

# Denmark

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## Macroeconomic overview

Danish real GDP contracted by 4.9% from 2008 to 2009, reflecting the severe effects of the financial crisis on the Danish economy. The Danish economy is largely dependent on its exports, which along with the slowdown in the global economic environment fell by 10.3% in real terms over the previous year. Private consumption slowed as households became wary of the worsening economic outlook. Private consumption fell by 2.0% in real terms over the previous year. In 2009, only public spending provided a positive contribution to aggregate demand with an increase of 2.5% in real terms. The resilience of the Danish labour market throughout 2008 ended in 2009. The unemployment rate rose from 3.3% on average to 6.0% on average from 2008 to 2009.

Denmark recorded spreads in the sovereign debt market along with the official discount rate soar by the end of 2008, when investors fled to major currencies. As the panic evaporated in the early months of 2009 spreads decreased, and by year-end 2009 Danish interest rates had stabilised at a pre-crisis level. In 2008 Danish consumer prices edged up to 3.6%. The contraction in the Danish economy put an end to the rise in the inflation rate. In 2009, the harmonised index of consumer prices rose in Denmark by a rate of 1.1%.

## Housing and mortgage markets

In 2009, all in all 27,200 single-family and terrace houses along with 8,300 owner-occupied flats and 3,400 holiday homes were traded by means of mortgage finance, an 18% decrease on 2008 levels. It is also a historical low on record in the statistics of the Association of Danish Mortgage Banks, published for the first time in 1995. On a national level, house prices fell by 7.5% from December 2008 to December 2009. This is a slightly lower decrease than in 2008, when prices fell by 7.8%. Figures concerning owner-occupied flats also decreased by 5.7% in 2009; this is considerably less than in 2008, when number of sales of owner-occupied flats fell by 11.5%. At the end of 2009 46,000 unsold homes were on sale on the internet, which is 13% less than at the end of 2008 and which corresponds to the level of 2007. Fewer homes were traded in 2009 than in 2008. In 2009, on a national level, 35,500 owner-occupied homes were traded against 40,000 in 2008. However, the number of transactions in December 2009 exceeded the figure recorded in December 2008 by 22% as regards the two segments of single-family and terrace houses, by 41% as regards owner-occupied flats and by 60% as regards holiday homes. Together with the general development in prices that was recorded towards the end of the year, this data provides a general picture of a recovering housing market. The number of owner-occupied homes that were put up 'for sale' fell in 2009. Whilst in 2008 a record-high number (slightly below 60,000) of homes for sale was recorded, 46,000 homes were for sale on the internet at the end of 2009, especially single-family and terrace houses. 80% of the total volume of homes for sale, around 37,000 homes, were single-family or terrace houses.

In 2009, the Danish mortgage banks granted a total gross lending (both residential and commercial) amount of DKK 476 billion (EUR 63.9 billion). Private and corporate customers' repayments were worth a total of DKK 367 billion (EUR 49.3 billion). Net commercial and residential lending by the Danish mortgage credit sector – the actual growth in the total outstanding loan volume – thus amounted to DKK 110 billion (EUR 14.7 billion). This means that the growth in lending was lower in 2009 than in 2008 when net lending amounted to DKK 159 billion (EUR 21.3 billion). The level of activity in 2009 was the lowest recorded since 2004. As regards mortgage lending's sub-segments (by type of dwelling), net lending to owner-occupied homes and holiday homes was higher than in 2008 and returned to the level recorded before the start of the financial crisis. This can be observed in the gross lending figure of DKK 370 billion (EUR 49.7 billion) in 2009, an increase of DKK 98 billion (EUR 13.2 billion), or 42% on

