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Nordic Research

Update 3: Policy measures in the Nordic countries

The policy measures taken so far in the Nordic countries aim at preventing bankruptcies and layoffs and developing policy measures to support liquidity and credit markets and to ease monetary conditions in general. In this document, we give an overview of the measures introduced in the Nordic countries. **This is an update of *Nordic Research – Update no 2: Policy measures in the Nordic countries*, published on 24 March.**

So far, there has been 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. 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 has reopened a NOK50bn government supported credit fund and the Swedish Riksbank has initiated a SEK300bn QE programme in government bonds, Kommuninvest, covered bonds and now corporate bonds. In Finland, the State Pension Fund will buy EUR1bn in commercial paper. It is difficult for the Danish central bank to engage in traditional QE due to the currency peg but, in our view, the new lending facility at -0.35% should be supportive for the bond market. All central banks have introduced liquidity measures to support market functioning, banks and corporates.

However, the new fiscal and liquidity measures have to be funded and Denmark, Sweden and Norway have published new supply outlooks for issuance of government bonds and T-bills and other funding sources. In particular, over the next couple of months, all four countries need to bridge a significant funding gap given the decline in tax/VAT income and measures that postpone and, in some circumstances, pay back old taxes/VAT to companies. For more, see *Nordic Research – Overview of government bond supply*, 17 April.

There is little doubt in our minds that the economic impact of the coronavirus and the measures taken against it is very large for the Nordic countries. However, after the introduction of harsh measures at the beginning of March, we have now seen the first steps towards reopening economies. In Denmark, kindergartens and schools for children up to fifth grade have reopened and small businesses such as hairdressers and typically health services with one-to-one contact can now reopen. In Norway, kindergartens have also reopened and schools will partly reopen next week. Norway has removed the ban on travelling to leisure cottages. Norway has provided detailed estimates of the economic and health consequences of different reopening strategies.

However, we have also moved to the phase where the consequences and support measures are very visible in activity indicators, not least the labour market, where the number of unemployed and people of different support measures has increased sharply in all four Nordic countries. In Denmark alone, the number of unemployed has jumped by 46,000 and the number of people in the wage support scheme is 150,000 people.

Overview

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

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In Norway, close to 400,000 people have claimed unemployment benefits, of whom 350,000 are temporarily unemployed. In Sweden, despite seeing less harsh lockdown-measures, the number of unemployed jumped by 46,000 in March alone and from 7 April to 17 April, 190,000 persons had a reduced workweek. In Finland, companies have laid off more than 140,000 people temporarily under government-sponsored labour market support schemes.

We have seen no new major packages since Easter but, in general, the pattern is that countries extend their support programmes as the lockdown extends both locally and globally. For example, Denmark has extended measures to compensate businesses for fixed cost by one month.

Regulatory focus

We have recently seen renewed focus on the regulatory side. The counter-cyclical capital buffer (CCyB) requirements have already been lowered across the Nordic countries, 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. Finland has removed the systemic risk buffer, which in combination with reduced bank-specific requirements has led to the lowering of buffer requirements by 1pp.

In Sweden, the Debt Office decided on 7 April to extend the phase-in period for the banks to meet MREL with own funds and subordinated liabilities to 2024, from 2022 previously. It is taking the measure to facilitate the banks' ability to support the credit supply to businesses and households.

On household mortgage lending, the flexibility quota for the mortgage regulation has temporarily extended to 20% in Norway. Previously, the quotas were 8% in Oslo and 10% for the rest of the country. In Sweden, the FSA has announced that banks can suspend the amortisation requirement for all mortgagors until end-June 2021.

Finally, the Norwegian government has also proposed a change in the bankruptcy law to allow troubled companies a longer period before they enter bankruptcy. In this respect, it is moving towards a system we know from the US's Chapter 11 legislation.

