Denmark - February 2018 Rating Report

SCOPE AAA STABLE OUTLOOK

Credit Strengths

- Wealthy, diversified economy
- Robust public finances
- Sound external position

Credit Weaknesses

- High private debt
- Labour market constraints
- Banking sector vulnerabilities

Rating rationale and Outlook: The AAA rating reflects Denmark's wealthy and diversified economy, which is growing at full potential after recovering from the 2008-09 financial crisis. Robust public finances and a strong external position support the rating. Scope believes the country has sound fiscal policies, an adequate buffer against external shocks through reserves, prudent interest rate policies, and a clear commitment to maintaining the peg of the Danish krone to the euro. High private debt, constraints to growth and banking sector vulnerabilities remain challenges to the rating. The Stable Outlook reflects Scope's assessment that the risks Denmark faces remain broadly balanced.

Figure 1: Sovereign rating categories, summary

Scope's sovereign risk categories	Denmark	Peer comparison		
		Average	Finland	Estonia
Domestic economic risk				
Public finance risk				
External economic risk				
Financial risk				
Political and institutional risk				
Qualitative adjustment (notches)	2		1	-2
Final rating	AAA		AA+	A+

AAA AA A BBB BB B CCC CC C

Positive rating change drivers

- Not applicable

Negative rating change drivers

- Overheating housing markets
- Bail-out of mortgage banks
- Material weakening of economic prospects

Ratings & Outlook

Foreign Currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Local Currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

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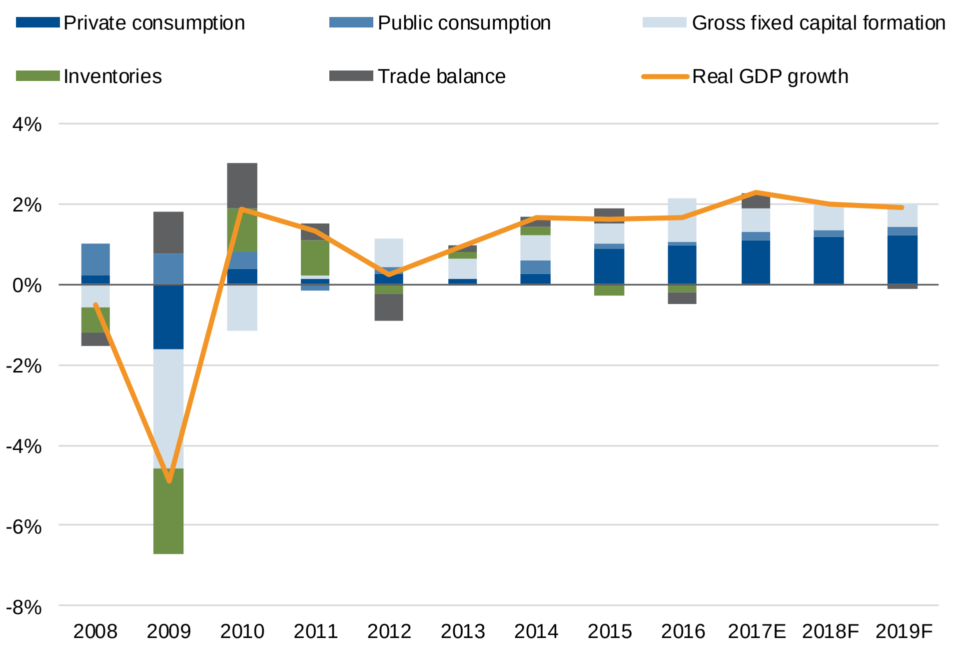
Bloomberg: SCOP

Domestic economic risk

Moderate growth prospects

Denmark's AAA ratings are underpinned by a wealthy and highly competitive economy, which is growing at full potential after recovering from the financial crisis of 2008-2009.[1] The economy is diversified and competitive, with a high-tech agricultural sector, an advanced industrial base (world-class pharmaceuticals, maritime shipping, and renewable energy sector), and a high dependence on foreign trade. Denmark is a net exporter of food, oil, and gas and enjoys a comfortable balance-of-payments surplus, but depends on importing raw materials for local manufacturing. While being an EU member that meets criteria to join the EMU and hence adopt the euro, Denmark has a negotiated opt-out with the EU, and the Danmarks Nationalbank maintains its independence and currency. The krone is effectively fixed to the euro.

Figure 2: Percentage point contribution to real GDP growth



Source: IMF, Calculations Scope Rating AG

GDP growth in 2017 reached 2.0% after 2.0% in 2016, with growth going forward expected at 2.0% for 2018 and 1.9% in 2019, supported by robust domestic demand.[2] The broad-based recovery is supported by both household and public spending, aided by falling unemployment, which is expected to decline to 5.5% in 2019 from 5.9% in 2017. The accommodative monetary policy, the result of the peg of the krone to the euro, is expected to continue to support demand, especially private investment. The sharp setback for growth in Q3 2017, with a decline of -0.6% from the previous quarter, was the result of one-off effects, largely due to a major drop in car sales in anticipation of a sales tax cut for cars[3] and a fall in exports. While this was the strongest decline since 2011, increases in inventories are expected to support a return to growth in Q4 2017, with the first and preliminary estimate for Q4 2017 of 0.9% from the previous quarter.

