MINISTRY OF INDUSTRY, BUSINESS AND FINANCIAL AFFAIRS

9. september 2019

The Danish Minister of Industry, Business and Financial affairs' reaction to the ESRB recommendation:

I take note of the recommendation of the European Systemic Risk Board of 27 June 2019 on medium-term vulnerabilities in the residential real estate sector in Denmark (ESRB/2019/5).

The Danish authorities will report to the ESRB on the recommendation as requested in the recommendation. At this stage, I will summarize recent initiatives and my view of the current state of the housing market.

In 2016, the ESRB published a warning regarding the residential real estate sector in Denmark. At the time of the warning several initiatives had recently been put in force. These include the Danish FSA's "best practices" in areas with high housing price growth, a down payment requirement of 5 percent and a so-called supervisory diamond for mortgage credit institutions.

Since 2016, further measures have been taken, both capital-based to increase bank resilience and borrower-based to protect borrowers from taking excessive risk.

Regarding capital-based measures, the countercyclical capital buffer is activated in Denmark. Most recently, on the 4th of July 2019 on behalf of the Danish government, I have decided to increase the buffer to 1.5 percent, in line with the recommendation from the Danish Systemic Risk Council.

Regarding borrower-based measures, guidelines for borrowers with high debt-to-income ratios were put in place in January 2018. Potential borrowers with a debt-to-income ratio higher than four are now met with restrictions on which loan types they can choose. Data collected by the Danish FSA show that the guidelines have significantly reduced the share of new loans, which are considered to be relatively high risk. Together with other factors such as increased supply of housing and the housing tax reform, the guidelines have contributed to a stabilization of house prices in the Copenhagen area.

The government has a strong focus on ensuring a balanced evolution of housing prices, high credit standards in the real estate market and on the resilience of banks.

We will continously monitor the effectiveness of the taken measures and consider new measures, if warranted.