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Swiss Economics

# Coronavirus debt in Switzerland: lower than feared

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**The updated financial plan of the Swiss federal government foresees deficits in line with the debt brake requirements until 2023. As the costs of short-time working, compensation for loss of earnings and bridging loans have been lower than expected, the coronavirus expenditure can be offset by moderate cost savings across various task areas within the government.**

**The corresponding capital requirement is largely covered by existing liquid funds and registered money market claims, which represents a shift towards short-term funding with particularly favorable conditions.**

**We see little prospect of the unemployment insurance reaching its debt ceiling in 2021. Nonetheless, the repercussions of Covid-19 on the labor market will continue to exert substantial financial pressure on the unemployment insurance fund in the years to come.**

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## Deficits compliant with debt brake in 2020 and 2021

According to its latest projections, the Swiss Federal Council expects an ordinary deficit of CHF 3.1 billion for the pandemic year of 2020. This is largely attributable to an expected decline in tax receipts of CHF 5.8 billion. Lower receipts from VAT, imports, dividend payments and fuel consumption due to the slump in gross domestic product (GDP) are responsible for around half of this amount. The remaining tax shortfall of CHF 3 billion is attributable to the suspension of interest on arrears and the resultant deferral effect, but unlike the reduced tax receipts, these tax payments will not be lost completely as they will simply be deferred until the 2021 fiscal year. Despite this deficit, the ordinary budget for 2020 is compliant with the debt brake requirements as an adjustment of the cyclical factor to reflect the severe recession allows for a larger deficit (see text box). Due to the adverse economic situation, the requirements for the debt brake will also be less stringent in 2021. As tax receipts are also set to rise in 2021 as a result of the deferrals this year, the Swiss Federal Council has estimated a deficit of only around CHF 1 billion for next year, which means that the debt brake requirements will actually be overfulfilled by CHF 2.2 billion.

## Extraordinary deficits for coronavirus measures

In addition to the ordinary deficit, high levels of extraordinary expenditure are required to cushion the effects of the pandemic. The measures decided thus far that will affect expenditure in 2020 are estimated to total CHF 30.9 billion, with transfer payments alone accounting for the majority of this amount. Only 10% relates to government consumption spending, e.g. the measures for the health care sector and expenditure on the extraordinary session of the Federal Assembly (see figure 1). According to the federal government and our own calculations, the actual costs of these measures may be significantly lower. This is because the take-up of short-time working and compensation for the loss of earnings caused by the coronavirus pandemic has been lower than expected, while write-downs on Covid-19 loans are likely to fall short of the budgeted amounts. It is not unusual for the

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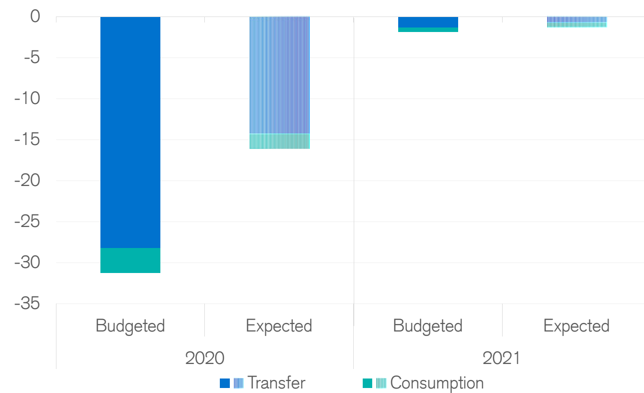
final expenditure to be lower than originally announced due to initial overestimates or delays in disbursement, as we saw during the financial crisis. According to an analysis by the Swiss Federal Audit Office, only 80% of the funding made available during the crisis was utilized at that time.

**Figure 1: Extraordinary deficits in 2020 and 2021**
in CHF billion




Source: Swiss Federal Finance Administration (EFV), Credit Suisse

### Debt brake rules

The debt brake is an expenditure rule which stipulates that the ordinary receipts and expenditure of the federal budget must be balanced throughout the business cycle. A statistically determined cyclical factor reflects the current phase of the prevailing economic cycle. Surpluses must be generated during a boom, while deficits are permitted during a recession. The difference between ordinary receipts and expenditure is registered in the compensation account at the end of the fiscal year. Deficits in this account have to be offset in the subsequent three years, while surpluses must be used for debt reduction purposes.

At the end of the year, the actual ordinary expenditure tends to be lower than budgeted as the funding made available is not fully utilized. In a similar way to underestimated receipts, this unutilized credit leads to a retrospective increase in the ordinary fiscal balance and is automatically used to reduce debt via the compensation account.

Extraordinary (i.e. non-recurring, non-controllable) receipts and expenditure are exempt from the expenditure rule on the basis of a special provision. The difference between extraordinary receipts and expenditure is registered separately in the amortization account. Deficits in this account have to be reduced via the ordinary budget within six years, unless the deadline is extended by parliament.

