Swiss Banking Outlook 2025

Strong Foundations, New Pressures

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S&P Global Ratings

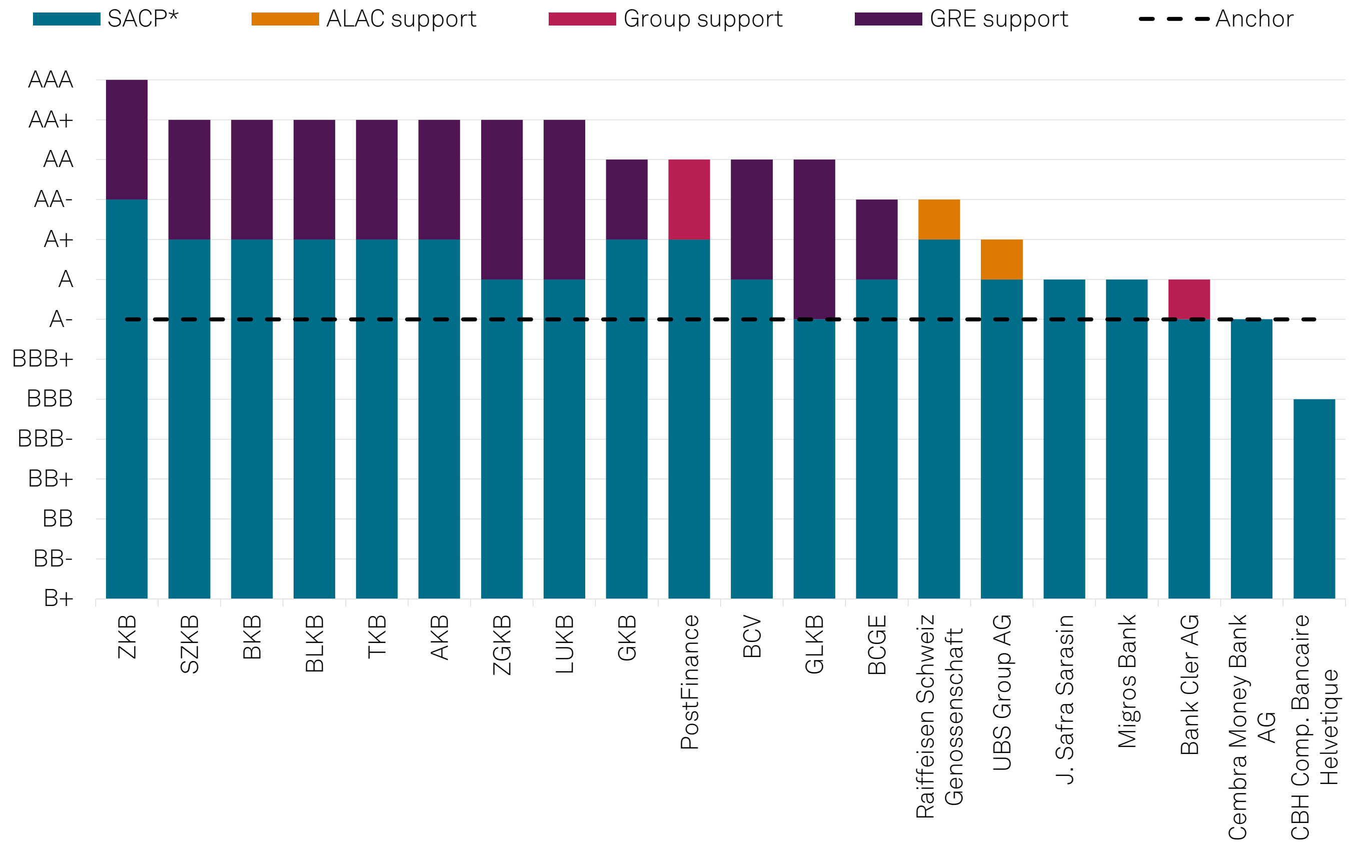
This report does not constitute a rating action

Key Takeaways

- Banks in Switzerland benefitted from record-high profits in 2024 thanks to higher interest rates, a resilient economy, and historically low credit losses.
- In 2025, we expect lower interest rate revenues and pressure on banks' cost bases.
- At the same time, we anticipate that the trend for low risk costs will persist in 2025, especially as Switzerland has the lowest economic risk score globally in our Banking Industry Country Risk Assessment (BICRA).
- In our base case, we expect Swiss banks to maintain stable and strong capital buffers above the global average, as well as sound earnings-retention capabilities.
- We expect Swiss banks to adapt to new and tighter funding conditions following the Swiss National Bank's (SNB's) policy changes, leading to higher funding costs and lower margins.
- Deliberations about changes to the country's regulatory framework will continue throughout 2025 as parliament will discuss lessons from the collapse of Credit Suisse.

Our Ratings On Swiss Banks

As high as the Alps



*Stand-alone credit profile or unsupported group credit profile for rated groups. The outlook is stable for all entities shown. Source: S&P Global Ratings.

S&P Global Ratings has taken several rating actions on Swiss banks in recent months:

- Thurgauer Kantonalbank Assigned 'AA/A-1+' Ratings; Outlook Stable, Jan. 9, 2025
- Swiss Post And PostFinance Ratings Affirmed; Outlooks Remain Stable, Dec. 18, 2024
- Outlook On UBS Holdings Revised To Stable On Decreasing Tail Risks; Ratings Affirmed, June 4, 2024

We also affirmed several cantonal bank ratings and revised liquidity assessments. See:

- Banque Cantonale Vaudoise 'AA' Rating Affirmed; Outlook Stable; Liquidity Assessment Revised To Adequate From Strong, Dec. 10, 2024
- Three Swiss Cantonal Bank Ratings Affirmed; Outlooks Stable; Liquidity Revised To Adequate From Strong, Oct. 25, 2024
- Basler Kantonalbank (BKB) And Subsidiary Bank Cler Ratings Affirmed; BKB Liquidity Revised To Adequate From Strong, July 23, 2024

