

Denmark

By Nicholas Gudmund Hansen, Finance Denmark

IN A NUTSHELL

- The economy grew 1.9%.
- Mortgage interest rates have been rising.
- Housing market activity is lower compared to previous years.
- House prices increased reversing the decrease in 2022.

MACROECONOMIC OVERVIEW

The economy grew by 1.9% in real terms, 0.8 pps less than 2022. The drop was mainly driven by decreasing gross investments which fell 12.2%. Also, consumer prices increased by 3.3%.

The employment rate has been stable throughout 2023. Starting at 77% in Q1 and ending at 77.2% in Q4. Unemployment decreased by 0.1%-point from 4.9% in Q1 to 4.8% Q4. The government budget surplus was 6.3% and gross government debt was 29.3% of GDP, which is low in a European context. The deposit rate at the Danish central bank, Danmarks Nationalbank, rose throughout the year from 1.75% in January to 3.6% by year end. This was 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.

HOUSING MARKETS

Nominal house prices increased by 3.6% over the year, reversing the decrease of 5% in 2022. Prices increased more in the capital region, by year end house prices in Copenhagen were 4.7% higher, and owner-occupied apartments 11.7% higher.

In total, 62,950 houses and owner-occupied flats were sold in 2023, which is slightly more than the 60,740 in 2022. Higher mortgage rates and other developments in the real economy have contributed to lower housing market activity in 2023.

House completions fell by 8.9% in 2023. New house construction decreased by 29.7% and number of building permits issued dropped 23.4 pps compared with 2022.

MORTGAGE MARKETS

By year end, outstanding mortgage loans from mortgage banks were DKK 3.2 bn of which approximately DKK 1.8 bn was for owner occupied housing. In addition, housing loans from commercial retail banks were DKK 283 bn. In total, mortgage credit shrank by 2.1%. Mortgage credit growth in recent years has been much lower than in the mid-2000's when growth rates were between 10% and 17%.

Residential mortgage lending activity in 2023 is more or less unchanged to 2022, as adjustable-rate mortgages remain a higher market share compared to 2021. Outstanding mortgage loans issued by mortgage banks are split between fixed

rate mortgages (46% by year end 2023), mortgages with an interest reset under 1 year (24.3%) and mortgages with an interest reset above 1 year (29.7%). In 2022 the numbers were 46.8% (fixed rate mortgages), 23.4% (mortgages with an interest reset under 1 year) and 29.9% (mortgages with an interest reset above 1 year).

Gross lending activity by mortgage banks was lower. At DKK 425.5 bn, Residential mortgages were 63% of gross lending, 5.7% pps less than in 2022. Gross lending activity is down by 43.8% compared to 2022 (DKK 757.3 bn) which can be explained by lesser remortgaging and a lower housing market activity due to higher rates.

Fixed rate mortgages (typically fixed for 30 years) were 52.4% of gross lending in 2023, an increase of 2.7 pps. Adjustable-rate mortgages (loan with an interest rate based on a specific reference rate) and interest reset mortgages (loan with reset of interest rate at a frequency of 1, 3, 5 or 10 years depending on the loan terms) were 47.6%. The interest rates on fixed mortgage loans stabilized during 2023 after rising from a historically low level in 2021. The short-term interest rate was on average 4.55% in 2023. The average interest rate on loans with interest rate fixation of more than 10 years for households were 5.75 in 2023.

Interest rates have been low for several years but have risen to higher levels 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. Also, the possibility to lower the monthly cost of the adjustable-rate loan compared to fixed rate loans (at least on short term) may incentivize 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 funding interest reset loans are refinanced at month end in March, June, September and December. December remains traditionally the largest refinancing date, however new bullet bonds have not been issued with December maturities recently spreading refinancing activity and hence the point risk more evenly across the year.

	DENMARK 2022	DENMARK 2023	EU 27 2023
MACROECONOMIC VARIABLES			
Real GDP growth (%) (1)	2.7	1.9	0.4
Unemployment Rate (LSF), annual average (%) (1)	4.5	5.1	6.1
HICP inflation (%) (1)	8.5	3.4	6.4
HOUSING MARKET			
Owner occupation rate (%) (1)	59.6	60.0	69.2
Gross Fixed Investment in Housing (annual change) (1)	-8.5	-10.2	-3.1
Building Permits (2015=100) (2)	142.3	94.6	94.0
House Price Index - country (2015=100) (2)	136.7	133.6	170.2*
House Price Index - capital (2015=100) (2)	163.6	156.3	165.1*
Nominal house price growth (%) (2)	1.0	-2.3	3*
MORTGAGE MARKET			
Outstanding Residential Loans (mn EUR) (2)	284,146	277,743	6,782,375
Outstanding Residential Loans per capita over Total Population (EUR) (2)	48,378	46,816	15,114
Outstanding Residential Loans to disposable income ratio (%) (1) (2)	164.3	155.3	71.3
Gross residential lending, annual growth (%) (2)	22.8	-12.9	-26.6
Typical mortgage rate, annual average (%) (2)	1.3	4.6	4.7

* Please note that this value is a simple average of the available values in 2023.

Sources:

(1) Eurostat.

(2) European Mortgage Federation - Hypostat 2024, 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: 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: 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: 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.