18 August 2017

Public Finance

Kingdom of Denmark Rating Report

SCOPE AAA STABLE OUTLOOK

Credit strengths

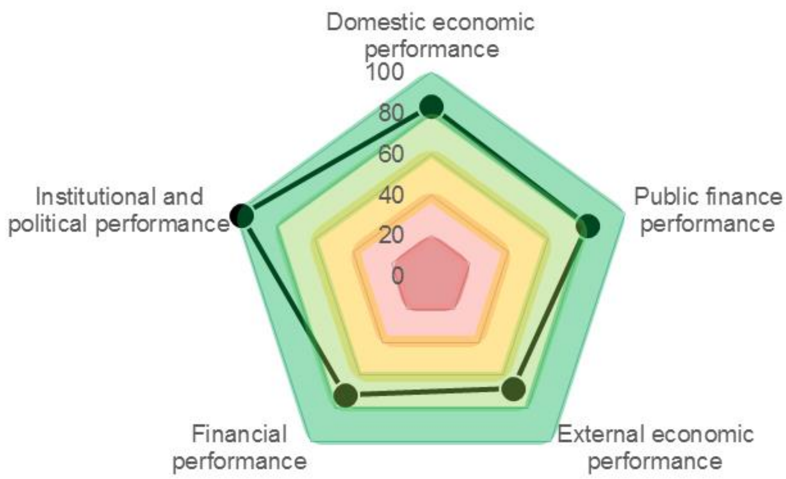
- Wealthy economy
- Robust public finances
- Sound external position

Credit weaknesses

- High household debt
- Housing market pressures
- Banking sector vulnerabilities

Rating rationale and Outlook: The AAA rating reflects Denmark's wealthy and diversified economy, which has gradually recovered since the 2008-09 crisis. The rating is further underpinned by steady current account surpluses, bolstering Denmark's net creditor position. These supporting factors are balanced by high household debt, the banking sector's significant exposure to domestic housing markets, and banks' reliance on mortgage-covered bond funding with Danish pension funds as primary investors. Furthermore, Danish mortgage banks are exempt from having to meet an MREL, implying a higher probability of government intervention in domestic financial markets. These risks could threaten public-debt dynamics. However, even taking into account a crystallisation of sovereign support measures for mortgage banks, Scope does not envision debt-to-GDP ratio increasing over the Maastricht threshold of 60%. The Stable Outlook reflects Scope's assessment that the risks Denmark faces remain broadly balanced.

Figure 1: Sovereign rating categories summary



Positive rating-change drivers

- Not applicable

Negative rating-change drivers

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

Ratings and 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

Lead analyst

Jakob Suwalski
+49 696677389-45
j.suwalski@scoperatings.com

Adéle Chevreau
+49 69 6677328-19
a.chevreau@scoperatings.com

Team leader

Dr Giacomo Barisone
+49 69 6677389-22
g.barisone@scoperatings.com

Scope Ratings AG

Neue Mainzer Straße 66-68
60311 Frankfurt am Main

Phone + 49 69 6677389 0

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

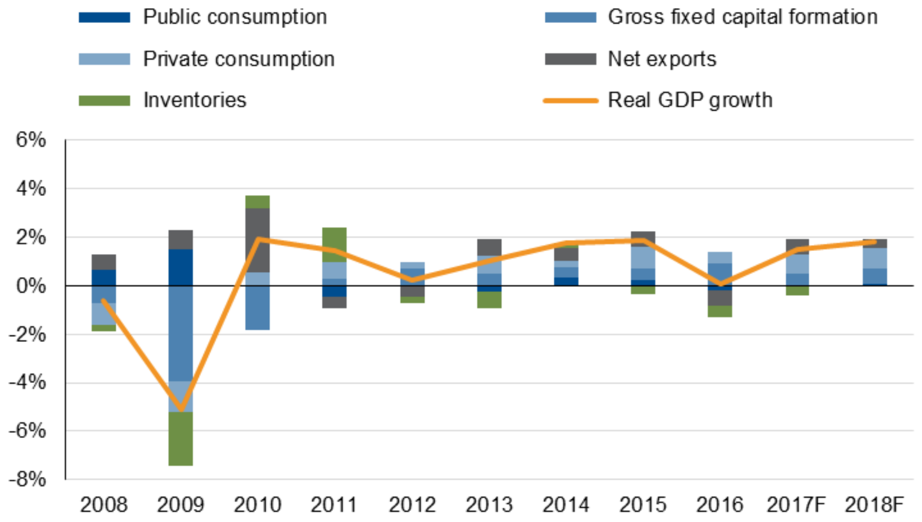
Bloomberg: SCOP

Domestic economic risk

Moderate growth prospects

Denmark benefits from a wealthy and diversified economy that has been gradually recovering from the financial crisis in 2008-09. However, growth has been slower than before the crisis. After a slowdown of real GDP growth from 1.6% in 2015 to 1.1% in 2016, Scope expects continued moderate growth of 1.5% and 1.8% in 2017 and 2018.

