

Kingdom of Denmark

Rating Report



Credit strengths

- Wealthy and competitive economy
- Sound public finances and low public debt
- Solid external position
- Strong institutional framework and stable governance

Credit challenges

- High levels of household debt
- Vulnerabilities related to high property prices

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

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Rating rationale

Wealthy and competitive economy: Denmark has one of the highest GDP-per-capita ratios in Europe and ranks first in the 2021 IMD World Competitiveness Ranking. Economic output proved resilient during the Covid-19 pandemic, and the economy is in a strong position to withstand pressures from the fallout of the Russia-Ukraine war.

Solid public finances: Denmark benefits from sound public finances, characterised by broadly balanced budgets and primary surpluses over the medium-term and a moderate debt burden. Challenges of an ageing population and investment needs to support competitiveness are being addressed.

Strong external position: Denmark has generated a current-account surplus every year since 1998, and the IMF expects continued surpluses above 7% for the next five years. A credible commitment to maintaining its fixed exchange rate is backed by large official reserves.

Strong institutional framework: Denmark ranks among the top countries globally in terms of governance indicators. It has a strong record of implementing structural reforms, maintaining fiscal discipline and conducting appropriate monetary policy in alignment with the ECB.

Rating challenges include: i) vulnerabilities in the Danish financial system, including from high household debt; and ii) banking sector vulnerabilities related to high and rising property prices.

Denmark's sovereign rating drivers

Risk pillars	Quantitative		Reserve currency	Qualitative*	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	aaa	DKK [+0]	+1/3	AAA	
Public Finance Risk	20%	aaa		+1/3		
External Economic Risk	10%	aaa		+1/3		
Financial Stability Risk	10%	aaa		-1/3		
ESG Risk	Environmental factors	5%		aa+		+1/3
	Social factors	7.5%		bb		0
	Governance factors	12.5%		aaa		+1/3
Indicative outcome		aaa		+1		
Additional considerations				0		

Note: *The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. The reserve currency adjustment applies to currencies in the IMF's SDR basket. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

Positive rating-change drivers

- Not applicable

Negative rating-change drivers

- A severe economic shock, resulting in weaker medium-term growth prospects
- A deteriorating fiscal outlook, resulting in rising government debt ratios
- Increasing banking system risks, resulting in broader systemic risk

