S&P Downgrade – Implications

Interest Rate Strategy

• In European governments, the market reaction on the open has been relatively muted, with the exception of Portugal, where yields have sold off by 70 bp in the 10-year sector. We don’t think the announcement should have come as a surprise to the market and if anything removes one level of uncertainty. Both Belgium and the Netherlands have announced new 10Y deals following the announcement. There are also no implications for ECB collateral haircuts. Italy has been downgraded to BBB+ by S&P but retains its single A rating from the other rating agencies.

• However, all European countries, with the exception of Germany and Slovakia, are on negative outlook. This means that should the economic and the political situation not improve, then further downgrades are possible. Although the downgrade uncertainty has been removed for the moment, we continue to believe that European government markets will remain in a volatile state.

• €6.1 billion of additional capital is needed to maintain the AAA rating from S&P on the five outstanding EFSF bonds; without it, we believe the bonds will be downgraded to AA+ with a negative outlook, giving the EFSF a split rating.

• The EFSF’s future AAA-issuance potential has been reduced: €262 billion remains, of which only €100 billion has been unassigned. If the EFSF decides to operate with a split rating, issuance capacity remains at a total €440 billion, of which €19 billion has been issued and €154 proposed for Ireland, Portugal and Greece, leaving €267 billion unassigned. The ESM’s AAA-issuance capacity has also been reduced as a result of the French and Austrian downgrades; on current proposals, the likely maximum is €296 billion.

• Covered Bonds: None of the rated programmes of Irish, Luxembourian and Portuguese banks with an outstanding EUR-benchmark had an unused rating uplift. The robustness of the covered bond ratings of these programmes may be called into question, as S&P would lower the covered bond ratings as soon as it would downgrade the issuer. In addition, there is downgrade risk of the rated programmes of banks from countries that lost their single-A rating.

• The S&P downgrades of AAA European sovereigns once again brings into focus the AAA rating of the UK. We expect that as long as the institutional framework in the UK remains credible, this risk is mitigated. Ongoing headwinds from Europe support our view of more central bank activity. We expect the BoE to expand the QE program by a further £50bn in February.
S&P Announces sovereign downgrades
Muted reaction from European governments

On Friday, 13 January, S&P announced rating action on several European countries, the headline grabber being the downgrade of France by one notch to AA+, with the country remaining on negative outlook. Exhibit 1 summarises the ratings action. We don’t think this was a surprise to the market, as S&P had put all European countries on Watch Negative on 5 December. Indeed, market pricing has reflected a potential change in France’s rating since July, when spreads started to widen, peaking at 190 bp over Germany in the 10-year sector in mid-November.

Exhibit 1: Euro area S&P ratings
N – negative outlook, S – stable outlook, I – investment grade

