24 March 2020

Nordic Research

Update no 2: Policy measures in the Nordic countries

This is an update of the research note that we published on *18 March*. We have included a special section on regulatory measures.

There is little doubt that the economic impact of the coronavirus and the measures taken against it is very large for the Nordic countries. Denmark has so far taken the harshest measures with large parts of the public sector, schools, restaurants and shopping malls closed at least until after Easter.

Denmark is also the only country in the Nordics where the government is ready to cover part of the fixed costs for businesses negatively affected.

The measures taken so far aim at both preventing bankruptcies and layoffs and developing policy measures to support liquidity and credit markets. So far, there is less emphasis on stimulating demand through large-scale fiscal easing but we might see more of this in order to support a strong recovery after the crisis. The Nordic countries all have strong public finances, strong credit ratings and well-capitalised banks and all are well positioned to use fiscal policy in the crisis.

The Nordic countries are each different. Norway has an exceptionally strong fiscal position but its economy has exposure to both COVID-19 and the oil price collapse. It is characterised by a large high-yield market. Sweden and Norway have been able to utilise their monetary policy and the currencies have depreciated, supporting competitiveness. In respect of credit measures, we highlight that Norway will reopen a NOK50bn government supported credit fund and the Swedish Riksbank has initiated a SEK300bn QE programme in government bonds, Kommuninvest and covered bonds. It is difficult for the Danish central bank to engage in traditional QE due to the currency peg but the 2008 experience shows it can enact measures that will be supportive of the Danish covered bond market. All central banks have introduced liquidity measures to support market functioning, banks and corporates.

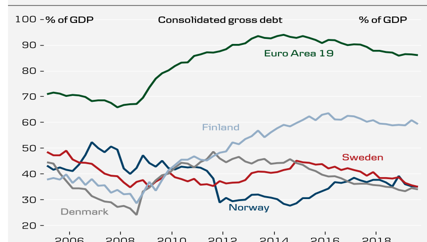
Regulatory measures

Across the Nordic countries, counter-cyclical capital buffer (CCyB) requirements have been lowered, providing banks with additional headroom to continue lending to the economy. In Denmark, the CCyB requirement was lowered from 1.0% (due to rise to 2.0%) to 0.0%; in Sweden it was reduced from 2.5% to 0.0%; and in Norway it was cut from 2.5% to 1.0%. Moreover, financial supervisory authorities in the three countries are allowing banks to make use of their liquidity buffers, by providing them temporary relief from liquidity coverage ratio requirements. In Finland, the systemic risk buffer has been removed, which in combination with reduced bank-specific requirements has led to buffer requirements being lowered by 1pp. Also, Finnish banks may benefit from the measures announced by the ECB on 12 March, whereby banks can operate below the Pillar 2 Guidance and are allowed to meet their Pillar 2 Requirement partly with capital instruments. A temporary relaxation of Liquidity Buffer Requirements was also announced.

Overview

- *Denmark: decisive action to support businesses*
- *Sweden: authorities go full in*
- *Norway: abrupt halt, powerful policy responses*
- *Finland: keeping companies afloat*

Debt-to-GDP at the low end in the Nordics



Source: Danske Bank

Chief Analyst
Arne Lohmann Rasmussen
+45 21 46 2951
arr@danskebank.dk

Chief Analyst
Sverre Holbek
+45 29 27 99 50
holb@danskebank.dk

There is currently significant focus on banks' loan loss provisioning, including the effect of payment holidays being extended to clients. In Denmark, the FSA has stated that such measures will not automatically lead to increased provisioning. Also, relevant for Finnish banks, the ECB announced further measures last Friday that allow banks more flexibility on classification of non-performing loans where guarantees or moratoriums have been put in place by public authorities. The statement from the ECB also encouraged banks to avoid excessive pro-cyclical effects when applying IFRS9 accounting standards on provisioning and to avoid using pro-cyclical assumptions in their models. This is important in our view as it may cushion the negative impact on banks' capital levels from the deterioration in the macroeconomic outlook, and in turn support their lending to the economy.

Another hot theme is banks' payout policies. As capital requirements have been lowered, several regulators have stated that banks should not use the positive effects to increase dividends. However, the Swedish FSA has taken this one step further, by issuing a statement today urging banks to change their dividend proposals and not pay out any dividends in relation to their upcoming annual general meetings. Also, the Danish Ministry of Industry, Business and Financial Affairs and Finance Denmark (a business association for financial companies in Denmark) today published a joint statement saying that Danish banks will reassess previously announced dividends and share buyback programmes. We generally see the Nordic banks as being well capitalised and see this as banks and regulators taking a prudent approach rather than an urgent need for additional capital.

