

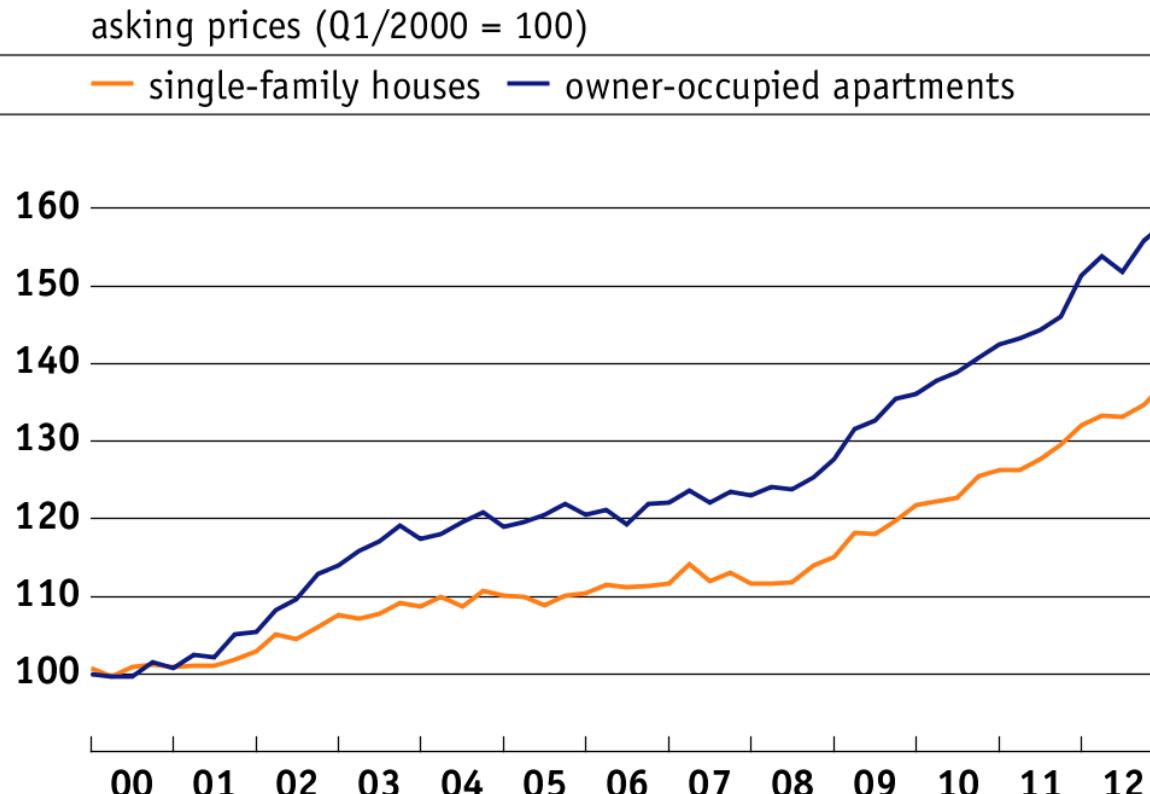
Credit – Is the sky the limit?

