long-term provisions.

The *negative net assets/equity* declined overall (-21 mn). However, there were noticeable shifts within net assets/equity. For example, there was a credit of 643 million (special financing for FTA/WTO accompanying measures for the agri-food sector), which was debited from the accumulated deficit.

25 Statement of investments

With an increase of 9.1%, investment expenditure growth was significantly stronger than that of the overall budget (+1.6%). Investment expenditure as a percentage of total expenditure thus rose. The growth was due primarily to the creation of the railway infrastructure fund.

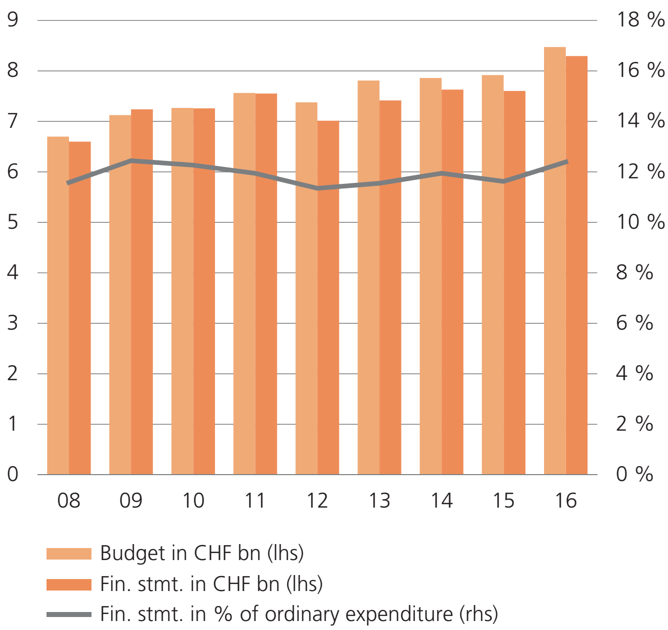
Statement of investments

CHF mn	Fin. stmt. 2015	Budget 2016	Fin. stmt. 2016	Deviation vs. FS 2015 Absolute	%
Statement of investments balance	**-7 238**	**-7 743**	**-7 418**	**-180**	
Ordinary statement of investments balance	**-7 373**	**-7 743**	**-7 583**	**-211**	
Ordinary investment receipts	231	729	711	480	207.8
Ordinary investment expenditure	7 604	8 473	8 294	691	9.1
Extraordinary investment receipts	135	–	165	30	
Extraordinary investment expenditure	–	–	–	–	

The *statement of investments* includes expenditure incurred for the acquisition and accumulation of assets that 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 a third of *investment expenditure* (mainly buildings and motorways), while transfers accounted for two thirds of the total (mainly investment contributions and loans). *Investment receipts* consist primarily of the cantons' new investment contributions to the railway infrastructure fund (500 mn), as well as loan repayments and proceeds from the sale of buildings.

Development of investment expenditure in bn and %



The proportion of the federal budget accounted for by investments rose from 11.6% to 12.4% in 2016 due to the new investment contributions to the railway infrastructure fund. The proportion of investment has been relatively stable at an average of almost 12% in the past few years.

Ordinary investment expenditure was 691 million higher than the previous year (+9.1%).

This considerable increase was attributable mainly to the reorganization of *rail infrastructure* financing. Investments in this area rose by a total of around 812 million. The implementation of the proposal on the financing and expansion of the railway infrastructure (FERI) meant that 2016 was the first time the cantons were no longer directly involved in railway infrastructure financing. Instead, they paid a flat-rate contribution of 500 million to the railway infrastructure fund (RIF). Because this contribution is recognized as receipts in the federal financial statements, a corresponding increase is to be found also in ordinary investment receipts. The remaining rise of around 312 million was due primarily to the additional receipts from the mileage-related heavy vehicle charge, likewise deposited in the RIF, and direct federal tax (additional revenue from the restriction on the travel cost deduction).

In contrast, investments in the *road sector* were lower. As a result of lower budget values combined with higher expenses not eligible for capitalization with regard to motorways, investments were down by around 131 million relative to 2015.

Other investments were up slightly by around 10 million.

- Considerable additional expenditure was found in the case of national defense (+26 mn; particularly armasuisse Immobilien), international relations (+25 mn; financial interests in regional development banks and FIPOI loan), institutional and financial conditions (+26 mn; investments in civilian buildings, among other things) and environment and spatial planning (+15 mn; particularly flood protection).
- In contrast, there was less expenditure in the case of investments in the energy-efficient renovation of buildings (-35 mn; lower restricted receipts from the CO_2 tax), education and research (-20 mn; ETH buildings among other things), agriculture and food (-14 mn; federal contributions linked to declining cantonal grants) and order and public security (-8 mn; particularly completion of the AFIS IT project – automated fingerprint identification system).

Ordinary investment receipts were up by 480 million on the previous year. As already mentioned, cantonal contributions of 500 million to the RIF were recognized as receipts in the federal financial statements for the first time. Moreover, fewer loans were repaid in the area of subsidized housing (-38 mn).

Extraordinary investment receipts amounted to 165 million. These consisted of repayments arising from the debt restructuring liquidation of Swissair.

26 Debt

Gross debt was lowered by 5 billion to 98.8 billion. The 0.3 billion decline in net debt was only minor, as non-administrative assets also fell by 4.7 billion last year.

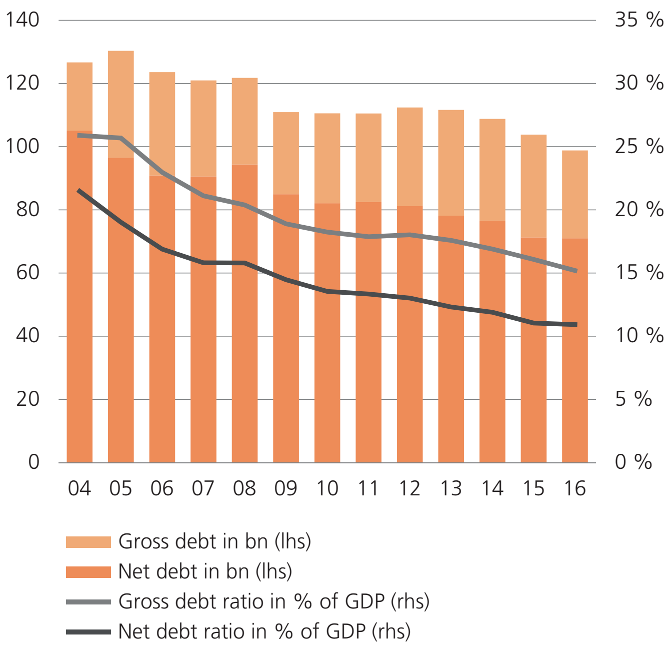
Development of federal debt

CHF mn	2004	2009	2014	2015	2016
Gross debt	126 685	110 924	108 797	103 805	98 819
Net debt	105 063	84 944	76 593	71 294	71 009

The 5.0 billion decrease in *gross debt* was due primarily to the reduction in long-term financial liabilities (bonds -6.1 bn; SERV fixed-term deposits -0.1 bn) and short-term financial liabilities (-0.1 bn). In contrast, current liabilities rose by 1.3 billion.