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Bloomberg: RESP SCOP

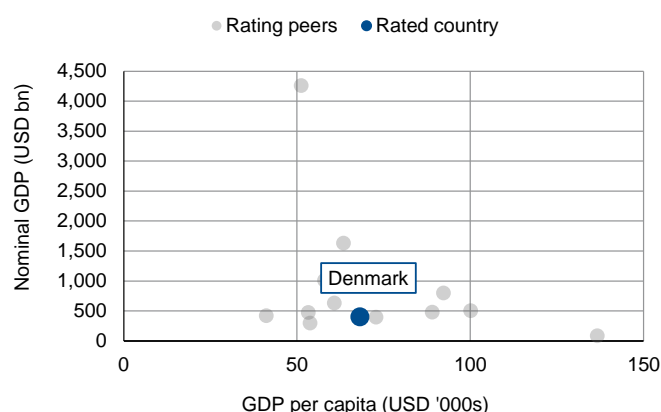
Domestic Economic Risks

- **Growth outlook:** Economic output proved resilient during the Covid-19 pandemic, rebounding strongly by 4.9% in 2021 following a decline of 2.0% in 2020. Growth during the first half of 2022 was mixed, with GDP declining by 0.5% in Q1 compared with the previous quarter and growing by 0.9% in Q2. Consumption is likely to remain weak during the second half of 2022 due to lower purchasing power of households and declining house prices, although high levels of savings in recent years help cushion the impact of rising inflationary pressures. Following the rapid recovery after the Covid-19 pandemic, we expect the Danish economy to grow by 2.3% in 2022, followed by a 0.3% contraction in 2023 as persistent price pressures and a slowdown in key export markets remain a drag on growth. From 2024, we expect a gradual return to Denmark's medium-term growth potential of around 1.5% per year.
- **Inflation and monetary policy:** Inflation (HICP) reached 9.9% in August 2022 compared with the same month in 2021. This is the highest level on record. Energy, food and transport prices have been rising sharply, and core inflation is expected to reach 5.1% in 2022 and remain elevated at 4.5% in 2023 and 3.2% in 2024. Denmark's central bank pegs its exchange rate to the euro. As euro area monetary policy targets an inflation rate of 2% over the medium term, the fixed-exchange-rate policy provides a framework for returning inflation to a low and stable level. However, limited monetary policy and exchange rate flexibility restricts the central bank's ability to address financial imbalances, control the money supply and take unconventional measures such as quantitative easing. Denmark's Nationalbank increased its deposit rate to 0.65% in September. This remains in line with the ECB's monetary policy, whose interest rate on the deposit facility stood at 0.75% in September.
- **Labour markets:** Denmark has a highly competitive and flexible labour market. The unemployment rate fell to 5.1% in 2021. Given continued labour shortages and high levels of job vacancies, we expect the unemployment rate to fall to 4.4% in 2022 and rise moderately to 4.9% in 2023. Despite the tight labour market, wage growth has been modest so far, leading to a decline in real wages. This is unlikely to persist, and there remain upside risks to wage growth if inflation expectations become entrenched.

Overview of Scope's qualitative assessments for Denmark's Domestic Economic Risks

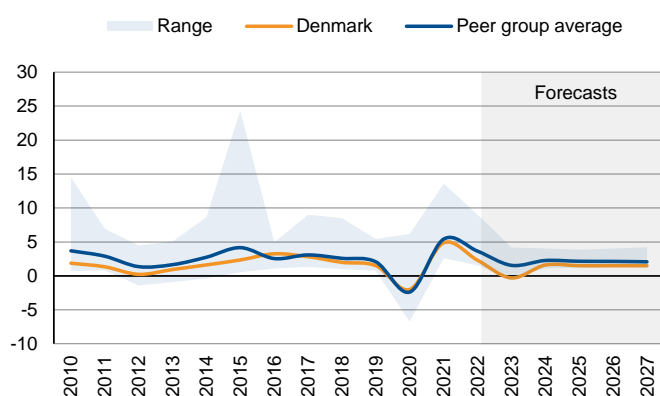
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Neutral	0	Robust growth potential and pre-crisis track record of sustained growth
	Monetary policy framework	Neutral	0	The fixed-exchange-rate policy helps anchor inflation and has supported external competitiveness, but it restricts the central bank's ability to control money supply.
	Macroeconomic stability and sustainability	Strong	+1/3	Competitive economy, favourable business environment and highly skilled labour force support productivity growth; highly flexible labour market

