

# European Economics: Forecasts and themes

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## Let's stick together

As evidence of rising output in the euro area and UK becomes increasingly compelling, **we continue to think the recovery will be solid and sustained**. In particular, final demand – in the shape of consumer and corporate spending and exports – should show a clear improvement as the year develops. The recovery should also become increasingly apparent in the labour market. **Our growth forecasts for this year and next (2.0% and 2.5% in the euro area; 1.5% and 2.5% in the UK) are unchanged.**

Although inflationary pressures should remain extremely subdued in the wake of the recent recession, **we think that monetary policymakers will stop easing and start withdrawing some of the extraordinary stimulus that's currently in place**. In the euro area that will take the form of a less generous liquidity provision in the first half of the year followed by rising policy rates in the second. We expect the Bank of England to halt its quantitative easing programme in February and raise rates later this year. Given its track record, the MPC could be the central bank that surprises us by starting its tightening cycle relatively early.

**An important feature of our growth forecast is that we expect a wide divergence of economic performance within the euro area. Germany has already outperformed** its peers during the early stages of recovery. We'd expect that to continue as it seems particularly well placed to benefit from the global rebound. By contrast we would expect **those countries with considerable structural headwinds – Spain, Ireland, Greece and Portugal – to remain in recession or see negligible growth this year.**

Those wide growth differentials are a challenge for a “one size fits all” monetary policy. However, they also have **implications for fiscal policies and sovereign risk** and we take a look at a number of related issues in the second part of this note.

As well as looking at **recent trends in public finances in Europe** we also review **the institutional aspects of a country leaving EMU, or a finding itself in financial distress within it**. Although it is now legally possible for a country to choose to leave EMU – it cannot be forced out – we think the economic and political consequences make it extremely improbable. A default of a member remaining in EMU is less inconceivable, but we highlight the “solidarity” instruments within the EU that could be used to prevent such an outcome.

Finally, **we also take a look at the key considerations of ratings agencies when it comes to assessing the sovereign ratings**, taking the UK as an example.

## The economic outlook

### The economic outlook pages 3 to 17

#### Good times, bad times pages 3 to 9

We continue to think the recovery in the euro area and UK will be strong and sustained, with final demand playing an increasingly important role this year. The recovery should also become more apparent in the labour market. However, strong euro area growth at the headline level is likely to mask a wide divergence of economic performances at the country level. We expect the strong outperformance from Germany to continue – driven by rapid export growth – while other member states – most notably Spain, Ireland, Greece and Portugal – remain in, or close to, recession.

#### Inflation: The recession bites pages 10 to 11

With the recession over, we think core inflation in the euro area and UK will trend downwards over the next couple of years, in a similar way to that seen after previous recessions. The downwards momentum in core inflation in the euro area is already apparent. In the near term core inflation in the UK is likely to be affected by the lagged effects of sterling's depreciation and changes in indirect taxes, but there is still evidence that spare capacity is putting considerable downwards pressure on domestic inflation.

#### ECB: Edging towards the exit and higher rates pages 12 to 14

The year is likely to be dominated by the gradual end of non-standard monetary policy measures in the first half of the year. By the second half this could be compounded, in our view, by the gradual increase in interest rates from their exceptionally low levels.

#### Bank of England: All things must pass pages 14 to 15

We think the Bank of England's quantitative easing programme will end at its February meeting, as evidence of recovery mounts and asset prices and financial markets improve. On the basis that the recovery continues, we expect rates to begin rising from their current low levels in the second half of the year.

#### Fiscal policy: Trends at the country level pages 16 to 17

The evidence available so far points to continued deterioration in government balances across Europe, as expected in light of the recession. However, the deterioration in a few countries has been less fierce than estimated a few months ago.

#### Institutional and policy studies pages 18 to 31

#### Country economic forecasts pages 32 to 35

#### Summary macroeconomic data pages 36 to 38

## Good times, bad times

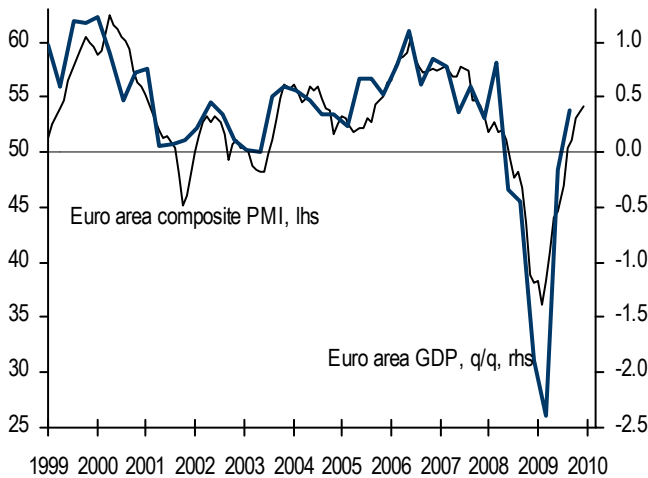
As evidence of rising output in the euro area and UK becomes increasingly compelling, we continue to think the recovery will be solid and sustained. In particular, final demand – in the shape of consumer and corporate spending and exports – should show a clear improvement as the year develops. The recovery should also become increasingly apparent in the labour market. This year, we look for the euro area economy to grow by 2.0% and the UK by 1.5%.

We expect the recovery to continue next year – with growth rates of 2.5% in the euro area and 2.5% in the UK. Market participants have two major concerns about our relatively optimistic prognosis. The first is that “deleveraging” will remain a major headwind to expansion and the second that any unwind of the exceptionally loose monetary and fiscal policies of the past year will derail, or put at risk, such an expansion. We are not so worried about either risk.

That said, strong euro area growth at the headline level is likely to mask a wide divergence of economic performances at the country level. We expect the strong outperformance from Germany to continue – driven by rapid export growth – while other member states – most notably Spain, Ireland, Greece and Portugal – will remain in, or close to, recession.

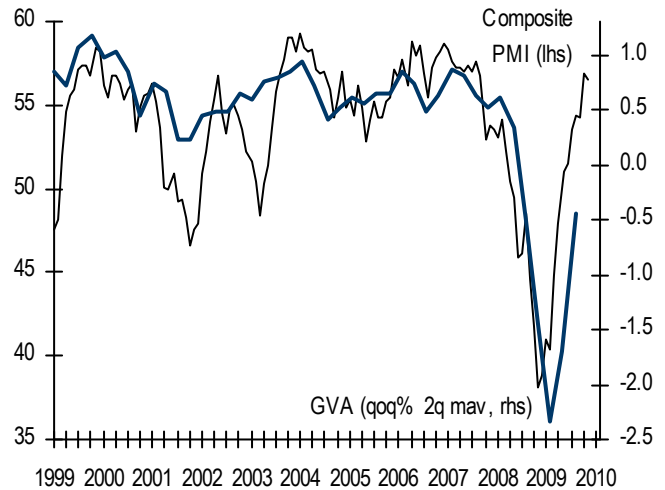
Economic indicators suggest that the expansion gathered further momentum around the turn of the year. The composite PMIs are now at levels consistent with annual growth of over 1½% in the euro area and over 3% in the UK. ‘Hard’ economic data aren’t quite as strong as that, particularly in the latter case, but are still pointing to continued expansion through the fourth quarter.

**Exhibit 1: Euro area composite PMI and GDP growth**



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**Exhibit 2: UK composite PMI and GDP growth**

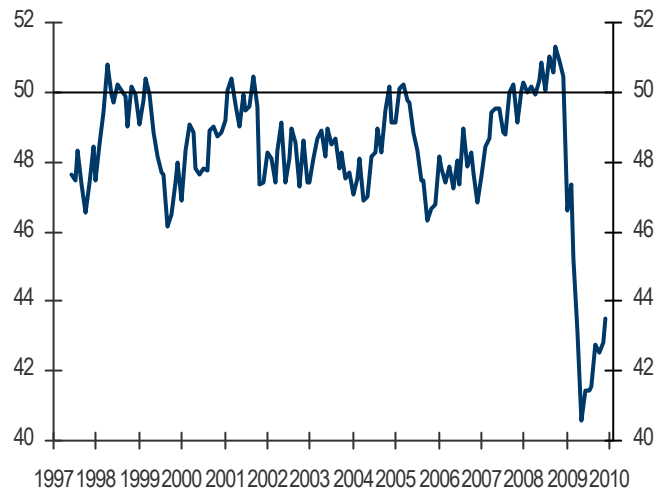


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Some of that **improvement in output** – especially in the manufacturing sector – may be **due to developments in the inventory cycle**. If so, that’s a trend that’s likely to continue. Both GDP data and business surveys suggest that **firms are still running down inventories at an extremely rapid pace**. The PMI survey – which asks whether stocks have risen or fallen ran well below the breakeven 50 level for much of last year. As of December there was little evidence that the pace had abated.

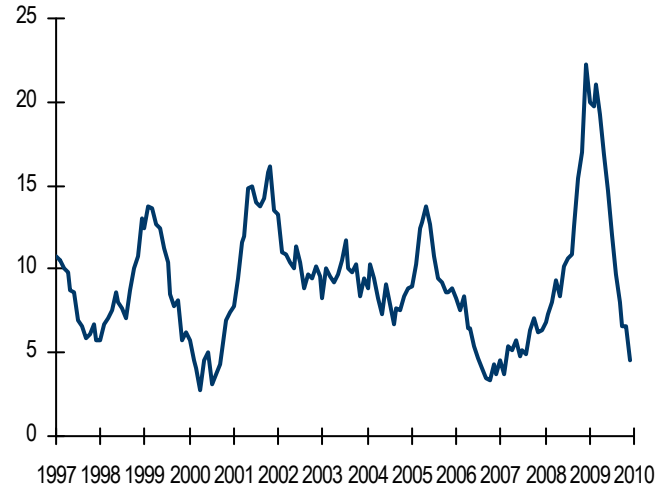
**This aggressive destocking may have almost run its course**, though. The European Commission survey on stocks – which asks whether firms think they are too high or too low – has fallen precipitously and is now close to all-time lows. As such, **firms may now have their inventories close to levels they’re more comfortable with**. If so, **an end to destocking should support growth in coming months** as production moves back in line with demand.

**Exhibit 3: Euro area PMI – stocks of finished goods**



Source: Markit, Credit Suisse

**Exhibit 4: Euro area industrial survey – opinion on stocks of finished goods**

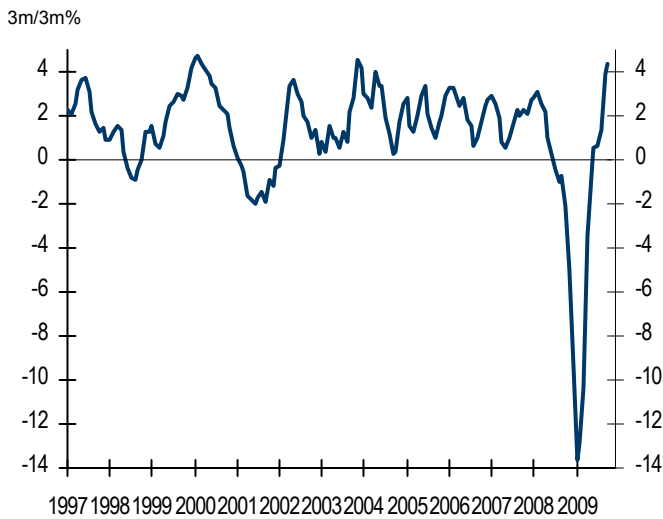


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The boost to growth from an end to destocking will, of course, run its course. But in coming months **more sustainable sources of growth – from final demand – should become apparent**.

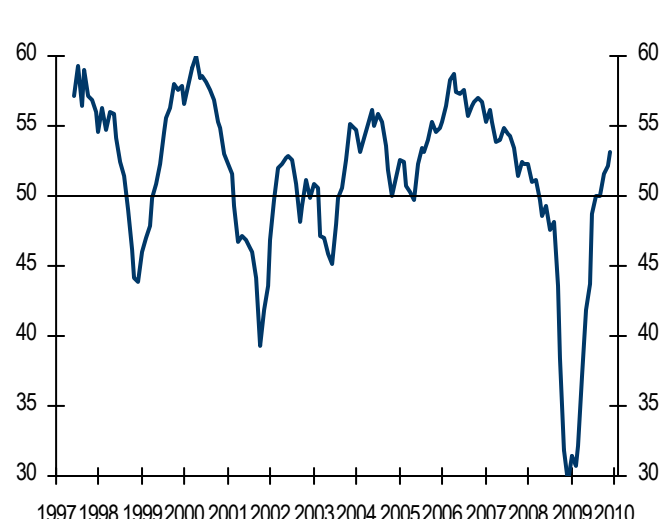
**External demand** is likely to be one such source. As of **October global exports were already 10% above their lows** (Exhibit 5) and business surveys are also registering an improvement in export orders. Our global growth forecast – of 4.3% this year – suggests that exports should be an important driver of European growth.

**Exhibit 5: Global exports**



Source: CPB, Credit Suisse

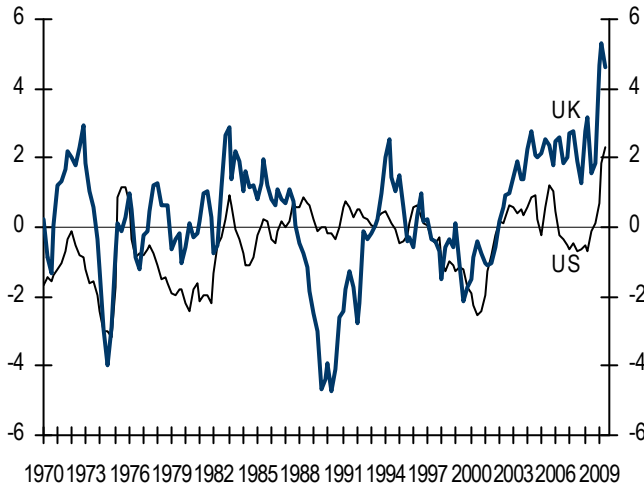
**Exhibit 6: Euro area PMI – export orders**



Source: Markit, Credit Suisse

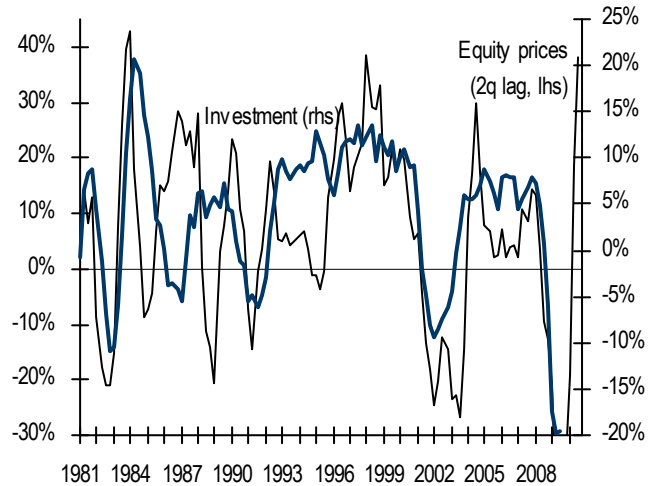
**A source of demand that could surprise to the upside this year is the corporate sector.** An interesting feature of the recent recession was the strength of corporate finances before and after it. As Exhibit 7 shows, by the middle of last year the corporate sector's financial balance was high in both the US and UK, implying considerable scope for corporate spending to grow faster than income in coming quarters. A relatively low investment share of GDP also points in the direction of stronger investment going forward. And finally, in the US economy at least, such a sharp increase in equity prices such as we've seen in the past year – has normally been consistent with a vigorous recovery in investment.

**Exhibit 7: US and UK non-financial corporate sector financial balances as % GDP**



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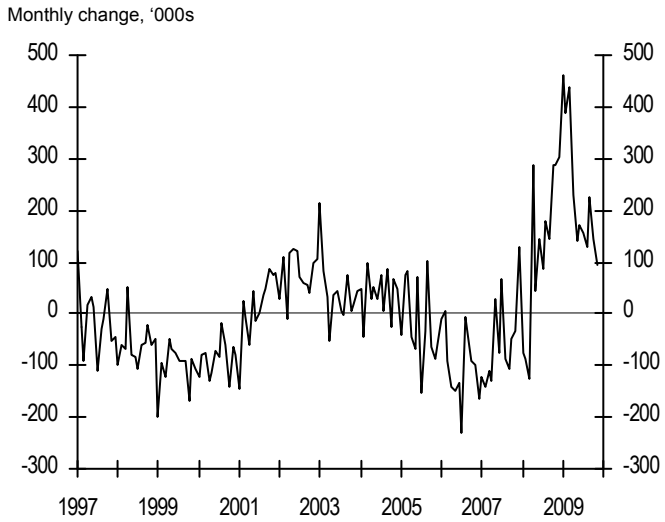
**Exhibit 8: Change in real US equity prices and non-residential investment growth**



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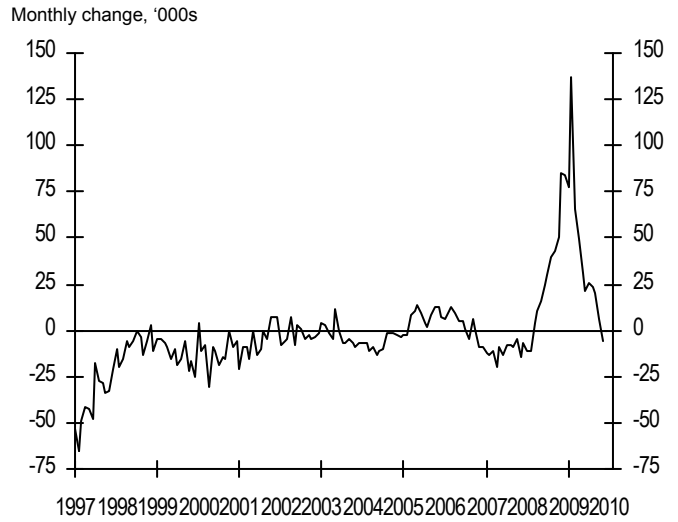
**The outlook for consumer spending should also improve.** As we discuss below, much – if not all – of the adjustment in financial balances in the UK and US household sectors – may now be over. If so, spending can grow in line with incomes again. And there are encouraging signs there. **In both the euro area and UK the tone of labour market data improved in the latter months of 2009**, with the rate of increase in unemployment falling considerably. Indeed, in the case of the UK one measure of unemployment has started to fall. That's consistent with an improvement in firms' hiring intentions in business surveys and suggests that the labour market can become increasingly supportive of consumer spending during 2010.

