Danish economic problems grow with bailout of regional bank

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The Danish central bank was forced on July 11 to step in to provide liquidity guarantees to Roskilde bank, Denmark's tenth-largest financial institution.

Paralleling developments across the Atlantic in the United States, the Danish national bank will provide 750 million kronor (DKK; around 100 million euros) to support Roskilde, after it emerged that the regional bank would announce substantial write-downs on its assets with the potential to trigger a banking crisis.

Roskilde has been linked closely with the construction and property sectors, providing generous loans to property developers. Reports have claimed that their practices were overly speculative, generating a fivefold increase in profits between 2001 and 2006. With the housing market now in freefall, the bank faces severe trouble with the prospect of payment defaults on its loans.

The announcement that the central bank would step in to provide "unlimited liquidity," according to Roskilde's chief executive Soren Kaare-Andersen, prompted Roskilde Bank's shares to plummet by up to 56 percent on July 11. The bank's shares have fallen by 78 percent since the start of the year, six times more than the Danish stock market as a whole, which is itself down by 13 percent this year. The move represents the first time in 15 years that the central bank has had to intervene to prevent the collapse of a Danish financial institution.

With the Danish economy already in recession, having shrunk for two consecutive quarters, and with a bleak outlook in the construction and property sectors, the central bank was taking no chances. Jyske Bank analyst Christian Hede commented, "They [Roskilde bank] have seen some heavy losses on their lending to property developers. There is a tense atmosphere here in Denmark."

Roskilde has not been the only casualty of the current economic downturn. In January, Sydbank, Denmark's third largest, was forced to take over BankTrelleborg, as a result of the announcement that Trelleborg had got into "significant financial problems."

One of the conditions for its support is that the central bank has demanded that Roskilde is sold. Nordea, one of Scandinavia's largest banks, has been linked with a possible takeover. Nordea bank was formed out of the merger of a number of institutions following the financial crisis of the early 1990s in Scandinavia.

That financial crisis grew out of the collapse of the real estate boom of the 1980s, and it was during this period that the Danish central bank was last forced to step in to support a failing bank. It provided 4.4 billion DKK to Varde bank after it had gone bankrupt to ensure that a wider banking collapse was averted. Whilst the funds made available to Roskilde are not as much this time, the economic situation in Denmark and worldwide is much worse.

In the early 1990s, following the collapse of the Soviet Union, European economies were able to expand eastwards into the former Stalinist-controlled states where capitalism had been re-established. This was a major factor in permitting the Scandinavian economies to recover from the effects of the financial crisis that swept through the region. Today, Europe no longer has the possibility of such economic expansion. On the contrary, the Euro Zone is facing its first recession since its inception in 1999, and many of the eastern European states are suffering economic contraction. Standard & Poor's predicts that the Baltic states, Estonia, Latvia and Lithuania, will all suffer sharp economic downturns in the second half of this year.

The economic slump in Denmark has been marked by the slowing down of the housing market. Commenting on the severe drop in house prices in recent months, Henrik Henriksen of Straumur Asset Management clearly made the link between events in Denmark and the growing worldwide crisis of the capitalist system. He noted, "The credit crisis has hit Denmark.

"We saw this first in the US, then in the UK and Spain and now also in Denmark."

The decline in property prices has been sharp, with Svenska Handelsbanken predicting that house prices will drop by 10 percent this year and by the same amount again in 2009. This follows on from a boom in the price of property, with prices in 2006 alone jumping by 23 percent, the largest increase in more than 20 years. Roskilde bank is only one of the victims of this collapse, dependent as it was on large loans in the property sector.

As its chief executive Kaare-Andersen explained, "It would have been much smarter not to have such a large real-estate portfolio, but we weren't able to reduce its size fast enough."

Credit rating firm Moody's, on the announcement of the central bank's bail-out, cut Roskilde's Financial Strength Rating from C to D, citing among other things the wider problems in the Danish economy—in particular, the turmoil on the real estate market.

