19 March 2020

Nordic Research

Policy measures in the Nordic countries

There is no doubt in our minds that the economic impact of the new coronavirus and the measures taken against it is very large for the Nordic countries. 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.

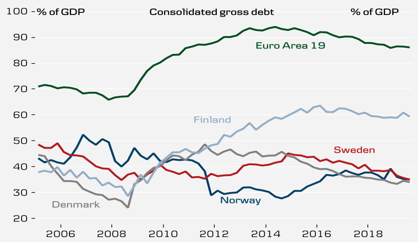
The Nordic countries are each different. Norway has an exceptionally strong fiscal position but its economy has exposure to both the COVID-19 outbreak and the oil price collapse. Norway is characterised by a large high-yield market. Sweden and Norway have been able to utilise their monetary policy and the currencies have depreciated, supporting competiveness. 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 experience from 2008 shows it can enact measures that will be supportive for the Danish covered bond market. All central banks have introduced liquidity measures to support market functioning, banks and corporates.

The counter-cyclical buffers have been lowered to zero percent in Denmark and Sweden and from 2.5% to 1.0% in Norway. In Finland, the counter-cyclical capital buffer rate was already set at zero but here the FSA has lowered the systemic risk buffer as well as bank-specific requirements, effectively lowering the capital requirement by 1% (in addition to the relaxation of capital requirements announced by the ECB last week).

Overview

- *Denmark: decisive action*
- *Sweden: authorities go full in*
- *Norway: powerful policy responses*
- *Finland: keeping companies afloat*

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



Source: Danske Bank

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Monetary policy measures and bank regulation in Denmark, Sweden and Norway (updated March 19)

Country	Date	Measures	Rate changes	QE (in national currency)	Liquidity	Initial market impact	Comment	Bank regulation
Riksbank	16.Mar	QE Long-term repo operations Lowered O/N lending rate Eased collateral rules for covered bonds	O/N rate lowered from 75 bp above repo rate to 20 bp above.	Expanded QE with up to SEK 300 bn during 2020, which will include SGB's, municipal bond and covered bonds. ˜6% of GDP	SEK 500 bn (10 % of GDP) 2y loans to banks for on-lending to NFC's at the repo rate. 20 % must be on-ward lending. If not, a 20 bp charge is applied. Normal collateral applies. 4) 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 %.	Covered bonds tightening significantly Likely to ease Stibor pressure	300bn in QE means that the QE portfolio will almost doublein size. RB also keeps the door open to buy corporate bonds if needed. Liquidity measures will ease upward pressure on Stibor. The RB continues to state that they can use all tools at their disposal (we expect eventual cut).	Counter-cyclical buffer lowered to zero
Norges Bank	19.Mar	Rate cut, unlimited F-loans to banks (liquidity)	-50bp/easing bias	No QE but NOK 50bn 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	Risks are skewed towards more action via rate cuts	Counter-cyclical buffer lowered to zero
Nationalbanken	18.Mar	Lending facility	Lending facility at -0.50%		extraordinary lending facility will be launched. The lending facility makes it possible for monetary policy counterparts to take 1-week loans against collateral with an interest rate of -0.50%	Cap on OIS rates and Cibor fixings		Counter-cyclical buffer lowered to zero

Source: Danske Bank

Macro measures overview

Global fiscal policy responses to corona virus			
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. (SEK 300bn) - Government takes on sick leave expenses for 2 months April-May (SEK 2bn per month) - Shortened work-week where employers costs are reduced by up to 50% while employees keep 90% of wages (SEK 2.4bn) - Municipalities and regions will be compensated for extraordinary costs due to corona. (SEK1bn) - Government offer credit guarantees worth a maximum SEK5bn to airlines. - Extra support to different Health Agencies. (SEK66m)	SEK 300bn (6% 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 3d; 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 (NOK 50 bn) and reintroduction of Government Bond Fund (NOK 50 bn) - Reduction of employee's tax by 4 pp. for 2 months	Fiscal: Open-ended but scheduled NOK 16.5bn (0.5% of GDP) Credit: NOK 100bn (3.3% of GDP)	Proceeds from oil fund
Finland	- EUR 27 million in extra spending on health care and 73 million to stave off acute corporate funding pressures - Deferred corporate tax payments - State Pension Fund will buy EUR 1bn of commercial paper - The government will increase capacity to guarantee loans to SMEs - Business Finland will provide emergency aid to companies in worst affected industries	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. 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. 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 lending facility, allowing banks to borrow at -0.5% instead of the regular lending rate of 0%. 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.

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 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.

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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 might see a small (10bp) rate hike, as the DKK has been on the weak side since October.

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 -0.50%. 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.

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.

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 two weeks of March lay-offs rose by 4,700, a pace not seen since the 2008-09 financial crisis. Of these, 75% were in the Stockholm region and 75% 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.

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 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.

