RECOMMENDATION

22 June 2021

Reactivation of the countercyclical capital buffer

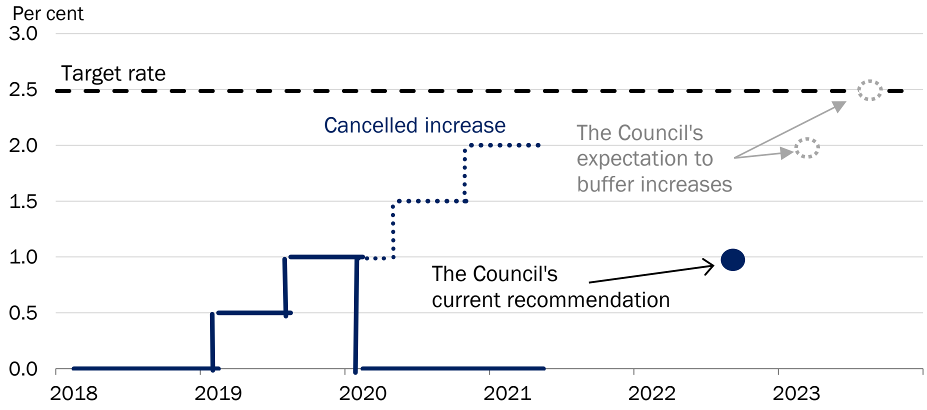
The Systemic Risk Council (the Council) recommends that the Minister for Industry, Business and Financial Affairs reactivate the countercyclical buffer at a rate of 1.0 per cent from 30 September 2022. The buffer was reduced from 1.0 to 0.0 per cent in March 2020 in response to covid-19. The Council finds that it is now time to rebuild the buffer.

Unless there is a significant slowdown in risk build-up, the Council expects to recommend a further increase in the buffer rate to 2.0 per cent by the end of 2021 with effect from the beginning of 2023. Phased buffer increases are in line with the Council's strategy of gradually increasing the buffer rate to a level of 2.5 per cent.

The buffer needs to be built up early so that capital can be released in the event of stress in the financial sector

The buffer should be built up before financial imbalances become excessive and the financial sector becomes vulnerable to negative shocks. When the buffer is increased, additional capital will be built up. This capital can be released when a need arises at some point in the future. Therefore, the Council is of the opinion that the buffer rate must be built up to 2.5 per cent quickly and gradually unless there is a significant slow-down in risk build-up in the financial system. With this recommendation, the credit institutions will need to comply with a positive buffer rate from the end of September 2022, see Chart 1.

The Council wishes to start re-establishing the countercyclical capital buffer Chart 1



Note: The buffer rate shown is the current rate to be complied with by the credit institutions. The point in 2022 shows the earliest time at which the credit institutions will have to comply with a higher buffer rate as set out in the Council's recommendation.

Source: Danmarks Nationalbank.

If the Council sees signs of a further acceleration in risk build-up, it may be necessary to recommend a quicker increase than the development outlined in Chart 1. Conversely, the Council is also ready to recommend a reduction of the buffer rate, or a cancellation of adopted increases, with immediate effect, if stress occurs in the financial system, and there is a risk of severe tightening of lending to households and companies.

Every quarter, the Council assesses what is a suitable countercyclical capital buffer level. If the Council finds that the rate should be changed, it will publish a recommendation addressed to the Minister for Industry, Business and Financial Affairs. The Minister is required, within a period of three months, to either comply with the recommendation or present a statement explaining why the recommendation has not been complied with.

The Council sets the buffer rate based on an overall assessment of the development in the financial system.[1] In addition to a number of indicators of financial system development, the Council also includes other relevant information, such as other policy measures, as well as current and future requirements to be met by the institutions.

The Council's website contains a number of frequently asked questions and answers with more information on how the countercyclical capital buffer is set in Denmark.[2]

Risk build-up in the financial system

The Council finds that risks are currently being built up in the financial system.

Low interest rates and very loose financial conditions, combined with the economic recovery, provide a basis for continued risk build-up. Risk perception is again low and at pre-covid-19 crisis levels. Equity prices and house prices have soared in the past year. Market participants expect interest rates to remain low for a lengthy period.

Although credit growth has been subdued as a consequence of the government relief packages for the corporate sector, it is expected to pick up as the relief packages are phased out. However, lending to households has continued to increase in the past year, and demand for loans has risen in early 2021 in step with increasing housing market activity. Even if credit growth remains moderate, the risks are exacerbated by lending already being at a high level.

