



Danmarks  
Nationalbank

Report and  
Accounts



D A N M A R K S  
N A T I O N A L  
B A N K 2 0 0 6



## REPORT AND ACCOUNTS 2006

At the meeting of the Board of Directors held on 19 March 2007 the Board of Governors reported on the activities of Danmarks Nationalbank. The report was noted.

Danmarks Nationalbank's accounts for 2006 were submitted by the Board of Governors for adoption on the recommendation of the Committee of Directors. The Board of Directors and the Royal Bank Commissioner accepted the recommendation.

This Report is based on information available up to 2 March 2007. The interest-rate decisions of the European Central Bank and Danmarks Nationalbank on 8 March 2007 is included, however.

The small picture on the front cover is a section of the tower coin "Three Brothers", which is the ninth coin in a series of ten coins with towers as their common theme. The motif was designed by the Greenlandic artist Niels Motzfeldt.

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# Contents

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|  |    |
|--|----|
| FOREWORD .....   | 9  |
| <b>REPORT OF THE BOARD OF GOVERNORS</b>                                    |    |
| SUMMARY .....  | 13 |
| THE DANISH ECONOMY   |    |
| International background .....   | 16 |
| The Danish economy .....   | 20 |
| Economic prospects .....   | 28 |
| MONETARY AND FOREIGN-EXCHANGE POLICY                                       |    |
| The framework for the fixed-exchange-rate policy .....                     | 29 |
| The ECB's monetary policy .....  | 31 |
| The monetary and foreign-exchange policy<br>of Danmarks Nationalbank ..... | 33 |
| The money market and short-term interest rates .....                       | 40 |
| FINANCIAL MARKETS  |    |
| Interest rates .....   | 42 |
| Foreign-exchange markets .....   | 45 |
| Stock markets .....  | 47 |
| THE DOMESTIC FINANCIAL SYSTEM  |    |
| Banks .....  | 52 |
| Mortgage-credit institutes .....   | 53 |
| Investment associations .....  | 54 |
| The bond market .....  | 55 |
| Business continuation .....  | 56 |
| Report on the stock market in a globalisation context .....                | 57 |
| BANKNOTES AND COINS  |    |
| Banknotes and coins in circulation .....                                   | 58 |
| Counterfeit banknotes .....  | 60 |

|  |     |
|--|-----|
| New Danish banknote series .....   | 60  |
| The Faroe Islands and Greenland .....  | 61  |
| Increasing activity at The Royal Mint .....                                    | 62  |
| New thematic coins in 2007 .....   | 63  |
| Coin set 2006 .....  | 63  |
| The Royal Mint has its own website .....                                       | 64  |
| <b>PAYMENT SYSTEMS</b>   |     |
| Danish payment and settlement systems in 2006 .....                            | 65  |
| Pledging of collateral for credit facilities at<br>Danmarks Nationalbank ..... | 67  |
| Oversight .....  | 68  |
| IMF assessment of Danish payment and settlement systems .....                  | 69  |
| Target2 .....  | 70  |
| Retail payments .....  | 71  |
| Securities .....   | 72  |
| Settlement of foreign-exchange transactions .....                              | 74  |
| <b>INTERNATIONAL MONETARY COOPERATION</b>                                      |     |
| Enlargement of the EU .....  | 75  |
| Slovenia joins the euro area .....   | 76  |
| The Stability and Growth Pact .....  | 77  |
| The IMF's reform process results in changed voting weights .....               | 80  |
| Focus on the IMF's macroeconomic and financial surveillance .....              | 82  |
| Decline in the IMF's lending .....   | 83  |
| <b>ORGANISATION AND TASKS OF DANMARKS NATIONALBANK</b>                         |     |
| Danmarks Nationalbank's objectives and values .....                            | 86  |
| Danmarks Nationalbank's management and organisation .....                      | 88  |
| Departments .....  | 90  |
| Organisation chart 1 March 2007 .....  | 93  |
| Staff .....  | 94  |
| Operation and management .....   | 97  |
| Danmarks Nationalbank's buildings .....  | 97  |
| Lectures .....   | 98  |
| Representation on committees, etc. ....  | 99  |
| Representation in international organisations .....                            | 99  |
| Foundations and guest apartments .....   | 102 |
| <b>RISK MANAGEMENT</b>   |     |
| Operational risk .....   | 104 |
| Danmarks Nationalbank's management of financial risks .....                    | 106 |

**DANMARKS NATIONALBANK'S ACCOUNTS FOR THE YEAR 2006****REPORT ON DANMARKS NATIONALBANK'S ACCOUNTS**

|  |     |
|--|-----|
| Presentation of Danmarks Nationalbank's accounts ..... | 118 |
|--|-----|

**APPENDIX**

|   |     |
|---|-----|
| Press releases .....  | 138 |
| Danmarks Nationalbank's publications .....                  | 150 |
| Danish bank holidays other than Saturdays and Sundays ..... | 152 |
| APPENDIX OF TABLES .....                                    | 153 |

## Charts

|       |  |    |
|-------|--|----|
| Chart | 1 Growth in the gross domestic product, GDP .....  | 17 |
|       | 2 Monetary-policy interest rates .....   | 18 |
|       | 3 Unemployment .....   | 21 |
|       | 4 Wage increases in Denmark and abroad .....   | 22 |
|       | 5 Increase in consumer prices and IMI .....  | 22 |
|       | 6 Growth in lending by banks and<br>mortgage-credit institutes .....                               | 23 |
|       | 7 Nominal and real effective krone rates .....   | 27 |
|       | 8 Balance of trade and balance of payments .....   | 27 |
|       | 9 Krone vis-à-vis euro .....   | 30 |
|       | 10 Monetary-policy interest rates in Denmark and the<br>euro area .....                            | 32 |
|       | 11 Portfolio investments and the krone rate .....  | 34 |
|       | 12 Short-term interest-rate spreads to the euro area .....   | 40 |
|       | 13 Danmarks Nationalbank's discount rate and the<br>banks' average deposit and lending rates ..... | 41 |
|       | 14 10-year yields in the USA, the euro area, Japan and<br>the UK .....                             | 42 |
|       | 15 Yield curves in the USA and the euro area,<br>beginning and end of 2006 .....                   | 43 |
|       | 16 10-year yield spreads to Germany .....  | 45 |
|       | 17 Dollar vis-à-vis euro .....   | 46 |
|       | 18 Pound sterling, Norwegian krone and<br>Swedish krona vis-à-vis euro .....                       | 47 |

|       |    |   |     |
|-------|----|---|-----|
| Chart | 19 | Stock indices for the USA, the euro area and Japan .....                      | 48  |
|       | 20 | Stock indices for Denmark, Sweden and Norway .....                            | 49  |
|       | 21 | Annual growth in deposits and lending .....                                   | 53  |
|       | 22 | Assets of investment associations<br>by fund type, year-end .....             | 54  |
|       | 23 | Premature redemptions of mortgage-credit bonds<br>and bond yields .....       | 56  |
|       | 24 | Banknotes and coins in circulation, private<br>consumption and GDP .....      | 59  |
|       | 25 | Banknotes in circulation .....  | 59  |
|       | 26 | Counterfeit banknotes found in circulation .....                              | 60  |
|       | 27 | Member states subject to the excessive deficit<br>procedure at end-2006 ..... | 79  |
|       | 28 | IMF lending and Denmark's reserve position .....                              | 85  |
|       | 29 | Distribution by seniority and gender .....                                    | 95  |
|       | 30 | Danmarks Nationalbank's Value-at-Risk .....                                   | 110 |

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## Tables in the text

---

|       |    |   |     |
|-------|----|---|-----|
| Table | 1  | Key figures for the Danish economy .....  | 20  |
|       | 2  | The Danish labour market .....  | 21  |
|       | 3  | Intervention by Danmarks Nationalbank in<br>the foreign-exchange market .....   | 35  |
|       | 4  | Impact of various factors on the net position of the<br>banks and mortgage-credit institutes vis-à-vis<br>Danmarks Nationalbank ..... | 36  |
|       | 5  | Lending to residents by mortgage-credit institutes<br>by loan type .....  | 53  |
|       | 6  | Outstanding volume of listed domestic<br>krone-denominated bonds, nominal value .....   | 55  |
|       | 7  | Payments in kroner .....  | 66  |
|       | 8  | Payments in euro .....  | 66  |
|       | 9  | Staff groups .....  | 94  |
|       | 10 | Interest-rate exposure of Danmarks Nationalbank .....   | 108 |
|       | 11 | Foreign-exchange exposure of Danmarks Nationalbank ...  | 108 |
|       | 12 | Total credit exposure on the foreign-exchange<br>reserve and the domestic securities<br>portfolio, etc., end 2006 .....               | 115 |

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## Boxes

---

|     |   |     |
|-----|---|-----|
| Box | 1 Wages, productivity and competitiveness .....   | 24  |
|     | 2 Maturity of the monetary-policy instruments and<br>fluctuations in the overnight interest rate in the<br>money market ..... | 38  |
|     | 3 Danmarks Nationalbank's monetary-policy and<br>foreign-exchange-policy instruments and operations .....                     | 39  |
|     | 4 The Icelandic krona was under pressure in 2006 .....  | 50  |
|     | 5 The unrest in the stock markets in May 2006 .....   | 51  |
|     | 6 Fairy tale coins .....  | 62  |
|     | 7 Tower and Polar coins .....   | 63  |
|     | 8 The financial infrastructure in Denmark .....   | 65  |
|     | 9 Adjustment of member countries' voting weights<br>in the IMF .....  | 81  |
|     | 10 The Board of Directors of Danmarks Nationalbank,<br>1 March 2007 .....   | 89  |
|     | 11 The Committee of Directors of Danmarks<br>Nationalbank, 1 March 2007 .....   | 90  |
|     | 12 Model for Danmarks Nationalbank's long-term<br>earnings and risk .....   | 113 |

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## Appendix of Tables

---

|       |    |  |     |
|-------|----|--|-----|
| Table | 1  | Annual accounts and monthly balance sheets of Danmarks Nationalbank .....                    | 156 |
|       | 2  | Specification of banknotes in circulation .....  | 160 |
|       | 3  | Specification of coins in circulation .....  | 160 |
|       | 4  | Loans financing decentralised banknote holdings .....  | 161 |
|       | 5  | The banks' and the mortgage-credit institutes' net position with Danmarks Nationalbank ..... | 162 |
|       | 6  | Money stock .....  | 163 |
|       | 7  | The official interest rates of Danmarks Nationalbank ....                                    | 164 |
|       | 8a | The official interest rates of the European Central bank .....                               | 165 |
|       | 8b | Eurosystem monetary-policy operations allotted through tenders .....                         | 165 |
|       | 9  | The foreign-exchange reserve .....   | 166 |
|       | 10 | Denmark's account with the International Monetary Fund .....                                 | 167 |
|       | 11 | Central rate and fluctuation band vis-à-vis euro in ERM II .....                             | 167 |
|       | 12 | Exchange rates .....   | 168 |

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## Foreword

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Danmarks Nationalbank is the central bank of Denmark. Danmarks Nationalbank was established in 1818 and has been a self-governing institution since 1936. The legal basis for Danmarks Nationalbank's activities is the Danmarks Nationalbank Act of 1936, according to which Danmarks Nationalbank's objective is to maintain a safe and secure currency system in Denmark, and to facilitate and regulate the traffic in money and the extension of credit. In its formulation of monetary policy Danmarks Nationalbank is independent of the Folketing (Parliament) and the Government.

The Report and Accounts of Danmarks Nationalbank comprise a presentation and description of Danmarks Nationalbank's Accounts for the year 2006, and the Report of the Board of Governors. The Report of the Board of Governors presents recent trends in the Danish economy, the monetary and foreign-exchange-rate policy and the development in financial and foreign-exchange markets, as well as a review of international monetary cooperation, together with Danmarks Nationalbank's other areas of operation and its organisation.

In the quarterly monetary reviews Danmarks Nationalbank publishes articles on recent trends in a number of areas – including the Danish economy, monetary policy, financial conditions, statistics, banknotes and coins, payment systems, the euro and cooperation within the EU. Articles related to research and development work, often still ongoing, are published electronically as Working Papers. Moreover, Danmarks Nationalbank assesses the stability of the Danish financial sector in the annual Financial Stability publication.

Copenhagen, 2 March 2007

Nils Bernstein

Torben Nielsen

Jens Thomsen



# Report of the Board of Governors



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## Summary

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The Danish economy continued to boom in 2006, unemployment fell to the lowest level since the first part of the 1970s, and employment rose to the highest level ever. An increasing number of bottlenecks were reported. Wage increases rose, and remained higher than among Denmark's trading partners. Domestic market-determined inflation rose, but the rate of increase in the overall index of consumer prices remained low.

The strong increase in private consumption especially reflected the growth in disposable incomes, while the substantial increases in housing wealth were only converted to consumption to a small degree. Recent years' very high rates of increase in housing prices subsided during 2006. Residential and business investments increased considerably. Exports rose, but far less than imports. The current-account surplus decreased by one third, but was still substantial. In view of the risk of detrimental overheating of the economy, prior to the Finance Act negotiations Denmark's Nationalbank recommended a fiscal-policy stance for 2007 that would curtail the increase in overall demand. The government adopted a wait-and-see approach.

In 2006, total employment rose by around 50,000, of whom 36,000 from unemployment or from activation schemes. The number of foreign workers increased by around 7,000, while rising participation rates – especially among older age groups – more than set off the underlying tendency for the labour force to diminish. This can hardly be repeated in 2007, so the shortage of labour will dampen output growth. Even though Denmark's Nationalbank's interest-rate increases since the end of 2005 will slow down the growth in demand to a degree, it will still be high in 2007. In view of the favourable cyclical outlook in both Denmark and abroad, there is still a risk of detrimental overheating.

The government surplus exceeded 4 per cent of GDP in 2006. This primarily reflected the favourable cyclical position, but also exceptionally high tax revenue from North Sea oil and gas production. In 2006 a welfare reform was adopted that is intended to make the Danish economy more robust towards the demographic changes of the next decades.

The banks' profits rose again in 2006, in some cases significantly. There was strong growth in lending and losses were very low. The underlying earnings of the mortgage-credit institutes generally decreased in 2006, primarily as a result of lower remortgaging activity compared to the very high level in 2005.

The global economy remained strong in 2006, with high growth in global GDP and an expansion of world trade. The rising activity was broadly-based, with increasing growth in Europe, sustained growth in the USA and Japan, and high growth in China and India. Although there were indications of stronger inflationary pressure in several countries, inflation remained low.

The fed funds target rate was raised by 0.25 per cent four times during 2006 to 5.25 per cent at year-end. The European Central Bank, ECB, raised its key interest rate in five increments of 0.25 per cent in the course of 2006, and again to 3.75 per cent in March 2007. In view of the risk of higher inflation, monetary policy was tightened in the USA and the euro area.

In both the USA and the euro area yields on the benchmark 10-year government bonds rose in 2006, but not by as much as the monetary-policy interest rates, so that the yield curves flattened.

The krone remained stable against the euro in 2006 at a level close to its central rate in the EU's Exchange-Rate Mechanism, ERM II. Danmarks Nationalbank sold foreign exchange net for kr. 34 billion in 2006, primarily in February. There was no intervention in the first two months of 2007, and the foreign-exchange reserve was kr. 178 billion at the end of February 2007.

Following the ECB's raising of its interest rates, Danmarks Nationalbank raised the lending rate, the discount rate and the current-account rate by 0.25 percentage points on five occasions during 2006, and again in March 2007. In addition, Danmarks Nationalbank unilaterally raised the lending rate by 0.1 percentage point in February 2006 as a consequence of the outflow of foreign exchange. After the interest rate was raised in March 2007 the lending rate was 4.0 per cent, while the discount rate and the current-account rate were 3.75 per cent.

On 1 January 2007, Slovenia adopted the euro and therefore ceased to participate in ERM II. This does not entail any adjustment of the terms for the Danish krone.

Bulgaria and Romania joined the EU on 1 January 2007. The EU now has 27 member states. Experience from 2006 so far with the reform of the Stability and Growth Pact in 2005 is positive, and the budgetary positions of most EU member states – including France and Germany – have improved.

The International Monetary Fund, IMF, undertook its regular review of the Danish economy in 2006. The IMF acknowledged the recent strong economic performance. In 2006 the IMF furthermore concluded its review of the Danish financial system as part of the Financial Sector Assessment Program, FSAP. The IMF overall found the Danish financial systems to be resilient and well-supervised.

In 2006, Danmarks Nationalbank commenced the work of designing a new Danish banknote series to replace the present series from 1997. The theme of the series will be Danish bridges and surrounding landscapes, or details from these landscapes. In the summer of 2006 Danmarks Nationalbank invited eight artists each to submit a draft proposal for the new banknote series, and in January 2007 Kaspar Bonnén and Karin Birgitte Lund were requested to elaborate on their respective proposals. In May 2007 Danmarks Nationalbank will announce which of the two artists is chosen to design the new Danish banknote series.

Two new tower coins and two new fairy tale coins were issued in 2006. Both the tower and fairy tale coin series will be completed in 2007. The tower coin series is followed by a new coin series for which the chosen theme is ships. To mark the International Polar Year, a new coin series with motifs from the Polar regions is issued.

Danmarks Nationalbank's accounts for 2006 show a profit of kr. 2.2 billion, compared to kr. 4.9 billion in 2005. The change is due primarily to a decrease in value adjustments by kr. 0.7 billion compared to an increase in value adjustments of kr. 1.2 billion in 2005, and that there was an extraordinary revenue of kr. 0.8 billion in 2005. Transfer of kr. 0.7 billion from the Value Adjustment Reserve to cover the year's decrease in value adjustments leaves kr. 2.9 billion for distribution, of which kr. 0.6 billion is allocated to the General Reserves and kr. 2.3 billion is payable to the central government.

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## The Danish Economy

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*The Danish economy continued to boom in 2006. The high growth was driven by strong domestic demand, with large increases in private consumption, residential construction and business investments. Exports rose strongly, but far less than imports, and the current-account surplus was reduced by one third of the previous year's level.*

*Although unemployment fell significantly to the lowest level since the first part of the 1970s, wage and price increases remained low, albeit rising, despite the marked shortage of labour.*

*The buoyant economy and the extraordinarily high revenue from North Sea oil and gas activities were reflected in a large government surplus.*

*The risk of an overheating with detrimental future consequences for the Danish economy increased in 2006.*

### **INTERNATIONAL BACKGROUND<sup>1</sup>**

---

The global economy remained strong in 2006. Global GDP grew by 5 per cent, and world trade also expanded. The rising activity was broadly based, with increasing growth in Europe, sustained growth in the USA and Japan, and high growth in China and India. In the assessment of the International Monetary Fund, IMF, Russia, Africa and the Middle East also made economic progress. Although there were indications of stronger inflationary pressure in several countries, the level of inflation remained low.

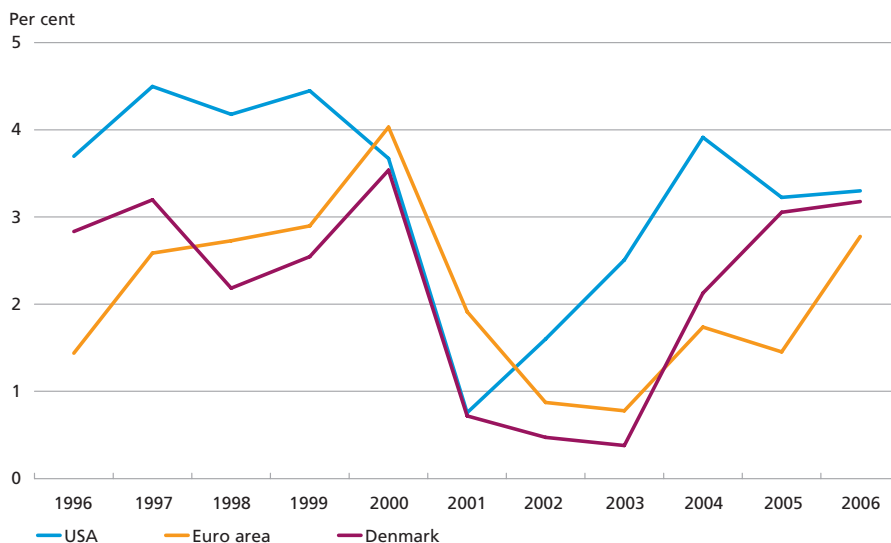
In the USA, GDP rose by 3.3 per cent in 2006, which is at the level of the preceding year, cf. Chart 1. However, there were signs of a curbing of growth after several years' upswing. The slowdown was particularly apparent in the housing market, where investments fell and prices stagnated. Private consumption still contributed significantly to the increase in output, although the growth rate diminished a little to 3.2 per cent. The employment situation was favourable, and rising employment in the service sector more than offset the decline in industry. Against the background of mounting capacity pressure, the strong expansion of business investments continued.

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<sup>1</sup> For a number of areas, official full-year figures for 2006 were not available at the time of going to press. Unless otherwise stated, estimates from the OECD, Economic Outlook, no. 80, December 2006, are used in these cases.

GROWTH IN THE GROSS DOMESTIC PRODUCT, GDP

Chart 1



Note: Real GDP growth.

Source: Statistics Denmark and Reuters EcoWin.

The robust development in domestic demand was also reflected in a significant upturn for imports. The growth in exports was equally strong, and the current-account deficit of 6.6 per cent of GDP was equivalent to the preceding year's high level.

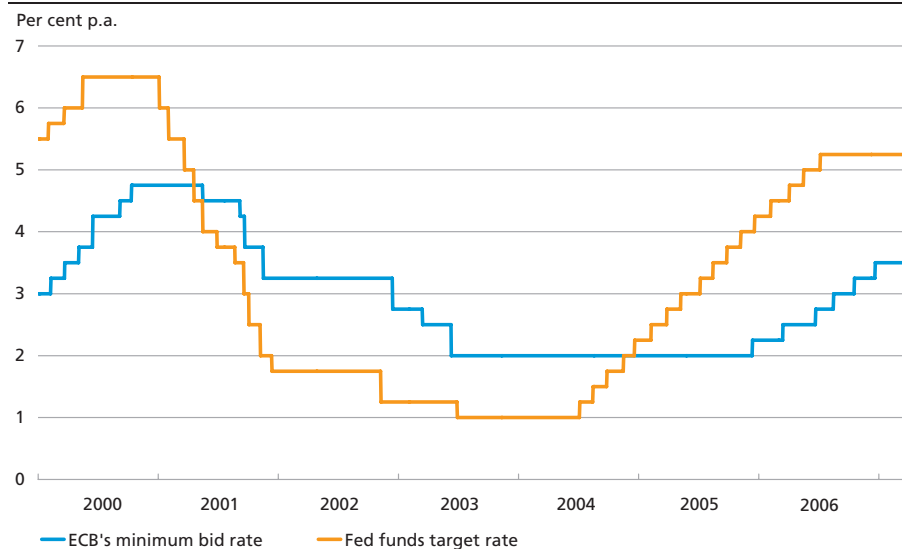
Wage increases rose as unemployment fell during the year. In the autumn, core inflation measured as the index of consumer prices excluding energy and food reached 2.9 per cent year-on-year, but then receded a little. In December 2006, consumer prices were 2.5 per cent higher than in December 2005.

In the 1st half-year the Federal Reserve continued the tightening of monetary policy that it begun in mid-2004. The fed funds target rate was raised by a total of 1 percentage point in four increments, cf. Chart 2, reaching 5.25 per cent on the most recent increase in June 2006. The decision not to raise the fed funds target rate further was based on the receding growth and expectations that inflationary pressure would gradually subside.

*Euro area* growth picked up in 2006, and GDP rose by 2.6 per cent. The upswing was based on rising domestic demand. Growth in investments increased, and private consumption expanded, rising by 1.8 per cent against the previous year. Unemployment declined further over the year to 7.5 per cent in December.

## MONETARY-POLICY INTEREST RATES

Chart 2



Source: Reuters EcoWin.

Core inflation in the euro area was stable at around 1.5 per cent year-on-year in 2006. Inflation measured by the EU Harmonised Index of Consumer Prices, HICP, fell to around the same level in the late summer after energy prices dived. Inflation was just below 2 per cent towards the end of the year. The European Central Bank, ECB, raised its key interest rate in five increments to 3.5 per cent in the course of 2006. The interest rate was raised further to 3.75 per cent in March 2007. The ECB cited the risk of higher inflation as the basis for tightening its monetary policy, cf. p. 32.

In Asia, the economic upswing continued, with high growth in *China* in particular. As in previous years, *China's* GDP rose by around 10 per cent in 2006, with strong growth in exports and investments. Investment growth was, however, moderated to a degree by a tightening of monetary policy, combined with administrative measures. The current-account surplus is estimated to have reached 8 per cent of GDP, and the People's Bank of *China* allowed a certain gradual strengthening of the renminbi against the dollar. The effective exchange rate of the renminbi did not appreciate in 2006, however.

The upswing in *Japan* continued in 2006, and GDP rose by 2.2 per cent. Private consumption did not increase quite as much as the year before, but did contribute to the upswing in activity, together with strong export growth and expansion of business investments. Consumer prices rose only slightly, and core inflation remained negative. In view of the sustained

upswing in the Japanese economy, the Bank of Japan abandoned its zero-interest-rate policy and in July 2006 raised its official interest rate to 0.25 per cent, and then to 0.5 per cent in February 2007.

In the *UK*, GDP growth was 2.7 per cent in 2006, driven by robust expansion of domestic demand. Rising employment helped to underpin private consumption. After weak development the year before, the housing market picked up again in 2006 with house-price increases of almost 10 per cent. As a result of higher immigration and a rising participation rate, the labour force grew more than employment, and unemployment rose a little to 5.5 per cent. The rate of wage increase edged down, while the increase in HICP rose to 3.0 per cent year-on-year in December. The official bank rate was raised in August and November 2006, and again in January 2007, by a total of 0.75 percentage points to 5.25 per cent.

*Sweden* saw strong economic expansion in 2006, with high growth in private consumption and investments. The higher activity in recent years led to a marked increase in employment in 2006. Stronger domestic price pressure nudged up inflation from its low level. Sveriges Riksbank tightened its monetary policy during 2006, raising the repo rate from 1.50 per cent to 3 per cent, and to a further 3.25 per cent in February 2007.

In *Norway*, domestic demand increased strongly in 2006 and GDP grew by 2.9 per cent. Pressure on the labour market intensified, and unemployment fell to 2.8 per cent in December. Consumer price inflation was edging up, while core inflation remained around 1 per cent year-on-year. In 2006 Norges Bank raised the sight deposit rate by a total of 1.25 percentage points to 3.50 per cent, and to a further 3.75 per cent in January 2007.

In the 1st half-year, 10-year yields increased in both the USA and Germany. Subsequently, the long-term yields were generally falling until December, with the biggest decline in the USA. The narrowing of the long-term yield spread between the USA and Germany reflected, among other things, that the tightening of US monetary policy had ended, while further tightening was still expected in the euro area. During the year the euro strengthened considerably vis-à-vis the dollar and the yen.

The strong oil price rises of recent years continued until August, when the price of Brent oil exceeded 75 dollars per barrel. The oil price then fell back to the level of around 60 dollars per barrel from the beginning of 2006. The oil price was underpinned by the strong global demand in 2006. Factors contributing to the significant price fluctuations included intermittent uncertainty of supply, including unrest in Nigeria and the Middle East, combined with limited spare production capacity. The high global growth rate was also reflected in considerable price increases for other commodities, especially industrial metals, during the year.

| KEY FIGURES FOR THE DANISH ECONOMY                           |      |      |      |      | Table 1 |
|--|------|------|------|------|---------|
| Real growth against the previous year, per cent              | 2002 | 2003 | 2004 | 2005 | 2006    |
| GDP .....  | 0.5  | 0.4  | 2.1  | 3.1  | 3.2     |
| Private consumption .....                                    | 1.5  | 1.0  | 4.7  | 4.2  | 3.0     |
| Government consumption and investments .....                 | 1.5  | 0.2  | 2.2  | 1.2  | 0.3     |
| Business investments .....                                   | 0.8  | -3.0 | 1.4  | 7.4  | 15.5    |
| Residential investments .....                                | 0.8  | 11.8 | 14.4 | 16.7 | 8.9     |
| Domestic demand, excluding stockbuilding .....               | 1.4  | 0.7  | 4.0  | 4.4  | 4.3     |
| Stockbuilding <sup>1</sup> .....                             | 0.3  | -0.5 | 0.1  | -0.1 | 0.3     |
| Domestic demand, total .....                                 | 1.7  | 0.2  | 4.1  | 4.3  | 4.6     |
| Exports .....  | 4.1  | -1.0 | 2.2  | 7.3  | 9.9     |
| Imports .....  | 7.5  | -1.6 | 7.0  | 10.8 | 13.8    |
| Net exports <sup>1</sup> .....                               | -1.1 | 0.2  | -1.7 | -1.0 | -1.3    |
| Unemployment, per cent of labour forces .....                | 5.2  | 6.2  | 6.4  | 5.7  | 4.5     |
| Consumer price index <sup>2</sup> , percentage growth .....  | 2.4  | 2.0  | 0.9  | 1.7  | 1.9     |
| Housing price index <sup>3</sup> , percentage growth .....   | 2.5  | 5.4  | 9.7  | 22.7 | 18.5    |
| Current account, per cent of GDP .....                       | 2.5  | 3.4  | 3.1  | 3.8  | 2.4     |
| Government balance, per cent of GDP .....                    | 0.2  | -0.1 | 1.9  | 4.6  | 4.3     |
| Private savings surplus <sup>4</sup> , per cent of GDP ..... | 2.3  | 3.5  | 1.2  | -0.8 | -1.9    |

Source: Statistics Denmark, the Association of Danish Mortgage Banks and own calculations.

<sup>1</sup> Contribution to growth in GDP.

<sup>2</sup> The EU Harmonised Index of Consumer Prices, HICP.

<sup>3</sup> Quarterly statistics for prices of single-family and terraced houses published by the Association of Danish Mortgage Banks, growth from 4th quarter to 4th quarter.

<sup>4</sup> Current account minus government budget (rounded).

## THE DANISH ECONOMY

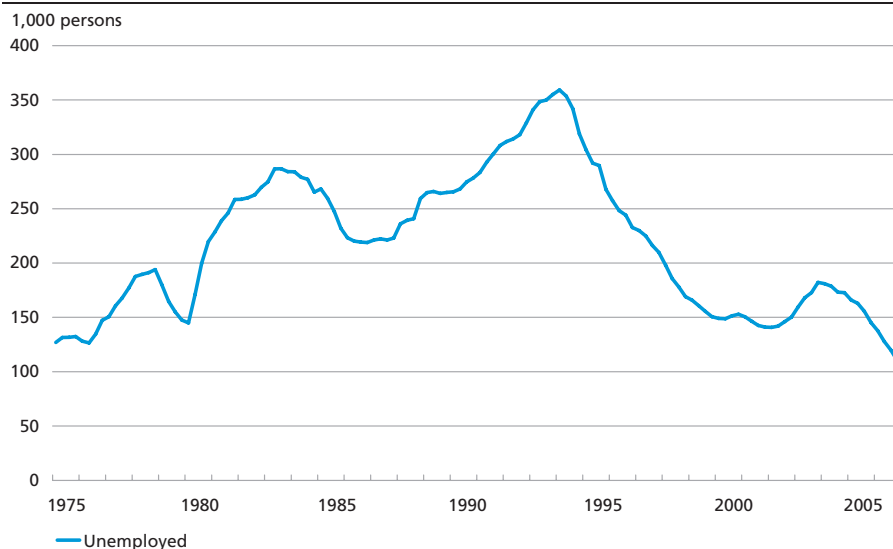
The economy continued to boom in 2006, with GDP growth at the same level as in 2005, cf. Table 1. Employment rose significantly, and unemployment fell by 34,000 to the lowest level since the first part of the 1970s, cf. Chart 3. Increasing reports of bottlenecks in many sectors and regions indicated that the increase in employment did not fully match the demand for labour. Particularly the construction and service sectors had many vacancies.

The labour force grew by 15,000 in 2006, cf. Table 2. The cyclically driven influx to the labour force thereby exceeded the decline in current years attributable to the ageing of the population. The influx of foreign labour numbered around 7,000.

The strong pressure in the labour market led to slightly higher wage increases in 2006 than in 2005. The tendency for higher wage increases was seen in most sectors, especially those where unemployment was lowest. For the private sector overall, the rate of wage increase reached 3.1 per cent year-on-year in the 4th quarter. Wage growth in Denmark

## UNEMPLOYMENT

Chart 3



Note: Seasonally adjusted quarterly figures.

Source: Statistics Denmark.

in 2006 was higher than in the euro area and among Denmark's other trading partners, cf. Chart 4. The higher Danish wage increases reflect that Denmark's labour market has been tighter than the euro area's for a number of years, cf. Box 1 p. 24.

## THE DANISH LABOUR MARKET

Table 2

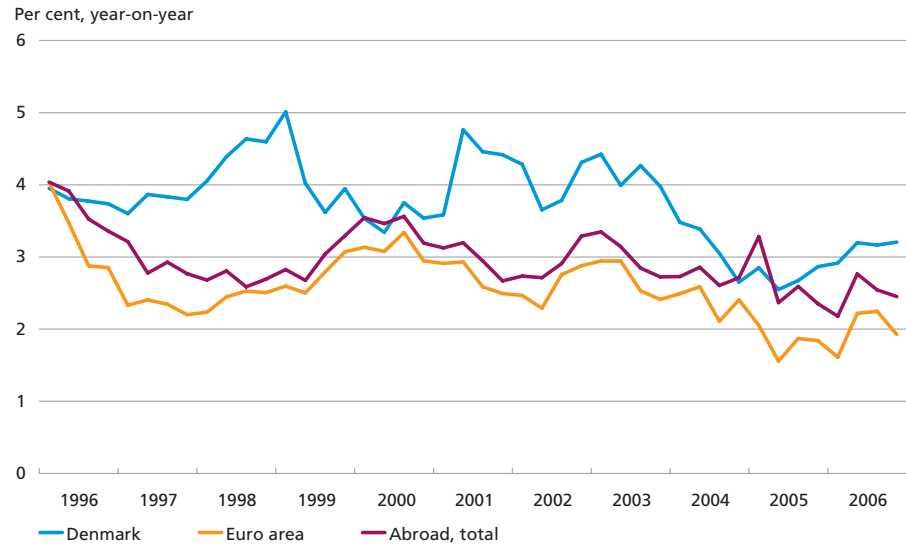
| 1,000 persons, annual averages  | 2002  | 2003  | 2004  | 2005  | 2006  |
|---|-------|-------|-------|-------|-------|
| <b>Wage and salary earners:</b>   |       |       |       |       |       |
| Private sector .....  | 1,728 | 1,706 | 1,711 | 1,734 | 1,781 |
| Public sector .....   | 833   | 820   | 821   | 818   | 816   |
| Self-employed .....   | 182   | 180   | 174   | 174   | 177   |
| Total employment .....  | 2,743 | 2,706 | 2,707 | 2,726 | 2,775 |
| Unemployed .....  | 146   | 171   | 177   | 158   | 124   |
| Labour force .....  | 2,889 | 2,878 | 2,884 | 2,884 | 2,899 |
| People in training schemes <sup>1</sup> .....   | 47    | 40    | 40    | 38    | 35    |
| People receiving transitional allowance<br>and people under 65 receiving early<br>retirement benefit <sup>2</sup> ..... | 125   | 127   | 128   | 132   | 137   |
| Recipients of leave benefit, including<br>maternity/paternity leave .....   | 53    | 55    | 56    | 57    | 56    |
| Unemployment, per cent of labour force .....  | 5.2   | 6.2   | 6.4   | 5.7   | 4.5   |
| Unemployment, EU definition,<br>per cent of labour force .....  | 4.6   | 5.4   | 5.5   | 4.8   | 3.8   |

Source: Statistics Denmark, Eurostat and own calculations.

<sup>1</sup> Training schemes comprise guidance and upgrading of skills, as well as integration training.<sup>2</sup> 65-66-year-olds receiving early retirement benefit – 2002; 55,000, 2003; 59,000, 2004; 59,000, 2005; 34,000, and 2006; 7,000.

WAGE INCREASES IN DENMARK AND ABROAD

Chart 4

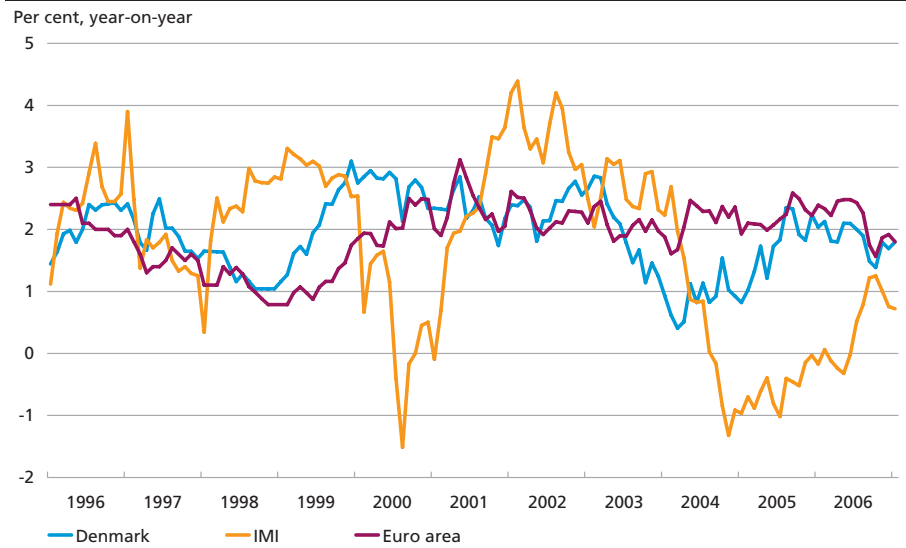


Note: Abroad, total is the countries included in the effective krone rate index. Wage increases concern the manufacturing sector and are weighted together using the weights of the effective krone rate index.  
 Source: OECD, Statistics Denmark, Confederation of Danish Employers and own calculations.

Core inflation, compiled exclusive of energy and food, was rising. Domestic market-determined inflation, IMI, i.e. the development in prices that are determined on market terms in Denmark, also showed a distinct increase in 2006, cf. Chart 5. The increased pressure on domestic prices was related to wage costs, and to the restoration of business profit margins, which had

INCREASE IN CONSUMER PRICES AND IMI

Chart 5



Note: EU Harmonised Index of Consumer Prices, HICP. IMI is an expression of domestic market-determined inflation in Denmark.  
 Source: Statistics Denmark, Eurostat and own calculations.

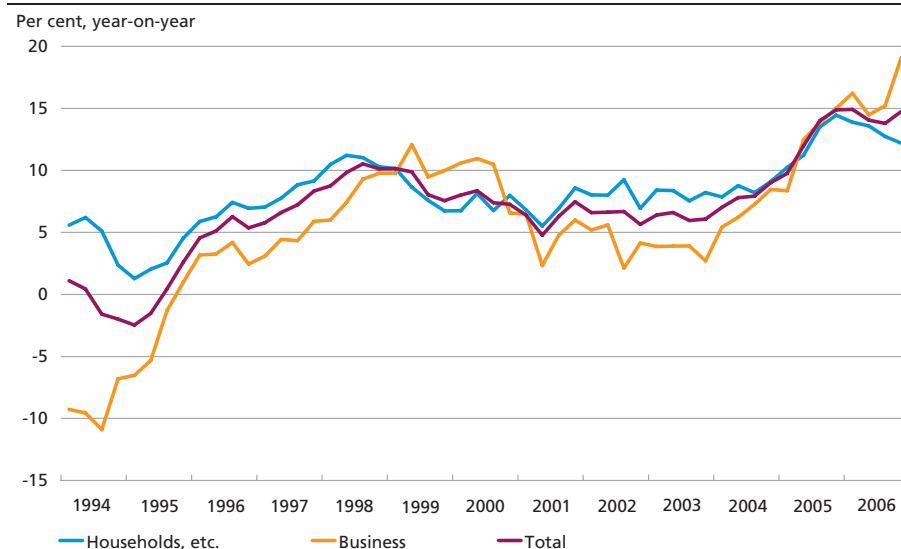
been rather squeezed by the high energy and import prices in recent years. The increase in the overall EU Harmonised Index of Consumer Prices, HICP, was 1.9 per cent for the full year. Inflation diminished in the autumn as energy prices reverted to around the level at the beginning of the year.

Fiscal policy has been expansionary in recent years, although total government consumption increased less in 2006 than in 2005. Government investments in building and construction rose, among other things as a result of building projects prior to the local government structural reforms.

Private consumption, which has been the principal driver of the upswing in the Danish economy, increased by 3.0 per cent in 2006. Private residential construction also continued to rise. The expansion of consumption especially reflected the growth in disposable incomes, while the substantial increases in housing wealth were only converted to consumption to a small degree.

The housing market remained buoyant, but towards the end of the year the price increases had subsided. The lower rate of price increase *inter alia* reflects the increase in interest rates, especially at the short end of the yield curve. The number of homes for sale rose substantially during the year and the housing market became more of a buyer's market. Growth in the households' borrowing from banks and mortgage-credit institutes remained high, but receded a little during the year, to 12 per cent year-on-year in December, cf. Chart 6. In particular, more deferred-amortisation loans were raised by households, and these loans accounted for just over one third of the households' total mortgage-credit loans at end-2006.

GROWTH IN LENDING BY BANKS AND MORTGAGE-CREDIT INSTITUTES Chart 6



Note: Including lending by Danish banks' units abroad. End of quarter. The most recent observations are from the 4th quarter of 2006.

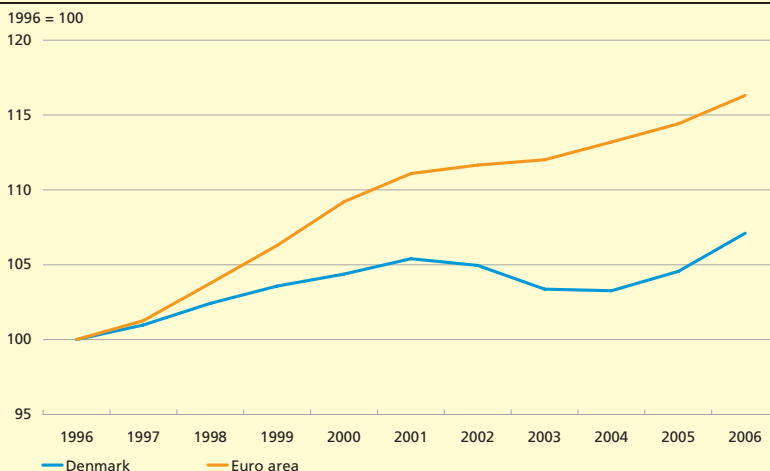
## WAGES, PRODUCTIVITY AND COMPETITIVENESS

Box 1

For a prolonged period, Danish wages have increased at a higher rate than those of Denmark's trading partners, including the euro area. The hourly wage of a Danish industrial worker has thus increased by an average of 3.8 per cent p.a. since 1996, while the average for industrial workers in the euro area was 2.6 per cent in the same period. Wage increases in the private sector overall have also been higher in Denmark than in the euro area.

At the same time, the development in employment has been relatively weaker in Denmark, cf. the Chart. This is also related to the only moderate increase in the Danish labour force in the past ten years, while the euro area's labour force has been steadily increasing. As a consequence, the participation rate in the euro area has drawn closer to the Danish rate, which is among the highest in the world. With unemployment falling from 9 per cent of the labour force in 1996 to 5 per cent in 2006, Denmark's labour market has therefore been tighter than in the euro area, where unemployment fell from 10 per cent to 8 per cent in the same period.

## DEVELOPMENT IN PRIVATE-SECTOR EMPLOYMENT



Note: Annual series. The data for 2006 is OECD estimates.

Source: OECD, *Economic Outlook*, no. 80.

Since overall output has shown more or less the same increase in Denmark and the euro area since 1996, productivity in terms of output per employee has developed more favourably in Denmark. Measured as output per hour, however, productivity improved slightly more in the euro area than in Denmark from 1996 to 2005. The difference between the two compilations of productivity reflects that the number of working hours per employee has risen in Denmark, but fallen in the euro area. It is well-known that different productivity measures often yield different results, reflecting both conceptual issues and the fact that compilations of productivity are subject to considerable uncertainty due to measurement problems.

The development in wages relative to the euro area and other trading partners is often the basis for assessment of the development in competitiveness. The real effective krone rate based on hourly wages is thus an expression of relative wages in Denmark and abroad, measured in a common currency. Since 1996, the real effective krone rate has strengthened by around 7 per cent as a consequence of the higher wage increases in Denmark. This points to diminished competitiveness, cf. Chart 7, p. 27. Exchange-rate

changes have led to more short-term fluctuation in the real effective krone rate. These fluctuations are, however, dampened by the minimal exchange-rate changes vis-à-vis Denmark's principal trading partner, i.e. the euro area, due to the fixed-exchange-rate policy. Exchange-rate fluctuations have had very little impact on the real effective krone rate in the past 10 years taken as one.

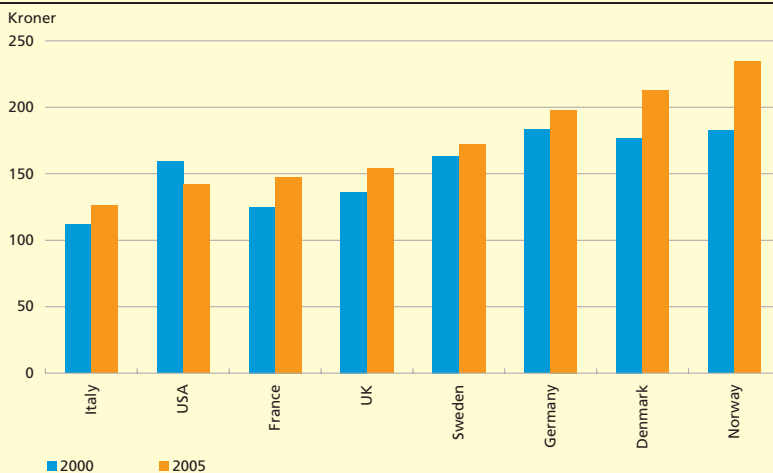
On assessment of Danish enterprises' ability to compete with foreign enterprises in the export and home markets the real effective exchange rate cannot stand alone. For example, a strengthening of the real effective krone rate based on hourly wages does not correspond to a loss of competitiveness if productivity has risen equivalently more in Denmark than abroad. More generally, competitiveness is also influenced by other factors that are difficult to measure precisely, e.g. production efficiency and flexibility, the ability to switch to products that consumers are willing to pay a good price for, a sound operational framework for enterprises and stable macroeconomic conditions.

It can therefore also be worthwhile to consider the development in exports. Since 1996, the market share of manufactured exports has fallen by approximately 13 per cent in volume terms. In value terms, the decrease in market share is only 6 per cent, since prices for Danish manufactured exports have developed favourably. The tendency for market shares to be falling is also seen in other western European countries, while a number of countries in Asia and eastern Europe have gained market shares.

Manufactured exports in constant prices have risen by approximately 6 per cent p.a. on average since 1996, which is more or less in line with the overall development in exports of goods and services. The sound export growth has contributed to ensuring a sustained trade surplus. Except in 1998, the current account of the balance of payments has also shown a surplus over the past 10 years. The higher wage increases have thus not led to problems with the overall external position.

At the same time, the profitability of business enterprises' production in Denmark has been sound, even though total hourly wage costs in industry are high in an international perspective, cf. the Chart. Looking ahead, a higher wage level in Denmark than abroad will require the continued flexibility and adaptability of employees and business enterprises.

HOURLY WAGE COSTS IN MANUFACTURING, 2000 AND 2005



Note: Wage costs comprise hourly wages, pension contributions, social contributions, etc.  
Source: Bureau of Labor Statistics.

Business investments in machinery and other plant and equipment rose considerably. The expansion of the production capacity via capital investment should be viewed in the light of the tight labour market. The high propensity to invest furthermore reflected the sustained low level of interest rates. Business investments in building and construction also rose in 2006, following several years of weak development. The growth in the corporate sectors' borrowing from banks and mortgage-credit institutes increased, and borrowing in December 2006 was 19 per cent higher than in December 2005.

As in previous booms, the strong growth in domestic demand exerted considerable upward pressure on imports. One underlying reason for the growth in imports by 14 per cent was that the Danish economy was close to its capacity limit in 2006, making it difficult to increase production further. Imports of both consumer goods and goods for the business sector, including raw materials and semi-manufactures for production, increased.

Exports rose by 10 per cent, which was remarkable in view of the pressure on domestic production capacity. Sales to abroad benefited from high or increasing growth among Denmark's principal trading partners. Market shares for manufactured exports are estimated to be by and large unchanged from 2005 to 2006. The positive export trend indicates that the competitiveness of Danish enterprises is still high, cf. Box 1.

