

Market Impact Update – Denmark

A look at a rapidly changing economy

April 2021



Contents

Executive Summary	3
Macroeconomic impact of COVID-19 outbreak in Nordics	4
The credit activity in Denmark has returned to its pre-Covid-19 levels in Q1 2021 and the recovering confidence in the business market is materializing in the newly established company numbers in March 2021	6
What are the trends in the Danish financial sector observed after the Covid-19 outbreak and how is the asset quality impacted?	7
What consumer and business trends due to Covid-19, are we observing in Denmark?	8
Conclusion	10
Key take away's for the financial institutions	10
What is Experian's footprint in the Nordics?	11

Executive Summary

The pandemic's economic impact has started to be observed on both macro and micro level. We started to see trends which are indicative of emerging patterns in the credit industry and could be early indicators of what is to come over the next few months. Data shows that certain sectors have a recovery trend. On the other hand, some still have a longer way in front to recover. The larger economic recovery is expected by 2022.¹

Since the reopening after the 1st lockdown, economic activity has picked up in parts of the Danish economy. However, both the 1st and 2nd lockdown resulted in economic losses measured as Danish GDP. It decreased by 3.3 per cent overall this year². Increased infection rates and new restrictions announced in December in Denmark and abroad are again slowing down parts of the economy, delaying recovery. At the same time, activity is high in other parts of the economy, leading to a two-speed economy.³ We should not overlook the likelihood that **payment difficulties and bankruptcies will likely occur for the more vulnerable businesses after the government support vanishes.**

All these unfavourable conditions will have an impact on Danish financial sector and banking. The deterioration in the asset quality is visible now. **SME portfolios in Danish financial sector require special attention and close monitoring.** Several Danish banks expects that the asset quality will deteriorate in the next quarter. In order to prevent SME customers from transferring into underperforming or non-performing exposure status, their needs must be identified in the early stages and banks should offer customized solutions to their SME customers. **Management of the non-performing and forborne exposures as well as robust collection processes in the bank are vital to improve the operational efficiency and the customer experience in these distressed conditions.**

Another challenge for the financial sector is that the risk profiles of the customers continue to shift. The current credit risk assessment frameworks of the banks will struggle in estimating the future risks if it is not supported with additional tools and systems. **Alternative data sources, early warning systems and robust pre and early collection models are crucial for the banks to manage at short notice the financial difficulties of their customers. Reduction of the transitions from performing loans, to underperforming or non-performing loans will help banks to control the expected credit losses which is already in an increasing trend.**

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https://www.nationalbanken.dk/en/publications/Documents/2020/12/ANALYSIS_No.26_Outlook%20for%20the%20Danish%20economy%20-%20December%202020.pdf

² Source: National Statistical Offices – seasonally and inflation adjusted data

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https://www.nationalbanken.dk/en/publications/Documents/2020/12/ANALYSIS_No.26_Outlook%20for%20the%20Danish%20economy%20-%20December%202020.pdf

Introduction

In this report, we will explore the credit activity and consumption trends in Denmark we see unfolding. We will give an overall macroeconomic outlook of the Nordic countries before, during and after the Covid-19 crisis and will look into the impacts of Covid-19 shock on bank's asset quality. We will investigate how banks can manage well the risk profile shifts in their portfolios.

Macroeconomic impact of COVID-19 outbreak in Nordics

Most of the world economies have worsened due to the pandemic conditions through the last year. The lockdowns had a massive economic impact on many industries. Regarding the macro level impacts of Covid-19 outbreak, Nordic countries published sharp declines in GDP growth rates at the end of 2020, as many other countries. GDPs of all the Nordic economies narrowed down in 2020 after the Covid-19 outbreak. Furthermore, the unemployment increased in these economies (see Table 1).

Despite the negative outlook in 2020, the Covid-19 crisis was different and to a certain degree less impactful than the 2008-2009 financial crisis. In this crisis, the business sector mattered more for both companies and also for households. While lockdown restrictions based on the business branches are slowing down parts of the economy, delaying the recovery, re-openings speed up the activity in certain parts of the economy, leading to a two-speed economy.

It can still be said that Nordic economies performed relatively better in terms of GDP growth than many other European economies such as UK, Italy, Spain and Germany. However, global economies cannot be considered independently from the other economies. For example, Danish economy being a small open economy is heavily dependent on exports and imports and other countries' economies is one of the key determinants for the future trade levels in Denmark economy.