As a consequence of the government relief packages, central government debt has risen sharply in both the United States and Europe. This reduces the likelihood of states being able to mitigate the negative effects of a future crisis. The central banks' room for intervention has likewise been restricted following further interest rate cuts and historically large asset purchase programmes. This highlights the importance of the credit institutions being resilient and having the necessary capital to support their lending in a future crisis situation.

The Danish economy is recovering. Although some sectors are still affected by lockdown measures, others are booming. The general level of economic activity is expected to pick up sharply as sectors affected by the lockdown reopen and the population is vaccinated. The Danes' savings have increased, while the covid-19 crisis has limited consumption opportunities. Rising equity and house prices have contributed to increasing wealth. The disbursement of the last weeks of holiday pay in spring provides an additional activity boost in the housing market or in the sectors that are being reopened.

Like the Danish economy, the international economy is recovering in step with the vaccine roll-outs and the easing of lockdown restrictions. The negative economic effects of new lockdowns in 2021 have been less severe than the negative impacts of the lockdowns at the beginning of the pandemic. The recovery is therefore expected to be faster than projected in connection with the introduction of more stringent lockdown measures at the turn of the year. The recovery of the international economy is important for the recovery of a small open economy like the Danish one.

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1 See the Council's method paper on setting the buffer rate(link)
2 See 'Frequently asked questions and answers'(link)

This assessment forms the basis of the Council's recommendation that the Minister for Industry, Business and Financial Affairs increase the countercyclical capital buffer. The IMF concurs with this assessment. The IMF recommends that the countercyclical capital buffer be built up gradually, unless there is a marked slowdown in risk build-up.[3]

The indicators in the Council's information set have been elaborated on in Appendix A. There is no mechanical correlation between the indicators and the buffer rate, given the uncertainty of measuring the development in systemic risks, including that historical indicators are not necessarily adequate markers of the future development. The Council's buffer rate assessment is therefore based on an overall assessment of the indicators in a more long-term perspective as well as other relevant information, such as interaction with other requirements.

The institutions have the capital required to meet an increase in the countercyclical capital buffer requirement

Virtually all credit institutions will at present be able to meet a requirement for a countercyclical capital buffer rate of 1.0 per cent,[4] including the institutions' capital requirements, MREL requirements and leverage ratio requirements, see the section *Other capital requirements*. The higher countercyclical capital buffer requirement will enter into force 12 months after the Minister has announced an increase, which means that the requirement will have to be complied with from the second half of 2022 at the earliest. The institutions thus have time to adjust.

A buffer rate increase of 1.0 percentage points raises the total regulatory requirement for Danish institutions' equity by approximately kr. 15 billion. By comparison, the total earnings of the sector were kr. 35.5 billion and kr. 19.6 billion in 2019 and 2020, respectively. The excess capital adequacy was approximately kr. 138 billion at the end of 2020[5].

The requirement that the institutions maintain a countercyclical capital buffer is not a hard requirement. This means that the institutions will not lose their licence to carry on banking business if they fail to meet the requirement. Instead, the institutions will be required to submit a capital conservation plan to the Danish Financial Supervisory Authority, and bonus and dividend payments, etc., may also be restricted if they fail to meet the total capital buffer requirement.[6]

The purpose of the buffer is to increase the institutions' resilience and ensure credit allocation during periods of financial stress

The countercyclical capital buffer is an instrument used to make the institutions more resilient by increasing the requirement for their capitalisation during periods in which risks build up in the financial system. If financial stress occurs with a risk of a severe tightening of credit allocation, the buffer can be reduced with immediate effect, thus releasing capital to the institutions.

To the extent that the institutions do not use the released capital to absorb losses, they may use it for new lending or to secure their excess capital adequacy. This improves the possibility for credit institutions to maintain an adequate level of credit allocation during periods of stress in the financial system. The buffer thus contributes to limiting the negative effects on the real economy.

The Council's strategy is that the buffer should be introduced gradually. This makes it easier for the institutions to adapt to the new, higher capital requirements, for example by

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3 IMF, *Staff Concluding Statement of the 2021 Article IV Mission*, 11 May 2021.

4 The institutions must meet the countercyclical capital buffer requirement with Common Equity Tier 1 capital.

5 This figure covers the excess capital adequacy relative to the institutions' solvency requirements and combined buffer requirements.

