DI ANALYSIS

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Historically low interest rates on corporate loans

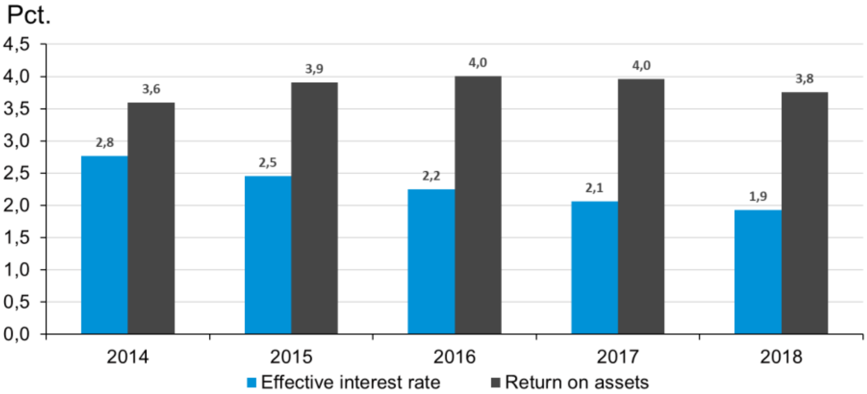
Currently Danish companies borrow money at historically low interest rates - and capital is available. 65 percent of the companies find that opportunities to borrow money are favorable. However, uncertainty about the world economy is holding back investments.

The low interest rates benefit businesses and thereby create jobs, growth and prosperity

The low interest rates make it chea for Danish companies to invest and thereby create jobs, growth and prosperity in Denmark. Over the past five years, the return on capital has exceeded the effective interest rate by between one and two percentage points. In other

Companies earn money when they borrow

The average effective interest rate compared to the average return on assets



Note: The average return on assets is calculated on a sample of 16.000 companies in non-agricultural industries with debt and accounting from the years 2014-2018. The effective interest rate is the average interest rate on all outstandings in a year.
Source: Danmarks Nationalbank, Bisnode as well as DI calculations.

words, Danish companies have been able to profit from their loans for investments in for example machinery, building and product development.

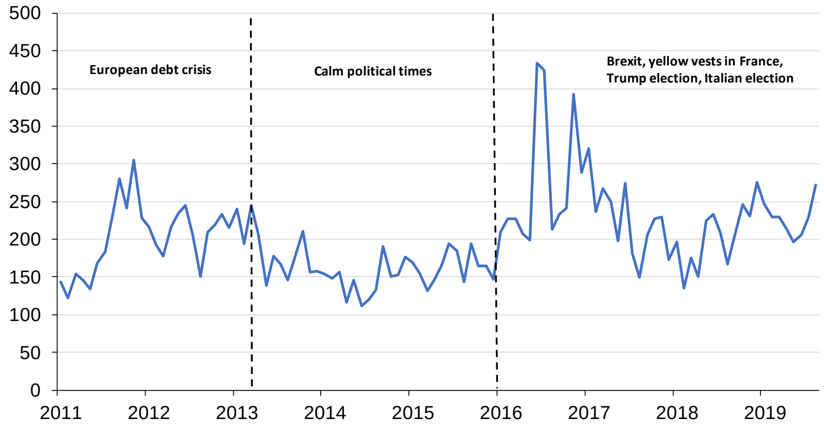
Brexit, trade war(s) and political turmoil can cause companies to hold back investments

However, investing is not without risk these days. A potentially hard Brexit could be right around the corner, , the US-China trade war is drawing dark clouds over the world economy and there is political turmoil in several countries. This could make companies hold back and choose not to take advantage of the opportunities presented by low interest rates. The IMF has shown that economic uncertainty has previously been one of the motives for a lower level of investments[1].

Greater political uncertainty in recent years

Index for policy uncertainty in Europe

2010=100



Source: Economic Policy Uncertainty Index

Investments in growth are forward-looking and the future is unknown

Larger investments to boost a company's growth are forward-looking and the future is unknown – it could be a decision to buy a new machine able to produce more of a given product. If the risk of the investment, for example, that the goods cannot be sold anyway, should exceed the expected return, the companies will be inclined to hold back the investment.

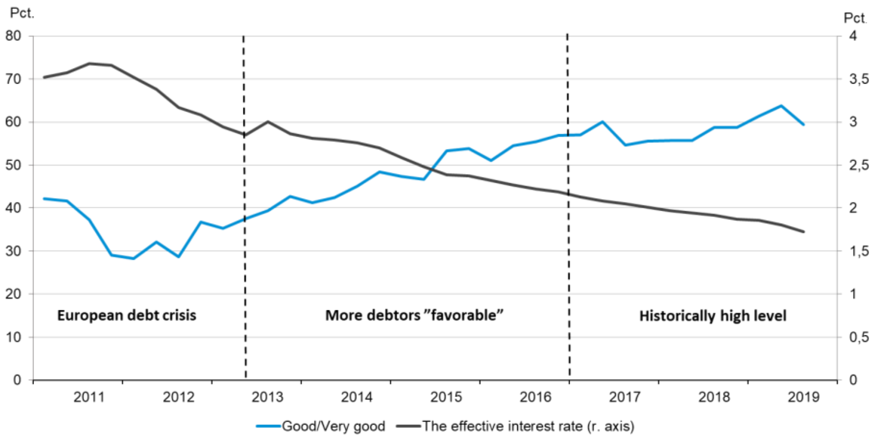
[1] See IMF Working Paper ”Investment Slowdown in Denmark: Diagnosis and Policy Options”.