Rising real estate values have indirectly contributed to investments, as they represent a key equity source for households. Combined with a high savings rate, Scope expects

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[1] Publications consulted preparing for this report are the IMF Article IV Consultation, June 2017, IMF Country Report No. 17/158; OECD Economic Outlook 2017, Volume 2017 Issue 2, EC European Economic Forecast Winter 2018 (Interim), hereafter IMF Art IV, OECD; EC.
[2] OECD
[3] EC

investments to gradually become broader-based in keeping with better consumer sentiment and capacity utilisation, reducing dependence on residential construction for growth. Denmark's net exports are expected to remain durable and continue to support the strong current-account surpluses. Scope expects the positive trend in net exports during 2013-2016 to reverse over the coming years due to an improved economic outlook in Denmark (resulting in higher import demand) and a reduction in revenues from North Sea activities.

While the short-term growth outlook appears positive, Scope points to some concerns regarding the medium-term growth prospects, particularly given the labour market constraints.

Denmark is facing demographic capacity constraints, with companies reporting labour shortages as an impediment to growth and a rise in the number of job vacancies.[4] This situation is further challenged by labour market segmentation and demographic challenges. The labour participation rate among non-EU immigrants is only 54% compared with 78% for Danes, the largest such gap in the EU[5]. While labour force participation has picked up over the last two years, it has been outpaced by demand for workers, with the construction sector most heavily affected. In addition, migration has not helped: non-EU migrants experience high unemployment as well as persistent employment gaps relative to Danes due to job-wage mismatches.[6]

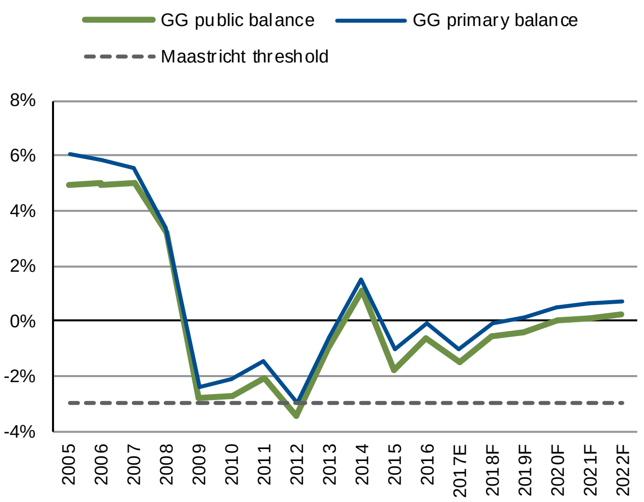
These bottlenecks are only partially eased by the government's extensive and active labour market policies. The Danish labour market is flexible, supported by government reforms incentivising a return to the labour force through a reduction in generous social safety nets. As a result, Scope expects a further decline in unemployment alongside gradual employment growth as well as a continuation of positive labour-market trends through ongoing reforms over the coming years. However, in Scope's view, despite these reforms, labour shortages and job market mismatches will, together with declining productivity growth, constrain growth going forward.

Public finance risk

The rating is also supported by sound public finances, which are characterised by low structural deficits and a moderate debt burden. Estimated at 38.6% of GDP in 2017, the debt to GDP ratio is expected to continue to decline gradually over the medium term, well below the EU average of 85% of GDP and the EU's 60% reference value. A comfortable pre-crisis budget position (average budget surpluses of 4.5% of GDP on average during 2005-2008) provided Denmark's government with adequate fiscal space to support the economy during the economic downturn. For 2018, Scope expects the headline deficit to remain around 1.0% in 2018 and 2019, with economic growth supporting the sound fiscal position. The fiscal stance was loosened slightly in order to support growth, but remains compliant with both EU Stability and Growth Pact rules and domestic budget law.

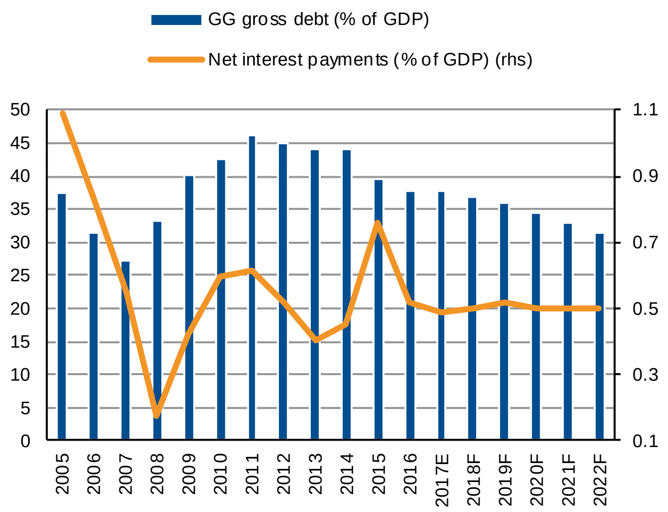
[4] IMF Art IV, p.4
[5] https://www.dst.dk/en/Statistik/emner/arbejde-indkomst-og-formue/tilknytning-til-arbejdsmarkedet
[6] IMF Art IV