6 In addition to the countercyclical capital buffer, the total capital buffer requirement in Denmark consists of the so-called capital conservation buffer for all institutions and a SIFI buffer for the systemically important institutions, the so-called SIFIs.

retaining earnings. The Council therefore expects that any negative effect on the institutions' credit allocation will be limited.[7]

The buffer is first and foremost an instrument for making the credit institutions more resilient. It cannot be used as an instrument to control financial cycles, neither in an upswing nor in a downturn. The buffer must be released in situations where there is a risk of a severe tightening of credit allocation to households and companies, and therefore not necessarily in connection with a cyclical slowdown.

Other capital requirements

The Council also takes account of other policy measures in its reflections on the countercyclical capital buffer rate. Account is taken of other current capital requirements and eligible liabilities as well as the phasing-in of future requirements for the institutions.

MREL requirement

The MREL requirement is a minimum requirement for the institutions' eligible liabilities (MREL). The MREL requirement has been fully phased in for the systemic institutions except Spar Nord. The MREL requirement will be gradually phased in for Spar Nord and non-systemic institutions towards 2024. The MREL requirement concerns eligible liabilities that can absorb losses and recapitalise an institution in connection with resolution. The MREL requirement differs significantly from the countercyclical capital buffer. The purpose of the MREL requirement is to ensure that the institutions can be restructured or wound up without the use of government funds, and without such resolution having any substantial negative impact on financial stability. This purpose differs from the purpose of the countercyclical capital buffer, which is to make it possible for credit institutions to maintain an adequate level of credit allocation during periods of stress in the financial system. The buffer should preferably have been built up before such a situation occurs. The MREL requirement can be met with several types of capital and debt instruments, whereas the buffer requirements can only be met with Common Equity Tier 1 capital. However, capital used to meet the combined capital buffer requirement, including the countercyclical capital buffer requirement, cannot concurrently be used to meet the MREL requirement.

Overall, the Danish Financial Supervisory Authority assesses that the phasing-in of individual MREL requirements towards 2024 will not have a major impact on the possibility of non-systemic banks to meet a countercyclical capital buffer rate of 1.0 per cent. The Danish Financial Supervisory Authority expects the small banks to, largely, be able to meet the future MREL requirement increases via their existing own funds and through retained earnings. The systemic institutions meet their MREL requirements with their current capital and debt instruments and may, if necessary, increase their excess capital adequacy relative to MREL requirement by issuing MREL instruments or by retaining earnings.

Minimum requirements for eligible liabilities for groups engaged in mortgage lending

From 2022, groups engaged in mortgage lending must meet a new minimum requirement, as eligible liabilities must represent at least 8 per cent of the groups’ liabilities. In practice, this means that if a group's total capital, buffer and MREL requirements (including debt buffer for mortgage lending activities) constitute less than 8 per cent of its total liabilities, the debt buffer for the mortgage lending activities will increase until the total group requirements represent 8 per cent of the group’s liabilities. Some groups engaged in mortgage lending will therefore experience an increase in their MREL requirement. Groups engaged in mortgage lending to a large extent use capital to meet their MREL requirement and debt buffer requirement, but they have ample opportunity to issue additional non-preferred senior debt in their efforts to comply with the MREL requirement.

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7 Danish experience shows that the increased capital requirements introduced as part of the international regulation after the financial crisis have not resulted in a decline in lending, see Brian Liltoft Andreasen and Pia Mølgaard, Capital requirements for banks – myths and facts, *Danmarks Nationalbank Analysis*, No. 8, June 2018.

Leverage ratio
From July 2021, the institutions will also have to meet a minimum leverage ratio requirement. While the buffer is calculated in relation to risk-weighted exposures, the leverage ratio is calculated in relation to non-risk-weighted exposures. For groups with a large share of assets with very low risk weight, such as mortgage loans, the leverage ratio requirement entails a higher capital requirement than the risk-based capital requirement. The leverage ratio requirement and the risk-based capital requirement are two parallel capital requirements that are independent of each other. Therefore, an increase of the countercyclical capital buffer does not affect the leverage ratio requirement.

Output floor
The Basel Committee's so-called output floor is scheduled to be implemented gradually in the EU from 2023 to 2028. According to the Basel Committee, the purpose is to ensure a more uniform calculation of risk-weighted exposures across countries. The output floor requirement limits how low the risk weights can be in the banks' risk assessment of exposures when they use internal models to calculate the capital requirement. For institutions using internal models, this may result in an increase of their risk-weighted exposures and thus also an increase of their risk-based capital requirements. The output floor will be of a permanent nature, whereas the countercyclical capital buffer requirement can be reduced when risks materialise. The output floor must first be adopted by the EU before being introduced for the Danish institutions.

The Council’s recommendation is in compliance with current legislation.

