

DANMARKS NATIONALBANK

30 NOVEMBER 2018 — NO. 6

Competition between banks is healthy but may have an impact on credit standards

Medium-sized banks are expanding in growth areas

The medium-sized banks have expanded their activities in Aarhus and Copenhagen by opening branches and increasing their lending for housing purposes substantially. While the number of bank branches in Denmark has generally been falling for several years, the medium-sized banks have opened an additional 19 branches since 2012, most of them in growth areas such as Aarhus and Copenhagen. The establishment of branches in large towns and cities helps to explain why the medium-sized banks based outside Copenhagen are increasing lending in growth areas. However, there may be risks in-

involved when entering new market areas, Danmarks Nationalbank points out in its semi-annual analysis of financial stability in Denmark.

Competition for customers is typically intensified when the medium-sized banks enter new areas, and this can lead to easing of credit quality requirements and conditions for new lending. In Danmarks Nationalbank's lending survey, the medium-sized banks responded that they are not easing credit standards for households, but that competitor behaviour has a negative impact on credit standards.

Medium-sized banks' housing loans are growing most rapidly in the growth areas



Lending growth from end 2015 to medio 2018

Per cent	Medium-sized banks	Medium-sized banks excl. Copenhagen-based banks
○ Rest of Denmark	20	40
● Large cities	23	36
● Growth areas	32	65

Competition between banks is healthy, but it is important to refrain from using credit standards as a competition parameter when chasing new customers.

Medium-sized banks based outside Copenhagen have increased lending for housing purposes in Aarhus and Copenhagen by 65 per cent over the last two and a half years. For some years, migration to these two cities has been strong and house prices have soared. So it is natural for the banks to be attracted to these areas, but it is also important for them to understand that the risk is higher when providing loans far away from their local areas, Danmarks Nationalbank's analysis emphasises.

The analysis also shows that just over one-fourth of lending for housing purposes of the medium-sized banks based outside Copenhagen is now granted in

the growth areas, compared with just over one-fifth at the end of 2015.

Along with the analysis, Danmarks Nationalbank publishes its stress test of the largest banks. The results show that the largest, and consequently systemically important, banks have sufficient capital to withstand a severe recession scenario. The systemically important banks keep a comfortable distance to their minimum capital requirements, but a few are close to exceeding the add-on buffer requirements. If the banks were to build up equity capital instead of distributing dividends to their owners in the first year of the stress test, none of the systemic banks would be close to exceeding the buffer requirements.

See the full Financial Stability analysis and the Stress Test at Danmarks Nationalbank's website ([link](#)).

ABOUT NEWS



News are news articles based on analyses, working papers or other longer texts from Danmarks Nationalbank. News primarily

address journalists, politicians, government officials, specialists and others who want to be updated on current topics.

The news article consists of a Danish and an English version. In case of doubt regarding the correctness of the translation the Danish version is considered to be binding.

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This edition closed for
contributions on
27 November 2018



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SECRETARIAT AND
COMMUNICATIONS



In 2018, Danmarks Nationalbank will be celebrating its 200th anniversary. Danmarks Nationalbank's overall objective has been more or less unchanged during its 200-year life – to “maintain a safe and secure currency system” and “facilitate and regulate the traffic in money and the extension of credit”, as the Danmarks Nationalbank Act says.

One of Danmarks Nationalbank's objectives is thus to contribute to the stability of the financial system. Danmarks Nationalbank began publishing financial stability analyses in 2002. These analyses are part of Danmarks Nationalbank's assessment of the financial system in Denmark.

What have we learnt from previous banking and financial crises?

The last 150 years have seen multiple banking and financial crises. Crises in the financial sector are seldom identical and it is difficult to predict how the next crisis will evolve.

The two most recent banking crises both followed a period of overheating of the Danish economy and soaring property prices. The most recent financial crisis was triggered by the international economy. But pre-crisis developments also had an impact. Fiscal policy was too accommodative and contributed to the overheating of the economy.

The financial sector is subject to more regulation than many other sectors. There is every reason for this, as it can have major implications for society if a large bank becomes distressed. After the most recent crisis, several initiatives were launched to make the financial system more resilient and to seek to prevent similar situations from arising in the future.

First and foremost, the capitalisation and liquidity requirements for banks have been increased since the crisis. This makes them more robust. Mechanisms have also been introduced for the resolution of banks – even large banks – in a crisis. The purpose is to ensure that the key functions can be continued so that customers do not suddenly find themselves without a bank.

Another new initiative is that in future the shareholders and investors of a failing bank will bear the brunt of the losses, and in this way their interests will be aligned with those of society.

In Denmark, the Systemic Risk Council has also been established. The aim is to prevent risks from escalating to a level where they may have substantial negative implications for the financial system and the economy.

Unfortunately, there is no guarantee that we will not be hit by a new banking or financial crisis, but hopefully we are better prepared next time.

Number of banks 1810-2017