<table>
<thead>
<tr>
<th>Country</th>
<th>Fitch</th>
<th>Moody’s</th>
<th>New S&amp;P rating</th>
<th>Previous S&amp;P rating</th>
<th>S&amp;P downgrade limit (number of notches)</th>
<th>Number of notches downgraded</th>
<th>Current outlook</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>AAA S</td>
<td>Aaa S</td>
<td>AA+</td>
<td>AAA</td>
<td>1</td>
<td>1</td>
<td>N</td>
<td>I</td>
</tr>
<tr>
<td>Belgium</td>
<td>AA+ *-</td>
<td>Aa3 N</td>
<td>AA</td>
<td>AA</td>
<td>1 unchanged</td>
<td>N</td>
<td>I</td>
<td></td>
</tr>
<tr>
<td>Cyprus</td>
<td>BBB *-</td>
<td>Baa3 *-</td>
<td>BB+</td>
<td>BBB</td>
<td>2</td>
<td>2</td>
<td>N</td>
<td>Speculative</td>
</tr>
<tr>
<td>Estonia</td>
<td>A+ S</td>
<td>A1 S</td>
<td>AA-</td>
<td>AA-</td>
<td>2</td>
<td>unchanged</td>
<td>N</td>
<td>I</td>
</tr>
<tr>
<td>Finland</td>
<td>AAA S</td>
<td>Aaa S</td>
<td>AAA</td>
<td>AAA</td>
<td>1</td>
<td>unchanged</td>
<td>N</td>
<td>I</td>
</tr>
<tr>
<td>France</td>
<td>AAA N</td>
<td>Aaau S</td>
<td>AA+</td>
<td>AAA</td>
<td>2</td>
<td>1</td>
<td>N</td>
<td>I</td>
</tr>
<tr>
<td>Germany</td>
<td>AAA S</td>
<td>Aaau S</td>
<td>AAA</td>
<td>AAA</td>
<td>1</td>
<td>unchanged</td>
<td>S (was N)</td>
<td>I</td>
</tr>
<tr>
<td>Greece</td>
<td>CCC</td>
<td>Ca</td>
<td>CC</td>
<td>CC</td>
<td>0</td>
<td>unchanged</td>
<td>N</td>
<td>Speculative</td>
</tr>
<tr>
<td>Ireland</td>
<td>BBB+ *-</td>
<td>Ba1 N</td>
<td>BBB+</td>
<td>BBB+</td>
<td>2</td>
<td>unchanged</td>
<td>N</td>
<td>I</td>
</tr>
<tr>
<td>Italy</td>
<td>A+ *-</td>
<td>A2 N</td>
<td>BBB-</td>
<td>A</td>
<td>2</td>
<td>2</td>
<td>N</td>
<td>I</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>AAA S</td>
<td>Aaa S</td>
<td>AAA</td>
<td>AAA</td>
<td>1</td>
<td>unchanged</td>
<td>N</td>
<td>I</td>
</tr>
<tr>
<td>Malta</td>
<td>A+ S</td>
<td>A2 N</td>
<td>A-</td>
<td>A</td>
<td>2</td>
<td>1</td>
<td>N</td>
<td>I</td>
</tr>
<tr>
<td>Netherlands</td>
<td>AAA S</td>
<td>Aaau S</td>
<td>AAA</td>
<td>AAA</td>
<td>1</td>
<td>unchanged</td>
<td>N</td>
<td>I</td>
</tr>
<tr>
<td>Portugal</td>
<td>BB N</td>
<td>Ba2 N</td>
<td>BB</td>
<td>BBB-</td>
<td>2</td>
<td>2</td>
<td>N</td>
<td>Speculative</td>
</tr>
<tr>
<td>Slovakia</td>
<td>A+ S</td>
<td>A1 S</td>
<td>A</td>
<td>A+</td>
<td>2</td>
<td>1</td>
<td>S (was N)</td>
<td>I</td>
</tr>
<tr>
<td>Slovenia</td>
<td>AA- *-</td>
<td>A1 N</td>
<td>A+</td>
<td>AA-</td>
<td>2</td>
<td>1</td>
<td>N</td>
<td>I</td>
</tr>
<tr>
<td>Spain</td>
<td>AA- *-</td>
<td>A1 N</td>
<td>A</td>
<td>AA-</td>
<td>2</td>
<td>2</td>
<td>N</td>
<td>I</td>
</tr>
</tbody>
</table>

Source: S&P

The reaction in the market reflects this lack of surprise, with French yields actually lower on the day across the curve in the 10-year sector and below. In fact, the market reaction has been stronger in Austria, where yields have risen on the open. We recommended being long 30-year France versus Austria in the 6 January EST. The spread has tightened by just over 3 bp on 16 January, but we continue to like this trade.

Exhibit 2: Short 30-year Austria vs. France

Exhibit 3: One-day change in 10-year yields

Source: Credit Suisse
Italy

Italy was downgraded by S&P from A to BBB+, but so far, the market reaction has been relatively muted – Italian yields are a couple of basis points higher across the curve. In terms of ECB-eligible assets, there are also no changes. The ECB does apply different haircuts based on credit quality – which is driven by ratings. As per our ECB reference guide, when a rating is between BBB+ and BBB-, the collateral haircuts increase. However, the caveat to this is that the ECB picks the best rating available. So as long as one of the rating agencies rates the entity between AAA and A-, then it is eligible for the lower haircuts. Italy is rated A2 by Moody’s and A+ by Fitch. So it would need to be downgraded by more than one notch by Moody’s AND three notches by Fitch in order for the ECB haircuts to increase. Italy is currently on watch by Fitch and negative outlook by Moody’s; however, we think the risk that both these downgrades take place is limited.

