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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 fifteenth meeting. Sudden changes in risk perception or in the level of interest rates may still lead to significant falls in asset prices, including property prices. The Council has published a discussion paper on financial initiatives targeted at the property market. For the Faroe Islands, the Council warns about systemic financial risks building up.

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There were small fluctuations in the financial markets in July and August, following some days of heightened volatility in the wake of the UK referendum on leaving the EU in June 2016. Expectations in the markets are now that interest rates will remain low for even longer than it was expected at the time of the Council's June meeting.

There is a risk that credit institutions will increase their risk-taking in the expectation of achieving higher returns. Earnings are being squeezed by the continued low interest rates and limited demand for new loans. However, the volume of housing loans is growing, especially in the cities, where prices for homes and residential real estate continue to rise at the fastest rate. The credit institutions state that credit standards are being eased for corporate lending.

The Council has published a [discussion paper](#) on financial initiatives targeted at the property market. The aim is to solicit opinions regarding initiatives to counter the systemic implications of a risky development in property prices. The work of the Council is to shed light on whether, and if so when, initiatives should be taken and how this could be done most appropriately. All contributions and opinions are welcome. Furthermore, the Council has invited a number of stakeholders to a conference on this topic on 18 November.

The Council warns about systemic financial risks building up in the Faroe Islands

There are clear indications that systemic financial risks are building up in the Faroe Islands and consequently the Council has issued a warning. If this development continues, it may be relevant for the Council e.g. to recommend the activation of the countercyclical capital buffer for the credit institutions in the Faroe Islands. The warning has been attached to the press release.

Other topics discussed by the Council

At the meeting, the Council also discussed a range of other topics, including:

- The level of the countercyclical capital buffer rate in Denmark. The Council still considers a rate of 0 per cent to be appropriate.
- Danish credit institutions' direct exposures to other financial intermediaries than credit institutions – so-called shadow banks – on the basis of a survey by the Danish Financial Supervisory Authority. The Council concluded that this type of credit risk does not pose a systemic risk to Danish credit institutions at present. The Council will further investigate other channels and transmission mechanisms through which other financial intermediaries than credit institutions may constitute systemic risks.
- How the Council will respond when other countries ask for recognition of initiatives in the financial area, i.e. reciprocity. This could e.g. be a request from Swedish authorities to subject Danish credit institutions' exposures in Sweden to the same requirements as the exposures of the host country's domestic institutions. The Council's view is that such requests should, as a main rule, be met. This will be the point of departure for the Council's recommendations to the relevant Danish authority, which will in most cases be the Minister for Business and Growth.

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