

CHECK AGAINST DELIVERY

Thank you for inviting me to speak here today. I am going to devote my speaking time to the situation in the housing market.

Slide 1: The Danish housing market stands out

Internationally, the Danish housing market stands out. And not necessarily in a good way. The laxity of down payment requirements for homebuyers and the appetite for deferred amortisation are shared by few other countries. I would like to see the Danish housing market become more balanced in these two respects.¹

Slide 2: Increasing cost of housing and high credit growth in the capital region

Before the outbreak of the covid-19 pandemic, the Danish economy was experiencing a balanced expansion. This also applied to the housing market, with house prices mirroring developments in household disposable incomes, interest rates and so on. But during the pandemic, house prices increased rapidly, mirroring the pattern seen in the run-up to the financial crisis. I hope that house prices will soon enter into a more balanced development.

Slide 3: Growth in housing debt typically occurs with a lag

Let me emphasise that Danmarks Nationalbank does not attempt to control the level of house prices. Our aim is to enhance homeowner resilience, and the resilience of the economy at large. High household loan-to-

¹ France, Hungary, Italy and Germany have no statutory or regulatory down payment requirements for buyers of owner-occupied homes, but formally financial institutions require substantial down payments.

value ratios and extensive house price fluctuations may be sources of vulnerability – for the individual homeowner and the economy as a whole.

When house prices go up, the indebtedness tends to increase too – but with a lag. Homeowners increase their debt by buying more expensive homes or by borrowing against their home equity for consumption purposes. Historically, the duration of this lag has been between eighteen months and two years. This time may be different. And so far, the rapidly rising house prices have been accompanied by only modest credit growth.

But we are now seeing higher credit growth in Copenhagen, and in the past such growth has tended to ripple through to the rest of the country.² And more homebuyers are opting for deferred amortisation. We have yet to form the overall picture of developments. One concern for the future is that aggregate developments mask great disparities in behaviour across homeowners. Some homeowners incur excessive debt, while others reduce their debt in response to negative deposit rates. This may generate pockets of high risk.

Through the most indebted households, plunging house prices and sharply rising interest rates may have significant adverse impacts on the rest of the economy. This was the case during the financial crisis. And why should *that* be different this time?

Slide 4: The time is right for improving housing market resilience

I would like to reiterate Denmark's Nationalbank's recommendations on the Danish housing market. Housing market resilience can and should be strengthened. That will benefit the Danish economy and thereby the stability of the financial sector – now and in the future. We have pointed out three measures that, in our opinion, will improve housing market resilience:

- Use of loans with deferred amortisation should be restricted to the most resilient homeowners. Deferred amortisation enables homeowners to borrow extensively and make very low debt service payments. With the current prevalence of deferred amortisation, this involves considerable risk.
- The new, stabilising housing taxation regime should be introduced without further delays.

² See Hviid, Simon J. (2017), A regional model of the Danish housing market, *Danmarks Nationalbank Working Paper*, No. 121.

- Interest deductibility should be reduced to ensure that the tax system does not reward indebtedness.

The Danish economy is headed for a moderate boom, with low interest rates and strong employment growth, so the time is right for implementing measures to strengthen the resilience before the next crisis hits.

I hope you still remember how I started my speech: the Danish housing market stands out, and I would prefer to move it further to the centre. I would like to see *both* even stricter amortisation requirements for the most indebted homeowners *and* higher down payment requirements.

Slide 5: It is never the right time to do the right thing

Deferred amortisation is not a new topic for me to talk about. I also talked about it almost seven years ago. And I have repeated the message over and over again since then, most recently in spring 2021. Seven is a magic number, but we should not wait another seven years to improve housing market resilience. But it seems it is never the right time to do the right thing.

Thank you for listening. I am looking forward to a lively debate on the Danish housing market.