**Exhibit 9: Euro area unemployment**



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**Exhibit 10: UK claimant count unemployment**



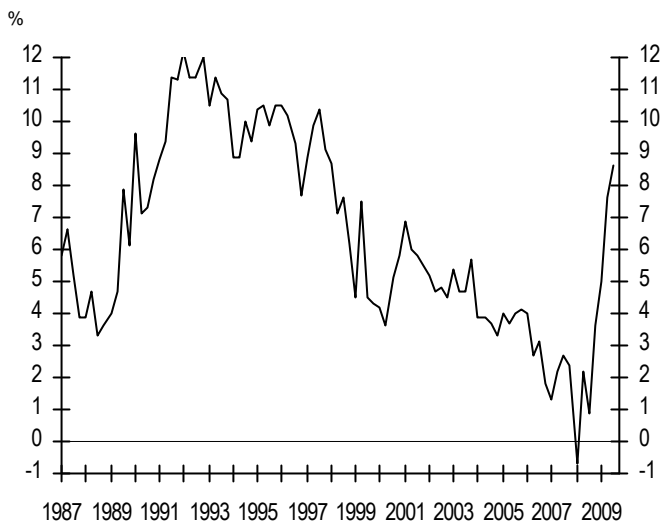
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Such an improvement in final demand should mean the recovery will be sustained into 2011. Market participants appear concerned about two major risks to such an expansion: the first is that

- continued 'deleveraging', particularly on the part of the consumer – will prove a substantial headwind to any recovery; and the second is that
- any reversal of the extremely loose stances of monetary and fiscal policies will also result in renewed weakness.

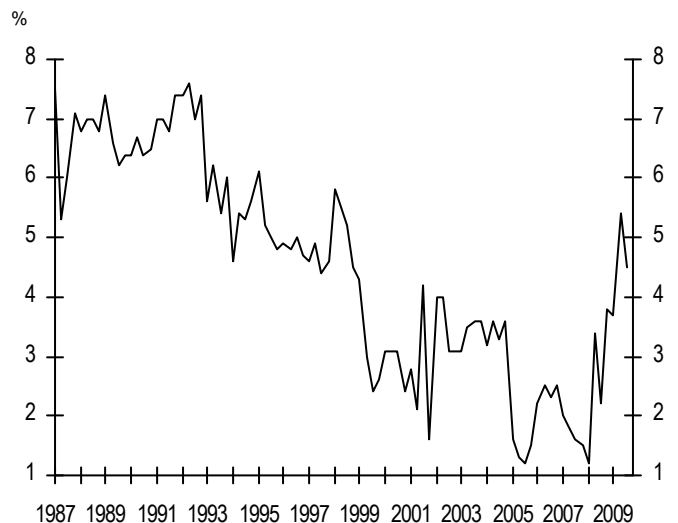
We think both of those risks are overstated. On the 'deleveraging' point we would note that the household sectors of both the US and UK have already adjusted the balance of spending and saving to such a degree that they are now deleveraging significantly. In both economies the rise in the saving ratio has been sharp, especially in the UK. Consequently, the scope for these indicators to rise significantly further – and continue to constrain spending – is limited, in our view.

**Exhibit 11: UK household saving ratio**



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**Exhibit 12: US household saving ratio**



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The other concern is whether tighter economic policy will pose a risk to recovery. It seems to us that the general view is that it will. We think a useful way of thinking about this is to see what happened after recessions in the past. The table below shows the government deficit as a percentage of GDP in the year the economy troughed and how it developed one, three, and five years later.

### Exhibit 13: Government deficits (as % GDP) after recessions

Peak to trough period	Government deficit in year of trough	Government deficit in year after trough	Government deficit 3 years after trough	Government deficit 5 years after trough
<b>US</b>				
1969Q3-1970Q4	2.1	2.8	0.3	5.3
1973Q4-1975Q1	5.3	3.4	1.4	2.7
1980Q1-1980Q3	2.7	2.3	5.7	5.1
1981Q3-1982Q3	5.0	5.7	5.1	4.4
1990Q2-1991Q1	5.0	5.9	3.7	2.3
2000Q4-2001Q3	0.6	4.0	4.4	2.2
<b>Euro area</b>				
1974Q3-1975Q1	4.7	3.2	3.5	3.5
1980Q1-1981Q1	5.1	5.4	4.9	4.7
1992Q1-1993Q1	5.6	5.1	4.2	2.3
<b>UK</b>				
1973Q2-1975Q3	7.0	5.5	5.0	4.8
1979Q2-1981Q1	4.8	2.3	3.7	2.4
1990Q2-1991Q3	3.7	7.4	6.2	3.4
<b>Average</b>	<b>4.3</b>	<b>4.4</b>	<b>4.0</b>	<b>3.6</b>

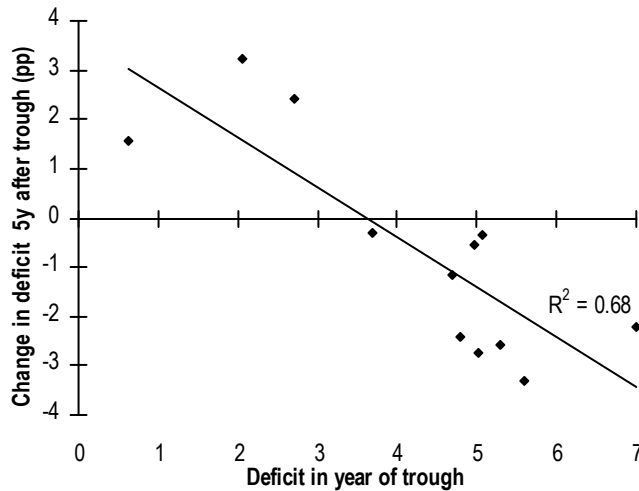
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It seems that **the degree to which deficits have fallen after recession is related to how large they were when the recession ended. In general, the larger the deficit the bigger the correction**, as Exhibit 14 shows.

**So there were a number of occasions which saw a significant deficit reduction in the years after the recession, and they were generally associated with a large deficit to start with.** That's clearly the case in the current episode: deficits are large and policy is likely to do much to reduce them in the coming five years. However, the experience of past recessions suggests that **such prospective tightening tells us little about how the economy will grow in coming years. Exhibit 15 shows the relationship between the change in the government deficit in the five years after the recession ended and the average growth rate over those five years. There isn't any!**

**Exhibit 14: Government deficits and their development after recessions**

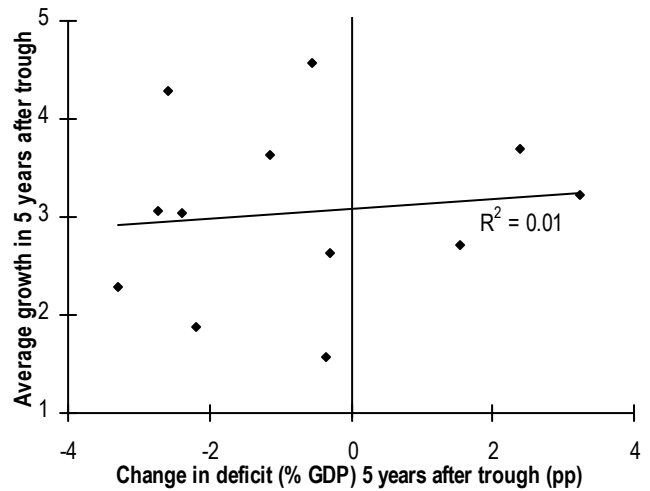
Recessions in the US, euro area and UK since 1970



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**Exhibit 15: Change in government deficits and GDP growth after recessions**

Recessions in the US, euro area and UK since 1970



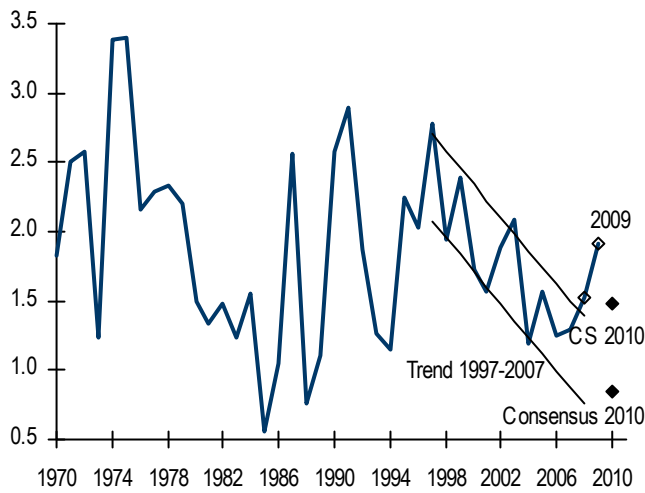
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**Within the euro area it is likely that the recovery will look fairly unbalanced at the country level**, even if it looks better balanced at the aggregate level. An interesting feature of the recent recession was the increased divergence of economic performance amongst euro area member states, marking a break from the trend towards convergence of the prior decade.

**The structural and cyclical dynamics of the recovery make it likely that the dispersion of growth rates within the euro area in 2010 will remain high and we've maintained that view in our forecasts.** It's worth noting that that is not what the consensus expects. As Exhibit 16 shows, **the consensus forecasts for next year expect the dispersion of growth rates to narrow considerably**, back in line with the previous downtrend. We think that's extremely unlikely, and have assumed in our 2010 forecasts a much greater degree of dispersion, albeit slightly less than in 2009.

Our forecasts show the form we think that dispersion will take. In particular **we expect Germany to be a strong outperformer, and look for it to grow by 3.0% this year.** That already reflects the trend of the last couple of quarters – Germany has grown 3% faster than the rest of the euro area (Exhibit 17), as well as the German economy's volatility. Finally, Germany's relatively high exposure to demand from Asia should also set its recovery in good stead.

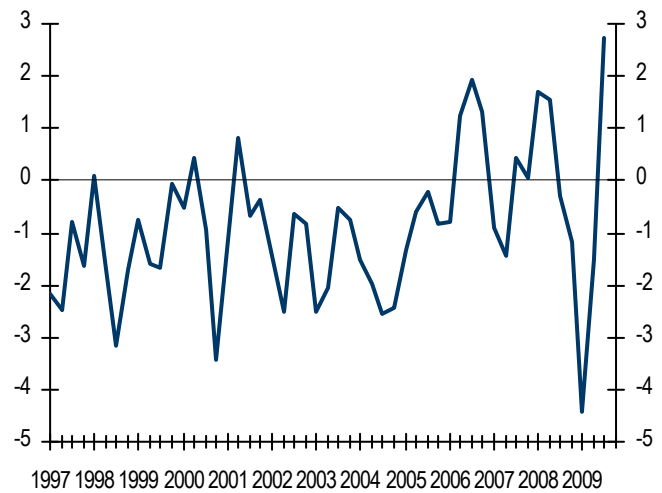
**Exhibit 16: Standard deviation of GDP growth across the euro area-12**



Source: European Commission, Credit Suisse

**Exhibit 17: Difference between German GDP growth and euro area ex-Germany GDP growth**

2 quarter annualized %



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In contrast, countries **such as Spain, Greece, Ireland and Portugal are likely to see their economies contract or, at best, grow weakly this year**. Much of that weakness should be structural – the need to regain some degree of price competitiveness through relative disinflation; a continued unwind of the excess investment in their construction sectors and housing markets; and also because economic policy will need to be relatively austere to help narrow those countries’ excessively large fiscal deficits.

**That’s important because the divergence in growth rates last year was largely about quantity** – all member states were in recession, but some recessions were bigger than others. The policy response – a sharp fall in policy rates – was appropriate for all.

**This year, the divergence will be more about quality – whether different economies are growing or not and, if so, how rapidly**. As such, it’s possible that some countries will be growing at rates typically associated with a withdrawal of monetary stimulus, while other economies, still in recession, could be seen to be in need of a further loosening of monetary conditions.

## Inflation: the recession bites

**After recessions in the past, the clear tendency was for core inflation to fall**, possibly for a number of years. **We don't think the recent recession will prove any different**, and expect core inflation in Europe in a year's time to be lower than it is now. Although there's much uncertainty over the amount of spare capacity in the euro area and UK economies, it seems clear that **both economies are operating some way below potential**. So significant output gaps are likely to be bearing down on inflationary pressures.

**In the euro area that trend is clear and discernable.** As Exhibit 18 shows, core inflation (excluding food, energy, alcohol and tobacco) in the euro area had fallen to 1.2% by November. However, measures of the shorter-term momentum of the core rate suggest prices are rising at, or below, an annual rate of 1%. And the downwards trend is very clear. As such, **we're comfortable with our forecast that core inflation could fall below 0.5% by the end of this year.**

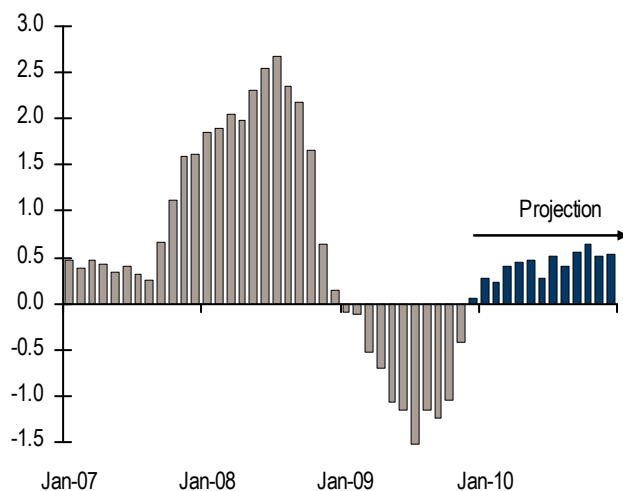
The trend in headline inflation will be slightly different, inasmuch as the base effects that pushed euro area inflation into negative territory last year finally unwind. The dynamics of base effects for inflation this year from food and energy price changes in 2009 are likely to be very small, as Exhibit 19 shows. Therefore any significant deviation of headline inflation from the core rate this year will be due to any forthcoming volatility in food or, more likely, energy prices. So, **absent any sharp moves in energy prices, euro area headline inflation should spend much of this year just below 1% and there's little at present to suggest much of a rise during 2010.**

**Exhibit 18: Euro area core inflation**



Source: ECB, Credit Suisse

**Exhibit 19: Food and energy prices contribution to euro area headline inflation**



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**Our judgment is that the disinflationary pressures from the recent recession are also bearing down on underlying inflation in the UK.** However, there are a couple of factors that should prevent that from being apparent for much of this year:

- **Indirect taxes.** Inflation during 2009 was, to some extent, dampened by the temporary VAT cut of December 2008. As that cut was reversed at the start of this year, inflation rates in 2010 should be boosted by the likely rise in prices that would accompany the tax hike. We think the VAT rise could add 0.5 percentage points to inflation this year, meaning that the published rate of core inflation would be substantially higher than the actual "underlying" rate of inflation.

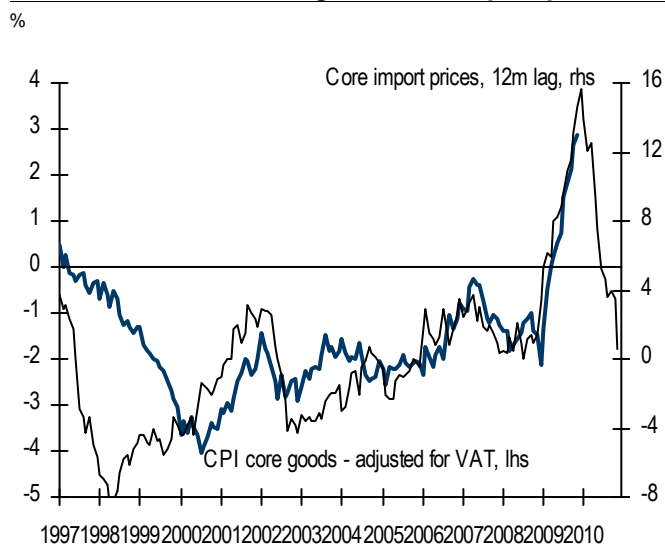
- Inflationary pressure from the sterling depreciation of 2007-08.** A factor we judge to have contributed to relatively high UK inflation last year is sterling's sharp fall of 2007-08. This appears to have led to a sharp rise in import prices (Exhibit 20) which, with a year's lag, has passed through to rising prices on the shop floor. As the chart shows, although sterling has been stable for a year, the upwards pressure on CPI inflation is likely to persist for a few more months. However, that pressure should soon start to ease and could have fully abated by the end of the year.

