

# DANMARKS NATIONALBANK

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## CURRENT DANISH MACROPRUDENTIAL CHALLENGES IN A MACROECONOMIC CONTEXT

Per Callesen, Governor, Danmarks Nationalbank, 28 September 2018



Third ESRB Annual Conference  
27 and 28 September 2018  
Session 3: Macroprudential policy in recovering economies



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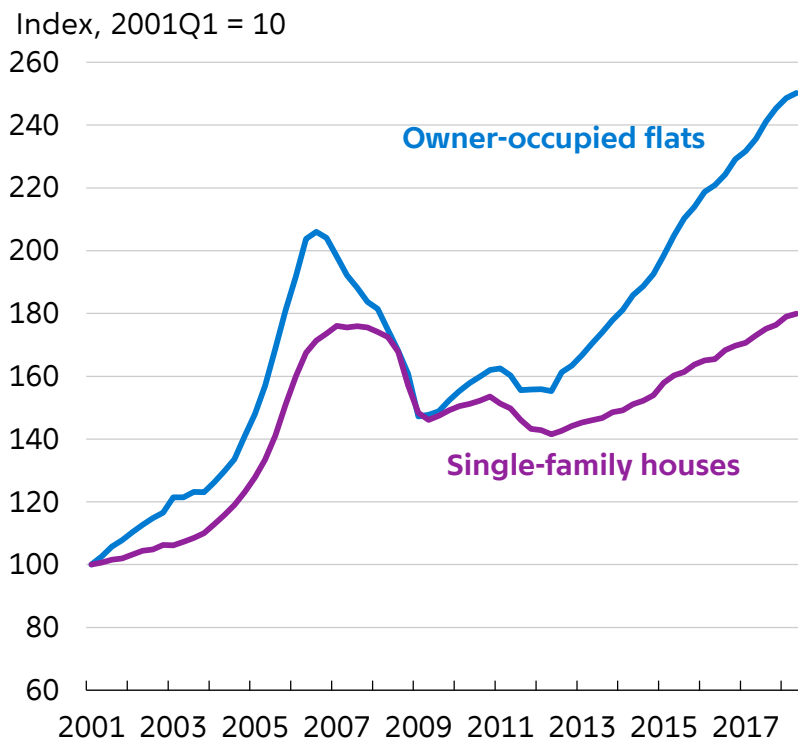
# Containing excesses

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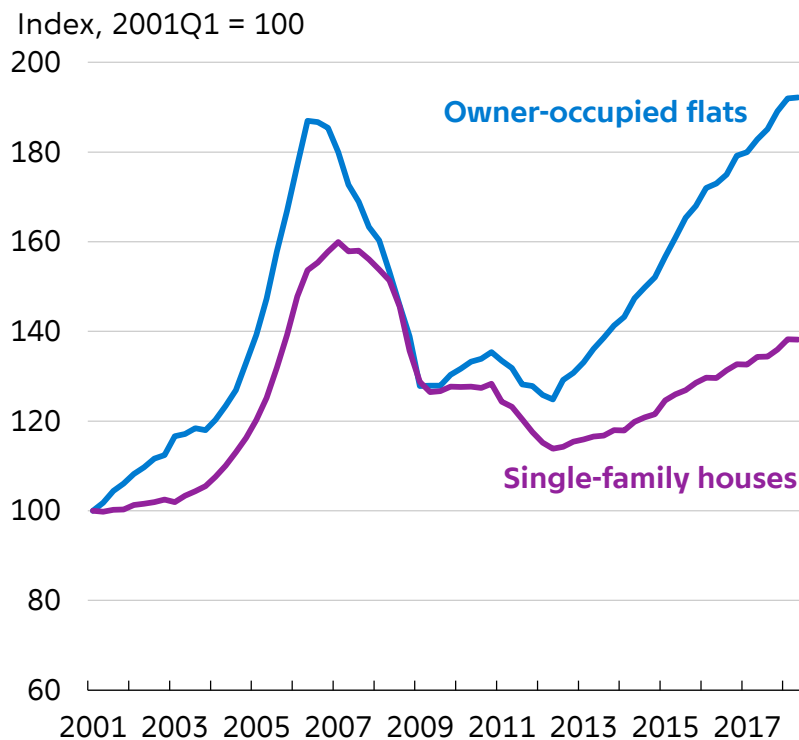
- Until now: Current expansion has been much healthier than normal
  - Strong, steady, employment growth
  - Moderate GDP growth
  - Solid public and private financial balances
- Moderation assisted by macroprudential framework measures and nudging
- Low aggregate credit growth
  - From a high level and due to weak demand for credit

