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## 48th meeting of the Systemic Risk Council

*Global trade conflicts and uncertainty about the geopolitical situation are affecting the risk outlook. In Denmark, the financial sector remains robust. Credit growth is moderate, financial institutions expect decent results for 2025, and the Danish economy is expected to grow further this year. Economic growth in Denmark is increasingly driven by a few large export corporations, and the Systemic Risk Council discussed this so-called dichotomy of economic growth and its impact on financial stability in Denmark. Based on the current risk outlook, the Council recommends maintaining the countercyclical capital buffer in Denmark at 2.5 per cent. In regards to Greenland, the Council continues to recommend the planned phase-in of the countercyclical capital buffer.*

**The financial sector in Denmark remains robust, but uncertainty about the geopolitical situation shapes the risk outlook.** The risk outlook is particularly dominated by the announcement and implementation of increased tariffs against several trading partners by the new administration in the United States. Global growth prospects are weakened by trade conflicts and the uncertainty surrounding them. Recent declines in U.S. stock prices may also indicate materialisation of risks. Although households and corporations in Denmark may be affected by a downturn in the stock markets, a correction is expected to have limited consequences for financial stability in Denmark when viewed in isolation. Operational risks, including cyber risks, continue to impact the overall risk outlook given the geopolitical situation, and the cyber threat to the financial sector in Denmark remains significant.

Overall, credit growth is moderate in Denmark. This development reflects, among other things, modest growth in credit to households despite rising housing prices. Financial institutions report unchanged credit standards on their corporate lending according to Denmark's Nationalbank's lending survey. Institutions' earnings were high in 2024, as in 2023, due to high net interest income and low impairment charges. For several systemic institutions, the excess capital adequacy decreased slightly towards the end of 2024.

Looking ahead, markets expect lower monetary policy interest rates in both the euro area and the United States as global inflation approaches central banks' targets. In the United States, the strong pace of the economy is expected to slow down over the coming years, partly due to trade policy. In the euro area, growth is expected to remain weak. Growth prospects for Denmark are balanced with risks particularly related to tariff increases and geopolitical developments. Credit institutions in Denmark continue to expect decent results in 2025.

**The Council discussed the dichotomy of the Danish economy and its significance for financial stability in Denmark.** Growth in the Danish economy has since 2021 been characterized by a so-called dichotomy. Large parts of the economy have experienced subdued growth, while parts of the export sector have grown significantly. This is particularly related to a few large Danish corporations, which have increasingly become more prominent in the economy and which produce their goods abroad. There are not signs that credit institutions' exposures to the largest corporations in Denmark are contributing to the build-up of systemic financial risks. This risk perception must also be viewed in light of the fact that the

largest corporations in Denmark are financed by a significant degree of equity capital and capital from abroad.

**Based on the current risk outlook, the Council recommends maintaining the countercyclical capital buffer rate at the current level of 2.5 per cent.** Every quarter, the Systemic Risk Council assesses the adequate countercyclical capital buffer level. 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.

**In regards to Greenland, the Council continues to recommend the planned phase-in of the countercyclical capital buffer.** The countercyclical capital buffer in Greenland will be activated at a rate of 0.5 per cent from January 1, 2026, and 1.0 per cent from July 1, 2026, due to signs of build-up of cyclical systemic risks in Greenland. Greenland continues to be in a long economic upswing with a tight labour market, and where growth in total lending has increased further in 2024.