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The Systemic Risk Council

www.risikoraad.dk

For further information, please contact mail@risikoraad.dk or Teis Hald Jensen, Communications and Press Officer, on tel. +45 3363 6066.

The global economy has remained resilient despite heightened geopolitical and trade policy uncertainty. Risk appetite in financial markets remains high, but developments have been characterised by significant price fluctuations in AI-related market segments. At the same time, increasing government debt levels in several larger economies can lead to higher government bond yields. The high earnings of credit institutions help strengthen their resilience to losses. House price growth remains substantial, although there are signs of moderation in the market for owner-occupied apartments in Copenhagen. The Council finds that the countercyclical capital buffer in Denmark should be maintained at 2.5 per cent. The Council also notes that the Minister for Taxation and Economic Growth has decided to comply with the Council's recommendation to ease the sectoral systemic risk buffer for exposures to real estate companies.

The current risk outlook is characterised by continued robust economic activity despite heightened geopolitical and trade policy uncertainty. The International Monetary Fund continues to expect moderate global economic growth in the coming years, supported by strong activity in technology and AI. However, the war in the Middle East poses a significant risk and may increase inflationary pressures through higher energy prices and contribute to higher interest rate expectations in financial markets. Short- and long-term interest rates have also risen. Risk appetite in financial markets remains high, and the leading equity indices have risen further in 2026. However, developments have been characterised by significant share price fluctuations among suppliers of major AI companies. Such price fluctuations have been partly amplified by capital inflows into leveraged exchange-traded equity funds, which may contribute to increased selling pressure during periods of market turmoil.

Rising government debt levels in several major economies may contribute to higher and more volatile government bond yields in those economies. A growing proportion of government bonds is also held by non-banks rather than central banks, which may increase the risk of market stress in government bond markets. Government bonds are the primary form of collateral in international repo markets, and large fluctuations in government bond prices may therefore cause turmoil. That turmoil can have consequences for the wider Danish economy, including spill over effects to the Danish repo market, which is connected to international markets. As hedge funds use repo financing for leveraged investments in Danish mortgage bonds, concerns about government debt abroad may therefore also affect the Danish mortgage bond market.

Investment funds are an important investor group in the mortgage bond market and may be a source of systemic liquidity risk. The risks are primarily linked to a limited number of leveraged funds. Common investors and funding sources in the Nordic mortgage bond and repo markets increase the risk that market turmoil may spread across countries.

Bank corporate customers remain resilient. The earnings of credit institutions remain high, and Denmark's Nationalbank's stress test shows that the systemically important banks continue to have solid liquidity positions and are able to withstand a severe liquidity stress scenario.

The Council discussed systemic risks related to developments in the housing market. After two years of strong increases in the prices of owner-occupied apartments in Copenhagen, price growth has slowed since spring 2026. Recent developments in house prices and market indicators point to a gradual moderation in the market. However, the price increases in Copenhagen cannot be explained by developments in incomes and interest rates, which may increase the risk that the current moderation evolves into a price correction.

Price pressures have also spread to more parts of the housing market, including owner-occupied apartments in Aarhus. Growth in the prices of single-family houses nationwide has also picked up compared with recent years. Nationwide price growth for single-family houses is somewhat stronger than can be explained by developments in incomes and interest rates.

Credit growth to households is high in areas with strong house price growth. Growth is driven by adjustable-rate loans, increasing the interest rate sensitivity of households. In light of recent price developments and intensified competition among credit institutions, it is essential to maintain the lending rules which have ensured sound credit standards and that homebuyers do not take out loans they do not have their finances cannot support. This has helped limit the build-up of risks in the housing market. Easing the lending rules while housing supply remains unchanged will intensify upward pressure on house prices.

The Council finds that the countercyclical capital buffer in Denmark should be maintained at 2.5 per cent. Each quarter, the Council assesses the appropriate level of the countercyclical capital buffer. The Council's method for assessing the countercyclical buffer rate aims to ensure that the buffer is built up before the financial system is potentially hit by an adverse shock that may have consequences for financial stability and the real economy. The Council is prepared to recommend a reduction of the buffer rate with immediate effect if stress arises in the financial system with a risk of a severe tightening of lending to households and businesses.

The Council was briefed on systemic risks associated with the development of so-called frontier AI models. There is potential for increased operational systemic risks, as the models may increase the speed, scale and degree of automation of cyber-attacks. In this context, the Council discussed risk assessments by other organisations as well as how Danish and international authorities are addressing the risks.

The Council was briefed on the European Commission's banking report, which identifies potential areas for simplifying banking regulation. The report was published on 17 July and includes a number of possible initiatives affecting the macroprudential framework, microprudential requirements and resolution requirements. According to the European Commission, the potential adjustments are intended to strengthen the competitiveness of European banks and support investment. The Council noted that possible adjustments may affect the resilience of the financial system and the ability of the authorities to address systemic risks.

Simpler and more targeted rules may be appropriate, but the Council emphasises the importance of maintaining the resilience of the financial system and the ability to address systemic risks.

Status of the recommendation concerning the sectoral systemic risk buffer. The Council noted that the Minister for Taxation and Economic Growth decided on 30 June 2026 to comply with the Council's recommendation of 7 October 2025 to ease the sectoral systemic risk buffer for exposures to real estate companies.

Status of the recommendation concerning the countercyclical capital buffer in the Faroe Islands. On 17 September 2026, the Council noted that the Minister for Taxation and Economic Growth requested additional time to complete the consideration of the Council's recommendation of 17 June 2026 to increase the countercyclical capital buffer in the Faroe Islands from 1 per cent to 2 per cent with effect from 30 September 2027.