

Market Impact Update – Denmark

What are the remaining uncertainties following the pandemic that will affect Danish business environment?

August 2021



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Executive Summary

In the last one and a half years, as many other European countries, the Nordic region had lockdown and re-opening periods. With the completed vaccination rates increasing and normalization progressing, the economies have started to show the signs of recovery.

Credit activity has caught up and even exceeded the pre-Covid 19 levels especially from the beginning of 2021. Danes managed their debts to a better degree with fewer registering negative remarks¹. Government aid packages have assisted in keeping unemployment under control. Moreover, paid holiday allowances when coupled with lockdown restrictions, which prevented households from spending, have resulted in improved savings rates and economic strength.

When we look at the businesses' performance, there is an improvement in bankruptcy figures. Help packages and the deferral of taxes, among other things, certainly prevented the most vulnerable sectors from bankrupts. On the other hand, no one can assert that all the risks related to Covid-19 has faded away. The deteriorated asset quality within various bank portfolios, particularly SME's, points to a risk of developing financial stress within economies. The postponed VAT repayments in March 2022 will expectedly have certain impact on future bankruptcies resulting in a rise in new bankruptcies.

SME portfolios in Danish financial sector require special attention and close monitoring.

Early warning mechanisms needs to be in place to identify the financial difficulties of the customers at short notice and to offer customized solutions. It would reduce the transitions from performing loans, to non-performing loans and help financial institutions to keep under control their provisions.

Good collections processes and strategies are also vital to improve the operational efficiency and the customer experience in these distressed conditions.

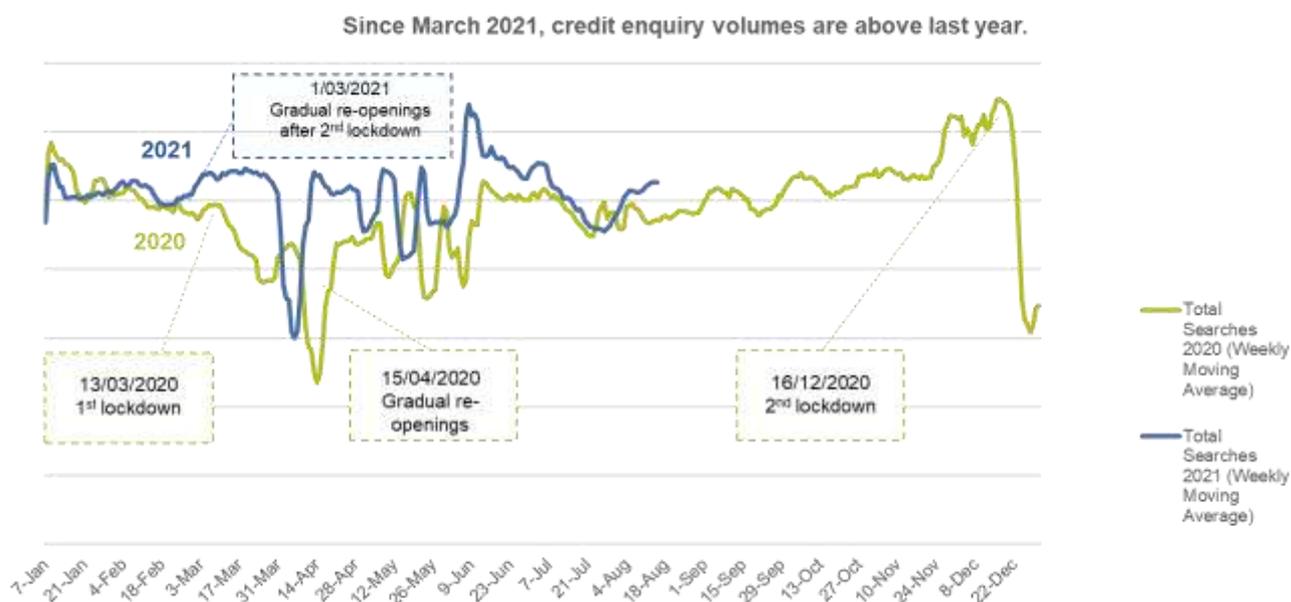
¹ Experian RKI analysis as of July 2021

The credit activity in Denmark has returned to its pre-Covid-19 levels

The most significant drop in credit enquiry volumes occurred from the date the lockdown was formally enforced on 13th of March 2020 and impacted all industries. The gradual openings from May 2020 and the announcement on the disbursement of the holiday allowances brought vitality in the consumer spending. November and December 2020 presented an optimistic environment due to the paid holiday disbursements, Black Friday, vaccination planning and Christmas shopping.

