Introduction

We empirically analyze the activation of the countercyclical capital buffer (CCyB), a post-crisis macroprudential measure. Since proposed by the Swiss National Bank (SNB) sectoral implementation of the CCyB applies to residential mortgages only, we investigate whether increased bank capital requirements could help to slow down the house price growth.

CCyB in Switzerland

- Globally first activation of the CCyB: motivated by the imbalances in the real estate and mortgage markets.
- Only example of a sectoral CCyB.
- Activation: February 2013. Extra CET1 capital worth 1% of bank’s outstanding risk-weighted domestic residential mortgages.
- Subsequent increase: January 2014: 2% CET1 capital.

Hypotheses

- H1: More overheated cantons are more affected by the CCyB activation.
- H2: The CCyB activation leads to a smaller slowdown of the residential property price growth in more affected cantons.
- H3: The market for single-family houses is more affected by the CCyB activation than the one for condominiums.

Methodology

- Real estate data: Cantonal quarterly (2012Q1-2014Q4) price indexes for both condominiums and single-family houses (SFHs).
- Bank data: Banks’ official balance sheet data matched with the composition of mortgage lending supply in each canton.
- Bank-specific capital requirements based on the Swiss regulatory standards.
- -95% of the market for mortgages in Switzerland.
- Difference-in-differences framework exploiting heterogeneous treatment intensity across cantons.
- Banks more exposed to CCyB in 2012.
- Mortgage-specialized.
- Capital-constrained.
- Treated canton: above the median weighted average treatment intensity measures of banks active in the canton.
- Specification: two canton-level treatment measures and their interaction.

Results

- H1: More overheated cantons are more affected by the CCyB activation.
- H2: The CCyB activation leads to a smaller slowdown of the residential property price growth in more affected cantons.
- H3: The market for single-family houses is more affected by the CCyB activation than the one for condominiums.

Conclusion

The CCyB’s effectiveness in stabilizing asset prices crucially depends on the market’s underlying financing structure. Our results suggest that the cantons with a more overheated real estate market were less affected by the intervention. However, a higher exposure to the CCyB led to an additional reduction of the SFH price growth. Moreover, we provide evidence for the mortgage lending channel.

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