2025 Forecast | Normalization After A Year Of Record-High Profits

Worsening		Neutral		Improving

Macro-economic environment	Growth	We project growth of 1.5% in 2026 and 2026 alike. The moderate expansion reflects the still-subdued demand from Switzerland's key trading partners, especially in the eurozone.
	Inflation	We continue to expect moderate inflation rates in an international comparison, with 0.8% in 2025 and 2026. Appreciation of the Swiss franc, generally seen as undesirable, remains an important steering indicator for the SNB.
	Housing prices	We expect moderate increases, driven by structural factors such as immigration and the scarcity of suitable land. If the imputed rental value legislation were repealed, this would add demand to an already overheated market.
Banking sector	Revenues	Lower interest rates and a margin squeeze mean that we expect lower revenues compared to historically high levels in 2024.
	Expenses	While cost-to-income ratios are generally sound, investments in cyber resilience and automation will lead to cost increases above inflation rates.
	Profitability	In contrast with extraordinary profits in 2024, we expect lower but predictable and adequate returns in 2025 that allow banks to earn their cost of capital.
	Credit quality	In our base case, we do not expect a material increase in risk costs over 2025, mainly reflecting low unemployment and strong economic competitiveness, which are key to asset quality. Swiss credit losses remain at historically low levels.
	Capital	We forecast that Swiss banks will maintain extraordinary capitalization levels compared to their global peers as earnings retention remains robust.
	Funding and liquidity	Banks will increasingly need to attract customer deposits and liquidity requirements are likely to increase following regulatory scrutiny.

Note: Forecast for next 12 months. Source: S&P Global Ratings.

Key Risks And Challenges

Regulation

Following several official reports, Switzerland's regulatory landscape is set for an overhaul. We expect profound changes to governance standards, capital requirements, liquidity access, regulatory powers, and the SNB's role as lender of last resort. However, it remains to be seen how regulators will make use of their extensive toolkit.

Lower interest rates and reserve requirements

Net interest margins are being squeezed as continuous cuts have brought rates almost to zero. In addition, the SNB has increased minimum reserve requirements and reduced central bank deposit remuneration in an attempt to revive interbank markets.

Cyber security and artificial intelligence

Emerging standards on cyber risks and the use of artificial intelligence, as well as several IT incidents in the country, will prompt banks to ramp up IT spending. As interest rates fall, this will put pressure on banks' cost-to-income ratios.

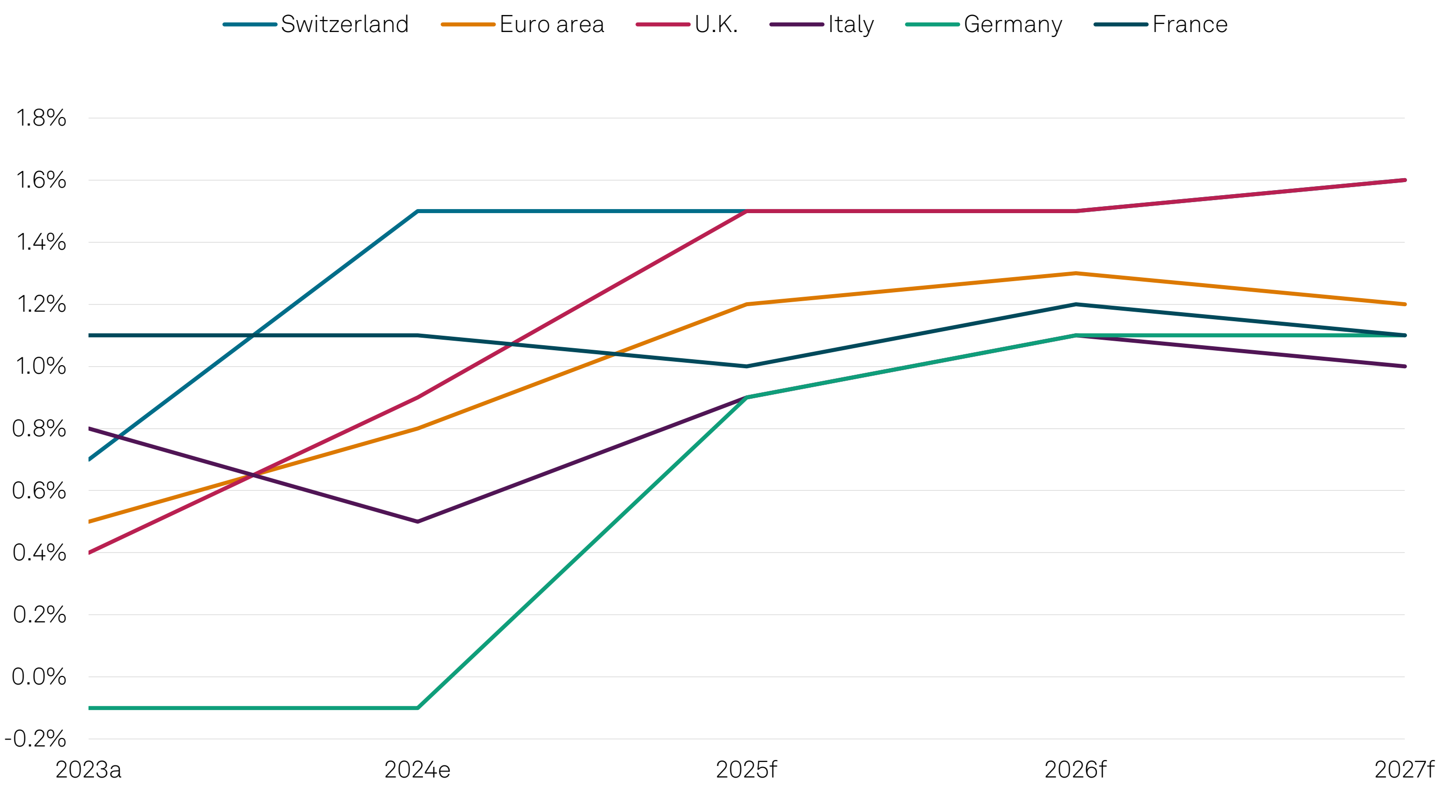
Consolidation and new entrants

Swiss corporate clients continue to diversify their banking relationships following the merger of Credit Suisse and UBS, opening up the market to foreign banks. Unlike in the past, new fintech entrants could start to gain meaningful market share as Credit Suisse's branches and online banking tools will no longer be available.

