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Billions at stake in the federal budget

The armed forces are to receive more funding. But Berne also wants to save money amid a looming budget deficit. The fight for federal money has begun.

SUSANNE WENGER

Finance Minister Karin Keller-Sutter (FDP) said at the beginning of the year that Switzerland's finances were "out of kilter". She has been issuing similar warnings ever since. Before the summer recess, Keller-Sutter presented a budget for 2025 that will save the government over two billion Swiss francs – thanks to a series of short-term measures that include across-the-board cuts applying to all government departments (including "Swiss Review", see page 33).

With tax receipts also expected to rise, the proposed budget – 85.7 billion francs in revenue, 86.5 billion francs in spending – only shows a small deficit. Yet the cost-cutting has only just begun, according to the finance minister. Government projections show a structural deficit of 2.5 billion francs from 2027 onwards. Structural deficit is that part of the deficit not related to the state of the economy. Nevertheless, Keller-Sutter says such a deficit would fly in the face of the voter-endorsed 'debt brake' that the Swiss government introduced in 2003.

Cut costs – but where?

The looming debt is down to what Keller-Sutter calls "a sharp increase in expenditure". The government needs to tighten its belt. But where can cuts be made? Two thirds of federal expenditure is bound by law, and influential lobbies in parliament are well versed in fending off cuts in the sectors they represent. Furthermore, politicians disagree on how stringent the debt brake should be. The centre-right and right-wing parties advocate rigid compliance, while the left believes there is scope for interpretation.

Switzerland's debt ratio – or national debt in relation to GDP – rose again during the pandemic. Yet in the 20 financially stable years that preceded Covid, debt was not only avoided but even paid off. Switzerland's debt ratio remains low by international standards. And while government spending may have increased, Keller-Sutter's critics point out that this is a price worth paying for social stability and good infrastructure.

Expected cuts in development aid

All this has been the subject of heated debate for months in Berne, with hasty manoeuvring and horse-trading in parliament. The implications are particularly significant with regard to international security and cooperation. With the war in Ukraine already making the world a riskier place, a majority in parliament want the government to increase the defence budget by the planned four billion by 2030, irrespective of the finance minister's cost-cutting

targets. The Council of States would like half of this quicker-than-planned increase in expenditure to be offset by development aid – the consensus being that money for development aid has increased in recent years, and not all aid projects have been effective.

As if taking money from the poorest of the poor and giving it to the armed forces were not enough: the Federal Council intends to siphon off development aid to fund part of its aid budget for Ukraine over the next four years. The



Finance Minister Karin Keller-Sutter has warned of cost-cutting ahead, saying that Switzerland's finances are "out of kilter".

Photo: Keystone

decision taken by the Council of States in June attracted widespread criticism – not only from development agencies and left-wing politicians, but from other quarters including the Swiss Foreign Policy Society and the State Secretary for Economic Affairs. Objectors argue that development cooperation should also be an integral part of a farsighted security policy, and that Switzerland's global solidarity is at stake.

Everything to play for

The National Council was due to vote on the defence budget in its autumn session this September (after the editorial deadline of this edition of "Swiss Review"), with an external group of experts commissioned by the Federal Council also primed to deliver proposals on getting the public finances in order. Since spring, the group has been conducting a review of all areas of public spending including subsidies. A series of round-table talks will follow, with key decisions to be made during parliament's winter session in December. There is everything to play for.

This article reflects the situation at the time of our editorial deadline on 20 August 2024.