Danish companies are positive about the cost of capital…

Most companies are optimistic about the cost of capital
Companies are optimistic about the cost of capital and by September 2019, six out of ten companies had a positive view on the cost of capital, including interest rates, fees and contributions. It is approximately five percentage points more than in September 2018. During the same period, we have also seen a decline in interest rates on corporate loans.

Decreasing interest rates lift the assessment of prices on loans

How does your company experience the possibility of accessing finance in regards to price?



Note.: The effective interest rate is calcualted for existing outstanding balances with non-financial companies
Source: DI's "Virksomhedspanel" and Danmarks Nationalbank

..., and they are aware of the effect of the interest rates

Interest rates continue to fall as companies respond to what they think about the price of borrowing. We see that as interest rates fall, the proportion of companies that are positive about the price of borrowing increases[2]. However, the interest rate only represents part of the cost of a loan. Costs also include contributions, fees and brokerage.

Increased debts, but lower interest payments

The lower interest rates have led the companies to save a total of DKK 500 million on their debts – even though companies have increased their debts by more than DKK 56bn implies, that although the companies have been borrowing (money), they have still seen a decreae in their interest payments.

[2] The correlation coefficient between the interest rate on new loans and the proportion of companies, who responds that they are positive about the price of the loan is -0.92.

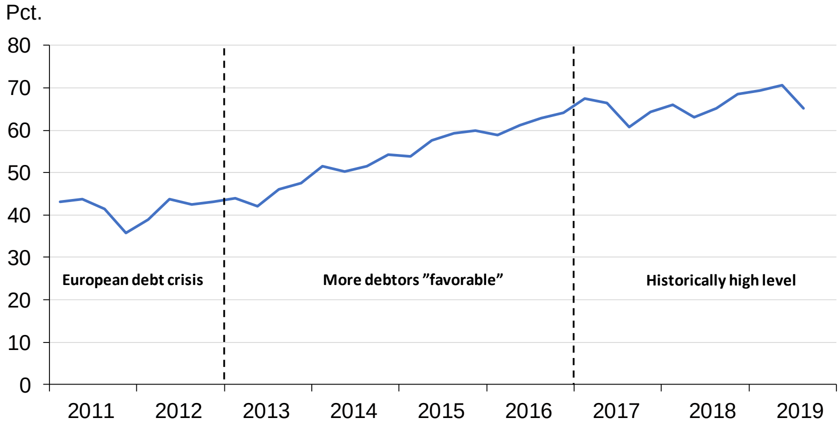
About 65 percent of the companies has a positive view on the access to finance

Most companies believe they have access to capital

About 65 percent of the companies has a positive view on the access to finance in September 2019, which is the same level as in September last year. This proves that there is still a historically high percentage of companies who think they can easily borrow money.

An unprecedented number of companies find it easy to borrow

The share of companies that view their opportunities to borrow as "favorable" or "very favorable"



Source: DI's "Virksomhedspanel" concluded at the start of 2019

DI's Econometric Loan Model shows differences in whom has a positive view on access to finance

Although most companies can borrow, it is a factor how the company's accounts look relative to how easy it is to obtain a loan. The latest figures from DI's Econometric Loan Model show that larger and more solid companies with a higher return on investments have a more optimistic view on the access to finance. This is consistent with previous results from DI[3].

[3] See DI analysis: "Exceptionally easy to borrow money"

Box 1: Rate of returnand solvency as well as size is significant for the access to capital

DI's model for corporate loan options[4] has been updated with accounts from 2018. The updated model is consistent with the previous results according to which variables are significant for whether a company is optimistic about the loan options.

Tabel 1: Results with company´s financial statement

Model	(2019)	(2018)
Assets (Balance sheet)	0,2960*** (0,0259)	0,2908*** (0,0287)
Return on Assets	0,0237*** (0,0031)	0,0187*** (0,0032)
Solvency ratio	0,0173*** (0,0020)	0,0153*** (0,0022)
Year 2019	0,4962** (0,1649)	-
Year 2018	0,4138** (0,1521)	0,5289** (0,1797)
Year 2017	0,3777* (0,1490)	0,5865** (0,1804)
Year 2016	0,1336 (0,1554)	0,3989 (0,1892)
Year 2015	-	0,1741 (0,1902)

Note: Numbers in parenthesesare the standard deviation. ***Significant at the 0,1 percent. level, **Significant at the 1 percent. level, *Significant at the 5 percent. level, and Significant at the 10 percent. level. Model (2019) includes answers from "DI Virksomhedspanel" from September 2019. Model (2018) includes answers from "DI's Virksomhedspanel" from December 2018.
Source: DI's "Virksomhedspanel", Bisnode, and DI calculations.

The latest figures show that companies in 2019 continue to have better conditions for borrowing when compared with the period four-five years ago. The 2019 model provides some higher estimates of rate of return and solvency. Thus, it seems that increasingly emphasis is being laid on these key figures than before.

[4] See DI analysis: "Exceptionally easy to borrow money"