

## Danish banking sector outlook to stable from negative

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Nordic Credit Rating (NCR) said today that it had revised its outlook on the Danish banking sector to stable from negative, while affirming its 'bbb+' assessment of the industry.

In our last review of the sector earlier this year, we revised our assessment score down by one notch to its current level (see [National banking market assessment Denmark](#), published 17 Jun. 2020), mainly to reflect the initial impact of COVID-19 on the sector.

The stable outlook reflects our expectations of a flatter U-shaped recovery rather than the sharp V- or, in the worst case, W-shaped rebound that we anticipated previously. In our view, countries and markets are better prepared for any renewed upsurge in COVID-19, while localised outbreaks should prove easier to manage than national shutdowns. In August, the Danish government revised GDP projections for 2020 and 2021 upwards and announced a budget that includes DKK 9bn in COVID-19 related stimulus in 2021, allowing for continued support for the most vulnerable sectors and individuals.

Some Danish lenders have raised earnings guidance for 2020 after publishing second-quarter results. The country's banks have reported credit losses based on economic projections, increasing buffers against future actual losses reducing the need for further provisions for the rest of the year. Danish banks have also cancelled or reduced dividends for 2019, further improving their capital buffers. Housing prices have grown faster than expected, which is an important component of consumer sentiment given the relatively high level of residential housing debt in Denmark.

Considering our downward revision of Danish banks' operating environment in June, NCR now believes that the remaining risk factors are more likely to affect individual institutions or banks than the wider banking sector and are better reflected in the outlooks and ratings on individual banks. Key remaining concerns include external issues with supply chains, long-term shutdowns or low production levels (under which furloughs could become layoffs), increasing corporate default, and the longer-term impact of changing market dynamics on commercial property prices.

A national banking sector assessment is a component of NCR's issuer ratings on financial institutions operating in that country. Depending on the nature of the rated entity's exposure and geographic profile, the score can affect up to 20% of the overall credit rating on an issuer.

**Denmark – scoring of national indicators (previous score in parentheses)**

SUBFACTOR	SCORE	RATIONALE
Sovereign strength	aa	Major credit rating agency average: AAA.
Output growth	bb	We expect negative economic growth in 2020 due to COVID-19, but note that a rebound is already underway and expect positive growth in 2021.
Credit growth	bbb	Credit growth has been lower than GDP growth in recent years, but has outpaced it in 2020 due to the substantial GDP decline related to COVID-19.
Housing prices	bbb	Housing prices have shown moderate growth, which we expect to continue.
Unemployment	bbb	We expect domestic unemployment to remain elevated in comparison with historic levels, but lower than international levels.
Available stable funding	aa	Available stable funding in the form of deposits and domestic covered bonds exceeds monetary financial institution private-sector loans by a good margin at both a consolidated level and at individual banks and mortgage companies.
International cycle	bb (b)	Global growth prospects are weakening, though supported by significant monetary stimulus. We expect a rebound in 2021. Asset prices are at or near their peak levels in our view.

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