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## PRESS RELEASE

**The Systemic Risk Council**  
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### 28TH MEETING OF THE SYSTEMIC RISK COUNCIL

**It is still the assessment of the Council that risks are building up in the Danish financial system and that the conditions exist for a further build-up of risks. The Council expects to recommend a further increase of the countercyclical capital buffer rate by 0.5 percentage point to 2.5 per cent in the 1st quarter of 2020 unless the risk build-up in the financial system slows down considerably.**

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

Global growth is slowing down, and international organisations expect lower growth in the coming years, especially in the euro area. The lower growth forecasts should be viewed in light of a number of downside risks, particularly the trade conflict between the USA and China, Brexit and a slowdown in China. The Danish economy is still in an upswing, but there are indications that growth has peaked. Financial conditions are generally easy, and market participants expect monetary policy interest rates to remain low.

*The low interest rates create a basis for the build-up of financial vulnerabilities through intensified search for yield, higher asset prices and easy credit conditions. The low yields on secure assets have boosted interest in risky investments and reduced the compensation required by investors for assuming credit, liquidity and interest rate risk. Despite downside risks for the economy, the risk premia on a number of assets are very low.*

*Lending by credit institutions still shows signs of risk build-up, although overall credit growth is moderate. Driven by intensified competition for customers, several banks have eased corporate credit standards for a relatively long period of time. This is reflected in e.g. lower interest rates on new loans. The long period of low interest rates and expansionary financial conditions provides a basis for further build-up of credit risk. Risks are amplified by a high level of total lending.*

*In the housing market, prices continue to increase, supported by low interest rates. Prices of single-family houses continue to rise. Prices of owner-occupied flats have remained largely unchanged since early 2018, but there are signs of moderate price increases again in the autumn. Homeowners with high debt-to-income and loan-to-value ratios increasingly opt for mortgage loans with a fixed interest rate and/or amortisation. The Council finds it positive that recent years' initiatives in relation to home financing have contributed to supporting the robustness of home buyers, thereby reducing risk build up from new lending.*

### **The countercyclical capital buffer rate**

*The Council noted that the Minister for Industry, Business and Financial Affairs has complied with the Council's recommendation from September 2019 to increase the countercyclical buffer rate to 2.0 per cent from 30 December 2020. In the 1st quarter of 2020, the Council expects to recommend a further increase of the buffer rate by 0.5 percentage point to 2.5 per cent unless the risk build-up in the financial system slows down considerably.*

### **Requirements for Faroese banks**

*The Council discussed capital buffer requirements and minimum requirements for own funds and eligible liabilities, MREL, in the Faroe Islands based on an analysis prepared in cooperation with the Faroese Systemic Risk Council. Representatives of the Faroese Systemic Risk Council participated in the discussions. The analysis will be published in the 1st quarter of 2020. The Council concluded that the current capital buffer requirements in the Faroe Islands are appropriate. Regarding MREL, the Council finds it important that the requirements for Faroese systemically important financial institutions, SIFIs, are determined according to the same principles as for Danish SIFIs so that banks can be restructured and returned to the market without the use of taxpayer funds if they fail. The Council will annually assess whether there are indications that phasing in of the requirements has significant negative implications for the Faroese economy. If that is the case, the Council is ready to recommend an extension of the MREL phasing-in period. In addition to capital buffer requirements and MREL, the Council discussed criteria for designating SIFIs in the Faroe Islands. The Council will continue to work on the analysis in relation to SIFI criteria in the Faroe Islands in order to reach a clarification in the near future.*

### **Other issues**

*The Council discussed risks related to the banks' transition to alternative reference rates in Denmark and abroad. Reference rates are used in financial contracts and instruments which require an interest rate reflecting the general market level. Both in Denmark and internationally, work is underway to switch from Interbank Offered Rates (IBORs) and other fully or partially estimate-based reference rates to transaction-based reference rates. The shift away from IBORs may entail financial, operational and legal risks. Hence, the Council finds it important that the sector is aware of the risks linked to the transition to alternative reference rates.*

*The Council discussed liquidity, solvency and resolution risks in mortgage banks, following up on its previous discussions of this topic. Among other things, the Council discussed developments in the mortgage banks' use of the general balance principle, the new Pillar II liquidity add-on, interaction between supplementary collateral and MRELS and developments in the mortgage banks' credit risks.*

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