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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 seventeenth meeting. The risk of sudden changes in risk perception and thus substantial falls in asset prices is still high. The Council has adopted a recommendation on limiting risky loan types at high levels of indebtedness. Furthermore, the Council has adopted a recommendation on a systemic capital buffer in the Faroe Islands.

The risk of sudden changes in risk perception and thus substantial falls in asset prices is still high

Internationally, there are general expectations of economic growth. Risk premia in the international financial markets continue to be very low despite the increased uncertainty about economic policy internationally. The risk of a sudden revaluation of risk and thus significant falls in asset prices is still high.

Despite higher interest rate expectations, interest rates in both Europe and Denmark are expected to remain very low for a long period to come. Danish credit institutions increased their profits in 2016, and several of the largest institutions plan to distribute a large share of their profits as dividend. This reduces their opportunities to build up capital.

The very low interest rates have contributed to price increases for commercial properties, especially residential and business properties. At the same time, the institutions' mortgage lending secured on commercial properties has risen over the last two years. Historically, lending for commercial properties has been a source of systemic risk in Denmark. The Council has also registered high activity in the market for cooperative housing, noting that there are no down payment requirements for this type of housing. These areas will be in focus at future Council meetings.

In the residential property market, the very low interest rates enable households to raise the level of indebtedness, which increases the share of vulnerable homeowners and may push up house prices. In the areas where house prices have increased the most, more households have opted for high debt-to-income, DTI, ratios, and mortgage lending is growing faster than incomes.

The Council has adopted a recommendation on limiting risky loan types at high levels of indebtedness

The Council has adopted a recommendation to the government on limiting housing loans at variable rates 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. This initiative contributes to preventing slipping credit standards as observed during the boom leading up to the financial crisis. Around 85 per cent of new housing loans resulting in high DTI ratios was variable rate loans or deferred amortisation loans in 2015.

The countercyclical capital buffer rate in Denmark

The Council advises that the countercyclical buffer rate in Denmark be maintained at 0 per cent. In the light of the Council's intention to evaluate the method for assessing the buffer rate in 2017, it discussed other countries' approaches to setting buffer rates.

The Council has adopted a recommendation on a systemic capital buffer in the Faroe Islands

The Council has adopted a recommendation to the Minister for Industry, Business and Financial Affairs to set a general systemic capital buffer rate of 1 per cent for exposures in the Faroe Islands from 1 January 2018. The Council will involve the Faroese authorities in the discussion of the timing of a further increase. The systemic buffer is to make the Faroese banks more resilient to structural risks in the Faroe Islands. The Faroese economy is a small, open economy with a concentrated business structure. This makes it vulnerable to negative economic shocks, which could lead to large, unexpected losses for the banks.

Other issues

The Council noted that the European Systemic Risk Board, ESRB, assesses that Denmark complies fully with the ESRB's [recommendation on intermediate objectives and instruments of macro-prudential policy](#). The recommendation is aimed, inter alia, at the macroprudential authorities in the EU member states, i.e. the Council. A summary of the ESRB's assessment is published [here](#).

According to the legislative explanatory notes regarding the establishment of the Systemic Risk Council, the Minister for Industry, Business and Financial Affairs is to evaluate the Council. On the basis of a draft for the Minister's evaluation, the Council discussed its operational experience over the four years since its establishment.

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