Table 1. Development of key macroeconomic indicators in Nordics after Covid-19 outbreak

Economic Statistics	Denmark	Norway	Sweden	Finland
Annual GDP growth (%) in 2019 ⁴	2.8	0.9	1.4	1.3
Expected annual GDP growth (%) in 2020 pre-Covid-19	1,5 ⁵	1,9 ⁶	1,1 ⁷	0,9 ⁸
Annual GDP growth (%) in 2020 ⁹	-3.3	-0.8	-3.0	-2.9
Expected annual GDP growth (%) in 2021 as of Dec 2020	2,9 ¹⁰	3,7 ¹¹	3 ¹²	2,2 ¹³
Unemployment rate (%) as of Dec 2019 ¹⁴	3,7	3,9	6	6
Unemployment rate (%) as of Dec 2020 ¹⁵	4,4	5	8,2	7,8

⁴ Source: National Statistical Offices – seasonally and inflation adjusted data

⁵ https://www.nationalbanken.dk/en/publications/Documents/2019/09/ANALYSIS_no%202020_Outlook%20for%20the%20Danish%20Economy%20-%20E2%80%93%20september%202019.pdf

⁶ GDP, mainland Norway. https://static.norges-bank.no/contentassets/04c2bd9b4a9e498cac9588e8963a7bbc/mpr_4_19_web.pdf?v=12/19/2019151950&ft=.pdf

⁷ <https://www.government.se/48e7fb/globalassets/government/dokument/finansdepartementet/pdf/prognoiser/2020/key-indicators-forecast-16-january-2020.pdf>

⁸ <https://www.bofbulletin.fi/en/2019/5/forecast-tables-for-2019-2022-december/>

⁹ Source: National Statistical Offices – seasonally and inflation adjusted data

¹⁰ https://www.nationalbanken.dk/en/publications/Documents/2020/12/ANALYSIS_No.26_Outlook%20for%20the%20Danish%20economy%20-%20December%202020.pdf

¹¹ https://static.norges-bank.no/contentassets/7f54db78676a4e959efabb0233ea1665/mpr_420.pdf?v=12/17/2020131040&ft=.pdf

¹² <https://www.government.se/4af36c/globalassets/government/dokument/finansdepartementet/pdf/prognoiser/2020/prognos-16-december-2020/key-indicators-forecast-16-december-2020.pdf>

¹³ <https://www.bofbulletin.fi/en/2020/6/forecast-the-economy-will-recover-from-the-pandemic-but-even-after-recovery-growth-will-be-slow/>

¹⁴ Registered unemployment rate. Source: <https://tradingeconomics.com/>

¹⁵ Registered unemployment rate. Source: <https://tradingeconomics.com/>

Recent bankruptcy figures are still lower than expectations besides the technical bankruptcies. VAT repayment postponements, holiday money disbursements and extended help packages are blurring the exact picture of the Covid-19 impact

From a micro level perspective, the gradual re-openings in certain sectors after the 2nd lockdown announced in December 2020 and the government support will be the key determinants of the companies' financial performances and bankruptcy figures.

- In February 2021, the Danish government postponed the VAT repayments for 1 year until 1st of March 2022, which due date was 1st of March 2021, by granting interest-free loans to support the small businesses affected by Covid-19 situation.
- Another action taken by the government in February 2021 was the extension of general government help packages until 5th of April.¹⁶ Danish companies, cultural life and the self-employed still have access to apply for the general compensation schemes if they have a turnover decrease of at least 30 per cent. This means that companies and the self-employed, etc. can continue to make use of the general compensation schemes for fixed costs and the self-employed
- As of 1st of March, re-openings started with the retail sector partially which will be followed by the further re-opening of the economy, starting with hairdressers, SPA and beauty centers on 6th of April, expanding to include department stores and outdoor service in restaurants on the 21st of April. The 2nd part of the holiday money disbursements that started in March and will continue in April, also provides liquidity in the consumption market to revive the economy.

All the above actions and measures helped the bankruptcy levels stay limited. Until February 2021, the impact of the Covid-19 outbreak did not show up in the bankruptcy figures of Danish companies.

