



30th meeting of the Systemic Risk Council

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The Systemic Risk Council

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Real-time indicators for the 3rd quarter of 2020 point towards an improvement of the Danish economy, but the current outlook still points at a prolonged recovery. In light of recent developments, the Council recommends that the countercyclical capital buffer remain at 0 per cent. The Council expects to recommend an increase of the buffer rate in 2021 at the earliest. The Council discussed risks in the housing and commercial real estate markets. In the Council's assessment, institutions' risk weights on commercial real estate exposures are low. The Council decided not to initiate any further measures in this area at present. In the course of 2021, the Council will revisit this topic with a view to launching further initiatives when allowed by economic conditions.

Downside risks for the economy

The Danish economy was in a strong position before the covid-19 outbreak, and real-time indicators for the 3rd quarter of 2020 show signs of economic improvement. However, the current outlook points to a prolonged recovery. Moreover, rising infection levels globally and in Denmark may impact the duration of the economic downturn.

Equity markets have seen price increases, both in Denmark and abroad. There is a risk of divergence between macroeconomic and financial developments which may trigger a sharp and sudden financial market correction.

Danish institutions generally have high excess capital adequacy relative to current requirements, and during the current economic downturn their losses have, so far, been fairly limited. Nevertheless, a prolonged recession could have negative implications for banks both in the medium and long term as losses in the affected industries are realised.

At present, there are no indications of tight credit standards. Lending growth to both the corporate sector and households has been subdued, but the Council assesses that this is driven by low credit demand.

Housing market developments do not call for further measures

The housing market has seen a recovery in trading activity after a temporary drop in March and April. Prospects of continued low interest rates are expected to support the housing market going forward.

In September 2019, the ESRB published a recommendation on the build-up of risks in the Danish housing market ([Link](#)). In their most recent financial sector assessment of Denmark, the IMF also calls on Danish authorities to consider the need for measures in the housing market ([Link](#)).

In the Council's assessment, the borrower-based measures implemented in recent years have helped to underpin household resilience. In the Council's assessment, subsequent

developments in the housing market do not necessitate the implementation of further measures.

The Council discussed systemic risks in the commercial real estate market

The Council discussed the ability of credit institutions to withstand a sharp downturn in the commercial real estate market, including declining real estate prices, rising interest rates and decreasing operating profit. In the Council's assessment, institutions' risk weights on commercial real estate exposures are low, but the Council has decided not to recommend any new initiatives at present. The Council will revisit this topic in the course of 2021 with a view to launching further initiatives, depending on the economic development.

The countercyclical capital buffer in Denmark remains unchanged

The Council recommends that the buffer rate remain unchanged at 0 per cent. The covid-19 crisis has clearly demonstrated that it is important to have built a buffer of sufficient size to make a difference when released. Therefore, it is important to start rebuilding the buffer as the economic development normalises. This is in accordance with the Council's strategy of early and gradual phasing-in of the countercyclical capital buffer. The Council expects to recommend an increase of the buffer rate in 2021 at the earliest. Following a decision to raise the buffer rate, institutions have 12 months to comply with the requirement as a starting point. This means that institutions will be expected to meet a positive buffer requirement in 2022 at the earliest.

The systemic risk buffer in the Faroe Islands will not be increased until 2021 at the earliest

On 19 March 2020, upon the recommendation of the Council, the Minister for Industry, Business and Financial Affairs decided temporarily to reduce the general systemic risk buffer in the Faroe Islands from 3 per cent to 2 per cent. ([Link](#)). The recommendation was in response to the uncertainty and challenges associated with the spread of covid-19. The capital relaxation was designed to help ensure that Faroese banks were better able to absorb any losses and continue lending. The Council recommended that the reduction initially continue until the end of 2020.

The Council has now decided that it will not recommend increasing the systemic risk buffer in the Faroe Islands to 3 per cent until 2021 at the earliest. Moreover, the Council has decided to provide 12 months' notification from the time it is recommended that the buffer rate be changed until the change takes effect. The purpose of the notification is to facilitate the capital planning of Faroese banks, as this means that they are ensured a period of 12 months to comply with a higher buffer rate. Føroya Váðaráð, the Faroese Systemic Risk Council, supports this decision.

Other issues

The Council discussed the IMF's macroprudential recommendations to the Danish authorities ([Link](#)). These recommendations concern the institutional framework, macroprudential instruments and the ongoing monitoring of systemic risks. The Council is already working on a number of these issues such as assessment of the need for measures in the housing and commercial real estate markets. The Council will continue to work with these issues at upcoming meetings.

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