Swiss Banking

Swiss Banking Outlook 2024

The sector outlook for financial markets
and the banking business

August 2024

Contents

Outlook for banks remains upbeat

The economy is expected to pick up slightly, growing by 1.2% in the second half of 2024 and 1.5% in 2025. Net income should be boosted in 2024 by continued growth in cross-border wealth management. However, margins are under pressure in interest operations.

The experts surveyed believe that economic growth will remain modest, predicting a real growth rate of 1.2% and inflation of 1.3% for this year. The majority expect the Swiss National Bank (SNB) to cut its policy rate further to 1.0%. The industry outlook for 2025 is a little more positive, with economic growth and inflation still moderate at 1.5% and 1.1% respectively. The experts are expecting hardly any changes to the interest rate environment next year, meaning that the SNB policy rate should hold firm at 1.0%, although they are not ruling out another cut.

Swiss Banking Outlook methodology

15 seasoned financial market experts from the Swiss Bankers Association (SBA) member institutions responded to the written survey on the short- and medium-term outlook for the banking industry in July 2024. They include chief economists, chief investment officers and leading investment specialists. The participating institutions represent more than two thirds of the aggregate balance sheet total of all banks in Switzerland.

The Swiss Banking Outlook includes a consensus forecast for the main macroeconomic and financial market indicators as well as expectations regarding opportunities and risks for the banking business in Switzerland, with a specific focus on interest operations and geopolitical uncertainties. Its findings were derived from a combination of quantitative forecasting and discretionary interpretation of a series of statements. The experts' opinions refer in each case to the Swiss banking industry as a whole rather than the performance of their own institution.

Executive Summary

Financial market and macroeconomic indicators

The consensus forecasts for 2024 are an economic growth of 1.2% and an inflation rate of 1.3%. The financial market experts anticipate an SNB policy rate of 1.0% by the end of 2024. The macroeconomic picture looks somewhat more optimistic for 2025, with the consensus forecast showing economic growth of 1.5% and inflation falling slightly to 1.1%.

Net income, interest operations and assets under management

Following an impressive performance in 2023, the respondents anticipate a consolidation in net income for the banks in Switzerland this year, although their opinions differ: a third expect it to be higher, a further third expect it to be lower, and the remaining third expect it to be unchanged. The trend is likely to be driven first and foremost by the downturn in the result from interest operations. The further rate cuts that are expected will probably have a negative effect on margins as well as on income from sight deposits held with the SNB, thus reducing income from interest operations. The respondents see asset prices rising further, albeit in a more volatile market environment. They anticipate a small year-on-year increase of 5% in assets under management. They also cite Switzerland's political stability and stable currency as essential growth drivers for cross-border wealth management in times of geopolitical uncertainty.

Opportunities and risks

The survey participants see the improvement of customer experiences through digital channels as a key earnings opportunity because it will lead to higher transaction volumes. The upturn in the international economic momentum is boosting demand for banking services among export-oriented customers. Last but not least, the transition to a neutral monetary policy will also support demand for banking services.

Risks to the Swiss banking sector's income, meanwhile, are seen in particular in a continued decline in interest rates, which will squeeze margins further, as well as the increasing density and complexity of regulation, which will push costs higher. On top of this, discount banks are also seen as a certain risk factor, given that they can influence margins if they serve the same customer segments as traditional banks.

Financial market and macroeconomic indicators

First signs of gentle economic recovery emerging

The experts surveyed for the Swiss Banking Outlook forecast economic growth of 1.2% and an inflation rate of 1.3% for this year, followed by economic growth of 1.5% and a stable inflation rate of 1.1% in 2025.

The financial experts foresee a 1.2% increase in real Swiss gross domestic product (GDP) this year, which is roughly in line with last year's rise. Just over a quarter of respondents share this view. A further quarter expect growth to be 1.0% or less, while the remaining 50% expect it to be higher than 1.2%.

They are slightly more optimistic with regard to 2025, anticipating economic growth of 1.5%. Some 80% forecast a GDP increase in the 1.5-1.7% range.

In the respondents' view, the inflation rate for 2024 will be 1.3%. Three quarters expect it to be between 1.3% and 1.6% for the year. The consensus figure for next year is slightly lower at 1.1%.

As regards the labour market, the demise of Credit Suisse is unlikely to affect unemployment in the shorter term. The experts surveyed expect the rate to hold steady at 2.3% in 2024 and 2025, with individual estimates ranging from 2% to 2.5%.

The experts do not believe that the SNB's most recent rate cuts from 1.75% to 1.25% at the end of June 2024 will be the last. The banking industry anticipates a further SNB policy rate cut by the end of the year, with just under three quarters of the experts surveyed forecasting a rate of 1.0% by the end of 2024 and slightly less than a quarter seeing it unchanged until then. The downtrend in the SNB policy rate is likely to continue in 2025: 60% of experts surveyed expect a policy rate of 1.0% for next year, while a quarter even expect it to fall to 0.75%. Some 40% see a downside risk attached to their forecasts for this year and the next.

