

# DANMARKS NATIONALBANK

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## The foreign exchange reserve in 200 years

For 200 years, one of Danmarks Nationalbank's main objectives has been to ensure stable prices – an objective which has been fulfilled through the fixed exchange rate policy since the 1980's. Historically, the fulfilment of the objective is reflected in the composition of the foreign exchange reserve.

From the beginning in 1818, the task was – after years of high inflation – to bring the currency back to the value of silver coins. The reserve was primarily in silver until Danmarks Nationalbank replaced the silver standard with the gold standard, after which gold became the primary asset.

Denmark abandoned the gold standard in 1931. After 1946, Denmark participated in various interna-

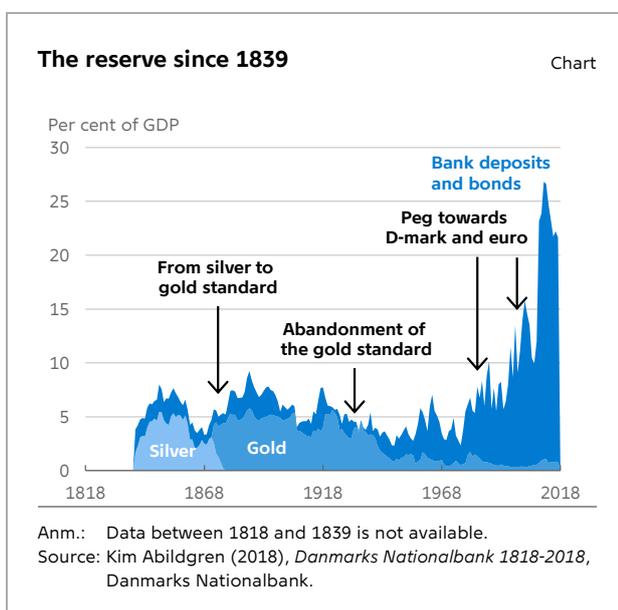
tional currency agreements such as Bretton Woods, the 'Currency Snake' and the ERM.

At first in 1982, the Danish currency was pegged to the D-mark and later in 1999 to the euro. The purpose of the peg is to ensure stable exchange rates towards the main trading partners and import price stability. In order to support the currency peg the reserve consists of safe and liquid assets. As the peg is against the euro, 87 per cent of Danmarks Nationalbank's foreign assets were in euro in 2017.

At a size around 20 per cent of GDP, the reserve might seem large. However, there is no upper limit to the size. In comparison, the Swiss reserve reached almost 130 per cent of the Swiss GDP in December 2017. The reserve has the size which is appropriate for fulfilling its purpose.

The reserve reached its historic maximum in 1st quarter 2015, where Denmark experienced a massive currency inflow during which Danmarks Nationalbank maintained the currency peg. The inflow followed in the wake of expectations towards the asset purchases of the ECB and the abolishment of the cap of the value of the Swiss franc towards the euro.

The reserve makes up a large part of Danmarks Nationalbank's total assets, which are a part of the monthly banking and mortgage lending statistics. Other parts of Danmarks Nationalbank's balance sheet are affected by lending to and from banks, which can fluctuate during crises.



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