
Policy Panel 2 : Financial Crisis?

BCC 11th Annual Conference, Geneva
28 September 2023

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Structure

- I. Recent financial market stress
- II. Impact on central bank policy
- III. The way forward: Priority areas of work

Recent financial market stress: International context

Financial system tested by higher inflation and interest rates

- Global central banks raised interest rates rapidly in response to persistently high inflation. Financial conditions tightened significantly after more than a decade of ample liquidity, leading to increased capital costs for financial institutions and lower value of their financial assets.

Some financial institutions were unprepared for such changes

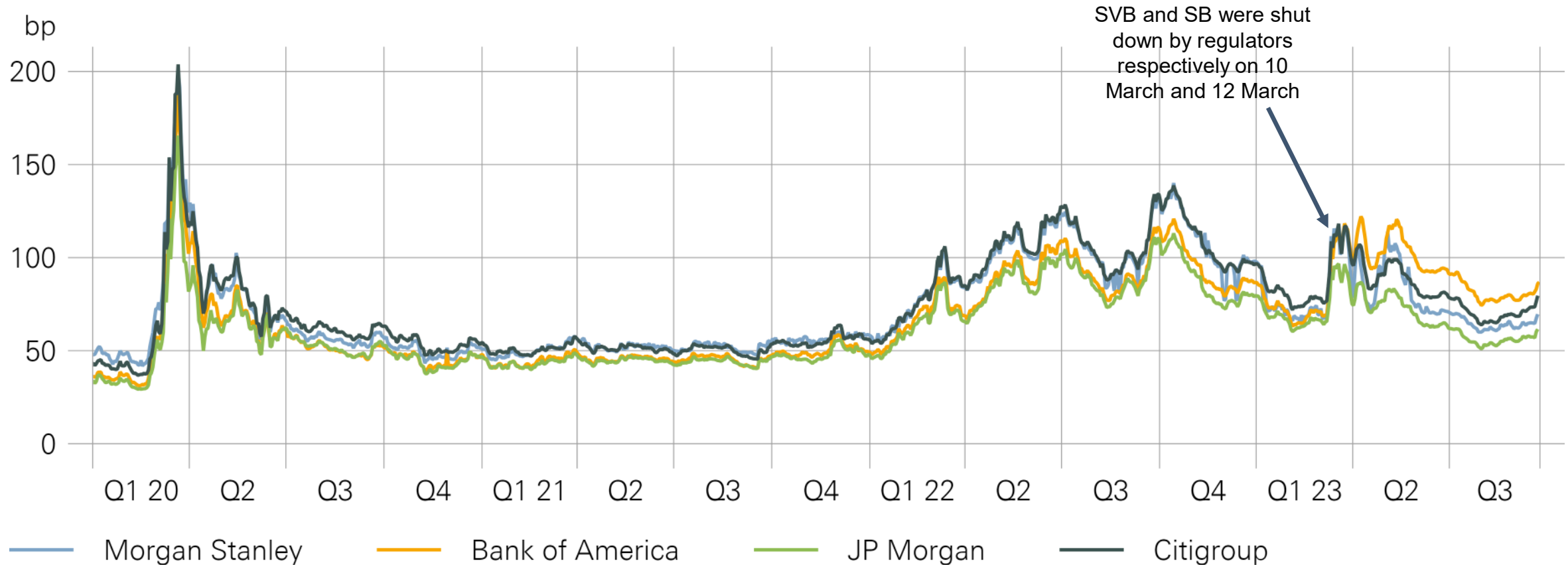
- Pockets of vulnerabilities existed, especially in US regional banks. Some of them suffered from significant deposit outflows after revealing large losses on their bond holdings.

Financial stress did not morph into a financial crisis

- Regulatory changes implemented since the GFC have made the financial system, especially large banks, more resilient.
- Forceful response of policymakers, e.g. in the US
 - The FDIC : Guarantee of uninsured deposits of two failed banks
 - The Fed : Additional liquidity through a new Bank Term Funding Program

Chart 1: US G-SIB CDS Premia 5-Year

CDS US BANKS



Quelle: Bloomberg.