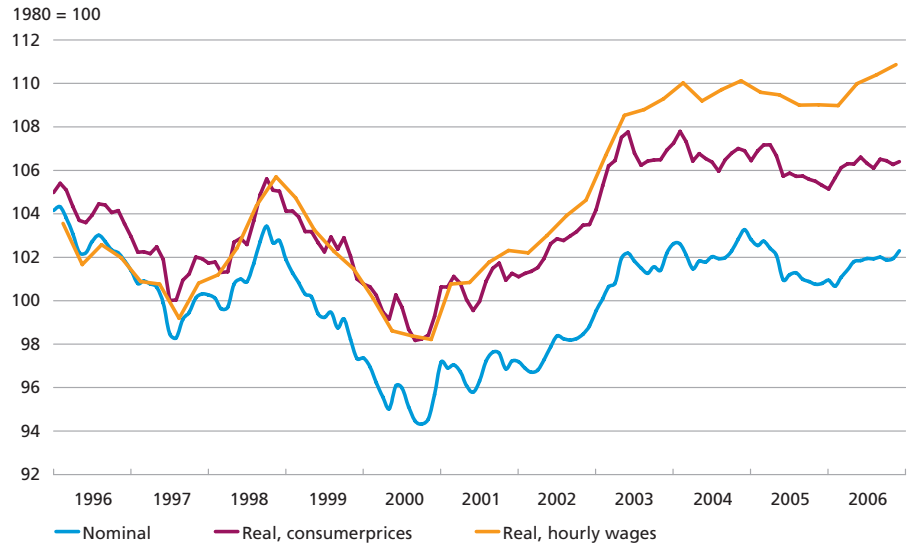
The nominal effective krone rate strengthened by 1 per cent during 2006, primarily due to the euro's appreciation against the dollar, cf. Chart 7. The real effective krone rate based on consumer prices strengthened equivalently, since price increases in Denmark were at the level of the weighted average of price increases abroad. Due to the stronger wage development in Denmark, the real effective krone rate based on hourly wages strengthened a little more. The strengthening of the real effective krone rate indicates a slight deterioration in competitiveness in 2006.

The trade surplus declined in 2006 as a consequence of the strong growth in imports, cf. Chart 8. The terms of trade were more or less unchanged compared with 2005, although the high oil prices during the summer led to a temporary improvement. The balance of payments continued to show a sound surplus of 2.4 per cent of GDP. The absence of previous times' large interest payments on the external debt has helped to maintain the current-account surplus in recent years.

The favourable economic development was reflected in a government surplus of 4.3 per cent of GDP, attributable to high revenue from direct and indirect taxes, as well as low expenditure on e.g. unemployment benefits. In addition, the high energy prices led to especially high tax revenue from North Sea oil and gas production.

NOMINAL AND REAL EFFECTIVE KRONE RATES

Chart 7

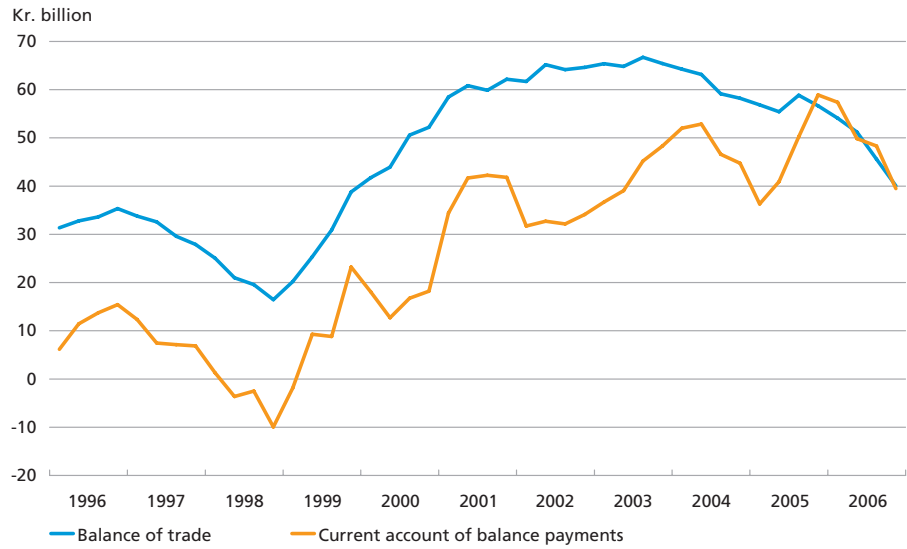


Note: The real effective krone rate based on consumer prices denotes the development in Danish prices compared to prices abroad, measured in a common currency. The real krone rate based on hourly wages in manufacturing industry denotes the development in Danish wages compared to abroad, measured in a common currency.  
 Source: OECD, Statistics Denmark, Confederation of Danish Employers and own calculations.

The demographic changes in the coming decades will put a strain on government finances in the future. In 2006, a welfare reform was adopted in order to make the Danish economy more robust towards these changes.

BALANCE OF TRADE AND BALANCE OF PAYMENTS

Chart 8



Note: Trade balance excluding ships according to the foreign trade statistics. Four-quarter sum of the balance.  
 Source: Statistics Denmark.

The primary objective was to increase the retirement age by raising the eligible ages for early retirement benefit and state retirement pension by two years. The reform will be phased in gradually from 2019. In the longer term it is envisaged that the retirement age will be adjusted further as life expectancy changes.

## **ECONOMIC PROSPECTS**

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The favourable economic development is set to continue in 2007. A slower increase in domestic demand is, however, to be expected after the strong growth in 2006 as a consequence of the interest-rate increases since the end of 2005 and the dampening of the housing market. Private consumption is foreseen to more or less match the increase in disposable incomes. The large increases in housing wealth of previous years have only been converted to consumption on a small scale. There is thus no reason to believe that the slowdown in the property market will dampen consumption to any significant degree. As a consequence of the high level of domestic activity it will hardly be possible to fully retain market shares in the export markets. On the other hand, exports will benefit if the expectations of high growth among Denmark's trading partners are fulfilled.

Subject to these conditions, the capacity pressure in the Danish economy will increase further. The shortage of labour is also expected to make its mark in 2007 and will dampen output growth. The demographic changes in themselves entail a reduction of the labour force. This can be countered by continuing to increase the labour-market participation rate, or by importing labour.

In the autumn of 2006 Denmark's Nationalbank recommended that fiscal policy for 2007 should curtail the increase in overall demand. The government's position was to adopt a wait-and-see approach, with a fiscal-policy stance that entails a neutral impact on GDP growth in 2007.

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## Monetary and Foreign-Exchange Policy

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*In 2006, the krone remained stable against the euro at a level close to the central rate.*

*In connection with intervention in the foreign-exchange market Danmarks Nationalbank sold foreign exchange net for kr. 34 billion in 2006. Most of the intervention took place in connection with the outflow of foreign exchange in February, when Danmarks Nationalbank unilaterally raised the lending rate by 0.1 percentage point. There was no intervention in the first two months of 2007. The foreign-exchange reserve was kr. 178 billion at the end of February 2007.*

*During 2006 the ECB raised its key interest rate on five occasions by a total of 1.25 percentage points. In March 2007 the ECB raised the interest rate by a further 0.25 percentage points. In all cases these interest-rate increases were followed by Danmarks Nationalbank. After the interest-rate increase in March 2007, Danmarks Nationalbank's lending rate was 4.0 per cent, and the spread to the ECB's minimum bid rate was 0.25 percentage points.*

*At the beginning of 2006, Danmarks Nationalbank made a slight adjustment to the framework for the current-account deposits of the banks and mortgage-credit institutes. No changes were made to the other monetary-policy instruments in 2006. At the beginning of 2007, minor adjustments were made to the framework for the provision of collateral for monetary-policy loans from Danmarks Nationalbank.*

*In May 2007, the maturity of Danmarks Nationalbank's monetary-policy lending and certificates of deposit is adjusted from 14 to 7 days. The purpose of the adjustment is to reduce the strong fluctuation in the day-to-day interest rate that can arise prior to expected interest-rate adjustments.*

*On 1 January 2007, Slovenia adopted the euro and therefore ceased to participate in ERM II. The reduction of the number of ERM II participants does not entail any adjustment of the terms for the Danish krone.*

### **THE FRAMEWORK FOR THE FIXED-EXCHANGE-RATE POLICY**

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The objective of Denmark's monetary and foreign-exchange policy is to keep the krone stable against the euro. The objective of the euro area's monetary policy is to keep inflation below, but close to, 2 per cent. Holding the krone stable against the euro creates a framework for low, stable inflation in Denmark in the slightly longer term.

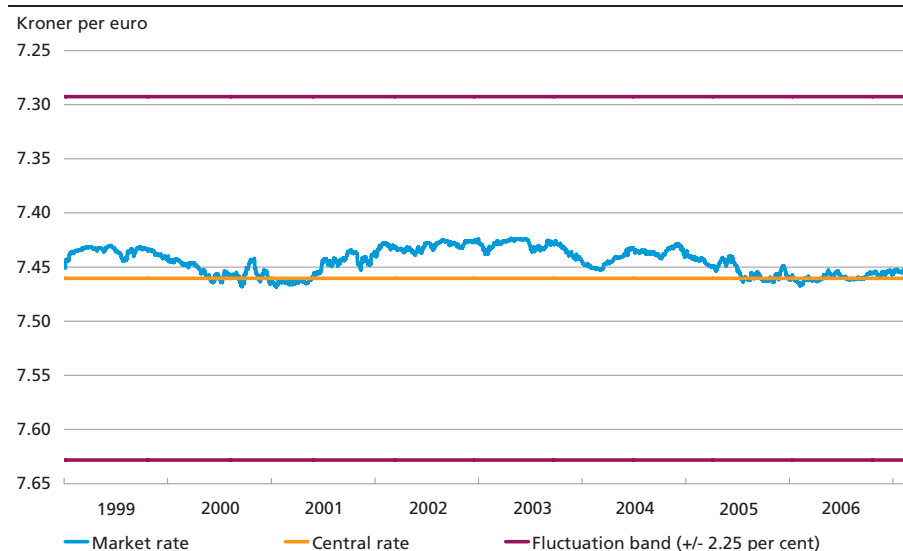
As a consequence of the fixed-exchange-rate policy, Danmarks Nationalbank's interest rates normally follow those of the European Central Bank, ECB, for the euro area. Danmarks Nationalbank smoothes minor fluctuations in the krone rate by intervening in the foreign-exchange market by buying and selling foreign exchange against kroner. If there is a more prolonged tendency for the krone to strengthen or weaken, Danmarks Nationalbank unilaterally adjusts its interest rates.

The official interest rates are used only to stabilise the krone, and not for other purposes. Other factors besides the krone rate – e.g. the cyclical position – thus cannot be part of the monetary-policy deliberations. A stability-oriented fiscal policy is therefore required in order to avoid overheating, as well as high unemployment.

ERM II is the formal framework for Denmark's fixed-exchange-rate policy. Denmark participates in ERM II at a central rate of kr. 7.46038 per euro. As a consequence of Denmark's stability-oriented economic policy, a narrower fluctuation band was agreed when Denmark joined ERM II, whereby the krone may fluctuate by +/- 2.25 per cent around the central rate. The standard fluctuation band in ERM II is +/- 15 per cent. The euro is at the core of ERM II, and the other participating currencies are subject to central rates against the euro, but not against each other. Should a currency reach a fluctuation limit, both the ECB and the relevant national central bank must ensure that the exchange rate remains within the fluctuation band.

KRONER VIS-À-VIS EURO

Chart 9



Note: Reverse scale.

tuation band. The other participants have no intervention obligation. Danmarks Nationalbank would thus not have to intervene in the foreign-exchange market if one of the other currencies in ERM II came under pressure.

Throughout 2006, the krone was stable at a level close to the central rate, cf. Chart 9, in accordance with Danmarks Nationalbank's objective to hold the krone close to the central rate. For most of the period since the introduction of the euro in 1999 it has been possible to keep the krone stable without any major monetary-policy or foreign-exchange-policy intervention by Danmarks Nationalbank.

In 2006, the group of ERM II participants numbered Cyprus, Estonia, Latvia, Lithuania, Malta, Slovakia and Slovenia, besides Denmark and the ECB. Slovenia adopted the euro on 1 January 2007, cf. p. 76, and therefore ceased to participate in ERM II. The change in the group of ERM II participants does not entail any adjustment of the terms for the Danish krone. In connection with Slovenia's withdrawal from ERM II and the simultaneous enlargement of the EU with Bulgaria and Romania, minor technical adjustments were made to the central-bank agreement on ERM II.<sup>1</sup>

## THE ECB'S MONETARY POLICY

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The objective of the ECB's monetary policy is to maintain price stability, with inflation below, but close to, 2 per cent in the medium term. Monetary-policy decisions in the euro area are based on detailed economic and monetary analyses designed to assess the future risks to price stability.

In 2006, consumer prices in the euro area, measured in terms of the EU Harmonised Index of Consumer Prices, HICP, rose by 2.2 per cent against 2005. Energy prices fell in the 2nd half of 2006, bringing inflation below 2 per cent for the first time since the beginning of 2005. Throughout 2006, core inflation (the year-on-year increase in HICP excluding energy and food) was around 1.5 per cent. During 2006 the economic upswing in the euro area became increasingly apparent from the real-economic indicators, with sustained robust growth in both money and credit. The ECB's projections of growth in the euro area in 2006 and 2007 were revised upwards during 2006, and throughout the year the ECB stated in its press releases that the economic development entailed upside risks to price stability in the medium term.

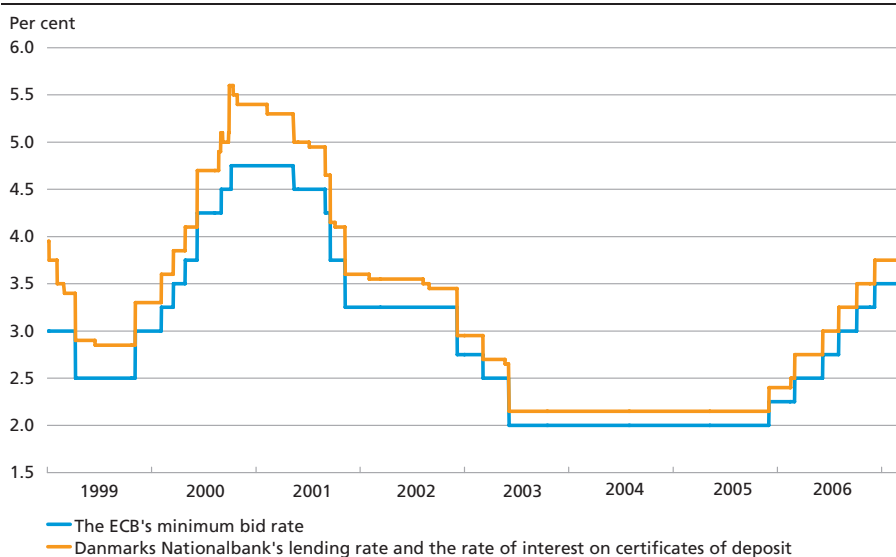
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<sup>1</sup> The agreement is available at [www.nationalbanken.dk](http://www.nationalbanken.dk).

During 2006, the ECB continued the adjustment of the level of its key interest rate, the minimum bid rate, which began in December 2005. On 2 March 2006, the ECB raised the minimum bid rate by 0.25 percentage points to 2.5 per cent. On five further occasions during 2006 and the beginning of 2007 the ECB's minimum bid rate was raised by 0.25 percentage points. The interest-rate decisions took place on 8 June, 3 August, 5 October and 7 December 2006, and 8 March 2007. The ECB stated a higher inflation risk, against the background of the favourable economic outlook for the euro area, as the basis for the interest-rate decisions. In addition, it was noted that money and credit growth was still strong, and that there was an increased risk of oil-price increases spreading to other areas of the economy, thereby affecting wage formation. The interest-rate increase in March 2007 brought the minimum bid rate up to 3.75 per cent, cf. Chart 10.

In recent years the ECB has sought to prepare the general public for upcoming interest-rate adjustments via its communication of monetary policy. All of the ECB's interest-rate increases in 2006 were therefore expected and had been discounted in the money-market interest rates in the months preceding the interest-rate increases in both the euro area and Denmark.

MONETARY-POLICY INTEREST RATES IN DENMARK AND THE EURO AREA Chart 10



Source: Danmarks Nationalbank and the ECB.

## THE MONETARY AND FOREIGN-EXCHANGE POLICY OF DANMARKS NATIONALBANK

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### Monetary and foreign-exchange policy

At the beginning of 2006, cross-border securities transactions (portfolio investments) entailed an outflow of capital from Denmark, cf. Chart 11.<sup>1</sup> In the first part of February 2006, the krone weakened to the lowest level vis-à-vis the euro since 2001. For February overall, portfolio investments entailed a net capital outflow of kr. 59 billion. The outflow of foreign exchange from Denmark in February could be attributed to factors such as purchases of foreign stocks by Danish institutional investors. Furthermore, the outflow of capital was related to the settlement of TDC's acquisition by a number of foreign private equity funds. A considerable proportion of TDC's previous shareholders were non-residents who did not reinvest the proceeds in Danish securities.<sup>2</sup> In February overall, the capital outflow as a result of trading in Danish stocks totalled kr. 43 billion.

There was no intervention in the foreign-exchange market in January 2006, but in the first part of February Danmarks Nationalbank sold foreign exchange for a total of kr. 34 billion in order to stabilise the krone. On 17 February 2006, the lending rate was raised by 0.1 percentage point to 2.5 per cent, while the discount rate and the current-account rate remained unchanged. Danmarks Nationalbank's unilateral interest-rate increase widened the spread to the ECB's minimum bid rate from 0.15 to 0.25 percentage points. The spread to the ECB's marginal rate widened equivalently, but was, however, lower, cf. p 40.

In absolute terms, the intervention amount in February 2006 was at the level of the substantial interventions during the currency crisis in the summer of 1993. The modest interest-rate increase was nevertheless sufficient to stabilise the krone. This reflects considerably larger payment flows between Denmark and abroad today than at the beginning of the 1990s. As a result, capital flows of a magnitude previously only observed during foreign-exchange crises can now be seen even when the foreign-exchange markets are stable.<sup>3</sup> The development in February moreover reflects that even very small adjustments of Danmarks Nationalbank's

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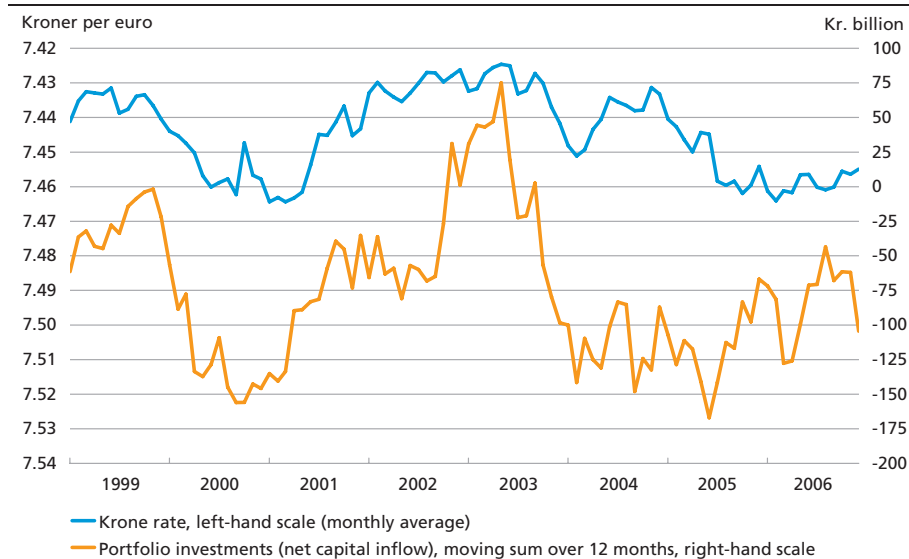
<sup>1</sup> Portfolio investments are the element of the cross-border capital flows that normally has the strongest impact on the development in the exchange rate of the krone, cf. Jakob Lage Hansen and Peter Ejler Storgaard, Capital Flows and the Exchange Rate of the Krone, Danmarks Nationalbank, *Monetary Review*, 2nd Quarter 2005.

<sup>2</sup> Cf. Peter Jayaswal, Mette Kornvig and Katrine Skjærbæk, Private Equity Funds, Capital Flows and the Foreign-Exchange Market, Danmarks Nationalbank, *Monetary Review*, 3rd Quarter 2006.

<sup>3</sup> Cf. Kim Abildgren, The Foreign-Exchange Market for Danish Kroner, Danmarks Nationalbank, *Monetary Review*, 1st Quarter 2006.

PORTFOLIO INVESTMENTS AND THE KRONE RATE

Chart 11



monetary-policy interest rates can be sufficient to curtail large capital flows.

The yield spread between Danish and German 10-year government bonds was slightly negative for most of the 2nd half of 2005. After Danmarks Nationalbank's unilateral interest-rate increase, the long-term yield spread widened to around 0.1 percentage point during the spring of 2006, and remained relatively stable around this level until August. The spread then narrowed again in the light of such factors as increasingly positive expectations of Denmark's government-budget surplus. The narrowing of the yield spread led to a certain outflow of capital, for example due to residents' net purchases of foreign bonds.

For 2006 overall, portfolio investments gave a net capital outflow of kr. 104 billion in total. In recent years, there has been a general tendency for net capital outflows from portfolio investments. The underlying factors include institutional investors' substantial placement requirement due to increased savings in investment associations and as pension contributions to build up labour-market pensions. In order to optimise returns, taking due account of the risk and the statutory rules to which investors are subject, the institutional investors place funds in both Danish and foreign securities.<sup>1</sup> The capital outflows from portfolio

<sup>1</sup> Cf. Box 2, Institutional Investors' Purchases of Foreign Securities, Danmarks Nationalbank, *Monetary Review*, 2nd Quarter 2006.

## INTERVENTION BY DANMARKS NATIONALBANK IN THE FOREIGN-EXCHANGE MARKET

Table 3

|  | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|--|------|------|------|------|------|------|------|------|
| Intervention purchase of foreign exchange, kr. billion .....     | 62   | 21   | 27   | 41   | 25   | 15   | 16   | 0    |
| Intervention sale of foreign exchange, kr. billion .....         | 5    | 58   | 4    | 0    | 1    | 28   | 34   | 34   |
| Net intervention purchase of foreign exchange, kr. billion ..... | 56   | -37  | 24   | 41   | 24   | -12  | -18  | -34  |
| Number of intervention days .....                                | 65   | 55   | 11   | 35   | 20   | 34   | 35   | 13   |

Note: Compiled by settlement days.

investments observed in recent years are therefore partly attributable to structural factors.

In 2006, Danmarks Nationalbank sold foreign exchange net for a total of kr. 34 billion in order to stabilise the krone, cf. Table 3. Most of the intervention took place in February 2006. During the rest of the year Danmarks Nationalbank only intervened on a few occasions and for very modest amounts. In 2006 the number of days with intervention in the foreign-exchange market was the lowest since 2001.

At the end of February 2007, the foreign-exchange reserve was kr. 178 billion, compared to kr. 212 billion at end-2005. The reduction is primarily attributable to Danmarks Nationalbank's intervention in the foreign-exchange market. In addition, the central government redeemed foreign-exchange-denominated loans net for just over kr. 10 billion in 2006.

The ECB's interest-rate increases in 2006 and the beginning of 2007 were followed by equivalent increases of Danmarks Nationalbank's interest rates, which were in line with market expectations. Prior to the raising of interest rates on 2 March 2006, a number of banks and mortgage-credit institutes deposited large amounts to their current accounts with Danmarks Nationalbank. As this meant that the overall limit for current-account deposits of kr. 25 billion was exceeded, kr. 9.1 billion of the total current-account balance was converted to certificates of deposit. This was the first conversion due to the development in the current-account deposits of the banks and mortgage-credit institutes since the present current-account-limit system was introduced in June 1999. The conversion had no adverse effect on the daily settlement of payments.

After the interest-rate increase in March 2007, Danmarks Nationalbank's lending rate was 4.0 per cent, and the spread to the ECB's minimum bid rate was 0.25 percentage points.

### Net position of the banks and mortgage-credit institutes and their use of the monetary-policy instruments

The net position of the banks and mortgage-credit institutes vis-à-vis Danmarks Nationalbank amounted to kr. 18 billion at end-2006. The net position consisted of current-account deposits for kr. 9 billion, certificates of deposit for kr. 163 billion and monetary-policy loans for kr. 154 billion, cf. Table 4. The net position totalled kr. 85 billion at end-2006.

The decrease in the net position of the banks and mortgage-credit institutes by kr. 67 billion during 2006 in part reflected Danmarks Nationalbank's net intervention sales of foreign exchange against kroner to the banks for kr. 34 billion. In addition, government finances reduced the net position of the banks and mortgage-credit institutes by kr. 31 billion. The background is that towards the end of the year there were large tax receipts and smaller disbursements than expected for e.g. unemployment benefits. The decline in the net position in particular reflected a reduction of holdings of certificates of deposit among the banks and mortgage-credit institutes, and an increase in monetary-policy lending.

The net position can be subject to relatively strong fluctuations from day to day. Such fluctuations influence the day-to-day liquidity management, but have no consequences for monetary policy. A net position close

| IMPACT OF VARIOUS FACTORS ON THE NET POSITION OF THE BANKS AND MORTGAGE-CREDIT INSTITUTES VIS-À-VIS DANMARKS NATIONALBANK |      | Table 4 |      |      |      |      |      |      |
|---|------|---------|------|------|------|------|------|------|
| Kr. billion   | 1999 | 2000    | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
| Liquidity effect of government finances ....  | -1   | -3      | -7   | -6   | 6    | -17  | 9    | -31  |
| Danmarks Nationalbank's intervention  |      |         |      |      |      |      |      |      |
| purchase of foreign exchange, net .....   | 56   | -37     | 24   | 41   | 24   | -13  | -18  | -34  |
| Other .....   | 0    | 2       | 2    | 1    | 3    | 2    | 0    | -2   |
| Change in net position .....  | 56   | -39     | 19   | 36   | 33   | -27  | -9   | -67  |
| End of period:  |      |         |      |      |      |      |      |      |
| Net position .....  | 73   | 35      | 54   | 90   | 122  | 95   | 85   | 18   |
| By:   |      |         |      |      |      |      |      |      |
| Certificates of deposit .....   | 100  | 52      | 114  | 161  | 157  | 160  | 208  | 163  |
| Current-account deposits .....  | 7    | 8       | 4    | 10   | 13   | 7    | 13   | 9    |
| Monetary-policy lending .....   | 33   | 25      | 63   | 81   | 48   | 73   | 135  | 154  |

to zero can switch from positive to negative and vice versa, as observed in several periods of 2000. Since Danmarks Nationalbank's interest rates on certificates of deposit and monetary-policy loans are identical, the banks and mortgage-credit institutes can borrow from and make deposits with Danmarks Nationalbank at the same rate of interest. This ensures that Denmark's interest-rate policy, and thereby the krone rate, is unaffected by either a positive or a negative net position. As a consequence, Danmarks Nationalbank has no targets for the size of or the sign preceding the net position.

### **Monetary-policy and foreign-exchange-policy instruments and operations**

On 2 January 2006, Danmarks Nationalbank adjusted the limits for current-account deposits by the banks and mortgage-credit institutes. The overall current-account limit was raised from approximately kr. 20 billion to approximately kr. 25 billion, primarily as a result of simplification of the system whereby all banks and mortgage-credit institutes are now subject to a standard limit of kr. 100 million. Banks and mortgage-credit institutes which have extensive activity in the money market, and are therefore key contributors to the smooth exchange of liquidity, receive a supplement to the standard limit. The adjustments entail generally higher limits for the smaller banks and mortgage-credit institutes than before. In addition, the raising of the overall current-account limit should be viewed in the light of the economic development since the previous adjustment in 2003. The adjustment did not entail reduction of the current-account limit for any bank or mortgage-credit institute.

There were no changes to the other monetary-policy and foreign-exchange-policy instruments in 2006.

At the beginning of January 2007, a number of adjustments were made to the rules for provision of collateral for monetary-policy loans from Danmarks Nationalbank, cf. p. 68.

The maturity of Danmarks Nationalbank's monetary-policy lending and certificates of deposit has so far been 14 days. As a result, the Danish day-to-day interest rate can fluctuate considerably in periods when the ECB is expected to raise its interest rates, cf. Box 2. In order to reduce these fluctuations, as from 3 May 2007 Danmarks Nationalbank adjusts the normal maturity of monetary-policy lending and certificates of deposit to 7 days. The same maturity of 7 days applies to monetary-policy loans in the euro area.

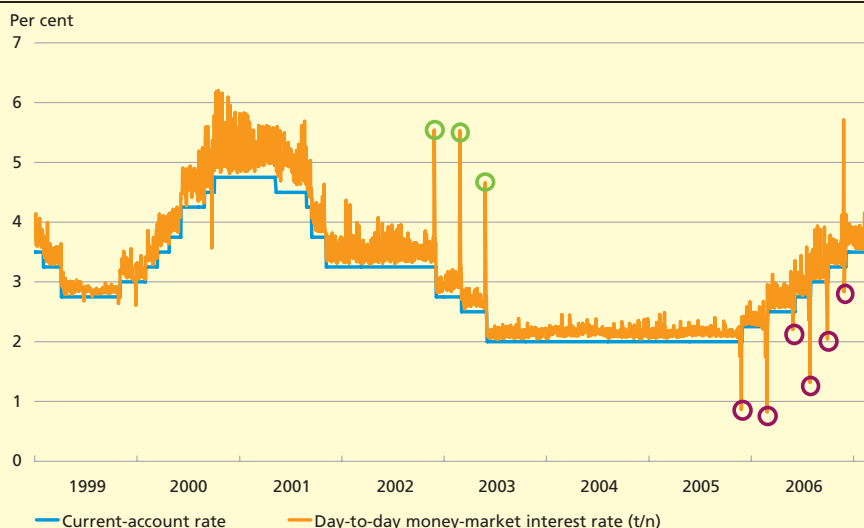
Box 3 outlines the monetary-policy and foreign-exchange-policy instruments and operations.

**MATURITY OF THE MONETARY-POLICY INSTRUMENTS AND FLUCTUATIONS  
IN THE OVERNIGHT INTEREST RATE IN THE MONEY MARKET**

Box 2

In recent years, there have been cases of strong fluctuation in the day-to-day money-market interest rate in periods when interest rates in the euro area – and thus also in Denmark – were expected to increase. The banks and mortgage-credit institutes are reluctant to tie up liquidity for 14 days by purchasing certificates of deposit if interest rates are expected to be raised before the certificates of deposit mature. In this situation, there will be ample liquidity in the money market, and very low day-to-day interest rates. Since current-account deposits are subject to limits, the day-to-day interest rate can even fall below the level of the current-account rate, cf. the red circles in the Chart.

On the other hand, in periods when interest rates in the euro area and Denmark are expected to be lowered, there will be considerable interest in buying 14-day certificates of deposit that mature after the time that interest rates are expected to be lowered. This can lead to a shortfall of liquidity in the money market and large increases in the day-to-day interest rate, cf. the green circles in the Chart.<sup>1</sup>

**DANMARKS NATIONALBANK'S CURRENT-ACCOUNT RATE AND THE  
DAY-TO-DAY INTEREST RATE IN THE MONEY MARKET**


Note: The overnight interest rate is the tomorrow/next interest rate.

By changing from 14-day to 7-day maturities both loans and certificates of deposit will normally mature on the day that any interest-rate change takes effect and will therefore not overrun an interest-rate adjustment. This will contribute to reducing the large fluctuations in the day-to-day interest rate.

<sup>1</sup> The strong increase in the day-to-day interest rate at the end of November 2006 should be viewed against the background that Danmarks Nationalbank gave access to extraordinary purchases of certificates of deposit at short maturities. The certificates of deposit were due to mature in the first week of December 2006, when interest rates in the euro area were expected to be raised. This resulted in strong demand for certificates of deposit at the end of November, and thereby tight liquidity and high interest rates in the money market.

**DANMARKS NATIONALBANK'S MONETARY-POLICY AND FOREIGN-EXCHANGE-POLICY INSTRUMENTS AND OPERATIONS<sup>1</sup>**

Box 3

Monetary policy is conducted via the monetary-policy counterparties, which at the end of 2006 comprised 115 banks and mortgage-credit institutes. Danmarks Nationalbank is banker to the counterparties and makes two facilities available to them:

- Firstly, in the regular open market operations on the last banking day of each week, the counter parties can buy certificates of deposit or raise monetary-policy loans against krone- and euro-denominated government and mortgage-credit bonds as collateral. These transactions normally have a maturity of 14 days (7 days as from 3 May 2007), and the relevant interest rates, i.e. the rate of interest on certificates of deposit and the lending rate, are identical.
- Secondly the counterparties can place funds as day-to-day current-account deposits that accrue interest at the current-account rate, which is lower than the rate of interest on certificates of deposit. This gives the counterparties an incentive to plan their liquidity requirements and ensures that they actively exchange liquidity in the money market on market terms, instead of passively depositing liquidity to a current account.

In addition, Danmarks Nationalbank conducts extraordinary money-market operations as required. Danmarks Nationalbank typically buys or sells certificates of deposit in connection with known fluctuations in central-government payments, or significant unexpected liquidity fluctuations.

The monetary-policy counterparties' current-account deposits at the close of the monetary-policy day at 3.30 p.m. are subject to an overall limit of approximately kr. 25 billion, broken down as individual current-account limits for the counterparties.<sup>2</sup> The purpose of the current-account limits is to prevent the build-up of large current-account deposits that may be used for speculation in interest-rate and exchange-rate changes if the krone is under pressure. The current-account limits of the individual counterparties only apply if the counterparties' total current-account deposits exceed the overall limit of approximately kr. 25 billion. In other words, the monetary-policy counterparties may exceed their individual limits, provided that the overall limit is not exceeded. Deposits exceeding the overall limits accrue interest at the current-account rate for as long as the overall current-account limit is not exceeded. If the overall limit is exceeded at the close of the day, deposits exceeding the individual limits will be converted into certificates of deposit. When the money and foreign-exchange markets are stable, Danmarks Nationalbank's open market operations in certificates of deposit ensure that the current-account limits do not present any problems for the daily settlement of payments.

The discount rate is a signal rate indicating the general level of the monetary-policy interest rates in Denmark. None of the monetary-policy instruments directly accrue interest at the discount rate. Since 1992, when the key principles for the current monetary-policy instruments were introduced, the current-account rate has, however, been equivalent to the discount rate.

The counterparties for Danmarks Nationalbank's intervention in the foreign-exchange market are currency dealers in Denmark and abroad with extensive activity in the foreign-exchange market for kroner. The intervention measures are purchase and sale of foreign exchange against Danish kroner, typically via a currency broker or electronic trading platforms. This ensures a level playing field for all counterparties in the marketplace.

<sup>1</sup> Described in more detail in Danmarks Nationalbank, *Monetary Policy in Denmark*, 2nd edition, 2003, and at [www.nationalbanken.dk](http://www.nationalbanken.dk) under Monetary policy.

<sup>2</sup> The current-account limits applying at any time are available at [www.nationalbanken.dk](http://www.nationalbanken.dk) under Rules/Monetary and foreign-exchange policy.

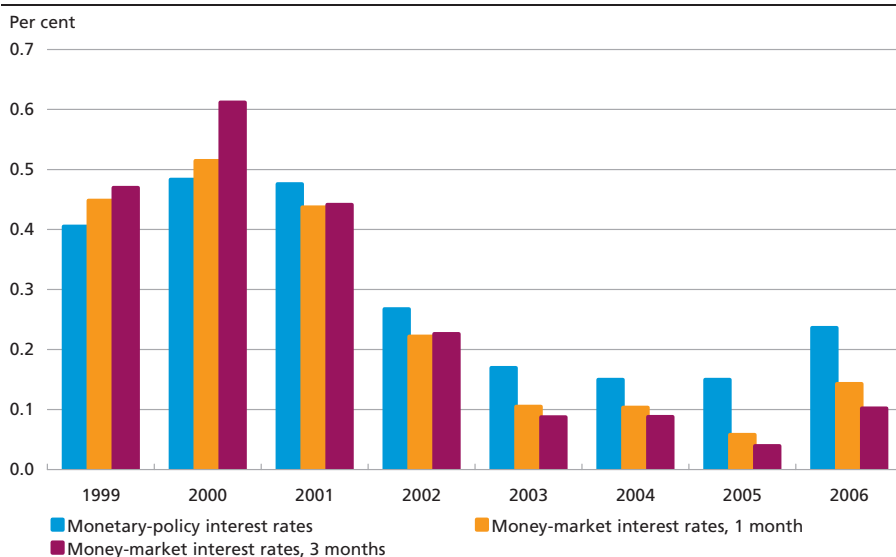
## THE MONEY MARKET AND SHORT-TERM INTEREST RATES

Danmarks Nationalbank's interest rates determine the short-term interest rates in the money market, i.e. the interbank market for krone-denominated lending and deposits with a maturity of up to one year. In 2006, the interest rates in the Danish money market generally matched the development in the money-market interest rates in the euro area. In recent years, the spread between the short-term Danish and euro-area money-market interest rates has been relatively stable on the downside of the spread between Danmarks Nationalbank's lending rate and the ECB's minimum bid rate, cf. Chart 12. The primary underlying factor is that the rate of interest for allotment of liquidity to the banks in the euro area at the weekly tenders (the ECB's marginal rate) normally slightly exceeds the minimum bid rate.

In recent years, as adjustable-rate loans have gained ground, the money-market interest rates have become more important for households and business enterprises. At the end of 2006, loans subject to interest-rate adjustment within one year accounted for just over one third of the total lending by the mortgage-credit institutes. The rate of interest at which 1-year mortgage-credit loans were refinanced in December 2006 was

SHORT-TERM INTEREST-RATE SPREADS TO THE EURO AREA

Chart 12

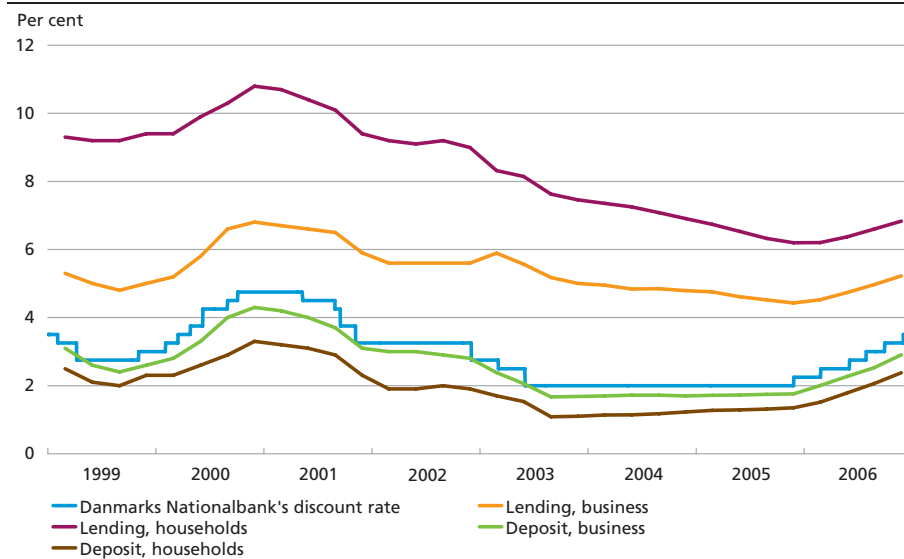


Note: Annual average interest-rate spreads. Monetary-policy interest rates: spread between Danmarks Nationalbank's lending rate and the ECB's minimum bid rate (the ECB's fixed allotment rate before June 2000). Money-market interest rates: spread between Cibur and Euribor.

Source: Danmarks Nationalbank and the ECB.

DANMARKS NATIONALBANK'S DISCOUNT RATE AND THE BANKS' AVERAGE DEPOSIT AND LENDING RATES

Chart 13



Note: The discount rate on a day-to-day basis. The banks' deposit and lending rates are quarterly average interest rates for outstanding deposits and lending. The most recent observations are 4th quarter 2006 for the banks' interest rates and end-2006 for the discount rate.

Source: Statistics Denmark and Danmarks Nationalbank.

around 1.2 percentage points above the interest rate in December 2005. This generally matches the development in the 1-year money-market interest rates.

The banks' average deposit and lending rates likewise reflected the development in the monetary-policy interest rates during 2006, cf. Chart 13. The close relation between changes in the banks' interest rates vis-à-vis their customers and adjustments to the discount rate is attributable to the fact that a large proportion of the banks' deposits and lending is subject to variable interest-rate terms.

## Financial Markets

The international interest-rate markets were generally subject to increases in 2006. Short-term interest rates typically rose more than long-term rates, so that the yield curves became flatter. The development in the US 10-year yield had a decisive impact on the development in yields in many other countries.

The US dollar weakened by approximately 11 per cent against the euro in 2006, partly due to more positive growth expectations in the euro area than in the USA.

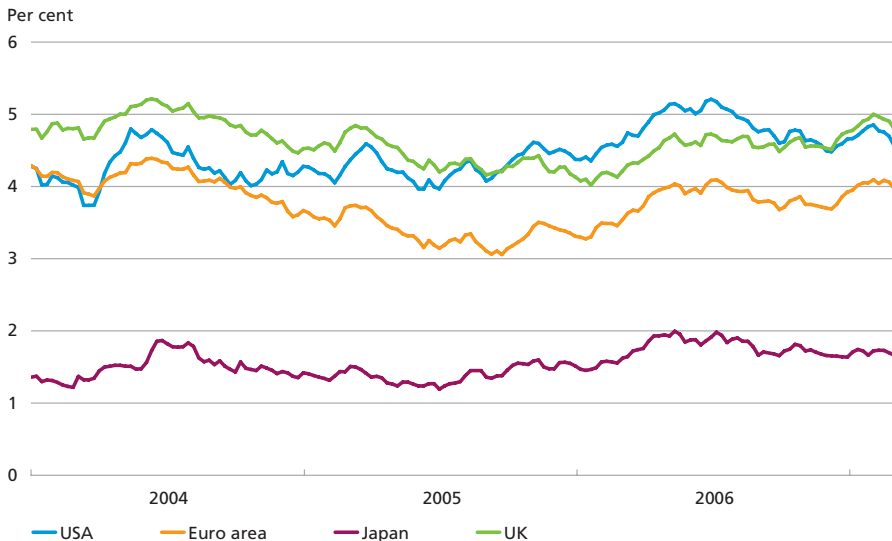
The global stock markets rose in 2006 despite falling prices in mid-year. The price increases were relatively high in the USA, the euro area and Scandinavia, while Japanese stocks rose more moderately.

### INTEREST RATES

The yield on the benchmark 10-year US government bond increased from approximately 4.4 per cent at the beginning of 2006 to approximately 4.7 per cent at year-end, cf. Chart 14. The increase in the 1st half-year was driven by high economic activity and rising core inflation. In

10-YEAR YIELDS IN THE USA, THE EURO AREA, JAPAN AND THE UK

Chart 14



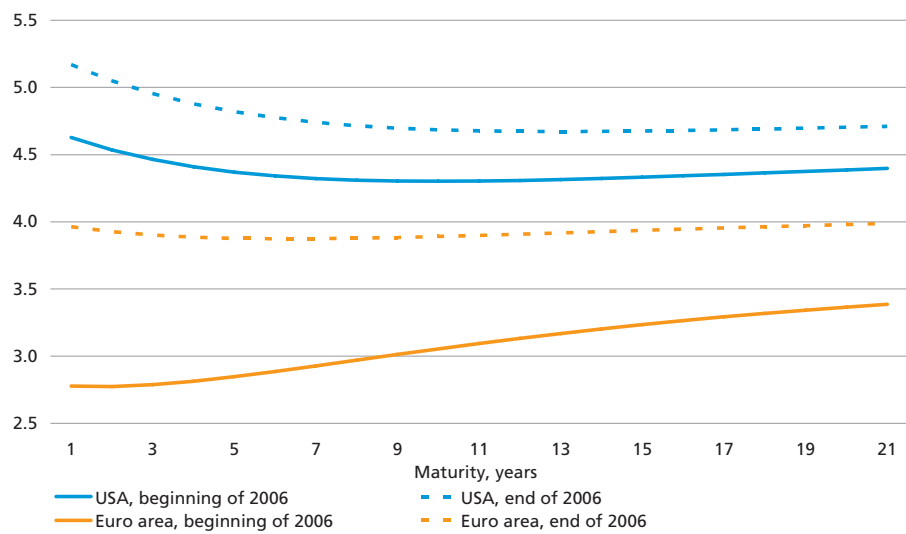
Note: Weekly observations. For the euro area, the yield on a 10-year German government bond is used.  
Source: Reuters EcoWin.

the same period the Federal Reserve raised the fed funds target rate by a total of 1 percentage point in four increments to reach 5.25 per cent. From then on it was not raised further. The 10-year yield fell in the 2nd half-year amid declining economic growth as a result of a slowdown in the housing market, among other factors. This led to expectations that the fed funds target rate would be lowered in the 1st half of 2007.

In the *euro area*, the yield on the benchmark 10-year German government bond increased from approximately 3.3 per cent at the beginning of 2006 to approximately 3.9 per cent at year-end, cf. Chart 14. Viewed over the year, the development mirrored the course in the US with a rising yield in the 1st half-year, and a falling yield in the 2nd half-year. However, the decline in the 10-year German yield in the 2nd half-year was less marked than in the USA. This is presumably attributable to the sound economic growth in the euro area, which led to expectations of further monetary-policy tightening. During 2006 the European Central Bank, ECB, raised its key interest rate in five increments from 2.25 per cent to 3.5 per cent, and then to 3.75 per cent in March 2007.

Long-term interest rates generally tended to increase less than short-term interest rates, and the yield curves thus flattened in 2006, cf. Chart 15. In the USA, the yield curve inverted around the turn of the year 2005/06, and the spread between the US 10-year and 2-year yields was negative for most of the year. The rising short-term interest rates reflected monetary-policy tightening in reaction to the global upswing.

YIELD CURVES IN THE USA AND THE EURO AREA, BEGINNING AND END OF 2006 Chart 15



Note: For the euro area, the German yield curve is used.

Source: Nordea Analytics.

Unlike in previous upswings, long-term interest rates have not increased; in fact they are low in a historical perspective. This is attributable to such factors as low and stable inflation expectations and purchases of government bonds by pension funds and Asian central banks.

The yield on the benchmark *Japanese* 10-year government bond rose from approximately 1.5 per cent at the beginning of 2006 to approximately 1.7 per cent at year-end, cf. Chart 14. In the 1st quarter, the upswing in the Japanese economy led the 10-year yield to rise to above 2 per cent. Subsequently, economic growth receded, and long-term interest rates fell. Combined with rising inflation, the upswing was sufficiently robust for the Bank of Japan to abandon the zero-interest-rate policy pursued since 2001. In July 2006 and again in February 2007 the Bank of Japan raised its official interest rate by 0.25 percentage points to a total of 0.5 per cent from a level of 0 per cent.

In the *UK*, the yield on the benchmark 10-year government bond increased from approximately 4.1 per cent at the beginning of 2006 to approximately 4.7 per cent at year-end, cf. Chart 14. The long-term interest rates rose up to the beginning of May and – in contrast to several other countries – then remained stable. At the end of November, the 10-year yield exceeded the equivalent US yield, inter alia reflecting renewed momentum in the British housing market and improved growth prospects for the UK. The 10-year *Danish* yield spread to the euro area was modest and stable in 2006, cf. Chart 16. The yield on the benchmark 10-year government bond increased from approximately 3.3 per cent at the beginning of 2006 to approximately 3.9 per cent at year-end. At end-2006, the yield spread to Germany was slightly negative.

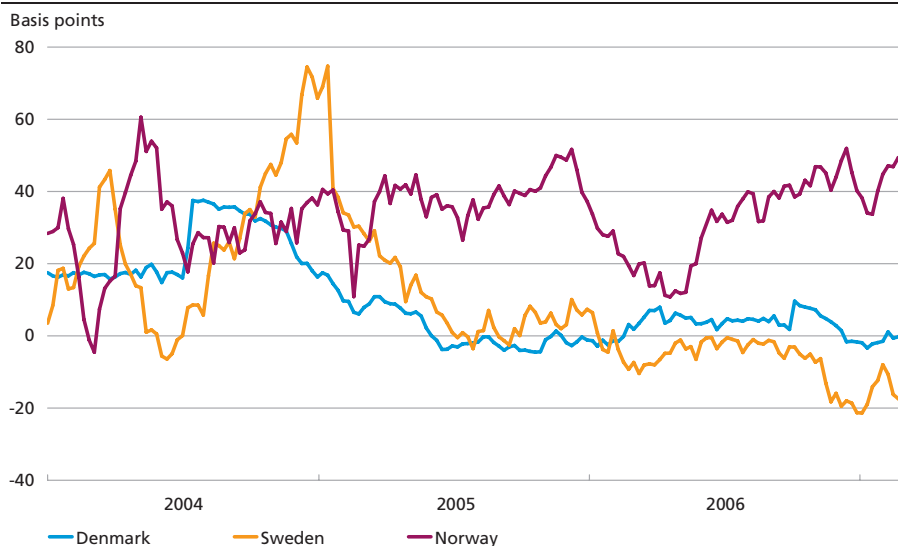
During 2006 and the beginning of 2007 Danmarks Nationalbank followed all of the ECB's interest-rate adjustments and moreover unilaterally raised the lending rate by 0.1 percentage point in February 2006, cf. p. 33f. After the interest-rate increase in March 2007 the lending rate was 4.0 per cent, while the discount and current-account rates were 3.75 per cent.

The yield on the benchmark *Swedish* 10-year government bond rose from approximately 3.4 per cent to approximately 4.1 per cent in the 1st half-year. In the 2nd half-year, the yield fell again to approximately 3.8 per cent at end-2006. The interest-rate drop in the 2nd half-year was more pronounced in Sweden than in the euro area, and the yield spread narrowed, cf. Chart 16. The yield spread ended the year at -0.2 percentage points. Sveriges Riksbank raised the repo rate by 1.5 percentage points in six stages in 2006. In February 2007, Sveriges Riksbank increased the repo rate by a further 0.25 percentage points to 3.25 per cent.

In *Norway*, the yield on the benchmark 10-year government bond increased from approximately 3.7 per cent at the beginning of 2006 to

10-YEAR YIELD SPREADS TO GERMANY

Chart 16



Note: Weekly observations. For the euro area, the yield on a 10-year German government bond is used.  
Source: Reuters EcoWin.

approximately 4.4 per cent at year-end. During 2006 Norges Bank raised the sight deposit rate on five occasions by a total of 1.25 percentage points. In January 2007, Norges Bank again raised the sight deposit rate by 0.25 percentage points to 3.75 per cent.