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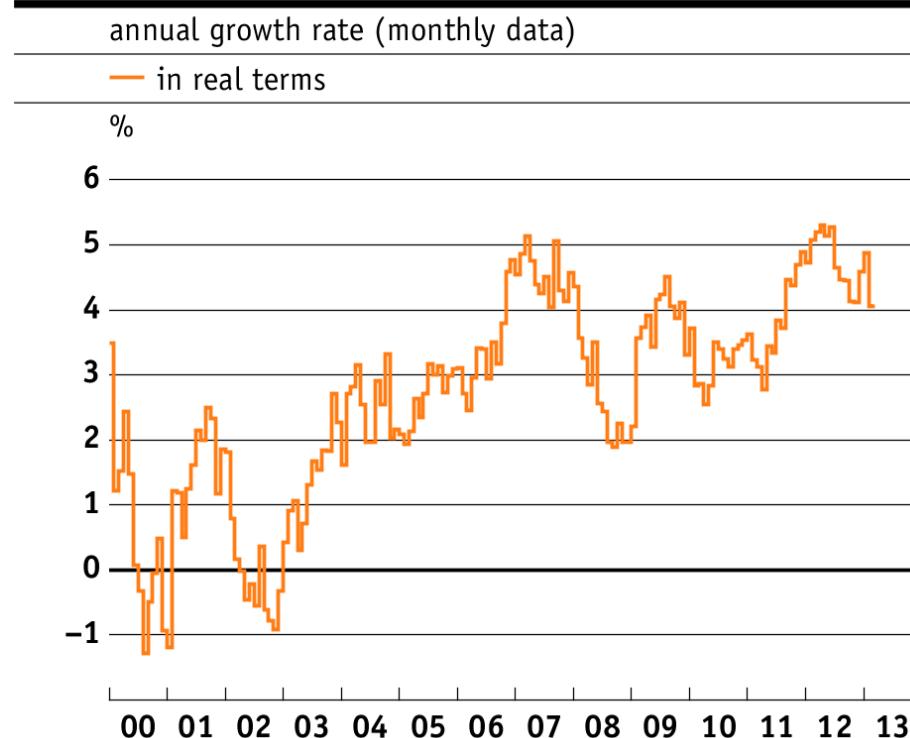
Dynamic Swiss real estate markets

Swiss real estate price indices

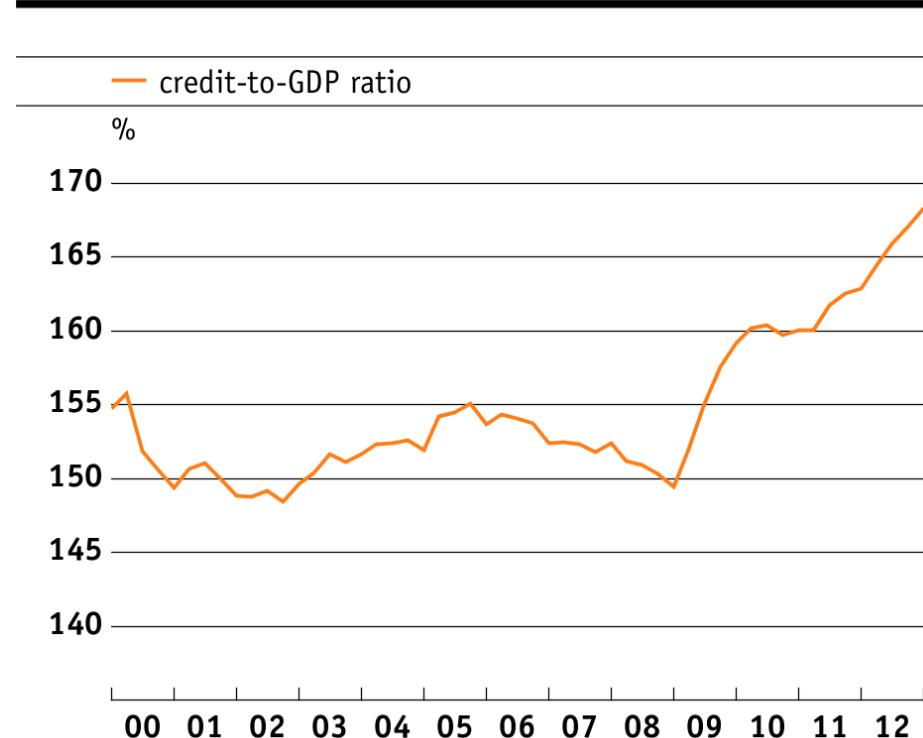


Substantial increase in credit-to-GDP ratio driven by persistent strong credit growth

