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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 sixteenth meeting.**

**The risk of sudden changes in risk perception leading to substantial falls in asset prices has increased. The Council continues to work on initiatives targeting the property market with inputs from responses to the Council's discussion paper. Regarding the Faroe Islands, the Council will at its next meeting discuss the scope for applying the systemic risk buffer.**

#### **The risk of sudden changes in risk perception leading to substantial falls in asset prices has increased**

The international political uncertainty regarding fiscal policies and global trade has increased. Nevertheless, international financial markets have been relatively resilient. That might reflect ample market liquidity and limited investment alternatives. The risk of an abrupt repricing of risk premia leading to a sharp fall in asset prices has therefore increased.

Market participants expect interest rates to remain at low levels for a long time, despite a small rise in the long-term interest rates recently. Prospects of continued low interest rates and limited domestic demand for new loans weigh on credit institutions' earnings potential and may increase their risk appetite.

The low interest rates affect the residential property market with significant price increases and growth in housing loans in Copenhagen and environs and in Aarhus. The housing market is also picking up at the nationwide level, albeit not at the same rate, while credit growth remains subdued. The freeze on land taxes in 2017 – and possibly up until 2021 – may further contribute to house price increases, especially for single-family houses, in areas where prices have already increased the most. Further increases in house prices may lead to greater optimism about future developments, providing the basis for greater risk-taking. This increases the risk that the price increases could be followed by corresponding price falls.

Based on housing market trends in Denmark's cities and the high level of household indebtedness, the European Systemic Risk Board, ESRB, has issued a warning to the Danish government that these conditions could impact financial stability via their effect on macroeconomic stability. The Council shares ESRB's assessment. The warning and the government's reply can be found [here](#).

### **The Council will continue to work on initiatives targeted at the property market**

The Council appreciates the constructive comments in response to the discussion paper on potential initiatives targeted at the property market offered in connection with the Council's conference held in November and in writing.

In the comments great importance is attached to robust financial framework conditions that automatically support stable developments in property prices and credit. It is acknowledged that sharp drops in prices can have serious implications for the financial system and the real economy. It is difficult to assess how far-reaching potential discretionary financial initiatives should be, but in several comments it is pointed out that the earlier the initiatives are taken, the less restrictive they presumably need to be. At the same time, financial regulation must be supported by stability-oriented economic policy in general. The written responses and the conference programme are available [here](#).

The Council will incorporate the comments in its further work and will at its next meeting discuss specific initiatives targeted at the property market. It is crucial that initiatives aimed at preventing the build-up of systemic risks are not taken too late.

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

The Council advises that the countercyclical capital buffer rate in Denmark should remain at 0 per cent.

### **At its next meeting the Council will discuss the scope for applying the systemic risk buffer in the Faroe Islands**

In response to the Council's warning from September about systemic financial risks building up in the Faroe Islands, the Council discussed whether risks in the Faroe Islands are cyclical or structural. The Faroese economy is characterised by a concentrated industrial structure and significant fluctuations in the economy. That might have systemic implications for the financial system. At its next meeting the Council will discuss a possible recommendation on the application of a systemic risk buffer in the Faroese Islands in order to increase banks' resilience towards structural systemic risks.

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