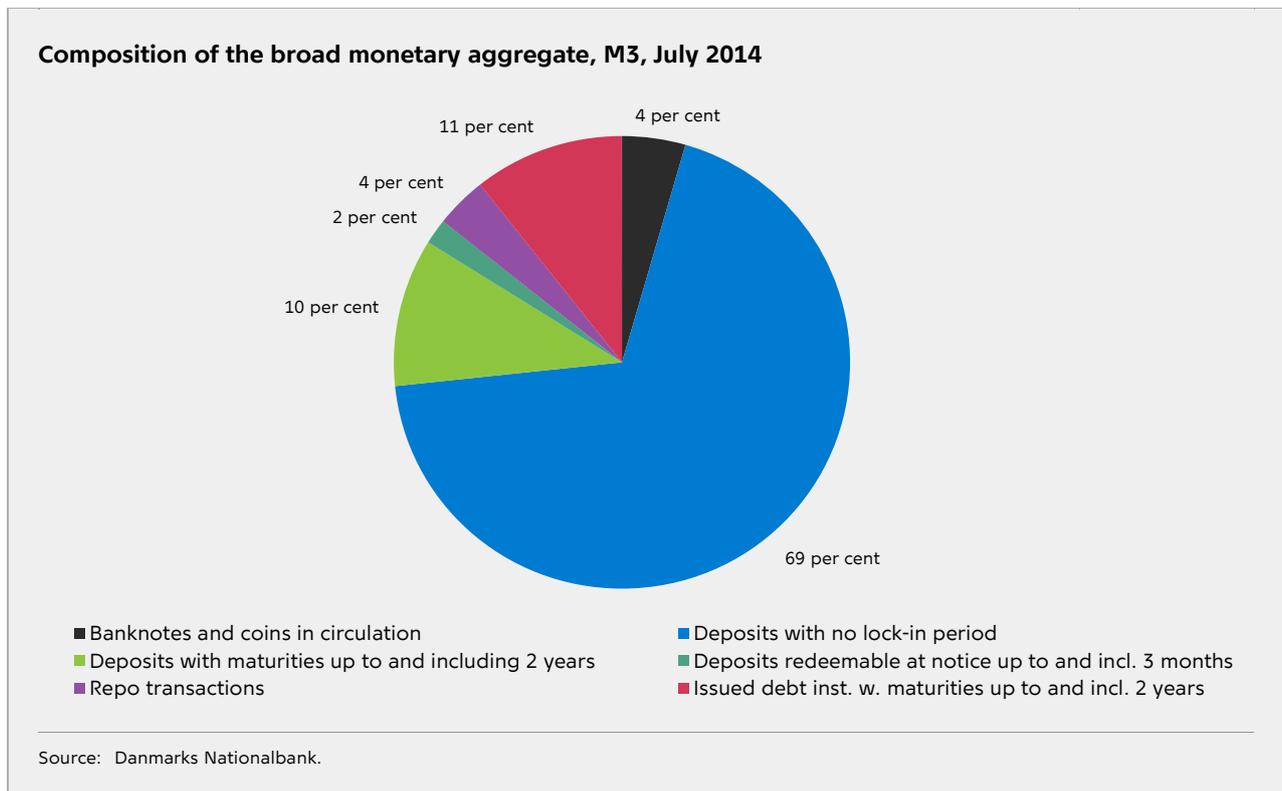


MONEY AT THE BANK IS ALSO GOOD MONEY



Money is a precondition for a modern society – not least due to its role in the thousands of payments made by households and firms every day. Deposits in bank accounts represent the largest share of the money supply, while banknotes and coins play a smaller part, cf. the chart. Banks thus play a key role in the money creation process.

Governor Hugo Frey Jensen, Danmarks Nationalbank, says: "Banks create deposits, and thus money when providing loans. But this is no problem. On the contrary, banks' provision of deposits and loans is essential to the functioning of our society."

Prior to last century's increasing use of bank deposits and cheque payments, money was in the form of cash. But today, making payments using 'money of account', e.g. by using a Dankort, is more convenient. "Money at the bank is also good money. We leave it to households and firms to decide whether they want their money in the form of cash or bank deposits", Governor Hugo Frey Jensen says. "Danmarks Nationalbank's banknotes and bank deposits are subject to legislation and regulation, providing the basis for the trust that is essential for money to be used as a store of value and means of payment."

Developments in the money supply are affected by a number of factors, including demand from households and firms, market conditions, the regulatory framework for the financial sector and Danmarks Nationalbank's monetary policy. "Although the money supply is mostly comprised of bank deposits, it is not possible to create more money than demanded by households and firms," says Governor Hugo Frey Jensen, adding: "A well-functioning financial sector is crucial for enabling the money supply to adjust to the needs of households and firms."