DET SYSTEMISKE RISIKORÅD

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The Systemic Risk Council
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PRESS RELEASE

MEETING OF THE SYSTEMIC RISK COUNCIL

The Systemic Risk Council (the Council) has met. The Council discussed current financial conditions, the analytical basis for setting the countercyclical capital buffer rate and other relevant topics.

Current financial conditions

Financial conditions are assessed to be broadly unchanged since the Council's meeting in March. Lending by credit institutions was at an unchanged high level relative to the size of the economy in the 1st quarter of 2014. Measured in kroner, a small increase can be observed. Among the banks, there are signs of easing of credit standards and intensified competition. Earlier on, lending and credit standards have been characterised by stagnation and a tightening tendency since the financial crisis.

Internationally, there are clear signs of a search for yield against the backdrop of historically low interest rates. In the Council's assessment, no systemic risks have currently built up in the Danish financial sector as a result of the search for yield. The Council also discussed developments in the housing market, particularly in Copenhagen. The situation is not found to have systemic implications at present. However, prolonged periods with low interest rates, particularly in combination with an emerging upswing, may increase the risk taking of borrowers and financial agents. That heightens the risk of losses when interest rates rise again and also the risk that any shocks occurring may ripple through the financial system. The Council decided to analyse the implications, if interest rates remain historically low for a long time and to monitor housing market developments closely.

Analytical basis for setting the countercyclical capital buffer rate

The Council held preliminary discussions of the analytical basis for setting the countercyclical capital buffer rate that will apply in Denmark from 1 January 2015. The purpose of the buffer is to support the supply of credit in periods of stress. To that end, the capital requirement for credit institutions is to be increased in periods of higher-than-normal lending growth, when risks often accumulate. When times change, the requirement can be reduced so that the institutions can use their capital to absorb losses. This will facilitate maintaining a suitable level of lending. The Minister for Business and Growth is responsible for setting the capital buffer rate. The rate, which may be zero, can be set on the basis of a recommendation from the Council. A description of the Council's analytical basis for recommendations about the buffer level will be published in connection with the Council's meeting in December 2014.

Other topics of relevance to the Council
The deferred amortisation option offers advantages in the form of increased financial flexibility for households. The results of a survey showing that the mortgage banks' loan impairment charge ratios for loans secured by owner-occupied housing are higher for high loan-to-value (LTV) ratios were presented to the Council. Loan impairment charges and losses have been relatively low in the Danish mortgage credit system for a number of years, which is reflected in the institutions' capitalisation. Amortisation of the "last-ranking" part of mortgage loans with high LTV ratios may reduce the mortgage banks' credit risk over time. This could contribute to safeguarding the strong confidence in Danish mortgage bonds, which is important to financial stability. The Council initiated further analyses and will discuss this issue again.

On the basis of some studies, the Council concluded that large Danish credit institutions have obtained funding advantages for a period of time, as have large credit institutions in other countries, but that these advantages are difficult to quantify.[1] The advantages may be attributable to market expectations of implicit government guarantees due to the systemic importance of the credit institutions. It is to be expected that the funding advantages will decrease when the common international and European framework for resolution of credit institutions has been implemented and the SIFI requirements phased in.

The Council discussed the European Systemic Risk Board's, ESRB's, forthcoming assessment of member states' implementation of the ESRB's Recommendation on the macro-prudential mandate of national authorities (ESRB/2011/3 of 22 December 2011), which is expected to be published soon. The Council also discussed the Danish Financial Supervisory Authority's replication of the ECB's asset quality review of large European institutions.

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[1] Kraka (2014), Implicit statsgaranti (implicit government guarantee – in Danish only); OECD (2012), Implicit guarantees for bank debt: where do we stand?, OECD journal: financial market trends; and OECD (2013), An indicator to monitor the value of implicit bank debt guarantees, forthcoming in OECD Financial Market Trends.