- However, in February 2021, there was an increase of 154% in the total bankruptcy figures compared to February 2020 (from 471 to 1,196 bankrupts). Despite the large increase in bankruptcies, it is worth mentioning that nearly half of the bankruptcies were coming from the IVS companies, mostly with no employees and only limited revenue. By October 2021, all IVS companies need to seize, to shift legal form or close down. The large number of bankruptcies were likely caused by the fact that many companies had to turn in their annual report in September. Some companies failed to do so, resulting in the compulsory dissolutions and ultimately in their bankruptcy in February 2021.
- Experian Bankruptcy Analysis March 2021 Report shows that, there was again an increase of 195% in the total bankruptcy figures compared to March 2020 (from 295 to 869 bankrupts). It is still mostly due to a shift in compulsory dissolution cases from 2020. It should also be considered that the bankruptcy figures in March 2020 were relatively lower than expected due to the newly introduced lockdown conditions impacting the courts' processing of the cases. If you look at the yearly change in bankruptcies, there has been a slight increase of a total of 0.7%.

According to the report, virtually all industries experienced increases in the number of bankruptcies in the month of March compared to the same month the year before. Especially the development in some industries such as healthcare is seeing a sharp increase, while the absolute change is not so high - the industry includes, for example, physiotherapists and dentists. When looking at a whole year, overall, there is almost a status quo, but there are differences between the industries. In nominal terms, it is the Trade industry that has the most bankruptcies with 1,267 bankruptcies when you look back 12 months.

¹⁶ <https://em.dk/nyhedsarkiv/2021/februar/bredt-politisk-flertal-forlaenger-de-generelle-hjaelpepakker/>

It should not be forgotten that the defaults will be observed at least 3 months later than the expiration of the help packages, in the 3rd quarter of 2021, expectedly.

For the micro level impacts, see section “What consumer and business trends due to Covid-19, are we observing in Denmark?”.

The credit activity in Denmark has returned to its pre-Covid-19 levels in Q1 2021 and the recovering confidence in the business market is materializing in the newly established company numbers in March 2021

In Denmark, society has started to be gradually re-opened since 1st of March 2021. But even during the 2nd lockdown announced in December 2020, except the Christmas period, credit enquiries¹⁷ were at the same level as 2020. Compared to the reaction to the 1st lockdown in last year in March, Danes credit activity has not been impacted by the 2nd lockdown (see Figure 1).

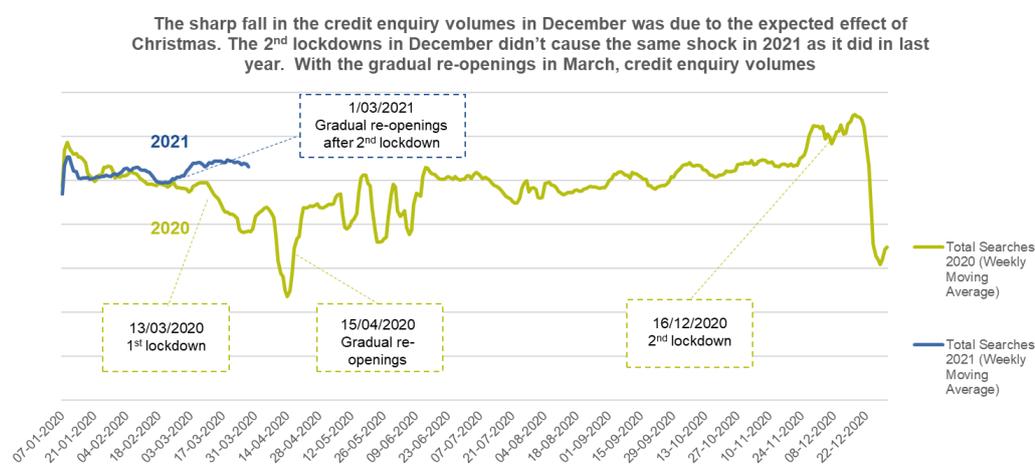
From March 2021 on, with the gradual re-openings and the liquidity supplied by the holiday money disbursements to the market, we expect the credit activity to follow the normal levels or maybe even increase if the appetite for investments is higher than the current savings.