## Costs of short-time working are lower than expected

The main drivers of the lower than expected extraordinary expenditure are the costs of short-time working allowances, with the amounts set to fall significantly short of the original estimates according to the latest information. In two moves in May and June, the Swiss parliament granted a total of CHF 20.2 billion in additional loans for the extraordinary supplementary financing of the Swiss unemployment insurance compensation fund (ALV fund). The first tranche of CHF 6 billion has already been paid to the ALV fund. A legal framework is still required for the disbursement of the second loan worth CHF 14.2 billion. The funds will not be released until this is available. The Federal Council passed a corresponding dispatch on 12 August and the bill is due to be discussed in a special parliamentary process in the autumn session of 2020. According to the draft legislation, the federal government will only take over the costs of short-time working allowances for 2020. As previously, the costs of unemployment benefits will have to be covered by the ALV fund itself. The funds will be transferred to the ALV fund in stages and only in the amount that is actually required.

The second additional loan of CHF 14.2 billion is based on the expected costs of short-time working for 2020, which were estimated at CHF 20.2 billion by the State Secretariat for Economic Affairs (SECO) in April this year, minus the supplementary funding of CHF 6 billion that has already been disbursed. The federal government has now revised up its economic forecasts slightly since the public health measures have been relaxed. Moreover, the data available so far on the actual usage of short-time working show that the take-up and resultant costs in the March to May period were significantly lower than had been expected from the record-high number of applications (see table 1). SECO now expects the costs of short-time working allowances to run to CHF 12.2 billion for 2020. Thus, if the draft is approved by parliament in its current form and the forecast from SECO is correct, some CHF 8 billion of the total available funds of CHF 20.2 billion will likely remain unclaimed.

According to our calculations, the costs may even be a further CHF 1 to 2 billion lower. While business in some sectors remains severely constrained (e.g. in the events or travel industries), the need for short-time working in many areas of the service sector has diminished since April due to the gradual relaxation of Covid-19 restrictions. Moreover, the results of a special poll conducted as part of the PMI survey indicate that after a further rise in May, the use of short-time working decreased in the manufacturing sector in June and even more in July.

**Table 1: Applications and claims for short-time working**

| | Approved applications | Claimed (prov.) | Utilisation rate (prov.) | Costs of short-time working allowances (prov.) | Original estimate by SECO |
|---|---|---|---|---|---|
| March 2020 | 1.6 million employees | 925,100 employees | 58% | CHF 1 billion | CHF 2-3 billion |
| April 2020 | 1.9 million employees | 1.2 million employees | 64% | CHF 2.4 billion | CHF 5-7 billion |
| May 2020 | 1.9 million employees | 890,900 employees | 47% | CHF 1.5 billion | – |

Source: State Secretariat for Economic Affairs, media reports, Credit Suisse

## Take-up of compensation for loss of earnings is also lower than the budgeted amount

Despite the extension of the scheme until mid-September, it is highly likely that the costs of compensation for loss of earnings will be lower than the amount of CHF 5.3 billion approved by parliament. This included CHF 4 billion for those directly affected, i.e. self-employed persons who faced immediate restrictions on working owing to the ban on events and forced premises closures, people ordered to quarantine by medical professionals or authorities (except those returning from high-risk areas) and parents left without childcare due to school closures. A further CHF 1.3 billion was made available for self-employed people who are indirectly affected but are experiencing hardship. The latest data on the amounts actually paid show that only 27% of the CHF 5.3 billion total had been utilized by 16 August (CHF 1.4 billion). The low take-up is attributable to two factors. Firstly, the number of people who applied for compensation was lower than expected, especially among those in quarantine and parents (see table 2). Secondly, the level of income subject to old-age and survivor's pension contributions in 2019, which forms the basis for calculating the daily rate of compensation, was substantially lower than had been assumed in many cases. According to the latest projections, more than CHF 3 billion could remain unclaimed.

### Table 2: Compensation for loss of earnings due to coronavirus

| Number of people | Federal Office for Social Security expectations (as at March 2020) | Benefits paid to date (as at mid-August 2020) |
|---|---|---|
| Parents without childcare | 60,600 | 13,700 |
| People in quarantine | 43,000 | 9,300 |
| Directly affected self-employed | 60,000 | 95,400 |
| Indirectly affected self-employed in hardship | – | 65,200 |

Source: Federal Office for Social Security, Credit Suisse

### Covid-19 will also weigh on unemployment insurance finances in the years ahead

The take-up of benefits has been on an unprecedented scale during the coronavirus crisis. Nearly every fourth employee in Switzerland was on short-time working at the height of the lockdown in April. The extraordinary support from the federal government is designed to ensure that the ALV fund, which was debt-free at the beginning of the year, does not exceed its debt ceiling of around CHF 8 billion at the end of 2020 due to the soaring costs of short-time working. By law, the Federal Council would have to present new legislation on the funding of the unemployment insurance within a year in the event of a breach and increase wage contributions in advance by up to 0.3 percentage points (equally shared by employers and employees) from the current rate of 2.2% by 1 January 2021.

While this would generate additional revenues of up to around CHF 960 million for the ALV fund, it would also entail higher costs for companies and erode the purchasing power of households, which is not desirable in the current recession.