Figure 3: Fiscal developments, % GDP



Source: IMF

Figure 4: GG gross debt and net interest payments

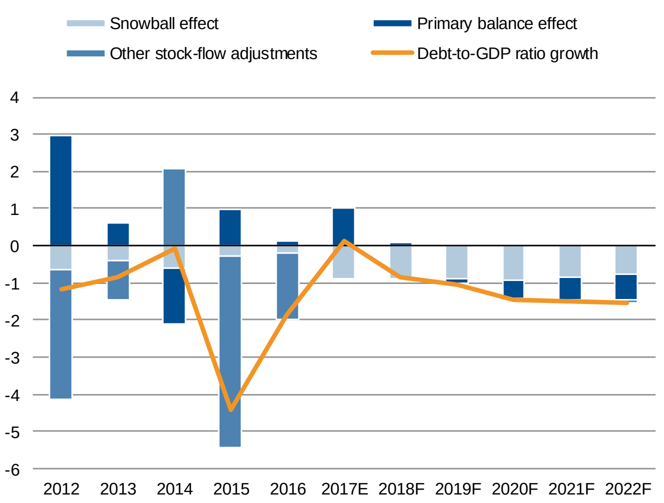


Source: IMF, Calculations Scope Ratings GmbH

Scope expects the Danish budget to be balanced by 2020 and start to generate modest surpluses, driven by the economic recovery and expenditure cuts, particularly in public consumption and social transfers. Budget planning is somewhat constrained by an inherent volatility of revenues, due to the importance of the pension yield tax and revenues from North Sea drilling.

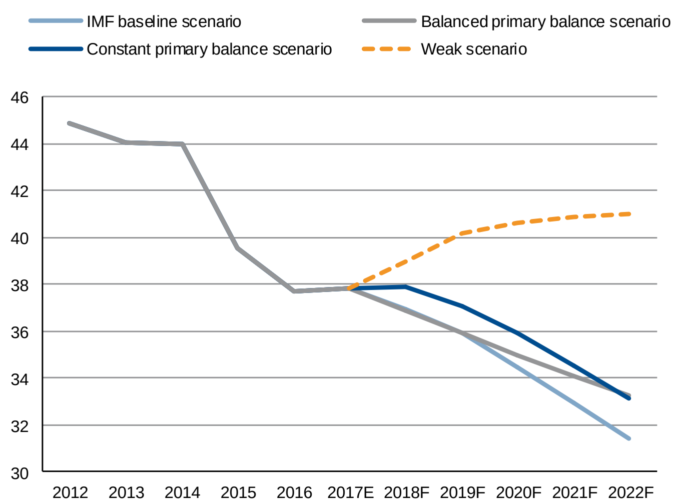
Scope views Denmark's fiscal framework positively, with its focus on realistic medium-term budgetary targets that are consistent with both the Budget Law (GDP deficits limited to 0.5% except during severe economic downturns) and the Stability and Growth Pact. Further, Scope recognises the value of the Danish Economic Council, responsible for monitoring each level of governmental compliance with fiscal rules and expenditure ceilings as well as evaluating long-term fiscal sustainability.

Figure 5: Contribution to gov't debt changes, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

Figure 6: Government debt, % of GDP



Source: Calculations Scope Ratings GmbH

	Real GDP growth (% change)	Primary balance (% of GDP)	Real effective interest rate (%)
IMF baseline (WEO October 2017), 2017-22 average	1.9	0.2	-0.7
Balanced primary balance scenario, 2017-22 average	1.9	0.0	-0.7.
Weak scenario, 2017-22 average	0.8	-1.1	-0.7

Source: IMF, Ministry of Finance, Calculations Scope Ratings GmbH

Public debt benefits from the low debt stock, recovering growth and favourable financing conditions. Refinancing risk is low as reflected by gross financing needs, which fell from 5.7% of GDP in 2016 to 4.7% in 2017. Moreover, Denmark benefits from significant interest from international investors, due to the safe-haven status of Danish government bonds and the long average term to maturity on government debt (8.3 years at the end of 2017).[7] Denmark repaid its last remaining foreign-denominated loan in March 2017, and 40% of government bonds were held by non-residents in 2017.

Scope conducted debt sustainability simulations to review the sensitivity of Danish public debt to developments under different assumptions. Under all scenarios, debt remained under recent historical levels and well below the Maastricht criteria of 60%. Under a weak scenario –a drop in GDP growth and a resulting counter-cyclical increase in government spending – general government debt increased from the base of 37.8% in 2017 to 41.0% in 2022, an increase of 7.9 percentage points against the baseline scenario. Under a balanced primary balance scenario, with the balance brought to neutral, government debt levels changed only minimally in 2022, at 0.8% of GDP against the baseline scenario (33.2% of GDP versus a 31.4% baseline scenario). Scope views Denmark's public-debt dynamics as robust due to their material resilience to stress scenarios.