DANMARKS NATIONALBANK

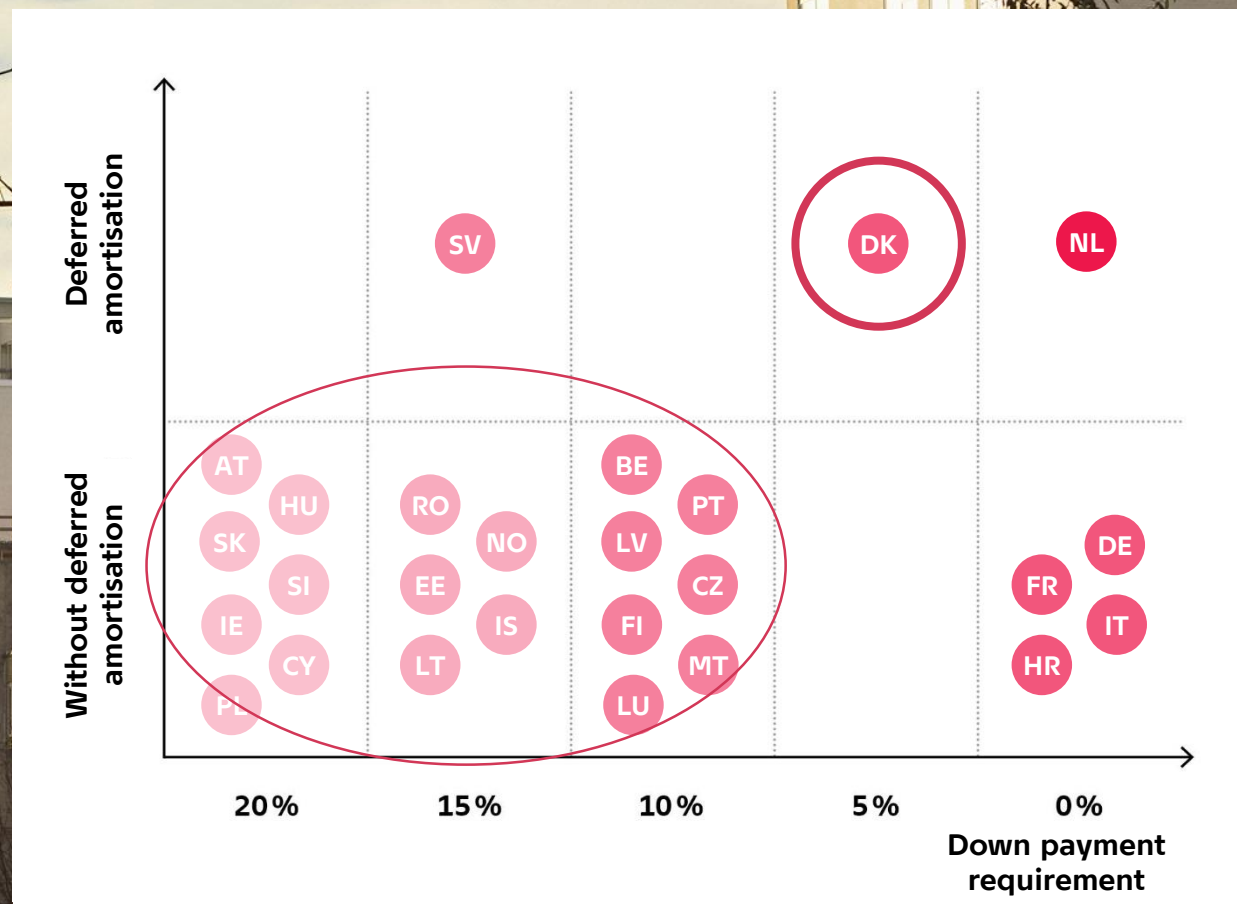
THE HOUSING MARKET AND HOMEOWNER ROBUSTNESS

Governor Lars Rohde, The Association of Danish Mortgage Banks' theme day, 6 October 2021