However, although the federal government is covering the costs of short-time working in 2020, the financial situation for the ALV fund will deteriorate appreciably due to the coronavirus crisis. Rising unemployment will lead to an increase in expenditure for unemployment benefits and labor market measures, while adversely affecting the aggregate wages insured and therefore the fund's income. As at the end of July, the number of people registered unemployed in Switzerland stood at 148,870 (unemployment rate: 3.2%). A more dramatic increase in joblessness was averted thanks to the broad-based take-up of short-time working. That said, the number of those out of work is up 53% on last year. With the decline in unemployment in June and July, the Swiss labor market has fared better than initially feared. However, the improvement was driven almost entirely by the hospitality and construction industries for seasonal reasons and due to the easing of lockdown restrictions. The unemployment rate has continued to rise on a seasonally adjusted basis, albeit more slowly than at the start of the crisis. We expect unemployment to continue to climb over the months ahead. There has been a flurry of announcements relating to job cuts in recent weeks, and the number of those seeking work has increased. In some sectors of the economy such as travel and events, prospects still look bleak over the longer term. As a result, short-time working could ultimately be followed by redundancies. We are keeping our forecast for the average unemployment rate in full-year 2020 at 3.5% for the time being, which could prove to be excessively pessimistic. As things stand, our forecast for 2021 is 3.8%.

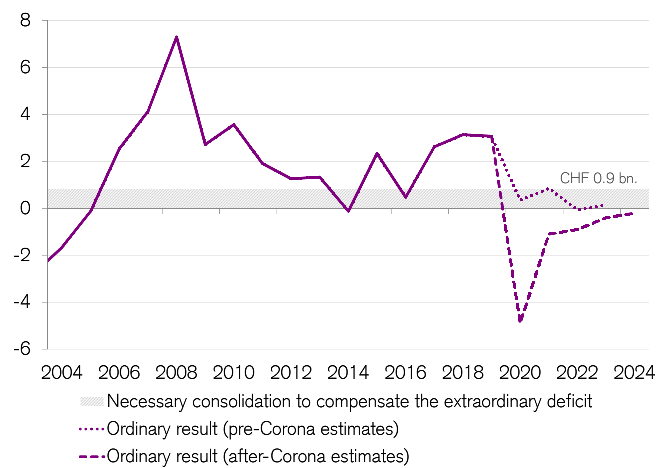
In its draft legislation for supplementary funding of the unemployment insurance, the Swiss Federal Council envisages the possibility of additional extraordinary support in 2021 if there is a renewed risk that the compensation fund will hit the debt ceiling next year. Ultimately, however, the Swiss parliament would decide in favor of either new extraordinary support or an increase to wage contributions. The latest labor market projections suggest it is fairly unlikely that the debt ceiling for the ALV fund will be reached in 2021. According to our simulations – which are admittedly subject to a high degree of uncertainty – the ALV fund's debt could total more than CHF 5 billion by end-2021. The debt ceiling of CHF 8 billion would only be reached if the annualized unemployment rate climbed to more than 4.8% on average. In the absence of reforms, the ALV fund will likely accumulate more debt beyond 2021. According to SECO, an economically neutral level of unemployment, which means that

the income and outgoings of the ALV fund are approximately equal, stands at around 130,000 (2.8%). Assuming that joblessness will not fall back to this level until 2023, according to our calculations the debt of the ALV fund could exceed CHF 6 billion by then. The fund has not had debt on this scale since 2010, prior to the fourth revision of unemployment insurance.

## Unutilized credit balances relieve the budget pressure only to a limited extent

We therefore estimate the actual costs of short-time working allowances and compensation for loss of earnings in 2020 at CHF 12.2 billion as opposed to CHF 25.5 billion. All in all, this could mean that extraordinary expenditure in 2020 would come in at only CHF 16.1 billion as opposed to CHF 30.9 billion. In accordance with the debt brake rules, the resulting deficit in the amortization account of CHF 12.7 billion would have to be offset by 2026, which would necessitate annual austerity measures of CHF 2.1 billion. However, this deadline can – and probably will – be extended by parliament, possibly to 15 years. This would necessitate savings of CHF 0.9 billion per year up to 2035. The latest estimates and the integrated task and financial plan for the planning period up to 2024 do not foresee such surpluses (see figure 2). So-called unutilized credit, which is built up when actual spending turns out to be lower than that earmarked in the budget, could provide some relief. Budget underspends have averaged CHF 1.8 billion per year since 2004. The Swiss Federal Finance Department expects unutilized credit to total CHF 2.6 billion in 2020, while predicting a more conservative amount of CHF 1 billion after that. In principle, this would cover a large proportion of the need for fiscal consolidation. However, the unutilized credit cannot be incorporated into budget planning. This means that for the requirements of the debt brake to be met, the requisite surpluses would have to be accounted for in the ordinary budget – irrespective of the anticipated unutilized credit. Essentially, the unutilized credit would retrospectively accelerate the process of offsetting the deficit each year once the state financial statements have been drawn up.

