Addendum to "Are Central Bank Financial Stability Reports Useful? An AI-Based Analysis"

Greg Baer and Greg Hopper | Sept. 10, 2026

In this addendum, we apply the same analysis we used in "Are Central Bank Financial Stability Reports Useful? An AI-Based Analysis" to the case of the Swiss National Bank (SNB).

SNB has been publishing an annual Financial Stability Report since 2003.[1] The report has important consequences for bank supervision and regulation. Its analysis forms the basis of potential changes to the countercyclical capital buffer (CCyB); based on that analysis, the SNB recommended to the Federal Council that the CCyB be activated in 2013, increased in 2014, suspended in 2020 and reactivated in 2022.[2] In conjunction with the Swiss Financial Market Supervisory Authority, the SNB's assessment of risks may also result in specific supervisory actions to be undertaken with banks.[3]

How Well Did the Financial Stability Reports Do?

Subjected to the same analysis outlined in our earlier note, the SNB Financial Stability Reports performed no better than the reports produced by the Fed, ECB or BoE. As the table in the appendix in the table shows, the reports uncovered no novel risks that were eventually realized. The reports identified risks to mortgage markets that were used to justify an activation and increase in the CCyB in 2013 and 2014, but those risks did not materialize in the form of any significant drops in real estate prices or significant increases in bank losses. The 2016 edition of the report focused on the risks to residential real estate investment, but there were no subsequent significant market stresses or bank losses. Interestingly, the risks to residential real estate investment reported in 2016 by the SNB had

[1] See the description at https://www.snb.ch/en/the-snb/mandates-goals/financial-stability/swiss-banking-sector
[2] See https://www.snb.ch/en/services-events/digital-services/faq-overview/qas_finstab#t05
[3] Article 44 of Switzerland's Capital Adequacy Ordinance governs the SNB's ability to change the CCyB based on its views on systemic risk. See https://justement.ch/doc/act/ch/952_03/tit_3/chap_1/art_44. In addition, the "Memorandum of understanding in the field of financial stability" governs how the SNB and FINMA collaborate and exchange information to regulate banks. See https://www.finma.ch/en/enforcement/recovery-und-resolution-n/nationale-zusammenarbeit/

already been flagged well before by UBS in 2015.[4] Like the other central banks' financial stability reports, the SNB financial stability reports failed to anticipate the risks leading up to the financial crisis of 2008-09.

Thus, since 2003, there have been 1) no examples of successful forecasts of novel risks; 2) multiple forecasts of risks that did not materialize and therefore imposed an unnecessary tax on lending through higher capital requirements; and 3) substantial risk identification misses leading up to the financial crisis. Therefore, the reports demonstrate zero or negative regulatory alpha.

As in our earlier note, we emphasize that this is (surprisingly) a first-of-its-kind effort to use AI to assess the historical performance of financial stability reports. We show our work so that others can question the assumptions and perform their own analysis. We hope that others will continue this type of research.

Implications

Article 44 of Switzerland's Capital Adequacy Ordinance confers broad powers on the SNB to activate the CCyB when the risks of "excessive" credit growth[5] must be managed. The SNB in response has developed a discretionary risk identification framework[6] that depends on its ability to successfully determine risk measures for lending market imbalances that have forecasting ability to predict significant market and bank stresses. The results of that annual analysis are discussed in the financial stability reports.

However, the over-20-year track record of the financial stability reports suggests the SNB has demonstrated no ability to dynamically identify realistic risks. The SNB should therefore reassess its discretionary framework to set the CCyB. It should also refrain from using the financial stability reports as a guide for potential supervisory actions in its discussions and recommendations to FINMA.

[4] *Le News* reported the UBS analysis on August 4, 2015**,** under **"**Swiss real estate bubble index rises significantly**,"** describing an **"**investment property boom.**"** See https://lenews.ch/2015/08/04/swiss-real-estate-bubble-index-rises-significantly/

[5] See https://elischolar.library.yale.edu/cgi/viewcontent.cgi?article=1517&context=ypfs-documents

[6] Swiss National Bank, "Implementing the countercyclical capital buffer in Switzerland: concretising the Swiss National Bank's role," 2014, available at https://www.snb.ch/dam/jcr:f67f123e-fe4f-4d20-85ea-f06cb5cd3689/ccb__communication.en.pdf

Appendix: LLM Assessment of SNB Financial Stability Reports

Categories: 1 = successfully forecast; 2 = forecast as significant but did not subsequently prove significant; 3 = missed, under-ranked, too weakly forecast or identified without forecasting subsequent deterioration.