The Swiss Economy Shows Extraordinary Resilience In Times Of Uncertainty

Switzerland’s expected real GDP growth continues to outpace that of peers

S&P Global Ratings' real GDP growth forecast

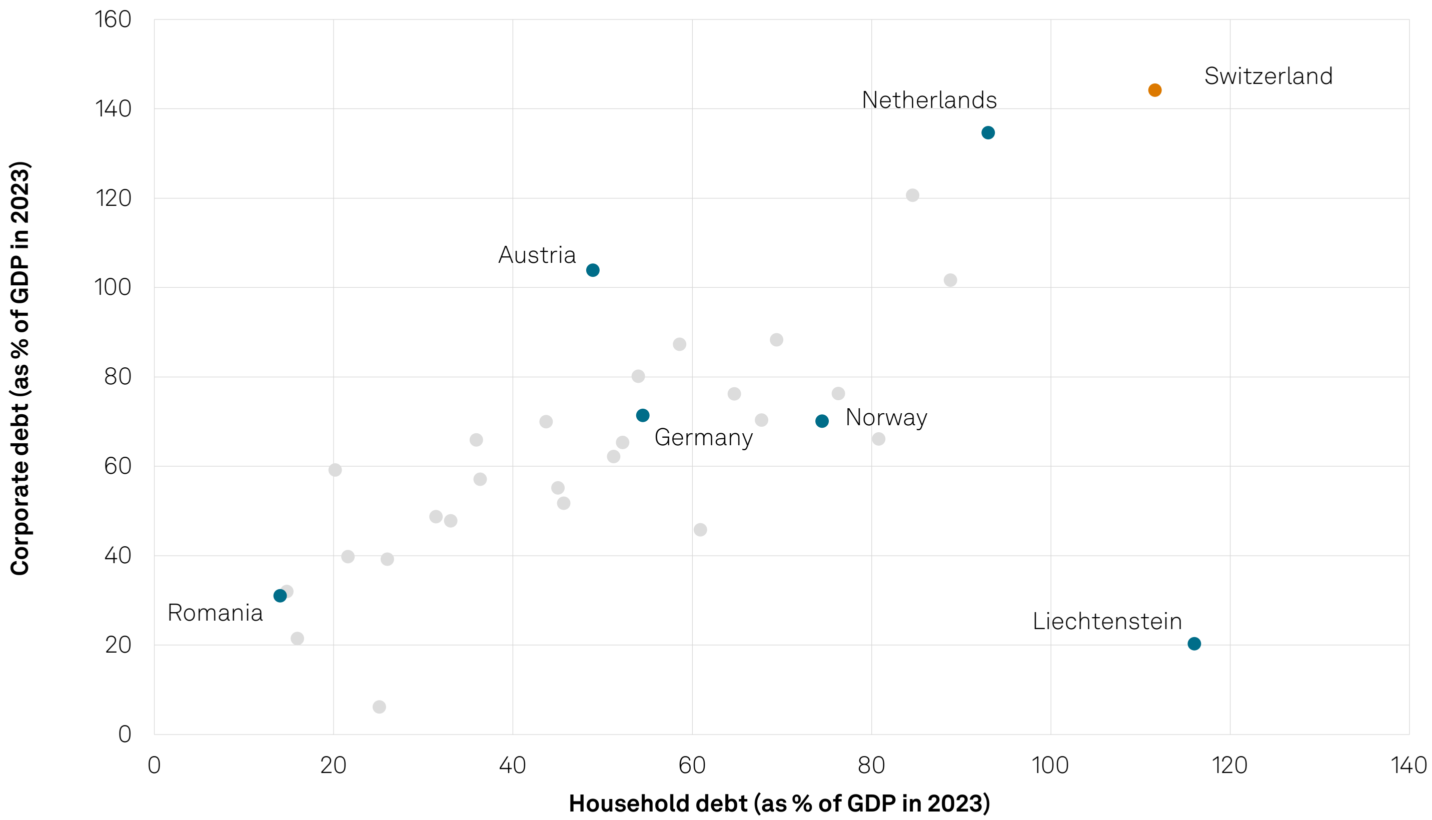


a--Actual. e--Estimate. f--Forecast. Source: S&P Global Ratings.

- We continue to view the Swiss economy as remarkably resilient. Spillover effects from adverse external events have left fewer traces on the Swiss economy than on peer economies.
- Sluggish demand from the eurozone, including Germany, has weighed on Swiss economic growth. We expect trade to underpin growth from 2025, with more supportive monetary conditions and recovering global demand.
- The Swiss economy maintains its high competitiveness and continues to benefit from global demand for its highly specialized products, for example, those from its prominent life sciences sector.

Extraordinarily High Debt Levels Are Set To Decline

Switzerland has the highest level of private-sector debt among peers



Source: S&P Global Ratings.

- Driven by tax incentives that are likely to be repealed this year, Swiss households still exhibit some of the highest debt levels globally. At the same time, extraordinary wealth levels provide a sufficient cushion, in our view.
- Corporate debt levels reflect the large number of international companies and commodity traders relative to the size of the country's population.
- With decreasing tax incentives, Swiss banks' stock of mortgages could fall after the repeal and banks will lose out on interest revenues. Increasing demand for mortgages thereafter could compensate for the initial cutback.

