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The Systemic Risk Council
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53rd meeting of the Systemic Risk Council

Global growth has so far proved robust in the face of the war in the Middle East and the continued high level of trade policy uncertainty. Global uncertainty has only to a limited extent affected the financial markets, where risk appetite remains high. The high increases in house prices in the capital area – and now also Aarhus – indicate that risks continue to build up in the housing market. At the same time, credit growth for housing purposes has increased in the municipalities in the capital region. In the Faroe Islands, cyclical systemic risks have been building up over a prolonged period and are at an elevated level. The Council recommends that the countercyclical capital buffer in the Faroe Islands be increased from 1 per cent to 2 per cent. The Council assesses that the countercyclical capital buffer in Denmark should be maintained at 2.5 per cent, and that a buffer rate of 1 per cent remains appropriate in Greenland.

Global growth has remained stable, but continued trade policy uncertainty and geopolitical tensions increase the risk of sudden setbacks. The war in the Middle East and the closure of the Strait of Hormuz have led to substantial increases in energy prices, which may further raise inflation and disrupt global supply chains. For the global economy, the International Monetary Fund expects moderate growth in the coming years, although the outlook is predominantly characterised by downside risks and high uncertainty. Despite fluctuations in financial markets, risk premia are low, and prices of risky assets are at levels comparable to the period prior to the war in the Middle East. Prospects of higher debt levels and continued fiscal deficits in several large economies may put further pressure on public finances. At the same time, there are signs that government debt markets in the United States and the euro area are becoming increasingly connected to money markets through short-term lending. This increases the risk that problems in one market may spill over to another. There is also increasing interconnectedness between the US AI and software sector and the market for lending outside the traditional banking system, so-called private credit. Although Danish financial entities have limited direct exposure to private credit, the Danish financial sector may also be affected if problems arise in the international market for private credit.

Banks' corporate customers are well positioned to withstand the current challenges associated with higher energy prices, and the share of non-performing loans remains low. However, some companies may be affected by rising energy and financing costs. Continued high earnings support the resilience of credit institutions, and Denmark's Nationalbank's stress tests show that all institutions can withstand a severe recession.

The most significant operational risks remain related to cyberattacks. The intensified threat landscape has led to efforts to strengthen crisis response preparedness in the event of serious and prolonged disruptions in the financial sector. The objective is to ensure that activities critical to society can continue to operate in such situations.

Risks in the housing market have increased. Price growth remains high in Copenhagen, and high price increases have now spread to other parts of the country. The strong price growth may, among other things, indicate that a fear of higher future house prices is influencing housing demand, including among first-time buyers. At the same time, credit growth to households has increased and amounted to 8.9 per cent year-on-year in the first quarter of 2026 in Copenhagen and Frederiksberg. Credit growth is primarily driven by house purchases, increasingly financed by variable-rate housing loans. All else being equal, this makes households more sensitive to interest rate increases.

It is essential that lending standards are not loosened, as this would increase risks in the housing market

The Council discussed risks related to the increasing use of mortgage-like bank loans

Over the past year, banks have increasingly granted mortgage-like bank loans as part of housing financing. These are bank loans offered on terms similar to mortgage loans. The increased use should be seen, among other things, in light of competition in the market for housing loans and general interest rate developments, which have increased demand for variable-rate housing loans. Homeowners taking out a mortgage-like bank loan must meet the same requirements as if they were to be credit approved for a variable-rate mortgage loan. In this context, there do not appear to be significant differences in the resilience of customers taking out mortgage-like bank loans and those taking out variable-rate mortgage loans.

Mortgage loans still account for the majority of total housing lending in Denmark. As housing finance is of systemic importance, the Council will continue to monitor developments. The Council notes in this regard that the Government intends to analyse the extent of banks' mortgage-like bank loans.

The Council has assessed the levels of the countercyclical capital buffer in Denmark, Greenland and the Faroe Islands. The Council assesses the appropriate level of the buffer each quarter. The Council is mandated to identify and monitor systemic financial risks in Denmark, the Faroe Islands and Greenland.

- **The Council assesses that the level of the countercyclical capital buffer in Denmark should be maintained at 2.5 per cent.**
- **At present, the Council assesses that a buffer rate of 1 per cent is appropriate in Greenland.** The countercyclical capital buffer rate in Greenland is currently 0.5 per cent and will be increased to 1.0 per cent from 1 July 2026, following the decision of the Minister for Industry, Business and Financial Affairs to follow the Council's recommendation from October 2024. Economic growth in Greenland has been subdued, reflecting lower activity in several areas, including the completion of a number of major construction projects. This is reflected in a decline in lending to businesses in 2025, while growth in lending to households remains moderate. For the important fishing industry, there is also uncertainty related to global macroeconomic conditions. There remains significant capacity pressure in the economy. Gradual increases in the buffer are in line with the Council's strategy of increasing the buffer rate gradually. In the longer term, the aim is therefore to build up the countercyclical capital buffer to a higher level so that more capital can be released in the event of a shock to the economy.
- **The Council recommends that the Minister of Taxation and Economic Growth increases the countercyclical capital buffer rate in the Faroe Islands from 1 per cent to 2 per cent from 30 September 2027.** The Faroese systemic risk council, Føroya Váðaráð, agrees with this assessment. The Systemic Risk Council assesses that systemic risks are currently building up in the financial system. The Faroese economy has been in a period of prolonged expansion with a very tight labour market, only briefly interrupted by the pandemic in 2020. House prices have risen over a number of years and price increases accelerated during 2025. Overall credit growth also increased during 2025. Gradual increases in the buffer are in line with the Council's strategy of increasing the buffer rate gradually to a level of 2.5 per cent.

The Council stands ready to recommend an immediate reduction of the buffer rate if stress arises in the financial system with a risk of a sharp tightening of lending to households and companies.

Status on the recommendation concerning the sector-specific systemic buffer. On 7 October 2025, the Council recommended to the Minister for Industry, Business and Financial Affairs a relaxation of the sector-specific systemic buffer for exposures to real estate companies. The Council is still awaiting a response to this recommendation.