

Financial Sustainability of Fiscal Policy 2014

A module of the BAK Taxation Index

Results overview 2014



Introduction

- The sustainability of the fiscal policy of a location is an indicator for the state of health of public finances over the long term.
- Sustainably financed locations have secured the current taxation level for the long term; non-sustainably financed locations are seen as an increased taxation threat.
- The combination of the BAK Taxation Index (current tax rates) and the sustainability of fiscal policy yield a comprehensive image of the taxation attractiveness of a location.

For information about the methodology applied, please visit

www.baktaxation.ch -> BAK Taxation Index -> Financial Sustainability of Fiscal Policy

Approach

- Long-term fiscal prospects for public budgets taking into consideration
 - Government debt -> imbalances from the past
 - Primary balance -> financial point of departure
 - GDP projection -> incoming revenues development
 - Projected outlays until 2060 -> focus on the “aging of society”
- This summary places a focus on the 15 Swiss cantons participating in the BAK Taxation Index project plus the Canton of Geneva, countries neighboring Switzerland as well as comparison countries with the maximum and minimum values in the respective evaluation.



Appenzell A.Rh.



Basel-Stadt



Bern



Glarus



Graubünden



St. Gallen



Thurgau



Uri



Luzern



Nidwalden



Obwalden



Schaffhausen



Schwyz



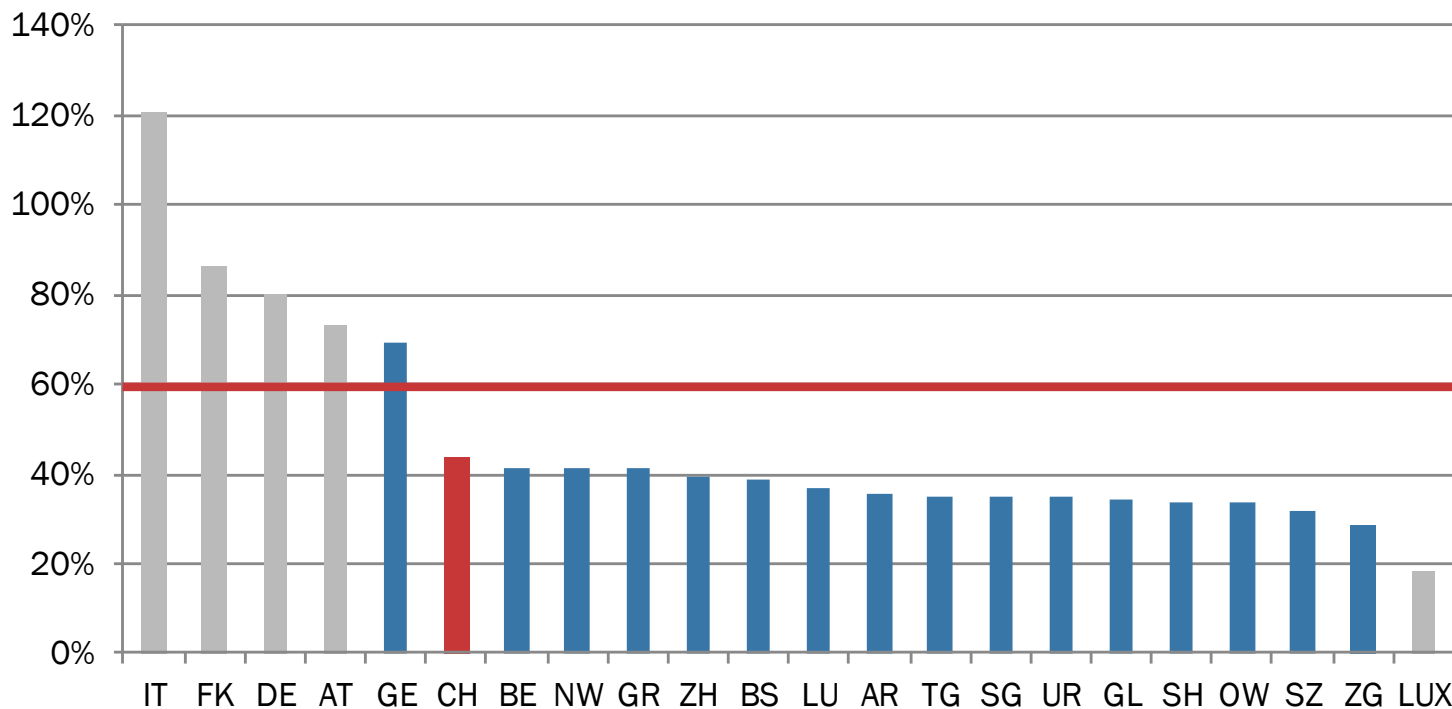
Zug



Zürich

Government debt 2011

Many Swiss cantons start with low indebtedness ...

