

**2018**

7 September 2018.

## **Monetary policy spillovers in a financially integrated world**

Joint Danmarks Nationalbank – BIS conference to mark the 200th anniversary of Danmarks Nationalbank, Copenhagen, 7-8 September 2018

### **Opening remarks by Lars Rohde**

Dear colleagues and guests,

It is a great pleasure for me to welcome you to this joint Danmarks Nationalbank - BIS conference to mark the 200th anniversary of Danmarks Nationalbank. I am very pleased and honoured that all of you accepted our invitation to join us in this event.

We will have plenty of time to discuss some of the most pressing current and future challenges for monetary policy in a globalised world during the next two days.

But an anniversary of a central bank is also always an opportunity to reflect on the historical developments. So let me offer a few insights from our history.

Fundamentally, the primary objectives of Danmarks Nationalbank have remained unchanged since its establishment in 1818. Our job has always been to focus on price stability, financial stability and well-functioning payment systems.

[Slide 1: Consumer price inflation in Denmark since 1819]

Annual inflation has averaged 1.7 per cent over the last 200 years – below but close to 2 per cent.

At Danmarks Nationalbank's 175th anniversary in 1993, Royal Bank Commissioner Marianne Jelved, then Minister of Economic Affairs, said:

"My hope is that the governors and Royal Bank Commissioner who celebrate the Nationalbank's 200th anniversary in 25 years' time will be able to look back on more than three decades of low inflation."

This has been achieved, and a firm fixed-exchange-rate policy has been an important part of the monetary-policy strategy. Denmark's tradition for a fixed-exchange-rate policy goes actually a long way back in history. In the 19th century, we followed the silver and gold standards. Later, a fixed exchange rate was maintained against the pound sterling, the dollar, the D-mark and now the euro.

Low inflation has been the order of the day the past 200 years, except in periods of war. The notable exception was the 1970s and early 1980s, when inflation reached double-digit rates, government budget deficits were massive and Denmark took any opportunity to devalue the krone. This is not so long ago and reminds us that a stability-oriented economic policy regime should not be taken for granted.

[Slide 2: Staff from Danmarks Nationalbank carrying cash across the street to a bank in financial distress in the 1920s]

We have seen several banking and financial crises the past 150 years. Banking crises are costly for the economy and many studies have been conducted to try to understand why banking and financial crises occur from time to time. They point at many different reasons due to the complex interaction between the real economy and the financial system.

Banking crises are therefore very hard to predict. This stresses the need for a robust financial sector that is able to absorb large losses during a severe economic downturn. The most recent financial crisis revealed that many financial institutions were insufficiently capitalised. Since then, capital requirements have been enhanced, both internationally and in Denmark. This has contributed to a more robust financial system. We have also established mechanisms for controlled resolution of large banks. One of the aims has been to ensure that the key functions of a distressed bank can be continued without any major inconveniences for the customers. Another aim has been to ensure that the owners and investors bear the losses in connection with resolution – not the taxpayers.

[Slide 3: One of Danmarks Nationalbank's first banknotes]

Danmarks Nationalbank issued its first series of banknotes in 1819. The largest note in the series was the 100 rigsbankdaler note. This denomination corresponded to between a half and a full year's pay! Very few banks existed in 1819, and cheques had not yet emerged, so banknotes were used by both households and firms for large financial transactions and as saving instruments in line with large silver and later gold coins.

It has always been important that banknotes are difficult to counterfeit. On Danmarks Nationalbank's first banknotes, the signature was the most important security element. Since then, many more elements have been added to the banknotes, and banknotes are undoubtedly better protected against reproduction today than ever before.

Nowadays, households and firms prefer electronic payment solutions offered by private banks over physical cash. As a result, providing secure IT systems for interbank payments has become a cornerstone of Danmarks Nationalbank's work. Today, the entire financial sector is heavily dependent on complex IT systems, and it is important in relation to upholding trust in the financial system that they always work and are secure. Only a few decades ago, physical bank robberies were at the top of the agenda in any debate on security in the financial sector. Today, cybersecurity is on the top of the list.

