Public Debt Audit: the case of Switzerland

(Speech by Mr Christian Melly, Chief of the Financial Inspectorate of the Canton of Valais)

Ladies and gentlemen,

The theme of this conference *(slide 1) is undoubtedly one of the most topical questions at present. With more or less intensity it affects all public communities; in this context, Switzerland, which has a reputation for being a rich country, is also affected by this problem*. Let us outline now the main aspects arising from it.

Situation in Switzerland *(slide 2)*

In 2005, according to the information provided by the Federal Department of Finances, gross public debt in Switzerland amounts to 168 billion euros for a population of 7.4 million inhabitants (a gross debt per inhabitant of about 22'600 euros). The distribution of this public debt among the different levels, that is to say, the Confederation, the cantons and the municipalities amounts to 86, 55 and 27 billion euros respectively. At the level of the public debt / GDP ration, Switzerland stands at 56% for a maximum of 60% according to the Maastricht criteria *(slide 3)*.

The state of Valais (canton) presents a gross public debt which comes to 1'368 million euros, that is to say, a debt per inhabitant of 4'700 euros and a public debt / GDP ration of approximately 50% *(slide 4)*.

Awareness of the situation

There is not a unique definition of a community's debt (gross debt, net debt, direct debt, public debt, etc.); in the same way, there is not an absolute rule which allows to determine when a community has run up debts excessively. However, different aspects should permit to become aware of the situation; in this sense, interest charges induced from indebtedness can be easily understood as an important factor to be taken into account. Moreover, different comparisons *(slide 5)* which have been made among cantons provide a thorough look on the situation: banks rating, credit conditions according to Bâle 2, annual indices prepared by the Institute of Higher Studies on Administration (www.idheap.ch), Maastrict criteria, etc.

At the level of the canton Valais, an external audit of the canton's indebtedness *(slide 6)* was carried out in 2003 at parliament's request. In its reports on budgets and accounts, the Commission of Finances of the cantonal parliament (*Grand Conseil*) has emphasized on several occasions a worrying situation which requires a sustained attention. The results arising from this audit confirm the assessment made by the Cantonal Financial Inspectorate (*Inspection cantonale des finances*) on the level of indebtedness.

Adopted Measures

Taking into account the freedom of choice arising from the Swiss federalist system along with a certain awareness of the situation as described before, Swiss communities have implemented several solutions in order to reduce their level of indebtedness.

For the Confederation *(slide 7)*, the Act of 22 June 2001 on the brake upon indebtedness specifies that the ceiling of total expenditure is established according to the estimated revenue bearing in mind the state of the economy (weighting factor to be considered); moreover, possible supplementary expenditure are set off the following year.

At cantonal level *(slide 8)*, the above-mentioned freedom of action leads to a variety of measures (most of Swiss cantons have done so) or even to a certain inactivity in isolated cases. As far as the canton of Valais is concerned, with its double brake upon expenses and indebtedness (Act of 9 June 2004), it has decided in favour of the most constraining mechanism regarding solutions implemented by Swiss cantons. Actually, this comes down to present a balanced budget of the operating account and the investment account ; besides, if the account has an excess of expenditure or insufficient financing, the redemption of these deficiencies must be foreseen in the budget of the second accounting period. In addition to the double brake, the cantonal parliament shows a constant will to keep down expenses (decree of 14 September 2005) and allocate any supplementary revenue to the reduction of the debt *(slide 9)*.

As far as local government is concerned *(slide 10)*, the different measures adopted are again specific to each particular canton. At Valais cantonal level, the *Loèche-les-Bains* case, which is going to be presented below, was a tremendous shock for the whole country. This led to draw up a new local government act dated 5 February 2004. Although this new act reasserts the principle of autonomy of local authorities, it institutes a certain number of requirements: excess of expenditure is accepted only there is no deficit in the balance sheet resulting from it – depreciation of administrative assets at 10% – a financial planning accompanied with a rescue scheme must be prepared in the event of deficiencies arising from the accounts – the cantonal government (*Conseil d'Etat)* is entitled to appoint an officer to present a rescue package – etc.

Conclusion

Although Switzerland is a rich country, it also has to face the problems of indebtedness and the need to adopt measures with a view to limit its effects. According to our experience in this subject, in order to reduce the debt of a public community it is required that the following elements converge in the same direction: awareness of the situation, willingness to reduce debts and legal basis imposing constraints, as well as a continuous follow-up work.

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