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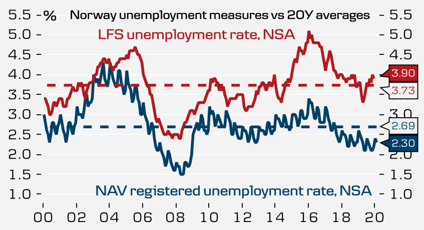
The critical point concerning both the FSA and Riksbank's measures is to what extent banks will be ready to take on credit risk for companies reeling from the impact of the lockdown. Hence, we believe backing up these loans with some form of government loan guarantee would probably be a good idea.

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. In five days, NAV has received 45,000 applications for temporary unemployment benefit), more than over the entire financial crisis. We cautiously expect the number of temporary lay-offs to increase to between 100,000 and 200,000, taking the registered NAV unemployment rate from the current 2.2% seasonally adjusted to 6-9%.

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



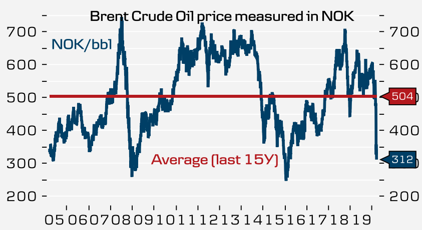
Source: Macrobond Financial, Danske Bank

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.

Downside risks have risen sharply



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

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.

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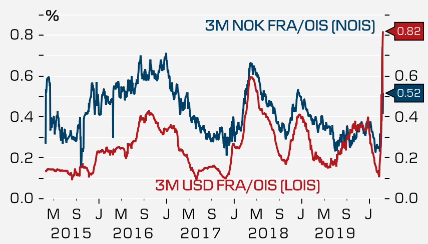
Liquidity provisions

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'. This is a very direct way of addressing the NOK liquidity squeeze that drove Nibor fixings substantially higher last week. We have since seen a stabilisation but NOK FRA/OIS is still trading at a slightly elevated level due to the elevated price of offshore USD.

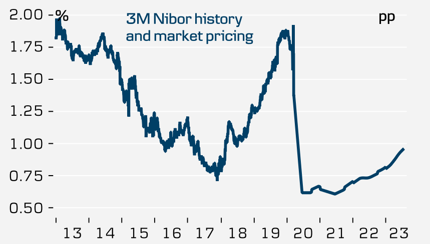
Second, the government loan and credit measures mentioned above are targeted directly at improving the liquidity situation for Norwegian businesses, both large and small.

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

Markets are right in pricing in more aggressive easing from Norges Bank



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

Monetary policy measures

On Friday, Norges Bank moved forward its scheduled 19 March monetary policy meeting as a direct response to the COVID-19 outbreak. The bank cut policy rates by 50bp (sight deposit rate to 1.00%) and introduced an explicit 30bp easing bias in the rate path. Specifically, Norges Bank signalled a 100% probability of a Q2 rate cut (implicitly indicated for June) and another 5bp worth of cuts for Q3. This communication is very similar to the rate paths in the aftermath of the oil price decline of 2014: guarantee a 25bp rate cut in forthcoming quarter and signal a probability of more to come even if the rate path embeds a U-shape.

In isolation, the substantial NOK weakness, the announcement of unlimited F-loans (see *here*) and, not least, the fiscal responses (see overleaf) are arguments for the 'wait-and-see' approach pencilled in the Monetary Policy Report (MPR) from last week. Meanwhile, the cut-off of the MPR was Wednesday 11 March, so it was already outdated when Norges Bank announced its emergency rate cut on Friday morning. Indeed, at the press conference, Øystein Olsen's communication clearly indicated a rising concern that the central bank's economic projections had already become outdated in a day. Since Friday, the downside risks have only risen.

We now expect Norges Bank to cut rates by another 50bp to 0.50%, which was the rate bottom in the easing cycle that followed the oil price shock of 2014. The timing of this cut is very tricky but we cannot rule out the cut coming as soon as in the coming sessions. Either way, we believe the cut will come before the June meeting. In our base case, this will mark the rate bottom but we cannot rule out one additional 25bp cut in June.

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 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 worst-case 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 fiscal policy measures announced so far include around EUR27m in extra spending on healthcare and around EUR73m to stave off acute corporate funding pressures.

Business Finland, the official R&D funding agency, will offer emergency aid to companies in the worst affected industries (some tens of million).

The Finnish government could use a EUR1bn additional stimulus mechanism written into the government programme, if the economy is hit hard, e.g. if GDP contracts by at least 1% in two consecutive quarters. It can use this mechanism to boost aggregate demand, infrastructure construction for example, and might activate it in April.

Automatic stabilisers, mostly unemployment benefits, will take care much of the household financial stress.

Liquidity provisions

The government will defer corporate tax payments until a later date.

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

The government will increase Finnvera's (state-owned financing company, the official export credit agency) capacity to guarantee loans to small and medium-sized companies by EUR2bn to around EUR4bn.

The Bank of Finland has decided to help companies through a domestic commercial paper purchase programme of EUR500m.

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.

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Disclosures

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Expected updates

None.

Date of first publication

See the front page of this research report for the date of first publication.

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