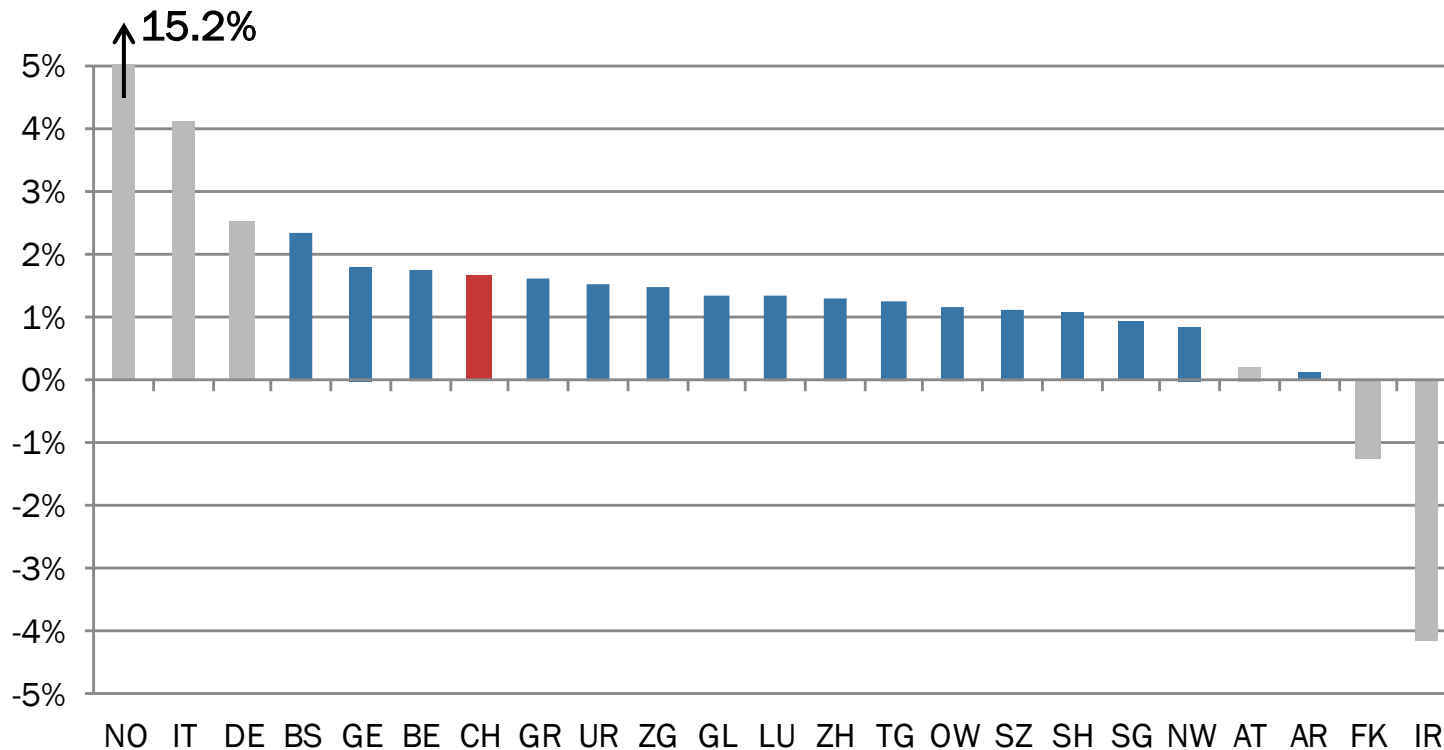


Gross debt of government budgets as % of nominal GDP; Swiss cantons incl. their communes and their assigned federal share (incl. social insurance); 60% line assigns public debt target according the Maastricht reference

Source: Eurostat, EFV, BAKBASEL

Primary balance 2012

... and revenue surplus.

