

---

# A Small Open Economy with a Large Banking Sector: Opportunities and Perils

Petra Tschudin  
Alternate Member of the Governing Board

SNB and Its Watchers 2023  
Berne, 01 November 2023

SCHWEIZERISCHE NATIONALBANK  
BANQUE NATIONALE SUISSE  
BANCA NAZIONALE SVIZZERA  
BANCA NAZIUNALA SVIZRA  
SWISS NATIONAL BANK

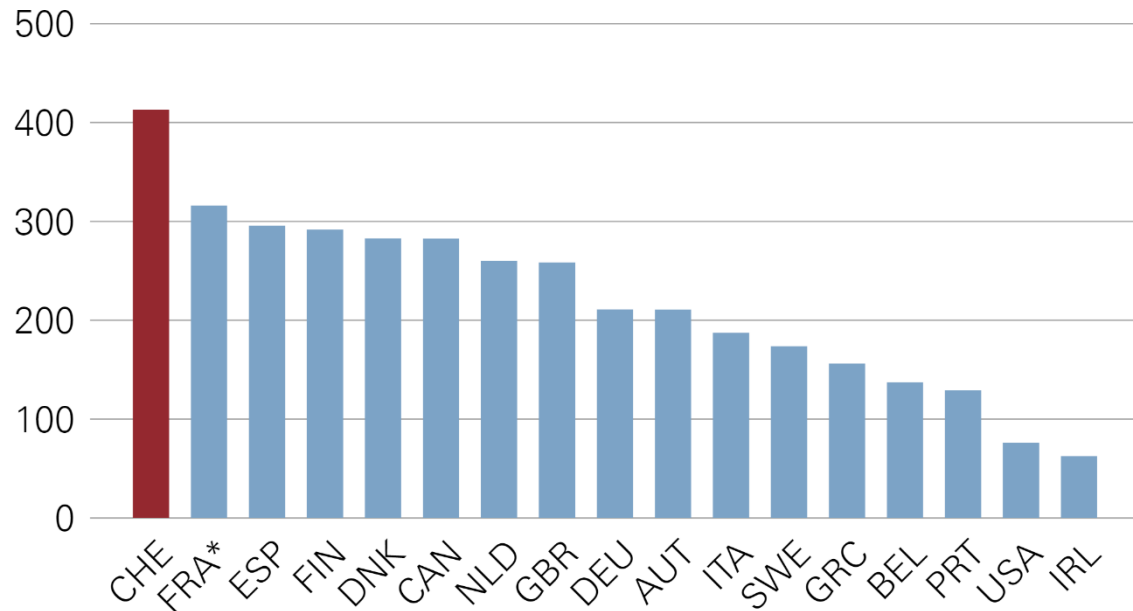


# A large banking sector in a small open economy

## TOTAL BANKING SECTOR ASSETS

2022

% of GDP



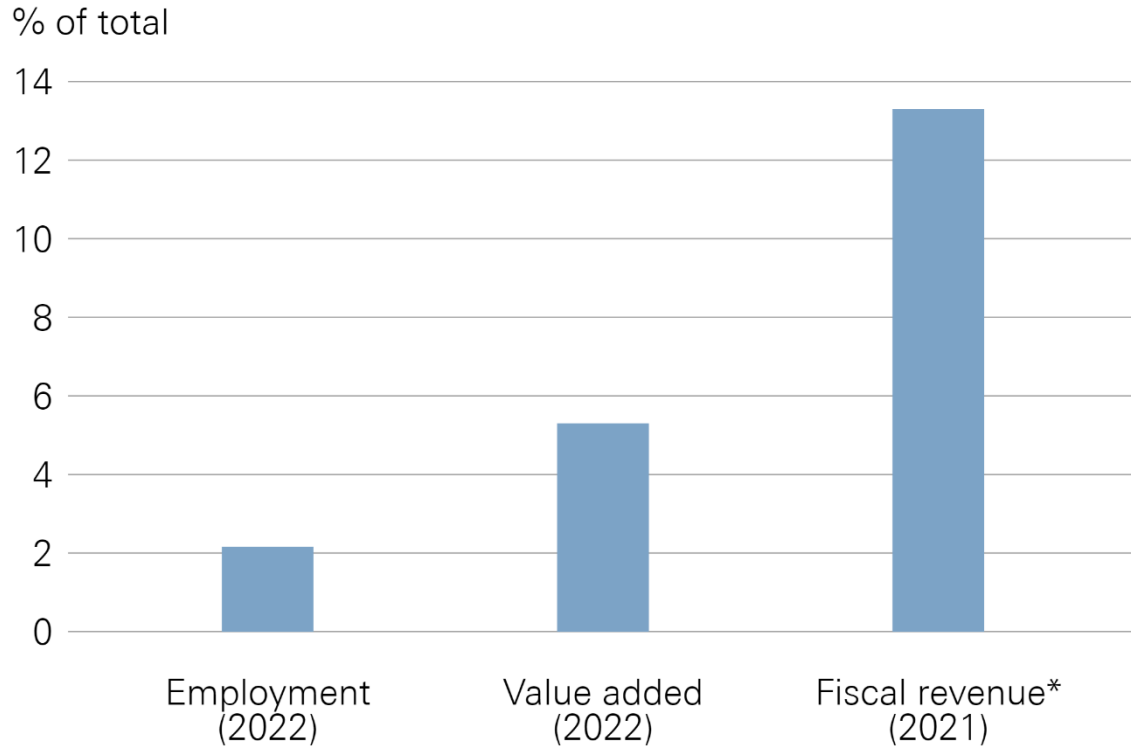
Note: \*2021

Source(s): BIS (CBS), IMF