The collapse in house prices is creating increasing difficulties for ordinary working people, with growing numbers failing to make mortgage payments. A recent study by the central bank revealed that nearly half of all Danish homeowners are not paying back their mortgages. Instead, they are being forced to take on deferred payment mortgages, where the individual is permitted to pay only the interest on the mortgage for a period up to 10 years. At the end of this, however, payments increase substantially, and many economists fear that vast numbers of people will be unable to meet the repayments, particularly with the economic slowdown. Introduced in 2003, deferred payment mortgages were used by many first-time buyers to obtain properties that would otherwise have been out of their reach. But as Handelsbanken economist Jes Asmussen points out, the impact on many of these people now will be devastating. "Deferred payments inflated housing prices, and now people's vulnerability to unemployment is greater. Homeowners no longer have the option of deferring their payments."

Problems for homeowners were exacerbated last month when the central bank, following the announcement of the European Central Bank (ECB) increased its interest rates by 0.25 percent, taking the main lending rate to 4.6 percent, as it attempts to curb inflation. While Denmark remains outside the Euro Zone, the Danish central bank's mandate is to keep the kronor pegged to the euro.

The impact of rising inflation—in Denmark running at around 4 percent—was demonstrated by figures released recently from Mortgage Credit firm BRF. Since 2005, the average household has seen an increase of 3,000 kronor per month, resulting from increased interest and higher commodity prices. The central bank estimates that, on average, householders now use 15 percent of their disposable income to pay interest on loans. This is an increase from 10 percent over the course of three years.

Despite growing difficulties for working people, the government continues to press ahead with socially regressive measures, among them the proposal to cut the top rate of income tax as well as legislation that would permit local councils to deny accommodation to those who are unemployed. Instead, they will be permitted to keep apartments empty for up to six months, until an alternative buyer is found.

In the town of Greve, this method has already been used, even though it remains illegal. Former mayor Rene Milo revealed the real intention behind the law, namely to keep all newly built housing for more well-off sections of society. "The approach may have been against the law, but it worked. The development is socially more robust today, the residents generally have a higher level of income and the apartments are all occupied," he said.

While unemployment in Denmark remains comparatively low, there are indications that rates could rise significantly. In the wake of figures being released that showed Denmark had gone into recession, a number of companies revealed their intention to cut some of their operations in Denmark. Added to this, some within the ruling establishment, including the head of the central bank, Niels Bernstein, have freely expressed their desire for unemployment to increase, in order to make the labour market more "competitive."

Jens Lundsgaard, who heads the OECD's office for Denmark and Sweden, called for further measures to expand the labour pool by pressuring the sick back into employment and increasing the retirement age. "There is a very large group who could be active in the labour market, but who receive transfer incomes because they are ill or on early retirement, or who receive other welfare benefits," he said.

This will no doubt give encouragement to the government to press ahead with its welfare "reforms," which were one of the main issues in last November's election campaign. Following his re-election as prime minister, Anders Fogh Rasmussen created the welfare ministry and appointed Jespersen as the first welfare minister to spearhead the assault on the Danish welfare state.

A recent report revealed that working people have already felt the impact of cutbacks to social security benefits, which came into force in April 2007. The new rules demanded that where couples both receive social security benefits they would have to achieve a total of 300 hours employment in two years, or lose one of their payments.

Particularly hard hit by the new move were immigrant families, who made up 95 percent of those losing their payments. More than half of those who have lost one social security payment have been forced to borrow money to cover costs. Bettina Post from the Association of Social Workers commented, "Social politics in Denmark has always helped those who have been sick and unable to work. With the 300-hours rule, we are doing the opposite and pulling the economic security net from beneath them."

With ever increasing economic pressures, the traditional concessions offered up by the ruling elite in Denmark and across Scandinavia as a whole are no longer sustainable. On the contrary, ruling circles are determined to place the full burden of the economic crisis onto the working class in a desperate effort to preserve their economic power.

The bail-out of Roskilde bank is a confirmation of this. While telling ordinary working people to accept vast cuts in social spending and support, the Danish central bank is quite prepared to make available hundreds of millions of kronor to institutions where individuals have made vast sums of wealth through rampant and unchecked speculation.