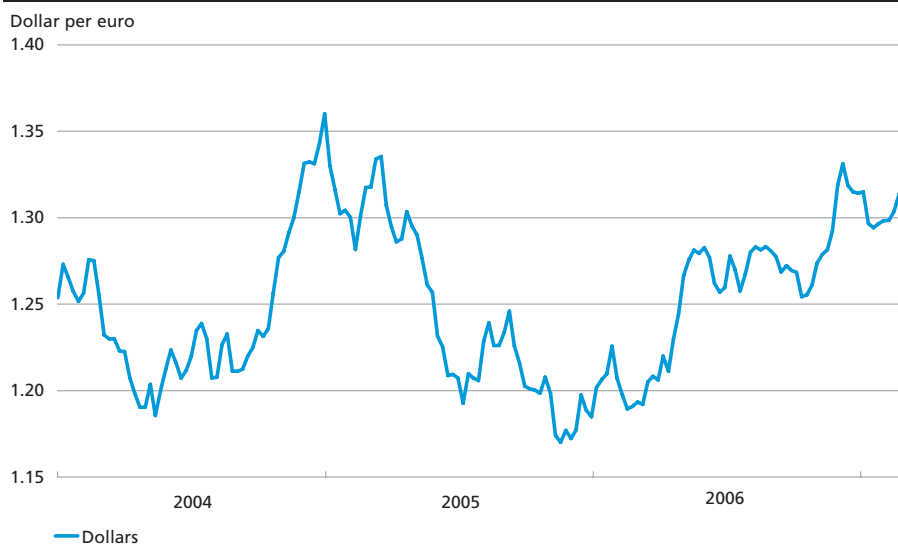
## FOREIGN-EXCHANGE MARKETS

The *US dollar* weakened against the euro in 2006, Cf. Chart 17. In total, the dollar depreciated by approximately 11 per cent against the euro, to 1.32 dollars per euro at year-end. The dollar's weakening in relation to the euro is attributable to such factors as expectations of rising growth in the euro area compared with the outlook for the US economy. In addition, the ECB was expected to tighten its monetary policy relative to the Federal Reserve.

The *Chinese renminbi* strengthened by approximately 3 per cent against the dollar to 7.81 renminbi per dollar at end-2006. As in previous years, the People's Bank of China made substantial foreign-exchange purchases in order to curb its currency's strengthening against the dollar. As a consequence, the foreign-exchange reserve increased further. In mid-2005 the People's Bank of China switched to a managed float of the exchange rate.

DOLLAR VIS-A-VIS EURO

Chart 17



Note: Weekly observations.

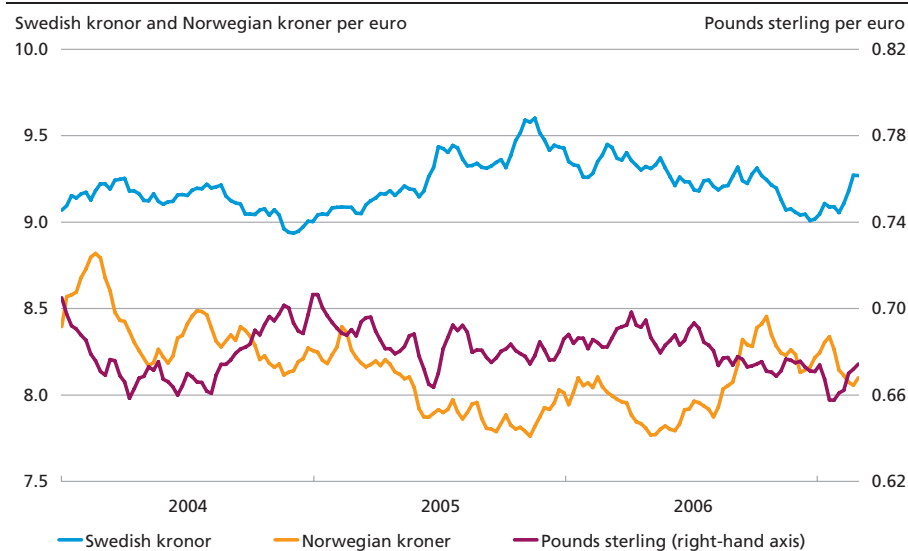
Source: Reuters EcoWin.

During 2006 the *Japanese yen* weakened by approximately 13 per cent against the euro and by approximately 1 per cent against the dollar. The weakening was to some extent attributable to the yen's role in financing carry trades, whereby investors borrow in low-interest currencies such as the yen and invest in high-interest currencies like the US dollar. The depreciation of the yen vis-à-vis the dollar in 2006 was, however, not as pronounced as in 2005. This in part reflected expectations of a narrowing of the yield spread between the two countries, which would reduce the expected gain from carry trades. At the end of 2006 the exchange rate was 156.86 yen per euro.

The *pound sterling* appreciated by approximately 2 per cent against the euro in 2006. In the 1st quarter sterling weakened, but then the trend reversed to an overall strengthening for the year, cf. Chart 18. The background includes relatively high interest rates in the UK compared with elsewhere.

The *Swedish krona* strengthened against the euro in 2006, partly in response to positive growth prospects and expectations that Sveriges Riksbank would raise the repo rate. At end-2006, the krona had appreciated by approximately 4 per cent, to 9.04 kronor per euro. In February 2007 part of the strengthening from 2006 fell away. The weakening was due to declining interest-rate expectations after Sveriges Riksbank signalled that interest-rate expectations in the market were excessive.

POUND STERLING, NORWEGIAN KRONE AND SWEDISH KRONA VIS-À-VIS EURO Chart 18



Note: Weekly observations.  
Source: Reuters EcoWin.

To a great extent the *Norwegian krone* fluctuated with oil prices in 2006. Rising oil prices in the 1st half-year led the Norwegian krone to strengthen vis-à-vis the euro. As oil prices began to ease downwards in the late summer, the Norwegian krone weakened. Oil prices picked up again from around mid-October, and the Norwegian krone strengthened, but not sufficiently to counteract the weakening. Overall, the Norwegian krone depreciated by approximately 3 per cent in 2006, to 8.23 Norwegian kroner per euro.

The Icelandic krona weakened substantially in 2006, cf. Box 4, p. 50.

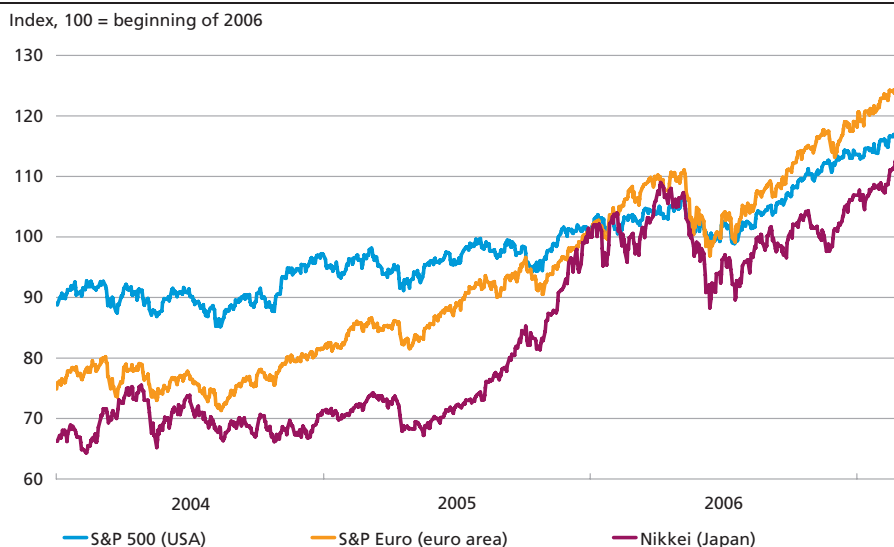
## STOCK MARKETS

The global stock markets rose in 2006 despite a downturn in mid-year. There were sound increases for US and European stocks, while the increase for Japanese stocks was more moderate, cf. Chart 19. The lower prices in mid-year were attributable to greater investor uncertainty and a resulting shift to safer assets.

The US S&P 500 stock index rose by 14 per cent in 2006. A slight increasing trend was seen up to mid-May, when uncertainty regarding future US monetary policy increased. The economic indicators pointed to slower growth, but there were continued indications of rising inflation. This led to fears that US monetary policy would be tightened more than so far ex-

STOCK INDICES FOR THE USA, THE EURO AREA AND JAPAN

Chart 19



Note: Weekly observations.  
Source: Bloomberg.

pected, with the risk that growth would dampen further. The uncertainty pushed down US stocks and led to general unrest in the global stock markets, particularly in the emerging markets, cf. Box 5. p. 51. In the 2nd half of 2006 there were sound price increases in the US market. The underlying factors included dampened inflation expectations, among other things related to falling oil prices. In addition, sound corporate earnings, falling long-term interest rates and increasing merger and acquisition activity contributed to the positive price development.

Stocks in the *euro area* mirrored US stocks closely again in 2006, but with a general tendency for slightly stronger increases. Underlying factors included the positive economic development in the euro area, a high level of acquisition activity, and sound corporate earnings. The European stock index, S&P Euro, rose by 19 per cent in 2006.

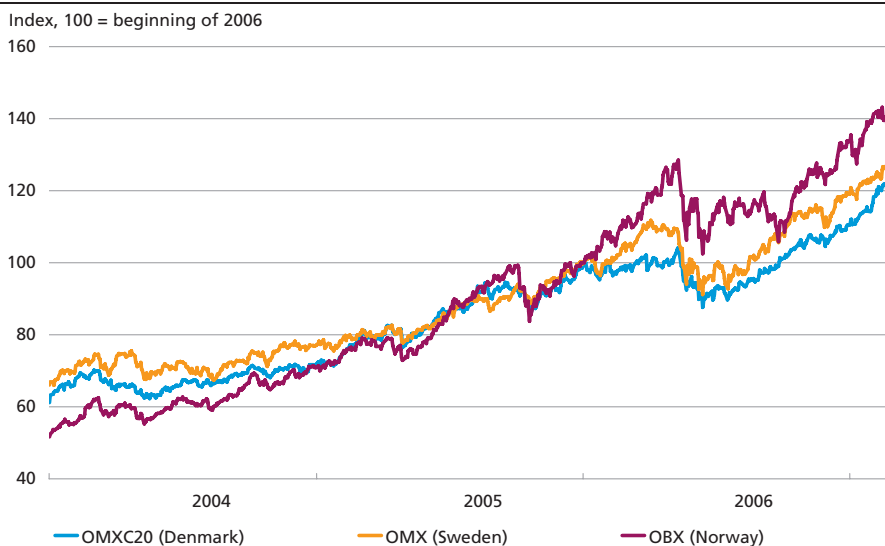
The *Japanese Nikkei* 225 stock index increased by a modest 7 per cent in 2006. This should be viewed against the background of the previous year's very substantial increase.

The Scandinavian stock markets took the same course as euro area stocks in 2006. However, Danish stocks did not perform near as well as Swedish and Norwegian stocks in 2006, cf. Chart 20.

The *Danish OMXC20* index improved by 12 per cent in 2006. Most stocks in the index rose. The largest contributions to the positive development in the index came from Vestas, which increased by 130 per cent, and Novo

STOCK INDICES FOR DENMARK, SWEDEN AND NORWAY

Chart 20



Note: Weekly observations.

Source: Bloomberg.

Nordisk. The A.P. Moller - Maersk stock fell in 2006, thereby reducing the increase in the overall index.

The *Swedish* OMX index rose by 20 per cent in 2006. TeliaSonera, Nordea Bank and H&M contributed most to the increase in the index. LM Ericsson, which accounts for a very large share of the Swedish index, rose marginally in 2006.

The *Norwegian* stock index, OBX, rose by 34 per cent. Telenor and Norsk Hydro, the two largest stocks in the index, contributed most to the increase. In 2007 Norsk Hydro and Statoil plan to merge their oil and gas activities in a new company that will become the world's largest offshore operating company.

## THE ICELANDIC KRONA WAS UNDER PRESSURE IN 2006

Box 4

There was turbulence in the Icelandic economy in 2006. As a result, the Icelandic krona weakened substantially and the stock market plunged, cf. the Chart. The unrest came in response to concern about the development in the Icelandic economy and the financing base of the Icelandic banks.

Growth has been high in recent years, driven by domestic demand. Massive energy investments have particularly contributed to growth. In addition, more liberal home financing has underpinned rising house prices, which has stimulated private consumption. The robust domestic demand has led to major imbalances in the Icelandic economy, including a massive current-account deficit, and very high external debt.

Demand pressures, combined with the weakening of the krona, led to even higher inflation, and the inflation target of 2.5 per cent continued to be exceeded. In an attempt to meet the inflation target, *Seðlabanka Íslands* raised the repo rate on seven occasions in 2006, by a total of 3.75 percentage points to 14.25 per cent.

The concern relating to the Icelandic banks was due to the substantial volume of short-term loans they have raised in the international financial markets. This capital has been used to finance Icelandic corporate groups' purchases of enterprises abroad, but also to increase lending to foreign customers and to participate in syndicated loans.

In February, the imbalances in the economy led the Fitch rating agency to express concern about the creditworthiness of the Icelandic government. Subsequently, reports and analyses of the Icelandic economy and Icelandic banks led to further concern. The reports intensified the nervousness in the financial markets.

In 2006 overall, the Icelandic krona weakened by approximately 25 per cent vis-à-vis the euro, and the exchange rate closed the year at 93.61 Icelandic kronur per euro. The development in the stock market reversed in the 2nd half-year, and the Icelandic stock index rose by approximately 13 per cent in 2006. In December, Standard & Poor's downgraded Iceland's credit rating, but this only affected the financial markets to a limited degree. The downgrading came in response to the government's indication that it would ease fiscal policy up to the election in 2007, despite the macroeconomic imbalances.

## ICELANDIC KRONUR VIS-A-VIS EURO AND ICELANDIC STOCKS



Source: Reuters EcoWin.

THE UNREST IN THE STOCK MARKETS IN MAY 2006

Box 5

From 10 May 2006 and approximately one month thereafter, the global stock markets were characterised by unrest and falling prices. Several factors indicate that the general and sudden price drops express increasing investor uncertainty and a consequential rise in the risk premium required on investments in stocks and other high-risk assets. All other things being equal, a higher risk premium entails that the price investors are willing to pay for a given asset is lower.

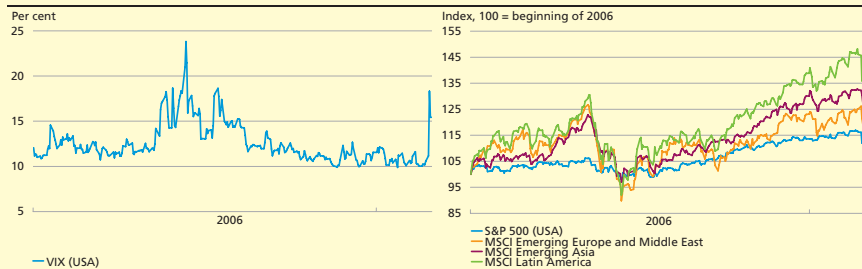
Uncertainty in the stock markets is often measured by the VIX index, which is a measure of the expected future volatility in the US S&P index. A high value for the VIX index reflects expectations of large fluctuations in the stock index and thus a higher risk for investors. The Chart below shows that the VIX index rose significantly in the period when stock prices were falling.

Moreover, the greatest decline was seen in the stock markets subject to highest risk, which supports the thesis that the stocks fell as a result of higher risk premiums. As the Chart shows, the three main indices for emerging markets dropped substantially in connection with the unrest in May. Normally, investments in emerging markets are deemed to entail a far greater risk than investments in e.g. US stocks. Declining prices also affected other high-risk assets. For example, speculative movement away from precious and industrial metals was seen, which led to strong downward correction. This followed a sustained period of rising metal prices.

The unrest in the stock markets arose at a time when US monetary policy had been tightened repeatedly and there were general expectations that the series of interest-rate increases was coming to an end. Since economic indicators at the beginning of May pointed to both receding growth and rising inflation, greater uncertainty arose regarding the future monetary policy. Concern that the US monetary-policy authorities would continue to raise interest rates despite the more subdued growth prospects was presumably the most important factor behind the stock-market unrest in May 2006.

At the end of February 2007, new uncertainty arose in the stock markets, with strongly increasing volatility and falling prices. Again, the price drops were largest in the high-risk markets.

UNCERTAINTY IN THE STOCK MARKETS AND FALLING PRICES FOR HIGH-RISK STOCKS



Note: Daily observations.  
Source: Bloomberg.

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## The Domestic Financial System<sup>1</sup>

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*The banks' profits continued to increase in 2006, in view of the considerable growth in lending and very low losses.*

*The underlying earnings of the mortgage-credit institutes generally decreased in 2006, primarily as a result of lower remortgaging activity compared to the very high level in 2005. Their earnings reflect a normalisation of the level of activity in the mortgage-credit market.*

*In 2006 the total assets managed by the investment associations continued to increase due to such factors as rising equity prices and a resulting increase in the assets of the equity funds.*

*The Minister for Economic and Business Affairs has submitted a bill on covered bonds for consultation. The objective is to give banks access to issue covered bonds and to allow mortgage-credit institutes and Danish Ship Finance AIS to continue to issue covered bonds.*

### **BANKS**

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The banks' profits rose again in 2006, in some cases significantly. The banks' earnings increased as a consequence of continued strong growth in lending and higher revenue from securities transactions. At the same time, losses were still low.

The banks' lending to residents totalled kr. 1,299 billion at the end of 2006, compared to kr. 1,095 billion at end-2005. The growth in lending is driven by the favourable economic conditions, combined with interest rates that have increased a little, but are still low. The strong growth in the banks' lending to households in recent years is to a large extent attributable to loans against real property as collateral, including the banks' mortgage loans, i.e. loans that are subject to relatively low risk, cf. Chart 21. The banks' costs rose due to investments in expansion and adjustment of branch networks, as well as staff increases in response to a higher level of activity.

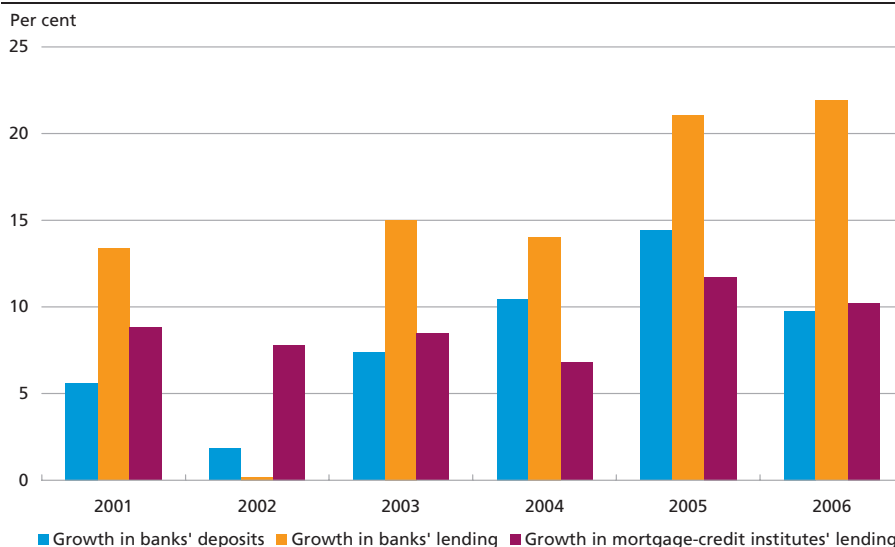
Again in 2006 the banks carried net value impairments as income.

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<sup>1</sup> For a more detailed review and analysis of the financial system and its framework conditions, see Danmarks Nationalbank, *Financial Stability*, which is expected to be published in mid-May 2007.

## ANNUAL GROWTH IN DEPOSITS AND LENDING

Chart 21



Note: Deposits from and lending to residents in the non-financial sector intermediated by banks and mortgage-credit institutes located in Denmark, i.e. the head offices of Danish banks and mortgage-credit institutes and branches and subsidiaries of foreign banking and credit institutions.

## MORTGAGE-CREDIT INSTITUTES

The underlying earnings of the mortgage-credit institutes generally decreased in 2006, primarily as a result of lower remortgaging activity compared to the very high level in 2005.

Total lending to residents by mortgage-credit institutes amounted to kr. 1,833 billion at end-2006, against kr. 1,663 billion at end-2005.

Adjustable-rate loans accounted for 48 per cent of mortgage-credit lending at end-2006, against 49 per cent at end-2005, cf. Table 5. Loans with a fixed-interest period of up to and including one year still make up by far the largest share, at 73 per cent, of adjustable-rate loans.

## LENDING TO RESIDENTS BY MORTGAGE-CREDIT INSTITUTES BY LOAN TYPE

Table 5

| Per cent of total lending, year-end               | 2004        | 2005        | 2006        |
|---|-------------|-------------|-------------|
| Fixed-rate loans .....                            | 49.6        | 45.7        | 47.9        |
| of which deferred amortisation .....              | 5.0         | 16.1        | 24.9        |
| Adjustable-rate loans .....                       | 44.1        | 49.0        | 47.5        |
| of which deferred amortisation .....              | 29.8        | 37.2        | 43.4        |
| of which fixed-interest period $\leq$ 1 year .... | 57.7        | 70.8        | 73.4        |
| Index-linked loans .....                          | 6.4         | 5.3         | 4.6         |
| <b>Total deferred-amortisation loans .....</b>    | <b>15.6</b> | <b>25.6</b> | <b>32.6</b> |

Note: Lending by mortgage-credit institutes excluding lending to Monetary Financial Institutions, MFIs.

The increase in the share of deferred-amortisation loans continued in 2006, bringing these loans as a ratio of total mortgage-credit lending to residents to 33 per cent at end-2006, compared to 26 per cent at end-2005.

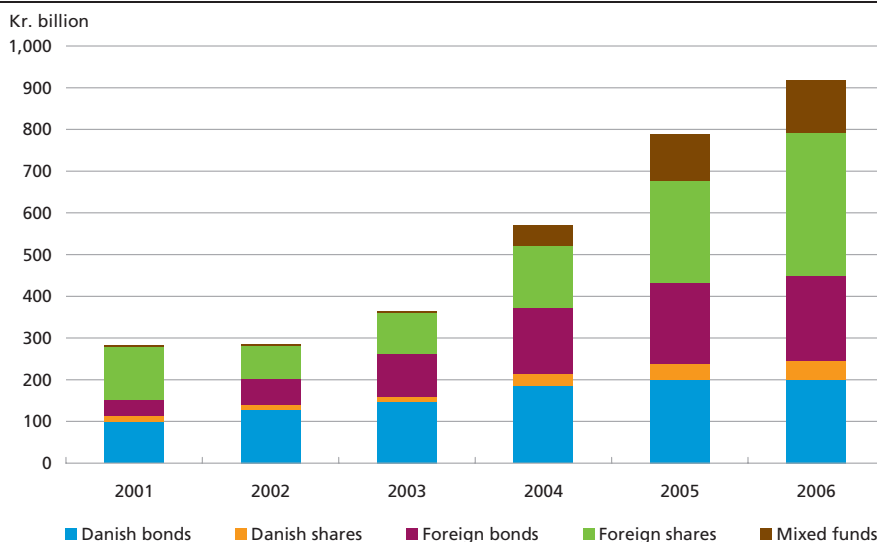
## INVESTMENT ASSOCIATIONS

The total assets managed by the investment associations continued to increase in 2006. At end-2006, the investment associations had issued shares for a total of kr. 918 billion, compared to kr. 790 billion at end-2005. The increase in the total assets is primarily attributable to the growth in equity funds, against the background of the favourable development in the equity market. At end-2006, 42 per cent of the assets managed by investment associations were placed in shares, while 44 per cent were placed in bonds, compared to 36 per cent in shares and 50 per cent in bonds in 2005, cf. Chart 22.

Private investors' share of investment certificates issued declined marginally to 32 per cent at end-2006 from 34 per cent at end-2005. The share held by insurance and pension companies rose from 30 per cent to 32 per cent. Apart from private investors and insurance and pension companies, issued investment certificates are primarily held by other financial intermediaries and financial auxiliaries, including investment associations. At the end of 2006 this group accounted for 21 per cent.

ASSETS OF INVESTMENT ASSOCIATIONS BY FUND TYPE, YEAR-END

Chart 22



## THE BOND MARKET

The total volume of outstanding listed krone-denominated bonds was kr. 2,797 billion at end-2006, representing an increase by 2 per cent on 2005, cf. Table 6. The volume of outstanding government bonds fell by kr. 56 billion, while the volume of mortgage-credit bonds rose by kr. 96 billion.

In 2006, premature redemptions of Danish mortgage-credit bonds amounted to kr. 270 billion, representing a significant decline from the record-high level of kr. 543 billion in 2005, cf. Chart 23. Bond yields rose slightly in 2006 from a low level. With effect from 1 July 2006, the minimum coupon rate was raised from 2 per cent to 3 per cent, and is held at 3 per cent in the 1st half of 2007.

### Trading in Danish government securities

Danish government securities are traded via electronic trading platforms with various types of price quotation, and in the OTC market. A large part of the electronic trading in Danish government securities takes place on the electronic trading platform MTSDenmark.

In 2006, average daily turnover on MTSDenmark was kr. 1.4 billion. Besides MTSDenmark, Danish government securities are traded on other electronic trading platforms such as ICAP, TradeWeb, BloombergBond-trader, Reuters and BondVision. In addition, a price-quoting scheme has been established on the Copenhagen Stock Exchange. This gives small investors access to a transparent and efficient market for trading in Danish government bonds.

### Covered bonds

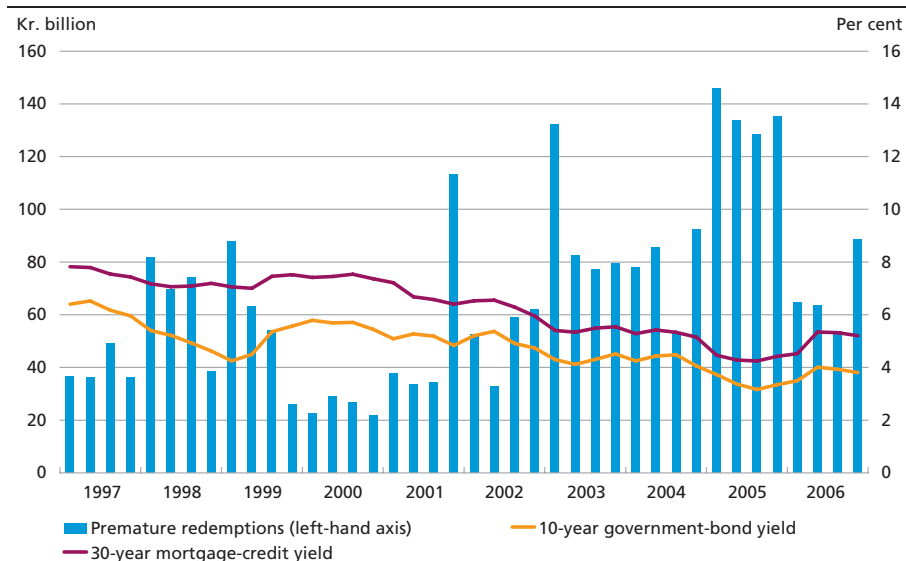
On 6 December 2006, the Minister for Economic and Business Affairs submitted a bill on covered bonds for consultation. The objective of the statutory amendment is to give banks access to issue covered bonds and to allow mortgage-credit institutes and Danish Ship Finance A/S to con-

OUTSTANDING VOLUME OF LISTED DOMESTIC KRONE-DENOMINATED BONDS, NOMINAL VALUE

Table 6

| Kr. billion                 | 2005         | 2006         |
|-----------------------------|--------------|--------------|
| Government bonds, etc. .... | 535          | 479          |
| Mortgage-credit bonds ....  | 2,088        | 2,184        |
| Other bonds ....            | 125          | 134          |
| <b>Total</b> .....          | <b>2,748</b> | <b>2,797</b> |

Note: Both old and new mortgage-credit bonds are included in the statement of the outstanding volume of mortgage-credit bonds, and the figure is thus affected by the refinancing activity. Government bonds, etc. also include Treasury notes and Treasury bills.

PREMATURE REDEMPTIONS OF MORTGAGE-CREDIT BONDS AND BOND YIELDS Chart 23

Note: The benchmark 30-year mortgage-credit bond is the series priced below par in which bond loans are typically issued.

tinue to issue covered bonds. The Act is expected to enter into force on 1 July 2007. Reference is made to the review of recent economic and monetary trends in Danmarks Nationalbank's Monetary Review, 1st Quarter 2007.<sup>1</sup>

## BUSINESS CONTINUATION

Danmarks Nationalbank chairs a working group whose mandate is to ensure coordination of the business continuation plans of financial institutions in the event of dramatic external events, e.g. terrorist attacks, the outbreak of epidemics, natural disasters or similar, that can jeopardise the financial system. The working group was established in 2006 and comprises representatives from the Danish Financial Supervisory Authority, the Danish Bankers Association and the Association of Danish Mortgage Banks. The responsibility for ensuring that the necessary contingency plans and emergency procedures are in place lies with the board and management of each financial enterprise.

<sup>1</sup> The Ministry of Economic and Business Affairs and Danmarks Nationalbank have jointly analysed the consequences. The results of this analysis are presented in the report "Analysis concerning covered bonds" (in Danish), which is available on the website of the Ministry of Economic and Business Affairs, [www.oem.dk](http://www.oem.dk), or at [www.nationalbanken.dk](http://www.nationalbanken.dk).

## REPORT ON THE STOCK MARKET IN A GLOBALISATION CONTEXT

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The Ministry of Economic and Business Affairs and Danmarks Nationalbank jointly prepared the report *The Stock Market in a Globalisation Context*<sup>1</sup> (in Danish), which was published in August 2006. The report presents an analysis of the Danish stock market and its infrastructure in the light of recent years' increasing integration of the European securities markets. Furthermore, the work at European level to enhance the efficiency of the stock markets and promote cross-border trading is described. The report also reviews a number of potential future scenarios for the Danish securities infrastructure.

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<sup>1</sup> The report is available on the website of the Ministry of Economic and Business Affairs, [www.oem.dk](http://www.oem.dk), or at [www.nationalbanken.dk](http://www.nationalbanken.dk) under publications.

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## Banknotes and Coins

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*Cash circulation increased by 6.4 per cent in 2006. The total cash circulation was kr. 59.1 billion at year-end.*

*In January 2007, Danmarks Nationalbank presented eight draft proposals for a new Danish banknote series. The artists Karin Birgitte Lund and Kaspar Bonnén have been asked to elaborate on their respective draft proposals, and in May 2007 Danmarks Nationalbank will decide which of the two proposals is most appropriate for a new Danish banknote series. The first banknote in the new series is expected to be issued in 2009, and the last banknote in 2013.*

*Two new coins were added to the tower series in 2006. Their respective motifs are the Bell Tower of Gråsten Palace and the Greenlandic cairns "Three Brothers". In the fairy tale series, The Royal Mint issued "The Shadow" and "The Snow Queen". Both the tower and the fairy tale series will be completed in 2007.*

*The tower series is followed by a new series of 20-krone coins with ships as their common motif. To mark the International Polar Year, Danmarks Nationalbank also issues a series of 10-krone coins with motifs from the Polar regions. The Polar coins are minted as 10-krone circulation coins, and also as collector's coins in gold and silver.*

### **BANKNOTES AND COINS IN CIRCULATION**

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Even though debit card payments are becoming ever more prevalent, the use of cash continues to increase.<sup>1</sup> The value of banknotes and coins in circulation rose from kr. 55.5 billion in 2005 to kr. 59.1 billion in 2006 – equivalent to an increase by 6.4 per cent.<sup>2</sup> The increase in cash in circulation is attributable to such factors as economic growth, increasing private consumption and rising prices, cf. Chart 24.

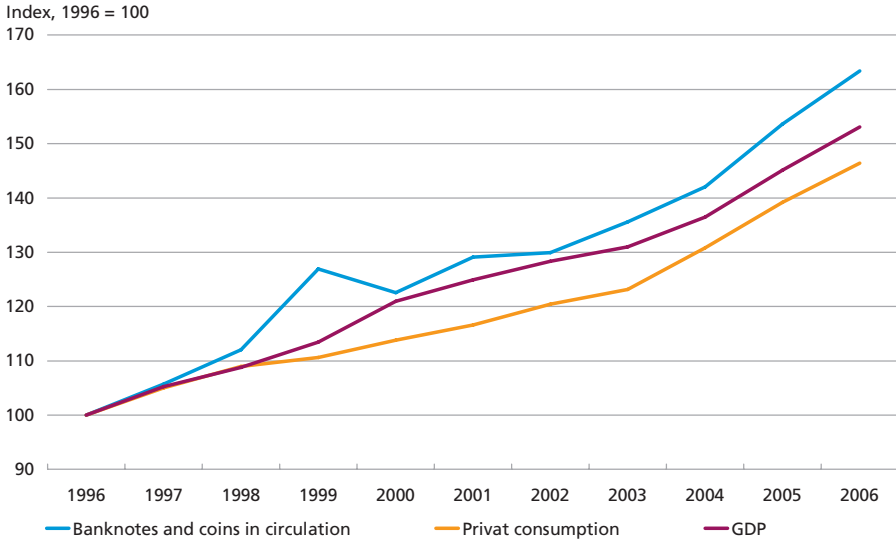
The circulation of banknotes rose by 6.5 per cent during the year and totalled kr. 53.7 billion at end-2006. In value terms, the 1,000-krone banknote still accounted for the largest share, 55 per cent, cf. Chart 25. The number of banknotes in circulation rose to 156 million in 2006 from 150

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<sup>1</sup> For a more detailed review of the use of cash in Denmark, see [www.nationalbanken.dk](http://www.nationalbanken.dk) under Publications: Maria Carlsen and Johanne Dinesen Riishøj, Use of cash in Denmark (in Danish only), Danmarks Nationalbank, *Working Paper*, 41/2006.

<sup>2</sup> As in Tables 2 and 3 of the Appendix of Tables, p. 158, the circulation is stated exclusive of commemorative coins, the circulation of Faroese banknotes and certain older banknotes, and therefore deviates from the figure stated on Danmarks Nationalbank's balance sheet.

**BANKNOTES AND COINS IN CIRCULATION, PRIVATE CONSUMPTION AND GDP** Chart 24



Note: The cash circulation is stated at year-end. GDP and private consumption are stated at an annual level in current prices.

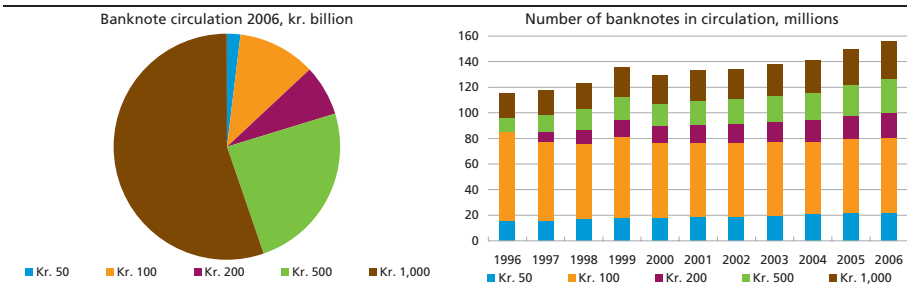
Source: Danmarks Nationalbank and Statistics Denmark.

million in 2005, cf. Chart 25. The increase in circulation was greatest for the 500-krone banknote, of which the number in circulation increased by 9.5 per cent.

The value of coins in circulation increased by 4.9 per cent in 2006 to a total of kr. 5.4 billion at year-end. As in 2005, the 20-krone coin showed the largest increase in circulation.

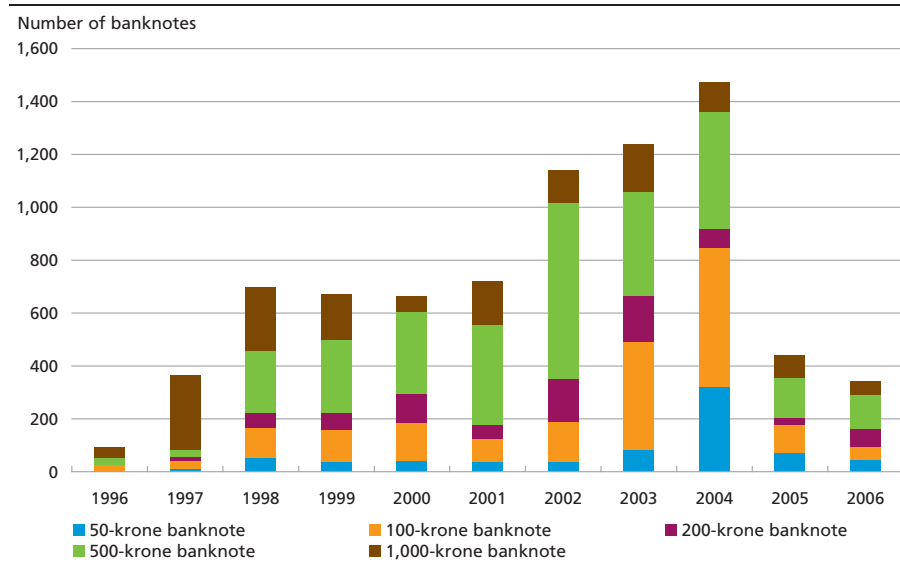
Pursuant to the Danmarks Nationalbank Act of 1936, the circulation of banknotes must be covered by Danmarks Nationalbank's holdings of gold and other assets. Since September 1939 an exemption from the gold coverage provision has been granted. The circulation is covered by other assets, e.g. bonds, foreign-exchange assets, etc.

**BANKNOTES IN CIRCULATION** Chart 25



COUNTERFEIT BANKNOTES FOUND IN CIRCULATION

Chart 26



## COUNTERFEIT BANKNOTES

In an international context, counterfeiting of Danish banknotes is very limited. Most of the counterfeit banknotes are detected by retailers, who hand them in to the police. In 2006, 344 counterfeit banknotes were removed from circulation – a very small number considering that there are 156 million Danish banknotes in circulation, cf. Chart 26.

## NEW DANISH BANKNOTE SERIES

Banknote security is always in focus at Danmarks Nationalbank. The security features of the present banknote series were upgraded in the period 2002-05. Subsequently, new and improved security features have been developed. In order to maintain a high level of security for Danish banknotes, in 2006 Danmarks Nationalbank initiated the process of designing a new, even more secure banknote series.

To propose themes for the new banknote series, a number of historians, architects, landscape architects, designers and artists, among others, were invited to take part in a discussion forum in the spring of 2006.

From among the many proposals the chosen theme was Danish bridges and surrounding landscapes, or details from these landscapes.

This theme reflects Denmark's position as a country surrounded by water and connected by bridges. The bridges selected are the Great Belt

Bridge linking Zealand and Funen, the Old Little Belt Bridge linking Jutland and Funen, Queen Alexandrine's Bridge linking Zealand and Møn, the Sallingsund Bridge linking Jutland and Mors, and Knippelsbro in Copenhagen. The bridges chosen represent different types of bridge and different parts of Denmark. Several of the bridges are well-known, and some of them also represented innovation at the time of their construction.

The successful design of a banknote series requires the various denominations to be easily distinguishable from each other. The architectural diversity of the bridges ensures the necessary variation. A banknote design must also be harmonious, so that people are inspired to take a closer look at the banknote and its security features, which is the only way to tell a genuine from a counterfeit banknote. Last, but not least, the banknote must signal value, and not merely resemble printed matter.

The bridge theme gives ample scope for interpretation. To follow up the discussion forum in the spring, in the summer of 2006 Danmarks Nationalbank invited eight artists each to submit a draft proposal for the new banknote design. All eight proposals were exhibited in the lobby of Danmarks Nationalbank in January 2007.

On 30 January 2007, Danmarks Nationalbank announced that the artists Kaspar Bonnén and Karin Birgitte Lund have been asked to elaborate on their respective draft proposals for a new Danish banknote series. Both of the proposals have great potential. In the period until 1 May 2007, the two artists will work on their designs in more detail, after which Danmarks Nationalbank will evaluate which of the two design proposals is most appropriate for a new Danish banknote series.

Shortly afterwards, the artist chosen to design the new Danish banknote series will be announced.

The first banknote in the new series is expected to be issued in 2009, and the last banknote in 2013.

## **THE FAROE ISLANDS AND GREENLAND**

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As Denmark's central bank, Danmarks Nationalbank also supplies the Faroe Islands and Greenland with cash. Since 1951 the Faroe Islands have had special banknotes with Faroese motifs, but of the same dimensions and denominations as the Danish banknotes.

In 2006, a bill was introduced for separate Greenlandic banknotes. After the second reading in the Committee on Greenlandic Affairs of Denmark's Folketing (Parliament), the bill was submitted for renewed hearing by Greenland's Landsting (Parliament) in January 2007.

## INCREASING ACTIVITY AT THE ROYAL MINT

The activities of The Royal Mint have increased in recent years. The introduction of the tower coins in 2002, and the fairy tale coins in silver and gold in 2005, as well as several different coin sets, has generated renewed interest in coins. The manufacture of official and private medals has also increased substantially.

The series of fairy tale coins was continued in 2006 with The Royal Mint's issue of two new coins in the series: "The Shadow" and "The Snow Queen", with motifs designed by, respectively, the sculptor Bjørn Nørgaard and the sculptor Øivind Nygård, cf. Box 6. The fairy tale coins are issued as 10-krone circulation coins and as collector's coins in gold and silver. The series is inspired by five different Hans Christian Andersen fairy tales that have been interpreted by the artists so as to give each coin a distinctive motif. The last coin in this series will be issued in the autumn of 2007. At the same time a special coin set comprising all five fairy tale coins will be issued.

The tower coin series was also continued in 2006. The eighth tower coin, with the Bell Tower of Gråsten Palace as its motif, was issued in February 2006. The motif was designed by the sculptor and graphic artist Sys Hindsboe.

The Greenlandic sculptor Niels Motzfeldt designed the motif for the ninth tower coin, "Three Brothers", issued in September 2006, cf. Box 7. This is the first Danish circulation coin with a motif from Greenland.

The tower coin series will be completed in the spring of 2007. The motif of the Copenhagen City Hall Tower on the final coin in the series is designed by the sculptor Lis Nogel, who also designed the motif of Aarhus City Hall Tower for the first tower coin in the series.

### FAIRY TALE COINS

Box 6



Issued  
24 April 2006



Issued  
30 August 2006



The Royal Mint will mark the completion of the tower series with the issue of a special coin set comprising all ten tower coins. All tower coins have a face value of 20 kroner and are issued only as circulation coins.

### NEW THEMATIC COINS IN 2007

In 2007, a new series of 20-krone coins with ships as their common theme is introduced. The motif for the first coin in the series is the surveillance vessel "Vædderen" (the Ram), which from August 2006 to April 2007 is circumnavigating the Earth on the Galathea 3 Expedition.

New 10-krone coins are also introduced, as the fairy tale series is followed by a series of Polar coins, cf. Box 7. The Royal Mint has joined an international coin programme to mark the International Polar Year – a scientific project involving considerable research activities in Greenland. The series will comprise three coins, each issued in three editions: a 10-krone circulation coin and collector's editions in respectively silver and gold originating from Greenland.

### COIN SET 2006

In February 2006, The Royal Mint for the first time issued a coin set for children. The children's coin set comprises the seven circulation coins and a silver medal designed by the illustrator Cato Thau-Jensen. The silver medal has space for engraving e.g. the child's name.

As in previous years, the 2006 coin set was issued in two versions: a very fine uncirculated version and a version in extraordinary proof quality. The 2006 coin set comprises the seven circulation coins and a medal in Nordic gold. The medal is an exact copy of a commemorative medal struck by

King Christian V in 1691 to mark the inauguration of the Floating Dock in the Sound off Copenhagen.

### **THE ROYAL MINT HAS ITS OWN WEBSITE**

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In 2006, The Royal Mint launched its own website, [www.royalmint.dk](http://www.royalmint.dk). The website describes the minting of coins and presents the Danish coin series, and all the thematic and collector's coins. It is also possible to order collector's coins from the website.

Online ordering via the website has made the collector's coins more accessible, and the number of orders increased significantly in 2006.

## Payment Systems

*In 2006, as in previous years, the Danish payment and settlement systems were characterised by substantial turnover. Settlement in these systems is to a large extent based on credits granted by Danmarks Nationalbank against collateral. In 2006 a few minor adjustments and improvements were made to the terms and conditions for the participants' pledging of collateral for credit facilities at Danmarks Nationalbank.*

*The assessment by the International Monetary Fund, IMF, of the financial system in Denmark also comprised a review of the payment and settlement systems in relation to international standards. The assessment showed that the Danish systems are secure and efficient. However, a few opportunities for improvement were pointed out.*

*Finally, 2006 saw a number of European initiatives that may have a significant impact on the settlement of payments and securities transactions in the coming years.*

### DANISH PAYMENT AND SETTLEMENT SYSTEMS IN 2006

In a modern economy, the settlement of payments, securities, etc. is concentrated on a few large systems, cf. Box 8. This concentration entails that the individual systems settle very large sums on an annual basis.

#### THE FINANCIAL INFRASTRUCTURE IN DENMARK

Box 8

The financial infrastructure in Denmark is concentrated on three systems:

- *Kronos*, Danmarks Nationalbank's RTGS system<sup>1</sup> for individual realtime settlement of primarily large time-critical payments between banks, etc.
- *VP Settlement*, a multilateral net settlement system<sup>1</sup> for clearing and settlement of securities registered with and held at VP Securities Services.
- The *Sumclearing*, a multilateral net settlement system in which retail payments, e.g. Dankort (debit card) transactions and Betalingservice (direct debit), are settled.

In addition, transactions in Danish kroner are to a large extent settled via the international foreign-exchange settlement system Continuous Linked Settlement, CLS.

Finally, a number of Danish banks participate in the trans-European payment system, Target, which is used for settlement of payments in euro.

<sup>1</sup> In a real-time gross settlement (RTGS) system, payments and securities are settled finally and irrevocably immediately after receipt of the payment instructions during the opening hours of the system, whereas in a multilateral net settlement system payments and securities are settled on a net basis at fixed times during the settlement day. For a more detailed description of the systems, see Danmarks Nationalbank, *Payment Systems in Denmark*, 2005.

| PAYMENTS IN KRONER                         |           |           | Table 7   |
|--|-----------|-----------|-----------|
|  | 2004      | 2005      | 2006      |
| <b>Kronos</b>                              |           |           |           |
| Number of transactions, '000 .....         | 631       | 664       | 680       |
| Value of transactions, kr. billion .....   | 53,040    | 60,633    | 66,089    |
| <b>Sumclearing</b>                         |           |           |           |
| Number of transactions, '000 .....         | 1,088,030 | 1,120,807 | 1,244,542 |
| Value of transactions, kr. billion .....   | 4,421     | 5,027     | 5,349     |
| <b>VP Settlement</b>                       |           |           |           |
| Number of trades settled, '000 .....       | 7,348     | 10,182    | 12,466    |
| Value of trades settled, kr. billion ..... | 27,951    | 25,198    | 23,581    |
| <b>CLS</b>                                 |           |           |           |
| Number of trades settled, '000 .....       | 86        | 129       | 176       |
| Value of trades settled, kr. billion ..... | 19,812    | 31,333    | 47,596    |

Source: Danish Bankers Association, VP Securities Services, Copenhagen Stock Exchange, CLS Bank and own calculations.

The value of transactions in kroner settled via Danmarks Nationalbank's system, Kronos, increased by 9 per cent in 2006, cf. Table 7. The decline for the VP Settlement is attributable to a decrease in the trading of Danish bonds that exceeded the increase in trading of equities.

The strong increase by 52 per cent in settlement in kroner in CLS reflects a combination of greater activity in the foreign-exchange market and the increasing tendency for large market participants worldwide to use CLS, rather than correspondent banks, for settlement of foreign-exchange contracts.

In the trans-European payment system, Target, the value of payments settled rose by 9 per cent in 2006, cf. Table 8. However, Danish participants' use of the system declined by 16 per cent. This was among other

| PAYMENTS IN EURO                                |         |         | Table 8 |
|---|---------|---------|---------|
|   | 2004    | 2005    | 2006    |
| <b>Target – all participating member states</b> |         |         |         |
| Number of transactions, '000 .....              | 69,213  | 76,151  | 83,180  |
| Value of transactions, euro billion .....       | 443,993 | 488,901 | 533,541 |
| <b>Of which Danish participants</b>             |         |         |         |
| Number of transactions, '000 .....              | 92      | 106     | 116     |
| Value of transactions, euro billion .....       | 3,278   | 3,774   | 3,157   |
| <b>Sumclearing</b>                              |         |         |         |
| Number of transactions, '000 .....              | 148     | 183     | 211     |
| Value of transactions, euro billion .....       | 2       | 3       | 3       |
| <b>VP settlement</b>                            |         |         |         |
| Number of trading transactions, '000 .....      | 11      | 6       | 7       |
| Value of trading transactions, euro billion ... | 20      | 23      | 26      |

Source: ECB, Danish Bankers Association and VP Securities Services.

things because a major participant transferred its settlement of foreign-exchange contracts to CLS.<sup>1</sup> For the remaining Danish participants taken as one, the value of payments settled in Target increased by 14 per cent.

### **Operational problems in Kronos**

In the 2nd half of 2006, the settlement of payments in Kronos was disrupted by several system failures due to problems with the IT supplier's connection to SWIFT<sup>2</sup>. Most failures were of short duration and did not make special measures necessary, but in order to prevent problems with CLS settlement, Danmarks Nationalbank in three cases had to initiate contingency procedures with respect to manual transmission of funds between participants. In connection with the most serious failure, on 16 November, kr. 12 billion was transmitted between participants in order to ensure timely settlement of foreign-exchange contracts for a total principal of kr. 148 billion.

