CREDIT SUISSE

Coronavirus crisis: What does rising government debt mean for Switzerland and its economy?

Monitor Switzerland | Second quarter 2020

Impressum

Publisher, Credit Suisse AG, Investment Solutions & Products

Nannette Hechler-Fayd'herbe
Head of Global Economics & Research
+41 44 333 17 06
nannette.hechler-fayd'herbe@credit-suisse.com

Oliver Adler
Chief Economist Switzerland
+41 44 333 09 61
oliver.adler@credit-suisse.com

Authors

Oliver Adler

Maxime Botteron

Sara Carnazzi Weber

Franziska Fischer

Emilie Gachet

Tiziana Hunziker

Alexander Lohse

Claude Maurer

Thomas Rieder

Fabian Waltert

Orders

Direct from your client advisor

Contribution

Ewelina Krankowska-Kedziora

Editorial deadline

10 June 2020

Dear Reader

The coronavirus pandemic in Switzerland has been suppressed more quickly than many people expected. We certainly cannot rule out further local outbreaks or even a second infection wave, but it currently looks likely that contact tracing and targeted quarantine measures can master these more quickly. In other words, it appears reasonable to hope that another comprehensive lockdown will not be necessary.

Thanks to the repeal of the lockdown measures imposed in March, the Swiss economy is gaining momentum. The trajectory of the recovery essentially depends on how quickly consumers and companies in Switzerland and its major trading partners regain their confidence. We anticipate the profile of this economic recovery to resemble a "crooked V". Three specific factors underpin our expectation of a fairly flat recovery trajectory. First, exports and corporate investment will pick up only slowly. Second, employment will recover more slowly than it declined which will also reduce immigration. Third, the household savings rate will remain at above-average levels for quite some time, despite the substantial income support by the state.

The easing of long-term measures has provided momentum not only to the economy, but also to political debate. The question of how a pandemic can be prevented – or at least better handled – in the future is one burning issue right now, as is the question of whether (and how rapidly) the economic support measures implemented since March should be reversed. Few people would dispute the view that the government, the corporate sector, and the population were not universally prepared for the pandemic. However, the argument that we should impose a more restrictive immigration policy, shape a more autarkic agricultural policy, or resort to exclusively domestic production of protective healthcare material and medications, is highly dubious. In our view, quite the opposite applies: This pandemic has actually emphasized the advantages of an internationally diversified economy in all aspects, given that precisely this characteristic improves the chances of responding flexibly to a crisis of this nature.

The benefits of a flexible response have also become apparent in the area of economic policy. The willingness of the federal government to work with banks to provide rapid and generous support to both companies and workers has greatly mitigated the negative economic consequences of the pandemic. By adopting a more flexible approach to regulation and creating new credit facilities, the Swiss National Bank and FINMA likewise contributed to this process. As we see it, flexibility will be needed in the future too: Insisting stubbornly on the mechanical repayment of the Confederation's increased debt burden within the six-year timeframe envisaged by the "debt brake" instrument appears to be not only unnecessary, but also counterproductive. That said, it will be crucial to Switzerland's future success to adhere to the basic principle of fiscal and monetary policy being geared toward long-term stability. We explain over the following pages what we mean by that precisely.

We wish you an enjoyable read as well as a fine and healthy summer.

Oliver Adler

André Helfenstein
CEO Credit Suisse (Switzerland) Ltd

Oliver Adler
Chief Economist Switzerland

Contents Page

The recovery has begun

Swiss economic output collapsed during the coronavirus crisis. Yet with the easing of the lockdown measures, the first signs of recovery are now apparent. The robust development of pharma exports, the effectiveness of the government's emergency measures, and the bottoming-out of purchasing managers' indices likewise provide grounds for cautious optimism.

Historic slump in GDP and consumer spending in Q1 2020

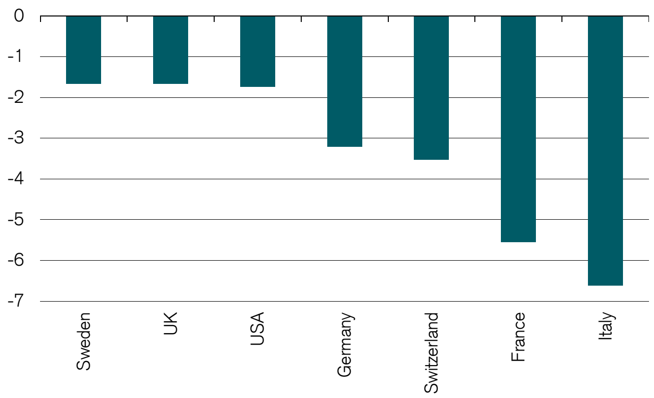
In the first quarter of 2020, Swiss gross domestic product (GDP) recorded a quarter-on-quarter decline of 2.6%. This is the greatest slump since this data was first recorded back in 1980. A combination of businesses closing their doors and general uncertainty led to historic declines in the areas of catering and transport, but also in healthcare and much of the retail sector. Overall, consumer spending in Switzerland declined by 3.5%. This first-quarter slump, which was attributable to the measures to combat the spread of the pandemic, was similar to the decline recorded in Germany, but far less severe than in France and Italy (cf. Fig. 1). By contrast, Sweden, the US, and the UK, which had all imposed less rigorous measures at this point, saw a less pronounced negative trend.

Trough likely to be reached in Q2

The development of consumer spending in the first quarter confirms our estimate that Swiss households spent some 20% less during the lockdown compared to normal times. Since the great majority of the lockdown spans the months of April and May, the slump in consumer spending in the second quarter is likely to be twice as great. On the positive side, however, lockdown-enforced spending restraint is also likely to have seen many households put money aside during this phase. In other words, the financial situation of most households at the end of May when the lockdown was eased was much better than might have been expected following an economic slump of such a historic magnitude. According to our calculations, financial support from the state or unemployment insurance payments has not fully offset the income loss due to unemployment, short-time working, and other working restrictions , which is why the income of the average Swiss household is likely to be just under 5% lower than before. That said, the additional savings made during the lockdown period have more than compensated for this shortfall when viewed across all households.

Fig. 1: Comparison of Q1 slump in consumer spending

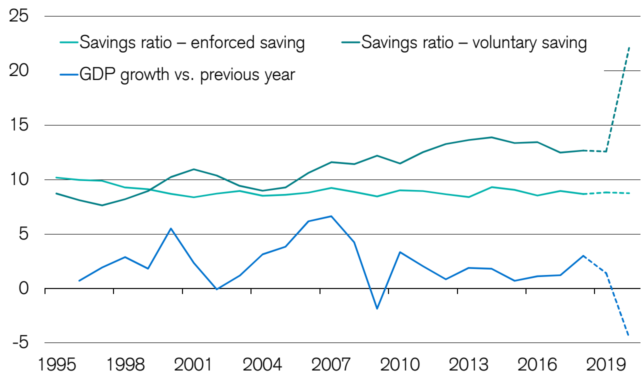
Quarter-on-quarter change in consumer spending in Q1 2020, real in %



Source: Datastream, State Secretariat for Economic Affairs (SECO), Credit Suisse

Fig. 2: Savings rate unusually high

in %



Source: Swiss Federal Statistical Office; from 2019: Credit Suisse estimates

Record-high savings level offers potential for rebound in consumer spending

The savings ratio, which measures household savings as a proportion of income, has risen to a historic peak as a result. A higher propensity to save is not unusual in times of economic uncertainty: Figure 2 shows that the "voluntary savings ratio" (savings outside of mandatory pension provision) has changed during recessions in the past, whereas "enforced saving" (mandatory pension provision) barely reacts to changes in the economic environment. Compared to similar phases in the past, however, the current rise in the voluntary savings ratio (from around 13% to 22%) is probably well beyond what was intended. We are therefore expecting households to spend a significant proportion of these additional savings over the next few months. Specifically, we estimate that two-thirds of the accumulated funds – or some CHF 5.5 bn – will be plowed back into the economy, thereby reversing around a half of the decline in consumer spending.

Ending of the lockdown has immediate positive effect, …

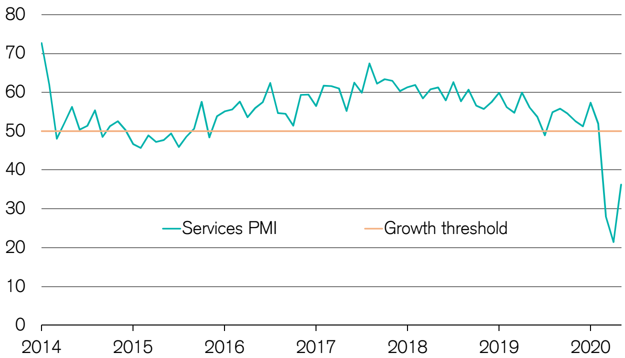
The rise in the Purchasing Managers Index (PMI) for the services sector in May gives some idea of how rapidly the economic situation is improving following the lifting of lockdown restrictions (cf. Fig. 3). Just two weeks after the start of the second phase of easing, the services PMI had reversed almost a half of the historic slump recorded in March and April. Other indicators of the state of the economy corroborate this positive picture: According to analyses of the MonitoringConsumptionSwitzerland project, bank card purchases at the end of May were already well above average, and twice as high as at the trough during the lockdown in April – even when taking into consideration the less widespread use of cash for hygiene reasons. At the same time, according to mobility data published by the Swiss Economic Institute of ETH Zurich ("KOF"), economic and social activity was halfway back to its normal level by this point, while according to the website TrendEcon, Google search queries pointed to consumer sentiment being back to the buoyant level witnessed before the coronavirus crisis. The "Fever Curve for the Swiss Economy", which is plotted daily by researchers at the University of Neuchâtel on the basis of financial market data and news reports, is now already back down below the level it was prior to the lockdown, and in line with levels recorded at the start of March.

… but the road back to normality will be a long one

Despite this initial recovery, however, consumer spending is still some way from being back to normal. The PMI for the services sector remains well below the growth threshold, and therefore continues to point to declining sales. In addition, we assume that the second stage of the recovery will proceed much more slowly. First, the physical supply in shops and businesses remains restricted due to the ongoing coronavirus measures. Second, consumers remain unsettled: Both the fear of becoming infected and concerns over job security are weighing on sentiment. Third, immigration into Switzerland is slowing because of closed borders and fewer new hires. For 2020 as a whole, we are anticipating net immigration of between 35,000 and 40,000 persons (down from 53,000 the previous year). Unlike in former crises (financial crisis, euro crisis, franc shock), a key prop of consumer spending is now experiencing a phase of weakness. Overall, we are expecting consumer spending to decline by 2.1% for 2020 as a whole.

Fig. 3: Services PMI reverses half of its slump

PMI > 50 = growth



Source: procure.ch, Credit Suisse

Fig. 4: Heterogeneous export development

Development of goods exports compared to December 2019 by sector, seasonally adjusted values

	Chemicals	Vehicle construction	Food	Med Tech	Pharma	Textiles & clothing	Watches	MEM
Jan 20	8%	24%	-1%	0%	8%	1%	6%	-1%
Feb 20	14%	3%	0%	-1%	0%	3%	-3%	3%
Mrz 20	16%	-30%	-2%	-5%	18%	-5%	-20%	-11%
Apr 20	14%	-51%	-6%	-31%	10%	27%	-80%	-17%

Source: Swiss Federal Customs Administration, Credit Suisse

Pharma sector supports development of exports

Switzerland's foreign trade figures for the first quarter show how advantageous the high weighting of the pharma sector (50% of exports) and its low short-term economic sensitivity currently are for the development of exports. According to the State Secretariat of Economic Affairs (SECO), goods exports actually rose by 3.4% despite a significant decline in the exports of cyclically sensitive industrial companies. In the foreign trade figures published by the Federal Customs Administration, the dramatic differences between the various sectors are very apparent (cf. Fig. 4): Watch exports essentially collapsed, while the exports of mechanical engineering, electric, and metalworking companies (MEM industry) in April were almost a fifth below their levels of the start of the year.