# Rising house prices

## Nominal prices

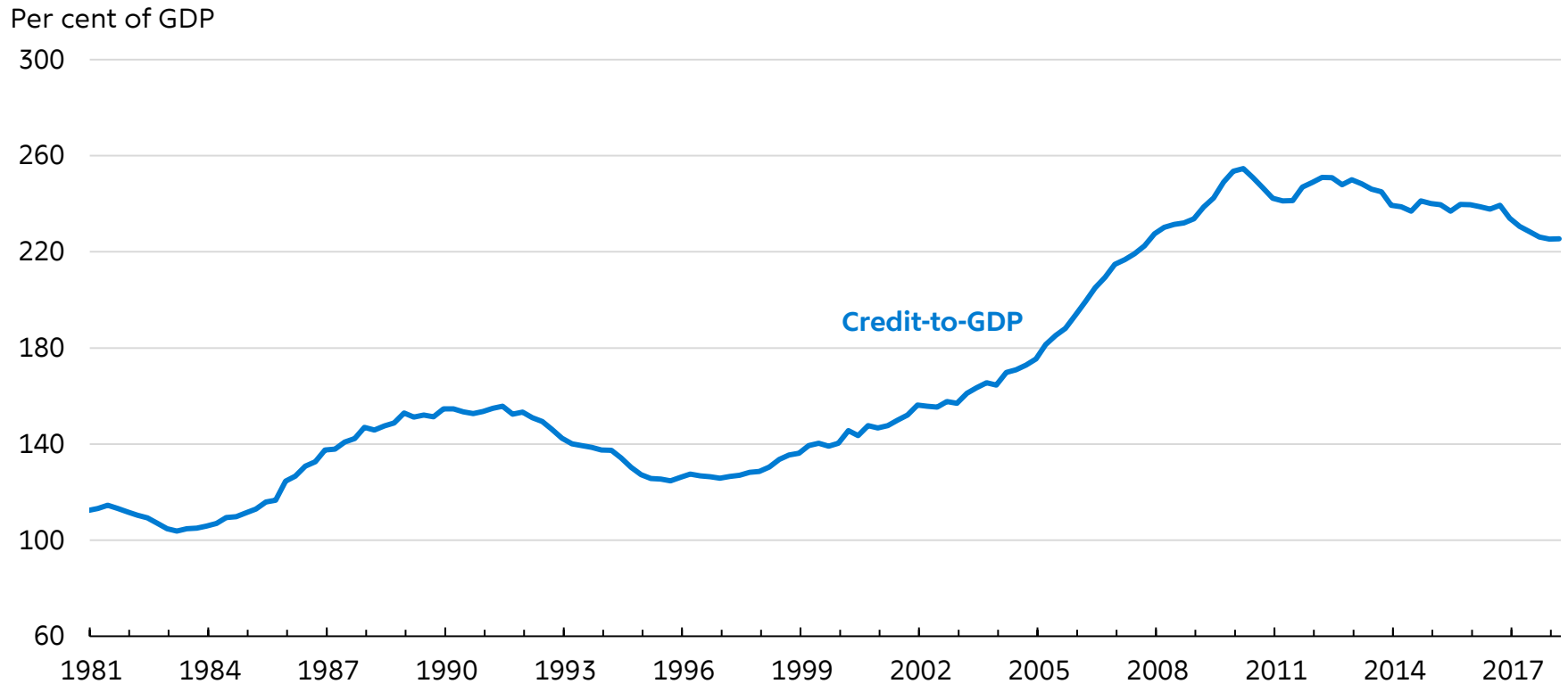


## Real prices



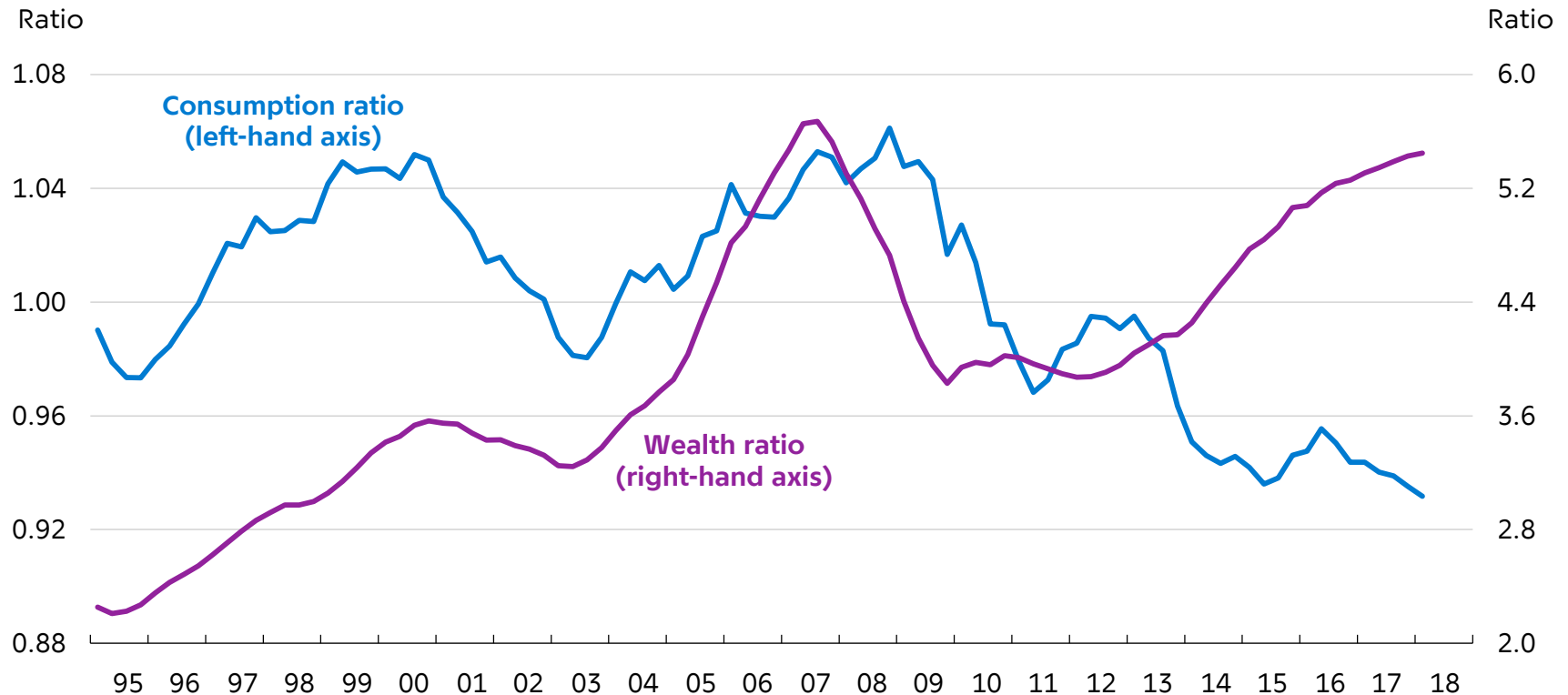
Note: Seasonal adjusted data.  
Source: Statistics Denmark.

# Credit growth is slower than economic growth



Source: Statistics Denmark and Danmarks Nationalbank.

