

Second Danish bank bailout in four months

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A new rescue package for Denmark's banks was agreed late Sunday night. Amounting to 100 billion Danish kroner (DKK)—or roughly €14 billion—it was the second bank bailout in four months.

The bailout is expected to be officially ratified later this month. According to *Politiken*, the plan involves the government buying up bank stocks in order to sell them when conditions permit. Given the gloomy outlook for the world economy in the coming years, there is no likelihood of such an upturn any time soon.

Despite making token appeals for executive pay to be limited in the institutions taking part in the scheme, the opposition Social Democrats supported the bailout, along with all the parliamentary parties except the small Red-Green Alliance.

At the start of October, as financial markets crashed across the world, the government offered an unlimited guarantee on bank deposits, including some forms of unsecured debt, and set up a bank rescue fund worth DKK35 billion that the banks would pay in to over a three year period. This followed moves by Denmark's central bank to take over EBH bank, the country's sixth largest, as well as the collapsed Roskilde bank, the country's tenth largest, last summer.

Since then the government has been forced to admit that the economy will be in recession throughout 2009, and that levels of unemployment will increase. Whilst the current rate of joblessness remains comparatively low at 2 percent, it has increased by 12 percent since August, with economists forecasting that it could double in the coming period.

A recent central bank report substantiates such forecasts, predicting that unemployment will reach 200,000 in the next two years, up from the current level

of around 50,000. The report, released earlier this month, threatened that 2009 would likely see further banking failures as economic conditions deteriorate.

The Danish Confederation of Industry (DI) suggested that exports would see the worst decline since World War II due to falling demand and the increased strength of the kroner compared to other international currencies. Towards the end of 2008, the central bank was compelled to raise interest rates twice within one month in a desperate bid to maintain the kroner's peg to the euro. The result was a 1.75 percent difference in interest rates between Denmark and the Eurozone. A fifth of all foreign currency reserves were used in October alone in further efforts to defend the currency.

While interest rates were reduced by 0.5 percent in December, this was a result of the dramatic worsening of the outlook for Denmark's economy. On January 16, interest rates were reduced for the second time within a month, from 3.75 percent to 3 percent.

The economic uncertainty has prompted a re-emergence of the question of Danish membership in the euro. Prime Minister Anders Fogh Rasmussen has urged that a referendum be held on the euro during this electoral term, which expires in 2011. The outcome of such a vote would be far from certain, with polls indicating substantial opposition to the euro.

While few details have been forthcoming on the proposal, it is clear that ordinary people will pay for the bailout. The government is pushing forward with a proposal to reduce the top level of income tax.

Cutbacks in welfare spending are also under way. In its budget for 2009, the government did not provide an increase for the welfare budget, in spite of the anticipated jump in those who will be out of work.

A recent report in *Politiken* stated that the government would have to take "radical action". This could involve severely limiting access to unemployment benefits, as well as increasing the

retirement age.

Plans to slash budgets for public services in other areas have been implemented. In the education sector, government support for Denmark's universities has been cut by 2 percent. This has resulted in a drop in student enrollment in some of the main universities this academic year, as well as plans from some institutions to reduce the courses on offer and the length of their semesters. Copenhagen University has been left with a budget shortfall of DKK45 billion as a result, raising the threat of job losses. Helge Sander, the science and technology minister, showed little concern stating that, "The schools have to streamline like every other institution".

As the recession deepens, lay-offs have been announced across the economy as a whole. The first came last September in the banking sector, but have since spread to construction and the service sector. At least 13,000 jobs were lost in the construction industry by the end of 2008, including 8,000 skilled positions. Recent announcements of job losses include the brewer Carlsberg, which is laying off 200 workers, stereo and television manufacturer B&O, also reducing its workforce by 200, and the pension company PFA Pension, which will reduce its staff by 10 percent.

Problems have also hit some newspapers and printing companies with the free popular daily *Nyhedsavisen* forced to halt publication last September due to financial problems. Then in November, it was announced that Denmark's largest printing company, Trykkompagniet, would be closed with the loss of hundreds of jobs. The company, which is owned jointly by two of the country's main publishers, had run up a loss of DKK60 billion over the last five years.

Surveys of businesses indicate that the numbers of unemployed will continue to increase. Of around 800 top executives surveyed in September, 30 percent revealed that they planned to make lay-offs in the next few months. Amongst small firms, employing between 5 and 10 workers, 25 percent of those surveyed in December declared that lay-offs were imminent.

Another problem confronting ordinary people is the continuing collapse in the housing market. Last summer, predictions suggested a drop in prices of 10 percent in two years. But the course of events show this to have been optimistic, since prices fell in 2008 by a record 9 percent nationally, although in some areas

prices dropped by as much as 20 percent. Further reductions will follow, with Handelsbanken predicting a further 10 percent drop in 2009.

Danish homeowners are some of the most indebted in Europe. Last year, the Central bank estimated that at least 50 percent of Danes were failing to pay back their mortgages but were instead paying back only the interest under a scheme known as "deferred mortgage payments", which had been introduced in 2003.

Compounding the problems in the housing markets has been the move of many estate agents to increase charges for selling homes in an effort to boost their financial position. While it has long been the practise in Denmark that an estate agent is only paid additional fees if the property is sold, this is no longer the case.

The downturn in the housing market played a significant role in the collapse of a number of the banks that failed last year. EBH, which was taken over by the central bank in September, had extensive involvement in housing, while Roskilde bank was heavily involved in providing loans to property developers.



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