Figure 2: Percentage point contribution to real GDP growth



Source: IMF, Calculations Scope Rating AG

Denmark's recovery is primarily driven by private consumption, which is supported by high household assets, favourable financing conditions and improving conditions in labour and real estate markets. Private consumption has contributed nearly half of real GDP growth over the period from 2013 to 2016. In 2016, house price levels reached a midpoint between pre-crisis peaks and lows of 2011, with prices in metropolitan areas closer to pre-crisis levels, increasing the vulnerability of highly indebted households to any shock to housing. While households have considerable assets (mostly residential assets and pensions), these are relatively illiquid – limiting the near term buffer they provide to consumption. The ratio of household debt to net disposable income remains the highest in the OECD (293% in 2016) but household interest payments of below 5% of disposable income in 2016 are very low in historical terms, significantly reduced from a peak of roughly 14% in 2008.

Investment has been the second main driver of economic growth in recent years. After suffering a severe hit during the financial crisis, investment has been recovering at an average annual rate of 3.9% since 2013. As a key equity source for households, rising real estate values critically contribute to supporting investment activity, also helped by the relatively high savings rate. It is Scope's view that investment activity, which have been subdued for an extended period and driven by rising construction activity in recent years, will gradually become more broad-based and resume growth in 2017-2018 in parallel with higher confidence and capacity utilisation.

Although net exports (of goods and services) were one of the major components of Denmark's strong current account surpluses in recent years, they contributed negatively to real growth in 2016, reflecting what in Scope's view is only a temporary decrease owing to volatile services exports performance.

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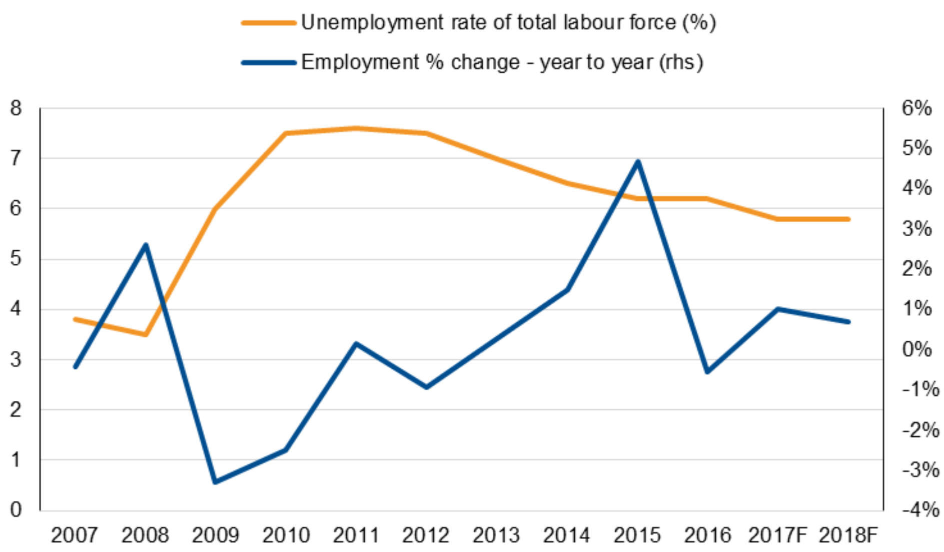
Danish exports include goods like packaged medicines (10% of exports in 2015), refined petroleum and pork (both 3%). Scope expects the positive trend in net exports during 2013-2016 to be reversed over the coming years due to an improved economic outlook in Denmark (and effects on higher import demand) and reduction in revenues from North Sea activities.

The labour market is improving on the back of a series of reforms implemented in recent years. Labour supply has been increasing since a 2011 reform to raise the retirement age from 65 to 67. A separate reform to reduce unemployment benefits in 2015 has further liberalised the labour market. The unemployment rate fell from 7.5% in 2012 to 6.2% in 2016, and was accompanied by rising wage growth.

Figure 3: Labour market developments



Source: IMF

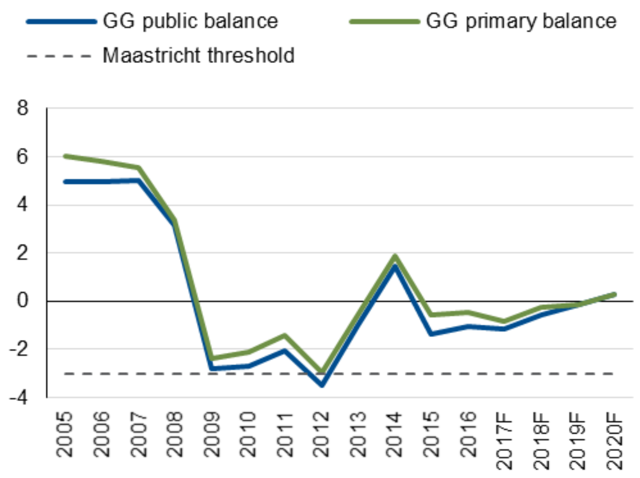
However, labour market segmentation and shortages remain challenges to Denmark's long-term growth. Despite recent improvements and reforms, the Danish labour market shows segmentation in view of a 19.2 percentage point difference in the employment rate between persons born outside the EU and those born in Denmark (59% vs 78%), which is one of the largest such gaps in the EU. To improve the below-optimal usage of the migrant labour force, some measures have recently been implemented like a cash bonus scheme for companies employing refugees. Further labour market constraints include shortages of skilled workers in labour-intensive sectors like construction.

