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Swiss Fiscal Policy after the End of the Fiscal Comfort Zone

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Abstract: Switzerland's Federal Council proposed the *Entlastungspaket 27* ("Relief Package 27"), a predominantly expenditure-side federal budget relief package, in response to rising defense needs and shrinking fiscal space. In the parliamentary process, however, the package was substantially scaled back. We show that under the parliamentary version of the package the projected financing balances remain negative, real federal expenditure grows faster than real GDP, and the package does not imply a contractionary fiscal stance. Thus, the Relief Package 27 may slow expenditure growth, but it does not amount to substantive consolidation. If Switzerland is to remain compliant with the debt brake, higher defense spending cannot be financed durably on top of existing spending commitments, but primarily through further reprioritization within the federal budget. Beyond Switzerland, this case illustrates the fiscal trade-offs that arise when new security priorities meet rigid expenditure structures under a credible fiscal rule.

Keywords: debt brake; fiscal consolidation; fiscal policy; public debt; Switzerland

JEL Classification: E62; H6

1 Introduction

Across Europe, the deterioration of the global security environment is prompting governments to raise defense spending (Bordignon and Turati 2024; Cepparulo et al. 2025; Furceri et al. 2026). Switzerland is no exception. After decades in which the post-Cold War peace dividend reduced the budgetary weight of defense, military expenditure is again set to increase on a sustained basis (Salvi and Güttinger 2025). In Switzerland, this adjustment is especially revealing because the federal debt brake rules out durable structural deficit financing, while a growing share of expenditure is legally or politically rigid (FFA 2021; Mosler and Schaltegger 2024). As a result, the

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fiscal trade-offs created by new spending commitments become particularly transparent.

It was in response to these pressures that the Federal Council proposed the Entlastungspaket 27 (“Relief Package 27”), a consolidation package intended to stabilize the budget by expenditure cuts and preserve compliance with the debt brake (FDF 2026). In the parliamentary process, however, the package was substantially scaled back (Swiss Parliament 2026a). This raises the question of whether the parliamentary version of the Relief Package 27 amounts to substantive consolidation and what it implies for the scope to finance higher defense spending within the federal budget. Beyond Switzerland, the case speaks to a more general question of fiscal policy. How can governments credibly adjust their budgets when new spending priorities collide with expenditure structures shaped by long-term commitments and limited flexibility?

This paper proceeds in four steps. First, we describe Switzerland’s fiscal starting position and the Swiss debt brake. Second, we illustrate the changing fiscal environment created by the end of the peace dividend and the growing rigidity of federal expenditure. Third, we introduce the Relief Package 27 and assess the consolidation properties of the version ultimately adopted by Parliament. Lastly, we consider whether higher defense spending can still be accommodated through reprioritization within the federal budget under the debt brake.

2 Institutional Background

2.1 Low Debt, Limited Fiscal Room

At first glance, Swiss federal finances appear robust. The federal debt ratio is low at around 15 percent of GDP, while central government balances have mostly remained close to balance since the 2000s (see Figure 1). In addition, interest payments amount to only around 1 percent of revenue (FFA 2026; World Bank 2025). However, a favorable debt position and low interest burden do not, by themselves, imply sufficient fiscal space for additional spending commitments. Rather, they reflect a longer fiscal trajectory shaped by institutional discipline and favorable historical conditions.

During the 1990s, Swiss federal finances deteriorated markedly, with the federal gross debt ratio rising from around 10 percent of GDP in 1990 to about 23 percent by 2000 (FFA 2026). This deterioration was only partly cyclical and was reinforced by a political-institutional asymmetry. Tax increases typically required a constitutional change and therefore a mandatory popular vote, whereas expenditure increases usually needed only a simple parliamentary majority. In practice, this created a bias