Portugal

The biggest mover on the market open has been Portugal (see Exhibit 3). Portugal’s rating was moved from BBB- to BB, and as result, Portugal has lost its last investment-grade rating. Fitch downgraded Portugal in November 2011 and Moody’s in July 2011. The ECB have excluded Portugal from the minimum credit rating requirement since July 2011, so there should be no impact on Portuguese government bonds in terms of ECB acceptability. We don’t expect forced selling of Portuguese government bonds on the back of the S&P downgrade.

Outlook Negative

Overall, we expect the political and economic developments in Europe to be the driver of spreads. The start to the year has been positive on the supply front, supported by the 3-year LTRO; however, the next big test for the market is likely to be Greek PSI. If anything, we think Friday’s announcement by S&P removes some uncertainty in the market – in regard to France, there was some concern that there would be a two-notch downgrade. Belgium announced it will issue a 10-year bond “in the near future” via syndication, another indication that the S&P announcement has removed one aspect of uncertainty that has been bearing down on the market. The Netherlands has also announced a new 10-year via its DDA auction process. Perhaps the one winner from the S&P action is Germany. Germany is now the only “big” economy in Europe that is triple A rated, and together with Slovakia, it is the only country in Europe that has a stable outlook.

That is not to say that the rating risk can now be ignored. The outlook for most European countries is negative, which implies that there could be further ratings downgrades. A negative outlook implies potential further downgrades over the period of one to two years.
Implications for the EFSF

Given that the EFSF’s AAA rating is driven by the combination of the AAA guarantees backing its debt issues and the cash reserve, the downgrades of France and Austria have implications for the EFSF – implications for both the five existing debt issues and future issuance capabilities.

**Existing debt issues need to be further enhanced to keep AAA rating**

In Exhibit 4, we detail the credit enhancements for the five bond issues to date. If the EFSF wants all five to keep their AAA rating from S&P, it needs to put up an additional €6.1 billion in high-quality collateral to back the bonds. We believe a potential source of capital to do so could be proceeds from the bill issuance programme.

**Exhibit 4: An additional €6.1 billion is needed to maintain S&P AAA rating on outstanding debt**

<table>
<thead>
<tr>
<th>Bond issue</th>
<th>€5 billion, Ireland</th>
<th>€5 billion, Portugal</th>
<th>€3 billion, Portugal</th>
<th>€3 billion, Ireland</th>
<th>€3 billion, Ireland &amp; Portugal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount disbursed</td>
<td>3.6</td>
<td>3.7</td>
<td>2.2</td>
<td>3</td>
<td>3</td>
<td>15.5</td>
</tr>
<tr>
<td>Total guarantee</td>
<td>6</td>
<td>6</td>
<td>3.6</td>
<td>4.95</td>
<td>4.95</td>
<td>25.5</td>
</tr>
<tr>
<td>Cash reserve</td>
<td>1.4</td>
<td>1.3</td>
<td>0.8</td>
<td>0</td>
<td>0</td>
<td>3.5</td>
</tr>
<tr>
<td>AAA guarantee x-France &amp; Austria</td>
<td>2.2</td>
<td>2.2</td>
<td>1.3</td>
<td>1.8</td>
<td>1.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Cash reserve + AAA guarantee x-France &amp; Austria</td>
<td>3.6</td>
<td>3.5</td>
<td>2.1</td>
<td>1.8</td>
<td>1.8</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Shortfall post downgrade</strong></td>
<td><strong>1.4</strong></td>
<td><strong>1.5</strong></td>
<td><strong>0.9</strong></td>
<td><strong>1.2</strong></td>
<td><strong>1.2</strong></td>
<td><strong>6.1</strong></td>
</tr>
</tbody>
</table>

Source: Credit Suisse, EFSF

The first three EFSF issues were under the original EFSF format: the sovereign over-guarantees were for 120% of the face value issued, and then a cash reserve was deducted from the amount disbursed so that the total bond issue was covered by the sum of the cash reserve (held in high-quality, liquid assets) and the AAA guarantees.

As a result of the amendments to the EFSF structure, the second two EFSF issues (and all future issues) are covered by 165% over-guarantees. Although France and Austria were AAA, this meant that the entire debt issue was covered by AAA guarantees, and so the entire amount could be disbursed.

With the recent downgrades, since France and Austria have lost their AAA ratings, none of the five outstanding debt issues is now covered by the sum of the existing cash reserve and AAA guarantees, as shown by Exhibit 4 and as required by the rating agencies for a AAA rating. There is a shortfall of €6.1 billion.

