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**The Systemic Risk Council**  
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PRESS RELEASE

## MEETING OF THE SYSTEMIC RISK COUNCIL

**The Systemic Risk Council has held its eighteenth meeting. The risk of sudden changes in risk perception and thus significant falls in asset prices is still high. The Council has published a heat map of systemic risks related to the housing market. Together with other relevant information this is used in the Council's risk assessment of the housing market.**

### **The risk of sudden changes in risk perception and thus significant falls in asset prices remains high**

Market participants expect interest rates in Europe and Denmark to remain very low for a long period to come. At the same time, there are general expectations of international economic growth, and risk premia in the international bond markets are at very low levels. This continues to entail a high risk that a sudden change in risk perception may lead to substantial falls in asset prices. It is in periods such as the present one, when measured risks are low, that risk-taking tends to increase, which may subsequently lead to losses. If this development continues, further initiatives may be required.

Given the increase in commercial property prices and in lending secured on commercial properties, the Council monitors the commercial property market. Before the financial crisis, activity was high, especially in the Copenhagen market, and the same property often changed hands several times within a relatively short period. There are currently no signs that price increases are due to speculative strategies involving fast buy-and-sell transactions of the same property.

To the extent that the rising property prices are driven by the very low interest rates, this may increase the risk of considerable price falls if interest rates rise. The Council will investigate whether the credit institutions to a sufficient degree take their customers' risks into account when granting loans for commercial properties.

The prices of cooperative housing have also risen considerably, especially in Copenhagen. Cooperative housing is the most common type of housing in Copenhagen, where lending by banks to individual members of cooperative housing societies is almost twice as high as lending for owner-occupied flats. Competition is intensive in the market for cooperative housing loans, and loans are granted without any down payment requirements. The lack of down payment increases the vulnerability of members of cooperative housing societies to falling

prices. The cooperative housing committee set up by the Danish government has published a number of proposals, including on down payments. Implementation of these proposals would support financial stability.

### **The Council has published a heat map of the build-up of systemic risks in the housing market**

The Council has published a [heat map](#) of risks related to the housing market. When several indicators deviate considerably from their historical benchmarks and this picture is supported by other relevant indicators as well as market and supervisory information, there may be an increased need for initiatives to mitigate risks. The heat map shows that signs of risks building up are still most pronounced in Copenhagen and environs.

On 30 March, the Council adopted a recommendation to the government on limiting credit institutions' housing loans at variable rates and/or with deferred amortisation if the borrower's total debt is more than four times the borrower's income in Copenhagen and environs and in Aarhus. The Council notes that the government has complied with the recommendation. The Minister for Industry, Business and Financial Affairs has issued a [guiding signal to the credit institutions](#) (only in Danish) to follow the Council's recommendation. The Minister has also asked the Danish Financial Supervisory Authority to collect data from the institutions on a quarterly basis with a view to monitoring compliance with the guiding signal.

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

The Council advises that the countercyclical buffer rate in Denmark be maintained at 0 per cent. However, the very low interest rates, combined with price increases in the property market, mean that the preconditions for build-up of systemic risks exist.

The Council has discussed its method for setting the buffer rate on the basis of its experience so far. At its next meeting, the Council will work on a revision of the method. The method should ensure that the buffer is a useful tool which will be built up well in advance of a potential crisis.

### **Other issues**

National macroprudential measures, such as higher capital requirements, may have cross-border effects as large banks typically have activities in several countries. The Council has published a [method paper](#) that describes the Council's approach to assessing the cross-border effects of Danish measures and the need to ask other countries to recognise them, as well as the Council's approach to requests from other countries.

The Council notes that the Minister for Industry, Business and Financial Affairs has complied with the Council's recommendation to set a general systemic capital buffer rate of 1 per cent for exposures in the Faroe Islands with effect from 1 January 2018.

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