Bank regulation responses to coronavirus in the Nordics including ECB/SSM/EBA measures

Country	Date	Measure
Denmark	24-Mar	Common statement from government and banking association saying banks will reassess already planned dividends and buyback plans. Further initiatives include increased lending facilities and credit lines for corporates and a grace period for certain loan types.
Sweden	24-Mar	S-FSA urges banks to change dividend proposals and not pay out and dividends in relation to upcoming AGMs.
ECB / SSM	20-Mar	Further flexibility to banks on classification of non-perfoming loans allowing banks to benefit from guarantees and moratoriums put in place by public authorities. Banks encouraged to avoid excessive pro-cyclical effects on provisioning when applying IFRS9.
Denmark	19-Mar	D-FSA states that financial institutions may apply to make use of LCR buffers. D-FSA instruction states that forbearance to clients as a result of the COVID-19 situation will not automatically increase provisioning needs.
Iceland	18-Mar	Counter-cyclical buffer rate lowered from 2.0% to 0.0%.
Ireland	18-Mar	Counter-cyclical buffer rate lowered from 1.0% to 0.0%.
Sweden	16-Mar	Temporary relaxation of LCR requirements for individual and total currencies. Breaches should be reported to S-FSA.
Sweden	13-Mar	Counter-cyclical buffer rate lowered from 2.5% to 0.0%.
Norway	13-Mar	Counter-cyclical buffer rate lowered from 2.5% to 1.0%.
Norway	13-Mar	Temporary relaxation of LCR requirements. Breaches should be reported to N-FSA.
EBA	12-Mar	Postponement of EU-wide stress test to 2021. Call for competent authorities to make use of flexibility embedded in current regulation (where appropriate).
ECB / SSM	12-Mar	Banks temporarily allowed to operate with capital below levels defined by Pillar 2 Guidance and Capital Conservation Buffer. Temporary relaxation of LCR requirements. Easing of requirements on composition of capital for Pillar 2 Requirement brought forward.
Denmark	12-Mar	Counter-cyclical buffer rate lowered from 1.0% (due to reach 2.0%) to 0.0%.
Norway	23-Mar	MoF increases quote of mortgages to 20% that may deviate from the amortisation requirements.
Sweden	17-Mar	S-FSA announces that amortisation requirement may be suspended for borrowers facing loss of income.

Source: Danske Bank

Monetary policy measures (updated March 24)

Country	Measures	Rate changes	QE (in national currency)	Liquidity	Initial market impact	Comment
Nationalbanken	Rate hike	+15bp in certificates of deposit rate to -0.60%		New 3m emergency repo facility at -0.35%	Pressure on short-end after rate-hike. Support to DKK.	Possible Cap on OIS rates and Cibor fixings. 3M lending to be supportive for bond market
	3m repo					
Riksbank	QE	O/N rate lowered from 75 bp above repo rate to 20 bp above.	Expanded QE with up to SEK300bn during 2020, which will include SGB's, municipal bond and covered bonds. ~6% of GDP	SEK500bn (10 % of GDP) 2y loans to banks for on-lending to NFC's at the repo rate. 20 % must be onward lending. If not, a 20 bp charge is applied. Normal collateral applies.	Covered bonds tightening significantly	SEK300bn in QE means that the QE portfolio will almost double in size. RB also keeping the door open to buy corporate bonds if needed.
	Long-term repo operations Lowered O/N lending rate Eased collateral rules for covered bonds			Unlimited amount of weekly 3m loans at 20 bp above repo rate. The amount of covered bonds allowed as collateral is raised from 60 % to 80 %.	Likely to ease Stibor pressure	Liquidity measures will ease upward pressure on Stibor. The RB continues to state that it can use all tools at its disposal (we expect eventual cut).
Norges Bank	Rate cut F-loans to banks (liquidity)	-125bp/modest easing bias	No QE but NOK50bn credit fund set up funded by the government (oil money)	Unlimited 3M F-loans to banks (1W, 1M, 3M, 6M and 12M). Interest rate is policy rate for up to 3M, +25bp for 6M, +30np for 12M.	Lower Nibor fixings	More likely that we see more liquidity and credit measures than more rate cuts in our view.