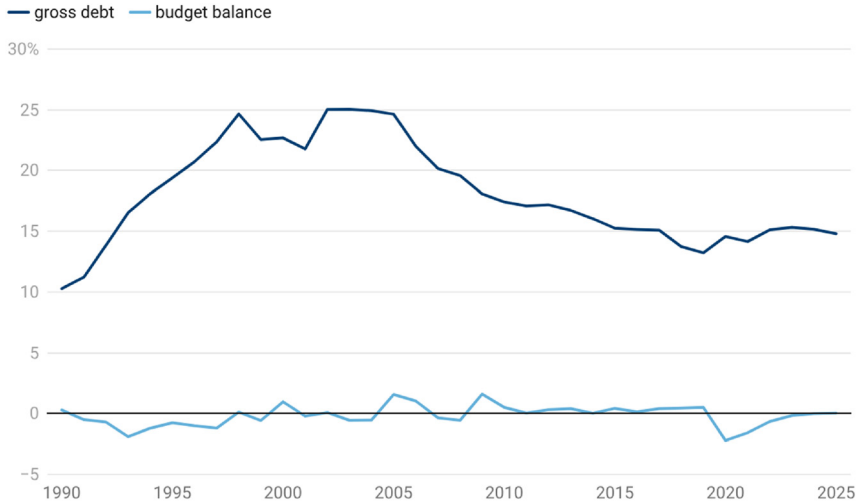


Figure 1: Federal gross debt and budget balance, 1990–2025, percent of GDP. Source: FFA (2026).

toward higher spending and made fiscal consolidation in good times more difficult (Geier 2011; Schaltegger and Weder 2010). Although the Swiss constitution had already contained a provision since 1959 requiring federal budget deficits to be reduced in line with economic conditions, in the sense of a countercyclical fiscal stance over the business cycle, this earlier framework did not prevent the deterioration of the 1990s (Jarck et al. 2022). The debt brake, endorsed by voters with 85 percent support and in force since 2003, was introduced to correct this pattern. Since then, it has provided a constitutional and operational framework for Swiss federal fiscal policy (Brandt et al. 2025; Mosler and Schaltegger 2024).

The debt brake binds federal expenditure to the revenue base over the business cycle. The annual expenditure ceiling is determined on the basis of expected revenues and adjusted for current economic conditions through the cyclical adjustment factor, which acts as a multiplier for permissible expenditure. In downturns it is greater than 1, allowing temporary deficits, whereas in boom periods, it is below 1, requiring surpluses. In this way, the rule does not aim at balanced budgets in every single year, but at fiscal discipline across the cycle. Deviations from the expenditure ceiling are recorded in the compensation account, while extraordinary expenditure is treated separately through the amortization account and must subsequently be offset. This mechanism serves to stabilize the nominal debt level and tends to reduce the debt-to-GDP ratio over time as the economy keeps growing (Salvi et al. 2020).

Empirical evidence suggests that the Swiss debt brake has been effective in achieving this objective. Brandt et al. (2025) find that the federal debt ratio in 2022

was more than 21 percentage points lower than in a counterfactual without the debt brake. Earlier studies likewise conclude that the rule reduced debt and improved budget balances (Pfeil and Feld 2024; Salvi et al. 2020). At the same time, the available evidence does not suggest that this fiscal consolidation came at the cost of a broad retrenchment of central government functions. Brandt et al. (2025) find no statistically robust effects on aggregate expenditure, social spending, subsidies, education, or public investment. In sum, the debt brake appears to have functioned primarily as a durable disciplinary device rather than as an instrument of across-the-board retrenchment.

The current fiscal outlook shows that fiscal room within the federal budget is becoming tighter. This is already visible in the 2026 budget figures. Swiss federal expenditure is projected to grow by around 4 percent, whereas the economy is expected to expand by only about 1.5 percent. At the same time, the federal government expects a financing deficit of roughly CHF 0.7 billion (FFA 2026; Seco 2026a). Under the debt brake, such pressures cannot be accommodated durably through structural borrowing but must be absorbed within the ordinary federal budget. These developments lead to the question of how much room for maneuver remains within the federal budget when new priorities arise. To answer that question, the composition of expenditure and the degree of fiscal flexibility must be examined more closely.

2.2 Expenditure Composition and Fiscal Flexibility

Figure 2 illustrates how the composition of Swiss federal expenditure has shifted since 1990 and why fiscal room within the federal budget has become more constrained. Whereas expenditure on security and defense as well as social welfare each accounted for around 20 percent of total expenditure in 1990, by 2025 security and defense accounted for only around 8 percent, compared to roughly 34 percent for social welfare. Thus, the fiscal leeway associated with the post-Cold War decline in defense spending was not simply retained but increasingly reflected in higher social expenditure shares (Potrafke and Thielmann 2015; Schuknecht and Zemanek 2021).