Net debt declined by only 0.3 billion, as the decrease in non-administrative assets (-4.7 bn) was almost the same as the reduction in gross debt (net debt = gross debt less non-administrative assets). The decline in non-administrative assets was due to a lower cash holding (-3.7 bn) and receivables (-1.2 bn). Only short-term and long-term financial investments increased by 0.1 billion each.

Debt and debt ratio in bn and % of GDP



Gross debt was reduced by 5.0 billion last year. Net debt declined by only 0.3 billion, as the debt reduction was financed by reducing non-administrative assets (-4.7 bn).

31 Development of receipts

Ordinary receipts posted a year-on-year decline of 0.8%, or 0.6 billion, in 2016. This was driven by lower stamp duty and withholding tax receipts (-1.8 bn in total), despite higher direct federal tax receipts (+0.9 bn).

Development of receipts by account group

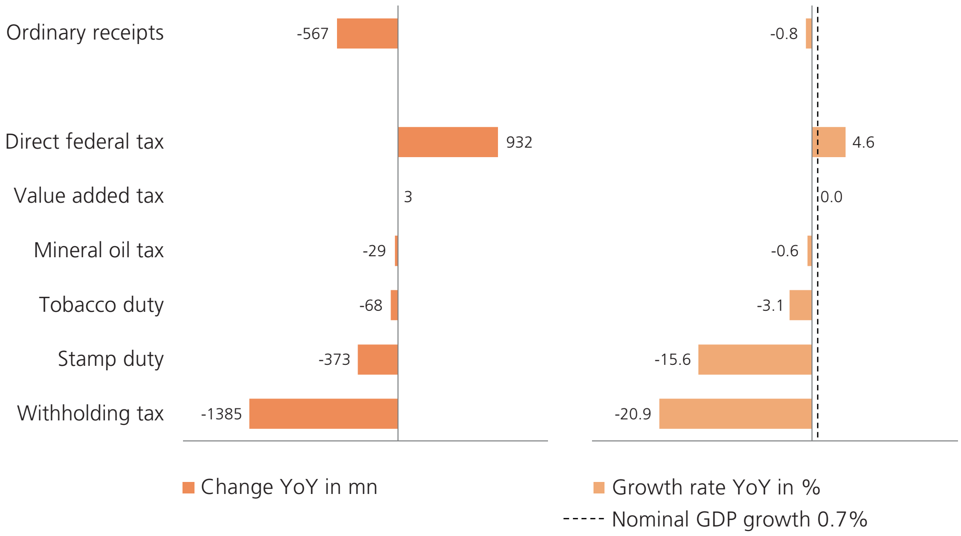
CHF mn	Fin. stmt. 2015	Budget 2016	Fin. stmt. 2016	Deviation vs. FS 2015 Absolute	Deviation vs. FS 2015 %	Deviation vs. budget 2016 Absolute
Ordinary receipts	**67 580**	**66 733**	**67 013**	**-567**	**-0.8**	**280**
Tax receipts	**63 192**	**62 421**	**62 613**	**-579**	**-0.9**	**191**
Direct federal tax	20 125	19 367	21 057	932	4.6	1 690
Withholding tax	6 617	5 696	5 233	-1 385	-20.9	-463
Stamp duty	2 393	2 325	2 021	-373	-15.6	-304
Value added tax	22 454	23 210	22 458	3	0.0	-752
Other consumption taxes	7 029	7 072	6 931	-98	-1.4	-141
Misc. tax receipts	4 573	4 751	4 914	341	7.5	163
Nontax receipts	**4 389**	**4 311**	**4 400**	**11**	**0.3**	**89**

In 2016, receipts were down by 0.8%, or 567 million, due to the quite significant decline in stamp duty and withholding tax receipts. This development stood in contrast with that of nominal GDP, which grew by 0.7%. The difference can be explained mainly by special factors (see below). After adjusting for those factors, total ordinary receipts posted an increase of 0.6%.

The chart below shows the growth rates for the six main tax receipt volumes:

Direct federal tax receipts grew by 4.6% relative to the previous year (+932 mn). This was attributable primarily to the net revenue of legal entities, which rose by 8.6% (+842 mn). Tax receipts

Development of 2016 receipts in mn and %



The decline in receipts seen in 2016 (-0.8%) was caused primarily by the drop in withholding tax and stamp duty receipts, which was not offset by the increase in direct federal tax.

from the income of natural persons were up too, but to a far lesser extent (1.6%). Income tax receipts were significantly influenced by the negative interest rate environment, which prompted taxpayers to pay their tax bills in advance.

VAT, which is the most important source of receipts for the Confederation, stagnated between 2015 and 2016 despite the favorable economic trend. This result can be partly explained by receivable reversals amounting to 127 million, which adversely affected the total. After adjusting for this special factor, VAT rose by 0.6% relative to 2015.

Mineral oil tax receipts continued to fall in 2016, but at a slower pace (-0.6%) than the previous year, as they were down by 5.1% in 2015 due to the plunge in fuel tourism. In 2016, the decline was attributable to the growing use of biogenic fuels exempt from tax, among other things.

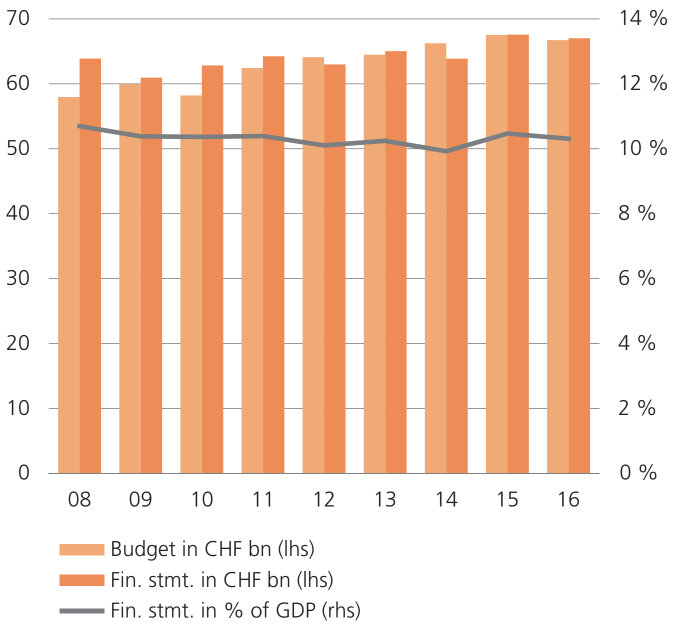
Tobacco duty receipts fell by 3.1% relative to 2015, due mainly to the increase in "shopping tourism" in neighboring countries, where cigarettes cost less than in Switzerland because of the strength of the franc, among other things.