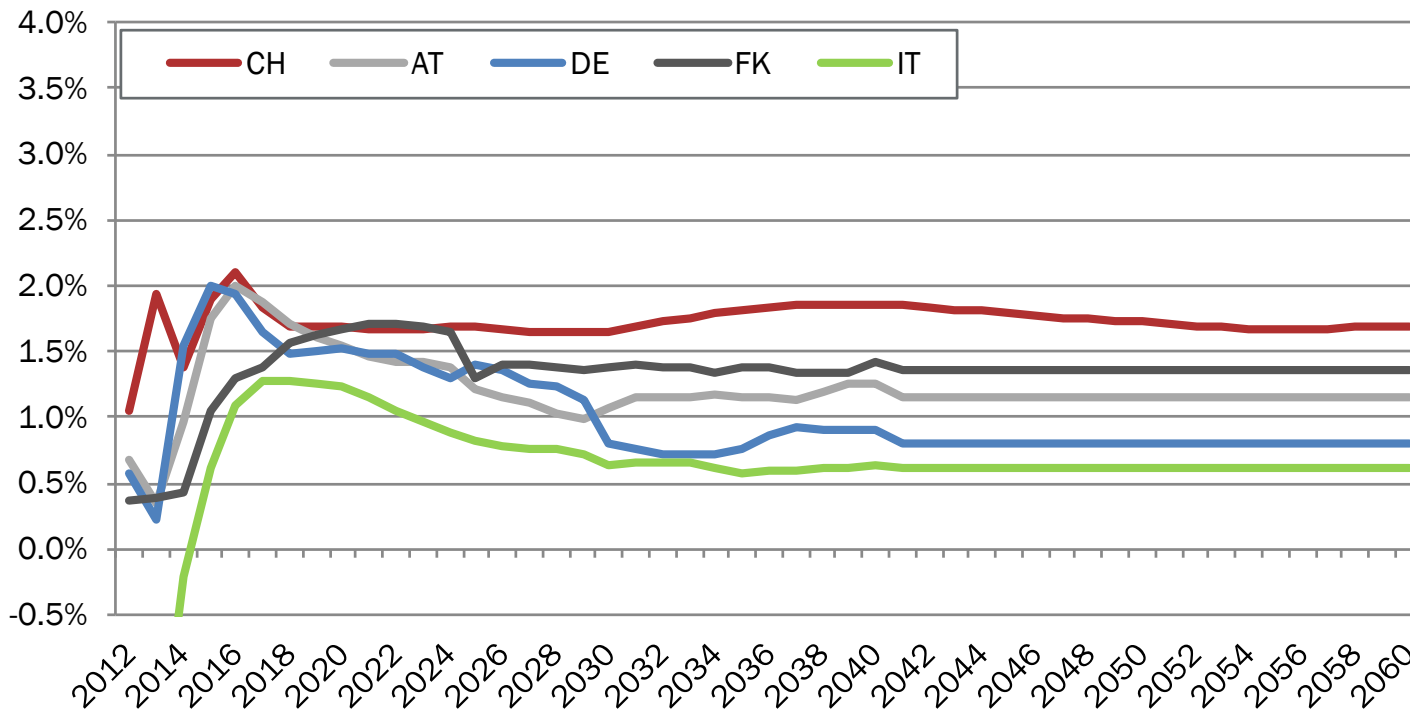


Primary balance = accounting balance less interest payments on consolidated government liabilities; as % of nominal GDP;
Swiss cantons incl. their communes and their assigned federal share (incl. social insurance)

Source: Oxford Economics, BAKBASEL, AMECO-Database (European Commission), EFV

GDP projection 2012 - 2060

The high economic growth projection for Switzerland ...