So, **unless there is a further fall in the currency or rise in VAT** – and there is a fair risk of both – these **factors should have little bearing on the rate of inflation by early 2011.**

**One area where the disinflationary pressure from the recession is apparent is in services prices.** Given their high domestic content, they are much less sensitive to changes in the currency, and their inflation rate has fallen sharply since late last year. To us, that is confirmation that **the recession has generated considerable spare capacity that should affect UK inflation for longer** than the transient factors mentioned above. It means that both headline and core rates could be below 1% at the start of 2011.

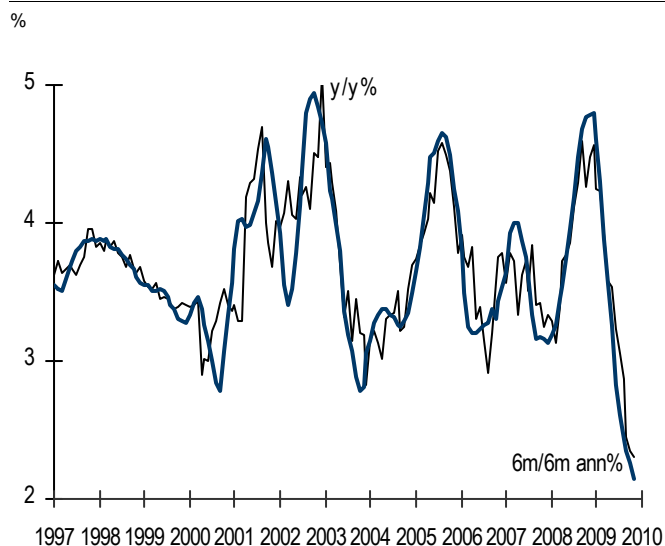
**But those transient factors are likely to dominate the near-term trajectory of inflation. UK CPI inflation is likely to rise sharply above 3% (to around 3.5%) in January 2010,** necessitating a letter of explanation from the Governor of the Bank to the Chancellor. Although the implications for policy should be limited at this stage, inflation in the UK is likely to be far more volatile – and hence a greater source of volatility for markets – than it is in the euro area.

**Exhibit 20: UK CPI core goods and import prices**



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**Exhibit 21: UK services inflation**



Source: ONS, Credit Suisse

## ECB: Edging towards the exit and higher rates

The year is likely to be dominated by the gradual end of non-standard monetary policy measures in the first half of the year. By the second half this could be compounded, in our view, by the gradual increase in interest rates from their exceptionally low levels.

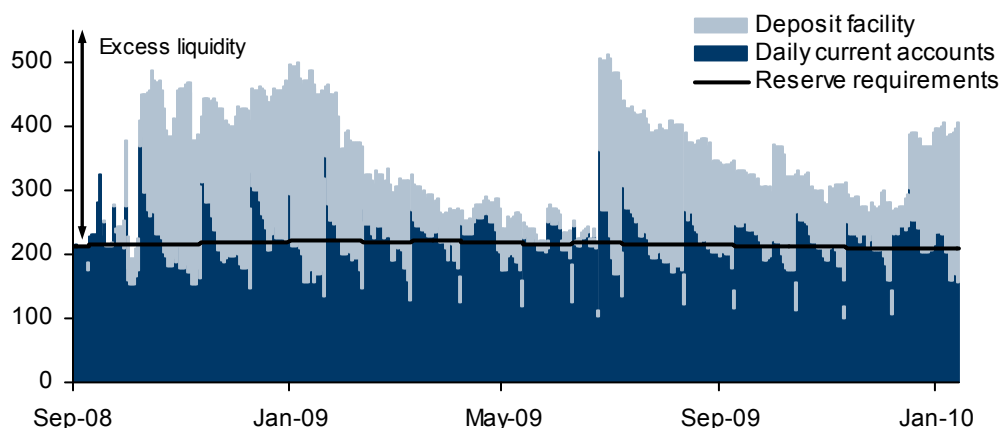
### The ECB has started to slowly phase out some of the non-standard measures.

- Last December, the provision of one-year long-term refinancing operations (LTRO) was ended.
- The provision of six-month liquidity is due to end at the end of March. The last fixed rate, full allotment six-month long-term refinancing operation is scheduled on 31 March. Terms have not yet been announced but it is likely that, in line with the last one-year LTRO the rate will be indexed.<sup>1</sup>
- Last December also saw the end of the additional three-month LTRO. Last year, three-month liquidity was not only provided at the end of the month as the ECB has done customarily, but also early in the month. The ECB's indicative 2010 calendar for regular tender operations<sup>2</sup>, however, has scrapped the provision early in the month.

**The ECB is proceeding rather gradually and has given itself room for maneuver.** The slow approach is manifest when it comes to its weekly main refinancing operations (MRO). The latter will continue being conducted as a fixed rate tender procedure with full allotment. The same terms apply for another non-conventional liquidity providing measure, term operations lasting one maintenance period, which is around one month. And room for maneuver is manifest in the statement that the fixed rate full allotment tender procedure for the MRO and the one-month operations will be conducted for as long as is needed – and at least until the third maintenance period, which ends on 13 April.

**This gets the ECB through the first quarter, which is crucial in our view to set the stage for further developments.** The ECB wants the link between broad money and the ECB's provision of liquidity to the banking system re-established. This link has suffered. Throughout the crisis banks have tended to hold part of the ECB's credit obtained in the refinancing operations as excess reserves deposited at the ECB. The most recent January figure shows these excess reserves at EUR 195bn (Exhibit 22).

### Exhibit 22: ECB balance sheet – Daily liquidity conditions (EUR bn)



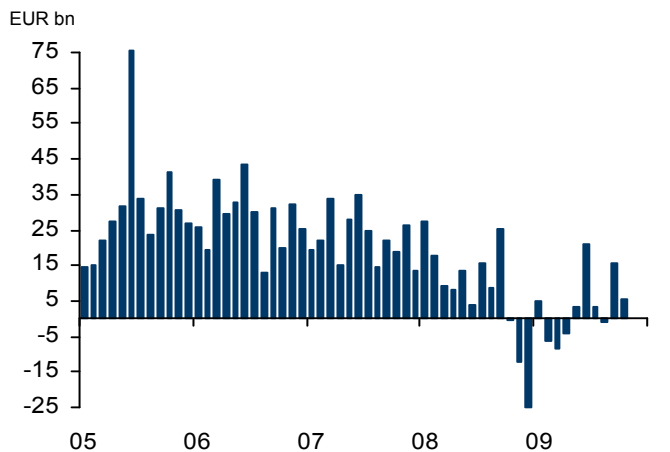
Source: ECB, Credit Suisse

<sup>1</sup> When it comes to the December one-year LTRO only one interest payment will be made - on the 23 December 2010 maturity date. This interest payment will be calculated as the allotted amount multiplied by the formula provided on the ECB web-site. See: [http://www.ecb.int/press/pr/date/2009/html/pr091203\\_1.en.html](http://www.ecb.int/press/pr/date/2009/html/pr091203_1.en.html)

<sup>2</sup> See the calendar on the ECB web-site: [http://www.ecb.int/press/pr/date/2009/html/pr090529\\_tender2010.en.pdf](http://www.ecb.int/press/pr/date/2009/html/pr090529_tender2010.en.pdf)

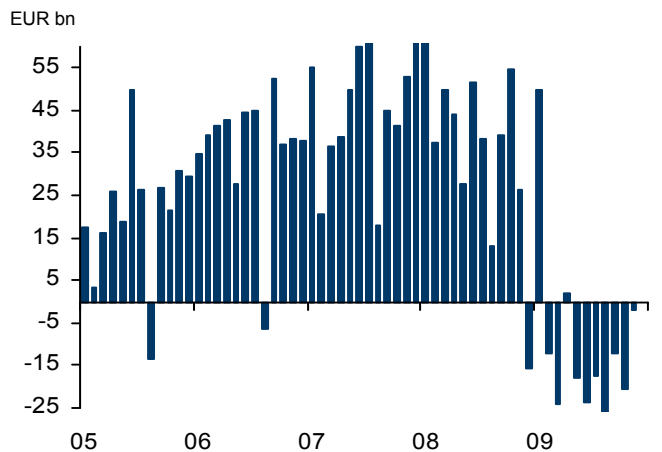
When it comes to credit, the ECB has established that the relationship between the turning point in economic activity and bank lending to the household sector is simultaneous, but bank lending to non-financial corporates tends to lag the turning points by three quarters. Exhibit 23 shows that the historical pattern holds when it comes to credit to households. But the jury is still out regarding credit to non-financial corporates as Exhibit 24 shows. This might not be only due to constrained supply, but also due to weaker demand. But with 70% of euro area firms relying on credit from banks, the ECB is unlikely to want to take any chances. The bank lending data early this year will only be available at the end of the quarter, which might explain why the ECB has kept full allotment, fixed-rate tender procedures in place until mid-April.

**Exhibit 23: Bank lending to households**



Source: ECB, Credit Suisse

**Exhibit 24: Bank lending to non-financial corporates**



Source: ECB, Credit Suisse

If data confirm that the pattern holds, we would expect a further phasing out of non-standard measures, such as the withdrawal of the one-month LTRO after April. **But the ECB will want to continue for this process to be gradual.** Looking beyond the first quarter this year the ECB will take into account the need to smooth out the liquidity effect of the one-year LTRO of EUR 442bn maturing on 1 July as Exhibit 25 shows. By then, the ECB might be happy to see the EONIA having tended towards the repo rate, allowing the ECB to re-introduce variable rate tender operations. But the ECB is also likely to provide enough liquidity to ensure that the process will be smooth.

**On policy rates, the ECB staff December projections signal that there is no need to rush for the exit just yet.** Both growth

and inflation remained subdued this year and next. But these forecasts can be revised up significantly, as the large revision of 0.6 percentage point to GDP growth showed in December compared to September.

Further upward revisions are likely if economic activity continues to surprise on the upside as we expect. Against our backdrop of euro area growth of 2.0% this year, **we continue to believe that rates will start being increased in the second half of 2010, reaching 2% by the end of this year.**

**Exhibit 25: LTROs**

	Maturity date	Allotted amount (EUR bn)
3m LTRO	14-Jan-10	1.12775
6m LTRO	14-Jan-10	9.0674
1m LTRO	20-Jan-10	2.655
3m LTRO	28-Jan-10	3.2835
3m LTRO	11-Feb-10	10.794
6m LTRO	11-Feb-10	11.8745
3m LTRO	25-Feb-10	2.065
3m LTRO	11-Mar-10	2.933
6m LTRO	11-Mar-10	3.6855
3m LTRO	01-Apr-10	2.5575
6m LTRO	08-Apr-10	2.3675
6m LTRO	13-May-10	0.7815
6m LTRO	10-Jun-10	1.7277
1yr LTRO	01-Jul-10	442.2405
1yr LTRO	30-Sep-10	75.2412
1yr LTRO	23-Dec-10	96.9373

Source: ECB, Credit Suisse

## Bank of England: All things must pass

**The February Bank of England MPC meeting is likely to mark the end of its quantitative easing programme.** Having scaled back the pace of its purchases in November to £25bn a quarter (from a run rate of £50bn and, prior to that, £75bn) a move to zero would be the next obvious step.

There are a number of reasons why we think the MPC will choose to halt its asset purchases. A growing number of indicators suggest that the real economy has recovered from recession and may even be growing relatively quickly. Although money and credit growth remain weak, the latest credit conditions survey suggested credit is becoming increasingly available, and on more generous terms. And the performance of asset prices – including housing – has been remarkable.

### Exhibit 26: Bank of England credit conditions survey – spreads on loans to medium-sized firms

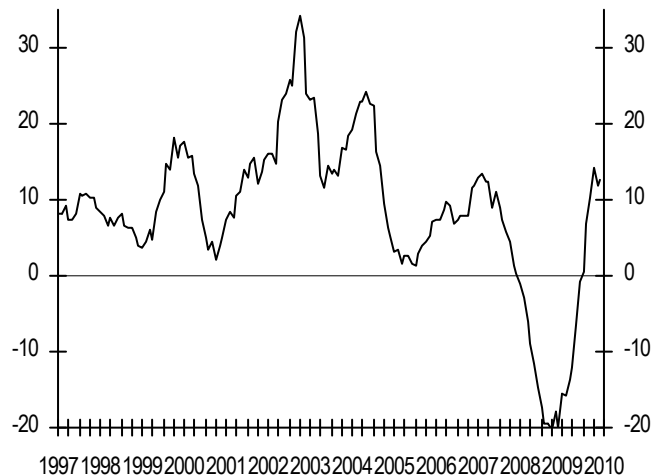
Percentage balance of respondents



Source: Bank of England, Credit Suisse

### Exhibit 27: UK house prices

Combined Halifax and Nationwide estimates, 6m annualized change %



Source: © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse

In terms of language, **we would expect the statement and subsequent inflation report to describe the halt in asset purchases at £200bn as a 'pause'**. In theory, that would leave the MPC with room to resume asset purchases at some future date if circumstances required. But for us a pause will be as good as a stop. And recent comments from some MPC members appear consistent with such a pause.

**If quantitative easing does stop next month, then the focus of markets for the February inflation report will be on the possibility of rates rising.** As the Committee would have effectively just finished easing it would be odd for it to signal an imminent reversal of that policy. As such, the inflation projections are likely to be similar to those in November: consistent with a small increase in rates over the next year or so.

**Our view is that the MPC will start tightening in the second half of the year and will do so in the first instance by raising rates rather than reversing any of its recent asset purchases.** We expect rates to be 2.0% by the end of this year and 3.0% by the end of next.

**There are a few reasons why we think the MPC will be raising rates this year:**

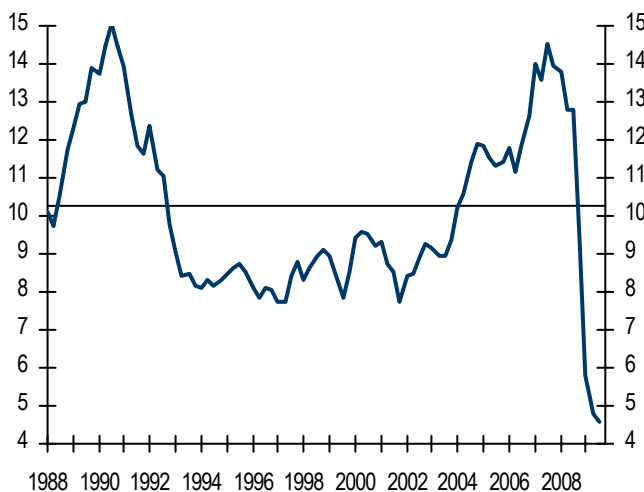
- At 0.5% **rates are extraordinarily low**, and the MPC is likely to be keen to take rates back to levels that are still very stimulative but not quite as extreme. Last year the Committee was cautious about taking rates as low as 0.5% and at one point argued that one advantage of extending quantitative easing would be to reduce the amount of time rates would have to remain at such low levels.
- **It is likely that the Committee will want to raise rates gradually from such low levels**, moving in 25- or 50-basis-point increments. That's because the MPC may be uncertain about the impact on the real economy from rising interest rates. One consequence of very low rates is that household debt service is also extremely low (Exhibit 28). In its recent Financial Stability Report, the Bank observed that **a sharp rise in debt service** – as a consequence of higher policy rates and sustained wide lending spreads – **could pose a risk to growth and the financial system**. But a consequence of tightening slowly is likely to be that tightening needs to start early.
- And, as we noted above, a growing number of cyclical indicators suggest that the economy is growing, possibly at an above-trend rate. As Exhibit 29 shows, **the composite PMI is at, or close to, levels that have been consistent with rising rates in the past**.

**A significant risk for markets is that the MPC moves to tighten sooner than we expect.** That wouldn't be unusual: **the past behaviour of the MPC has been to move fairly quickly from easing to tightening.** In the 1998/99 easing cycle the last rate cut was in June 1999 and the first increase was in September. In 2003 rates troughed at 3.5% in July and were raised again that November.

Beyond the very short term **the pace and extent of monetary tightening is likely to be very sensitive to fiscal policy.** As was the case between 1993 and 1997 – the last period of significant fiscal consolidation – loose monetary conditions offset a relatively tight fiscal stance. So the more aggressive the fiscal tightening in the next few years, the lower rates – and quite possibly the currency – are likely to be.

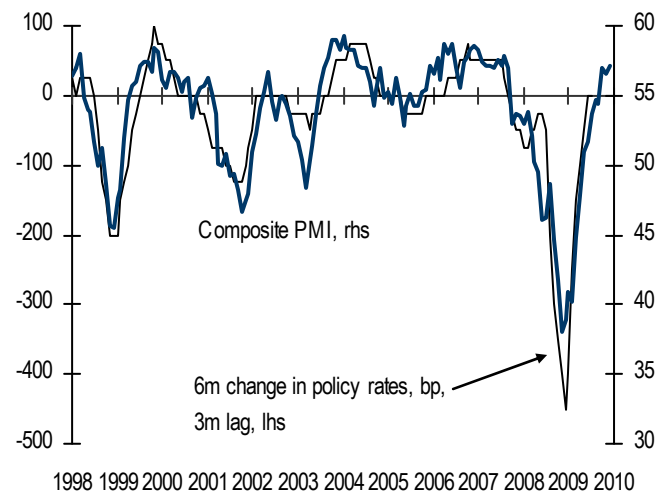
**Exhibit 28: UK household mortgage debt service**

As % disposable income



Source: © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse

**Exhibit 29: UK composite PMI and changes in policy rates**



Source: Markit, © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse

## Fiscal policy: Trends at the country level

We conduct an assessment of last year's budget balance data, now that most countries have reported up to November and in some cases already final full year figures, though bearing in mind that data are still preliminary and in some cases refer to just the central – not the general – government.