Overall, Denmark, shows modest growth potential, in consideration of rising labour constraints. The Danish labour market is flexible but labour supply constraints are increasingly a bottleneck for the economy and only partially eased by extensive active labour market policies. Domestic investment levels are relatively low, which partly reflects corporates' increasing orientation towards overseas activities. The government is committed to implementing structural policies to strengthen growth potential, increase labour supply by reducing generous social safety nets, and promote corporate domestic investment. It's Scope's view that the positive trend in the labour market will continue in view of ongoing reforms. Scope expects further declines in unemployment, with employment growth gradually improving.

Public finance risk

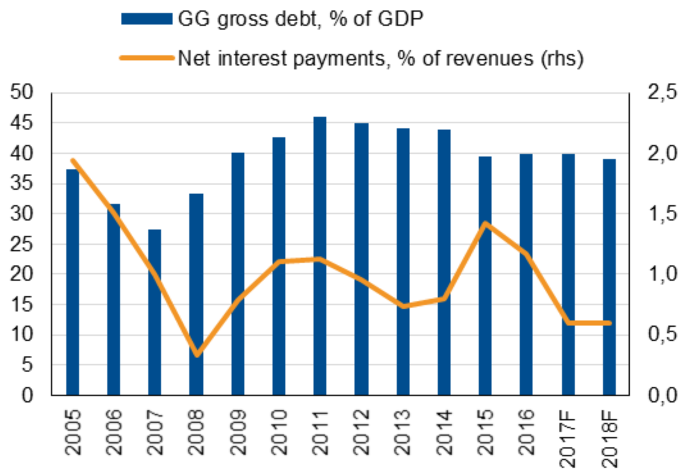
Denmark's public finances remain sound in view of a low debt burden of below 40% of GDP in 2016, which is well below the EU average of 85% of GDP and the EU's 60% reference value. A comfortable pre-crisis budget position (budget surpluses of 4.5% of GDP on average from 2005-2008) enabled Denmark's government to support the economy during the economic downturn thanks to adequate fiscal space. Except in 2012, the Danish government has shepherded the economy without breaching the Maastricht deficit threshold of 3% of GDP.

Figure 4: Fiscal developments, % GDP



Source: IMF

Figure 5: GG gross debt and net interest payments



Source: IMF, Calculations Scope Ratings AG

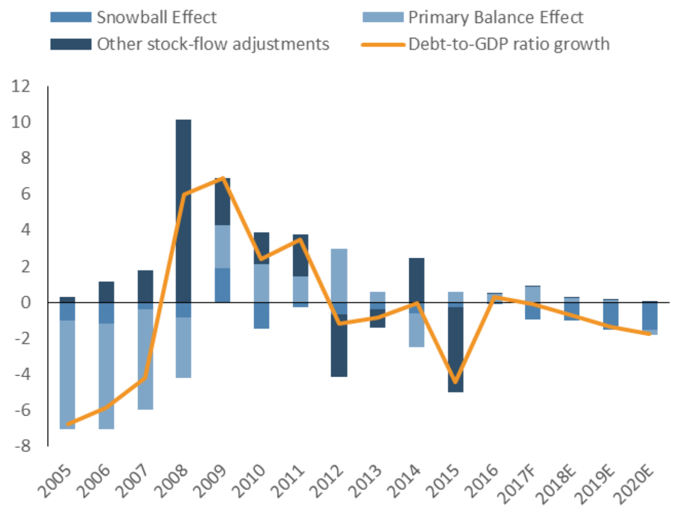
In 2016, the budget deficit shrank modestly to 0.9% of GDP. Scope's view is that Denmark's government is making good progress with unwinding the large fiscal stimulus provided during the crisis. For 2017, Scope expects a small increase in the headline deficit due to modest temporary loosening of the fiscal stance, still complying with Stability and Growth Pact rules (as well as with Denmark's own budget law) whilst providing room for tax cuts and reforms, in line with the pace of the recovery. The fiscal stance should over time move towards a broadly neutral stance.

Budgetary performance is improving overall, driven by recovering economic growth and cuts in expenditures, particularly in lower public consumption and social transfers. Scope expects the budget to be balanced by 2020. Budget planning is constrained by some inherent volatility of revenues due to the importance of the pension yield tax and revenues from North Sea drilling activities.

Scope has a positive view on Denmark's fiscal framework, which focuses on realistic medium-term budgetary targets consistent with both the Budget Law (and its limit of 0.5% of GDP deficits except during a severe economic downturn) and the Stability and Growth Pact. In addition, the Danish Economic Council, an independent supervisory institution created in 2012, is responsible for monitoring each level of governmental compliance with fiscal rules and expenditure ceilings as well as evaluating long-term fiscal sustainability.