Source: Danske Bank

Macro measures overview

Global fiscal policy responses to coronavirus

Country	Measures	Size	Funding
Denmark	· Schemes where government pays up to 90% of wage for 3 months for workers who are sent home, covers income for self-employed, helps to cover fixed costs · Extend deadlines for payroll taxes and VAT (credit, not fiscal easing) · New CB lending facility · Release of countercyclical buffer · Government payment for sick leave from day 1 · Government guarantee for some corporate debt and airlines · Schemes where government pays up to 90% of wage for 3 months for workers who are sent home, covers income for self-employed, helps to cover fixed costs · Slightly easier access to reduced work time support	Fiscal: DKK 56bn (2.4% of GDP) Credit: Up to DKK 225bn (9.8% of GDP)	Government account and new debt
Sweden	· Businesses will be offered the opportunity to have tax payments for the period January to March repaid. Repaid taxes can be kept for a period of a year (SEK300bn) · Government takes on sick leave expenses for 2 months April-May (SEK2bn per month) · Shortened work-week where employers costs are reduced by up to 50% while employees keep 90% of wages (SEK2.4bn) · Municipalities and regions will be compensated for extraordinary costs due to coronavirus. (SEK1bn) · Government offers credit guarantees worth a maximum SEK5bn to airlines. · Extra support to different Health Agencies. (SEK66m) . Increased loan facilities and credit guarantees for Swedish businesses.	Credit: SEK 305 bn (6.1% of GDP) Fiscal: SEK 8 bn (0.02% of GDP)	Government debt
Norway	· Government pays for the first 20 days for temporary lay-offs; employer period for sick pay and car allowance is reduced to 3 days; income guarantee of 80 % of (last 3 years) income for self-employed & freelancers ;sickness benefits & care allowance for self-employed & freelancers · Corporate deficits can be written off against tax on surpluses from previous years · Postponement of wealth tax for owners of corporates now running deficits · Temporary tax relief for airlines, drop in both passenger tariffs and airport tariffs · Government loan guarantee specifically aimed at SMEs (NOK50bn) and reintroduction of Government Bond Fund (NOK50bn) · Reduction of employee's tax by 4 pp. for 2 months · VAT reduction (lower bar) reduced from 12 % to 8 % from January 1. · NOK 6 bn guarentee to airlines	Fiscal: Open-ended but scheduled NOK 65 bn (2.3 % of GDP) Credit: NOK 100.5bn (3.3.% of GDP)	Proceeds from oil fund
Finland	· Additional budget worth EUR 400 million to business aid and healthcare · Deferred corporate tax and pension payments (temporary, worth 3-4 billion) · Finnvera gets EUR 10 billion additional loan guarantee limit to help businesses · State Pension Fund will buy EUR 1bn of commercial paper	EUR 3bn (1.3% per GDP)	Government debt

Source: Danske Bank

Denmark: decisive action to support businesses

Denmark was a few days ahead of the other Nordic countries in implementing measures to halt the new coronavirus and followed up with a series of policies aimed at reducing the number of jobs and businesses that are lost. The measures represent a fiscal easing but there is no monetary easing. We believe Denmark will have to do more to support aggregate demand and ensure a strong recovery after it has fought the virus outbreak. In our opinion, the Danish government is well placed to do so, as there is no net public debt.

We have no good data about the economic impact at this point except that the number of layoffs is very high. Compared with the other Nordic countries, Denmark has greater exposure to a decline in tourism. Danish exports, on the other hand, are dominated by pharmaceuticals, food and windmills and much less cyclical than in the other countries.

Fiscal measures

The Danish government and a united Parliament has launched several measures since it closed down a large part of the economy on 11 March, with further restrictions since. Together, these represent an expected cost to the government of DKK56bn, or 2.4% of annual GDP. By Danish standards, it is very unusual to spend so much money in such a short time with very little debate or analysis. Among the largest element is that the government will pay up to 90% of wages for staff who are temporarily redundant under certain conditions. Among the conditions are that the employer loses the right to lay off staff and that the employees will have to use some of their vacation time. There is also support for helping businesses cover their fixed costs. The government negotiated this deal with the employee and employer organisations in only two days, which is also very unusual.