However, the increase in Covid-19 infection cases caused a 2nd lockdown on 16th of December 2020. It wasn't so impactful on the credit activity levels as the consumers were already adapted to online activities. After 1st of March with the re-openings, credit activity levels surpassed the levels of the same period of the last year. It indicates that consumers have an appetite to spend their savings and invest in areas such as home renovation and summer houses.

Figure 1. Credit enquiry volumes in Denmark



Despite the decrease in RKIs, a typical Danish household was hit by higher debt

The number of Danes registered in RKI has decreased by over 8% in the past year despite Covid-19 circumstances

After the first half of 2021, 174,376 Danes were registered with RKI, while a year ago the figure was 190,064. This is a significant decrease in the number of Danes who are registered as bad payers. It was an unexpected development, given the Covid-19 circumstances. The figures indicate that the pandemic provided a fertile environment for building up savings. Holiday allowance disbursements also contributed significantly to the household savings.

At July 2021, the age groups of 21-30 years, 31-40 years, 41-50 years have the highest share of RKI registered of 4,66%, 5,89% and 5,22% respectively. However, Covid-19 circumstances have not altered the decreasing trend of the last 3 years of RKI shares in each age group.

There is still a challenge in the age groups from 21 to 50 years. They were impacted by higher debt levels during the pandemic conditions. The average RKI registered amount due per person increases despite the decreasing trend in the number of RKI registers (Figure 1). It indicates that several new households are struggling to afford large and fixed expenses.

It is important to monitor the trend over the upcoming months in order to better assess the shifts in creditworthiness in certain household groups.

Figure 2. The average defaulted amount per RKI registered people in Denmark based on age groups



Bankruptcies below the expectations in Nordics but still a significant increase

Denmark underwent a full re-opening in the 2021 summer. Consumer spending is back to pre-Covid 19 levels and the domestic demand is reviving business activity. In addition, emerging global demand for manufacturing goods supports export levels, so the Danish economy². At the beginning of 2020, Denmark's foreign trade was negatively affected by the pandemic. From January to May 2020, there was a decrease of 17% in exports of goods and services. From Q3 2020 on, we observe a volatile recovery trend in the export levels. This is especially pronounced from February 2021 on, export levels are back to previous levels.

Heightened concern in respect to the impact of postponed VAT repayments and the fading-out government support packages on the companies' financial performances and on the bankruptcy figures

In February 2021, the Danish government postponed the VAT repayments for 1 year until 1st of March 2022, commencing 1st of March 2021, by granting interest-free loans to support small businesses affected by the Covid-19 situation. The impact of the increased consumption levels, holiday allowance disbursements, postponed VAT repayments and the extended government help packages helped stabilize bankruptcy levels.

Experian Bankruptcy Analysis July 2021 Report shows that, there have been 457 bankruptcies in July 2021, which is a decrease of 3.4% compared to July 2020. On the other hand, the total bankruptcies occurred in the period of August 2020-July 2021 increased by 13% compared to the same period of the previous year.

² <https://www.statistikbanken.dk/bbpm>

1. Financial and insurance activities, 2. Administrative and support service activities and 3. Arts, entertainment, sports sectors are the top 3 sectors with the highest YoY increase in bankruptcies

Table 1. Number of bankruptcies in Denmark based on sectors as of July 2021

Industry	Jul. 2020	Jul. 2021	Change (%)	Aug19-Jul20	Aug20-Jul21	Change (%)
Financial and insurance activities	48	75	56,3	775	1119	44,4
Administrative and support service activities	51	52	2,0	704	1008	43,2
Arts, Entertainment, Sports	5	3	-40,0	61	86	41,0
Human health and social work activities	3	8	166,7	57	69	21,1
Electricity, Water Supply; Sewerage	3	4	33,3	23	27	17,4
Information and communication	21	21	0,0	373	415	11,3
Agriculture	9	9	0,0	139	154	10,8
Other service activities	7	13	85,7	158	173	9,5
Accommodation and food service activities	40	31	-22,5	482	527	9,3
Construction	98	66	-32,7	1013	1099	8,5
Professional services	32	38	18,8	555	588	5,9
Transportation and storage	36	25	-30,6	393	411	4,6
Education	6	5	-16,7	71	74	4,2
Manufacturing	16	23	43,8	283	288	1,8
Wholesale and retail trade	77	67	-13,0	1202	1222	1,7
Real estate activities	9	14	55,6	193	195	1,0
Mining and quarrying	0	1	100,0	5	5	0,0
Missing	12	2	-83,3	170	60	-64,7
Total	473	457	-3,4	6657	7,520.0	13,0

The share of NPLs in SME portfolios continue its rise in both Denmark and Norway

Collections management becomes critical to improve the operational efficiency and customer experience in these distressed conditions

Covid-19 negatively impacted certain sectors in Nordics as with similar sectors globally. It brought many liquidity challenges and payment difficulties for businesses. Some of the businesses were offered relief through new payment plans, payment holidays, interest rate changes, however, some of the businesses were severely stressed - resulting in non-performing loans (NPL).

