

SNB Economic Note

No. 13/2025

Robust bank lending in a changing credit market environment

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The Swiss credit market environment has changed significantly since 2022. Interest rates have risen for the first time in 15 years, UBS has acquired Credit Suisse, and regulatory requirements have been tightened. The latter includes the introduction of the “Basel III Final” banking regulation and more stringent liquidity requirements for systemically important banks. Despite these changes, credit volumes have increased robustly in Switzerland, and bank lending has adjusted to both the tightening and subsequent loosening of monetary policy, as expected.

The credit market environment in Switzerland has undergone significant changes over the past three years. Four notable changes have occurred. First, after 15 years of near-zero or negative interest rates, the SNB raised its policy rate by 250 basis points between June 2022 and June 2023. Chart 1 shows that the peak target rate of 1.75% in 2023 was significantly lower than that in previous tightening cycles. Since mid-2023, long-term interest rates have fallen as expectations of monetary easing grew. In March 2024, the SNB began lowering its policy rate, which currently stands at 0%.

Second, the acquisition of Credit Suisse by UBS in 2023 changed the Swiss credit market by eliminating an important actor. This development compelled many companies and households previously served by Credit Suisse to seek new credit relationships with UBS or other banks.

Third, the implementation of the “Basel III Final” banking regulation in January 2025 introduced several changes to the amount of capital that banks are required to hold. Chart 2 shows that in recent years, Swiss banks have consistently maintained a relatively stable margin of capital above the regulatory requirements. The so-called capital buffers depicted on the chart stood at slightly more than 20% at the end of 2024. The new regulation makes capital requirements for credit exposures more risk sensitive, thereby creating incentives for risk reduction. Capital requirements increased for riskier loan segments (e.g., building loans),

whereas they decreased for less risky segments (e.g., owner-occupied housing loans). Overall, the new regulation led to a slight reduction in capital requirements for lending and is therefore not expected to restrict the lending of Swiss banks. However, greater risk sensitivity may lead to wider variations in lending conditions across different loan types – if the loans are priced according to their capital requirements. These intended variations in lending conditions do not indicate a shortage of credit but rather an adjustment in prices in response to the new regulatory requirements.

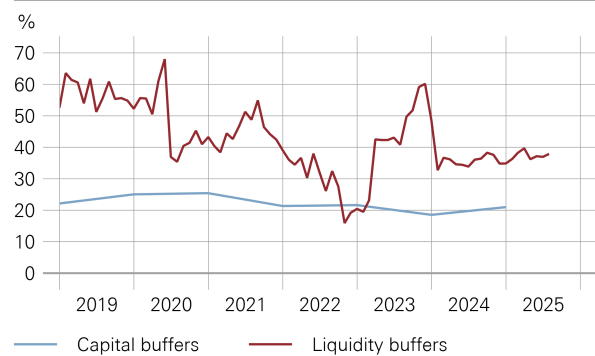
CHART 1: INTEREST RATES



Note: Short-term rate is the three-month LIBOR until mid-2019 and the SARON thereafter.

Source(s): Bloomberg, SNB

CHART 2: CAPITAL AND LIQUIDITY BUFFERS



Note: Buffers calculated for domestically focused banks and UBS/Credit Suisse as difference between eligible and required capital resp. liquidity, in % of regulatory requirements. A positive value indicates a surplus.

Source(s): FINMA, SNB, own calculations

Fourth, the liquidity management of Swiss banks has become more challenging. On the one hand, the SNB's reduction in its balance sheet since 2022 has led to a decrease in sight deposits and, consequently, overall liquidity. On the other hand, regulatory liquidity requirements for banks have tightened. In January 2024, these requirements for systemically important banks were increased to bolster their resilience to liquidity stress. The SNB also raised the Minimum Reserve (MiRe) requirement for banks in July 2024, aiming to improve the efficiency of its monetary policy implementation. While sight deposits of banks held with the SNB qualify as high-quality liquid assets (HQLA), those earmarked to fulfil the MiRe requirement do not count towards another important regulatory liquidity requirement, namely, the Liquidity Coverage Ratio (LCR). Despite these adjustments, overall liquidity remains significantly above the regulatory requirements. As Chart 2 shows, Swiss banks currently maintain a buffer of liquidity that stands at close to 40% above their regulatory requirements.

How has bank lending developed in this changing environment?