This shift has tangible consequences for budget flexibility. Particularly in the social sector, a large share of expenditure is tightly constrained by law and therefore difficult to steer in the short run. According to the Federal Finance Administration, such strongly bound expenditure already accounts for more than 60 percent of total federal expenditure. Particularly dynamic growth is occurring in bound social spending, such as the federal contribution to the Swiss public pension system (old-age insurance), contributions to cantonal individual premium subsidies, and contributions to old-age supplementary benefits. Together, these spending items

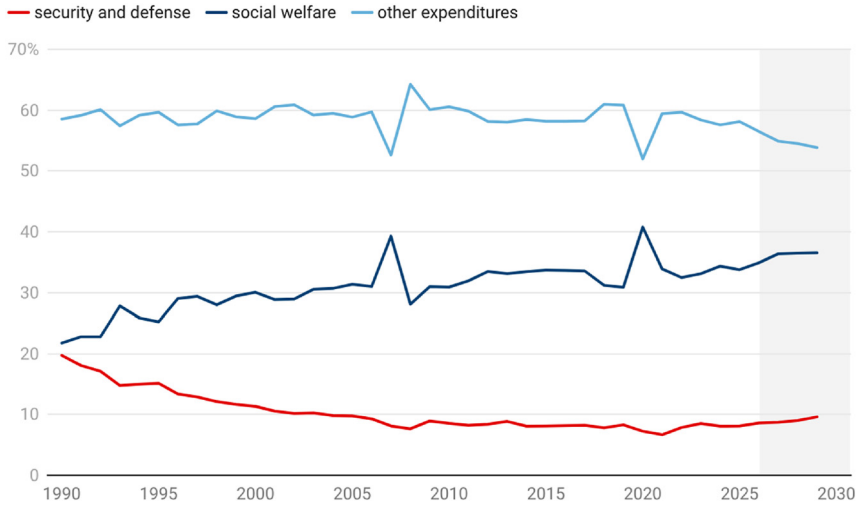


Figure 2: Federal expenditure by functional area, 1990–2029, shares of total expenditure. Source: FFA (2026).

absorb more than one-fifth of the budget and are likely to grow faster than revenues for the foreseeable future (FFA 2021; FFA 2026). Additional pressure comes from the 13th old-age insurance pension payment, approved by voters in March 2024 and first paid in December 2026, which will further raise the federal contribution to the old-age insurance system (Mosler et al. 2026).

Against this background, the budgetary room for other tasks becomes more limited. At the same time, the post-Cold War decline in defense spending is coming to an end. The renewed increase in army expenditure is linked to the deterioration of the security environment in Europe following Russia's attack on Ukraine. In response, the Federal Council and Parliament have committed to raising military spending gradually to 1 percent of GDP by 2032. The stated aim is to strengthen Switzerland's defense capability and advance the modernization of key military systems (DDPS 2025). According to recent data, the share of security expenditure in total federal expenditure is expected to rise from around 8 percent in 2025 to around 9.5 percent in 2029. This corresponds to an increase of about CHF 2.2 billion (FFA 2026). This suggests that the fiscal room associated with the post-Cold War peace dividend is shrinking and that, in a budget with a high share of bound expenditure, trade-offs across spending areas are becoming more explicit (Salvi and Güttinger 2025). Because the debt brake does not allow such pressures to be financed durably through structural deficits, rising defense expenditure creates an adjustment need within the ordinary federal budget.

3 Addressing Fiscal Challenges

3.1 The Relief Package 27

The Relief Package 27 was the Federal Council's response to this emerging structural adjustment problem in the federal budget. In 2025, the Federal Council projected that, from 2027 onward, expenditure would rise faster than revenues, so that deficits of more than CHF 2 billion would appear despite continued revenue growth. The deficits were projected to approach CHF 4 billion by 2029. Under the debt brake, these imbalances could not be financed durably through new structural borrowing. Fiscal adjustment therefore had to occur within the ordinary budget. The Relief Package 27 was therefore conceived as a structural budget-relief and consolidation package rather than as a cyclical stabilization instrument. Its purpose was to restore budgetary balance, safeguard compliance with the debt brake, and slow expenditure growth without reducing the size of the state (FDF 2026; Gaillard et al. 2024; Swiss Federal Council 2025).