The experts surveyed see the yield on ten-year government bonds reaching 0.7% by the end of the year and staying relatively constant at this level, rising only slightly to 0.8% by mid-2025. This forecast is a reflection of the stable inflation expectations. However, it is fraught with uncertainty. Only just under half of those surveyed see their forecast as neutral. The rest are split fairly evenly between upside and downside risks. In terms of exchange rates, continuity is expected. The Swiss franc is seen firming slightly against both the euro and the US dollar. A substantial share of respondents, meanwhile, think that deviations from the forecast are more likely on the upside, i.e. an even stronger Swiss franc.

The respondents take a positive view of the stock market trend, predicting a level of 12,470 points for the Swiss Market Index (SMI) at the end of the year, which equates to a 13% gain across 2024 as a whole. The individual forecasts range from 12,100 points (+8.5%) to 12,800 (+14.9%). However, the experts anticipate higher volatility. The positive trend in share prices is likely to continue into next year but will probably lose some momentum. The survey predicts a gain of 3% to 12,850 points by the end of 2025. The SMI has added 4.5% a year on average since 2017.

Figure 1

Consensus forecast for various macroeconomic indicators

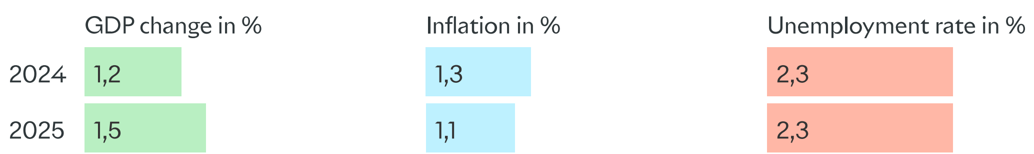
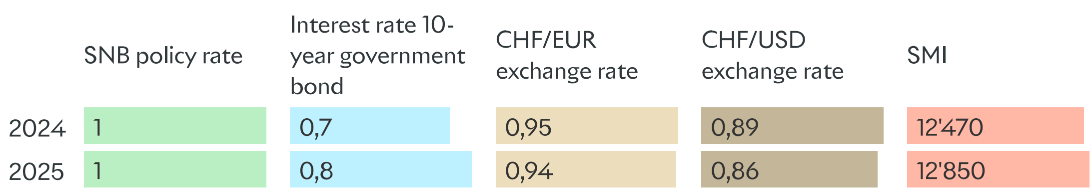


Chart: Swiss Bankers Association · Source: Swiss Banking Outlook 2024

Figure 2

Consensus forecast for various financial market indicators



Note: The forecasts given for the SNB policy rate correspond to the most frequently quoted values

Chart: Swiss Bankers Association · Source: Swiss Banking Outlook 2024

Figure 3

Change in GDP

In %

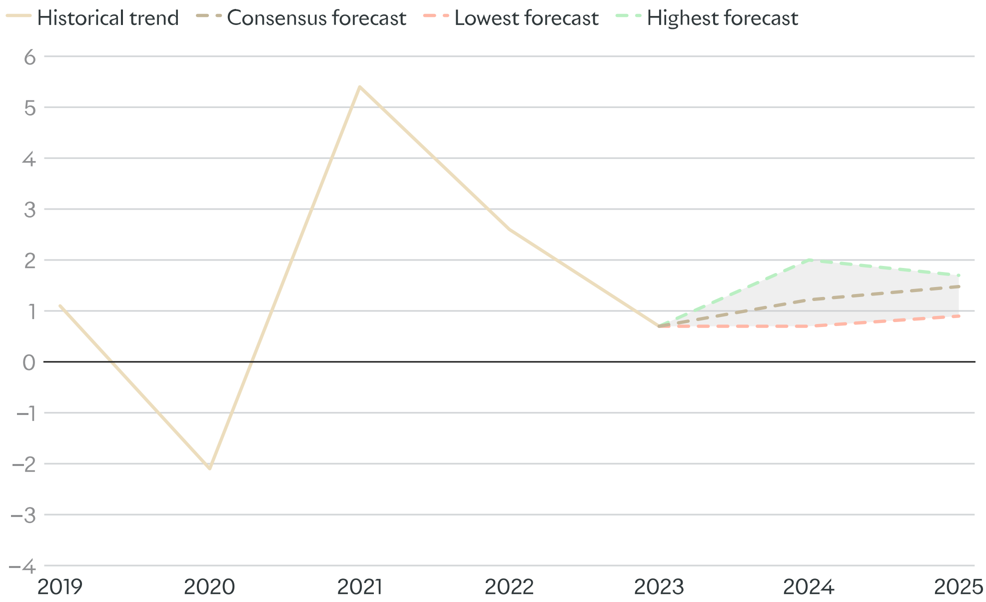


Chart: Swiss Bankers Association· Source: Swiss Banking Outlook 2024, State Secretariat for Economic Affairs