EBA Risk Dashboard Report of Q1 2021 shows that the NPL share within the SME and Commercial Real Estate (CRE) loans present an increasing trend in both Denmark and Norway since Covid-19 emerged.

This implies that **SMEs in the Danish financial sector requires special attention and close monitoring. The needs of the SME customers must be identified and analyzed proactively. Proper customer management and collection strategies must be applied among different sectors and segments.**

Figure 3. SME portfolio NPL trend in Nordics between Q3 2019 and Q1 2021

The rising trend of the Danish SME NPL ratios has slowed down in March 2021 but still 22% higher than the beginning of 2020 while Norwegian SME NPLs increased significantly in the Q1 of 2021 by 32%

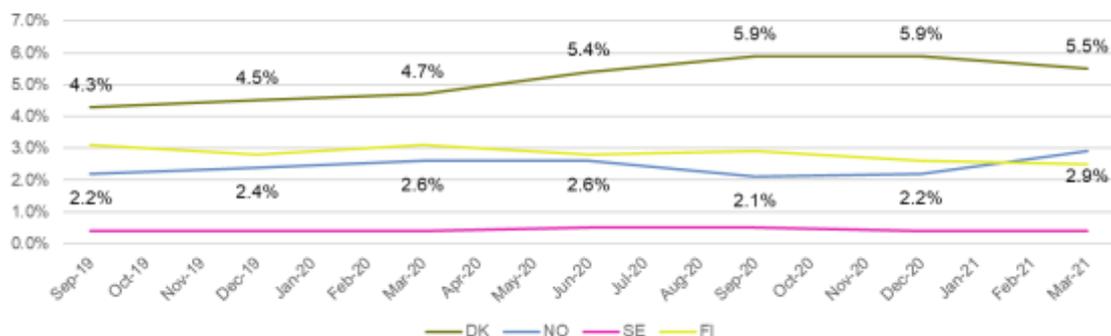
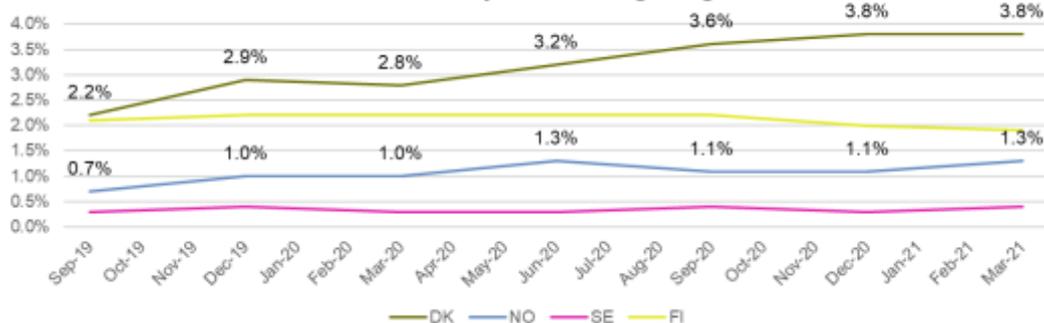


Figure 4. CRE portfolio NPL trend in Nordics between Q3 2019 and Q1 2021

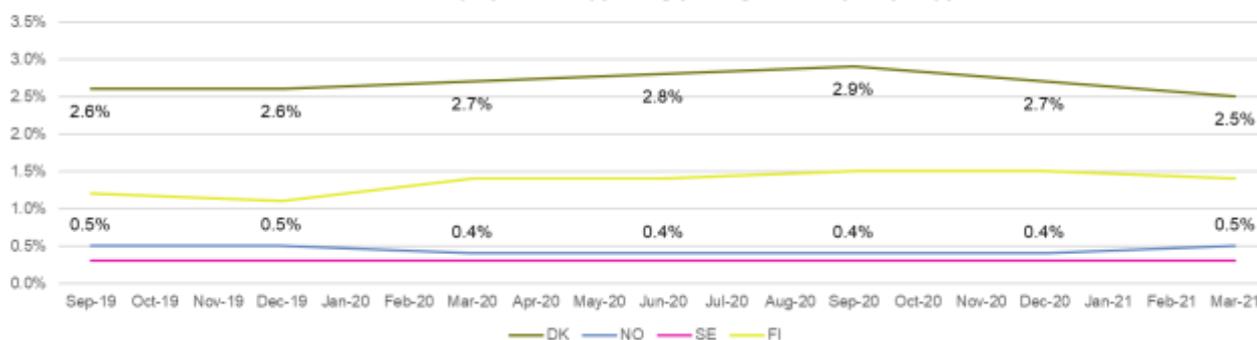
NPL share of the Commercial Real Estate loans are also increasing in both Denmark and Norway since the beginning of 2020



