

Market Impact Update – Denmark

A look at a rapidly changing economy

November 2020





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Executive Summary

As of 29th October 2020, Covid-19 cases have exceeded 44 million in the world and 43 thousand in Denmark and are continuing to increase in the worldwide. The virus has resurged again, and the second wave has started across Europe as well as in the Nordics.

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 have a long way in front to recover until a vaccine is found and the pandemic is over. It is hard to be optimistic for 2020 and even 2021.

Since the reopening, economic activity has picked up in large parts of the Danish economy. However, the lockdown resulted in large economic losses, and Danish GDP is expected to decrease by 3.6 per cent overall this year¹. The economy is now in a moderate recession. As of October, still some domestic industries such as restaurants, cafes, bars, entertainment, kiosks and retails selling alcohol are subject to restrictions for a period of time. Recovery will be more gradual for these industries in the future. The different relief packages are useful in the current situation. However, we should not forget that **payment difficulties and bankruptcies will likely occur for the most 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. Many 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 in order to better manage the financial difficulties of their customers. Reduction of the transitions from stage 1, performing loans, to stage 2 and 3, underperforming or non-performing loans will help banks to control the impairment levels which is already in an increasing trend.**²

Lastly, it would also be challenging for the banks to increase revenues especially for the corporate customers in an environment where the loan demand is decreasing³, and the risk profiles of the existing customers are shifting. **Smart customer management practices, risk-based pricing, cross-sell and upsell strategies will be crucial to come over these obstacles.**

¹

https://www.nationalbanken.dk/en/publications/Documents/2020/09/ANALYSIS%20no.%2018_Prospects%20of%20moderate%20recession%20the%20coming%20year_UK.pdf

² https://www.nationalbanken.dk/en/statistics/find_statistics/Documents/Danmarks_Nationalbanks_lending_survey/Lending%20survey%20-%2020201008.pdf

³ https://www.nationalbanken.dk/en/statistics/find_statistics/Documents/Danmarks_Nationalbanks_lending_survey/Lending%20survey%20-%2020201008.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 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

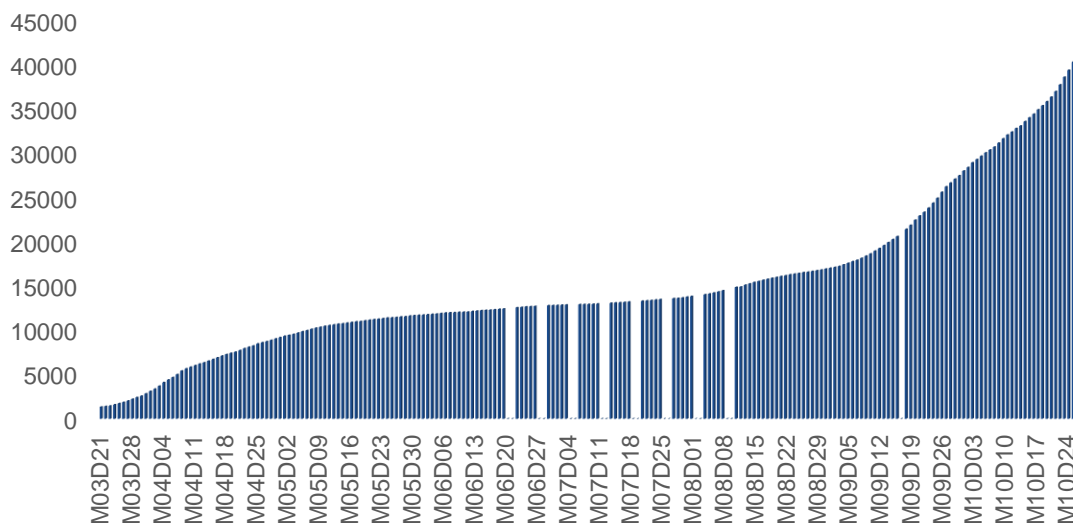
Europe is experiencing a revival in Covid-19 cases especially after the summer holidays even though the expansion and the spread of the virus was successfully taken under control earlier in the year.

Many European countries are declaring more cases each day now than they were during the first wave earlier this year. Countries like United Kingdom, Italy, Spain, France, Czech Republic, Ireland and Belgium announced new restrictions and lockdowns which will obviously have direct impact on the economic activities.

In Denmark, as in the rest of Europe, daily confirmed cases increased significantly and reached to its highest levels (in the 1st wave, the maximum daily cases were 473 observed on April 3rd, it was 1,353 on November 3rd).

Figure 1. Total number of confirmed Covid-19 cases in Denmark

Total number of confirmed Covid-19 cases in Denmark is rising, so uncertainty in the economy stays high



Source: dst.dk⁴

The economic shock due to the Covid-19 situation had both impacts on macro and micro level. Regarding the macro level impacts of Covid-19 outbreak, Nordic countries published sharp declines in GDP growth rates in the 1st quarter of 2020, as many other countries, and even sharper declines in the 2nd quarter.

It is mostly due to the fact that Danish economy is hit by the lockdowns that are resulted in large economic losses, large drops in consumption and exports. On the other hand, there are slightly positive developments in the expectations on the annual GDP growth. As of 1st quarter of 2020, Denmark's National Bank's

⁴ <https://www.statistikbanken.dk/statbank5a/SelectVarVal/Define.asp?Maintable=SMIT1&PLanguage=0>

published its annual GDP growth expectation as - 4.1%, then pulled it back to -3.6% in 2nd quarter. However, still a mild recession is expected until 2022.

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

Economic Statistics	Denmark	Norway	Sweden	Finland
Level of confinement ⁵	Medium	Medium	Low	Medium
Annual GDP ⁶ growth (%) in 2019	2.4	1.2	1.2	1.1
Q1 2020 GDP* growth (%) ⁷	-2.0	-1.7	0.2	-1.4
Q2 2020 GDP* growth (%) ⁸	-6.9	-5.1	-8.3	-4.4
Expected annual GDP growth (%) in 2020 pre-Covid-19	1.5 ⁹	1.9 ¹⁰	1.1 ¹¹	0.9 ¹²
Expected annual GDP growth (%) in 2020 after-Covid 19 as of June 2020	-4.1 ¹³	-3.5 ¹⁴	-6.0 ¹⁵	-6.9 ¹⁶
Expected annual GDP growth (%) in 2020 after-Covid 19 as of September 2020	-3.6 ¹⁷	-3.6 ¹⁸	-4.6 ¹⁹	-4.7 ²⁰
Unemployment rate (%) as of Dec 2019 ²¹	3.7	3.9	6.0	6.0
Unemployment rate (%) as of April 2020 ²²	5.4	4.1	8.2	8.1
Unemployment rate (%) as of August 2020 ²³	4.9	5.3	8.8	7.7