The disruption of payment settlement caused by the failure on 16 November 2006 was so severe that it had an impact on the money market. Consequently, Danmarks Nationalbank extended its opening hours and gave access to extraordinary buy-back of certificates of deposit. Thereafter conditions in the money market soon normalised.

Danmarks Nationalbank takes a very serious view of these system failures. A project has therefore been launched to improve the IT provider's SWIFT environment. This work is monitored closely by Danmarks Nationalbank.

## **PLEDGING OF COLLATERAL FOR CREDIT FACILITIES AT DANMARKS NATIONALBANK**

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The settlement of payments in the systems is to a large extent based on credits granted by Danmarks Nationalbank as current-account overdrafts. In order to limit Danmarks Nationalbank's risk of credit loss, current-account overdrafts, like monetary-policy loans, are hedged by collateral, primarily eligible securities registered with VP Securities Services. Collateral is provided by the traditional pledging of a securities account, but also via the special automatic collateralisation facility available in connection with settlement credits in payment and settlement systems.<sup>3</sup>

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<sup>1</sup> Settlement in CLS takes place on a net basis for each currency. This gives considerable liquidity savings compared to settlement via correspondent banks, which takes place on a gross basis.

<sup>2</sup> SWIFT is an international network used by banks, exchanges, payment and settlement systems, etc. to exchange messages on financial transactions, including payment instructions.

<sup>3</sup> For a general description of the terms and conditions for pledging of collateral for credit facilities at Danmarks Nationalbank, see Danmarks Nationalbank, *Payment Systems in Denmark*, 2005, Chapter 5.

### **Adjustment of the terms and conditions for pledging of securities as collateral**

The terms and conditions for pledging of securities as collateral to Danmarks Nationalbank were amended with effect from 1 January 2007.<sup>1</sup> The amendment is limited to a minor adjustment of the "haircuts" deducted from the market value of the securities on calculating their collateral value. The haircuts ensure that even if market prices decrease the credits granted will not exceed the market value of the pledged securities.

The adjustment reflects an equivalent change in the ECB's terms and conditions that likewise took effect on 1 January 2007. Unlike the ECB, Danmarks Nationalbank did not extend the collateral basis to include certain types of bank loans. This is deemed to be unnecessary for several reasons, including Danish banks' very substantial holdings of eligible securities. Consequently, Danmarks Nationalbank's extension of credit to banks, etc. will continue to be based on the collateralisation of bonds, primarily Danish government and mortgage-credit bonds.

### **Upgraded automatic collateralisation facility**

In 2006, the procedures for automatic collateralisation of securities were simplified, so that the principles for traditional pledging of collateral also apply to automatic collateralisation. This simplification has led to an extension of the collateral basis since in future all securities that can be pledged as traditional collateral are also eligible for automatic collateralisation. In addition, haircuts were reduced to the same level as for traditional pledging of collateral.

The introduction of the automated procedures, which have simplified the management of automatic collateralisation and extended the collateral basis, supports the stability of the payment and settlement systems.

## **OVERSIGHT**

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Danmarks Nationalbank oversees the financial infrastructure in Denmark in order to contribute to secure and efficient settlement of payments and securities transactions. In practice, oversight is concentrated on the three systemically important systems in Denmark: Kronos, VP Settlement and the Sumclearing.

A key element of the oversight is to assess the systems in relation to international standards for respectively payment and securities settlement systems. These standards lay down the overall requirements of the risk management and efficiency of the systems. Risks in payment and settle-

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<sup>1</sup> See [www.nationalbanken.dk](http://www.nationalbanken.dk) under Rules/Payments – Rules and Provisions.

ment systems fundamentally comprise legal risk, credit and liquidity risk and operational risk. Efficiency is dependent on the costs of using the systems and the usefulness of the services the systems offer to participants.

Oversight is based on the general principles for central-bank oversight of payment and settlement systems established by the Committee on Payment and Settlement Systems.<sup>1</sup>

Danmarks Nationalbank's oversight of the financial infrastructure is often undertaken in cooperation with the Danish Financial Supervisory Authority. This cooperation was formalised in a Memorandum of Understanding (MoU) in 2001. In 2006, the MoU<sup>2</sup> was amended in the light of the experience gained during the preceding five years, as well as the incorporation of Danmarks Nationalbank's responsibility for oversight of payment systems in the Danish Securities Trading Act as of 1 March 2006.<sup>3</sup>

## **IMF ASSESSMENT OF DANISH PAYMENT AND SETTLEMENT SYSTEMS**

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In 2005-06, the International Monetary Fund, IMF, performed an assessment (FSAP) of the financial system in Denmark. The IMF's oversight of the financial systems of its member countries is based on these systems' major significance to economic and financial stability, cf. p. 82.

The FSAP also comprised an assessment of the systemically important payment and settlement systems on the basis of the international standards described above.

The assessment of the systems was predominantly positive. The financial infrastructure was thus described as well-developed and based on technologically advanced solutions. The individual systems furthermore broadly complied with international standards.

The IMF did, however, reveal areas where there is scope for improvement of payment systems in Denmark. In these areas, initiatives have been taken to follow up the IMF's comments. This takes place in close cooperation with the system operators.

The IMF's main comments concerned the management of credit and liquidity risk in the Sumclearing. The IMF acknowledged that the system participants (banks) hold extensive portfolios of bonds that can be pledged as collateral to Danmarks Nationalbank. This entails a very high degree of certainty that the other participants will be able to settle their payments even if the participant with the largest payment obligation cannot settle. Nevertheless, the IMF found that further measures could be taken to ensure settlement, e.g. via the establishment of a buffer

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<sup>1</sup> See BIS, Central bank oversight of payment and settlement systems, 2005.

<sup>2</sup> See the agreement at [www.nationalbanken.dk](http://www.nationalbanken.dk) under Rules/Memorandum of Understanding.

<sup>3</sup> For further details, see Danmarks Nationalbank, *Report and Accounts*, 2005.

pool.<sup>1</sup> The same recommendation was made with regard to VP Settlement, where the issue was, however, considered to be less important.

Following the assessment by the IMF, Danmarks Nationalbank performed an analysis of the problem. Based on the results of the analysis it was concluded that there is still no need to establish a buffer pool or similar in connection with the Sumclearing and VP Settlement.<sup>2</sup>

Still with a view to reducing credit risk on settlement of retail payments in Denmark, a recommendation was made to restructure the settlement cycle for payments via Betalingservice (direct debit). The aim is to ensure that such payments are not booked to customer accounts until settlement has taken place in the Sumclearing.

The Danish Bankers Association and PBS have subsequently decided to restructure the settlement cycle.

With regard to the operational risk related to the Danish payment and settlement systems, the IMF concluded that Danmarks Nationalbank's own payment system, Kronos, should include measures to ensure restart of the system within two hours of a system failure. Today, the best real-time gross settlement systems meet this requirement, but it represents a tightening of the requirements applying when Kronos was commissioned in 2001, i.e. a maximum restart time of four hours. The more stringent requirement reflects experience from the terrorist attacks on New York on 11 September 2001.

Danmarks Nationalbank has initiated an investigation of the possibility of reducing the risk of a system failure of more than two hours' duration. Tests of the contingency measures show that in practice restart within two hours is normally possible.

In relation to the efficiency of the financial infrastructure, the IMF pointed out that Danmarks Nationalbank should improve the basis for assessing whether the costs and price structure of Kronos are appropriate. The large number of participants – 127 at end-2006 – indicates that this is the case, and the cost level for Kronos matches that of equivalent systems in other small and medium-sized EU member states. In view of the IMF recommendation Danmarks Nationalbank will reconsider the size and cost-distribution structure of the system.

## TARGET2

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The development of a new trans-European payment system, Target2, for settlement of payments in euro continued in 2006. The objective of

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<sup>1</sup> A buffer pool comprises liquid assets, e.g. cash or securities that can be drawn on at very short notice so that settlement is not materially delayed.

<sup>2</sup> The analysis is presented in Danmarks Nationalbank, *Financial Stability*, 2006.

Target2 is to create a single shared platform to replace the current Target system, which is based on links between the payment systems of the participating central banks.

Danmarks Nationalbank coordinates the overall Danish connection to Target2 and acts as the link between the financial sector and the three central banks in Germany, Italy and France that are developing the system.

During 2006 the core pricing scheme and ancillary system pricing scheme were announced and the participant structure was determined.

Participants will migrate from Target to Target2 in three waves. The first member states will migrate in November 2007 and the second group of member states in February 2008, while Denmark is part of the final wave migrating in May 2008.

The development of a major payment system such as Target2 requires exhaustive testing by the participants. Denmark's testing period is planned to begin in mid-2007 and will last until April 2008. Prior to the testing, the participants, i.e. VP Settlement, the Sumclearing and Danmarks Nationalbank, must make the adjustments to their own systems that are necessary to prepare for Target2.

## **RETAIL PAYMENTS**

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In the coming years, Danish banks, citizens and enterprises will be affected by two European payments initiatives: the Payment Systems Directive and the Single Euro Payments Area (SEPA).

### **Payment Systems Directive**

In December 2005, the European Commission tabled a draft directive with a view to harmonising the member states' legislation in the area of retail payments. The Directive is aimed at supporting the single market for goods and services in the EU by ensuring a level playing field for the transaction of payments. In addition, it is one of the cornerstones in the development of the Single Euro Payments Area, SEPA, cf. below.

Danmarks Nationalbank has followed the debates on the European Commission's proposal in the European Parliament and the Council closely and has contributed to the process by participating actively in the analysis of the scope and impact of the Directive in relation to Denmark.

The Directive will require a number of amendments and new provisions in Danish legislation, especially with regard to relations between banks and their customers. Overall, the Directive will include rules on (i) access to the provision of payment services in the EU, (ii) information requirements, and (iii) general terms and conditions for execution of payments, e.g. re-

sponsibilities and provisions relating to settlement time and value days. It will be a full harmonisation directive, which eliminates divergent legislation in member states.

### **SEPA – Single Euro Payments Area**

Since 2002 the European banks have been building the infrastructure for a Single Euro Payments Area, SEPA. The intention is to create an area where cross-border retail payments are as simple and efficient as domestic payments. With the establishment of SEPA, citizens and enterprises will be able to make domestic and cross-border payments on equal terms.

SEPA will cover the most significant types of payments between bank customers. The European banks have drafted a common set of rules for, respectively, credit transfers and payment services in SEPA, with specific requirements for procedures and standards. In addition, the banks have prepared a set of general principles for payment cards in SEPA in order to ensure that "SEPA cards" are broadly accepted in all terminals and by all acquirers in the euro area.

According to the SEPA timetable, the European banks will offer the new payment products from the beginning of 2008. In a transitional phase these products will exist in parallel with the current national products. By the end of 2010, the national products within the euro area are expected to have been more or less phased out and replaced by the new SEPA payment products. The timetable for SEPA can be changed, however, since the adoption of the payment services directive is delayed.

Danish banks also plan to offer their customers the execution of payments in euro via SEPA payment products. This will enable citizens and enterprises in Denmark, via their (Danish) banks, to remit payments in euro to and receive payments in euro from businesses, suppliers and customers all over Europe, on terms and conditions equivalent to those applying to euro area citizens and enterprises.<sup>1</sup> Viewed in isolation, SEPA will not entail any changes to Danish krone-denominated payments, so that consumers will not notice any difference when using e.g. the Dankort debit card on an everyday basis.

## **SECURITIES**

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In 2006, this area was characterised by the ongoing development of more efficient systems for clearing and settlement of cross-border securities transactions within the EU by removing the Giovannini barriers<sup>2</sup>. The key

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<sup>1</sup> See Elin Amundsen, SEPA – Single Euro Payments Area, Danmarks Nationalbank, *Monetary Review*, 1st Quarter 2007.

<sup>2</sup> See Danmarks Nationalbank, *Financial Stability*, 2005.

initiatives were: (i) the European Commission's previously announced framework directive on clearing and settlement in the EU was replaced by a voluntary Code of Conduct for securities exchanges, central securities depositories (CSD) and central counterparty clearing houses in connection with clearing and settlement of securities transactions, and (ii) the ECB announced the potential establishment of a trans-European securities settlement platform, Target2-Securities.

### **Code of Conduct for clearing and settlement of securities transactions**

In November 2006, the European Commission published a Code of Conduct for clearing and settlement of securities transactions adopted by the European securities exchanges, CSD and central counterparty clearing houses, including VP Securities Services and OMX Nordic Exchange. The objective is to reduce the barriers to development of a single European securities market. The Code of Conduct includes guidelines for:

- Price transparency with respect to services related to clearing and settlement of securities transactions, etc.
- Interoperability and fair access in order to facilitate the participation of financial enterprises in exchanges and CSD within the EU.
- Unbundling of CSD services so that financial enterprises may deselect services that they do not require (including the related accounting separation).

Initially, the Code of Conduct only applies to shares. The organisations who have signed the agreement must gradually implement the guidelines during 2007.

### **Target2-Securities**

On 7 July 2006, the ECB issued a press release stating that the Eurosystem was evaluating opportunities to establish a trans-European settlement platform for securities issued in euro. This platform is to be integrated with the Target2 platform under the name of Target2-Securities. It is envisaged that cash and securities will be settled on the same platform. The ECB expects the establishment of Target2-Securities to make it easier and less expensive to settle cross-border securities transactions, which is a precondition for the development of a single securities market in the EU.

Since mid-2006, the ECB has worked with the future users of the platform on the further design of Target2-Securities. In addition, a cost analysis has been performed, as well as an assessment of whether there is an adequate legal basis for the project. In the consultation phase, the possibility was introduced of enabling settlement of non-euro securities, e.g. securities denominated in Danish kroner, via the platform.

In this connection, in the spring of 2007 the Governing Council of the ECB is expected to decide to commence the next phase of the project: determining user requirements. In this phase public consultation will take place as the basis for the final decision to devote funds to the development of a new joint-European securities settlement platform. This decision is expected to be made at the beginning of 2008.

## SETTLEMENT OF FOREIGN-EXCHANGE TRANSACTIONS

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In 2006, Danmarks Nationalbank conducted a survey of foreign-exchange settlement in Denmark – in the same way as the central banks in the other countries whose currencies are settled in CLS.<sup>1</sup> The survey documents that the major Danish participants in the foreign-exchange market generally handle settlement risk prudently.<sup>2</sup>

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<sup>1</sup> CLS currently settles in 15 key currencies: US dollars, Euro, Japanese yen, Pounds sterling, Swiss francs, Australian dollars, Canadian dollars, Danish kroner, Hong Kong dollars, Norwegian kroner, Swedish kronor, Singapore dollars, South Korean won, New Zealand dollars and South African rands.

<sup>2</sup> See Lone Natorp and Tina Skotte Sørensen, Settlement of Foreign-Exchange Transactions, Danmarks Nationalbank, *Monetary Review*, 4th Quarter 2006.

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## International Monetary Cooperation

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*On 1 January 2007, Bulgaria and Romania joined the EU, bringing the number of EU member states to 27. The euro area was also enlarged on 1 January 2007 when Slovenia became the first member state from the 2004 enlargement to adopt the euro. Another key issue in 2006 was the implementation of the Stability and Growth Pact after the reform in 2005. Since Cyprus and France have reduced their budget deficits to below 3 per cent of GDP, the excessive deficit procedure has been abrogated for these two member states. However, ten EU member states are still subject to the excessive deficit procedure. Four of these member states are expected to have reduced their budget deficits to below the 3-per-cent limit in 2006.*

*In the International Monetary Fund, IMF, the negotiations for a medium-term strategy took concrete form in 2006. The IMF's member countries have adopted a two-year programme for adjustment of the member countries' quotas, voice and representation. As an initial step, the quotas of China, Korea, Mexico and Turkey are raised to reflect these countries' stronger role in the world economy. In order to strengthen the macroeconomic and financial surveillance, multilateral consultations have been initiated. Finally, lending by the IMF has decreased substantially in the last 18 months, which has made it more urgent to ensure a sustainable income basis.*

*During the regular review of the Danish economy, the Article IV consultation, the IMF acknowledged the recent strong economic performance, but emphasised the risk of overheating. Furthermore, in conclusion of the Financial Sector Assessment Program, FSAP, the IMF overall found the Danish financial systems to be resilient and well-supervised.*

### ENLARGEMENT OF THE EU

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#### **Bulgaria and Romania are new EU member states**

On 1 January 2007, Bulgaria and Romania joined the EU. This increased the EU's population by 30 million, which corresponds to approximately 6 per cent of its total population. The two new member states account for approximately 0.5 per cent of the EU's total output, and their level of prosperity is only around one third of the EU average.<sup>1</sup> Bulgaria and Romania's level of prosperity is considerably below that of the new

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<sup>1</sup> Prosperity based on purchasing-power-adjusted GDP per capita.

member states in the previous enlargement when they joined the EU in 2004. However, there is strong economic growth in both new member states, which is also reflected in high inflation rates and large current-account deficits.

In December 2004, the EU heads of state or government decided that Bulgaria and Romania could join the EU as from 2007, provided that they were considered ready by the European Commission, which was the case in the autumn of 2006. At the same time, Bulgaria and Romania were encouraged to strengthen their efforts in several areas, including reform of the judicial system, anti-corruption measures, veterinary and food safety, and administration of agricultural subsidies. The Commission can impose various sanctions in the event of insufficient progress in these areas.<sup>1</sup>

### **Future enlargements of the EU**

The three candidate countries Croatia, Turkey and the Former Yugoslav Republic of Macedonia (FYROM) are at various stages of the accession process. Accession negotiations with Croatia and Turkey were opened in October 2005, while no date has yet been set for the opening of accession negotiations with FYROM. The accession negotiations with Turkey and Croatia continued throughout 2006. The negotiations with Croatia in 2006 proceeded smoothly, while those with Turkey were more complicated. A slower reform process, concerns as regards freedom of speech and religion, and Turkey's barriers to the free mobility of goods were in focus during the negotiations with Turkey.<sup>2</sup>

Croatia is expected to become the next EU member state in view of the progress of the negotiations. However, the reformulation of the EU's enlargement strategy in December 2006 and the need for institutional reforms before further enlargement may delay Croatia's accession.

### **SLOVENIA JOINS THE EURO AREA**

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On 1 January 2007, Slovenia adopted the euro and became the 13th member of the euro area.<sup>3</sup> Slovenia is thus the first new EU member state from the 2004 enlargement to join the euro area. Prior to a member state's joining the euro area, the European Commission and the ECB assess

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<sup>1</sup> The enlargement of the EU with Bulgaria and Romania and the prospects for future enlargement are described in more detail in Borka Babic, EU Enlargements – Status and Future, Danmarks Nationalbank, *Monetary Review*, 1st Quarter 2007.

<sup>2</sup> In December 2006, the heads of state or government decided not to open eight out of 35 chapters in the accession negotiations and not to close the negotiations on any chapters before Turkey has met its obligations under the Ankara Protocol. The eight chapters concern the areas that are of relevance to Turkey's restrictions in relation to Cyprus.

<sup>3</sup> See also the more detailed description of Slovenia in Niels Peter Hahneemann, Slovenia: An Economic Portrait of the New Euro Area Member State, Danmarks Nationalbank, *Monetary Review*, 4th Quarter 2006.

its compliance with the economic and legal conditions, i.e. the convergence criteria. Convergence reports are prepared at least every 2nd year, or at the request of a member state. In the spring of 2006, Slovenia and Lithuania requested a convergence assessment. Slovenia was found to meet the four economic convergence criteria concerning inflation, interest rates, government finances and participation in the EU's exchange-rate mechanism, ERM II. Lithuania met the criteria concerning interest rates, government finances and ERM II participation, but its inflation rate marginally exceeded the inflation criterion. On the basis of the assessments by the Commission and the ECB, the Ministers of Economic Affairs and Finance of the EU member states (the Ecofin Council) decided in July 2006 that Slovenia could adopt the euro on 1 January 2007. At the same time, the Ecofin Council decided that Lithuania could not adopt the euro from January 2007 as Lithuania's inflation was too high.<sup>1</sup>

In December 2006, the other member states outside the euro area were subject to the regular convergence assessment. The exceptions were Denmark and the UK that have treaty-bound derogations and are therefore only assessed at their own request. None of the nine assessed member states met all convergence criteria.

During 2006 several non-euro area member states postponed their original target dates for adoption of the euro. Estonia and Lithuania had originally aimed to adopt the euro in 2007, Latvia in 2008 and the Czech Republic and Hungary in 2010. Their decisions to postpone were motivated by such factors as excessive inflation and in Hungary's case also a large budget deficit. In contrast, Cyprus, Malta and Slovakia have maintained their target dates for adoption of the euro. In February 2007 Cyprus and Malta requested convergence assessments with the objective of adopting the euro from 2008, while Slovakia aims to adopt the euro in 2009.

## THE STABILITY AND GROWTH PACT

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### Experience so far with the 2005 reform

In the spring of 2005, the Ecofin Council<sup>2</sup> adopted a reform of the Stability and Growth Pact.<sup>3</sup> The objectives of the Pact are to contribute to preventing excessive deficits (preventive arm) and to set the framework for correction of existing excessive deficits (corrective arm). The 2005 reform was

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<sup>1</sup> In March 2006, Lithuania's inflation was 0.1 percentage point above the reference value of 2.6 per cent, and the European Commission forecasts showed rising inflation throughout 2006.

<sup>2</sup> The meetings of the Ecofin Council are prepared by the Economic and Financial Committee, which includes representatives from EU member states' ministries and central banks.

<sup>3</sup> The consequences of the reform are described in more detail in Borka Babic, The Stability and Growth Pact – Status 2006, Danmarks Nationalbank, *Monetary Review*, 2nd Quarter 2006.

a compromise that was aimed mainly at strengthening the preventive elements of the Pact and increasing the flexibility of the corrective elements of the excessive deficit procedure, particularly in low-growth situations.

Since the reform of the Pact, several member states have been assessed under the excessive deficit procedure as a consequence of budget deficits in excess of the 3-per-cent limit. Experience so far has shown that the increased flexibility of the procedure has not adversely affected the objectives of the Stability and Growth Pact. Despite the expanded exemption provisions in the corrective arm of the Pact, neither low growth nor other factors, such as the implementation of structural reforms, were taken into account in the assessment of any member state's deficit exceeding the 3-per-cent limit. Instead, the increased flexibility was applied to determining deadlines and conditions for correction. In connection with the assessment of Germany's budget deficit in March 2006, Germany was thus given a deadline of two years instead of one. Thereby in 2006, Germany was given notice by the Ecofin Council to reduce the deficit to below the limit of 3 per cent, which is the last step in the excessive deficit procedure before sanctions may be imposed.<sup>1</sup>

The EU member states' updated stability and convergence programmes from the turn of the year 2005/06 reflected the objective to strengthen the preventive arm of the Pact. This was expressed in the medium-term objectives for the budget balance that are based on the individual member states' government debt and estimated potential growth. Compliance with the objectives will give more leeway to handle the fiscal-policy challenges as a consequence of population ageing. Furthermore, the member states will be able to avoid tightening fiscal policy in bad times.

### **The budgetary situation in 2006 and the implications for the excessive deficit procedure**

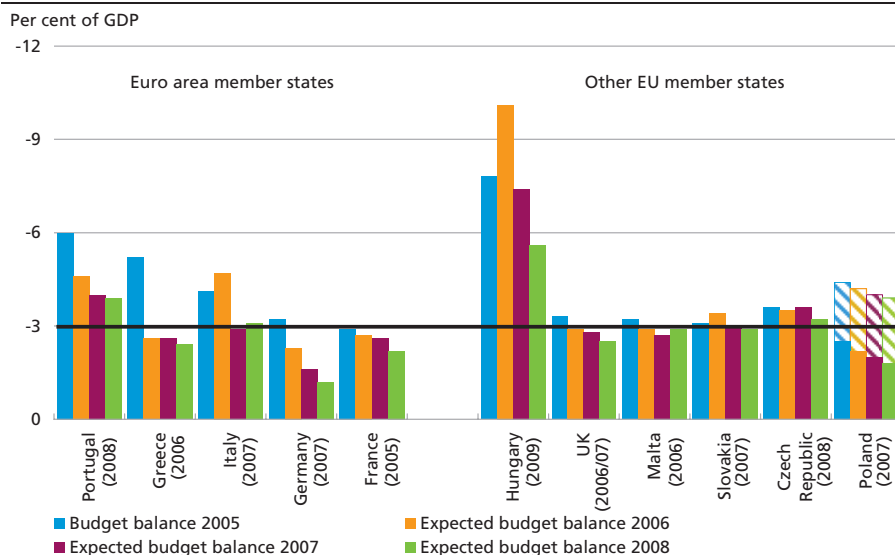
The EU member states improved their budgetary situations in 2006, supported by both the favourable cyclical position and the tightening of fiscal policy in several member states. The budget deficit for the euro area is expected to fall from 2.4 per cent of GDP in 2005 to 2 per cent in 2006. For the EU overall, a decrease from 2.3 per cent to 2 per cent is expected.<sup>2</sup>

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<sup>1</sup> In 2003, the European Commission already proposed giving notice to Germany and France to reduce their budget deficits, but the proposal did not receive the majority necessary for adoption by the Ecofin Council. The excessive deficit procedure was therefore held in abeyance for these two member states. As a result, the Commission brought the matter before the Court of Justice in 2004, and the Pact was subsequently reformed.

<sup>2</sup> According to the European Commission's autumn forecast, November 2006.

## MEMBER STATES SUBJECT TO THE EXCESSIVE DEFICIT PROCEDURE AT END-2006 Chart 27



Note: The striped columns show the costs of a pension reform in Poland which are not yet included in the calculation of the deficit. These costs will be included in the calculation of the deficit by the spring of 2007. The parentheses beside the names indicate the member states' deadlines for correction of their deficits. The UK's deadline is the fiscal year 2006/07 starting on 1 April 2006 and ending on 31 March 2007. The European Commission's estimate of Portugal's budget balance in 2008 is based on the assumption of an unchanged economic policy.

Source: The European Commission, autumn forecast, November 2006.

Cyprus is the only member state for which the excessive deficit procedure was abrogated in 2006 since in 2005 its budget deficit had already been reduced to well below the 3-per-cent limit. In January 2007, the Ecofin Council furthermore decided to abrogate the excessive deficit procedure for France after the European Commission's autumn forecast had confirmed the credibility and sustainability of France's reduction of its deficit to below the 3-per-cent limit in 2005, cf. Chart 27.<sup>1</sup> The European Commission's autumn 2006 forecast predicts that in four of the ten member states that are still subject to the excessive deficit procedure, i.e. Germany, Greece, the UK and Malta, the deficit in 2006 will fall below the 3-per-cent limit. With the exception of Germany's 2007 deadline for correction of the excessive deficit, these member states have an obligation to ensure the necessary correction of their deficits in 2006.<sup>2</sup>

Hungary is the EU member state with the largest budgetary problems. In 2005, Hungary's budget deficit was 7.8 per cent of GDP, and it is ex-

<sup>1</sup> The deficit of 2.9 per cent of GDP in 2005 was close to the 3-per-cent limit, and the reduction was predominantly attributable to one-off revenue items.

<sup>2</sup> The UK for the fiscal year 2006/07 starting on 1 April 2006 and ending on 31 March 2007.

pected to increase to around 10 per cent of GDP in 2006. When Hungary updated its stability and convergence programme in the autumn of 2006 to include a plan for fiscal consolidation in the coming years, it was subject to assessment by the Ecofin Council under the excessive deficit procedure. Hungary was given another recommendation to correct its budget deficit to below the 3-per-cent limit, but the deadline for correction was extended from 2008 to 2009 in view of the extent of the required fiscal consolidation. At the end of 2006, the Ecofin Council decided that Poland had failed to implement sufficient measures to correct its deficit by the stipulated deadline of 2007. The Ecofin Council cannot implement the last step in the excessive deficit procedure and impose sanctions on Poland and Hungary since only euro area member states that do not take sufficient measures to correct a budget deficit exceeding 3 per cent of GDP can be subject to sanctions.

### **THE IMF'S REFORM PROCESS RESULTS IN CHANGED VOTING WEIGHTS**

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In the International Monetary Fund, IMF, the negotiations on a medium-term strategy<sup>1</sup> took concrete form in 2006, based on proposals submitted by Rodrigo de Rato, Managing Director of the IMF, in March 2006. The negotiations concern all IMF tasks relating to macroeconomic and financial surveillance, short-term balance-of-payments loans and technical assistance.<sup>2</sup>

The IMF's Annual Meeting in Singapore in September 2006 focused especially on launching a reform process to increase the influence of the emerging economies and the poorest countries in the IMF, among other reasons because many more of these countries today play a significant role in the global economy. The member countries, including Denmark, approved an increase of the member contributions, or quotas, for China, Korea, Mexico and Turkey. The quota determines a country's voting power. This resolution thus recognises the stronger role of these countries in the global economy. The decision also signals forthcoming additional changes to the member countries' voting weights within the next two years, cf. Box 9.

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<sup>1</sup> See Danmarks Nationalbank, *Report and Accounts*, 2005, p. 81. For more details of the strategy and the opinion of the Nordic-Baltic Office, see the biannual report of the Nordic-Baltic Office at [www.nationalbanken.dk](http://www.nationalbanken.dk) under Tasks/International cooperation/Denmark's representation in the IMF.

<sup>2</sup> The IMF has 185 member countries in total after the inclusion of Montenegro on 18 January 2007.

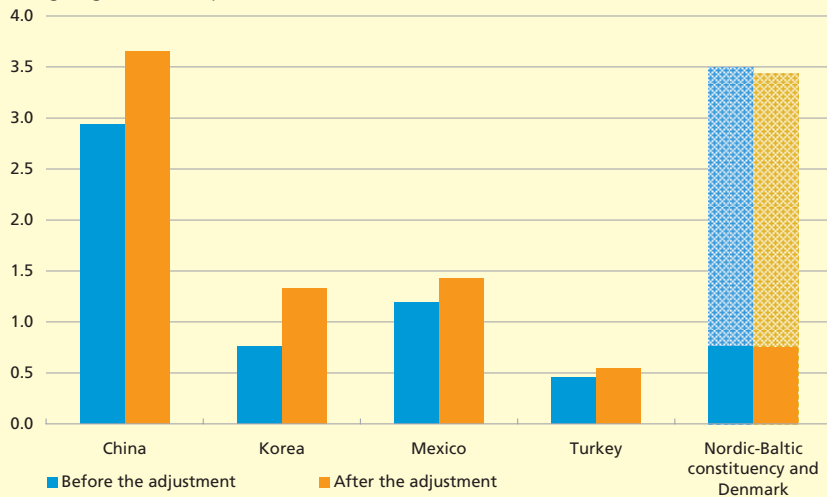
## ADJUSTMENT OF MEMBER COUNTRIES' VOTING WEIGHTS IN THE IMF

Box 9

In September 2006, the IMF's member countries, with 90.6 per cent of the votes, adopted a two-year programme for adjustment of the member countries' voting weights in the IMF. The voting weights are predominantly determined on the basis of each country's capital contribution, or quota. In the first instance, the quotas of China, Korea, Mexico and Turkey are raised since these countries were considered to be under-represented in the IMF in terms of relevant measures such as the size and openness of their economies. The increase by 1.8 per cent in the total quotas raises these countries' overall voting weight from 5.4 per cent to 6.8 per cent. The voting weights of all other member countries will be equivalently reduced. Denmark's voting weight is thus reduced from 0.76 per cent to 0.753 per cent, cf. the Chart.

## RESOLUTION ON ADJUSTMENT OF VOTING WEIGHTS

Voting weight in the IMF, per cent



Note: At the end of February 2007 Mexico had not yet implemented the quota increase. The voting weights are calculated excluding the marginal change resulting from the quota increase of SDR 27.5 million that was granted to Montenegro when it joined the IMF on 18 January 2007. The Nordic-Baltic constituency consists of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. See the description of the IMF's decision-making structure at [www.nationalbanken.dk](http://www.nationalbanken.dk) under Tasks/International cooperation/The IMF's decision-making process.

Source: The IMF and own calculations.

This resolution also entails an adjustment of the calculation of the individual member countries' voting weights within the next two years. The calculation basis for the quotas and the quotas themselves are to be adjusted to reflect the member countries' role in the world economy more accurately.

Furthermore, the resolution is aimed at improving the representation of the low-income countries in the IMF. This is difficult to achieve through quota adjustments since the economic progress of these countries typically lags behind that of the emerging economies and the industrialised countries. Instead, the IMF will increase the number of votes that are distributed equally among all countries, the basic votes, to enhance the voting power of the smallest economies. Finally, extra resources are allocated to members of the IMF's Executive Board with a particularly heavy workload. This is especially relevant for the two African constituencies that each comprise more than 20 countries.

## **FOCUS ON THE IMF'S MACROECONOMIC AND FINANCIAL SURVEILLANCE**

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In 2006, the IMF as an element of its strategic development continued its efforts to improve the prevention of economic crises. The background is that the increasing integration of the economies has enhanced prosperity and given new opportunities, but also presented new risks, for example because economic and financial problems can spread more easily in a globalised world. The IMF will pursue this preventive strategy by stepping up the focus of its analyses and advice on:

- The relations between the policies in the individual countries and regions and the global economic development. A case in point is the influence of economic policy in China and the USA on the world economy.
- The relations between macroeconomic and financial policies. The financial sector is key to economic stability in the individual countries as well as globally because financial problems in one country can have a contagion effect on other countries.

A concrete example of the new initiatives is the multilateral consultations launched by the IMF in 2006. As an element of these consultations, the IMF holds meetings with the euro area, Japan, China, Saudi Arabia and the USA to discuss the global payment imbalances. The objective is for the IMF to play a larger role in the coordination of the countries' economic policies with a view to ensuring global economic and financial stability. Major countries, e.g. G7, support the multilateral consultations, and that they take place under the auspices of the IMF. The consultations have so far not entailed any specific measures, however.

### **The IMF's review of the Danish economy and the financial sector**

In 2005-06 Denmark was reviewed under the voluntary Financial Sector Assessment Program, FSAP. FSAP is a review of the financial sector in order to assess the stability of a country's financial system. In general, the IMF has stepped up the surveillance of its member countries' financial sectors and financial markets in view of the financial systems' key role in ensuring economic stability. Since the financial crisis in Asia in 1997-98, the IMF has thus reviewed the financial sectors of more than 100 of its 185 member countries.

The IMF first considers the macroeconomic conditions and stress tests are performed. Stress tests are simulations used to examine how various types of hypothetical macroeconomic shocks might affect key financial institutions and thereby the entire financial system. In addition, it is assessed whether international standards for the financial sector are observed. In

Denmark's case, its observance of standards for banking supervision, insurance, payment systems and securities settlement systems, and anti-money laundering and measures to combat financing of terrorism, was assessed.

The final FSAP meetings with the IMF were held in connection with the regular review of the Danish economy, the Article IV consultation. The IMF then completed a number of reports on Denmark that were published in October 2006 after consideration by the IMF's Executive Board.<sup>1</sup>

The IMF overall acknowledged Denmark's strong economic performance, including the importance of the fixed-exchange-rate policy, and supported the Welfare Reform. However, the IMF emphasised the risk of overheating. It is therefore vital that Denmark focuses on wage restraint, tight expenditure control and medium-term objectives focusing on sustainable government finances and rapid implementation of measures to increase the supply of labour.

In the context of FSAP, the IMF found Denmark's financial systems to be resilient and well-supervised. The IMF pointed out that sustaining the strong financial performance and stability requires support from macro-economic policy and continued supervisory vigilance. Furthermore, the IMF stated that the housing market warrants close monitoring and effective consumer information about the risks involved in over-borrowing against real estate. The IMF made a number of recommendations, many of which are currently being implemented, cf. p. 69.<sup>2</sup>

## DECLINE IN THE IMF'S LENDING

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The IMF's lending has decreased considerably in the last 18 months to the lowest level since the beginning of the 1970s. This can be attributed to such factors as recent years' favourable global economic development and financial conditions, with low interest rates. This has led to the repayment of IMF loans by large borrowers. It has also prevented new crises from arising. Since the summer of 2006, Indonesia, Uruguay and the Philippines have thus redeemed their IMF loans ahead of schedule for a total of SDR 6.2 billion (approximately kr. 53 billion). This is in addition to premature redemptions for SDR 23 billion from Russia, Brazil and Argentina since the beginning of 2005, and Turkey's redemption of half of its borrowing. At the end of 2006, loans to Turkey accounted for more than 70 per cent of the outstanding loans totalling SDR 9.8 billion, and the IMF's general borrowing programmes concerned only seven countries.

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<sup>1</sup> See [www.nationalbanken.dk](http://www.nationalbanken.dk) under Press room/IMF Consultation.

<sup>2</sup> The FSAP review of Denmark is described in more detail in Gitte Wallin Pedersen, IMF Review of the Financial Sector in Denmark, Danmarks Nationalbank, *Monetary Review*, 4th Quarter 2006.

The reconstruction of the Turkish economy since the crisis in 2001 has continued, and the economic growth rate was approximately 5 per cent in 2006. Turkey has met the objective of a primary government budget surplus of 6.5 per cent, and inflation is under control. However, the deficit on the current account of the balance of payments reached approximately 8 per cent of GDP in 2006, and there is still a need for Turkey to strengthen its economic policy, accelerate its labour and product market reforms, implement bank reforms and modernise its social security system. Turkey was thus one of the countries whose exchange rate and equity prices were most affected by the turbulence in the international financial markets in May-June 2006.

The decrease in IMF lending has diminished the IMF's income basis since a large proportion of the IMF's administrative costs are financed via income from interest on IMF lending. In 2006, the IMF adopted temporary measures to offset the declining income basis by e.g. drawing on the IMF's reserves. Furthermore, the IMF established an investment account in order to achieve a higher return on its reserves. In 2007, the IMF will initiate discussion of more permanent measures to safeguard the income basis after a report by an external committee<sup>1</sup>. The report's proposals include the investment of a proportion of the quota funds and the proceeds from the sale of a share of the IMF's gold stock, as well as expansion of the IMF's investment mandate.

The decrease in IMF lending is reflected in Danmarks Nationalbank's accounts with the IMF since the IMF finances its lending via currency contributed by the member countries, including Denmark, with a sufficiently sound foreign-exchange and reserve position. As IMF lending declines, there is less need for the IMF to draw on these creditors, hereby reducing their reserve positions.<sup>2</sup> Denmark's reserve position is now less than 10 per cent of Denmark's IMF quota of SDR 1,642.8 million, cf. Chart 28 and Table 10 on p. 165.

The IMF's lending to low-income countries has also been reduced as a result of the Multilateral Debt Relief Initiative, MDRI<sup>3</sup>. In principle, this initiative entails 100 per cent debt relief from the IMF, primarily for loans via the Poverty Reduction and Growth Facility, PRGF. At the end of 2006, a total of 23 countries had qualified for debt relief under MDRI since the initiative came into force in January 2006. In 2006, it was determined conclusively which countries would be entitled to debt relief under the

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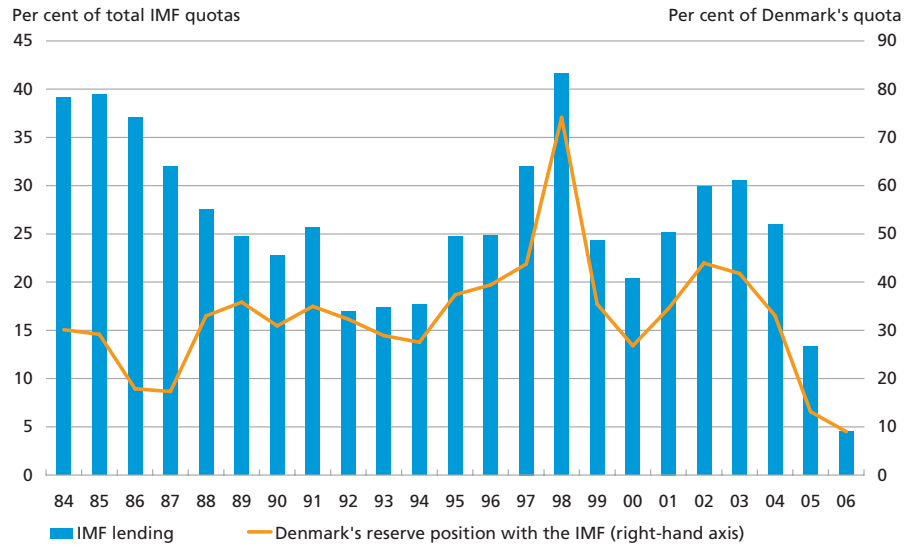
<sup>1</sup> The committee comprised the chairman, Andrew Crockett (President of the investment bank JPMorgan Chase) and a broad-based group of current and former central-bank governors. The report was published on the IMF's website in January 2007.

<sup>2</sup> Denmark's reserve position vis-à-vis the IMF is calculated as the difference between Denmark's quota and the IMF's outstanding in kroner.

<sup>3</sup> See Danmarks Nationalbank, *Report and Accounts*, 2005, p. 82.

IMF LENDING AND DENMARK'S RESERVE POSITION

Chart 28



Note: Lending excluding interest-subsidised lending to low-income countries.  
 Source: IMF and own calculations.

Heavily Indebted Poor Countries facility, HICP, and MDRI. There are approximately 20 further candidates for debt relief, but the countries are subject to certain minimum requirements regarding macroeconomic policy, poverty reduction and government expenditure control.

The MDRI debt relief for the 23 countries is financed within the IMF's existing framework and not by the original lenders. In this connection, the government-guaranteed loan of SDR 100 million from Danmarks Nationalbank to PRGF was fully redeemed and no further drawing is possible.<sup>1</sup>

<sup>1</sup> In January 2006, SDR 31.93 million of the loan was repaid prematurely. The remaining SDR 68.07 million was redeemed on 22 December 2006.

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## Organisation and Tasks of Danmarks Nationalbank

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*At the end of 2006 Danmarks Nationalbank employed a staff of 552 in 15 different departments.*

*Danmarks Nationalbank has a number of objectives and values, which are the guidelines for its day-to-day activities.*

*Danmarks Nationalbank is represented on a number of committees and in a number of international organisations.*

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### **DANMARKS NATIONALBANK'S OBJECTIVES AND VALUES**

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Danmarks Nationalbank has a number of objectives and values, which are the guidelines for its day-to-day activities. Both the objectives and the values have been drawn up in close cooperation between management and employees, and they form the basis for the individual departments' work on objectives and action plans. No changes were made to the objectives and values in 2006.

#### **Objectives**

The overall objectives of Danmarks Nationalbank as an independent and credible institution are:

- To ensure a stable krone.
- To ensure efficient and secure production and distribution of banknotes and coins of high quality.
- To contribute to efficiency and stability in the payment and clearing systems and in the financial markets.
- To act as banker to the central government.
- To prepare reliable and relevant financial statistics.
- To prepare and communicate credible standpoints on economic and financial issues with relation to Danmarks Nationalbank's objectives.
- To maintain its financial strength by means of consolidation and risk management.

#### **Values**

- While safeguarding its traditions, Danmarks Nationalbank shall actively renew itself and adapt to trends in society and to the requirements of the surrounding world. Danmarks Nationalbank shall protect its cred-

ibility by not only displaying professional competence, managerial skills and sound judgement, but also by maintaining an organisation which lives up to the principles Danmarks Nationalbank considers to be significant to society's development: efficiency, cost awareness and readiness for change. Focusing on its primary tasks, on an ongoing basis Danmarks Nationalbank shall set priorities for its work.

*In brief:* We shall display professional competence and exert sound judgement, and ourselves live up to the principles we consider to be important to society.

- Danmarks Nationalbank shall be an attractive workplace capable of attracting, motivating and retaining well-qualified employees and offering them working conditions which ensure balance between work and leisure. Key qualifications are initiative, commitment, adaptability and a willingness and ability to cooperate across professional barriers, and with other areas of the organisation. All employees must have the necessary training and/or education to handle their tasks. It is a joint responsibility to ensure that everyone is trained and developed in preparation for new tasks.

*In brief:* It is important to Danmarks Nationalbank that all employees display professional competence, show initiative and an ability to cooperate, and can adapt to change.

- Danmarks Nationalbank shall be service-oriented in terms of both the external relations of line functions, and the internal relations of staff functions with the rest of the bank. Teamwork and project work within each unit and between departments is encouraged. In cooperation with the employees, managers shall set priorities for tasks, define targets and ensure the necessary responsibility sharing and communication, thereby limiting the need for detailed supervision. This gives employees the widest possible scope to define their own working methods, solve tasks and take decisions themselves to the greatest extent possible.

*In brief:* Managers shall motivate employees, set priorities, delegate responsibility and encourage teamwork.

- Danmarks Nationalbank's relations with the financial sector are based on market-oriented solutions, and the costs to the sector and to Danmarks Nationalbank must be weighed against the value to society of the system or requirement. The underlying principle for systems and requirements relating to the credit institutions shall be equal treatment irrespective of size, geographical location and national affiliation.

*In brief:* Relations with the financial sector shall be based on market-oriented solutions and relevance to society.

- In relations with public authorities and players in the financial system, and in international cooperation, Danmarks Nationalbank shall seek influence and express attitudes which are in line with Danmarks Nationalbank's objectives. In relations with the public Danmarks Nationalbank shall, via the media and otherwise, ensure an understanding of the decisions relating to Danmarks Nationalbank's own tasks. With regard to financial conditions or economic policy in general, Danmarks Nationalbank shall comment on these issues if they are of material importance to its implementation of monetary and foreign-exchange policy, or to the efficiency and stability of the financial markets.

*In brief:* Danmarks Nationalbank shall participate actively in national and international cooperation and shall communicate its policies in a clear and transparent way.

## **DANMARKS NATIONALBANK'S MANAGEMENT AND ORGANISATION**

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Danmarks Nationalbank is a self-governing institution with a Board of Directors, a Committee of Directors and a Board of Governors. The Board of Directors elects the Committee of Directors. Professor Hans E. Zeuthen has been Chairman of the Committee of Directors since 1991. The Board of Governors is charged with the day-to-day management of Danmarks Nationalbank.

The Royal Bank Commissioner is the formal link between the Government and Danmarks Nationalbank. The Minister for Economic and Business Affairs Mr Bendt Bendtsen is the Royal Bank Commissioner.

### **Board of Directors**

The Board of Directors has 25 members, of whom eight are elected by the Folketing (Parliament) from among its members, and two are appointed by the Minister for Economic and Business Affairs, who is the Royal Bank Commissioner.

The other 15 members, who must have in-depth knowledge of business conditions, are elected by the Board of Directors and should represent different geographical areas and professions, including wage-earners. Meetings are normally held once in each quarter. The Board of Directors has organisational tasks and must approve the annual accounts. Box 10 presents the Board of Directors as of 1 March 2007.

### **The Committee of Directors**

The Committee of Directors has seven members. The two members of the Board of Directors appointed by the Minister for Economic and Business Affairs are permanent members. On the election of the other five mem-

| THE BOARD OF DIRECTORS OF DANMARKS NATIONALBANK, 1 MARCH 2007                           |  | Box 10                               |
|---|--|--------------------------------------|
| Chairman: <i>Hans E. Zeuthen</i> , Professor  |  |                                      |
| Deputy Chairman: <i>Helle Bechgaard</i> , Director                                      |  |                                      |
| Elected by the Folketinget  |  | for the period ending 31 March 2011: |
| <i>Elisabeth Arnold</i> , MP  |  |                                      |
| <i>Pia Christmas-Møller</i> , MP  |  |                                      |
| <i>Kristian Thulesen Dahl</i> , MP  |  |                                      |
| <i>Svend Erik Hovmand</i> , MP  |  |                                      |
| <i>Lars-Emil Johansen</i> , MP  |  |                                      |
| <i>Troels Lund Poulsen</i> , MP   |  |                                      |
| <i>Villy Søvnald</i> , MP   |  |                                      |
| <i>Helle Thorning-Schmidt</i> , MP  |  |                                      |
| Appointed by the Minister for Economic and Business Affairs                             |  |                                      |
| for the period ending 31 March 2011:  |  |                                      |
| <i>Michael Dithmer</i> , Permanent Secretary, Ministry of Economic and Business Affairs |  |                                      |
| <i>Michael Lunn</i> , Permanent Secretary, Ministry of Justice                          |  |                                      |
| Elected by the Board of Directors   |  | for the period ending 31 March:      |
| <i>Jette W. Knudsen</i> , Director  |  | 2007                                 |
| <i>Kjeld Larsen</i> , Farmer  |  | 2007                                 |
| <i>Kirsten Nielsen</i> , Former Council President                                       |  | 2007                                 |
| <i>Søren Bjerre-Nielsen</i> , Group President   |  | 2008                                 |
| <i>Peter Bjerregaard</i> , Managing Director  |  | 2008                                 |
| <i>Niels Boserup</i> , Managing Director  |  | 2008                                 |
| <i>Niels Due Jensen</i> , Group Chairman  |  | 2009                                 |
| <i>Jens Rostrup-Nielsen</i> , Director  |  | 2009                                 |
| <i>Hans E. Zeuthen</i> , Professor  |  | 2009                                 |
| <i>Helle Bechgaard</i> , Director   |  | 2010                                 |
| <i>Niels Fog</i> , Merchant   |  | 2010                                 |
| <i>Kirsten Stallknecht</i> , Former President for the ICN                               |  | 2010                                 |
| <i>Hans Jensen</i> , President of LO  |  | 2011                                 |
| <i>Johannes Fløystrup Jensen</i> , Director   |  | 2011                                 |
| <i>Kirsten Nissen</i> , Trade Union President   |  | 2011                                 |

bers of the Committee of Directors, it is customary for the Board of Directors to elect two MPs representing the government and the opposition parties, respectively. The Committee of Directors usually meets ten times a year. Box 11 presents the Committee of Directors as of 1 March 2007.