Stamp duty receipts plunged by 373 million in 2016. There was a decline in particular in the case of transfer stamp tax, which is highly dependent on the volume of taxed stock market transactions and generates more than half of total stamp duty receipts.

Withholding tax receipts took a nosedive of almost 1.4 billion in 2016 due to the plunge in receipts from dividend payments in particular (-4.2 bn). Refunds were down too, but to a lesser extent (-2.8 bn). Moreover, the Confederation had to refund 483 million following Parliament's decision of September 30, 2016, whereby interest on arrears concerning the notification procedure has to be refunded with effect from 2011.

Royalties and concessions, financial receipts, other current receipts and investment receipts are recognized under *nontax receipts*. These surged in 2016 on the back of the cantons' contribution to the railway infrastructure fund, which is a new source of receipts of 500 million from 2016 onward. In contrast, all of the other categories of nontax receipts declined. It is worth noting in particular that the SNB's profit distribution in 2016 corresponded to the amount normally paid, whereas it had been doubled in 2015.

Development of ordinary receipts in bn and %



In 2016, total ordinary receipts (-0.8%) moved in the opposite direction to nominal GDP (+0.7%). This is reflected in receipts as a percentage of GDP, which fell from 10.5% to 10.3% in 2016.

Special factors taken into account when adjusting the development of receipts

CHF mn	Fin. stmt. 2015	Fin. stmt. 2016	Deviation vs. FS 2015 Absolute	%
Ordinary receipts	**67 580**	**67 013**	**-567**	**-0.8**
Special factors				
Direct federal tax: higher early payments	–	580		
Direct federal tax: FERI travel cost deduction	–	27		
Withholding tax: refund of interest on arrears	–	-483		
VAT: elimination of receivables	–	-127		
Incentive fees: CO_2 tax increase	330	240		
Nontax receipts: profit distribution by the Swiss National Bank	333	–		
Nontax receipts: cantonal RIF contribution	–	500		
Withholding tax: deviation from the trend	887	-181		
Total net increase (+) / decrease (-) in receipts due to special factors	**1 550**	**556**		
Adjusted ordinary receipts	**66 030**	**66 457**	**427**	**0.6**

Development after adjusting for special factors

Experience shows that, in the long run, all of the Confederation's receipts develop in proportion to nominal GDP, i.e. the long-term elasticity of receipts with respect to GDP is 1. This benchmark makes it possible to assess the plausibility of budgeted receipt items. However, several categories of receipts can show more or less substantial structural breaks, which must be adjusted before comparing the development of overall receipts with GDP growth. These special factors are shown in the table above for the years 2015 and 2016.

In net terms, receipts have to be revised downward by 1.5 billion for 2015 and by 0.6 billion for 2016. In particular, it is worth noting that direct federal tax receipts were marked by an increase in advance payments because of sub-zero interest rates, that withholding tax receipts were adversely affected by the reimbursement of interest on arrears, and that the cantons' contribution to the railway infrastructure fund is a new source of nontax receipts from 2016. Adjusted for structural breaks and the typical volatility of withholding tax, receipts rose by 0.6% between 2015 and 2016. This yields a receipt elasticity of 0.9 relative to nominal GDP growth (0.7%), which shows that, after adjusting for special factors, receipts and the economy were more or less moving in the same direction in 2016.

Quality of estimates

Ordinary receipts were 0.4% (280 mn) higher than the budgeted level. This discrepancy is much smaller than the average absolute forecasting error of 2.1% since the introduction of the debt brake. However, it is worth mentioning that the forecasting errors for the different taxes offset one another. As it happens, receipts were considerably underestimated in the case of direct federal tax (1.7 bn), whereas they were overestimated in the case of withholding tax (463 mn), stamp duty (304 mn), VAT (752 mn) and other consumption taxes (241 mn).

32 Development of expenditure by task area

In 2016, the Confederation spent a total of 66.3 billion, i.e. around a billion more than the previous year. The growth hotspots were transportation with the introduction of the railway infrastructure fund, and migration. Negative interest rates gave the Confederation high premiums, which resulted in a considerable decline in funding expenditure.

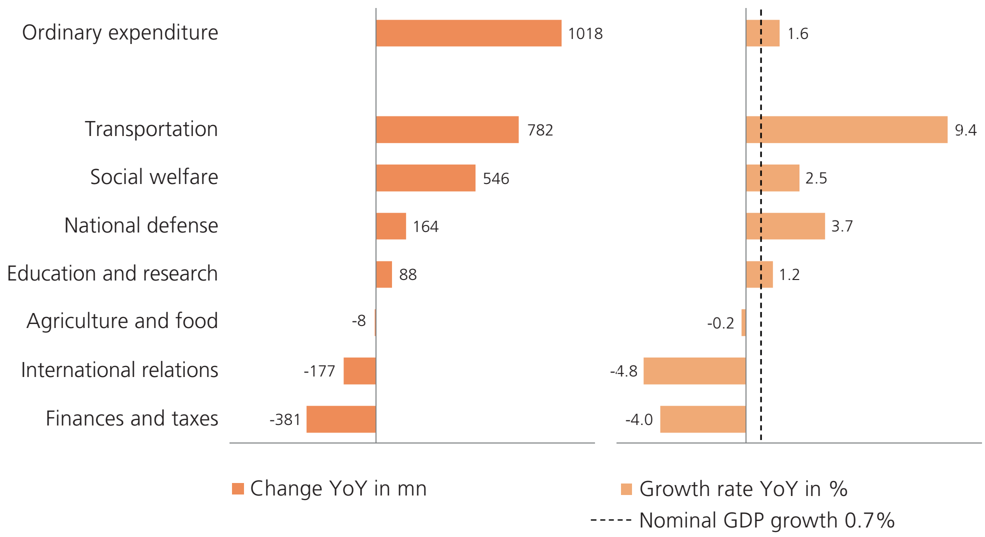
Development of expenditure by task area

CHF mn	Fin. stmt. 2015	Budget 2016	Fin. stmt. 2016	Deviation vs. FS 2015 Absolute	%	Deviation vs. budget 2016 Absolute
Ordinary expenditure	**65 243**	**67 229**	**66 261**	**1 018**	**1.6**	**-968**
Social welfare	21 987	22 442	22 532	546	2.5	90
Finances and taxes	9 533	9 314	9 152	-381	-4.0	-161
Transportation	8 322	9 231	9 104	782	9.4	-127
Education and research	7 046	7 358	7 133	88	1.2	-224
National defense	4 466	4 732	4 631	164	3.7	-101
Agriculture and food	3 667	3 704	3 659	-8	-0.2	-45
International relations - international cooperation	3 717	3 617	3 540	-177	-4.8	-77
Other task areas	6 505	6 832	6 509	4	0.1	-323

The Confederation's expenditure rose by 1.6% (1 bn) in 2016, whereas nominal GDP grew by 0.7%. The key growth drivers were transportation (+782 mn; introduction of the railway infrastructure fund), social welfare (+546 mn; 352 mn of which migration) and national defense (+164 mn). There was a considerable drop in expenditure for finances and taxes (-381 mn; high premiums because of negative interest rates) and international relations (-177 mn; development cooperation savings measures).