Following the developments in Covid-19 situation, on 24th of October, Danish government also tightened the restrictions such as obligatory facemask usage in the indoor public places, more restricted ban on assembly and the ban on selling alcohol after 10 pm. The relief packages are expanded for the companies that will experience a sufficiently large decrease in turnover in connection with the stricter ban on assembly

⁵ High: full quarantine (schools closed, forced home office), Medium: partial quarantine (schools closed, recommended home office, possibility to go outside home), Low: soft quarantine (early stage of economic activities reduction)

⁶ Source: National Statistical Offices

⁷ Percentage change on previous quarter. Source: <https://countryeconomy.com/gdp>

⁸ Percentage change on previous quarter. Source: <https://countryeconomy.com/gdp>

⁹ https://www.nationalbanken.dk/en/publications/Documents/2019/09/ANALYSIS_no%20Outlook%20for%20the%20Danish%20Economy%20%E2%80%93%20september%202019.pdf

¹⁰ GDP, mainland Norway. [https://static.norges-](https://static.norges-bank.no/contentassets/04c2bd9b4a9e498cac9588e8963a7bbc/mpr_4_19_web.pdf?v=12/19/2019151950&ft=.pdf)

[bank.no/contentassets/04c2bd9b4a9e498cac9588e8963a7bbc/mpr_4_19_web.pdf?v=12/19/2019151950&ft=.pdf](https://static.norges-bank.no/contentassets/04c2bd9b4a9e498cac9588e8963a7bbc/mpr_4_19_web.pdf?v=12/19/2019151950&ft=.pdf)

¹¹ <https://www.government.se/48e7fb/globalassets/government/dokument/finansdepartementet/pdf/prognoser/2020/key-indicators-forecast-16-january-2020.pdf>

¹² <https://www.bofbulletin.fi/en/2019/5/forecast-tables-for-2019-2022-december/>

¹³ https://www.nationalbanken.dk/en/publications/Documents/2020/06/ANALYSIS_no.%2012_Prospects%20of%20gradual%20economic%20recovery.pdf

¹⁴ GDP, mainland Norway. [https://static.norges-](https://static.norges-bank.no/contentassets/ec46da8920184a74acc6cf8ee312f29d/mpr_220.pdf?v=06/19/2020125049&ft=.pdf)

[bank.no/contentassets/ec46da8920184a74acc6cf8ee312f29d/mpr_220.pdf?v=06/19/2020125049&ft=.pdf](https://static.norges-bank.no/contentassets/ec46da8920184a74acc6cf8ee312f29d/mpr_220.pdf?v=06/19/2020125049&ft=.pdf)

¹⁵ <https://www.government.se/government-of-sweden/ministry-of-finance/central-government-budget/ministry-of-finance-economic-forecasts/>

¹⁶ <https://www.bofbulletin.fi/en/2020/3/forecast-tables-for-2020-2022-june-2020/>

¹⁷

https://www.nationalbanken.dk/en/publications/Documents/2020/09/ANALYSIS%20no.%2018_Prospects%20of%20moderate%20recession%20the%20coming%20year_UK.pdf

¹⁸ GDP, mainland Norway. [https://static.norges-](https://static.norges-bank.no/contentassets/259302d7e57e4710b1f8f3b3795e017e/mpr_320.pdf?v=09/25/2020164058&ft=.pdf)

[bank.no/contentassets/259302d7e57e4710b1f8f3b3795e017e/mpr_320.pdf?v=09/25/2020164058&ft=.pdf](https://static.norges-bank.no/contentassets/259302d7e57e4710b1f8f3b3795e017e/mpr_320.pdf?v=09/25/2020164058&ft=.pdf)

¹⁹ <https://www.government.se/government-of-sweden/ministry-of-finance/central-government-budget/ministry-of-finance-economic-forecasts/>

²⁰ <https://www.bofbulletin.fi/en/2020/articles/interim-forecast-for-the-finnish-economy-september-2020-recession-followed-by-slow-recovery/>

²¹ Registered unemployment rate. Source: <https://tradingeconomics.com/>

²² Registered unemployment rate. Source: <https://tradingeconomics.com/>

²³ Registered unemployment rate. Source: <https://tradingeconomics.com/>

and the ban on selling alcohol after 10 pm²⁴. On 27th of October, the new help package of 8 Billion kroner has been approved for business and culture sectors. The relief packages will be extended until 31 January 2021.

So far, the impact of the Covid-19 outbreak did not show up in the bankruptcy figures of Danish companies. It can be explained by the postponement effect of government aid packages and the optimistic expectations in the market on the economy activity after the disbursement of holiday allowances to Danish households.

Experian Bankruptcy Analysis October 2020 Report proves that the outcomes of the financially distressed periods after the outbreak have not been observed yet. As of October 2020, there were 415 bankruptcies in Denmark, which is 51,1% less compared to the same period of the previous year. Most regions show a decline, but the capital shows the relatively largest decline in the number of bankruptcies. Looking at the whole year, there has been an overall decrease of 30.3% compared to the same period of the previous year. The capital in particular has had significantly fewer bankruptcies during the period, while smaller areas such as Lolland-Falster and Greenland show increases. (see Table 2).

Table 2. The number of bankruptcies in Denmark based on regions as of October 2020

Region	Oct. 2019	Oct. 2020	Change (%)	Nov./Oct. 18/19	Nov./Oct. 19/20	Change (%)
Grønland	0	1	100,0	6	11	83,3
Færøerne	3	1	-66,7	18	22	22,2
Lolland - Falster	5	6	20,0	78	87	11,5
Sjælland	77	44	-42,9	699	686	-1,9
Fyn	67	37	-44,8	445	383	-13,9
Syddjylland	83	71	-14,5	1.010	787	-22,1
Midt og Vestjylland	33	27	-18,2	387	299	-22,7
Østjylland	57	42	-26,3	479	352	-26,5
Nordjylland	44	22	-50,0	471	327	-30,6
Hovedstaden	479	163	-66,0	5.120	3.121	-39,0
Bornholm	1	1	0,0	29	14	-51,7
Total	849	415	-51,1	8.742	6.089	-30,3

Experian Bankruptcy Analysis September 2020 Report also shows that all industries have experienced a decrease in the number of bankruptcies in October compared to the same month of the previous year. Banking and Finance industry has experienced the relatively largest decrease in the number of bankruptcies compared to the same month of the previous year. Looking at an entire year, all industries have experienced declines in bankruptcies on a year-to-year basis. It is the Trade industry that has the most bankruptcies with 1,098 bankruptcies in the last 12 months.