Figure 4

Inflation

In %

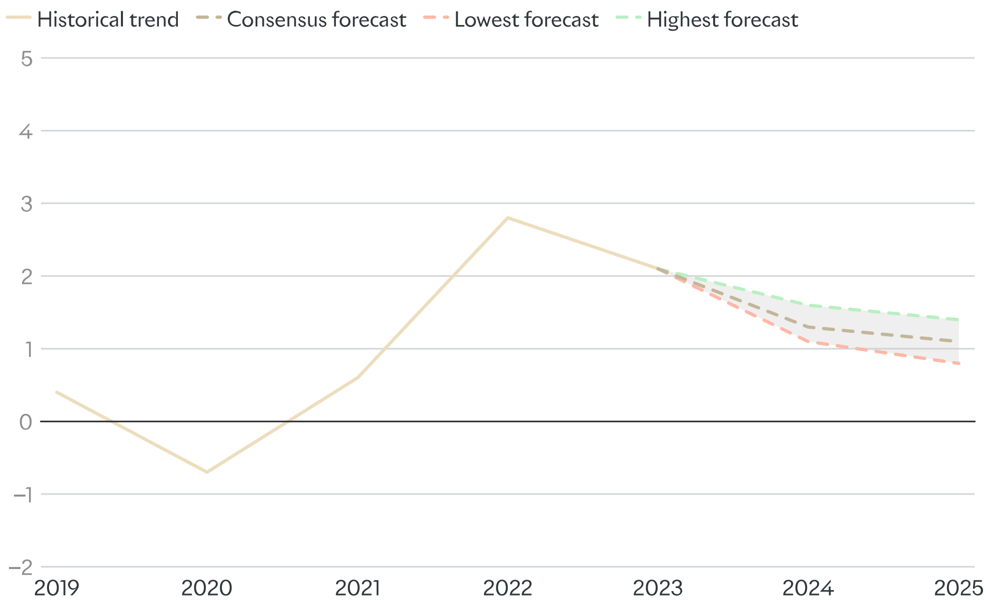


Chart: Swiss Bankers Association · Source: Swiss Banking Outlook 2024, State Secretariat for Economic Affairs

Figure 5

Expected SNB policy rate at year-end

Number of responses

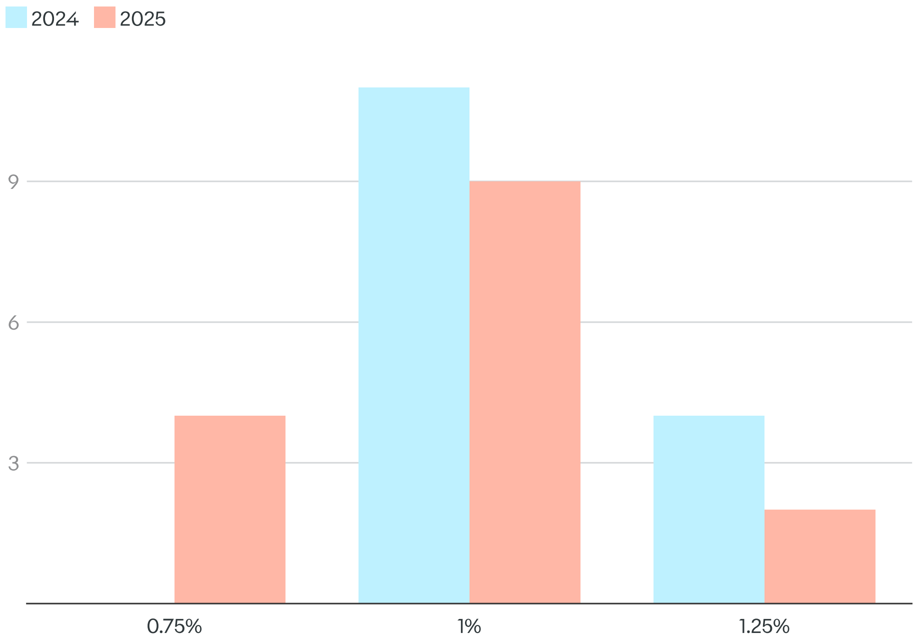


Chart: Swiss Bankers Association · Source: Swiss Banking Outlook 2024

Figure 6

Swiss Market Index (SMI)