Key Insight

- 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 on had positive impacts on the industries and on the credit activities.
- During summer holidays, there was an expected slowdown in the credit enquiries as expected.
- The announcement on the disbursement of the holiday allowances brought vitality in the consumer spending.
- In November and in the beginning of December 2020, there was 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 in 16th of December 2020.
- The 2nd lockdown wasn't so impactful on the credit activity levels as the consumers were already adapted to online shopping and on-going vaccination still gave the hope to the market to spend.
- 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 like home renovation and summer houses.
- According to Experian Newly Established Companies Report as of March 2021, looking at the entire first quarter of 2021, there is an increase in the total number of newly established companies of 29.3% - compared to the first quarter of 2020. There has been a marked increase in the number of newly established companies. Virtually all areas have grown in the first quarter, compared with the first quarter of 2020.
- It appears that in the first quarter of 2021, 25.40 companies were created per. 1,000 existing companies against 20.17 in the first quarter of 2020.
- The increase in newly established companies in Q1 2021 is mostly driven by March 2021. It is because of the fact that March 2020 was the starting month of the lockdown which caused a relatively low number of newly established companies. On the other hand, the increase in Q1 2021 shows a higher desire to start a new business and more confidence to the Danish market.
- The Corona crisis seems to return to growth faster in terms of desire to establish a new company than in the financial crisis.
- In the first quarter of 2021, it is Gentofte municipality that has relatively the highest number of new establishments per. 1000 inhabitants over 18 years.

¹⁷ Credit enquiry is measured as requests for RKI.

Figure 1. Credit enquiry volumes in Denmark



What are the trends in the Danish financial sector observed after the Covid-19 outbreak and how is the asset quality impacted?

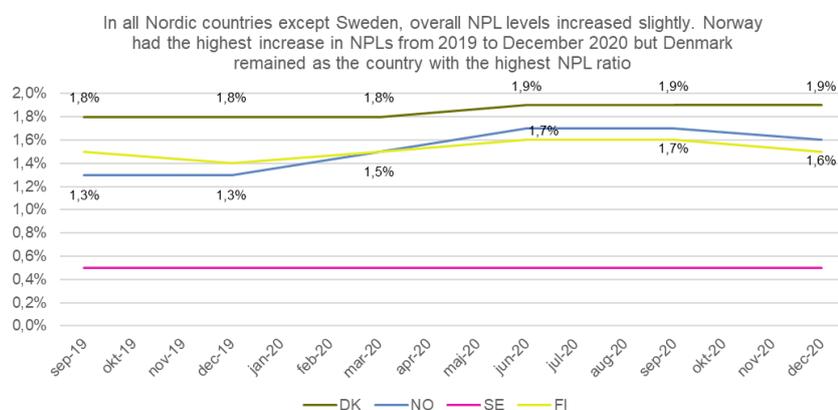
Banks still have not experienced the massive impact of corona on the macro level. Liquidity provided by the government is still supporting the business market. Expanded and extended help packages are saving the companies from bankruptcies and keeping the non-performing loans (NPL) levels under control.

Non-performing loans in SME portfolio continue its rise in Denmark. Collections management became critical to improve the operational efficiency and customer experience in these distressed conditions

One cannot ignore the upcoming challenges for the banks once cash and relief packages are out. The lack of activities in certain sectors such as hotels, restaurants, travel agencies, service sector and certain retail areas puts pressure on the financial status of many companies.

EBA Risk Dashboard of Q4 2020 shows that Norway had the highest increase in NPLs from 2019 to December 2020 but Denmark remained as the country with the highest NPL ratio (see Figure 2).

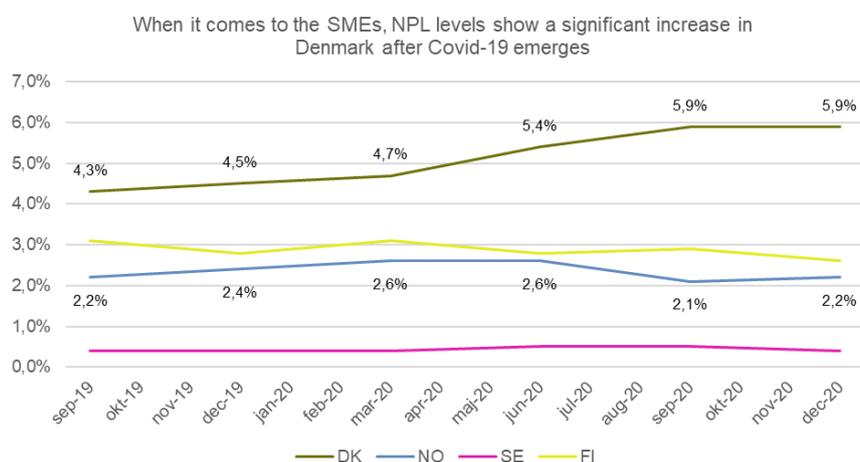
Figure 2. Overall NPL trend in Nordics between Q3 2019 and Q4 2020