### The Board of Governors

The Board of Governors has three members. The governors are charged with the day-to-day management of Danmarks Nationalbank and hold

THE COMMITTEE OF DIRECTORS OF DANMARKS NATIONALBANK,  
1 MARCH 2007

Box 11

Chairman: *Hans E. Zeuthen*, Professor

Deputy Chairman: *Michael Dithmer*, Permanent Secretary, Ministry of Economic and Business Affairs

Elected by the Board of Directors for the period ending 31 March 2007

*Søren Bjerre-Nielsen*, Group President

*Kirsten Nissen*, Trade Union President

*Troels Lund Poulsen*, MP

*Helle Thorning-Schmidt*, MP

*Hans E. Zeuthen*, Professor

Appointed by the Minister for Economic and Business Affairs

for the period ending 31 March 2011:

*Michael Dithmer*, Permanent Secretary, Ministry of Economic and Business Affairs

*Michael Lunn*, Permanent Secretary, Ministry of Justice

sole responsibility for the formulation and ongoing adjustment of monetary policy. As Governor by Royal Appointment Mr Nils Bernstein is Chairman of the Board of Governors. The two other members, who are appointed by the Board of Directors on the recommendation of the Committee of Directors, are Mr Torben Nielsen and Mr Jens Thomsen.

### Auditors

The Minister for Economic and Business Affairs appoints two state-authorised public accountants as the external auditors of Danmarks Nationalbank for one year at a time. State-Authorised Public Accountant Mr Svend Ørjan Jensen and State-Authorised Public Accountant Ms Mona Blønd have been reappointed until 31 March 2007.

### DEPARTMENTS

Danmarks Nationalbank has 15 departments, cf. the organisation chart on p. 93. The tasks of the individual departments are as follows:

- *Accounting* manages and monitors the accounts of customers (credit institutions, the central government, central banks, etc.) and the settlement of payments in the financial sector. It undertakes settlement and bookkeeping of transactions concerning Danmarks Nationalbank's foreign-exchange and bond portfolios, and the central-government debt. It also undertakes Danmarks Nationalbank's payroll administration and prepares its accounts, budgets and statistical reporting.

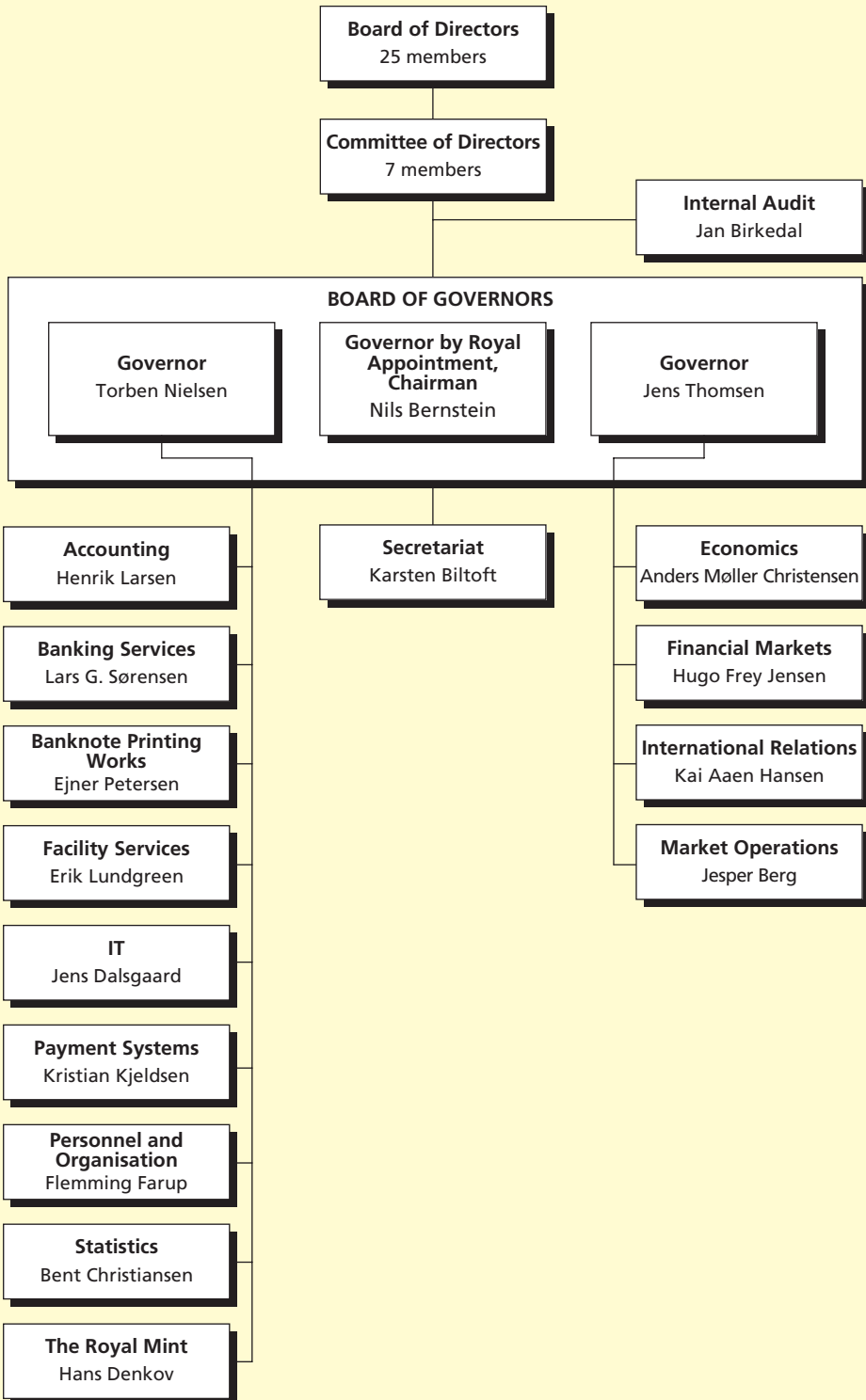
Government Debt Accounting undertakes bookkeeping and control of domestic and foreign government debt, as well as the Social Pension Fund, on behalf of the Ministry of Finance. In addition, it prepares financial statements of the development in and distribution of central-government debt, as well as the size of current payments.

- *Banking Services* supplies banknotes to the banks in Denmark, in the Faroe Islands and in Greenland. This takes place via cash depots established by agreement with banks. Worn banknotes are returned to Banking Services for control of authenticity and destruction.
- *The Banknote Printing Works* manufactures Danish and Faroese banknotes, and is thus responsible for the design of the banknotes, the production of printing plates and ink, and the actual printing of the banknotes, as well as quality control, cutting out and packaging. The Banknote Printing Works also participates in international cooperation on improving the security of banknotes.
- *Economics* analyses monetary and foreign-exchange policy issues as well as macroeconomic development in Denmark, the EU and other industrialised countries. The department undertakes research in these areas. The economic model of the Danish economy, "Mona", has been developed by the department for analysis of inter alia cyclical trends. Economics edits Danmarks Nationalbank's quarterly Monetary Review.
- *Facility Services* is responsible for the administration and maintenance of Danmarks Nationalbank's properties and for internal services.
- *Financial Markets'* responsibilities are managing, monitoring and analysing Danmarks Nationalbank's portfolios, assessing and analysing the development in the financial sector and in financial stability in Denmark, and preparing outline strategies and analyses of government debt policy. Financial Markets publishes Danish Government Borrowing and Debt and Financial Stability.
- *Internal Audit* undertakes the audit of Danmarks Nationalbank's procedures, internal control environment and control measures, IT use and risk-management procedures. In cooperation with the appointed external auditors, it audits Danmarks Nationalbank's annual accounts. In addition, it audits Danmarks Nationalbank's Pension Fund subject to winding up and various foundations. Finally, in cooperation with the National Audit Office of Denmark it also audits the Guarantee Fund for Depositors and Investors, the Social Pension Fund, the High-Technology Foundation, the Financing Fund and government debt management.
- *International Relations* is responsible for relations with international economic-policy organisations, including the European Central Bank, ECB, and the International Monetary Fund, IMF. It prepares analyses and

positions, and prepares for/participates in international meetings. It also handles general EU legal issues, especially in relation to the ECB.

- *IT* is responsible for the use of IT at Danmarks Nationalbank, including its IT strategy. The tasks include operation and development of Danmarks Nationalbank's LAN, application development, and the purchasing and management of Danmarks Nationalbank's hardware and software. IT also handles Danmarks Nationalbank's relations with Bankernes EDB Central, BEC.
- *Market Operations* undertakes tasks relating to monitoring and analysis of market developments, e.g. the implementation of foreign-exchange, monetary and liquidity policy, including intervention in the foreign-exchange and money markets. It is responsible for the administration of Danmarks Nationalbank's portfolios, comprising the foreign-exchange reserve and the bond portfolio. In connection with the implementation of government debt policy, it undertakes domestic and foreign borrowing for the central government.
- *Payment Systems* handles policy issues relating to payment systems, including securities settlement. It cooperates with owners and operators of the Danish retail payment and settlement systems and monitors these systems. It also develops and maintains Danmarks Nationalbank's payment system for large krone- and euro-denominated payments.
- *Personnel and Organisation* is responsible for personnel policy and staff and organisational development, the planning of security measures, issues relating to operational risk, internal control procedures, supervision and contingency plans for business continuity, as well as coordination of the annual budget and planning process.
- *The Royal Mint* manufactures Danish coins and supplies banks in Denmark, the Faroe Islands and Greenland with coins. In addition to ordinary coins in circulation, commemorative coins, thematic coins, coin sets and medals are also manufactured.
- *The Secretariat* undertakes general secretariat functions for the Board of Governors, the Committee of Directors and the Board of Directors and is responsible for external and internal communication, including relations with the press, and Danmarks Nationalbank's website, intranet and lectures, as well as responses to general external enquiries. The Secretariat also comprises Danmarks Nationalbank's central archives and library. The Secretariat also handles general legal issues and edits Danmarks Nationalbank's Report and Accounts.
- *Statistics* compiles, prepares and distributes financial statistics, including statistics for the financial sector, financial sector accounts, compilation of the financial items of the balance of payments and Denmark's foreign debt and direct investments. Statistics are published electronically via the Internet.

**ORGANISATION CHART 1 MARCH 2007**



| STAFF GROUPS                    |        |          |        |          |        |          |        |          |        | Table 9  |
|---------------------------------|--------|----------|--------|----------|--------|----------|--------|----------|--------|----------|
| Year-end                        | 2002   |          | 2003   |          | 2004   |          | 2005   |          | 2006   |          |
|                                 | Number | Per cent | Number | Per cent | Number | Per cent | Number | Per cent | Number | Per cent |
| Academic staff ....             | 149    | 27       | 153    | 28       | 165    | 31       | 173    | 33       | 183    | 36       |
| Bank staff .....                | 122    | 22       | 116    | 21       | 104    | 19       | 96     | 19       | 89     | 17       |
| IT-/clerical staff ....         | 111    | 20       | 104    | 19       | 98     | 18       | 92     | 18       | 92     | 18       |
| Service staff .....             | 90     | 16       | 86     | 16       | 86     | 16       | 84     | 16       | 82     | 16       |
| Craftsmen/<br>technicians ..... | 87     | 15       | 85     | 16       | 83     | 16       | 71     | 14       | 69     | 13       |
| Total .....                     | 559    | 100      | 544    | 100      | 536    | 100      | 516    | 100      | 515    | 100      |

Note: Number of employees converted to full-time positions.

## STAFF

### Staffing structure

At the close of 2006, Danmarks Nationalbank had 550 employees, equivalent to 515 full-time positions. Employees in part-time positions constituted 14 per cent of the staff.

The staffing structure reflects that Danmarks Nationalbank is both a knowledge organisation and a production enterprise, and the staff's educational backgrounds range from economics, law, banking, IT and engineering to clerical and manual crafts and trades.

The staffing structure has changed in recent years, and staff with an academic background now account for a significantly higher proportion than before, cf. Table 9. This is because the work tasks have become increasingly complex, as seen in other business enterprises.

Macroeconomists account for the largest share of the group of academic staff.

Danmarks Nationalbank contributes to establishing student positions in areas where this is possible, and the number of clerical and craft apprenticeships increased in 2006. A number of PhD scholarships are also offered, and they likewise increased in number in 2006.

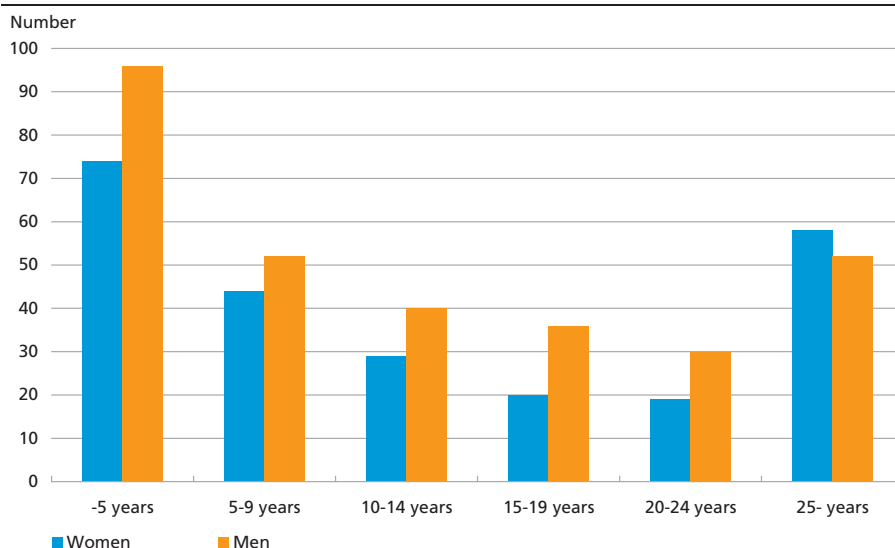
The number of female and male staff is by and large the same. The average age is 42, and the average seniority is 13 years, which is unchanged from 2005. The proportion of women in senior managerial positions<sup>1</sup> is 16 per cent, while women account for 6 per cent of the senior manager group<sup>2</sup>, cf. Chart 29.

<sup>1</sup> Defined as Assistant Head of Division and all more senior positions.

<sup>2</sup> Defined as members of the Board of Governors and the senior manager group (Assistant Governors, Directors, Heads of Department and Heads of Division).

DISTRIBUTION BY SENIORITY AND GENDER

Chart 29



### Staff development and education

Danmarks Nationalbank attaches importance to the staff's professional and personal development. All staff, whatever their educational background, must be well-prepared for new challenges and tasks both now and in the future.

Professional and personal development are mainly achieved via the day-to-day work, further and supplementary education, and via the internal job rotation scheme, which is particularly relevant for the departments with economists on their staff. 24 employees changed jobs in 2006 after applying for posts advertised internally.

Further and supplementary education comprises both external and internal courses and longer courses of education such as the graduate diploma in business administration. In addition to professional courses, personal development courses are also offered.

Danmarks Nationalbank's expenditure on education was kr. 10.2 million in 2006, which is unchanged from the level in 2005 and equivalent to just over 4 per cent of payroll costs in 2006.

Other opportunities for professional and personal development are presented by working for international institutions for shorter or longer periods of time. At end-2006, 13 employees had taken leave of absence for this purpose.

In 2006 a new management assessment system and an updated concept for staff development interviews were developed. The new systems will be implemented in 2007.

## Recruitment

The staff turnover rate was 13 per cent in 2006, which is the same relatively high level as in 2005. This tendency is expected to continue, so that the challenge for Danmarks Nationalbank in the coming years is to attract and retain the right employees in an increasingly more competitive labour market.

In general, there were fewer applications for vacancies in 2006, and it has taken longer to fill the vacancies. On the other hand, the newly-appointed employees have experienced the overall recruitment process, which also includes profile tests, as rapid and effective. Most of the positions advertised have been for academic staff, and even though fewer applications for vacant positions have been received than previously, it has still been possible to appoint well-qualified candidates.

Danmarks Nationalbank initiated a more active recruitment drive in 2006 as part of a stronger, targeted effort to recruit new staff from relevant fields of further and higher education and from relevant educational institutions. In 2006 Danmarks Nationalbank thus participated in several careers fairs.

## Absence due to illness

In 2006 absence due to illness was an average of 7.0 days per staff member, which is a decrease by 0.7 day compared to 2005. Absence due to illness excluding long-term illness<sup>1</sup> was 5.7 days per staff member in 2006, compared to 5.9 days in 2005.

## Salary and employment conditions

All staff – apart from the staff of the Banknote Printing Works – and heads of department of Danmarks Nationalbank are subject to collective agreements with Danmarks Nationalbank, the Staff Association of Danmarks Nationalbank and the senior manager group. The collective agreements run for three years, currently the period 2005-08, and are based on the terms and conditions in the financial sector.

The staff of the Banknote Printing Works are subject to a collective agreement between Danmarks Nationalbank and HK/Medie og Kommunikation (the union of commercial and clerical employees). The collective agreement runs for three years, currently the period 2004-07.

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<sup>1</sup> Defined as 50 days and more.

## **OPERATION AND MANAGEMENT**

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### **More stringent control of expenditure**

One of Danmarks Nationalbank's fundamental aims is to undertake its tasks as efficiently and economically as possible.

Like most other business enterprises, Danmarks Nationalbank conducts an annual budget and planning process. During this process the Board of Governors approves the individual departments' budgets and action plans for the coming year. At the same time a number of ongoing managerial issues and decisions are reviewed.

The purpose of the planning round is managerial consideration of new development areas, and the best possible coordination of development initiatives on the basis of the available financial and other resources.

As from the budget for 2007 Danmarks Nationalbank switched from a budget determined on the basis of approved action plans to a pre-determined budget framework. For 2007 a real zero-growth budget has been determined.

### **Use of IT**

Danmarks Nationalbank has decided to transfer the IT operational and development tasks that are today undertaken by the internal IT department to an external provider. The background is that in the longer term Danmarks Nationalbank will find it difficult to cover the competence areas that are necessary to ensure stable and reliable operation of Danmarks Nationalbank's IT systems without the continued addition of staff to the IT area.

In view of its unchanged tasks and responsibilities, Danmarks Nationalbank's objective is not to increase its total number of staff. On this basis, it is assessed that in the long term it is in the best interests of Danmarks Nationalbank to purchase the services today provided by the IT department from external providers.

The transfer of the operational and development tasks will take place under a restricted EU invitation to tender. The invitation to tender is expected to be completed at the beginning of 2008 and the final transfer of operations is expected to take place in mid-2008.

## **DANMARKS NATIONALBANK'S BUILDINGS**

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Danmarks Nationalbank is domiciled in a unique building at Havnegade 5 in Copenhagen designed by the architect Arne Jacobsen and built in 1965-78. Danmarks Nationalbank also has a building with offices in Niels Juels Gade and reception rooms and guest apartments at Nyhavn 18. Further-

more, Danmarks Nationalbank owns The Royal Mint in Brøndby, south of Copenhagen.

### **Building projects**

Again in 2006, several renovation and maintenance projects were undertaken. Renovation of part of the roof of the Danmarks Nationalbank building was completed and the roof covering replaced. At the same time, some technical rooms and offices were renovated and the air extraction system replaced. Up to 2012 the ventilation plant will be renovated in order to modernise the climate control system.

### **All functions at Havnegade**

During 2007/08 Danmarks Nationalbank will gather all employees in the Havnegade building. This entails relocation of the staff of IT, Accounting, Internal Audit, and Government Debt Bookkeeping that today have offices in Danmarks Nationalbank's building in Niels Juels Gade. The reorganisation of procedures and recent years' reduction of staff numbers mean that there are vacant premises in the Havnegade building and these premises will now be refurbished to provide new offices.

After the relocation the building in Niels Juels Gade will be leased out.

### **Relocation of museum**

In 2006 Danmarks Nationalbank was contacted by the Industrial Museum in Horsens, which intended to establish a Danish money museum with, among other things, a large collection of objects from the former Savings Bank Museum. It was decided that the Danmarks Nationalbank Museum would be a good supplement to this collection and Danmarks Nationalbank therefore accepted the offer to move its museum to Horsens. The relocation date has not yet been determined.

Danmarks Nationalbank's museum houses objects from the old Nationalbank building. Since 2002 the museum has been open for groups of visitors. The old Nationalbank building was demolished in 1976 to make room for the present larger Danmarks Nationalbank building.

## **LECTURES**

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Lectures are an important part of Danmarks Nationalbank's targeted and proactive strategy to communicate its policies and tasks. The governors and senior managers give lectures at different venues in Denmark and in connection with events at Danmarks Nationalbank.

In addition, many lectures are given at Danmarks Nationalbank by a lecture team of younger employees. The main target group is students

in upper secondary school and at commercial colleges with some knowledge of economics, since Danmarks Nationalbank wishes to stimulate their interest in economics and increase familiarity with the tasks of Danmarks Nationalbank. The number of these lectures has increased steadily in recent years. In 2006, lectures at Danmarks Nationalbank were attended by approximately 4,000 people at 112 different events.

## REPRESENTATION ON COMMITTEES, ETC.

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As of 1 March 2007 Danmarks Nationalbank is represented on the following committees, etc.:

- *Bankernes EDB Central (BEC)*  
Governor *Torben Nielsen* is an observer on the Board of Directors.
- *Danish Ship Finance AIS*  
Governor *Jens Thomsen* is a member of the Board of Directors.
- *The Financial Business Council*  
Governor *Jens Thomsen* is a member, and *Jens Lundager*, Head of Division, is an alternate member.
- *The Economic Council*  
Governor *Jens Thomsen* is a member.
- *The Danish Securities Council*  
*Hugo Frey Jensen*, Director, is a member, and *Birgitte Bundgaard Madsen*, Adviser, is an alternate member.
- *Industriens Realkreditfond*  
Danmarks Nationalbank has appointed Professor *Michael Møller* to the Board of Directors.
- *PBS Holding AIS and PBS AIS*  
Governor *Torben Nielsen* is a member of the Board of Directors.  
*Karsten Biltoft*, Head of Division, is an alternate member.
- *Managing Committee for the Social Pension Fund*  
*Ove Sten Jensen*, Head of Division, is a member.
- *VP Securities Services*  
Governor *Torben Nielsen* is the Vice Chairman of the Board of Directors.

## REPRESENTATION IN INTERNATIONAL ORGANISATIONS

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As part of the international foreign-exchange and monetary-policy cooperation Danmarks Nationalbank participates in a number of committees, sub-committees and working groups, of which the most significant are:

### **The European Union, EU**

- *The Committee of European Banking Supervisors*  
*Jens Lundager*, Head of Division (with *Flemming Nytoft Rasmussen*, Deputy Director, Financial Supervisory Authority).
- *The Economic and Financial Committee*  
Governor *Jens Thomsen* (with *Per Callesen*, Deputy Secretary, Ministry of Finance).  
*Gitte Wallin Pedersen*, Adviser, is an alternate member (with *Steen Lohmann Poulsen*, Head of Division, Ministry of Finance).
- *The Economic Policy Committee*  
*Niels Bartholdy*, Head of Division, is an alternate member of the Committee (with *Martin Jørgensen*, Chief Adviser, Ministry of Finance. *Niels Kleis Frederiksen*, Head of Division, Ministry of Finance and *Birgitte Anker*, Head of Division, Ministry of Economic and Business Affairs, are members).
- *Economic and Financial Committee Group on EU Government Bills and Bonds*  
Governor *Jens Thomsen* is Chairman, and *Ove Sten Jensen*, Head of Division, is a member (with *Michael Wiemann*, Head of Section, Ministry of Finance).
- *EFC Sub-Committee on IMF and related issues (SCIMF)*  
*Kai Aaen Hansen*, Director, (with *Nathalie Tuxen*, Adviser, Ministry of Finance).
- *The Working Group of Mint Directors*  
*Hans Denkov*, Head of the Royal Mint.

### **The European Central Bank, ECB**

- *The General Council*  
Governor *Nils Bernstein*.

Danmarks Nationalbank participates in the following ECB committees to the extent that EU central banks outside the euro area have access:

- *Banking Supervision Committee*  
*Hugo Frey Jensen*, Director, (with *Flemming Nytoft Rasmussen*, Deputy Director, Financial Supervisory Authority).
- *Payments Systems Committee*  
*Kristian Kjeldsen*, Head of Division, and *Allan Damm*, Assistant Head of Division.
- *Legal Committee*  
*Kirsten Rohde Jensen*, Adviser.
- *Monetary Policy Committee*  
*Anders Møller Christensen*, Assistant Governor.

- *Information Technology Committee*  
Tom Wagener, Head of Division and Johan Sebastian Gabel, Adviser.
- *External Communications Committee*  
Karsten Bilstoft, Head of Division, and Winnie Jakobsen, Head of Division.
- *International Relations Committee*  
Governor Jens Thomsen and Kai Aaen Hansen, Director.
- *Market Operations Committee*  
Frank Nielsen, Head of Division.
- *Accounting Committee*  
Henrik Larsen, Director, and Lisbeth Sundin, Assistant Head of Division.
- *Internal Auditors Committee*  
Jan Birkedal, Chief Audit Executive, and Brian Skovbo Hansen, Adviser.
- *Banknote Committee*  
Lars Gerrild Sørensen, Head of Division.
- *Statistics Committee*  
Bent Christiansen, Head of Division and Steen Ejerskov, Adviser.

#### **The International Monetary Fund, IMF**

- *Board of Governors*  
Governor Nils Bernstein is the Danish member. (Christian Kettel Thomsen, Permanent Secretary, Ministry of Finance, is an alternate member).
- *The Nordic/Baltic Monetary and Financial Committee*  
Governor Jens Thomsen (with Per Callesen, Deputy Secretary, Ministry of Finance).  
Gitte Wallin Pedersen, Adviser, is a member of the Group of Alternate Members (with Nathalie Tuxen, Adviser, Ministry of Finance).

#### **Organisation for Economic Cooperation and Development, OECD**

- *The Economic Policy Committee*  
Governor Jens Thomsen (with Per Callesen, Deputy Secretary, Ministry of Finance and Ulrik Nødgaard, Deputy Permanent Secretary, Ministry of Economic and Business Affairs).
- *Working Party on Government Debt Management*  
Ove Sten Jensen, Head of Division, is Chairman.

## FOUNDATIONS AND GUEST APARTMENTS

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Danmarks Nationalbank supports Danish culture, development and research via the Danmarks Nationalbank Anniversary Foundation, the Erik Hoffmeyer Travel Grant Foundation and the guest apartments at Nyhavn 18.

### **The Danmarks Nationalbank Anniversary Foundation**

Danmarks Nationalbank's Anniversary Foundation was established in connection with the bank's 150th anniversary in 1968, when kr. 15 million was given to the Foundation. This sum has been supplemented several times, and the accumulated capital, which is placed in bonds, amounted to kr. 85 million at the end of 2006.

The Foundation primarily supports decorative art, architecture and design, but also music, dance and theatre. When considering applications, the Board of the Foundation attaches importance to quality as well as support for new and future-oriented artistic projects.

In 2006, the Board of the Foundation comprised Governor Nils Bernstein (Chairman), Professor Hans E. Zeuthen (Deputy Chairman), the architect Merete Ahnfeldt-Mollerup, the ceramic artist Karen Bennicke, director Lars Eskesen, and Karoline Prien Kjeldsen, Permanent Secretary, the Danish Ministry of Culture.

The Board meets four times a year to award grants. In 2006, 1,075 applications were considered and 171 grants totalling kr. 5.2 million were awarded.

In October 2006 the Anniversary Foundation awarded honorary grants of kr. 100,000 kr. to the designer Jens H. Quistgaard and the silversmith Claus Bjerring for their significant contributions to design and decorative art both in Denmark and abroad. In connection with the awards there was an exhibition of the works of the recipients of the grants in the lobby of the Danmarks Nationalbank building.

### **The Erik Hoffmeyer Travel Grant Foundation**

In 2006 the Board of the Erik Hoffmeyer Travel Grant Foundation awarded two travel grants of kr. 25,000 each to Thomas Busch, PhD student, MSc (Econ) and the actor Zdravko Milanovic.

The Erik Hoffmeyer Travel Grant Foundation was established by the Board of Directors of Danmarks Nationalbank in 1995 as a tribute to Mr Erik Hoffmeyer for 30 years' outstanding service as Chairman of Danmarks Nationalbank's Board of Governors. The objective of the Foundation is to support the further development of individuals that have made a special contribution to social studies or music. One portion of the grant is pre-

dominantly given to someone that has come to Denmark as a refugee or is descended from refugees.

The Board of the Travel Grant Foundation comprises Professor Hans E. Zeuthen (Chairman), former Governor Erik Hoffmeyer and former Chief Rabbi Bent Melchior.

### **Guest apartments at Nyhavn 18**

Danmarks Nationalbank has seven guest apartments at Nyhavn 18 which are made available to foreign scientists and artists. Residence in the guest apartments is free and granted for periods of three to twelve months. The purpose is for the visitors to contribute inspiration to Danish research and artist environments through lectures, research or by other means. In 2006 the guest apartments were allocated to nine visitors.

The guest apartments are allocated on the advice of a committee. In 2006 Professor Ole Feldbæk, Chairman of the committee since 1994, resigned and was succeeded as a member of the committee by Professor Frans Gregersen. The new chairman is Professor Søren-Peter Fuchs Olesen. Dr Else Marie Bukdahl is also a member of the committee.

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## Risk Management

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*Like other enterprises, Danmarks Nationalbank is exposed to a number of risks, including operational risks. In the case of Danmarks Nationalbank, these risks are to a large extent related to the services that Danmarks Nationalbank is responsible for providing to society, and to security issues. Other risks are financial risks arising from Danmarks Nationalbank's large financial outstandings. On the one hand there is a risk of loss, but on the other hand there is also the opportunity to make a profit.*

*Danmarks Nationalbank undertakes operational risk assessments in relation to its core tasks, the individual business activities and systems, and a number of general issues. The risk assessments are the basis for adjustments to the specific performance of its tasks.*

*Danmarks Nationalbank's financial risks mainly comprise market risks. The bank is exposed to the development in interest rates, exchange rates and the gold price. Danmarks Nationalbank's market risk, measured as Value-at-Risk, was kr. 2.4 billion at the end of 2006, which is unchanged from the beginning of the year. Danmarks Nationalbank's credit risk is very small and it seeks to avoid credit losses completely by solely having claims on counterparties with a high credit standing and by requiring collateral to a significant extent.*

### **OPERATIONAL RISK**

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Operational risk is the risk of financial loss resulting from inadequate or failed internal processes, people and systems, or from external events. Loss of reputation is also a key concern for Danmarks Nationalbank so this aspect is also taken into account when assessing operational risk.

Danmarks Nationalbank's model for operational risk management includes policies and templates, etc. for assessment of operational risk, preparation of procedures, physical security and IT security measures, as well as business continuity planning – i.e. ensuring continued performance of Danmarks Nationalbank's tasks. Assessment of the operational risks related to a core task, a business activity, a system or another feature is based solely on a qualitative standard. In the risk assessment, the probability of each threat is assessed on a scale from unlikely to very likely, and the consequences are rated from insignificant to disastrous. Likewise, the measures taken to reduce the probability and/or the consequences of a possible incident are described. On the basis of the assessment and analy-

sis, an overall conclusion is made in order to determine the measures to be taken against the threat.

### **A comprehensive risk landscape**

In 2006, work was undertaken to prepare a comprehensive operational risk landscape for Danmarks Nationalbank. Risk assessments are performed in three areas, i.e. in relation to the bank's core tasks, corresponding to its overall objectives, the individual business activities and systems, and a number of general issues.

Risk assessments of the core tasks comprise an assessment of the consequences for Danmarks Nationalbank if the main components in the performance of the individual core tasks are disrupted or inaccessible for a short or long period. The main components might be a building, staff, the bank-note printing facilities, IT operations, telecommunications or external electricity supplies. These risk assessments serve especially to ensure that appropriate measures are in place for business continuity in relation to core tasks.

Risk assessments of business activities and systems typically comprise an assessment of the consequences for Danmarks Nationalbank if the business activities are interrupted or performed incorrectly as a result of human error, inadequate or failed internal processes, system errors or external events. The same threats are assessed in relation to general issues such as dissemination of information, the common IT infrastructure, use of the Internet, physical protection of Danmarks Nationalbank's assets, electricity supply and telecommunication. The risk assessments have contributed to reducing the potential financial and reputational loss to an acceptable level should a given incident occur.

### **Policies and procedures**

The overall requirements of Danmarks Nationalbank's contingency measures in relation to operations are managed via policies and guidelines for physical security, IT security and business continuity. In each of these areas, planning is based on international standards and European System of Central Banks, ESCB, guidelines.

Procedures describe how Danmarks Nationalbank's business activities are to be conducted in practice. Previously, the procedures were laid down by the individual departments, but now the layout has been streamlined and all procedures compiled in a single database with the objective of ensuring uniformity across the departments; a clear definition of roles and responsibilities; and descriptions of all current control measures that are part of the work process. At the same time, transparency is increased and dependence on specific key staff members reduced. The transition to the new layout was completed in 2006.

### **Risk assessments**

On the basis of the risk assessments performed in 2006 it has been relevant to introduce certain operational adjustments in relation to Danmarks Nationalbank's tasks. All employees that undertake particularly critical functions at Danmarks Nationalbank are cleared by the Danish Security Intelligence Service, PET. External service and consulting staff that for a period work on Danmarks Nationalbank's premises must also be cleared. In addition, at the recommendation of Danmarks Nationalbank, security has been tightened in relation to a decentralised banknote holding with a bank.

The consequences of avian influenza have been reassessed on the basis of information presented at an international central-bank seminar on this topic. The current prevalence is not alarming, so that Danmarks Nationalbank has not introduced any special measures in this respect. The threats of terrorist strikes against Danmarks Nationalbank and robbery of money transports have also been reassessed in the light of actual events abroad and a general exacerbation of the global threat scenario. Danmarks Nationalbank has incorporated measures to adjust the transport procedures to the new threat scenario.

### **DANMARKS NATIONALBANK'S MANAGEMENT OF FINANCIAL RISKS**

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Danmarks Nationalbank's financial result is dependent on several uncertainties; especially the development in a number of financial markets, but also counterparties' ability and willingness to meet their payment obligations.

To a large extent, Danmarks Nationalbank's financial risks are a consequence of its regulatory tasks, comprising the management of the monetary and foreign-exchange policy, issue of banknotes and coins, and its function as banker to the banks and to the central government. The risks arising from the role as monetary authority are unavoidable. For example, it is necessary to hold a foreign-exchange reserve in order to conduct a fixed-exchange-rate policy. Other risks reflect that Danmarks Nationalbank as a financial enterprise seeks to achieve a sound return. Interest-rate risk is e.g. determined on the basis of a trade-off between expected revenue and risk.

Danmarks Nationalbank's choice of risk level is characterised by prudence. A low level of risk reduces the probability of losses to Danmarks Nationalbank and makes it possible to maintain a high degree of solvency even in periods of extreme market conditions. Danmarks Nationalbank's objective is to have a low probability of deficit over a one-year horizon.

Danmarks Nationalbank is primarily exposed to market risks such as interest-rate, foreign-exchange and liquidity risk, and to a lesser degree to other types of risk, e.g. credit risk. The aim is to completely avoid losses as a result of counterparty failure.<sup>1</sup>

### **Market risk**

Market risk is the risk of suffering a loss as a consequence of price fluctuations in the financial markets. For Danmarks Nationalbank, the risk factors primarily comprise interest rates, but also exchange rates and the gold price.

In the assessment of the risk factors' impact on Danmarks Nationalbank's financial result it is important to draw a distinction between exposure and risk:

- *Exposure* is the extent to which a loss is incurred on a given change in a specific risk factor. The interest-rate exposure is e.g. expressed as the krone duration, stating the loss in kroner on an increase in the level of interest rates by 1 percentage point. The foreign-exchange exposure can be expressed as the change in market value in kroner on a 1-per-cent change in the exchange rate.
- On *compiling* the risk, the probability of loss is evaluated by combining exposure with the probability of a change in the risk factor concerned. Danmarks Nationalbank applies several different methods to compiling risk, cf. below.

#### *Interest-rate exposure and risk*

A part of Danmarks Nationalbank's assets are fixed-rate bonds, while its liabilities are primarily floating-rate liabilities. Consequently, Danmarks Nationalbank will incur a capital loss in the event of an increase in interest rates. Experience shows that in the long term fixed-rate bonds yield higher returns than placements at floating rates. Over an extended period, Danmarks Nationalbank is therefore expected to increase its return by assuming a certain interest-rate risk.

The bond portfolio is placed in several markets, cf. Table 10. The exposure to Danish interest rates is attributable to the portfolio of Danish government, mortgage-credit and Ship Finance bonds. The exposure to international interest rates is primarily attributable to the placement of a part of the foreign-exchange reserve in foreign bonds. Spreading the interest-rate exposure over different markets and maturity segments contributes to reducing the interest-rate risk.

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<sup>1</sup> Danmarks Nationalbank's financial risks and the management thereof are described in Danmarks Nationalbank, *Financial Management at Danmarks Nationalbank*, 2004.

| INTEREST-RATE EXPOSURE OF DANMARKS NATIONALBANK  |            | Table 10   |  |
|--|------------|------------|--|
| Capital loss in kr. billion on a general 1-percentage-point increase in interest rates | End-2005   | End-2006   |  |
| Kroner .....   | 0.7        | 0.8        |  |
| Euro .....   | 0.5        | 0.5        |  |
| Pounds sterling .....  | 0.1        | 0.1        |  |
| Dollars .....  | 0.4        | 0.4        |  |
| Swedish kronor .....   | 0.1        | 0.1        |  |
| <b>Total .....</b>   | <b>1.8</b> | <b>1.9</b> |  |

At the close of 2006, the loss on a 1-percentage-point increase in the general level of interest rates would have been kr. 1.9 billion.

#### *Foreign-exchange exposure and risk*

Danmarks Nationalbank holds considerable foreign-exchange assets, first and foremost the foreign-exchange reserve, which serves as an intervention reserve. Danmarks Nationalbank obtains an exchange-rate gain when the krone weakens since the krone value of foreign-exchange assets hereby increases. Similarly, an exchange-rate loss is incurred when the krone strengthens. At the close of 2006 the market value of foreign-exchange outstandings totalled kr. 176 billion, cf. Table 11. Danmarks Nationalbank will thus incur a loss of kr. 1.76 billion if the krone strengthens by 1 per cent.

History shows that from time to time exchange-rate fluctuations can result in substantial losses. Against this background Danmarks Nationalbank has chosen to keep the foreign-exchange risk at a low level. This is achieved by forward sales of dollars, pounds sterling and Swedish kronor

| FOREIGN-EXCHANGE EXPOSURE OF DANMARKS NATIONALBANK |                | Table 11   |          |                   |            |
|--|----------------|------------|----------|-------------------|------------|
| Market value in kr. billion                        | End-2005 total | End-2006   |          |                   |            |
|  |                | Placements | Gold     | Forward contracts | Total      |
| Euro .....   | 210            | 119        | -        | 52                | 171        |
| Pound sterling .....                               | 0              | 12         | -        | -12               | 0          |
| Dollars .....                                      | 6              | 27         | 8        | -30               | 6          |
| Swedish kronor .....                               | 0              | 10         | -        | -10               | 0          |
| <b>Total .....</b>                                 | <b>216</b>     | <b>168</b> | <b>8</b> | <b>0</b>          | <b>176</b> |

Note: Negative amounts indicate that Danmarks Nationalbank holds a liability when the foreign currency increases in value. The value of SDR is distributed on the respective currencies: euro, pound sterling and dollar. In addition to the currencies shown, SDR also gives a minor exposure in Japanese yen, which is also hedged. The weightings of the currencies in SDR were most recently altered as of 1 January 2006, cf. Table 12 of the Appendix of Tables.

against euro. The foreign-exchange exposure to non-euro currencies is thus converted to euro. For example, at the close of 2006 Danmarks Nationalbank held sterling assets for kr. 12 billion, but had also sold sterling forward for kr. 12 billion, cf. Table 11. The sterling exposure was thus eliminated. As the Table shows, Danmarks Nationalbank has retained a minor dollar exposure in order to diversify its risk.

The conversion of foreign-exchange exposure to euro exposure is the key element of the management of Danmarks Nationalbank's foreign-exchange risk. In a historical perspective this strategy has reduced the foreign-exchange risk considerably as a result of the fixed-exchange-rate policy vis-à-vis the euro. This strategy also implies that the interest-rate exposure can be spread over different markets irrespective of any inherent foreign-exchange risk.

Danmarks Nationalbank is exposed to the development in the gold price in view of its gold stock of kr. 8 billion. Gold is typically quoted in dollars and consequently contributes to the dollar exposure, cf. Table 11. When the foreign-exchange exposure is converted from dollars to euro, the gold stock's dollar exposure is taken into account on equal terms with the other dollar-denominated assets. Danmarks Nationalbank holds the gold stock at a constant level. Virtually all of the gold stock is physically placed in foreign central banks.

Danmarks Nationalbank previously lent part of its gold stock to banks with a high credit standing. The interest on gold lending is paid in gold, and gold interest is sold on an ongoing basis. However, the interest on gold has been around zero for some time, and therefore lending is not worthwhile. Consequently, no gold was lent in 2006.

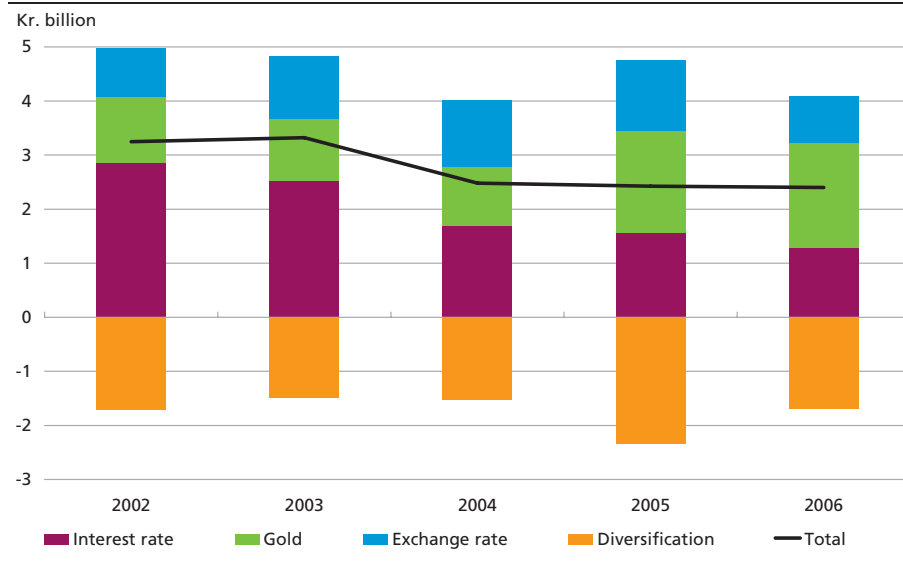
One of Danmarks Nationalbank's tasks is to function as banker to the central government. In this context an exchange-rate hedging facility was introduced in 2006 for the use of Defence Command Denmark (Ministry of Defence) in connection with its military expenditure denominated in dollars. This facility allows the central government to hedge the value in kroner of its dollar expenditure on military equipment. The exposure thus incurred by Danmarks Nationalbank is hedged as part of its ongoing risk management, so that the exposure in dollars is not affected.

### **Measuring market risk**

Danmarks Nationalbank uses various measures to evaluate market risk. Individually, these measures give an indication of Danmarks Nationalbank's risks, and together they illustrate its risk profile. The overall risk level reflects an assessment of the expected yield in relation to a number of different risk measures. The methods of measuring Danmarks Nationalbank's risks are subject to ongoing development.

DANMARKS NATIONALBANK'S VALUE-AT-RISK

Chart 30



### Value-at-Risk

Danmarks Nationalbank's market risk is e.g. measured by Value-at-Risk, VaR. This risk measure combines the financial exposures with an estimate of the typical volatility in the market conditions, taking into account the covariation between the various risk factors.

At end-2006, Danmarks Nationalbank's VaR<sup>1</sup> was calculated at kr. 2.4 billion, which corresponds to the level at the beginning of the year, cf. Chart 30. The result indicates that in 2007, with a probability of 95 per cent, Danmarks Nationalbank will not incur a loss exceeding kr. 2.4 billion. Equivalently, the result states that with a probability of 5 per cent Danmarks Nationalbank will experience a capital loss exceeding kr. 2.4 billion. VaR does not indicate the size of this potential loss.

The sum of the contributions from each group of risk factors – interest rates, exchange rates and the gold price – exceeds the total VaR since the calculation of VaR takes into account that the risk is spread over several risk groups. The reduction, or the diversification gain, is due to the fact that losses on all risk factors seldom appear at the same time.

Over a prolonged period, the development in VaR has on the one hand been driven by a fall in the contribution from interest-rate risk, mainly because Danmarks Nationalbank's interest-rate exposure has been reduced. On the other hand, the contribution from the gold stock has increased as

<sup>1</sup> VaR is calculated on the basis of estimated volatilities and correlations between the relevant risk factors on the basis of a weighting of the last 160 days. VaR is determined by combining these estimates with Danmarks Nationalbank's portfolio structure as of end-2006.

a result of the rising market value of the gold stock and the large fluctuations in the dollar price of gold. Viewed in isolation, the gold stock contributes kr. 1.9 billion to VaR. In relation to the gold stock's value of approximately kr. 7.7 billion this is a large amount.

At the close of 2006 Danmarks Nationalbank's net capital totalled kr. 52 billion, cf. the balance sheet on p. 127. VaR as a share of net capital was thus 4.6 per cent, corresponding to the level at end-2005.

VaR calculated without the diversification gain gives an expression of the maximum loss with a probability of 95 per cent, assuming that simultaneous losses are incurred on interest rates, exchange rates and the gold price. This is a more pessimistic measure of VaR. Measured in this way, VaR fell by almost kr. 700 million during 2006 to kr. 4.1 billion at year-end. This is because the contribution to risk from both the interest-rate and exchange-rate risk have decreased as a result of the reduced interest-rate and exchange-rate volatility.

Part of the calculated risk relates to the fluctuation of the krone vis-à-vis the euro. The exchange-rate risk in relation to euro is of a special nature. It enables Danmarks Nationalbank to influence the exchange rate vis-à-vis the euro. Moreover, Danmarks Nationalbank has the exposure in euro in view of the fixed-exchange-rate policy. Therefore VaR is also estimated without the exchange-rate risk on the euro, and at the close of 2006 VaR excluding this risk totalled kr. 2.3 billion. In general the exchange-rate risk on the euro does not affect VaR much due to the stability of the krone vis-à-vis the euro.

### *Stress test*

The VaR calculations provide information on the general risk of loss, but not on the extent of the losses in the event of extreme market fluctuations. Stress tests reflecting how extreme, but realistic scenarios of market development affect the value of Danmarks Nationalbank's current portfolio are used for this purpose.

It is difficult to set up market fluctuations that are both extreme and realistic. Danmarks Nationalbank has selected data from sub-periods between 1993 and 2006 in which the development in interest and exchange rates was particularly unfavourable. In addition, particularly pessimistic scenarios are constructed by combining unfavourable developments in interest and exchange rates from different periods. On the basis of the portfolio structure at end-2006, the loss to Danmarks Nationalbank in the most pessimistic scenario will be around kr. 15 billion, equivalent to 30 per cent of its net capital. Such a loss will typically be related to considerable strengthening of the Danish krone against the euro, as well as a significant rise in interest rates.

### *Long-term analysis of risk and earnings*

A large proportion of the losses calculated using VaR and stress tests are attributable to the risk of a general increase in interest rates, but in that case the current earnings of Danmarks Nationalbank will also increase, and in the long term it gains from an increase in interest rates since from the outset Danmarks Nationalbank has more income from interest than interest expenditure. The reason is that Danmarks Nationalbank's net capital and banknotes and coins in circulation do not accrue interest, while the counterparts to the net capital and banknotes and coins in circulation do accrue interest.

In order to perform more long-term assessments of the return and risk on different interest-rate exposures, Danmarks Nationalbank has developed a model for its earnings. The model provides a comprehensive view of risk and earnings at different exposure levels, applying various economic scenarios. For a description of the model, see Box 12.

### **Liquidity risk**

Liquidity risk comprises several factors. For Danmarks Nationalbank, there is first and foremost the liquidity risk that it is not possible to release funds to support the krone, even though the funds are held in reserve.

The principal purpose of the foreign-exchange reserve is to be able to intervene in the foreign-exchange market. In the management of the foreign-exchange reserve it is therefore very important to ensure that a large part of the reserve can be converted quickly into liquid funds. Therefore, a large proportion of the foreign-exchange reserve is placed in the money market or in bonds with a high degree of security that can easily be realised or used as collateral in various liquid markets.

To manage the liquidity requirement, it must within two days, inter alia, be possible to release a minimum amount of 3 billion euro placed as short-term deposits.<sup>1</sup> A very large proportion of the remaining foreign-exchange reserve can also be mobilised and used for intervention purposes just as rapidly.

Danmarks Nationalbank also has several other options to raise funds for intervention, including the central government's Commercial Paper programme<sup>2</sup>, which is administered by Danmarks Nationalbank. Up to kr. 12 billion can be raised via this programme, which has been used on several

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<sup>1</sup> The foreign-exchange market operates with a two-day settlement period, which means that transactions are settled two days after the contract date. Liquidity must therefore be available within two days if it is to be used for intervention purposes.

<sup>2</sup> The programme is also used when the central government requires short-term borrowing in order to maintain a positive balance on its account at Danmarks Nationalbank, most recently in 2005, when approximately kr. 17 billion was raised.

