



46 meeting of the Systemic Risk Council

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The Systemic Risk Council

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The overall risk outlook remains broadly unchanged compared to the meeting in June 2024. Inflation trends, interest rate expectations and geopolitical risks continue to impact the risk outlook. Market participants are currently expecting further monetary policy rate cuts in 2024 and 2025. The high earnings in credit institutions and moderate lending growth continue to contribute to strengthening the institutions' resilience, while allowing them to build up capital.

The risk outlook is still characterised by the development of inflation and interest rate expectations. Inflation has slowed down in Denmark and the euro area since 2022. In Denmark, inflation is currently low, but is driven by domestic factors due to high wage increases of recent years. The markets are currently expecting further interest rate cuts in 2024 and 2025 from the US Federal Reserve and the European Central Bank, ECB. The global economy is expected to face a soft landing with slowing inflation and moderate growth. Underlying growth in Denmark is expected to be in line with the euro area. The performance of global bond markets in 2024 illustrates that market risk perception is sensitive to fiscal easing from some of the world's major economies. Global equity markets briefly fell sharply in early August, as drops in share prices in Japan quickly spilled over to European and US financial markets. This episode was a sign of uncertainty on the equity markets.

Price growth in the housing market is subdued. This trend can be explained by an increase in real wages, rising employment and a slight decrease in long-term interest rates. Several banks have reduced interest rates this year on new loans for home financing. Growth in mortgage lending to households remains low in a historical context and has remained stable over the summer.

Trading activity in the commercial real estate market remains moderate. This may be an indication that commercial real estate prices have not fully adjusted to the interest rate level. The trend in banking loans to businesses is fairly flat, while the trend in mortgage loans to businesses is still on the increase overall.

The credit institutions' earnings remain high. In the first half of 2024, systemic institutions increased their earnings compared to the second half of 2023. Profit growth and moderate loan growth provide an opportunity to build up capital. The systemic banks' lending margins on new loans to households continue to decline, which may reflect banks taking a lower risk premium or accepting lower profits on individual loans.

Countercyclical capital buffer in Denmark

Every quarter, the Council assesses the adequate countercyclical capital buffer level. The Council finds it appropriate that the countercyclical capital buffer rate is maintained at 2.5 per cent of the risk-weighted exposure amount. The objective of the buffer is to ensure that the institutions have a cushion that makes them more resilient if risks materialise. The Council is ready to recommend a reduction of the buffer rate with immediate effect if stress

occurs in the financial system and there is a risk of a severe tightening of credit granting to households and companies.

The Council recommends that the countercyclical capital buffer be activated in Greenland

The Council is responsible for identifying and overseeing systemic financial risks in Greenland.

The Council has recommended to the Minister for Industry, Business and Financial Affairs that the countercyclical capital buffer in Greenland be activated at a rate of 0.5 per cent effective from 1 January 2026 and 1 per cent effective from 1 July 2026. Greenland is in a long economic upswing with a restricted labour market, which has only been softened to a small extent by rising interest rates. The total debt level as a share of GDP remains relatively low in an international context, but the growth in lending has been strong and has exceeded the growth in nominal GDP. For several years, lending growth to businesses has increased strongly, and lending growth to the real estate sector has roughly doubled from the autumn of 2019 to mid-2024.

The phase-in period allows institutions to build up capital by retaining profits. Overall, activation of the countercyclical capital buffer is therefore not expected to affect the ability of creditworthy customers to obtain financing.

Other items

The Minister for Industry, Business and Financial Affairs has followed the Council's recommendation to raise the systemic buffer in the Faroe Islands from 2 to 3 per cent from 1 July 2025. At its meeting on 26 June 2024, the Council recommended to the Minister for Industry, Business and Financial Affairs that the systemic risk buffer in the Faroe Islands be increased from 2 to 3 per cent based on the structural systemic risks in the Faroese economy.

The Council was briefed on the Centre for Cyber Security's threat assessment of cyber risks in the financial sector. The Council regularly discusses cyber risks, as, in a worst-case scenario, such risks may threaten financial stability. Cyber risks are included in the ongoing monitoring of systemic risks, and the Council is regularly informed and involved in the work of relevant authorities to address systemic risks in relation to cyber and IT security.

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