Silver linings in Asia for the MEM industry

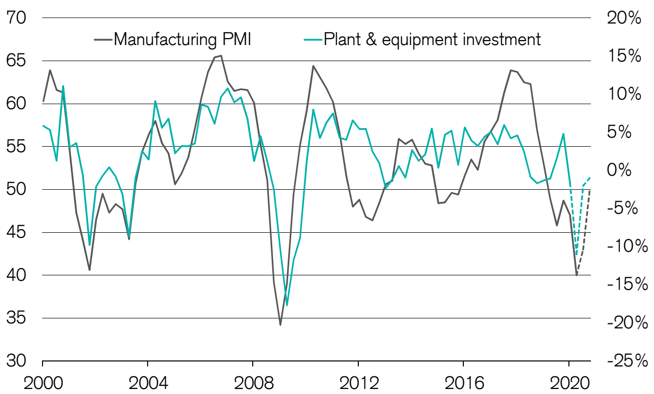
For exporters of investment goods, however, the turning point should come soon. MEM exports in April to countries that had already been able to loosen their coronavirus restrictions at that point – such as China, Hong Kong, and Japan – have once again risen. This fuels hope that the situation will soon stabilize in Europe. By contrast, the later arrival of coronavirus in the US and the delay in lockdown measures there suggests that the demand for Swiss MEM exports stateside could decline further over the next few months. In addition, the situation of the watchmaking industry, which is heavily dependent on international consumer sentiment, can be expected to remain problematic for a good while yet. So while the worst is likely to be over soon for the majority of export sectors, the road back to normality will still be a long one. Global trade is likely to suffer for some time from subdued demand (particularly for investment goods) and restricted transport capacities. In particular, intercontinental mobility is likely to remain restricted for a prolonged period, which is why we are expecting export volumes in 2020 to work out some 6.5% lower than in the previous year, despite the robustness of pharma exports.

Demand weakness partially passed on to other countries

However, the negative contribution of foreign trade to Swiss GDP is lower than the decline in exports would suggest at first glance. This is because fewer input goods are required from abroad. According to estimates of the Organisation for Economic Cooperation and Development (OECD), input goods and services from abroad make up an average of around a third of the value of Swiss industrial exports. The import share is high for consumer goods too, and is estimated to be as much as two-thirds in the case of the particularly cyclical consumer durables. Due to the weakness of consumer demand, Switzerland imports lower volumes of these goods as well. Because of the sharp decline in imports, Switzerland's surplus in goods trading with the rest of the world (exports minus imports, i.e. the net contribution to GDP) was CHF 4.3 bn in April, higher than at any point since the foreign trade statistics were first compiled.

Fig. 5: Manufacturing PMI points to end to decline in investment

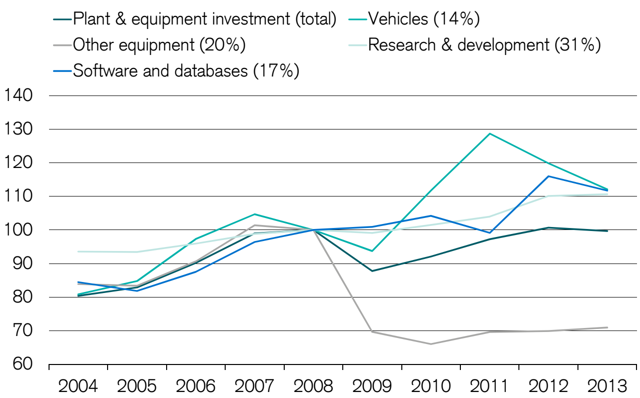
PMI > 50 = growth; investment in plant & equipment vs. previous year, real



Source: procure.ch, State Secretariat for Economic Affairs (SECO), Credit Suisse forecasts

Fig. 6: Pharma sector also provides support on investment side

Development of different categories of plant & equipment investment, Index 2008 = 100, real (in brackets: proportion of total plant & equipment investment)



Source: State Secretariat for Economic Affairs (SECO), Credit Suisse

Investment in plant & equipment could soon turn a corner, …

During the lockdown, all investment other than that of an urgent nature was likely halted. Accordingly, investment in plant and equipment declined by 4.0% in the first quarter, and we are expecting this decline to accelerate in the second quarter. With the lockdown measures eased, however, a recovery should set in. Ultimately, the obstacles to a renewed lockdown are high, given the decline in case numbers and greater understanding of the virus, which is why companies are likely to anticipate an improvement in the situation over the remainder of 2020. After all, the end of the decline in the PMI for the manufacturing sector shortly after the easing of measures in May points to an improvement in plant and equipment investment (cf. Fig. 5). The developments of the manufacturing PMI in Asia (where lockdowns were lifted earlier) likewise suggests that the slump in investment in plant and equipment in Switzerland is likely to prove shorter and less pronounced than in the financial crisis of 2009.

… particularly as the pharma industry is providing support here too

Furthermore, it is likely that investment in the "research & development" area (almost a third of plant & equipment investment) and the "software and databases" area (17% of plant & equipment investment) will cushion the decline in overall investment. Even during the financial crisis, these two categories proved impressively immune to the economic downturn (cf. Fig. 6). Moreover, the former is dominated by the strongly growing pharma sector, while the latter can be expected to benefit from the rapid wave of digitalization due to the increasing trend of home working and webshops. Overall, we are forecasting an average decline in plant and equipment investment of 4.0% for 2020.

Lower construction investment in 2020

With negative growth of 2.5%, construction investment is likely to have declined as well, even though interest rates remain extremely low and the majority of building sites continued operations throughout the lockdown. The uncertainty has had a negative effect, however. In addition, rising vacancies in the rental apartment segment will lead to a decline in new projects. According to our forecasts, public spending in this area should increase significantly this year and thus make a welcome contribution to the stabilization of the economy (+3%).

GDP development to resemble a "crooked V"

With lockdown measures having eased, the Swiss economy has immediately picked up. Following an initial spurt, however, the progression of this recovery is likely to prove fairly sluggish. Accordingly, the development of GDP over the year as a whole is likely to resemble a "crooked V". That said, the unprecedented nature of the coronavirus crisis means that any forecast inevitably involves a huge amount of uncertainty. In view of the ever more numerous silver linings appearing on the horizon, we maintain our optimistic view compared to other institutions. Aspects boosting our confidence here include the robust development of pharma exports so far, the effectiveness of state measures to protect individual incomes and prevent corporate bankruptcies, and the end to the decline of PMIs. However, we too do not expect the recovery in 2021 to prove strong enough to restore GDP to its pre-crisis levels by the end of that year. More precisely, we anticipate that GDP will slump by 4% in 2020 (forecast 17.4.2020: -3.5%) and grow by 3.5% in 2021.

claude.maurer@credit-suisse.com

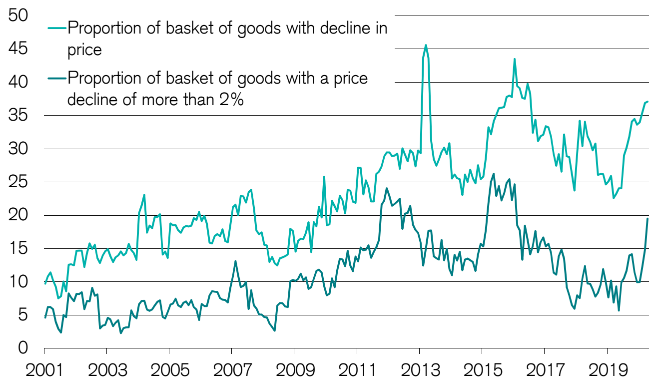
Inflation

The prices of 35% of all goods and services in Switzerland are currently lower than they were a year ago, with the decline coming in at more than 2% for around 20% of them. A number of price declines are probably only temporary, as products that could not be sold during the lockdown are currently being offloaded at a discount. However, in view of weak demand for the foreseeable future and the decline in global market prices of crude oil, negative inflation rates should be a widespread phenomenon over the coming months too. For 2020 we are anticipating an average inflation rate of –0.7%, while for 2021 we are expecting a slight price increase of 0.3%.

maxime.botteron@credit-suisse.com

Broad-based price declines

in %



Source: Swiss Federal Statistical Office (SFSO), Credit Suisse

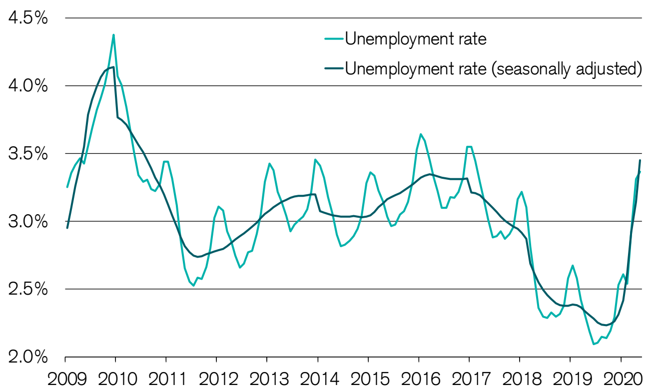
Labor market

Between the end of February and the end of May, the number of unemployed rose by more than 38,000 (+32%), while the unemployment rate rose from 2.5% to 3.4% (not seasonally adjusted). Around a quarter of this increase is attributable to the hotel & catering sector alone. Thanks to the massive use of short-time working in many sectors, a more drastic surge in the number of unemployed persons has been avoided so far. Over the next few months, however, we are likely to see further recruitment freezes, restructurings, and bankruptcies – and therefore a further rise in unemployment. We expect the unemployment rate to rise to more than 4.0% by the end of the year (average 2020: 3.5%; 2021: 3.8%).

emilie.gachet@credit-suisse.com

Rapid rise in unemployment rate since March

Proportion of labor force registered as unemployed with regional employment agencies



Source: State Secretariat for Migration, Credit Suisse. Last data point: May 2020

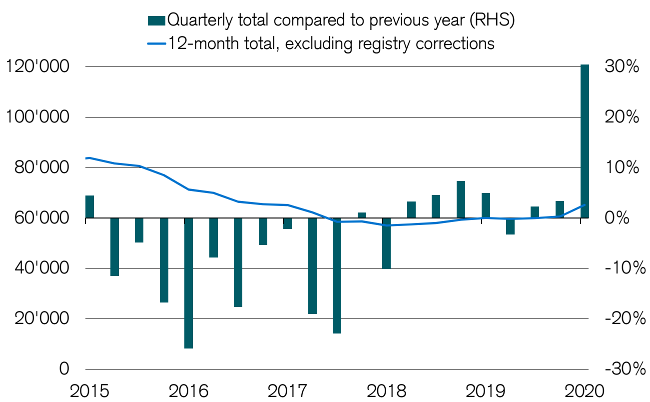
Immigration

In the first quarter of 2020, net migration of foreigners into Switzerland amounted to 19,900, a year-on-year rise of 30%. The processing of residence permit applications was suspended only on March 25 (with a few exceptions), with visas then losing their validity. Consequently, immigration numbers are set to decline markedly in the coming months. The processing of residency applications restarted on May 11, when the first easing measures were introduced (e.g. family members permitted to move to Switzerland). The issuance of new permits for Schengen states and third countries remains on hold until June 15, however. Moreover, demand for labor is likely to suffer for even longer from the economic downturn.

sara.carnazzi@credit-suisse.com

Coronavirus effect not yet visible in statistics

Net migration of permanent foreign residential population



Source: State Secretariat for Migration, Credit Suisse

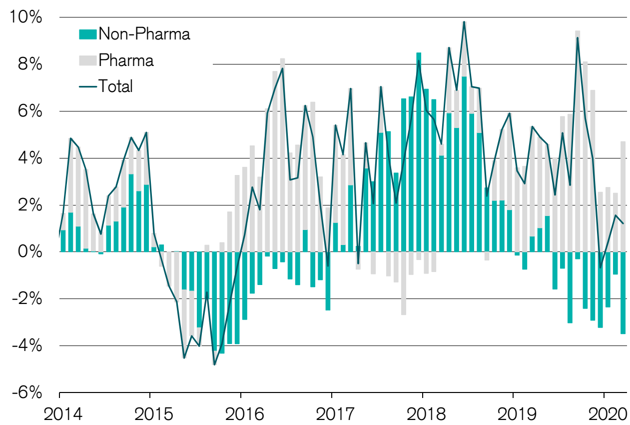
Pharmaceutical industry

While coronavirus-related lockdowns in key export markets led to a slump in demand in many sectors, pharma exports increased further in the first quarter of 2020. Among other things, their relatively sharp rise in March was attributable to hospitals and doctors (for fear of supply shortages) as well as private individuals (seeking to reduce the number of doctor visits) stockpiling supplies of key medications. We are expecting this effect to cancel out over the remainder of the year. On the other hand, pharma exports in the therapeutic area should benefit from a return to normal operations in hospitals and medical practices.

