

Swiss Federal Government deactivates compulsory countercyclical capital buffer

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Asset Class Commercial Real Estate

Jurisdiction Switzerland

Confirmations Change in Law

Overview

On 27th March 2020, the Swiss Federal Government approved the proposal of the Swiss National Bank to deactivate the countercyclical capital buffer with immediate effect.

This measure gives banks more flexibility in granting loans designed to cushion the economic impact of COVID-19.

Background

The countercyclical capital buffer was introduced in 2013 and increased in 2014. It strengthens the banking sector in the event of imbalances in the mortgage and real estate markets and helps to prevent these markets from overheating.

Complying with the countercyclical capital buffer is mandatory and requires banks to hold additional capital for residential mortgage loans. In view of the exceptional circumstances caused by the coronavirus pandemic, the Swiss National Bank proposed the immediate deactivation of the countercyclical capital buffer, which was approved by the Swiss Federal Government.

The deactivation is possible because the threat of recession is likely to reduce overheating in the Swiss mortgage and real estate markets. The measure is one of several measures implemented to reduce the economic impact of the coronavirus pandemic.

Consequences

The deactivation of the countercyclical capital buffer gives banks more flexibility in their lending activities, allowing them to better satisfy the liquidity needs of households and businesses.

Despite the deactivation, banks will remain obliged to comply with the Swiss Bankers Association's guidelines on mortgage lending and with the recently adjusted guidelines on residential investment properties.

[Index of contributors](#)

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