Household loans' performance has not changed significantly during Covid-19 outbreak due to controlled unemployment, supporting packages and liquidity support. This is also in line with RKI statistics given in the previous sections

Figure 5. Household portfolio NPL trend in Nordics between Q3 2019 and Q1 2021

Household loans' performance has not changed significantly during Covid-19 outbreak due to controlled unemployment, supporting packages and liquidity support



Upcoming VAT repayments and fazing-out government support will expectedly press businesses

The coronavirus outbreak was an unexpected shock to the Danish and global economy. It had a significant impact on the credit activities, consumer behaviours, business environment and unemployment. As of summer 2021, the recovery indicators are much more positive about the future of Danish economy as a result of full re-openings and progressed vaccinations.

Experian has been closely following the certain indicators from the beginning of Covid-19 outbreak, namely:

- Macroeconomic data and forecasts for Nordics
- The changes in the credit enquiry volumes in Experian Nordics bureaus
- Consumer and business confidence indices
- Bankruptcy figures per sectors
- Non-performing loan trends in both household and SME portfolios

What we have learned during this outbreak was that individual sectors matter in Nordics for the financial performances of the companies. Both bankruptcies and NPL trends indicate that it is crucial to monitor the developments in the sectors and regions closely and to early identify the businesses that needs urgent support before they fall into payment difficulties or experience liquidity shortages.

We're now entering a period where the impact of the liquidity supplied by government actions such as VAT repayment postponements, holiday money disbursements and extended help packages will disappear. The upcoming VAT repayments and the fazing-out government support will expectedly press some businesses directly and their employees indirectly.

Experian supports its customers with

- Macroeconomic data and forecasts
- SME credit risk projections for 21 different sectors
- Customized sector specific and economy wide Early Warning triggers to anticipate the actions and reduce NPL
- Early Warning models to predict the probability of rolling into from one delinquency bucket to a worse status in a short period of time
- Implementation of Early Warning scorecards and triggers into automated rules & customer management strategies to accelerate the actions and to reduce stage 2 and stage 3 loans

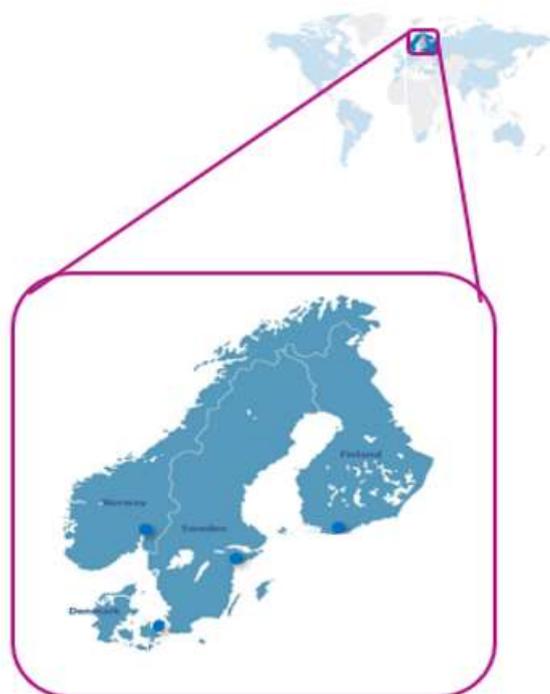
What is Experian's footprint in the Nordics?

We operate across the Nordics with local offices in Copenhagen, Oslo and Stockholm along with partnership presence in Finland.

We have more than 125 employees in Nordics. We have two Credit Bureaus in Nordics, one in Denmark and one in Norway serving in both consumer and business area. We also have a partnership with UC and Asiakastiето in Sweden and Finland.

Our payment remarks data, RKI, is a registered trademark. In addition to our Bureau Services in Nordics, as Experian, we deliver solutions to our customers with a unique combination of data, technology and analytics.

We are a part of the world's largest network of international credit information.



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About Experian

Experian is the world's leading global information services company. During life's big moments – from buying a home or a car, to growing a business by connecting with new customers – we empower our clients to manage their data with confidence. We help individuals to take financial control and access financial services, businesses to make smarter decisions and thrive, lenders to lend more responsibly, and organisations to prevent identity fraud and crime.

We have 17,200 people operating across 44 countries and every day we're investing in new technologies, talented people and innovation to help all our clients maximise every opportunity. We are listed on the London Stock Exchange (EXPN) and are a constituent of the FTSE 100 Index.

Learn more at www.experian.dk, www.experian.no and www.experian.com.se for local cross Nordics insights.