tiziana.hunziker.2@credit-suisse.com

Pharma exports benefit from stockpiling

Exports: growth contribution, moving 3-month average



Source: Swiss Federal Customs Administration, Credit Suisse

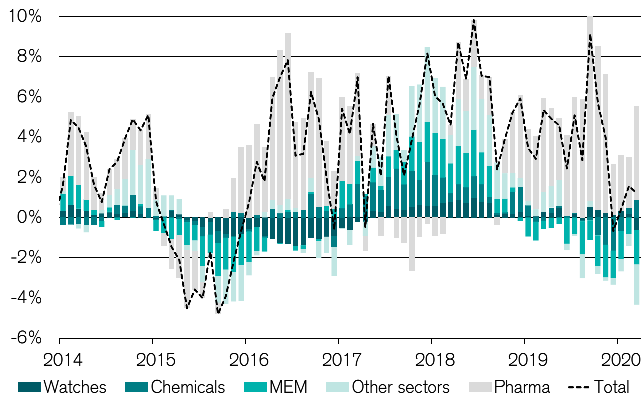
Engineering, electrical and metal industry (MEM)

The disruption to supply chains and the reluctance of companies to invest because of the coronavirus crisis were already weighing on Swiss MEM exports in the first quarter. Purchasing managers' indices suggest that the negative picture in the export regions of Europe and the US is unlikely to improve significantly over the next couple of months. Only in China does the situation appear to have stabilized thanks to the resumption of economic activity. We are expecting demand to recover in this market accordingly.

tiziana.hunziker.2@credit-suisse.com

Coronavirus crisis weighs heavily on MEM exports in particular

Exports: growth contribution by region, moving 3-month average



Source: Swiss Federal Customs Administration, Credit Suisse

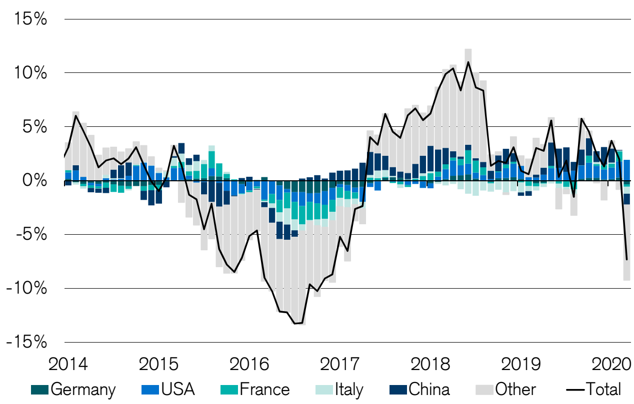
Watch industry

Unlike in the case of MEM exports, the key to the development of Swiss watch exports is not manufacturing sentiment but consumer sentiment abroad. The latter has now deteriorated drastically, albeit with something of a time lag. Watch exports remained robust in January and February before experiencing a significant slump in March. Only exports to the US developed positively in that month, but the subsequent lockdown in the US will have put an end to this positive trend. A sharp decline in income and greater of consumers will also weigh on the watch industry going forward.

tiziana.hunziker.2@credit-suisse.com

Poor consumer sentiment hits watch exports

Exports: change compared to previous year and share of total exports 2019



Source: Swiss Federal Customs Administration, Credit Suisse

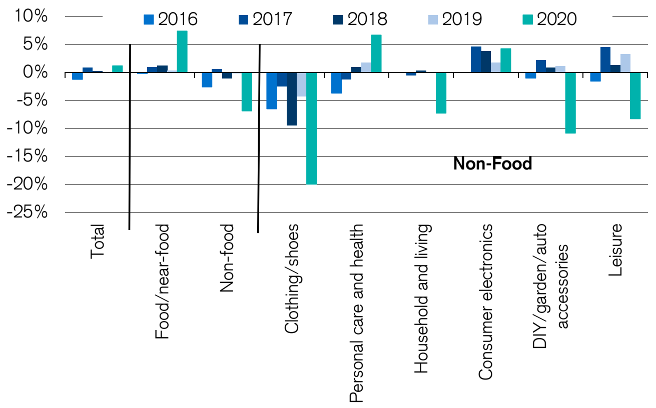
Retail trade

The impact of the coronavirus crisis on sales in the stationary retail trade in the first quarter differed widely from segment to segment. The closure of national borders – equivalent to a ban on "shopping tourism" – and of restaurants and bars gave a significant boost to the sales of food retailers in March. However, the negative impact of the lockdown on sales in the majority of non-food segments was already starkly apparent from mid-March onward. We are expecting a strengthening of this negative trend for the second quarter, as the lockdown was at its most severe between April and mid-May.

tiziana.hunziker.2@credit-suisse.com

Lockdown from mid-March weighs on Q1 sales

Nominal retail sales, year-on-year growth, 2020: January – March



Source: GfK, Credit Suisse

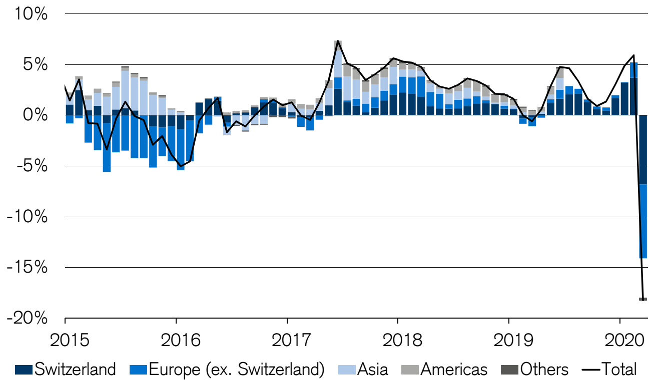
Tourism

The proliferation of coronavirus and the subsequent closure of borders worldwide triggered an unprecedented slump in overnight stays in Switzerland in March. The decline was particularly dramatic for the visits of European and Swiss guests in that month. However, we are also anticipating a major deterioration in the figures for US guests in the second quarter. Although business operations have gradually resumed since mid-May, a combination of the slow opening of borders and operating restrictions (including compliance with social distancing regulations) should continue to have a negative impact on the tourism sector for the foreseeable future.

tiziana.hunziker.2@credit-suisse.com

Slump in overnight stays even in March

Overnight stays by guest origin: growth contribution, moving 3-month average



Source: Swiss Federal Statistical Office, Credit Suisse

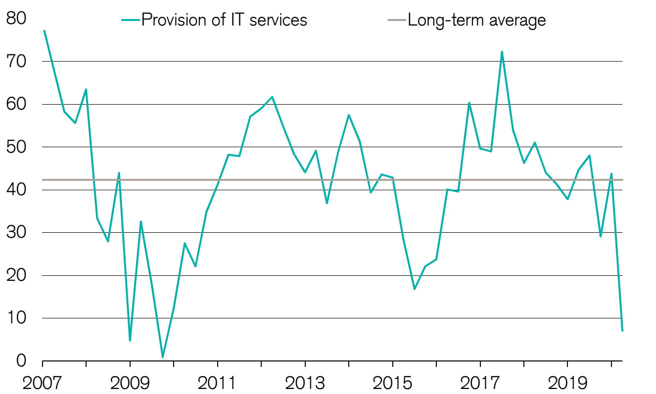
Information technology (IT)

Sentiment has also deteriorated dramatically in what is otherwise typically a fairly optimistic IT sector. The balance between companies who view their business situation as positive and those that view it as negative currently stands at just 7%. Only during the financial crisis of 2009 has this figure been lower. As all key customer industries of IT service providers have slumped in the face of the coronavirus crisis, we are expecting only a slow recovery in sentiment.

tiziana.hunziker.2@credit-suisse.com

IT sector: sentiment almost as bad as during financial crisis

Business conditions; share of surveyed IT service providers, balance in percentage points; quarterly



Source: Economic research unit of the ETH Zurich (KOF), Credit Suisse

Coronavirus debt not problematic, but debt brake remains expedient

An increase in Swiss government debt in 2020 is unavoidable. However, the new level of debt does not pose a threat to Switzerland's future fiscal space, the level of interest rates, or the country's credit rating. A gentle, long-term reduction of the additional debt is therefore not a cause for concern, and is compliant with the special rules of the debt brake mechanism.

Overview of fiscal measures in an international comparison

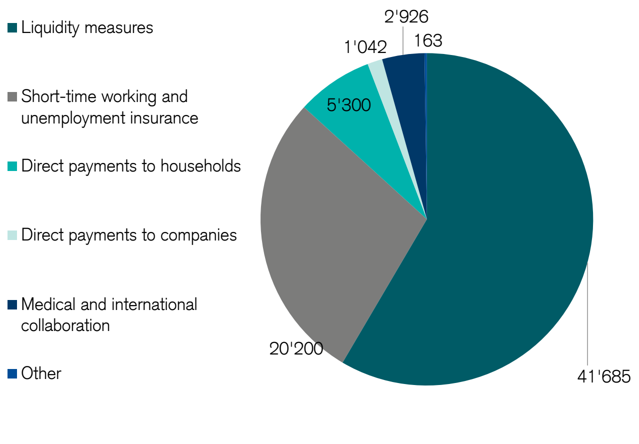
Between March and May 2020, when far-reaching restrictions were in place to combat the pandemic, the Federal Council decreed measures costing more than CHF 70 bn (cf. Fig. 1). In terms of the expenditure level, however, Switzerland is slightly below mid-pack in an international comparison. When measured as a proportion of gross domestic product (GDP), countries such as Germany, France, and Italy have provided significantly greater liquidity assistance, while the direct fiscal stimulus has also been greater in Germany and the US (cf. Fig. 2).

Swiss measures: efficiency before magnitude

However, the pure scope of the announced measures is not the only criterion of an effective fiscal response. Far more important – particularly during the lockdown, which virtually paralyzed the economy overnight – is a prompt implementation of the measures with a minimum of red tape, and to assist those that have been affected the most. Judged against these criteria, the Swiss measures appear to have been effective (cf. Fig. 3). The infrastructure for paying out the COVID-19 bridging loans to companies via commercial banks, including a refinancing facility with the Swiss National Bank (SNB), was in place within a week of being announced, and was made great use of in the first few days in particular. Likewise, existing automatic stabilizers such as short-time working guaranteed the prompt support for household incomes.

Fig. 1: Fiscal measures in Switzerland

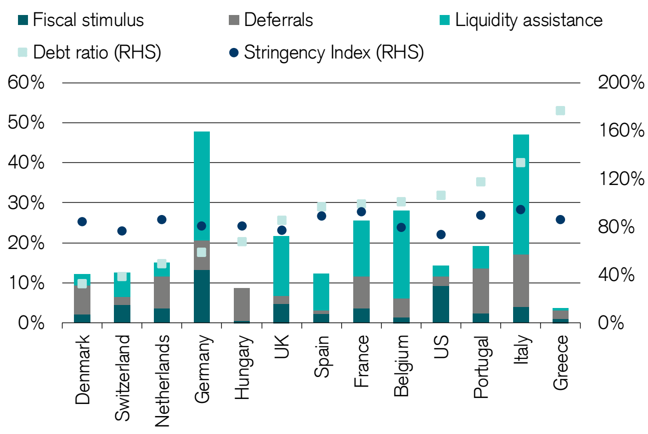
in CHF mn



Source: Federal Council

Fig. 2: International comparison of fiscal packages

as % of GDP, index from 0 to 100



Source: Bruegel, Federal Social Insurance Office, Federal Tax Administration, OxCGR Team of the Blavatnik School of Government, Credit Suisse

Unemployment would be ten percentage points higher without short-time working

Short-time working, which already proved its worth as a cushioning tool during the financial crisis of 2009, has also prevented an abrupt rise in the unemployment rate in the current recession. If all the 1.9 million employees who were put on short-time working by May had instead lost their jobs, the Swiss unemployment rate would have risen to a heady 46% (cf. Fig. 4). Experience shows, however, that companies use short-time working to a far lesser extent than they applied for. According to our estimates of the actual degree of utilization, the unemployment rate in Switzerland would now amount to some 14% – similar to that of the US, where the instrument of short-time working does not exist.

Measures give rise to costs and a deficit

The fiscal responses in Switzerland and elsewhere resemble each other closely in one particular point: The aid packages do not just consist of measures that automatically trigger expenditure. In other words, the actual additional expenditure incurred by the Confederation will be less than the nominal CHF 70 bn of the announced package of measures. For example, bridging loans are liabilities that will only end up being realized if the corresponding companies default. In addition to the actual expenditure, however, the slump in receipts for direct federal tax, value added tax, and withholding tax will affect the Confederation's finances. Based on the measures announced between March and May, we are therefore estimating the deficit for 2020 to be in the region of CHF 38 bn. In a negative scenario with a 100% degree of utilization of short-time working, a reported unemployment rate of 7%, and an annual GDP decline of 10%, this deficit estimate would rise to CHF 44 bn. The Federal Council itself currently anticipates a shortfall of between CHF 30 bn and CHF 50 bn.