The EFSF therefore has a choice – accept a lower S&P rating on existing debt or put up additional capital. If no additional capital is forthcoming, we would expect the EFSF to be rated AA+ with negative outlook, in line with France and Austria. In other words, it would be a split-rated issuer: AA+ from S&P and AAA from Moody’s and Fitch.
AAA issuance capacity has been reduced: €262 billion remains, of which only about €100 billion is unassigned

Similarly for future issuance, the EFSF needs to decide whether it wishes to retain its AAA rating from S&P. Doing so is not problematic – it just reduces the total issuing capacity of the facility, as outlined in Exhibit 5.

**Exhibit 5: €262 billion of AAA-rated issuance capacity remaining**

<table>
<thead>
<tr>
<th>Member State</th>
<th>AAA rated?</th>
<th>ECB Capital Subscription</th>
<th>Initial Contribution key</th>
<th>Max Guarantee Commitments</th>
<th>Adjusted cont. key¹</th>
<th>Total guarantees to date</th>
<th>Max remaining guarantees²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kingdom of Belgium</td>
<td></td>
<td>2.43</td>
<td>3.47%</td>
<td>27.03</td>
<td>3.72%</td>
<td>0.95</td>
<td>26.09</td>
</tr>
<tr>
<td>Federal Republic of Germany</td>
<td>AAA</td>
<td>18.94</td>
<td>27.06%</td>
<td>211.05</td>
<td>29.07%</td>
<td>7.38</td>
<td>203.67</td>
</tr>
<tr>
<td>Ireland</td>
<td></td>
<td>1.11</td>
<td>1.59%</td>
<td>12.38</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kingdom of Spain</td>
<td></td>
<td>8.30</td>
<td>11.87%</td>
<td>92.54</td>
<td>12.75%</td>
<td>3.24</td>
<td>89.31</td>
</tr>
<tr>
<td>French Republic</td>
<td></td>
<td>14.22</td>
<td>20.32%</td>
<td>158.49</td>
<td>21.83%</td>
<td>5.54</td>
<td>152.95</td>
</tr>
<tr>
<td>Italian Republic</td>
<td></td>
<td>12.50</td>
<td>17.86%</td>
<td>19.27</td>
<td>19.18%</td>
<td>4.87</td>
<td>134.40</td>
</tr>
<tr>
<td>Republic of Cyprus</td>
<td></td>
<td>0.14</td>
<td>0.20%</td>
<td>1.53</td>
<td>0.21%</td>
<td>0.05</td>
<td>1.47</td>
</tr>
<tr>
<td>Grand Duchy of Luxembourg</td>
<td>AAA</td>
<td>0.17</td>
<td>0.25%</td>
<td>1.95</td>
<td>0.27%</td>
<td>0.07</td>
<td>1.88</td>
</tr>
<tr>
<td>Republic of Malta</td>
<td></td>
<td>0.06</td>
<td>0.09%</td>
<td>0.70</td>
<td>0.10%</td>
<td>0.02</td>
<td>0.68</td>
</tr>
<tr>
<td>Kingdom of the Netherlands</td>
<td>AAA</td>
<td>3.99</td>
<td>5.70%</td>
<td>44.45</td>
<td>6.12%</td>
<td>1.55</td>
<td>42.89</td>
</tr>
<tr>
<td>Republic of Austria</td>
<td></td>
<td>1.94</td>
<td>2.78%</td>
<td>21.64</td>
<td>2.98%</td>
<td>0.76</td>
<td>20.88</td>
</tr>
<tr>
<td>Portuguese Republic</td>
<td></td>
<td>1.75</td>
<td>2.50%</td>
<td>19.51</td>
<td></td>
<td>0.16</td>
<td></td>
</tr>
<tr>
<td>Republic of Slovenia</td>
<td></td>
<td>0.33</td>
<td>0.47%</td>
<td>3.66</td>
<td>0.50%</td>
<td>0.13</td>
<td>3.54</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td></td>
<td>0.69</td>
<td>0.99%</td>
<td>7.73</td>
<td>1.06%</td>
<td>0.27</td>
<td>7.46</td>
</tr>
<tr>
<td>Republic of Finland</td>
<td>AAA</td>
<td>1.25</td>
<td>1.79%</td>
<td>13.97</td>
<td>1.92%</td>
<td>0.49</td>
<td>13.49</td>
</tr>
<tr>
<td>Hellenic Republic</td>
<td></td>
<td>1.96</td>
<td>2.01%</td>
<td>21.90</td>
<td></td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Republic of Estonia</td>
<td></td>
<td>0.18</td>
<td>0.26%</td>
<td>1.99</td>
<td>0.27%</td>
<td>0.03</td>
<td>1.97</td>
</tr>
<tr>
<td>Of which were AAA pre-downgrade</td>
<td></td>
<td>69.97</td>
<td>100%</td>
<td>779.78</td>
<td>100%</td>
<td>25.50</td>
<td>700.7</td>
</tr>
<tr>
<td>Of which now AAA</td>
<td></td>
<td>451.54</td>
<td>62.2%</td>
<td>435.8</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Ireland, Portugal and Greece are stepping out guarantors
2. Taking into account the five debt issues to date