**Figure 2: Fiscal balance and required consolidation**
in CHF billion




Source: Swiss Federal Finance Administration (EFV)

## Consolidation of public spending across various task areas

In principle, setting priorities within the scope of forward-looking financial policy should be favored over harsh austerity programs. In this way, major projects earmarked for the next few years could be modified or deferred. But because this is not always possible or advisable and the Federal Council has ruled out tax hikes for the time being, the deficit also has to be reduced via cuts to public spending. One challenge is that spending in the highest-cost areas for which the federal government is responsible – social welfare, finance & taxes and transport (see table 3) – is to a large extent ring-fenced and in many cases cannot be adjusted without changes to legislation. This means that in the first few years the savings will have to be made in areas featuring comparatively little ring-fencing. To illustrate the sums involved, figure 3 shows how the task areas that are predominantly outside the scope of ring-fencing could contribute to the required savings of CHF 0.9 billion. At first glance, education & research, security and administration appear to offer the greatest leeway. However, commitments have already been made for 82% of the education funding up to 2024 via guaranteed facilities that would have to be subsequently withdrawn, which would in turn jeopardize the funding of existing projects. The armed forces account for more than 80% of the (high) expenditure on security. Direct payments to agriculture are another significant item of public spending. That said, the Federal Council had already envisaged a negative target growth rate of –1% up to 2024 for this area before the pandemic hit. Development aid within the international relations department accounts for CHF 2.7 billion. This task area was hit hard by cuts before, as part of the stabilization program from 2017–2019, contributing over 30% of the savings made. In respect of digitalization and possible process simplifications, public administration (i.e. departmental administration, Federal Council, parliament, courts and the Office of the Attorney General of Switzerland) probably offers tangible potential for savings to be made. At 41%, it accounts for a significant proportion of the other task areas.

Reducing debt over an extended period allows sufficient time for legislative changes, thus enabling savings to be made on ring-fenced spending in later years. One way in which savings should be calibrated is with reference to the growth contribution made by the relevant task areas. According to academic studies, spending on transport, education and efficient public administration fosters potential growth. Over the medium term, slashing expenditure in these areas could prove counterproductive. This would result in the next generation being left with an inferior macroeconomic environment or an investment bottleneck rather than the much cited mountain of debt.

**Table 3: Spending breakdown by task areas and degree of ring-fencing**

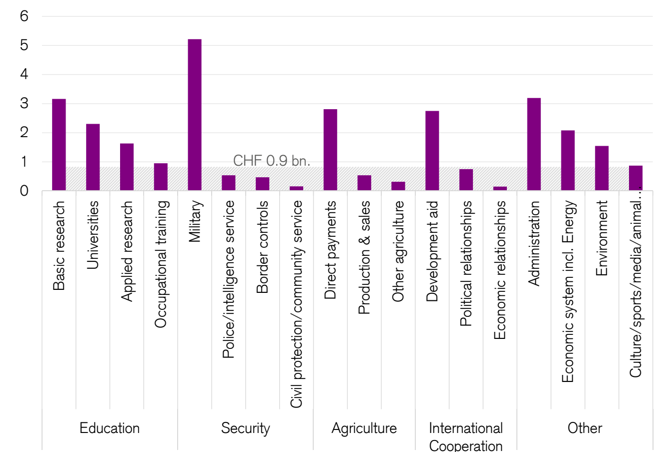
| | Expenditure (CHF million) | Ring-fencing |
|---|---|---|
| Social welfare | 24,150 | 95% |
| Finance and taxes | 11,075 | 99% |
| Transportation | 10,372 | 75% |
| Education and research | 8,095 | 10% |
| Security | 6,383 | 3% |
| Agriculture and food | 3,663 | 12% |
| International relations | 3,651 | 3% |
| Other task areas | 7,688 | -- |

Source: Swiss Federal Finance Administration (EFV), Credit Suisse

## Total funding requirement of CHF 10 to 25 billion

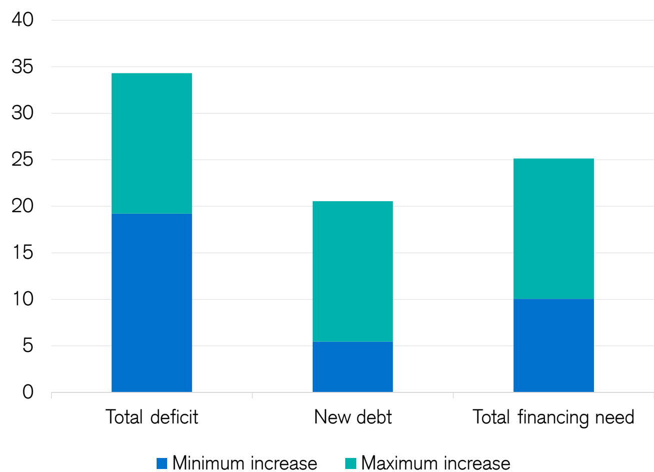
For 2020, adding the deficit from the ordinary budget including shortfalls in tax receipts (CHF 3.1 billion) to the extraordinary expenditure (from CHF 16.1 billion expected up to CHF 30.9 budgeted), produces a total deficit of CHF 18.9 to CHF 34 billion (see figure 4a). As we outlined above, this deficit is considered as debt by the debt brake, but it should not necessarily be equated with new borrowing on the capital markets. In previous analyses[1] we have already explained that the federal government can draw on CHF 26 billion in liquid funds and sell CHF 5.5 billion in unplaced proprietary tranches of Swiss Confederation bonds as alternative sources of funding. Depending on the sum kept as liquidity buffer (estimated at CHF 15 billion as per the target range stipulated by the federal treasury) and how many proprietary tranches are held back by the government to support trading in Confederation bonds (estimate of CHF 3 billion), the new borrowing required via the issuance of registered money market claims or Confederation bonds comes to just CHF 5.2 to 20.2 billion. Together with the bond worth CHF 4.6 billion that matured in early July, this produces a total funding requirement of CHF 9.8 to 24.8 billion in 2020.