Extraordinary expenditure for compliance with the debt brake

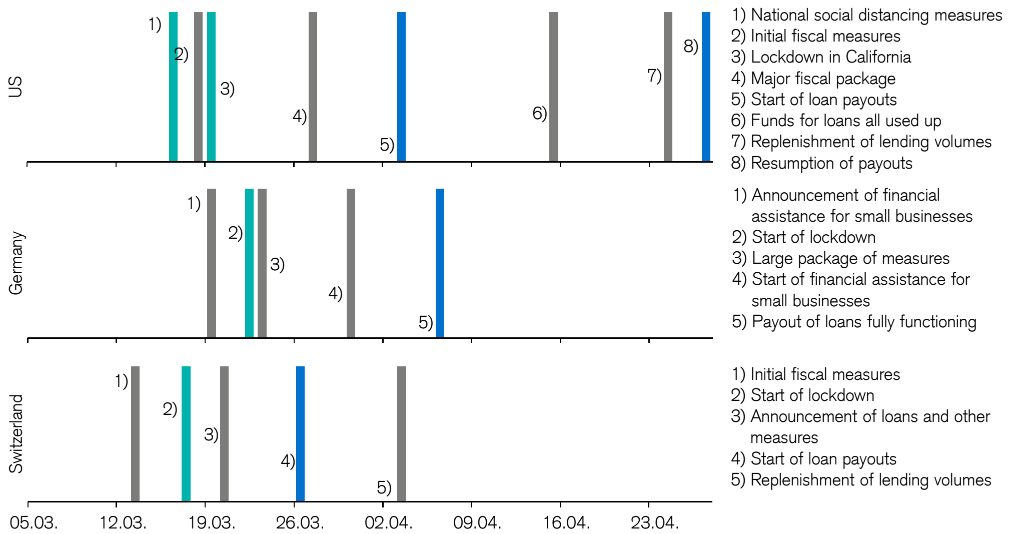
Although Switzerland's debt brake mechanism permits a certain level of surplus expenditure in a recession, a deficit of this magnitude would breach the rules, and would therefore have to be compensated for in the years immediately following. That said, Swiss legislation envisages the possibility of incurring extraordinary expenditure for "exceptional and uncontrollable events", a description that quite clearly fits the recent pandemic. The Federal Council has already announced that it will be classifying the lion's share of the recent fiscal measures as extraordinary expenditure. An extraordinary deficit may be whittled down more slowly. Moreover, in recent years a buffer of CHF 3.4 bn has been accumulated in an amortization account envisaged for this purpose.

Enforced austerity looms over the next six years unless parliament acts

But as this buffer is nowhere near sufficient in the current case, surpluses would have to be generated over the next six years. For example, if fiscal measures that have a direct impact on expenditure and the supplementary financing for the unemployment insurance (ALV) are both classified as extraordinary expenditure, some CHF 4.5 bn would have to be saved every year until 2026. The average surpluses built up since the debt brake was introduced amount to just CHF 1.8 bn annually, however. In other words, the surpluses would have to be more than doubled with wide-ranging cuts in order to meet this requirement. Thanks to the safeguard clause, however, parliament has the option of extending the six-year repayment deadline in special cases, which means it can even mitigate this problem.

Fig. 3: Switzerland leads the way in rapidity of paying out loans

Beginning of lockdown in turquoise, date of first loan payout in blue



Source: Federal Council, German Federal Ministry of Finance, Federal Reserve Bank of St. Louis, Credit Suisse

Financing through existing liquidity and new debt

In view of the extraordinary situation, we can assume that parliament will want to exercise a degree of circumspection in its fiscal policy. In our view, parliament would be ill advised to have its course of action dictated by fears of excessive federal government indebtedness. While the Confederation's debt ratio will rise in 2020, it will do so much less sharply than the deficit would suggest at first glance. In particular, the federal government can fall back on high liquidity reserves to finance expenditure. Prior to the start of the lockdown in March, its liquid assets amounted to CHF 24 bn, although a substantial proportion of this is likely to be held as a liquidity buffer in view of the uncertain tax receipts situation. In addition to using up its cash holdings, the Confederation can also sell its unplaced own tranches of sovereign bonds (valued at CHF 5.5 bn), rather than issuing debt. That said, these own tranches are normally used to support liquidity in the Swiss government bond market. We are therefore expecting only around CHF 2.5 bn of the above amount to be used to raise cash. Based on these considerations, we estimate that – even in a negative scenario involving a deficit of CHF 50 bn – the Confederation will have to raise a maximum of CHF 36 bn of new debt in the form of short-term money market debt register claims or longer-term Confederation bonds.

Consequences for debt ratios

This would see the Confederation's debt ratio increase from 13.9% as per the end of 2019 to an estimated 19.4% as per the end of 2020. Based on the simplified assumption that the debt level of the cantons and the municipalities remains unchanged, the Maastricht debt ratio would rise from 26.7% in 2019 to 34.1% in 2020. Despite such a rise in the national debt, Switzerland would still hold up well in an international comparison – not least, because the public sector in other countries is likewise taking on considerable amounts of additional debt (cf. Fig. 5).

A comparison of debt ratios

The most commonly used yardstick is the Maastricht debt ratio, for which the Eurozone – in keeping with its convergence criteria – has established a maximum level of 60% of GDP. The equivalent figure for Switzerland in 2019 was 26.7%. However, countries outside of Europe do not use this measure.

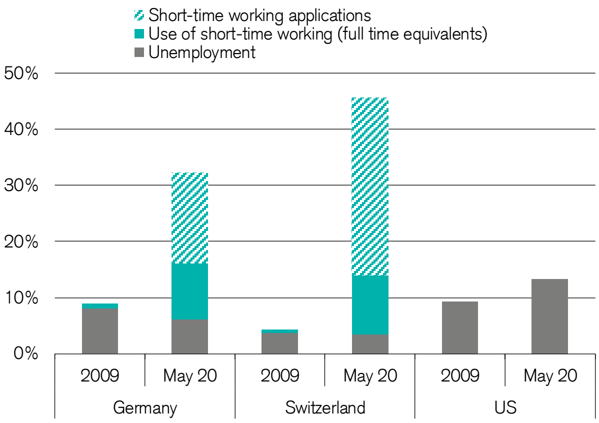
For global comparisons, it is therefore more expedient to use the debt ratio calculated by the International Monetary Fund (IMF). In contrast to the Maastricht approach, however, this method classifies not only debt securities and loans as debt, but all borrowed capital, including the claims of insurance companies and pension funds; hence, this ratio typically works out higher – in the case of Switzerland, for example, at 38.6% in 2019.

Whereas the Maastricht and IMF debt ratios consolidate the general government sector (i.e. the Confederation, cantons/states and municipalities, but also social security funds), the Confederation's debt ratio only takes into account the federal budget. It is therefore significantly lower, and amounted to 13.9% in 2019.

One thing common to all these ratios is that they refer to gross debt, i.e. they do not offset liabilities against financial assets. Another common factor is that they do not take into account implicit government debt, such as future liabilities arising from pension claims due to demographic change.

Fig. 4: The value of short-time working

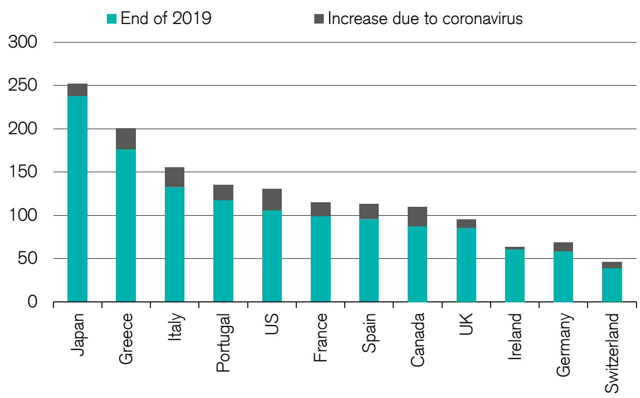
as % of workforce



Source: Federal Employment Agency, Bureau of Labor Statistics, State Secretariat for Economic Affairs (SECO), Credit Suisse estimates for short-time working in 2020

Fig. 5: IMF debt ratios in an international comparison

as % of GDP



Source: International Monetary Fund (IMF)

Debt levels hardly appear to be tying governments' hands

In the current crisis, a higher debt ratio does not appear to be restricting the ability of the developed countries to act, at least not to any great degree. In the comparison illustrated in Figure 2, there is no identifiable correlation between the scope or type of measures and the debt burden built up prior to the crisis. The expected damage to the economy, as gauged by the Stringency Index of measures to combat the pandemic, does not appear to have been the driving factor in the design of fiscal support packages either. Whether or not there are or have been other objective economic factors that governed the response of governments has yet to be determined.

Low interest rates make new debt levels manageable

From a pure cost perspective, higher debt for Switzerland does not appear to be a problem, as the public sector can raise funds in the capital market at negative interest rates. In 2019, for example, the average interest rate of auctioned bonds with a residual term of 17.5 years – which is quite high in an international comparison – amounted to just -0.12%. The yields on Swiss government bonds have not changed materially since then. Paradoxically, therefore, the raising of new debt at current market terms would actually remove some of the burden on the federal budget in the next few years from a financing perspective.

Passive deleveraging thanks to negative interest rates

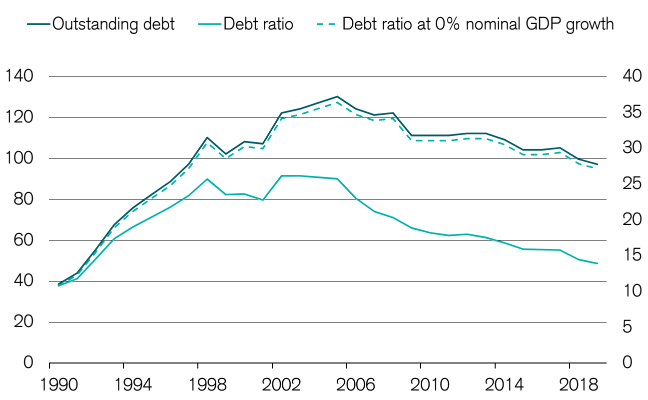
On the assumption that the budget will be balanced again from 2022 onward, nominal new debt from 2020 would essentially decline of its own accord over the years if interest rates remain low or even negative. If the primary budget is balanced, the debt ratio (i.e. the ratio of debt to GDP) declines if GDP growth is higher than the average rate of interest. Indeed, this "passive deleveraging" has also been crucial to reducing the debt ratio in the past. Figure 6 shows that the debt ratio has declined much more sharply than outstanding debt since the debt brake was introduced in 2003. In other words, in addition to the actual reduction in debt, positive GDP growth has made its own significant contribution. Even with a muted long-term growth outlook, it appears highly probable that GDP growth rates will remain above the average rate of interest in the future, as we explain below.

Simulation: passive deleveraging possible within a generation

A simulation involving a one-time raising of CHF 36 bn of new debt in 2020 at current market terms shows that the debt ratio of the Confederation would be back at its 2019 level within 17 years. Assuming a small primary surplus of 0.1% of GDP, which has been achieved every year since the introduction of the debt brake and can be used to actively pay down debt, this period shrinks to just 13 years (cf. Fig. 7)[1].

Fig. 6: Active and passive deleveraging

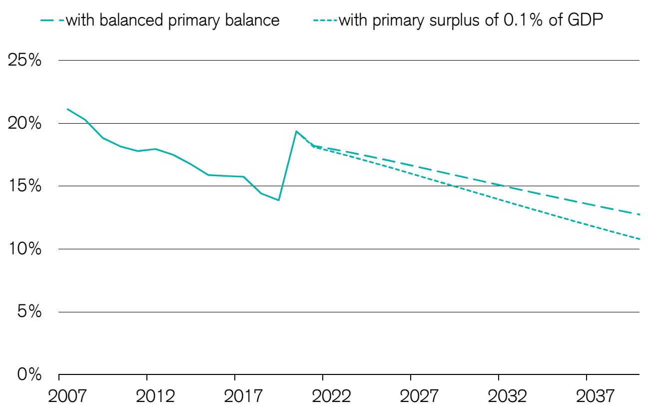
Debt level in CHF bn (LHS), debt ratio as % of GDP (RHS)



Source: Federal Finance Administration, Credit Suisse

Fig. 7: Passive paying-down of CHF 36 bn of new debt from 2020

as % of GDP



Source: Federal Finance Administration, Credit Suisse

[1] This simulation is based on the IMF forecast of annual GDP growth of 1.6% from 2022, an inflation rate of 1% from 2022, a yield on newly issued bonds of -0.59%, and a 16% rate of refinancing for legacy debt in keeping with the practice of recent years.