Index level at year-end

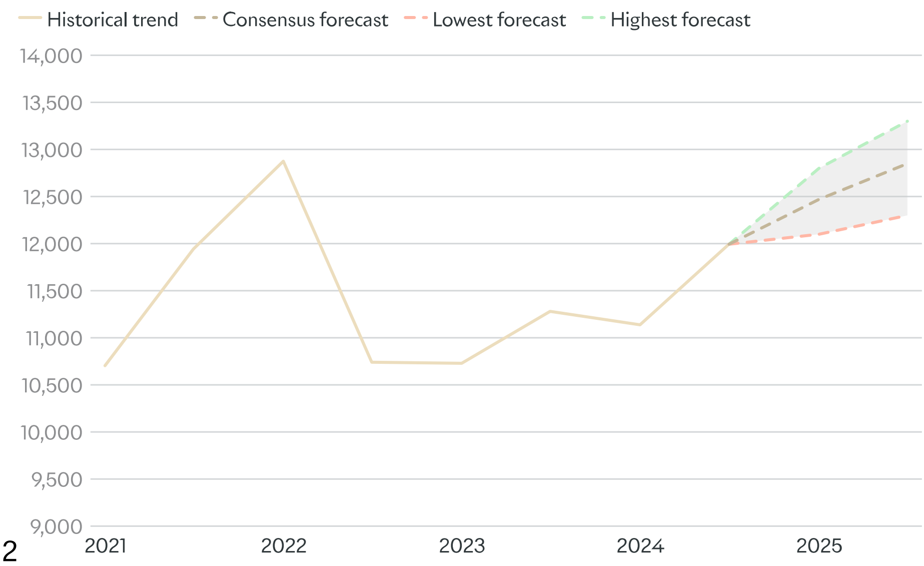


Chart: Swiss Bankers Association· Source: Swiss Banking Outlook 2024, SIX Swiss Exchange

Net income and interest operations

Net income constrained by stagnating interest operations

After an upbeat result in 2023, the financial experts foresee a flat trend in Swiss banks' net income in 2024. The growth outlook is clouded by falling interest margins.

After aggregate net income showed a pleasing increase in 2023, especially for domestically oriented banks in Switzerland, those surveyed predict that the 2024 result will be in line with last year's high figure. However, their opinions differ: 29% expect net income to be higher, 36% think it will be lower, and only 29% forecast no change.

Declining interest income detracts from what is otherwise a very positive outlook. The respondents anticipate a further fall in interest rates as well as fiercer competition in lending business, which will weigh on interest margins. Interest income in 2023 was hit by high expenses related to Credit Suisse. Across the industry, the absence of this one-time factor in 2024 should cushion the impact of dwindling margins on interest income.

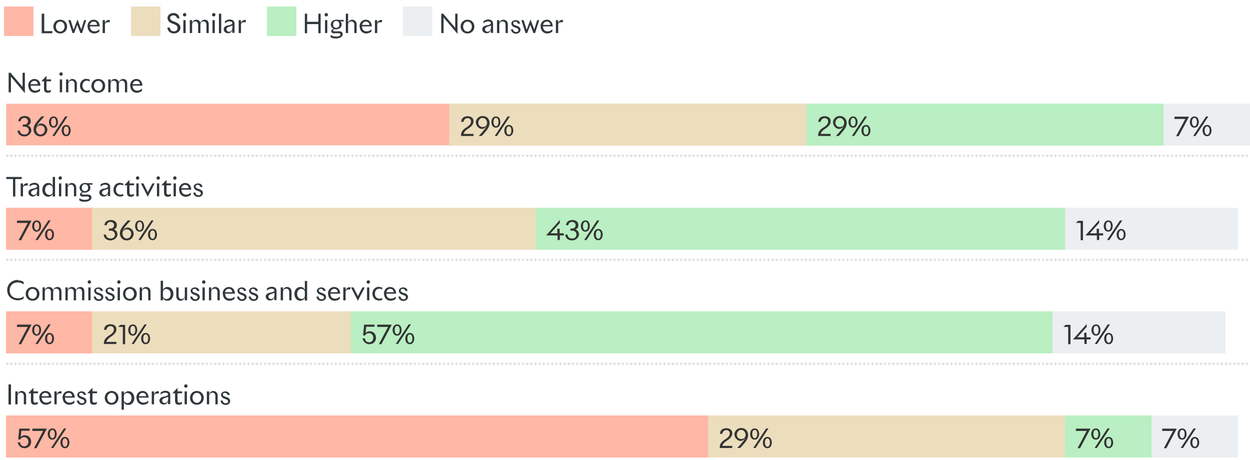
The experts also believe that a positive trend in the results from commission business, services and trading activities can offset some or all of the effects of pressure on interest margins. They expect both asset values and market price volatility to continue rising this year.

The survey respondents forecast lending growth below the average level from the last five years, particularly for mortgages. Some 40% expect growth in mortgage lending to slow down due to contracting supply on the real estate market and an increase in objections and building regulations. Growth in other forms of lending is set to be in line with the multi-year average of about 2.0% in 2024, although the mildly positive macroeconomic outlook for Europe and Switzerland and rising real incomes could result in a higher-than-expected figure.

The financial market experts answered various questions on the prospects for other aspects of interest operations. The majority agree that non-banks will increasingly move into corporate lending going forward, making competition even more intense. Many also agree with the statement that Switzerland's very low interest margins by international standards are of a structural nature. This points to major challenges for the Swiss banks in the coming years with regard to interest operations, a view further underscored by a majority of experts agreeing that current interest margins are not sustainable. Nevertheless, the interest earned on sight deposits at the SNB still makes them an attractive investment proposition for Swiss banks in spite of the increased minimum reserve requirement.