Lars Rohde, Chairman of the Systemic Risk Council

Statements from the representatives of the ministries on the Council
"Legislation regarding the Systemic Risk Council stipulates that recommendations addressed to the government must include a statement from the representatives of the ministries on the Council. Neither the representatives of the ministries nor the Danish Financial Supervisory Authority have the right to vote on recommendations addressed to the government.

The government notes the Council's recommendation to the government to set the rate of the countercyclical capital buffer at 1 per cent with effect from 30 September 2022. The Minister for Industry, Business and Financial Affairs will announce the government's decision on the rate of the countercyclical capital buffer for the 3rd quarter of 2021 as soon as possible."

Appendix A – Indicators

The Council includes a number of selected key indicators in its assessment of the buffer rate to capture the build-up of systemic risk at various stages in the financial development. Supplementary indicators and other relevant information are also taken into account in the assessment to provide a more detailed picture than that painted by the key indicators.

The early stage of a period of financial expansion is often characterised by increasing risk appetite among investors.[8] This is reflected in higher asset prices, including prices of residential and commercial properties, and eased credit standards for households and companies. At a later stage in the financial development, households and companies may increase their debt in the expectation that property prices will continue to rise. This means that some indicators, such as property prices, signal the build-up of systemic risk ahead of other indicators, for example lending to households and companies.

The indicators included by the Council in the information set are outlined below. The indicators are divided into relevant categories.[9]

Risk perception

The financial stress indicator is at a low level and has been so for a number of years. Although the covid-19 pandemic initially led to a sharp increase in the stress indicator, it quickly dropped back to the pre-pandemic level.

Risk perception in the financial markets has been very low for a number of years, again only temporarily interrupted for a short period in the early stages of the covid-19 pandemic. At the same time, interest rate levels and expected returns on conventional investment products have been very low. To compensate for the low expected returns, several financial corporations have undertaken increased risks in the form of risky lending and investments. Based on the market participants' expectations of a continued accommodative monetary policy, this development can be expected to continue, which also increases the risk of the build-up of asset bubbles and systemic risk.

Property market

There are signs of a risk build-up in the housing market, especially in Copenhagen City. House prices have soared in both Copenhagen and the rest of Denmark sine April 2020. Transaction volumes have also increased and are at their highest level since 2006. At the same time, mortgage loans with deferred amortisation remain very widespread, especially among the most indebted homeowners. The very low financing costs and the option of deferred amortisation in combination with high housing demand create a risk of further risk build-up in the form of sharp increases in house prices and higher levels of indebtedness. The latest figures indicate that house price growth will continue through 2021.

Credit standards and credit development

Total lending by credit institutions to households and companies is at a high level and has increased moderately since 2015. Lending growth has generally been higher for corporate lending than for lending to households in recent years, although corporate lending growth declined in 2020 as a result of government relief packages and loan schemes. Moderate lending growth can mask the build-up of risks, for example if credit quality requirements are eased and new loans are granted to riskier companies.[10]

There are signs that credit allocation to households is again becoming riskier. According to Danmarks Nationalbank's lending survey, the institutions have eased credit standards for

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8 See also the Council's method paper on the countercyclical capital buffer(link).

9 The categories are described in the Council's method paper on the countercyclical capital buffer, see www.risikoraad.dk.

10 See notification from the Danish Financial Supervisory Authority, *Banker mere risikovillige ved lån til virksomhedskøb* (Banks' risk appetite is higher for lending for company acquisitions), 22 November 2018.

households since mid-2020, which coincides with the period of strong house price increases. This is reflected in, for example, a very low and still decreasing interest rate spread on new lending to households.

Every quarter, all EU member states must calculate and publish a so-called "credit-to-GDP gap" and an accompanying benchmark buffer guide based on the credit-to-GDP gap. The background is that, in retrospective analyses, the credit-to-GDP gap has been a good indicator for predicting systemic bank crises across a number of countries.[11] However, using the credit-to-GDP gap as an indicator of the current credit development poses challenges. One of the weaknesses of the indicator is that it relies on a statistically calculated trend that is boosted by the very high lending growth and high level of lending in the pre-crisis years. The credit-to-GDP gap is therefore highly negative in Denmark, but it has been increasing since 2018.[12] Several other countries had a positive countercyclical capital buffer rate prior to covid-19, even though their credit-to-GDP gap was negative.[13] Due to the challenges associated with using the credit-to-GDP gap as an indicator of the current credit development, the Council includes various credit development indicators in its assessment.