- Large banking sector compared to many other countries
- Other small open economies specialising in financial services with even higher ratios
  - Singapore: 504%
  - Luxemburg: 967%
  - Liechtenstein: 1288%

# Opportunity 1: Welfare

## BANKING IN SWITZERLAND: KEY FIGURES

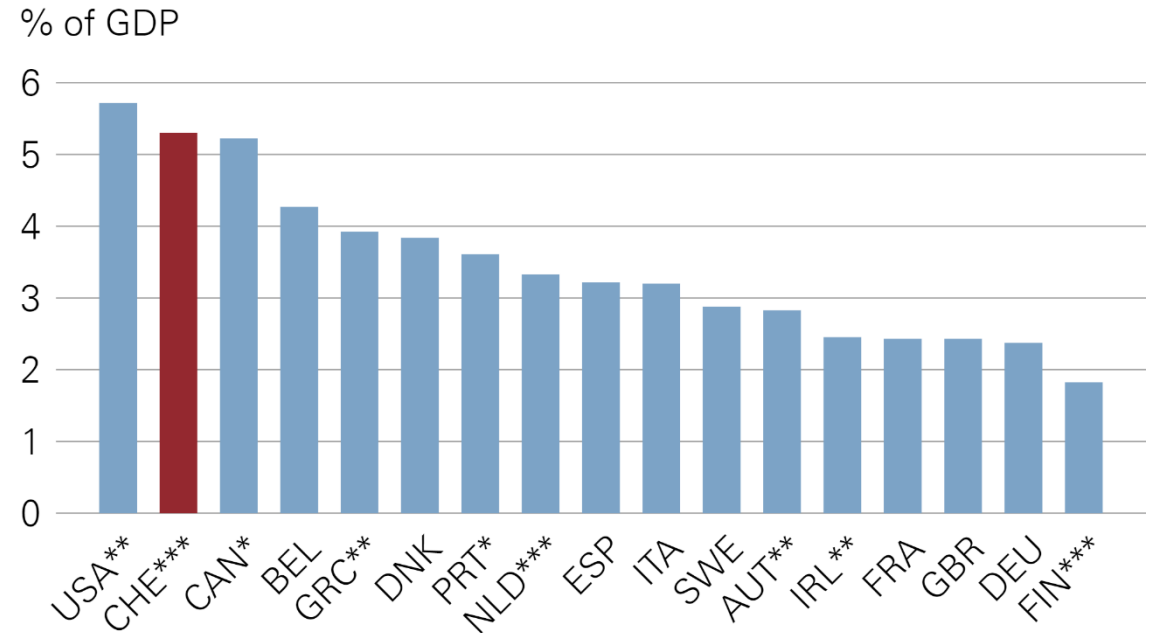


\* Includes insurance activities

Source(s): BAK, SFSO

## VALUE ADDED OF THE BANKING SECTOR

2020



Notes: Financial service activities, except insurance and pension funding. \*2019, \*\*2021, \*\*\*2022.