**Figure 3: Expenditure with little ring-fencing by task areas**
in CHF billion




Source: Swiss Federal Finance Administration (EFV)

**Figure 4a: Key figures of national debt**
in CHF billion



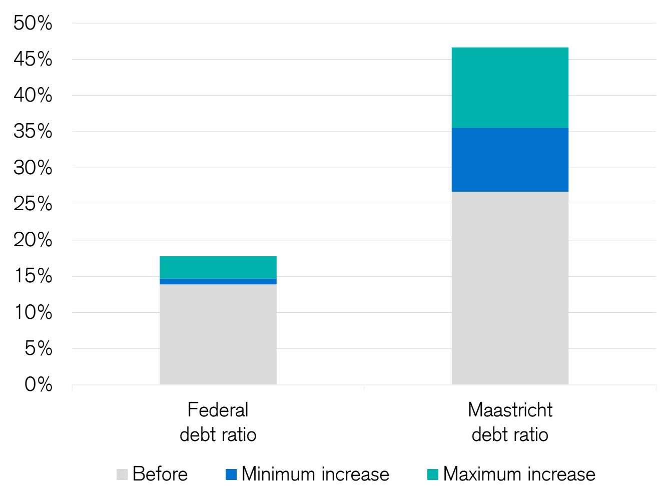

Source: Swiss Federal Finance Administration (EFV), Federal Council, Credit Suisse

## Shift towards short-term funding

To date the federal treasury has increased the volume of outstanding registered money market claims by CHF 7 billion (from around CHF 6 billion in March to over CHF 13 billion in August), while the gross issuance of Swiss Confederation bonds stood at CHF 3.1 billion as of August. This marks a shift in funding from long-term to short-term liabilities. While this offers highly favorable conditions, it also results in higher interest rate risk when transactions are rolled over. Short-term liabilities have only accounted for around 22% of gross debt until now, but with the current funding mix primarily utilizing registered money market claims, this would take the share to 30%. Nevertheless, Switzerland pursues a very conservative debt management strategy by international standards. According to data from the International Monetary Fund, prior to the Covid-19 crisis only Iceland and the UK had a longer average residual maturity among the industrialized nations. So a modest shift towards short-term funding should not trigger a huge increase in funding risk.

Depending on the final amount of the total deficit and the funding strategy pursued, the debt ratio is now expected to rise by a minimum of 0.8% and a maximum of 3%. As figure 4b shows, the federal debt ratio would then come in at 14.7 to 16.9% for 2020 (2019: 13.9%). The federal government's share in the Maastricht debt-to-GDP ratio would also rise accordingly. If we take into account the deterioration in the net financial position of the social insurance funds, and the immediate measures taken by the cantons (excluding liquidity assistance) amounting CHF 0.5 billion, while assuming that tax receipts in the cantons will fall in line with those of the federal government, the Maastricht debt-to-GDP ratio for 2020 would rise to 35.5 or 37.8% (2019: 26.7%).

**Figure 4b: Key figures of national debt**
in % of GDP




Source: Swiss Federal Finance Administration (EFV), Federal Council, Credit Suisse

(20/08/2020)

## Risk warnings

| | |
|---|---|
| Emerging markets | Emerging markets are located in countries that possess one or more of the following characteristics: a certain degree of political instability, relatively unpredictable financial markets and economic growth patterns, a financial market that is still at the development stage or a weak economy. Emerging market investments usually result in higher risks as a result of political, economic, credit, exchange rate, market liquidity, legal, settlement, market, shareholder and creditor risks. |
| Hedge funds | Regardless of structure, 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, derivative instruments and speculative investment strategies that may increase the risk of investment loss. |
| Commodity investments | Commodity transactions carry a high degree of risk and may not be suitable for many private investors. The extent of loss due to market movements can be substantial or even result in a total loss. |
| Real estate | 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. |
| Currency risks | Investments in foreign currencies involve the additional risk that the foreign currency might lose value against the investor's reference currency. |
| Equity risk | Equities are subject to market forces and hence fluctuations in value, which are not entirely predictable. |
| Market risk | Financial markets rise and fall based on economic conditions, inflationary pressures, world news and business-specific reports. While trends may be detected over time, it can be difficult to predict the direction of the market and individual stocks. This variability puts stock investments at risk of losing value. |
| High Yield bond risk | High Yield Bonds are typically rated below investment grade or are unrated and as such are often subject to a higher risk of issuer default. |
| Perpetual Bond risk | Perpetual Bonds have no maturity date and therefore the Interest pay-out depends on the viability of the issuer in the very long term. |
| Subordinated Bond risk | In case of liquidation of the issuer, investors can only get back the principal after other senior creditors are paid. |
| Risk of Bonds with variable/ deferral of interest terms | Investors would face uncertainty over the amount and time of the interest payments to be received. |
| Callable bond risk | Investors face reinvestment risk when the issuer exercises its right to redeem the bond before it matures. |
| Risk of Bonds with extendable maturity date | Investors would not have a definite schedule of principal repayment. |
| Convertible or exchangeable bond risk | Investors are subject to both equity and bond investment risk. |
| Cocos risk | The bond may be written-off fully or partially or converted to common stock on the occurrence of a trigger event. |