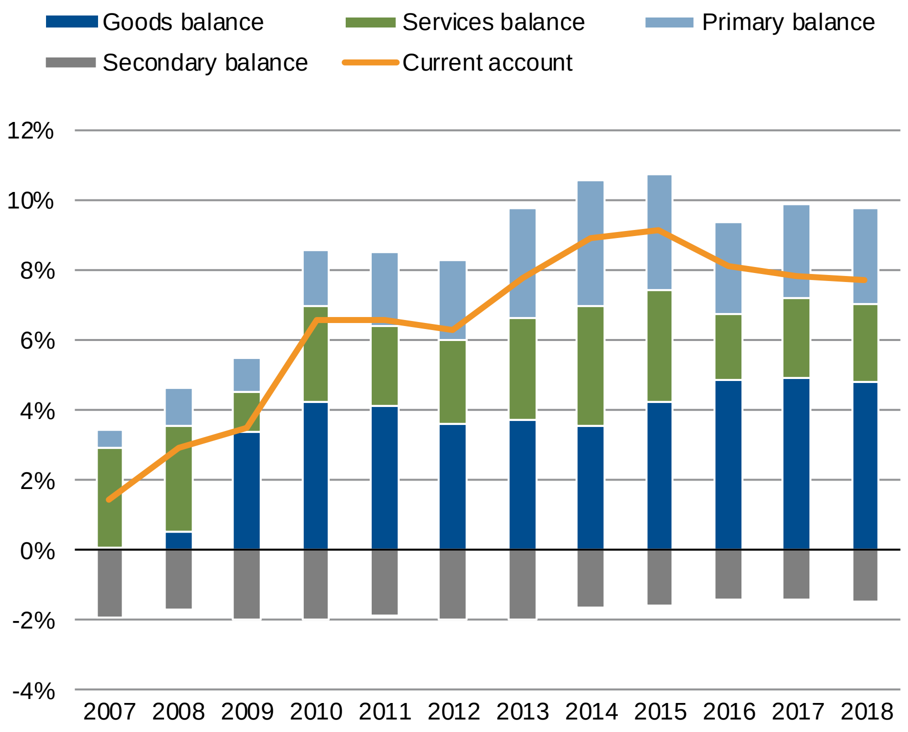
External economic risk

The rating is further underpinned by Denmark's strong external position. The high current account surplus of 7.6% of GDP in 2017 is down from a recent peak of 9.2% in 2015, but remains robust, aided by continuing strong earnings on Denmark's stock of foreign assets, and by the increasing focus of Danish companies towards external activities, and their integration into global value chains. Nonetheless, Scope expects this gradual decline to continue, driven by increasing private consumption and domestic investment, and thus higher import demand, and further reductions in North Sea oil and gas revenues. However, Denmark's external position will remain solid with forecasted surpluses above 5% of GDP over the medium term. Denmark's sound monetary policy, including the central bank's commitment to maintaining the peg of the Danish krone to the euro, further provides the country with an adequate buffer against external shocks.

The Danish external position is supported by offshore trading activities and high earnings on an increased stock of foreign assets.[8] Offshore trading by Danish firms exceeded 15% of GDP in 2017, generating approximately half of the trade surplus. This underscores a stronger orientation of overseas activities by Danish companies and their integration into global value chains. In 2017, domestic trade in goods that do not cross Danish borders was 77.2% of the current-account surplus.

[7] Danmarks Nationalbank, Danish Government Borrowing & Debt 2017, Report No. 1 31 January 2018.
[8] IMF Art IV, p. 41

Figure 7: Current account balance, % of GDP



Source: IMF

Denmark has a long history of strong current-account surpluses, averaging 6.2% of GDP over the past 10 years, with robust goods, services, and primary-income balances. In 2017, the current-account balance fell from 8.1% of GDP in 2016 to 7.6% of GDP, partly due to a decrease in North Sea oil revenues, offset somewhat by increasing exports of higher-value pharmaceutical products and higher demand from Denmark's main trading partners (Germany, Norway, Sweden, and the UK). Denmark's strong current account has translated into a comfortably high net external asset position of 53.5% of GDP in 2017, reflecting the strong increase in returns from foreign direct and portfolio investments of both Danish firms and Danish pension funds.

These strong and continued current-account surpluses reflect an excess of domestic savings, largely due to the large, funded pension system and a relative lack of domestic investment. Growth constraints are arising primarily from demographic factors, though the relative lack of domestic investment also plays a role. While demographic constraints will persist, Scope expects increases in domestic investment aimed at improving productivity to have a negative impact on the current-account surplus. Scope does not, however, expect a drop of lower than 5% of GDP in the medium term.

Financial stability risk

Overall Scope views the Danish banking system to be resilient. Capital adequacy grew significantly to 2013, when the largest Danish banks met the fully-phased-in EU 2019 requirements, and has remained broadly stable since then. While the largest Danish banks have lower capital adequacy than other Nordic banks, their capital adequacy (Tier 1 capital ratio of 21% in 2017) is high compared to that of most large banks in Europe.[9]

[9] IMF Art IV, p. 14

The level of banking sector earnings has risen substantially over the last three years. In 2017, banks recorded their highest returns on equity since 2007, reaching an average of 12.2% for commercial and savings banks alike.[10] Danish banks, thanks to their relative dependence on mortgage covered bond funding, have been able to compensate for low interest income through income from margins on mortgage loans and other fees. Higher earnings are, moreover, underpinned by very low loan-impairment charges, representing a reversal from previous years.