Will interest rates remain low?

A key question, however, is whether interest rates really will remain low for future refinancing. Three factors are decisive for refinancing costs: the global interest rate environment, the borrower's creditworthiness, and the resulting credit rating. A strong rise in global real interest rates without a simultaneous sharp acceleration in growth would only be conceivable in a scenario of pronounced deflation. However, the anti-deflationary monetary policy of the major central banks makes any decline in prices extremely unlikely. As things stand, demographic development and weak productivity growth are both arguments in favor of persistently low real interest rates. Moreover, the international comparison in Figures 8 and 9 shows that higher government debt does not automatically translate into higher interest rates. Even though Japan has been by far the most indebted state in the world for quite some time and its rating is worse than that of the US, investors absorb all new bond issues without demanding higher risk premiums. As we see it, this has less to do with the Bank of Japan's expansionary monetary policy – central banks have only a temporary impact on real interest rates – and more to do with the high savings rate of the Japanese private sector. In Switzerland, the savings rate is also high by international standards.

Rating not under threat

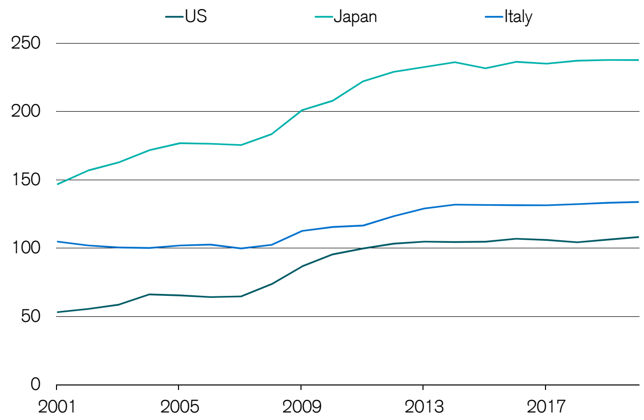
Even the creditworthiness – i.e. credit rating – of a borrower does not directly depend on their level of outstanding debt. More important here are other factors such as the growth model, the strength of institutions, security risks, the balance of payments, the level of private debt, and the debt service ratio. It is therefore hardly possible to estimate the specific consequences of a higher level of government debt in Switzerland without complex valuation models. However, a comparison with neighbor Germany – which likewise has an AAA rating – would appear reasonable, given the similar parameters of a strong export economy, a stable political environment, and a debt brake enshrined in the constitution. Germany's rating during the euro crisis of 2010 to 2012, when its Maastricht debt ratio rose to 80%, was on the verge of being downgraded, but this never actually materialized. For Switzerland to reach a Maastricht debt ratio of 80% would require the general government sector to take on new debt of CHF 350 bn. In other words, from a variety of standpoints Switzerland could easily cope with a much greater new debt burden than the currently expected CHF 36 bn.

Debt brake is there for good reasons: political, …

The question therefore arises as to whether the debt brake and a certain amount of budget discipline "in good times" is actually necessary at all. We can answer this question in the affirmative from both a political and economic standpoint. First, the debt brake mechanism has the effect of preventing political profligacy, and depoliticizes the discussion over additional state spending by essentially specifying the circumstances in which deficits are justifiable. As the experiences of the 1990s and since the introduction of the debt brake show, automatic mechanisms for controlling the longer-term development of the national budget are more beneficial than discretionary responses on a case-by-case basis. Second, the intention to reduce the debt ratio strengthens the political consensus in favor of extraordinary support measures to combat any future crisis – even if the crisis will not be a "once-in-a-century" recession caused by a pandemic.

Fig. 8: Development of gross debt (IMF measure)

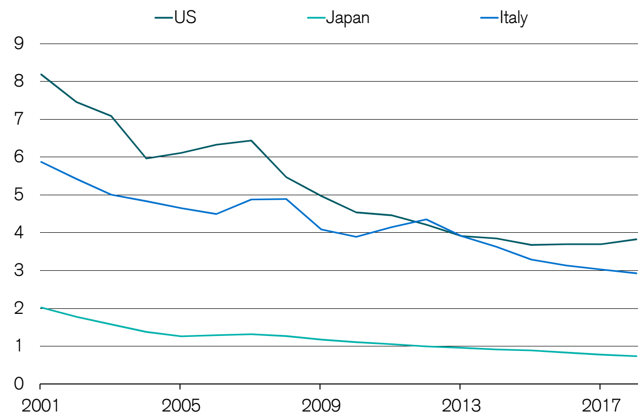
Gross debt (IMF) as % of GDP



Source: International Monetary Fund (IMF)

Fig. 9: Implied average interest rate

Average interest rate in %



Source: International Monetary Fund (IMF)

… but also economic ones

Furthermore, just because interest rates have been low in the past does not mean they will remain that way forever, thereby guaranteeing the low cost of financing government debt. While indeed a number of convincing economic indicators suggest that there will be no change in interest rates for the foreseeable future, fiscal policy should not rely on this favorable scenario but must remain flexible if it is to deal with future shocks. Last but not least, the debt brake is hugely important as a signal to investors, as it shows the government's willingness to preserve its solvency in the long term. A number of academic studies show that a credible fiscal rule is actually more important to the investors' confidence in a country's creditworthiness than the country's actual level of outstanding debt.

Deleveraging too quickly would nonetheless be counterproductive

We nonetheless point out that paying back debt all too quickly within six years, as the extended debt brake rule currently demands, would be damaging for the economy. The necessary austerity measures would either weigh on households and depress consumer demand, or damage conditions for companies and thereby obstruct productivity increases. Both cases would delay the economic recovery. Alternatively, such measures would increase the pressure on the SNB to make higher distributions, which in turn could jeopardize its monetary policy independence (cf. monetary policy section). Moreover, the explanations above make it clear that the level of government debt is not the most relevant criterion for the government credit rating, its fiscal room for maneuver, or investor confidence. 2020 is an exceptional year, and should be treated as such in the context of public finances. It is therefore advisable to make one-time use of the special rules of the debt brake and extend the debt repayment period for the extraordinary deficit, without setting aside funds now – such as SNB distributions – to pay down this debt.

franziska.fischer@credit-suisse.com

Tapping SNB reserves doesn't reduce federal debt

If the parliament doesn't make a decision soon, the debt brake mechanism could trigger six years of fiscal austerity. Some suggest that this could be avoided by tapping the reserves of the Swiss National Bank (SNB). However, this trick will not change the government's budget constraint.

The debt brake mechanism may trigger six years of austerity

Due to the COVID-19 crisis, the Confederation (and the cantons) will incur large deficits. At the federal level, the debt brake mechanism requires the Confederation to pay back such deficits within six years. There is therefore a risk that the COVID-19 crisis has triggered six years of fiscal austerity in the form of spending cuts and tax hikes. Meanwhile, the SNB has accumulated large retained earnings on its balance sheet; its reserve for future profit distribution stood at CHF 84 bn at the end of March. As the Constitution entitles the Confederation to one third of the SNB profit, there are potentially CHF 28 bn available to the federal government. Taking this into account, proposals have been made to avoid austerity and to finance public spending related to the COVID-19 crisis through an extraordinary profit distribution by the SNB.

Borrowing currently looks more attractive …

At first, this seems like a good solution, not least because the SNB would paradoxically make extra profits by transferring its retained earnings to the Confederation. This is because, to implement this transfer, the SNB would have to issue new money on which it earns a negative interest rate of –0.75%. This would appear to be at least as profitable as if the Confederation were to borrow funds at negative rates, despite the fact that it can borrow money for up to 50 years at a negative interest rate. What are the issues? First, as the Confederation is the beneficial owner of only one third of the profits of the SNB (the cantons are entitled to the other two thirds), financing fiscal spending at the federal level with a transfer of central bank equity capital is, broadly speaking, equivalent to the Confederation borrowing at –0.25%. This rate is actually somewhat higher than the current borrowing rate of the Confederation!

…and less distorting than drawing on SNB reserves

A second issue is that when the Confederation raises funds on the capital market, market forces determine the borrowing costs, and each investor decides whether they are willing to lend to the Confederation. In contrast, in the case of money creation, the burden of the negative policy rate would fall on the banks. Unlike investors, who can freely decide whether to lend to the Confederation, the banks would be obligated to keep the newly created money deposited at the SNB. Even if some of the negative rate could be passed on to depositors, this specific tax seems more distortive than the market-determined negative interest rate in capital markets. Finally, and most importantly, the transfer from the SNB does not change the government's net debt position. While the transfer would help the Confederation avoid raising its gross debt, its net debt would not be affected because it would have lost the SNB's retained earnings, which are part of its wealth.

Easing the debt brake constraints is the best option

In our view, financing the deficit related to the COVID-19 crisis with an extraordinary profit distribution by the SNB also raises institutional concerns. Embarking on six years of extreme austerity, as foreseen by the debt brake mechanism, is almost certainly highly counterproductive. However, using monetary policy instruments to bypass the democratically legitimized debt brake constraints would mix fiscal and monetary policy and potentially put the independence of the SNB at risk. A much cleaner solution would be if the parliament eased the debt brake constraints to allow the Confederation to borrow as much as is required to offset the extreme shock that was incurred, while significantly extending the time for repaying the debt. We hope that the parliament will opt for this solution rather than leaning on the SNB to solve this problem.

maxime.botteron@credit-suisse.com

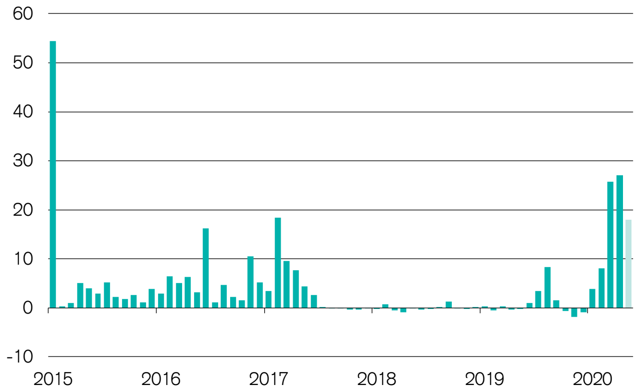
Foreign currency purchases

We estimate that the SNB has bought around CHF 70 bn of foreign currencies since March 2020 to prevent the Swiss franc from appreciating too much. Recent comments from SNB board members in the Swiss media suggest that the SNB currently favors foreign currency purchases over policy rate cuts to dampen appreciation pressures on the franc. As the government has also substantially eased fiscal policy, we believe that foreign exchange interventions by the SNB will face less criticism from foreign authorities.

maxime.botteron@credit-suisse.com

Substantial foreign currency purchases since March

Estimated foreign currency purchases by the SNB, in CHF (bn)



Source: SNB, Credit Suisse. May estimates are based on incomplete data.