There is currently significant focus on banks' loan loss provisioning, including the effect of extending payment holidays to clients. In Denmark, the FSA has stated that such measures will not automatically lead to increased provisioning. In addition, relevant for Finnish banks, the ECB has announced it will allow banks more flexibility on classification of non-performing loans where public authorities have put in place guarantees or moratoriums. We intend to follow the size of loan provisions closely as Nordic banks deliver Q1 reports over coming weeks.

Another theme is banks' payout policies. As capital requirements have fallen, several regulators have stated that banks should not use the positive effects to increase dividends. However, the Swedish FSA has taken this a 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. In addition, the Danish Ministry of Industry, Business and Financial Affairs and Finance Denmark (a business association for financial companies in Denmark) have 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. Nordea has so far postponed any dividend payments until after 1 October, in line with the ECB's recommendations. Danske Bank has officially cancelled its 2019 dividends. In Norway, DNB has postponed its decision until the second half of 2020.

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

European bank regulation responses to coronavirus (Scandi focus)

Country	Date	Measure
ECB / SSM	16-Apr	ECB provides relief for capital requirements for market risk, to review decision after six months.
Sweden	07-Apr	SNDO postposed the MREL subordination principle from 1 January 2022 to 1 January 2024, allowing banks to use preferred senior to meet MREL requirements for another two years.
Sweden	02-Apr	S-FSA announces that banks may suspend amortisation requirement for all mortgagors until end-June 2021
Denmark	02-Apr	Statement from D-FSA suggesting a relatively stringent approach to IFRS9, saying that banks should take accurate provisioning.
SRB	01-Apr	SRB stating that it will show flexibility on MREL transition periods and interim targets.
ECB / SSM	27-Mar	Banks asked not to pay dividends or buy back shares at least until 1 October 2020.
BIS	27-Mar	Basel IV implementation (including output floor) postponed by one year to 1 January 2023. Transitional arrangements until 1 January 2028 (previously: 1 January 2027).
EBA	25-Mar	EBA calls for flexibility on IFRS9 provisioning, highlights that in case of debt moratoria there is no automatic default recognition.
Norway	25-Mar	N-FSA asking MoF to adopt regulation requiring banks and insurance undertakings not to pay dividends. MoF expects banks to hold back payouts, but will not take regulatory steps at this point.
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.
Norway	23-Mar	MoF increases quote of mortgages to 20% that may deviate from the amortisation requirements.
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.
Finland	17-Mar	Systemic risk buffer removed, bank-specific requirements lowered, resulting in 1pp lower buffer requirements.
Sweden	17-Mar	S-FSA announces that amortisation requirement may be suspended for borrowers facing loss of income.
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%.

Source: Various sources, Danske Bank

Monetary policy measures (updated 17 April)

Country	Measures	Rate changes	QE	Liquidity	Comment	Comment
Norges Bank	Rate cut F-loans to banks (liquidity) USD f-loans FX intervention from Norges Bank to stabilize	-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. USD liquidity from central bank.	Lower Nibor fixings	More likely that we see more liquidity and credit measures than more rate cuts in our view.
Nationalbanken	Lending facility at -0.35% and 3M repo	Lending facility at -0.35% +15bp in certificates of deposit rate to safeguard Fxpeg	Indirect QE as borrowing in foreign currency	Extraordinary lending facility (-0.35%). The lending facility makes it possible for monetary policy counterparts to take 1-week loans against collateral with an interest rate of -0.50%. EUR and USD liquidity from central bank.	Cap on OIS rates and Cibor fixings New lending facility to support bond markets	
Riksbank	QE Long-term repo operations Lowered O/N lending rate Eased collateral rules for covered bonds USD funding	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, covered bonds and commercial papers with rating above Baa3/BBB- or higher. ~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. Unlimited amount of weekly 3m loans at 20 bp above repo rate. Share of covered bonds allowed for collateral raised from 80% to 100%. Allow covered bonds issued by own entity. Single name limit raised from 50% to 100%. 3m USD liquidity via FX swap line with Fed	Covered bonds tightening significantly Likely to ease Stibor pressure No impact	SEK300bn in QE means that the QE portfolio will almost double in size. RB also keeping the door open to buy Liquidity measures will ease upward pressure on Stibor. The RB continues to state that it can use all tools at its disposal (we expect Attractive pricing compared to market (3m USD OIS + min 25bp)