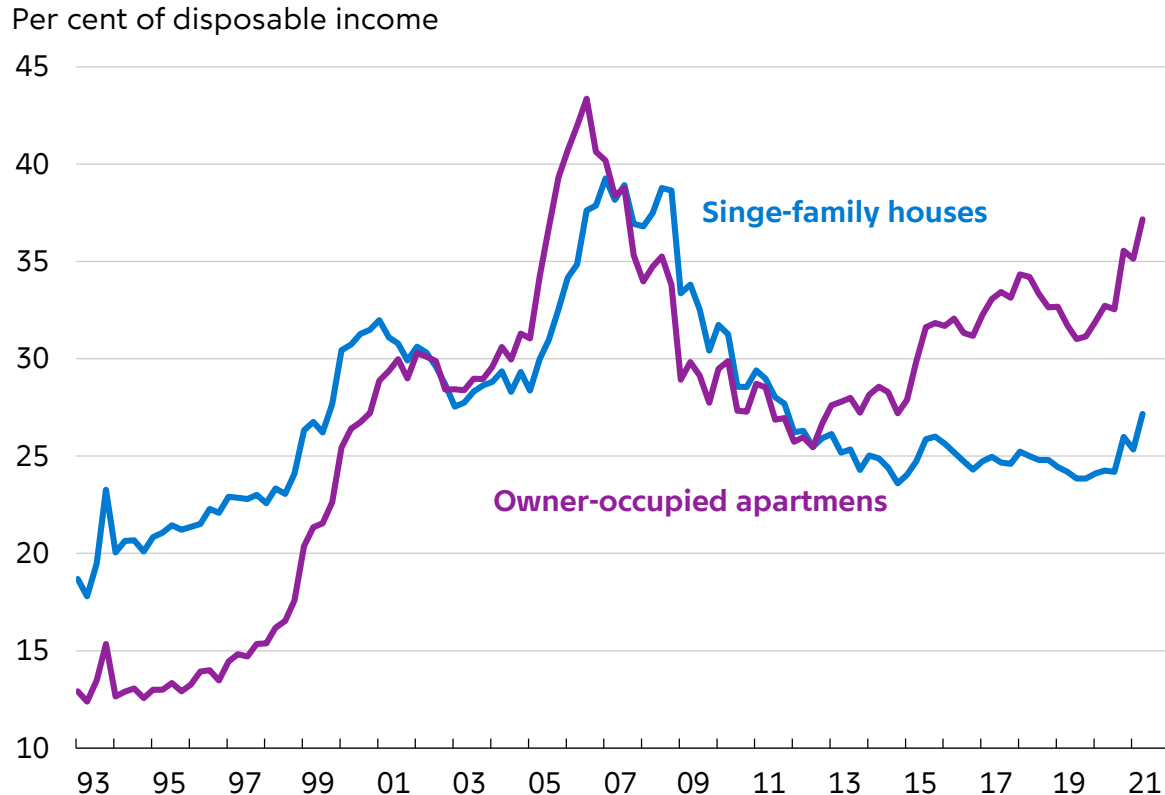
DANMARKS
NATIONALBANK

The Danish housing market stands out



Increased housing burden and high credit growth in the Capital

The housing burden is high relative to disposable income

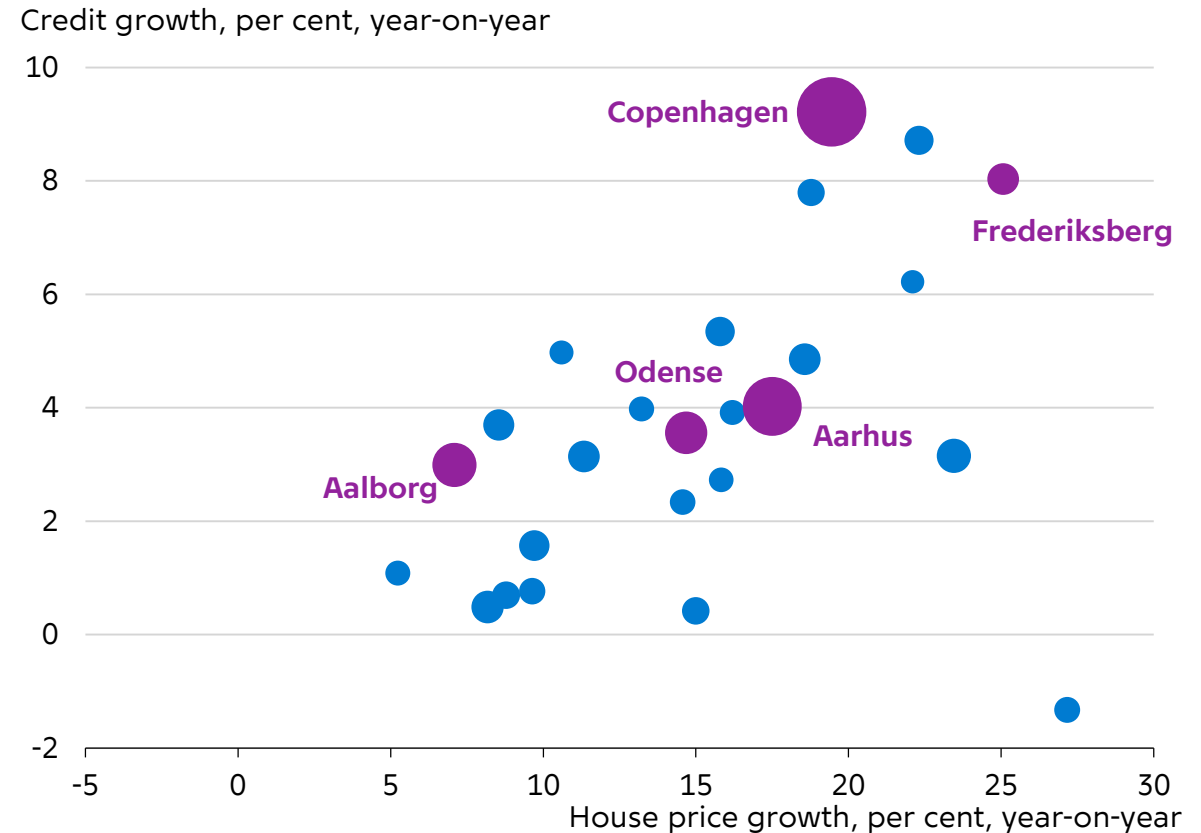