As the set of charts below shows, **the evidence available so far points to a continued deterioration in government balances across Europe, as expected in light of the recession. However, the deterioration in a few countries has been less fierce than estimated a few months ago, with GDP, employment data and fiscal trends coming out somewhat better than government projections in recent months.**

Germany recorded a deficit of 3.2% of GDP in 2009 (0% in 2008), according to the German statistical office. The German figures refer to the general government. This first estimate compares favourably with the official projection of the German government of 3.7%. The net borrowing requirement turned out to be lower than previously estimated, thanks to the earlier rebound in growth (Germany exited recession in Q2 09 already) and to surprising stability on the employment front. The German deficit should however continue to rise next year, as the German recovery plan is back-loaded relative to the recovery plans of most other EU members and additional post-election tax cuts are due.

The French numbers are for the central government and they do not include social security balances. The latter are likely to add roughly 1.5pp to the deficit. Data available up to November are consistent with the view that the final general government deficit might be at 8% – slightly better than the last official estimate in print (8.2%). In Italy, figures are reported for the central government and are available for December. Again, figures are consistent with an overall deficit slightly better than the official estimate of 5.3% – we estimate 5.2%. Spanish data also refer to the central government only. Figures up to November should allow the central government deficit to remain below the 8.1% official 2009 target. Slippages might have occurred on the local administrations or on social security, though. Our current estimate for the general government deficit is 10.2% of GDP.

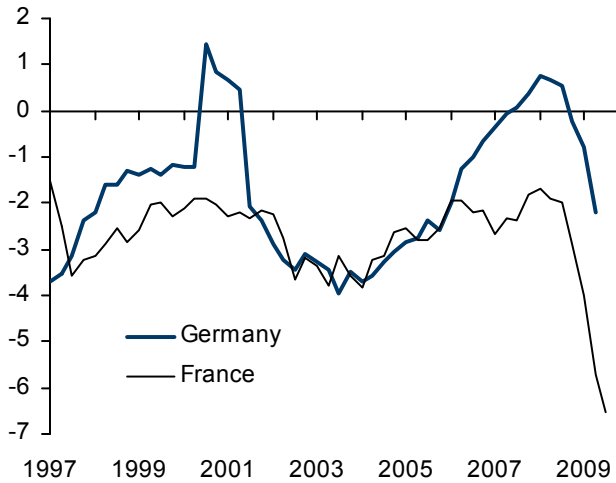
Fiscal balances data for Ireland, Greece and Portugal are reported in the charts below. The Irish 2009 general government deficit ended up at 11.4% of GDP, according to the Irish government, slightly better than expected (11.7%) due to higher-than-anticipated tax revenues in December. For Greece and Portugal figures appear consistent with the, respectively, 12.7% and 8% official estimates.

**Overall, this leaves the euro area with a likely 6% deficit in 2009. That is large in absolute terms but small in relative terms, when comparing the euro area to Japan, the US or the UK.** This suggests that the aggregate fiscal “exit strategy” might be less painful, although divergence of fiscal positions within the area is large, leading to other complications discussed elsewhere in this publication.

**For the UK, the public finances have deteriorated steadily through the course of 2009** and the deficit is on track to meet the government's forecast of £178bn (12% of GDP) at the end of the 2009/10 financial year. Although the trend in the public finances has continued to deteriorate towards the end of 2009, we would expect some stabilization, and possibly even improvement, during 2010 as tax increases (such as the reversal of the VAT cut) take hold.

**Exhibit 30: Government net lending/borrowing**

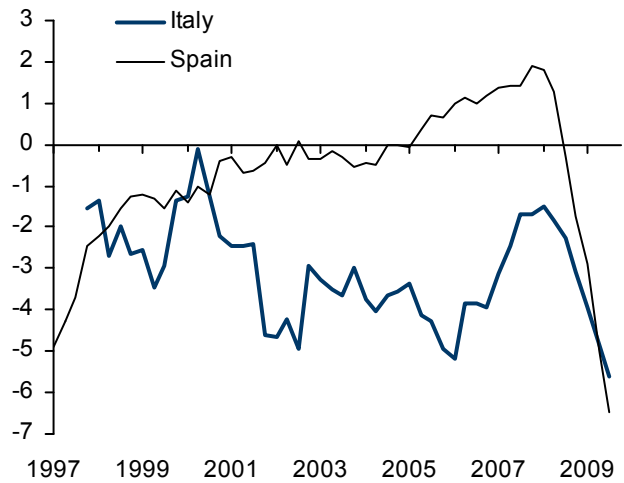
As a % of GDP, 12 months moving average



Source: © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse

**Exhibit 31: Government net lending/borrowing**

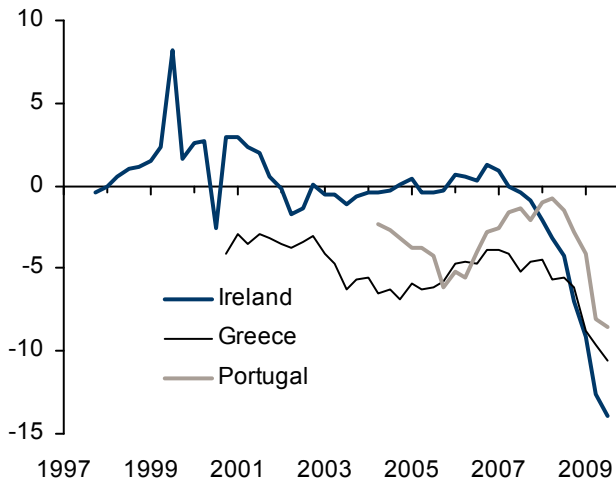
As a % of GDP, 12 months moving average



Source: © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse

**Exhibit 32: Government net lending/borrowing**

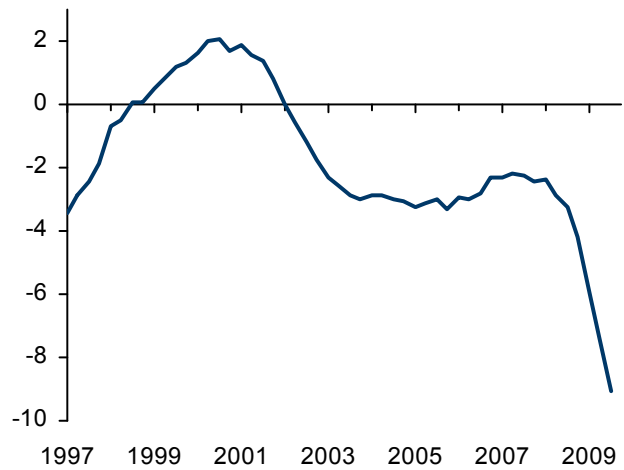
As a % of GDP, 12 months moving average



Source: © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse

**Exhibit 33: UK public sector net lending/borrowing**

As a % of GDP, 12 months moving average



Source: © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse

## Institutional and policy studies

Given markets' concerns over sovereign risks in Europe, in this section we provide an analysis of a number of relevant issues, such as the current institutional possibilities for financial support and the likelihood of a member state leaving the euro. We also look at the key considerations of ratings agencies when it comes to assessing the sovereign ratings, taking the UK as an example.

### Let's stick together pages 19 to 27

The possibility that the euro area might break up or that a member might default has been raised many times in the past, especially in periods of economic and financial strain. We review the legal, political and economic implications of an EMU break-up and of a default of an EMU member remaining in the euro zone. We conclude that a country deciding to leave the Monetary Union just because of a competitiveness problem, even severe, seems extremely unlikely.

### Rating the UK pages 28 to 29

We review rating agency reports on the UK. We look at whether focusing on the debt projections, affordability or the view of the economy and the government's financial flexibility is likely to lead to a re-assessment of UK ratings following this spring's elections. Finally, we look at the relationship between ratings and spreads and government debt.

### Snapshots pages 30 to 31

We finally look at the relationship between ratings and spreads and government debt taking three snapshots, one for December 2008, one for June 2009 and one as of this week. Greece is an outlier according to the lines of best fit when sovereign ratings are paired with bond spreads.

## Let's stick together

The possibility that the euro area might break up or that a member might default has been raised many times in the past, especially in periods of economic and financial strain. The risk seems particularly acute at present.

**We review the legal, political and economic implications of an EMU break-up and of a default of an EMU member remaining in the euro zone.** An EMU break-up, leading to the re-introduction of national currencies, would imply formidable technical and legal hurdles and would have potentially very significant negative political implications. This in turn would reduce greatly the economic benefits for the leaver. **A country deciding to leave the Monetary Union just because of a competitiveness problem, even severe, seems extremely unlikely,** in our view.

**A default of a member while remaining in the euro area is less unconceivable,** but we believe it would make little sense especially if the country in difficulty cooperates with the rest of the Union and the size of the needed bailout is manageable for the area as a whole. We believe there is a strong bias towards solidarity in the Union, backed by the Treaty (even despite the famous “no bailout” clause) and by empirical evidence during the recent financial crisis. We highlight in the piece what we believe are the solidarity instruments that could be used in the event of a re-intensification of the crisis.

### I. On EMU break-up and sovereign default risk within EMU

#### A. Leaving E(M)U

**Leaving EMU is now an officially available option...** The recently approved new version of the EU Treaty includes a specific article on the procedure for a voluntary exit from the Union (see box). Clearly, leaving was a practical possibility in the past as well, even if not officially codified.

**... But it is worth noting that any withdrawal from EMU would automatically lead to an exit from the EU as well from a legal standpoint.** This is important as it has far-reaching implications: leaving EMU is not only an issue of competitiveness, it also implies losing political weight and potentially the benefits of EU (not just EMU) membership.

**Also, the withdrawal must in principle be agreed with the other members and cannot happen overnight, reducing the benefits of any devaluation.** Indeed, the new article 50 states that the member state would cease to be bound by the Treaty when an agreement is reached *or two years* after notification. In other words, leaving EMU cannot be a quick fix for a competitiveness problem, with the leaving country re-entering the area soon after at a new – lower – exchange rate. In any case, the latter would be difficult since after leaving EMU the former member would have to follow the same admission procedure as any new candidate, which involves belonging to ERMII for two years.

**A devaluation and a unilateral exit from EMU could, in theory, still happen in a relative short period of time, but it would face significant technical issues...** Leaving the Union will presumably have to be voted democratically by the parliament of the leaving country and by a qualified majority in the European Council. There are also practical difficulties linked to the absence of a currency to revert to (there are no “lira” or “drachma” or “pesetas” around). As for the introduction of the euro, the introduction of a new currency would need time and careful planning. Also, it is not certain that the leaving country citizens would accept a replacement of the euro with a currency that is bound to be weaker. While the new currency could be enforced through imposed measures and particularly restrictive capital controls, it would likely isolate the country's financial system, with significant costs for the economy. Loose capital controls would instead imply potential capital flight and/or citizens holding on to their euros.

**... and political hurdles.** A unilateral exit from EMU would be a breach of the Union Treaty. If it involves repudiating the debt or any negative consequences for the remaining members' economies, the latter could retaliate: they could, for example, withhold monies and benefits due to the departing state under other treaties, and could even refuse to recognize the new currency.

**In sum, the new article is there to allow a country to orderly leave the European Union project if the nation is no longer attune to the European project. It is not there for a quick fix for the competitiveness or fiscal problems of a country.**

#### Box 1. Voluntary exit and expulsion from E(M)U – legal aspects

**Article 50 of the recently approved Lisbon Treaty explicitly makes provision – for the first time in the history of EU Treaties – for a voluntary exit of a member state from the EU<sup>3</sup>.** Specifically, the exit clause provides that a member state wishing to withdraw from the EU must inform the European Council of its intention; the Council is to produce guidelines on the basis of which a withdrawal agreement is to be negotiated with the member state; and the Council, acting by a qualified majority and after obtaining the consent of the European Parliament, will conclude the agreement on behalf of the EU. The withdrawing member state would cease to be bound by the treaties *either* from the date provided for in the withdrawal agreement or, failing that, *two years* after notification of its intention to withdraw. A former member state seeking to rejoin the EU would have to follow the same admission procedure as any new candidate.

As ECB's Athanassiou notes, when reviewing the exit clause in a recent paper<sup>4</sup>, despite the references to a *negotiated* agreement on the details of the withdrawing member state's departure, the clause recognizes a *unilateral* right of withdrawal as well as a possibility for a member state to negotiate its agreed exit from the EU. It should be noted that a member state's withdrawal is *not* conditional on the conclusion of a withdrawal agreement, since a member state can withdraw even if negotiations with the Council break down, *provided two years have elapsed* since the notification to the Council of its decision to withdraw.

**The importance of having adopted an exit clause, is that it prepares the ground.** Should there be a unilateral withdrawal, it will not find the EU institutionally unprepared, bringing a semblance of order to what is bound to be a very messy event. The exit clause also recognizes the practical reality that, politically, a sovereign member state cannot be coerced into honoring commitments it no longer has an interest in.

**Withdrawal from the EMU without a parallel withdrawal from the EU is, however, not conceivable legally.** Athanassiou notes that, unlike EU participation, once in the European Union EMU participation is a legal *obligation* for all member states. While a member state may be free to denounce its EU participation and repudiate its treaty obligations, it would not be free to go back on its decision to join EMU without breaching a binding obligation, under the Union Treaty, unless it were also to withdraw from the EU. Note that EMU is a sub-set of the EU, which is why the Statue of the European System of Central Banks (ESCB) and of the ECB is annexed as a protocol to the Union Treaty. As a result, the only way to withdraw from EMU is to withdraw from the EU and a member state's exit from the EU would *automatically* mean its exit from EMU (and vice versa).

<sup>3</sup> Prior to the Lisbon Treaty, neither the founding treaties nor the successive amending ones made any provision for a member state's withdrawal. Despite the founding treaties' silence on the possibility of secession, no member state, however, contested the UK's threatened withdrawal in 1975. The government at the time demanded a renegotiation of its accession terms, followed by a referendum on whether the UK should remain in the EC. The very holding of this referendum postulated the existence of a right of withdrawal. And Greenland was allowed to leave the EC in 1982, following domestic opposition to the common fisheries policy. Greenland, however, is not a direct precedent since it was an overseas territory of Denmark rather than a member state.

<sup>4</sup> This box on leaving EU and EMU is based on Phoebus Athanassiou, "Withdrawal and expulsion from the EU and EMU - Some reflections". ECB Legal Working Paper Series No 10, December 2009.

**Legal, but also practical issues make a EMU/EU break-up almost unconceivable without a major political crisis** Exiting EMU and thus the EU is no mean feat, among other things, because of the complex network of rights and obligations that the EU and also EMU entails for its participating member states which cannot be easily unwound. Restoring a member state's old currency or adopting a new one involves substantial legal complications, including the validity and enforceability of outstanding re-denominated contracts between debtors in the withdrawing member state and its creditors.

**If member states have the right to exit voluntarily, is there a possibility for their fellow member states to expel them from the EU?** Unlike the Charter of the UN, where Article 6 expressly provides for the possibility of a UN member being expelled for persistently infringing the principles of the Charter, there is no treaty provision for a member state to be expelled from the EU or EMU. The closest that Community law comes to recognizing a right of expulsion is Article 7(2) and (3), allowing the Council to temporarily suspend some of a member state's rights (including its voting rights). This might be thought of as a preliminary step to the expulsion of a member state, but it is not the same as a definite expulsion.

The idea that the treaties should explicitly provide for a possibility of expulsion was discussed in the 2001-03 Intergovernmental Conference, but was abandoned. The idea resurfaced in the discussions on the Lisbon Treaty, but was once again abandoned.

**The reason why expulsion has not been and may not be provided for in the treaties is not just political.** It is most likely due to the tremendous legal complexities it would give rise to. While they might not differ qualitatively from those relating to a member state's voluntary withdrawal, their resolution would be even more complicated in the case of an expulsion. This is because of the risk of legal challenges by disgruntled natural persons, legal entities or even countries, objecting to the loss of the rights that they or their nationals may have acquired from membership of the EU and invoking their legitimate expectation of maintaining these in perpetuity as an obstacle to expulsion. Erasing rights such as those of residence and free movement at a stroke is hardly straightforward.

**If expulsion from the EU is not an option under the treaties, does that mean that leaving the obstructive member state behind would be impossible?** The focus here is on indirect avenues for achieving a similar result. One possibility would be to use the 'enhanced cooperation procedure', which allows the asymmetric participation of a group of no fewer than eight member states to increase cooperation, leaving the recalcitrant member state behind. But enhanced cooperation is not available in all areas of EU policy-making, with Common Foreign and Security Policy being excluded, for example.

**On balance, marginalizing a member state, even if not formally expelling it, is not impossible but it certainly is not easy.** Persuading the member state to withdraw, by making use of the proposed exit clause, may be the better option.