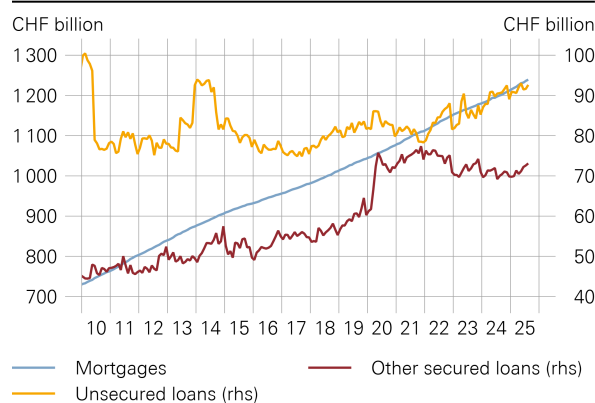
In this changing credit market environment, bank lending has increased robustly. Chart 3 shows that mortgage lending has continued to grow steadily since 2010. The development of the volume of other (i.e., non-mortgage) loans is more differentiated. Noticeably, secured non-mortgage lending increased significantly with the COVID-19 loan programme that was launched by the Confederation in March 2020. The volume of these loans has remained

broadly stable since then despite the gradual repayment of COVID-19 loans. In contrast, unsecured loans have been on an upward trend since 2022.

A sectoral decomposition reveals that lending to households and firms in the housing and business services sectors has grown strongly since 2010 (see Chart 4). Lending to other firms (both non-financial and financial) also increased before stabilising in 2021. In addition, there is evidence that the supply of credit continues to meet the needs of the economy. For instance, the utilisation rate of credit limits by other non-financial firms has remained stable in recent years.

CHART 3: LOANS BY TYPES

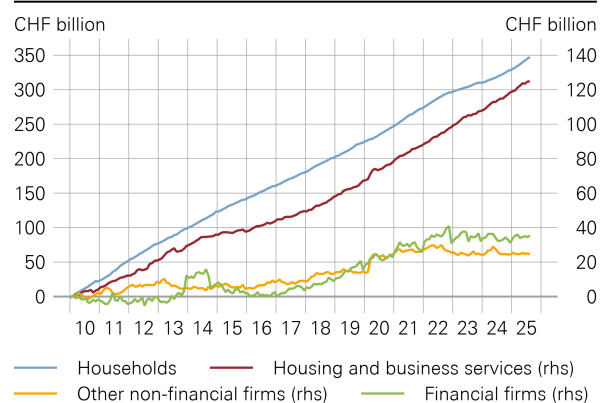
Loans in CHF



Source(s): SNB

CHART 4: LOANS BY SECTORS

Increase in loans in all currencies since January 2010



Source(s): SNB

Adjustments within the Swiss credit market

Despite robust growth in aggregate lending, the Swiss credit market has adjusted to the changing environment in several noticeable ways. First, lending growth slowed down in response to monetary tightening in 2022 and 2023, as expected under the normal transmission of monetary policy. This is depicted in Chart 5. Conversely, lending growth has picked up again with the shift towards monetary easing in early 2024.

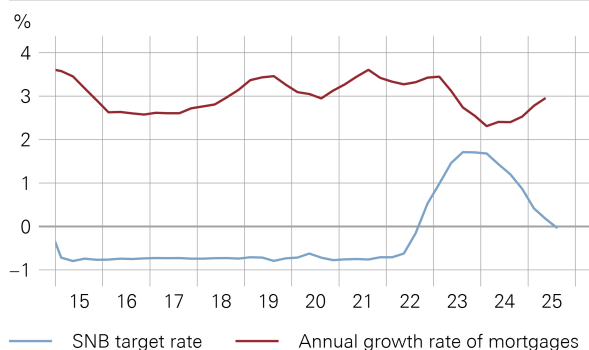
Second, following the acquisition of Credit Suisse by UBS in 2023, the number of clients seeking new credit relationships has increased.¹ This development likely reflected a need for diversification in their banking relations from the client side, as well as the introduction of more risk-sensitive lending criteria for former Credit Suisse customers, as indicated in UBS's management communications.² However, as Chart 6 shows, credit growth at domestically focused banks and other banks has more than offset the reduction in lending by UBS and Credit Suisse. This finding indicates that domestically focused banks and other banks had

¹ See the EY Banking Barometer 2025 (Page 28).

² Cf. speeches by Sergio Ermotti and Todd Tuckner for the UBS Q4 2023 results: "In addition, over the next three years, Credit Suisse's core businesses will also continue to require balance sheet optimisation. While we will sacrifice some reported profitability and growth in the short-term, we are convinced this will improve the quality of our long-term growth trajectory, [...]"; and for the Q2 2024 results: "We also expect by then that our balance sheet optimisation work will be largely complete, with loan pricing reflecting a more appropriate cost of risk across the Swiss credit book."

sufficient lending capacity to meet the increased demand. The substantial capital and liquidity buffers of banks, which are depicted in Chart 2, have played a key role in enabling the banking system to absorb the structural shift without impacting the availability of credit.