Cat.	Risk	Evidence and basis for classification	Assessment
2	**Swiss mortgage and residential real-estate vulnerability**	The 2010 FSR identified initial signs of a buildup of risk but did not forecast that the vulnerability would continue to worsen; further deterioration was framed conditionally. In 2011, some regions and segments showed stronger warning signs, but nationwide prices were still judged broadly consistent with fundamentals and mortgage-growth momentum had slowed. By 2012, mortgage lending at domestically focused banks had grown about 6.5 percent, faster than GDP; the credit-to-GDP ratio rose further; more than one-fifth of new mortgages had LTVs above 80 percent; and substantial shares of new loans showed sensitivity to normalized mortgage rates.	The SNB detected an emerging vulnerability in 2010 but did not predict that it would become materially greater. The risk of a housing downturn or significant losses was not realized.
2	**Residential investment-property vulnerability**	The 2016 FSR specifically identified residential investment property as an area of heightened vulnerability. By 2018 the SNB said the risk of substantial future price corrections in this segment was high and had risen further; later reports continued to identify the segment as particularly vulnerable.	The risk was not realized. UBS had already identified the same issue in 2015. *Le News* reported the UBS analysis on Aug. 4, 2015**,** under **"**Swiss real estate bubble index rises significantly**,"** describing an **"**investment property boom.**"**
2	**Miscellaneous risks**	Climate risk, broad tail risks, NBFIs, stablecoins and similar issues were discussed, but the SNB generally described them cautiously or as limited. The material reviewed does not show a strong prediction of banking-system harm that was later falsified.	SNB did not assess these risks to be or become materially significant.
3	**Subprime mortgage problems and broader U.S. housing/credit crisis**	In 2007 the SNB recognized that subprime problems might be the first symptom of a broader U.S. property or credit-market crisis, but framed the possibility only as something that "cannot be ruled out" and "may" occur. The subsequent GFC showed a far larger systemic risk.	Missed because the warning was too weak. The correct adverse scenario was identified, but not forecast or ranked as a sufficiently significant threat.
3	**Big-bank leverage and weak unweighted capitalization before the GFC**	From 2003-06 the SNB observed that the large Swiss banks compared poorly on unweighted capital measures while retaining broadly favorable assessments of capitalization and system stability. The GFC demonstrated the importance of leverage and genuine loss-absorbing capital.	High-confidence miss. The relevant warning signal was visible, but its systemic significance was materially underweighted.
3	**Funding, liquidity and contagion fragility before the GFC**	In 2004-06 the SNB repeatedly regarded the probability of contagion producing a Swiss banking crisis as relatively low. Funding conditions later deteriorated severely, and the 2009 FSR acknowledged that liquidity risks to which the large banks had been exposed had materialized.	High-confidence miss. Actual funding and liquidity vulnerability proved substantially greater than earlier assessments implied.
3	**Early-stage Swiss mortgage and real-estate buildup before 2010**	In 2003-05 the SNB repeatedly said there was no speculative bubble and regarded a sharp property-price adjustment as unlikely. By 2010 it had changed its assessment and identified an emerging mortgage-market vulnerability.	Missed early-stage vulnerability. The later recognition of the risk should be distinguished from having forecast its development beforehand.
3	**Risk-weighted-asset/internal-model and market-risk measurement weakness**	Pre-GFC assessments placed substantial weight on favorable risk-weighted capital measures despite much weaker leverage measures. In 2008 the SNB acknowledged that regulation had seriously underestimated market risks; later reports questioned internal-model RWAs and warned that model-based capital ratios could overstate resilience.	Moderate-to-high-confidence miss. Model and risk-measurement weaknesses received adequate prominence only after becoming consequential.
3	**Confidence-driven deposit run and inadequate liquidity/collateral preparedness at Credit Suisse**	Credit Suisse experienced deposit withdrawals of unprecedented speed and magnitude. The SNB later acknowledged that available liquidity buffers and collateral prepared for central-bank facilities were inadequate and that the existing regulatory framework captured the vulnerability only partially.	High-confidence miss. The pre-2023 framework materially underestimated confidence risk, run speed and the importance of readily mobilizable collateral.
3	**Too-big-to-fail and systemic-concentration risk**	The 2009 FSR stated that the crisis had highlighted the scale and importance of the too-big-to-fail problem. The material reviewed does not show comparable prominence being attached to this threat before the crisis.	Primarily post-event recognition rather than successful ex ante forecasting.
3	**Opacity and inadequate disclosure among large banks**	The SNB recognized in 2007 that available information about banks' exposures was inadequate and that their full risk exposure remained uncertain, yet its broader assessment remained relatively positive.	Moderate-confidence miss. The information problem was recognized, but the systemic importance of not knowing the banks' true exposures was under-ranked.

_____

Disclaimer: The views expressed do not necessarily reflect those of the Bank Policy Institute's member banks, and are not intended to be, and should not be construed as, legal advice of any kind.the