Nominal GDP and GDP per capita, USD



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



Source: IMF WEO, Scope Ratings forecasts

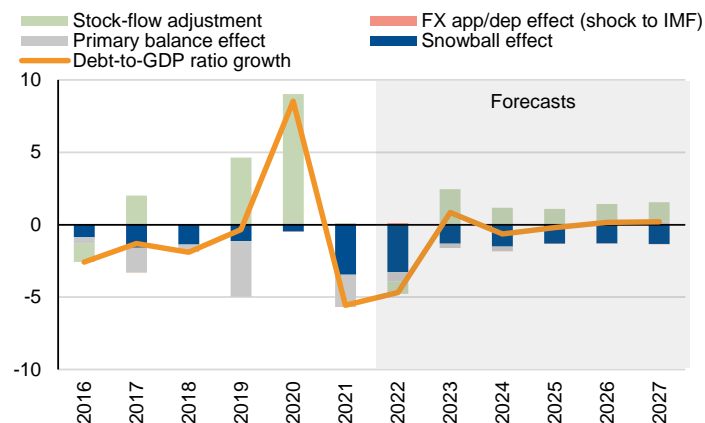
Public Finance Risks

- **Fiscal outlook:** In response to the fallout from the Russia-Ukraine war, the Danish government plans to gradually raise defence spending from 1.4% of GDP in 2020 to 2% of GDP by 2033. Announced support measures for households and businesses include a temporary, voluntary scheme to spread the costs for electricity, gas and district heating bills over several years, a reduction in the electricity tax and subsidies for low-income households. The government plans to increase the limit on the structural deficit from 0.5% of GDP to 1% of GDP and target a government deficit of 0.5% of GDP in the medium term. This will allow for more effective use of Denmark's large fiscal space while providing budget flexibility to accommodate increased military spending and fund investments to support the green transition. We expect the fiscal balance to remain in surplus of around 1.1% this year, down from 2.6% in 2021, and gradually decline and turn into a small deficit in the coming years. Denmark's fiscal outlook is supported by its forward-looking pension policies given an ageing population. The retirement age increases to 67 this year and is expected to rise to 68 by 2030, after which it will be linked to future increases in life expectancy.
- **Debt trajectory:** Denmark's general government debt ratio declined in the years before the pandemic, falling from 46.1% of GDP in 2011 to 33.7% in 2019. Fiscal support measures caused the ratio to increase to 42.2% in 2020, which compares favourably to an average of around 50% in peer countries with AAA ratings. We expect the continued fiscal surpluses and fast economic recovery following the pandemic to lower the debt ratio to 31.9% this year, which is below pre-pandemic levels. Spending pressures due to an ageing population and continued investment needs are likely to result in a broadly stable public debt level over the next few years.
- **Debt profile and market access:** Denmark benefits from a stable debt structure and excellent market access. Financing costs have increased in line with other highly rated economies, with the 10-year yield rising from 0.1% at the beginning of the year to 2.7% at the time of writing. The average maturity of government debt stood at nine years as of September 2022, longer than that of most peer countries. The government retains significant financing flexibility through its cash buffer of DKK 123bn (4.5% of GDP), significantly above the target band of DKK 50bn-75bn.

Overview of Scope's qualitative assessments for Denmark's Public Finance Risks

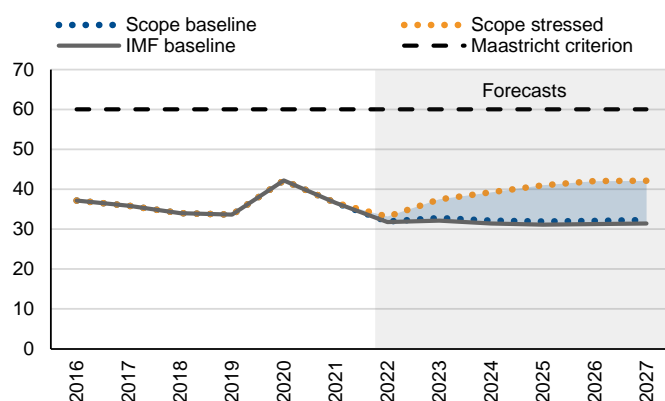
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Fiscal policy framework	Strong	+1/3	Appropriate response to Covid-19 and energy shock; pre-crisis track record of balanced budgets; progressive pension reform to adapt retirement age
	Debt sustainability	Neutral	0	Stable debt trajectory
	Debt profile and market access	Neutral	0	Excellent market access; low government financing costs in line with those of peers

Contributions to changes in debt levels, pp of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

