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The Systemic Risk Council
www.risikoraad.dk
email@risikoraad.dk

PRESS RELEASE

MEETING OF THE SYSTEMIC RISK COUNCIL

The Systemic Risk Council has held its twelfth meeting. The Council finds that the low level of interest rates and price developments in the housing market may still lead to the build-up of systemic risks. Furthermore, there may be systemic risks associated with a sudden change in the perception of risk in the financial markets combined with low market liquidity.

Due caution should still be exercised in relation to the low level of interest rates and price developments in the housing market

In the financial markets, there are expectations of low interest rates for an even longer period than was the case when the Council met in September. Growth in lending by credit institutions remains modest, and the institutions find that competition for both corporate and retail customers has intensified.

The low interest rates combined with economic recovery, greater optimism and the freeze on land tax in 2016 may boost the housing market further. That may especially accelerate house price increases in the cities, where prices have already increased the most. The land tax freeze affects single family houses more than owner-occupied flats. Experience shows that house prices typically start increasing before lending does. Debt accumulation from an already high level may amplify the risks associated with future credit growth, although the Danes' high gross debt is to a large extent concentrated on the families with most assets in the form of housing, financial savings and pension schemes. Historically, the period 2004-06 – when house prices soared – saw a substantial increase in the proportion of home buyers in Copenhagen and environs and in Aarhus who in the year of purchase had high debt relative to their income and whose wealth was vulnerable to a decline in the value of the home.

It is still important for lenders to apply sufficient prudence when granting loans on the basis of real property, especially when granting loans at variable interest rates and with deferred amortisation. The Council's observations about low interest rates and the build-up of systemic risks still apply.¹

The Council recommends a countercyclical capital buffer rate of 0 per cent.²

¹ [Observation of 27 March 2015](#) and [observation of 30 September 2014](#).

² See the Council's [method for recommendations concerning the countercyclical capital buffer rate](#).

There may be systemic risks associated with a sudden change in the perception of risk in the financial markets combined with low market liquidity

Like the international financial markets, the financial markets in Denmark have been characterised by turmoil in recent months, but investor risk appetite is still strong. At the same time, several market participants report that liquidity in the markets has declined. A sudden change in the perception of risk in the markets combined with low market liquidity may lead to strong falls in asset prices and fire sales.

Other topics of relevance to the Council

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

- Cyber risk as a possible threat to financial stability, e.g. if critical institutions or payment and settlement systems are affected. Thomas Ahrenkiel, head of the Danish Defence Intelligence Service, participated in the discussions. Going forward, the Council decided to look closer into other countries' initiatives to secure the financial system's resilience to cyber attacks. The Council is also going to invite financial sector representatives to participate in a seminar focusing on cyber risks.
- Credit extension outside the regulated Danish banking sector, also referred to as the shadow banking system. The Council decided to map the relations of the largest credit institutions with foreign unregulated providers of credit and to identify the bank-like activities of pension, insurance and reinsurance companies.
- The Council's response to a sub-recommendation from the European Systemic Risk Board, ESRB, on the Council's strategy for macroprudential policy in Denmark ([ESRB/2013/1 of 4 April 2013](#)). The Council finds that the sub-recommendation has been complied with.

Enquiries can be directed to mail@risikoraad.dk or *Julie Holm Simonsen*, press coordinator, on tel. +45 3363 6022.