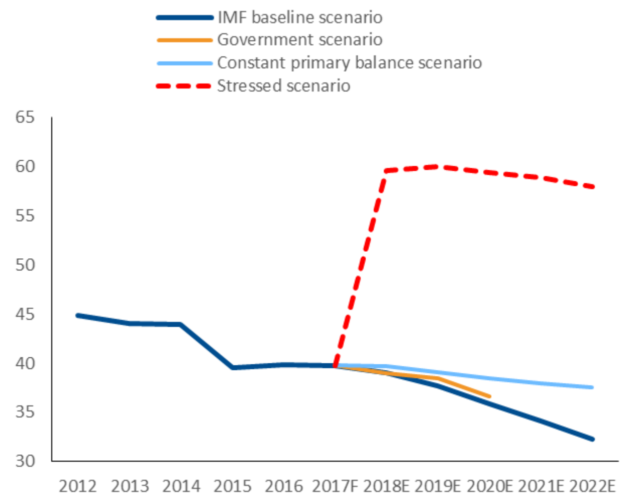
Scope compared general government debt-to-GDP projections from the IMF (WEO April 2017, projection period until 2022) to the projections from Denmark's public-debt strategy (projection period until 2020). Scope also implemented a 'stressed scenario' in which the underlying IMF assumptions were shocked to reflect materialisation of potential financial stability risks.

Figure 6: Contribution to gov't debt changes, % of GDP



Source: IMF, Calculations Scope Ratings AG

Figure 7: Government debt, % of GDP



Source: Calculations Scope Ratings AG

	Real GDP growth (% change)	Primary balance (% of GDP)	Real effective interest rate (%)
IMF baseline (WEO April 2017) 2017 – 2022 average	1.75	-0.03	-1.80
Ministry of Finance projections 2017 – 2020 average	1.73	0	n.d.
Stressed scenario 2017 – 2022 average	1.09	-3.58	-0.46

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

Scope assesses Denmark's public-debt dynamics as robust because of material resilience to stress scenarios over the projection period to 2022. Denmark benefits from a low debt stock, recovering economic growth and favourable financing costs, which more than offset the debt-increasing effects of modest primary deficits going forward (Figure 6). Financial stability risks could threaten Denmark's public-debt dynamics but, in a stress scenario, even taking into account a crystallisation of government support measures for the financial sector amounting to 21% of GDP in 2018 (equivalent to a 6% default rate within the Danish mortgage sector), debt-to-GDP would not increase above the Maastricht threshold of 60% of GDP (Figure 7).

Refinancing risk is low as reflected by decreasing gross financing needs, which have fallen from 5.7% of GDP in 2016 to 4.7% of GDP in 2017. Moreover, Denmark benefits from significant international investor interest due to the safe-haven status of its government bond market, and a long average term to maturity on government debt (8.4 years in June 2017). In addition, Denmark repaid its last foreign currency denominated loan in March 2017 with non-resident investors holding approximately 40% of government bonds in 2017.

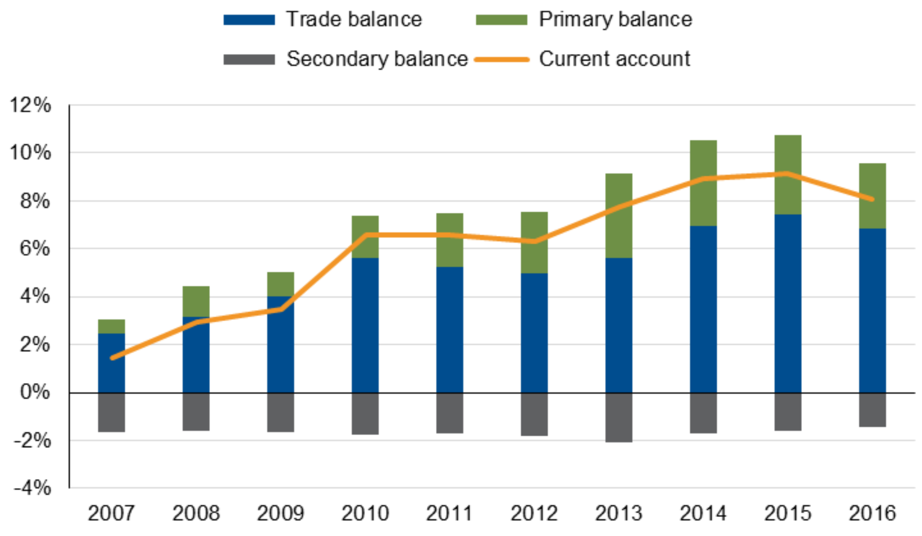
Nevertheless, there remains the potential for higher liquidity in Denmark's government bond market, with presently a very high concentration of primary dealers. From that perspective, Scope views positively the new primary dealers' model implemented in April 2017, which is based on enhanced payments for banks that quote prices on a current basis and act as distribution channels for government securities. Signs of improved liquidity for Danish government bonds are visible in the form of narrowing bid-ask spreads.