The package evolved in several stages. After mandating an expert group in March 2024 to identify relief potential within the federal budget, the Federal Council put together a predominantly expenditure-side package in September 2024. It then opened public consultation¹ in January 2025 on this broad package of 59 individual measures, more than half of which required legislative change. At that stage, the package was presented not as a one-off austerity exercise, but as a broad reprioritization across almost all policy areas, including the federal administration itself. More than 90 percent of the projected relief came from the expenditure side, while federal spending was still expected to continue growing by more than 2 percent per year. Following the public consultation, and especially in response to objections from the cantons, the Federal Council adjusted the package in June 2025 and thus already reduced its potential consolidation effect. When it transmitted the Relief Package 27 to Parliament in September 2025, the package had become the government's central instrument for addressing the adjustment pressures created by rising defense spending, the federal contribution to the 13th old-age insurance pension payment,

¹ The public consultation (*Vernehmlassung*) in Switzerland is a pre-parliamentary stage of the legislative process. After the Federal Council has prepared a draft law or major policy proposal, it is circulated to cantons, political parties, and key interest groups. These actors review the draft and submit written comments, focusing on feasibility, consistency, and potential economic or political implications. These comments are published publicly. Based on this feedback, the Federal Council revises the proposal. Only after this consultation phase is completed does it formally submit the potentially amended bill to Parliament for deliberation. By identifying concerns and opposition early, the process increases the likelihood that a proposal will survive both the parliamentary debate and a possible referendum.

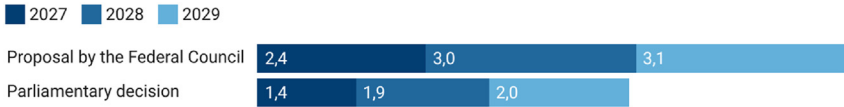


Figure 3: Relief package 27 before and after parliamentary deliberation, CHF billion. Sources: Swiss Federal Council (2025), Swiss Parliament (2026a, 2026b, 2026c).

and the broader tension between expenditure dynamics and the debt brake (FDf 2025a; FDF 2025b; FDF 2026).

3.2 The Parliamentary Version of the Relief Package 27

In Parliament, the package was progressively reduced before being approved in the final vote on March 20, 2026 (see Figure 3). Politically salient areas such as agriculture were largely protected. In the Federal Council’s proposal, agricultural expenditure cuts averaged CHF 110 million per year over 2027 to 2029 but following the parliamentary process they were reduced to roughly CHF 3 million. The proposed cut to quality and sales promotion² was only partly accepted, while several other agricultural measures were eliminated entirely, including subsidies for livestock farming, fruit processing, landscape-quality payments and disposal fees for proper disposal and recycling of animal by-products. The proposed cut to indirect press support of CHF 20 million annually was likewise rejected in full.

By contrast, major expenditure cuts were maintained in other areas. In international development cooperation, the freeze in expenditure averaged around CHF 169 million per year in the Federal Council’s proposal and was even slightly increased to CHF 183 million annually in Parliament. Likewise, the cuts to the federal administration’s operating and personnel costs, averaging CHF 273 million annually, and to asylum-related expenditure, averaging CHF 356 million per year, remained unchanged. On the revenue side, both substantive proposed measures, amounting to CHF 254 million annually, were rejected in full (Swiss Parliament 2026b).

The parliamentary version thus differs from the government proposal not only in scale, but also in composition. Fiscal adjustment became more selective and politically more constrained. This pattern suggests that Parliament did not simply scale back the package but also shifted adjustment away from politically salient

² Quality and sales promotion is, among others, designed to support Swiss agriculture by co-financing communication measures that are intended to strengthen domestic demand, shift consumption toward Swiss products, maintain and diversify exports, open foreign markets, and raise awareness of the sector’s public goods.

spending areas and toward a narrower set of less protected items. Relative to the Federal Council's proposal, the parliamentary version therefore implies a markedly smaller budgetary relief volume.