²⁴ Erhverv Ministeriet announcement on 24th of October. <https://em.dk/nyhedsarkiv/2020/oktober/regeringen-vil-udvide-adgang-til-hjaelpepakker-for-at-oeege-tryghed/>

Table 3. The number of A/S bankruptcies based on sectors

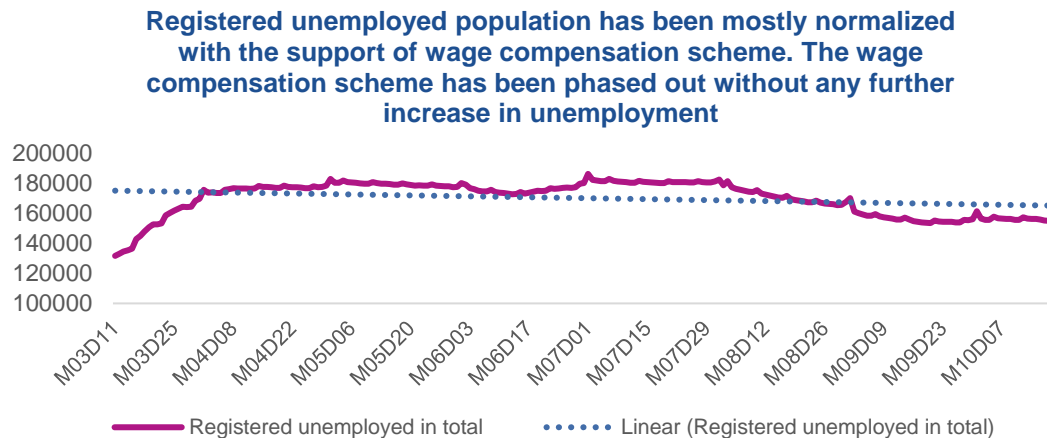
Sector	Oct. 2019	Oct. 2020	Change (%)	Nov./Oct. 18/19	Nov./Oct. 19/20	Change (%)
Mining and quarrying	0	0	0,0	1	5	400,0
Construction	113	72	-36,3	1063	972	-8,6
Administrative and support service activities	76	61	-19,7	776	687	-11,5
Electricity, gas, steam and air conditioning supply	3	1	-66,7	24	21	-12,5
Other services activities	22	12	-45,5	180	146	-18,9
Accommodation and food service activities	63	40	-36,5	574	461	-19,7
Agriculture, forestry and fishing	13	12	-7,7	194	148	-23,7
Transporting and storage	49	26	-46,9	493	353	-28,4
Real estate activities	28	9	-67,9	239	166	-30,5
Wholesale and retail trade	149	76	-49,0	1588	1098	-30,9
Manufacturing.	36	18	-50,0	382	255	-33,2
Professional, scientific and technical activities	74	26	-64,9	763	481	-37,0
Human health and social work activities	7	5	-28,6	88	52	-40,9
Financial and insurance activities	112	20	-82,1	1263	668	-47,1
Education	13	5	-61,5	122	63	-48,4
Information and communication	62	22	-64,5	623	309	-50,4
Arts, entertainment and recreation	8	5	-37,5	115	57	-50,4
Not informed	21	5	-76,2	254	147	-42,1
Total	849	415	-51,1	8742	6089	-30,3

Even if the number of bankruptcies doesn't show a significant increasing trend yet, the employment figures tell a different story. We saw an immediate increase in the unemployment rates following the lockdowns in Denmark (see Table 1).

According to Danmarks Statistik²⁵, the number of jobs lost due to bankruptcy in the period March-September is 20% higher than the average in the years 2015-2019 for the same period. Similarly, the number of newly registered unemployed is 15% higher in 2020 than the average in 2015-2019. Unemployment has been decreasing slightly with the support of wage compensation scheme (see Figure 2).

²⁵ <https://www.dst.dk/da/Statistik/nyt/NytHtml?cid=30966>

Figure 2. Registered unemployed since March 2020 in Denmark



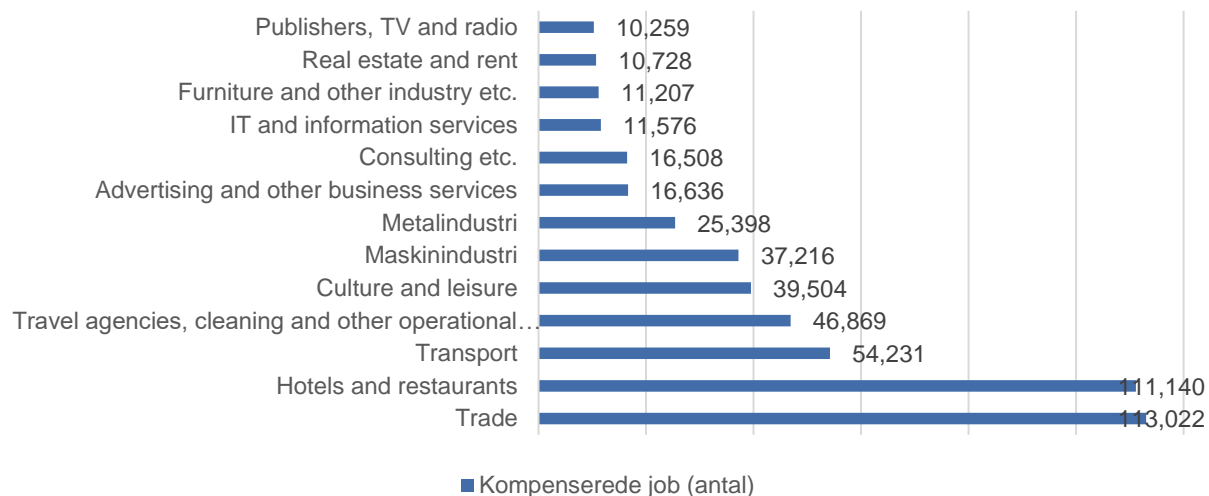
Source: dst.dk²⁶

The wage compensations were provided to the companies to prevent them from firing their employees under tough circumstances due to Covid-19. The statistics on compensation schemes²⁷ demonstrated that since 15th of June March up to 30th of August, wages of 588,891 employees were compensated by the compensation scheme (see Figure 3).

Now, the wage compensation scheme has been phased out without any further increase in unemployment. However, unemployment remains high, and restrictions in some industries may imply that many will have to find work in industries other than those they came from.