Denmark's credit strengths are balanced by financial vulnerabilities in the form of high household debt and sectoral housing market pressures. Although Denmark's household debt as a percentage of disposable income has declined in recent years, it remains the highest among OECD countries (at 289.6% in 2016). Risks surrounding a high private-debt burden are partially mitigated by sizeable household assets in the form of pension savings and housing assets resulting in a surplus in the aggregate household balance of DKR 1.23tn in Q2 2017. Moreover, Danish households benefit from a historically low interest burden of below 5% of disposable income in 2016, which is materially lower from a peak around 14% in 2008. Household credit has grown modestly in recent years, but with large regional differences. It's Scope's view that current sectoral housing pressures are contained as, in contrast with the pre-crisis period, recent major increases in house prices and mortgage lending have been concentrated in the wealthy region surrounding Copenhagen, reflecting fundamental drivers such as higher salaries and urbanisation.

Denmark's financial system is large (with assets of about 700% of GDP) and closely interconnected with that of Nordic neighbours. The banking sector is dominated by a few banks and exposed to the domestic housing sector, with real estate lending of mortgage banks comprised roughly half of the total Danish banking sector's assets in 2016. In addition, mortgage banks are reliant on mortgage-covered bond funding with Danish pension funds the primary investors. The combination of sectoral housing market pressures, high and increasing household debt, and market reliance on continued investment of Danish pension funds into the mortgage covered bond market, poses potential financial stability risks. Furthermore, under Denmark's implementation of the European Bank Recovery and Resolution Directive, Danish mortgage banks are exempt from having to meet an MREL (minimum requirement concerning the volume of eligible liabilities, i.e. debt that can be converted into equity to bear losses in a resolution situation).

Institutional and political risk

Scope views Denmark's political system, a parliamentary representative democracy with a multiparty system and a constitutional monarchy, as strong. As no single party has won an absolute majority in parliament since the beginning of the 20th century, a long and resilient tradition of government coalition-building and of negotiations and compromises among both government and opposition parties has developed. This has helped to ensure continuity and broad acceptance of government policies.

Following Denmark's 2015 general elections, Lars Løkke Rasmussen, the prime minister and leader of Venstre (Liberal Party), followed the centre-left minority coalition government of the Social Democrats and formed a minority government composed entirely of Venstre ministers. Having received only the third-highest number of votes in the 2015 election (19.5%) – after the Social Democrats (26.3%) and the Danish People's Party (21.1%; right-wing populists that gained 15 additional seats) – the government party, in order to rule, needs the support of the Danish People's Party, the Liberal Alliance, the Conservative People's Party, and the Christian Democrats. Mr Rasmussen

[10] https://www.finanstilsynet.dk/en

incorporated ministers from the Liberal Alliance and the Conservative People's Party in November 2016 to maintain his government after tensions arose on the management of public finances.

The next elections are scheduled for June 2019. Overall, Scope expects policy continuity for the short to medium term. Moreover, given that Denmark is considered by Transparency International as the world's least corrupt country, due to its high level of transparency, accountability, and public satisfaction with the political system, Scope assesses Danish institutional and political risk to be low.

Methodology

The methodology applicable for this rating and/or rating outlook, Public Finance Sovereign Ratings, is available at www.scoperatings.com.

Historical default rates from Scope Ratings can be viewed in Scope's rating performance report at https://www.scoperatings.com/#governance-and-policies/regulatory-ESMA. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA) at http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's definition of default and definitions of rating notations can be found in Scope's public credit rating methodologies at www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is not automatically ensured, however.

I. Appendix: CVS and QS results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on relative rankings of key sovereign credit fundamentals, signals an indicative AA (aa) rating range for the Kingdom of Denmark. This indicative rating range can be adjusted by up to three notches on the Qualitative Scorecard (QS) depending on the size of relative credit strengths or weaknesses versus peers based on analysts' qualitative analysis.

For the Kingdom of Denmark, the following relative credit strengths have been identified: i) economic policy framework; ii) macroeconomic stability and imbalances; iii) fiscal performance; iv) public debt sustainability; v) market access and funding sources; vi) external debt sustainability; and vii) financial sector performance. Relative credit weaknesses were macro-financial vulnerabilities and fragility. Combined relative credit strengths and weaknesses indicate a sovereign rating of AAA for Denmark. A rating committee has discussed and confirmed these results.

Rating overview	
CVS category rating range	aa
QS adjustment	AAA
Final rating	AAA

To calculate the rating score within the CVS, Scope uses a minimum-maximum algorithm to determine a rating score for each of the 22 indicators. Scope calculates the minimum and maximum of each rating indicator and places each sovereign within this range. Sovereigns with the strongest results for each rating indicator receive the highest rating score; sovereigns with the weakest results receive the lowest. The score result translates to an indicative rating range that is always presented in lower case.