External economic risk

Scope assesses positively Denmark's monetary policy and commitment to maintaining the Danish krone's peg to the euro within the limits defined by the European Exchange Rate Mechanism. Denmark has tied its currency to those of its neighbours for over 30 years, first to Germany's mark and later to the euro. The FX has been pegged to within a few percent of 7.46 krone to one euro. Unlike the Swiss franc, there are not enough krone-denominated assets available for investors to choose from, making the krone not as attractive as a safe haven because of smaller and less liquid markets. This alleviates appreciation pressures on the krone. Denmark's official foreign exchange reserves increased from USD 48bn in 2015 to 55bn in 2016 and remain highly adequate, covering around eight months of goods imports. Combined with adequate, active interventions by Denmark's central bank in the FX market and the central bank's interest rate tools, the country has a sufficient precautionary resources against external shocks.

Denmark has a comfortable external position, supported by offshore trading activities and the high earnings on an increased stock of foreign assets. Offshore trading by Danish firms exceeded 15% of GDP in 2016, contributing half of the trade surplus. This reflects Danish firms' increasing orientation towards overseas activities and integration in global value chains. Denmark is a net exporter of oil, gas and food.

Figure 8: Current account balance, % of GDP



Source: IMF

Denmark has run an average current account surplus of 6.2% of GDP over the past 10 years, with robust goods, services, and primary income balances. In 2016, the current account balance fell from 9.2% of GDP in 2015 to 8.1% of GDP, resulting from a decrease in the trade balance related to North Sea drilling activities, which was partly offset by increasing exports of higher value products like pharmaceuticals 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 2016, compared to 43.8% in 2009 and -60.3% in 2007, reflecting increasing returns from foreign direct and portfolio investments by Danish firms and pension funds.

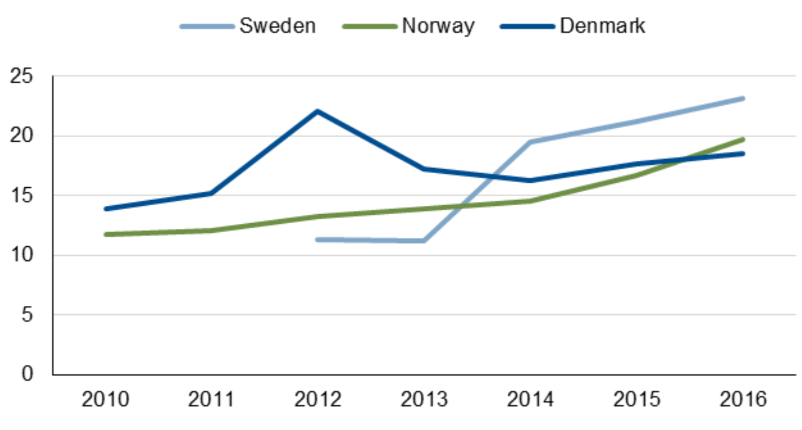
From a savings perspective, however, Denmark's persistent current account surpluses points to an excess of domestic savings (sourced from the large, funded pension system, among other areas) and a lack of investment within the country. This could adversely affect the allocation of resources and, as a result, the country's growth potential. Based on an improved outlook for investment, Scope expects the downward trajectory of the current account surplus to continue, but remain above 5% of GDP over the medium term.

Financial stability risk

Denmark's financial system is large (with assets of about 700% of GDP) and closely interconnected with that of Nordic neighbours. The Danish banking sector is dominated by a small number of banks that have a relatively high exposure to the rising domestic housing market. Real estate lending by mortgage banks amounted to nearly half of total Danish banking sector assets in 2016, but unlike the pre-crisis period, only the wealthy Copenhagen region has seen significant increases in house prices and mortgage lending in recent years, reflecting fundamental drivers like increasing salaries in the capital and an urban migration trend, enhanced by low financing costs.

The level of banking sector earnings has risen substantially over the last three years. In 2016, banks recorded their highest return on equity since 2007. Danish banks, due to relative dependence on mortgage covered bond funding, have been able to compensate for low interest income through increased income from administration margins on mortgage loans and other fees. Higher earnings are, moreover, underpinned by very low loan impairment charges, representing a reversal from previous years.

Figure 9: Regulatory Tier 1 capital to risk-weighted assets ratio, %

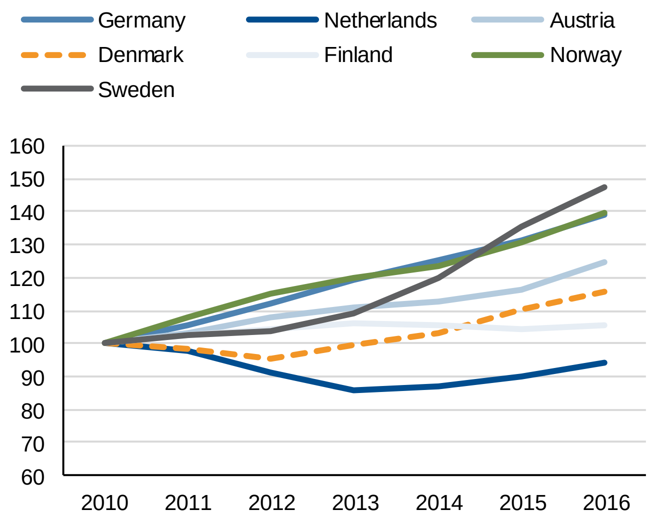


Source: IMF

The capital adequacy of Danish banks grew substantially between 2008 and 2013, with the largest Danish banks meeting the fully phased-in EU 2019 requirements in 2013. Since then, Danish banks have not significantly increased their Tier 1 ratios. By comparison, large banks in Sweden and Norway have already started the build-up of a countercyclical buffer since the end of 2015. Results from Denmark's central bank stress test show that in a severe recession scenario until 2019, all systemic banks will have a small capital shortfall relative to their total requirement. While the largest Danish banks have lower capital adequacy than other Nordic banks, their capital adequacy is high compared to that of most other large banks in Europe. At the end of 2016, the largest Danish banks had a Tier 1 capital ratio of 17-20%.

