Credit – Is the sky the limit?

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Dynamic Swiss real estate markets

Swiss real estate price indices

asking prices (Q1/2000 = 100)

- single-family houses
- owner-occupied apartments

Sources: SNB, W&P
Substantial increase in credit-to-GDP ratio driven by persistent strong credit growth

Source: SNB
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Credit-to-GDP: international comparison

Source: Worldbank
Long-term development of credit-to-GDP in Switzerland

Source: SNB
Current trend in credit-to-GDP: a structural shift or a cyclical upswing?
How to explain increasing credit-to-GDP ratios in general?

- Improved credit access due to structural reduction of supply side constraints (financial liberalization, innovation)
- Structural increase in credit demand (e.g. growth opportunities, cultural changes or demographic shift)
- Extended period of low interest rate
- Overconfidence and misjudgement of borrowers and/or lenders (behavioural biases)
Swiss case: structural factors may rationalize high levels of credit-to-GDP
e.g. high level of household wealth in Switzerland

Switzerland: household wealth

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Source: SNB
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Cyclical factors more plausible to explain recent move extended period of low interest rates

Switzerland: Interest rates

Swiss mortgage interest rates

Source: SNB
Conclusion: the tide will turn

• Current situation in Switzerland: rather a cyclical than a structural increase in credit-to-GDP
• Eventually, the tide is likely to turn with credit volumes significantly undershooting nominal GDP growth
• Key question: is a smooth reversal possible?
Conclusion: fasten your seat belts!

• Prolonged period of strong growth in credit and in real estate prices indicative of financial fragility
• Prudence is key: Adoption of countercyclical capital buffer and other prudential measures to be seen in this context