The government will also provide support to help firms deal with fixed costs and to help the self-employed. This is not something we have seen in other Nordic countries. Another initiative is that the government will suspend the rule that employers have to pay sick pay for the first 30 days before public payment takes over. The self-employed can get sick pay from the first day instead of after two weeks. There is already an option to reduce working time and let employees receive supplementary unemployment benefit but this now becomes easier to use.

Liquidity provisions

The Danish government has released the counter-cyclical capital buffer (down to zero). It is currently 1.0% and was due to increase to 1.5% at the end of June and 2.0% at the end of December. This will allow banks to expand credit to some extent. Danmarks Nationalbanken has announced an extraordinary 3M lending facility, allowing banks to borrow at -0.35% instead of the regular lending rate of 0% against collateral. In practice, there is a large deposit surplus in the banking system and not much demand for borrowing but this facility will put a cap on interest rates in a stress situation. Danmarks Nationalbank hopes that the 3M facility will support ‘a well-functioning bond market’. This is highly needed, as we see a significant widening of spreads in the Danish covered bond market.

The government has also taken initiatives to increase liquidity. Companies can postpone payments of payroll taxes and VAT for up to four months. This could potentially add DKK165bn of credit but the uptake is likely to be much lower as companies face negative deposit rates at banks. The government also intends to launch a guarantee initiative for businesses that have lost 50% of business due to the COVID-19 outbreak. They can get a government guarantee for 70% of new borrowing. For SMEs, it seems that it will be free

Chief Economist
Las Olsen
+45 45 12 85 36
laso@danskebank.dk

Chief Analyst
Arne Lohmann Rasmussen
+45 45 12 85 32
arr@danskebank.dk

and the government expects a credit loss of DKK1bn. For larger businesses, it will be at 'market price'. We have no details on how it will work in practice yet.

Monetary policy measures

Monetary policy in Denmark targets only the exchange rate peg to EUR and as the ECB has not cut rates, we do not expect a rate cut in Denmark. On the contrary, we saw a 15bp rate hike last week from the Danmarks Nationalbank to -0.60%. In the context of Denmark's fixed exchange rate policy, the interest rate increase follows Danmarks Nationalbank's sale of foreign exchange in the market.

Importantly, Nationalbanken has introduced extraordinary lending. The lending facility makes it possible for monetary policy counterparties to take one-week loans against collateral with an interest rate of now -0.35% after the 15bp rate hike last week. In our view, the new lending facility will ensure the banking sector's access to liquidity on favourable terms should the effects of the spread of the coronavirus outbreak have an impact on the liquidity situation in the Danish banking sector (see also *FX/FI Strategy Denmark: Danish central bank introduces new lending facility*, 12 March).

Danish businesses also faces pressure from a stronger DKK in trade-weighted terms, as currencies such as the USD, NOK and SEK have weakened since the start of the coronavirus crisis.

Mortgage rates are rising in Denmark

What can the Danish Central Bank do if the crisis worsens and mortgage rates increase? There is currently no QE in Denmark and it is difficult to implement with the currency peg. However, in 2008, the Danish Central took various measures to stabilise the market, as discussed below.

In 2008, we saw an increase in the amount that banks took on the weekly repo facility, where banks could borrow against collateral such as government bonds and mortgage bonds. Furthermore, the Danish Central Bank also bought 1Y non-callable mortgage bonds at the refinancing auction, as the Ministry for Housing had some DKK25bn in 1Y loans that needed to be refinanced at the auction in November/December 2008. It financed this through the sale of T-bills, so it was a form of 'sterilised QE'.

Together with the change in the discount curve for the life insurance and pension funds, where the Danish FSA included the OAS on Danish mortgage bonds (it used the Nykredit liquid mortgage index OAS), this stabilised the Danish mortgage market. The reason for including the mortgage OAS was to stop the life insurance companies and pension funds from selling callable mortgage bonds. If it had included the OAS, there would be a better match between the liabilities and assets of the Danish life and pensions sector.

The current discount curve already has the OAS embedded in the curve, so the liabilities to some extent follow the assets. The repo facility has not been used since early 2009 and a potential reintroduction of this is likely to be supportive. Furthermore, the Danish Central Bank could again introduce a 'switch facility', where investors get T-bills and give the Danish Central Bank mortgage bonds.

Finally, a Danish QE programme for example to support the mortgage bond market should not be completely ruled out despite the Danish peg. It would probably be more of a credit-easing programme as the central bank might have to counteract the extra liquidity partly or fully by foreign exchange intervention. The QE programmes in the eurozone might allow also for a QE programme in Denmark as they expand EUR liquidity relative to DKK liquidity.