CHART 5: SNB TARGET RATE AND MORTGAGE GROWTH

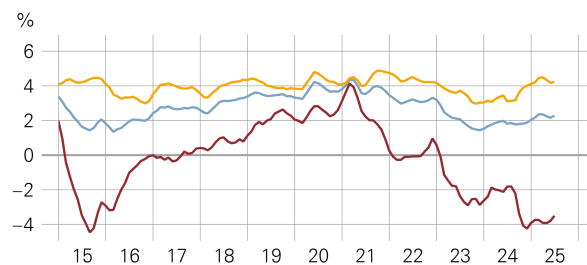


Note: SNB target rate is the three-month LIBOR until mid-2019 and the SARON thereafter.

Source(s): SNB

CHART 6: LOANS BY BANK GROUPS

Annual growth rate



Legend: All banks (blue), UBS, CS (until May 2023) (red), Domestically focused banks and other banks (yellow)

Note: Data for different bank categories until May 2023 from SNB data portal. From June 2023 onwards, data for UBS stems from its IFRS quarterly public reporting and is linearly interpolated. The series have been corrected for structural shifts.

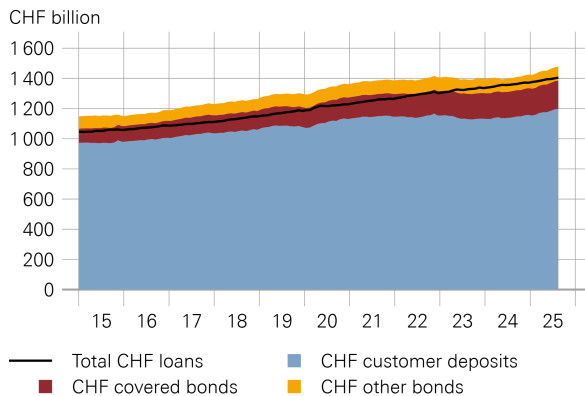
Source(s): SNB, UBS

Third, it has become relatively more expensive for banks to raise funding in the capital market. As Chart 7 shows, bank loans are partially funded through the issuance of bonds in the capital market, and the importance of this funding has grown over time. Nevertheless, customer deposits remain by far the predominant source of funding for banks. Bond yields have fallen since 2023 alongside other interest rates; however, they have fallen by less than the overnight index swap (OIS) rates. OIS rates are the rates at which banks hedge against interest rate risk, and they serve as a benchmark to measure the cost of other capital market instruments, such as bonds. Chart 8 shows that the spread between covered bond yields and OIS rates has increased by up to 40 basis points since 2023, indicating a relative increase in banks' funding costs in the capital market. Notably, this spread-widening has been observed in many countries and across different markets. It reflects large public-sector bond issuance amidst reduced central bank demand for bonds following global quantitative tightening. Moreover, changes in regulatory liquidity requirements and increased credit demand at domestic banks after the acquisition of Credit Suisse by UBS may also have supported the need for banks to issue bonds.

The higher funding costs of banks in the capital market have been partially passed on to the lending rates charged to clients, resulting in a slight increase in the spread between lending and OIS rates. As Chart 8 illustrates, the spread between ten-year offered mortgage and OIS rates has increased by approximately 30 basis points since the end of 2023. Nevertheless, the spread remains at a level that is not significantly higher than historical averages. Although the recent increase in the spread weakens the transmission of OIS rates to lending rates to some extent, lending rates have closely followed the general trend in interest rates, as was shown in Chart 1.

CHART 7: SOURCES OF LOAN FUNDING

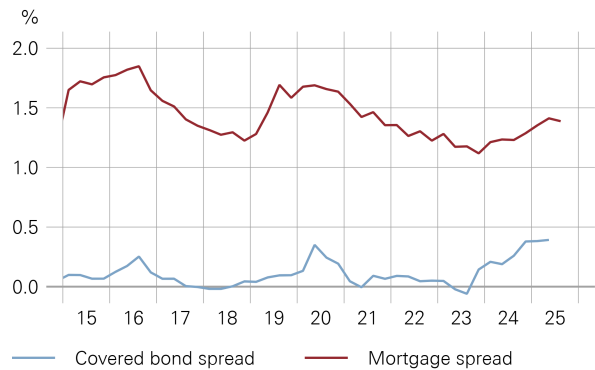
Balance sheet positions of Swiss banks



Source(s): SNB

CHART 8: BOND AND MORTGAGE SPREAD TO OIS

Spread between 10-year bond yield / mortgage rate and OIS rate



Note: Yield of covered bonds calculated as the yield to 10-year residual maturity.

Source(s): SNB

The SNB will continue to monitor the Swiss credit market

Despite significant changes to the Swiss credit market environment, bank lending remained robust and responded to monetary policy as expected. While certain adjustment costs for individual companies, households, and banks were to be expected in view of the changing environment, the credit supply to the Swiss economy has been resilient overall. The SNB will continue to closely monitor future lending developments with a focus on its implications for monetary policy transmission and financial stability.

References

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UBS (2024-2). *UBS Second quarter 2024 results*. Speeches by Sergio Ermotti and Todd Tuckner, 14 August 2024.

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