Risk build-up in credit institutions

Favourable developments in the financial sector in recent years – together with large customer funding surpluses in several institutions – have contributed to the build-up of significant capacity among the institutions to increase their lending in general. The customer funding surplus has continued to rise during the covid-19 pandemic as a result of government relief packages and the disbursement of frozen holiday pay. Combined with limited growth in demand for borrowing, this has intensified competition for customers. Together with optimism and a stronger risk appetite, this could lead to lower credit quality and the easing of credit standards. If credit standards are eased, this could result in losses when the financial cycle reverses.

The institutions' earnings have decreased since 2017, but from a high level. 2020 earnings were significantly lower than in 2019. This was a consequence of a sharp increase in the institutions' impairment charges as a result of management estimates of losses related to covid-19. However, much better results were posted for 2020 than expected in spring 2020, and the listed institutions also distributed a share of their earnings to shareholders in the form of dividends or share buy-backs. The institutions also expect earnings to increase in 2021. In the first half of 2021, many institutions have raised their profit guidance for the year.[14] Rising prices in the equity and housing markets are mentioned as primary factors expected to contribute positively to earnings in 2021. The institutions also continue to increase the volume of deposits that are subject to negative interest rates. This may contribute further to rising earnings in the future.

Model-based indicators

Estimates of the financial cycle show that the financial development is either on an upward trajectory or at a high level. Analyses of the financial cycle in Denmark show that the cycle is driven primarily by fluctuations in house prices and lending and that house prices have a tendency to move ahead of lending.[15] The estimates should be interpreted with caution as they do not provide an accurate picture of the current financial cycle. Therefore, the Council uses two different estimates to take model uncertainty into account. In addition, the end of

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11 In principle, the buffer guide must function as a common basis for when the buffer is to be activated and for the level of the buffer rate. To avoid "inaction bias", the credit-to-GDP gap and the buffer guide came to play a central role in international recommendations and legislation on the countercyclical capital buffer. It also follows from the recommendations and legislation that decisions on the buffer rate are not only to be based on the buffer guide, but that other quantitative and qualitative information should be included and published. See the source references to recommendations and legislation in the Council's method paper on the countercyclical capital buffer at www.risikoraad.dk.

12 The buffer guide is currently 0 per cent. According to the mechanical calculation, it will only turn positive when the credit-to-GDP gap is higher than two percentage points. The credit-to-GDP gap is shown in the chart pack in Chart A4 (right).

13 See, for example, European Systemic Risk Board, A Review of Macroprudential Policy in the EU in 2017, April 2018.

14 Including Nykredit, Jyske Bank, Spar Nord and several small institutions.

15 See Oliver Juhler Grinderslev, Paul Lassenius Kramp, Anders Kronborg and Jesper Pedersen, Financial Cycles: What are they and what do they look like in Denmark?, *Danmarks Nationalbank Working Paper*, No. 115, June 2017.

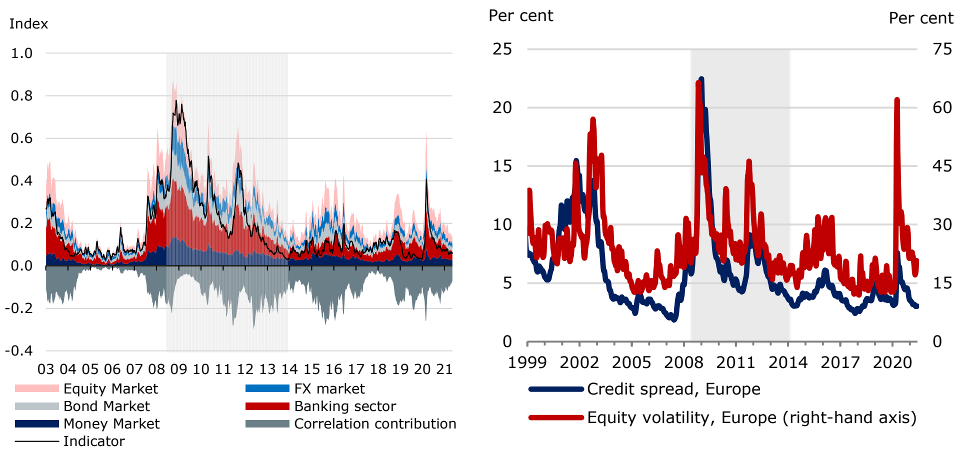
the data period is associated with some uncertainty, the so-called end-point problems. However, the method applied reduces this uncertainty.[16]

[16] See the addendum on page 54 in Grinderslev et al., Financial Cycles: What are they and what do they look like in Denmark?, *Danmarks Nationalbank Working Paper*, No. 115, June 2017.

