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## Q&A ON TECHNICAL ADJUSTMENT OF THE MONETARY POLICY INSTRUMENTS

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### **Q: Why is Danmarks Nationalbank adjusting the monetary policy instruments?**

A: Danmarks Nationalbank carries out a technical adjustment of the monetary policy instruments to reduce fluctuations in the Danish money market rates. By reducing the sensitivity of money market rates to changes in the size and composition of the banks' deposits and lending at Danmarks Nationalbank, a more predictable effect on the krone exchange rate is achieved.

### **Q: Why is Danmarks Nationalbank making the adjustment now?**

A: The issue we are addressing is not new. The relatively high net position, i.e. the banking sectors deposits in Danmarks Nationalbank less monetary policy loans, has for many years ensured stable money market rates with the current composition of monetary policy rates.

The drop in banks' net position as a result of the interventions by Danmarks Nationalbank carried out in 2020 in combination with the increased uncertainty about government inflows and outflows entails that money market rates may fluctuate within a considerably wider band. Therefore, it is relevant to address the issue now.

### **Q: Are monetary policy rates increased or lowered? Does Danmarks Nationalbank expect any effect on money market rates?**

A: It is neither an increase in policy rates nor a lowering of policy rates. The rate on certificates of deposit is increased and at the same time the current-account rate is lowered. Lending at Danmarks Nationalbank is effectively unchanged as the lending rate is lowered to the same level as the rate on the extraordinary lending facility. All in all, we anticipate the adjustments to be market neutral, i.e. money market rates and the krone exchange rate vis-à-vis the euro will essentially be unchanged.

**Q: What is the effect on other interest rates, e.g. the rate on mortgage loans, car loans, consumer loans etc.?**

A: The announced adjustments are not expected to have a noteworthy influence on money market rates. As the money market rates are essentially unchanged, the adjustments are not expected to impact the rate on mortgage loans or other types of loans. It is important to remember, that the rate on commercial loans with a longer maturity is influenced by many other factors than the current level of policy rates set by Danmarks Nationalbank.

**Q: One of the adjustments is an increase in the rate on certificates of deposit. Is this appropriate given that the krone exchange rate is on the strong side of the central parity?**

A: The adjustments are not carried out to impact the krone exchange rate against the euro in the current situation. The adjustments address the structural issue that changes in the size and composition of the banks' deposits and lending at Danmarks Nationalbank may lead to an undesirable impact on money market rates and thus the krone exchange rate.

**Q: Does the adjustments entail increased cost for the banks?**

All in all, the adjustments do not entail any substantial cost for the banking sector as a whole. Previously, a small part of the banking sector's deposits was remunerated at 0 per cent, while the majority was remunerated at -0.60 per cent. The interest rate on deposits with Danmarks Nationalbank is now changed to -0.50 per cent.