

Fixed exchange rate policy in Denmark



One of Danmarks Nationalbank's overall objectives is to ensure **price stability** – meaning low inflation. This is done by keeping the **exchange rate of the krone** stable against the euro. The euro area operates with the objective of low inflation below, but close to 2 per cent p.a.



Denmark has a long tradition of using an exchange rate target as the basis for **monetary policy**. In the 1930s, the krone was pegged to the pound sterling. Later on, Denmark participated in the dollar-based **fixed exchange rate system**. This system collapsed in the early 1970s. The krone was then pegged to the so-called European **currency snake** and later only to the D-mark and the euro.

- ✓ The fixed exchange rate policy ensures a **stable** krone rate and low, stable inflation
- ✓ The fixed exchange rate policy entails a clear **division of responsibilities** in Denmark's economic policy
- ✓ The fixed exchange rate policy is simple and **clear**
- ✓ Denmark enjoys strong **credibility** after 30 years of an unchanged central rate
- ✓ The fixed exchange rate policy is a good framework for **stability-promoting** economic policy

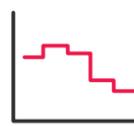
Danmarks Nationalbank's most important tools

Denmark's fixed exchange rate policy acts as a simple and clear monetary policy rule. Danmarks Nationalbank's primary tools are buying or selling foreign exchange or adjusting interest rates.



BUYING OR SELLING KRONER

Danmarks Nationalbank may also influence the exchange rate of the krone by intervening – i.e. buying and selling foreign exchange in the market. When Danmarks Nationalbank buys kroner, the krone strengthens. When Danmarks Nationalbank sells kroner, the krone weakens.



ADJUSTING INTEREST RATES

Raising or lowering the official interest rate can induce strengthening or weakening of the krone. When the foreign exchange market is calm, Danmarks Nationalbank normally adjusts its interest rates in step with the European Central Bank. In the event of upward or downward pressure on the krone, Danmarks Nationalbank may unilaterally adjust its interest rates.

The Danish krone has weathered crises for 30 years

Market rate developments since 1987

