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**The Systemic Risk Council**  
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## PRESS RELEASE

### MEETING OF THE SYSTEMIC RISK COUNCIL

**The Systemic Risk Council has held its nineteenth meeting. The risk of sudden changes in risk perception and thus significant falls in asset prices remains high. The Council still advises that the countercyclical capital buffer rate in Denmark is set at 0 per cent. However, current developments suggest that risks are building up in the financial system. The method underlying the Council's advice concerning the countercyclical capital buffer rate will be published before the next meeting.**

#### **The risk of sudden changes in risk perception and thus significant falls in asset prices remains high**

The outlook still points to economic growth internationally and in Denmark. At the same time, financial market participants expect very low interest rates in Europe and Denmark for a long period to come, and investors' risk perception is low. This is reflected in e.g. a low price for insurance against unexpected future interest rate increases and in very narrow credit spreads for bonds. This entails a high risk that a sudden change in risk perception may lead to substantial falls in asset prices.

In the commercial real estate market, prices for residential rental properties and office properties are still rising strongly. The housing market is now picking up in almost all of Denmark. There are signs that prices for single-family homes rose in all regions in the 1st half of 2017, and prices for owner-occupied flats in Copenhagen are still rising steeply.

Overall credit growth is modest, but developments in the property markets are reflected in e.g. growth in mortgage lending in Copenhagen and Aarhus. The economic outlook and the low risk perception may provide incentives for credit institutions and financial investors to increase their risk-taking. It is important that lenders, investors and borrowers make sure to be resilient to higher interest rates and large falls in property prices.

#### **The method underlying the Council's advice concerning the countercyclical capital buffer rate will be published before the next meeting**

The Council is finalising a revised method for setting the countercyclical buffer rate. In that regard, the Council held a dialogue meeting with representatives from Danish universities and the financial sector in August. There was general support for revising the method. Participants expressed views on the timing and indicators for activating the buffer as well as

communication of Council decisions. The Council will take these views into consideration in its work with the revised method. The revised method will be decided upon and published before the next meeting.

The Council finds it important that the revised method contributes to an early build-up of the buffer. This will make it possible to release the buffer in times of financial stress. The buffer can thus reduce the risk that insufficient capitalisation makes institutions tighten their lending to such an extent that it has a negative impact on the real economy. According to the Council's assessment, phasing-in of the buffer will have a limited effect on lending growth in optimistic times. In contrast, the costs to society of not having sufficient capital in crisis periods can be high.

The Council advises that the countercyclical capital buffer rate in Denmark is maintained at 0 per cent. However, current developments suggest that risks are building up in the financial system. This is supported by a number of indicators, such as high activity and rising prices in the residential and parts of the commercial real estate market. In addition, there are signs that credit standards are being eased. Combined with the generally low risk perception, this calls for extra awareness of current developments. The Council's discussion of the countercyclical buffer rate at its December meeting will take the revised method as its point of departure.

### **The Council advises that the countercyclical capital buffer rate for Greenland is maintained at 0 per cent**

The Council advises the Minister for Industry, Business and Financial Affairs to maintain the countercyclical capital buffer rate for Greenland at 0 per cent. The Council has also assessed that there is no basis for introducing a systemic buffer in Greenland at present. Representatives of the Greenlandic government participated in the discussions. The systemic buffer seeks to address systemic risks linked to financial and economic structural characteristics of the economy. Conversely, the countercyclical buffer should address risks that may build up in good times and materialise in bad times.

### **Other issues**

The Council discussed interconnectedness between Danish systemically important financial institutions, SIFIs. This discussion is part of the work to analyse the structures of the financial system. Data collected by the Danish Financial Supervisory Authority shows that Danish SIFIs are directly connected mainly through bond portfolios and derivatives contracts. Interconnectedness can improve the supply of credit and sharing of risk between institutions. However, it may also be a way for shocks to ripple through the system.

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