Figure 7

Expected year-on-year trend in net income in 2024



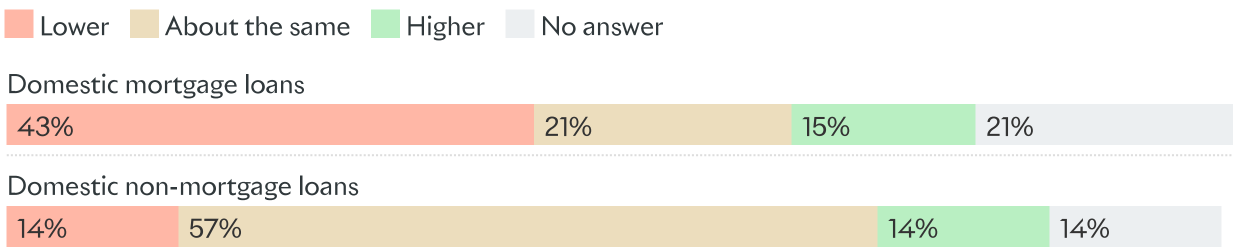
Note: The total may be above or below 100% due to rounding effects.

Chart: Swiss Bankers Association· Source: Swiss Banking Outlook 2024

Figure 8

Expected growth in lending in 2024

Growth compared with the average from the past five years

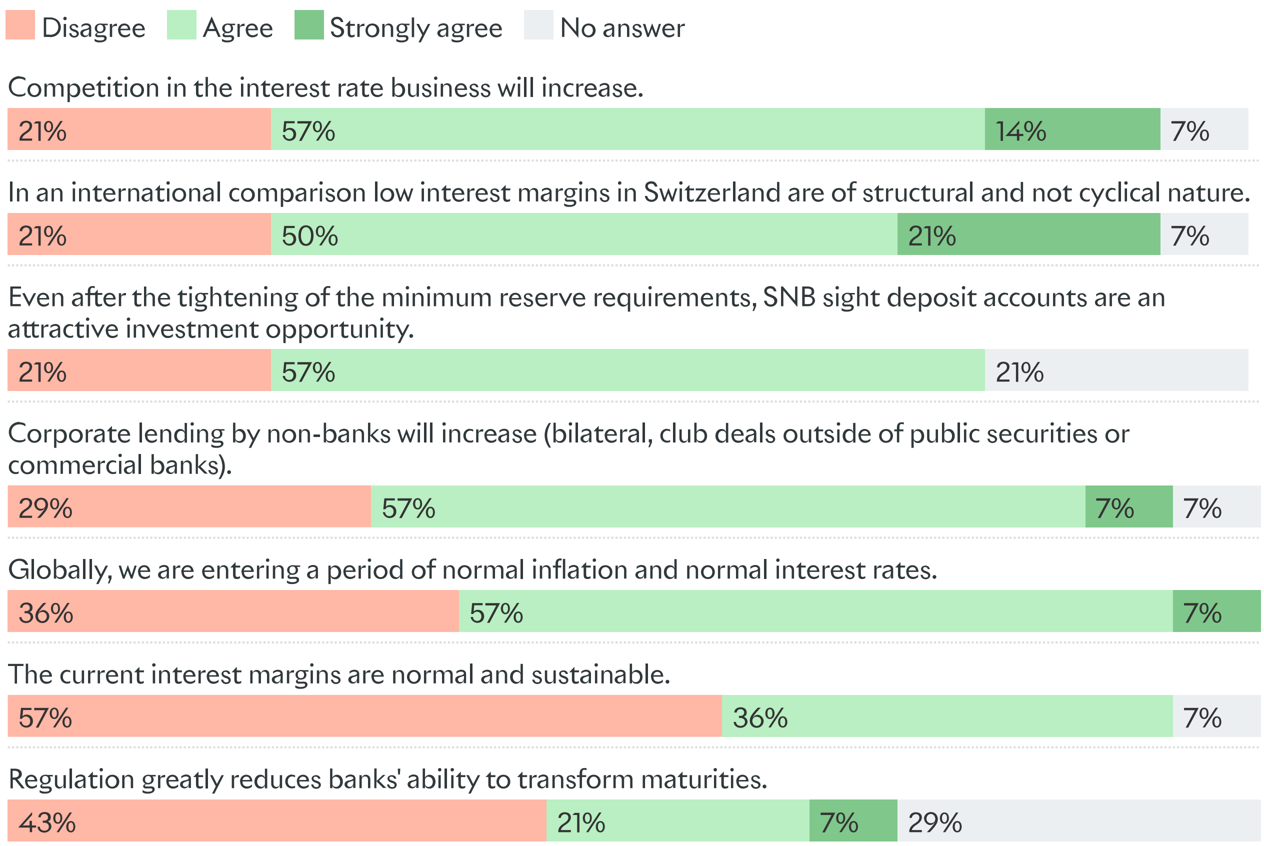


Note: The average growth rates between 2019 and 2023 were 3.14% for domestic mortgage loans and 2.17% for domestic non-mortgage loans. The total may be above or below 100% due to rounding effects.

