

DENMARK

MACROECONOMIC BACKGROUND

Denmark is a small open economy characterized by stable growth and low unemployment. In 2004 Denmark's GDP amounted to €190bn and GDP per inhabitant (in PPP terms) was about €27,500. During the past ten years the Danish economy has had an average growth rate of 2.3 per cent. Foreign trade is important for the Danish economy and 65 per cent of trade is with other EU countries, of which Germany is the most important trading partner. In 2004 exports amounted to about 30 per cent of the GDP and consist primarily of industrial products. The unemployment rate has risen during the past couple of years, but is still at a comparatively low level (6.4 per cent at the end of 2004). Interest rates have fallen considerably during the past ten years and the long-term rate (30 years) is today 4.2 per cent against 9.7 per cent in 1994. The short-term rate has fallen from 4.3 per cent in 1997 to 2.2 per cent today. Denmark is member of the EU and even though Denmark meets all the convergence criteria for admission to the euro Denmark has chosen to remain outside the single currency. Denmark's currency, the Danish Krone (DKK) is, however, managed so that the currency rate follows the euro.

DEMOGRAPHICS

In 2004 Denmark had a total population of 5.4 m persons, equivalent to 0.08 per cent of the total world population. Population growth has averaged 0.4 per cent pa during the past 10 years and is based on net immigration. In 2004 the biggest age group in the Danish population was the 30-39 year old persons, which amounted to 15 per cent of the total population. The total number of households has risen by 21 per cent since 1980 and was 2.2 m in 2004. The number of persons in each household was 2.17 in 2004 against 2.48 in 1980.

HOUSING MARKET

In 2004 the total number of residences in Denmark was 2.56 m. The number of residences owned by private persons, joint stock companies and associations etc. amounted to 72 per cent, compared to 80 per cent in 1980. The share of residences where the owner of the property is a private housing society has risen from 1 per cent to 7 per cent in the same period, while the share of social housing has risen to 20 percent against 15 per cent in 1980. There is no housing shortage in Denmark, but there are big geographical differences in the demand for and the supply of residences. According to Statistics Denmark the number of residences increased net by 72,000 from 1 January 2000 to 1 January 2004, while the population increased by 67,620 persons. But as the average number of persons in each residence is 2.17 persons, house builders have created room for 156,000 more persons, or more than double the growth in the population during this period.

The past years' low interest rates and the growing product supply from the mortgage banks have resulted in an increasing demand for owner occupied homes. The sale of owner occupied homes has risen by 5.4 per cent per year over the past 10 years on average. In 2003 the number of homes sold was 82,000 out of a total of 1.6 m owner occupied homes. In 2004 the number of started housing constructions of owner occupied homes was 22,500; there were 26,000 completed owner occupied homes in 2004.

Like in many other countries house prices have been increasing in Denmark. The reasons include falling interest rates, rising disposable incomes, new mortgage credit products and the halting of increases in property value taxation. The biggest increase in property prices has been in and around the capital, Copenhagen, as there is a considerable demand and only a limited number of owner-occupied homes, and limited new supply. The average price increase for owner occupied flats during the past 10

years for the whole country has been 12 per cent per year, while the same price increase for individual and row houses has been 8 per cent per year. The average price for an owner occupied home was 1.2 m DKK (€161,000) at the end of 2003.

HOUSING FINANCE

In Denmark loans for owner occupied homes are typically granted as a combination of mortgage credit loans (about 90 per cent of the total lending against mortgage in real property) and bank loans (the rest). The lending of the banks consists of simple bank loans with variable interest and a maturity between 10-30 years. The mortgage banks can grant loans up to 80 per cent of the property value.

The mortgage banks' lending, funding and loan types

The basis of the Danish mortgage credit system is the balance principle, which implies that there is a balance between the interest paid by the borrower and the interest received by the investor for his investment. The mortgage bank undertakes no interest risk in connection with the lending, but receives an administration fee from the borrower, which is paid together with the interest payments.

The funding takes place via the issue of mortgage bonds traded on the Copenhagen Stock Exchange. The mortgage bonds are used to fund all types of lending i.e. both for owner-occupied homes, industry, agriculture and subsidized building. Mortgage bonds are issued in great series, which on the whole have the same characteristics for each mortgage bank. The fixing of the price of the bonds is thus almost identical. However, the latest loan type, variable interest loans with an interest ceiling, is based on different constructions and the underlying bonds are different.

The outstanding bond debt for owner occupied homes in Denmark was 881bn DKK (€118bn) at the end of 2004. This is equal to 61 per cent of Denmark's GDP, whereas the total outstanding bond debt for all property categories is equal to 106 per cent of Denmark's GDP. The total outstanding bond debt has gone up by 58 per cent since 1997 and has on an average gone up by 6.7 per cent per year since 1997. The outstanding bond debt per capita corresponds to €37,500 and for a household €81,500.

In 2004 gross lending was 437bn DKK (€59bn) compared to a record €69bn in 2003. The reason for the high lending activity is partly the big refinancing activity based on the low interest rates and partly based on the introduction of new products.