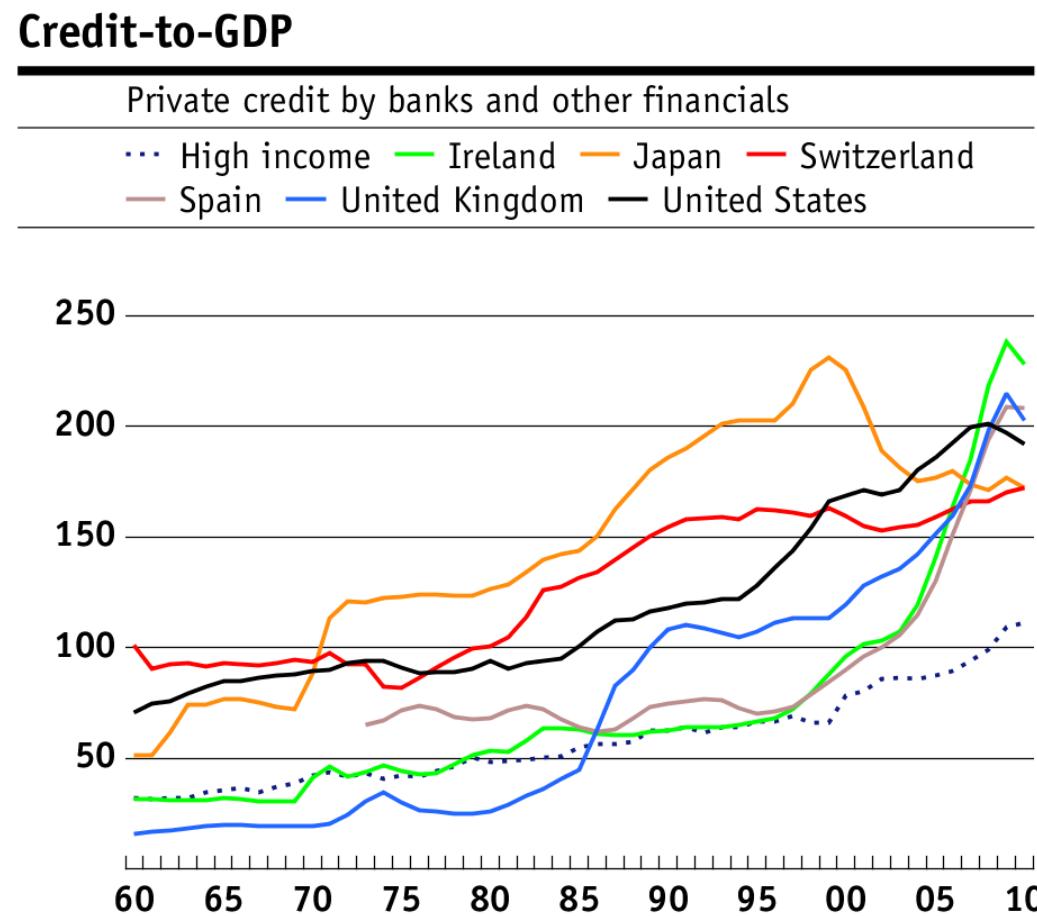
Domestic credit in Switzerland: growth rates