Within the QS assessment, analysts conduct a comprehensive review of the qualitative factors. This includes but is not limited to an economic scenario analysis, review of debt sustainability, fiscal and financial performance, and policy implementation assessments.

There are three assessments per category for a total of 15. For each assessment, the analyst examines the relative position of a given sovereign within its peer group. For this purpose, additional comparative analysis beyond the variables included in the CVS is conducted. These assessments are then aggregated using the same weighting system as in the CVS.

The result is the implied QS notch adjustment, which is the basis for the analysts' recommendation to the rating committee.

Foreign versus local-currency ratings

The Kingdom of Denmark repaid its last foreign-currency-denominated debt in March 2017. In addition, Denmark has a history of local-currency debt issuance. Consequently, Scope sees no evidence that Denmark would differentiate among any of its contractual debt obligations based on currency denomination. This is further corroborated by the recent history of sovereign defaults, which does not provide a strong justification for a rating bias in favour of either local-currency or foreign-currency debt.

II. Appendix: CVS and QS results

CVS

Rating indicator	Category weight
Domestic economic risk	**35%**
Economic growth	
Real GDP growth	
Real GDP volatility	
GDP per capita	
Inflation rate	
Labour & population	
Unemployment rate	
Population growth	
Public finance risk	**30%**
Fiscal balance	
GG public balance	
GG primary balance	
GG gross financing needs	
Public debt	
GG net debt	
Interest payments	
External economic risk	**15%**
International position	
International investment position	
Importance of currency	
Current-account financing	
Current-account balance	
T-W effective exchange rate	
Total external debt	
Institutional and political risk	**10%**
Control of corruption	
Voice & accountability	
Rule of law	
Financial risk	**10%**
Non-performing loans	
Liquid assets	
Credit-to-GDP gap	
Indicative rating range	**aa**
QS adjustment	**AAA**
Final rating	**AAA**

QS

Maximum adjustment = 3 notches

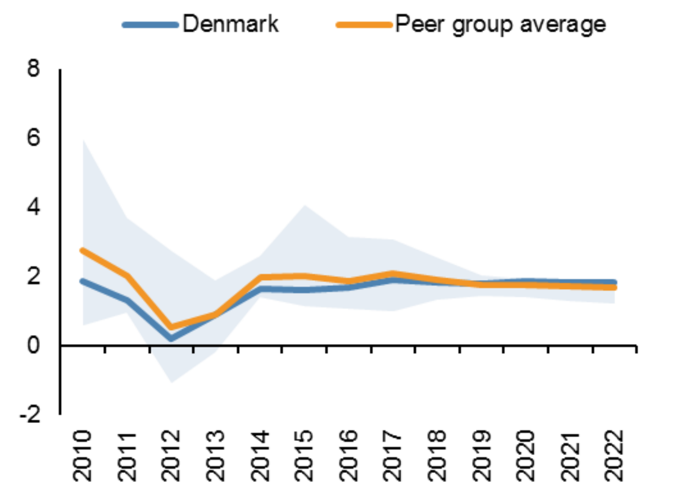
	+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Growth potential of the economy	○ Excellent outlook, strong growth potential	○ Strong outlook, good growth potential	◉ Neutral	○ Weak outlook, growth potential under trend	○ Very weak outlook, growth potential well under trend or negativ
Economic policy framework	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Macroeconomic stability and imbalances	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Fiscal performance	○ Exceptionally strong performance	◉ Strong performance	○ Neutral	○ Weak performance	○ Problematic performa
Debt sustainability	○ Exceptionally strong sustainability	◉ Strong sustainability	○ Neutral	○ Weak sustainability	○ Not sustainable
Market access and funding sources	○ Excellent access	◉ Very good access	○ Neutral	○ Poor access	○ Very weak access
Current-account vulnerabilities	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
External debt sustainability	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Vulnerability to short-term shocks	○ Excellent resilience	○ Good resilience	◉ Neutral	○ Vulnerable to shock	○ Strongly vulnerable to shocks
Perceived willingness to pay	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Recent events and policy decisions	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Geo-political risk	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Financial sector performance	○ Excellent	◉ Good	○ Neutral	○ Poor	○ Inadequate
Financial sector oversight and governance	○ Excellent	○ Good	◉ Neutral	○ Poor	○ Inadequate
Macro-financial vulnerabilities and fragility	○ Excellent	○ Good	○ Neutral	◉ Poor	○ Inadequate

*** Implied QS notch adjustment = (QS notch adjustment for domestic economic risk)*0.35 + (QS notch adjustment for public finance risk)*0.30 + (QS notch adjustment for external economic risk)*0.15 + (QS notch adjustment for institutional and political risk)*0.10 + (QS notch adjustment for financial stability risk)*0.10**