Note: The housing burden is calculated for a fixed rate mortgage and covers Denmark entire as a whole. The most recent observation is 2nd quarter of 2021.
Source: Danmarks Nationalbank



DANMARKS
NATIONALBANK

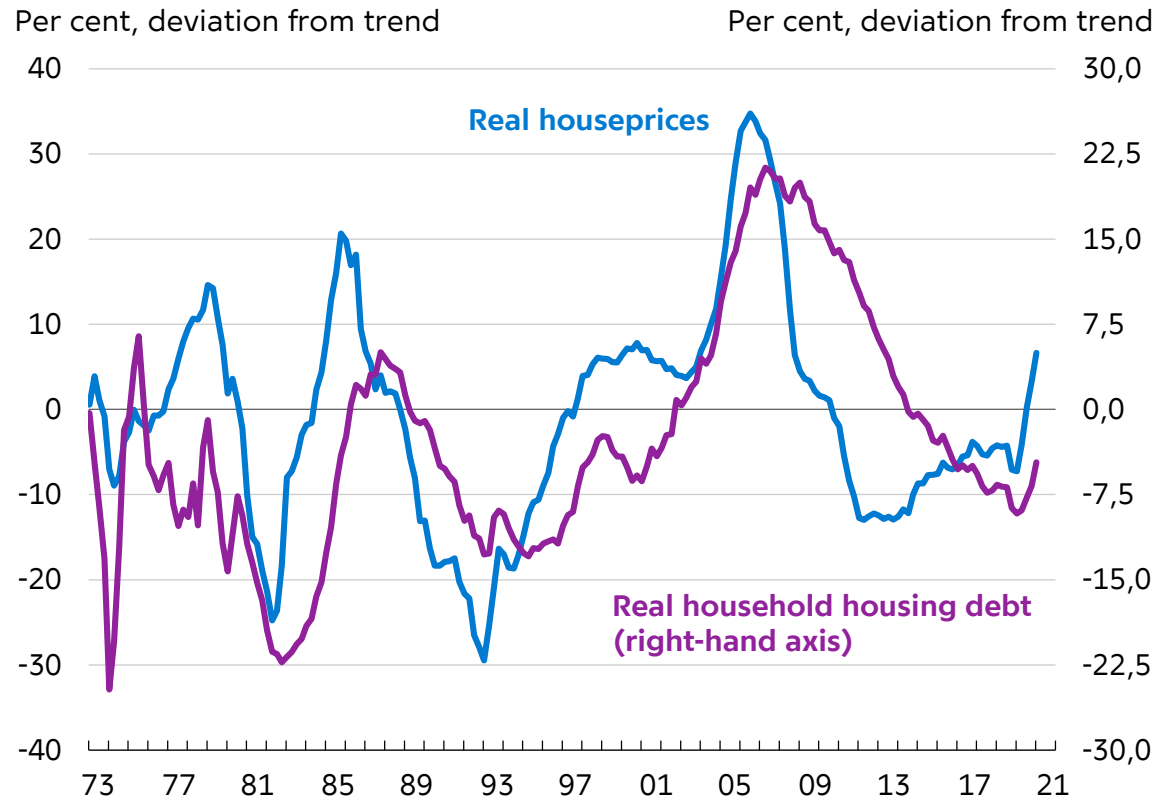
High credit growth in municipalities with increasing house prices