The maximum guarantee commitments shown are as defined by the EFSF, and the adjusted contribution key (column 6) is the current relative contribution of the various guarantors taking into account that Greece, Ireland and Portugal are no longer guarantors (they have “stepped out”). Only 37.4% of guarantees are now AAA.

The total guarantees to date are those covering the five issues outlined in Exhibit 4, leaving €701 billion in unused guarantees, of which €262 billion are AAA post the downgrade.
If the EFSF wants all future issuance to be AAA, then the remaining issuing capacity is the outstanding AAA guarantees: €262 billion. Much of this has, however, potentially already been assigned, as outlined in Exhibit 6.

If the EFSF puts further capital aside to ensure existing issues keep their AAA rating, as per Exhibit 4, this requires €6.1 billion. On the latest EFSF conference call, the stated needs for Ireland and Portugal in 2012 were €24 billion1, and the latest proposal for Greece at the October Eurogroup summit suggested support from the EFSF of €130 billion. The latter comprises €100 billion in direct support for Greece and its banks and €30 billion for the debt exchange. Although there is the possibility that no cash or credit enhancement is provided for the debt exchange (reducing the need for the €30 billion), in our opinion, the €100 billion is likely to need to be increased to support Greece for the long term.

In summary then, assuming the EFSF is the proposed funding source for Greece’s second bailout (and the language in the IMF review suggests the IMF is unlikely to be putting forward any further cash), we think it is able to provide just €100 billion in additional support if the EFSF is to remain AAA.

Alternatively, should the EFSF decide that it can operate with a split rating, issuance capacity would remain at the original €440 billion, of which €19 billion has been issued and €154 billion proposed, leaving €267 billion unassigned.

The ESM’s issuance capacity is also likely to be reduced

The ESM’s structure is based on €80 billion in paid in capital and €620 billion in callable capital, for a total of €700 billion in subscribed capital. Following the sovereign downgrades, only 34.8% of the providers of the callable capital are AAA (based on the ECB capital subscription key; this is slightly less than the 37.4% for the EFSF above because we are assuming that Greece, Ireland and Portugal are included for the ESM given it is a permanent structure).

Under current proposals, the total paid in capital and AAA-backed callable capital therefore comes to €296 billion, the likely maximum issuance potential if the ESM wants a AAA rating from S&P. Prior to the downgrades, this would have been €396 billion. Given that proposals for the ESM are still very much under discussion – the total size, the likely time frame for activation of the fund and the speed at which the €80 billion capital will be paid in – we await further details to provide more clarity on the implications of the downgrades for the ESM in the near and medium term. Although its structure is more robust than that of the EFSF, it is clearly based on the quality of its backers and therefore highly sensitive to both the current, and any future, AAA-sovereign downgrades.

Several covered bond ratings assigned by S&P at risk

As noted, S&P downgraded nine euro area countries – Austria (AA+), Cyprus (BB+), France (AA+), Italy (BBB+), Malta (A-), Portugal (BB), Slovakia (A), Slovenia (A+) and Spain (A). The credit rating of a bank from a given jurisdiction may be limited by the country’s credit strength. The “country ceiling” indicates the highest credit rating that may be assigned to a bank subject to the sovereignty of a given country. The credit rating of a bank from a given country usually cannot pierce the sovereign rating. Sovereign rating downgrades continue to be a driver of a banks’ issuer credit rating (ICR) downgrades. A number of ICR are vulnerable to sovereign rating downgrades. As Exhibit 7 shows, only 12 of the 38 banks with outstanding EUR-benchmark covered bonds rated by S&P have an ICR with stable outlook.