I could tell you much more from our first 200 years. But let me stop for now.

I will just conclude my opening remarks by extending a special welcome and thanks to all our distinguished speakers and to the BIS for taking part in organising this conference.

I will also remind you that we follow the Chatham House Rules at this event – you are free to refer to the information received at the conference but without identification of the individual speaker or any other participant.

Thank you for the attention and welcome to Copenhagen.

# DANMARKS NATIONALBANK

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by Lars Rohde



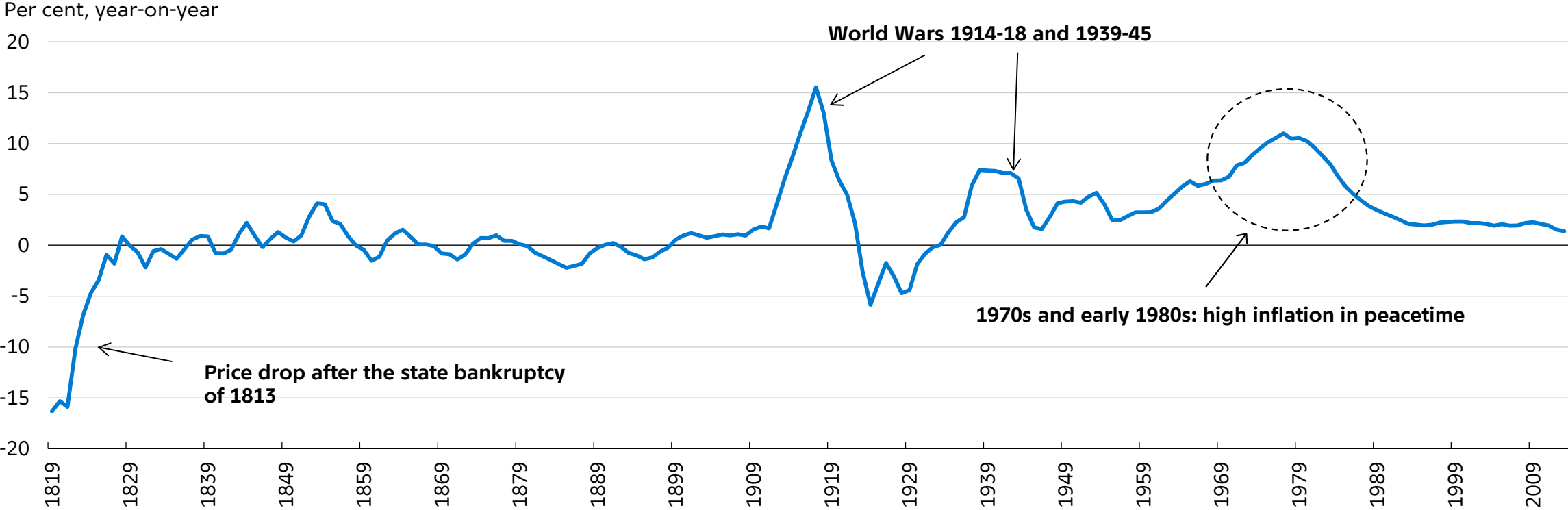
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200 YEARS

2018



# Consumer price inflation in Denmark since 1819



Note: 7-year centred moving average of annual inflation rates.

Source: Abildgren, Kim (2010), Consumer Prices in Denmark 1502-2007, *Scandinavian Economic History Review*, Vol. 58(1), pp. 2-24; and Statistics Denmark.

# Staff from Danmarks Nationalbank carrying cash across the street to a bank in financial distress in the 1920s



Bank staff with bags containing valuables in front of Nationalbanken i København, 1923?, Europeana / Royal Danish Library / Holger Damgård ([http://www.europeana.eu/portal/da/record/92023/BibliographicResource\\_2000068834980.html](http://www.europeana.eu/portal/da/record/92023/BibliographicResource_2000068834980.html)), CC BY-NC-ND 4.0 (<https://creativecommons.org/licenses/by-nc-nd/4.0/>).



# One of Denmark's Nationalbank's first banknotes



Source: Danmarks Nationalbank.