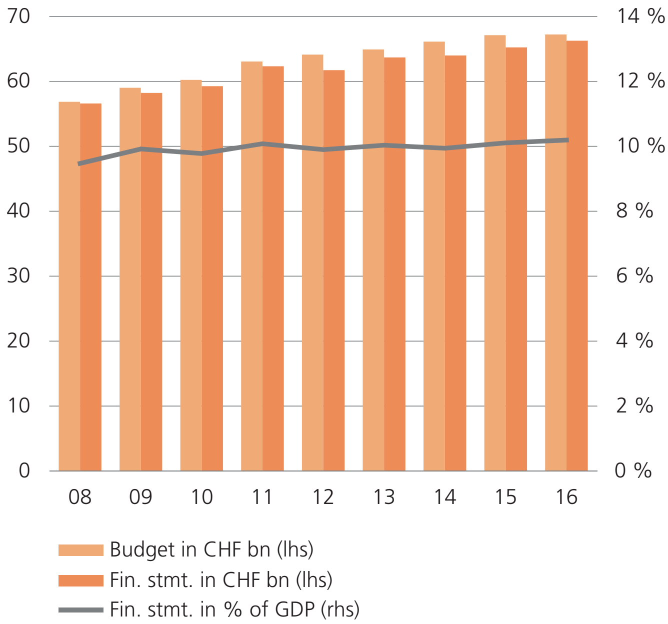
The budget was undershot by 968 million, or 1.4%, with expenditure broadly coming in below expectations. Almost half of the underrun was attributable to negative interest rates. Funding and debt management expenditure (finances and taxes) was 478 million below budget because of high premiums. Significant unutilized credits were also to be found in education and research (224 mn), particularly because the participation in national substitution measures for the EU research program was

Development of 2016 expenditure by task area in mn and %



The introduction of the railway infrastructure fund (transportation), the previous year's high number of asylum applications (social welfare) and armament procurements (national defense) were the main expenditure growth drivers in 2016.

Development of ordinary expenditure in bn and %



The slight increase in the expenditure ratio (expenditure as a percentage of GDP) seen in 2016 was attributable not least to the introduction of the railway infrastructure fund and the additional expenditure associated with that.

smaller than expected. Migration expenditure was higher than budgeted (+323 mn), with the result that social welfare as a whole exceeded the budget (+90 mn). In the case of finances and taxes, third parties' shares in federal receipts were 316 million higher than budgeted, primarily because additional direct federal tax revenue was generated.

Functional view of the federal budget (by task area)

All federal expenditure is allocated to around 140 tasks for the functional view. These are grouped together in 43 sub-task areas, which are in turn grouped into 13 task areas. This functional view of the federal budget gives a good overview of the general government's activity. While the institutional view is used for managing expenditure in the budget (administrative units' budgetary credits), the functional view is used more for the medium- and long-term assessment and management of the federal budget.

The development of expenditure in the seven largest task areas is summarized below.

Social welfare covers mainly social insurance contributions (old-age and survivors' insurance, disability insurance, unemployment insurance), contributions to the cantons for individual premium reductions and supplementary benefits, as well as migration expenditure. This area accounts for over a third of the Confederation's expenditure. For the most part, this expenditure is strictly earmarked and cannot really be influenced in the short term. During the year under review, the biggest growth drivers were migration (+352 mn; +24.4%), health insurance (+125 mn; +5%) and old-age and survivors' insurance (+125 mn; +1.1%); in contrast, there was a drop in disability insurance expenditure (-141 mn; -2.9%).

The *finances and taxes* area covers the cantons' shares of federal receipts (e.g. direct federal tax, withholding tax, mileage-related heavy vehicle charge), expenditure for funding and asset and debt management, as well as fiscal equalization. This expenditure is without exception strictly earmarked. While third parties' shares were higher than the previous year (+98 mn; +2%), debt management expenditure was down by 487 million (-32.6%). Fiscal equalization cost 8 million more than in 2015 (+0.2%).

Transportation covers the expenditure for building, operating and maintaining motorways and the railway infrastructure, contributions to the cantons in the road sector, the promotion of public transportation and air transportation expenditure. The level of expenditure earmarking surged in this task area with the introduction of the railway infrastructure fund in 2016; just over 50% of expenditure is strictly earmarked. Expenditure on road transportation was 111 million lower than in 2015 (-3.6%). In contrast, the introduction of the railway infrastructure fund caused a jump of 876 million (+17.2%) in public transportation expenditure, with the cantons financing 500 million of that. Air transportation expenditure rose too (+18 mn; +10.6%).

Education and research includes mainly contributions to the ETH Domain and cantonal tertiary-level institutions, the promotion of research and contributions to the cantons for vocational education. This is largely loosely earmarked expenditure. It rose by

88 million (+1.2%) year on year. The increase benefited tertiary-level institutions (+42 mn) and research (+69 mn), whereas contributions to vocational education were somewhat lower (-17 mn).

Defense expenditure goes mainly to national defense, armasuisse and civil protection. Most of the expenditure in this task area is loosely earmarked. It was up by 164 million (+3.7%) on the previous year, due primarily to higher armament expenditure.

Direct payments account for just over three quarters of *agriculture and food* expenditure. The remainder is spread over support for production and sales, and fundamental improvements and social measures. Even though direct payments increased (+7 mn), total expenditure was down by 8 million (-0.2%).

International relations covers expenditure for international economic and political relations (particularly representations abroad, central offices in Bern, the EU enlargement contribution, contributions to international organizations), as well as development cooperation. The decline in expenditure (-177 mn; -4.8%) was attributable primarily to the development assistance cuts (-174 mn) decided by Parliament in the 2016 budget. Political relations expenditure edged up (+6 mn), while economic relations expenditure decreased (-10 mn).

33 Development of expenses by account group

The Confederation's expenses in the statement of financial performance posted a year-on-year increase of 1.4 billion to 67.4 billion (+2.1%). The previous year's high number of asylum applications, the creation of the railway infrastructure fund and defense expenses were the growth drivers.