Denmark differentiates from the other Nordics in terms of the increase in SMEs NPL levels (see Figure 3). For SME portfolio, the NPL share in the total loans increased by 37% within a year; from 4,3% in September 2019 to 5,9% in December 2020. In Norway, it increased until the 1st half of 2020 and then started to decrease and

came to the previous levels of NPL as of December 2020. In Sweden, SME NPL curve stayed flatter. It means that **SME portfolios in Danish financial sector require special attention and close monitoring. The needs of the SME customers must be identified and analyzed proactively and adequately. Proper customer management and collection strategies must be applied among different sectors and different segments.**

Figure 3. SME portfolio NPL trend in Nordics between Q3 2019 and Q4 2020



What consumer and business trends due to Covid-19, are we observing in Denmark?

Consumer and business confidence indices had their historically low levels in April but continue their recovery

In Denmark, consumer and business confidence indices have sharply decreased after the lockdown in March and April. The business confidence index showed even lower levels than it was during the global financial crisis of 2008-09. From May to July, there has been a recovery in Consumer and Business Confidence Index following the eased lockdown restrictions and the re-openings. After July, there is again a downward crack in the consumer confidence index.

Figure 5. Denmark Consumer Confidence Index

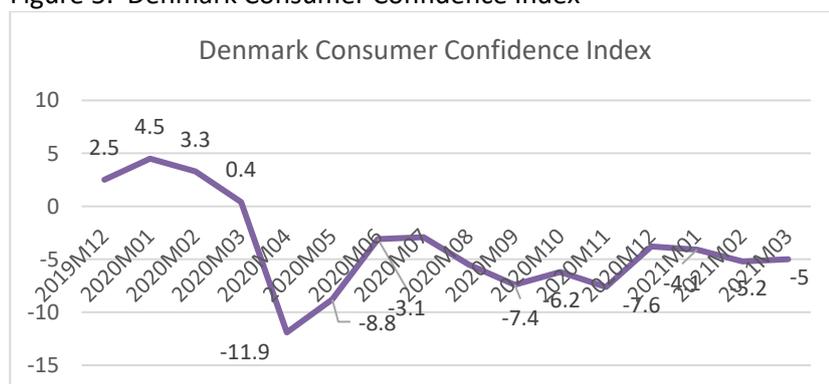
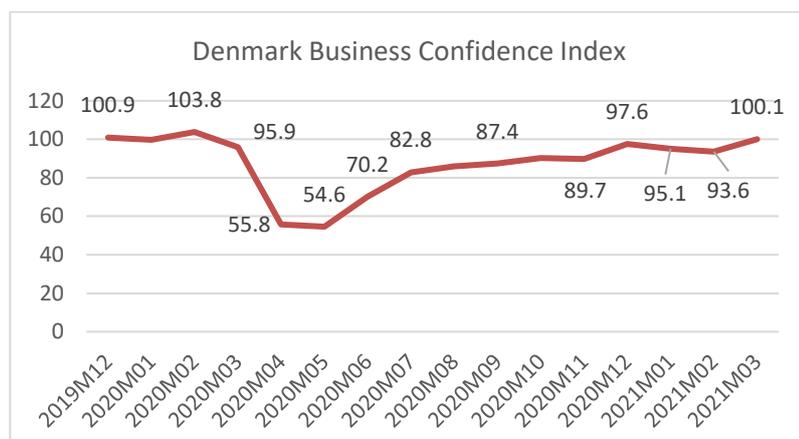


Figure 6. Denmark Business Confidence Index



After the re-openings in March followed by the 2nd lockdown in Denmark and with further re-opening expectations, Danes returned to their normal spending behavior very fast

According to Danske Bank Spending Monitoring Report¹⁸ the announcement of the re-openings from 1st of March had a very positive impact on the spending and the total spending reached to the same spending levels of the same period in the last year. The re-openings also caused a shift in online shopping behaviour where physical stores started to subside the online. A further increase in the consumption is also expected in April and May with the extended re-openings and the 2nd holiday money disbursements.