## MODEL FOR DANMARKS NATIONALBANK'S LONG-TERM EARNINGS AND RISK Box 12

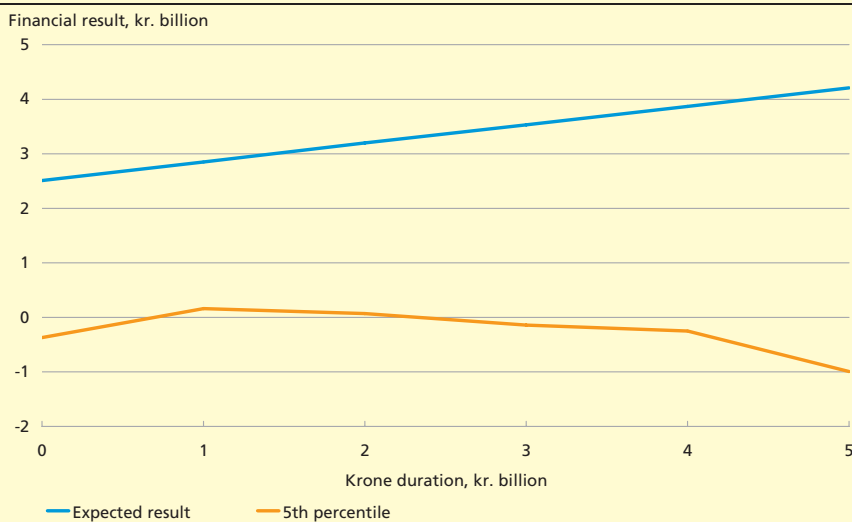
Danmarks Nationalbank's market exposure and the development in the financial markets have a considerable impact on the bank's earnings. To disclose the factors that determine Danmarks Nationalbank's long-term earnings, a dynamic model has been developed. The model is used to calculate the development in Danmarks Nationalbank's earnings and balance sheet subject to various assumptions, e.g. different interest-rate exposures. In the calculations, uncertainty may be linked to the market developments so that explicit risk calculations can also be made. As a rule, the risk is expressed as the 5th percentile for the bank's financial result over a one-year horizon. This should be seen in relation to Danmarks Nationalbank's objective of keeping the probability of a deficit over a one-year horizon at a low level.

The model supplements the other exposure and risk measures used in the management of Danmarks Nationalbank's portfolios. A unique feature of the model is that it takes into account that Danmarks Nationalbank's interest-rate exposure and the development in interest rates influence current earnings. This is key to calculating returns and risk over an extended period, e.g. one year or more.

To illustrate the use of the model, the Chart shows the relationship between Danmarks Nationalbank's interest-rate exposure and its financial result over a one-year horizon. In the example, the key scenario for the development in interest rates entails that it is favourable to have an interest-rate exposure. In the Chart, the expected result is thus higher for a high than for a low interest-rate exposure. On the other hand, a high interest-rate exposure increases the risk that Danmarks Nationalbank incurs a deficit, and this limits the size of the interest-rate exposure.

An interesting detail, which the Chart also shows, is that from a risk point of view it is better to have some interest-rate exposure than none at all: if Danmarks Nationalbank did not hold any fixed-rate bonds, a decline in the level of interest rates would entail a decrease in its earnings. However, this risk can be hedged by holding a certain amount of bonds that increase in market value when the level of interest rates falls.

## EXAMPLE OF RELATIONSHIP BETWEEN INTEREST-RATE EXPOSURE AND EARNINGS



occasions, for example in connection with the foreign-exchange crises in the early 1990s.

In accordance with the ERM II agreement, Danmarks Nationalbank also has an opportunity to borrow at the ECB. This facility has not been used, but serves as a safety net.

On the investment of the domestic securities portfolio the same weight is not given to liquidity considerations.

### **Credit risk**

Credit risk is the risk of loss due to a counterparty's default on its obligations. Credit risk also comprises the risk that the market rating of a counterparty's credit standing drops, resulting in a capital loss.

Credit risk is managed on the basis of credit ratings given by international credit rating agencies. Moreover, all significant holdings are subject to maximum limits. The domestic securities portfolio almost exclusively comprises government bonds, mortgage-credit bonds and Danish Ship Finance bonds.

To reduce the credit risk Danmarks Nationalbank spreads its assets among counterparties with a high credit standing. For deposits with foreign banks repo agreements using government bonds as collateral are also applied. Should a repo counterparty be subject to compulsory liquidation, Danmarks Nationalbank's deposit is covered by the collateral provided. Danmarks Nationalbank's holdings of foreign bonds are issued by central governments or supranational institutions, or guaranteed by central governments with a high credit standing<sup>1</sup>. The credit risk is therefore very small.

Credit exposure is stated as the market value of the assets. The credit exposure on the foreign-exchange reserve and the domestic securities portfolio was kr. 200 billion at end-2006, against kr. 245 billion at end-2005, cf. Table 12.

At the close of the year, 95 per cent of the foreign-exchange reserve and the domestic securities portfolio was placed in assets with a rating of Aa3 or higher<sup>2</sup> or in supranational institutions.

The decline in the credit exposure by kr. 45 billion since 2005 is predominantly attributable to the reduction of the foreign-exchange reserve. Changes in the size of the foreign-exchange reserve typically take place in the collateralised banking transactions.

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<sup>1</sup> Government-guaranteed securities include securities with an implicit government guarantee.

<sup>2</sup> Loans in connection with the monetary-policy operations, the banks' intraday credits and decentralised banknote holdings are solely extended on the basis of collateralised bonds and are not included.

**TOTAL CREDIT EXPOSURE ON THE FOREIGN-EXCHANGE RESERVE AND THE  
DOMESTIC SECURITIES PORTFOLIO, ETC., END-2006**

Table 12

| Kr. billion        | 2005<br>Total | Bonds                      |                     | Bank claims         |                       | Supranational<br>Institutions <sup>2</sup> | Total        |
|--------------------|---------------|----------------------------|---------------------|---------------------|-----------------------|--|--------------|
|                    |               | Central<br>govern-<br>ment | Others <sup>1</sup> | Collat-<br>eralised | Uncollat-<br>eralised |  |              |
| Aaa .....          | 68.6          | 38.6                       | 24.7                | -                   | 7.0                   | 2.8  | 73.1         |
| Aa1 .....          | 52.0          | 0.7                        | 4.3                 | 20.1                | 5.8                   | -  | 30.9         |
| Aa2 .....          | 45.2          | 8.8                        | -                   | 6.7                 | 12.3                  | -  | 27.8         |
| Aa3 .....          | 67.8          | -                          | 3.0                 | 32.8                | 18.9                  | -  | 54.7         |
| A1 .....           | 5.1           | -                          | -                   | -                   | 3.9                   | -  | 3.9          |
| A2 .....           | 1.0           | -                          | 0.8                 | -                   | 2.4                   | -  | 3.3          |
| A3 .....           | 0             | -                          | -                   | -                   | -                     | -  | 0            |
| No rating .....    | 5.4           | -                          | 0.2                 | -                   | 0.5                   | 5.8 <sup>3</sup>                           | 6.5          |
| <b>Total .....</b> | <b>245.2</b>  | <b>48.1</b>                | <b>33.1</b>         | <b>59.6</b>         | <b>50.9</b>           | <b>8.6</b>                                 | <b>200.3</b> |

Note: Moody's credit rating is used. The scale ranges from Aaa to D, where Aaa is the highest credit rating.

<sup>1</sup> Other bonds include securities with both explicit and implicit government guarantees, and Danish issuers.

<sup>2</sup> Supranational institutions such as BIS, the IMF and the Asian Development Bank. The credit exposure vis-à-vis the IMF totalled kr. 1.7 billion net. In addition, the IMF has unused drawing rights of kr 20.2 billion.

<sup>3</sup> Exclusively covers BIS and IMF.



# Accounts

for the year 2006

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# Report on Danmarks Nationalbank's Accounts

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*Danmarks Nationalbank's accounts for 2006 show a profit of kr. 2.2 billion, compared to a profit of kr. 4.9 billion in 2005. The decrease in the profit by kr. 2.7 billion is due primarily to a decrease in value adjustments by kr. 1.9 billion and in other income by kr. 0.8 billion. After transfer of kr. 0.7 billion from the Value Adjustment Reserve to cover the negative value adjustments for the year, an amount of kr. 2.9 billion is available for distribution, of which kr. 0.6 billion is allocated to the General Reserves and kr. 2.3 billion is payable to the central government.*

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## **PRESENTATION OF DANMARKS NATIONALBANK'S ACCOUNTS**

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The accounts for 2006 have been prepared in accordance with the same accounting policies as in the previous year, cf. p. 123.

The accounts reflect that Danmarks Nationalbank issues banknotes and coins, holds substantial assets comprising the foreign-exchange reserve and functions as banker to the banks and the mortgage-credit institutes, and to the central government.

The profit from financial items was kr. 2,678 million, which is kr. 2,147 million lower than in 2005, and the total profit for the year is kr. 2,235 million, i.e. kr. 2,667 million lower than in 2005.

The balance sheet decreased from kr. 392.0 billion to kr. 364.9 billion.

### **The profit and loss account**

#### *Net income from interest*

Net income from interest totalled kr. 3,368 million, which is kr. 248 million less than in 2005.

Income from interest on foreign assets fell by kr. 100 million to kr. 5,320 million. The decrease reflects a significantly smaller average foreign-exchange reserve, which is, however, by and large counterbalanced by increases in the level of interest rates.

Net interest to banks and mortgage-credit institutes (interest on deposits and certificates of deposit less interest on monetary-policy lending<sup>1</sup>)

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<sup>1</sup> The rates of interest for loans and certificates of deposit are identical, while the rate of interest for deposits has been lower than the other interest rates.

decreased by kr. 347 million to kr. 1,885 million. The decrease is attributable to the banks' significantly lower average net position, which is partly offset by interest-rate increases during the year.

Danmarks Nationalbank's interest expenditure on the central government's deposit rose by kr. 125 million to kr. 1,298 million. The increase is due to the interest-rate increases during the year, which are partly offset by a significantly lower average deposit.

Interest on domestic bonds fell by kr. 357 million to kr. 1,342 million. The decrease is attributable to a lower average holding and to lower interest rates on reinvestment.

#### *Value adjustments, etc.*

Value adjustments resulted in a loss of kr. 690 million.

Value adjustment of Danmarks Nationalbank's gold stock gave a gain of kr. 759 million, which is related to the increase in the price of gold converted to Danish kroner by 11 per cent during 2006.

Value adjustment of foreign-exchange positions<sup>1</sup> resulted in a loss of kr. 780 million. The loss is due to a market-value loss of kr. 948 million, which is partly offset by an exchange-rate gain of kr. 168 million.

The market-value loss on domestic securities of kr. 669 million can be related to a market-value loss on domestic bonds.

#### *Other income*

Other income fell by kr. 801 million to kr. 48 million. The decrease is mainly due to income of kr. 800 million in 2005 relating to the restructuring of Danish Ship Finance as a limited liability company. Other income comprises revenue of kr. 41 million from the sale of coin sets and medals, and the reversal of kr. 7 million of a previous loss provision on Himmerlandsbanken.

#### *Expenses*

Total expenses decreased by kr. 235 million to kr. 569 million. The decrease is mainly related to the extraordinarily high expenses in 2005 as a consequence of a one-off payment of kr. 200 million to Danmarks Nationalbank's Pension Fund subject to winding-up, to cover Danmarks Nationalbank's pension commitment. Staff expenses decreased by kr. 16 million to kr. 309 million, and other expenses decreased by kr. 19 million to kr. 260 million. Other expenses comprise kr. 53.2 million for conver-

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<sup>1</sup> Foreign-exchange positions comprise the foreign-exchange reserve, as well as unsettled foreign-exchange contracts, currency and interest-rate swaps, domestic foreign-exchange balances, and the liability counterpart of Special Drawing Rights (SDR) allocated by the IMF.

sion and substantial maintenance of the Danmarks Nationalbank buildings, and represent a decrease of kr. 26.3 million compared to 2005.

In the period the average number of staff fell from 521 to 513.

#### *Profit for the year*

The result for the year is a profit of kr. 2,235 million, against a profit of kr. 4,902 million in 2005. The negative value adjustment of the year of kr. 690 million is covered from the Value Adjustment Reserve, which hereafter amounts to kr. 3,168 million. An amount of kr. 585 million, corresponding to 20 per cent of the profit excluding value adjustments, is allocated to the General Reserves, after which the General Reserves total kr. 48,659 million. Kr 2,340 million is payable to the central government, corresponding to 80 per cent of the profit excluding value adjustments.

#### **The balance sheet**

##### *Gold*

The stock of gold amounted to kr. 7.7 billion at the end of the year, compared to kr. 6.9 billion in 2005. The increase of kr. 0.8 billion is related to the increase in the price of gold converted to Danish kroner by 11 per cent during 2006.

##### *Foreign assets*

Assets amounted to kr. 164.6 billion at the end of the year, compared to kr. 204.2 billion in 2005. This is equivalent to a decrease of 20 per cent. The assets are placed in euro (72 per cent), dollars (15 per cent), pounds sterling (7 per cent) and Swedish kronor (6 per cent). The exchange-rate risk is restructured so that the exposure is mainly in euro. The positions are held mainly in highly-rated government bonds and government-guaranteed bonds, deposits with central banks and commercial banks, or as lending against collateral in government bonds and government-guaranteed bonds.

Foreign assets are the most significant item of the foreign-exchange reserve, together with gold, claims on the IMF and foreign liabilities.

##### *Claims on the International Monetary Fund, IMF*

This balance-sheet item comprises Denmark's IMF quota less the IMF's outstanding drawing right on Danmarks Nationalbank with addition of Danmarks Nationalbank's holdings of Special Drawing Rights, SDR, in the IMF. The account with the IMF is stated in SDR (Special Drawing Rights). During 2006 the IMF made deposits equivalent to SDR 68 million with Danmarks Nationalbank, and Danmarks Nationalbank increased its holdings of SDR in the IMF by SDR 149 million.

Loans for the Poverty Reduction and Growth Facility Trust, PRGF, accounted for SDR 100 million of this item in 2005, and were fully redeemed in 2006 as a consequence of the IMF's implementation of the Multilateral Debt Relief Initiative, MDRI, cf. p. 84f.

Net claims on the IMF have thus been reduced by SDR 19 million. Together with the value adjustments for the year this reduces the claim by kr. 0.4 billion to kr. 3.2 billion.

#### *Monetary-policy lending*

Monetary-policy lending is collateralised loans to banks and mortgage-credit institutes. This item increased by kr. 18.4 billion to kr. 153.7 billion.

#### *Other lending*

The loans of kr. 3.5 billion almost exclusively comprise lending to banks in connection with decentralised cash depots of kr. 3.0 billion and receivables from Danish Ship Finance A/S of kr. 0.4 billion.

#### *Domestic bonds*

The value of domestic bonds fell from kr. 34.3 billion to kr. 28.6 billion. The holdings comprise mortgage-credit bonds (kr. 15.4 billion), government bonds (kr. 11.0 billion) and Danish Ship Finance bonds (kr. 2.2 billion).

#### *Banknotes and coins in circulation*

Banknotes in circulation increased by kr. 3.3 billion to kr. 54.2 billion, while coins in circulation increased by kr. 0.3 billion to kr. 5.5 billion. Banknotes in circulation include Faroese banknotes at kr. 370 million. The increase in banknotes in circulation in 2006 is 6.5 per cent, compared to 8.3 per cent in 2005.

#### *Monetary-policy deposits*

The net deposits of banks and mortgage-credit institutes in current accounts and settlement accounts decreased from kr. 12.8 billion to kr. 8.8 billion, and deposits placed in certificates of deposit fell from kr. 207.6 billion to kr. 163.2 billion.

#### *Other deposits*

This item comprises the deposits of banks and mortgage-credit institutes in euro-denominated current accounts and securities settlement accounts totalling kr. 0.3 billion, as well as other deposits of kr. 1.1 billion, of which the account of Danish Ship Finance A/S amounts to kr. 0.7 billion.

*Central government*

The central-government deposit increased from kr. 56.4 billion to kr. 73.8 billion. The central government's share of the profit of Danmarks Nationalbank is included in this amount.

*Foreign liabilities*

The liabilities increased by kr. 1.3 billion to kr. 3.7 billion and comprise kroner deposits with Danmarks Nationalbank from supranational organisations and other central banks.

*Counterpart of Special Drawing Rights allocated by the IMF, SDR*

The allocation was unchanged during the year, and the adjustment of the item by kr. 0.1 billion to kr. 1.5 billion solely reflects the value adjustment for the year.

*Net capital*

The net capital amounts to kr. 52.1 billion, which is the net capital at the beginning of the year of kr. 52.2 billion with deduction of kr. 0.7 billion transferred from the Value Adjustment Reserve to cover the negative value adjustments for the year and the allocation to the General Reserves of kr. 0.6 billion of the profit for the year.

## ACCOUNTING POLICIES

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### General

Danmarks Nationalbank's Accounts for the year 2006 are presented in accordance with the Danmarks Nationalbank Act. In all significant respects these accounting policies are in accordance with the sound policies for European central banks. Unrealised gains on foreign exchange and securities are recognised in the profit and loss account, however.

The accounting policies applied are unchanged from the previous year.

### Accounting policies:

**Income and expenses** are recognised in the profit and loss account for the period which they concern. Income and expenses in foreign exchange are converted at the exchange rates prevailing at the time they are recorded in the accounts.

Premiums and discounts on Treasury bills and certificates of deposit, as well as forward premiums on forward securities and foreign-exchange contracts, are recognised as interest.

Both realised and unrealised gains and losses are recognised in the profit and loss account.

Income from shares, etc. is recognised in the year in which the dividend is declared.

**Gold** is stated at market value on the balance-sheet date.

**Assets and liabilities in foreign exchange**, including forward contracts, are entered at the official exchange rates and securities market prices prevailing on the balance-sheet date. Swaps and futures are stated at market value.

**Bonds**, including forward contracts, are stated at market value at year-end.

**Repurchase agreements, etc.** Securities sold in connection with repurchase agreements, and gold and securities made available in lending facilities, are included in Danmarks Nationalbank's holdings.

**Shares, etc.** Capital investments and equivalent investments and equity investments in associated companies (in which the ownership interest or voting rights are 20 per cent or more) are stated at acquisition value or written down to market value at year-end if this is assessed to be significantly lower.

**Tangible fixed assets** are stated at acquisition price less depreciation and amortisation. Assets with an acquisition value of less than kr. 100,000 kr. are recognised as expenditure in the year of acquisition. Depreciation on a linear per-annum basis takes place over the expected useful lives of the assets.

The useful lives are assessed as follows:

|                                       |             |
|---------------------------------------|-------------|
| Bank properties .....                 | 100 years   |
| Other properties .....                | 25-50 years |
| Building improvements .....           | 25 years    |
| Technical building facilities .....   | 10-25 years |
| Technical production facilities ..... | 5-10 years  |
| Other machinery and equipment .....   | 3-5 years   |

**Pension commitments.** For defined contribution pension plans the current premium payments to the pension companies are carried as expenditure in the profit and loss account, and the pension commitment hereafter passes to the pension companies. For defined benefit pension plans and declarations of support, provisions are made in the accounts of Danmarks Nationalbank for uncovered pension undertakings compiled according to actuarial principles.

**PROFIT AND LOSS ACCOUNT FOR THE YEAR 2006**

| Note |   | 2006<br>kr. '000  | 2005<br>kr. '000 |
|------|---|-------------------|------------------|
|      | <b>Income from interest, etc.:</b>            |                   |                  |
|      | Interest on foreign assets .....              | 5,320,054         | 5,420,336        |
| 1    | Interest on domestic loans .....              | 3,690,915         | 2,159,247        |
|      | Interest on domestic bonds .....              | 1,341,924         | 1,698,753        |
|      | Commission and other income .....             | 749               | 2,768            |
|      |   | <u>10,353,642</u> | <u>9,281,104</u> |
|      | <b>Expenditure on interest, etc.:</b>         |                   |                  |
|      | Interest on foreign liabilities .....         | 59,538            | 43,681           |
| 2    | Interest on domestic deposits .....           | 6,926,406         | 5,621,497        |
|      |   | <u>6,985,944</u>  | <u>5,665,178</u> |
|      | <b>Net income from interest .....</b>         | <b>3,367,698</b>  | <b>3,615,926</b> |
|      | <b>Value adjustments, etc.:</b>               |                   |                  |
|      | Value adjustment of gold .....                | 758,900           | 1,817,511        |
| 3    | Value adjustment of foreign assets .....      | -779,764          | -96,990          |
| 4    | Value adjustment of domestic securities ..... | -668,905          | -510,478         |
|      |   | <u>-689,769</u>   | <u>1,210,043</u> |
|      | <b>Profit from financial items .....</b>      | <b>2,677,929</b>  | <b>4,825,969</b> |

**PROFIT AND LOSS ACCOUNT FOR THE YEAR 2006**

| Note |  | 2006<br>kr. '000 | 2005<br>kr. '000  |
|------|--|------------------|-------------------|
|      | <b>Profit from financial items</b> .....   | <b>2,677,929</b> | <b>4,825,969</b>  |
|      | <b>Income from shares, etc.</b> .....  | <b>114,833</b>   | <b>67,510</b>     |
| 5    | <b>Other income</b> .....  | <b>47,606</b>    | <b>848,495</b>    |
|      | <b>Expenses:</b>   |                  |                   |
| 6    | Staff expenses .....   | 309,406          | 325,862           |
|      | One-off payment to Danmarks Nationalbank's<br>Pension Fund subject to winding-up ..... | -                | 200,000           |
| 7    | Other expenses.....  | 259,792          | 278,467           |
|      |  | <b>569,198</b>   | <b>804,329</b>    |
| 8    | <b>Depreciation and write-down of tangible fixed assets</b>                            | <b>36,036</b>    | <b>35,513</b>     |
|      | <b>Profit for the year</b> .....   | <b>2,235,134</b> | <b>4,902,132</b>  |
|      | <b>Distribution of the profit for the year:</b>  |                  |                   |
|      | Profit for the year .....  | <b>2,235,134</b> | <b>4,902,132</b>  |
|      | Allocation from the Value Adjustment Reserve.....                                      | <b>689,769</b>   | <b>-1,210,043</b> |
|      |  | <b>2,924,903</b> | <b>3,692,089</b>  |
|      | allocated as follows:  |                  |                   |
|      | Allocation to the General Reserves, 20 per cent ...                                    | <b>584,981</b>   | <b>738,418</b>    |
|      | Payable to the central government, 80 per cent ...                                     | <b>2,339,922</b> | <b>2,953,671</b>  |
|      |  | <b>2,924,903</b> | <b>3,692,089</b>  |

**BALANCE SHEET AT 31 DECEMBER 2006**

| Note   | 2006<br>kr. '000   | 2005<br>kr. '000 |
|--|--------------------|------------------|
| <b>Assets</b>  |                    |                  |
| 9 Gold .....   | <b>7,700,396</b>   | 6,941,496        |
| 10 Foreign assets .....                                      | <b>164,556,246</b> | 204,204,373      |
| 11 Claims on the International Monetary Fund, IMF, etc. .... | <b>3,189,154</b>   | 3,557,456        |
| Monetary-policy lending .....                                | <b>153,735,000</b> | 135,296,000      |
| 12 Other lending .....                                       | <b>3,471,716</b>   | 4,323,980        |
| 13 Domestic bonds .....                                      | <b>28,648,012</b>  | 34,329,299       |
| 14 Shares, etc. ....   | <b>747,946</b>     | 748,028          |
| 15 Tangible fixed assets .....                               | <b>637,798</b>     | 656,657          |
| 16 Other assets .....  | <b>2,164,268</b>   | 1,916,771        |
| Accruals .....   | <b>21,817</b>      | 22,347           |
| <b>Total assets</b> .....                                    | <b>364,872,353</b> | 391,996,407      |

**BALANCE SHEET AT 31 DECEMBER 2006**

| Note   | 2006<br>kr. '000   | 2005<br>kr. '000 |
|--|--------------------|------------------|
| <b>Liabilities</b>   |                    |                  |
| Banknotes .....  | <b>54,248,974</b>  | 50,953,341       |
| Coins .....  | <b>5,517,568</b>   | 5,264,107        |
| Monetary-policy deposits   |                    |                  |
| 17 Net current accounts .....  | <b>8,823,577</b>   | 12,840,588       |
| Certificates of deposit .....  | <b>163,160,000</b> | 207,582,000      |
| 18 Other deposits .....  | <b>1,453,696</b>   | 2,187,401        |
| Central government .....   | <b>73,789,214</b>  | 56,428,399       |
| Foreign liabilities .....  | <b>3,728,915</b>   | 2,391,166        |
| Counterpart of Special Drawing Rights<br>allocated by the International Monetary Fund (SDR) .. | <b>1,522,455</b>   | 1,614,480        |
| Other liabilities .....  | <b>500,663</b>     | 502,846          |
| <b>Total creditors</b> .....   | <b>312,745,062</b> | 339,764,328      |
| <br>   |                    |                  |
| General Capital Fund .....   | <b>50,000</b>      | 50,000           |
| Statutory Reserves .....   | <b>250,000</b>     | 250,000          |
| Value Adjustment Reserve .....   | <b>3,168,141</b>   | 3,857,910        |
| General Reserves .....   | <b>48,659,150</b>  | 48,074,169       |
| 19 <b>Total net capital</b> .....  | <b>52,127,291</b>  | 52,232,079       |
| <b>Total liabilities</b> .....   | <b>364,872,353</b> | 391,996,407      |
| <br>   |                    |                  |
| <b>Off-balance-sheet items</b>   |                    |                  |
| 20 Guarantees .....  | <b>72,727</b>      | 101,525          |
| 21 Other liabilities .....   | <b>56,970,612</b>  | 56,749,682       |
|  | <b>57,043,339</b>  | 56,851,207       |

## NOTES TO THE ACCOUNTS FOR 2006

| Note   | 2006<br>kr. '000 | 2005<br>kr. '000 |
|--|------------------|------------------|
| <b>1 Interest on domestic loans</b>  |                  |                  |
| Interest on monetary-policy loans (collateralised loans) .....   | <b>3,667,891</b> | 2,125,359        |
| Interest on loans to other borrowers .....   | <b>23,024</b>    | 33,888           |
|  | <b>3,690,915</b> | 2,159,247        |
| <b>2 Interest on domestic deposits</b>   |                  |                  |
| Interest on current accounts .....   | <b>266,425</b>   | 145,012          |
| Interest on certificates of deposit .....  | <b>5,286,420</b> | 4,212,589        |
| Interest on the central government's deposits .....  | <b>1,297,964</b> | 1,172,997        |
| Interest to other depositors, etc. ....  | <b>75,597</b>    | 90,899           |
|  | <b>6,926,406</b> | 5,621,497        |
| <b>3 Value adjustment of foreign assets</b>  |                  |                  |
| Market-value adjustment .....  | <b>-948,045</b>  | -806,116         |
| Exchange-rate adjustment.....  | <b>168,236</b>   | 709,126          |
| Value adjustment of shares .....   | <b>45</b>        | -                |
|  | <b>-779,764</b>  | -96,990          |
| <b>4 Value adjustment of domestic securities</b>   |                  |                  |
| Value adjustment of domestic bonds .....   | <b>-668,905</b>  | -511,341         |
| Value adjustment of shares .....   | <b>-</b>         | 863              |
|  | <b>-668,905</b>  | -510,478         |
| <b>5 Other income</b>  |                  |                  |
| Income from sale of coin sets and medals .....   | <b>40,865</b>    | 48,495           |
| Reversal of provision, etc. for Himmerlandsbanken .....  | <b>6,692</b>     | -                |
| Other income.....  | <b>49</b>        | -                |
| Income in connection with the restructuring of<br>Danish Ship Finance as a limited liability company ..... | <b>-</b>         | 800,000          |
|  | <b>47,606</b>    | 848,495          |

**NOTES TO THE ACCOUNTS FOR 2006**

| Note   | 2006<br>kr. '000   | 2005<br>kr. '000 |
|--|--------------------|------------------|
| <b>6 Staff expenses</b>  |                    |                  |
| Salaries and remuneration .....  | <b>248,609</b>     | 242,851          |
| Other staff expenses .....   | <b>60,797</b>      | 83,011           |
|  | <b>309,406</b>     | 325,862          |
| In 2006 the average number of employees was 513 on a full-time basis (2005: 521) |                    |                  |
| <b>7 Other expenses</b>  |                    |                  |
| Materials for banknote production .....  | <b>27,611</b>      | 28,149           |
| Materials for coin production .....  | <b>45,535</b>      | 38,505           |
| Real property, current expenses .....  | <b>103,680</b>     | 129,489          |
| Data processing, etc. ....   | <b>39,892</b>      | 38,563           |
| Other expenses .....   | <b>43,075</b>      | 43,761           |
|  | <b>259,792</b>     | 278,467          |
| <b>8 Depreciation and write-down of tangible fixed assets</b>                    |                    |                  |
| Properties .....   | <b>12,282</b>      | 11,857           |
| Operating equipment .....  | <b>23,754</b>      | 23,656           |
|  | <b>36,036</b>      | 35,513           |
| <b>9 Gold</b>  |                    |                  |
| The gold stock amounts to 66,550 kg (2005: 66,550 kg)                            |                    |                  |
| <b>10 Foreign assets</b>   |                    |                  |
| Foreign bonds .....  | <b>65,300,811</b>  | 46,933,781       |
| Claims on central banks .....  | <b>1,815,916</b>   | 4,216,278        |
| Claims on foreign commercial banks .....   | <b>37,790,772</b>  | 38,535,078       |
| Repo transactions against collateral in foreign bonds .....                      | <b>59,648,000</b>  | 114,518,675      |
| Other foreign assets .....   | <b>747</b>         | 561              |
|  | <b>164,556,246</b> | 204,204,373      |

**NOTES TO THE ACCOUNTS FOR 2006**

| Note   | 2006<br>kr. '000  | 2005<br>kr. '000 |
|--|-------------------|------------------|
| <b>11 Claims on the International Monetary Fund (IMF), etc.</b>  |                   |                  |
| Denmark's IMF quota .....  | <b>13,983,185</b> | 14,828,405       |
| The IMF's holdings of Danish kroner .....  | <b>12,726,817</b> | 12,878,805       |
| Reserve position with the IMF .....  | <b>1,256,368</b>  | 1,949,600        |
| Holdings of Special Drawings Rights (SDR) .....  | <b>1,932,786</b>  | 705,226          |
|  | <b>3,189,154</b>  | 2,654,826        |
| Loans for the Poverty Reduction and Growth Facility Trust .....  | -                 | 902,630          |
|  | <b>3,189,154</b>  | 3,557,456        |
| <b>12 Other lending</b>  |                   |                  |
| Banks and mortgage-credit institutes .....   | <b>3,036,807</b>  | 3,486,533        |
| Receivable from associated company .....   | <b>400,000</b>    | 800,000          |
| Other loans .....  | <b>34,909</b>     | 37,447           |
|  | <b>3,471,716</b>  | 4,323,980        |
| <p>Receivable from associated company is subordinated current and future other debt and liabilities in the company. The receivable is expected to be finally repaid in 2007,</p> |                   |                  |
| <b>13 Domestic bonds</b>   |                   |                  |
| Danish government bonds .....  | <b>10,998,717</b> | 9,949,949        |
| Other domestic bonds .....   | <b>17,649,295</b> | 24,379,350       |
|  | <b>28,648,012</b> | 34,329,299       |

**NOTES TO THE ACCOUNTS FOR 2006**

| Note   | 2006<br>kr. '000 | 2005<br>kr. '000 |
|--|------------------|------------------|
| <b>14 Shares, etc.</b>                               |                  |                  |
| Capital investments and equivalent investments ..... | <b>455,384</b>   | 455,466          |
| Equity investments in associated companies .....     | <b>292,562</b>   | 292,562          |
|  | <b>747,946</b>   | 748,028          |

Capital investments and equivalent investments comprise capital subscription to the ECB and shares in the Bank for International Settlements (BIS), SWIFT, PBS Holding, SAS and Exhibition Centre Herning.

Equity investments in associated companies comprise:

|   | Equity investment/voting<br>rights | Share of equity <sup>1)</sup> | Share of result <sup>1)</sup> |
|---|------------------------------------|-------------------------------|-------------------------------|
| Værdipapircentralen A/S<br>(VP Securities Services) ..... | 24.2 / 24.2 per cent               | kr. 52.7 million              | kr. 36.2 million              |
| Danish Ship Finance A/S .....                             | 18.9 / 20.8 per cent               | kr. 149.9 million             | kr. 79.4 million              |

<sup>1</sup> Based on provisional accounts.

Danmarks Nationalbank's portfolio of shares, etc. at 31 December 2006 has an estimated market value of no less than kr. 2.3 billion.

**15 Tangible fixed assets**

|                               |                |         |
|-------------------------------|----------------|---------|
| Properties .....              | <b>572,006</b> | 582,048 |
| Machinery and equipment ..... | <b>65,792</b>  | 74,609  |
|                               | <b>637,798</b> | 656,657 |

At the most recent official assessment Danmarks Nationalbank's properties were valued at kr. 1,105 million.

**16 Other assets**

The amount includes outstanding interest of kr. 1,881 million (2005: kr. 1,888 million)

**17 Net current accounts**

|  |                   |             |
|--|-------------------|-------------|
| Deposits in current accounts and settlement accounts ..... | <b>77,715,972</b> | 120,597,236 |
| Drawing on current accounts.....                           | <b>68,892,395</b> | 107,756,648 |
|  | <b>8,823,577</b>  | 12,840,588  |

At 31 December 2006 Danmarks Nationalbank acts as full guarantor to VP Securities Services for kr. 29.2 billion (2005: kr. 74.5 billion) and to the Danish Bankers Association (Sumclearing) for kr. 45.7 billion (2005: kr. 42.6 billion) in connection with the banks and mortgage-credit institutes' payment settlements with 2 January 2007 as the value date.

**NOTES TO THE ACCOUNTS FOR 2006**

| Note  |   |   | 2006<br>kr. '000                | 2005<br>kr. '000  |
|---|---|---|---------------------------------|-------------------|
| <b>18 Other deposits</b>  |   |   |                                 |                   |
| Banks and mortgage-credit institutes.....   |   |   | <b>337,571</b>                  | 199,700           |
| Other depositors .....  |   |   | <b>1,116,125</b>                | 1,987,701         |
|   |   |   | <b>1,453,696</b>                | 2,187,401         |
|   | General<br>Capital Fund and<br>Statutory Fund<br>kr. '000 | Value-<br>Adjustment<br>Reserve<br>kr. '000 | General<br>Reserves<br>kr. '000 | Total<br>kr. '000 |
| <b>19 Total net capital</b>   |   |   |                                 |                   |
| Net capital at 1 January 2006 .   | 300,000   | 3,857,910                                   | 48,074,169                      | 52,232,079        |
| Carried forward from the<br>profit for the year .....   | -   | -689,769                                    | 584,981                         | -104,788          |
|   | <b>300,000</b>  | <b>3,168,141</b>                            | <b>48,659,150</b>               | <b>52,127,291</b> |
|   |   |   | 2006<br>kr. '000                | 2005<br>kr. '000  |
| <b>20 Guarantees</b>  |   |   |                                 |                   |
| VP Securities Services, share of Guarantee Capital.....   |   |   | <b>48,874</b>                   | 68,796            |
| VP Securities Services, guarantee for errors by other<br>account-holding institutions .....                                       |   |   | <b>22,823</b>                   | 31,699            |
| Other guarantees .....  |   |   | <b>1,030</b>                    | 1,030             |
|   |   |   | <b>72,727</b>                   | 101,525           |
| Danmarks Nationalbank has provided a guarantee for the obligations of Danmarks Nationalbank's Pension Fund subject to winding-up. |   |   |                                 |                   |
| <b>21 Other liabilities</b>   |   |   |                                 |                   |
| Forward purchases of foreign exchange .....   |   |   | <b>52,005,600</b>               | 50,656,795        |
| Market value of assets in currency swap agreements .....  |   |   | <b>1,814,090</b>                | 2,537,974         |
| Futures .....   |   |   | -                               | 242,164           |
| Unutilised portion of credit facilities made available to<br>the IMF (SDR) .....  |   |   | <b>3,123,922</b>                | 3,312,749         |
|   |   |   | <b>56,970,612</b>               | 56,749,682        |

Danmarks Nationalbank has established intervention agreements with the ECB.

## NOTES TO THE ACCOUNTS FOR 2006

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Note

### 21 Other liabilities (continued)

#### Pension commitments

Present and former employees of Danmarks Nationalbank have either a defined contribution or a defined benefit pension plan.

For defined contribution pension plans Danmarks Nationalbank carries the ongoing premium payments to the pension companies as expenditure. Once the pension contributions for these plans have been paid to the pension companies Danmarks Nationalbank has no further pension commitments to employees.

With regard to defined benefit pension plans, Danmarks Nationalbank is obliged to ensure the policyholder a defined pension benefit. For these plans, Danmarks Nationalbank bears the risk concerning the future development in interest rates, wages, inflation, mortality, etc. Danmarks Nationalbank is thus obliged to make the contributions necessary to ensure the fulfilment of the pension undertakings.

Pension commitments for the defined benefit pension plans are calculated as the capital value of the future benefits payable under the plan. The pension undertakings are based primarily on the salary on retirement. The capital value is calculated on the basis of assumptions concerning the future development in e.g. wage levels, interest rates, inflation and mortality.

In principle, the defined benefit pension plans are covered in Danmarks Nationalbank's Pension Fund subject to winding-up.

|   | 2006<br>kr. '000 | 2005<br>kr. '000 |
|---|------------------|------------------|
| Key figures for the accounts of the Pension Fund:         |                  |                  |
| Pension commitments and other liabilities .....           | <b>3,136</b>     | 3,257            |
| Fair market value of the assets of the Pension Fund ..... | <b>3,680</b>     | 3,700            |
| Net capital of the Pension Fund .....                     | <b>544</b>       | 443              |
| Solvency requirement of the Pension Fund .....            | <b>125</b>       | 121              |

Other defined benefit pension plans are covered in a pension company, while provision is made in the Accounts for a plan concerning the Board of Governors.

Pension commitments for defined benefit pension plans covered in a pension company amount to kr. 61.5 million at 31 December 2006, while the provision stated in Danmarks Nationalbank's balance sheet amounts to kr. 18.5 million.

## **SIGNATURES**

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The Board of Governors have today considered and approved the Annual Accounts of Danmarks Nationalbank for 2006.

The Annual Accounts have been prepared in accordance with the Danmarks Nationalbank Act.

It is our opinion that the Annual Accounts give a true and fair view of Danmarks Nationalbank's assets, liabilities and financial position at 31 December 2006 and of the result of Danmarks Nationalbank's operations for the financial year 1 January-31 December 2006.

Copenhagen, 22 February 2007

Nils Bernstein

Torben Nielsen

Jens Thomsen

## AUDIT REPORTS

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### Internal Auditor's Report

I have audited the Accounts of Danmarks Nationalbank for the financial year 1 January to 31 December 2006 comprising the Report on Danmarks Nationalbank's Accounts, Accounting Policies, Profit and Loss Account, Balance Sheet, Notes and Signatures. The Accounts have been prepared in accordance with the Danmarks Nationalbank Act.

### Danmarks Nationalbank's Committee of Directors and Board of Directors' responsibility for the Accounts

The Committee of Directors and Board of Directors are responsible for the preparation and fair presentation of these Accounts that are free from material misstatement, in accordance with the Danmarks Nationalbank Act.

### Auditor's responsibility

My responsibility is to express an opinion on the Accounts based on my audit.

### Basis of opinion

I have conducted my audit in accordance with Danish Standards on Auditing. Those standards require that I plan and perform the audit to obtain reasonable assurance that the Accounts are free from material misstatement.

The audit included an assessment of the Board of Directors and Committee of Directors' procedures and internal controls that are relevant to Danmarks Nationalbank's preparation and fair presentation of the Accounts, including an assessment of the risk of material misstatement. The audit also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Committee of Directors and the Board of Directors, as well as evaluating the overall presentation of the Accounts.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My audit has not resulted in any qualification.

### Opinion

In my opinion, the Accounts give a true and fair view of Danmarks Nationalbank's assets, liabilities and financial position at 31 December 2006, and of the result of Danmarks Nationalbank's activities for the financial year 1 January-31 December 2006, in accordance with the Danmarks Nationalbank Act.

Copenhagen, 22 February 2007

Jan Birkedal  
Chief Audit Executive

### Independent Auditors' Report

As auditors appointed by the Minister of Economic and Business Affairs we have audited the Accounts of Danmarks Nationalbank for the financial year 1 January-31 December 2006 comprising the Report on Danmarks Nationalbank's Accounts, Accounting Policies, Profit and Loss Account, Balance Sheet, Notes and Signatures. The Accounts have been prepared in accordance with the Danmarks Nationalbank Act.

### Danmarks Nationalbank's Committee of Directors and Board of Directors' responsibility for the Accounts

The Committee of Directors and Board of Directors are responsible for the preparation and fair presentation of these Accounts in accordance with the Danmarks Nationalbank Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Accounts that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility and basis of opinion

It is our responsibility to express an opinion on the Accounts based on our audit. We have conducted our audit in accordance with Danish Standards on Auditing. Those standards require that we comply with ethical codes and that we plan and perform the audit to obtain reasonable assurance that the Accounts are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement in the Accounts, irrespective of whether such material misstatement is due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Danmarks Nationalbank's preparation and fair presentation of the Accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Danmarks Nationalbank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Committee of Directors and Board of Directors, as well as evaluating the overall presentation of the Accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

### Opinion

In our opinion, the Accounts give a true and fair view of Danmarks Nationalbank's assets, liabilities and financial position at 31 December 2006, and of the result of Danmarks Nationalbank's operations for the financial year 1 January-31 December 2006, in accordance with the Danmarks Nationalbank Act.

Copenhagen, 22 February 2007

Svend Ørjan Jensen,  
State-Authorised Public Accountant

Mona Blønd,  
State-Authorised Public Accountant

**SIGNATURES**

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These Accounts, audited in the manner prescribed by the by-laws of Danmarks Nationalbank, are hereby adopted by the Board of Directors at the meeting on 19 March 2007.

As at 1 March 2007 the Board of Directors comprises

*Hans E. Zeuthen   Elisabeth Arnold   Helle Bechgaard   Søren Bjerre-Nielsen   Peter Bjerregaard*

*Niels Boserup   Pia Christmas-Møller   Kristian Thulesen Dahl   Michael Dithmer   Niels Fog*

*Svend Erik Hovmand   Hans Jensen   Johannes Fløystrup Jensen   Niels Due Jensen   Lars-Emil Johansen*

*Jette W. Knudsen   Kjeld Larsen   Michael Lunn   Kirsten Nielsen   Kirsten Nissen*

*Troels Lund Poulsen   Jens Rostrup-Nielsen   Kirsten Stallknecht   Villy Søvnald   Helle Thorning-Schmidt*

# Appendix

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## Press releases

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### INTEREST-RATE CHANGES

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#### **17 February 2006: Interest-rate increase**

With effect from 17 February 2006 the lending rate and the rate of interest for certificates of deposit are raised from 2.40 per cent to 2.50 per cent. The discount rate and the rate of interest on banks' current accounts with Danmarks Nationalbank are unchanged at 2.25 per cent.

The increase by 10 basis points is due to an outflow of foreign exchange in February, among other things as a result of Danish institutional investors' purchase of foreign shares and other securities. In accordance with the fixed-exchange-rate policy Danmarks Nationalbank has intervened to support the krone. The interest-rate increase is intended to make placements in kroner more advantageous. Danmarks Nationalbank emphasises that the outflow of capital does not reflect a weakening of the Danish economy.

#### **2 March 2006: Interest rate increase**

The discount rate and the interest rate on the banks' current accounts with the Nationalbank are raised by 0.25 per cent to 2.50 per cent. The Nationalbank's lending rate and the rate of interest on certificates of deposit are raised by 0.25 per cent to 2.75 per cent. The increase will have effect as from 3 March 2006.

The interest rate increase is a consequence of the raising by the European Central Bank of the minimum bid rate on the main refinancing operations by 0.25 per cent to 2.50 per cent.

#### **8 June 2006: Interest rate increase**

The discount rate and the interest rate on the banks' current accounts with the Nationalbank are raised by 0.25 per cent to 2.75 per cent. The Nationalbank's lending rate and the rate of interest on certificates of deposit are raised by 0.25 per cent to 3.00 per cent. The increase will have effect as from 9 June 2006.

The interest rate increase is a consequence of the raising by the European Central Bank of the minimum bid rate on the main refinancing operations by 0.25 per cent to 2.75 per cent.

**3 August 2006: Interest rate increase**

The discount rate and the interest rate on the banks' current accounts with the Nationalbank are raised by 0.25 per cent to 3.00 per cent. The Nationalbank's lending rate and the rate of interest on certificates of deposit are raised by 0.25 per cent to 3.25 per cent. The increase will have effect as from 4 August 2006.

The interest rate increase is a consequence of the raising by the European Central Bank of the minimum bid rate on the main refinancing operations by 0.25 per cent to 3.00 per cent.

**5 October 2006: Interest rate increase**

The discount rate and the interest rate on the banks' current accounts with the Nationalbank are raised by 0.25 per cent to 3.25 per cent. The Nationalbank's lending rate and the rate of interest on certificates of deposit are raised by 0.25 per cent to 3.50 per cent. The increase will have effect as from 6 October 2006.

The interest rate increase is a consequence of the raising by the European Central Bank of the minimum bid rate on the main refinancing operations by 0.25 per cent to 3.25 per cent.

**7 December 2006: Interest rate increase**

The discount rate and the interest rate on the banks' current accounts with Danmarks Nationalbank are raised by 0.25 per cent to 3.50 per cent. Danmarks Nationalbank's lending rate and the rate of interest on certificates of deposit are raised by 0.25 per cent to 3.75 per cent. The increase will have effect as from 8 December 2006.

The interest rate increase is a consequence of the raising by the European Central Bank of the minimum bid rate on the main refinancing operations by 0.25 per cent to 3.50 per cent.

**THE BOARD OF DIRECTORS AND THE COMMITTEE OF DIRECTORS**

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**21 March 2006: Elections to the Board of Directors and Committee of Directors of Danmarks Nationalbank***Elections to the Board of Directors*

The five-year terms of 13 of the 25 members of the Board of Directors expire on 31 March 2006. The following elections and appointments have been made for the five-year term running from 1 April 2006 to 31 March 2011:

The Folketing (Parliament), which elects eight members, has re-elected Ms Elisabeth Arnold, MP, Ms Pia Christmas-Møller, MP, Mr

Kristian Thulesen Dahl, MP, Mr Svend Erik Hovmand, MP, Mr Henrik Sass Larsen, MP, Mr Jens Rohde, MP, Mr Villy Søvndal, MP and Ms Helle Thorning-Schmidt, MP.

The Minister of Economic and Business Affairs, who appoints two members, has re-appointed Mr Michael Dithmer, Permanent Secretary, and Mr Michael Lunn, Permanent Secretary.

The Board of Directors of Danmarks Nationalbank elects 15 members, of whom three are elected by rotation every year. The Board of Directors has re-elected Mr Johannes Fløystrup Jensen, Director, and Ms Kirsten Nissen, Trade Union President, and has elected Mr Hans Jensen, President of the Trade Union Federation, to replace Mr Finn Thorgrimson, former President of the Trade Union Federation, who retired due to age.

The Board of Directors of Danmarks Nationalbank has elected Mr Peter Bjerregaard, Managing Director, as a member of the Board. He replaces Mr Knud Koch-Jensen, Engineer, for the remaining part of his term, which expires on 31 March 2008.

The Board of Directors re-elected Professor Hans E. Zeuthen as Chairman and Ms Helle Bechgaard, Director, as Deputy Chairman for the coming year.

#### *Elections to the Committee of Directors*

The Committee of Directors has seven members, of whom five are elected by the Board of Directors. The Board of Directors re-elected Mr Søren Bjerre-Nielsen, Group President, Ms Kirsten Nissen, Trade Union President, Mr Jens Rohde, MP, Ms Helle Thorning-Schmidt, MP, and Professor Hans E. Zeuthen. All are elected for the coming year.

Pursuant to the Danmarks Nationalbank Act, the two members of the Board of Directors appointed by the Minister of Economic and Business Affairs are also members of the Committee of Directors.

Mr Michael Dithmer, Permanent Secretary, and Mr Michael Lunn, Permanent Secretary, have thus been re-appointed for five-year terms running until 2011.

At its first meeting, the Committee of Directors re-elected Professor Hans E. Zeuthen as Chairman and Mr Michael Dithmer, Permanent Secretary, as Deputy Chairman for the period from 1 April 2006 to 31 March 2007.

#### **8 June 2006: Election to Danmarks Nationalbank's Board of Directors**

Folketinget (Parliament) has elected Mr Lars-Emil Johansen to the Board of Directors of Danmarks Nationalbank as from 1 October 2006 until 31 March 2011. He succeeds Mr Henrik Sass Larsen.

**13 October 2006: Election to Danmarks Nationalbank's Board of Directors**  
Folketinget (Parliament) has elected Mr Troels Lund Poulsen to the Board of Directors of Danmarks Nationalbank as from 12 October 2006 until 31 March 2011. He succeeds Mr Jens Rohde.

**6 December 2006: Election to the Committee of Directors of Danmarks Nationalbank**

The Board of Directors has elected Mr. Troels Lund Poulsen, MP, as a new member of the Committee of Directors for the remainder of the term ending on 31 March 2007. Mr. Troels Lund Poulsen succeeds Mr. Jens Rohde.

## **PUBLICATIONS**

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**21 March 2006: Danmarks Nationalbank's Report and Accounts for 2005**  
At the meeting of the Board of Directors of Danmarks Nationalbank on 20 March 2006 the Board of Governors presented the Report and Accounts for 2005.

The Report, which presents recent trends in the Danish economy, the monetary and foreign-exchange policy, and the financial and foreign-exchange markets, as well as a review of international monetary cooperation, together with Danmarks Nationalbank's other areas of operation and its organisation, was noted.