Expenses by account group

CHF mn	Fin. stmt. 2015	Budget 2016	Fin. stmt. 2016	Deviation vs. FS 2015 Absolute	%
Ordinary expenses	**65 993**	**66 748**	**67 394**	**1 401**	**2.1**
Operating expenses	**12 681**	**13 333**	**13 002**	**321**	**2.5**
Personnel expenses	5 450	5 571	5 527	77	1.4
General, administrative and operating expenses	4 122	4 467	4 193	71	1.7
Defense expenses	843	1 013	1 004	161	19.0
Deprec., amortiz. tangible/intangible fixed assets	2 266	2 282	2 278	12	0.5
Transfer expenses	**51 137**	**51 513**	**51 695**	**558**	**1.1**
Third parties' share in federal income	9 441	9 324	9 500	59	0.6
Compensation to public bodies	1 291	1 280	1 596	305	23.6
Contributions to own institutions	3 522	3 134	3 689	167	4.7
Contributions to third parties	15 848	15 975	15 354	-494	-3.1
Contributions to social insurance	16 401	16 692	16 715	314	1.9
Value adjustment on investment contributions	4 200	5 082	4 818	618	14.7
Value adjustment on loans and financial interests	433	26	21	-412	-95.1
Financial expense	**2 157**	**1 790**	**2 503**	**347**	**16.1**
Interest expense	1 878	1 703	1 668	-210	-11.2
Decrease in equity values	53	–	691	638	n.s.
Other financial expense	226	87	145	-81	-35.8
Net expense for special financing in liabilities	**18**	**111**	**195**	**176**	**965.1**

n.s.: not shown

Operating expenses

Operating expenses, which are comprised of personnel expenses, general, administrative and operating expenses, defense expenses, and depreciation and amortization, accounted for almost a fifth of the Confederation's total expenses.

Personnel expenses were up by 77 million (+1.4%) year on year, driven primarily by an increase of 81 million in the provision for old-age and survivors' pensions for members of the Federal Council, judges of the Federal Supreme Court, and the Federal Chancellor. Adjusted for provision changes (pensions, vacation and overtime entitlements, restructuring), personnel expenses remained stable relative to the previous year. The employee headcount declined by 21 FTEs to 34,914 FTEs.

General, administrative and operating expenses posted a year-on-year increase of 71 million (+1.7%). This was primarily a result of higher losses on taxes assessed but unlikely to be collected, higher expenses for the maintenance of buildings and the rise in motorway expenses.

Defense expenses were up by 161 million (+19%) relative to the previous year due to the intensification of procurement preparation and new armament projects. *Depreciation and amortization* remained virtually unchanged (+0.5%).

Transfer expenses

Transfer expenses account for more than 75% of the Confederation's total expenses. During the year under review, transfer expenses were 558 million (+1.1%) higher than the previous year.

Third parties' share in federal income posted a moderate year-on-year increase (+0.6%). The cantons' share (particularly direct federal tax, withholding tax, mileage-related heavy vehicle charge, mineral oil tax) rose by 77 million (+1.6%). The social insurance share was down slightly on the previous year (-0.6%) because of lower casino tax revenue. The redistribution of incentive fees (+0.3%) stayed more or less at the previous year's level.

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 305 million (+23.6%) due to the high number of asylum applications in 2015.

Contributions to own institutions go largely to educational institutions and transportation companies. The main beneficiaries are the ETH Domain and the SBB. Overall, contributions were 167 million higher than the previous year (+4.7%). Around half of this increase can be explained by reclassifications. Effective since the 2016 financial statements, shares of CTI contributions and of the contributions to EU research programs are recognized under this account group if they go to federal government institutions (previously: contributions to third parties). Moreover, the financing contribution to the ETH Domain rose by 55 million.

Contributions to third parties were down by 494 million (-3.1%) year on year. While contributions to fiscal equalization (+8 mn) and international organizations (+8 mn) remained virtually unchanged on the previous year, other contributions to third parties fell by 509 million. This sharp drop can be explained by the previous year's accrual of 639 million that had to be made with regard to basic contributions to tertiary-level institutions because of a Federal Administrative Court ruling, and that was converted into a provision as of the end of 2016. A provision of 215 million was created for sureties in the area of oceangoing vessels during the year under review. Excluding both of these special factors, other contributions to third parties declined by 85 million, primarily because of lower expenses in the area of development cooperation.

The Confederation spent 314 million more on *contributions to social insurance* than in 2015 (+1.9%). Payments to federal social insurance remained more or less stable overall (+0.1%), with AHV contributions rising by 134 million and disability insurance (IV) contributions falling by 138 million (lower interest on IV debt). Contributions to other social insurance rose by a total of 305 million, driven by an increase in individual premium reductions (+125 mn) and military insurance (+141 mn).

Value adjustments on investment contributions arise particularly in the case of transportation infrastructures and within the framework of the building program. They were up by a total of 618 million (+14.7%) because of the newly created railway infrastructure fund. *Value adjustments on loans and financial interests* were down by 412 million (-95.1%).

Financial expense

In 2015, *financial expense* was 347 million higher than the previous year (+16.1%). Although interest expense once again dropped significantly (-210 mn) due to the persistently low level of interest rates and reduced debt, the value of the Confederation's share in the net assets/equity of its significant interests decreased, leading to additional expenses of 618 million. Other financial expense was down by 81 million on the previous year due to smaller fluctuations in exchange rates and thus smaller foreign exchange losses.

Net expense for restricted funds in liabilities

Restricted funds in liabilities include primarily the special financing for incentive fees (CO_2, 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 195 million in the 2016 financial statements.

04 OUTLOOK

Economic growth and inflation have weakened since the financial crisis. The growth in federal receipts followed suit, with the result that expenditure growth has had to be reduced. However, the savings measures in the 2018 budget are not due to economic growth, but rather to rising expenditure in the area of asylum and the additional burden arising from a series of parliamentary decisions.

Economic growth and inflation have weakened in Switzerland since the financial crisis. While nominal GDP growth was 3.4% p.a. on average from 2000 to 2008, it slowed down to 1.1% on average from 2008 to 2016. This was driven not only by the slacker global economic growth, but also by the two periods of Swiss franc appreciation in 2011 and 2015, as well as declining inflation.

The *Confederation's receipts* come essentially from taxes, the development of which depends on nominal GDP. Therefore, because of the slowdown in economic growth and lower inflation, receipt growth has also weakened considerably, going from an average of 3.0% p.a. (2000–2008) to 0.5% (2008–2016).

As a result, the Confederation has had to curb *expenditure growth* by means of various austerity programs in order to restore a balance between receipts and expenditure, as required by the debt brake. Expenditure growth has decreased from an average of 3.1% p.a. (2000–2008) to 1.2% (2008–2016). The less pronounced decline than in the case of receipts is due among other things to the receipt estimates in the budget underestimating the economic upswing in 2005–2008, as well as the slowdown in growth from 2009 onward. Expenditure growth has thus been smoothed out over time.