# Low consumption ratio despite high wealth ratio – this time has been different



Note: 4-quarter moving averages. Consumption and wealth as percentages of disposable income. Disposable income is household disposable income according to the national accounts. Disposable income is adjusted for the extraordinary tax payments from restructuring of capital pensions and LD savings. Source: Statistics Denmark and own calculations.

# Selected macroprudential initiatives

Framework

**2013**

- Interest rate stress test of households' repayment capacity

**2014**

- Limits on deferred amortisation and variable rate lending

Nudging

**2016**

Largest cities:

- Higher interest rate stress test of households
- Guidance on max DTI for highly leveraged borrowers

**2017**

- Restriction on variable rate and deferred amortisation mortgages for borrowers with high LTV and DTI

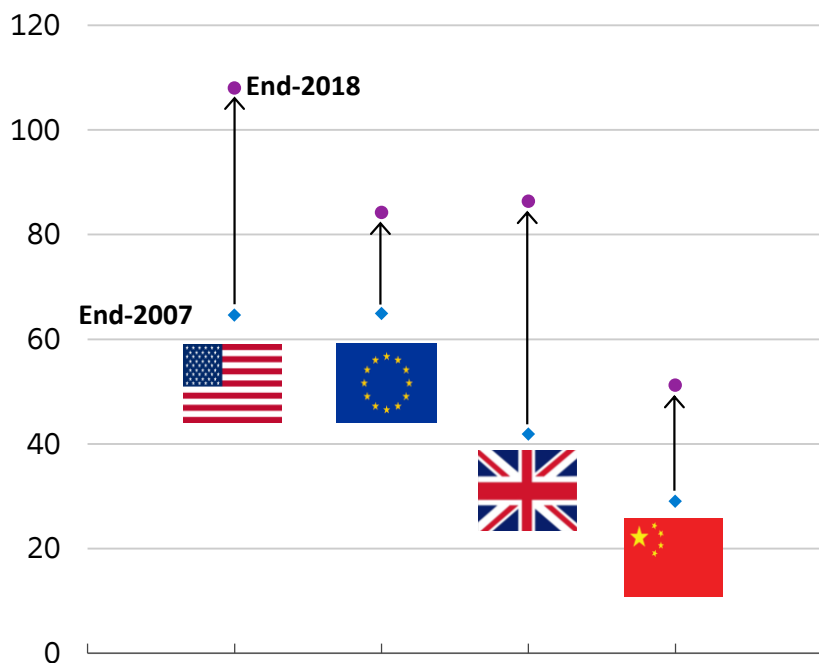
# Preparing for the next downturn

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- No or limited international scope for a new monetary and fiscal expansion
- Banks cannot be allowed to be part of the problem again
- A timely and well built up countercyclical capital buffer can be released in case credit squeeze is a risk
- Drivers of building up the buffer are not aggregated credit growth, but the broader range of cyclical risk factors

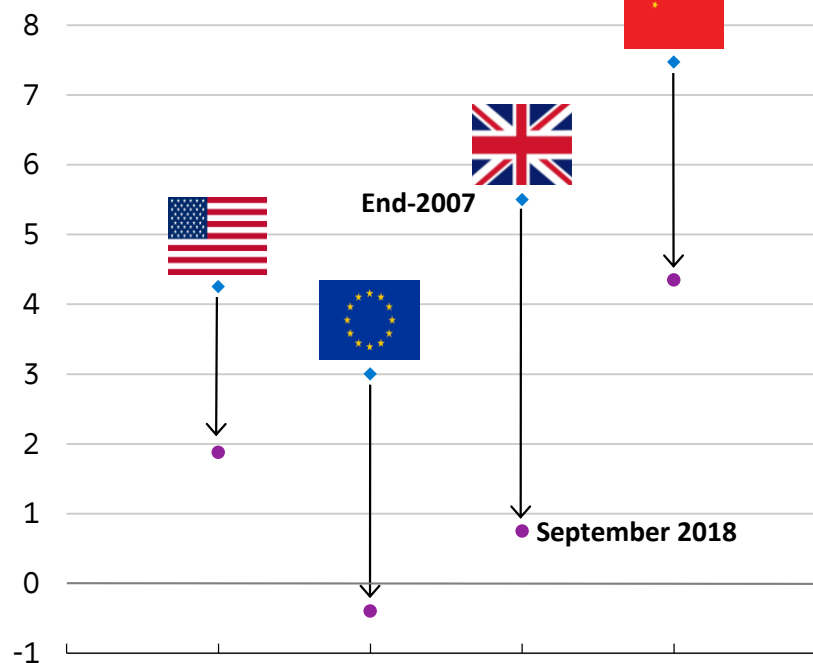
# Limited fiscal and monetary policy manoeuvring room