Sweden: authorities go full in

There is very little data yet from which to gauge the coronavirus outbreak's impact on the economy. However, the Public Employment Service (PES) says that in the first three weeks of March lay-offs rose by over 18,000, a pace not seen since the 2008-09 financial crisis. Of these, 55% were in the Stockholm region and 70% were in hotel/restaurant and travel services branches. This is probably enough to conclude that these sectors and maybe parts of retail trade seeing plunging sales and revenues due to restrictions and lockdowns are responding to the bankruptcy threat by cutting staff. If this continues unabated, there is a risk of a vicious circle.

Fiscal measures

Swedish Government measures to cope with the negative effects of the coronavirus outbreak focus largely on retaining sufficient (working capital) liquidity in non-financial companies. The aim is to bridge what we hope is a temporary period when corporate revenues vanish and companies are stuck with the costs. The idea is to avoid shedding of labour and bankruptcy, particularly for businesses that lack cash.

The main vehicle for this is tax deferral for up to a year for up to three months of taxes. The government is ready to repay taxes paid in January to March. Used in full, the measure amounts to SEK300bn (6% of GDP). Other measures complement it, such as the government paying sick pay for two months (and the abolishment of the qualifying day for this), the introduction of a 'short work week' scheme where the cost is split between government, employers and employees.

Critics have pointed out that the in reality tax deferral is a very expensive loan.

The Swedish Debt Office announced a SEK5bn government guarantee for airlines, of which it designated SEK1.5bn for SAS.

The government has increased loan facilities and credit guarantees in order to support SMEs. Also, the government has announced that an extra package will come, the question is when.

Financial Supervisory Authority measures

The Swedish FSA has reduced banks' counter-cyclical capital buffer from 2.5% to 0.0%. This cuts the buffer by SEK53bn, which would permit Swedish banks including Danske Bank and Nordea to expand lending by an estimated SEK1,200bn.

This is a preventive measure to ensure that binding capital requirements do not limit banks' ability and willingness to lend to businesses and households.

Monetary policy measures

The Riksbank has launched several measures aimed at securing well-functioning credit supply to business via cheap and abundant bank liquidity.

For this purpose, the Riksbank first launched a SEK500bn (10% of GDP) two-year loan facility to banks, available at the repo rate. It intends this for onward lending and banks must lend 20% to NFCs or the Riksbank will apply a 20bp charge. For instance, this would apply if banks used it for their own funding. Normal collateral rules apply. Second, Riksbank launched a SEK300bn extension of the current government bond QE programme (SEK345bn). The new programme is for 2020 and comprises government, municipal and covered bonds. Very preliminarily, we estimate about a third in each bond type. Third, the Riksbank now offers o/n lending at a reduced repo rate plus 20bp and an unlimited amount of weekly issued 3M loans

Chief Economist Sweden
Michael Grahn
+46 8 568 80587
mika@danskebank.dk

at the same rate. The Riksbank has relaxed collateral rules so that 80% of total collateral can now be covered bonds (previously 60%), although haircuts remain unchanged.

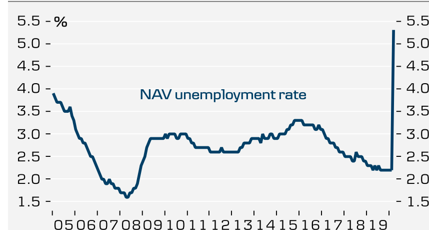
The critical point concerning both the FSA and Riksbank's measures is to what extent banks will be ready to take on credit risk for companies reeling from the impact of the lockdown. Hence, we believe backing up these loans with some form of government loan guarantee would probably be a good idea.

Norway: abrupt halt, powerful policy responses

Currently, large parts of the economy have closed, including most of the service sector and the public sector including kindergartens, schools, universities, etc. Children of parents with 'critical functions', including in the health sectors will be entitled to alternative childcare. All cultural and sports events are closed and all organised sports exercise has stopped. Retail trade, including food stores, will remain open and there are increasing restrictions on visiting health institutions. Two weeks quarantine is necessary for everyone returning from countries outside the Nordic countries, as from 27 February.

