Berne, 13 February 2024

Basel III countercyclical capital buffer

Stance of the Basel III countercyclical capital buffer in Switzerland

- The Basel III countercyclical capital buffer (CCyB) in Switzerland remains at 0%.[1]
- The Swiss sectoral CCyB targeted at mortgage loans financing residential property located in Switzerland remains at 2.5% as decided and communicated by the Federal Council in January 2022. Mandatory reciprocity as foreseen in Basel III does not apply to the Swiss sectoral CCyB requirements.
- The Swiss authorities will continue to monitor the developments in the mortgage and real estate markets closely.

Background

- In Switzerland, the CCyB can be applied on a broad basis – consistent with the Basel III rules – or it can target specific segments of the credit market.
- The sectoral CCyB targeting residential real estate located in Switzerland was activated for the period from February 2013 to March 2020. It was initially set at a

[1] In line with the international agreement, the Swiss authorities periodically communicate and justify the level of the Basel III CCyB, even if set at 0%. In the Ordinance on Capital Adequacy and Risk Diversification for Banks and Securities Traders, the specific provisions relating to the Basel III CCyB are included in art. 44 and 44a.

level of 1% of relevant risk-weighted positions[2] and subsequently increased to 2% in January 2014.[3]

- In March 2020, against the backdrop of the outbreak of the coronavirus pandemic, the sectoral CCyB was deactivated.[4] On 26 January 2022, the sectoral CCyB was reactivated and increased to 2.5%.[5]

Developments since the last communication on the Basel III CCyB

- So far, the upward shift in interest rates experienced globally since 2022 had a moderate impact on the credit and real estate markets in Switzerland.[6] Vulnerabilities on the residential real estate market persist, while risk indicators for the domestic credit market convey mixed signals.
    - First, higher interest rates have led to a lower price dynamic on the domestic residential real estate markets. Despite this slowdown in momentum, vulnerabilities persist, as depicted by the price-to-rent ratios, which have stabilized overall at high levels in 2023 (cf. chart 1).
    - Second, the credit-to-GDP ratio and the credit-to-GDP gap have decreased further from their pandemic-related peaks. More recently, the credit-to-GDP ratio has stabilized against the background of lower credit and nominal GDP growth (cf. charts 2 and 3); it remains at a higher level than before the pandemic. The credit-to-GDP gap is currently negative, as the credit-to-GDP ratio has been growing at a slower rate than its long-term trend (cf. chart 4).[7]
    - Third, affordability risks in residential real estate, as measured by the loan-to-income ratio on new mortgage loans, have decreased but still constitute relevant vulnerabilities, particularly for commercial borrowers (cf. chart 5).[8]
- Overall, the uncertainty regarding the further development in the Swiss mortgage and residential real estate markets remains high. Against the background of higher interest rates, the likelihood of price corrections has increased, in particular in the investment property segment. As a result, it is essential to ensure that the banking sector is sufficiently resilient.

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[2] Banks were required to meet the CCyB requirements by 30 September 2013.

[3] Banks were required to meet the CCyB requirements by 30 June 2014.

[4] https://www.admin.ch/gov/en/start/documentation/media-releases/media-releases-federal-council.msg-id-78604.html

[5] Banks were required to meet the CCyB requirements by 30 September 2022, https://www.admin.ch/gov/en/start/documentation/media-releases.msg-id-86922.html

[6] Cf. Financial Stability Report 2023, page 14, Swiss National Bank.

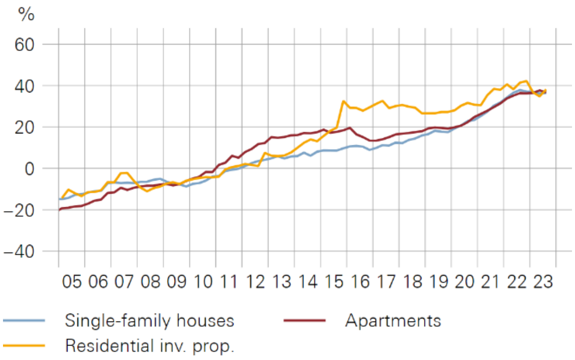
[7] The credit-to-GDP gap is computed according to the BCBS guidelines, with domestic bank credit.

[8] Cf. Financial Stability Report 2023, pages 17-18, Swiss National Bank.

