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49th meeting of the Systemic Risk Council

The Systemic Risk Council
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The first half of 2025 has been characterised by a shift in the relationship between Europe and the US, particularly in trade policy, which affects the risk outlook for the financial sector in Denmark. At the same time, global geopolitical tensions remain elevated. High earnings place banks in a good position to handle potential losses related to uncertainty about the geopolitical situation and macroeconomic developments may incur. The Council recommends maintaining the countercyclical capital buffer in Denmark at 2.5 per cent. The Council has initiated its evaluation of the systemic risk buffer targeted at lending to real estate companies.

The policy of the US administration have led to a shift in the relationship between Europe and the US, which affects the risk outlook for the financial sector in Denmark. The shift is particularly clear in the uncertainty related to trade policy, and US announcements on tariffs since early April have led to large fluctuations in financial markets. These fluctuations reflect, among other things, uncertainty in the expectations for global growth, and especially in the US where the risk of recession has increased. This also affects the value of the dollar, which has fallen significantly in recent months despite typically strengthening during market turmoil. Within the euro area, it is particularly Germany that dampens growth. The geopolitical landscape continues to be marked by tensions, and the cyber threat to the financial sector in Denmark remains significant.

Overall, credit growth to households in Denmark is moderate, and housing prices continue to rise. Credit growth to businesses has increased in 2025, and although Danish export companies are vulnerable in the current risk landscape, banks' write-downs remain low. High earnings position banks well to withstand an economic downturn. This also applies to losses that may arise as a result of the trade conflict.

Going forward, markets expect lower monetary policy interest rates this year in both Europe and the US amid the weaker growth outlook. In Europe, increased investments in infrastructure and defence are expected to stimulate activity in the long term, although at the cost of rising public debt from an already high level. At home, a balanced growth trajectory is expected.

Based on the current risk outlook, the Council recommends maintaining the countercyclical capital buffer rate at the current level of 2.5 per cent. Every quarter, the Systemic Risk Council assesses the adequate countercyclical capital buffer level. The Council is ready to recommend a reduction of the buffer rate with immediate effect if stress occurs in the financial system and there is a risk of a severe tightening of credit granting to households and companies.

The Council has begun its evaluation of the sector-specific systemic risk buffer for exposures to real estate companies. The government activated the sector-specific systemic risk buffer on June 30, 2024, while deciding to evaluate it after one year. The Systemic Risk Council has now initiated its evaluation by meeting with stakeholders in the financial sector. The Council was informed about the sector's input for the evaluation, the structural

conditions related to the commercial real estate market, and the latest developments in the market.

The Council discussed systemic risks in the Faroe Islands and assesses that the counter-cyclical capital buffer in the Faroe Islands should be maintained at 1 per cent. The systemic buffer in the Faroe Islands is planned to be raised from 2 to 3 per cent, effective from July 1, 2025. The Faroese economy remains in a boom with a very tight labour market, while credit growth remains moderate.

The Council was informed about the latest developments in the market for crypto assets. The prospect of more lenient regulation in the US has contributed to renewed interest in the crypto asset market. Internationally, financial intermediaries show increased interest in engaging in the market for both unanchored crypto assets, which has so far been characterised by large price fluctuations, and so-called stablecoins. In Denmark, exposures to crypto assets appear very limited. Although financial intermediaries in Denmark only to a limited extent provide financial services based on crypto assets, the prevalence is increasing, and hence, developments should be monitored continuously.