Figure 3. Compensated jobs distribution among sectors

86% of the compensated jobs between week 25 and week 35 were belonging to the below 13 sectors. Trade, hotels and restaurants, transportation, travel agencies and cultural activities take the lead



²⁶

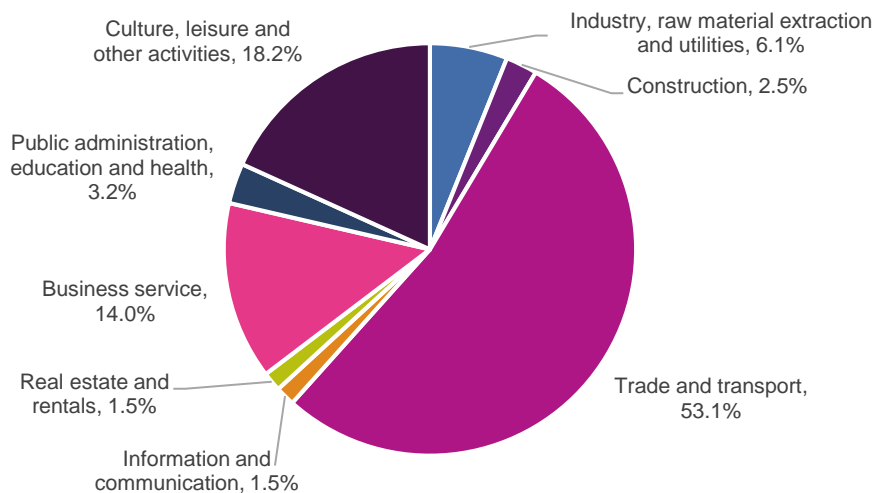
<https://www.statistikbanken.dk/statbank5a/selectvarval/define.asp?PLanguage=0&subword=tabel&MainTable=EKSP01&PXSID=221919&tablestyle=&ST=SD&buttons=0>

²⁷ <https://www.statistikbanken.dk/lonkompd>

Figure 4 shows the distribution of the job losses by sector from February to August 2020. In this period, the total employed people contracted by 79,008²⁸ of which vast majority were from trade and transport (53.1%) and culture and leisure (18,2%) sectors.

Figure 4. Distribution of the job losses by sector from February to August 2020

Distribution of the job losses by sector from February to August 2020



These signals in lost jobs distributions and extra measures, taken by the government can be seen as early warnings of payment difficulties and bankruptcies in certain sectors. Therefore, service industries and accommodation and hotels sectors, trade and transport culture and leisure sectors should be closely monitored since bankruptcies will occur after the help packages will fade out.

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 2nd 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 Denmark, society has gradually re-opened since mid-April, and household consumption was nearly back to the pre-lockdown level in the beginning of June. After a stable period, another downward trend was observed in the credit enquiries²⁹ in July especially in the weeks 29 and 30 which are the summer holiday weeks for most of the Danes.

Due to the increasing number of Covid-19 cases, the Danish Parliament decided to postpone the planned phase 4 of the re-opening in August, and new, temporary restrictions have been announced across the country. As a result, some industries remained subject to restrictions and were characterised by low activity for a period of time.

²⁸ <https://www.statistikbanken.dk/LBESK32>

²⁹ Credit enquiry is measured as requests for RKI

The frozen holiday allowances paid in October revived the credit activity again. It will be interesting to see how holiday allowance disbursements and the uncertainty in the economy will have an impact on the credit activity in the upcoming months.



Key Insights

- When comparing January and February 2020 at an average credit enquiry level, we notice a drop in the volumes which is a type of seasonality often observed the first months after the new year.
- The most significant drop in credit enquiry volumes occurred from the date the lockdown was formally enforced on 13th of March.
- All industries struggled with lower application volumes due to the lockdown measures.
- The gradual openings 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 market.

Figure 5. Credit enquiry volumes in Denmark

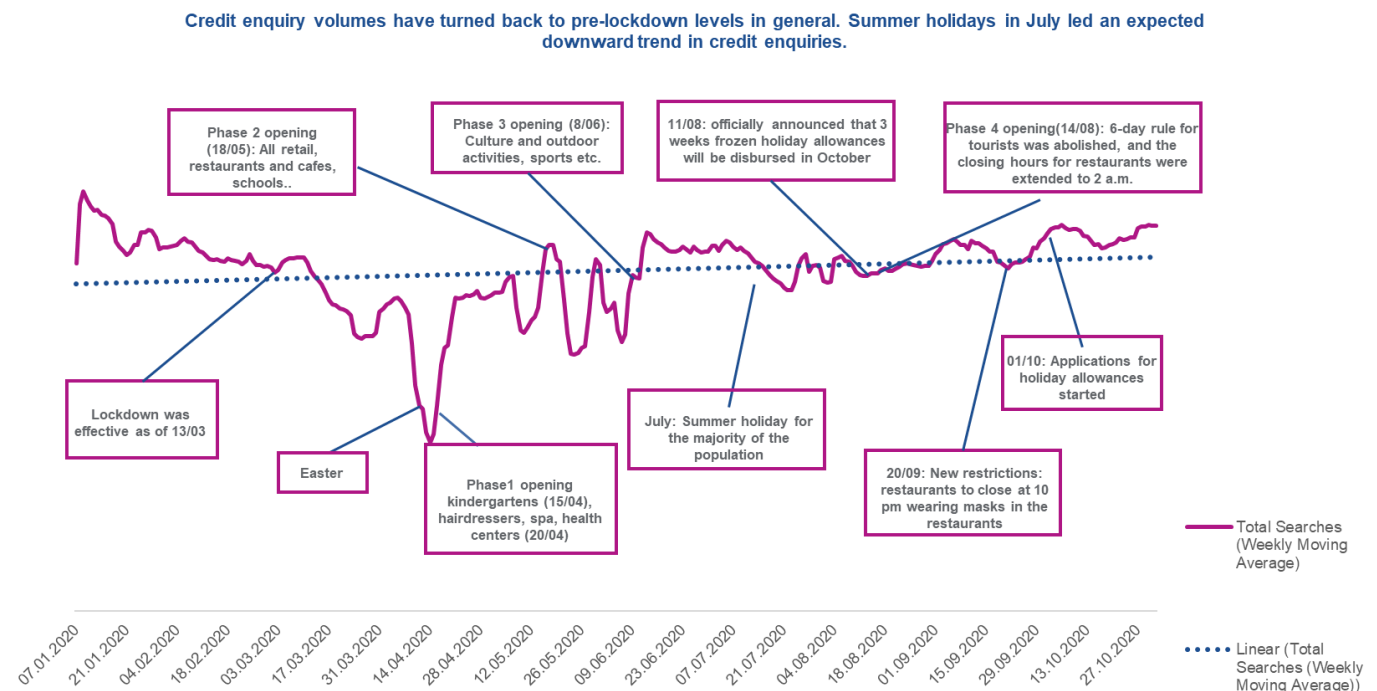
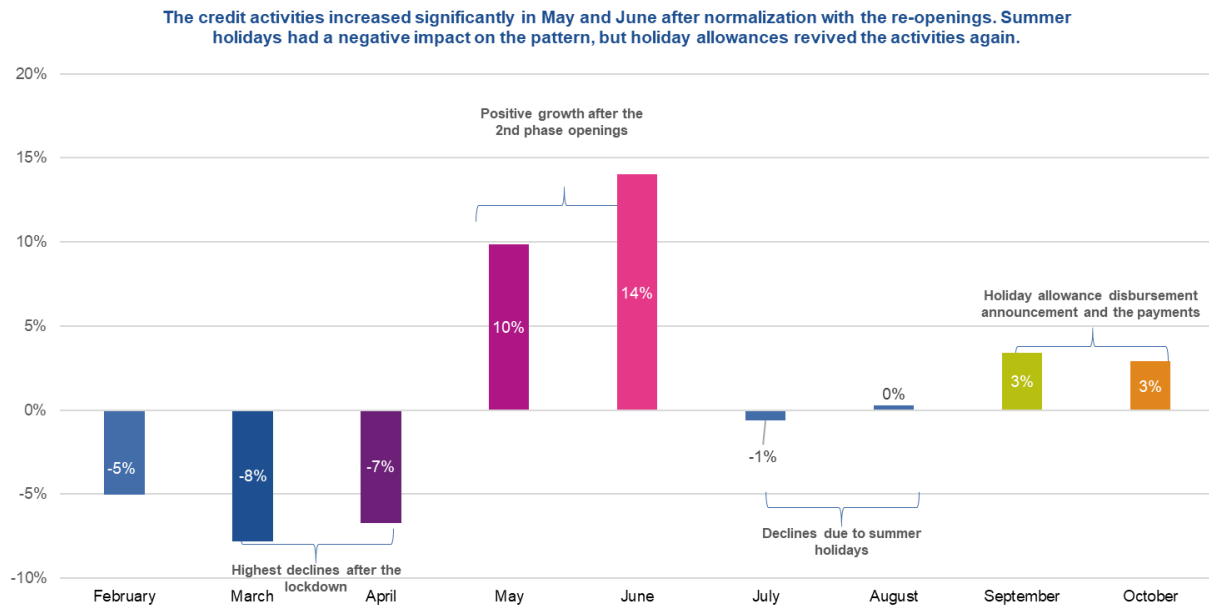


