Transport Infrastructure Investments in Switzerland

In the past years, the Swiss construction sector has been driven by residential construction and investments in health and educational buildings linked to a growing population. In the coming years, with the implementation of two new infrastructure funds, the dynamic will shift towards investments in road and railway infrastructure. This development is remarkable, particularly in European comparison, since the condition of the Swiss infrastructure is already good and its maintenance still enjoys a political priority.

The world's longest railway tunnel, the new Gotthard base tunnel, was officially opened on 1 June 2016 after 17 years of construction. The 57 kilometre long tunnel crosses the Gotthard Massif from Erstfeld in the North to Bodio in the South. The tunnel is part of the New Transalpine Project (NEAT), which aims to facilitate railway transit through the Alps from North to South. With the start of passenger transport on 11 December 2016, the travel time from Zurich to Lugano is now 30 minutes shorter. It will be further reduced by 15 minutes from 2020 onwards when the Ceneri base tunnel opens. The Gotthard base tunnel received an immense investment volume of about 11 billion euros and therefore has influenced the Swiss engineering sector strongly in the past decade. In 2017, the NEAT project will absorb only 300 million euros, which is 57 per cent less than this year. The focus is now on the Ceneri base tunnel from Bellinzona to Lugano.

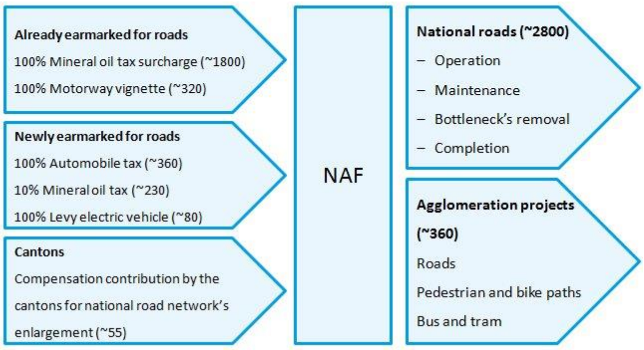
Railway infrastructure fund replaces new transalpine investments

Nevertheless, construction work on the Swiss railway network is still developing dynamically with forecasted growth rates in real terms of 9.3 per cent in 2016 and 10.4 per cent in 2017. On 1 January 2016, the Swiss government implemented a railway infrastructure fund on a constitutional level. This fund finances the expansion and maintenance of the Swiss railway system and receives about 4.5 billion euros per year, which include 2.3 billion euros from the federal budget as well as from several other revenue streams (heavy traffic levy, VAT, mineral oil tax, direct federal tax, cantonal contributions). From 2016 to 2018, investments of an average of 3.6 billion euros per year are planned. In 2015, railway infrastructure investments added up to only 1.5 billion euros. About 60 per cent of the planned investments will cover maintenance works. The enlargement of the infrastructure in the past years and a high network utilization require investments into the existing infrastructure. The fund's unlimited nature allows railway infrastructure investments to be directed long-term and independent from the federal states' budget in each year.

National road and agglomeration transport fund boosts civil engineering sector from 2018 onwards

In addition to the railway infrastructure fund, the Swiss government currently plans to implement a national road and agglomeration transport fund (NAF) from 2018 onwards. The NAF has a similar mechanism to the railway infrastructure fund (figure 1). The NAF receives revenues, for instance parts from the mineral oil tax, the mineral oil tax surcharge, revenues from the automobile tax and the motorway vignette. The fund's deposits finance the enlargement, maintenance and operation of the road network. In contrast to the currently operating fund, which also finances roads, the duration of NAF will be unlimited. Therefore, it will be less dependent on the fiscal budget.