This weaker consolidation effect is also visible in the projected budget balances. Whereas the Federal Council's version still implied roughly balanced outcomes for 2027 and 2028, the parliamentary decisions result in deficits in every year. For 2027 and 2028, the revised figures imply deficits of close to CHF 1 billion, and for 2029 a deficit of around CHF 1.6 billion (see Table 1). Nor is the expected expenditure growth halted. From 2025 to 2029, real expenditure rises by around 2.3 percent per year, revenues by around 2.0 percent, while real GDP grows by only around 1.3 percent. The federal expenditure ratio, which had been stable since the 1990s, is therefore likely to increase (FFA 2026; Swiss Parliament 2026a, 2026b; Seco 2026b).

3.3 The Fiscal Impulse of the Relief Package 27

That the Relief Package 27 does not deliver substantial consolidation after the parliamentary process is evident not only in the financing balances and the dynamics of expenditure, but also in the fiscal impulse (see Figure 4). The fiscal impulse captures whether fiscal policy becomes more expansionary or more contractionary from one year to the next, after abstracting from cyclical fluctuations (IMF 2008; Schaltegger and Weder 2010). Specifically, we define the fiscal impulse as the negative annual change in the cyclically adjusted primary balance as a share of GDP, $FI_t = -\Delta CAPB_t$, where a positive value indicates an expansionary discretionary stance and a negative value a contractionary one. Thus, a positive fiscal impulse means that the cyclically adjusted primary balance deteriorates relative to the previous year,

Table 1: Federal financing balances according to the updated budget figures, 2026–2029.

Year	Relief package 27 as proposed by the federal council	Relief package 27 after the parliamentary decision
2026	–0.7 CHF bn.	–0.7 CHF bn.
2027	0.3 CHF bn.	–0.7 CHF bn.
2028	0.3 CHF bn.	–0.8 CHF bn.
2029	–0.5 CHF bn.	–1.6 CHF bn.

Sources: Swiss Federal Council (2026), FFA (2026), Swiss Parliament (2026a, 2026b, 2026c).

Note: The financing balance for 2026 was calculated based on the 2026 budget. For 2027–2029, the updated budget figures for 2027–2029 published on February 18, 2026, were used. Starting from these updated budget figures, the budgetary effect of the planned, but still subject to a popular vote, temporary VAT increase for financing the army and security was netted out for 2028 and 2029. The Council of States version of Relief Package 27 implicitly embedded in the updated budget figures was then replaced by the relief volumes according to the Federal Council's proposal and the parliamentary decision. Rounding differences are possible.

implying less budgetary restraint, whereas a negative value indicates an improvement in the cyclically adjusted primary balance and hence a more contractionary stance. The cyclically adjusted primary balance corresponds to cyclically adjusted revenues minus primary expenditure, with revenues adjusted by the ratio of potential to actual GDP. Potential GDP is calculated using the Hodrick-Prescott filter with a smoothing parameter of 100. Primary expenditure is defined as expenditure minus interest payments.

The cyclically adjusted primary balance is useful when assessing the consolidation effect of the Relief Package 27 because it abstracts from temporary cyclical fluctuations and focuses on whether the package improves the underlying fiscal stance. For a package presented as structural budget relief, the cyclically adjusted primary balance should improve in a sustained way. In the literature on fiscal consolidation, substantive consolidations are typically associated with durable

