Berne, 13 February 2025

Basel III countercyclical capital buffer

Stance of the Basel III countercyclical capital buffer in Switzerland[1]

- The Basel III countercyclical capital buffer (CCyB) in Switzerland remains at 0%.[2]
- 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. The mandatory jurisdictional reciprocity provisions set out in Basel III do not apply to the Swiss sectoral CCyB requirements.
- The Swiss authorities will continue to monitor the developments in the credit and real estate markets closely.

Background

- In Switzerland, the CCyB can be applied on a broad basis – in line with the Basel III rules – or it can target specific segments of the credit market.
- So far, the broad-based Basel III CCyB has not been activated in Switzerland.
- The sectoral CCyB targeting residential real estate located in Switzerland has been activated since 2013, with an interruption amid the coronavirus pandemic from March

[1] The stance of the Basel III countercyclical capital buffer in Switzerland is communicated annually. Previous communications are available on the SNB website (Financial stability).

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

2020 until January 2022. The current level of the sectoral CCyB is set at 2.5% of relevant risk-weighted positions.[3]

Developments since the last communication on the Basel III CCyB

- The increases in interest rates in 2022 and 2023 have had a moderate impact so far on the credit and real estate markets in Switzerland.[4] While interest rates decreased in 2024, vulnerabilities on the residential real estate market persist, and risk indicators for the domestic credit market convey mixed signals.
    - First, the higher interest rates observed in 2022 and 2023 led to a lower price dynamic on the domestic residential real estate market. This lower but still positive dynamic persisted in 2024 as interest rates started to decline. Meanwhile, the vulnerabilities as measured by the price-to-rent ratios have stabilised overall at high levels (cf. chart 1).
    - Second, credit growth also decreased in 2023 before stabilising at lower levels in 2024, in line with economic growth (cf. chart 2). As a result, the credit-to-GDP ratio has remained broadly unchanged at a high level in a historical comparison (cf. chart 3). The credit-to-GDP gap has remained negative, as the credit-to-GDP ratio has been growing at a slower rate than its long-term trend (cf. chart 4).[5]
    - Third, loan-to-income ratios for new mortgages continue to point to elevated affordability risks (cf. chart 5).[6]
- The vulnerabilities imply an elevated risk of correction in the Swiss mortgage and residential real estate markets. Moreover, recent declines in interest rates mean that growth rates in these markets could increase again. As a result, it is essential to ensure that the banking sector is sufficiently resilient.
- Given the confined nature of the vulnerabilities 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.

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[3] Banks were required to meet the CCyB requirements by 30 September 2022, cf. Federal Council press release of 26 January 2022 (www.admin.ch/gov/en/start/documentation/media-releases.msg-id-86922.html).

[4] Cf. Swiss National Bank, Financial Stability Report 2024, p. 16.

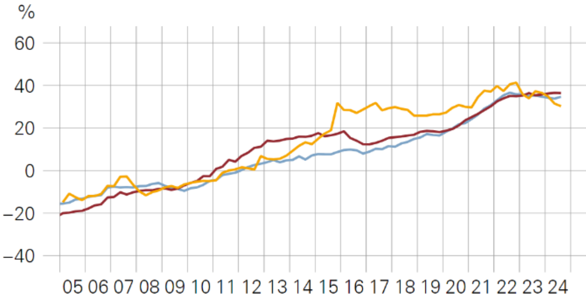
[5] The credit-to-GDP gap is computed according to the Basel Committee on Banking Supervision (BCBS) guidelines, with domestic bank credit.

[6] Cf. SNB, Financial Stability Report 2024, pp. 18 and 36.

