

Getting better doesn't mean being in good shape

General Information



GDP	USD341.952bn (World ranking 34, World Bank 2014)
Population	5.64m (World ranking 112, World Bank 2014)
Form of state	Constitutional Monarchy
Head of government	Lars Løkke Rasmussen (Liberal Party Venstre)
Next elections	2019, legislative



Strengths

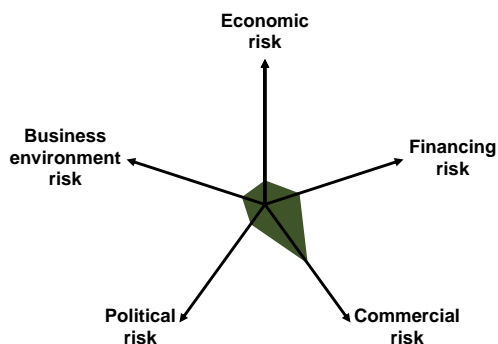
- Strong banking sector
- Strong business environment
- Diversified export sector
- Healthy public finances

Weaknesses

- Excessive household debt
- Loss of competitiveness
- Deteriorating conditions in the petroleum sector

Country Rating

AA1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Germany	15% 1	22% Germany
Sweden	12% 2	13% Sweden
United Kingdom	8% 3	8% Netherlands
Norway	6% 4	6% Norway
United States	5% 5	6% China

By product (% of total)

Exports	Rank	Imports
Pharmaceuticals	12% 1	7% Refined Petroleum Products
Meat	6% 2	5% Pharmaceuticals
Refined Petroleum Products	4% 3	5% Miscellaneous Hardware
Engines	4% 4	4% Plastic Articles
Miscellaneous Hardware	4% 5	4% Crude Oil

Source: Chelem (2013)



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Economic Overview

Not the best in class across the nordics

The Danish economy was hit hard by the 2008-2009 global financial crisis which coincided with the bursting of a domestic housing bubble (GDP contracted by -5% in 2009, more than the Eurozone average). Expansionary fiscal and monetary policy supported the economy afterwards but the Eurozone crisis and the global economic slowdown induced a strong cyclical downturn. In 2014, GDP growth turned positive (+1.1%) after two consecutive years of recession, and continued to grow over the first two quarters of 2015, but GDP is still -3% below the Q1 2008 peak and lags the recovery registered in Sweden and Norway since the crisis. In 2015, GDP growth should accelerate to +1.5% driven by net exports.

The start of the year has proven tough

The decision of the Swiss Central Bank to remove the cap on the Swiss franc against the euro on 15 January triggered massive inflows of foreign currencies to Denmark - and therefore appreciation of the Krone (DKK) against the EUR - as foreign investors were expecting that Denmark would abandon its peg. Domestic players also increased their hedged position on the euro in order to protect against potentially higher losses in case of a DKK appreciation. Further, the announcement of the ECB QE on January 22 has accelerated these inflows.

As a consequence the Danish Central Bank has purchased large amounts of foreign exchange against Danish kroner in the market, interest rates have been cut to an historic low (0.05%), deposit interest rates have been cut by 70bp to -0.75% and the issuance of government bonds has been suspended until October 2015 in order to further curb the capital inflows and increase the price of speculation.

Maintaining the peg to the euro is indeed important for the export opportunities with the neighboring eurozone countries, accounting for 30% of total Danish exports while total exports account for 55% of GDP. But the continued efforts to peg the DKK to the euro mean export competitiveness will also increase for sectors which deal largely in markets outside the Eurozone (accounting for close to 70% of total Danish exports). The United States is the country's fourth largest market for exports, so as the USD gains on the EUR (and DKK), many top sectors such as Pharmaceuticals, Machinery, Technical Apparatus' and Electrical Equipment would benefit.

Consumers are slowly back in the game, but downside risks prevail

Private consumption has picked-up since H2 2014. It has increased by 1% in H1 2015 and is expected to grow at a moderate pace (see Table 1). Ultra-low interest rates have led to an increase in mortgage borrowing and house purchases, resulting in strongly rising house prices (see Chart 1). However, households are weighed down by heavy debt: the ratio of household debt to gross disposable income stands at 255% (see Chart 2). Households have a significant strong net asset position, but most of it is built on pension savings that could pose problems for debt servicing when interest rates will be raised (probably not before end-2017).

Table 1 Economic forecasts

Denmark	share	2013	2014	2015	2016
GDP	100%	-0.5	1.1	1.5	1.7
Consumer Spending	46%	0.1	0.9	1.5	1.1
Public Spending	27%	-0.5	0.2	1.1	0.5
Investment	18%	0.9	4.0	0.4	1.8
Stocks	*	-0.3	0.3	-0.5	0.4
Exports	53%	0.8	2.6	0.3	2.1
Imports	47%	1.5	3.8	-1.6	1.6
Net exports	*	-0.3	-0.4	1.0	0.3
Current account	**	136	120	138	138
<i>Current account (% of GDP)</i>		7.2	6.3	7.0	6.8
Employment		0.0	0.7	1.0	0.9
Unemployment rate		7.1	6.8	6.2	6.0
Wages		0.7	2.6	2.9	0.6
Inflation		0.8	0.4	0.6	0.9
General government balance	**	-20	35	-30	-41
<i>General government balance (% of GDP)</i>		-1.1	1.8	-1.5	-2.0
Public debt (% of GDP)		45.0	45.2	42.2	40.2
Nominal GDP	**	1886	1921	1976	2 025