## Explanation of indices frequently used in reports

| Index | Comment |
|---|---|
| Australia S&P/ASX 200 | S&P/ASX 200 is an Australian market-capitalization-weighted and float-adjusted stock index calculated by Standard and Poor's. |
| BC High Yield Corp USD | The US Corporate High Yield Index measures USD-denominated, non-investment grade, fixed-rate and taxable corporate bonds. The index is calculated by Barclays. |
| BC High Yield Pan EUR | The Euro Corporate Index tracks the fixed-rate, investment-grade, euro-denominated corporate bond market. The index includes issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays. |
| BC IG Corporate EUR | The US Corporate Index tracks the fixed-rate, investment-grade, dollar-denominated corporate bond market. The index includes both US and non-US issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays. |
| BC IG Corporate USD | The IG Financials Index tracks the fixed-rate, investment-grade, dollar-denominated financials bond market. The index includes both US and non-US issues that meet specified maturity, liquidity and quality requirements. The index is calculated by Barclays. |
| Canada S&P/TSX comp | The S&P/TSX composite index is the Canadian equivalent of the S&P 500 Index in the USA. The index contains the largest stocks traded on the Toronto Stock Exchange. |
| Consumer Confidence Indices | Consumer Confidence Indices (CCIs) are based on surveys of consumers' spending intentions and economic situations, as well as their concerns and expectations for the immediate future. |
| CS Hedge Fund Index | The Credit Suisse Hedge Fund Index is compiled by Credit Suisse Hedge Index LLC. It is an asset-weighted hedge fund index and includes only funds, as opposed to separate accounts. The index reflects performance net of all hedge fund component performance fees and expenses. |
| CS LSI ex govt CHF | The Liquid Swiss Index ex govt CHF is a market-capitalized bond index representing the most liquid and tradable portion of the Swiss bond market excluding Swiss government bonds. The index is calculated by Credit Suisse. |
| DAX | The German Stock Index stock represents 30 of the largest and most liquid German companies that trade on the Frankfurt Exchange. |
| DXY | A measure of the value of the US dollar relative to the majority of its most important trading partners. The US Dollar Index is similar to other trade-weighted indices, which also use the exchange rates from the same major currencies. |
| Eurostoxx 50 | Eurostoxx 50 is a market-capitalization-weighted stock index of 50 leading blue-chip companies in the Eurozone. |
| FTSE EPRA/NAREIT Global Real Estate Index Series | The FTSE EPRA/NAREIT Global Real Estate Index Series is designed to represent general trends in eligible real estate equities worldwide. |
| Hedge Fund Barometer | The Hedge Fund Barometer is a proprietary Credit Suisse scoring tool that measures market conditions for hedge fund strategies. It comprises four components: liquidity, volatility; systemic risks and business cycle. |
| Japan Topix | TOPIX, also known as the Tokyo Stock Price Index, tracks all large Japanese companies listed in the stock exchange's "first section." The index calculation excludes temporary issues and preferred stocks. |
| JPM EM hard curr. USD | The Emerging Market Bond Index Plus tracks the total return of hard-currency sovereign bonds across the most liquid emerging markets. The index encompasses US-denominated Brady bonds (dollar-denominated bonds issued by Latin American countries), loans and Eurobonds. |
| JPM EM local curr. hedg. USD | The JPMorgan Government Bond Index tracks local currency bonds issued by emerging market governments across the most accessible markets for international investors. |