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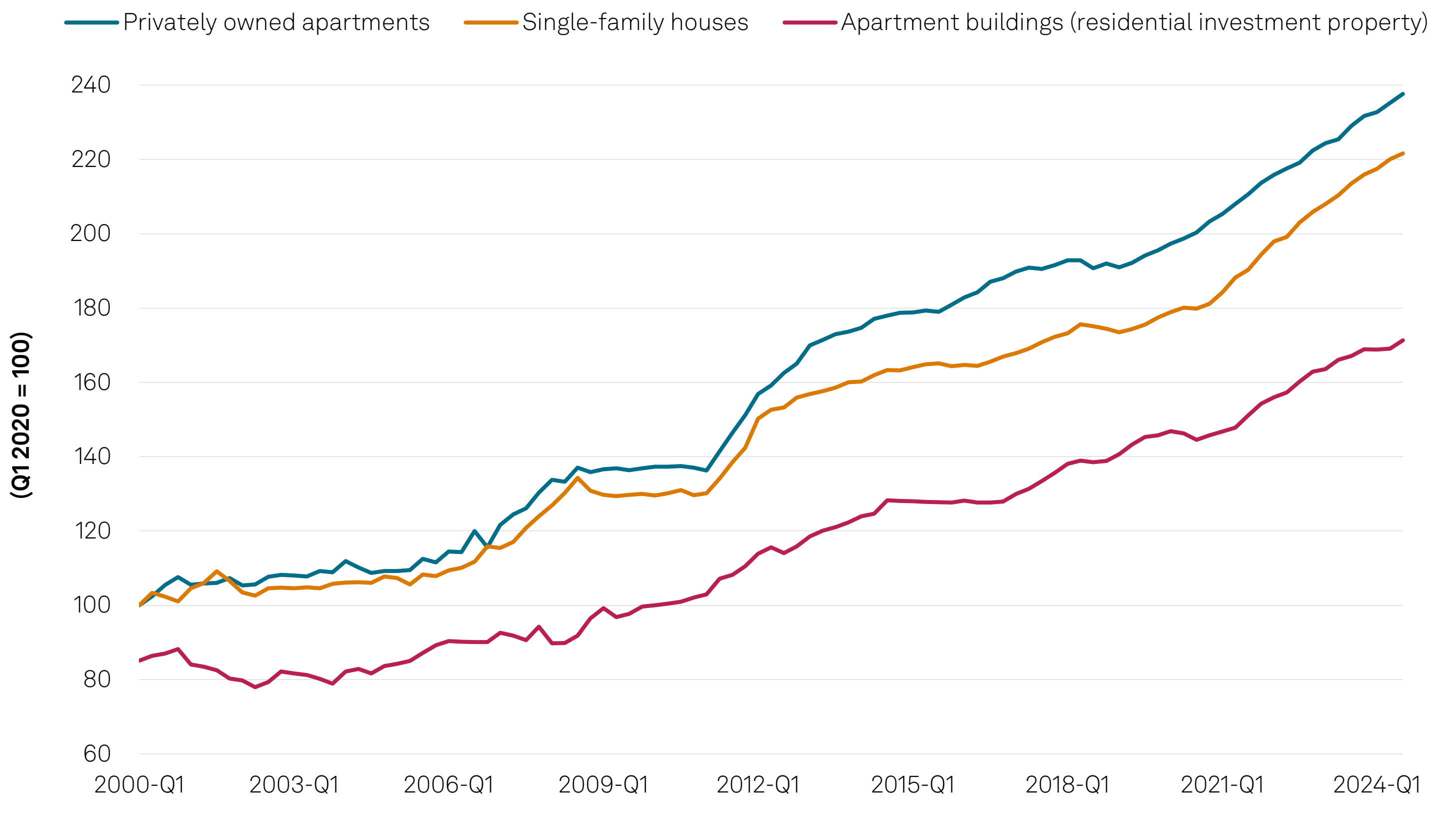
Housing Prices Are Growing With No End In Sight

Structural factors support continued price buoyancy



Source: SNB, IAZI, S&P Global Ratings.

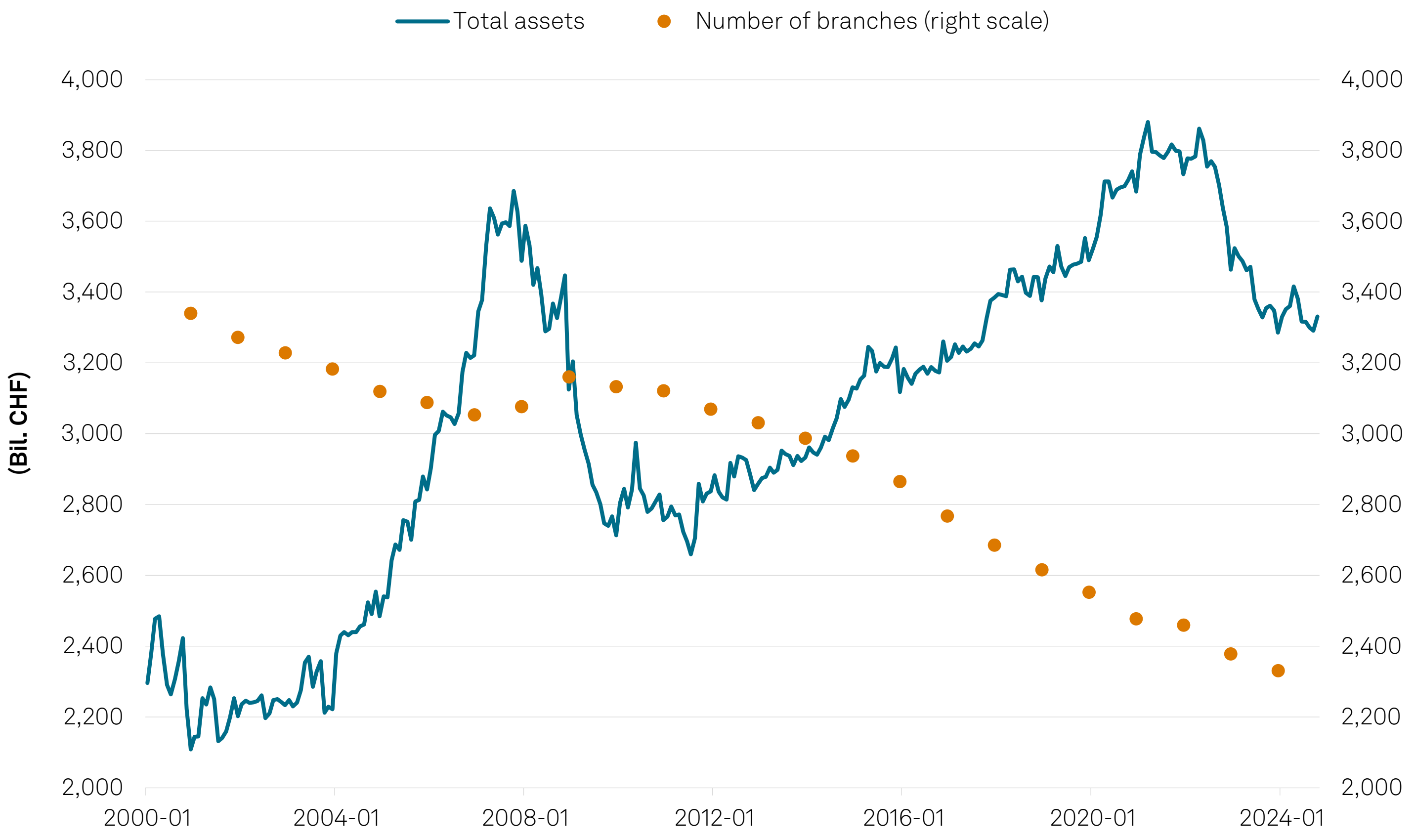
- Home-ownership rates in Switzerland are among the lowest in Europe, at around 35%. Demand continues to reflect substantial migration from foreign countries to urban areas of Switzerland.
- The proposed repeal of the imputed rental value legislation would lower taxes for homeowners and spur demand as house ownership would become cheaper.
- However, we expect supply to remain restricted by the scarcity of building and high commodity prices, further driving up real estate prices.