**The mixed economic benefits of leaving EMU.** The considerations above come before any analysis of the actual economic benefits of leaving EMU. Evidence on the latter front is mixed. First, **interest rates are likely to go up sharply** in the exiting country. New funding through issuance of bonds in the new currency would be subject to an exchange rate risk premium, on top of the lower liquidity and a still remaining default risk premium.

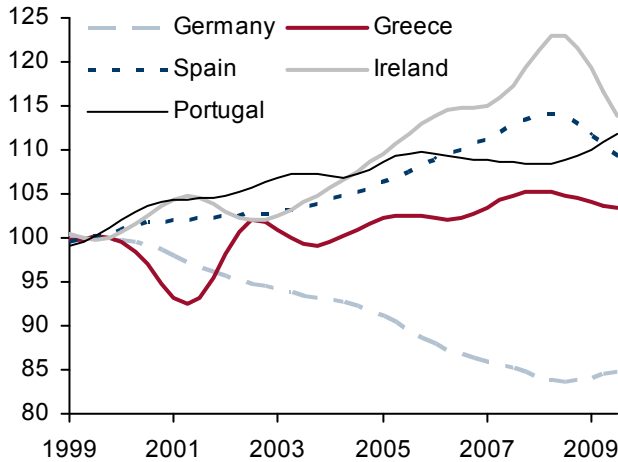
Second, **there is no certainty that even a large depreciation vis-à-vis the euro could improve the competitive position of the exiting nation for more than a short period.** Indeed, if there are real rigidities (e.g., wage-bargaining rigidities) in the economy the benefits from a nominal exchange rate depreciation would be quickly eroded. Only if the reasons behind the weak competitive position of a country are due to non-recurring factors would the depreciation be effective.

Third, **a new currency, especially of an independent small country would probably be a source of economic noise** (and stress) rather than a boost for competitiveness.

**A further argument that would negate the benefits of devaluation is economic retaliation:** a country that leaves the E(M)U will potentially be denied the privileges of the single market. This could negate any benefits from a devaluation, and even oblige the exiting country to redirect its exports to other markets – which would imply further strains on the economy, especially considering that economic integration has accelerated greatly over the past two decades.

**Exhibit 34: Despite a loss of price competitiveness in most peripheral countries in recent years...**

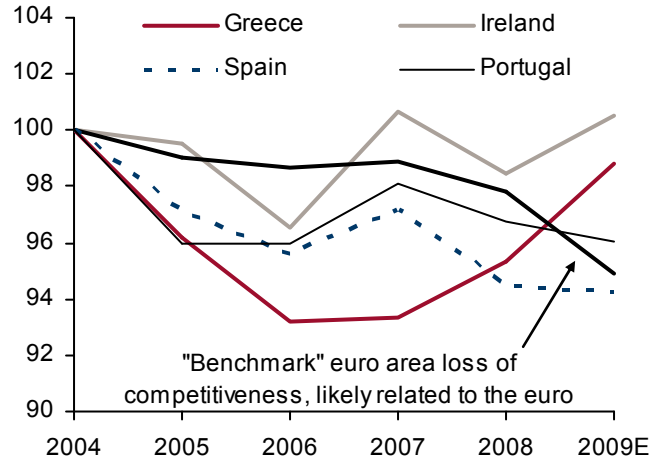
Relative unit labour costs, (1999=100 and euro area=100 in all periods)



Source: European Commission, Credit Suisse

**Exhibit 35: ... the loss of export market share is not striking and likely related to the euro appreciation**

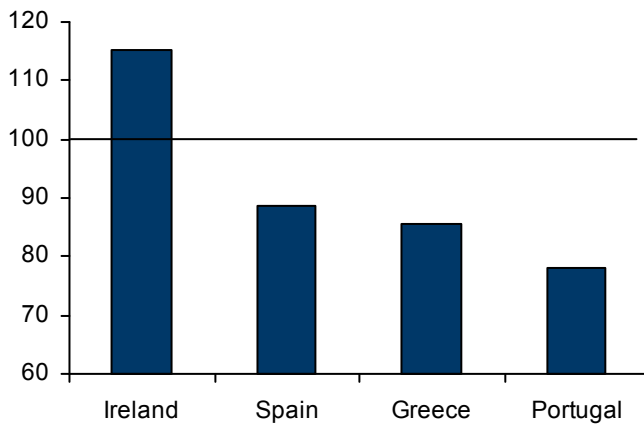
Export market performance (2004=100)



Source: European Commission, Credit Suisse

**Exhibit 36: Price levels and GDP per capita levels still justify some further convergence in...**

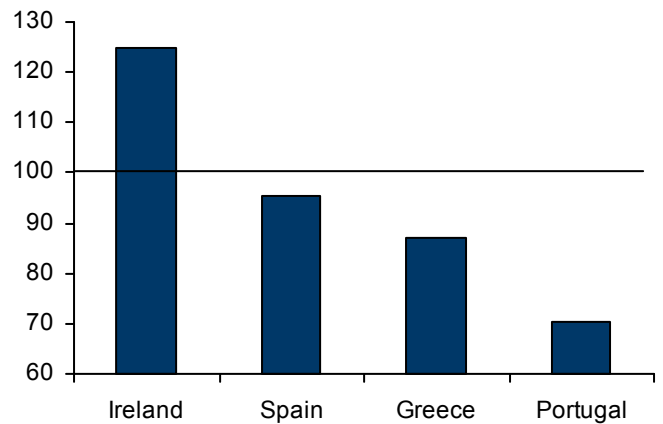
Comparative price levels, 2008 (euro area=100)



Source: Eurostat, Credit Suisse

**Exhibit 37: ... inflation and GDP growth rates – apart for Ireland**

GDP per capita, 2008 (euro area=100)



Source: Eurostat, Credit Suisse

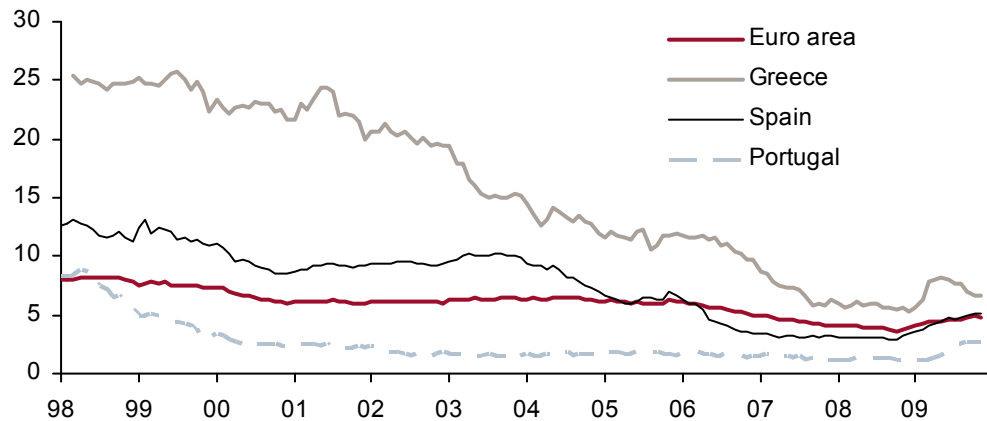
**B. The possibility of default while remaining in EMU**

A country that faces unsustainable debt dynamics would be better off defaulting while staying in the euro area, addressing its competitiveness problems with reforms.

**While less inconceivable than exiting EMU, a default would be probably avoided** – at least delayed for a long while – **by a bailout from other member countries**, in our view. Indeed, a default or even a “restructuring” of the debt would have far-reaching implications. For a start, the financial systems of countries such as Germany, given their large financial investment positions in peripheral countries, would suffer greatly, so that participating in a European bailout would be a question of national interest even for Germany. Moreover, a default in one country would probably lead to a panic rise in bond yields elsewhere, and possibly to other defaults in other countries, leading to a full blown crisis. This in turn would destabilise the political foundations of the European Union – which again is something that would affect all members, not just the defaulting country. In other words, default would happen only if all other options are exhausted.

**We believe the first line of action involves domestic banks and other national investors, with governments “convincing” them to buy domestic government securities.** The ratio of government bonds held to total assets has gone up since the crisis, although not to extreme levels yet (Exhibit 38). Moreover, the government could put in place specific legal rules for financial institutions, leading to higher holdings of national government bonds in their portfolios.

**Exhibit 38: Banks’ government bond holdings (as a % of total assets)**



Source: ECB, Credit Suisse

**Verbal intervention from German government officials, the European Commission and the ECB is another option.** Making too explicit commitments of unconditional financial support to countries in difficulty is likely to be avoided not only because it is likely to lower the commitment to reform in the country under stress, but also because it could create moral hazard problems for the future. At the same time, showing support when the crisis starts to get out of hand is also necessary to avoid getting to a point of no return for the Union. Officials seem to be playing according to this script (see Exhibit 39) and it is notable that Ireland’s austere fiscal stance was rewarded with praise by ECB President Trichet. Finally, more substantive solidarity measures, which we discuss in section II, can be implemented.

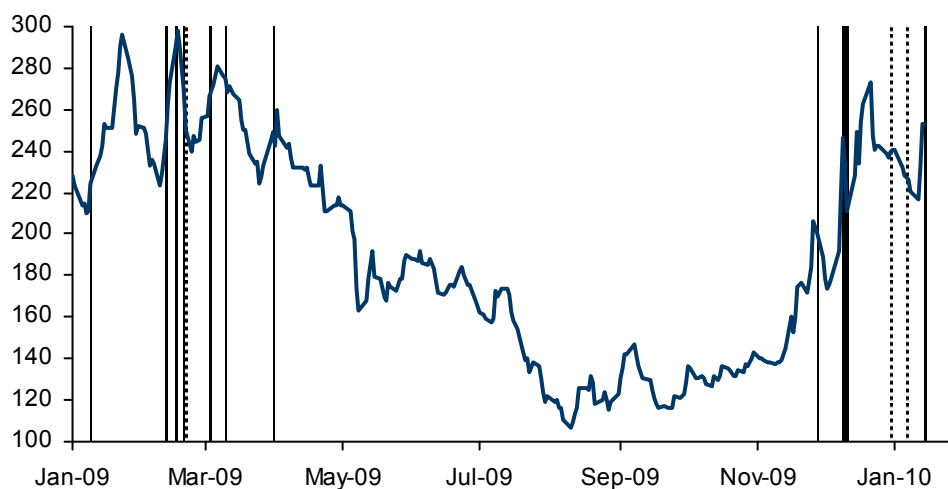
**Exhibit 39: Comments on the risk of default / EMU break-up from EMU members**

When?	Who?	What?
9 Jan 2009	Commissioner Almunia	Does not believe the risk of default on debt is significant in euro area
11 Feb 2009	Commissioner Almunia	There is a zero probability for euro area to break up. Bond spreads today exaggerate credit risks
16 Feb 2009	German finmin Steinbrück	On the possibility of a bailout, he states that although under the EU Treaty member states are not liable for other members' obligations, in reality states would have to rescue those running into difficulty
19 Feb 2009	Ger Chanc. Merkel	The euro zone is strong
20 Feb 2009	ECB Stark	He opposes a bailout for a EMU member in fiscal difficulty
3 Mar 2009	Commissioner Almunia	"If a crisis emerges in one euro area country, there is a solution ... Before visiting the IMF, you can be sure there is a solution and you can be sure that it is not clever to talk in public about this solution ... But this solution exists. Don't fear for this moment – we are equipped intellectually, politically and economically to face this crisis scenario, but by definition these kinds of things should not be explained in public"
10 Mar 2009	Ger Chanc.Merkel, finmin Steinbrueck	They are both very reticent on bilateral support on other euro countries
31 Mar 2009	Luxembourg finmin. Juncker	No EMU member will leave the euro and no country is facing funding difficulties
27 Nov 2009	ECB Nowotny	"We certainly won't see a state bankruptcy in Greece..."
9 Dec 2009	Commissioner Almunia	The European Commission "stands ready to assist the Greek government in setting out the comprehensive consolidation and reform program, in the framework of the treaty provisions for euro-area member states"
10 Dec 2009	Ger Chancellor Merkel	"What happens in one member state affects all others, especially as we have a common currency, which means we have a common responsibility"
10 Dec 2009	ECB Nowotny	He sees no risk of euro area break-up because of Greece. For Greece leaving the euro would be unrealistic and expensive. The ECB wont bailout high-deficit countries
11 Dec 2009	French finmin Lagarde	The euro area is a "monetary zone of complete solidarity"
30 Dec 2009	Ger fin minister Schaeuble	"Misplaced solidarity" to help Greece with financial aid
6 Jan 2010	ECB Stark	The EU will not save Greece
14 Jan 2010	Ger fin minister Schaeuble	The IMF is not needed in Greece, "we have to solve the problems with our own fortitude"
14 Jan 2010	IMF Strauss-Khan	The European Commission is capable of providing financial aid to Greece if it were needed

Source: Credit Suisse

**Exhibit 40: Greek bond spreads and comments**

Solid lines are positive comments, broken lines are negative comments



Source: Locus, Credit Suisse

## II. Solidarity instruments: existing and potential new ones

“Solidarity” is a broad concept: it does not automatically imply the transfer of taxpayers’ money from one country to the other, as it could take the form of loans that will be repaid with interest, or even of simple policy coordination. Indeed, the more proactive fiscal stance expected in Germany this year as well as the very generous German car incentives last year provide some indirect source of economic growth for the area as a whole. If this is coupled with more cautious fiscal policies elsewhere, as appears to be the case looking at 2010 budgets, the euro area could have a correct amount of stimulus while reducing existing imbalances and facilitating the task of the more fiscally strained countries in the area.

### Box 2 – Excerpts from the Consolidated EU Treaty

#### From Article 121 (ex Article 99 TEC):

Member States shall regard their economic policies as a matter of common concern (...)

#### From Article 122 (ex Article 100 TEC), on financial emergency support:

(...) Where a Member State is in difficulties or is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control, the Council, on a proposal from the Commission, may grant, under certain conditions, Union financial assistance to the Member State concerned.

#### From Article 123 (ex Article 101 TEC) on the inability of the ECB to buy bonds directly:

Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States (hereinafter referred to as "national central banks") in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments. (...)

#### From Article 125 (ex Article 103 TEC) on the no bailout clause:

1. The Union shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of any Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project. A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State, without prejudice to mutual financial guarantees for the joint execution of a specific project.

**A. Existing instruments.** The European Union and other international bodies such as the IMF could provide direct financing while the crisis country embarks on an exercise of spending cuts and/or tax increases – like they did last year with several Eastern European countries. 2010 budgets in most of the countries under extreme fiscal strain are already particularly restrictive, even without the financial support from the institutions mentioned above. However, direct support would become necessary if the confidence crisis were to worsen further to levels that even borrowing at higher spreads would become a problem. Support would be conditional on the acceptance from the recipient of an austerity plan, to reduce moral hazard.

**The European Union** already has a financial assistance facility, which was used for Hungary (see Box 3), Latvia and Romania last year. In response to the crisis, the lending ceiling was increased from €12 billion to €25 billion in November 2008, and then to €50 billion in May 2009. While this facility is available for non-EMU EU members only at present, we believe that nothing prevents modifying the rules at the margin or creating a similar facility for euro area members as well in the future.

**Box 3: The EU-IMF rescue package for Hungary**

In November 2008, the IMF's executive board approved a stand-by arrangement for Hungary of \$15.7bn and the European Commission approved a €6.5bn (\$8.3bn) loan under its balance of payments facility. About \$6.3bn (€4.9bn) of the IMF funds and €2bn of funds from the EU were available immediately to the Hungarian authorities in November. The remaining amount is being disbursed in quarterly installments dependent on the successful completion of quarterly reviews. The support of about \$25.8bn in total was to help augment Hungary's reserves to a level sufficient to fund its external financing needs "even in extreme market conditions". Under the stand-by arrangement, Hungary's fiscal consolidation was "accelerated", liquidity in the domestic financial markets was increased, the banks were ensured of high capital levels and the powers of the financial services supervisory agency were to be strengthened. The key conditionality related to fiscal program targets and notably excluded any explicit FX reserves targets. The 2009-10 fiscal targets were adjusted once in 2009 by about 1pp of GDP to accommodate the sharper-than-expected deterioration of the economy.

Funding from the package helped primarily by allaying concerns over Hungary's exceptionally large external funding needs – especially those of the banking sector, but also the government's funding needs. The government managed to meet the IMF's key fiscal targets for 2008 and 2009, leaving the fiscal deficit broadly unchanged in 2009 despite the global recession; this fiscal tightness in 2009 of course exacerbated the economic crisis and we estimate that the economy contracted by 6.5% in 2009 and will not grow at all in 2010.

The government has used the bulk of the funding that has been disbursed from the IMF and EU so far to fund the fiscal deficit and also to buy back some of its longer-term debt. The credit crisis meant that in Q4 2008, the government was relying increasingly on short-term funding to finance its fiscal operations (much like the rest of Eastern Europe). The IMF and EU funding replaced all medium- to long-term market financing last year. The government did restart its longer-tenor debt auctions by the second half of the year, but net bond issuance for the whole of 2009 was negative.

The government's success in meeting the targets has increased market confidence. Hungary was able to issue a well-received Eurobond in Q3 2009, although these funds were not needed (in light of IMF-EU support) and gradually ramped up its bond auction program through the end of 2009. Yields have fallen across the curve as the recession and investor sentiment toward Hungary have allowed the Monetary Council to continue to cut the policy rate to historical lows. Hungary can expect at least another EUR3.2bn from the IMF this year following the extension of its IMF program last year to October 2010 (from February 2010), but the debt management agency expects Hungary will be able to fully return to market financing already in Q2.