| | |
|---|---|
| MSCI AC Asia/Pacific | The MSCI All Country Asia Pacific Index captures large and mid cap representation across 5 developed market countries and 8 emerging markets countries in the Asia Pacific region. With 1,000 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. |
| MSCI AC World | The MSCI All Country World Index captures large and mid cap representation across 23 developed markets and 23 emerging market countries. With roughly 2480 constituents, the index covers around 85% of the global investable equity opportunity set. |
| MSCI Emerging Markets | MSCI Emerging Markets is a free-float-weighted Index designed to measure equity market performance in global emerging markets. The index is developed and calculated by Morgan Stanley Capital International. |
| MSCI EMU | The MSCI EMU Index (European Economic and Monetary Union) captures large and mid cap representation across the 10 Developed Markets countries in the EMU. With 237 constituents, the index covers approximately 85% of the free float-adjusted market capitalization of the EMU. |
| MSCI Europe | The MSCI Europe Index captures large and mid cap representation across 15 developed markets countries in Europe. With 442 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European developed markets equity universe. |
| MSCI UK | The MSCI United Kingdom Index is designed to measure the performance of the large and mid cap segments of the UK market. With 111 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the UK. |
| MSCI World | MSCI World is an index of global equity markets developed and calculated by Morgan Stanley Capital International. Calculations are based on closing prices with dividends reinvested. |
| OECD Composite Leading Indicators | OECD Composite Leading Indicators (CLIs) are designed to provide early signals of turning points in business cycles with components that measure early stages of production, respond to changes in economic activity, and are sensitive to expectations of future activity. |
| Purchasing Managers' Indices | Purchasing Managers' Indices (PMIs) are economic indicators derived from monthly surveys of private-sector companies. The two principal producers of PMIs are Markit Group, which conducts PMIs for over 30 countries worldwide, and the Institute for Supply Management (ISM), which conducts PMIs for the United States. The indices include additional sub-indices for manufacturing surveys such as new orders, employment, exports, stocks of raw materials and finished goods, prices of inputs and finished goods, and services. |
| Russell 1000 Growth Index | The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the US equity universe based on 1000 large-cap companies with higher price-to-book ratios and higher forecast growth values. |
| Russell 1000 Index | The Russell 1000 Index is a stock market index that represents the highest-ranking 1,000 stocks in the Russell 3000 Index (encompassing the 3,000 largest US-traded stocks, with the underlying companies all incorporated in the USA), and representing about 90% of the total market capitalization of that index. The Russell 1000 Index has a weighted average market capitalization of USD 81 billion and the median market capitalization is approximately USD 4.6 billion. |
| Russell 1000 Value Index | The Russell 1000 Value Index measures the performance of the large-cap value segment of the US equity universe based on 1000 large-cap companies with lower price-to-book ratios and lower expected growth values. |
| Switzerland SMI | The Swiss Market Index is made up of 20 of the largest companies listed of the Swiss Performance Index universe. It represents 85% of the free-float capitalization of the Swiss equity market. As a price index, the SMI is not adjusted for dividends. |
| UK FTSE 100 | FTSE 100 is a market-capitalization-weighted stock index that represents 100 of the most highly capitalized companies traded on the London Stock exchange. The equities have an investibility weighting in the index calculation. |
| US S&P 500 | Standard and Poor's 500 is a capitalization-weighted stock index representing all major industries in the USA, which measures the performance of the domestic economy through changes in the aggregate market value. |

## Abbreviations frequently used in reports

| Abb. | Description | Abb. | Description |
|---|---|---|---|
| 3/6/12 MMA | 3/6/12 month moving average | IMF | International Monetary Fund |
| AI | Alternative investments | LatAm | Latin America |
| APAC | Asia Pacific | Libor | London interbank offered rate |
| bbl | barrel | m b/d | Million barrels per day |
| BI | Bank Indonesia | M1 | A measure of the money supply that includes all physical money, such as coins and currency, as well as demand deposits, checking accounts and negotiable order of withdrawal accounts. |
| BoC | Bank of Canada | M2 | A measure of money supply that includes cash and checking deposits (M1) as well as savings deposits, money market mutual funds and other time deposits. |
| BoE | Bank of England | M3 | A measure of money supply that includes M2 as well as large time deposits, institutional money market funds, short-term repurchase agreements and other larger liquid assets. |
| BoJ | Bank of Japan | M&A | Mergers and acquisitions |
| bp | Basis points | MAS | Monetary Authority of Singapore |
| BRIC | Brazil, Russia, China, India | MLP | Master Limited Partnership |
| CAGR | Compound annual growth rate | MoM | Month-on-month |
| CBOE | Chicago Board Options Exchange | MPC | Monetary Policy Committee |
| CFO | Cash from operations | OAS | Option-adjusted spread |
| CFROI | Cash flow return on investment | OECD | Organisation for Economic Co-operation and Development |
| DCF | Discounted cash flow | OIS | Overnight indexed swap |
| DM | Developed Market | OPEC | Organization of Petroleum Exporting Countries |
| DMs | Developed Markets | P/B | Price-to-book value |
| EBITDA | Earnings before interest, taxes, depreciation and amortization | P/E | Price-earnings ratio |
| ECB | European Central Bank | PBoC | People's Bank of China |
| EEMEA | Eastern Europe, Middle East and Africa | PEG | P/E ratio divided by growth in EPS |
| EM | Emerging Market | PMI | Purchasing Managers' Index |
| EMEA | Europe, Middle East and Africa | PPP | Purchasing power parity |

| | | | |
|---|---|---|---|
| EMs | Emerging Markets | QE | Quantitative easing |
| EMU | European Monetary Union | QoQ | Quarter-on-quarter |
| EPS | Earnings per share | r.h.s. | right-hand side (for charts) |
| ETF | Exchange traded funds | RBA | Reserve Bank of Australia |
| EV | Enterprise value | RBI | Reserve Bank of India |
| FCF | Free cash flow | RBNZ | Reserve Bank of New Zealand |
| Fed | US Federal Reserve | REIT | Real estate investment trust |
| FFO | Funds from operations | ROE | Return on equity |
| FOMC | Federal Open Market Committee | ROIC | Return on invested capital |
| FX | Foreign exchange | RRR | Reserve requirement ratio |
| G10 | Group of Ten | SAA | Strategic asset allocation |
| G3 | Group of Three | SDR | Special drawing rights |
| GDP | Gross domestic product | SNB | Swiss National Bank |
| GPIF | Government Pension Investment Fund | TAA | Tactical asset allocation |
| HC | Hard currency | TWI | Trade-Weighted Index |
| HY | High yield | VIX | Volatility Index |
| IBD | Interest-bearing debt | WTI | West Texas Intermediate |
| IC | Credit Suisse Investment Committee | YoY | Year-on-year |
| IG | Investment grade | YTD | Year-to-date |
| ILB | Inflation-linked bond | Personal Consumption Expenditure (PCE deflator) | An indicator of the average increase in prices for all domestic personal consumption. |

