

# DENMARK

## AN ALTOGETHER ENVIABLE SITUATION

With relatively few deaths and only a mild decline in GDP in 2020, Denmark has been fairly resilient in the face of the Covid-19 pandemic. To counter a second wave of the virus, more restrictive health measures had to be introduced in early 2021, which will push back the timing of the recovery, albeit without jeopardising it. With its vaccination campaign unfolding smoothly and the extension of fiscal support measures, the country is well positioned to exit the crisis. To better control the krone's peg to the euro, Denmark's central bank has made major adjustments to its monetary policy.

In 2020, Denmark's GDP contracted 3.3%. This decline is smaller than the European Commission's previous estimate and a far cry from the eurozone average (nearly -7% of GDP). The country's resilience is undoubtedly due to the weight of automatic stabilisers, Denmark's economic specialisation (in agricultural and pharmaceutical products, among others) and the successful management of the health crisis.

After a difficult period in late winter, when the pandemic surged and strict lockdown measures had to be introduced, the horizon is looking brighter. The second wave has waned and Denmark has had virtually no new cases of the virus. In early April, the country reported a total death toll of 2,420, which as a percentage of the population, is less severe than in most other countries<sup>1</sup>. Thanks to the rollout of a vaccination campaign (20% of the population has already been vaccinated) and the gradual reopening of businesses, the economy should be able to start up again. The European Commission is forecasting a GDP growth of 3.5% in 2021.

Like elsewhere, exports have been hard hit by the pandemic, notably in services (tourism), which plummeted 17.5% in 2020, while merchandise exports were more resilient (down only 2.6% in 2020). This 2-speed momentum is likely to persist throughout most or all of 2021. Although the tourism sector will remain sluggish until travel restrictions are lifted, merchandise exports should rebound as international trade recovers. In manufacturing, the business climate is already showing signs of improvement. In March, for the first time since summer 2018, the majority of business leaders have reported brighter prospects. Production volumes have picked up strongly (see chart).

## MONETARY POLICY ADJUSTMENTS

Unlike most of the other central banks, Denmark's central bank did not resort to quantitative easing. Excess reserves did not soar, and the key reserve rate did not influence money market conditions as much as elsewhere. As a result, the positive Cibur-Euribor spread widened, putting upside pressure on the currency. To better control the krone's peg (DKK 746.038 for EUR 100), the central bank decided to narrow its interest rate corridor, by lowering its key refinancing rate (from 0.05% to -0.35%) and raising the deposit rate (from -0.60% to -0.50%), which is now identical to the ECB's rate. This effectively makes monetary policy more accommodating.

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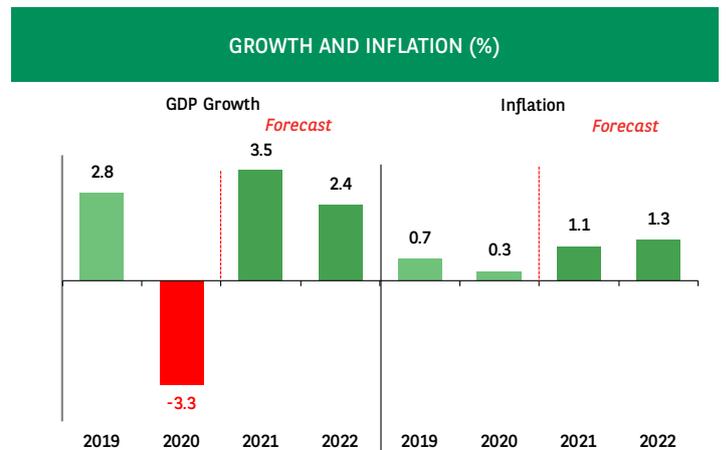


CHART 1

SOURCE : COMMISSION EUROPÉENNE, BNP PARIBAS

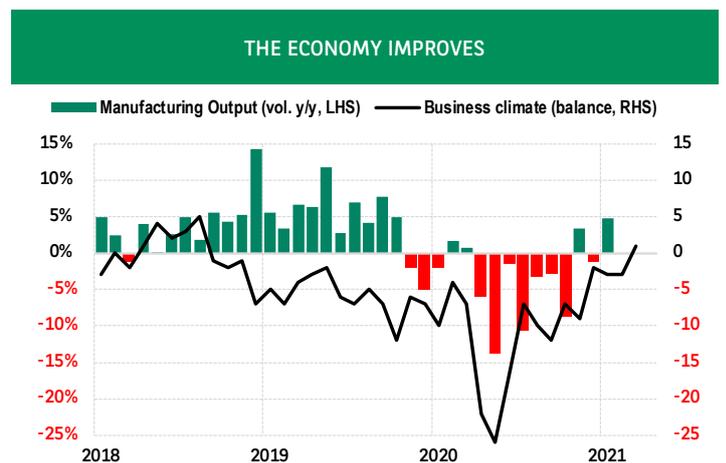


CHART 2

SOURCE: STATISTICS DENMARK

<sup>1</sup> In early April 2021, the mortality rate was 41.7 per 100,000 inhabitants, which is nearly 5 times lower than in Belgium and the UK, and 3 times lower than for neighbouring Sweden, which unsuccessfully experimented with herd immunisation.