*This box was written by Jacqueline Madu from our Emerging Markets team.*

Other possible vehicles to channel aid include **the European Investment Bank (EIB)**. Its annual lending ceiling has been raised from €45bn to €70bn over the past year. The EIB could partially transform its mission and provide direct support to governments, in our opinion, even beyond the financing of infrastructures. The EIB can already issue bonds and lend money on more favourable terms than markets to governments, even if only to finance specific investment projects. Nothing, in practice, prevents a broadening of the definition of expenditures that could be financed.

**The ECB** is already providing support in the current setting, having extended the list of accepted collateral and through lower rates. An additional step would be to buy government bonds outright. Again, nothing prevents the ECB from doing so within the current institutional framework. The Treaty (see box 2) prevents the ECB from buying bonds directly from the issuer, but not bonds on the secondary market. The issue would be mainly political (buying the bonds of a country instead of another), but not insurmountable in case of a further intensification of the crisis, in our view – even if the evidence of recent months has shown a very clear reticence on the part of the ECB to take that way.

**The IMF** could also be involved – it has already been involved in Hungary and in Iceland. Its firing power has also been greatly increased last year, with the strong support of Germany. Clearly, a large IMF involvement in a EMU country would be politically sensitive, as the institution would not be able to recommend a devaluation or change in monetary policy. But the intervention of the latter should not be excluded in extreme circumstances, in our view, even if it is unlikely at this stage: indeed, the IMF brings know-how and conditionality to the loans, possibly making the needed fiscal restructuring more urgent and credible.

In terms of effective transfers, the **EU structural funds** (one-third of the EU budget, or roughly €35bn per year – the only real federal transfer facility in the EU) can be disbursed faster and also partially redirected to the countries in difficulty if needed. Although these funds are essentially for investment projects, the rules can be made more flexible in order to finance current expenditure to some extent.

**B. Possible future innovations.** Apart from broadening further the scope and firing power of the instruments above, additional innovations could include EMU member countries issuing bonds for the country under stress. The role of the EIB could be, for example, expanded to become the issuer of “European bonds” – or alternatively, an ad hoc institution could be created that would operate through the European Commission. Some governments (France, Italy) appear more inclined to this option than others (Germany).

An even bolder step, in our view, would be the creation of a EU contingency fund for crises like the current one. This crisis has clearly revealed that an accident can happen even in a country that was seen as a model of fiscal rectitude (e.g., Spain or Ireland). Enhanced “macroprudential” surveillance – when all economic and financial variables, not just narrow fiscal indicators, are assessed jointly – is an important step forward but might not suffice.

Coordination of a crisis response at the EU level would imply, we believe, an explicit political agreement on how article 122 of the Treaty on emergency financial support should be implemented.

Finally, if and when the European Union progresses into a full economic union, healthy divergences (through economic specialization) between nations should appear more clearly. For such persistent differences to be viable, a fully fledged ‘fiscal federalism’ might be needed. But that is probably not an issue for the 2010s.

## Rating the UK

### Standard and Poor's

In a report last summer, Standard and Poor's noted that the UK public finances were deteriorating at a faster-than-expected rate. The agency's view of the economic prospect – a long and deep recession with a big impact on the public finances – and the potential additional cost of supporting the banks led it **to forecast a debt ratio of close to 100% in 2013 and beyond**. In S&P's view, that ratio, if sustained, would be incompatible with the AAA rating. The UK's outlook was downgraded to negative from stable as a result.

The report estimated that **the potential costs of supporting the banks could be up to 10% of GDP**. That was higher than the authorities' estimate at the time and they reduced their numbers still further in the recent pre-budget report – in their view, the central case is now that the costs may be less than 1% of GDP. It's possible that development will reassure the agency to some extent, but it may nonetheless still think that a more ambitious reduction in the debt ratio is required.

On that point, the report suggested that the **UK's rating could be lowered following the forthcoming election**, if, in the agency's view, the next government's fiscal plans were not sufficient to put the debt ratio on a secure downward path. On the other hand, the outlook could be revised back to stable if more comprehensive measures were implemented and/or if the public finance outturns turned out to be better than the agency expected at that point.

### Moody's

**The key consideration for Moody's is debt affordability**, measured by debt service as a share of revenue. Typically, when the ratio reaches 10% or more there is a problem – though one that can be often managed if the relevant government has high levels of debt financeability and debt reversibility. The first of those is about the extent to which a rise in the amount of borrowing affects the cost of that borrowing and the second the extent to which it can readily be reversed.

In a report late last year, the agency looked at different scenarios for the economy and for the financial sector and divided the Aaa group of economies into those, such as **Germany and France, that it described as "resistant"** – the strongest category – and those, including **the US and the UK, that it described as "resilient"** – a less strong category. There were no economies in a third so-called "vulnerable" category, which is where Ireland had been before its downgrade last summer.

The view was that the recession had led to a significant deterioration in the UK public finances. The structural deficit was 10% or more on some estimates. As a result, **debt affordability had deteriorated. On the other hand, the UK's rating and resilience was still supported by a high degree of financeability and reversibility**. The report suggested that a high degree of financeability did not substitute for fiscal adjustment, but could allow time to prepare and implement it.

The report also suggested that while the assumed capacity for fiscal adjustment supported the Aaa rating, the assumption would have to be validated in the near future if it were to continue to support the rating. This was in the context of noting that a UK election was due later this year, by which time the recovery should also be more firmly established.

## Fitch

**Fitch's ratings are based on a view of the economy and the government's financial flexibility.** In a report last summer, it suggested that the UK had a flexible and diversified economy and exceptional financing flexibility. The debt ratio was rising rapidly – almost doubling to more than 80%, which is the upper end of the range typically associated with AAA ratings, in three years – but it was not very different to that of other AAA-rated economies and the interest burden was expected to remain lower than at previous peaks.

Even so, the report said, **the UK would need one of the largest fiscal adjustments of the AAA group and a more ambitious plan** to achieve it than the authorities set out in the most recent budget. That didn't put the debt ratio on a downward path quickly enough. The innovation in the recent pre-budget report was that largely unchanged forecasts and projections became fiscal rules. The resulting fiscal consolidation plan proposes the following:

- \* that the deficit ratio is halved from this year's forecast peak to 5.5% or less by 2013-14;
- \* that it falls every year in that period and for a further two years; and
- \* that the net debt ratio starts falling at that latter point in 2015-16.

In some ways, the numbers didn't change a lot, but the authorities' commitment to them increased. On that basis, however, **we would expect that Fitch, among others, would want to see a more ambitious plan.** In last summer's report, it said that "in the event that the next government does not pursue a more aggressive strategy ... the AAA rating will be under threat." As to what that strategy might look like, it suggested that it might involve falls in the debt ratio of 2% to 3% per year "relatively soon after 2011".

## Snapshots

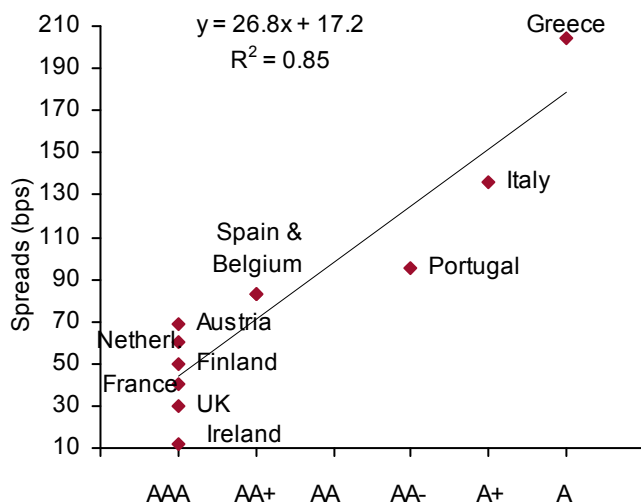
**We finally look at the relationship between ratings and spreads and government debt** taking three snapshots, one for December 2008, one for June 2009 and one as of this week. A few interesting points can be derived from the charts below. First, and more obviously, there is a fairly good relationship between these variables.

In more details, **Greece is an outlier according to the lines of best fit when sovereign ratings are paired with bond spreads.** In the last year or so, Greek spreads have been higher than the relationship would suggest (Exhibits 41, 43 and 45). The relationships suggest that either Greek bonds are too cheap or the sovereign rating is too optimistic – something we have seen changing in the last year. On the other hand, forecasts for debt for the following year have been more in line with rating agencies' judgments.

**The market took a strong view on Ireland too, in particular in the middle of last year.** However, Irish spreads have come in since then, and Irish bonds look less cheap on this basis than six months ago (Exhibits 43 and 45). On the other hand, Italian and Portuguese sovereigns appear expensive across the period analysed.

**The relationships between spreads and ratings are more robust,** showing higher R-squared. This suggests that market agents take into consideration information beyond the simple level of government debt. This is even more true in current circumstances when concerns regarding total debt rather than just government's and sustainability issues over an extended period are high.

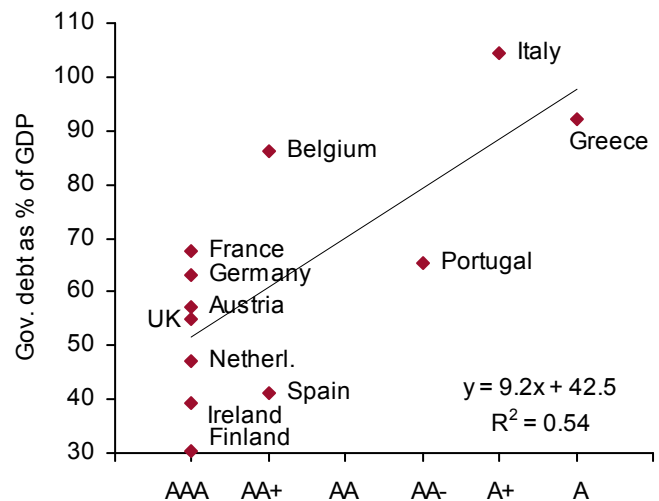
**Exhibit 41: Spreads vs. rating in December 2008**



Source: Credit Suisse

**Exhibit 42: Debt vs. rating in December 2008**

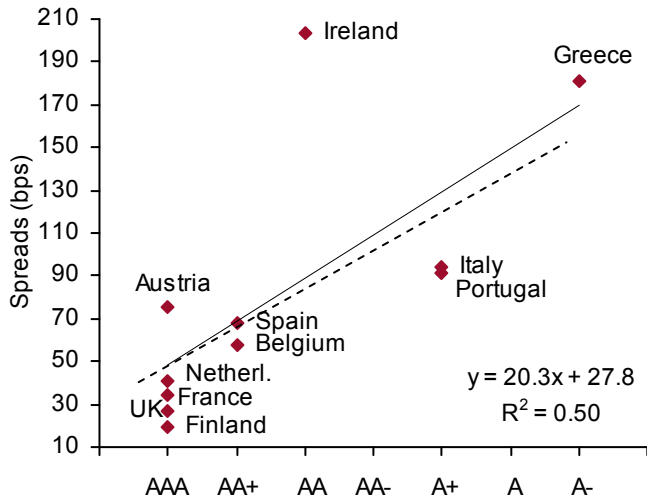
2009 government debt forecasts by European Commission



Source: Credit Suisse

**Exhibit 43: Spreads vs. rating in June 2009**

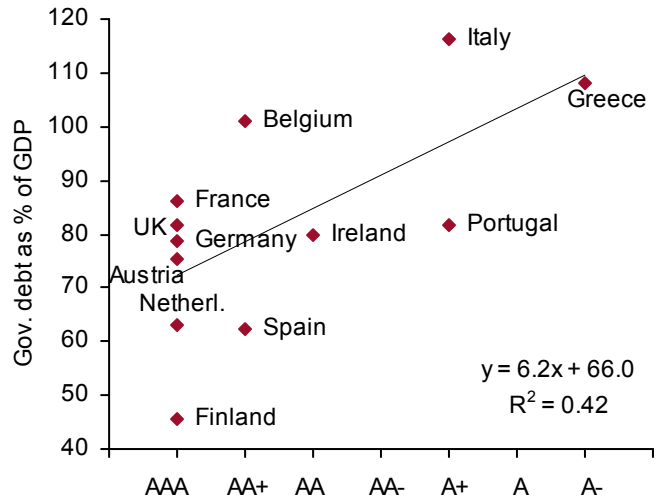
Dotted line is line of best fit excluding Ireland



Source: Credit Suisse

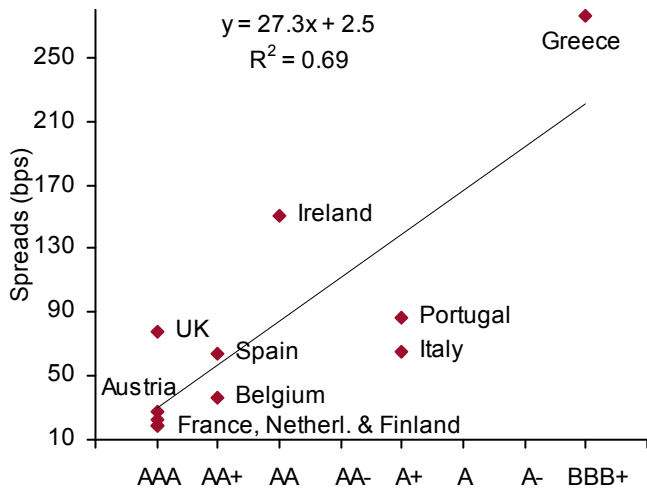
**Exhibit 44: Debt vs. rating in June 2009**

2010 government debt forecasts by European Commission



Source: Credit Suisse

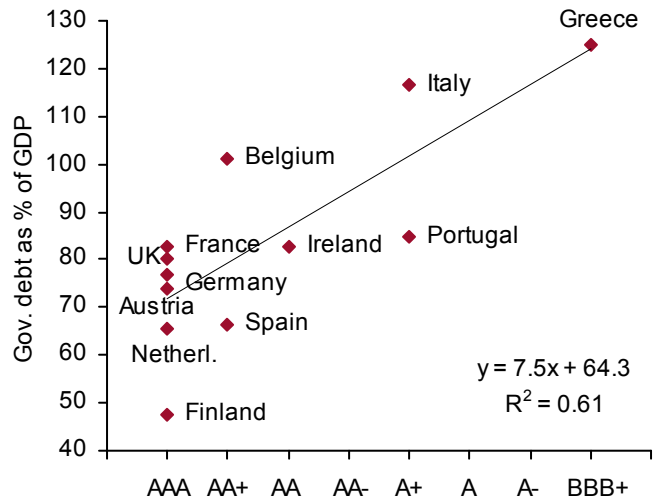
**Exhibit 45: Spreads vs. rating in January 2010**



