

Swiss Federal Government reactivates compulsory countercyclical capital buffer

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Asset Class Commercial Real Estate

Jurisdiction Switzerland

Confirmations Change in Law

Overview

On 26th January 2022, the Swiss Federal Government approved the request of the Swiss National Bank to reactivate the countercyclical capital buffer as of 30 September 2022.

Background

The countercyclical capital buffer is a tool to make the Swiss economy more resistant to crises in the mortgage and real estate markets. For this purpose, the Swiss National Bank may request the Swiss Federal Government to require banks to hold a capital buffer of up to 2.5 % of their Swiss risk-weighted assets.

The countercyclical capital buffer was originally introduced in 2013 at the level of 1% and increased in 2014 to the level of 2%. It was deactivated at the start of the COVID-19 crisis in March 2020. The deactivation made banks more flexible in their lending activities and allowed them to better satisfy the liquidity needs of households and businesses.

Since the deactivation of the countercyclical capital buffer, the Swiss National Bank observed an increase of both the volume of mortgage credits and the prices for residential real estate. The extent of the increase cannot be explained by fundamentals such as rents and incomes. Accordingly, the risk of an abrupt change on the mortgage and real estate markets has increased as well. Also, the economic situation has improved and the uncertainty about companies' access to credit has decreased since the start of the COVID-19 crisis.

Against this background, the Swiss National Bank requested to the Swiss Federal Government to reactivate the countercyclical capital buffer in order to generate a safety cushion for the event of an abrupt market turnaround for example triggered by an unexpectedly sharp rise in interest rates.

Because the real estate and mortgage markets are showing signs of overheating for residential properties and because various factors point towards such properties being overvalued, the capital buffer shall be reactivated at the level of 2.5%. This is 0.5% higher than at the time of deactivation in March 2020 and corresponds to the legally possible maximum.

On 26th January 2022, the Swiss Federal Government approved the Swiss National Bank's request.

Consequences

As of 30 September 2022, banks will be required to hold additional own funds of 2.5% of those risk-weighted positions that are directly or indirectly secured by a domestic residential real estate mortgage. The Federal Council and the Swiss National Bank are thus exploiting the full legal scope of the countercyclical capital buffer.

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