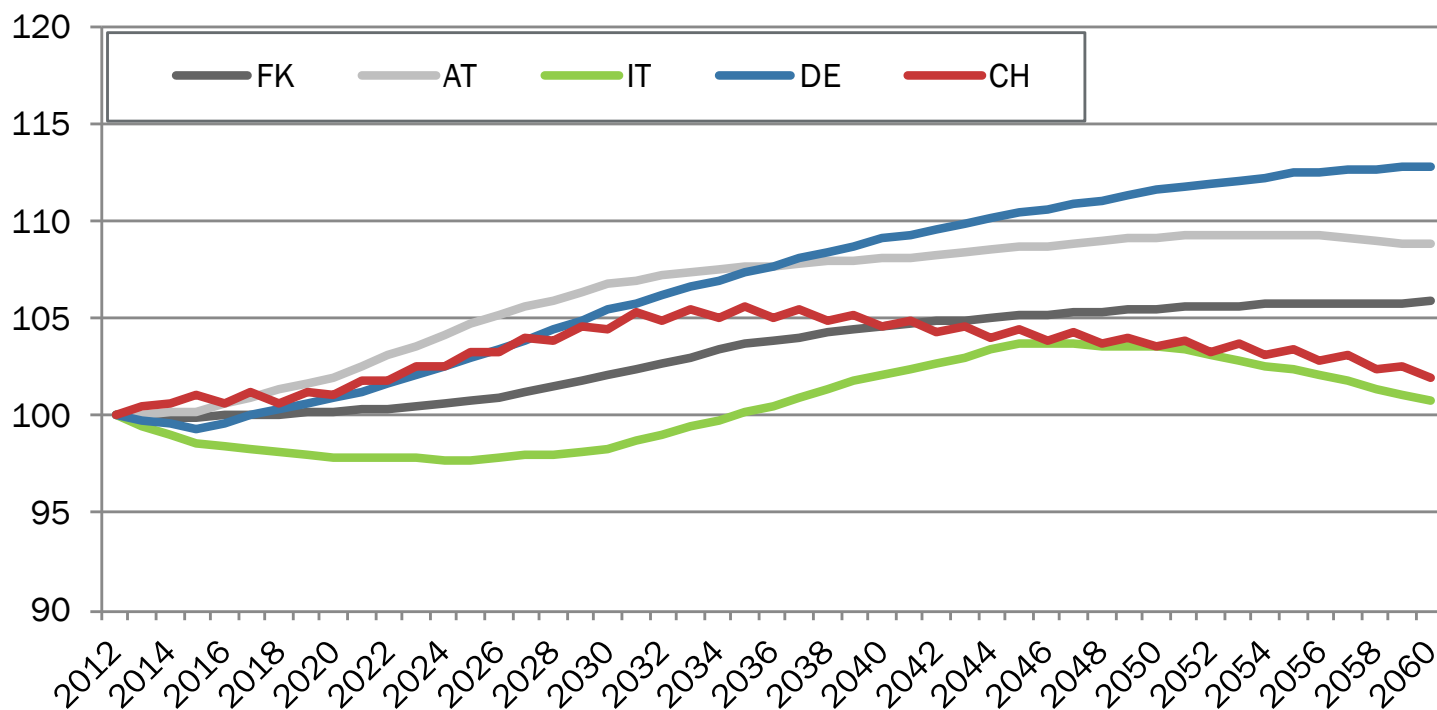
Growth of real GDP in % p.a.

CH: Switzerland, AT: Austria, DE: Germany, FK: France, IT: Italy

Source: Oxford Economics, BAKBASEL

Expenditure projection 2012 - 2060

... helps to bear the sustainable increase in expenditure.