Domestic credit in Switzerland: levels



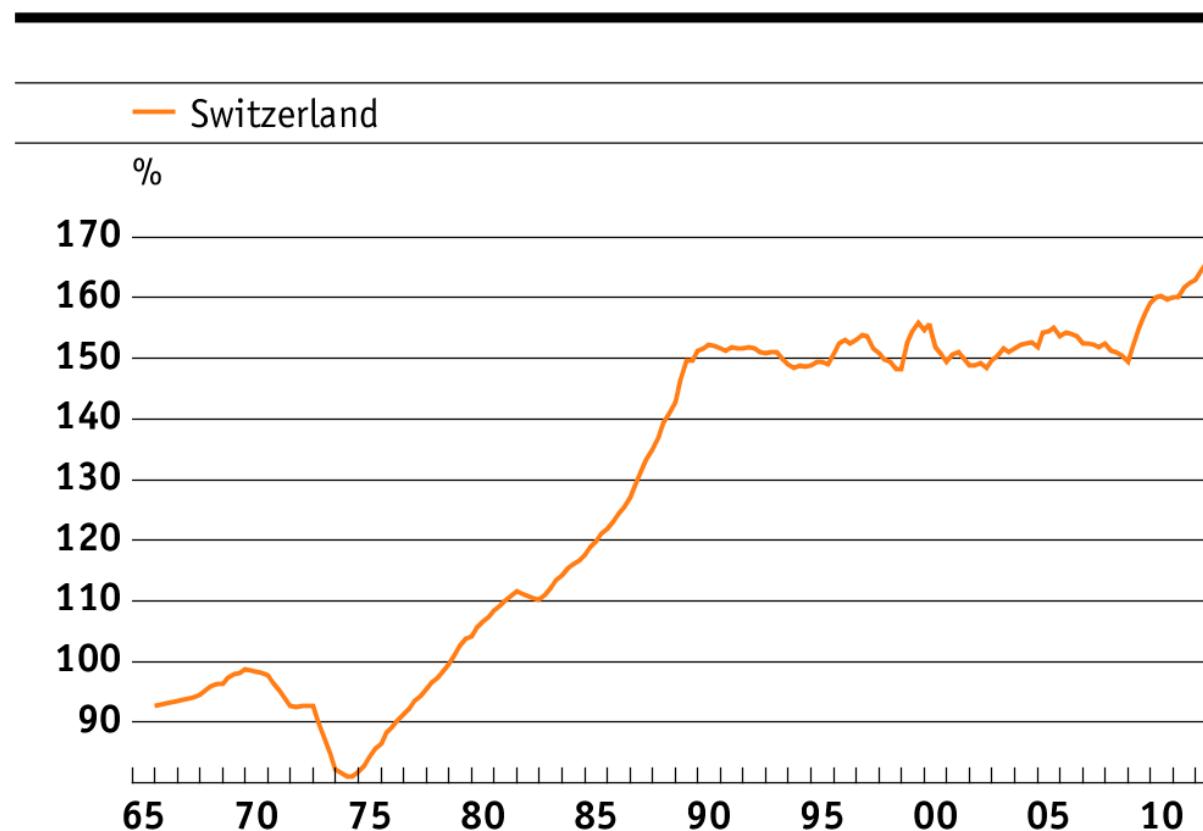
Credit-to-GDP: international comparison



Source: Worldbank

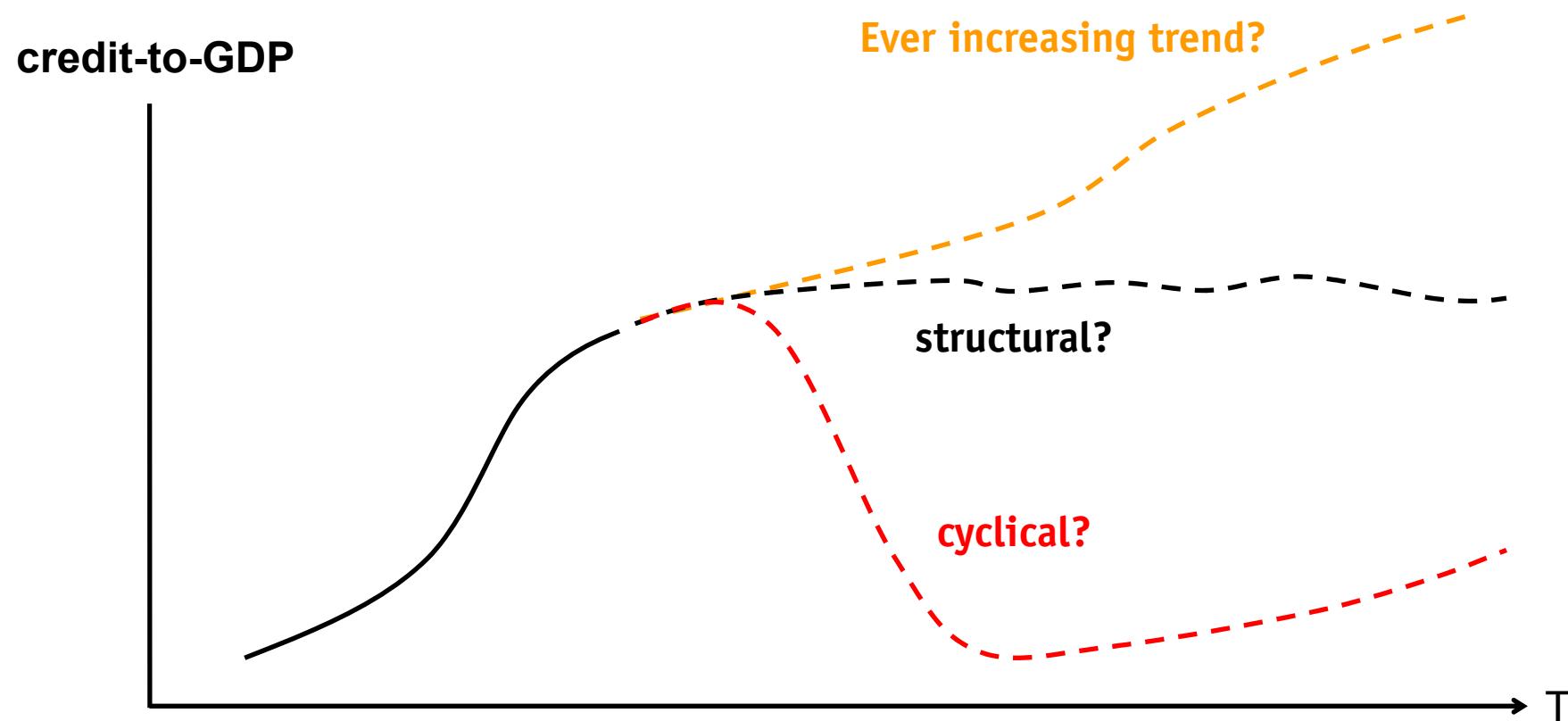
Long-term development of credit-to-GDP in Switzerland

