

Thomas Jordan: Real estate prices falling in the US, rising in Switzerland – implications for the SNB’s monetary policy

Summary of a speech by Mr Thomas Jordan, Member of the Governing Board of the Swiss National Bank, at the Hochschule für Technik und Wirtschaft, Chur, 18 December 2007.

The complete speech can be found in German on the Swiss National Bank’s website (www.snb.ch).

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Developments in the real estate market are important for monetary policy. Real estate markets can influence inflation and economic cycles, but also the stability of the financial system. Property bubbles can result in a massive misdirection of capital and thus give rise to lengthy and difficult adjustment processes. Therefore, the SNB closely monitors developments on the real estate markets both in Switzerland and abroad.

The economic outlook is still clouded by undesirable developments on the US real estate market, notably in the period 2004-2006. Given the size of the United States and the broad international spread of investments in the US mortgage market, these distortions have had a serious impact on the world’s financial markets and on global economic development.

For some years now, Switzerland too has been experiencing a construction boom and a relatively sharp rise in property prices in certain regions and in given market segments. Comparison of the Swiss and US real estate markets shows, however, that these markets differ in a number of key respects. In particular, stricter discipline is observed in Switzerland in terms of compliance with credit conditions, and price swings have been considerably less extreme. Moreover, there is no evidence to date of any upsurge in speculative trends on the Swiss property market. At present, neither a general property bubble nor any general mortgage problem could probably be said to exist.

Although the banks have largely drawn the correct conclusions from the real estate crisis of the 1990s with regard to lending in Switzerland, it is still essential – given the losses on the US real estate market – to carefully assess risks when granting loans (including mortgages) in Switzerland too.