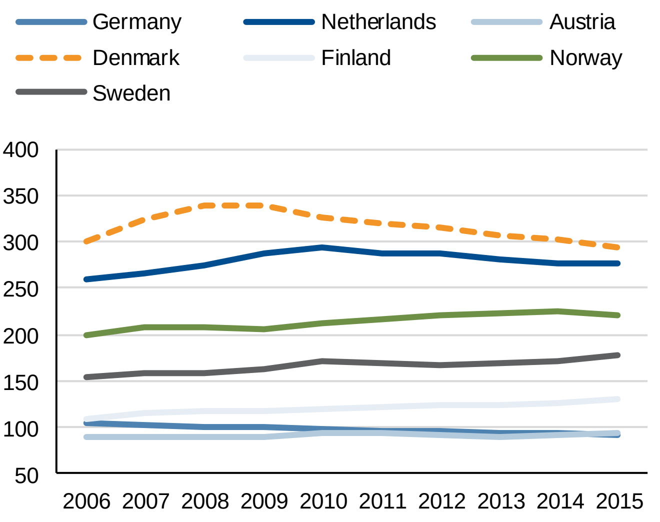
Given the already very high Danish household debt, if structural measures failed to address housing risks, this could lead to growing concerns about an increase of systemic financial stability risks. Despite having declined in recent years, Danish household debt as a percentage of disposable income remains the highest among OECD countries (262% in 2016). Sizeable household assets in the form of pension savings and housing assets only partially mitigate high household debt. Due to the low interest rate environment, households benefitted from an interest burden below 5% of disposable income in 2016, which is significantly lower than a peak of roughly 14% in 2008. This positively affects the credit outlook for mortgage loans.

Figure 10: Nominal house price index, 2010=100



Source: OECD

Figure 11: Households and NPISHs debt, % of net disposable income



Source: OECD

Under Denmark's implementation of the European Bank Recovery and Resolution Directive, in place since 2016, 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). This essentially means that Danish mortgage banks must be resolved without using the bail-in tool. In Scope's view, this arrangement implies a higher probability that the Danish government would have to intervene in domestic markets and rescue mortgage banks in a distressed scenario. Denmark's central bank is recommending an MREL be set for systemically important banks to ensure consistent regulation of Danish and European mortgage lenders.

Recently implemented macroprudential measures will help keep risks to financial stability contained. For example, the Danish government will remove a freeze on property value taxes from 2021 onwards to mitigate the growing divergence in house prices between rural and urban regions. In addition, limits are being placed on new residential mortgage lending with variable rates or with deferred amortisation if the borrower exceeds certain debt levels relative to income.

Institutional and political risk

Denmark's strong political system is based on parliamentary representative democracy with a multiparty system and a constitutional monarchy. Given that no single party has won an absolute majority in parliament since the beginning of the 20th century, Denmark has a long and resilient tradition of government coalition-building and of negotiations and compromises amongst both government and opposition parties.

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 most votes in the 2015 election (19.5%), after the Social Democrats (26.3%) and Danish People's Party (21.1%; right-wing populists that gained 15 additional seats), the government party relies on the support of the Danish People's Party, the Liberal Alliance, the Conservative People's Party, and the Christian Democrats to rule. After tensions arose on the management of public finances, Mr Rasmussen had to incorporate ministers from the Liberal Alliance and the Conservative People's Party in November 2016 to maintain his government.

The next elections are scheduled for June 2019. Overall, Scope expects no radical changes in policy in the short to medium term in Denmark. Moreover, given that Denmark is distinguished by Transparency International as the least corrupt country in the world due to its high level of transparency, accountability and public satisfaction with the political system, Scope assesses the country's 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-registration. 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 "AAA" ("aaa") 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: 1) macroeconomic stability and imbalances, 2) public debt sustainability, 3) external debt sustainability. No relative credit weaknesses have been signalled. Combined relative credit strengths and weaknesses generate no adjustment and signal a sovereign rating of AAA for Denmark. A rating committee discussed and confirmed these results.