Source: Danske Bank

Macro measures overview

Country	Measures	Size	Funding
Denmark	· Schemes where government pays up to 90% of wage for 4 months for workers who are sent home, covers income for self-employed, helps to cover fixed costs · Extend deadlines for payroll taxes and VAT, including temporary return of taxes already paid in March in some cases · Local governments will move future investments to 2020 ·Public sector will pay suppliers and contractors earlier ·Government payment for sick leave from day 1 ·Government guarantee for some corporate debt and airlines ·Enhanced export credit ·Slightly easier access to reduced work time support	Fiscal: DKK 98bn (4.3% of GDP) Credit: Up to DKK 301bn (13.1% of GDP)	Government account, new debt in DKK and foreign currency, incentive to pay taxes early
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 30(·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 20bn) ·Municipalities and regions will be compensated for extraordinary costs due to coronavirus (SEK 3bn) ·Government offers credit guarantees worth a maximum SEK5bn to airlines. ·Extra support to different Health Agencies (SEK 66m) ·Increased loan facilities and credit guarantees for Swedish businesses ·Temporary reduction of employers' social security contributions and individual contributions (33bn) ·SME that pay annual VAT can postpone 2019 VAT also 4 months, fully used 7bn ·Possible to apply for return of 2019 taxes ·Temporary discount for rental costs (5bn) ·Setting up a intensive care fund for SME's of SEK 100 bn ·Temporary reinforcement of unemployment insurance (5.3) ·More active labour market policy (2.6) ·More places and more distance learning at higher education institutions (12) ·Removal of income ceiling for student aid (17) ·Increased general government grants (15bn)	Credit: SEK 565 bn (10% of GDP) Fiscal: SEK 100bn (~ 2% of GDP)	Government debt in SEK and foreign currency
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) ·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 ·Cash injections directly to corporates, estimated to NOK 10-20 bn. per month ·Cash injections directly to Kommunalbanken, NOK 750 mill. Increases lending capacity to municipalities by c. NOK 25 bn. ·Various maesures to support start-ups, NOK 5 bn. ·NOK 6 bn guarentee to airlines	Fiscal: Open-ended but scheduled NOK 201bn (6.7 % of GDP) Credit: NOK 100.5bn (3.3.% of GDP)	Proceeds from oil fund except credit fund that will be funded with issaunce of governmenmt bonds
Finland	·Additional budgets worth EUR 4.1billion largely 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 ·Emergency aid to companies in worst affected small companies ·State Pension Fund will buy EUR 1bn of commercial paper	EUR 18bn (7.5% per GDP)	Government debt in EUR and other currecies

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 outbreak 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.

The economic impact in Denmark is severe, based on the limited information available so far. Unemployment has increased by approximately 45,000 persons but the increase would have been far greater without the wage support scheme, which is estimated to cover around 150,000 persons. 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 have launched several measures since closing down a large part of the economy on 11 March, with further restrictions since. Together, these represent an expected cost to the government of DKK98bn, or 4.3% 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% (but in most cases significantly less) 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.

The government will also provide support to help firms deal with fixed costs and to help the self-employed, with the former in particular expected to be very costly, accounting for around two-thirds of the total fiscal costs. 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 and regulatory changes

The Danish government has released the counter-cyclical capital buffer, down to zero from 1.0%. It 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 Nationalbank has announced an extraordinary 3M lending facility, allowing banks to borrow at -0.35% instead of the regular lending rate of 0% against collateral. Danmarks Nationalbank hopes that the 3M facility will support ‘a well-functioning bond market’. There was significant spread widening for mortgage bonds at the beginning of the crisis but this has now reversed.

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. In addition, SMEs can have back VAT payments made in March as an interest-free loan until April 2021. The government has also launched a guarantee initiative for businesses that have lost 30% of business due to the COVID-19 outbreak. They can get a government guarantee for 70% of new borrowing. For SMEs, the cost is DKK 2,500 plus 1% p.a.; for others, it is based on their risk rating.