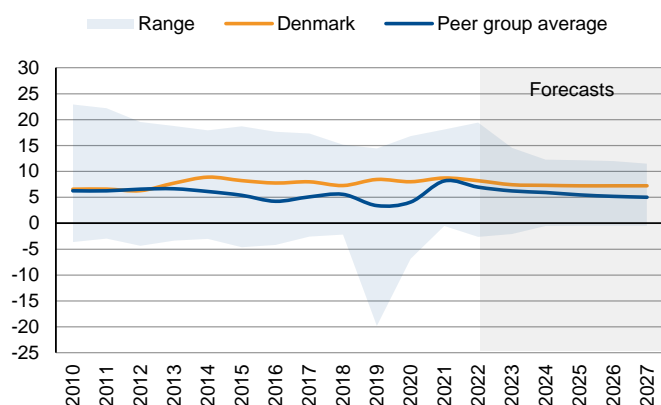
External Economic Risks

- **Current account:** Denmark has consistently run current-account surpluses above the peer group average. The IMF forecasts Denmark's current-account surplus will decrease slightly from 8.8% in 2021 to 7.4% in 2023 and remain above 7% during the subsequent five years. This follows more than two decades of persistent current-account surpluses, reflecting Denmark's large financial sector, very high domestic savings and strong exports of high-value goods and services. Danish exports recovered quickly and grew by 8% following the pandemic shock, which led to a decline in services activities, particularly in the transport, construction and IT sectors. While Denmark has a highly competitive and less cyclically sensitive export sector, the economic slowdown among key trading partners is likely to slow export growth to 2.4% this year and only 0.3% in 2023.
- **External position:** Danish external debt declined from above 185% of GDP in 2010 to around 145% in 2019 before increasing again at the onset of the pandemic. It stood at 151% in 2021 and relates mainly to debt in the financial institutions sector (93% of GDP). Short-term debt relative to total gross external debt has also declined, from 52% in 2010 to 44% in 2021. Reflecting Denmark's high level of domestic savings, the country's external position remains sound, with a net international investment position of 72.7% of GDP as of 2021, up from negative 5% in 2008. This is in line with the peer group average.
- **Resilience to shocks:** Denmark's central bank has intervened repeatedly in foreign-exchange markets since October 2019 to support the krone's peg to the euro. It has succeeded in maintaining the peg in line with its primary mandate. Denmark's credible commitment to maintaining its fixed exchange rate is backed by its large official reserves totaling DKK 560.7bn (22% of 2021 GDP) as of September 2022. While the krone is not considered to be a reserve currency, it is seen as a regional safe-haven currency due to the longstanding exchange rate peg.

Overview of Scope's qualitative assessments for Denmark's *External Economic Risks*

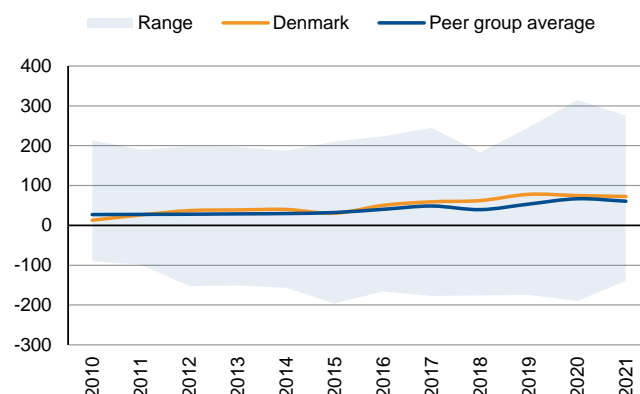
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Neutral	0	Low cyclicality of export composition and external sector competitiveness support current-account resilience.
	External debt structure	Neutral	0	Relatively high external debt, especially in the financial institutions sector
	Resilience to short-term external shocks	Strong	+1/3	Very large net external creditor position, regional safe-haven currency