## Currency codes frequently used in reports

| Code | Currency | Code | Currency |
|---|---|---|---|
| ARS | Argentine peso | KRW | South Korean won |
| AUD | Australian dollar | MXN | Mexican peso |
| BRL | Brazilian real | MYR | Malaysian ringgit |
| CAD | Canadian dollar | NOK | Norwegian krone |
| CHF | Swiss franc | NZD | New Zealand dollar |
| CLP | Chilean peso | PEN | Peruvian nuevo sol |
| CNY | Chinese yuan | PHP | Philippine peso |
| COP | Colombian peso | PLN | Polish złoty |
| CZK | Czech koruna | RUB | Russian ruble |
| EUR | Euro | SEK | Swedish krona/kronor |
| GBP | Pound sterling | SGD | Singapore dollar |
| HKD | Hong Kong dollar | THB | Thai baht |
| HUF | Hungarian forint | TRY | Turkish lira |
| IDR | Indonesian rupiah | TWD | New Taiwan dollar |
| ILS | Israeli new shekel | USD | United States dollar |
| INR | Indian rupee | ZAR | South African rand |
| JPY | Japanese yen | | |

## Important information on derivatives

| | |
|---|---|
| Pricing | Option premiums and prices mentioned are indicative only. Option premiums and prices can be subject to very rapid changes: The prices and premiums mentioned are as of the time indicated in the text and might have changed substantially in the meantime. |
| Risks | Derivatives are complex instruments and are intended for sale only to investors who are capable of understanding and assuming all the risks involved. Investors must be aware that adding option positions to an existing portfolio may change the characteristics and behavior of that portfolio substantially. A portfolio's sensitivity to certain market moves can be heavily impacted by the leverage effect of options. |
| Buying calls | Investors who buy call options risk the loss of the entire premium paid if the underlying security trades below the strike price at expiration. |
| Buying puts | Investors who buy put options risk loss of the entire premium paid if the underlying security finishes above the strike price at expiration. |
| Selling calls | Investors who sell calls commit themselves to sell the underlying for the strike price, even if the market price of the underlying is substantially higher. Investors who sell covered calls (own the underlying security and sell a call) risk limiting their upside to the strike price plus the upfront premium received and may have their security called away if the security price exceeds the strike price of the short call. Additionally, the investor has full downside participation that is only partially offset by the premium received upfront. If investors are forced to sell the underlying they might be subject to taxing. Investors shorting naked calls (i.e. selling calls but without holding the underlying security) risk unlimited losses of security price less strike price. |
| Selling puts | Put sellers commit to buying the underlying security at the strike price in the event the security falls below the strike price. The maximum loss is the full strike price less the premium received for selling the put. |
| Buying call spreads | Investors who buy call spreads (buy a call and sell a call with a higher strike) risk the loss of the entire premium paid if the underlying trades below the lower strike price at expiration. The maximum gain from buying call spreads is the difference between the strike prices, less the upfront premium paid. |

| | |
|---|---|
| Selling naked call spreads | Selling naked call spreads (sell a call and buy a farther out-of-the-money call with no underlying security position): Investors risk a maximum loss of the difference between the long call strike and the short call strike, less the upfront premium taken in, if the underlying security finishes above the long call strike at expiration. The maximum gain is the upfront premium taken in, if the security finishes below the short call strike at expiration. |
| Buying put spreads | Investors who buy put spreads (buy a put and sell a put with a lower strike price) also have a maximum loss of the upfront premium paid. The maximum gain from buying put spreads is the difference between the strike prices, less the upfront premium paid. |
| Buying strangles | Buying strangles (buy put and buy call): The maximum loss is the entire premium paid for both options, if the underlying trades between the put strike and the call strike at expiration. |
| Selling strangles or straddles | Investors who are long a security and short a strangle or straddle risk capping their upside in the security to the strike price of the call that is sold plus the upfront premium received. Additionally, if the security trades below the strike price of the short put, investors risk losing the difference between the strike price and the security price (less the value of the premium received) on the short put and will also experience losses in the security position if they owns shares. The maximum potential loss is the full value of the strike price (less the value of the premium received) plus losses on the long security position. Investors who are short naked strangles or straddles have unlimited potential loss since, if the security trades above the call strike price, investors risk losing the difference between the strike price and the security price (less the value of the premium received) on the short call. In addition, they are obligated to buy the security at the put strike price (less upfront premium received) if the security finishes below the put strike price at expiration. |

## 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 report, please refer to the following Internet link:

https://investment.credit-suisse.com/gr/riskdisclosure/

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**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.**

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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.

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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

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