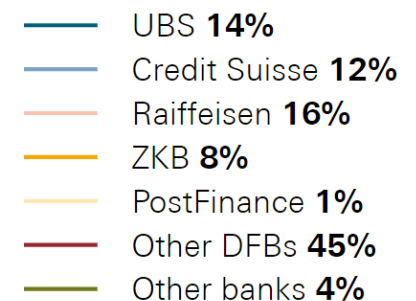
Source(s): OECD, SFSO

## Opportunity 2: Banks can promote efficiency

- Intermediation of financial resources is essential for the efficient functioning of the economy
- Competition contributes to efficiency
  - Incentivises banks to innovate and improve their services continuously
  - Ensures competitive interest rates and hence transmission of monetary policy
- Evidence on efficiency gains via economies of scale is mixed

### MARKET SHARE DOMESTIC LOANS

2022

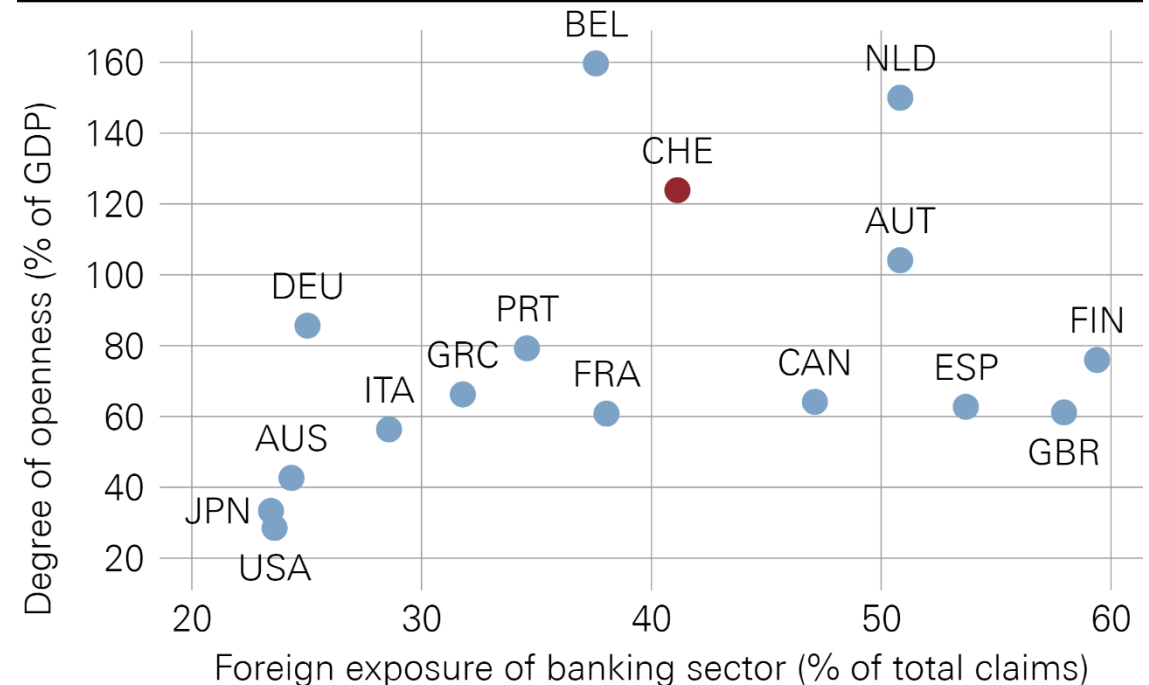


Source(s): SNB

# Opportunity 3: Globally active banks support trade

- Globally active banks are important for trade, especially in a small open economy
  - Global payments
  - Lending for foreign transactions
  - Risk management, currency hedging
- Reduces dependence on foreign banks