Figure 6. Monthly change in daily credit enquiries in Denmark



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

Fortunately, the expected and feared crash in many sectors, that were hit the hardest by corona, has not happened yet. 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.

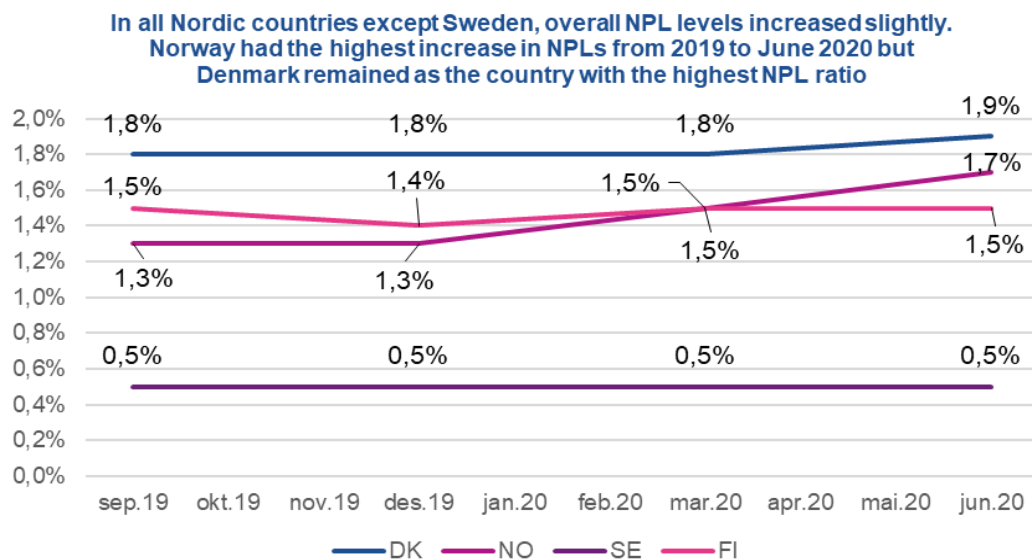
- **Many SMEs in the service sectors have been particularly impacted by Covid-19 conditions. Moreover, the risk profiles of the retail portfolio continue to shift.**

However, one cannot ignore the upcoming challenges for the banks under the increasing uncertainties on the period once cash and relief packages are out. Even though the number of bankruptcies looks unchanged compared to the same period of the previous year, unemployment is still rising indicating a shift in the organisations not being able to survive in the mid-run. Certain sectors such as hotels and services have been particularly impacted. Moreover, the risk profiles of the retail portfolio 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 relevant data sources, appropriate tools and systems to support digital management of banking activities.**

In our previous Market Report, we performed a comparative analysis between the Nordic financial sectors by using the information provided by EBA³⁰. The analysis showed that Denmark had the highest loan share in SME loans and the highest NPL ratios in the Nordics before the Covid-19 situation. It could be expected that Denmark would be more vulnerable to the economic shocks under the stressed conditions of the epidemic than the other Nordic countries. EBA risk dashboard on the data of Q2 2020³¹ confirmed our expectations.

EBA Risk Dashboard of Q2 2020 showed that in all Nordic countries except Sweden, overall NPL levels increased slightly. Norway had the highest increase in NPLs from 2019 to June 2020 but Denmark remained as the country with the highest NPL ratio. **NPL and forbore exposures management as well as the robust collection processes in the bank became critical to improve the operational efficiency and customer experience in these distressed conditions.**

