



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” and “facilitate and regulate the traffic in money and the extension of credit”, as the Danmarks Nationalbank Act says.

One of Danmarks Nationalbank's objectives is thus to contribute to the stability of the financial system. Danmarks Nationalbank began publishing financial stability analyses in 2002. These analyses are part of Danmarks Nationalbank's assessment of the financial system in Denmark.

What have we learnt from previous banking and financial crises?

The last 150 years have seen multiple banking and financial crises. Crises in the financial sector are seldom identical and it is difficult to predict how the next crisis will evolve.

The two most recent banking crises both followed a period of overheating of the Danish economy and soaring property prices. The most recent financial crisis was triggered by the international economy. But pre-crisis developments also had an impact. Fiscal policy was too accommodative and contributed to the overheating of the economy.

The financial sector is subject to more regulation than many other sectors. There is every reason for this, as it can have major implications for society if a large bank becomes distressed. After the most recent crisis, several initiatives were launched to make the financial system more resilient and to seek to prevent similar situations from arising in the future.

First and foremost, the capitalisation and liquidity requirements for banks have been increased since the crisis. This makes them more robust. Mechanisms have also been introduced for the resolution of banks – even large banks – in a crisis. The purpose is to ensure that the key functions can be continued so that customers do not suddenly find themselves without a bank.

Another new initiative is that in future the shareholders and investors of a failing bank will bear the brunt of the losses, and in this way their interests will be aligned with those of society.

In Denmark, the Systemic Risk Council has also been established. The aim is to prevent risks from escalating to a level where they may have substantial negative implications for the financial system and the economy.

Unfortunately, there is no guarantee that we will not be hit by a new banking or financial crisis, but hopefully we are better prepared next time.

Number of banks 1810-2017

