Berne, 5 February 2021

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 real estate located in Switzerland was deactivated on 27 March 2020 with immediate effect, thus reducing the respective requirements from 2% to 0%. The Federal Council's decision[2] followed a proposal by the Swiss National Bank.
- The deactivation of the sectoral CCyB complements a set of measures by the Swiss authorities and the business community to cushion the economic impact of the coronavirus pandemic and to give banks maximum latitude for lending.
- Meanwhile, the vulnerability of the Swiss mortgage and real estate markets to shocks remains at an elevated level. The Swiss authorities will regularly reassess the need for a reactivation of the sectoral CCyB or an activation of the Basel III CCyB and will communicate to the public consequently.

Background

- In June 2012, the CCyB was introduced into Swiss legislation. One important characteristic of the Swiss CCyB framework is that it can be applied on a broad basis

[1] 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.
[2] www.admin.ch/gov/en/start/documentation/media-releases/media-releases-federal-council.msg-id-78604.html

– 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 level of 1% of relevant risk-weighted positions[3] and subsequently increased to 2% in January 2014.[4]
- In March 2020, against the backdrop of the outbreak of the coronavirus pandemic, the sectoral CCyB was reduced to 0%. The deactivation of the sectoral CCyB complements a set of other measures by the Swiss authorities and the business community to cushion the economic impact of the coronavirus pandemic.
- In line with the international agreement, Swiss authorities periodically communicate and motivate the level of the Basel III CCyB, even if set at 0%.

Recent developments in the credit and real estate markets

- In spite of its negative impact on economic activity, the outbreak of the pandemic has neither been accompanied by a shortage in the credit supply, nor led to a correction on the Swiss mortgage and real estate markets.
- Consequently, the elevated vulnerabilities in the domestic mortgage and residential real estate markets, which had already been identified prior to the outbreak of the pandemic, persist.[5]
    - First, banks' lending has increased further. Coupled with the negative impact of the pandemic on economic activity, this has led to a significant increase of the credit-to-GDP gap (cf. chart 1).[6] Such an increase of the credit-to-GDP gap generally indicates a higher level of vulnerability in the credit market. However, this development should not be over-interpreted. The credit-to-GDP gap is likely to decrease as the economy recovers from the coronavirus pandemic.
    - Second, transaction prices for apartments and single-family houses, as well as for residential investment properties, have risen further, outpacing the growth of fundamental factors such as rents. Consequently, price to rent ratios have increased further since the last CCyB communication (cf. chart 2). Meanwhile, brisk construction of rental apartments over recent years has led to rising

3 Banks were required to meet the CCyB requirements by 30 September 2013.
4 Banks were required to meet the CCyB requirements by 30 June 2014.
5 Cf. Financial Stability Reports 2015–2020, Swiss National Bank.
6 Computed according to the BCBS guidelines, with domestic bank credit.

vacancy rates (cf. chart 3). The high level of vacant dwellings indicates an oversupply.

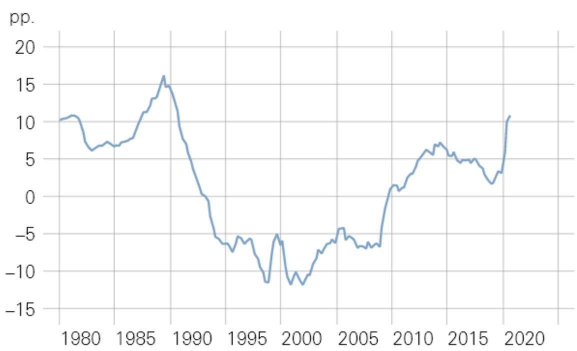
- Third, affordability risks in the residential real estate segment remain at a high level (cf. chart 4).

- The uncertainty surrounding the further development of the coronavirus pandemic and its impact on the Swiss economy remains extraordinarily large. In this situation, the Swiss authorities are of the view that the sectoral CCyB in Switzerland should remain at 0%, despite the persistent vulnerabilities in the mortgage and real estate markets.

- The Swiss authorities continue to monitor developments in the credit and real estate markets closely and will regularly reassess the need for a reactivation of the sectoral CCyB or an activation of the broader based Basel III CCyB.

CREDIT-TO-GDP GAP

Domestic bank credit, ex-post evaluation — Chart 1

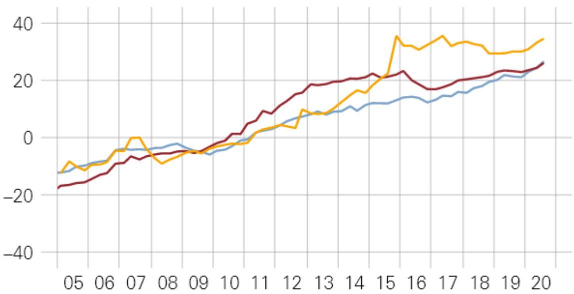


Credit-to-GDP gap (1-sided HP filter)

Sources: SFSO, SECO, SNB

PRICE-TO-RENT RATIO[1]

Deviation from historical average in % — Chart 2



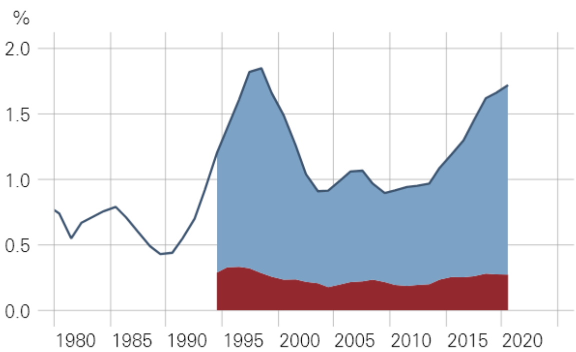
Single-family houses — Apartments — Residential inv. prop.

1 Transaction prices and existing rents.

Sources: SFSO, Wüest Partner

RESIDENTIAL VACANCY RATE

Vacant dwellings relative to total number of dwellings — Chart 3

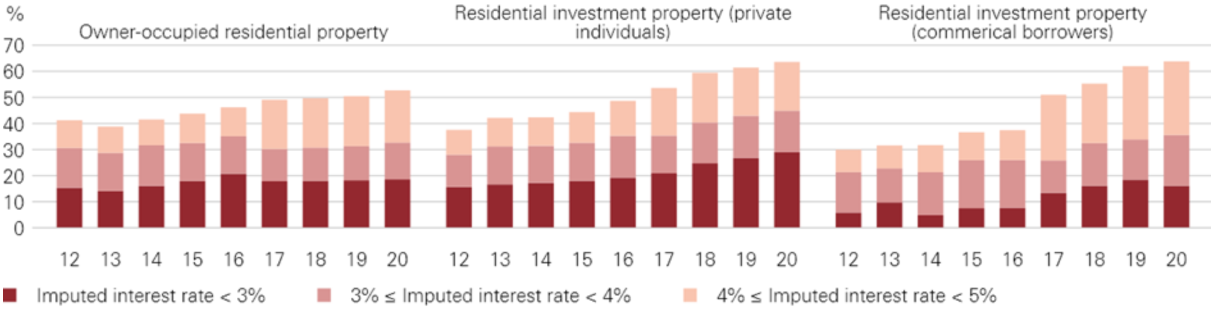


Overall vacancy rate — To sell — To rent

Sources: SFSO, SNB calculations

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 4



1 From 2017 on, data from the revised 'Survey on new mortgages' are shown. For 2020 data are up to 2020Q3.
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