- 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



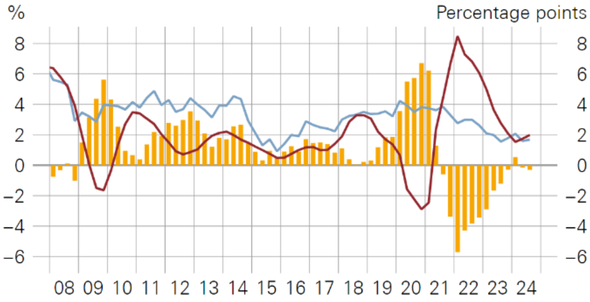
Single-family houses — Apartments — Residential investment properties

1 Transaction prices and existing rents.

Source(s): SFSO, Wüest Partner

CREDIT AND GDP GROWTH

Annual growth rates (nominal) — Chart 2



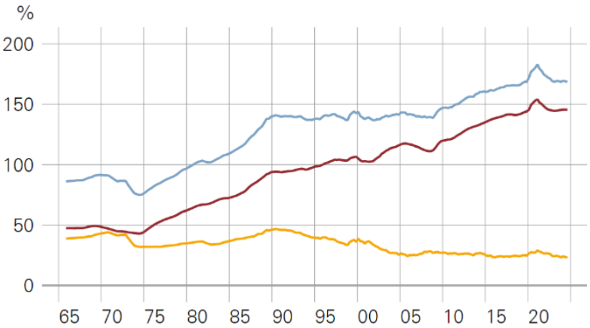
Credit — GDP[1] — Difference in growth rates (rhs)

1 Annual GDP

Source(s): SECO, SFSO, SNB

CREDIT AGGREGATES-TO-GDP RATIO

Domestic bank credit — Chart 3

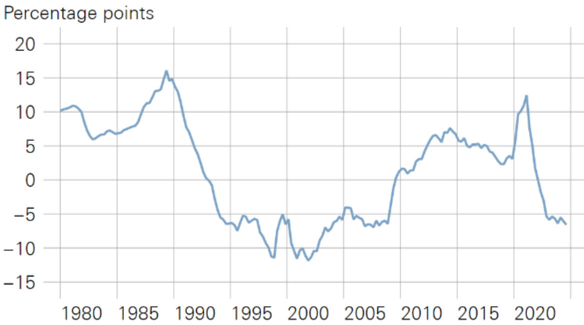


Credit-to-GDP ratio — Mortgages-to-GDP ratio — Other credit-to-GDP ratio

Source(s): SECO, SFSO, SNB

CREDIT-TO-GDP GAP

Domestic bank credit — Chart 4



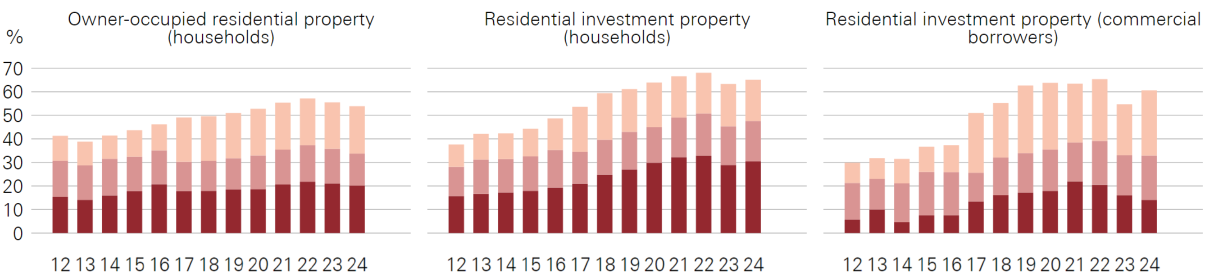
Credit-to-GDP gap[1]

1 Computed according to the BCBS guidelines.

Source(s): SECO, SFSO, 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



Imputed interest rate < 3% — 3% ≤ Imputed interest rate < 4% — 4% ≤ Imputed interest rate < 5%

1 From 2017 on, data from the revised 'Survey on new mortgages' is shown. For 2024, data up to Q3 is included.
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 shaded area shows the additional proportion for an imputed interest rate of between 3% and 4%. The pale red shaded area shows the additional proportion for an imputed interest rate of between 4% and 5%. For details on the calculation, cf. Financial Stability Report 2019, p. 21.

Source(s): SNB