See S&P Global Ratings' latest research on this topic: "Switzerland Brief: Tax Changes Could Further Overheat The Real Estate Market," Jan. 13, 2025.

Downsizing Of The Swiss Banking Sector Has Decelerated

Banks' total assets are back to 2017 levels

- Following the merger of Credit Suisse and UBS, Switzerland's banking sector has contracted compared to European peers.
- We expect cantonal banks, Raiffeisen, and new entrants, such as French and German corporate lenders, to profit from clients' need for diversification.
- Higher capital requirements following the implementation of Basel III, as well as more difficult funding conditions, will likely hold lending growth back in 2025 as risk-weighted assets and leverage become increasingly restrictive.



Source: SNB, S&P Global Ratings.

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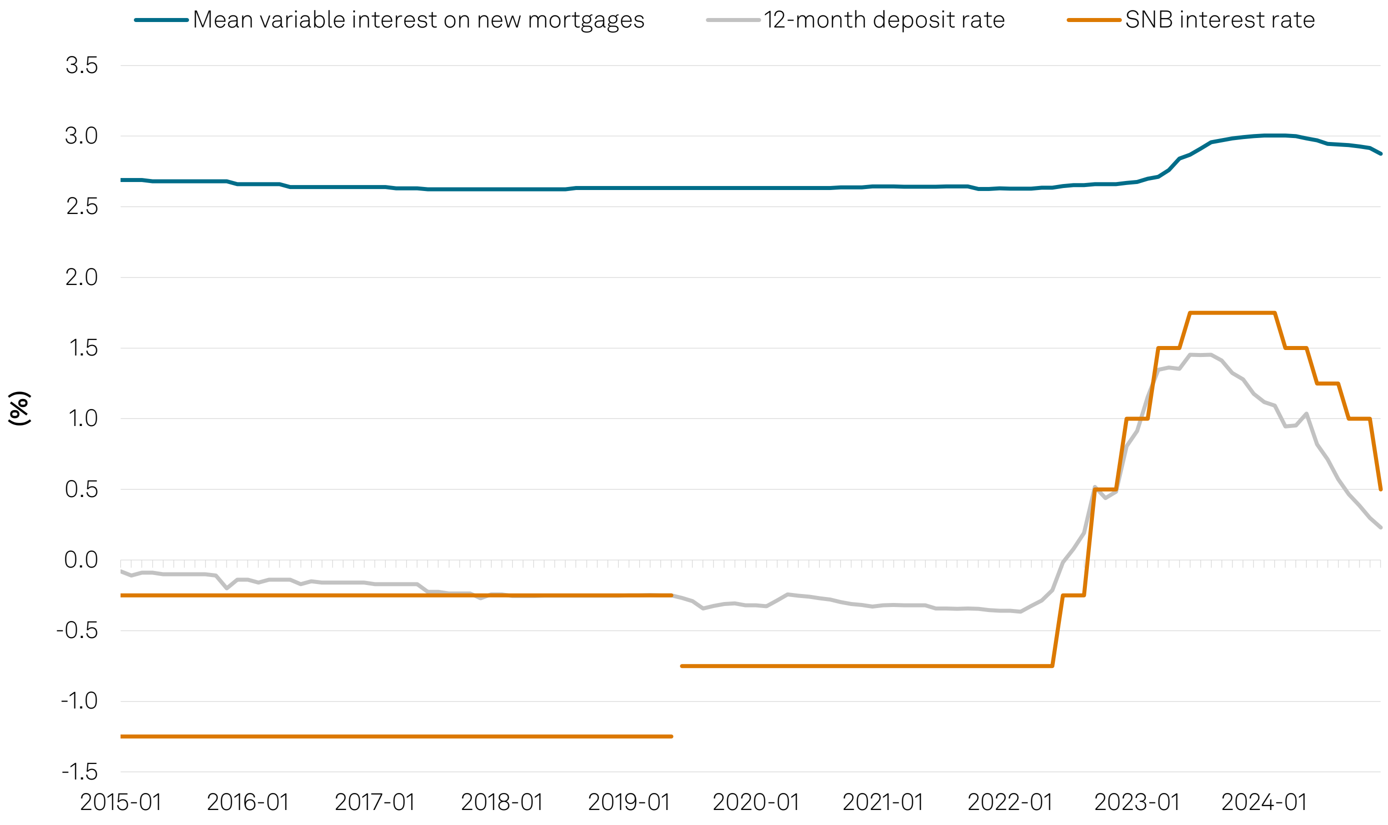
Revenue Prospects Are Deteriorating On Continued Rate Cuts

