

Denmark

Not spared

The Coronavirus epidemic is also sweeping Denmark, which has now introduced relatively strict lockdown measures. With its very open economy (exports account for more than 50% of GDP), GDP growth will contract in 2020. To mitigate the shock, the government has launched major fiscal support measures, comprised notably of paying compensation for all or part of wages for a 3-month period. The central bank is ensuring DKK and EUR liquidity, after signing a swap arrangement with the ECB.

Like many countries around the globe, Denmark must face up to the Coronavirus pandemic, a major economic and health crisis that will result in a contraction of GDP in 2020. Although the country does not seem to have been hit very hard to date¹, the government decided to introduce relatively strict confinement measures as of 13 March. Schools, universities, restaurants and most other public and cultural spaces have been closed, while non-essential public and private sector employees are urged to work from home.

■ Economic threat and massive fiscal measures

The crisis is expected to have a heavy impact on the economy, with a sharp contraction of GDP in Q2 2020. To handle the crisis, the government has adopted strict measures, taking advantage of its substantial manoeuvring room (recurrent fiscal surplus since 2015 and a mild debt ratio of 33% of GDP).

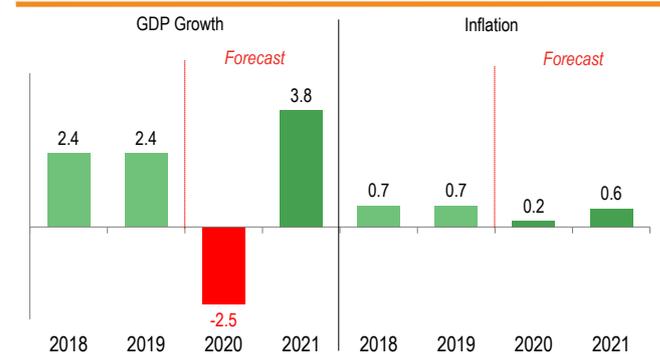
The biggest measure calls for the State to cover the payment of company operating expenses to limit job loss due to the shutdown of businesses. These measures are crucial in a country where household debt is very high (281% of net disposable income, the highest in the OECD) and supports the housing market. Under the Tripartite Agreement on Temporary Wage Compensation, which was passed on 14 March and strengthened on 31 March, the state will pay compensation for 75% of the wages of companies and self-employed workers experiencing hardships during a 3-month period (9 March to 9 June), within the limit of DKK 30,000 (EUR 4000) per person per month.

Like (nearly) every other country, the package also provided direct transfers under certain conditions (subsidies to help pay rent and other fixed charges), deferred tax and VAT payments, and guaranteed loans to companies for a total of DKK 60 bn (see box).

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1- GDP Growth and inflation (Y/Y, %)



Source : National Statistics, BNP Paribas

2- Economic stimulus measures

- **Monetary policy:** to counter pressures on the Danish krona (DKK) and defend its euro peg, the central bank initially raised its key rate to -0.60% from -0.75%. Pressure was then alleviated following the reactivation of a swap line with the ECB (20 March), the maximum amount of which is EUR 24 bn.

- **Fiscal policy:** on 14 March, all parties in the National Assembly agreed to a DKK 55 bn economic stimulus package. The stimulus measures include paying financial compensation to self-employed workers and companies (Tripartite Agreement on Temporary Wage Compensation) in order to reduce their operating costs. The government also said it would offer guarantees on corporate loans for up to DKK 60 bn (more than 5% of GDP). These unprecedented measures are much larger than those taken following the 2008-09 crisis. The Danish government is seeking to avoid the threat of recession in 2020 by stimulating production and employment in the second half.

Source: Government, central bank

¹ The official contamination rate (500 cases for a million inhabitants) is relatively high in Denmark, but great caution is needed when making comparisons: at 31 March, the country had 90 Coronavirus victims, or 13 times fewer than Italy as a share of the population.