Source: Scope Ratings GmbH

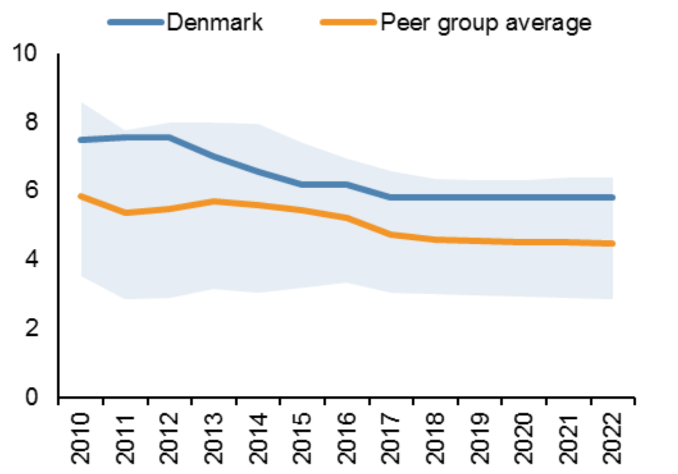
III. Appendix: Peer comparison

Figure 12: Real GDP growth



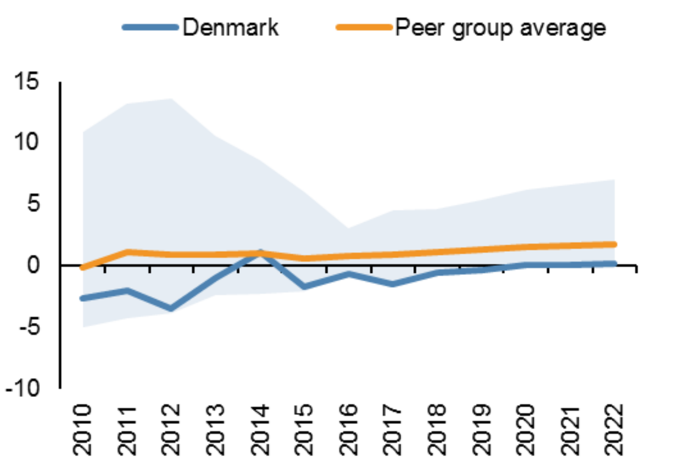
Source: IMF, Calculations Scope Ratings GmbH

Figure 13: Unemployment rate, % total labour force



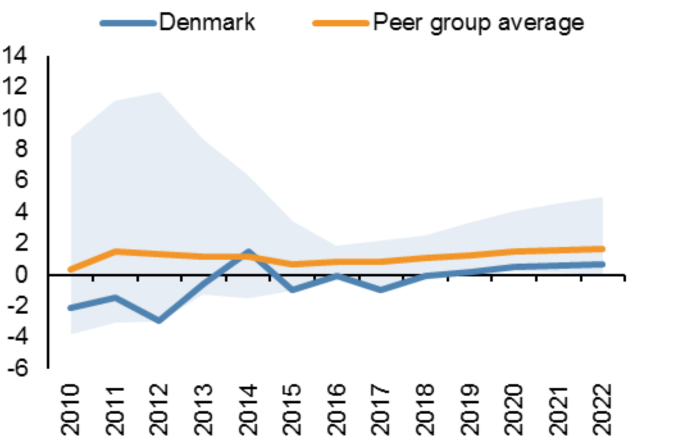
Source: IMF, Calculations Scope Ratings GmbH

Figure 14: General government balance, % of GDP



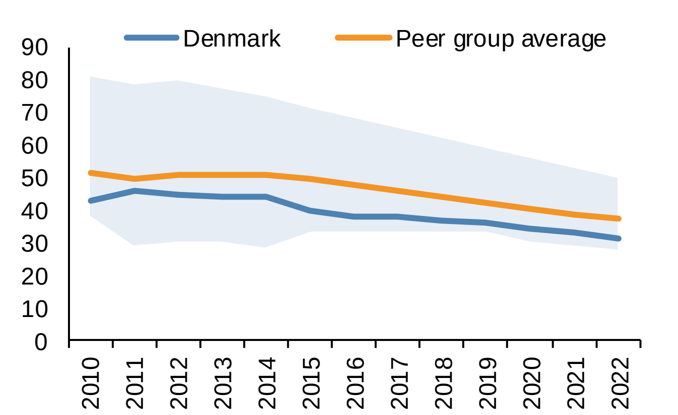
Source: IMF, Calculations Scope Ratings GmbH

Figure 15: General government primary balance, % of GDP



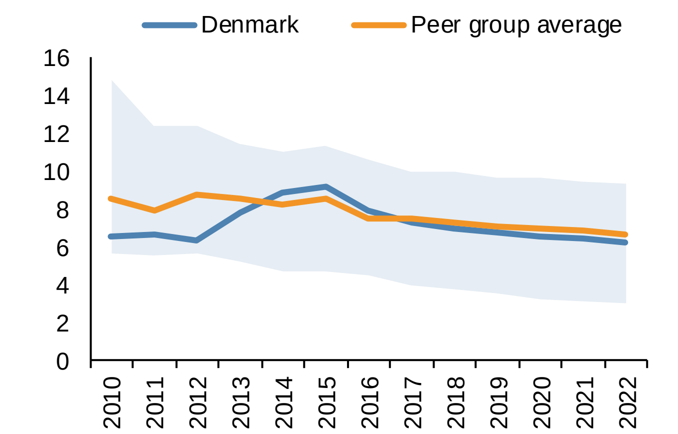
Source: IMF, Calculations Scope Ratings GmbH

