



31st meeting of the Systemic Risk Council

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The Systemic Risk Council

www.risikoraad.dk

mail@risikoraad.dk

The risk outlook continues to be influenced by covid-19 and the measures introduced to curb the spread of infection in Denmark and abroad. In light of current developments, the Council recommends that the rate of the countercyclical capital buffer should remain unchanged at 0 per cent. The Council does not expect to recommend an increase of the buffer rate until the middle of 2021 at the earliest.

Covid-19 still affects risk outlook

The risk outlook is still influenced by covid-19 and the measures introduced to curb the increasing spread of infection in Denmark and abroad. The latest restrictions are however not as far-reaching as during the spring and have diverse effects on different parts of the Danish economy. While activity in parts of the service industry is very restricted, other parts of the economy experience a rapid improvement of activity. Thus, economic recovery advances at various speeds.

Danish banks have on aggregate high excess capital adequacy relative to the applicable requirements. So far, loan losses have been relatively limited, in part because the government's relief packages have supported corporate and household finances. As government support packages expire, however, banks might still face increasing losses and a deteriorating credit quality.

At present, there are no indications of tight credit standards. Lending to both the corporate sector and households has grown at moderate rates, which is driven by low credit demand in the Council's view.

The housing market has seen a recovery in prices and trading activity after a temporary drop in March and April. Turnover and prices of owner-occupied flats, in particular, have risen strongly. The very low financing costs combined with increasing disposable income and a presumably temporary high housing demand increase the risk of further sharp increases in prices. Use of interest only mortgage loans in the current environment of low interest rates and increasing real estate prices might lead to speed blindness among households.

The Council discussed risks related to loans with deferred amortisation, including loans with deferred amortisation of 30 years. The Council will follow the development at its upcoming meetings.

The countercyclical capital buffer in Denmark remains unchanged

The Council recommends that the rate of the countercyclical capital buffer remain unchanged at 0 per cent, given the risk outlook development. Events during the covid-19 period have clearly demonstrated how important it is to have built a buffer of sufficient size to make a difference when released. Therefore, it is important to start rebuilding the buffer

as economic growth normalises. This is in accordance with the Council's strategy of early and gradual phasing-in of the countercyclical capital buffer.

The Council does not expect to recommend an increase of the buffer rate until the middle of 2021 at the earliest. It might be necessary to rebuild the countercyclical capital buffer at a faster pace, should economic recovery speed up. The path for rebuilding the countercyclical capital buffer will also depend on the development and conduct in the financial sector. Since it usually takes 12 months from a decision to raise the buffer rate until the increase becomes effective, the institutions will not be expected to meet a positive buffer requirement until the middle of 2022 at the earliest.

The Council recommends a countercyclical capital buffer of 0 per cent in Greenland

The Council discussed the current economic and financial situation in Greenland. In light of the discussion, the Council currently recommends that the countercyclical capital buffer rate for Greenland continue to be set at 0 per cent. Representatives of the Greenlandic self-government participated in the discussion.

Other issues

The Council discussed systemic risks related to the persistently low interest rate environment. The Council considers that the low interest rate environment can provide a breeding ground for risk build up in the financial system in the future. The Council will therefore continue to focus on monitoring systemic risks related to the low interest rate environment and will continuously assess the need to initiate new measures to mitigate them.

The Council continued its discussion of the IMF's macroprudential recommendations to the Danish authorities ([Link](#)).

For further information, please contact mail@risikoraad.dk or Teis Hald Jensen, Communications and Press Advisor, on tel. +45 3363 6066.