DET SYSTEMISKE RISIKORÅD

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PRESS RELEASE

MEETING OF THE SYSTEMIC RISK COUNCIL

The Systemic Risk Council has held its eighth meeting. The Council advices that the countercyclical capital buffer rate be set at 0 per cent. The Council sees no signs of systemic risks building up at present. The Council's observation about low interest rates and the risk of systemic risks building up is still relevant.

Advice on a countercyclical capital buffer rate of 0 per cent
The countercyclical capital buffer can be used in Denmark from 1 January 2015. The Council advices the Minister for Business and Growth that the buffer rate be set at 0 per cent at present. The method on which the Council's assessment is based is described in the memo "The countercyclical capital buffer" (forthcoming in English).

The purpose of the buffer is to facilitate the scope for credit institutions to maintain suitable credit extension in periods of stress in the financial system. The buffer is first and foremost an instrument to increase the resilience of credit institutions. The buffer should not be regarded as an instrument to influence cyclical fluctuations. When the countercyclical capital buffer is introduced, the capital requirement for the credit institutions is increased in periods when systemic risks are building up, e.g. in periods of higher-than-normal credit growth. The Council expects lending growth to be affected only to a limited extent when the capital buffer is built up, but the credit institutions will be more robust if the financial system is exposed to stress. In that situation, the buffer requirement may be reduced, and the institutions may use the capital to, inter alia, absorb losses.

No signs of systemic risks building up, but the Council's observation about low interest rates is still relevant
Financial conditions are broadly unchanged since the Council's meeting in September. There are no signs of systemic risks building up at present.

Total credit outstanding is at a high level relative to GDP. The recent weak growth in lending by credit institutions continued in the 3rd quarter. There are still some signs of credit standards being eased for corporate customers due to the competitive climate among the institutions. As a whole, the banks have a customer funding surplus, and their liquid funds exceed current regulatory requirements by a good margin. The concentration of the banks' lending to individual industries was broadly unchanged in the 3rd quarter.

The Council's observation from September 2014 about low interest rates and the risk of systemic risks building up is still relevant. Long-term interest rates have declined further since September, and expectations of continued low interest rates in the years ahead may lead to increased risk-taking by credit institutions and borrowers. This may become particularly prevalent if the emerging Danish recovery gains momentum and the low imported interest rates become less compatible with the cyclical climate in Denmark.

In general, the Council monitors the build-up of systemic risks based on six areas, cf. the box. The Council's approach to monitoring is described in "Monitoring of systemic risks" (forthcoming in English).

Monitoring of systemic risks by the Systemic Risk Council **Box**

The activities of the Systemic Risk Council include the monitoring of many types of systemic risks. The monitoring activities are based on six areas specified as objectives:

1. Mitigate and prevent excessive credit growth and leverage
2. Mitigate and prevent excessive maturity mismatch and market illiquidity
3. Limit direct exposure concentrations
4. Limit systemic risks related to indirect exposure concentrations (interconnectedness)
5. Limit systemic risks connected with systemically important financial institutions and reduce misaligned incentives
6. Strengthen the resilience of financial structures

For each area, the Council monitors developments in a number of indicators. The intention is to identify the build-up of systemic risks in time so that initiatives can be taken to counter or prevent them. The aim is to mitigate future financial crises and their socio-economic consequences.

Source: The Systemic Risk Council, Monitoring of systemic risks, December 2014.

Other topics of relevance to the Council

The Council also discussed a number of other topics at the meeting, including:

- The use of repos and recycling of collateral in Denmark. The Danish Financial Supervisory Authority has conducted a survey in this regard. Work is ongoing internationally to improve the awareness and increase the transparency of the repo markets. The Council will continue to follow developments.
- Results of the European Asset Quality Review and stress test of credit institutions. The Council concluded that the Danish institutions are robust and rank among the best capitalised European institutions in the stress test together with the other Nordic participants.
- The Council's response to a recommendation from the European Systemic Risk Board, ESRB, on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1 of 4 April 2013). In its capacity as the macroprudential authority in Denmark, the Council finds that the recommendation is met.
- The report from Kraka's Financial Crisis Commission (Finanskrisekommissionen). Peter Birch Sørensen, Professor and member of the Commission, participated in the discussions.

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