Chart: Swiss Bankers Association · Source: Swiss Banking Outlook

Figure 9

Analysis of statements on interest income



Note: The total may be above or below 100% due to rounding effects.

Chart: Swiss Bankers Association · Source: Swiss Banking Outlook.

Wealth management

Cross-border wealth management maintaining growth level seen last year

For 2024, the experts surveyed for the Swiss Banking Outlook expect growth of 5%, slightly higher than last year. Switzerland's political stability and robust currency make it an ideal place to store wealth in times of geopolitical uncertainty.

The experts forecast growth of around 5% in cross-border wealth management for 2024. While the consensus figure is higher than last year's result, the range of estimates is in fact broad, possibly due to high levels of geopolitical uncertainty and the high market volatility of recent years. For example, the cross-border wealth management business grew by 15% in 2021 but contracted by 13% in 2022 and then posted a roughly 4% increase last year.

The experts believe that this year's continued growth at a similar level to last year reflects Switzerland's increasing importance as a safe haven with political stability and a solid currency. Uncertainty in the US and Europe is making Swiss wealth management more attractive for certain customer segments, whereas others are unsettled by the debate over Switzerland's neutrality. The demise of Credit Suisse might also have a temporary negative impact on the country's reputation in cross-border wealth management.

It is also clear from the financial market experts' views on the most important factors for this area of business that political stability is seen as paramount, followed some way behind by a stable currency and open borders. Relatively little importance, meanwhile, is attributed to low interest rates and the re-shoring of assets to the customer's home country.