Current account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



Source: IMF, Scope Ratings

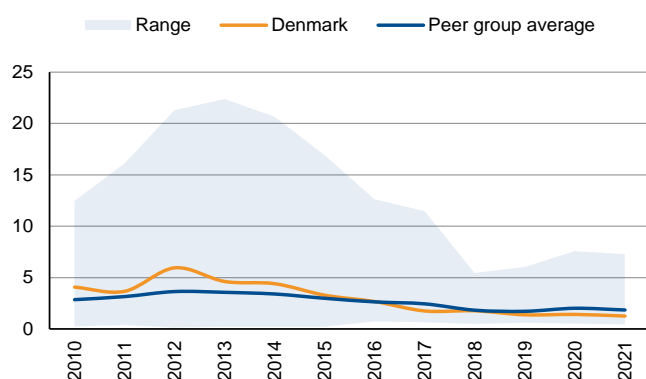
Financial Stability Risks

- **Banking sector:** The banking sector enters the current period of slowing growth and rising inflation from a relatively strong position. The share of non-performing loans stood at 1.2% in 2021 (compared to a 1.8% peer group average) while regulatory Tier 1 capital to risk-weighted assets stood at 20.3% (compared to a 19.1% peer group average). However, there are large differences across credit institutions, and the central bank's semi-annual stress test indicated that some systemic credit institutions come close to breaching the combined capital buffer requirements in a severe recession scenario.
- **Private debt:** Household debt amounted to 248% of net disposable income in 2021, the highest among OECD countries. High levels of mortgage debt have increased vulnerability to rising interest rates, higher unemployment and sharp declines in house prices. However, these risks must be viewed in the context of very high levels of household assets, with Danish households' net worth at 956% of their net disposable income in 2021, the highest level in the OECD. This provides a strong safety net against short-term income shocks.
- **Financial imbalances:** House prices increased by more than 20% in the period between the onset of the pandemic and Q2 2022. The economic slowdown and rising interest rates make a correction in the housing market likely. The central bank's June financial stability report noted the rising number of mortgage loans with deferred amortisation granted by credit institutions, even to homeowners with high loan-to-value ratios. This increases vulnerabilities to a downturn in the housing market, although households' sensitivity to higher interest rates at an aggregate level has fallen in recent years due to a shift towards fixed-rate mortgages. The financial system is exposed to the domestic housing sector, with mortgage banks' real estate lending comprising around 44% of total Danish financial sector assets as of August 2022. Denmark's high level of household savings and assets held in the pension system facilitated the development of the world's largest mortgage-covered bond market. A sharper correction in the housing market could result in spillover effects in Denmark's highly interconnected financial system of mortgage credit institutions, pension funds and insurance companies. The Systemic Risk Council recommended that the countercyclical capital buffer be increased to 2.5% from March 2023, and all systemic credit institutions are expected to meet the higher capital requirements.

Overview of Scope's qualitative assessments for Denmark's *Financial Stability Risks*

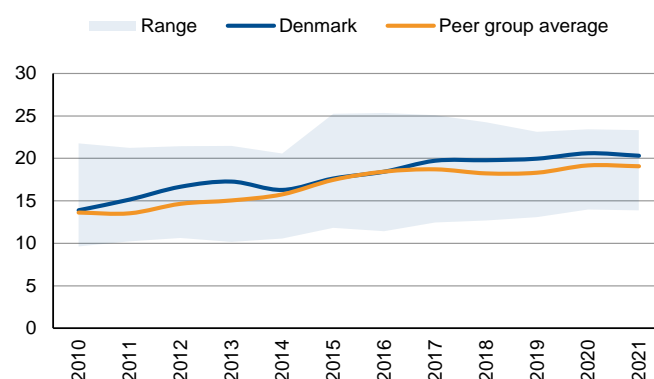
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	High capitalisation levels, stable levels of non-performing loans
	Banking sector oversight	Neutral	0	Prudent oversight under Denmark's central bank and financial supervisory authority; improvements in anti-money laundering/combating the financing of terrorism framework
	Financial imbalances	Weak	-1/3	High private-sector debt, large size of banking sector vis-à-vis the real economy, high interconnectedness in the Danish financial system

