

Denmark

The Danish economy has recovered very fast from the effects of the Covid-19 pandemic with a strong growth of 4.9% in real GDP in 2021 following a decline of 1.5% in 2020. At the end of 2020 employment was almost back to the levels before the outbreak of Covid-19 in March 2020. The strong growth in 2021 has further reduced the unemployment rate to just 2.7% and widespread shortage of skilled labor is observed. The Danish economy is in a strong position entering into the energy and inflation crisis caused by the Russian invasion of Ukraine in 2022.

The number of employees in the financial sector is still decreasing, reaching 38,234 employed in 2021 compared with 44,958 in 2000. At the end of 2021 there were 56 banks and six mortgage banks in Denmark. Persistent consolidation has implied a sizeable reduction since 2000, where there were 185 banks and 10 mortgage banks, and while the consolidation is still ongoing (three banks merged with other banks in 2021), the trend has slowed since the aftermath of the financial crisis.

Since the beginning of the financial crisis, the Danish banks have gradually recovered. However, the turbulence in 2020 due to the Covid-19 pandemic caused a decline in the return on equity to 4.6% compared to an average over the previous three years of 9.2%. The Danish economy has recovered very fast from the effects of the Covid-19 pandemic, which is reflected in the banks' profits with a return on equity amounting to 8.2 % in 2021. While the return on equity for Danish banks is strong by European standards, it is significantly lower than in other industries in Denmark.

Overall, the Danish banking sector is robust, and banks have increased their capitalization since the beginning of the financial crisis. The Danish banking sector has also proved to be well-capitalized and resilient in the stress tests conducted by the EBA. The special Danish mortgage system is a defining component of the financial sector in Denmark. Danish mortgage bonds are securities with high credit quality and very high liquidity. Mortgage loans for companies and households constitute almost 80 percentage of total lending in Denmark.

The joint declaration by the Danish government and Finance Denmark in March 2020 specified that the sector committed itself to help clients with liquidity problems due to the Covid-19 situation. Danish banks have offered credits to thousands of customers in temporary financial difficulties due to Covid-19. The total credit given or committed was more than 100 billion DKK (€14 billion).

The Danish parliament has several times in 2020 and 2021 given the option to Danish companies of receiving interest-free loans to cover their VAT and payroll tax payments – known as corona loans of a total amount of 34 billion DKK (€4.5 billion). These corona loans are due for payment in 2022 and 2023. However, the parliament has established the option of an instalment agreement – with interest rates - for up to a further two years. The corona loans can be repaid immediately if the company repays by, e.g., means from a more favorable bank loan with lower interest rates.

Danish companies hit by the Covid-19 crisis continued to receive generous public compensations until the beginning of 2022. However, a relatively small number of companies were still in need of compensation by the summer of 2021. Hence, business demand for bank loans was subdued until the fall of 2021. Thus, only a fraction of the more than 100 billion DKK committed by the Danish banks at the outset of the pandemic was actually extended as loan for Danish companies. Since the end of 2021, the credit growth to companies has been strong.

Bank profitability has also been challenged by the low interest rate environment in Denmark and globally. In Denmark, policy rates turned negative already in 2012, and in recent years net deposit surplus has increased markedly, in part due to the extensive Danish mortgage system. Hence, Danish banks were

amongst the first to introduce negative interest rate on large deposits from private customers in 2019, and this tendency increased throughout 2021, until the central banks started to raise their policy rates to dampen the inflation in 2022.

In 2019, Finance Denmark launched a Forum for Sustainable Finance consisting of leading persons from companies, think tanks and experts within climate and sustainability. 20 recommendations were presented to the financial sector, which Finance Denmark and its members are implementing. According to our sustainability report 2021, the banks have increased the dialogue on energy efficiency and sustainability with their customers. Most banks are now measuring – are preparing to do so – their financed Co2-emissions. Finance Denmark has developed a framework for financed-emissions accounting for the financial sector, allowing members to measure the carbon emissions from their investments and lending, a first step in setting targets for future reductions in financed carbon emissions.