

# Debt reduction is necessary and possible

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## At a glance

The coronavirus crisis is leading to considerable additional expenditure and a high level of new debt for the federal government. *economiesuisse* has been calling for a sensible but binding mechanism for reducing coronavirus debt since the beginning of the crisis. This requires a longer deadline than is currently stipulated in the law. In addition, residual credit from the ordinary budget, the SNB profit distribution and extraordinary income should be explicitly reserved for debt reduction.

Parliament has approved emergency measures worth over CHF 57 billion to cushion the economic and social impact of the coronavirus pandemic. The Federal Council has also approved additional funding. New borrowing of CHF 30 to 50 billion is expected in 2020 alone. That is at least as much as the Confederation has reduced in the last 15 years thanks to the debt brake.

#### Constitution requires debt reduction

According to the constitution, the federal government is obliged to keep revenue and expenditure in balance in the long term. In other words, debts that are accumulated over a certain period of time must also be reduced again. This applies generally and explicitly to extraordinary expenditure (such as the coronavirus emergency measures), which is booked to an account outside the federal budget so as not to exceed the ordinary budget. The debts accumulated in the so-called amortization account must be paid off within six years. In special cases, and coronavirus is certainly one of them, Parliament can extend this period indefinitely.

There is therefore no question that the coronavirus debt must be reduced in accordance with the debt brake. However, debt reduction is also unavoidable if Switzerland is to be prepared for the next crisis. The means used to achieve this will determine the pace. The obvious solution would be to reserve a fixed amount for debt repayment in the budget each year. However, this would inevitably lead to annual discussions as part of the budget process, as debt reduction would always be called into question due to the restriction of the scope for spending. In order to ensure the reduction of coronavirus debt, a different approach may be more expedient. Instead of a time frame, the means to be used for debt reduction should be binding.

#### Extend the deadline for debt reduction

The SNB's profit distribution, any residual credit from the ordinary budget and all extraordinary income should be used for amortization. Until the shortfall in the amortization account has been eliminated. To this end, the current deadline for debt reduction must be extended. In addition to the residual credit and any extraordinary income, it makes sense to use the SNB profit distribution to pay off extraordinary debt because, on the one hand, this also has a certain extraordinary character and, on the other, the federal budget must be able

to do without this unstable and fluctuating income. SNB distributions do not represent a stable basis for financing expenditure.

Fixed allocation of funds for debt reduction creates liability

The major advantage of a fixed allocation of SNB income and other funds is that this money would be used in a binding manner for debt reduction. This would institutionalize the reduction of coronavirus debt and would run "automatically" in the background, so to speak. Instead of a rigid regulation with fixed reduction targets, the funds that are available would be used. The "normal" budget would only be affected marginally. Debt reduction may take a little longer in this way, but the commitment and therefore the certainty that it will actually take place is, as expected, greater. It would be a strong sign that debt reduction and the debt brake are being taken seriously.



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