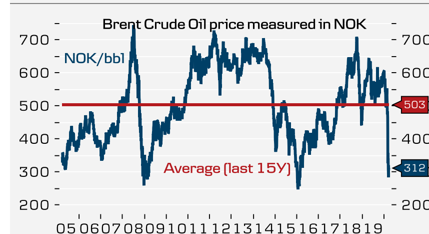
In addition, there are signs of complete or partial shutdowns outside these sectors due to a lack of labour or a lack of demand. Since 9 March, NAV has received 246K applications for unemployment benefits – corresponding to 8% of the labour force – of which 91% are for temporary unemployment benefits ('permittering'). This has consequently sent the unemployment rate sharply higher (see margin chart).

Applications for temporary unemployment benefits suggest sharp upside risk for unemployment rates



Source: Macrobond Financial, Danske Bank

Downside risks have risen sharply



Note: Past performance is not a reliable indicator of future results
Source: Bloomberg, Danske Bank

Fiscal measures

The government and parliament have taken strong action to mitigate the negative effects of the measures introduced to halt the spread of the coronavirus. In our view, the most important, aiming to secure liquidity for companies and income protection for households, are as follows

- Full pay for (a minimum) 20 days from temporary lay-off. The government covers day three to day 20. After day 20 of the layoff period, the government will introduce a scheme that guarantees people an income of at least 80% of the daily allowance basis up to 3G (1G or one *grundbelø*" is slightly below NOK100,000) and 62.4% of the daily allowance basis over 3G and up to 6G.
- The employer period for sick pay is cut to three days (coronavirus related) from 14 days.
- Self-employed persons and freelancers shall be paid sickness benefits from day four and benefits equivalent to 80% of the average of the past three years income up to 6G. The compensation occurs from day 17 after the loss of income.
- The employer period for the payment of care allowance is reduced to three days. Self-employed persons and freelancers shall receive a care allowance from day three.
- Corporate deficits can be written off against tax on surpluses from previous years.
- Postponement of wealth tax for owners of corporates now running deficits.
- Reduction in VAT (lower part) from 12% to 8% as from 1 January.
- Temporary tax relief for airlines and a reduction in in both passenger and airport tariffs.
- NOK6bn guarantee to airline industry

The government has announced two new loan measures with a total limit of at least NOK100bn: a government loan guarantee specifically aimed at new bank loans to small and medium-sized businesses at NOK50bn (more if needed) and a reintroduction of the Government Bond Fund with a limit of up to NOK50bn. The fund would be under the control of Folketrygdfondet, which also manages the Government Pension Fund Norway, not to be mistaken with the oil fund. The mandate of the bond fund still needs to be written into law. Given the urgency of the COVID-19 crisis, we expect this to happen more quickly than in 2009, when it took four weeks, as it can use significant parts of the 2009 law.

Senior Analyst
Kristoffer Kjær Lomholt
+45 45 12 85 29
klom@danskebank.dk
@Lomholt10

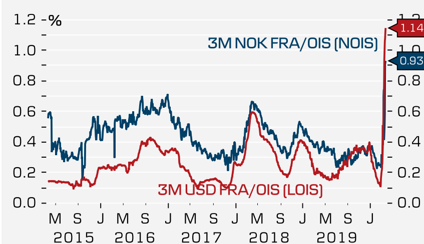
Chief Economist
Frank Jullum
+47 45 25 85 29
fju@danskebank.no

Liquidity provisions

Norway has taken several liquidity initiatives. First, on 12 March, Norges Bank's announced a *decision* to provide banks with unlimited 3M F-loans for 'as long as is deemed appropriate'. Later on 19 March the F-loan provisions were extended in both auction frequency and tenors. The interest rate on the loans are the sight deposit rate for 1W, 1M and 3M, sight deposit rate + 15bp for 6M and finally the sight deposit rate +30bp for 12M. The F-loan provision is a very direct way of addressing the NOK liquidity squeeze. We have since seen a stabilisation but NOK FRA/OIS is still trading at elevated levels which is partly due to the price of offshore USD.

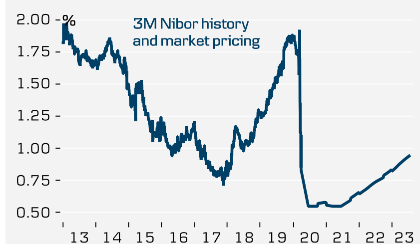
Second, the government loan and credit measures mentioned above are targeted directly at improving the liquidity situation for Norwegian businesses, both large and small.

