

26 June 2019

## PRESS RELEASE

### MEETING OF THE SYSTEMIC RISK COUNCIL

**The Systemic Risk Council has held its twenty-sixth meeting. According to the Council's assessment, risks continue to build up in the Danish financial system. In March 2019, the Council recommended that the countercyclical capital buffer rate should be increased to 1.5 per cent. The Council has taken note of the reply of the Minister for Industry, Business and Financial Affairs, that it should be up to the incoming government to make a decision on whether the countercyclical capital buffer should be increased. The Council expects to recommend a further increase of the buffer rate to 2 per cent in the 3rd quarter of 2019 unless the build-up of risks slows down considerably.**

#### **Continued build-up of systemic financial risks in Denmark**

*Global economic growth continues, but the pace is set to slow down this year. The slowdown has been especially pronounced in the euro area. Downside risks dominate the forecasts of international organisations, particularly the risk of escalation of the trade conflict between the USA and China, a "no deal" Brexit and a slowdown in China. Market participants are also increasingly worried about future economic developments. This is reflected in continued expectations of accommodative monetary policies in both the euro area and the USA. In the euro area, market participants expect monetary policy interest rates to remain negative until the end of 2023. Interest rates have decreased further during the last couple of weeks, leading to historically low interest rates on Danish government and mortgage bonds. The interest rate on a 10-year Danish government bond is currently around -0.25 per cent.*

*The current environment in Denmark with economic growth, low interest rates, high asset prices and ample lending capacity still provides an incentive to increase risk-taking. Competition for customers has intensified, and led to many credit institutions easing credit standards. A reversal in economic growth and real estate price increases can lead to larger loan impairment charges and losses on bank lending and hence lower earnings. Since interest rates are already at a historically low level, institutions must prepare for a recession without considerable falls in interest rates. Hence, it is important that the institutions are robust before the cyclical downturn sets in.*

*House prices have flattened over the past year. The development is especially pronounced for owner-occupied flats in the Copenhagen area, where growth in both prices and activity has slowed down. However, price levels remain high, supported by the very low level of interest rates. A pronounced decline in real*

estate prices may have negative implications for the institutions. Therefore, the Council finds it positive that growth in house prices has dampened. This development should be viewed in light of increased housing supply and the introduction of macroprudential measures limiting access to risky mortgage loans for highly indebted households since January 2018. The measures have helped curb the build-up of risks from new lending.

### **The countercyclical capital buffer rate in Denmark**

*In March 2019, [the Council recommended](#) that the countercyclical capital buffer rate should be increased to 1.5 per cent. The Council has taken note of [the reply of the Minister for Industry, Business and Financial Affairs](#), that it should be up to the incoming government to make a decision on whether the countercyclical capital buffer should be increased.*

*The Council expects to recommend a further increase of the buffer rate to 2 per cent in the 3rd quarter of 2019, unless the risk build-up in the financial system slows down considerably. It is the Council's opinion that the buffer rate should be gradually increased to a level of 2.5 per cent. The countercyclical capital buffer should be built up before financial imbalances grow too large and the economic developments reverse.*

*The Danish method for setting the countercyclical capital buffer rate is in compliance with European guidelines. In 2014, the European Systemic Risk Board, ESRB, issued a [recommendation](#) to member states regarding the approach to setting the countercyclical capital buffer rate. In 2019, the ESRB evaluated the member states' compliance with the recommendation. [ESRB's assessment](#) is that Denmark's method for setting the buffer rate is in full compliance with the recommendation.*

### **Other issues**

*The Council discussed the interaction between the future minimum requirements for the institutions' leverage ratio and the capital buffers of the credit institutions. The leverage ratio is an expression of the ratio between an institution's capital and assets. The future requirement will entail a higher capital requirement than the risk-based minimum requirement for financial groups with a large share of assets with very low risk weights, such as mortgage loans. This means that, in a crisis, some systemic institutions will not be able to fully use their capital buffers to absorb losses before they breach the minimum leverage requirement.*

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