Figure 10

Expected trend in cross-border wealth management in 2024

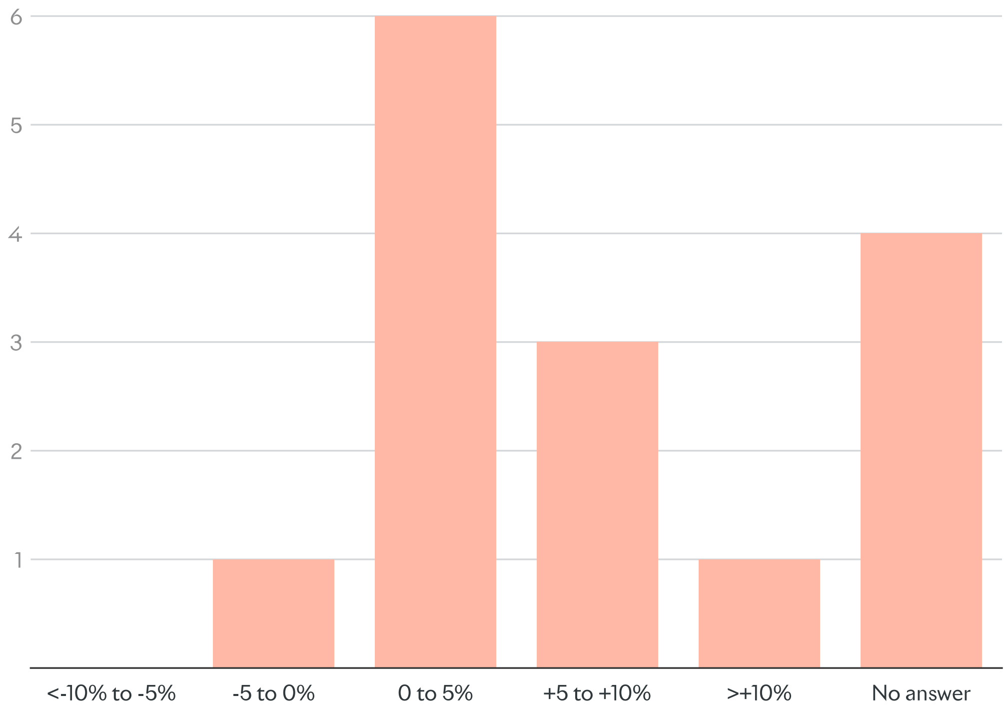


Chart: Swiss Bankers Association · Source: Swiss Banking Outlook 2024

Figure 11

Expected trend in cross-border wealth management in 2024

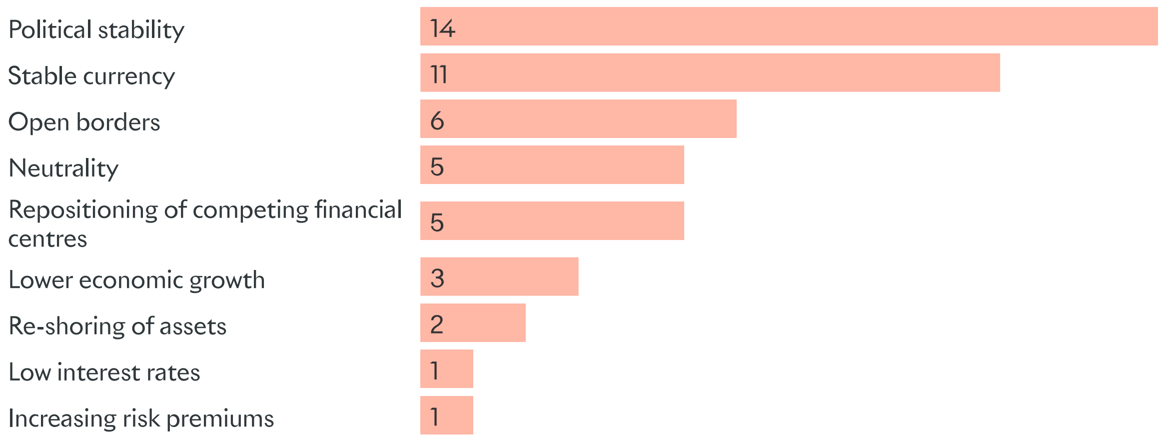


Chart: Swiss Bankers Association · Source: Swiss Banking Outlook 2024

Opportunities and risks

Digital customer experience and rising international economic momentum as key opportunities

According to the experts, opportunities for the Swiss banking industry in the next 12 months lie in the digital customer experience, neutral monetary policy and a pick-up in international economic growth. Risks to income, meanwhile, stem from pressure on interest margins and the increasing density of regulation.

Further improvements in the customer experience thanks to digital channels were cited last year as the best opportunity for the Swiss banking industry to achieve income growth, and this view has become even more pronounced in 2024.

Two new opportunities this year are the pick-up in international economic growth and Switzerland's return to a neutral monetary policy, both of which are expected to bolster demand for banking services. The most significant change in the financial market experts' views on income opportunities relates to cryptocurrencies. Whereas only 13% believed that these would increase investment volumes in last year's survey, the figure has shot up to 50% this year, probably as a result of rising prices and higher customer demand.

On the other hand, attitudes towards sustainable finance are much more ambivalent than last year. Only just under half of the experts now think that it can attract further customer segments to high-margin products, compared with more than 80% in 2023. The experts are evenly split on the question of whether sustainable products are important and unimportant as a source of income.

When it comes to risks, the experts pinpoint the increasing density and complexity of regulation as notable cost drivers. Compared with last year's survey, regulatory density is seen as an even greater risk to income this year, with all experts rating it "important" or "very important".

The respondents' risk analysis confirms the clear conclusion drawn in the business outlook regarding the interest rate situation, i.e. that further cuts will put added pressure on margins. Lower rates, together with structurally and historically low net interest margins, are an especially significant challenge for domestically oriented banks.

The experts generally view the risks associated with discount banks and technology firms increasingly gaining a foothold on the financial market as significant, although the perceived importance of these risks has fallen slightly since last year. This is because some discount banks serve different customer segments to traditional banks. As regards technology firms entering the market, the focus to date has been on payment apps. Since these still require a bank account, the banks remain part of the value chain – often serving to guarantee trust, in fact.