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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, last week, we saw a 15bp rate hike from 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 -0.35% following 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.

Sweden: authorities go full in

There is very little data yet from which to gauge the coronavirus outbreak's impact on the Swedish economy. According to the Public Employment Service (PES), March layoffs rose by an unprecedented 42,000 people, more than twice the high seen for a single month historically. The first two weeks of April show some moderation, only shy of 14,000, but this may be due to Easter rather than a real improvement. Of these, around 45% were in the Stockholm region and close to 70% were in hotel/restaurant, travel services and retail trade. 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 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 SEK335bn (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) and the introduction of a 'short work week' scheme, where the cost is split between government, employers and employees.

Critics have pointed out that in reality the 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. In addition, the government has announced there will be an extra package but the uncertainty 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 businesses 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.

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Second, the 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 and corporate certificates. So far, the Riksbank has been most active in government and covered bonds and made some minor purchases of corporate certificates.

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.

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. The government backs 70% of banks’ lending to companies via guarantees (in total SEK500bn).

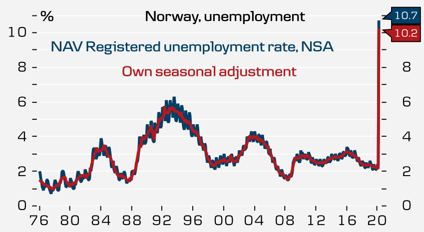
Norway: abrupt halt, powerful policy responses

Large parts of the economy closed down from 12 March, including most of the service sector and the public sector including kindergartens, schools, universities and so on. Children of parents with 'critical functions', including in the health sectors are entitled to alternative childcare. All cultural and sports events are closed and all organised sports exercise has stopped. There are still 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 were partial shutdowns outside these sectors due to a lack of labour or a lack of demand. For example, large parts of retail trade, including food stores, closed down voluntarily due to lack of demand. This has sent the unemployment rate sharply higher (see margin chart).

On 7 April, the government announced a gradual reopening, starting with kindergartens and first to fourth grade as well as one-to-one health services from 20 April and other services (one to one) from 27 April. In addition, an increasing number of retailers, restaurants and hotels are already opening as from this week, as demand seems to be recovering.

Sharp rise in registered unemployment but 89% of rise is driven by temporary layoffs



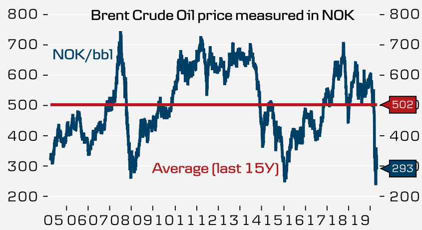
Source: Macrobond Financial, Danske Bank

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 layoff. 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.
- Direct cash injections to corporates suffering a more than 30% loss in turnover compared with the same month in 2019 aimed at covering up to 90% of fixed costs, if they are forced to shut down. For March, the loss of revenue needs to be 20%. If voluntarily shut down but due to indirect effects of the coronavirus, the compensation is somewhat lower, including a fixed deduction.
- Temporary tax relief for airlines and a reduction in in both passenger and airport tariffs.
- NOK6bn guarantee to airline industry

Downside risks have risen sharply



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

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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 is under the control of Folketrygdfondet, which also manages the Government Pension Fund Norway, not to be mistaken with the oil fund.

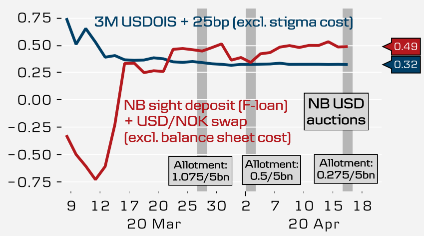
Liquidity provisions

Norway has taken several liquidity initiatives. First, on 12 March, Norges Bank announced a *decision* to provide banks with unlimited 3M F-loans for 'as long as is deemed appropriate'. Later, on 19 March, it extended the F-loan provisions in both auction frequency and tenors. The interest rate on the loans is 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 clear stabilisation in NOK liquidity but NOK FRA/OIS is still trading at elevated levels, due partly to the price of offshore USD.