2008. Net lending to owner-occupied homes and holiday homes decreased from DKK 66 billion (EUR 8.9 billion) in 2008 to DKK 58 billion (EUR 7.8 billion) in 2009, corresponding to a fall of 11%. Gross lending to corporate customers in the agricultural and manufacturing industries, and non-residential premises amounted to DKK 103 billion (EUR 13.8 billion). This is equal to a decrease of DKK 23 billion (EUR 3.1 billion), or 18% on 2008. In the corporate sector, net lending fell by DKK 28 billion (EUR 3.8 billion), i.e. from DKK 72 billion (EUR 9.7 billion) in 2008 to DKK 44 billion (EUR 5.9 billion) in 2009. Lending activity in 2009 was characterised by a stagnating housing market that almost led to a halt in the number of transactions. Nevertheless, the housing sector was vital due to the falling interest rates which led to a sustained remortgaging activity. Mortgage loans amounting to a total of DKK 326 billion (EUR 43.8 billion) were remortgaged. This was the peak since 2005 corresponding to an increase of 25% on 2008, when mortgage loans were remortgaged for a value of DKK 210 billion (EUR 28.2 billion).

In 2009, four out of five homeowners chose to take out their new loans as ARM (Adjustable Rate Mechanism) loans; this happened primarily at the expense of fixed-interest loans. That meant that at the end of 2009, ARM loans accounted for 43% of the total loan volume granted for owner-occupied homes and holiday homes, compared to the 27% figure in 2008. ARM loans have then become the most common loan type prevailing on fixed-interest loans, which accounted for 41% of the lending at the end of 2009 compared to 52% at the end of 2008. Capped, variable-interest loans account for 17% of the total volume of loan value granted for owner-occupied homes and holiday homes. The popularity of interest-only loans has been increasing since they were first introduced in 2003. At the end of 2009, they accounted for 52% of all existing loans granted for owner-occupied homes and holiday homes.

## Funding

The new interest rate for ARM loans (which accounted for more than DKK 500 billion, i.e. EUR 67.1 billion) was fixed in December 2009. This was an increase from approx. DKK 350 billion (EUR 47 billion) in 2008. This remarkable increase was due to the fact that the ARM loans were highly popular among borrowers in 2009. The sale of mortgage bonds underlying the loans for which the interest rate was adjusted in December went as planned, following from a buoyant demand for bonds. In combination with the generally low level of market rates, it implied that the new interest rates of borrowers were significantly lower than the year before. When an ARM loan is adjusted with a new interest rate, the mortgage banks must sell new mortgage bonds to replace the ones that expire; the price that investors are willing to pay for the bonds determines the new interest rate which is payable by the borrowers. In the coming years, fewer ARM loans will have to be adjusted for interest rates in the month of December, as the mortgage banks' aim for a more even distribution of the times for ARM adjustments as of 2010.

|  | EU27,<br>2009 | Denmark,<br>2009 | Denmark,<br>2008 |
|--|---------------|------------------|------------------|
| GDP growth (%)   | -4.2          | -4.9             | -0.9             |
| Unemployment rate (%)  | 8.9           | 6.0              | 3.3              |
| Inflation (%)  | 1.0           | 1.1              | 3.6              |
| % owner occupied   | 68.2          | 54.0             | 54.0             |
| Residential Mortgage Loans<br>as % GDP                               | 51.9          | 103.8            | 95.4             |
| Residential Mortgage Loans<br>per capita, EUR thousand               | 12.37         | 41.96            | 40.62            |
| Total value of residential loans,<br>EUR million                     | 6,125,727     | 231,263          | 222,403          |
| Annual % house price growth  | -6.8          | -7.5             | -7.8             |
| Typical mortgage rate<br>(euro area), %                              | 2.71          | 5.19             | 6.58             |
| Outstanding Covered Bonds<br>as % outstanding residential<br>lending | 23.2          | 100.0            | 100.0            |

### Notes:

- Typical mortgage rate in the euro area refers to the APRC (Source: ECB)
- EU owner occupation rate average derived from EMF calculations based on latest available data.

Denmark=2009

Sources: EMF, Eurostat, ECB, Bank of Denmark, Denmark Statistics