Rating overview

CVS category rating range	aaa
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 rating score. 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 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 an established 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	
IIP	
Importance of Currency	
Curr. Acc. Financing	
Cur. account bal.	
T-W effective Exch. Rate	
Total External Debt	
Institutional and Political Risk	10%
Control of Corruption	
Voice & Accountability	
Rule of Law	
Financial Risk	10%
NPL	
Liquid Assets	
Credit to GDP gap	
Indicative Rating Range	**aaa**
QS adjustment	**AAA**
Final rating	**AAA**

QS

Maximum adjustment = 3 notches

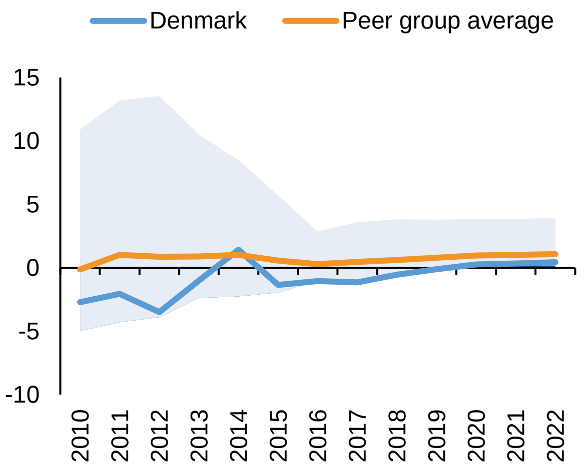
	+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Growth potential of the economy	○ Excellent outlook, strong growth potential	○ Strong outlook, good growth potential	● Neutral	○ Weak outlook, growth potential under trend	○ Very weak outlook, growth potential well under trend or negative
Economic policy framework	○ 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 performance
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 AG

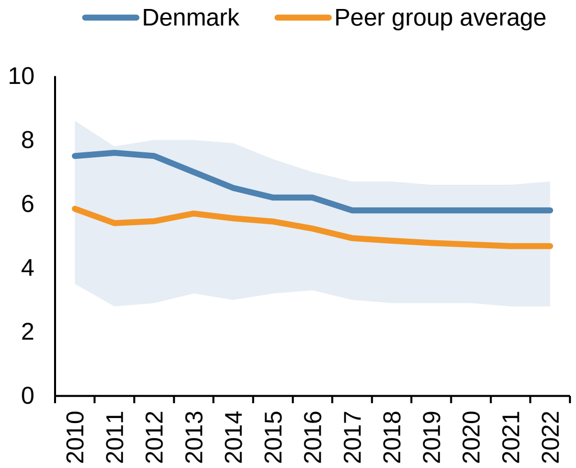
III. Appendix: Peer comparison

Figure 12: Real GDP growth



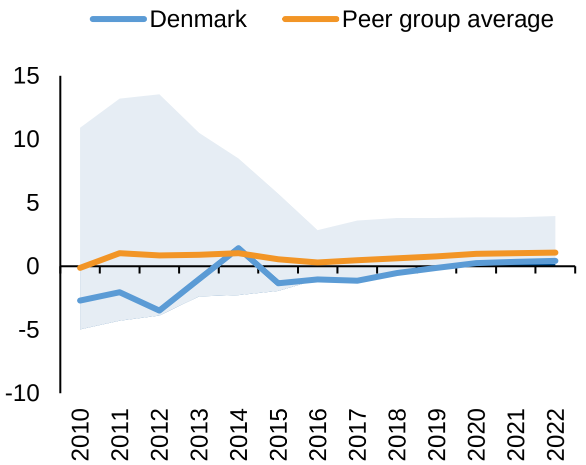
Source: IMF, Calculations Scope Ratings AG

Figure 13: Unemployment rate, % total labour force



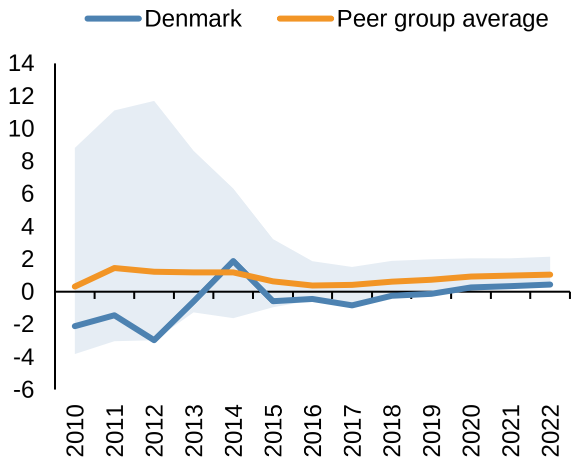
Source: IMF, Calculations Scope Ratings AG

Figure 14: General government balance, % of GDP



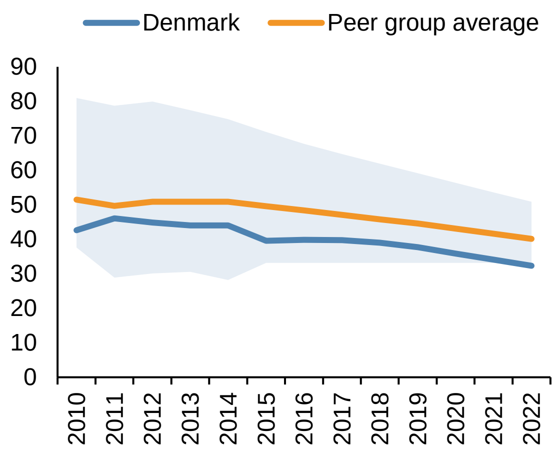
Source: IMF, Calculations Scope Ratings AG

