



In 2018, Danmarks Nationalbank will be celebrating its 200th anniversary. Danmarks Nationalbank's overall objective has been more or less unchanged during its 200-year life – to “maintain a safe and secure currency system”. But how this is achieved has changed over the years, and tasks are still evolving.

One of Danmarks Nationalbank's objectives is to ensure stable prices. This is fulfilled by maintaining a fixed exchange rate of the krone against the euro. In the 19th century, we followed first a silver and then a gold standard. Since 1982, Denmark has pursued a fixed exchange rate policy against the D-mark and later the euro.

Why Denmark is conducting a fixed exchange rate policy

In most countries, the main objective of monetary policy is price stability, meaning low, stable inflation.

This is also true in Denmark, which has a long tradition of using the fixed exchange rate policy as a monetary policy strategy. The decision to pursue a consistent fixed exchange rate policy was taken in the early 1980s, when the Danish economy was in crisis, and that policy has been a cornerstone of the Danish economy ever since.

The government and Danmarks Nationalbank found that a new approach was needed after a period of substantial current account deficits and repeated devaluations. Various governments had devalued the krone throughout the 1970s, resulting in lower prices for Danish goods abroad. But the negative effects more than overshadowed the advantages.

Devaluations make imported goods more expensive, and when citizens expect a devalu-

ation at some point, this influences prices and wages and leads to higher interest rates and inflation.

Denmark's fixed exchange rate policy acts as a simple and clear monetary policy rule. There is a clear division of responsibility for economic policy. In a fixed exchange rate regime like the Danish one, monetary policy interest rates are reserved for managing the exchange rate. Danmarks Nationalbank thus uses monetary policy solely to keep the krone stable against the euro. The government ensures that fiscal policy and all other economic policies support a stable economy.

In brief, the objective of Denmark's monetary policy is to ensure price stability, to which the fixed exchange rate policy has contributed. A stable krone plays an important role in Danish households' finances and firms' planning for the future.

Krone exchange rate since 1982