Non-performing loans, % of total loans



Source: IMF, Scope Ratings

Tier 1 ratio, % of risk-weighted assets



Source: IMF, Scope Ratings

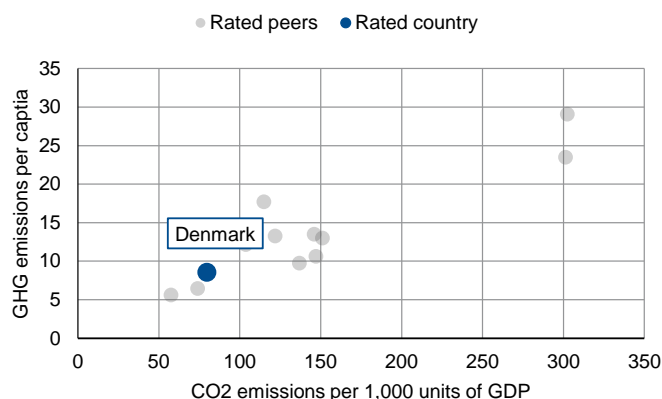
ESG Risks

- **Environment:** Denmark aims to reduce greenhouse gas emissions by 70% by 2030 (relative to 1990 levels) and reach carbon neutrality by 2050. In addition, it has recently set a goal of achieving 100% green gas in heating by 2030 to reduce its dependence on Russian gas. The country has earmarked 60% of its share of the EU's Recovery and Resilience Facility for green initiatives, well above the EU's 37% target. In addition, it issued its first green bond in January with an expected issuance volume of up to DKK 15bn. Around 39% of energy consumption came from renewable sources in 2021, and coal consumption has declined rapidly in recent years, from 19% in 2010 to just 7% in 2021. The Danish Council on Climate Change noted in February 2022 that while the Danish government has adopted significant mitigation measures and climate initiatives, there is still a reduction gap of 10m tonnes of CO₂ to reach the 70% emissions reduction target by 2030, and further policy initiatives will be required to fill this gap. The council suggested introducing a general tax on GHG emissions as the basis of climate policy action in the run-up to 2030.
- **Social:** Denmark benefits from high GDP per capita and an advanced social safety net, which contributes to low income inequality. However, the elevated old-age dependency ratio places rising demands on welfare services, particularly healthcare. Non-EU migrants experience a high jobless rate with persistent employment gaps relative to Danes due to insufficient job qualifications. The 'Denmark can do more' reform plan and greater investment in education and digitalisation should help increase labour market participation in future.
- **Governance:** Prime Minister Mette Frederiksen has called a general election to be held on 1 November following a scandal over the slaughter of the country's entire mink population (17m animals) in 2020. Since gaining representation in parliament requires only 2% of the vote, many political parties are represented (currently more than 10), and minority governments are common, requiring broad coalition-building to pass specific pieces of legislation. A long history of consensus-building therefore supports longer-term policy continuity.

Overview of Scope's qualitative assessments for Denmark's ESG Risks

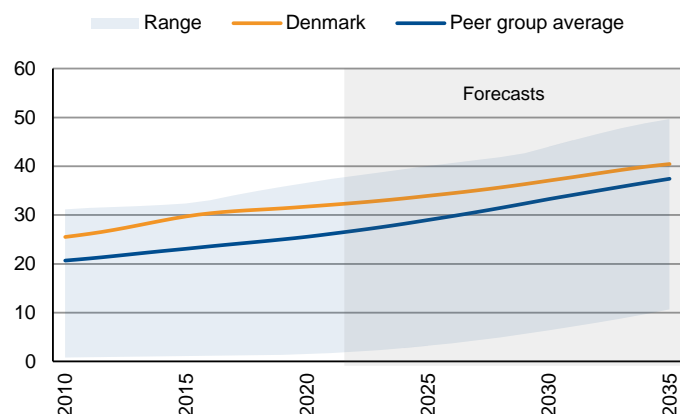
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa+	Environmental factors	Strong	+1/3	Strong environmental standards, ongoing allocation of resources to achieve ambitious long-term targets for carbon neutrality and emissions reduction
	Social factors	Neutral	0	Relatively favourable demographics, well-established social safety nets, inclusive labour market
	Governance factors	Strong	+1/3	High quality institutions, stable political environment

