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50th meeting of the Systemic Risk Council

The risk outlook for the financial sector in Denmark continues to be shaped by geopolitical tensions. However, more clarity on global tariffs may have contributed to lower uncertainty in financial markets in recent months. Domestically, the housing market once again draws attention, particularly in the capital where prices are rising significantly. This underlines the importance of lending rules as a safeguard against deteriorating credit standards. The Council recommends maintaining the countercyclical capital buffer in Denmark at 2.5 per cent. The Council has completed its review of the systemic risk buffer for exposures to real estate companies. Against the background of improved cyclical conditions, the Council recommends to the Minister of Industry, Business and Financial Affairs that the requirement is eased.

Despite the geopolitical tensions that currently weigh on the global economy, risk appetite in financial markets is high. Internationally, major stock indices have, for example, risen significantly, notwithstanding a sharp decline in the spring. Uncertainty related to both high sovereign debt levels and trade policy in several countries remains high, and the risk of abrupt changes in global financial market conditions hence remains significant. Nevertheless, measures of financial market uncertainty have declined over the summer, as greater clarity on global tariffs has emerged. Domestically, the housing market in the capital has come into focus. The pace of price increases on apartments in Copenhagen is high, trading activity is elevated, and time-on-market is very short. The Council is monitoring developments in the housing market with increased attention. The cyber threat against the financial sector remains high.

The Council discussed the role of leveraged investment funds in Danish money markets. The funds' exposures to mortgage bonds have increased in recent years and are concentrated on a few funds. The Council is closely monitoring the build-up of systemic risks related to leveraged investment funds.

Credit growth to households has picked up but remains moderate. In contrast, credit growth from banks to non-financial corporations is substantial. The latter is mainly driven by a few large corporations that compete on international markets and hence are less affected by domestic cyclical conditions alone.

Looking ahead, the outlook for the Danish economy is modest yet balanced, according to Danmarks Nationalbank, with the pharmaceutical sector facing slightly lower growth and weaker global trade weighing down exports. Manufacturing firms are already reporting a declining order intake. In the United States, growth is also expected to be modest the coming years, while the outlook for the euro area is one of low growth. Market participants expect several interest rate cuts in the United States, where inflation is slightly above the central bank's target, and market participants' inflation expectations could indicate concerns that tariffs may once again fuel inflation.

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 stands 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 recommends easing the requirement of the sector specific systemic risk buffer for exposures to real estate companies ([link](#)). A sector specific systemic risk buffer of 7 per cent on exposures against real estate companies has been in effect since the end of June 2024. Exposures within the loan-to-value (LTV) range of 0 to 15 per cent are currently exempt from the measure. The buffer currently entails a total capital reservation of kr. 11.6 billion, based on the credit institutions' own reporting. The Council has reviewed the buffer and, in doing so, involved the financial sector. The Council finds that there are still systemic risks related to the commercial real estate market that are not adequately addressed by other requirements. The Council also finds that the improvement in some cyclical conditions since the recommendation in October 2023, particularly interest rates, may justify easing the current requirement. In addition, relevant input from the dialogue with the financial sector has also contributed to a downward adjustment of the estimated requirement.

The Council therefore recommends easing the measure by exempting exposures secured by real estate in the 0 to 30 per cent LTV range, while maintaining the buffer rate at 7 per cent. The exemption of exposures in the 0 to 30 per cent LTV range implies that the most secure part of the exposures will be exempted. If the recommendation is followed, the total capital provision is estimated to be reduced from the current kr. 11.6 billion to approximately kr. 9 billion.

The Council continuously monitors developments in the housing market and the lending by financial institutions, and in that context discussed the experiences with lending rules in Denmark. The current lending rules are implemented under legislation aimed at consumer protection or at ensuring sound credit standards. The Council noted that lending rules have contributed to limit risky new lending to borrowers with high debt service and loan-to-value ratios, in particular during the period with low interest rates. Moreover, the Danish lending rules are more lenient than in other Nordic countries. Since 2023, housing prices in Denmark have started to rise again, and particularly prices on owner-occupied apartments in the capital have increased significantly. This underlines the importance of lending rules as a safeguard against deteriorating credit standards. The Council monitors developments in the housing market with increased attention.

The Council was informed about the ongoing work to establish an offline card payment contingency measure in Denmark. The combination of rising geopolitical tensions, an elevated level of hybrid threats and high dependency on a well-functioning digital card payment infrastructure underlines the need for a digital card payment contingency measure in Denmark. The Danish Payment Council is working towards establishing a society-wide payment contingency measure based on payment cards to ensure that citizens can pay for basic necessities for at least one week during an emergency situation.