Chart pack: Indicators

Risk perception Chart A.1

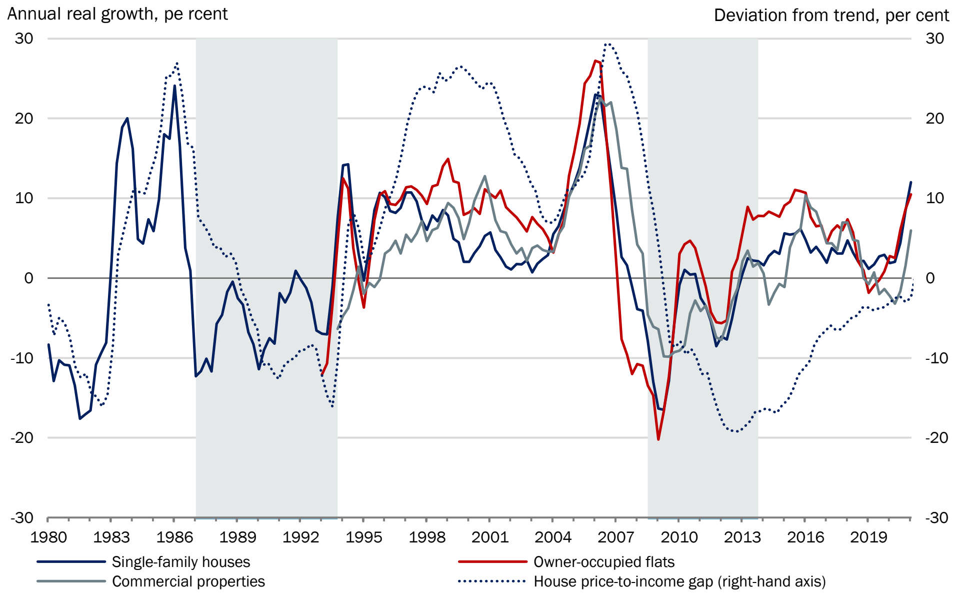
Financial stress indicator | Credit spread and equity volatility



Note: Grey markings indicate financial crises. 4-week moving averages. The financial stress indicator aggregates the level of stress in five key submarkets/sectors, taking into account that simultaneous stress in several submarkets is a greater challenge to the financial system. A value of 0 indicates very low volatility and strong confidence in the financial system, while a value of 1 indicates that the five submarkets are extremely dysfunctional and that the market participants are nervous. For further details, see the Council's method paper on the countercyclical capital buffer at www.risikoraad.dk. The most recent observations are from 30 May 2021.

Source: Bloomberg, Nordea Analytics, Thomson Reuters and Danmarks Nationalbank.

Property prices Chart A.2

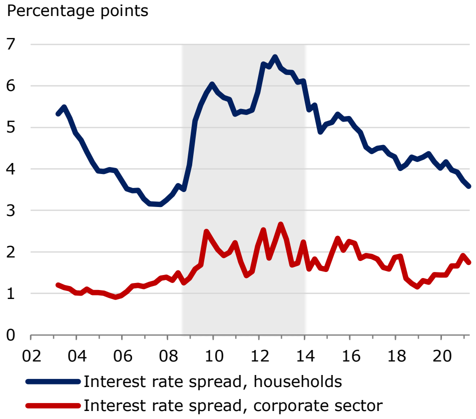


Note: Grey markings indicate financial crises. The house price gap is defined as deviations between house price/disposable income relative to a long-term trend (estimated by a recursive HP filter, lambda = 400,000), where the house price is the cash price of single-family homes. For further details, see the Council's method paper on the countercyclical capital buffer at www.risikoraad.dk. The most recent observations are from the 4th quarter of 2020.

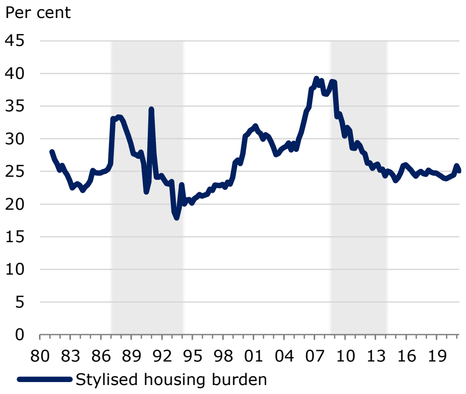
Source: Statistics Denmark, MONA's databank and own calculations.