Domestic credit-to-GDP



Source: SNB

Current trend in credit-to-GDP: a structural shift or a cyclical upswing?



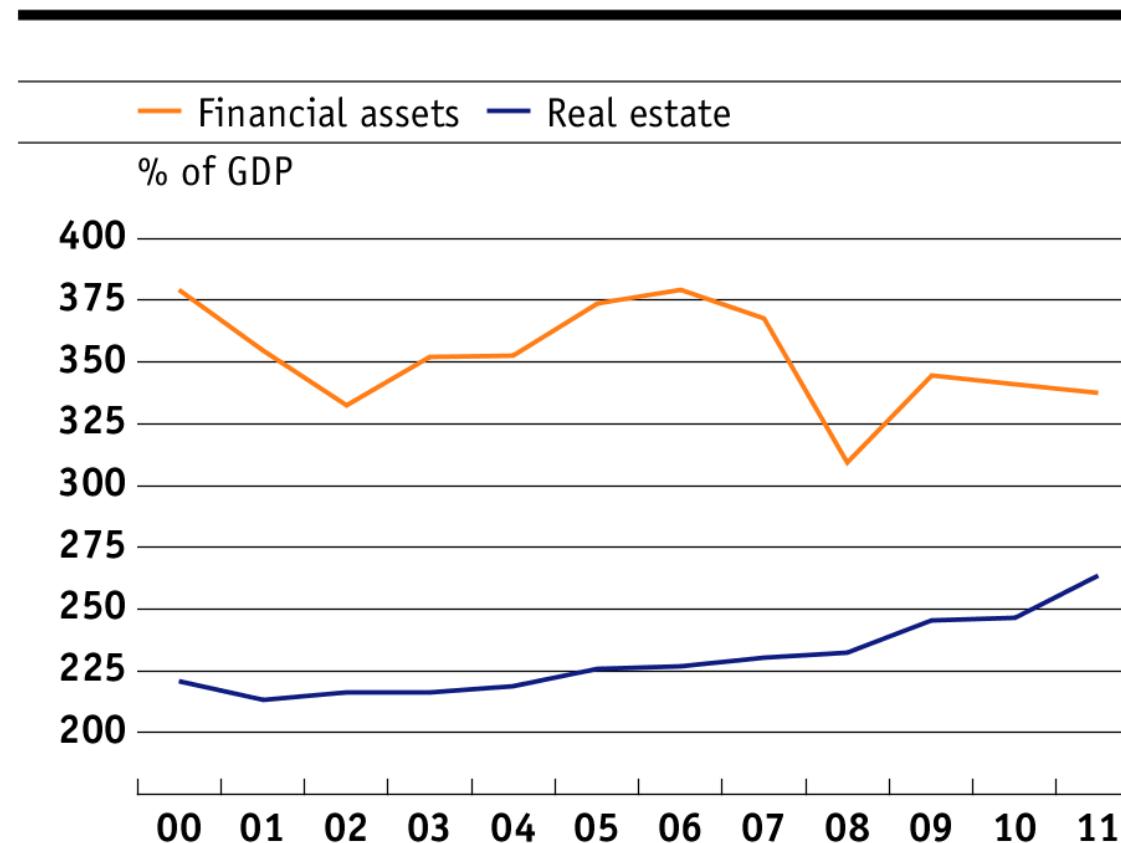
How to explain increasing credit-to-GDP ratios in general?