Norges Bank has also run three 3M USD auctions, each with a cap of NOK5bn, with a minimum bid of 3M USD OIS +25bp. The allocated amounts at these auctions sums to a meagre NOK1.85bn, out of NOK15.0bn.

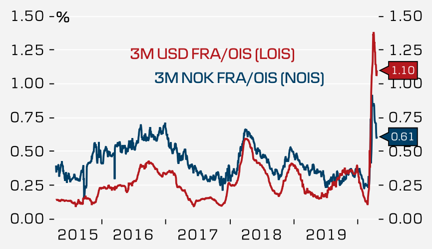
Second, the government loan and credit measures mentioned above target directly improving the liquidity situation for Norwegian businesses, both large and small.

Low demand at Norges Bank's USD auctions



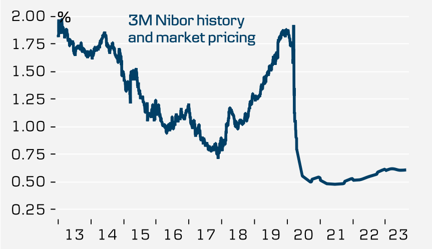
Note: Past performance is not a reliable indicator of future results
Source: Macrobond Financial, Danske Bank

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 believe 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 month, 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 believe the bar for cutting rates further is high and the probability of negative rates is miniscule.

We believe this fairly recent speech by Governor Øystein 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 apply only for Q2 20 but it can be extended.

Finally, the Norwegian government has also proposed that the bankruptcy law should change to allow troubled companies have a longer period before they enter bankruptcy. In this respect, it is moving towards a system we know from the US’s Chapter 11 protection.

Finland: keeping companies afloat

The COVID-19 outbreak has hit the Finnish economy hard. Companies have temporarily laid off staff in significant numbers (close to 140,000 already) and actual unemployment is set to rise. However, the labour market was relatively strong before the crisis and companies will try to keep layoffs temporary. Private consumption is falling, with the consumption of services set decrease significantly. A small number of coronavirus-related bankruptcies and debt restructurings have already been announced. The export outlook is murky and investment activity cautious. We believe Finnish GDP is likely to shrink around 4% in a scenario of a brief lockdown period in 2020. The Ministry of Finance's bad scenario estimates that GDP will fall 12% if the lockdown lasts until autumn. We 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 well above 60% even in good circumstances in 2020.

Fiscal measures

The government has announced two additional budgets worth EUR4.1bn, which partly cover spending also in 2021. Well over EUR1bn of the funds is to be used for business aid. Government institutions such as Business Finland are set to direct the money mostly at aid companies in the worst-affected industries in order to avoid bankruptcies. Significant funds are allocated to sectors critical for health and wellbeing. The National Emergency Supply Agency got EUR600m additional funding. We expect additional money to stimulate the economy later this year. Municipalities aid small entrepreneurs and the government has promised to help municipalities in cash crisis to avoid layoffs.

Unemployment benefits buffer households against the coronavirus crisis but add to the public deficit. Companies can temporarily lay off people more quickly (down from 14 days to five days). Employees are set to get unemployment benefits more rapidly, without a waiting period. Entrepreneurs and freelancers will get unemployment benefits temporarily.

Liquidity provisions

Corporate pension payments and corporate tax payment will be deferred to a later date. This is worth EUR3.0-4.5bn as a temporary relief to help cash-constrained businesses. This will add to public debt issuance in 2020.

Finnvera (government guarantee and export finance agency) has raised it s loan guarantee limit 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 and the Bank of Finland have decided to help companies through domestic commercial paper purchase programmes, each worth 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.

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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. We estimate this decision will increase the imputed lending capacity of Finnish credit institutions to businesses and households by EUR30bn.

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Ad hoc.

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