Credit standards Chart A.3

The banks' interest rate spread



Stylised housing burden



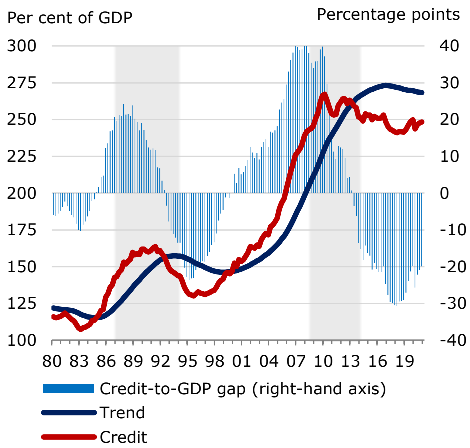
Note: Grey markings indicate financial crises.
Left-hand chart: 3-month moving averages. The interest rate spread is defined as the banks' lending rate on new lending, excluding overdrafts, relative to Danmarks Nationalbank's rate of interest on certificates of deposit (Danmarks Nationalbank's lending rate before 2009). The most recent observations are from March 2020.
Right-hand chart: The housing burden is a stylised calculation of the financing costs of buying a single-family house as a share of average disposable household income. The time series is affected by the one-off effect of the disbursement of frozen holiday pay in the 4th quarter of 2020. For further details, see the Council's method paper on the countercyclical capital buffer at www.risikoraad.dk. The most recent observations are from the 1st quarter of 2021.

Source: Statistics Denmark, the Association of Danish Mortgage Banks, Realkredit Danmark, SKAT (Danish Customs and Tax Administration), Danmarks Nationalbank and own calculations.

Credit development Chart A.4

Credit growth

Credit-to-GDP gap

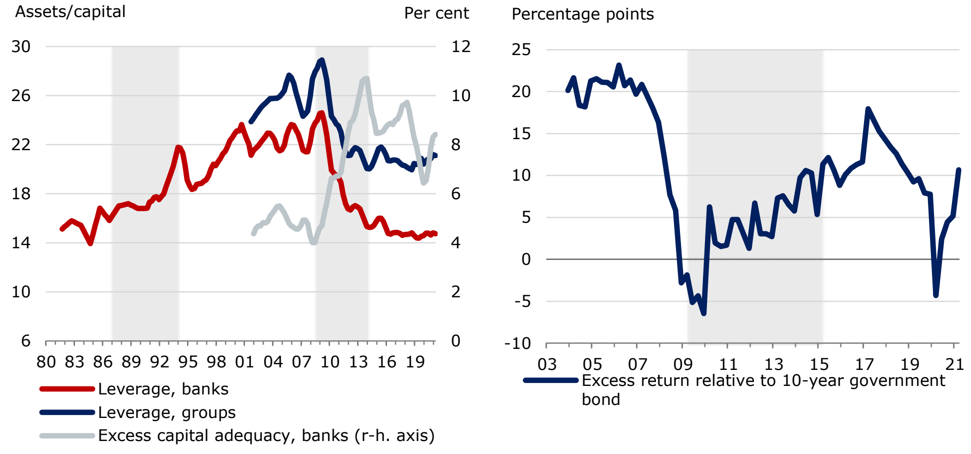


Note: Grey markings indicate financial crises. *Left-hand chart*: In "credit/GDP", lending is based on a broad definition of credit, while the other two lending series are based on a narrow definition. *Right-hand chart*: Lending is based on a broad definition of credit, and the credit-to-GDP gap is defined as deviations between credit/GDP and a long-term trend (estimated by means of a recursive HP filter, lambda = 400,000). For further details and source references, see the Council's method paper on the countercyclical capital buffer at www.risikoraad.dk. The most recent observations are from April 2021 for lending by credit institutions to households and the corporate sector and the 4th quarter of 2020 for credit/GDP and the credit-to-GDP gap.

Source: Kim Abildgren, Financial Liberalisation and Credit Dynamics in Denmark in the post-World War II Period, *Danmarks Nationalbank Working Paper,* No. 47, October 2007, Statistics Denmark, Danmarks Nationalbank, MONA's databank and own calculations.