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1 It isn’t clear whether this includes the latest €3 billion issue, so this amount may be just €21 billion, although this seems low vs. original funding expectations for Ireland and Portugal on the EFSF website.
The credit rating of a security from a given country may be limited by the sovereign rating. In some cases, covered bond ratings may pierce the credit rating of the sovereign. S&P has a link between the ICR and covered bond rating. Covered bond ratings are above the ICR. S&P determines the maximum achievable covered bond rating given a bank’s ICR by combining a programme’s ALMM risk category and programme category. To achieve the maximum rating uplift, an issuer needs to meet the target credit-enhancement level that is commensurate with the maximum achievable covered bond rating. S&P grants a different level of rating uplift for programmes. The ICR may limit the achievable covered bond rating. The minimum ICR for achieving a triple-A covered bond rating is BBB+.
The sensitivity of covered bond ratings to the ICR means that an issuer downgrade puts them under pressure. An ICR downgrade also weakens a covered bond structure by increasing operational risk. The unused rating uplift of the covered bond programmes of banks with an outstanding EUR-benchmark covered bond ranged from zero to five notches; none of the rated programmes of Irish, Luxembourghian and Portuguese banks with an outstanding EUR benchmark had any unused rating uplift – i.e., the robustness of the covered bond ratings of those programmes may be called into question because S&P would lower the covered bond ratings as soon as it would downgrade the issuer. There is also downgrade risk of covered bond programmes of banks from countries that lost their single-A rating.

**Implications for the UK**

The S&P downgrades of AAA-European sovereigns once again brings into focus the sovereign rating of the UK. As we highlighted in our 2012 Outlook, market speculation about rating action on the UK remains a key risk for this year. We expect that as long as the institutional framework in the UK, with the independent Office for Budget Responsibility, remains credible, this risk is mitigated.

The key question then becomes if growth deteriorates more than anticipated and the fiscal program is derailed again, would the government have more room to increase the austerity measures? This risk has been mitigated to a large extent by dramatic downward revisions to GDP forecasts by the OBR in November. For us, this risk is further mitigated by a more proactive central bank. We expect the BoE to increase the QE program in February by a further £50bn, which would take total gilt purchases to £325bn (or 20% of UK GDP).

Exhibit 8 shows the comparison of debt-to-GDP ratios for both the private and public sectors in the UK versus high-rated European sovereigns. We also include the 2011 deficit in the comparison. The main point to highlight is that the UK has the highest deficit-to-GDP ratio. In terms of private-sector debt to GDP, the UK is only surpassed by the Netherlands.

In our 2012 Outlook, we expected convergence in non-German AAA yields versus Germany based on the idea that Germany may end up providing the majority of the funding for a European crisis management system. We also expected convergence between non-German AAA sovereign yields and UK yields. We recommended being long 10-year Netherlands versus gilts. Exhibit 9 shows that the Netherlands has outperformed the UK by 20bp since the start of December. We would look to take profits on this recommendation around a flat spread level.

**Exhibit 8: UK deficit is larger than other euro area countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>Govt debt 2010</th>
<th>Private debt 2010</th>
<th>Deficit 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>200</td>
<td>150</td>
<td>5</td>
</tr>
<tr>
<td>Germany</td>
<td>150</td>
<td>100</td>
<td>3</td>
</tr>
<tr>
<td>Finland</td>
<td>100</td>
<td>50</td>
<td>2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>50</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Austria</td>
<td>25</td>
<td>20</td>
<td>4</td>
</tr>
<tr>
<td>France</td>
<td>20</td>
<td>15</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Credit Suisse Locus

**Exhibit 9: Long Netherlands versus UK still offers value**

<table>
<thead>
<tr>
<th>Date</th>
<th>nether-uk 10y</th>
<th>nether-ger 10y, rhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>30-Dec-09</td>
<td>-50</td>
<td>-75</td>
</tr>
<tr>
<td>30-Dec-10</td>
<td>-25</td>
<td>-50</td>
</tr>
<tr>
<td>31-Dec-11</td>
<td>-25</td>
<td>-75</td>
</tr>
</tbody>
</table>

Source: Credit Suisse
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