

# Denmark

The Danish economy recovered quickly from the effects of the Covid-19 pandemic with a strong growth of 7.4% in real GDP in 2021 and an unemployment rate of just 2.7% - a very low level that persists today. Thus, the Danish economy was in a strong position going into the energy and inflation crisis exacerbated by the Russian invasion of Ukraine in 2022. Danish companies and households were in general also financially robust when the central banks started raising their policy rates to curb the inflation in 2022. During the environment of high interest rates, the Danish economy has shown to be remarkably strong with GDP growth in 2023 at 2.5%. Growth is partly driven by the successful Danish pharmaceutical sector operating at a globally scale, yet even excluding that sector, GDP growth was 1.3% in 2023.

At the end of 2023 there were 56 banks and 6 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, the trend has slowed since the aftermath of the financial crisis. However, the number of employees in the financial sector has slightly increased in the recent years, primarily due to Anti Money Laundering efforts and compliance with new regulation. The number of employees (FTE) reached 39,595 in 2023 compared with 44,958 in 2000.

After a decade of challenged profitability caused by the low-interest rate environment, the banks are now able to make profit on the interest rate margin again. The return on equity (after tax) for the Danish banking sector reached a peak level of 12% for the year 2023. In Denmark, policy rates turned negative already in 2012 and was low until the central banks started to raise their policy rates to dampen the inflation in 2022. The return on equity was 7.3% on average in the years 2013-2021. While the return on equity for Danish banks was high by European standards, it was significantly lower than in other industries in Denmark during the years of low interest rates.

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 70 percentage of total lending in Denmark.

Today, the Danish banking sector is in a well-capitalized position that contributes to financial stability, and the Danish banking sector has also played an important role in managing crisis situations in the Danish economy. For example, Danish banks offered credits to thousands of customers in temporary financial difficulties due to the Covid-19 situation. The total credit given or committed was more than 100 billion DKK (€14 billion). During the energy and inflation crisis, Danish banks provided cheaper loans for homeowners to replace fossil heating sources with green energy such as electric heating pumps.

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 have implemented. According to our sustainability report 2024, the banks have now set CO2 reduction targets for 80% of their investments and 61% of their lending. 78% of the Danish banking sector requires transition plans from high-emission companies. Almost the entire Danish banking sector (97%) have increased the dialogue on energy efficiency and sustainability with their customers. Almost all employees in the Danish banks have received education to strengthen their sustainability competences.