

Denmark

By Sarah Kirsten Rystand, Finance Denmark

IN A NUTSHELL

- The economy grew by 4.9%, slightly below the EU average of 5.4%.
- Housing markets were not materially affected by the pandemic.
- Sales of houses and apartments increased and prices continued to increase.
- Fixed rate mortgages are still preferred.

MACROECONOMIC OVERVIEW

The economy grew by 4.9% in real terms, more than double the rate that it contracted in 2020. The expansion was mainly driven by strong growth in exports and private consumption of goods and services which grew at 7.8%, and 4.2%, respectively. GDP growth was slightly below the European Union average which was 5.3%. This is due to a big increase in imports, which grew by 8.2%. Also, consumer prices increased by 1.9% in 2021.

The employment rate rose by 2.4 pp. in 2021 to 76.5%. Unemployment fell 1.7 pp. in 2021 from 6.2 % in the first quarter to 4.5% in the fourth quarter. The average 2021 unemployment rate was 5.1%, down from 5.6% in 2020.

The government had a budget surplus of 3.0% of GDP. Gross government debt was 36.7% of GDP. This is low in a European context. The deposit rate at the Danish central bank, Danmarks Nationalbank, remained at -0.6% in the first two months of 2021, whereafter it increased to -0.5% from March to October and then it fell again to -0.6%.

HOUSING MARKETS

During the year nominal house prices increased by 11.8% (y-o-y), which is the highest increase since 2006. Prices have increased more in the capital, by year end prices of houses in Copenhagen were 19.7% higher than the year before, while prices on owner occupied apartments were 11.0% higher.

In total, 88,418 houses and owner-occupied flats were sold in 2021, 7.5% more than in 2020, and the highest since the indicator was first introduced. Both increasing housing prices and other developments in the real economy continued to stimulate the transaction activity in all parts of the country. The number of transactions involving detached and terraced houses is up by 8.3% in 2021, and 5.1% more owner occupied flats were sold.

Construction activity declined in 2021, and housing completions fell by 5.6% in 2021. New housing construction increased by 6.6% and number of building permits issued dropped 0.7% compared with 2020.

MORTGAGE MARKETS

MARKET DYNAMICS

By year end 2021, outstanding mortgage loans from mortgage banks amounted to DKK 3,075 bn (approximately EUR 413bn, of which app. DKK 1,831 bn (EUR 246 bn) was for owner occupied housing. In addition, housing loans for households from commercial retail banks amounted to DKK 264 bn (EUR 35 bn).

In total, mortgage credit grew by 4.0% in 2021. This is modest compared with the mid-2000's where growth rates were between 10% and 17%.

Mortgage lending activity repeated previous year development. Borrowers prefer fixed interest rates. Fixed rate mortgages (typically fixed for 30 years) accounted for 57.6% of gross lending in 2021, a decrease of 11.9 pps. compared to 2020. Adjustable-rate mortgages and interest reset mortgages accounted for 39.5%, and adjustable-rate mortgages with an interest rate cap accounted for 0.7% of gross lending in 2021. The interest rates on fixed mortgage loans continued at a historically low level in 2021 but increased by the end of the year. 30-year fixed rate mortgages were in the beginning of 2021 issued with a coupon 0.5% after which the coupon rate rose to 1,5% by the end of the year. The short-term interest rate to borrowers was on average 0.69% in 2021.

Residential lending activity was higher than 2020, but still much less than in 2019, when it reached its all-time high. Total gross lending was DKK 630.6 bn. Residential mortgages accounted for 66.5% of gross lending, 2.0 pps. higher than in 2020. Gross lending activity is down by 0.2% compared to 2020. The small decrease can be explained by a lower level of remortgaging. Loans with a value of approx. DKK 377 bn have been remortgaged in 2021, a decrease of approx. 13% compared to 2020.

Total outstanding loans by mortgage banks are fixed rate (47.6% by year end 2021), mortgages which reset in under 1 year (25.9% by year end) and which reset above 1 year (26.5% by year end), adjustable rate mortgages with an interest rate cap (1.7% share by year end).

Interest rates have been low for several years now a possible reason for borrowers preferring fixed rate or longer rate fixing periods are borrowers' expectations of future interest rate increases. Also, the possibility to fix the interest rate to 1.0% or 1.5% in 30 years and thereby knowing the total cost of the loan may incentivise borrowers to choose fixed rate mortgages.

ANY FURTHER IMPORTANT EVOLUTION

Activity on the housing market continued to be elevated and prices rose. Increasing prices were debated heavily in 2021, and whether is necessary to tighten rules regarding mortgage lending for certain mortgages, such as interest only mortgages, to avoid a situation like the GFC in the 2000's. Indeed, prices have been increasing, however, the increases are lower than during the years before the crisis. Also, the Danish economy and households are more robust today.

MORTGAGE FUNDING

Mortgage loans issued by mortgage banks are solely funded through the issuance 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 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 2020	DENMARK 2021	EU 27 2021
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	-2.0	4.9	5.4
Unemployment Rate (LSF), annual average (%) (1)	5.6	5.1	7.0
HICP inflation (%) (1)	0.3	1.9	3.0
HOUSING MARKET			
Owner occupation rate (%) (1)	59.3	59.2	70.0
Gross Fixed Investment in Housing (annual change)(1)	9.1	9.9	6.6
Building Permits (2015=100) (2)	99.9	130.7	134.0
House Price Index – country (2015=100) (2)	121.0	135.2	145.2*
House Price Index – capital (2015=100) (2)	134.1	160.8	146.1*
Nominal house price growth (%) (2)	4.3	11.7	10.3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	270,820	281,740	6,508,621
Outstanding Residential Loans per capita over 18 (EUR) (2)	58,033	60,110	17,782
Outstanding Residential Loans to disposable income ratio (%) (2)	177.2	175.4	62.8*
Gross residential lending, annual growth (%) (2)	-25.0	3.2	12.2
Typical mortgage rate, annual average (%) (2)	0.7	0.7	2.0

* Please note that this value is the simple average of the available values in 2021.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2022, 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 mn (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.