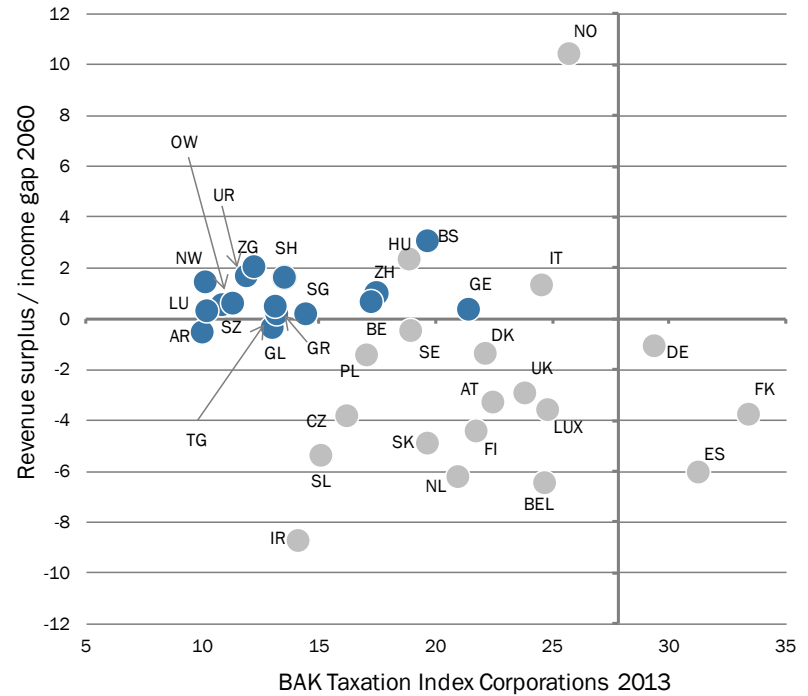
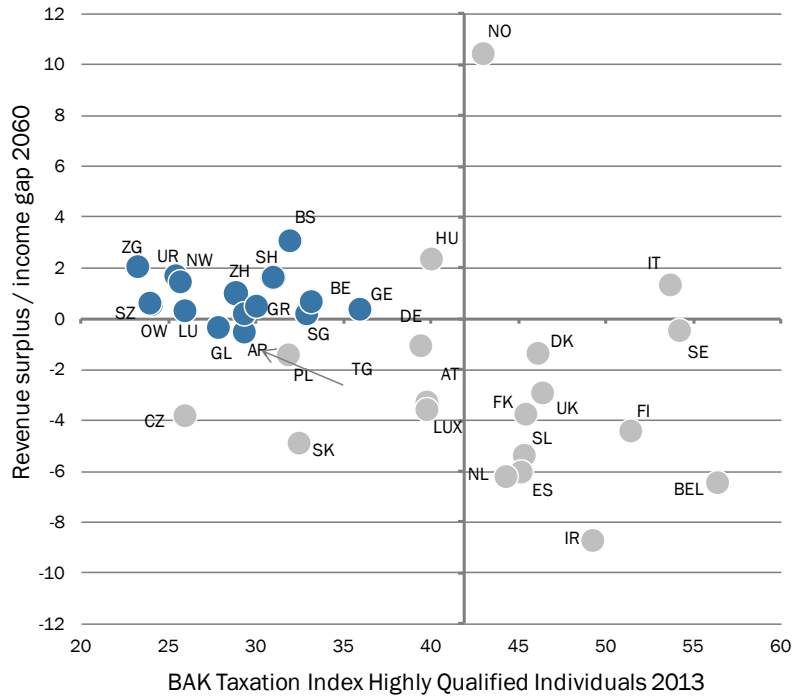


Expenditure as % of nominal GDP, indexed (2012 = 100); Swiss cantons incl. their communes and their assigned federal share (incl. social insurance). FK: France , AT: Austria, IT: Italy, DE: Germany, CH: Switzerland

Source: Oxford Economics, BAKBASEL , European Commission, EFV

Combined view of tax rates and public financing sustainability

Swiss cantons: sustainable fiscal policy (revenue surplus) and attractive taxation



The blue dots represent Swiss Cantons

X-axis: Effective average tax burden for highly qualified individuals / corporations (in the principal city; except for Italy: Milan) according to the 2013 BAK Taxation Index. Y-axis: Long-term revenue surplus/shortfall as a percentage of GDP; the X-axis intersects the Y-axis at 41.9% (highly qualified individuals) / 27.8% (corporations), which is the average tax rate of the BAK Taxation Index (GDP-weighted average over all locations)

Source: BAKBASEL, ZEW

Summary

- The evaluated Swiss cantons with their sustainable fiscal policies are better off than the majority of the examined European countries.
- Thanks to their relatively low indebtedness, the comparatively solid financial budgets and the continued high expectation of economic growth, most cantons also remain able to shoulder the expected costs of demographic change over the long term. It must be considered that the underlying assumptions based on general political conditions and the data used represent the state in the 2012 base year.
- Because of their sustainable fiscal policies, the examined Swiss cantons are also in an excellent position to retain their taxation attraction in the competition among international locations over the long term.

For more information, please visit www.baktaxation.eu > BAK Taxation Index > Financial Sustainability of Fiscal Policy

Contact

BAK Basel Economics AG
www.bakbasel.com

Beat Stamm
Project Director
T +41 61 279 97 06
beat.stamm@bakbasel.com