Norges Bank has proved unlimited 3M F-loans to banks



Note: Past performance is not a reliable indicator of future results
Source: Macrobond Financial, Danske Bank

We think we have reached the bottom in short rates in Norway



Note: Past performance is not a reliable indicator of future results
Source: Macrobond Financial, Danske Bank

Monetary policy measures

Via two separate announcements, Norges Bank has cut policy rates by 125bp over the past weeks bringing the sight deposit rate to 0.25% – a new historical low. Norges Bank's latest statement (see *here*) did not rule out additional rate cuts but we think the bar for cutting rates further is high and the probability of negative rates is miniscule.

We think this fairly recent speech by Governor Olsen is very relevant in evaluating what the next steps for Norges Bank could be: *'The monetary policy toolkit',* 8 October 2019. In short, it shows why negative rates and QE in government bonds are much less likely than additional liquidity and credit measures in our view.

Regulation

On 13 March Norges Bank advised the Ministry of Finance to reduce the countercyclical buffer for banks from 2.5% to 1.0%. The Ministry of Finance followed this advice. In the press release Norges Bank concluded that 'The Committee does not expect to advise the Ministry to increase the buffer rate again until 2021 Q1 at the earliest.'

On 23 March the flexibility quota for the mortgage regulation was temporarily extended to 20% for the whole of the country. Previously, the quotas were 8% in Oslo and 10% for the rest of the country. The change will only apply for Q2 20 but it can be extended.

Finland: keeping companies afloat

COVID-19 has hit the Finnish economy hard. The export outlook is murky and investment activity very cautious. Companies have temporarily laid off staff in massive numbers (close to 100,000 already) and actual unemployment is also set to rise. However, the labour market was relatively strong before the crisis. Private consumption is falling, with the consumption of services set decrease significantly. Finnish GDP is likely to shrink in 2020, maybe as much as 5% in a bad scenario. We would expect a recovery in 2021 if the global outlook improves. So far, most announced economic policy measures aim to keep companies alive through a short crisis. In our opinion, the economic crisis and following fiscal stimulus will widen the public deficit and increase government issuance by several billion euro. We estimate the debt-to-GDP ratio will jump above 60% in 2020.

Fiscal measures

The government has announced an additional budget worth EUR400m. Half of the money is to be used for general business aid and half for sectors critical for health and wellbeing. Government institutions like Business Finland will aim the money mostly to aid companies in the worst affected industries in order to avoid bankruptcies. Additional money to stimulate is the economy is to be expected this year.

The government has promised to help municipalities in cash crisis to avoid layoffs.

Entrepreneurs and freelancers will get unemployment benefits (missing now) temporarily.

Companies can temporarily lay people off faster (down to 5 days from 14 days).

Employees will get unemployment benefits faster without a waiting period. Automatic stabilisers will take care of much of the household financial stress.

Liquidity provisions

Corporate pension payments and corporate tax payment will be deferred to a later date. This is worth EUR3-4.5bn as a temporary relief to help cash constrained businesses.

Finnvera’s (government guarantee and export finance agency) loan guarantee limit will be raised by EUR10bn (airline Finnair will get a EUR600m guarantee) to EUR12bn. Banks are able to lend more especially to small and medium sized companies.

The State Pension Fund will buy EUR1bn worth of commercial paper.

The Bank of Finland has decided to help companies through a domestic commercial paper purchase programme of EUR1bn.

Monetary policy measures

The ECB has already announced a number of policy tools such as TLTRO3. For more on measures from the ECB, see *The Big Picture - Global fiscal and monetary responses to COVID-19*, 18 March.

The Finnish FSA has decided to lower Finnish credit institutions’ capital requirements by removing the systemic risk buffer and by adjusting credit institution-specific requirements so that the structural buffer requirements of all credit institutions will fall by 1 percentage point. The decision is estimated to increase the imputed lending capacity of Finnish credit institutions to businesses and households by EUR30bn.

Chief Economist
Pasi Petteri Kuoppamäki
+358 50 424 0025
paku@danskebank.dk

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Arne Lohmann Rasmussen (Chief Analyst), Sverre Holbek (Chief Analyst), Las Olsen (Chief Economist), Michael Grahn (Chief Economist Sweden), Kristoffer Kjær Lomholt (Senior Analyst), Frank Jullum (Chief Economist) and Pasi Kuoppamäki (Chief Economist).

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