The *savings measures in the 2018 budget* about which the Federal Council provided information on February 23, 2017 are not *attributable* to slower economic growth. It was possible for the budgetary impact of the franc's 2015 appreciation to be offset with the 2017–2019 stabilization program. Nevertheless, structural deficits of approximately 1 billion are to be expected in 2018 and 2019 due to rising asylum expenditure and the additional burden arising from various parliamentary decisions that go beyond the Federal Council's proposals. These include the decisions on the Armed Forces payment framework, the motorway and urban transportation fund, and the 2020 retirement provision reform, as well as increases concerning the promotion of education, research and innovation, and in favor of agriculture.

In order to be able to comply with the debt brake requirements in the 2018 budget, the Federal Council adopted an *adjustment concept* with the following measures: a 3% correction for inflation on loosely earmarked transfer expenditure and defense expenditure (approximately 500 mn p.a.), operating expenditure cuts (150 mn p.a.) and targeted cuts of 300 to 350 million per year. In this way, the structural deficit of 1.0 billion in 2018 can be largely eliminated.

The Federal Council will discuss the updated figures for the 2018 budget with integrated task and financial plan for 2019–2021 in June 2017 and will make any further decisions needed to comply with the debt brake requirements in the 2018 budget. If the budget outlook does not improve, the savings measures will have to be supplemented to completely clear the structural deficit.

51 Financing and flow of funds statement

CHF mn	Fin. stmt. 2015	Budget 2016	Fin. stmt. 2016	Deviation vs. FS 2015 Absolute	%
Overall fiscal balance	**2 831**	**-351**	**1 230**	**-1 601**	
Ordinary fiscal balance	**2 337**	**-496**	**752**	**-1 586**	
Ordinary receipts	**67 580**	**66 733**	**67 013**	**-567**	**-0.8**
Tax receipts	**63 192**	**62 421**	**62 613**	**-579**	**-0.9**
Direct federal tax	20 125	19 367	21 057	932	4.6
Withholding tax	6 617	5 696	5 233	-1 385	-20.9
Stamp duty	2 393	2 325	2 021	-373	-15.6
Value added tax	22 454	23 210	22 458	3	0.0
Other consumption taxes	7 029	7 072	6 931	-98	-1.4
Misc. tax receipts	4 573	4 751	4 914	341	7.5
Royalties and concessions	**1 202**	**836**	**824**	**-378**	**-31.4**
Financial receipts	**1 218**	**1 014**	**1 165**	**-53**	**-4.4**
Financial interest receipts	802	821	828	26	3.2
Other financial receipts	416	193	337	-79	-19.0
Other current receipts	**1 738**	**1 731**	**1 700**	**-38**	**-2.2**
Investment receipts	**231**	**729**	**711**	**480**	**207.8**
Ordinary expenditure	**65 243**	**67 229**	**66 261**	**1 018**	**1.6**
Operating expenditure	**10 258**	**10 793**	**10 431**	**173**	**1.7**
Personnel expenditure	5 467	5 571	5 465	-2	0.0
General, administrative and operating expenditure	3 947	4 209	3 961	15	0.4
Defense expenditure	844	1 013	1 004	160	19.0
Current transfer expenditure	**45 907**	**46 479**	**46 612**	**705**	**1.5**
Third parties' share in federal receipts	9 441	9 324	9 500	59	0.6
Compensation to public bodies	1 288	1 280	1 592	304	23.6
Contributions to own institutions	3 528	3 134	3 684	156	4.4
Contributions to third parties	15 196	15 973	15 162	-34	-0.2
Contributions to social insurance	16 454	16 767	16 674	219	1.3
Financial expenditure	**1 495**	**1 485**	**1 008**	**-487**	**-32.6**
Interest expenditure	1 381	1 474	961	-420	-30.4
Other financial expenditure	115	11	48	-67	-58.6
Investment expenditure	**7 583**	**8 473**	**8 211**	**627**	**8.3**
Tangible fixed assets and inventories	2 879	2 708	2 727	-153	-5.3
Intangible fixed assets	27	31	24	-3	-12.1
Loans	413	95	59	-354	-85.7
Financial interests	64	61	89	25	39.6
Own investment contributions	4 200	5 077	4 813	612	14.6
Transitory investment contributions	–	500	500	500	–
Extraordinary receipts	**493**	**145**	**478**	**-15**	
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. 2015	Fin. stmt. 2016	Deviation vs. FS 2015 Absolute	%
Total flow of funds	**-944**	**-4 583**	**-3 639**	**385.6**
Flow of funds from operations (overall fiscal balance)	**2 831**	**1 230**	**-1 601**	**-56.5**
Flow of funds from financial investments	**914**	**-196**	**-1 110**	**-121.4**
Short-term financial investments	-1 060	-100	960	90.6
Long-term financial investments	1 974	-96	-2 070	-104.9
Flow of funds from debt financing	**-4 688**	**-5 617**	**-928**	**-19.8**
Short-term financial liabilities	-3 582	-91	3 491	97.5
Long-term financial liabilities	-1 357	-6 157	-4 800	-353.7
Liabilities for separate accounts	190	550	360	188.9
Spec. funds & other restricted funds in net a/e	60	82	22	36.0

Result of the financing and flow of funds statement
An outflow of funds of 4,583 million was posted in 2016. This resulted from opposing factors. On the one hand, the financing statement showed a surplus (1.2 bn; flow of funds from operating activities), and on the other, there was an outflow of funds due to new financial investments (-196 mn) and the redemption of financial liabilities (-5.6 bn). The negative balance of the “Federal fund” in 2016 (-7.8 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” (-4.6 bn) corresponds to the total flow of funds for 2016.

"Federal fund" statement

CHF mn	2015	2016	Deviation vs. 2015 Absolute	%
Fund status as of 1.1.	**-2 296**	**-3 240**	**-944**	**-41.1**
Fund status as of 31.12.	**-3 240**	**-7 823**	**-4 583**	**141.5**
Status as of 31.12.:				
Cash and cash equivalents	10 587	6 904	-3 683	-34.8
Receivables w/o allowance for doubtful accounts	6 666	5 513	-1 153	-17.3
Current liabilities incl. withholding tax accrual	-20 493	-20 239	254	1.2

