There is a close interrelationship between real estate, mortgages and monetary policy. On the one hand, monetary policy impacts on the real estate and mortgage market. When the central bank reduces interest rates, this eases the burden on household and company budgets and fosters the demand for real estate. On the other hand, monetary policy also takes account of developments on the real estate market because these can affect economic growth, inflation and financial stability.

Once again, the current financial crisis has thrown these interrelationships into sharp relief. Problems in a number of mortgage and real estate markets – in particular in the US and the UK – triggered the financial crisis and plunged the global financial system into a systemic crisis. This impacted on Switzerland’s financial stability and made it necessary to create the StabilisationFund for the transfer of illiquid UBS assets.

The Swiss real estate and mortgage market played a positive role in various measures adopted by the SNB to handle the financial crisis. Swiss mortgages played a role in securing Swiss financial stability in the Limmat Pfandbrief transactions, whereby big banks improved their refinancing situation by issuing covered bonds. Consequently, Switzerland – unlike other countries – was able to avoid introducing state-guaranteed bonds. With the drastic reduction in key rates and the subsequent decline in mortgage rates, the burden on households and companies was eased. In this way, the severity of the recession was somewhat alleviated and the risks of deflation reduced.

However, the interest rate is now at a historic low and this means medium-term risks for the Swiss real estate market and financial stability. Experience shows that periods of low interest rates provide scope for excesses on the mortgage and real estate market. Consequently, in the current environment in particular, attention should be given to ensuring that past mistakes are not repeated. Caution must remain the watchword when granting loans.