Figure 12

Opinions on selected opportunities for the Swiss banking industry

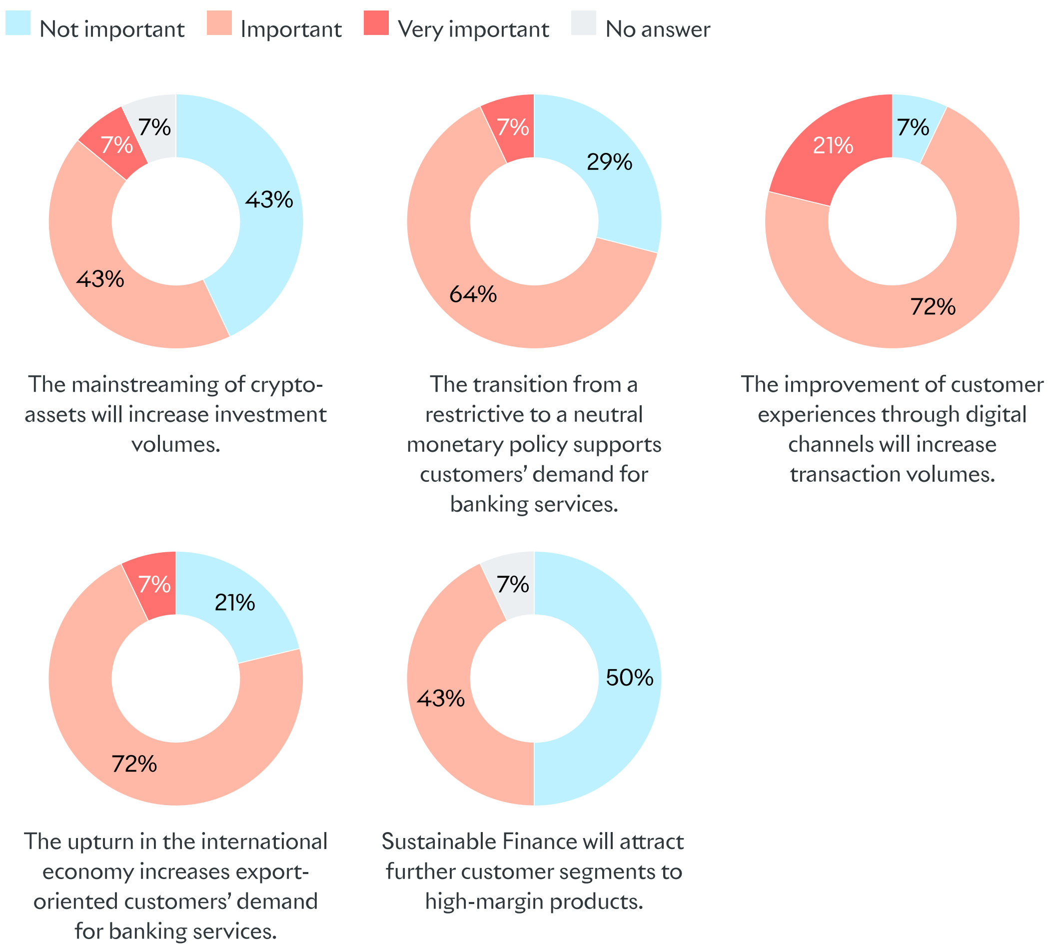


Chart: Swiss Bankers Association · Source: Swiss Banking Outlook 2024

Figure 13

Opinions on selected risks for the Swiss banking industry

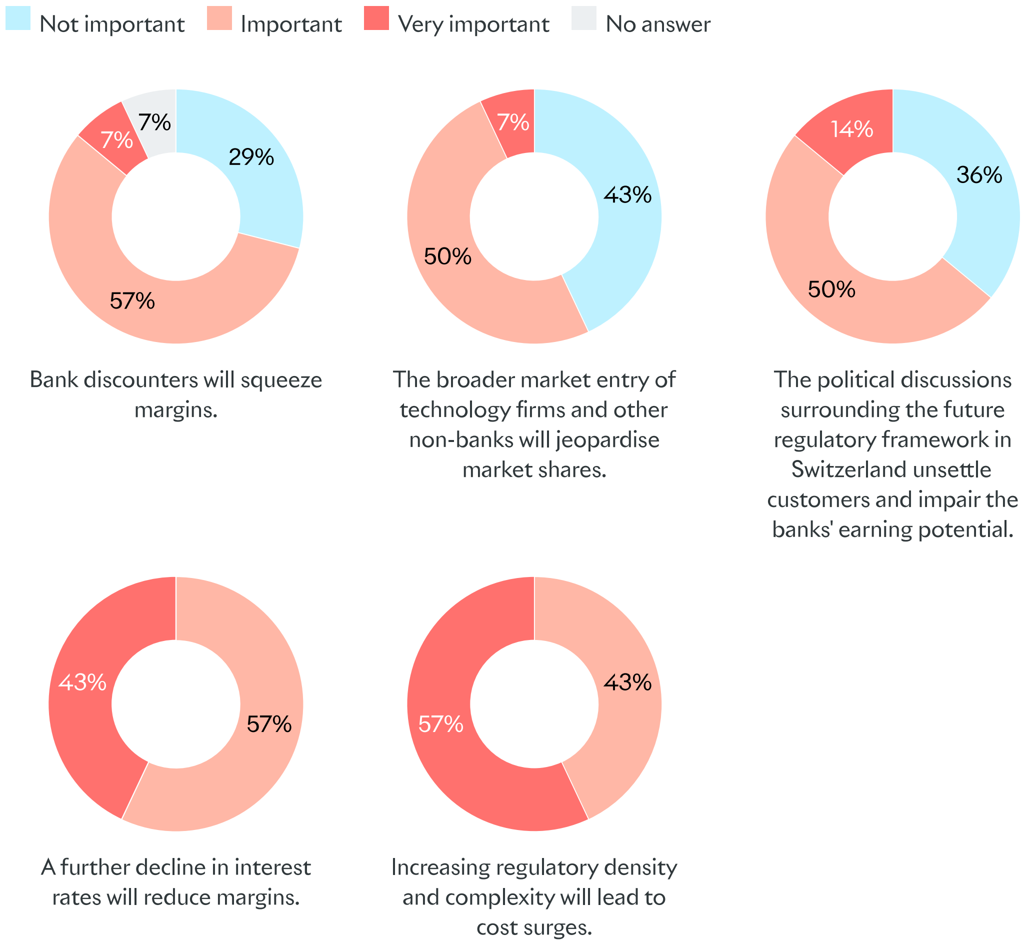


Chart: Swiss Bankers Association · Source: Swiss Banking Outlook 2024