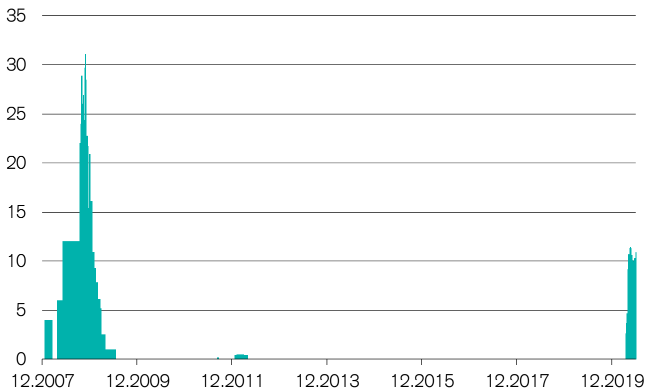
US dollar liquidity

Similar to the repercussions of the global financial crisis, stress in the US dollar funding markets has led to a rise in USD borrowing costs for banks without access to funding from the US Federal Reserve (Fed). Since the SNB has a swap line with the Fed, it can exchange Swiss francs against US dollars and then lend these US dollars to banks in Switzerland at relatively attractive conditions. During the COVID-19 crisis, the demand for US dollars among banks in Switzerland has been lower than during the global financial crisis. Nevertheless, banks have borrowed as much as USD 10 bn from the SNB.

maxime.botteron@credit-suisse.com

Banks borrowed around USD 10 bn from the SNB

USD repo claims of the SNB on banks in Switzerland, in USD bn



Source: SNB, Credit Suisse

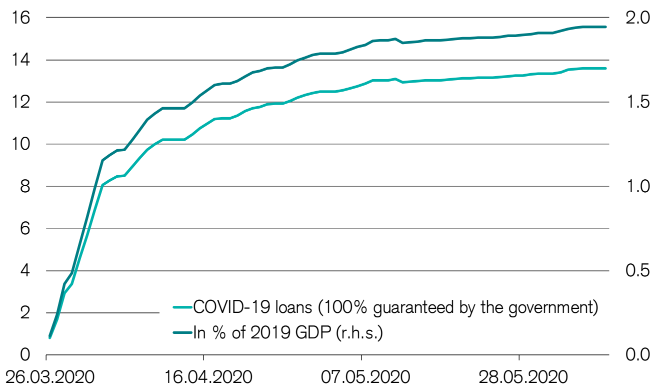
COVID-19 loans

Banks have issued around CHF 13.5 bn in COVID-19 loans to SMEs so far. The government guarantees 100% of these loans, which have a 0% interest rate. In addition, banks have issued around CHF 1.7 bn in so-called "COVID-19 plus loans", i.e. loans of more than CHF 500,000, of which the government guarantees up to 85%. According to media reports, it appears that many companies borrowed on a precautionary basis and have only spent a portion of the money so far. With the demand for loans flattening and low utilization, there should therefore only be a modest increase in leverage among SMEs.

maxime.botteron@credit-suisse.com

Demand for COVID-19 loans has flattened

In CHF (bn, estimates) and in % of GDP (r.h.s.)



Source: SECO, Credit Suisse

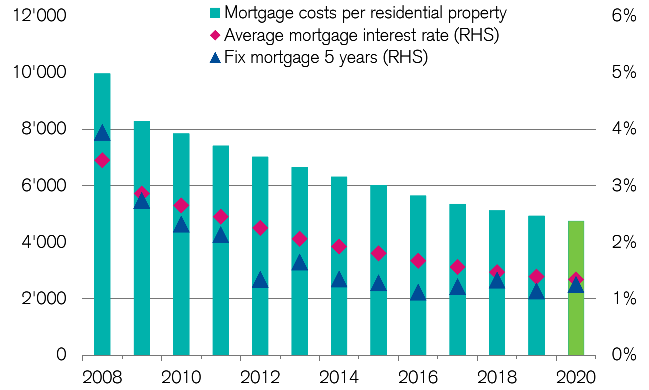
Owner-occupied housing

COVID-19 initially crippled the residential property market. This setback proved short-lived, however. Thanks to persistently low interest rates, residential property remains attractive to first-time buyers. Average annual mortgage costs are likely to fall further this year to just CHF 4,750 per year for existing owners. Consequently, homeowners are unlikely to find themselves in payment difficulties, even if they do suffer income problems. That said, the demand shock is unlikely to be fully overcome until next year at the earliest. We are therefore expecting a slight decline in prices in 2020, despite the shock-related paralysis proving only brief.

thomas.rieder@credit-suisse.com

Financing costs of residential property at historic low

Mortgage interest costs per residential unit in CHF; average mortgage interest rate as per September 30 of corresponding year; 2020: forecast



Source: Credit Suisse. Last data point: 2019

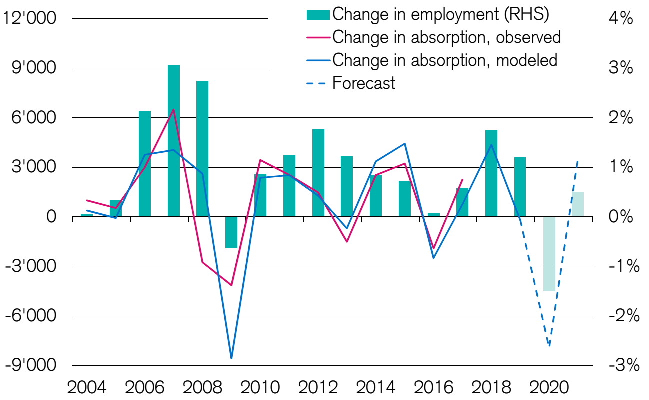
Rental apartments

The temporary closure of borders, together with the sharp deterioration of both consumer sentiment and the labor market, is likely to lead to the demand for rental apartments being some 8,000 units lower in 2020 than the previous year. COVID-19 is having a slowing effect on the supply side of the market too, but much less strongly than on the demand side. As a result, the vacancy rate for rental apartments should rise to around 2.9% by June 2020. This will put rental income under additional pressure, particularly outside of the urban agglomerations. By contrast, a combination of persistently low interest rates and high demand on the part of investors should ensure that markdowns on property values remain the exception for the time being.

fabian.waltert@credit-suisse.com

Temporary slump in demand for rental apartments

Annual change in absorption of rental apartments and employment growth (full-time equivalents), 2019: estimate, 2020/21: forecast



Source: Swiss Federal Statistical Office, Credit Suisse; last data point: 2019

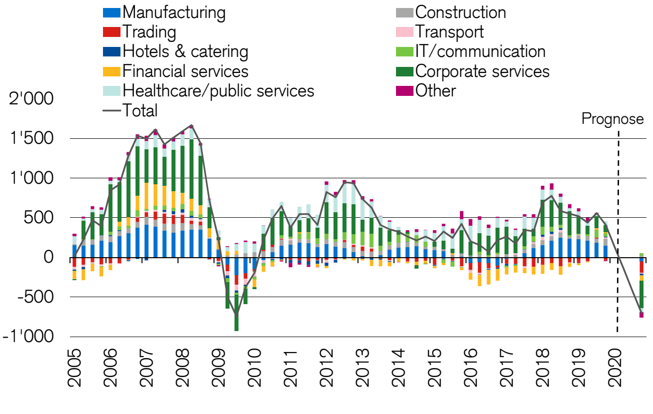
Office property

In the short term, office properties have been relatively unaffected by COVID-19. The majority of tenants have switched their workforces to home working, from where business operations are largely preserved. For landlords, the lost income this year is likely to end up in low single-digit percentage territory. In the medium term, however, the recession will reduce employment in Switzerland. We are therefore expecting demand for office space to decline by some 770,000 m² by the end of the year. Moreover, in the long term the greater acceptance of "home office" since the onset of the COVID-19 pandemic and the resulting potential savings can be expected to lead to a further decline in demand for office space.

alexander.lohse@credit-suisse.com

Recession pushes additional demand into negative territory

Additional demand compared to prior-year quarter in 1,000 m²



Source: Credit Suisse, Swiss Federal Statistical Office. Last data point: December 2019

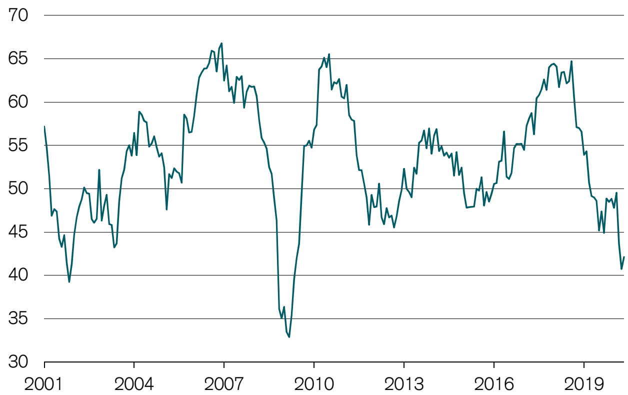
Credit Suisse Leading Indicators

Purchasing Managers' Index (PMI)

Purchasing managers stand at the beginning of the production process. The PMI uses this forward-looking feature to forecast the level of economic activity. The index is based on a monthly survey conducted by procure.ch, the industry body for purchasing and supply management. Purchasing managers respond to eight questions on output, backlog of orders, purchasing volumes, purchase price, delivery times, stocks of purchases, stocks of finished goods, and employment. They indicate whether activity levels are higher, the same, or lower than in the preceding month. The percentage share of responses stating "higher" and "no change" are used to calculate the sub-indices, though only half of the "no change" share of responses is included. The PMI lies between 0 and 100, with a figure of more than 50 indicating an expansion of activity compared with the previous month.

Industrial Activity

PMI index > 50 = growth



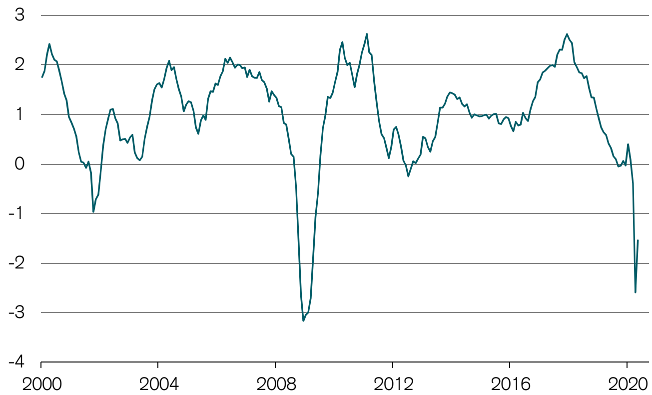
Source: procure.ch, Credit Suisse

Credit Suisse Export Barometer

The Credit Suisse Export Barometer takes as its basis the dependence of Swiss exports on foreign export markets. In constructing the export barometer, we have drawn together important leading industry indicators in Switzerland's 28 most important export markets. The values of these leading indicators are weighted on the basis of the share of exports that goes to each country. The export barometer consolidates this information to produce a single indicator. Since the values in question are standardized, the export barometer is calibrated in standard deviations. The zero line corresponds to the growth threshold. The long-term average growth of Swiss exports of approximately 5% is at 1.

Exports

In standard deviation, values > 0 = growth



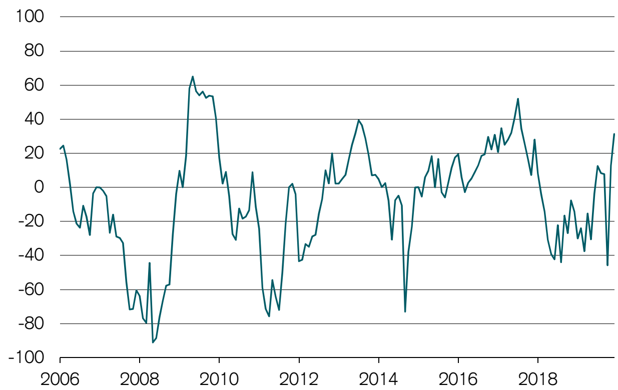
Source: PMIPremium, Credit Suisse

CS CFA Society Switzerland Index

Financial analysts have their finger on the pulse of the economy. Since 2017, we have been conducting a monthly survey of financial analysts jointly with CFA Society Switzerland under the heading Financial Market Test Switzerland[1]. Analysts are questioned not only about their assessment of the current and future economic situation as well as the rate of inflation but also about financial market issues such as equity market performance and interest rate forecasts. The CS CFA Society Switzerland Index represents the balance of expectations regarding the development of Swiss economic activity over the coming six months.

Economic Activity

Balance of expectations, values > 0 = growth



Source: CFA Society Switzerland, Credit Suisse

[1] Published as the Credit Suisse ZEW Index from 2006 until 2016

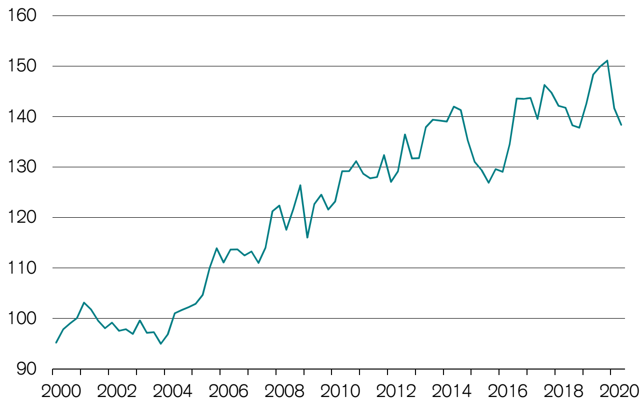
Credit Suisse Leading Indicators

Swiss Construction Index

The Swiss Construction Index is published once a quarter jointly by Credit Suisse and the Swiss Contractors' Association (SCA). It serves as a leading indicator for the state of Switzerland's construction sector by forecasting the volume of work in the core construction business in the coming quarter. The indicator is calculated by Credit Suisse and is based mainly on a quarterly survey conducted by the SCA among its members. Additional data is provided by the Swiss Federal Statistical Office and Baublatt. The Construction Index was launched in the first quarter of 1996.

