

SWITZERLAND

FEDERAL COUNTRY

EUROPE

BASIC SOCIO-ECONOMIC INDICATORS

Income group - **HIGH INCOME: OECD** Local currency - **Swiss Franc (CHF)**

POPULATION AND GEOGRAPHY

AREA: **39 996** km² (2014)

POPULATION: **8.189** million inhabitants (2014),
an increase of 1.0% per year (2010-14)

DENSITY: **205** inhabitants/km²

URBAN POPULATION: **73.8%** of national population

CAPITAL CITY: **Berne** (4.4% of national population)

Sources: OECD, Eurostat, World Bank, UNDP, ILO

ECONOMIC DATA

GDP: **487.5** billion (current PPP international dollars)
i.e. 59 536 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.9%** (2014 vs 2013)

UNEMPLOYMENT RATE: **4.5%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **22 741** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **23%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.930** (very high), **rank 3**

TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

| MUNICIPAL LEVEL | INTERMEDIATE LEVEL | REGIONAL OR STATE LEVEL | TOTAL NUMBER OF SNGs |
|---|--------------------|-------------------------------------|----------------------|
| 2 294 | - | 26 | 2 320 |
| MUNICIPALITIES (COMMUNE, GEMEINDEN, COMUNI) AVERAGE MUNICIPAL SIZE: 3 590 INHABITANTS | | STATES (CANTON, KANTON, CANTONE) | |

MAIN FEATURES OF TERRITORIAL ORGANISATION. The Swiss Confederation has two tiers of SNGs: municipalities and states. Both have a large degree of political, administrative and fiscal autonomy, protected by the Federal Constitution of 1848 which defines the Swiss federal system. Municipalities are governed by the states under each state constitution and legislation. As a result, municipal organisation differs from one canton to another. Several cantons undertook municipal amalgamation policies over the recent years (Thurgovie, Fribourg, Vaud, Tessin, Grisons, etc.) resulting in a decrease of 20% of the number of municipalities between 1990 and 2012. For administrative purposes, most states are also divided into districts (*bezirk, ämter, district, distretto*, etc.).

MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES. Swiss federalism is defined as a bottom-up system where the states are sovereign except to the extent that their sovereignty is limited by the Federal Constitution. States shall exercise all rights that are not vested in the Confederation, according to the principle of subsidiarity. The last constitutional reform on Fiscal Equalisation and Responsibility Assignment adopted in 2004 and in force since 2008 reassigned several policy areas to either the federal or cantonal level in order to clarify the division of tasks between them. The Confederation is now solely responsible for seven task areas (foreign affairs, monetary motorways, etc.), the cantons for ten (police, education including universities, healthcare, welfare, utilities, etc.) and the Confederation and cantons continue to assume joint responsibility for sixteen task areas (regional traffic, regional development, environmental protection, flood protection, etc.). Municipalities' autonomous and non-autonomous tasks are assigned by respective state and thus differ from one state to another. They typically include education (pre, primary and secondary schools), health and social welfare, water, electricity, and traffic, local roads, land use planning, natural resource management, recreation and culture, municipal police, etc.

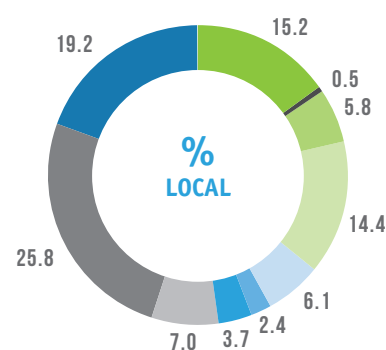
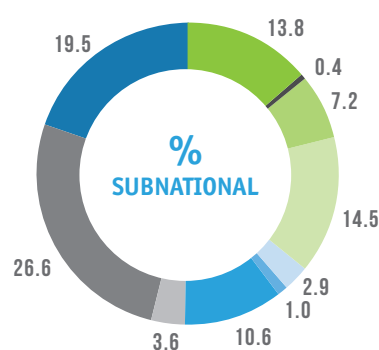
SUBNATIONAL GOVERNMENT FINANCE

| EXPENDITURE | % GDP | | % GENERAL GOVERNMENT (same expenditure category) | | % SUBNATIONAL GOVERNMENT | |
|---------------------------------|------------------|-------------|---|--------------|--------------------------|-------------|
| | SUBNATIONAL DATA | | LOCAL DATA ONLY | | | |
| TOTAL EXPENDITURE (2013) | 20.5% | 6.9% | 61.0% | 20.6% | 100% | 100% |
| CURRENT EXPENDITURE | 17.5% | 5.8% | - | - | 85.4% | 84.3% |
| STAFF EXPENDITURE | 6.3% | 2.2% | 83.7% | 29.0% | 30.6% | 31.5% |
| INVESTMENT | 2.1% | 0.9% | 69.1% | 30.2% | 10.2% | 13.2% |

The SNG share in GDP and public spending is among the highest of the OECD, well above the OECD averages (16.6% of GDP and 40.0% of public spending in 2013). A majority is made by the states (66%). SNGs are key employers (SNG share in public staff spending is 20 percentage points above the OECD average of 63.2%), but lower at the local level compared to OECD unitary countries. SNGs are also key investors, with a share in public investment and GDP which is higher than in the OECD on average which amounted to 58.5% and 1.9% of GDP in 2013. Municipalities were responsible for 44% of SNG investment in 2013.