Figure 15: General government primary balance, % of GDP



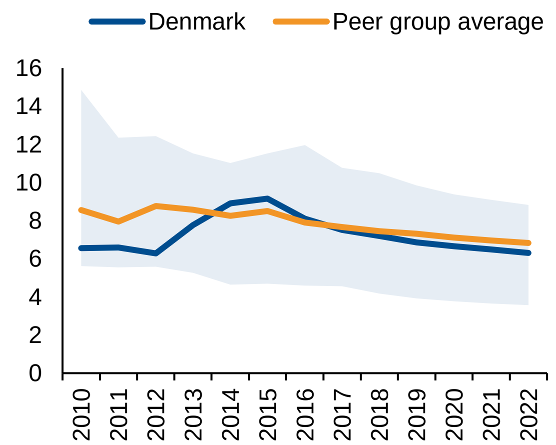
Source: IMF, Calculations Scope Ratings AG

Figure 16: General government gross debt, % of GDP



Source: IMF, Calculations Scope Ratings AG

Figure 17: Current-account balance, % of GDP



Source: IMF, Calculations Scope Ratings AG

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	2,064.8	2,130.4	2,202.0
Population (thous)	5,610.7	5,637.8	5,663.9	5,688.7	5,711.9	5,733.6	5,754.4
GDP-per-capita PPP (USD)	44,804.0	46,726.9	47,805.6	48,980.8	49,696.0	-	-
GDP per capita (DKK)	339,574.7	344,423.6	351,372.4	358,175.5	361,789.2	370,253.0	379,770.4
Real GDP growth, % change	0.2	0.9	1.7	1.6	1.1	1.5	1.7
GDP growth volatility (10-year rolling SD)	2.4	2.4	2.3	2.3	2.0	2.0	2.0
CPI, % change	2.4	0.8	0.6	0.5	0.3	0.7	1.1
Unemployment rate (%)	7.5	7.0	6.5	6.2	6.2	5.8	5.8
Investment (% of GDP)	19.5	19.7	20.0	19.8	20.2	20.4	20.6
Gross national savings (% of GDP)	25.7	27.5	28.9	28.9	28.3	27.9	27.7
Public finances							
Net lending/borrowing (% of GDP)	-3.5	-1.0	1.4	-1.3	-1.0	-1.1	-0.5
Primary net lending/borrowing (% of GDP)	-3.0	-0.6	1.9	-0.6	-0.4	-0.8	-0.2
Revenue (% of GDP)	54.5	54.8	56.7	53.5	51.1	50.0	50.1
Expenditure (% of GDP)	58.0	55.8	55.3	54.8	52.1	51.2	50.6
Net interest payments (% of GDP)	0.5	0.4	0.5	0.8	0.6	0.3	0.3
Net interest payments (% of revenue)	1.0	0.7	0.8	1.4	1.2	0.6	0.6
Gross debt (% of GDP)	44.9	44.0	44.0	39.6	39.9	39.8	39.0
Net debt (% of GDP)	6.6	4.0	4.8	5.6	6.5	7.5	7.8
Gross debt (% of revenue)	82.4	80.3	77.5	74.0	78.0	79.5	78.0
External vulnerability							
Gross external debt (% of GDP)	174.9	171.1	167.4	157.9	160.1	-	-
Net external debt (% of GDP)	10.9	8.2	0.3	-0.5	-7.8	-	-
Current account balance (% of GDP)	6.3	7.8	8.9	9.2	8.1	7.5	7.2
Trade balance [FOB] (% of GDP)	-	3.7	3.5	4.2	5.0	5.2	5.2
Net direct investment (% of GDP)	1.6	1.8	1.0	1.8	4.6	-	-
Official forex reserves (EOP, USD bn)	76.5	49.0	49.8	47.8	54.9	-	-
REER, % change	-2.9%	0.9%	0.8%	-3.2%	1.2%	-	-
Nominal exchange rate (EOP, DKK/USD)	5.7	5.4	6.1	6.8	7.1	-	-
Financial stability							
Non-performing loans (% of total loans)	6.0	4.6	4.4	3.8	-	-	-
Tier 1 ratio (%)	16.7	17.3	16.2	17.6	18.4	-	-
Consolidated private debt (% of GDP)	224.0	216.1	214.7	207.6	210.7	-	-
Domestic credit-to-GDP gap (%)	-8.9	-23.6	-22.2	-32.5	-33.2	-	-

Source: Scope Ratings AG

V. Regulatory disclosures

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

Rating prepared by Jakob Suwalski, Lead Analyst

Person responsible for approval of the rating: Dr Stefan Bund, Chief Analytical Officer

The ratings/outlook were first assigned by Scope as subscription rating in January 2003. The subscription ratings/outlooks were last updated on 05.05.2017.

The senior unsecured debt ratings as well as the short term issuer ratings were assigned by Scope for the first time.

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Rating Committee: the main points discussed were (1) Economic growth potential and outlook, (2) public finance performance and debt sustainability analysis, (3) external economic position, (4) financial and banking sector performance, (5) banking sector's reliance on housing market developments, (6) sustainability analysis of private debt, (7) peers consideration.

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, Central Bank of Denmark, 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.

Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds upon which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

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