Construction Industry Climate

1st quarter 1996 = 100



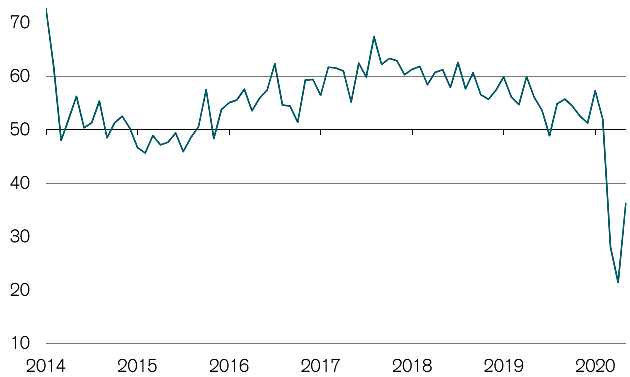
Source: Swiss Contractor's Association, Credit Suisse

PMI Services

Procure.ch, the professional association for purchasing and supply management and Credit Suisse launched a PMI for the services sector in 2014. The Services PMI is structured in exactly the same way as its industry counterpart. Values over 50.0 points mean expansion. It is based on a survey of purchasing managers from Swiss service providers. There are six subcomponents: type of business, new orders, order book, purchasing prices, sales prices and number of employees.

Activity in the services sector

PMI Services index > 50 = growth

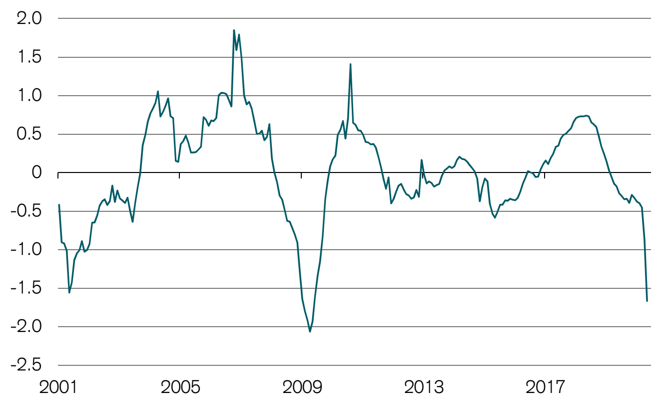


Source: procure.ch, Credit Suisse

Macro Momentum Indicator

The Credit Suisse Macro Momentum Indicator (MMI) condenses the current performance of key Swiss economic data to a single figure. Data from economic surveys, consumption, the labor market, lending and the export economy are used to calculate a standardized momentum that is then weighted with the applicable correlation to GDP development. Values above (below) zero point toward an acceleration (slowdown) of the Swiss economy in the last three months compared with the past six months.

Economic Activity



Source: Datastream, Credit Suisse

Forecasts and Indicators

Forecasts for the Swiss Economy

	2020	2020P	2020P	2020P	2021P	2021P	2021P	2021P	2020P	2021P
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4		
GDP (YoY, in %)	-1.3	-9.2	-3.6	-1.9	1.0	9.3	3.0	1.3	-4.0	3.5
Consumer spending	-2.5	-10.0	-1.0	5.0	1.7	1.7	1.7	1.7	-2.1	1.7
Government expenditure	2.3	3.3	3.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Gross capital investment	-0.8	-8.6	-2.8	-1.6	2.6	2.4	2.4	2.4	-3.4	2.4
Construction investment	0.9	-4.5	-3.0	-3.0	3.0	3.0	3.0	3.0	-2.5	3.0
Investment in plant and equipment	-1.6	-11.0	-2.7	-1.0	2.0	2.0	2.0	2.0	-4.0	2.0
Exports (goods and services)	0.9	-9.0	-9.0	-9.0	7.0	7.0	7.0	7.0	-6.5	7.0
Imports (goods and services)	-2.3	-3.5	-3.0	-3.0	3.0	3.0	3.0	3.0	-3.0	3.0
Inflation (in %)	-0.1	-1.3	-0.9	-0.6	-0.4	0.4	0.6	0.5	-0.7	0.3
Unemployment (in %)	2.7	3.4	4.0	4.1	4.1	4.0	3.8	3.5	3.5	3.8
Employment growth FTEs (YoY, in %)	0.3	-2.0	-3.0	-1.5	-0.5	0.5	0.9	1.0	-1.5	0.5
Net immigration (in thousands)									37	
Nominal wage growth (YoY, in %)									0.5	0.1
Public debt (in % of GDP)									-3.5	3.5

Source: Federal Statistics Office, State Secretariat for Economic Affairs SECO, Credit Suisse

Interest Rates and Monetary Policy Data

	Current	3-month	12-month		Current	Prev. mth.	Prev. year
SNB target range (in %)	-0.75	-0.75	-0.75	M0 money supply (CHF bn)	648.1	598.4	562.7
10-year government bond yields (in %)	-0.3	-0.2	-0.2	M1 money supply (%, YoY)	2.6	1.9	5.3
				M2 money supply (%, YoY)	0.8	0.2	3.6
				M3 money supply (%, YoY)	1.9	1.3	3.7
				Foreign currency reserves (CHF bn)	811.9	781.4	788.0

Source: Datastream, Bloomberg, Credit Suisse

Important Information

This report represents the views of the Investment Strategy Department of CS and has not been prepared in accordance with the legal requirements designed to promote the independence of investment research. It is not a product of the Credit Suisse Research Department even if it references published research recommendations. CS has policies in place to manage conflicts of interest including policies relating to dealing ahead of the dissemination of investment research. These policies do not apply to the views of Investment Strategists contained in this report.

Risk warning

Every investment involves risk, especially with regard to fluctuations in value and return. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income.

For a discussion of the risks of investing in the securities mentioned in this document, please refer to the following Internet link:
https://investment.credit-suisse.com/gr/riskdisclosure/

This document may include information on investments that involve special risks. You should seek the advice of your independent financial advisor prior to taking any investment decisions based on this document or for any necessary explanation of its contents. Further information is also available in the information brochure "Special Risks in Securities Trading" available from the Swiss Bankers Association.

Past performance is not an indicator of future performance. Performance can be affected by commissions, fees or other charges as well as exchange rate fluctuations.

Financial market risks
Historical returns and financial market scenarios are no reliable indicators of future performance. The price and value of investments mentioned and any income that might accrue could fall or rise or fluctuate. Past performance is not a guide to future performance. If an investment is denominated in a currency other than your base currency, changes in the rate of exchange may have an adverse effect on value, price or income. You should consult with such advisor(s) as you consider necessary to assist you in making these determinations.

Investments may have no public market or only a restricted secondary market. Where a secondary market exists, it is not possible to predict the price at which investments will trade in the market or whether such market will be liquid or illiquid.

Emerging markets
Where this document relates to emerging markets, you should be aware that there are uncertainties and risks associated with investments and transactions in various types of investments of, or related or linked to, issuers and obligors incorporated, based or principally engaged in business in emerging markets countries. Investments related to emerging markets countries may be considered speculative, and their prices will be much more volatile than those in the more developed countries of the world. Investments in emerging markets investments should be made only by sophisticated investors or experienced professionals who have independent knowledge of the relevant markets, are able to consider and weigh the various risks presented by such investments, and have the financial resources necessary to bear the substantial risk of loss of investment in such investments. It is your responsibility to manage the risks which arise as a result of investing in emerging markets investments and the allocation of assets in your portfolio. You should seek advice from your own advisers with regard to the various risks and factors to be considered when investing in an emerging markets investment.

Alternative investments
Hedge funds are not subject to the numerous investor protection regulations that apply to regulated authorized collective investments and hedge fund managers are largely unregulated. Hedge funds are not limited to any particular investment discipline or trading strategy, and seek to profit in all kinds of markets by using leverage, derivatives, and complex speculative investment strategies that may increase the risk of investment loss.

Commodity transactions carry a high degree of risk, including the loss of the entire investment, and may not be suitable for many private investors. The performance of such investments depends on unpredictable factors such as natural catastrophes, climate influences, hauling capacities, political unrest, seasonal fluctuations and strong influences of rolling-forward, particularly in futures and indices.

Investors in real estate are exposed to liquidity, foreign currency and other risks, including cyclical risk, rental and local market risk as well as environmental risk, and changes to the legal situation.

Private Equity
Private Equity (hereafter "PE") means private equity capital investment in companies that are not traded publicly (i.e. are not listed on a stock exchange), they are complex, usually illiquid and long-lasting. Investments in a PE fund generally involve a significant degree of financial and/or business risk. Investments in private equity funds are not principal-protected nor guaranteed. Investors will be required to meet capital calls of investments over an extended period of time. Failure to do so may traditionally result in the forfeiture of a portion or the entirety of the capital account, forego any future income or gains on investments made prior to such default and among other things, lose any rights to participate in future investments or forced to sell their investments at a very low price, much lower than secondary market valuations. Companies or funds may be highly leveraged and therefore may be more sensitive to adverse business and/or financial developments or economic factors. Such investments may face intense competition, changing business or economic conditions or other developments that may adversely affect their performance.

Interest rate and credit risks
The retention of value of a bond is dependent on the creditworthiness of the Issuer and/or Guarantor (as applicable), which may change over the term of the bond. In the event of default by the Issuer and/or Guarantor of the bond, the bond or any income derived from it is not guaranteed and you may get back none of, or less than, what was originally invested.

Investment Strategy Department

Investment Strategists are responsible for multi-asset class strategy formation and subsequent implementation in CS's discretionary and advisory businesses. If shown, Model Portfolios are provided for illustrative purposes only. Your asset allocation, portfolio weightings and performance may look significantly different based on your particular circumstances and risk tolerance. Opinions and views of Investment Strategists may be different from those expressed by other Departments at CS. Investment Strategist views may change at any time without notice and with no obligation to update. CS is under no obligation to ensure that such updates are brought to your attention.

From time to time, Investment Strategists may reference previously published Research articles, including recommendations and rating changes collated in the form of lists. The recommendations contained herein are extracts and/or references to previously published recommendations by Credit Suisse Research. For equities, this relates to the respective Company Note or Company Summary of the issuer. Recommendations for bonds can be found within the respective Research Alert (bonds) publication or Institutional Research Flash/Alert – Credit Update Switzerland. These items are available on request or from https://investment.credit-suisse.com. Disclosures are available from www.credit-suisse.com/disclosure.

Global disclaimer/important information

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject CS to any registration or licensing requirement within such jurisdiction.

References in this document to CS include Credit Suisse AG, the Swiss bank, its subsidiaries and affiliates. For more information on our structure, please use the following link: http://www.credit-suisse.com

NO DISTRIBUTION, SOLICITATION, OR ADVICE: This document is provided for information and illustrative purposes and is intended for your use only. It is not a solicitation, offer or recommendation to buy or sell any security or other financial instrument. Any information including facts, opinions or quotations, may be condensed or summarized and is expressed as of the date of writing. The information contained in this document has been provided as a general market commentary only and does not constitute any form of regulated financial advice, legal, tax or other regulated service. It does not take into account the financial objectives, situation or needs of any persons, which are necessary considerations before making any investment decision. You should seek the advice of your independent financial advisor prior to taking any investment decisions based on this document or for any necessary explanation of its contents. This document is intended only to provide observations and views of CS at the date of writing, regardless of the date on which you receive or access the information. Observations and views contained in this document may be different from those expressed by other Departments at CS and may change at any time without notice and with no obligation to update. CS is under no obligation to ensure that such updates are brought to your attention. **FORECASTS & ESTIMATES:** Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. To the extent that this document contains statements about future performance, such statements are forward looking and subject to a number of risks and uncertainties. Unless indicated to the contrary, all figures are unaudited. All valuations mentioned herein are subject to CS valuation policies and procedures. **CONFLICTS:** CS reserves the right to remedy any errors that may be present in this document. CS, its affiliates and/or their employees may have a position or holding, or other material interest or effect transactions in any securities mentioned or options thereon, or other investments related thereto and from time to time may add to or dispose of such investments. CS may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investments listed in this document or a related investment to any company or issuer mentioned. Some investments referred to in this document will be offered by a single entity or an associate of CS or CS may be the only market maker in such investments. CS is involved in many businesses that relate to companies mentioned in this document. These businesses include specialized trading, risk arbitrage, market making, and other proprietary trading. **TAX:** Nothing in this document constitutes investment, legal, accounting or tax advice. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax advisor. The levels and basis of taxation are dependent on individual circumstances and are subject to change. **SOURCES:** Information and opinions presented in this document have been obtained or derived from sources which in the opinion of CS are reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for a loss arising from the use of this document. **WEBSITES:** This document may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the document refers to website material of CS, CS has not reviewed the linked site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this document. Accessing such website or following such link through this document or CS's website shall be at your own risk. **DATA PRIVACY:** Your Personal Data will be processed in accordance with the Credit Suisse privacy statement accessible at your domicile through the official Credit Suisse website https://www.credit-suisse.com. In order to provide you with marketing materials concerning our products and services, Credit Suisse Group AG and its subsidiaries may process your basic Personal Data (i.e. contact details such as name, e-mail address) until you notify us that you no longer wish to receive them. You can opt-out from receiving these materials at any time by informing your Relationship Manager.