EXPENDITURE BY FUNCTION

% SUBNATIONAL GOVERNMENT EXPENDITURE



Education is the primary area of SNG spending, representing more than one quarter. It is followed by social protection and economic affairs/transport. In addition, SNGs are responsible for the large majority of total public spending in the areas of education, recreation and culture, health, housing and community amenities, security and public order (more than 90%). Primary areas of spending are roughly the same for states and municipalities. However, states expenditure is also concentrated on health while municipalities spend more in relative terms in the areas of recreation and culture and environmental protection.

REVENUE BY TYPE

% GDP

% GENERAL GOVERNMENT (same revenue category)

% SUBNATIONAL GOVERNMENT

■ SUBNATIONAL DATA

□ LOCAL DATA ONLY

| | % GDP | % GDP | % GENERAL GOVERNMENT (same revenue category) | % GENERAL GOVERNMENT (same revenue category) | % SUBNATIONAL GOVERNMENT | % SUBNATIONAL GOVERNMENT |
|-----------------------------|--------------|-------------|---|---|-----------------------------|-----------------------------|
| TOTAL REVENUE (2013) | 20.2% | 7.0% | 60.2% | 20.9% | 100% | 100% |
| TAX REVENUE | 10.9% | 4.1% | 53.0% | 20.1% | 53.9% | 58.7% |
| GRANTS AND SUBSIDIES | 4.3% | 0.9% | - | - | 21.4% | 13.3% |
| OTHER REVENUES | 5.0% | 2.0% | - | - | 24.6% | 28.0% |

According to the Constitution, the states may determine their revenue and their taxes provided they are not assigned to the Confederation. In particular, while indirect taxation is a confederal responsibility, direct taxation is a shared competence of the municipal, state and confederal levels. As a result, Switzerland is one of the most OECD decentralised countries in fiscal terms. The share of tax revenue in total revenue is one of the highest while the dependence on transfers (from federal or state governments) is one of the lowest. In addition, SNGs have a high degree of taxing power (rates and bases).

TAX REVENUE. In 2013, states represented 62% of SNG tax revenue and municipalities, 38%. Cantons can levy any kind of tax that it is not exclusively attributed to the Confederation. These include in particular a tax on personal and corporate income, a tax on the earned income of foreigners without a residence permit, a wealth tax, a tax on equity, inheritance and gift taxes, a lottery income tax, real estate and real estate transfer taxes, taxes on motor vehicles, etc. Municipalities can levy taxes to the extent they are authorised by the cantons. Municipal main taxes include PIT, CIT, a tax on net wealth, a real estate and real estate transfer taxes, etc. They are mostly levied as a percentage of the basic cantonal tax. Overall, current taxes on income represented around 80% of SNG tax revenue in 2013, with a similar share for states and municipalities. Taxes on immovable properties accounted for 13% of SNG tax revenue i.e. 1.4% of GDP.

GRANTS AND SUBSIDIES. Transfers include a large system of equalisation established in 1958 and further reformed by the 2008 reform. The cantonal equalisation system is both vertical and horizontal and is mainly based on three building blocks: 1) a resource equalisation fund that aims to reduce fiscal disparities among cantons by providing each canton with at least 85% of the average financial means. The fund is financed by the federal government but it includes a horizontal contribution from cantons having a high revenue potential; 2) a cost equalisation fund that compensates for the excessive charges that some cantons incur because of their topography, demography, or social characteristics. It is financed by the federal government; 3) a temporary "neutralization" fund that is set to temporarily compensate for the effect of implementing the new equalisation system. In addition, each canton also has its own grants and equalisation system for its municipalities. With the 2008 reform, the share of non-earmarked transfers increased from 24% to 40%. Overall, capital expenditure grants accounted for around 10% of total SNG grants.

OTHER REVENUES. The share of other revenue is significant, amounting for one quarter of total SNG revenue, and even more municipalities. User charges and fees represented 20.5% of SNG revenue while revenue from property (assets sales, rents) accounted for 3.7%.

OUTSTANDING DEBT

% GDP

% GENERAL GOVERNMENT

■ SUBNATIONAL DATA

□ LOCAL DATA ONLY

| | % GDP | % GDP | % GENERAL GOVERNMENT | % GENERAL GOVERNMENT |
|--------------------------------|--------------|--------------|----------------------|----------------------|
| OUTSTANDING DEBT (2013) | 22.3% | 10.2% | 47.1% | 21.6% |

States borrowing is not restricted, but most states introduced self-imposed balanced budget rules and fiscal rules, including debt brake and sanctions in case of non-compliance in the 1990s. However these rules vary greatly across cantons. Municipalities also have the right to borrow. Borrowing constraints vary across states, depending on each state constitution and fiscal law, etc. Overall, SNG debt as a percentage of GDP is in line with OECD average but is significantly higher when considering the share in total public debt. Outstanding debt is made up of financial debt (63%), other accounts payable (32%) and pension liabilities (5%). States and municipalities issue bonds which accounted for around 20% of total public debt in 2013.

A joint- study of:



Sources: OECD National Accounts Statistics • Eurostat Government Finance Statistics (COFOG) • OECD (2016 and 2015) Subnational Governments in OECD Countries : Key data • OECD (2015), OECD Economic Surveys: Switzerland 2015 • Federal Department of Finance (2015) Federal, Cantonal and Communal Taxes • S. Nicol (2014): Fiscal Devolution • Some Comparative Examples, SPICE paper • OECD Regional Outlook 2014: Regions and Cities: Where Policies and People Meet • Maissen S. (2014) Federalism in Switzerland: Current Issues and Challenges • Blöchliger, H. and C. Vammlle (2012), Reforming Fiscal Federalism and Local Government: Beyond the Zero-Sum Game.