Denmark
CRT-1
August 22, 2019
Region: Europe
Country Risk Criteria Procedures
Guide to Best’s Country Risk Tiers
• The Country Risk Tier (CRT) reflects AM Best’s assessment of three categories of risk: Economic, Political, and Financial System Risk.
• Denmark is a CRT-1 country, with a low level of economic risk and very low levels of political and financial system risk.
• In 2019, Denmark’s GDP growth rate is projected to increase slightly to 1.7% and inflation to 1.1%. GDP growth in 2018 was 1.2%, with an inflation rate of 0.7%.
• Denmark’s market economy is well established, diversified, and globally competitive. As a smaller, open economy, Denmark is vulnerable to external headwinds.
• AM Best categorizes the majority of countries depicted in the map as CRT-1 and CRT-2, the notable exceptions being Eastern European countries such as Belarus, Romania, and Ukraine.

Regional Summary: Western Europe
• Composed of 28 countries, the EU accounts for slightly over a fifth of the world’s GDP. The IMF predicts that GDP for the region will be 18.71 trillion euros in 2019, largely flat from 18.75 trillion euros in 2018.
• Uncertainty about Britain’s exit from the EU lingers, weighing on regional growth prospects. A decision on Brexit is due in October, with a “no deal” Brexit remaining a possibility.
• Growth in Western Europe has stagnated; impediments include weakness in the region’s manufacturing sectors, heightened trade tensions, and a general worldwide economic slowdown.
• The European Central Bank (ECB) ended its unprecedented quantitative easing program in December 2018. However, the ECB has signaled that further stimulus could be forthcoming if economic softness persists.
Economic Risk: Low

• The Danish economy is primarily a trade-based economy, making the economy susceptible to global trade tensions. Some of the main goods the economy produces are large capital goods such as trains, ships, and wind turbine components. Other important exports include medical and pharmaceutical products.

• The UK is a key trading partner for Denmark; however, exports to the UK have been declining steadily. This scale back comes in anticipation of Brexit, as a no-deal Brexit could be particularly damaging to Danish exports.

• Denmark ranks third out of 190 countries on the World Bank’s Ease of Doing Business survey. Denmark is tied for first place in terms of having the greatest ease of trading across borders.

• Wages are currently rising in Denmark as unemployment is low, the labor force is highly skilled and educated, and the labor market is tight.

Political Risk: Very Low

• In Denmark’s 2019 elections, all 179 seats of parliament were up for election, as was a new prime minister. The Mette Frederiksen of the Social Democratic Party was voted prime minister; the six different parties supporting her won 93 of the 179 parliament seats.

• The new administration’s main priorities are addressing climate change, strengthening social welfare, and mitigating immigration. Denmark is targeting a 70% reduction in greenhouse gases by 2030.

• An influx of refugees has caused a series of pro-immigration and anti-immigration protests, these protests are typically peaceful but can become moderately violent.

• The Danish government has become increasingly concerned with the risk of terrorism inspired by extremist groups.

Financial System Risk: Very Low

• The Danish Financial Supervisory Authority (DFSA), which answers to the Minister for Economic and Business Affairs, regulates the country’s entire financial sector, including the insurance industry.

• Unlike most EU countries, Denmark does not use the euro; it uses its own currency, the Danish krone. Danmarks Nationalbank currently maintains an accommodative monetary policy, in line with the bank’s goal of low inflation and maintaining a fixed exchange rate with the euro.

• Denmark’s largest bank, Danske Bank, was involved in a USD 230 billion money laundering scandal. The scandal resulted in the DFSA receiving additional funding, staff, and authority from the Danish government. The IMF has noted that the ongoing case could affect the stability of the financial sector and has recommended that the country continue to strengthen its anti-money laundering framework, particularly for cross-border transactions.