Cuts have brought interest rates closer to zero



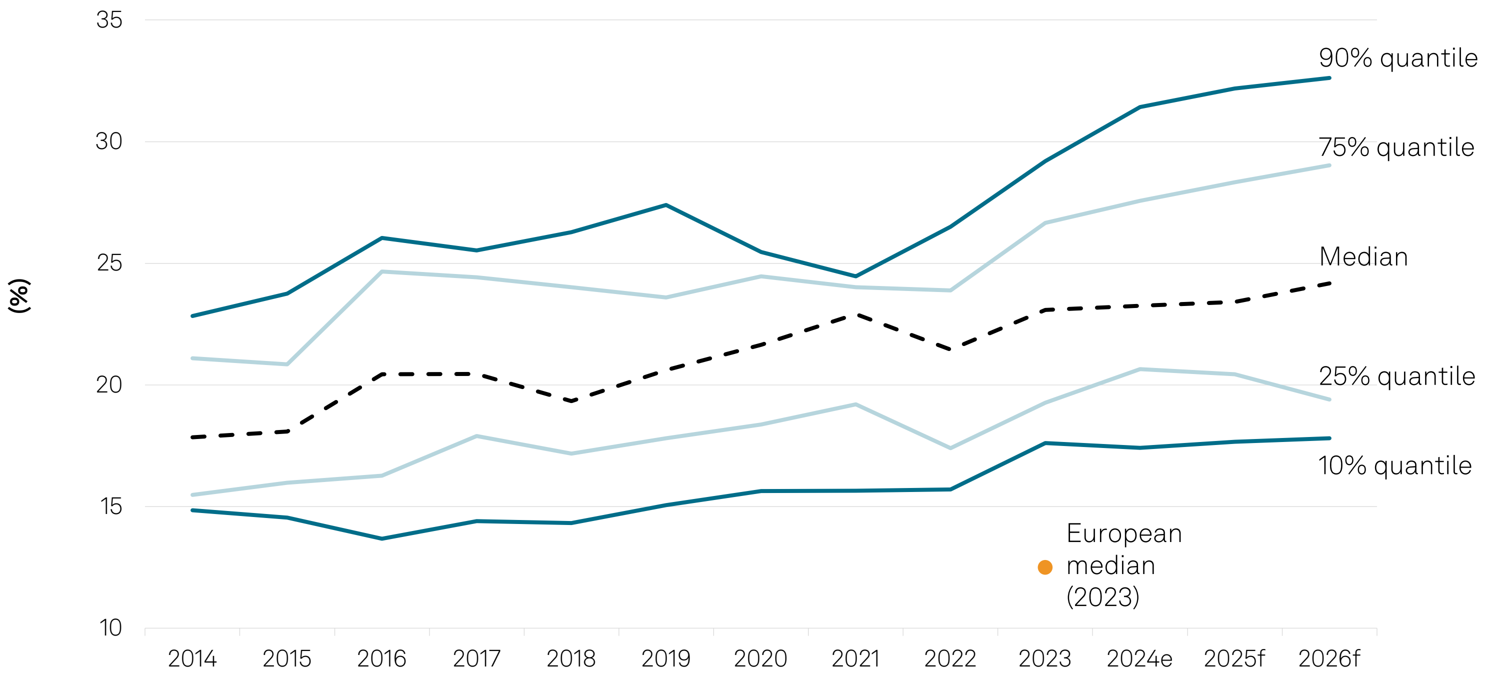
Source: SNB, S&P Global Ratings.

- Reacting to a lower inflation outlook, the SNB lowered its policy rates twice in 2024, and will lower them further to 1% by the end of 2025.
- On the back of record-high profits in 2024 and a recovery in interest rates to higher levels, we expect margin erosion to return, driven by higher funding costs and reserve requirements. The merger of UBS and Credit Suisse has not translated into higher margins, in our view.
- The SNB's continued policy rate cuts have increased the risk of a flat yield curve. This could squeeze margins and impede banks' interest rate differential.

High Capitalization Continues To Support Our Ratings

Swiss banks have the highest capitalization levels globally under S&P Global Ratings' methodology

S&P Global Ratings risk-adjusted capital ratio (%)



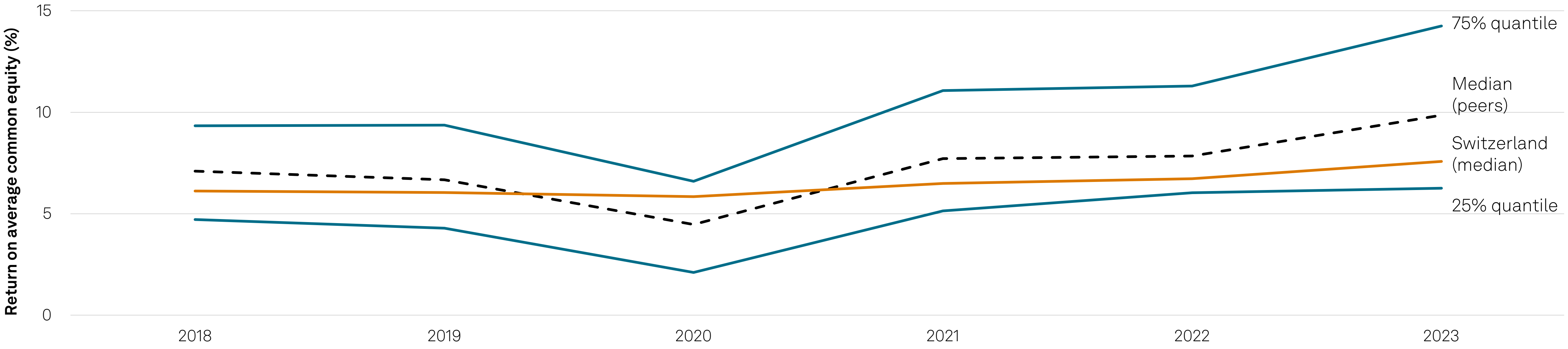
Source: S&P Global Ratings

- Given lower S&P Global Ratings risk weights and structurally higher regulatory capital buffers, most Swiss banks' capitalization is high in a global context.
- We expect supportive--often governmental--shareholders, low dividend payouts, and sound profitability to contribute to the extraordinarily high capitalization levels.
- In addition, the build-up of reserves for inherent default risk and mandatory reserves for performing loans in accordance with Swiss GAAP act as additional layers of defense, which we consider unusual in a global comparison.