As of 25th of March, spending in clothing and shoe stores have been normalised. Spending in electronics are still far above the last year levels despite a fall by the decreased online sales after re-openings.

On the other hand, due to lockdown restrictions hotel, restaurants and transportation spending are still too low. Hotel spending is down by 70% compared to last year and transportation spending is down by 60%.

Easter and spring gave a bit refreshment to hotels, bars and entertainment services

Keeping in mind the negative outlook in service sector, with the coming of Easter and the sun showing itself and easing of corona restrictions, the top five rising consumption areas in Denmark for the week 11 was hotels (+17%), entertainment & attractions (+16.4%), car rental (+9,3%), bars and vine merchants (6,2%), car, truck and motor dealers (+5,5%). In week 12, consumption in the category "Hotels" has increased for the third week in a row and it was 26.3% higher than the week 11.¹⁹

¹⁸ <https://research.danskebank.com/research/#/Research/article/6345bab2-d16c-4347-aa53-749461577d29/EN>

¹⁹ <https://info.nets.dk/barometer#uge12-2021>

Conclusion

The coronavirus outbreak was an unexpected shock on the Danish economy as it was for the whole world. It had a significant impact on the credit activities, consumer behaviours, business environment and unemployment since March 2020. Even though we started to observe the indications of recovery in the sectors with the re-openings and with the support of the government relief packages and holiday allowance payments, no one can assert that the uncertainties completely faded away.

The successor waves of the outbreak have resurged in Europe and many countries which are in import-export relationship with Denmark are seriously suffering from the outbreak. It impacts the international trading activities. It should be noted that the recovery in several sectors is also dependent on the maintenance of the export volumes. Experian will continue to monitor sector-based performance in the upcoming months after the re-openings and diminishing effects of government help packages and holiday allowances.

Another dimension that we will follow closely is the bankruptcy figures. Current numbers are still lower than our expectations (ignoring the technical bankruptcies causing a virtual increase). Liquidity supplied by government actions such as VAT repayment postponements, holiday money disbursements and extended help packages are blurring the exact picture of the Covid-19 impact. EBA figures on the rising NPL shares of the SME portfolio in Denmark indicate a deterioration in the asset quality and requires a close attention.

In regard to the liquidity supplied to the market and increased savings under the lockdown conditions, it is also very important to understand how Danish households will behave and where they will spend their money on. This will also determine the sector-based performances and the recovery.

Key take away's for the financial institutions

- Pay special attention to SME portfolios and monitor them and their sectors with careful scrutiny
- Ensure that you have strong NPL and collections management processes and tools to improve the operational efficiency and the customer experience in these distressed conditions
- Enrich your data sources, use specialized frameworks for pre- and early collections and set up an Early Warning System to have a proactive approach to your distressed customers
- Reach out to your customers at the right time in a right way with a proper solution to reduce the transitions from stage 1, performing loans, to stage 2 and 3, underperforming or non-performing loans to control your impairment levels

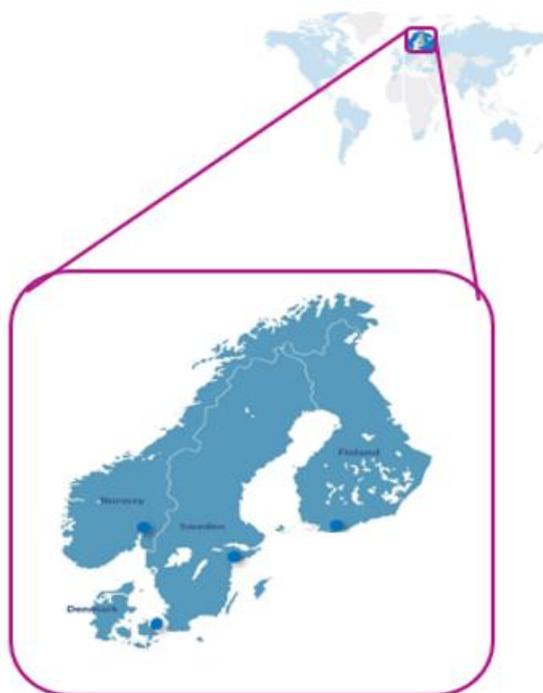
What is Experian's footprint in the Nordics?

We operate across the Nordics with local offices in Copenhagen and Oslo along with partnership presence in Sweden and 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 Enento Group 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

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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.

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