## FOREIGN BANKING EXPOSURE AND ECONOMIC OPENNESS

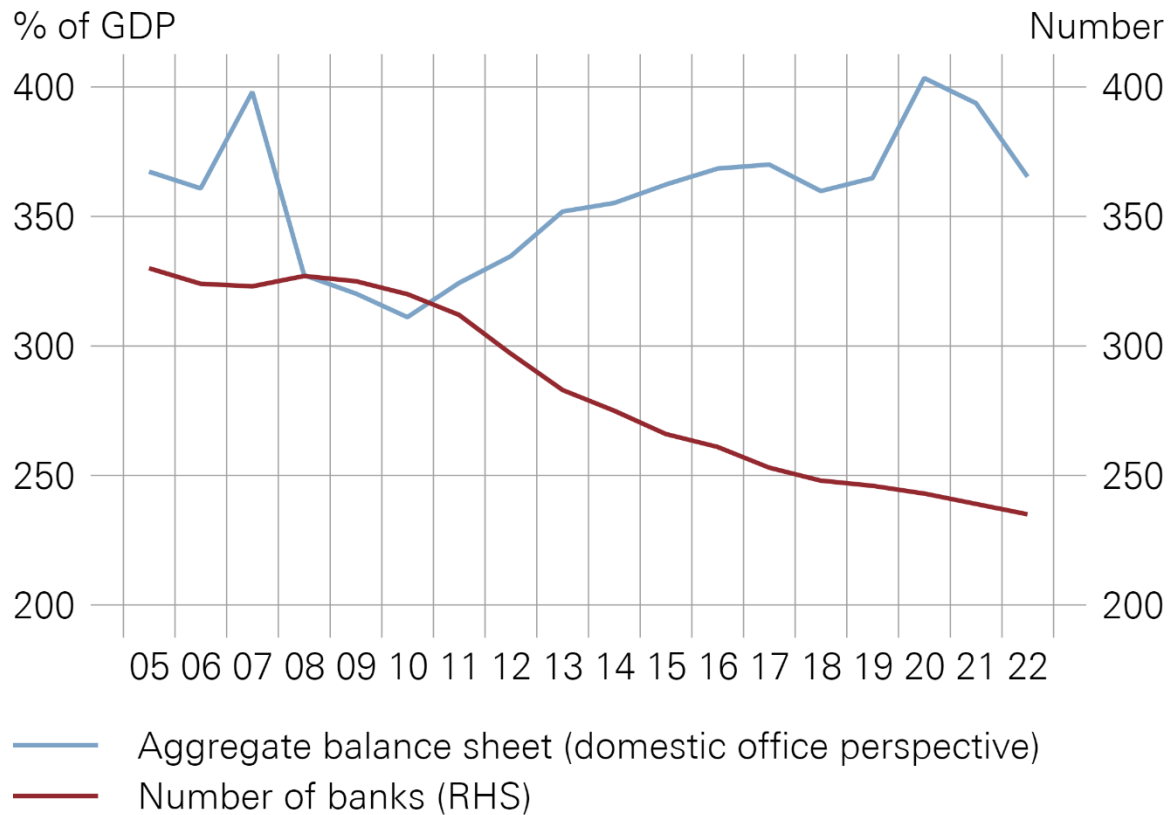


Note: Foreign exposure = Foreign claims / (Foreign claims + Domestic claims); Degree of openness is defined as exports and imports over GDP