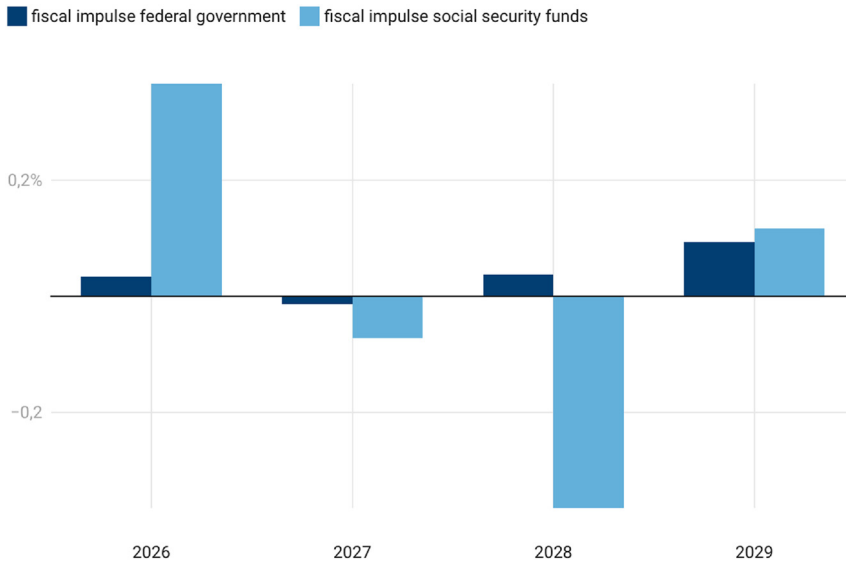


Figure 4: Fiscal impulse of the federal budget and the social security funds, 2026–2029, percent of GDP. Sources: Swiss Federal Council (2026), FFA (2026), Swiss Parliament (2026a, 2026b, 2026c), Seco (2026b). Note: For the federal government, the same budget data was used as in Table 1. The fiscal impulse is reported as the annual change in the cyclically adjusted primary balance as a percentage of real GDP multiplied by -1 . The primary balance corresponds to revenues minus expenditure excluding interest payments. For cyclical adjustment, revenues are adjusted by the ratio of potential to actual GDP. Potential GDP is calculated using the Hodrick-Prescott filter with a smoothing parameter of 100. Primary expenditure remains unchanged. In the figure, a positive value denotes an expansionary impulse, whereas a negative value denotes a contractionary impulse.

expenditure restraint and credible reprioritization rather than temporary relief measures (Alesina and Ardagna 2010; Alesina et al., 2019a, 2019b). That is, a consolidation should be associated with a consistent improvement in the cyclically adjusted primary balance rather than an expansionary fiscal impulse. In this context, expansionary refers to a weakening of the underlying budget balance after cyclical adjustment, not to stronger economic activity.

Since the Relief Package 27 applies only to the federal budget, we first consider the central government balance. There, the fiscal impulse is expansionary in 2026, 2028, and 2029. In other words, there is a temporary improvement in the cyclically adjusted primary balance in 2027, but this is not sustained. In 2028 and 2029, the cyclically adjusted primary balance deteriorates again, consistent with the financing balances discussed above. Once the social insurance funds are included, the picture becomes more mixed: the combined stance is contractionary in 2027 and 2028, but expansionary in 2026 and 2029. The Relief Package 27 may slow expenditure growth relative to the baseline, but if a package presented as budget relief leaves the discretionary stance in the federal budget expansionary in most years, the case for calling it substantive consolidation becomes weak.

3.4 Scope for Reprioritization within the Federal Budget

The Relief Package 27 therefore does not fully resolve the question of how higher defense spending is to be financed within the existing fiscal framework. Nor does the Federal Council's proposal for additional financing through increasing the value-added tax fundamentally change that issue. The proposal, which still requires approval through a popular vote, envisages a temporary increase in VAT of 0.8 percentage points from 2028 for 10 years. While this would create an additional funding source for security and defense, it would also shift part of the adjustment burden from the expenditure side to the revenue side. In the fiscal-consolidation literature, however, durable and successful adjustment is more strongly associated with expenditure restraint and credible reprioritization than with revenue-based financing (Alesina et al. 2019a, 2019b). Consistent with this, the Federal Council presents the VAT increase not as a substitute for Relief Package 27, but as a complement to it in the effort to restore budgetary balance. Even under this combined approach, however, the budget constraint remains binding. From 2029 onward, the VAT increase would not be sufficient to balance the budget (Swiss Federal Council 2026). If new security priorities are to be accommodated under the debt brake, they must be reconciled with the state's other tasks.

This brings the question of fiscal flexibility within the existing budget back to the forefront. To illustrate the expenditure magnitude involved, Figure 5 compares the

planned increase in military spending between 2025 and 2029 with projected federal expenditure in selected spending categories in 2029. The purpose of this comparison is illustrative. These comparisons are intended to show that the budget contains spending categories of sufficient size that, in principle, could accommodate at least part of the planned increase through reprioritization. Measured in this way, the contemplated increase in military spending amounts to about 52 percent of projected 2029 expenditure on agriculture and food, about 47 percent of expenditure on international cooperation, and about 44 percent of expenditure on health insurance. In the latter category, the largest component is the federal contribution to individual premium subsidies. Relative to projected expenditure on education and research and on transport, the increase amounts to roughly 20 percent and 17 percent, respectively. Relative to total social spending it amounts to only around 5 percent.