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. 2015	Budget 2016	Fin. stmt. 2016	Deviation vs. FS 2015 Absolute	%
Surplus/deficit	**2 025**	**-409**	**-66**	**-2 090**	**-103.2**
Ordinary result	**1 265**	**-554**	**-366**	**-1 631**	**-128.9**
Operating result	**2 074**	**206**	**986**	**-1 088**	**-52.5**
Revenue	**65 911**	**65 164**	**65 877**	**-33**	**-0.1**
Tax revenue	**62 689**	**62 421**	**63 098**	**409**	**0.7**
Direct federal tax	20 125	19 367	21 057	932	4.6
Withholding tax	6 117	5 696	5 733	-385	-6.3
Stamp duty	2 393	2 325	2 021	-373	-15.6
Value added tax	22 453	23 210	22 458	5	0.0
Other consumption taxes	7 029	7 072	6 950	-79	-1.1
Misc. tax revenue	4 572	4 751	4 880	308	6.7
Royalties and concessions	**1 152**	**803**	**794**	**-359**	**-31.1**
Other revenue	**1 882**	**1 894**	**1 958**	**76**	**4.0**
Net revenue from special financing in liabilities	**188**	**44**	**28**	**-159**	**-84.8**
Expenses	**63 836**	**64 958**	**64 891**	**1 055**	**1.7**
Operating expenses	**12 681**	**13 333**	**13 002**	**321**	**2.5**
Personnel expenses	5 450	5 571	5 527	77	1.4
General, administrative and operating expenses	4 122	4 467	4 193	71	1.7
Defense expenses	843	1 013	1 004	161	19.0
Deprec., amortiz. tangible/intangible fixed assets	2 266	2 282	2 278	12	0.5
Transfer expenses	**51 137**	**51 513**	**51 695**	**558**	**1.1**
Third parties' share in federal income	9 441	9 324	9 500	59	0.6
Compensation to public bodies	1 291	1 280	1 596	305	23.6
Contributions to own institutions	3 522	3 134	3 689	167	4.7
Contributions to third parties	15 848	15 975	15 354	-494	-3.1
Contributions to social insurance	16 401	16 692	16 715	314	1.9
Value adjustment on investment contributions	4 200	5 082	4 818	618	14.7
Value adjustment on loans and financial interests	433	26	21	-412	-95.1
Net expense for special financing in liabilities	**18**	**111**	**195**	**176**	**965.1**
Financial result	**-809**	**-760**	**-1 352**	**-543**	**67.2**
Financial revenue	**1 348**	**1 030**	**1 151**	**-197**	**-14.6**
Increase in equity values	888	821	738	-149	-16.8
Other financial revenue	460	209	413	-48	-10.3
Financial expense	**2 157**	**1 790**	**2 503**	**347**	**16.1**
Interest expense	1 878	1 703	1 668	-210	-11.2
Decrease in equity values	53	–	691	638	n.s.
Other financial expense	226	87	145	-81	-35.8
Extraordinary revenue	**759**	**145**	**300**	**-459**	**-60.4**
Extraordinary expenses	**–**	**–**	**–**	**–**	**–**

CHF mn	Fin. stmt. 2015	Budget 2016	Fin. stmt. 2016	Deviation vs. FS 2015 Absolute	%
Ordinary result	**1 265**	**-554**	**-366**	**-1 631**	**-128.9**
Ordinary revenue	**67 259**	**66 193**	**67 029**	**-230**	**-0.3**
Revenue	65 911	65 164	65 877	-33	-0.1
Financial revenue	1 348	1 030	1 151	-197	-14.6
Ordinary expenses	**65 993**	**66 748**	**67 394**	**1 401**	**2.1**
Expenses	63 836	64 958	64 891	1 055	1.7
Financial expense	2 157	1 790	2 503	347	16.1

n.s.: not shown

53 Statement of financial position

CHF mn	2015	2016	Deviation vs. 2015 Absolute	%
Assets	**112 022**	**106 843**	**-5 179**	**-4.6**
Non-administrative assets	**33 574**	**28 663**	**-4 912**	**-14.6**
Current assets	**21 443**	**16 485**	**-4 957**	**-23.1**
Cash and cash equivalents	10 587	6 904	-3 683	-34.8
Receivables	6 270	5 083	-1 186	-18.9
Short-term financial investments	3 577	3 649	72	2.0
Prepaid expenses and accrued income	1 009	849	-160	-15.9
Non-current assets	**12 131**	**12 177**	**46**	**0.4**
Long-term financial investments	12 077	12 173	96	0.8
Restricted funds in liabilities	54	4	-50	-92.7
Administrative assets	**78 448**	**78 181**	**-268**	**-0.3**
Current assets	**186**	**194**	**8**	**4.5**
Inventories and advances	186	194	8	4.5
Non-current assets	**78 263**	**77 987**	**-276**	**-0.4**
Tangible fixed assets	53 714	54 270	557	1.0
Intangible fixed assets	220	205	-15	-6.8
Loans	3 159	3 098	-61	-1.9
Financial interests	21 169	20 413	-756	-3.6
Liabilities and equity	**112 022**	**106 843**	**-5 179**	**-4.6**
Short-term liabilities	**36 918**	**36 506**	**-412**	**-1.1**
Current liabilities	16 107	17 385	1 278	7.9
Short-term financial liabilities	10 021	9 904	-117	-1.2
Accrued expenses and deferred income	10 017	8 545	-1 472	-14.7
Short-term provisions	773	671	-102	-13.2
Long-term liabilities	**95 853**	**91 065**	**-4 788**	**-5.0**
Long-term financial liabilities	77 678	71 529	-6 149	-7.9
Liabilities toward separate accounts	1 881	2 431	550	29.2
Long-term provisions	14 577	15 225	648	4.4
Restricted funds in liabilities	1 716	1 880	163	9.5
Net assets/equity	**-20 748**	**-20 727**	**21**	**0.1**
Restricted funds in net assets/equity	5 607	6 021	414	7.4
Special funds & other restricted funds	1 296	1 381	85	6.5
Reserves from global budget	180	229	49	27.2
Accumulated deficit	-27 832	-28 358	-527	-1.9

54 Statement of investments

CHF mn	Fin. stmt. 2015	Budget 2016	Fin. stmt. 2016	Deviation vs. FS 2015 Absolute	%
Statement of investments balance	**-7 238**	**-7 743**	**-7 418**	**-180**	
Ordinary statement of investments balance	**-7 373**	**-7 743**	**-7 583**	**-211**	
Ordinary investment receipts	**231**	**729**	**711**	**480**	**207.8**
Buildings	29	67	31	2	7.6
Property, plant and equipment	3	4	4	1	18.7
Motorways	5	5	5	-1	-11.0
Intangible fixed assets	0	–	–	0	-100.0
Loans	194	154	141	-53	-27.3
Financial interests	0	–	31	31	n.s.
Repayment of own investment contributions	0	–	–	0	-100.0
Transitory investment contributions	–	500	500	500	–
Ordinary investment expenditure	**7 604**	**8 473**	**8 294**	**691**	**9.1**
Buildings	760	833	792	32	4.2
Property, plant and equipment	98	167	101	3	2.8
Inventories	85	100	85	1	0.7
Motorways	1 952	1 609	1 833	-119	-6.1
Intangible fixed assets	32	31	17	-15	-46.1
Loans	413	95	59	-354	-85.7
Financial interests	64	61	89	25	39.6
Own investment contributions	4 200	5 077	4 818	618	14.7
Transitory investment contributions	–	500	500	500	–
Extraordinary investment receipts	**135**	**–**	**165**	**30**	
Extraordinary investment expenditure	**–**	**–**	**–**	**–**	

n.s.: not shown

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 (2015: 21 mn; 2016: 83 mn).