Banks Maintain Sound Cost Discipline And Risk-Adjusted Returns

Interest-dependent business models will make cost containment necessary

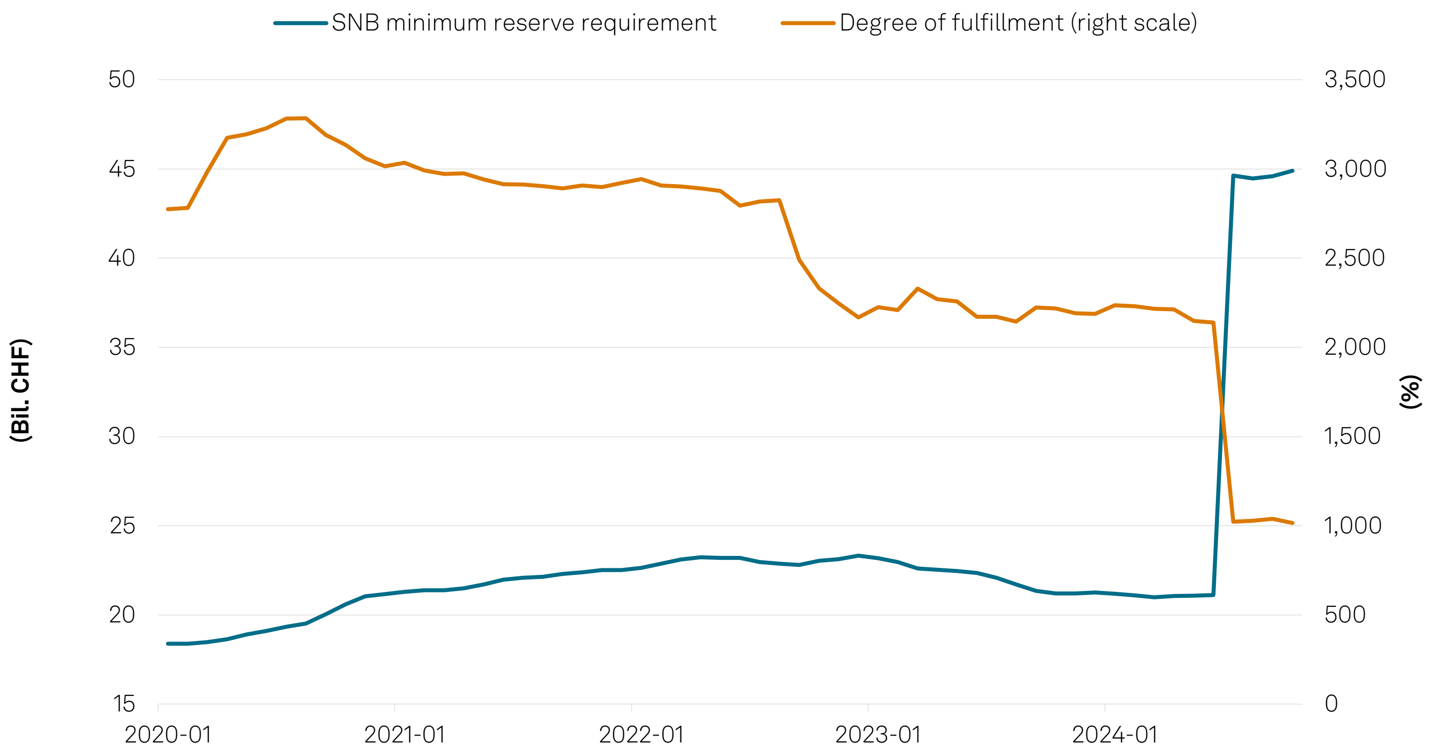
- Despite their record-high profits in 2024, Swiss banks still show a lower return on equity in a European and global comparison. This mainly reflects banks' higher capitalization and mostly conservative business models, evident from their sound risk-adjusted returns.
- As their earnings fall, we expect Swiss banks to focus on cost containment to stabilize their cost-to-income ratios. At the same time, they face a pressing need to invest in IT, cyber risk prevention, and artificial intelligence. Market fragmentation remains high, and contrary to what we see in other markets, banking cooperations, which can reduce costs, remain an exception.



FINMA--Swiss Financial Market Supervisory Authority. LCR--Liquidity coverage ratio. NSFR--Net stable funding ratio. SIB--Systemically important bank. SNB--Swiss National Bank. Source: S&P Global Ratings.

