

Denmark

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IN A NUTSHELL

- The economy grew 3.8%, slightly more than the EU average of 3.5%.
- The conflict in Ukraine and post-pandemic effects contributed to increasing interest rates.
- Inflation has been driven primarily by increasing energy prices.
- Sales of houses and apartments and prices started to decrease.

MACROECONOMIC OVERVIEW

The economy grew by 3.8% in real terms, 1 pps less than 2021. The drop was mainly driven by decreasing private consumption of goods and services and Government consumption expenditure, which fell 2.3%, and 3.5%, respectively. GDP growth was slightly above the EU average, 3.5%. Also, consumer prices increased by 7.7% in 2022.

The employment rate was stable at 76.6% - 76.7%. Unemployment increased from 4.4% in Q1 to 4.8% in Q4. The government budget surplus was 4.6%. Gross government debt was 30.1%, is low compared to other European countries. In June 2022 the deposit rate at the Central Bank was -0.6%, and rose to 1.75% by year end, due to high euro area inflation and the Danish central bank following the ECB's deposit rate hikes due to the fixed exchange rate policy between the DKK and EUR.

HOUSING MARKETS

Nominal house prices decreased by 6.3% over the year, reversing growth in the previous years, in 2021 they grew by 9.6%. Prices decreased more in the capital region, by the end of 2022, prices of houses in Copenhagen were 11.3% lower than the year before. Prices on owner occupied apartments in Copenhagen were 8.8% lower than the year before and decreased by 7.2% in general.

In total, 61,499 houses and owner-occupied flats were sold in 2022, far fewer than the 88,418 in 2021 - the highest level since the inception of the statistic. Increasing mortgage rates and other developments in the real economy have contributed to the lower housing market activity in 2022.

House completions rose by 8.6% in 2022. New house construction decreased by -23.1% and number of building permits issued dropped 2.9 pps compared with 2021.

MORTGAGE MARKETS

By the end of 2022, outstanding mortgage loans from mortgage banks amounted to DKK 3,119 bn of which approximately DKK 1,827 bn was for owner occupied housing. In addition, housing loans from commercial retail banks amounted to DKK 286 bn. In total, mortgage credit growth was 0.9% in 2022. Mortgage credit growth remains modest, and still much lower than in the mid-2000's, when growth rates were between 10% and 17%.

Mortgage lending activity in 2022 changed compared to previous years: Adjustable-rate mortgages have gained market share. Outstanding mortgage loans issued by mortgage banks are split between fixed rate mortgages (46.8% by year end 2022), mortgages with an interest reset under 1 year (23.4%) and mortgages with an interest reset above 1 year (29.9%).

Gross lending activity by mortgage banks continued at high levels. The lending activity was higher than 2021, but less than its all-time high in 2019. Total gross lending reached DKK 757.3 bn. Residential mortgages accounted for 68.7% of gross lending, 1.6 % pps more than in 2021. Gross lending activity is up by 20% compared to 2021. This increase can be explained by a higher level of re-mortgaging because of the higher interest rates. Loans with a value of approximately DKK 375 bn were re-mortgaged in 2022.

Fixed rate mortgages (typically fixed for 30 years) accounted for 49.8% of gross lending in 2022, a decrease of 9.1 pps compared to 2021. Adjustable-rate mortgages and interest reset mortgages accounted for 48.9%, and adjustable-rate mortgages with an interest rate cap accounted for 1.3%. The interest rates on fixed mortgage loans continued to rise during 2022 from a historically low level in 2021. 30-year fixed rate mortgages rose from 1.5% at the beginning of the year to 5% by year end. The short-term interest rate for borrowers was on average 1.29% in 2022.

Interest rates have been low for several years but are now rising due for several reasons – including central banks trying to control inflation. A possible reason for borrowers preferring adjustable-rate mortgages could be their expectations of future interest rates decreases when inflation is closer to the ECB's target of 2%. Also, the possibility to lower the monthly cost of the adjustable-rate loan compared to the fixed rated loan (at least on short term) may incentivise borrowers to choose adjustable-rate mortgages.

MORTGAGE FUNDING

Mortgage loans issued by mortgage banks are solely funded through the issue of covered bonds. Mortgage banks continuously supply extra collateral on a loan-by-loan basis if the value of cover assets (properties) deteriorates.

The funding mix – for the main part bullet bonds or callable long-term bonds – adjusts continuously according to borrower demand. Bonds are tapped and bullet bonds behind interest reset loans are refinanced by the month end in March, June, September and December. December remains traditionally the largest refinancing date, however new bullet bonds have not been issued with maturity in December for the past years, spreading refinancing activity and hence the point risk more evenly across the year.

	DENMARK 2021	DENMARK 2022	EU 27 2022
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	4.9	3.8	3.5
Unemployment Rate (LSF), annual average (%) (1)	5.1	4.5	6.2
HICP inflation (%) (1)	1.9	8.5	9.2
HOUSING MARKET			
Owner occupation rate (%) (1)	59.2	59.6	69.1
Gross Fixed Investment in Housing (annual change)(1)	9.9	7.8	1.5
Building Permits (2015=100) (2)	144.2	135.0	125.8
House Price Index – country (2015=100) (2)	135.2	136.5	164.6*
House Price Index – capital (2015=100) (2)	160.8	160.3	163.8*
Nominal house price growth (%) (2)	11.7	1.0	10.6*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	281,740	284,146	6,743,197
Outstanding Residential Loans per capita over 18 (EUR) (2)	60,110	60,179	18,433
Outstanding Residential Loans to disposable income ratio (%) (2)	175.4	168.1	71.5
Gross residential lending, annual growth (%) (2)	2.0	22.8	-6.5
Typical mortgage rate, annual average (%) (2)	0.7	1.3	3.1

* Please note that this value is the simple average of the available values in 2022.

Sources:

(1) Eurostat

(2) European Mortgage Federation – Hypostat 2023, Statistical Tables.

DENMARK FACT TABLE

Which entities can issue mortgage loans in your country?	Retail banks and mortgage banks.
What is the market share of new mortgage issuances between these entities?	Not available – data for residential reflect mortgage banks issuance only (not available for retail banks).
Which entities hold what proportion of outstanding mortgage loans in your country?	Over the past twelve months, the proportion (for owner-occupied housing) has been the following: <ul style="list-style-type: none"> • Retail banks 15% • Mortgage banks 85%
What is the typical LTV ratio on residential mortgage loans in your country?	For new loans for owner-occupied housing the LTV will normally be up to 80%. For other new residential loans the LTV will normally be 60%.
How is the distinction made between loans for residential and non-residential purposes in your country?	The difference is whether you live in the house or not.
What is/are the most common mortgage product(s) in your country?	We have three typical types of loans: <ul style="list-style-type: none"> • Loans with Fixed rate; • Interest reset loans; • Loans with variable rate with and without cap.
What is the typical/average maturity for a mortgage in your country?	For new housing loans, the maturity is normally 30 years. For business loan, the maturity is typically 20 years.
What is/are the most common ways to fund mortgage lending in your country?	Covered bonds
What is the level of costs associated with house purchase in your country (taxes and other transaction costs)?	For new loans at DKK 1 million (EUR 134,000) with fixed rate the following apply: <ul style="list-style-type: none"> • Taxes going to state: Approximately DKK 17,000 (EUR 2,280); • Costs going to the Mortgage bank: Approximately DKK 10,000 (EUR 1,340).
What is the level (if any) of government subsidies for house purchases in your country?	The government doesn't have any role in house purchases.