Source: Credit Suisse

**Exhibit 46: Debt vs. rating in January 2010**

2010 government debt forecasts by European Commission



Source: Credit Suisse

## European macroeconomic forecasts

### Euro area macroeconomic forecasts

	2009E				2010E				2011E				Annual average				
	I	II	III	IVE	IE	IIE	IIIE	IVE	IE	IIE	IIIE	IVE	07	08	09E	10E	11E
<b>Real GDP growth</b>																	
Euro area GDP q/q	-2.4	-0.2	0.4	0.4	0.7	0.6	0.5	0.5	0.7	0.7	0.7	0.7	...	...	...	...	...
Euro area GDP y/y	-5.0	-4.8	-4.0	-1.8	1.3	2.1	2.2	2.3	2.3	2.4	2.6	2.8	2.7	0.5	-3.9	2.0	2.5
<b>Expenditure based GDP</b>																	
Private consumption q/q	-0.4	0.0	-0.2	0.1	0.3	0.2	0.3	0.3	0.4	0.5	0.6	0.6	...	...	...	...	...
Private consumption y/y	-1.3	-0.9	-1.1	-0.5	0.2	0.4	0.9	1.0	1.1	1.4	1.8	2.1	1.5	0.3	-1.0	0.6	1.6
Government consumption q/q	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.3	0.2	0.2	0.2	0.2	...	...	...	...	...
Government consumption y/y	2.5	2.4	2.5	2.3	2.1	2.0	1.9	1.7	1.4	1.2	1.0	0.9	2.2	2.0	2.4	1.9	1.1
Investment q/q	-4.9	-1.6	-0.4	0.1	0.1	0.8	0.9	0.9	0.7	0.9	1.0	0.9	...	...	...	...	...
Investment y/y	-10.9	-11.3	-10.3	-6.7	-1.8	0.6	2.0	2.8	3.5	3.6	3.6	3.6	4.6	-0.6	-9.9	0.9	3.6
Net exports (contr. to GDP, q/q)	-0.6	0.6	0.1	-0.2	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	...	...	...	...	...
Net exports (contr. to GDP, y/y)	-2.1	-1.8	-1.1	0.0	0.5	-0.1	-0.3	-0.1	0.0	0.2	0.3	0.5	0.4	0.2	-1.4	0.0	0.3
Inventories (contr. to GDP, q/q)	-0.6	-0.6	0.3	0.4	0.5	0.2	0.1	0.1	0.1	0.0	0.0	0.0	...	...	...	...	...
Inventories (contr. to GDP, y/y)	-0.2	-0.6	-0.6	-0.5	0.5	1.4	1.2	0.9	0.6	0.4	0.3	0.2	-0.1	0.0	-0.5	1.0	0.4
<b>GDP by member states</b>																	
Germany, y/y	-6.7	-5.8	-4.8	-2.0	2.7	3.1	3.0	3.1	2.8	2.9	3.3	3.8	2.6	1.0	-4.8	3.0	3.2
France, y/y	-3.5	-2.9	-2.4	-0.4	1.5	1.8	2.1	2.3	2.4	2.5	2.7	2.6	2.3	0.3	-2.3	1.9	2.5
Italy, y/y	-6.0	-5.9	-4.6	-2.6	0.4	1.2	1.0	1.3	1.6	1.9	2.0	2.3	1.5	-1.0	-4.8	1.0	2.0
Spain, y/y	-3.2	-4.2	-4.0	-3.0	-1.3	0.1	0.6	0.8	1.1	1.2	1.5	1.8	3.6	0.9	-3.6	0.0	1.4
Netherlands, y/y	-4.2	-5.1	-4.0	-2.5	0.6	2.2	2.5	2.6	2.7	2.8	2.8	2.7	3.6	2.0	-4.0	2.0	2.8
Belgium, y/y	-3.7	-4.2	-3.4	-1.0	1.8	3.0	3.1	3.4	3.1	2.6	2.6	2.7	2.8	0.8	-3.1	2.8	2.8
Austria, y/y	-4.8	-5.6	-4.1	-2.4	1.8	2.8	2.6	2.5	2.6	2.6	2.6	2.9	3.4	2.2	-4.2	2.4	2.7
Finland, y/y	-7.8	-8.9	-8.8	-4.5	1.1	2.0	2.2	2.3	2.3	2.4	2.6	2.8	4.1	1.1	-7.5	1.9	2.5
Greece, y/y	-0.5	-1.2	-1.7	-1.2	-1.0	-1.2	-0.9	-0.7	-0.2	0.3	0.6	0.8	4.5	2.0	-1.2	-1.0	0.4
Ireland, y/y	-9.3	-7.3	-8.2	-3.3	-1.2	-1.4	-0.9	-0.4	0.0	0.4	0.6	0.8	6.0	-3.0	-7.1	-1.0	0.5
Portugal, y/y	-4.0	-3.7	-2.5	-0.8	1.2	0.7	0.2	0.4	0.9	1.4	1.7	2.0	1.9	0.0	-2.8	0.6	1.5
<b>Labour market</b>																	
Employment y/y	-1.3	-1.8	-2.0	-2.4	-2.0	-1.4	-0.7	0.2	0.8	1.0	1.1	1.2	1.8	0.7	-1.9	-1.0	1.0
Unemployment %	8.8	9.3	9.6	10.2	10.4	10.4	10.3	10.2	10.0	9.9	9.7	9.5	7.5	7.6	9.5	10.4	9.8
Compensation/employee y/y	1.9	1.6	1.4	0.4	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.4	3.2	1.3	2.0	2.0
<b>Nominal GDP (% y/y)</b>	<b>-3.3</b>	<b>-3.8</b>	<b>-3.1</b>	<b>-1.1</b>	<b>2.3</b>	<b>3.4</b>	<b>3.6</b>	<b>3.7</b>	<b>3.7</b>	<b>3.8</b>	<b>4.0</b>	<b>4.3</b>	<b>5.1</b>	<b>2.7</b>	<b>-2.8</b>	<b>3.3</b>	<b>4.0</b>
<b>Inflation indicators</b>																	
<b>Euro area HICP (% y/y)</b>	<b>1.0</b>	<b>0.2</b>	<b>-0.4</b>	<b>0.4</b>	<b>1.1</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	<b>1.1</b>	<b>1.1</b>	<b>2.1</b>	<b>3.3</b>	<b>0.3</b>	<b>1.0</b>	<b>1.0</b>
Euro area core HICP (% y/y)	1.6	1.6	1.3	1.1	0.8	0.5	0.3	0.3	0.4	0.5	0.6	0.6	1.9	1.8	1.4	0.5	0.5
GDP deflator (% q/q)	0.0	0.1	0.2	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	...	...	...	...	...
GDP deflator (% y/y)	1.8	1.1	0.9	0.7	1.0	1.3	1.4	1.4	1.4	1.4	1.4	1.4	2.3	2.2	1.1	1.3	1.4
Current account (% of GDP)	-1.7	-0.9	0.1	-0.1	-0.2	-0.2	-0.2	-0.3	-0.2	0.0	0.1	0.2	0.1	-1.6	-0.7	-0.2	0.0
Government balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	-0.6	-1.9	-6.0	-6.2	-4.5
<b>ECB repo rate (end period)</b>	<b>1.50</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.00</b>	<b>1.50</b>	<b>2.00</b>	<b>2.25</b>	<b>2.50</b>	<b>2.75</b>	<b>3.00</b>	<b>4.00</b>	<b>2.50</b>	<b>1.00</b>	<b>2.00</b>	<b>3.00</b>

Source: Credit Suisse

### German macroeconomic forecasts

	2009E				2010E				2011E				Annual average				
	I	II	III	IVE	IE	IIE	IIIE	IVE	IE	IIE	IIIE	IVE	07	08	09E	10E	11E
<b>Real GDP growth</b>																	
<b>German GDP q/q</b>	-3.5	0.4	0.7	0.4	1.0	0.8	0.6	0.6	0.8	0.9	1.0	1.1	...	...	...	...	...
<b>German GDP y/y</b>	<b>-6.7</b>	<b>-5.8</b>	<b>-4.8</b>	<b>-2.0</b>	<b>2.7</b>	<b>3.1</b>	<b>3.0</b>	<b>3.1</b>	<b>2.8</b>	<b>2.9</b>	<b>3.3</b>	<b>3.8</b>	<b>2.6</b>	<b>1.0</b>	<b>-4.8</b>	<b>3.0</b>	<b>3.2</b>
Private consumption q/q	0.9	0.6	-0.9	0.2	0.2	0.1	0.3	0.3	0.3	0.5	0.8	1.0	...	...	...	...	...
Private consumption y/y	0.2	1.4	0.1	0.8	0.1	-0.4	0.8	0.9	1.0	1.4	1.9	2.6	-0.3	0.2	0.6	0.4	1.7
Government consumption q/q	1.2	0.6	0.1	0.2	0.5	0.5	0.3	0.2	0.2	0.2	0.1	0.1	...	...	...	...	...
Government consumption y/y	2.7	2.5	2.5	2.2	1.4	1.3	1.5	1.5	1.2	0.9	0.7	0.6	1.7	2.0	2.5	1.4	0.9
Investment q/q	-7.7	0.7	1.3	0.7	0.6	2.0	1.8	1.6	1.2	1.4	1.5	1.1	...	...	...	...	...
Investment y/y	-11.2	-8.4	-7.8	-5.2	3.4	4.7	5.2	6.0	6.7	6.1	5.8	5.3	5.3	2.3	-8.2	4.8	6.0
Net exports (contr. to GDP, q/q)	-2.4	1.8	-0.5	-0.2	0.2	0.2	0.0	0.1	0.4	0.3	0.3	0.3	...	...	...	...	...
Net exports (contr. to GDP, y/y)	-5.3	-4.1	-3.2	-1.2	1.4	-0.2	0.3	0.5	0.7	0.8	1.0	1.2	1.5	-0.4	-3.4	0.5	0.9
Inventories (contr. to GDP, q/q)	-0.4	-2.0	1.5	0.3	0.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...
Inventories (contr. to GDP, y/y)	0.0	-1.4	-0.7	-0.6	0.3	2.4	0.9	0.6	0.1	0.0	0.0	0.0	0.0	0.5	-0.7	1.0	0.0
Harmonised CPI (% y/y)	0.8	0.3	-0.4	0.4	0.7	0.2	-0.1	-0.2	...	...	...	...	2.3	2.8	0.3	0.2	...
Government balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	0.2	0.0	-3.2	-4.8	-3.2
ECB repo rate (end period)	1.50	1.00	1.00	1.00	1.00	1.00	1.50	2.00	2.25	2.50	2.75	3.00	4.00	2.50	1.00	2.00	3.00

Source: Credit Suisse

### French macroeconomic forecasts

	2009E				2010E				2011E				Annual average				
	I	II	III	IVE	IE	IIE	IIIE	IVE	IE	IIE	IIIE	IVE	07	08	09E	10E	11E
<b>Real GDP growth</b>																	
<b>French GDP q/q</b>	-1.4	0.3	0.3	0.4	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.5	...	...	...	...	...
<b>French GDP y/y</b>	<b>-3.5</b>	<b>-2.9</b>	<b>-2.4</b>	<b>-0.4</b>	<b>1.5</b>	<b>1.8</b>	<b>2.1</b>	<b>2.3</b>	<b>2.4</b>	<b>2.5</b>	<b>2.7</b>	<b>2.6</b>	<b>2.3</b>	<b>0.3</b>	<b>-2.3</b>	<b>1.9</b>	<b>2.5</b>
Private consumption q/q	0.1	0.3	0.0	0.3	0.3	0.3	0.3	0.4	0.5	0.6	0.6	0.6	...	...	...	...	...
Private consumption y/y	0.5	0.7	0.5	0.7	0.9	0.9	1.2	1.3	1.5	1.8	2.1	2.3	2.4	0.9	0.6	1.1	1.9
Government consumption q/q	0.1	0.6	0.7	0.5	0.5	0.5	0.5	0.5	0.2	0.2	0.2	0.2	...	...	...	...	...
Government consumption y/y	1.4	1.7	1.7	1.9	2.3	2.2	2.0	2.0	1.7	1.4	1.1	0.8	1.5	1.1	1.7	2.1	1.3
Investment q/q	-2.6	-1.2	-1.4	0.0	0.0	0.5	0.5	0.6	0.6	0.6	0.7	0.7	...	...	...	...	...
Investment y/y	-7.7	-7.4	-7.5	-5.0	-2.5	-0.9	1.0	1.6	2.2	2.3	2.5	2.6	6.5	0.4	-6.9	-0.2	2.4
Net exports (contr. to GDP, q/q)	-0.2	1.0	0.5	-0.2	-0.2	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	...	...	...	...	...
Net exports (contr. to GDP, y/y)	-1.4	-0.2	0.5	1.1	1.1	0.0	-0.6	-0.5	-0.3	-0.2	-0.2	-0.1	-0.9	-0.4	0.0	0.0	-0.2
Inventories (contr. to GDP, q/q)	-0.9	-0.8	-0.1	0.3	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.0	...	...	...	...	...
Inventories (contr. to GDP, y/y)	-1.6	-2.5	-2.4	-1.6	-0.2	1.0	1.3	1.2	1.0	0.8	0.8	0.6	0.0	-0.5	-2.0	0.8	0.8
Harmonised CPI (% y/y)	0.7	-0.2	-0.5	0.4	1.2	1.2	1.2	0.9	...	...	...	...	1.6	3.2	0.1	1.1	...
Government balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	-2.7	-3.4	-8.0	-8.0	-6.5
ECB repo rate (end period)	1.50	1.00	1.00	1.00	1.00	1.00	1.50	2.00	2.25	2.50	2.75	3.00	4.00	2.50	1.00	2.00	3.00

Source: Credit Suisse

### Italian macroeconomic forecasts

	2009E				2010E				2011E				Annual average				
	I	II	III	IVE	IE	IIE	IIIE	IVE	IE	IIE	IIIE	IVE	07	08	09E	10E	11E
<b>Real GDP growth</b>																	
<b>Italian GDP q/q</b>	-2.7	-0.5	0.6	0.0	0.3	0.3	0.4	0.3	0.5	0.6	0.6	0.6	...	...	...	...	...
<b>Italian GDP y/y</b>	<b>-6.0</b>	<b>-5.9</b>	<b>-4.6</b>	<b>-2.6</b>	<b>0.4</b>	<b>1.2</b>	<b>1.0</b>	<b>1.3</b>	<b>1.6</b>	<b>1.9</b>	<b>2.0</b>	<b>2.3</b>	<b>1.5</b>	<b>-1.0</b>	<b>-4.8</b>	<b>1.0</b>	<b>2.0</b>
Private consumption q/q	-1.2	0.1	0.4	0.1	0.2	0.2	0.2	0.2	0.4	0.4	0.3	0.3	...	...	...	...	...
Private consumption y/y	-2.7	-2.0	-1.6	-0.5	0.8	0.9	0.7	0.8	1.0	1.2	1.3	1.4	1.2	-0.9	-1.7	0.8	1.2
Government consumption q/q	0.2	1.2	-0.2	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	...	...	...	...	...
Government consumption y/y	1.0	1.6	1.4	1.4	1.5	0.6	1.1	1.2	1.1	1.0	0.9	0.8	1.0	0.6	1.3	1.1	1.0
Investment q/q	-4.9	-3.1	0.3	0.0	0.0	0.3	0.5	0.8	0.8	0.8	0.8	0.8	...	...	...	...	...
Investment y/y	-13.1	-16.0	-13.8	-7.5	-2.8	0.6	0.8	1.6	2.4	2.9	3.2	3.2	1.6	-2.9	-12.7	0.0	3.0
Net exports (contr. to GDP, q/q)	-0.7	0.0	0.2	-0.1	0.0	0.0	0.1	0.0	0.1	0.1	0.2	0.2	...	...	...	...	...
Net exports (contr. to GDP, y/y)	-1.5	-1.5	-0.9	-0.5	0.2	0.2	0.0	0.1	0.2	0.3	0.4	0.6	0.2	0.2	-1.1	0.1	0.4
Inventories (contr. to GDP, q/q)	-0.5	-0.3	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...
Inventories (contr. to GDP, y/y)	-0.4	-0.3	-0.2	-0.7	-0.1	0.2	0.2	0.2	0.1	0.1	0.0	0.1	0.1	-0.3	-0.4	0.1	0.1
Harmonised CPI (% y/y)	1.4	0.9	0.1	0.7	1.2	1.1	0.9	1.0	...	...	...	...	2.0	3.5	0.8	1.0	...
Government balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	-1.5	-2.7	-5.2	-4.8	-3.3
ECB repo rate (end period)	1.50	1.00	1.00	1.00	1.00	1.00	1.50	2.00	2.25	2.50	2.75	3.00	4.00	2.50	1.00	2.00	3.00

Source: Credit Suisse

### Spanish macroeconomic forecasts

	2009E				2010E				2011E				Annual average				
	I	II	III	IVE	IE	IIE	IIIE	IVE	IE	IIE	IIIE	IVE	07	08	09E	10E	11E
<b>Real GDP growth</b>																	
<b>Spanish GDP q/q</b>	-1.6	-1.1	-0.3	-0.1	0.1	0.3	0.2	0.2	0.4	0.4	0.5	0.5	...	...	...	...	...
<b>Spanish GDP y/y</b>	<b>-3.2</b>	<b>-4.2</b>	<b>-4.0</b>	<b>-3.0</b>	<b>-1.3</b>	<b>0.1</b>	<b>0.6</b>	<b>0.8</b>	<b>1.1</b>	<b>1.2</b>	<b>1.5</b>	<b>1.8</b>	<b>3.6</b>	<b>0.9</b>	<b>-3.6</b>	<b>0.0</b>	<b>1.4</b>
Private consumption q/q	-2.4	-1.5	-0.1	-0.5	-0.4	-0.2	0.0	0.2	0.2	0.2	0.3	0.3	...	...	...	...	...
Private consumption y/y	-5.4	-6.0	-5.1	-4.4	-2.5	-1.2	-1.1	-0.4	0.2	0.6	0.9	1.0	3.6	-0.6	-5.2	-1.3	0.7
Government consumption q/q	1.2	0.5	1.6	1.0	1.0	0.5	0.5	0.0	0.4	0.4	0.4	0.4	...	...	...	...	...
Government consumption y/y	6.4	5.2	4.9	4.3	4.1	4.2	3.0	2.0	1.4	1.3	1.2	1.6	5.5	5.5	5.2	3.3	1.4
Investment q/q	-6.3	-4.1	-2.3	-1.0	-1.0	-0.5	0.0	0.0	0.5	0.5	0.5	0.5	...	...	...	...	...
Investment y/y	-15.1	-17.2	-16.2	-13.1	-8.2	-4.8	-2.5	-1.5	0.0	1.0	1.5	2.0	4.6	-4.4	-15.5	-4.3	1.1
Net exports (contr. to GDP, q/q)	1.5	0.9	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	...	...	...	...	...
Net exports (contr. to GDP, y/y)	4.0	4.1	3.2	2.4	0.9	0.0	0.1	0.2	0.3	0.3	0.4	0.4	-1.2	1.7	3.4	0.3	0.3
Inventories (contr. to GDP, q/q)	0.0	0.0	0.0	0.3	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...
Inventories (contr. to GDP, y/y)	0.1	0.0	0.0	0.2	0.6	1.0	1.1	0.8	0.4	0.0	0.0	0.0	-0.1	0.2	0.1	0.9	0.1
Harmonised CPI (% y/y)	0.5	-0.7	-1.0	0.1	1.0	1.0	0.3	0.6	...	...	...	...	2.8	4.1	-0.3	0.7	...
Government balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	1.9	-4.1	-10.2	-8.0	-6.0
ECB repo rate (end period)	1.50	1.00	1.00	1.00	1.00	1.00	1.50	2.00	2.25	2.50	2.75	3.00	4.00	2.50	1.00	2.00	3.00