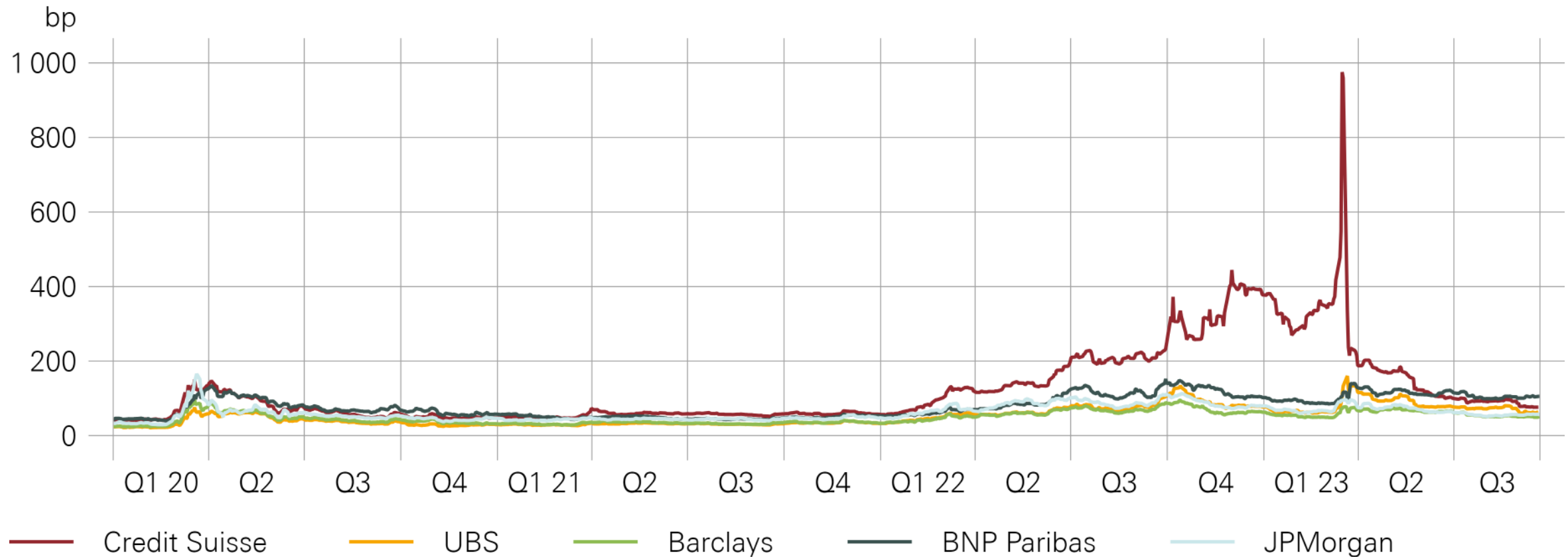
Recent financial market stress: Credit Suisse crisis

Concerns about regional banks in the US spread to Credit Suisse (CS)

- CS suffered from a general loss of confidence, by investors and depositors, caused by problems with governance, substantial losses, and a costly restructuring process.
- Vulnerabilities related to CS were idiosyncratic and did not concern the other Swiss G-SIB, UBS, or other global large banks (chart 2).
- The rapid and decisive response of the Swiss authorities stopped the stress in the financial markets from morphing into a financial crisis:
 - The Swiss government, the Financial Market Supervisory Authority (FINMA), and the SNB facilitated the acquisition of CS by UBS.
 - The SNB provided ample liquidity assistance, partly to create the necessary time window until a comprehensive solution was found.

Chart 2: Major Global Banks CDS Spreads 5-Year

CDS BANKS



Quelle: Bloomberg.

Impact on central bank policy

Central banks need to pursue **different objectives**, which at times **may appear contradictory**. These objectives need to be pursued with **different tools**.

In the Swiss case:

- To safeguard financial stability, the SNB, in its function as lender of last resort, provided ample liquidity.
- To preserve price stability, the SNB hiked its policy rate by further 50bps just days after the acquisition of CS by UBS.

The way forward: Priority areas of work

Financial Stability Board

- Resolution framework
- Role of technology in deposit outflows
- Wider application of Basle rules

SNB

- Further improvement of the resolution framework for a G-SIB
- Comprehensive analysis of the liquidity requirements
- Get a better understanding of potential consequences of a bail-in, analyse the channels potentially leading to contagion and destabilization.

Thank you for your attention!

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