



## 47th meeting of the Systemic Risk Council

10 December 2024

The Systemic Risk Council

[www.risikoraad.dk](http://www.risikoraad.dk)

[mail@risikoraad.dk](mailto:mail@risikoraad.dk)

**The risk outlook is characterised by changes in global economic policy. And geopolitical tensions can, among other things, affect the international trade as well as the cyberthreat against the financial sector. Credit institutions' earnings remain high, and Danish companies and households have generally been able to handle the interest rate hikes in 2022 and 2023. Based on the current risk outlook, the Systemic Risk Council assesses that the countercyclical capital buffer in Denmark should be maintained at 2.5 per cent.**

The cyberthreat against the financial sector is significant and is continuously influenced by the current geopolitical situation and new technology such as artificial intelligence. In recent years, several cyberattacks against European banks have resulted in serious operational incidents, highlighting the need for companies to continue to identify risks and take action to mitigate the consequences of serious cyberattacks.

The geopolitical situation also leads to a number of risks to the global economy which can contribute to lower growth, including due to a shift in trade and fiscal policies. For example, increases in global tariffs can affect both growth and price formation with implications for inflation.

During 2024, the European Central Bank and the Federal Reserve have so far reduced monetary policy interest rates by 75 basis points. As inflation has moved closer to the 2 per cent targets set by central banks, markets expect more monetary policy interest rate cuts in both the US and Europe.

Housing prices in Denmark have generally increased in 2024. This is partly because interest rates have fallen, the labour market remains strong and real wages are rising. The overall growth in mortgage lending to households is approximately zero. Mortgage lending is at its lowest level since 2005 in relation to disposable incomes. In an international context, Danish households are no longer the most indebted, but they are still highly indebted. The proportion of homeowners defaulting on their debt remains low.

Danish companies have generally been able to handle the higher financing costs that came with the interest rate hikes in 2022 and 2023, although this has resulted in total interest expenses more than doubling for over half of the companies. The proportion of companies in arrears remains low. Economic indicators and the derived business confidence indicator point to improving economic business conditions.

Systemic credit institutions' profits remain high, but lower interest rates may reduce banks' deposit margins. The lending margins of systemic banks have been reduced to a low level over a number of years. The decrease in the lending margins are mainly due to the fact that it has become cheaper to finance long-term loans, but also that the part of the lending

margin that covers the risk of loss has decreased. This may reflect strong competition for customers, but it is important not to underestimate the risk of loss.

### **The countercyclical capital buffer in Denmark is maintained at 2.5 per cent.**

Every quarter, the Systemic Risk Council assesses the adequate countercyclical capital buffer level. The buffer is to ensure that credit institutions have something to fall back on in the event of stress in the financial system. Based on the current risk outlook, the Council recommends maintaining the countercyclical capital buffer rate at the current level of 2.5 per cent. 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.

### **Interplay between the countercyclical capital buffer and the capital adequacy target in Denmark**

The Council discussed the expected effects of raising and releasing the countercyclical capital buffer in relation to the interaction with credit institutions' capital adequacy targets. The buffer's purpose is to ensure that credit institutions can absorb losses and rising credit risk during a period of stress in the financial system. This mitigates the real economic downturn that would otherwise result from an overly severe tightening of credit access for households and businesses.

The Danish Financial Supervisory Authority, DFSA, informed that in a situation of stress in the financial system where the countercyclical capital buffer is released, institutions can operate with a capitalisation below the capital adequacy target. The DFSA will clarify this in a note to be published on the DFSA's website. Institutions can thus use their excess capital adequacy, including the indicative level of additional own funds, to absorb losses. It is thus the Council's assessment that the release of the countercyclical capital buffer will result in the release of capital that the institutions can use to absorb higher losses, impairment charges or increases in credit risk. The Council discussed the connection with the strategy for the build-up and release of the countercyclical capital buffer and the importance of clear communication in this respect.

### **Risk scenarios for the green transition**

The Council was briefed on the work of Danmarks Nationalbank and the European Central Bank on risk scenarios for the green transition. The Council includes climate risks in its monitoring of systemic risks in Denmark, as climate change and the green transition will spill over to the financial sector and may affect the stability of the financial system.

### **Follow-up to the Council's recommendation on the activation of the countercyclical capital buffer in Greenland**

The Minister for Industry, Business and Financial Affairs has followed the Council's recommendation to activate the countercyclical capital buffer in Greenland. At its meeting on 30 September 2024, the Council recommended to the Minister for Industry, Business and Financial Affairs that the countercyclical capital buffer be activated at a rate of 0.5 per cent effective from 1 January 2026, and 1 per cent effective from 1 July 2026 due to signs of build-up of cyclical systemic risks in Greenland.

For further information, please contact [mail@risikoraad.dk](mailto:mail@risikoraad.dk) or *Teis Hald Jensen*, Communications and Press Officer, on tel. +45 3363 6066.