Figure 7. Overall NPL trend in Nordics between Q3 2019 and Q2 2020

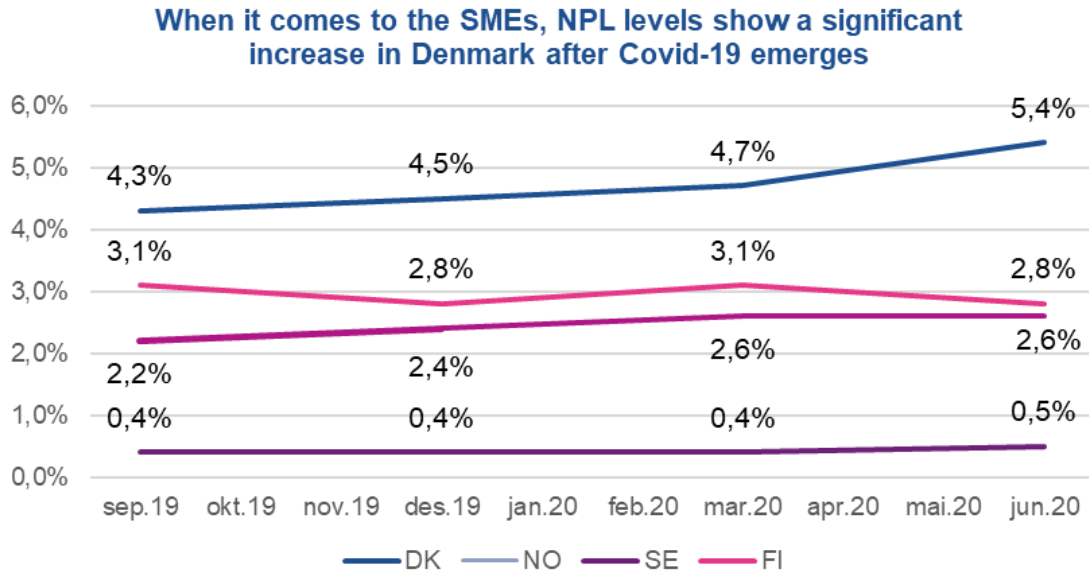


Denmark differentiates from the other Nordics in terms of the increase in SMEs NPL levels (see Figure 8). For SME portfolio, the NPL share in the total loans increased from 4,5% in December 2019 to 5,4% in June 2020 where in other Nordic countries, SME NPL curves stayed flatter. It means that **SME portfolios 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.**

³⁰ https://eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20Assessment%20Reports/2020/Thematic%20notes/883986/Thematic%20note%20-%20Preliminary%20analysis%20of%20impact%20of%20COVID-19%20on%20EU%20banks%20-%20E2%80%93%20May%202020.pdf

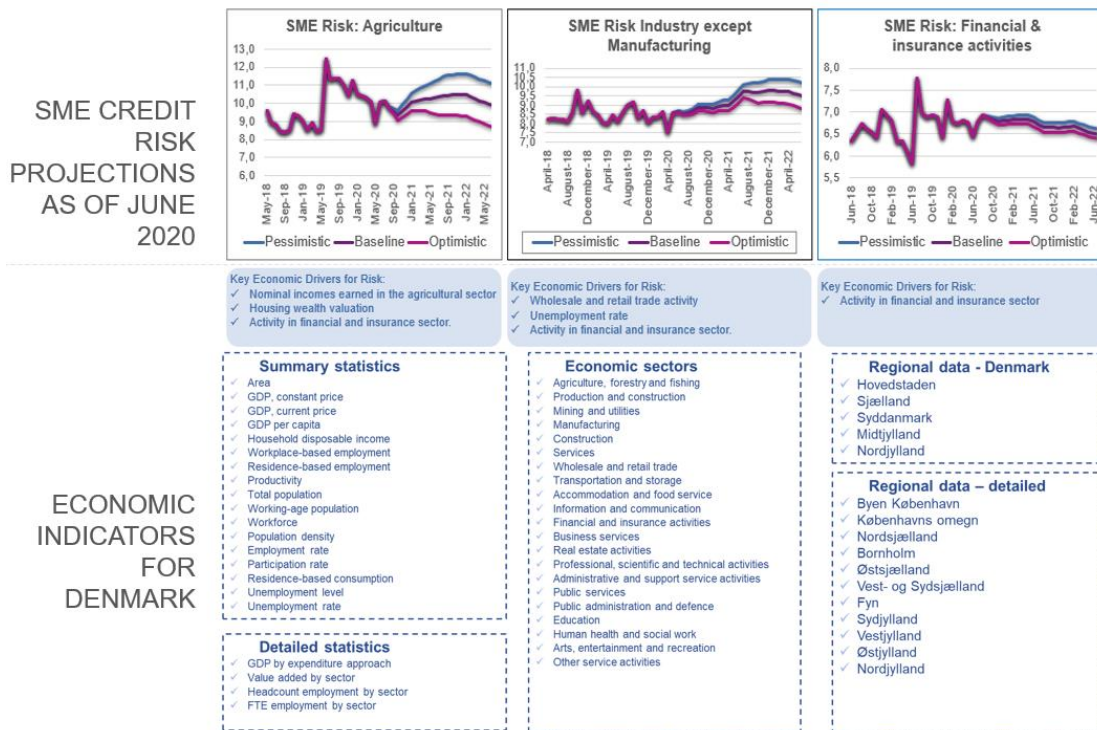
³¹ https://eba.europa.eu/sites/default/documents/files/document_library/Risk%20Analysis%20and%20Data/Risk%20dashboard/Q2%202020/933053/EBA%20Dashboard%20-%20Q2%202020.pdf

Figure 8. SME portfolio NPL trend in Nordics between Q3 2019 and Q2 2020



With our Denmark SME Risk Monitor Service, we support our customers in their SME monitoring and provide sector, geography and individual company-based risk indicators and forecasts (see Figure 9). Based on a large set of economic indicators at sector level and macro level, we help them to measure the impact of the key drivers on the credit risk of SME portfolio.

Figure 9. Denmark SME Risk Monitor Service

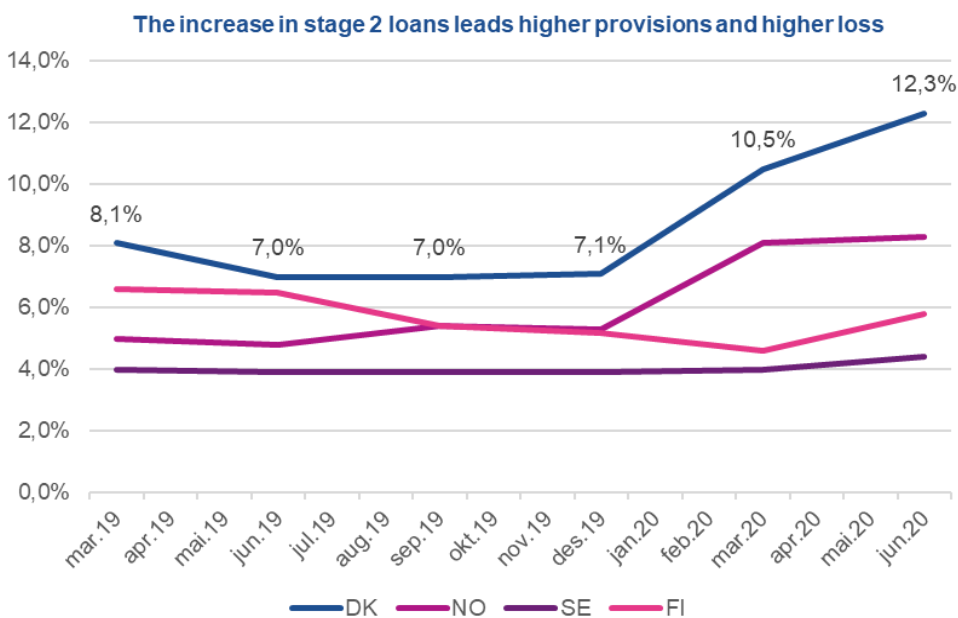


ECONOMIC INDICATORS FOR DENMARK

Even if the increase in overall NPLs remained limited, there is a significant increase in stage 2 loans volume (%) in Denmark (see Figure 9). The share of stage 2 loans in total loans and advances increased from 7,1% to 12,3% from December 2019 to June 2020. According to IFRS 9 Impairment definition, a loan is a stage 2 loan if the loan’s credit risk has increased significantly since initial recognition.