Figure 1: Mechanism national road and agglomeration transport fund



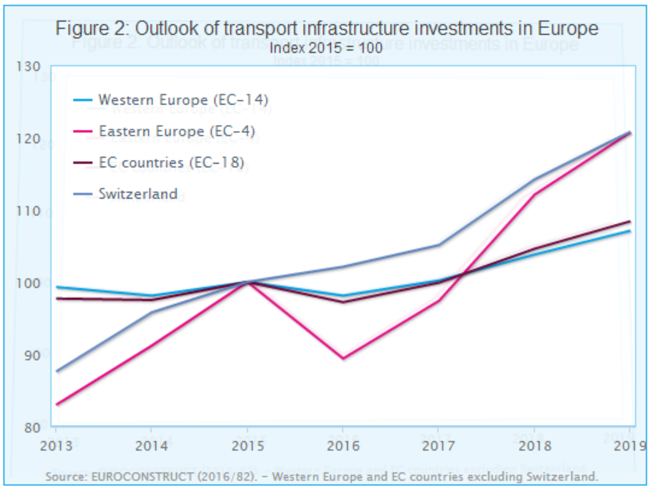
S: KOF (2016). – 1) based on revenues in 2015. – 2) based on financial plans 2018-2030.

According to the federal state's financial plan, road investments will increase by 26 per cent nominally in 2018. The Swiss electorate has to decide on the bill in a plebiscite since it will involve an amendment of the constitution. The plebiscite will take place on 12 February 2017.

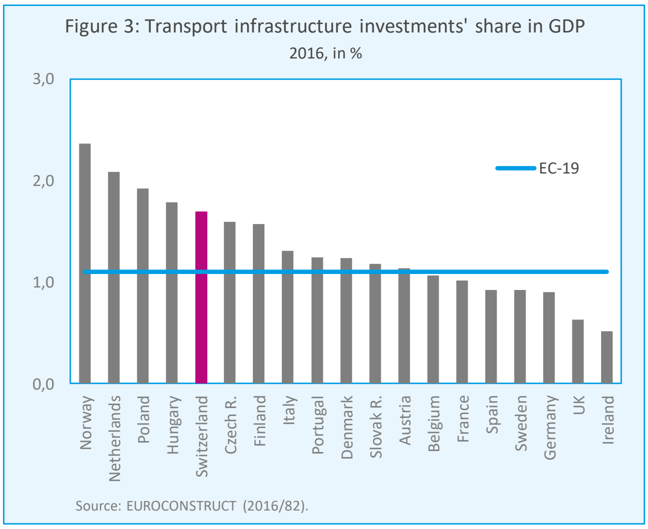
There is a high probability that the proposal will be accepted, although a similar initiative on road financing was rejected in June 2016 ("Milchkuhinitiative"). The NAF differs significantly from the rejected proposal because the latter merely proposed an increase of financial means for roads without solving structural issues of the financing structure in the long-term. After two weak years 2016 and 2017, we expect road investments to pick up in 2018 and 2019 with growth rates of 14 and nine per cent, respectively.

Swiss transport infrastructure investments in European comparison

In the past, the Swiss construction sector was driven by the residential sector and the construction of health and educational buildings linked to an expanding population with high immigration inflows. The investments in the Swiss infrastructure stemming from the railway infrastructure fund in 2016 and 2017 as well as the NAF in 2018 and 2019 support the Swiss civil engineering sector. Hence, with easing immigration inflows and a muted economic environment, the Swiss construction sector's dynamic will shift towards civil engineering in the coming years.



Also in European comparison, the transport infrastructure investments perform very dynamically (figure 2) and well above the EUROCONSTRUCT average. From 2017 to 2019, the average annual forecast for Swiss transport infrastructure investments is 5.8 per cent in real terms, while the EUROCONSTRUCT average is 3.8 per cent. The Eastern European countries have the strongest forecast with average growth rates of 10.6 per cent from 2017 to 2019. Another dynamic group comprises the Scandinavian countries with average growth of 4.5 per cent.



Furthermore, the transport infrastructure investment's share in GDP of 1.7 per cent in Switzerland (2016) is high in European comparison (EUROCONSTRUCT-19: 1.1%). Switzerland ranks in fifth place after Norway, the Netherlands, Poland and Hungary (figure 3). These high investments into the Swiss transportation network are particularly remarkable since the infrastructure already has a good substance. In many other European countries, the network's condition requires high renovation investments. The maintenance of the existing network is nevertheless a priority of the Swiss government as can be seen by the implementation of the infrastructure funds on the constitutional level.

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