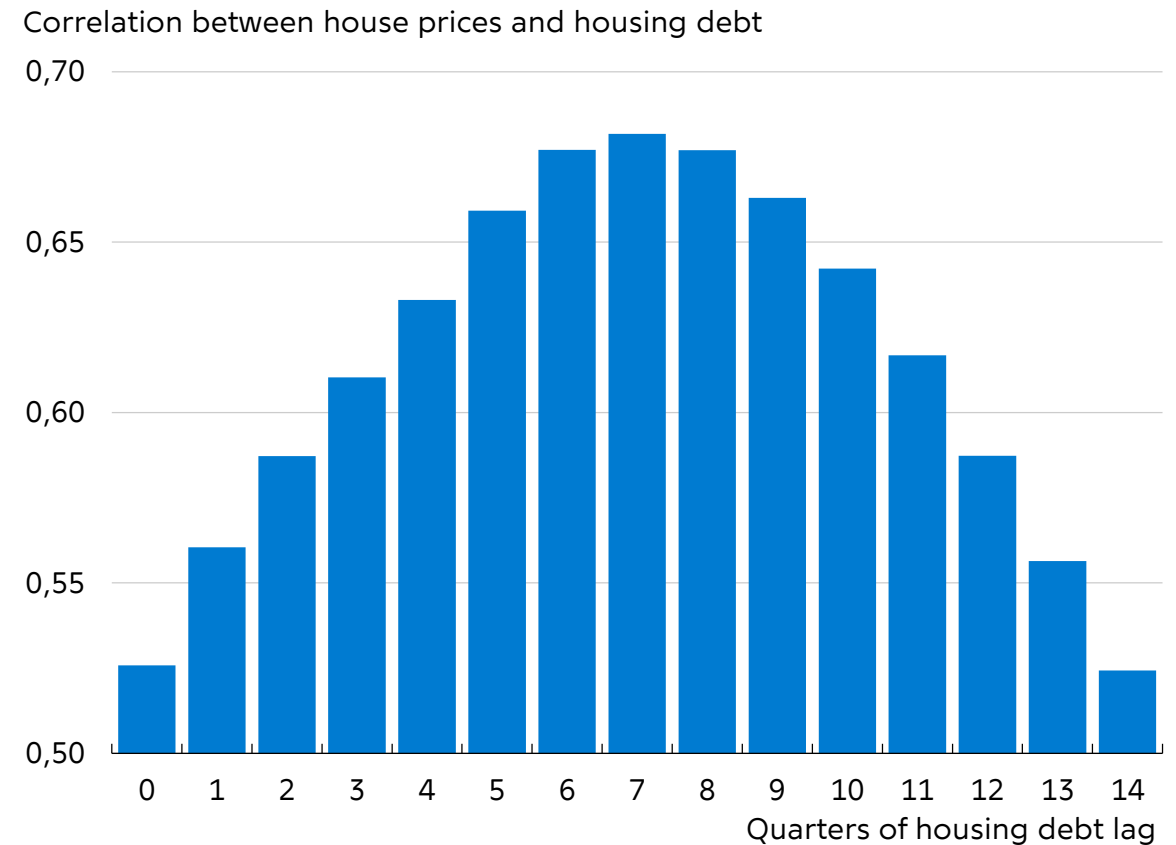
Note: House price growth expressed as weighted house price growth of single-family houses and owner-occupied apartments. The circle sizes indicates the number of homes sold. The most recent observations are 2nd quarter of 2021.
Source: Danmarks Nationalbank, the credit registry and the Association of Danish Mortgage Banks.

Credit growth typically occurs with a lag to house price growth

Household debt typically follows house prices



Historically, credit growth lags house price growth with approx. seven quarters



Note: Trends for real house prices and real housing debt are based on Danmarks Nationalbank's financial cycle model.
Source: Grinderslev et al. (2017), Financial Cycles: What are they and what do they look like in Denmark?, *Danmarks Nationalbank Working Paper*, No. 115, June 2017.

The time is right to make the housing market more resilient

Amortisation requirements for highly indebted homeowners



Macroprudential measures to reduce vulnerability to a subsequent decline in house prices

New housing tax agreement should not be further delayed



Implementation of new housing taxation will restore the relationship between housing tax and home values

Reduction of interest rate deductibility



A reduction in interest rate deductibility will induce homeowners to reduce their debt and so improve their resilience to housing market fluctuations

**It is never the right time
to do the right thing**



**It is important for homeowners to
amortise on their mortgage, thus
moving away from high indebtedness.
Danmarks Nationalbank recommends
supplementing the Supervisory
Diamond with legislation by reducing
loan-to-value limits for deferred
amortisation loans.**

- Lars Rohde, 2014