Figure 16: General government gross debt, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

Figure 17: Current-account balance, % of GDP



Source: IMF, Calculations Scope Ratings GmbH

IV. Appendix: Statistical tables

	2012	2013	2014	2015	2016	2017E	2018F
Economic performance							
Nominal GDP (DKK bn)	1,895.0	1,929.7	1,977.3	2,027.2	2,064.9	2,142.9	2,226.2
Population ('000s)	5,581.0	5,603.0	5,627.0	5,660.0	5,707.0	5,754.0	5,798.0
GDP-per-capita PPP (USD)	44,804.0	46,726.9	47,900.1	48,979.3	49,818.8	-	-
GDP per capita (DKK)	339,574.7	344,423.6	351,372.4	358,175.5	361,793.8	372,418.9	383,951.5
Real GDP growth, % change	0.2	0.9	1.7	1.6	2.0	2.0	2.0
GDP growth volatility (10-year rolling SD)	2.4	2.4	2.3	2.3	2.0	2.1	2.1
CPI, % change	2.4	0.8	0.6	0.5	0.3	1.0	1.4
Unemployment rate (%)	7.5	7.0	6.5	6.2	6.2	5.9	5.8
Investment (% of GDP)	19.5	19.7	20.0	19.8	20.3	20.6	20.9
Gross national savings (% of GDP)	25.7	27.5	28.9	28.9	28.2	27.9	27.9
Public finances							
Net lending/borrowing (% of GDP)	-3.5	-1.0	1.1	-1.8	-0.6	-1.5	-0.6
Primary net lending/borrowing (% of GDP)	-3.0	-0.6	1.5	-1.0	-0.1	-1.0	-0.1
Revenue (% of GDP)	54.5	54.8	56.4	53.1	52.9	52.2	51.9
Expenditure (% of GDP)	58.0	55.8	55.3	54.8	53.5	53.7	52.5
Net interest payments (% of GDP)	0.5	0.4	0.5	0.8	0.5	0.5	0.5
Net interest payments (% of revenue)	1.0	0.7	0.8	1.4	1.0	0.9	1.0
Gross debt (% of GDP)	44.9	44.0	44.0	39.6	37.7	37.8	37.0
Net debt (% of GDP)	18.5	18.3	17.8	16.2	16.8	17.7	17.6
Gross debt (% of revenue)	82.4	80.3	78.0	74.5	71.2	72.5	71.2
External vulnerability							
Gross external debt (% of GDP)	174.9	171.1	167.1	158.3	160.6	-	-
Net external debt (% of GDP)	10.9	8.2	0.3	-0.6	-7.3	-	-
Current-account balance (% of GDP)	6.3	7.8	8.9	9.2	7.9	7.6	7.0
Trade balance [FOB] (% of GDP)	-	3.7	3.5	4.2	4.9	4.9	4.8
Net direct investment (% of GDP)	1.6	1.8	0.9	1.8	3.7	-	-
Official forex reserves (EOP, mil EUR)	58,183.0	35,546.1	40,912.6	43,788.1	51,965.3	58,263.3	-
REER, % change	-2.9	0.9	0.8	-3.3	1.1	0.3	-
Nominal exchange rate (EOP, DKK/EUR)	7.5	7.5	7.4	7.5	7.4	7.4	-
Financial stability							
Non-performing loans (% of total loans)	3.9	3.9	5.1	4.0	3.4	-	-
Tier 1 ratio (%)	16.7	17.3	16.2	17.6	18.4	-	-
Consolidated private debt (% of GDP)	224.0	216.1	214.0	207.4	208.6	-	-
Domestic credit-to-GDP gap (%)	-1.9	-17.8	-17.3	-28.2	-30.2	-	-

V. Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings GmbH.

Rating prepared by John F. Opie, Lead Analyst

Person responsible for approval of the rating: Dr Giacomo Barisone, Head of Public Finance

The ratings/outlook were first assigned by Scope as subscription rating in January 2003. The subscription ratings/outlooks were last updated on 18.08.2017.

The senior unsecured debt ratings as well as the short term issuer ratings were last assigned by Scope on 18.08.2017.

The main points of discussion during the rating committee were: i) banking sector vulnerability and its interdependence with Nordic and Baltic banking sectors, ii) growth constraints, in particular demographic issues, iii) housing market and policy initiatives, and iv) private debt sustainability considerations.

Solicitation, key sources and quality of information

The rating was initiated by Scope and was not requested by the rated entity or its agents. The rated entity and/or its agents did not participate in the ratings process. Scope had no access to accounts, management and/or other relevant internal documents for the rated entity or related third party.

The following material sources of information were used to prepare the credit rating: public domain and third parties. Key sources of information for the rating include: the Ministry of Finance of the Kingdom of Denmark, Danmarks Nationalbank, Statistics Denmark, Finanstilsynet (Danish Financial Supervisory Authority), European Commission, European Central Bank, OECD, IMF, WB, and Haver Analytics

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

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