DENMARK

AN ECONOMY LIKELY TO BE RELATIVELY LESS AFFECTED

Faced with the Covid-19 pandemic, the authorities rapidly imposed strict protective measures that effectively proved to maintain the health crisis under control. The economy was also in a relatively good position at the beginning of the crisis – notably thanks to low unemployment and public debt – and fiscal as well as monetary support measures were quickly introduced by the government and the central bank. With all that in mind, the OECD estimates that Denmark will be one of the most resilient economies in 2020, forecasting a fall in GDP "limited" to 5.8%.

Thanks to the early introduction of lockdown measures, Denmark was not hit as hard as the other European countries by the Covid-19 pandemic – especially compared to Sweden, which opted for much more flexible restrictive measures. The authorities were also swift to introduce measures to bolster the economy.

"MASSIVE" SUPPORT MEASURES

In its June outlook[1], the OECD described as "massive" the measures taken by the Danish government to support businesses and workers. In total, the measures could amount to the equivalent of nearly 18% of projected 2020 GDP, according to the international organisation. The measures have included job retention schemes, liquidity support measures for businesses, tax deferrals and loan guarantees.

When it comes to monetary policy, the central bank is restrained by the fixed exchange rate regime that pegs the Danish krone to the euro. In fact, it raised its key rate by 15 basis points in March to reduce downside pressure on the currency. Even so, it set up an "extraordinary credit facility"[2] to maintain favourable financing terms for banks. The central bank also set up swap lines with the European Central Bank (ECB) up to a maximum of EUR 24 bn, and with the US Federal Reserve up to a maximum of USD 30 bn.

THE ECONOMY COULD SHOW RESILIENCE

Admittedly, Denmark is an open economy highly dependent on foreign trade, with exports of goods and services accounting for about 55% of GDP. Consequently, it is very likely that the economy will be hit by the slowdown in world trade triggered by the pandemic. That said, the nature of its exports make the country less vulnerable than one might think. Its specialisation in pharmaceutical and agricultural products, which are basic necessities, will certainly buffer the shock (see chart 2).

Moreover, Denmark entered the crisis with low unemployment rate[3] and public debt[4], which will surely help to weather the crisis. That being said, the country also presents some vulnerabilities. For instance, at 282% of net disposable income, its household debt ratio is the highest among OECD countries[5].

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GROWTH AND INFLATION (%)

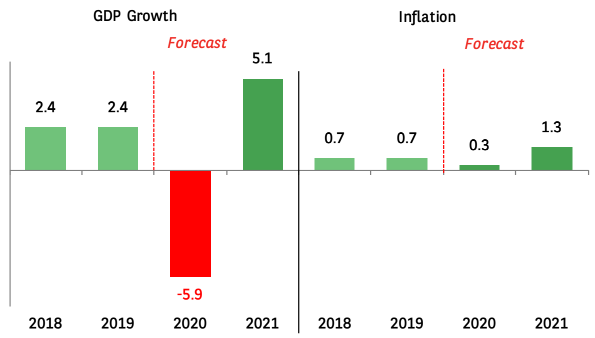

CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

EXPORTS (DKK BN)

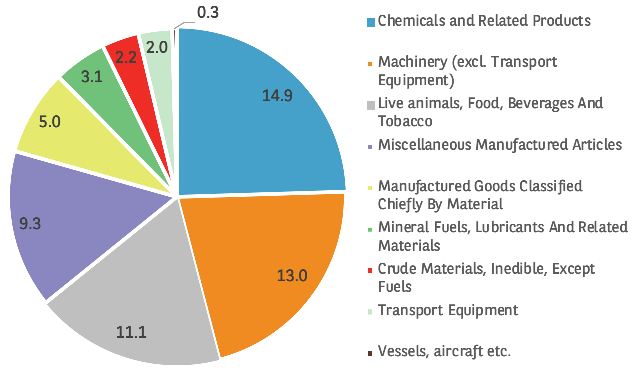

CHART 2

SOURCE: DENMARK STATISTICS

1 See http://www.oecd.org/economic-outlook/june-2020
2 See https://www.nationalbanken.dk/en/pressroom/Pages/2020/03/DNN202005367.aspx
3 From only 3.7% at the beginning of 2020, the unemployment rate rose to 5.4% in April. (See https://www.dst.dk/en/Statistik/emner/arbejde-indkomst-og-formue/arbejdsloeshed)
4 According to Eurostat, the public debt to GDP ratio was 33% at year-end 2019.
5 See https://data.oecd.org/hha/household-debt.htm