- 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



Source: SNB

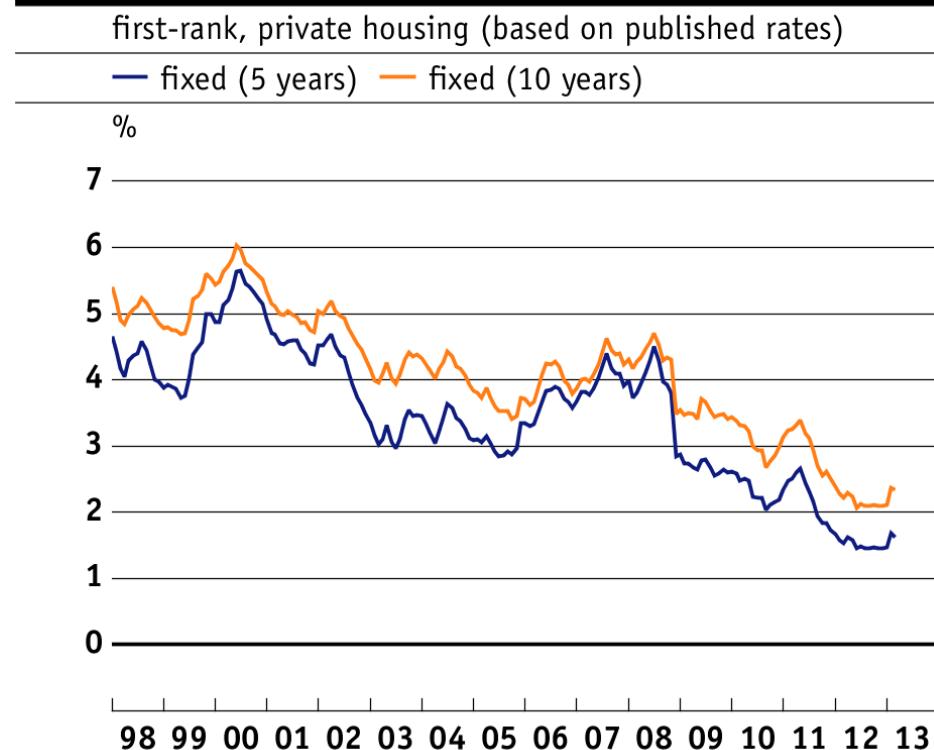
Cyclical factors more plausible to explain recent move

extended period of low interest rates

Switzerland: Interest rates



Swiss mortgage interest rates



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