Danmarks Nationalbank's Accounts for 2005 were submitted by the Board of Governors for adoption on the recommendation of the Committee of Directors. The Board of Directors and the Royal Bank Commissioner, Mr Bendt Bendtsen, Minister of Economic and Business Affairs, approved the Accounts.

### *Accounts*

The net profit for the year was kr. 4,902 million, compared to kr. 2,844 million in 2004.

Net income from interest totalled kr. 3,616 million, which is kr. 338 million less than in 2004. Value adjustments are positive at kr. 1,210 million. In 2004 they were negative at kr. 662 million.

Total expenses increased by kr. 254 million to kr. 804 million mainly as a consequence of a special payment of kr. 200 million to Danmarks Nationalbank's Pension Fund subject to winding-up.

Allocation of profit:

- Transfer of kr. 1,210 million – equivalent to the value adjustments for the year – to the Value Adjustment Reserve.

- Allocation of kr. 738 million – equivalent to 20 per cent of the profit after allocation to the Value Adjustment Reserve – to the General Reserves for consolidation of Danmarks Nationalbank.
- The remaining amount of kr. 2,954 million is transferred to the central government. For 2004 the amount transferred was kr. 2,805 million.

The Report and Accounts for 2005 are published today and can be viewed at [www.nationalbanken.dk](http://www.nationalbanken.dk) under Publications, or obtained from Danmarks Nationalbank, Information Desk.

### **23 May 2006: Financial stability 2006**

Danmarks Nationalbank today publishes its annual report on financial stability in Denmark, "Finansiel stabilitet 2006". The English edition is expected to be available on Danmarks Nationalbank's website as from 1 June. The printed English edition is expected to be released on 8 June. The publication will be available at [www.nationalbanken.dk](http://www.nationalbanken.dk) under Publications.

The most significant risks to the financial system are analysed in the report, including situations that are very unlikely to arise, but which might have major consequences for the economy. It is assessed whether the overall financial system is sufficiently robust for any problems experienced within the sector not to spread and prevent the financial markets from functioning as providers of capital and financial services. It is the task of the Danish Financial Supervisory Authority to ensure that each financial institution is sufficiently robust.

In connection with the report's publication Governor Nils Bernstein says: "The favourable economic conditions are reflected in the earnings of the financial sector, and our assessment is that the financial institutions are still robust. Overall we cannot see any immediate clouds on the horizon that might pose a threat to financial stability in Denmark."

"However, the resilience of the banking institutions has declined a little due to very strong growth in lending and a minor decrease in capital adequacy," Nils Bernstein adds.

An analysis of homeowners' interest-rate exposure shows that mortgage-credit interest expenses will on average increase by 1.2 per cent of the household's gross income on an increase in interest rates by 1 percentage point. For a family with a household income of kr. 500,000 this would entail an annual increase in mortgage-credit expenses by kr. 6,000 before tax. However, considerable dispersion is seen, and some homeowners' interest expenses will rise by more than 3 per cent of their gross income.

"The households' favourable economic conditions have contributed significantly to the strong economic growth. There are some exposed groups of households, but in overall terms the development in the households' interest-rate exposure poses no threat to the functioning of the financial system and consequently to financial stability," Nils Bernstein concludes.

The publication is in two parts. The first part starts with an analysis of the development in the financial sector, with emphasis on the banking institutions. This is followed by chapters on the development in the corporate sector and the households and in the financial markets, and a chapter on framework conditions for the financial system.

The second part of the report considers various current topics in relation to financial stability. These are the use of advanced approaches to calculating capital requirements under Basel II, the liquidity of the banking institutions, and securing settlement in Danish payment and settlement systems.

## **APPOINTMENTS**

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### **21 March 2006: Appointment**

Danmarks Nationalbank's Committee of Directors has appointed Niels Christian Andersen, Assistant Head of Division, to Head of Division. Niels Christian Andersen is assistant head of Legal Department.

Niels Christian Andersen, 37, holds a Master of Law and a Dip.Econ. (HD) in finance. He has held positions at Danmarks Nationalbank since 1999.

### **22 August 2006: Appointments**

Danmarks Nationalbank's Committee of Directors has appointed Senior Adviser Dan Knudsen to Head of Division and Head of Department, Hugo Frey Jensen to Director.

Dan Knudsen, MSc (econ), holds a position within Economics. Dan Knudsen, 55, has held positions at Danmarks Nationalbank since 1985.

Hugo Frey Jensen is Head of Financial Markets and holds an MSc (econ). Hugo Frey Jensen, 48, has held positions at Danmarks Nationalbank since 1984.

### **30 January 2007: Appointments**

Danmarks Nationalbank's Committee of Directors has appointed Niels Christian Beier, Niels Lynggård Hansen and Tom Wagener to Head of Division.

Adviser Niels Christian Beier, 35, holds a PhD and an MSc (econ). Niels Christian Beier holds a position within Secretariat and has held positions at Danmarks Nationalbank since 2000.

Assistant Head of Division Niels Lynggård Hansen, PhD and MSc (econ), holds a position within Economics. Niels Lynggård Hansen, 41, has held positions at Danmarks Nationalbank since 1994.

Assistant Head of Division Tom Wagener, 39, holds an MSc (econ). Tom Wagener is Assistant Head of IT and has held positions at Danmarks Nationalbank since 1996.

## **BANKNOTES AND COINS**

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### **1 February 2006: New tower coin with Gråsten Palace**

On 15 February 2006, Danmarks Nationalbank issues a new tower coin with the Bell Tower of Gråsten Palace as its motif. This is the eighth in the series of tower coins, of which the first was issued in 2002.

The motif for the new tower coin is designed by the sculptor and graphic artist Sys Hindsbo.

#### *Can be used as an ordinary 20-krone coin*

The Gråsten Palace coin is issued in an edition of 1.2 million. The tower coin, which bears a portrait of the Queen on the obverse, can be used as an ordinary 20-krone coin.

#### *Different parts of Denmark*

On selecting the towers for the coin series, importance has been attached to choosing towers with different functions from different regions of Denmark. This is evident from the list of towers, which – besides the Bell Tower of Gråsten Palace – includes Nólsoy Lighthouse in the Faroe Islands, Landet Church on the island of Tåsinge, Svaneke Water Tower on Bornholm, the Goose Tower in Vordingborg, Christiansborg Palace Tower, the Old Copenhagen Stock Exchange (Børsen) and Aarhus City Hall Tower.

#### *Series to be completed in 2007*

The next tower coin is expected to be issued in the autumn of 2006, and the last of the 10 coins in 2007.

#### *Photo gallery*

Pictures of this and earlier tower coins can be downloaded from [www.nationalbanken.dk](http://www.nationalbanken.dk) – Press room, Photogallery.

### **16 February 2006: Coin Set for Children**

On 28 February 2006, Danmarks Nationalbank for the first time issues a coin set especially for children.

The coin set unfolds like a picture book, from the stag on the front cover to the medal's happy little beetle with antlers and a crown. The motifs are inspired by animals of the forest and drawn in an imaginative style by the illustrator Cato Thau-Jensen.

#### *Silver medal with space for a child's name*

On the inside of the coin set, there is space for such information as a child's name, date of birth and christening date. A child's name can be engraved on the silver medal. It is up to the buyer of the coin set to arrange this, as Danmarks Nationalbank does not provide this service.

Besides the medal, the coin set comprises Denmark's coin series, i.e. 25- and 50-øre coins and 1-, 2-, 5-, 10- and 20-krone coins minted in 2006. This year's coin set for children is issued in a maximum edition of 10,000.

#### *The coin set is on sale from 28 February 2006*

The recommended retail price is kr. 250.00. The coin set can be purchased from banks, coin dealers, gold and silver smiths, and from Danmarks Nationalbank, Banking Services, Havnegade 5, DK-1093 Copenhagen K. The opening hours are Monday-Friday from 10.00 a.m. to 1.00 p.m.

#### *Information and pictures, etc.*

Pictures of the coin set can be downloaded from [www.nationalbanken.dk](http://www.nationalbanken.dk) under Press room, Photogallery, and details are available under Notes and coins, Coin set.

#### **5 April 2006: "The Shadow" – a fairy tale in gold and silver**

The artist Bjørn Nørgaard has interpreted Hans Christian Andersen's fairy tale "The Shadow". The result is the beautiful and exciting coin that is issued on 24 April 2006. The obverse of the coin shows a profile of the Queen.

The coin is a 10-krone coin issued in three versions – a gold coin, a silver coin, and an ordinary 10-krone coin. The gold and silver coins are minted in editions not exceeding 5,000 and 50,000, respectively. The ordinary 10-krone coin is issued in an edition of 1.2 million.

#### *The third fairy tale coin*

"The Shadow" is the third in a series of five coins with fairy tales as their common theme. The first two coins were inspired by "The Ugly Duckling" and "The Little Mermaid". The next fairy tale coin will be issued in the autumn of 2006.

*On sale from 24 April 2006*

The fairy tale coin can be purchased from banks, coin dealers and Danmarks Nationalbank as from 24 April 2006. Some banks and coin dealers already take orders now.

The recommended retail prices including Danish VAT are kr. 2,000 for the gold coin and kr. 200 for the silver coin.

The coins are legal tender and can be exchanged at Danmarks Nationalbank at face value.

*Photo gallery*

Pictures of the coin can be downloaded from [www.nationalbanken.dk](http://www.nationalbanken.dk) – Press room, Photogallery.

**20 July 2006: "The Snow Queen" – a fairy tale in gold and silver**

A little less than 162 years after Hans Christian Andersen published his famous fairy tale "The Snow Queen", the same fairy tale is now the motif on a new coin issued by Danmarks Nationalbank. The fairy tale coin will be issued on 30 August 2006. Sculptor Øivind Nygård has created the motif to the new fairy tale coin.

"The Snow Queen is a fairy tale full of metamorphoses. Images are re-created and transformed into other images. This principle has also been applied to the coin, which progresses from snow crystals – to the figure of a woman – to shards of glass", says Øivind Nygård, who also created the motif to the tower coin with Landet Church.

"The Snow Queen" is the fourth in a series of five coins with fairy tales as their common theme. The obverse of the coin is similar to the ordinary 10-krone coin and shows a profile of the queen.

*Gold and silver coins in limited editions*

The fairy tale coin is a 10-krone issued in three versions – a gold coin, a silver coin, and an ordinary 10-krone coin. The gold and silver coins are minted in editions not exceeding 4,000 and 40,000, respectively. The ordinary 10-krone coin is issued in an edition of 1.2 million. All fairy tale coins are legal tender and can be exchanged at Danmarks Nationalbank at face value.

*Where to buy the fairy tale coin*

The Royal Mint has become its own website [www.royalmint.dk](http://www.royalmint.dk). As from 20 July 2006 you can order the coins on this website. On the website you can find information about the other fairy tale coins, the tower coins, medals, production of coins and more.

"The Snow Queen" can also be purchased from banks, coin dealers and Danmarks Nationalbank. Some banks and coin dealers already take orders now.

The recommended retail prices including Danish VAT are DKK 2,000 for the gold coin and DKK 200 for the silver coin.

#### *The fairy tale continues*

The fifth and final fairy tale coin will be issued in the spring of 2007.

Pictures of the coin can be downloaded from [www.nationalbanken.dk](http://www.nationalbanken.dk) or from The Royal Mint's new website [www.royalmint.dk](http://www.royalmint.dk).

#### **17 August 2006: New tower coin with cairns from Greenland**

The cairns called Nukariit (Three Brothers) on Greenland are the motif on the ninth in the series of tower coins issued by Danmarks Nationalbank. The new tower coin is issued on 27 September 2006 and will be presented at a press conference in Nuuk, Greenland.

The Three Brothers are three stone cairns that mark the sheltered water route off the west coast of Greenland. For several hundred years the cairns have been an important landmark for navigators. The motif is designed by the Greenlandic artist Niels Motzfeldt as a depiction of the three cairns with Greenland's rock rose symbol in the background.

#### *First coin with a motif from Greenland*

Three Brothers is the first Danish circulating coin with a motif from Greenland.

The tower coins are a series of ten different 20-krone coins with towers as their common theme. The coins are of the same size and alloy as the ordinary circulating 20-krone coins, but are distinguished by a tower motif on the reverse. As always, the obverse carries a portrait of the Queen in profile.

#### *Coin set in spring 2007*

The new Three Brothers tower coin is minted in an edition of 1.2 million and as from 27 September can be purchased from banks in Denmark and Greenland and from Danmarks Nationalbank. The coin can also be ordered from The Royal Mint's website [www.royalmint.dk](http://www.royalmint.dk).

The next – and last – coin in the series will be issued in the spring of 2007, when Danmarks Nationalbank will also issue a coin set of all ten tower coins.

*Press photos*

Photos of the coin can be downloaded from [www.nationalbanken.dk](http://www.nationalbanken.dk) – under Press room, Photogallery or from The Royal Mint's website [www.royalmint.dk](http://www.royalmint.dk).

**4 September 2006: Coin Set 2006 from The Royal Mint**

The maritime is the theme of the coin set of this year, issued on 16 October 2006. In addition to the seven ordinary coins in circulation, the coin set includes a copy of a medal from the year 1691 with the Floating Dock in the Sound off Copenhagen as motif. The medal recalls a time when the skills of its Navy were the pride of Denmark. The Floating Dock was in use until 1713, after which it became part of the foundation of the coast battery "Prøvestenen".

*The coin set is minted in two versions*

The ordinary version of the coin set includes the seven ordinary coins in circulation and the medal of Nordic gold. The coins are minted with two strokes. This is one stroke more than the coins in circulation. The more strokes, the more distinct the embossment. This version of the set is minted in an edition of maximum 35,000.

The proof version includes the medal in silver and the coins in circulation in an especially fine quality minted with three strokes. The proof version is minted in an edition of maximum 2,500.

*Where to buy the coin sets*

On the new website of the Royal Mint [www.royalmint.dk](http://www.royalmint.dk) the coin sets can be ordered from 4 September 2006. Banks and coin dealers also take orders. The retail price is DKK 200 for the ordinary version and DKK 875 for the proof version.

The coin sets can also be purchased from Danmarks Nationalbank, Banking Services, Havnegade 5, DK-1093 Copenhagen K, from 16 October 2006. The opening hours are Monday-Friday from 10.00 a.m. to 1.00 p.m.

*More information and pictures*

See [www.nationalbanken.dk](http://www.nationalbanken.dk) and [www.royalmint.dk](http://www.royalmint.dk) for further information and pictures.

**30 January 2007: Two artists chosen for banknote design**

Danmarks Nationalbank has asked the artists Kaspar Bonnén and Karin Birgitte Lund to elaborate on their respective draft proposals for the design of a new Danish banknote series. They have been chosen among the eight draft proposals published by Danmarks Nationalbank on 11 January.

On the basis of the detailed proposals, Danmarks Nationalbank will take the final decision on which of the two proposals is most appropriate for a new Danish banknote series.

The draft proposals from Kaspar Bonnén and Karin Birgitte Lund both have great potential, but neither can be used as it stands. In the period until 1 May 2007, the two artists will therefore elaborate on their proposed designs.

Shortly afterwards, Danmarks Nationalbank will announce which of the two artists it has chosen to design the new Danish banknote series.

The eight draft proposals are exhibited in Danmarks Nationalbank's lobby on weekdays between 9.00 a.m. and 4.00 p.m. until 2 February.

### **22 February 2007: New coin series with Polar theme**

To mark the International Polar Year, Danmarks Nationalbank launches the first coin in a new series of polar coins on 26 March 2007.

The new Polar series will comprise three coins, which will be issued in the period 2007 to 2009.

The motif of the first coin is a polar bear. The polar bear is chosen because of its great importance to the Greenland culture. On the coin you will see the polar bear standing on a split ice floe. The motif is designed by the Greenland artist Niels Motzfeldt, who also designed the motif on the tower coin "Three Brothers". The obverse of the coin carries a portrait of the Queen in profile.

The Polar coin is minted as a 10-krone coin in 1.2 million copies and will be part of the ordinary coin circulation. The Polar coin will also be issued as collector coins in fine silver and gold. The silver version will have the face value of 100 kroner, while the gold coin will have a face value of 1,000 kroner. The recommended retail prices including Danish VAT are DKK 2,500 for the gold coin and DKK 300 for the silver coin. The gold and silver coins are minted in a number not exceeding 6,000 and 50,000, respectively.

The gold coins are minted in gold originating from Greenland. Danmarks Nationalbank has acquired the gold from the Nalunaq Gold Mine by Nanortalik in the South of Greenland. This goldmine also delivered the gold to the wedding rings of the Danish Crown Prince and Crown Princess. It is the first time that a coin is minted in gold originating from Greenland. The legend on the gold coin also shows a small polar bear, which is used as a symbol for gold originating from Greenland.

The Polar coins can be purchased from banks, coin dealers and Danmarks Nationalbank from 26 March. The coins can also be acquired from the website of the Royal Mint, [www.royalmint.dk](http://www.royalmint.dk), where orders can be placed as from today. Pictures of the coin can also be downloaded from this website.

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## Danmarks Nationalbank's publications

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Danmarks Nationalbank publishes the following publications:

- *Report and Accounts* (March)

Danmarks Nationalbank's Report and Accounts comprises a presentation and description of the bank's Accounts for the year, and a Report of the Board of Governors on, *inter alia*, recent trends in the Danish economy and the monetary and foreign-exchange-rate policy.

- *Financial Stability* (May)

Financial Stability includes an analysis of financial stability and an assessment of whether the financial sector is robust.

- *Monetary Review* (Published on a quarterly basis)

The Monetary Review describes and comments on recent trends in external finance and domestic credit. It also includes articles on areas of Danmarks Nationalbank's work which are judged to be of interest to a broader audience.

- *Danish Government Borrowing and Debt* (February)

Publishing "Danish Government Borrowing and Debt" is an integral part of the debt administration. The publication describes the development over the past year and reports on issues of significance to debt management.

- *Working Papers* (Current issues – Electronic publication only)

The Working Papers of Danmarks Nationalbank describe research and development, often still ongoing, as a contribution to the professional debate.

- *PhD Theses* (Current issues – Electronic publication only)

Every year Danmarks Nationalbank offers a PhD grant in economics, where the topic of the thesis is related to Danmarks Nationalbank's areas such as monetary policy, risk management and financial stability.

- *Financial Statistics – Nyt* (News) and *Tables Supplement* (Current issues – Electronic publication only)

The "Nyt" series presents key figures from the statistics which Danmarks Nationalbank is responsible for compiling. "Nyt" comprises nine series. The Tables Supplement contains far more extensive data than the "Nyt" publications and also describes the sources and methodologies.

All time series in Danmarks Nationalbank's statistical publications can also be downloaded from the statistics database at Danmarks Nationalbank's website. For some subjects, further series can be downloaded,

e.g. more detailed distributions by sector, instrument, country or maturity.

Other publications by Danmarks Nationalbank:

- *Danmarks Nationalbank, the Nationalbank Building*, 2nd edition (2005)

This publication describes the Danmarks Nationalbank building and its layout. It is illustrated with an abundance of photos of the exterior and interior of the building.

- *The Coins and Banknotes of Denmark*, 2nd edition (2005)

This publication presents Denmark's coins and banknotes together, with an account of how the coins and banknotes are manufactured.

- *Payment Systems in Denmark* (2005)

The publication presents a description of payment and securities settlement systems and the roles of central banks regarding these systems. Danmarks Nationalbanks' role in payment systems and the Danish payment and securities settlement systems are explained in detail.

- *Financial Management at Danmarks Nationalbank* (2004)

The publication provides a description of the principles and methodologies used in connection with management of the foreign-exchange reserve and Danmarks Nationalbank's other portfolios.

- *Mona – a quarterly model of the Danish economy* (2003)

This publication outlines the major features and properties of the economic model applied by Danmarks Nationalbank for analysing domestic business cycles.

- *Monetary Policy in Denmark*, 2nd edition (2003)

The publication offers interested parties a comprehensive presentation of the Danish approach to monetary policy and of the relation between monetary policy in theory and practice.

The publications are available at Danmarks Nationalbank's website, [www.nationalbanken.dk](http://www.nationalbanken.dk), under Publications. They can be ordered via the order form at the website or from:

Danmarks Nationalbank

Communications

Havnegade 5

DK-1093 Copenhagen K

Telephone: +45 33 63 70 00 (direct) or +45 33 63 63 63

E-mail: [info@nationalbanken.dk](mailto:info@nationalbanken.dk)

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## Danish Bank Holidays other than Saturdays and Sundays

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New Year's Day  
Maundy Thursday  
Good Friday  
Easter Monday  
General Prayer Day (in 2007, 4 May)  
Ascension Day  
Whit Monday  
Constitution Day (5 June)  
Christmas Eve (24 December)  
Christmas Day (25 December)  
Boxing Day (26 December)  
New Year's Eve (31 December)

# Appendix of Tables

## ANNUAL ACCOUNTS AND MONTHLY BALANCE SHEETS OF DANMARKS NATIONALBANK

Table 1

| Kr. million    | Assets |                |   |                                      |                         |
|----------------|--------|----------------|---|--------------------------------------|-------------------------|
|                | Gold   | Foreign assets | Assets deposited with the European Monetary Institute | Claims on the IMF, etc. <sup>1</sup> | Monetary-policy lending |
| 1996 .....     | 3,652  | 73,624         | 4,979   | 4,598                                | •                       |
| 1997 .....     | 3,331  | 115,844        | 4,790   | 6,602                                | •                       |
| 1998 .....     | 3,934  | 89,416         | •   | 9,330                                | •                       |
| 1999 .....     | 4,567  | 154,715        | •   | 8,441                                | •                       |
| 2000 .....     | 4,683  | 110,851        | •   | 5,127                                | •                       |
| 2001 .....     | 4,979  | 138,633        | •   | 8,549                                | •                       |
| 2002 .....     | 5,196  | 183,034        | •   | 8,268                                | •                       |
| 2003 .....     | 5,298  | 214,441        | •   | 7,416                                | •                       |
| 2004 .....     | 5,124  | 208,456        | •   | 5,684                                | 72,635                  |
| 2005 .....     | 6,941  | 204,204        | •   | 3,557                                | 135,296                 |
| 2006 .....     | 7,700  | 164,556        | •   | 3,189                                | 153,735                 |
| 2005 Jan ..... | 5,124  | 213,577        | •   | 5,673                                | 84,341                  |
| Feb .....      | 5,124  | 213,997        | •   | 5,580                                | 87,560                  |
| Mar .....      | 5,124  | 225,235        | •   | 5,580                                | 93,336                  |
| Apr .....      | 5,124  | 216,794        | •   | 5,246                                | 86,810                  |
| May .....      | 5,124  | 223,418        | •   | 5,148                                | 98,684                  |
| Jun .....      | 5,124  | 227,136        | •   | 4,748                                | 113,203                 |
| Jul .....      | 5,124  | 215,966        | •   | 4,701                                | 99,005                  |
| Aug .....      | 5,124  | 216,252        | •   | 4,712                                | 102,976                 |
| Sep .....      | 5,124  | 217,177        | •   | 4,712                                | 111,481                 |
| Oct .....      | 5,124  | 201,607        | •   | 4,708                                | 105,645                 |
| Nov .....      | 5,124  | 197,770        | •   | 4,194                                | 124,864                 |
| Dec .....      | 5,124  | 202,594        | •   | 3,208                                | 135,296                 |
| 2006 Jan ..... | 6,941  | 204,723        | •   | 2,325                                | 122,026                 |
| Feb .....      | 6,941  | 173,856        | •   | 2,325                                | 133,536                 |
| Mar .....      | 6,941  | 174,245        | •   | 2,245                                | 119,937                 |
| Apr .....      | 6,941  | 174,059        | •   | 2,439                                | 101,482                 |
| May .....      | 6,941  | 174,194        | •   | 2,443                                | 121,683                 |
| Jun .....      | 6,941  | 174,804        | •   | 2,233                                | 132,856                 |
| Jul .....      | 6,941  | 174,324        | •   | 2,233                                | 109,791                 |
| Aug .....      | 6,941  | 172,171        | •   | 2,558                                | 121,641                 |
| Sep .....      | 6,941  | 172,806        | •   | 2,610                                | 130,731                 |
| Oct .....      | 6,941  | 172,668        | •   | 2,697                                | 131,222                 |
| Nov .....      | 6,941  | 173,848        | •   | 2,608                                | 131,053                 |
| Dec .....      | 6,941  | 165,279        | •   | 3,332                                | 153,735                 |

Note: End of period. The annual figures are from the annual accounts of Danmarks Nationalbank. The monthly figures – also at end-December are from the monthly balance sheets.

As from the 2004 annual accounts Danmarks Nationalbank's annual and monthly balance sheets are published with monetary-policy lending and deposits listed as separate balance-sheet items, whereas previously they were included under "Lending", "Deposits" and Certificates of Deposit". Moreover, as from the 2004 annual accounts, current accounts, retail clearing accounts and securities settlement accounts in kroner are included in net terms. Previously, these items were included in gross terms under "Lending" and "Deposits". For more information on the balance-sheet changes see also Danmarks Nationalbank, *Report and Accounts*, 2004, p. 124.

The use of the monetary-policy instruments is specified in Table 5.

<sup>1</sup> Danmarks Nationalbank's accounts with the Internationale Monetary Fund are specified in Table 10. In the period end-2001-December 2006 including lending to the Poverty Reduction and Growth Facility Trust.

<sup>2</sup> Including shares and tangible fixed assets as from 2001, where these were capitalised, cf. Danmarks Nationalbank, *Report and Accounts*, 2001, p. 116.

<sup>3</sup> Up to and including December 2004 the figures show only certificates of deposit.

## ANNUAL ACCOUNTS AND MONTHLY BALANCE SHEETS OF DANMARKS NATIONALBANK

Table 1

| Assets         |                |                                 |                | Kr. million    |
|----------------|----------------|---------------------------------|----------------|----------------|
| Other lending  | Domestic bonds | Other assets, etc. <sup>2</sup> | Total          |                |
| 49,659         | 35,108         | 2,383                           | 174,003        | ..... 1996     |
| 37,116         | 33,766         | 2,822                           | 204,271        | ..... 1997     |
| 40,225         | 37,487         | 2,402                           | 182,794        | ..... 1998     |
| 72,946         | 37,696         | 3,437                           | 281,802        | ..... 1999     |
| 67,635         | 39,847         | 8,865                           | 237,007        | ..... 2000     |
| 97,016         | 41,037         | 5,073                           | 295,286        | ..... 2001     |
| 132,037        | 41,012         | 5,856                           | 375,403        | ..... 2002     |
| <u>125,486</u> | 39,746         | 4,921                           | <u>397,307</u> | ..... 2003     |
| 3,412          | 37,102         | 4,654                           | 337,066        | ..... 2004     |
| 4,324          | 34,329         | 3,344                           | 391,996        | ..... 2005     |
| 3,472          | 28,648         | 3,572                           | 364,872        | ..... 2006     |
| 3,122          | 36,971         | 3,866                           | 352,675        | ..... Jan 2005 |
| 2,977          | 37,727         | 3,602                           | 356,567        | ..... Feb      |
| 3,115          | 35,780         | 3,833                           | 372,002        | ..... Mar      |
| 2,628          | 36,165         | 3,881                           | 356,648        | ..... Apr      |
| 3,033          | 37,856         | 4,144                           | 377,407        | ..... May      |
| 2,894          | 38,449         | 4,832                           | 396,386        | ..... Jun      |
| 3,004          | 38,099         | 5,198                           | 371,097        | ..... Jul      |
| 3,026          | 37,823         | 5,312                           | 375,223        | ..... Aug      |
| 3,525          | 38,679         | 5,938                           | 386,637        | ..... Sep      |
| 3,474          | 38,725         | 6,144                           | 365,427        | ..... Oct      |
| 3,400          | 36,568         | 6,256                           | 378,177        | ..... Nov      |
| 4,324          | 34,885         | 6,679                           | 392,111        | ..... Dec      |
| 3,963          | 32,067         | 2,412                           | 374,457        | ..... Jan 2006 |
| 3,635          | 32,744         | 2,217                           | 355,254        | ..... Feb      |
| 3,443          | 32,134         | 2,593                           | 341,538        | ..... Mar      |
| 3,633          | 32,091         | 2,667                           | 323,313        | ..... Apr      |
| 3,859          | 32,421         | 2,944                           | 344,485        | ..... May      |
| 3,688          | 33,578         | 3,387                           | 357,486        | ..... Jun      |
| 3,917          | 33,416         | 3,471                           | 334,094        | ..... Jul      |
| 3,257          | 34,069         | 3,668                           | 344,306        | ..... Aug      |
| 3,045          | 35,569         | 4,218                           | 355,920        | ..... Sep      |
| 3,279          | 36,295         | 4,387                           | 357,489        | ..... Oct      |
| 3,399          | 34,630         | 4,077                           | 356,557        | ..... Nov      |
| 3,472          | 29,410         | 4,553                           | 366,721        | ..... Dec      |

## ANNUAL ACCOUNTS AND MONTHLY BALANCE SHEETS OF DANMARKS NATIONALBANK

Table 1

| Kr. million    | Liabilities              |                      |                                       |                |                    |
|----------------|--------------------------|----------------------|---------------------------------------|----------------|--------------------|
|                | Banknotes in circulation | Coins in circulation | Monetary-policy deposits <sup>3</sup> | Other deposits | Central Government |
| 1996 .....     | 33,187                   | 3,426                | 30,865                                | 28,068         | 34,995             |
| 1997 .....     | 35,079                   | 3,631                | 52,738                                | 33,863         | 33,954             |
| 1998 .....     | 37,199                   | 3,816                | 34,752                                | 21,231         | 37,131             |
| 1999 .....     | 42,430                   | 3,952                | 99,896                                | 46,404         | 39,678             |
| 2000 .....     | 40,650                   | 4,148                | 51,874                                | 52,460         | 37,718             |
| 2001 .....     | 42,966                   | 4,333                | 113,620                               | 37,996         | 43,510             |
| 2002 .....     | 43,164                   | 4,491                | 160,664                               | 61,679         | 50,319             |
| 2003 .....     | 44,984                   | 4,701                | <u>157,279</u>                        | <u>91,002</u>  | 43,981             |
| 2004 .....     | 47,047                   | 4,992                | 167,252                               | 2,820          | 60,810             |
| 2005 .....     | 50,953                   | 5,264                | 220,423                               | 2,187          | 56,428             |
| 2006 .....     | 54,249                   | 5,518                | 171,984                               | 1,454          | 73,789             |
| 2005 Jan ..... | 45,800                   | 4,965                | 177,496                               | 2,642          | 65,755             |
| Feb .....      | 45,787                   | 4,943                | 196,827                               | 2,587          | 50,592             |
| Mar .....      | 46,575                   | 5,008                | 183,362                               | 2,627          | 80,699             |
| Apr .....      | 46,945                   | 5,018                | 167,920                               | 2,718          | 80,320             |
| May .....      | 47,372                   | 5,080                | 186,520                               | 2,551          | 81,564             |
| Jun .....      | 47,949                   | 5,135                | 202,368                               | 2,707          | 83,121             |
| Jul .....      | 48,137                   | 5,112                | 193,937                               | 2,341          | 66,185             |
| Aug .....      | 47,794                   | 5,121                | 221,839                               | 2,322          | 42,207             |
| Sep .....      | 47,661                   | 5,135                | 226,862                               | 6,861          | 42,126             |
| Oct .....      | 47,914                   | 5,143                | 209,206                               | 2,704          | 42,094             |
| Nov .....      | 48,623                   | 5,213                | 221,845                               | 2,440          | 40,504             |
| Dec .....      | 50,953                   | 5,264                | 220,423                               | 2,185          | 53,475             |
| 2006 Jan ..... | 49,113                   | 5,206                | 199,529                               | 2,169          | 60,244             |
| Feb .....      | 48,900                   | 5,205                | 203,627                               | 2,053          | 37,111             |
| Mar .....      | 49,320                   | 5,229                | 197,490                               | 2,118          | 31,569             |
| Apr .....      | 50,556                   | 5,282                | 173,818                               | 2,159          | 35,332             |
| May .....      | 51,296                   | 5,353                | 196,201                               | 1,792          | 32,968             |
| Jun .....      | 51,764                   | 5,396                | 197,380                               | 1,659          | 44,008             |
| Jul .....      | 51,572                   | 5,402                | 181,269                               | 1,509          | 36,525             |
| Aug .....      | 51,045                   | 5,444                | 172,477                               | 1,528          | 55,121             |
| Sep .....      | 50,968                   | 5,426                | 171,719                               | 1,595          | 66,592             |
| Oct .....      | 51,332                   | 5,427                | 173,684                               | 1,707          | 64,846             |
| Nov .....      | 52,358                   | 5,459                | 151,166                               | 1,982          | 83,891             |
| Dec .....      | 54,249                   | 5,518                | 172,118                               | 1,323          | 71,455             |

Cf. the notes to the Table of Assets.

## ANNUAL ACCOUNTS AND MONTHLY BALANCE SHEETS OF DANMARKS NATIONALBANK

Table 1

| Liabilities         |   |                   |  |                          |                  |                | Kr. million    |
|---------------------|---|-------------------|--|--------------------------|------------------|----------------|----------------|
| Foreign liabilities | Counterpart of SDRs allocated by the IMF <sup>1</sup> | Other liabilities | General Capital Fund and Statutory Reserve | Value Adjustment Reserve | General Reserves | Total          |                |
| 1,634               | 1,527   | 1,548             | 300  | 1,093                    | 37,359           | 174,003        | ..... 1996     |
| 876                 | 1,648   | 1,333             | 300  | 2,107                    | 38,742           | 204,271        | ..... 1997     |
| 1,253               | 1,606   | 2,333             | 300  | 3,101                    | 40,072           | 182,794        | ..... 1998     |
| 2,425               | 1,815   | 3,445             | 300  | 20                       | 41,439           | 281,802        | ..... 1999     |
| 3,143               | 1,869   | 729               | 300  | 1,363                    | 42,753           | 237,007        | ..... 2000     |
| 3,734               | 1,884   | 539               | 300  | 1,454                    | 44,951           | 295,286        | ..... 2001     |
| 3,311               | 1,721   | 317               | 300  | 3,577                    | 45,859           | 375,403        | ..... 2002     |
| 2,976               | 1,577   | 562               | 300  | 3,310                    | 46,635           | <u>397,307</u> | ..... 2003     |
| 1,633               | 1,514   | 714               | 300  | 2,648                    | 47,336           | 337,066        | ..... 2004     |
| 2,391               | 1,614   | 503               | 300  | 3,858                    | 48,074           | 391,996        | ..... 2005     |
| 3,729               | 1,522   | 501               | 300  | 3,168                    | 48,659           | 364,872        | ..... 2006     |
| 750                 | 1,514   | 3,508             | 300  | 3,310                    | 46,635           | 352,675        | ..... Jan 2005 |
| 637                 | 1,514   | 3,436             | 300  | 3,310                    | 46,635           | 356,567        | ..... Feb      |
| 848                 | 1,514   | 1,086             | 300  | 2,648                    | 47,336           | 372,002        | ..... Mar      |
| 375                 | 1,514   | 1,555             | 300  | 2,648                    | 47,336           | 356,648        | ..... Apr      |
| 553                 | 1,514   | 1,969             | 300  | 2,648                    | 47,336           | 377,407        | ..... May      |
| 705                 | 1,514   | 2,603             | 300  | 2,648                    | 47,336           | 396,386        | ..... Jun      |
| 684                 | 1,514   | 2,903             | 300  | 2,648                    | 47,336           | 371,097        | ..... Jul      |
| 728                 | 1,514   | 3,415             | 300  | 2,648                    | 47,336           | 375,223        | ..... Aug      |
| 1,518               | 1,514   | 4,676             | 300  | 2,648                    | 47,336           | 386,637        | ..... Sep      |
| 1,519               | 1,514   | 5,049             | 300  | 2,648                    | 47,336           | 365,427        | ..... Oct      |
| 2,122               | 1,514   | 5,633             | 300  | 2,648                    | 47,336           | 378,177        | ..... Nov      |
| 2,391               | 1,514   | 5,622             | 300  | 2,648                    | 47,336           | 392,111        | ..... Dec      |
| 889                 | 1,614   | 5,409             | 300  | 2,648                    | 47,336           | 374,457        | ..... Jan 2006 |
| 1,057               | 1,614   | 5,402             | 300  | 2,648                    | 47,336           | 355,254        | ..... Feb      |
| 1,048               | 1,614   | 917               | 300  | 3,858                    | 48,074           | 341,538        | ..... Mar      |
| 1,052               | 1,614   | 1,269             | 300  | 3,858                    | 48,074           | 323,313        | ..... Apr      |
| 1,418               | 1,614   | 1,610             | 300  | 3,858                    | 48,074           | 344,485        | ..... May      |
| 1,159               | 1,614   | 2,273             | 300  | 3,858                    | 48,074           | 357,486        | ..... Jun      |
| 1,306               | 1,614   | 2,666             | 300  | 3,858                    | 48,074           | 334,094        | ..... Jul      |
| 1,631               | 1,614   | 3,214             | 300  | 3,858                    | 48,074           | 344,306        | ..... Aug      |
| 2,196               | 1,614   | 3,579             | 300  | 3,858                    | 48,074           | 355,920        | ..... Sep      |
| 2,758               | 1,614   | 3,887             | 300  | 3,858                    | 48,074           | 357,489        | ..... Oct      |
| 3,221               | 1,614   | 4,632             | 300  | 3,858                    | 48,074           | 356,557        | ..... Nov      |
| 3,743               | 1,614   | 4,468             | 300  | 3,858                    | 48,074           | 366,721        | ..... Dec      |

## SPECIFICATION OF BANKNOTES IN CIRCULATION

Table 2

| Kr. million | 1,000 kr. | 500 kr. | 200 kr. | 100 kr. | 50 kr. | Total <sup>1</sup> | Total,<br>mio. pieces |
|-------------|-----------|---------|---------|---------|--------|--------------------|-----------------------|
| 1996 .....  | 19,280    | 5,819   | •       | 6,926   | 778    | 32,803             | 116                   |
| 1997 .....  | 19,589    | 6,556   | 1,618   | 6,119   | 799    | 34,681             | 118                   |
| 1998 .....  | 19,787    | 8,088   | 2,182   | 5,881   | 851    | 36,789             | 123                   |
| 1999 .....  | 22,978    | 9,272   | 2,534   | 6,339   | 904    | 42,026             | 136                   |
| 2000 .....  | 22,049    | 8,789   | 2,688   | 5,825   | 917    | 40,268             | 130                   |
| 2001 .....  | 23,569    | 9,296   | 2,890   | 5,768   | 931    | 42,453             | 133                   |
| 2002 .....  | 23,434    | 9,395   | 3,065   | 5,731   | 956    | 42,581             | 134                   |
| 2003 .....  | 24,387    | 10,052  | 3,262   | 5,729   | 989    | 44,417             | 138                   |
| 2004 .....  | 25,627    | 10,777  | 3,335   | 5,712   | 1,028  | 46,479             | 142                   |
| 2005 .....  | 27,892    | 12,006  | 3,602   | 5,802   | 1,083  | 50,386             | 150                   |
| 2006 .....  | 29,694    | 13,144  | 3,889   | 5,854   | 1,100  | 53,681             | 156                   |

Note: End of year.

<sup>1</sup> Banknotes in circulation in Danmarks Nationalbank's balance sheet furthermore includes the special notes circulation on the Faroe Island (on 30 December 2006 kr. 370 million) and 20-, 10- and 5-krone notes (on 30 December 2006 kr. 198 million).

## SPECIFICATION OF COINS IN CIRCULATION

Table 3

| Kr. million | 20 kr. | 10 kr. | 5 kr. | 2 kr. | 1 kr. | 50 øre | 25 øre | Total <sup>1</sup> | Total<br>mio. pieces |
|-------------|--------|--------|-------|-------|-------|--------|--------|--------------------|----------------------|
| 1996 .....  | 1,212  | 738    | 462   | 291   | 393   | 121    | 159    | 3,374              | 1,641                |
| 1997 .....  | 1,299  | 773    | 483   | 321   | 401   | 126    | 163    | 3,566              | 1,706                |
| 1998 .....  | 1,371  | 813    | 504   | 348   | 413   | 134    | 169    | 3,752              | 1,779                |
| 1999 .....  | 1,421  | 842    | 523   | 369   | 422   | 139    | 171    | 3,887              | 1,829                |
| 2000 .....  | 1,522  | 874    | 540   | 386   | 435   | 141    | 175    | 4,072              | 1,881                |
| 2001 .....  | 1,600  | 922    | 562   | 403   | 443   | 148    | 179    | 4,257              | 1,940                |
| 2002 .....  | 1,673  | 958    | 574   | 420   | 454   | 152    | 183    | 4,414              | 1,991                |
| 2003 .....  | 1,789  | 993    | 592   | 439   | 466   | 160    | 186    | 4,625              | 2,056                |
| 2004 .....  | 1,950  | 1,037  | 609   | 461   | 479   | 165    | 189    | 4,890              | 2,119                |
| 2005 .....  | 2,091  | 1,087  | 635   | 488   | 497   | 170    | 194    | 5,162              | 2,197                |
| 2006 .....  | 2,210  | 1,145  | 662   | 512   | 511   | 177    | 198    | 5,415              | 2,271                |

Note: End of year.

<sup>1</sup> Coins in circulation as stated in Danmarks Nationalbank's balance sheet furthermore includes the 200-krone commemorative coin (kr. 102 million on 30 December 2006).

## LOANS FINANCING DECENTRALISED BANKNOTE HOLDINGS

Table 4

Kr. million

|            |       |
|------------|-------|
| 1996 ..... | 1,438 |
| 1997 ..... | 1,655 |
| 1998 ..... | 2,912 |
| 1999 ..... | 4,991 |
| 2000 ..... | 2,677 |
| 2001 ..... | 2,150 |
| 2002 ..... | 3,208 |
| 2003 ..... | 3,123 |
| 2004 ..... | 3,371 |
| 2005 ..... | 3,487 |
| 2006 ..... | 3,037 |

Note: Monthly figures are available on [www.nationalbanken.dk](http://www.nationalbanken.dk), under Statistics (Download statistics – Publications, Tables supplement: Specification of Danmarks Nationalbank's balance sheet).

**THE BANKS' AND THE MORTGAGE-CREDIT INSTITUTES' NET POSITION  
WITH DANMARKS NATIONALBANK**

Table 5

| Kr. million    | Monetary-policy deposits             |                                   | Monetary-policy loans <sup>3</sup> | Total net position |
|----------------|--------------------------------------|-----------------------------------|------------------------------------|--------------------|
|                | Certificates of deposit <sup>1</sup> | Net current accounts <sup>2</sup> |                                    |                    |
| 1996 .....     | 30,865                               | 15,565                            | 33,822                             | 12,608             |
| 1997 .....     | 52,738                               | 18,456                            | 19,901                             | 51,293             |
| 1998 .....     | 34,752                               | 12,612                            | 29,775                             | 17,589             |
| 1999 .....     | 99,896                               | 6,536                             | 33,123                             | 73,309             |
| 2000 .....     | 51,874                               | 8,099                             | 25,335                             | 34,638             |
| 2001 .....     | 113,620                              | 3,705                             | 63,408                             | 53,917             |
| 2002 .....     | 160,664                              | 10,106                            | 81,167                             | 89,603             |
| 2003 .....     | 157,279                              | 12,945                            | 48,024                             | 122,200            |
| 2004 .....     | 160,379                              | 6,873                             | 72,635                             | 94,617             |
| 2005 .....     | 207,582                              | 12,841                            | 135,296                            | 85,127             |
| 2006 .....     | 163,160                              | 8,824                             | 153,735                            | 18,249             |
| 2005 Jan ..... | 163,645                              | 13,851                            | 84,341                             | 93,155             |
| Feb .....      | 187,178                              | 9,649                             | 87,560                             | 109,267            |
| Mar .....      | 177,733                              | 5,629                             | 93,336                             | 90,026             |
| Apr .....      | 163,379                              | 4,541                             | 86,810                             | 81,110             |
| May .....      | 172,710                              | 13,810                            | 98,684                             | 87,836             |
| Jun .....      | 187,421                              | 14,947                            | 113,203                            | 89,165             |
| Jul .....      | 188,758                              | 5,179                             | 99,005                             | 94,932             |
| Aug .....      | 204,304                              | 17,535                            | 102,976                            | 118,863            |
| Sep .....      | 218,455                              | 8,407                             | 111,481                            | 115,381            |
| Oct .....      | 195,468                              | 13,738                            | 105,645                            | 103,562            |
| Nov .....      | 201,585                              | 20,260                            | 124,864                            | 96,981             |
| Dec .....      | 207,582                              | 12,841                            | 135,296                            | 85,127             |
| 2006 Jan ..... | 189,209                              | 10,320                            | 122,026                            | 77,503             |
| Feb .....      | 184,748                              | 18,879                            | 133,536                            | 70,091             |
| Mar .....      | 177,385                              | 20,105                            | 119,937                            | 77,553             |
| Apr .....      | 164,878                              | 8,940                             | 101,482                            | 72,336             |
| May .....      | 179,048                              | 17,153                            | 121,683                            | 74,518             |
| Jun .....      | 188,437                              | 8,943                             | 132,856                            | 64,524             |
| Jul .....      | 165,786                              | 15,483                            | 109,791                            | 71,478             |
| Aug .....      | 156,366                              | 16,111                            | 121,641                            | 50,836             |
| Sep .....      | 157,545                              | 14,174                            | 130,731                            | 40,988             |
| Oct .....      | 153,780                              | 19,904                            | 131,222                            | 42,462             |
| Nov .....      | 147,442                              | 3,724                             | 131,053                            | 20,113             |
| Dec .....      | 163,160                              | 8,958                             | 153,735                            | 18,383             |

Note: End of period. The annual figures are from the annual accounts of Danmarks Nationalbank. The monthly figures – also at end-December – are from the monthly balance sheets.

In 1999 the group of monetary-policy counterparties was expanded to include mortgage-credit institutes. Before 1999 the statistics solely include banks.

<sup>1</sup> Nominal value.

<sup>2</sup> The monetary-policy counterparties' net current-account balances in Danish kroner at the close of the monetary-policy day.

<sup>3</sup> Loans against collateral. Up to 20 June 1999 including repurchase agreements.

## MONEY STOCK

Table 6

| Kr. billion   | Banknotes and coins <sup>1</sup> | Deposits on demand | Time deposits with an original maturity ≤ 2 years | Deposits at notice with an original maturity ≤ 3 months | Repurchase agreements | Bonds, etc. issued with an original maturity ≤ 2 years | Money Stock M3 | Year-on-year increase in money stock per cent |
|---------------|----------------------------------|--------------------|---|---|-----------------------|--|----------------|---|
| 1996 .....    | 31.1                             | 291.7              | 114.9   | 16.2  | 3.5                   | 7.0  | 464.4          | 10.8  |
| 1997 .....    | 32.6                             | 310.9              | 122.4   | 15.1  | 2.5                   | 17.3   | 500.9          | 7.9   |
| 1998 .....    | 33.9                             | 333.2              | 119.0   | 14.9  | 1.9                   | 17.4   | 520.2          | 3.9   |
| 1999 .....    | 36.1                             | 341.8              | 128.3   | 12.9  | 4.3                   | 11.6   | 535.0          | 2.8   |
| 2000 .....    | 37.4                             | 349.2              | 101.7   | 6.9   | 3.3                   | 8.6  | 507.1          | -5.2  |
| 2001 .....    | 39.2                             | 375.6              | 102.7   | 9.9   | 4.0                   | 15.0   | 546.4          | 7.7   |
| 2002 .....    | 39.0                             | 399.1              | 102.7   | 18.5  | 6.6                   | 45.2   | 611.2          | 11.8  |
| 2003 .....    | 41.0                             | 428.1              | 112.2   | 19.2  | 2.7                   | 77.3   | 680.5          | 11.3  |
| 2004 .....    | 43.7                             | 492.8              | 119.2   | 21.0  | 2.0                   | 20.2   | 699.0          | 2.7   |
| 2005 .....    | 47.3                             | 596.3              | 114.1   | 18.4  | 14.2                  | 8.4  | 798.7          | 14.3  |
| 2006 .....    | 50.8                             | 648.5              | 143.0   | 17.9  | 8.0                   | 21.3   | 889.5          | 11.4  |
| 2005 Jan .... | 43.2                             | 502.0              | 135.1   | 21.3  | 4.9                   | 6.7  | 713.1          | -6.1  |
| Feb ....      | 43.0                             | 500.4              | 134.8   | 21.3  | 6.3                   | 0.5  | 706.4          | -6.8  |
| Mar ....      | 43.1                             | 508.1              | 128.3   | 18.3  | 2.8                   | 2.4  | 703.0          | -7.7  |
| Apr ....      | 44.4                             | 550.1              | 133.4   | 18.8  | 6.0                   | 2.0  | 754.8          | -6.0  |
| May ...       | 44.2                             | 552.4              | 123.5   | 19.0  | 4.9                   | 1.7  | 745.7          | -7.3  |
| Jun ....      | 44.9                             | 561.8              | 138.5   | 18.0  | 11.5                  | 3.6  | 778.3          | 1.7   |
| Jul .....     | 45.1                             | 581.7              | 152.2   | 18.3  | 5.2                   | 1.6  | 804.1          | -0.1  |
| Aug ...       | 44.7                             | 581.7              | 146.7   | 18.8  | 3.7                   | 3.9  | 799.5          | 0.4   |
| Sep ....      | 45.5                             | 576.3              | 138.8   | 19.0  | 3.4                   | 0.1  | 783.3          | 1.2   |
| Oct ....      | 45.4                             | 583.9              | 142.3   | 18.5  | 3.8                   | 0.6  | 794.6          | 1.1   |
| Nov ....      | 46.1                             | 596.8              | 129.2   | 20.3  | 4.2                   | 2.1  | 798.8          | 1.4   |
| Dec ....      | 47.3                             | 596.3              | 114.1   | 18.4  | 14.2                  | 8.4  | 798.7          | 14.3  |
| 2006 Jan .... | 46.2                             | 658.1              | 147.7   | 18.1  | 3.0                   | 2.9  | 876.1          | 22.9  |
| Feb ....      | 46.3                             | 589.0              | 146.6   | 18.5  | 5.2                   | 5.7  | 811.4          | 14.9  |
| Mar ....      | 47.2                             | 604.4              | 145.2   | 18.4  | 18.2                  | 9.3  | 842.6          | 19.9  |
| Apr ....      | 47.8                             | 622.6              | 136.9   | 17.8  | 17.7                  | 8.7  | 851.5          | 12.8  |
| May ...       | 47.9                             | 630.8              | 139.3   | 18.2  | 16.1                  | 8.6  | 861.0          | 15.5  |
| Jun .....     | 48.6                             | 638.2              | 135.3   | 17.5  | 12.4                  | 9.1  | 861.3          | 10.7  |
| Jul .....     | 48.4                             | 642.9              | 147.4   | 17.4  | 11.4                  | 10.2   | 878.1          | 9.2   |
| Aug ...       | 48.1                             | 629.6              | 155.5   | 17.6  | 13.8                  | 8.1  | 872.8          | 9.2   |
| Sep ....      | 48.6                             | 625.6              | 150.3   | 17.4  | 13.9                  | 10.1   | 866.0          | 10.6  |
| Oct ....      | 48.6                             | 632.9              | 163.9   | 17.5  | 17.0                  | 10.1   | 890.1          | 12.0  |
| Nov ....      | 49.5                             | 634.8              | 162.0   | 18.9  | 16.6                  | 7.1  | 889.1          | 11.3  |
| Dec ....      | 50.8                             | 648.5              | 143.0   | 17.9  | 8.0                   | 21.3   | 889.5          | 11.4  |

Note: End of period. The money stock is calculated in accordance with the ECB's definition of harmonised monetary aggregates for the EU: M1, M2 and M3. This includes residents' short-term deposits with MFIs in kroner and foreign currencies. Special deposit schemes are included in the money stock (M2 og M3) to the extent that they are within the short-term band. Bonds issued with an original maturity of up to and including 2 years, money market papers and shares issued by MFIs are included in M3. The money stock is calculated on the basis of the consolidated balance sheet of the MFI sector and represents the MFI sector's liquid liabilities vis-à-vis the money-holding sectors – i.e. citizens and companies, but excluding the central government and non-residents, who are regarded as money-neutral in this connection.