Reconciliation statement of investments and other changes in recognized administrative assets

2016 CHF mn	Total	Tangible fixed assets	Inventories	Intangible fixed assets	Loans	Financial interests	Investment contributions
Status as of 1.1.	**78 448**	**53 714**	**186**	**220**	**3 159**	**21 169**	**–**
Investment receipts	-876	-39	–	–	-306	-31	-500
Investment expenditure	8 294	2 726	85	17	59	89	5 318
Other changes	-7 686	-2 130	-77	-32	186	-814	-4 818
Status as of 31.12.	**78 181**	**54 270**	**194**	**205**	**3 098**	**20 413**	**–**

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**	**–**

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 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 financial interests, or price changes in relation to inventories.

55 Statement of net assets/equity

CHF mn	Total net assets/ equity	Special financing	Spec. funds & other restricted funds	Reserves from global budget	Accu-mulated deficit
Status as of 1.1.2015	**-22 790**	**5 279**	**1 280**	**187**	**-29 537**
Entry transfers in net assets/equity	–	328	-1	-7	-320
Change in special funds & other restricted 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**
Entry transfers in net assets/equity	–	414	-2	49	-461
Change in special funds & other restricted funds	87	–	87	–	–
Total positions entered in net assets/equity	**87**	**414**	**85**	**49**	**-461**
Surplus or deficit	-66	–	–	–	-66
Total profit and loss entered	**21**	**414**	**85**	**49**	**-527**
Other transactions	–	–	–	–	–
Status as of 31.12.2016	**-20 727**	**6 021**	**1 381**	**229**	**-28 358**

The negative net assets/equity remained virtually unchanged at 20.7 billion. 643 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 increased by 527 million in the year under review, driven by both the expense surplus (66 mn) and various entry transfers in net assets/equity (-461 mn). The latter included the increase in special financing (414 mn), the formation of reserves from global budgets (49 mn) and the entry transfer of building amortization from special funds (-2 mn).

Special financing
Major changes occurred in the following special financing items. The *special financing for road transportation* declined by 223 million. A total of 643 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 and other restricted funds
The change in special funds and other restricted funds amounted to 87 million in the year under review. 62 million of that was attributable to an entry transfer from liabilities to net assets/equity.

Pursuant to Article 68 paragraph 3 of the Federal Act on Radio and Television (SR 784.40), the radio and television reception fee is processed outside of the Confederation's statement of financial performance. The restricted funds are now recognized in either liabilities or net assets/equity in accordance with the legally prescribed leeway regarding the use of funds from a time and material perspective. Previously, all funds were shown in liabilities under current liabilities. In net terms, 62 million was transferred to net assets/equity in the year under review.

In addition, special funds recorded a positive result of 25 million. This does not include building amortization amounting to 2 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 increased by 49 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 on net assets/equity.

61 International comparison

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

International comparison of public finance indicators for 2016

in % of GDP	Tax-to-GDP ratio	General government expenditure ratio	Deficit/surplus ratio	Debt ratio	Gross debt ratio
Switzerland	**27.7**	**33.6**	**0.2**	**32.6**	**44.1**
EU - euro area	**n.s.**	**48.1**	**-1.8**	**92.2**	**108.9**
Germany	36.9	44.3	0.5	68.0	74.7
France	45.5	56.5	-3.3	97.9	122.7
Italy	43.3	49.5	-2.4	132.1	159.3
Austria	43.5	51.1	-1.5	85.4	106.0
Belgium	44.8	53.2	-3.0	106.0	127.0
Netherlands	37.8	44.7	-1.4	63.3	76.1
Norway	38.1	51.0	3.0	n.s.	41.7
Sweden	43.3	50.3	0.2	43.0	52.9
United Kingdom	32.5	41.3	-3.3	89.3	112.5
USA	**26.4**	**38.0**	**-5.0**	**n.s.**	**115.6**
Canada	**31.9**	**41.1**	**-2.2**	**n.s.**	**100.4**
OECD Ø	**34.3**	**40.8**	**-3.1**	**n.s.**	**116.3**

n.s.: not shown

Sources: OECD (Economic Outlook 100 and Revenue Statistics, November 2016). Switzerland: Financial Statistics (Swiss public finances, March 2017); 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 2015

The *tax-to-GDP ratio* measures total tax receipts (tax and social insurance charges) in relation to gross domestic product (GDP). It amounted to 27.7% in 2015. Based on the provisional results, it is likely to have reached 27.8% in 2016, thereby staying below the 30% mark.

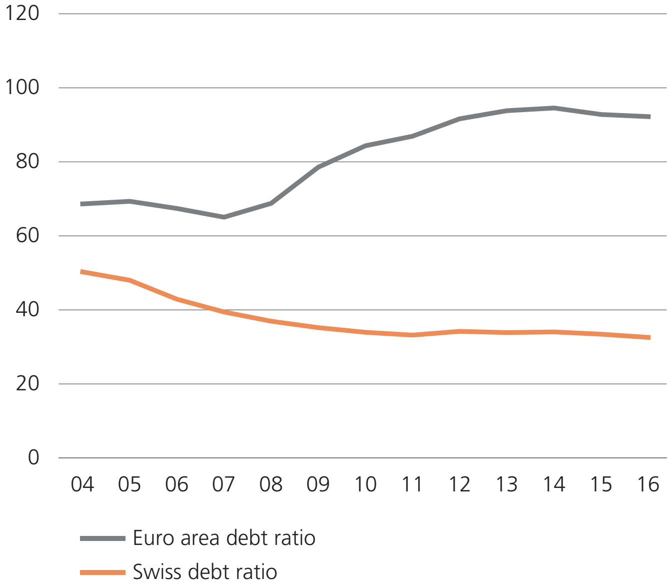
Switzerland's *general government expenditure ratio,* defined as government expenditure in relation to GDP, remained one of the lowest in the OECD area in 2016.

The overall fiscal balance of around CHF 1 billion resulted once again in a *surplus ratio* of 0.2%. Consequently, Switzerland was one of the few countries, together with Sweden, Germany and Norway, not to have posted a deficit in 2016.

Government debt remained low by international standards both with reference to the Maastricht definition and in terms of liabilities. Coming in at 32.6%, 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 100 and Revenue Statistics, November 2016) 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 March 6, 2017).

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 either.