Gross government debt, per cent of GDP



Note: IMF estimates of gross government debt.  
Source: Macrobond.

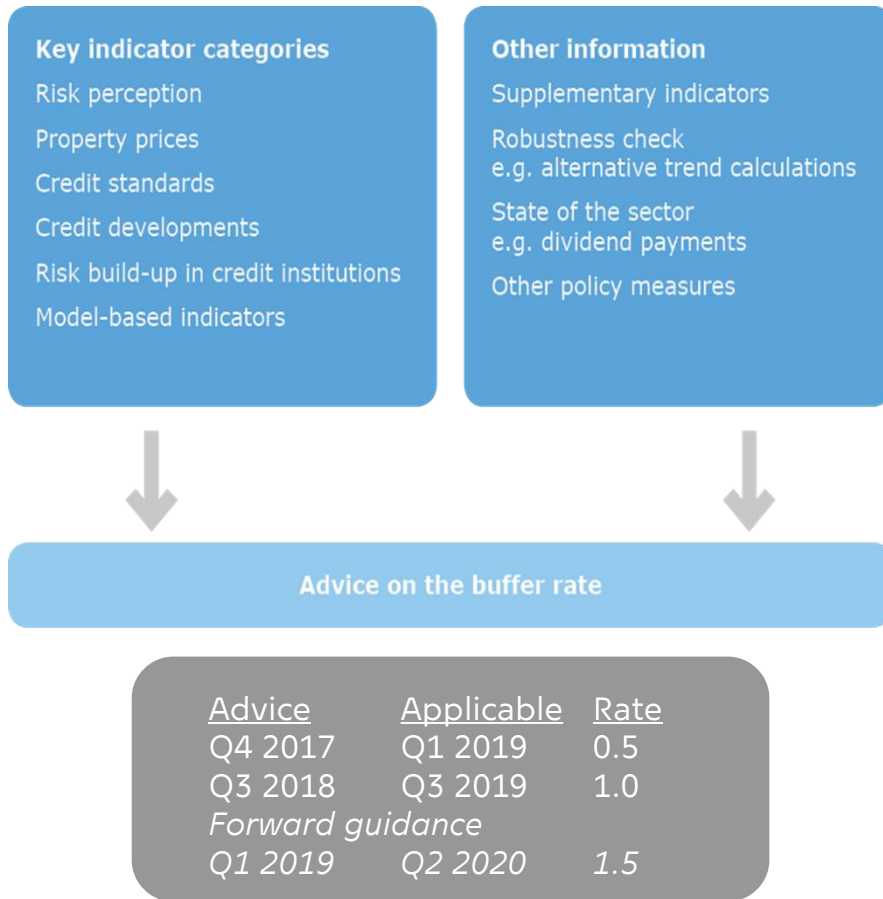
Monetary policy rate, per cent



Source: Macrobond and central bank websites.