Distributing entities

Except as otherwise specified herein, this report is distributed by Credit Suisse AG, a Swiss bank, authorized and regulated by the Swiss Financial Market Supervisory Authority. **Austria:** This report is distributed by CREDIT SUISSE (LUXEMBOURG) S.A. Zweigniederlassung Österreich (the "Austria branch") which is a branch of CREDIT SUISSE (LUXEMBOURG) S.A., a duly authorized credit institution in the Grand Duchy of Luxembourg with registered address 5, rue Jean Monnet, L-2180 Luxembourg. The Austria branch is subject to the prudential supervision of the Luxembourg supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF), 283, route d'Arlon, L-2991 Luxembourg, Grand Duchy of Luxembourg, as well as of the Austrian supervisory authority, the Financial Market Authority (FMA), Otto-Wagner Platz 5, A-1090 Vienna, Austria. **Bahrain:** This report is distributed by Credit Suisse AG, Bahrain Branch, authorized and regulated by the Central Bank of Bahrain (CBB) as an Investment Business Firm Category 2. Related financial services or products are only made available to professional clients and Accredited Investors, as defined by the CBB, and are not intended for any other persons. The Central Bank of Bahrain has not reviewed, nor has it approved, this document or the marketing of any investment vehicle referred to herein in the Kingdom of Bahrain and is not responsible for the performance of any such investment vehicle. Credit Suisse AG, Bahrain Branch, a branch of Credit Suisse AG, Zurich/Switzerland, is located at Level 21-22, East Tower, Bahrain World Trade Centre, Manama, Kingdom of Bahrain. **DIFC:** This information is being distributed by Credit Suisse AG (DIFC Branch). Credit Suisse AG (DIFC Branch) is licensed and regulated by the Dubai Financial Services Authority ("DFSA"). Related financial services or products are only made available to Professional Clients or Market Counterparties, as defined by the DFSA, and are not intended for any other persons. Credit Suisse AG (DIFC Branch) is located on Level 9 East, The Gate Building, DIFC, Dubai, United Arab Emirates. **France:** This report is distributed by Credit Suisse (Luxembourg) S.A. Succursale en France (the "France branch") which is a branch of Credit Suisse (Luxembourg) S.A., a duly authorized credit institution in the Grand Duchy of Luxembourg with registered address 5, rue Jean Monnet, L-2180 Luxembourg. The France branch is subject to the prudential supervision of the Luxembourg supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF), and of the French supervisory authority, the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and of the Autorité des Marchés Financiers. **Germany:** This report is distributed by Credit Suisse (Deutschland) Aktiengesellschaft regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht („BaFin"). **Guernsey:** This report is distributed by Credit Suisse AG Guernsey Branch, a branch of Credit Suisse AG (incorporated in the Canton of Zurich), with its place of business at Helvetia Court, Les Echelons, South Esplanade, St Peter Port, Guernsey. Credit Suisse AG Guernsey Branch is wholly owned by Credit Suisse AG and is regulated by the Guernsey Financial Services Commission. Copies of the latest audited accounts are available on request. **India:** This report is distributed by Credit Suisse Securities (India) Private Limited (CIN no. U67120MH1996PTC104392) regulated by the Securities and Exchange Board of India as Research Analyst (registration no. INH 000001030), as Portfolio Manager (registration no. INP000002478) and as Stock Broker (registration no. INZ000248233), having registered address at 9th Floor, Ceejay House, Dr. Annie Besant Road, Worli, Mumbai – 400 018, India, T- +91-22 6777 3777. **Italy:** This report is distributed in Italy by Credit Suisse (Italy) S.p.A., a bank incorporated and registered under Italian law subject to the supervision and control of Banca d'Italia and CONSOB. **Lebanon:** This report is distributed by Credit Suisse (Lebanon) Finance SAL ("CSLF"), a financial institution incorporated in Lebanon and regulated by the Central Bank of Lebanon ("CBL") with a financial institution license number 42. Credit Suisse (Lebanon) Finance SAL is subject to the CBL's laws and regulations as well as the laws and decisions of the Capital Markets Authority of Lebanon ("CMA"). CSLF is a subsidiary of Credit Suisse AG and part of the Credit Suisse Group (CS). The CMA does not accept any responsibility for the content of the information included in this report, including the accuracy or completeness of such information. The liability for the content of this report lies with the issuer, its directors and other persons, such as experts, whose opinions are included in the report with their consent. The CMA has also not assessed the suitability of the investment for any particular investor or type of investor. Investments in financial markets may involve a high degree of complexity and risk and may not be suitable to all investors. The suitability assessment performed by CSLF with respect to this investment will be undertaken based on information that the investor would have provided to CSLF and in accordance with Credit Suisse internal policies and processes. It is understood that the English language will be used in all communication and documentation provided by CS and/or CSLF. By accepting to invest in the product, the investor confirms that he has no objection to the use of the English language. **Luxembourg:** This report is distributed by Credit Suisse (Luxembourg) S.A., a duly authorized credit institution in the Grand Duchy of Luxembourg with registered address 5, rue Jean Monnet, L-2180 Luxembourg. Credit Suisse (Luxembourg) S.A. is subject to the prudential supervision of the Luxembourg supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF). **Mexico:** Banco Credit Suisse (México), S.A., Institución de Banca Múltiple, Grupo Financiero Credit Suisse (México) and C. Suisse Asesoría México, S.A. de C.V. ("Credit Suisse Mexico"). This document is elaborated for information purposes only and does not constitute a recommendation, advice or an invitation to execute any operation and does not replace direct communication with your relationship manager at Credit Suisse Mexico before the execution of any investment. The people who elaborated this document do not receive payment or compensation from any entity of the Credit Suisse Group other than the one employing them. The prospectuses, offering documentation, term sheets, investment regimes, annual reports and periodical financial information contained useful information for investors. Such documents can be obtained without any cost, directly from the issuer of securities and investment fund managers or at the securities and stock market web page, as well as from your relationship manager at Credit Suisse Mexico. The information herein does not substitutes the Account Statements, the INFORME DE OPERACIONES or/ and confirmations you receive from Credit Suisse Mexico pursuant to the General Rules applicable to financial institutions and other persons that provide investment services. C. Suisse Asesoría México, S.A. de C.V., is an investment advisor duly incorporated under the Securities Market Law ("LMV") and is registered before the National Banking and Securities Commission ("CNBV") under folio number 30070 and therefore is not a bank, is not authorized to receive deposits nor to custody any securities, is not part of Grupo Financiero Credit Suisse (México), S.A. de C.V.. Under the provisions of the LMV, C. Suisse Asesoría México, S.A. de C.V. is not an independent investment advisor pursuant to its relationship with Credit Suisse AG, a foreign financial institution, and its indirect relationship with Grupo Financiero Credit Suisse (Mexico), S.A. de C.V. The people who produced this document do not receive payment or compensation from any entity of the Credit Suisse Group other than the one employing them. **Netherlands:** This report is distributed by Credit Suisse (Luxembourg) S.A., Netherlands Branch (the "Netherlands branch") which is a branch of Credit Suisse (Luxembourg) S.A., a duly authorized credit institution in the Grand Duchy of Luxembourg with registered address 5, rue Jean Monnet, L-2180 Luxembourg. The Netherlands branch is subject to the prudential supervision of the Luxembourg supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF), and of the Dutch supervisory authority, De Nederlansche Bank (DNB), and of the Dutch market supervisor, the Autoriteit Financiële Markten (AFM). **Portugal:** This report is distributed by Credit Suisse (Luxembourg) S.A., Sucursal em Portugal (the "Portugal branch") which is a branch of Credit Suisse (Luxembourg) S.A., a duly authorized credit institution in the Grand Duchy of Luxembourg with registered address 5, rue Jean Monnet, L-2180 Luxembourg. The Portugal branch is subject to the prudential supervision of the Luxembourg supervisory authority, the Commission de Surveillance du Secteur Financier (CSSF), and of the Portuguese supervisory authority, the Comissão do Mercado dos Valores Mobiliários (CMVM). **Qatar:** This information has been distributed by Credit Suisse (Qatar) L.L.C., which is duly authorized and regulated by the Qatar Financial Centre Regulatory Authority (QFCRA) under QFC License No. 00005. All related financial products or services will only be available to Business Customers or Market Counterparties (as defined by the QFCRA), including individuals, who have opted to be classified as a Business Customer, with net assets in excess of QR 4 million, and who have sufficient financial knowledge, experience and understanding to participate in such products and/or services. Therefore this information must not be delivered to, or relied on by, any other type of individual. **Saudi Arabia:** This information is being distributed by Credit Suisse Saudi Arabia (CR Number 1010228645), duly licensed and regulated by the Saudi Arabian Capital Market Authority pursuant to License Number 08104-37 dated 23/03/1429H corresponding to 21/03/2008AD. Credit Suisse Saudi Arabia's principal place of business is at King Fahad Road, Hay Al Mhamadiya, 12361-6858 Riyadh, Saudi Arabia. Website: https://www.credit-suisse.com/sa. **South Africa:** This information is being distributed by Credit Suisse AG which is registered as a financial services provider with the Financial Sector Conduct Authority in South Africa with FSP number 9788 and / or by Credit Suisse (UK) Limited which is registered as a financial services provider with the Financial Sector Conduct Authority in South Africa with FSP number 48779. **Spain:** This report is distributed in Spain by Credit Suisse AG, Sucursal en España, legal entity registered at Comisión Nacional del Mercado de Valores. **Turkey:** The investment information, comments and recommendations contained herein are not within the scope of investment advisory activity. The investment advisory services are provided by the authorized institutions to the persons in a customized manner taking into account the risk and return preferences of the persons. Whereas, the comments and advices included herein are of general nature. Therefore recommendations may not be suitable for your financial status or risk and yield preferences. For this reason, making an investment decision only by relying on the information given herein may not give rise to results that fit your expectations. This report is distributed by Credit Suisse Istanbul Menkul Degerler Anonim Sirketi, regulated by the Capital Markets Board of Turkey, with its registered address at Levazim Mahallesi, Koru Sokak No. 2 Zorlu Center Terasevler No. 61 34340 Besiktas/ Istanbul-Turkey. **United Kingdom:** This material is distributed by Credit Suisse (UK) Limited. Credit Suisse (UK) Limited, is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Where this material is distributed into the United Kingdom by an offshore entity not exempted under the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 the following will apply: To the extent communicated in the United Kingdom ("UK") or capable of having an effect in the UK, this document constitutes a financial promotion which has been approved by Credit Suisse (UK) Limited which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority for the conduct of investment business in the UK. The registered address of Credit Suisse (UK) Limited is Five Cabot Square, London, E14 4QR. Please note that the rules under the UK's Financial Services and Markets Act 2000 relating to the protection of retail clients will not be applicable to you and that any potential compensation made available to "eligible claimants" under the UK's Financial Services Compensation Scheme will also not be available to you. Tax treatment depends on the individual circumstances of each client and may be subject to changes in future.

UNITED STATES: NEITHER THIS REPORT NOR ANY COPY THEREOF MAY BE SENT, TAKEN INTO OR DISTRIBUTED IN THE UNITED STATES OR TO ANY US PERSON (within the meaning of Regulation S under the US Securities Act of 1933, as amended).

20C013A_IS