The M1 monetary aggregate is calculated as the sum of "Banknotes and coins" and "Deposits on demand", and the M2 monetary aggregate is calculated as the sum of M1, "Time deposits with an original maturity ≤ 2 years" and "Deposits at notice with an original maturity ≤ 3 months".

The MFI sector comprises Danish Monetary Financial Institutions, i.e. banks and mortgage-credit institutes, other credit institutions, money market funds and Danmarks Nationalbank.

<sup>1</sup> Banknotes and coins in circulation, excluding MFI holdings.

## THE OFFICIAL INTEREST RATES OF DANMARKS NATIONALBANK

Table 7

| Per cent per annum | Discount rate | Current account deposits | Lending and certificates of deposit <sup>1</sup> | Per cent per annum | Discount rate | Current account deposits | Lending and certificates of deposit <sup>1</sup> |
|--------------------|---------------|--------------------------|--|--------------------|---------------|--------------------------|--|
| 1996 11 Jan .....  | 4.25          | 4.25                     | 4.50   | 2001 9 Feb .....   |               |                          | 5.30   |
| 25 - .....         | 4.00          | 4.00                     | 4.35   | 14 May .....       | 4.50          | 4.50                     | 5.00   |
| 8 Feb .....        |               |                          | 4.25   | 6 Jul .....        |               |                          | 4.95   |
| 7 Mar .....        | 3.75          | 3.75                     | 4.10   | 31 Aug .....       | 4.25          | 4.25                     | 4.65   |
| 21 - .....         |               |                          | 4.00   | 18 Sep .....       | 3.75          | 3.75                     | 4.15   |
| 1 Apr .....        |               |                          | 3.90   | 5 Oct .....        |               |                          | 4.10   |
| 19 - .....         | 3.25          | 3.25                     | 3.80   | 9 Nov .....        | 3.25          | 3.25                     | 3.60   |
| 6 Jun .....        |               |                          | 3.70   | 2002 1 Feb .....   |               |                          | 3.55   |
| 23 Aug .....       |               |                          | 3.50   | 9 Aug .....        |               |                          | 3.50   |
| 1997 10 Oct .....  | 3.50          | 3.50                     | 3.75   | 30 - .....         |               |                          | 3.45   |
| 1998 6 May .....   | 4.00          | 4.00                     | 4.25   | 6 Dec .....        | 2.75          | 2.75                     | 2.95   |
| 29 - .....         | 3.75          | 3.75                     | 4.00   | 2003 7 Mar .....   | 2.50          | 2.50                     | 2.70   |
| 21 Sep .....       | 4.25          | 4.25                     | 5.00   | 23 May .....       |               |                          | 2.65   |
| 8 Oct .....        |               |                          | 4.75   | 6 Jun .....        | 2.00          | 2.00                     | 2.15   |
| 22 - .....         |               |                          | 4.65   | 2005 2 Dec .....   | 2.25          | 2.25                     | 2.40   |
| 5 Nov .....        | 4.00          | 4.00                     | 4.40   | 2006 17 Feb .....  |               |                          | 2.50   |
| 26 - .....         |               |                          | 4.25   | 3 Mar .....        | 2.50          | 2.50                     | 2.75   |
| 4 Dec .....        | 3.50          | 3.50                     | 3.95   | 9 Jun .....        | 2.75          | 2.75                     | 3.00   |
| 1999 7 Jan .....   |               |                          | 3.75   | 4 Aug .....        | 3.00          | 3.00                     | 3.25   |
| 4 Feb .....        | 3.25          | 3.25                     | 3.50   | 6 Oct .....        | 3.25          | 3.25                     | 3.50   |
| 1 Mar .....        |               |                          | 3.40   | 8 Dec .....        | 3.50          | 3.50                     | 3.75   |
| 9 Apr .....        | 2.75          | 2.75                     | 2.90   | 2007 9 Mar .....   | 3.75          | 3.75                     | 4.00   |
| 17 Jun .....       |               |                          | 2.85   |                    |               |                          |  |
| 5 Nov .....        | 3.00          | 3.00                     | 3.30   |                    |               |                          |  |
| 2000 4 Feb .....   | 3.25          | 3.25                     | 3.60   |                    |               |                          |  |
| 17 Mar .....       | 3.50          | 3.50                     | 3.85   |                    |               |                          |  |
| 28 Apr .....       | 3.75          | 3.75                     | 4.10   |                    |               |                          |  |
| 9 Jun .....        | 4.25          | 4.25                     | 4.70   |                    |               |                          |  |
| 23 Aug .....       |               |                          | 4.90   |                    |               |                          |  |
| 30 - .....         |               |                          | 5.10   |                    |               |                          |  |
| 1 Sep .....        | 4.50          | 4.50                     |  |                    |               |                          |  |
| 6 - .....          |               |                          | 5.00   |                    |               |                          |  |
| 27 - .....         |               |                          | 5.10   |                    |               |                          |  |
| 29 - .....         |               |                          | 5.60   |                    |               |                          |  |
| 6 Oct .....        | 4.75          | 4.75                     |  |                    |               |                          |  |
| 13 - .....         |               |                          | 5.50   |                    |               |                          |  |
| 27 - .....         |               |                          | 5.40   |                    |               |                          |  |

Note: Interest rates at year-end or as from the date stated.

<sup>1</sup> Danmarks Nationalbank's interest rate for collateralised lending as well as for sale and repurchase of the Nationalbank's certificates of deposit. On purchasing certificates of deposit before expiry the Nationalbank's buy-back price is normally based on a slightly higher interest rate. The interest rates stated exclude this premium. Until 21 June 1999 the Nationalbank's lending rate was called the repo rate.

## THE OFFICIAL INTEREST RATES OF THE EUROPEAN CENTRAL BANK

Table 8a

| With effect from <sup>1</sup> | Deposit facility | Main refinancing operations |      | Marginal lending facility |
|-------------------------------|------------------|-----------------------------|------|---------------------------|
|                               |                  | Variable rate tenders       |      |                           |
|                               |                  | Minimum bid rate            |      |                           |
| 2006 8 Mar .....              | 1.50             | 2.50                        | 3.50 |                           |
| 15 Jun .....                  | 1.75             | 2.75                        | 3.75 |                           |
| 9 Aug .....                   | 2.00             | 3.00                        | 4.00 |                           |
| 11 Oct .....                  | 2.25             | 3.25                        | 4.25 |                           |
| 13 Dec .....                  | 2.50             | 3.50                        | 4.50 |                           |
| 2007 14 Mar .....             | 2.75             | 3.75                        | 4.75 |                           |

Note: On 8 June 2000 the ECB announced that, starting from the operation to be settled on 28 June 2000, the main refinancing operation of the Euro-system would be conducted as variable rate tenders. The minimum bid rate refers to the minimum interest rate at which counterparties may place their bids.

Source: ECB.

<sup>1</sup> The dates refer to the deposit and marginal lending facilities. For main refinancing operations, changes in the rate are effective from the first operation following the date indicated.

## EUROSYSTEM MONETARY-POLICY OPERATIONS ALLOTTED THROUGH TENDERS

Table 8b

| Per cent per annum | Variable rate tenders |               | Per cent per annum | Variable rate tenders |               | Per cent per annum | Variable rate tenders |               |
|--------------------|-----------------------|---------------|--------------------|-----------------------|---------------|--------------------|-----------------------|---------------|
|                    | Minimum bid rate      | Marginal rate |                    | Minimum bid rate      | Marginal rate |                    | Minimum bid rate      | Marginal rate |
| 2006 4 Jan .....   | 2.25                  | 2.30          | 2006 7 Jun .....   | 2.50                  | 2.55          | 2006 8 Nov ...     | 3.25                  | 3.31          |
| 11 - .....         |                       | 2.30          | 15 - .....         | 2.75                  | 2.82          | 15 - ....          |                       | 3.31          |
| 18 - .....         |                       | 2.30          | 21 - .....         |                       | 2.82          | 22 - ....          |                       | 3.30          |
| 25 - .....         |                       | 2.30          | 28 - .....         |                       | 2.83          | 29 - ....          |                       | 3.30          |
| 1 Feb ....         |                       | 2.30          | 5 Jul .....        |                       | 2.78          | 6 Dec ....         |                       | 3.30          |
| 8 - .....          | 2.50                  | 2.31          | 12 - .....         |                       | 2.81          | 13 - ....          | 3.50                  | 3.55          |
| 15 - .....         |                       | 2.31          | 19 - .....         |                       | 2.81          | 20 - ....          |                       | 3.58          |
| 22 - .....         |                       | 2.31          | 25 - .....         |                       | 2.81          | 28 - ....          |                       | 3.58          |
| 28 - .....         |                       | 2.32          | 2 Aug ...          |                       | 2.76          | 2007 4 Jan ....    |                       | 3.57          |
| 8 Mar ....         |                       | 2.56          | 9 - .....          | 3.00                  | 3.05          | 10 - ....          |                       | 3.55          |
| 15 - .....         |                       | 2.56          | 15 - .....         |                       | 3.05          | 17 - ....          |                       | 3.55          |
| 22 - .....         |                       | 2.56          | 23 - .....         |                       | 3.05          | 24 - ....          |                       | 3.55          |
| 29 - .....         |                       | 2.57          | 30 - .....         |                       | 3.00          | 31 - ....          |                       | 3.56          |
| 5 Apr ....         |                       | 2.57          | 6 Sep ....         |                       | 3.04          | 7 Feb ....         |                       | 3.54          |
| 12 - .....         |                       | 2.57          | 13 - .....         |                       | 3.04          | 14 - ...           |                       | 3.55          |
| 19 - .....         |                       | 2.58          | 20 - .....         |                       | 3.03          | 22 - ...           |                       | 3.55          |
| 27 - .....         |                       | 2.59          | 27 - .....         |                       | 3.00          | 28 - ...           |                       | 3.56          |
| 4 May ...          |                       | 2.59          | 3 Oct ....         |                       | 3.02          | 7 Mar ....         |                       | 3.55          |
| 10 - .....         |                       | 2.58          | 11 - .....         | 3.25                  | 3.29          | 14 - ...           | 3.75                  | ...           |
| 17 - .....         |                       | 2.58          | 18 - .....         |                       | 3.29          |                    |                       |               |
| 24 - .....         |                       | 2.58          | 25 - .....         |                       | 3.30          |                    |                       |               |
| 31 - .....         |                       | 2.58          | 1 Nov ....         |                       | 3.31          |                    |                       |               |

Note: Cf. note in table 8a. The marginal rate refers to the lowest rate at which funds were allotted.

Source: ECB.

## THE FOREIGN-EXCHANGE RESERVE

Table 9

| Kr. million    | Gold  | Foreign assets | Assets deposited with the European Monetary Institute | Claims on the IMF, etc. <sup>1</sup> | Total gross | Foreign liabilities | Total net <sup>2</sup> |
|----------------|-------|----------------|---|--------------------------------------|-------------|---------------------|------------------------|
| 1996 .....     | 3,652 | 73,624         | 4,979   | 4,598                                | 86,853      | 1,634               | 85,219                 |
| 1997 .....     | 3,331 | 115,844        | 4,790   | 6,602                                | 130,567     | 876                 | 129,691                |
| 1998 .....     | 3,934 | 89,416         | •   | 9,330                                | 102,680     | 1,253               | 101,427                |
| 1999 .....     | 4,567 | 154,715        | •   | 8,441                                | 167,724     | 2,425               | 165,299                |
| 2000 .....     | 4,683 | 110,851        | •   | 5,127                                | 120,661     | 3,143               | 117,517                |
| 2001 .....     | 4,979 | 138,633        | •   | 8,549                                | 152,161     | 3,734               | 148,427                |
| 2002 .....     | 5,196 | 183,034        | •   | 8,268                                | 196,498     | 3,311               | 193,187                |
| 2003 .....     | 5,298 | 214,441        | •   | 7,416                                | 227,155     | 2,976               | 224,179                |
| 2004 .....     | 5,124 | 208,456        | •   | 5,684                                | 219,264     | 1,633               | 217,631                |
| 2005 .....     | 6,941 | 204,204        | •   | 3,557                                | 214,703     | 2,391               | 212,312                |
| 2006 .....     | 7,700 | 164,556        | •   | 3,189                                | 175,446     | 3,729               | 171,717                |
| 2005 Jan ..... | 5,124 | 213,577        | •   | 5,673                                | 224,374     | 750                 | 223,624                |
| Feb .....      | 5,124 | 213,997        | •   | 5,580                                | 224,701     | 637                 | 224,064                |
| Mar .....      | 5,124 | 225,235        | •   | 5,580                                | 235,938     | 848                 | 235,091                |
| Apr .....      | 5,124 | 216,794        | •   | 5,246                                | 227,164     | 375                 | 226,789                |
| May .....      | 5,124 | 223,418        | •   | 5,148                                | 233,690     | 553                 | 233,137                |
| Jun .....      | 5,124 | 227,136        | •   | 4,748                                | 237,007     | 705                 | 236,302                |
| Jul .....      | 5,124 | 215,966        | •   | 4,701                                | 225,791     | 684                 | 225,107                |
| Aug .....      | 5,124 | 216,252        | •   | 4,712                                | 226,088     | 728                 | 225,360                |
| Sep .....      | 5,124 | 217,177        | •   | 4,712                                | 227,013     | 1,518               | 225,495                |
| Oct .....      | 5,124 | 201,607        | •   | 4,708                                | 211,439     | 1,519               | 209,920                |
| Nov .....      | 5,124 | 197,770        | •   | 4,194                                | 207,089     | 2,122               | 204,967                |
| Dec .....      | 5,124 | 202,594        | •   | 3,208                                | 210,926     | 2,391               | 208,535                |
| 2006 Jan ..... | 6,941 | 204,723        | •   | 2,325                                | 213,989     | 889                 | 213,101                |
| Feb .....      | 6,941 | 173,856        | •   | 2,325                                | 183,122     | 1,057               | 182,065                |
| Mar .....      | 6,941 | 174,245        | •   | 2,245                                | 183,431     | 1,048               | 182,383                |
| Apr .....      | 6,941 | 174,059        | •   | 2,439                                | 183,439     | 1,052               | 182,388                |
| May .....      | 6,941 | 174,194        | •   | 2,443                                | 183,579     | 1,418               | 182,161                |
| Jun .....      | 6,941 | 174,804        | •   | 2,233                                | 183,978     | 1,159               | 182,819                |
| Jul .....      | 6,941 | 174,324        | •   | 2,233                                | 183,499     | 1,306               | 182,192                |
| Aug .....      | 6,941 | 172,171        | •   | 2,558                                | 181,671     | 1,631               | 180,040                |
| Sep .....      | 6,941 | 172,806        | •   | 2,610                                | 182,357     | 2,196               | 180,162                |
| Oct .....      | 6,941 | 172,668        | •   | 2,697                                | 182,306     | 2,758               | 179,548                |
| Nov .....      | 6,941 | 173,848        | •   | 2,608                                | 183,398     | 3,221               | 180,176                |
| Dec .....      | 6,941 | 165,279        | •   | 3,332                                | 175,552     | 3,743               | 171,809                |

Note: End of period. The annual figures are from the annual accounts of Danmarks Nationalbank. The monthly figures – also at end-December – are from the monthly balance sheets.

<sup>1</sup> Danmarks Nationalbank's account with the International Monetary Fund is specified in Table 10. In the period end-2001-December 2006 including lending to the Poverty Reduction and Growth Facility Trust.

<sup>2</sup> As a result of exchange-rate adjustments the foreign-exchange reserve increased by kr.765 million in 1996, by kr. 1,454 million in 1997, by kr. 913 million in 1998, declined by kr. 366 million in 1999, by kr. 4,821 million in 2000, increased by kr. 3,437 million in 2001, declined by kr. 699 million in 2002, increased by kr. 161 million in 2003, declined by kr. 99 million in 2004, increased by kr. 3,777 million in 2005, and declined by kr. 92 million in 2006.

DENMARK'S ACCOUNT WITH THE INTERNATIONAL MONETARY FUND

Table 10

|            | Denmark's quota<br>in the Fund |                | The Fund's<br>holdings of<br>Danish kroner |                | Denmark's<br>reserve position<br>in the Fund <sup>1</sup> |                | Allocated SDR<br>(accumulated) |                | Denmark's<br>holdings of SDR |                |
|------------|--------------------------------|----------------|--|----------------|---|----------------|--------------------------------|----------------|------------------------------|----------------|
|            | SDR<br>million                 | Kr.<br>million | SDR<br>million                             | Kr.<br>million | SDR<br>million  | Kr.<br>million | SDR<br>million                 | Kr.<br>million | SDR<br>million               | Kr.<br>million |
| 1996 ..... | 1,070                          | 9,134          | 648  | 5,533          | 422   | 3,601          | 179                            | 1,527          | 117                          | 997            |
| 1997 ..... | 1,070                          | 9,856          | 602  | 5,545          | 468   | 4,311          | 179                            | 1,648          | 249                          | 2,291          |
| 1998 ..... | 1,070                          | 9,605          | 277  | 2,483          | 793   | 7,122          | 179                            | 1,606          | 246                          | 2,208          |
| 1999 ..... | 1,643                          | 16,667         | 1,061                                      | 10,762         | 582   | 5,905          | 179                            | 1,815          | 250                          | 2,536          |
| 2000 ..... | 1,643                          | 17,167         | 1,203                                      | 12,568         | 440   | 4,599          | 179                            | 1,869          | 51                           | 528            |
| 2001 ..... | 1,643                          | 17,306         | 1,076                                      | 11,335         | 567   | 5,971          | 179                            | 1,884          | 223                          | 2,354          |
| 2002 ..... | 1,643                          | 15,811         | 921  | 8,863          | 722   | 6,948          | 179                            | 1,721          | 76                           | 730            |
| 2003 ..... | 1,643                          | 14,488         | 957  | 8,435          | 686   | 6,053          | 179                            | 1,577          | 55                           | 481            |
| 2004 ..... | 1,643                          | 13,904         | 1,100                                      | 9,310          | 543   | 4,594          | 179                            | 1,514          | 29                           | 243            |
| 2005 ..... | 1,643                          | 14,828         | 1,427                                      | 12,879         | 216   | 1,950          | 179                            | 1,614          | 78                           | 705            |
| 2006 ..... | 1,643                          | 13,983         | 1,495                                      | 12,727         | 148   | 1,256          | 179                            | 1,522          | 227                          | 1,933          |

Note: End of period. Conversion from SDR to Danish kroner is made at the year-end SDR-rate.

<sup>1</sup> Denmark's reserve position in the IMF is determined as the difference between the quota and the Fund's holdings of Danish kroner.

CENTRAL RATE AND FLUCTUATION BAND VIS-À-VIS EURO IN ERM II

Table 11

| Kroner per 100 euro | Denmark |
|---------------------|---------|
| Upper limit .....   | 762.824 |
| Central rate .....  | 746.038 |
| Lower limit .....   | 729.252 |

## EXCHANGE RATES

Table 12

| Danish kroner per 100 units | Euros <sup>1</sup> (EUR) | US dollars (USD) | Japanese yen (JPY) | Pounds sterling (GBP) | Swedish kronor (SEK) | Norwegian kroner (NOK) |
|-----------------------------|--------------------------|------------------|--------------------|-----------------------|----------------------|------------------------|
| 1996 .....                  | •                        | 579.59           | 5.3316             | 905,17                | 86.47                | 89.79                  |
| 1997 .....                  | •                        | 660.86           | 5.4761             | 1,082.32              | 86.54                | 93.36                  |
| 1998 .....                  | •                        | 669.70           | 5.1338             | 1,109.36              | 84.23                | 88.70                  |
| 1999 .....                  | 743.56                   | 698.34           | 6.1755             | 1,129.49              | 84.46                | 89.47                  |
| 2000 .....                  | 745.37                   | 809.03           | 7.5081             | 1,223.33              | 88.26                | 91.89                  |
| 2001 .....                  | 745.21                   | 831.88           | 6.8522             | 1,197.74              | 80.58                | 92.60                  |
| 2002 .....                  | 743.04                   | 788.12           | 6.2969             | 1,182.10              | 81.12                | 99.03                  |
| 2003 .....                  | 743.07                   | 658.99           | 5.6840             | 1,074.99              | 81.45                | 93.03                  |
| 2004 .....                  | 743.98                   | 598.93           | 5.5366             | 1,096.69              | 81.54                | 88.90                  |
| 2005 .....                  | 745.19                   | 600.34           | 5.4473             | 1,090.02              | 80.29                | 93.11                  |
| 2006 .....                  | 745.91                   | 594.70           | 5.1123             | 1,094.32              | 80.62                | 92.71                  |
| 2005 Jan .....              | 744.05                   | 567.20           | 5.4866             | 1,065.01              | 82.24                | 90.60                  |
| Feb .....                   | 744.27                   | 571.96           | 5.4512             | 1,079.16              | 81.92                | 89.46                  |
| Mar .....                   | 744.64                   | 563.71           | 5.3623             | 1,075.75              | 81.94                | 90.95                  |
| Apr .....                   | 744.99                   | 576.15           | 5.3666             | 1,090.89              | 81.27                | 91.11                  |
| May .....                   | 744.44                   | 586.97           | 5.4995             | 1,088.37              | 80.98                | 92.16                  |
| Jun .....                   | 744.48                   | 612.03           | 5.6310             | 1,112.96              | 80.38                | 94.32                  |
| Jul .....                   | 745.84                   | 619.65           | 5.5354             | 1,084.83              | 79.11                | 94.17                  |
| Aug .....                   | 745.96                   | 606.87           | 5.4861             | 1,088.64              | 79.87                | 94.23                  |
| Sep .....                   | 745.84                   | 608.65           | 5.4818             | 1,100.74              | 79.91                | 95.52                  |
| Oct .....                   | 746.20                   | 621.10           | 5.4055             | 1,095.18              | 79.20                | 95.24                  |
| Nov .....                   | 745.96                   | 632.99           | 5.3441             | 1,098.13              | 78.02                | 95.28                  |
| Dec .....                   | 745.41                   | 628.76           | 5.3033             | 1,097.49              | 79.03                | 93.49                  |
| 2006 Jan .....              | 746.13                   | 616.52           | 5.3370             | 1,087.68              | 80.13                | 92.85                  |
| Feb .....                   | 746.41                   | 625.24           | 5.3030             | 1,092.90              | 79.91                | 92.62                  |
| Mar .....                   | 746.12                   | 620.76           | 5.2933             | 1,082.39              | 79.36                | 93.53                  |
| Apr .....                   | 746.17                   | 607.62           | 5.1967             | 1,073.83              | 79.93                | 95.17                  |
| May .....                   | 745.66                   | 584.53           | 5.2238             | 1,090.46              | 79.94                | 95.62                  |
| Jun .....                   | 745.65                   | 590.16           | 5.1379             | 1,086.06              | 80.72                | 94.87                  |
| Jul .....                   | 746.02                   | 588.20           | 5.0855             | 1,084.66              | 80.94                | 93.97                  |
| Aug .....                   | 746.09                   | 582.38           | 5.0233             | 1,102.59              | 81.01                | 93.36                  |
| Sep .....                   | 746.01                   | 586.16           | 5.0071             | 1,105.05              | 80.51                | 90.35                  |
| Oct .....                   | 745.55                   | 591.21           | 4.9820             | 1,108.58              | 80.57                | 88.80                  |
| Nov .....                   | 745.64                   | 578.93           | 4.9348             | 1,106.37              | 81.93                | 90.44                  |
| Dec .....                   | 745.49                   | 564.24           | 4.8154             | 1,107.96              | 82.49                | 91.39                  |

Note: Annual and monthly averages. As from 2002 the stated exchange rates are fixed on the basis of market exchange rates at 2.15 pm, whereas previously they were fixed on the basis of market exchange rates at 11.30 am. However, the SDR exchange rate is not fixed directly on the basis of market exchange rates, but calculated on the basis of a basket of currencies. This basket is determined by four currencies, and the amounts of these currencies are revised every 5 years and published by the International Monetary Fund, IMF. The latest revision was made as of 1 January 2006 and the value of the SDR is now the sum of the values of the following amounts of each currency: Dollar 0.632, euro 0.410, yen 18.4 and pound sterling 0.0903.

For a number of currencies only averages for the recent years are stated, since the Table solely comprises exchange rates fixed by Danmarks Nationalbank. The structure of the list of exchange rates is changed continuously, most recently with effect from 1 April 2005, cf. Danmarks Nationalbank, *Report and Accounts*, 2005, p. 148.

Exchange rates on a daily basis can be downloaded from [www.nationalbanken.dk](http://www.nationalbanken.dk), Market info and Statistics (Download statistics – Database).

<sup>1</sup> Historical annual and monthly averages for the euro area and the weighted ECU based on these currencies, subsequently renamed the euro, are found in Danmarks Nationalbank, *Report and Accounts*, 2001 and earlier.

<sup>2</sup> As of 1 July 2005 Romania introduced New Romanian lei (RON) as its official currency, replacing old Romanian lei (ROL).

<sup>3</sup> As of 1 January 2005 Turkey introduced New Turkish lira (TRY) as its official currency, replacing old Turkish lira (TRL).

## EXCHANGE RATES

Table 12

| Icelandic kronur (ISK) | Swiss francs (CHF) | Canadian dollars (CAD) | Australian dollars (AUD) | New Zealand dollars (NZD) | SDR (XDR) | Nominal effective krone rate (1980 = 100) |
|------------------------|--------------------|------------------------|--------------------------|---------------------------|-----------|---|
| 8.69                   | 469.65             | 425.08                 | 453.67                   | 398.76                    | 841.42    | 102.9                                     |
| 9.31                   | 455.35             | 477.44                 | 490.90                   | 437.20                    | 909.13    | 100.0                                     |
| 9.41                   | 462.37             | 452.28                 | 421.66                   | 359.66                    | 908.10    | 101.3                                     |
| 9.64                   | 464.63             | 470.26                 | 450.86                   | 369.27                    | 954.73    | 99.6                                      |
| 10.27                  | 478.68             | 544.49                 | 469.29                   | 367.89                    | 1,065.90  | 95.6                                      |
| 8.56                   | 493.47             | 537.54                 | 430.51                   | 349.85                    | 1,059.21  | 96.9                                      |
| 8.62                   | 506.47             | 501.86                 | 427.91                   | 364.87                    | 1,019.83  | 97.7                                      |
| 8.58                   | 488.88             | 470.27                 | 428.17                   | 382.69                    | 921.93    | 101.2                                     |
| 8.54                   | 481.96             | 460.64                 | 440.53                   | 397.53                    | 886.70    | 102.2                                     |
| 9.55                   | 481.30             | 496.12                 | 457.13                   | 422.41                    | 885.50    | 101.6                                     |
| 8.554                  | 474.22             | 524.24                 | 447.76                   | 386.25                    | 874.56    | 101.6                                     |
| 9.06                   | 481.00             | 463.33                 | 433.98                   | 399.67                    | 864.25    | 102.8                                     |
| 9.22                   | 480.15             | 461.52                 | 446.50                   | 409.13                    | 867.74    | 102.5                                     |
| 9.41                   | 480.68             | 463.26                 | 443.09                   | 412.00                    | 860.94    | 102.7                                     |
| 9.238                  | 481.37             | 466.18                 | 445.16                   | 414.61                    | 869.85    | 102.4                                     |
| 9.056                  | 481.89             | 467.44                 | 449.47                   | 421.62                    | 878.40    | 102.0                                     |
| 9.389                  | 483.72             | 492.75                 | 469.06                   | 433.51                    | 898.06    | 100.9                                     |
| 9.514                  | 478.77             | 506.37                 | 466.12                   | 420.63                    | 898.26    | 101.2                                     |
| 9.519                  | 480.39             | 503.42                 | 462.08                   | 422.07                    | 890.28    | 101.3                                     |
| 9.796                  | 481.32             | 516.28                 | 465.96                   | 425.85                    | 892.35    | 101.0                                     |
| 10.182                 | 481.74             | 527.43                 | 468.24                   | 433.53                    | 897.54    | 100.9                                     |
| 10.224                 | 482.87             | 535.03                 | 465.38                   | 436.59                    | 903.30    | 100.7                                     |
| 9.892                  | 481.58             | 541.07                 | 466.57                   | 436.87                    | 899.70    | 100.8                                     |
| 10.005                 | 481.55             | 532.05                 | 461.97                   | 423.60                    | 891.97    | 100.9                                     |
| 9.752                  | 479.08             | 543.92                 | 463.56                   | 420.79                    | 897.44    | 100.6                                     |
| 8.921                  | 475.52             | 536.16                 | 451.32                   | 394.09                    | 893.36    | 101.0                                     |
| 8.126                  | 473.74             | 530.68                 | 447.80                   | 378.02                    | 882.53    | 101.4                                     |
| 8.130                  | 478.90             | 526.45                 | 446.36                   | 368.91                    | 869.73    | 101.8                                     |
| 7.893                  | 477.94             | 529.52                 | 436.16                   | 364.50                    | 871.31    | 101.8                                     |
| 7.911                  | 475.58             | 521.58                 | 442.30                   | 363.11                    | 869.13    | 101.9                                     |
| 8.283                  | 472.95             | 520.39                 | 444.42                   | 369.06                    | 865.95    | 101.9                                     |
| 8.354                  | 470.95             | 525.25                 | 443.04                   | 383.58                    | 868.23    | 102.0                                     |
| 8.641                  | 468.96             | 523.74                 | 445.63                   | 391.05                    | 871.09    | 101.9                                     |
| 8.355                  | 468.30             | 509.59                 | 446.93                   | 387.12                    | 862.30    | 101.9                                     |
| 8.141                  | 466.84             | 490.08                 | 443.37                   | 390.49                    | 850.90    | 102.3                                     |

## EXCHANGE RATES

Table 12

| Danish kroner<br>per 100 units | Estonian<br>krooni<br>(EEK) | Latvian<br>lats<br>(LVL) | Lithuanian<br>litai<br>(LTL) | Polish<br>zlotys<br>(PLN) | Czech<br>koruny<br>(CZK) | Hungarian<br>forint<br>(HUF) | Hong Kong<br>dollars<br>(HKD) | Singapore<br>dollars<br>(SGD) |
|--------------------------------|-----------------------------|--------------------------|------------------------------|---------------------------|--------------------------|------------------------------|-------------------------------|-------------------------------|
| 1996 .....                     | ...                         | ...                      | ...                          | ...                       | ...                      | ...                          | ...                           | ...                           |
| 1997 .....                     | ...                         | ...                      | ...                          | ...                       | ...                      | ...                          | ...                           | ...                           |
| 1998 .....                     | ...                         | ...                      | ...                          | ...                       | ...                      | ...                          | ...                           | ...                           |
| 1999 .....                     | ...                         | ...                      | ...                          | 176.05                    | 20.19                    | 2.94                         | ...                           | ...                           |
| 2000 .....                     | ...                         | ...                      | ...                          | 186.03                    | 20.95                    | 2.87                         | ...                           | ...                           |
| 2001 .....                     | ...                         | ...                      | ...                          | 203.05                    | 21.88                    | 2.91                         | ...                           | ...                           |
| 2002 .....                     | 47.49                       | 1,279.75                 | 214.79                       | 193.07                    | 24.13                    | 3.06                         | 101.05                        | 439.96                        |
| 2003 .....                     | 47.49                       | 1,161.21                 | 215.21                       | 169.26                    | 23.34                    | 2.93                         | 84.62                         | 378.02                        |
| 2004 .....                     | 47.55                       | 1,118.83                 | 215.47                       | 164.73                    | 23.33                    | 2.96                         | 76.89                         | 354.21                        |
| 2005 .....                     | 47.63                       | 1,070.38                 | 215.82                       | 185.46                    | 25.03                    | 3.00                         | 77.20                         | 360.41                        |
| 2006 .....                     | 47.67                       | 1,071.34                 | 216.03                       | 191.58                    | 26.32                    | 2.826                        | 76.55                         | 374.17                        |
| 2005 Jan .....                 | 47.55                       | 1,068.52                 | 215.49                       | 182.40                    | 24.55                    | 3.02                         | 72.76                         | 346.10                        |
| Feb .....                      | 47.57                       | 1,069.27                 | 215.55                       | 186.71                    | 24.84                    | 3.05                         | 73.33                         | 349.00                        |
| Mar .....                      | 47.59                       | 1,069.72                 | 215.66                       | 185.94                    | 25.03                    | 3.04                         | 72.27                         | 345.90                        |
| Apr .....                      | 47.62                       | 1,070.29                 | 215.77                       | 179.35                    | 24.73                    | 3.002                        | 73.88                         | 348.69                        |
| May .....                      | 47.58                       | 1,069.51                 | 215.60                       | 178.38                    | 24.62                    | 2.953                        | 75.35                         | 355.35                        |
| Jun .....                      | 47.58                       | 1,069.63                 | 215.62                       | 183.35                    | 24.79                    | 2.990                        | 78.71                         | 365.99                        |
| Jul .....                      | 47.67                       | 1,071.53                 | 216.01                       | 181.99                    | 24.71                    | 3.026                        | 79.70                         | 368.20                        |
| Aug .....                      | 47.68                       | 1,071.74                 | 216.05                       | 184.48                    | 25.21                    | 3.051                        | 78.09                         | 364.99                        |
| Sep .....                      | 47.67                       | 1,071.53                 | 216.01                       | 190.47                    | 25.44                    | 3.034                        | 78.41                         | 362.05                        |
| Oct .....                      | 47.69                       | 1,071.32                 | 216.11                       | 190.23                    | 25.15                    | 2.963                        | 80.07                         | 367.12                        |
| Nov .....                      | 47.67                       | 1,071.33                 | 216.04                       | 187.91                    | 25.49                    | 2.972                        | 81.63                         | 372.68                        |
| Dec .....                      | 47.64                       | 1,069.88                 | 215.89                       | 193.61                    | 25.73                    | 2.950                        | 81.09                         | 375.44                        |
| 2006 Jan .....                 | 47.69                       | 1,071.95                 | 216.09                       | 195.33                    | 25.98                    | 2.976                        | 79.51                         | 377.59                        |
| Feb .....                      | 47.70                       | 1,072.30                 | 216.18                       | 196.73                    | 26.28                    | 2.967                        | 80.57                         | 383.81                        |
| Mar .....                      | 47.69                       | 1,071.93                 | 216.09                       | 192.15                    | 26.04                    | 2.861                        | 80.00                         | 382.91                        |
| Apr .....                      | 47.69                       | 1,072.02                 | 216.11                       | 190.57                    | 26.19                    | 2.812                        | 78.34                         | 379.66                        |
| May .....                      | 47.66                       | 1,071.28                 | 215.96                       | 191.60                    | 26.36                    | 2.843                        | 75.38                         | 370.64                        |
| Jun .....                      | 47.66                       | 1,071.28                 | 215.95                       | 185.09                    | 26.27                    | 2.735                        | 76.01                         | 370.69                        |
| Jul .....                      | 47.68                       | 1,071.84                 | 216.06                       | 186.71                    | 26.22                    | 2.689                        | 75.66                         | 371.47                        |
| Aug .....                      | 47.68                       | 1,072.01                 | 216.08                       | 191.09                    | 26.46                    | 2.719                        | 74.89                         | 369.62                        |
| Sep .....                      | 47.68                       | 1,071.77                 | 216.06                       | 188.16                    | 26.28                    | 2.719                        | 75.32                         | 371.14                        |
| Oct .....                      | 47.65                       | 1,071.09                 | 215.93                       | 191.11                    | 26.35                    | 2.792                        | 75.93                         | 374.57                        |
| Nov .....                      | 47.66                       | 1,069.83                 | 215.95                       | 194.95                    | 26.60                    | 2.881                        | 74.39                         | 371.94                        |
| Dec .....                      | 47.65                       | 1,068.62                 | 215.91                       | 195.54                    | 26.84                    | 2.935                        | 72.59                         | 366.27                        |

## EXCHANGE RATES

Table 12

| Bulgarian<br>leva<br>(BGN) | Cyprus<br>pounds<br>(CYP) | Maltese<br>liri<br>(MTL) | Romanian<br>lei<br>(RON) <sup>2</sup> | Slovakian<br>koruny<br>(SKK) | Slovenian<br>tolars<br>(SIT) | Turkish<br>liras<br>(TRY) <sup>3</sup> | South<br>Korean<br>won<br>(KRW) |
|----------------------------|---------------------------|--------------------------|---------------------------------------|------------------------------|------------------------------|--|---------------------------------|
| ...                        | ...                       | ...                      | ...                                   | ...                          | ...                          | ...                                    | ...                             |
| ...                        | ...                       | ...                      | ...                                   | ...                          | ...                          | ...                                    | ...                             |
| ...                        | ...                       | ...                      | ...                                   | ...                          | ...                          | ...                                    | ...                             |
| ...                        | 1,284.63                  | ...                      | ...                                   | ...                          | 3.82                         | ...                                    | 0.5881                          |
| ...                        | 1,298.73                  | ...                      | ...                                   | ...                          | 3.61                         | ...                                    | 0.7160                          |
| 382.50                     | 1,294.10                  | 1,849.01                 | 0.0287                                | 17.21                        | 3.42                         | 0.0007242                              | 0.6449                          |
| 381.21                     | 1,291.67                  | 1,817.41                 | 0.0239                                | 17.41                        | 3.29                         | 0.0005265                              | 0.6324                          |
| 381.26                     | 1,272.34                  | 1,744.45                 | 0.0198                                | 17.91                        | 3.18                         | 0.0004399                              | 0.5535                          |
| 380.88                     | 1,278.80                  | 1,738.48                 | <u>0.0184</u>                         | 18.59                        | 3.11                         | <u>0.0004199</u>                       | 0.5231                          |
| 381.02                     | 1,292.11                  | 1,733.39                 | ...                                   | 19.31                        | 3.11                         | 445.32                                 | 0.5861                          |
| 381.38                     | 1,295.48                  | 1,737.50                 | 211.61                                | 20.05                        | 3.113                        | 415.74                                 | 0.6226                          |
| 380.42                     | 1,279.09                  | 1,721.41                 | 0.0195                                | 19.29                        | 3.10                         | 418.56                                 | 0.5464                          |
| 380.53                     | 1,276.30                  | 1,727.18                 | 0.0203                                | 19.56                        | 3.10                         | 435.17                                 | 0.5595                          |
| 380.72                     | 1,276.96                  | 1,724.67                 | 0.0205                                | 19.49                        | 3.11                         | 430.19                                 | 0.5599                          |
| 381.02                     | 1,278.19                  | 1,733.05                 | 0.0205                                | 19.00                        | 3.109                        | 422.41                                 | 0.5702                          |
| 380.56                     | 1,287.92                  | 1,734.17                 | 0.0206                                | 19.09                        | 3.108                        | 428.05                                 | 0.5857                          |
| 380.65                     | 1,296.89                  | 1,734.18                 | <u>0.0206</u>                         | 19.32                        | 3.109                        | 449.62                                 | 0.6047                          |
| 381.35                     | 1,300.12                  | 1,737.35                 | 209.24                                | 19.18                        | 3.114                        | 462.33                                 | 0.5974                          |
| 381.42                     | 1,301.37                  | 1,737.64                 | 212.97                                | 19.29                        | 3.114                        | 451.25                                 | 0.5942                          |
| 381.35                     | 1,301.73                  | 1,737.35                 | 212.52                                | 19.39                        | 3.115                        | 453.99                                 | 0.5913                          |
| 381.51                     | 1,301.84                  | 1,738.17                 | 207.30                                | 19.17                        | 3.115                        | 456.94                                 | 0.5938                          |
| 381.42                     | 1,300.69                  | 1,737.62                 | 204.14                                | 19.29                        | 3.115                        | 465.30                                 | 0.6083                          |
| 381.14                     | 1,299.86                  | 1,736.35                 | 203.73                                | 19.68                        | 3.112                        | 464.79                                 | 0.6149                          |
| 381.49                     | 1,300.42                  | 1,738.00                 | 204.71                                | 19.90                        | 3.115                        | 461.78                                 | 0.6270                          |
| 381.64                     | 1,299.55                  | 1,738.67                 | 210.92                                | 19.96                        | 3.117                        | 471.55                                 | 0.6446                          |
| 381.49                     | 1,296.91                  | 1,737.99                 | 212.73                                | 19.91                        | 3.115                        | 464.34                                 | 0.6367                          |
| 381.52                     | 1,295.19                  | 1,738.12                 | 213.86                                | 19.97                        | 3.114                        | 455.48                                 | 0.6383                          |
| 381.25                     | 1,296.45                  | 1,736.91                 | 212.75                                | 19.86                        | 3.112                        | 410.26                                 | 0.6209                          |
| 381.25                     | 1,296.69                  | 1,736.89                 | 210.00                                | 19.58                        | 3.111                        | 368.49                                 | 0.6178                          |
| 381.44                     | 1,297.42                  | 1,737.75                 | 208.89                                | 19.44                        | 3.113                        | 378.58                                 | 0.6186                          |
| 381.48                     | 1,295.64                  | 1,737.93                 | 211.54                                | 19.81                        | 3.114                        | 396.88                                 | 0.6059                          |
| 381.44                     | 1,294.02                  | 1,737.74                 | 211.49                                | 19.90                        | 3.114                        | 395.42                                 | 0.6152                          |
| 381.20                     | 1,292.75                  | 1,736.67                 | 211.86                                | 20.26                        | 3.112                        | 399.77                                 | 0.6201                          |
| 381.25                     | 1,290.70                  | 1,736.88                 | 213.32                                | 20.78                        | 3.111                        | 397.02                                 | 0.6188                          |
| 381.17                     | 1,289.55                  | 1,736.53                 | 218.40                                | 21.32                        | 3.111                        | 394.08                                 | 0.6099                          |

## EXCHANGE RATES

Table 12

| Danish kroner<br>per 100 units | South<br>African<br>rand<br>(ZAR) | Croatian<br>kuna<br>(HRK) | Russian<br>roubles<br>(RUB) | Thai<br>baht<br>(THB) | Malaysian<br>ringgit<br>(MYR) | Philippine<br>pesos<br>(PHP) | Indonesian<br>rupiah<br>(IDR) | Chinese<br>yuan<br>renminbi<br>(CNY) |
|--------------------------------|-----------------------------------|---------------------------|-----------------------------|-----------------------|-------------------------------|------------------------------|-------------------------------|--------------------------------------|
| 1996 .....                     | ...                               | ...                       | ...                         | ...                   | ...                           | ...                          | ...                           | ...                                  |
| 1997 .....                     | ...                               | ...                       | ...                         | ...                   | ...                           | ...                          | ...                           | ...                                  |
| 1998 .....                     | ...                               | ...                       | ...                         | ...                   | ...                           | ...                          | ...                           | ...                                  |
| 1999 .....                     | 114.22                            | ...                       | ...                         | ...                   | ...                           | ...                          | ...                           | ...                                  |
| 2000 .....                     | 116.75                            | ...                       | ...                         | ...                   | ...                           | ...                          | ...                           | ...                                  |
| 2001 .....                     | 98.02                             | ...                       | ...                         | ...                   | ...                           | ...                          | ...                           | ...                                  |
| 2002 .....                     | 75.07                             | ...                       | ...                         | ...                   | ...                           | ...                          | ...                           | ...                                  |
| 2003 .....                     | 87.52                             | ...                       | ...                         | ...                   | ...                           | ...                          | ...                           | ...                                  |
| 2004 .....                     | 93.05                             | ...                       | ...                         | ...                   | ...                           | ...                          | ...                           | ...                                  |
| 2005 .....                     | 94.17                             | ...                       | ...                         | ...                   | ...                           | ...                          | ...                           | ...                                  |
| 2006 .....                     | 88.38                             | 101.83                    | 21.87                       | 15.68                 | 162.08                        | 11.60                        | 0.0649                        | 74.58                                |
| 2005 Jan .....                 | 94.94                             | ...                       | ...                         | ...                   | ...                           | ...                          | ...                           | ...                                  |
| Feb .....                      | 95.03                             | ...                       | ...                         | ...                   | ...                           | ...                          | ...                           | ...                                  |
| Mar .....                      | 93.61                             | ...                       | ...                         | ...                   | ...                           | ...                          | ...                           | ...                                  |
| Apr .....                      | 93.52                             | 100.80                    | 20.71                       | 14.57                 | 151.62                        | 10.58                        | 0.0603                        | 69.61                                |
| May .....                      | 92.34                             | 101.60                    | 21.00                       | 14.73                 | 154.47                        | 10.80                        | 0.0619                        | 70.92                                |
| Jun .....                      | 90.60                             | 101.75                    | 21.46                       | 14.95                 | 161.03                        | 11.08                        | 0.0635                        | 73.95                                |
| Jul .....                      | 92.33                             | 102.05                    | 21.59                       | 14.86                 | 163.61                        | 11.07                        | 0.0632                        | 75.38                                |
| Aug .....                      | 93.82                             | 101.24                    | 21.31                       | 14.74                 | 161.41                        | 10.85                        | 0.0608                        | 74.91                                |
| Sep .....                      | 95.71                             | 100.27                    | 21.45                       | 14.83                 | 161.50                        | 10.85                        | 0.0595                        | 75.22                                |
| Oct .....                      | 94.31                             | 101.08                    | 21.74                       | 15.18                 | 164.62                        | 11.17                        | 0.0616                        | 76.78                                |
| Nov .....                      | 95.05                             | 101.09                    | 21.99                       | 15.39                 | 167.52                        | 11.61                        | 0.0630                        | 78.30                                |
| Dec .....                      | 98.82                             | 100.89                    | 21.82                       | 15.30                 | 166.41                        | 11.75                        | 0.0638                        | 77.86                                |
| 2006 Jan .....                 | 101.10                            | 101.14                    | 21.74                       | 15.56                 | 164.26                        | 11.74                        | 0.0650                        | 76.43                                |
| Feb .....                      | 102.15                            | 101.98                    | 22.16                       | 15.88                 | 167.79                        | 12.08                        | 0.0676                        | 77.66                                |
| Mar .....                      | 99.27                             | 101.79                    | 22.27                       | 15.93                 | 167.62                        | 12.13                        | 0.0678                        | 77.26                                |
| Apr .....                      | 99.93                             | 102.06                    | 22.07                       | 16.00                 | 166.01                        | 11.82                        | 0.0681                        | 75.81                                |
| May .....                      | 92.81                             | 102.50                    | 21.60                       | 15.40                 | 161.88                        | 11.22                        | 0.0649                        | 72.93                                |
| Jun .....                      | 84.29                             | 102.74                    | 21.84                       | 15.37                 | 160.95                        | 11.10                        | 0.0630                        | 73.71                                |
| Jul .....                      | 83.01                             | 102.89                    | 21.85                       | 15.48                 | 160.34                        | 11.25                        | 0.0644                        | 73.61                                |
| Aug .....                      | 83.83                             | 102.36                    | 21.77                       | 15.48                 | 158.48                        | 11.35                        | 0.0640                        | 73.05                                |
| Sep .....                      | 78.93                             | 100.89                    | 21.91                       | 15.66                 | 159.67                        | 11.65                        | 0.0641                        | 73.89                                |
| Oct .....                      | 77.31                             | 100.87                    | 22.00                       | 15.84                 | 160.72                        | 11.83                        | 0.0644                        | 74.82                                |
| Nov .....                      | 79.66                             | 101.47                    | 21.77                       | 15.85                 | 158.91                        | 11.62                        | 0.0634                        | 73.62                                |
| Dec .....                      | 80.09                             | 101.34                    | 21.46                       | 15.79                 | 158.93                        | 11.42                        | 0.0621                        | 72.13                                |