Figure 10 shows that the banks’ portfolios have much more underperforming loans compared to pre-Covid-19 period and the credit risk increased obviously even if the loan is not considered yet as NPL. **Early warning systems and robust pre and early collection frameworks are crucial for the banks in order to better manage the financial difficulties of their customers and reduce the transitions from stage 1, performing loans, to stage 2 and 3, which require lifetime expected credit loss calculations instead of 12 months expected credit loss calculations.**

Figure 10. The share of Stage 2 loans in total loans and advances in Nordics between Q3 2019 and Q2 2020



Succeeding EBA’s risk dashboard for second quarter, the lending survey of Danmarks Nationalbank’s³² shows that the increasing trend in the impairments and losses due to under and non-performing loans lasts also for the 3rd quarter of 2020.

13 out of 19 banks report that loan demand from existing corporate customers has decreased from the 2nd to the 3rd quarter. In the same period, 8 banks report that the proportion of impairments and losses has increased compared to the 2nd quarter. 6 of the 8 banks expect a further increase in impairments and losses in the 4th quarter.

There are two important messages that can be deduced from this analysis. Firstly, it would be challenging for the banks to increase revenues especially for the corporate customers in an environment where the loan demand is decreasing, and the risk profiles of the existing customers are shifting. **Smart customer management practices, risk-based pricing, cross sell and upsell strategies will be crucial to come**

³² https://www.nationalbanken.dk/en/statistics/find_statistics/Documents/Danmarks_Nationalbanks_lending_survey/Lending%20survey%20-%2020201008.pdf

over these obstacles. Secondly, banks need to **re-consider their IFRS 9 Impairment frameworks** with all its aspects and support the framework with additional tools such as early warning systems and pre and early collection management.

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 to recover in October**

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.

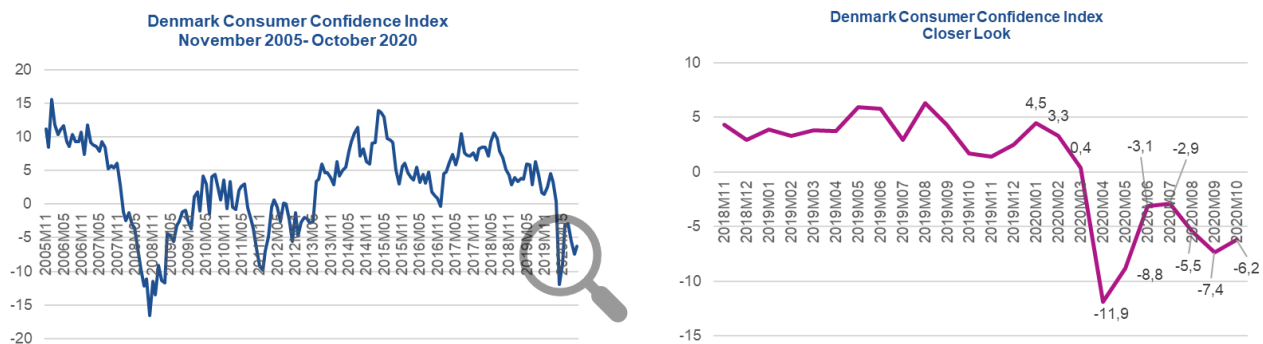
In both May and June, there has been a recovery in Consumer and Business Confidence Index following the eased lockdown restrictions and the re-openings. After July, there is again a downward crack in the consumer confidence index.

- **Both consumer confidence and business confidence indices had a slight increase in October**

Business confidence index³³, which weighs together industry, construction, service industries and retail, rises from 86.9 in September to 89.0 in October.

Consumer confidence³⁴ for October is at -6.2 and has thus increased slightly compared to September, when it was at -7.4. The average for the last six months is -5.7. The modest increase in consumer confidence is primarily due to the significant increase in the desire to consume after the frozen holiday allowance payments. However, consumers continue to expect that Denmark's economic situation will be worse in a year's than today and unemployment to rise in a year's time. Consumer confidence reflects the population's views on its current and future economic situation.

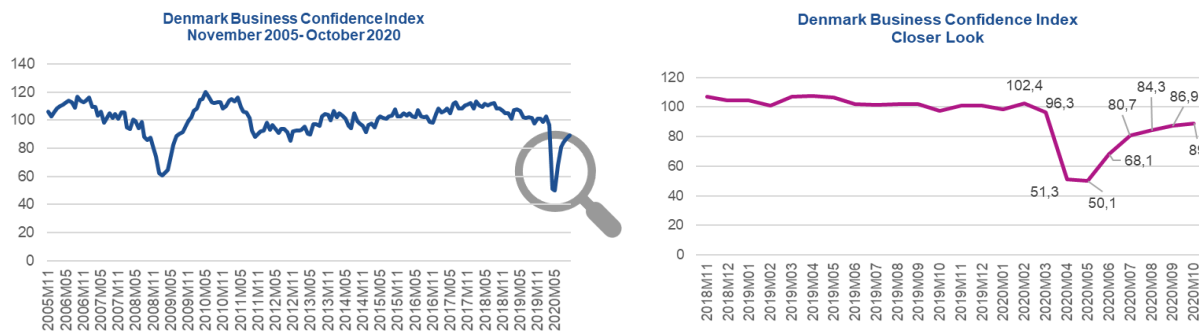
Figure 11. Denmark Consumer Confidence Index



³³ <https://www.dst.dk/da/Statistik/nyt/NytHtml?cid=30813>

³⁴ <https://www.dst.dk/da/Statistik/nyt/NytHtml?cid=30921>

Figure 12. Denmark Business Confidence Index



➤ **In the summer holiday under Corona, Danes spent mostly in electronics, flowers and healthcare**

According to Nets’ statistics on Danes’ consumption³⁵ during summer from week 27 to week 37 (from July until September), the spending on "IT, telecom & electronics" was higher in this summer than the summer of 2019 where consumption has increased by 17.5% followed by the spending in "Florists" which was 16.7% higher than the last summer and "Health care" which has increased by 13.5%.