Change over the period, unless otherwise indicated:

* contribution to GDP growth

** DKK bn

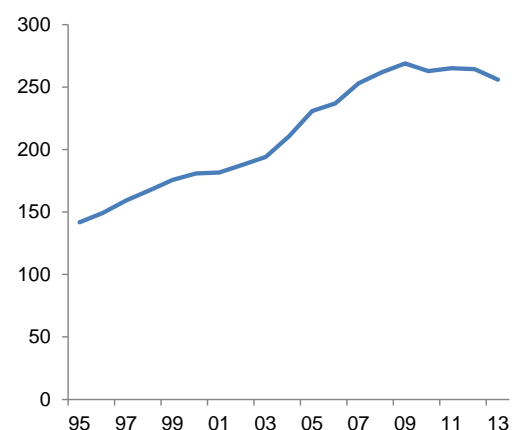
Sources: National sources, Euler Hermes forecasts

Chart 1 Housing market indicators



Sources: National sources, Euler Hermes

Chart 2 Households' gross debt-to-income ratio, %



Sources: National sources, Euler Hermes

Real wage growth is recovering thanks to low inflation but the labor market recovery has somewhat stalled with the unemployment rate at 6.2% on average since the start of the year (after a strong recovery in 2014).

Mixed outlook for business

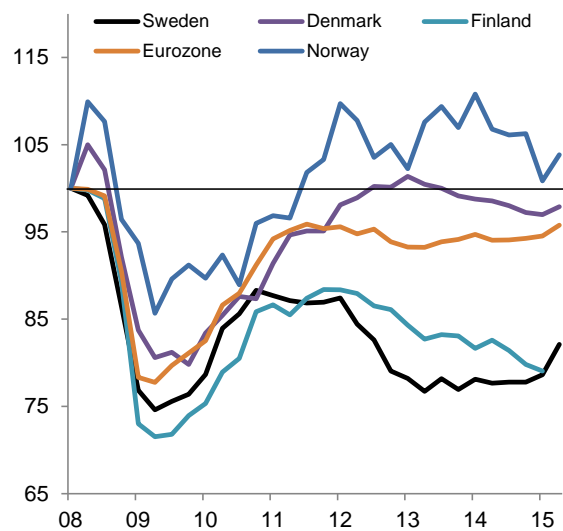
After strong increases since 2007, business insolvencies have more than doubled, to reach 5,456 cases in 2013. Thereafter, a downward trend took place and business insolvencies fell to 4,049 cases in 2014. However, since the start of 2015 business insolvencies are back on the rise and we expect this trend to prevail as companies face competitiveness issues. Overall, business insolvencies are expected to increase by +5% in 2015 before falling by -3% in 2016.

Despite being Europe's best place to do business, industry turnovers declined over 2014 (-2%) and remain on a downward trend (see Chart 3) since inflation is still very weak (below 1% for the third consecutive year) and global demand lacks momentum. However, the trend has been relatively more resilient compared to the eurozone as a whole or regional peers like Finland or Sweden. Credit to non-financial corporations entered a recovery phase thanks to the record low interest rates and the moderate pick-up in domestic demand.

New government, no major policy change expected

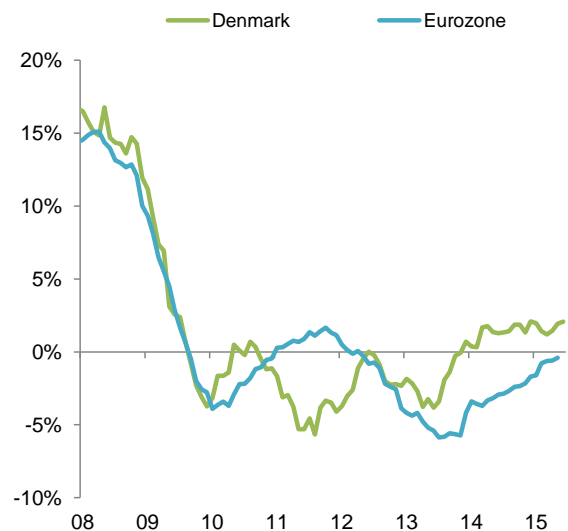
General elections were held in Denmark on 18 June 2015 to elect the 179 members of the Parliament. The outcome was a power shift from left to right with a new government led by Lars Løkke Rasmussen that consists of his rightwing liberal party Venstre (34 seats), the nationalist Danish People's Party (37 seats), the Liberal Alliance (13 seats) and the Conservatives (6 seats). The Liberal Party, former ruling party won 47 seats. The stance of the new government seems to be tougher on fiscal policy and to have a tougher rhetoric on immigration policy. The next elections are scheduled in 2019.

Chart 3 Turnover index in industry, Q1 2008 = 100



Sources: Eurostat, Euler Hermes

Chart 4 Credit to non-financial corporations, y/y



Sources: National sources, Euler Hermes

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