Source(s): BIS (CBS), OECD

# Peril 1: Risk of overburdening fiscal resources in case of a crisis

## BANKS IN SWITZERLAND



Source(s): SNB

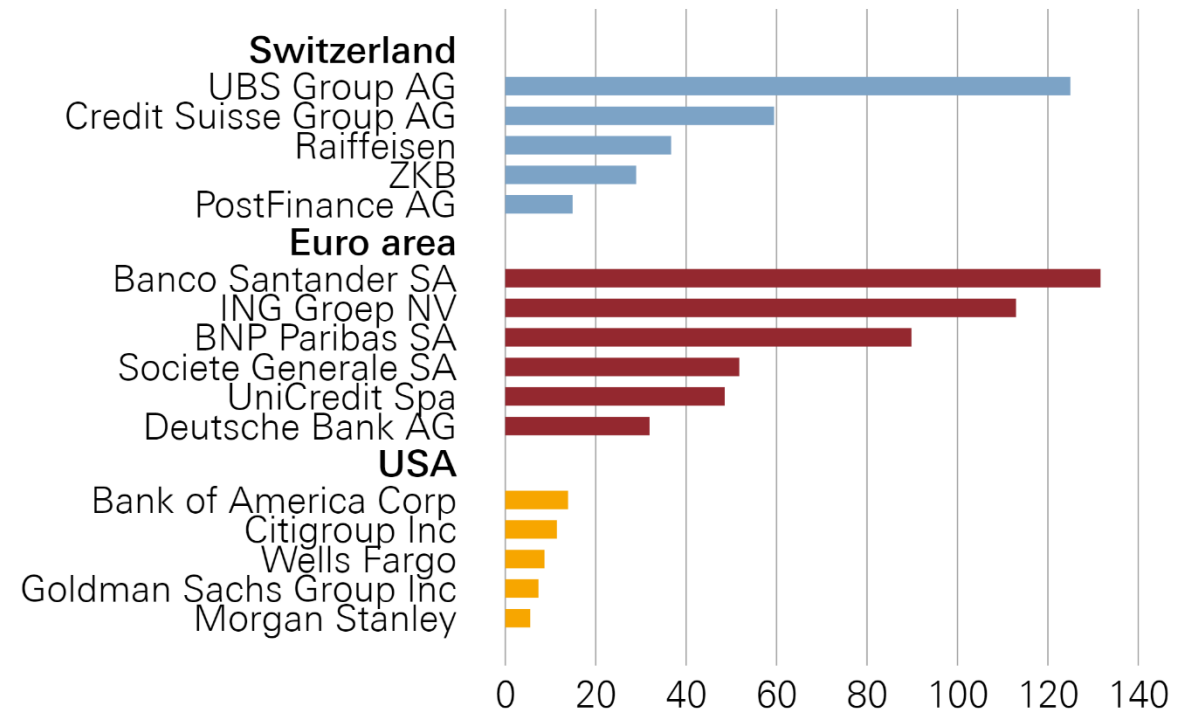
- Risk of double or even triple crises: banking, fiscal and exchange rate crisis
  - Sound state finances important
  - Flexible exchange rate regime reduces complexity of crises
- Risk increases with few and large banks: Less diversification

# Peril 2: Systemic risk

- Risk of contagion and hence systemic risk the larger,
  - the more links a bank has with other banks
  - the larger the bank relative to the banking sector
  - the more such banks there are
- Risk of overburdening the state the larger, the larger the bank relative to GDP

## SYSTEMICALLY IMPORTANT BANKS

Leverage ratio exposure (in % of national GDP)



Note: Bank exposures as at Q4 2022. GDP data for 2022 (2021 for EU).

Source(s): Bank disclosures, IMF, SNB calculations

# Summary

## Large banking sector

- + Banking sector is an important contributor to welfare
- + Efficiency, innovation
- Risk of overburdening fiscal resources in case of crisis

## Large banking sector with few large banks

- + Global trade
  - Less competition
  - Less diversification of risk, risk of systemic crises
- Ensure competition and address risks with TBTF regulation and supervision



---

# Thank you for your attention!

© Swiss National Bank

The speaker would like to thank Marc Blatter and Matthias Burgert for their support in preparing this presentation.

SCHWEIZERISCHE NATIONALBANK  
BANQUE NATIONALE SUISSE  
BANCA NAZIONALE SVIZZERA  
BANCA NAZIUNALA SVIZRA  
SWISS NATIONAL BANK