- Given the confined nature of the vulnerabilities and the uncertainty regarding the further development in the Swiss mortgage and residential real estate markets, the Swiss authorities considered the targeted sectoral CCyB to be the best-suited instrument. It increases the capital requirements associated with residential mortgage loans while leaving those for other exposures unchanged.
- Consequently, the sectoral CCyB targeted at mortgage loans financing residential real estate located in Switzerland remains at 2.5%, while the level of the Basel III CCyB remains at 0%.

PRICE-TO-RENT RATIO[1]

Deviation from historical average — Chart 1

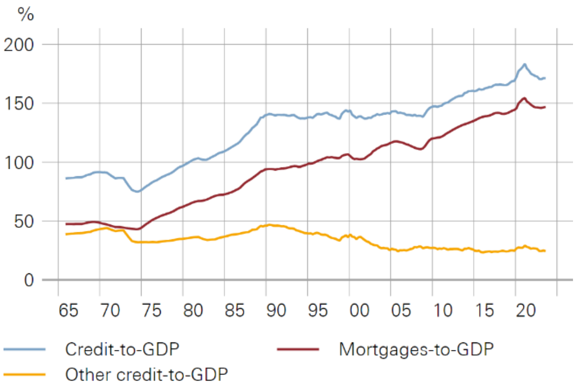


1 Transaction prices and existing rents.

Sources: FSO, Wüest Partner

CREDIT AGGREGATES-TO-GDP

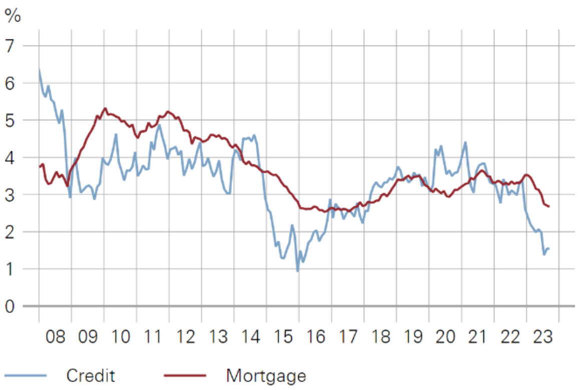
Domestic bank credit — Chart 2



Sources: FSO, SECO, SNB

DOMESTIC CREDIT AND MORTGAGE GROWTH

Annual growth rate, nominal — Chart 3



Source: SNB

CREDIT-TO-GDP GAP

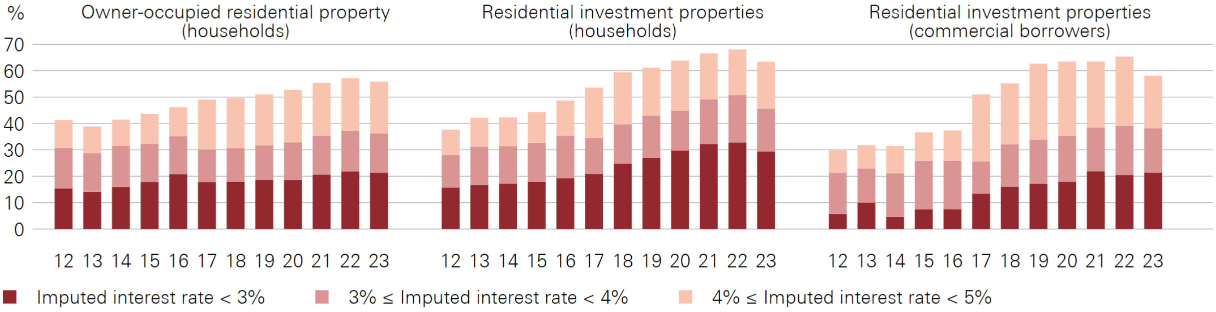
Domestic bank credit — Chart 4

1 Computed according to the BCBS guidelines

Sources: FSO, SECO, SNB

LOAN-TO-INCOME OF NEW MORTGAGE LOANS[1]

Proportion where imputed costs exceed rents (inv. prop) or one-third of income (owner-occ.) at an imputed interest rate of up to 5%[2] Chart 5



1 From 2017 on, data from the revised 'Survey on new mortgages' are shown. For 2023, data are up to Q3 2023.
2 The dark red shaded area shows the proportion where imputed costs exceed rents or one-third of income at an imputed interest rate of up to 3%. The red shade area shows the additional proportion for an imputed interest rate between 3% and 4%. The pale red shaded area shows the additional proportion for an imputed interest rate between 4% and 5%. For details on the calculation, see the Financial Stability Report 2019, page 21.

Sources: SNB