The industries that have had the hardest summer are the industries that depend on foreign tourists and on the Danes' desire to travel. The largest declines were observed in "Transport services" with a decrease of 24.8%, "Bars & wine merchants" with a decrease of 51.5% and not least "Airlines & travel agencies" with a decrease of as much as 79.7%.

➤ **Holiday allowances were mostly spent on electronics followed by other retail sectors and leisure**

Nets’ statistics on Danes’ consumption also shows that in week 40, "IT, Telecom & Electronics" takes first place with a historically large increase of almost 400% compared to previous week, and approx. 100% increase compared to the same week previous year. "Odds, Games & Bookstores", "Clothing & Shoe Stores" and "Amusements & Attractions" have also taken their significant share in consumption with very significant increases compared to previous week.

In week 41, the consumption that was triggered by the holiday allowances lost momentum, but it was still 14.1% above the historical average. Electronics was followed by jewellery stores and DIY (do it yourself) stores and furniture retailers.

➤ **Fall break during week 42 provided some mobility in the entertainment sector and increased the restaurant visits**

The holiday pay paid has increased our consumption for the third week in a row. Compared to week 42 in previous years, consumption has increased by 12.4%. During the fall break, the consumption in the "Entertainment & Attractions" category has increased by 64.2%, consumption in the country's hotels has increased by 41.8%, and then we have spent 17, 8% more at the restaurants, which Dining Week has probably had an impact on. Nonetheless, the recovery of the Danish economy does not only depend on the local expenditures. It also requires maintaining the pre-Covid-19 export levels and the recovery of US and EU economies which Denmark export to.

³⁵ <https://info.nets.dk/barometer>

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 second wave of the outbreak has resurged in Europe and many countries which are in import-export relationship with Denmark are seriously suffering from the outbreak. European governments started to lock down their countries again which will have a significant impact on the international trading activities. It should be noted that the Danish economic recovery is also dependent on the resilience of the other countries' economies and the maintenance of the export volumes at adequate levels besides the increasing domestic demand and higher consumption.

Experian will continue to monitor the state of economic affairs in the upcoming months after the full opening and diminishing effects of government help packages and holiday allowances.

Key take away' s for the financial institutions



- Pay special attention to SME portfolios and monitor them with careful scrutiny
- Ensure that you have strong NPL and forborne exposures management processes and tools as well as robust collection processes 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
- Increase your revenues with smart customer management practices

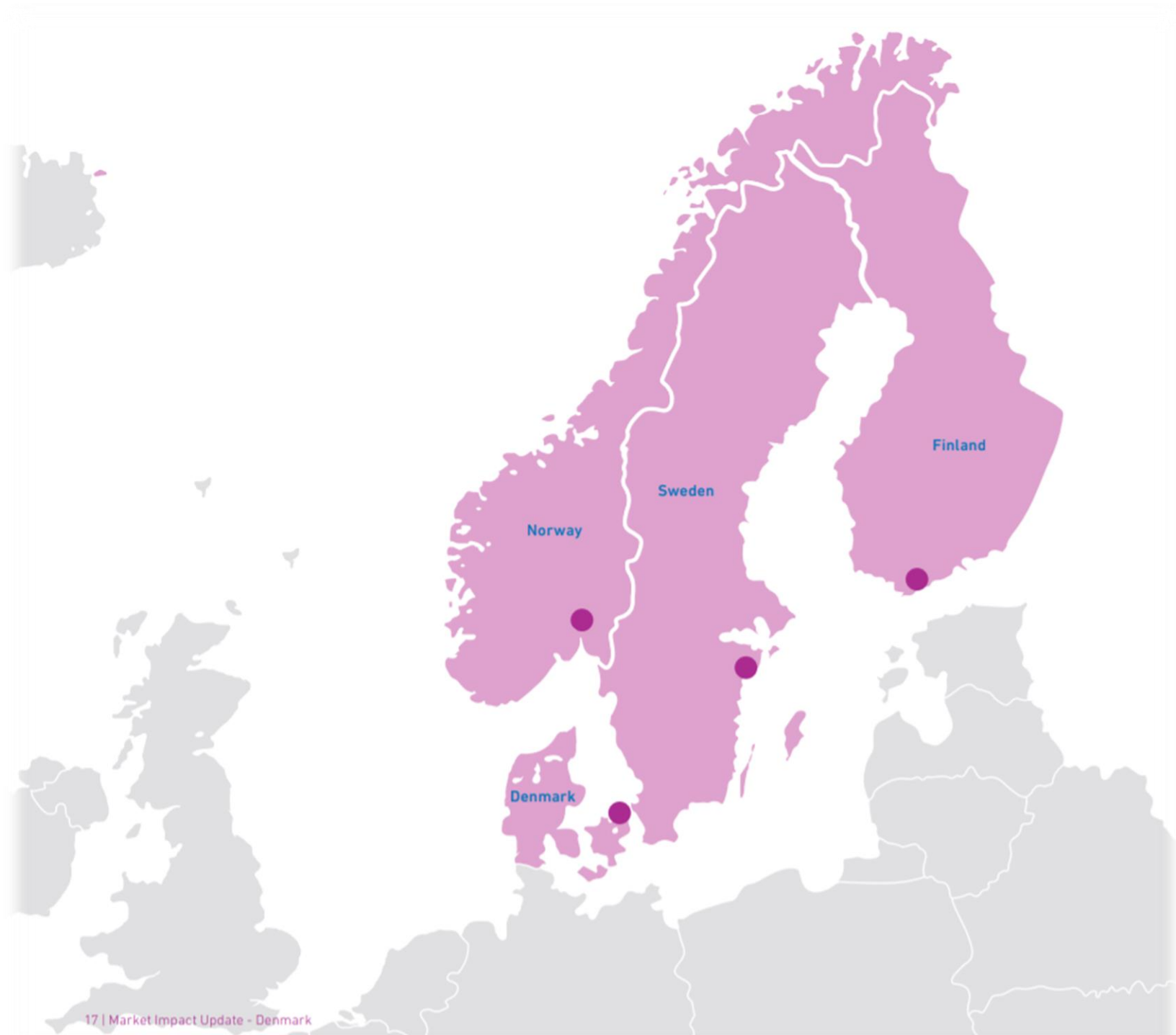
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We operate across the Nordics with local offices in Copenhagen, Oslo and Stockholm along with partnership presence in Finland.

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