Emissions per GDP and per capita, mtCO₂e



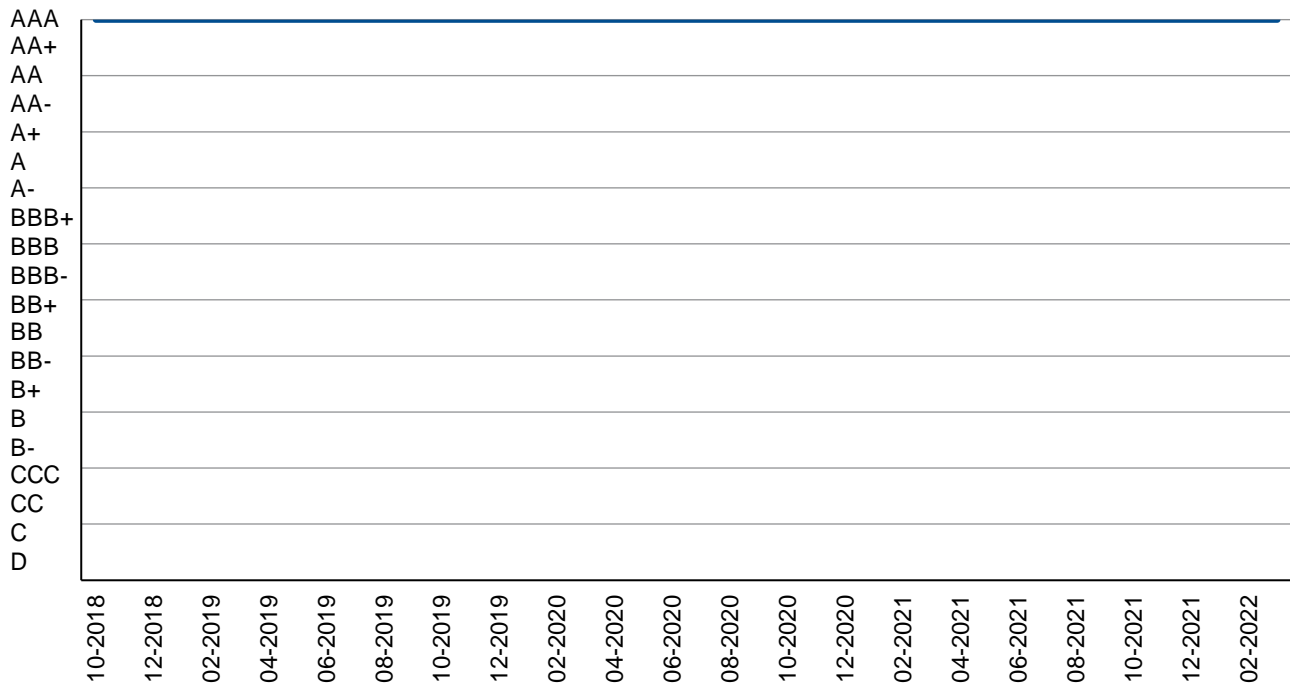
Source: European Commission, Scope Ratings

Old-age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or in adjacent categories per Scope's Core Variable Scorecard, including a methodological reserve-currency adjustment.

Peer group*
Austria
Finland
Germany
Ireland
Luxembourg
Netherlands
Norway
Sweden
Switzerland

*Publicly rated sovereigns only; the full sample may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the Core Variable Scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global peers and may therefore differ from national and other selective international statistics.

Pillar	Core variable	Source	2017	2018	2019	2020	2021
Domestic Economic	GDP per capita, USD '000s	IMF	57,773	61,724	59,862	61,154	67,758
	Nominal GDP, USD bn	IMF	332.1	356.8	347.6	356.1	395.7
	Real growth, %	IMF	2.8	2.0	2.1	-2.1	4.1
	CPI inflation, %	IMF	1.1	0.7	0.7	0.3	1.9
	Unemployment rate, %	WB	5.8	5.1	5.0	5.6	4.8
Public Finance	Public debt, % of GDP	IMF	35.9	34.0	33.6	42.1	37.3
	Interest payment, % of revenue	IMF	-0.2	-0.7	-0.6	-0.6	-0.4
	Primary balance, % of GDP	IMF	1.7	0.4	3.8	-0.5	-0.5
External Economic	Current-account balance, % of GDP	IMF	8.0	7.3	8.8	8.1	8.4
	Total reserves, months of imports	IMF	5.0	4.2	4.0	4.6	4.3
	NIIP, % of GDP	IMF	59.0	62.0	77.4	74.3	72.7
Financial Stability	NPL ratio, % of total loans	IMF	1.7	1.8	1.4	1.4	1.2
	Tier 1 ratio, % of RWA	IMF	17.8	19.0	19.4	19.9	20.2
	Credit to private sector, % of GDP	WB	161.8	161.3	160.9	163.3	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	108.3	105.7	90.3	78.8	-
	Income share of bottom 50%, %	WID	21.7	21.6	21.5	21.4	21.4
	Labour-force participation rate, %	WB	77.9	78.2	79.0	-	-
	Old-age dependency ratio, %	UN	30.8	31.1	31.4	31.7	32.1
	Composite governance indicators*	WB	1.6	1.7	1.7	1.7	-

* Average of the six World Bank Worldwide Governance Indicators

Appendix IV. Economic development and default indicators

IMF Development Classification

Advanced economy

5y USD CDS spread (bps) as of 21 October

16.0



Kingdom of Denmark

Rating Report

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