This comparison shows that while the increase in military spending is fiscally substantial, the adjustment needs not necessarily be financed through additional taxes. That agriculture remains largely spared after the parliamentary decision on the Relief Package 27 suggests that the difficulty lies not only in identifying savings potential, but also in reallocating expenditure across politically salient spending areas. There also appear to be potential for efficiency gains within the federal budget. Estimates and studies by international organizations such as the IMF (2025) indicate that even advanced economies exhibit substantial efficiency gaps. While they vary across sectors, they average around 30 percent. In international benchmarks,

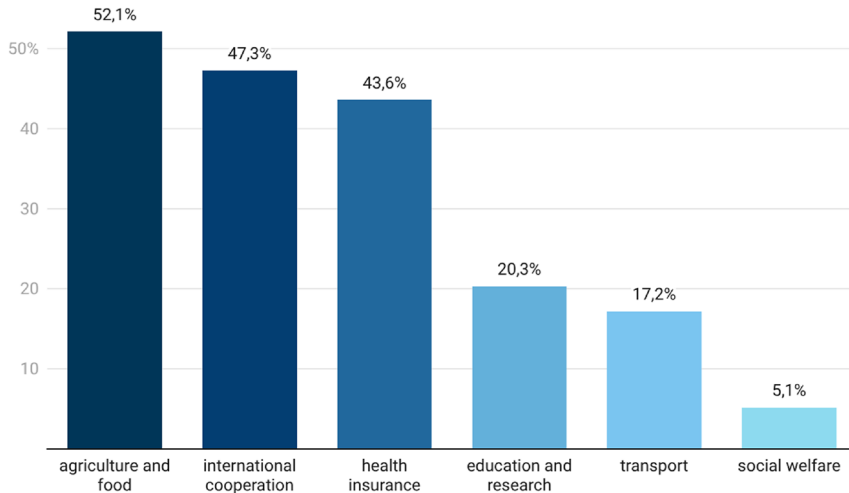


Figure 5: The increase in military spending, 2025–2029, share of total expenditures by spending area in 2029. Sources: FFA (2026, 2025).

Switzerland performs better than average but still shows considerable room for improvement (World Bank 2018). One indication is the federal wage premium relative to the private sector of around 12 percent, which points to continued room for savings even after the planned wage reductions under Relief Package 27 (Portmann et al. 2024). A similar point applies to the still considerable federal subsidy volume. Within the federal subsidy system, transfers to social security schemes are quantitatively dominant. They amount to approximately CHF 24 billion on the expenditure side, largely driven by federal contributions to old-age insurance (Mosler et al. 2026). Accordingly, discussions of expenditure-side reprioritization should also include the social security domain.

4 Conclusions

Switzerland faces a fundamental fiscal policy choice. The peace dividend is running out, while new security priorities are meeting a federal budget with a high share of legally bound expenditure. In this environment, sufficient fiscal space needs to be created. The parliamentary version of the Relief Package 27, intended to create exactly this fiscal space, does not amount to substantive consolidation. Projected financing balances remain negative, real expenditure continues to grow faster than real GDP, and the package does not produce a contractionary fiscal stance. If Switzerland is to remain compliant with the debt brake, additional defense spending cannot be financed durably on top of existing commitments, but primarily through reprioritization within the federal budget, where efficiency gains remain possible. In practice, this points to adjustment through reprioritization across spending areas, reductions in subsidy volumes, and efficiency gains, for example, in public wage setting.

The Swiss case also speaks to a fiscal policy problem faced by many advanced economies. Higher defense needs are increasingly colliding with expenditure structures shaped by demographic pressures, legally or politically rigid budget items, and limited room for permanent deficit financing. Switzerland's strict and transparent fiscal rule makes these trade-offs especially visible. The experience with the Relief Package 27 suggests that when new fiscal priorities arise, slowing expenditure growth is not enough if budgetary balance is not durably restored. Durable adjustment is likely to require reprioritization within the existing budget. In that sense, the Swiss experience highlights a more general fiscal policy lesson. When the fiscal comfort zone ends, credible adjustment depends less on one-off savings packages than on a sustained willingness to confront expenditure rigidities and make explicit choices across competing public priorities.

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