The increasing competition among the mortgage banks lately has resulted in a number of new products e.g. variable interest loans with interest ceiling (introduced in 2004) and interest only loans (introduced in 2003). The most used loan type today is the interest reset loans. The gross lending in 2004 consisted of about 60 per cent of these loans. The typical interest binding period of an interest reset loan is ½ - 3 years, hereafter the loan will be refinanced or the interest will be changed to the current interest rate then in force. The typical maturity of a mortgage credit loan is 30 years. Over the past few years the share of fixed interest loans has been falling in favour of interest reset loans and the two loan types amount now to about 50 per cent of the total outstanding loans on the property market.

GOVERNMENT POLICY AND OBJECTIVES

Taxes

In connection with all types of loans in Denmark private borrowers have a tax deduction of about 32 per cent of the interest payments.

While you own the property, you pay as a homeowner two kinds of taxes, which are directly attached to the house and the site. Every second year, properties in Denmark are assessed. A property value and a site value are fixed for each property. The property value is an estimation of the cash value of the

property in connection with a possible sale. The site value is the value of an undeveloped site. The property value tax amounts as a starting point to 10 per mille of the part of the property value, which does not exceed an amount of 3,000,000 DKK (€402,800), and 30 per mille of the rest. The land tax amounts to a per mille share of the site value to both local authority and the county authority. The local authorities fixing the land tax which the homeowner is going to pay to the local authority. It has, however, to be at least 6 per mille and at the most 24 per mille.

Subsidies

The Danish State grants support to subsidized housing construction. In connection with financing of housing construction 91 per cent of the mortgage loans consists of subsidies granted by the State, 7 per cent of local authorities' basic capital and 2 per cent residents' contribution. Subsidized housing is exempted from property value taxation. In addition to that there are special subsidy schemes for the setting up of service areas to housing for the elderly and for subsidized youth housing.

There are both legislative and optional insurances in Denmark. As homeowner it is compulsory to have fire insurance.

June 2005

References

The Association of Danish Mortgage Banks – Realkreditrådet
www.realkreditaadet.dk

Statistics Denmark
www.dst.dk

Nationalbanken
www.nationalbanken.dk

International Monetary Fund
www.imf.org

The Danish Ministry of Taxation
www.skatteministeriet.dk

Danish Economic Council
www.dors.dk

Dansk ejendomsmæglerforening
http://www.de.dk/?menu_open=1&menu_id=48&parent=3&strNewsSingle=781

Den sociale portal
www.social.dk

Wikipedia
[http://en.wikipedia.org/wiki/List_of_countries_by_GDP_\(PPP\)_per_capita](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)_per_capita)

Summary data for Denmark 1994 - 2004

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Real GDP growth	2.0	0.4	1.0	1.6	2.8	2.6	2.5	3.0	2.5	2.8	5.5
Unemployment rate	na	5.6	4.6	4.3	4.4	4.8	4.9	5.2	6.3	6.7	7.7
Comsumer Price Inflation	na	2.0	2.4	2.3	2.9	2.5	1.8	2.2	2.1	2.1	2.0
Residential mortgage debt outstanding mio. DKK	1,167,100	1,099,500	1,015,300	947,900	875,500	832,300	780,500	720,500	607,000	570,000	561,300
Residential debt/GDP Ratio	104.5	102.5	97.6	92.9	89.4	90.6	89.0	85.9	na	na	na
Residential mortgage debt per household DKK	470,445	445,740	413,391	387,785	359,691	343,489	324,273	301,251	na	na	na
No households, million	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.3
Home ownership rate	na	na	4.4	2.1	-4.8	-0.3	-6.8	-2.4	1.8	5.2	4.6
House price index (1995=100)	na	185	174	167	155	144	134	122	109	100	na
Annual house price growth	na	na	6.4	4.1	7.8	7.8	7.7	9.2	11.8	9.5	na
Number of dwellings (000s)	2,561	2,541	2,523	2,509	2,489	2,476	2,461	2,447	2,437	2,427	2,413
Housing starts (000s)	13	14	18	18	18	18	16	21	23	26	22
Home sales (000s)	na	82.1	78.6	76.9	80.8	81.1	87.0	89.1	87.6	83.3	79.7
Mortgage interest rate, short interest rate*	2.3	2.5	3.8	4.7	5.5	3.7	4.3	4.3	na	na	na
Mortgage interest rate, long interest rate*	4.97	5.45	5.66	6.40	7.24	7.37	6.22	7.12	7.87	8.36	9.73
Exchange rate, €per DKK	0.13	0.13	0.13	0.13	0.13	0.13	na	na	na	na	na

Source: Association of Danish Mortgage Bank, Statistics Denmark, IMF, Danmarks Nationalbank

* The two interesst averages are calculated as a co-weighing of the actually used bond series for respectively long and short mortgage bonds. The co-weighing is based on newly issued mortgage bonds and the average of the effective interest on the new issues in question. As bonds is used respectively 30 years, fixed interest, callable bonds (the long interest) and the 1- and 2-years non-callable standing bonds, which are behind the granting of interest reset loans (the short interest in respecitvely DKK and euro).

|