Source: Credit Suisse

## UK macroeconomic forecasts

	2009E				2010E				2011E				Annual average				
	I	II	III	IVE	IE	II E	III E	IVE	IE	II E	III E	IVE	07	08	09E	10E	11E
<b>Real GDP growth</b>																	
<b>UK GDP q/q</b>	-2.5	-0.6	0.0	0.3	0.5	0.5	0.6	0.6	0.6	0.6	0.7	0.7	...	...	...	...	...
<b>UK GDP y/y</b>	-5.0	-5.5	-4.8	-2.8	0.2	1.4	2.0	2.3	2.3	2.4	2.5	2.7	2.6	0.6	-4.5	1.5	2.5
<b>Expenditure based GDP</b>																	
Private consumption q/q	-1.5	-0.6	0.0	0.1	0.3	0.3	0.5	0.5	0.4	0.4	0.5	0.5	...	...	...	...	...
Private consumption y/y	-3.1	-3.6	-3.2	-2.0	-0.2	0.7	1.2	1.6	1.7	1.8	1.8	1.8	2.5	0.9	-3.0	0.8	1.8
Government consumption q/q	0.1	0.6	0.6	0.7	0.7	0.6	0.5	0.5	0.4	0.4	0.4	0.4	...	...	...	...	...
Government consumption y/y	2.3	2.2	2.3	2.0	2.6	2.6	2.5	2.3	2.0	1.8	1.7	1.6	1.2	2.5	2.2	2.5	1.8
Investment q/q	-7.3	-5.2	-2.0	-1.0	-0.5	-0.5	0.2	0.3	1.0	1.5	1.8	2.0	...	...	...	...	...
Investment y/y	-12.2	-17.2	-15.8	-14.8	-8.5	-3.9	-1.8	-0.5	1.0	3.0	4.7	6.4	7.8	-3.3	-15.0	-3.8	3.8
Net exports (contr. to GDP, q/q)	0.1	0.2	0.1	-0.1	-0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	...	...	...	...	...
Net exports (contr. to GDP, y/y)	1.3	1.0	1.0	0.4	0.2	0.0	0.0	0.2	0.2	0.2	0.1	0.1	-0.6	0.5	0.9	0.1	0.1
Inventories (contr. to GDP, q/q)	-0.4	0.3	0.1	0.3	0.3	0.2	0.1	0.0	0.1	0.0	0.0	0.0	...	...	...	...	...
Inventories (contr. to GDP, y/y)	-2.6	-1.4	-1.3	0.3	1.1	0.9	0.9	0.6	0.4	0.2	0.1	0.1	0.1	-0.4	-1.3	0.9	0.2
<b>CPI (% y/y)</b>	<b>3.0</b>	<b>2.1</b>	<b>1.5</b>	<b>2.1</b>	<b>3.1</b>	<b>2.6</b>	<b>2.0</b>	<b>1.6</b>	<b>0.7</b>	<b>0.9</b>	<b>1.1</b>	<b>1.1</b>	<b>2.3</b>	<b>3.6</b>	<b>2.2</b>	<b>2.3</b>	<b>1.0</b>
Current account (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	-2.7	-1.5	-1.1	-2.0	-2.0
Government balance (% of GDP)	...	...	...	...	...	...	...	...	...	...	...	...	-2.7	-5.5	-12.0	-12.0	-9.0
<b>BoE bank rate (end period)</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>1.00</b>	<b>2.00</b>	<b>2.25</b>	<b>2.50</b>	<b>2.75</b>	<b>3.00</b>	<b>2.50</b>	<b>2.00</b>	<b>0.50</b>	<b>2.00</b>	<b>3.00</b>

Source: Credit Suisse

## Summary macroeconomic data

### GDP

Real GDP, y/y%

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009E
Austria	3.7	3.1	0.8	1.6	0.9	2.6	2.9	3.4	3.4	2.2	-4.2
Belgium	3.5	3.7	0.8	1.4	0.8	3.1	2.0	2.8	2.8	0.8	-3.1
Cyprus	4.8	5.0	4.0	2.1	1.9	4.2	3.9	4.1	5.1	3.6	-0.7*
Finland	4.0	5.1	2.5	1.5	2.0	3.7	3.0	4.9	4.1	1.1	-7.5
France	3.2	4.1	1.8	1.1	1.1	2.3	1.9	2.4	2.3	0.3	-2.3
Germany	1.9	3.5	1.4	0.0	-0.2	0.7	0.9	3.4	2.6	1.0	-4.8
Greece	3.4	4.5	4.2	3.4	5.9	4.6	2.2	4.5	4.5	2.0	-1.2
Ireland	10.6	9.4	5.8	6.5	4.4	4.6	6.2	5.4	6.0	-3.0	-7.1
Italy	1.4	3.9	1.7	0.5	0.1	1.4	0.8	2.1	1.5	-1.0	-4.8
Luxembourg	8.4	8.4	2.5	4.1	1.5	4.4	5.4	5.6	6.5	0.0	-3.6*
Malta	4.1	6.4	-1.6	2.6	-0.3	1.0	4.0	3.3	3.8	2.1	-2.2*
Netherlands	4.7	3.9	1.9	0.1	0.3	2.2	2.0	3.4	3.6	2.0	-4.0
Portugal	3.8	3.9	2.0	0.8	-0.8	1.5	0.9	1.4	1.9	0.0	-2.8
Slovakia	0.0	1.4	3.5	4.6	4.8	5.0	6.7	8.5	10.6	6.2	-5.8*
Slovenia	5.3	4.7	2.9	3.9	2.8	4.0	4.7	6.0	6.9	3.4	-7.4*
Spain	4.7	5.0	3.6	2.7	3.1	3.3	3.6	4.0	3.6	0.9	-3.6
<b>Euro area</b>	<b>2.9</b>	<b>4.0</b>	<b>1.9</b>	<b>0.9</b>	<b>0.8</b>	<b>1.9</b>	<b>1.8</b>	<b>3.1</b>	<b>2.7</b>	<b>0.5</b>	<b>-3.9</b>
Norway	1.8	2.5	2.4	1.4	1.0	4.2	4.1	4.5	5.5	2.1	-1.2
Sweden	4.3	4.5	1.2	2.4	2.0	3.5	3.3	4.5	2.7	-0.5	-4.4
United Kingdom	3.5	3.9	2.5	2.1	2.8	3.0	2.2	2.9	2.6	0.5	-4.5

\* European Commission estimates. Source: © Datastream International Limited ALL RIGHTS RESERVED, European Commission, Credit Suisse

### Inflation

HICP/CPI, y/y%, annual average

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Austria	0.5	2.0	2.3	1.7	1.3	1.9	2.1	1.7	2.2	3.2	0.4
Belgium	1.1	2.7	2.4	1.6	1.5	1.9	2.5	2.3	1.8	4.5	0.0
Cyprus	1.1	4.9	2.0	2.8	4.0	1.9	2.0	2.2	2.2	4.4	0.2
Finland	1.3	2.9	2.7	2.0	1.3	0.1	0.8	1.3	1.6	3.9	1.6
France	0.6	1.8	1.8	1.9	2.2	2.3	1.9	1.9	1.6	3.2	0.1
Germany	0.6	1.4	1.9	1.4	1.0	1.8	1.9	1.8	2.3	2.7	0.2
Greece	2.1	2.9	3.6	3.9	3.4	3.0	3.5	3.3	3.0	4.2	1.3
Ireland	2.5	5.3	4.0	4.7	4.0	2.3	2.2	2.7	2.9	3.1	-1.7
Italy	1.7	2.6	2.3	2.6	2.8	2.3	2.2	2.2	2.0	3.5	0.8
Luxembourg	1.0	3.8	2.4	2.1	2.5	3.2	3.8	3.0	2.7	4.1	0.0
Malta	2.3	3.0	2.5	2.6	1.9	2.7	2.5	2.6	0.7	4.7	1.9
Netherlands	2.0	2.3	5.1	3.9	2.2	1.4	1.5	1.7	1.6	2.2	1.0
Portugal	2.2	2.8	4.4	3.7	3.3	2.5	2.1	3.0	2.4	2.7	-0.9
Slovakia	10.5	12.2	7.2	3.5	8.4	7.5	2.8	4.3	1.9	3.9	0.9
Slovenia	6.1	8.9	8.6	7.5	5.7	3.7	2.5	2.5	3.8	5.5	0.9
Spain	2.2	3.5	2.8	3.6	3.1	3.1	3.4	3.6	2.8	4.1	-0.3
<b>Euro area</b>	<b>1.1</b>	<b>2.1</b>	<b>2.4</b>	<b>2.3</b>	<b>2.1</b>	<b>2.1</b>	<b>2.2</b>	<b>2.2</b>	<b>2.1</b>	<b>3.3</b>	<b>0.3</b>
Norway	2.3	3.1	3.0	1.3	2.5	0.5	1.5	2.3	0.7	3.8	2.2
Sweden	0.5	1.0	2.4	2.2	1.9	0.4	0.5	1.4	2.2	3.5	-0.3
United Kingdom	1.3	0.8	1.2	1.3	1.4	1.3	2.1	2.3	2.3	3.6	2.2

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## Current account balance

As % of GDP

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009E
Austria	-1.7	-0.7	-0.8	2.7	1.7	2.1	2.0	2.8	3.6	3.2	1.8
Belgium	5.1	4.0	3.4	4.6	7.1	6.6	2.6	2.0	2.2	-2.5	-0.2
Cyprus	-1.8	-5.4	-3.3	-3.8	-2.3	-5.0	-5.9	-7.0	-11.7	-17.5	-7.7
Finland	6.2	8.1	8.6	8.9	5.2	6.6	3.6	4.5	4.2	3.0	1.0
France	2.6	1.2	1.7	1.0	0.4	0.6	-0.6	-0.5	-1.0	-2.3	-1.9
Germany	-1.3	-1.7	0.0	2.0	1.9	4.7	5.1	6.5	7.9	6.6	3.9
Greece	--	-7.8	-7.2	-6.5	-6.5	-5.8	-7.5	-11.3	-14.4	-14.6	-11.0
Ireland	0.6	0.0	-0.6	-1.0	0.0	-0.6	-3.5	-3.6	-5.3	-5.2	-2.3
Italy	0.7	-0.5	-0.1	-0.8	-1.3	-0.9	-1.7	-2.6	-2.4	-3.4	-3.4
Luxembourg	8.4	13.2	8.8	10.5	8.1	11.9	11.0	10.3	9.7	5.5	6.2
Malta	--	-1.3	-0.4	0.3	-0.3	-0.6	-0.9	-0.9	-0.6	-0.6	-1.8
Netherlands	3.8	1.9	2.4	2.5	5.5	7.5	7.3	9.3	8.7	4.8	4.6
Portugal	-8.5	-10.2	-9.9	-8.1	-6.1	-7.6	-9.5	-10.0	-9.4	-12.1	-9.2
Slovakia	-3.9	-2.4	-5.8	-5.6	-0.6	-2.6	-6.6	-6.6	-5.1	-6.4	-7.4
Slovenia	-4.0	-3.1	0.2	1.1	-0.8	-2.7	-1.7	-2.5	-4.7	-6.2	-0.1
Spain	-2.9	-4.0	-3.9	-3.3	-3.5	-5.3	-7.4	-9.0	-10.0	-9.6	-4.8
<b>Euro area</b>	<b>-0.5</b>	<b>-1.5</b>	<b>-0.4</b>	<b>0.6</b>	<b>0.3</b>	<b>0.8</b>	<b>0.1</b>	<b>-0.1</b>	<b>0.1</b>	<b>-1.6</b>	<b>-0.7</b>
Norway	5.6	15.0	16.1	12.6	12.3	12.7	16.3	17.3	14.2	18.6	15.0
Sweden	4.1	4.2	5.1	4.7	7.2	6.7	7.0	8.5	8.8	9.8	8.2
United Kingdom	-2.4	-2.6	-2.1	-1.7	-1.6	-2.1	-2.6	-3.3	-2.7	-1.5	1.1

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## General government balance

As % of GDP

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009E
Austria	-2.3	-1.7	0.0	-0.7	-1.4	-4.4	-1.6	-1.6	-0.6	-0.4	-4.0
Belgium	-0.6	0.0	0.4	-0.1	-0.1	-0.3	-2.7	0.3	-0.2	-1.2	-5.5
Cyprus	-4.3	-2.3	-2.2	-4.4	-6.5	-4.1	-2.4	-1.2	3.4	0.9	-3.5*
Finland	1.6	6.9	5.0	4.1	2.6	2.4	2.8	4.0	5.2	4.5	-1.0
France	-1.8	-1.5	-1.5	-3.1	-4.1	-3.6	-2.9	-2.3	-2.7	-3.4	-8.0
Germany	-1.5	1.3	-2.8	-3.7	-4.0	-3.8	-3.3	-1.6	0.2	0.0	-3.2
Greece	--	-3.7	-4.5	-4.8	-5.6	-7.5	-5.2	-2.9	-3.7	-7.7	-12.5
Ireland	2.7	4.8	0.9	-0.4	0.4	1.4	1.7	3.0	0.3	-7.2	-12.0
Italy	-1.7	-0.8	-3.1	-2.9	-3.5	-3.5	-4.3	-3.3	-1.5	-2.7	-5.2
Luxembourg	3.4	6.0	6.1	2.1	0.5	-1.1	0.0	1.3	3.7	2.5	-2.2*
Malta	-7.7	-6.2	-6.4	-5.5	-9.9	-4.7	-2.9	-2.6	-2.2	-4.7	-4.5*
Netherlands	0.4	2.0	-0.2	-2.1	-3.1	-1.7	-0.3	0.5	0.2	0.7	-4.9
Portugal	-2.8	-2.9	-4.3	-2.8	-2.9	-3.4	-6.1	-3.9	-2.6	-2.7	-8.3
Slovakia	-7.4	-12.3	-6.5	-8.2	-2.8	-2.4	-2.8	-3.5	-1.9	-2.3	-6.3*
Slovenia	-3.0	-3.7	-4.0	-2.5	-2.7	-2.2	-1.4	-1.3	0.0	-1.8	-6.3*
Spain	-1.4	-1.0	-0.6	-0.5	-0.2	-0.3	1.0	2.0	1.9	-4.1	-10.2
<b>Euro area</b>	<b>-1.3</b>	<b>0.1</b>	<b>-1.8</b>	<b>-2.5</b>	<b>-3.1</b>	<b>-2.9</b>	<b>-2.5</b>	<b>-1.3</b>	<b>-0.6</b>	<b>-1.9</b>	<b>-6.0</b>
Norway	--	--	13.5	9.3	7.3	11.1	15.1	18.5	17.7	18.8	--
Sweden	1.3	3.7	1.6	-1.2	-0.9	0.8	2.3	2.5	3.8	2.5	-2.1
United Kingdom	0.9	3.6	0.5	-2.0	-3.3	-3.4	-3.4	-2.7	-2.7	-5.0	-12.0

\* European Commission estimates. Source: © Datastream International Limited ALL RIGHTS RESERVED, European Commission, Credit Suisse

## General gross government debt

As % of GDP

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009E
Austria	67.2	66.5	67.1	66.5	65.5	64.8	63.9	62.2	59.5	62.6	69.1
Belgium	113.7	107.9	106.6	103.5	98.5	94.2	92.1	88.1	84.2	89.8	97.2
Cyprus	51.8	48.7	52.1	64.6	68.9	70.2	69.1	64.6	58.3	48.4	53.2
Finland	45.5	43.8	42.3	41.4	44.4	44.4	41.8	39.3	35.2	34.1	41.3
France	58.9	57.3	56.9	58.8	62.9	64.9	66.4	63.7	63.8	67.4	76.1
Germany	60.9	59.7	58.8	60.4	63.9	65.7	68.0	67.6	65.0	65.9	73.1
Greece	94.0	103.4	103.7	101.7	97.4	98.6	100.0	97.1	95.6	99.2	112.6
Ireland	48.5	37.8	35.6	32.2	31.0	29.7	27.6	25.0	25.1	44.1	65.8
Italy	113.7	109.2	108.8	105.7	104.4	103.8	105.8	106.5	103.5	105.8	114.6
Luxembourg	6.4	6.2	6.3	6.3	6.1	6.3	6.1	6.6	6.6	13.5	15.0
Malta	57.1	55.9	62.1	60.1	69.3	72.1	70.2	63.6	62.0	63.8	68.5
Netherlands	61.1	53.8	50.7	50.5	52.0	52.4	51.8	47.4	45.5	58.2	59.8
Portugal	51.4	50.5	52.9	55.6	56.9	58.3	63.6	64.7	63.6	66.3	77.4
Slovakia	47.9	50.3	48.9	43.4	42.4	41.5	34.2	30.5	29.3	27.7	34.6
Slovenia	--	--	26.8	28.0	27.5	27.2	27.0	26.7	23.3	22.5	35.1
Spain	62.3	59.3	55.5	52.5	48.7	46.2	43.0	39.6	36.1	39.7	54.3
<b>Euro area</b>	<b>71.5</b>	<b>68.8</b>	<b>68.4</b>	<b>68.2</b>	<b>69.4</b>	<b>69.8</b>	<b>70.4</b>	<b>68.6</b>	<b>66.2</b>	<b>69.6</b>	<b>78.2</b>
Norway	--	--	29.2	36.1	44.3	45.6	44.5	55.3	52.3	49.8	42.1
Sweden	64.8	53.6	54.4	52.6	52.3	51.3	51.0	45.9	40.5	38.0	--
United Kingdom	43.7	41.0	37.7	37.5	38.7	40.6	42.2	43.2	44.2	52.0	68.6

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