

Jean-Pierre Roth: Real estate crisis in the United States – similar risks in Switzerland?

Summary of a speech by Mr Jean-Pierre Roth, Chairman of the Governing Board of the Swiss National Bank and Chairman of the Board of Directors of the Bank for International Settlements, at the Banque Cantonale Vaudoise, Lausanne, 9 June 2008.

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

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In the past few months, developments in the mortgage and real estate markets have attracted increasing attention. Europe, and Switzerland in particular, have been indirectly affected as a result of commercial bank activities in US mortgage markets. Over the past few quarters, the European real estate market has also been affected, with a number of countries experiencing a downturn in prices similar to that in the United States. By contrast, other countries, such as Switzerland, have seen real estate prices rising at a steady pace.

In some respects, what the United States went through is a classical property crisis of the type that Switzerland experienced in the early 1990s. However, the US real estate crisis spilled over to encompass the international financial markets, endangering their stability and prompting the intervention of several central banks. These events confirm the importance of sound real estate market developments for the economy.

It is important to recognise that the Swiss mortgage and real estate markets are very different from their US counterparts. Developments in the Swiss housing market have been relatively steady, despite the strong demand pressures discernible in certain regions. At present we do not detect any obvious signs of a speculative bubble that might culminate in a sudden fall in prices. The main explanations for the rise in real estate prices in the past few years have been higher expectations and good financing conditions. Around Lake Geneva the pressures on the limited available space and the fast growth in the residential population have acted as special stimulants. Thus there have been no speculative developments as witnessed at the end of the 1980s. Now that the business cycle has peaked in Switzerland, it is very likely that we will move into a phase of more moderate price increases.