Liquidity Comes At A Price

Banks face higher liquidity and reserve requirements

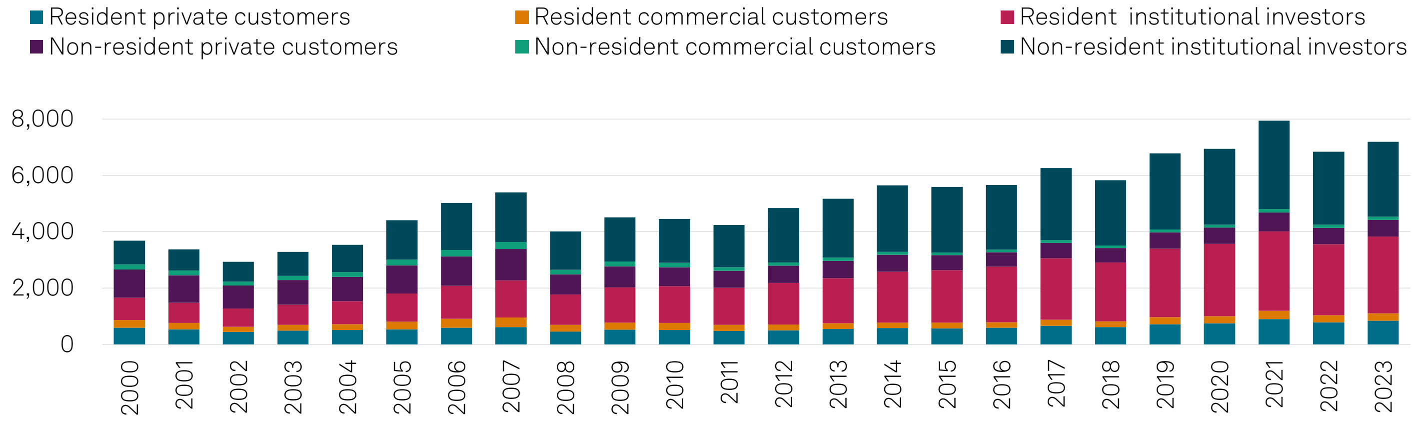


See S&P Global Ratings' latest research on this topic: "Your Three Minutes In Banking: Higher Minimum Reserve Requirements Will Dent Swiss Banks' Profits," April 26, 2024. Source: SNB, S&P Global Ratings.

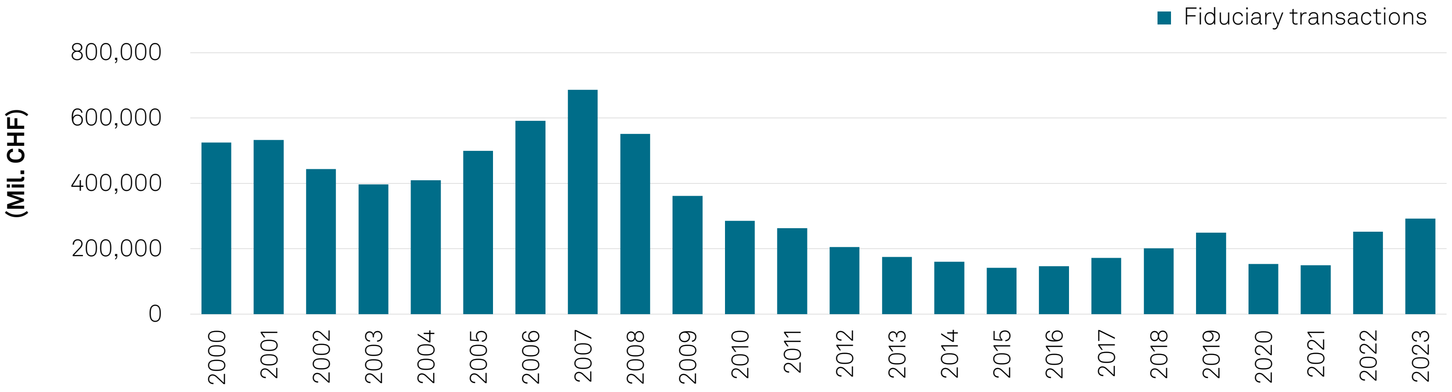
- In its attempt to revive the country's interbank market, the SNB has tightened its reserve policy and reduced its remuneration on excess reserves while lowering interest rates.
- We expect banks to adapt their funding profiles, securing deposits for longer terms. From their high point in April 2022, customer deposits at banks have fallen by about 15% compared to late 2024.
- In addition, regulators have set institution-specific surcharges and increased liquidity requirements for systemic banks after years of them having large liquidity buffers and low opportunity costs. This has prompted us to revise our liquidity scores on certain banks.

Private Banks Are In Choppy Waters As Revenue Prospects Vanish

Clients could profit from Switzerland's stability in times of uncertainty



Sources: SNB, S&P Global Ratings.



Sources: SNB, S&P Global Ratings.

- Private banks have lower revenue prospects due to lower interest rates and sluggish growth in assets under management.
- We expect merger and acquisition activity to increase due to cost pressure from increased regulatory scrutiny and the difficulty of achieving organic growth.
- However, Swissness could act as a differentating factor as geopolitical risks are on the rise, despite a shift in wealth mangement to Asia and the Middle East.

Swiss Banking Regulation Is Set For An Overhaul

- Following the report by the parliamentary inquiry commission, we expect regulatory discussions to gain pace once again. Proposed revisions to the country's too-big-to-fail framework would increase regulatory requirements for systemically important banks while strengthening the regulator's supervisory powers and giving it more crisis-management options.
- In S&P Global Ratings' view, the main effect of the proposals would be to align Swiss bank regulations more closely with those in comparable jurisdictions, such as the EU and the U.K. That said, some of the revisions would mean tighter rules than those in other banking systems.
- However, applying the proposed rules, especially to larger banks, would require a cultural change in regulation and we have yet to see how the Swiss Financial Market Supervisory Authority will apply its new powers.

The changes represent revisions to existing legislation, not a new framework

	Prevention			Supervisory powers	Crisis management	
Planned changes	Raise the required LCR and improve calculation of potential deposit outflows	Increase capital requirements for foreign operations	Introduce bank-specific capital require-ments, similar to the EU's Pillar 2 requirements	Revise the senior manager regime and the guidelines on variable compensation	Create a public liquidity backstop and enphasize SNB's role as the lender of last resort	Grant FINMA enhanced resolution powers and improve administrative cooperation
Existing regulation	LCR and NSFR minimum standards in line with Basel standards	Capital regulations match the revised Basel standards	Stress tests are broadly tailored for small or midsize banks, or for SIBs	Inspections and letters of reprimand	SNB has only its standing liquidity facilities	Resolution plans are required for SIBs and there is a depositor protection scheme

FINMA--Swiss Financial Market Supervisory Authority. LCR--Liquidity coverage ratio. NSFR--Net stable funding ratio. SIB--Systemically important bank. SNB--Swiss National Bank. Source: S&P Global Ratings.

See S&P Global Ratings' latest research on this topic:

- "Swiss Federal Council Plans To Strengthen The Country's Too-Big-To-Fail Banking Framework," May 29, 2024
- "2023 Banking Turmoil: Global Regulators Reflect And React," June 26, 2024

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