Risk build-up in credit institutions Chart A.5

Leverage and excess capital adequacy | Banks' return on equity

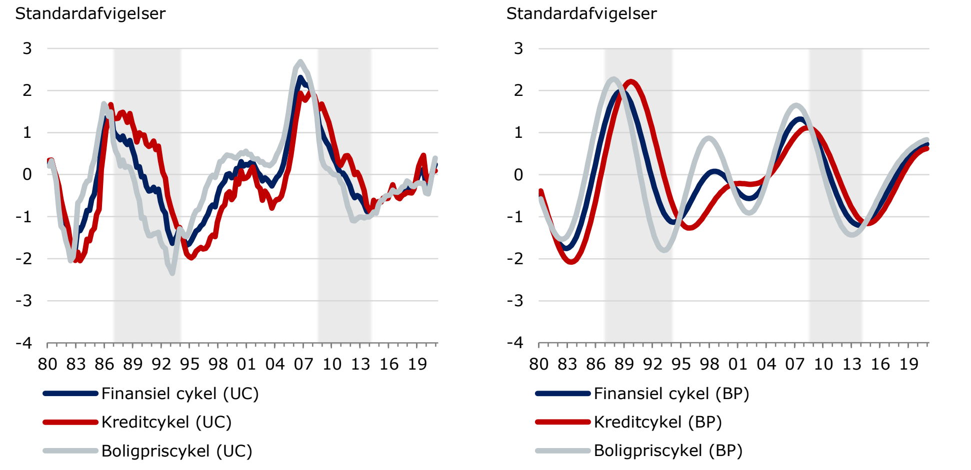


Note: Grey markings indicate financial crises.
Left-hand chart: 4-quarter moving averages. Part of the increase in the excess capital adequacy from 2016 to 2017 is due to the fact that Nordea Bank Danmark is not included in the data from the 1st quarter of 2017.
Right-hand chart: Annualised quarterly data for the banks' return on equity. For further details, see the Council's method paper on the countercyclical capital buffer at www.risikoraad.dk. The most recent observations for all series are from the 1th quarter of 2021.

Source: The Danish Financial Supervisory Authority, Bloomberg and own calculations.

Model-based indicators Chart A.6

Estimate of the financial cycle (UC) | Estimate of the financial cycle (BP)



Note: Grey markings indicate financial crises. Deviations from trend. The financial cycle is a simple average of the house-price cycle and the credit cycle. UC indicates that the cycle has been estimated based on an "unobserved components" model. BP indicates that the cycle has been estimated based on a "band-pass" filter. For details, see Oliver Juhler Grinderslev, Paul Lassenius Kramp, Anders Kronborg and Jesper Pedersen, Financial Cycles: What are they and what do they look like in Denmark?, *Danmarks Nationalbank Working Paper,* No. 115, June 2017. The UC model estimate includes a provisional projection of GDP from 2nd quarter 2020 to 4th quarter 2024. The most recent observations are from the 4th quarter of 2020.

Source: Danmarks Nationalbank, Statistics Denmark and own calculations.

Appendix B: Effect on other countries

Foreign institutions must also meet a Danish buffer

Foreign institutions with credit exposures in Denmark must also comply with a Danish countercyclical capital buffer requirement. Countercyclical capital buffer rate reciprocation is mandatory for the EU member states up to 2.5 per cent.[17] Reciprocity means that relevant authorities across countries recognise each other's measures, so that identical requirements are imposed on the institutions.

No negative effects in other countries of a higher buffer in Denmark

According to the European Systemic Risk Board, macroprudential authorities must assess possible cross-border effects of macroprudential measures. The Council's approach to assessing the effects is described in the memo *Reciprocation of macroprudential measures* posted on the Council's website.

The Council assesses that Danish institutions will not significantly change their lending abroad as a result of an increase in the countercyclical capital buffer rate to 1.0 per cent in Denmark. The Council's assessment is based on a number of factors, including the fact that the largest cross-border exposures are primarily in Sweden and Norway. Norway's current countercyclical capital buffer rate is 1.0 per cent and was 2.5 per cent before covid-19. Sweden's buffer rate is 0.0 per cent, but was 2.5 per cent before covid-19. Sweden has also announced a positive neutral countercyclical capital buffer rate target of 2.0 per cent, and the Swedish buffer can therefore be expected to be re-established quickly. In addition, the relevant institutions' strategy appears unaffected by previous changes in the Danish buffer rate.

A macroprudential measure is generally expected to have positive consequential effects on other countries. A lower risk of systemic risks materialising in Denmark also reduces the risk of infecting other countries exposed to the development in Denmark. However, there may also be negative impacts. For example, a stricter requirement in Denmark may result in Danish banks increasing their risk-taking in other countries if they want to pursue a higher risk profile than what is permitted by the stricter requirement in Denmark. This may contribute to reducing credit standards and result in the build-up of risks in other countries if those countries are in an expansion phase.

[17] The same applies to countries with which the EU has entered into agreements in the financial area.