PRESS RELEASE

DET SYSTEMISKE RISIKORÅD

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Developments in inflation and interest rates dominate the risk outlook. With the prospect of lower inflation, markets expect more accommodative monetary policy during 2024. Nevertheless, shifts in expectations for the interest rate developments carry the risk of a sudden market correction. The high earnings in credit institutions continue to contribute to strengthening the institutions' resilience against potential losses.

The risk outlook is largely characterised by the development of interest rates and inflation. Inflation has fallen significantly during 2023 in the US, euro area and Denmark. Falling energy and food prices, as well as the tightening of monetary policy, have contributed to a fall in inflation, which is now gradually approaching the ECB and Federal Reserve's target of 2 per cent. The fall in inflation has led market participants to expect interest rate cuts in 2024. However, higher wage growth can help maintain underlying price pressures, and geopolitical tensions can lead to price volatility. The US economy has proven robust, while activity in the European economy stagnated in 2023, albeit still with strong labour markets. Expectations of a soft economic landing have contributed to a narrowing of credit spreads on corporate bonds and higher equity prices. But shifting expectations for inflation and interest rate developments entail a risk of a sudden market correction.

The housing market is showing signs of a slowdown in the price development after house prices rose throughout most of 2023. The price of owner-occupied flats in Copenhagen increased in particular during 2023. The housing tax reform, which came into effect on 1 January 2024, may have helped accelerate the purchase of such properties, pushing up prices. In addition, high employment and growth in real wages help to explain the rise in prices more generally. However, interest rate increases in recent years have made it relatively more expensive to buy a home. In the commercial property market, there have been relatively few property transactions and major reductions in sale prices. The accounts of banks and mortgage credit institutions show no signs of deteriorating credit quality, while the credit standards applied by banks have remained unchanged and those applied by mortgage credit institutions have tightened.

The institutions generally grant fewer mortgages with deferred amortisation in connection with home purchases compared to earlier. But the share of new mortgages with both deferred amortisation and variable interest rates has increased since 2022. Interest rates on newly created mortgage debt have risen significantly in line with monetary policy rate hikes. The prospect of rising interest rate costs for Danish households with 3 and 5-year fixed interest rates that have not yet undergone interest rate adjustment will remain over the next few years. Wage growth will support the ability of households to service their debt.

Institution earnings remain high. The performance of systemic credit institutions reached a high level in 2023, driven in particular by higher net interest income, while positive value adjustments and low impairment charges also contributed to profits. Most of the largest institutions expect lower, albeit still high, annual profit in 2024 compared to 2023. This reflects the fact that several of the institutions expect higher impairment charges. High profits allow the institutions to increase their excess capital adequacy relative to their capital requirements while still being able to pay out dividends.

The systemically important institutions have varying degrees of exposure towards agricultural enterprises. A future carbon tax could have an impact on the economy of many agricultural enterprises, especially enterprises with animal husbandry. The extent depends on among other things the tax rate, transition abilities, and possible compensation.

The countercyclical capital buffer in Denmark

Every quarter, the Council assesses the adequate countercyclical capital buffer level. The Council finds it appropriate that the countercyclical capital buffer rate is maintained at 2.5 per cent of the risk-weighted exposure amount. The objective of the buffer is to ensure that the institutions have a cushion that makes them more resilient if systemic risks materialise. The Council is ready to recommend a reduction in 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 development of systemic risks on the Faroe Islands

The Council is tasked with identifying and overseeing systemic financial risks on the Faroe Islands.

The Faroese economy is small and open with a concentrated business structure that is highly dependent on fishing and fish farming. This makes the economy vulnerable to negative economic shocks which, with direct and indirect effects, may lead to losses in the financial sector and amplify fluctuations in the real economy.

At the end of 2023, the Faroese economy was still in a boom period with pressure on production capacity and a tight labour market with historically low unemployment. Despite interest rate and price increases, households and businesses seem to be able to cope with higher costs for the time being. There has been accelerating credit growth during 2023, outpacing growth in the economy. Lending to cyclical industries, such as real estate, is also accounting for more lending by the institutions.

The Council will discuss the need to take action at a future meeting to address the identified systemic risks.

Other items

The Council was informed about the Danish Financial Supervisory Authority's work on cyber stress tests. The first round of the test focused on the preparedness of the individual financial institutions participating in the test, and the results indicate several areas for improvement. The second round of the test is under planning in collaboration between the Danish Supervisory Authority and Nationalbanken, and here the focus is on mapping possible systemic consequences at the sector level of a breakdown. The Council regularly discusses operational risks, including cyber risks, as, in a worst-case scenario, such risks may threaten financial stability.

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