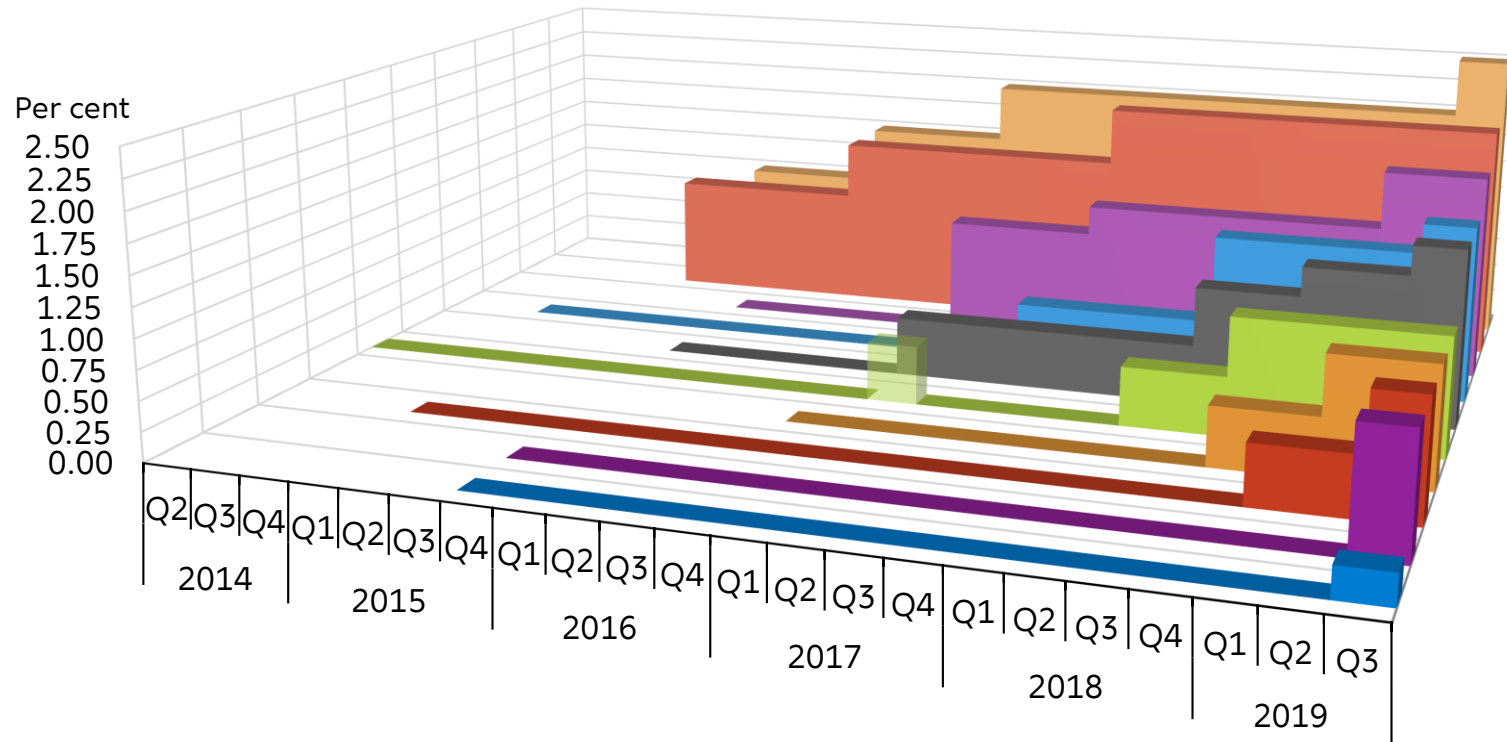
# Broad information basis for the Council's assessment of the buffer rate



## Drivers of the current assessment:

- Low risk perception and increased risk-taking
- Rising property prices
- Signs of increasing risk in lending
- Total lending at high level
- High earnings and a sizeable share distributed to shareholders
- Limited scope for action in monetary and fiscal policy (globally)

# The countercyclical buffer rates in other countries



Note: The UK decision to raise the buffer rate to 0.5 per cent with effect from March 2017 did not take effect, as the buffer rate was reduced to 0 per cent after the outcome of the Brexit referendum in June 2016. For countries other than Denmark, the announced buffer rates in Q3 2019 reflect available information as of 25 September 2018.

Source: European Systemic Risk Board's website and websites of national macroprudential authorities.