

Berne, 21 February 2023

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 and examine whether further measures are necessary to contain the risks for financial stability.

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 positions² 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 reduced to 0%.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

- Since the last communication on the Basel III CCyB, the economic and financial conditions have changed. Nominal market interest rates have risen significantly both abroad and in Switzerland, and the economic outlook has deteriorated worldwide.
- Meanwhile, the vulnerabilities in the Swiss mortgage and residential real estate markets have remained at a high level.⁶
 - First, the decrease of the credit-to-GDP ratio and the corresponding sharp decline of the credit-to-GDP gap are due to the swift economic recovery and not to a slowdown in mortgage volume growth, which has remained strong (cf. charts 1-3).⁷
 - Second, transaction prices for apartments, single-family houses and apartment buildings have continued to rise and have outpaced the growth of fundamental factors such as rents. Consequently, price-to-rent ratios for these segments increased further (cf. chart 4).
 - Third, affordability risks in residential real estate remain high and have even slightly increased (cf. chart 5).
- Overall, the uncertainty regarding the further development in the Swiss mortgage and residential real estate markets remains high. Rising interest rates could lead to a smooth correction in prices, with a potential reduction in vulnerabilities. However, the more and the faster interest rates rise, the greater the risk of a large and abrupt real estate market correction.
- Given the confined nature of the vulnerabilities, the Swiss authorities considered the targeted sectoral CCyB to be the best-suited instrument. It increases the capital

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 Reports 2022, Swiss National Bank.

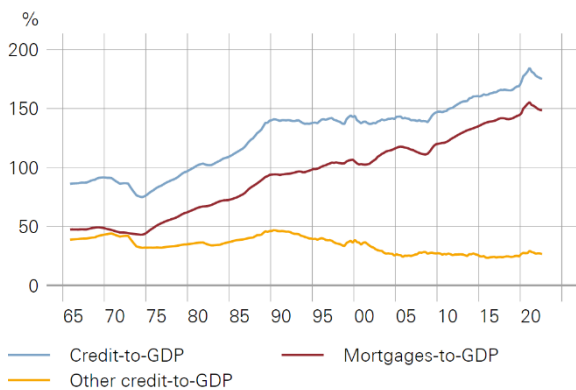
⁷ The credit-to-GDP gap is computed according to the BCBS guidelines, with domestic bank credit.

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%.

CREDIT AGGREGATES-TO-GDP

Domestic bank credit Chart 1



Sources: FSO, SECO, SNB

CREDIT-TO-GDP GAP

Domestic bank credit Chart 2



1 Computed according to the BCBS guidelines

Sources: FSO, SECO, SNB

MORTGAGE GROWTH

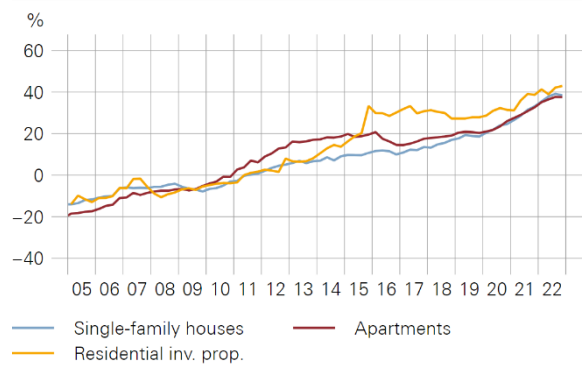
Year-on-year Chart 3



Source: SNB

PRICE-TO-RENT RATIO¹

Deviation from historical average Chart 4

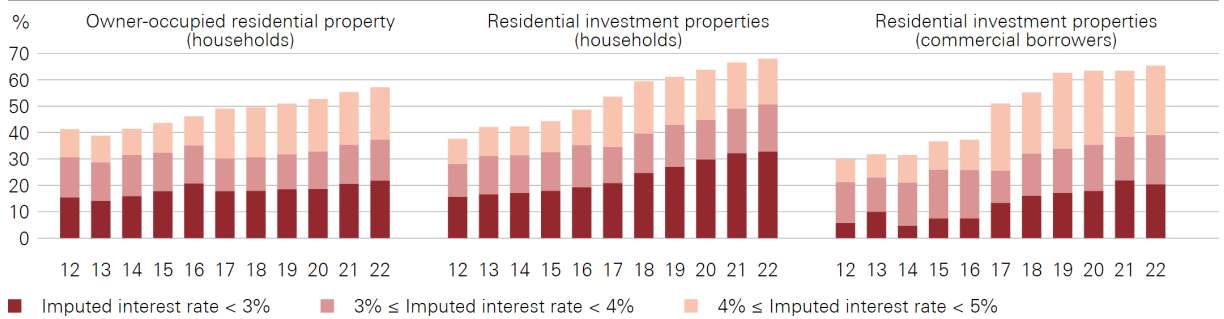


1 Transaction prices and existing rents.

Sources: FSO, Wüest Partner

LOAN-TO-INCOME OF NEW MORTGAGE LOANS¹

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.

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.

Source: SNB