

Nils Bernstein: Denmark's thoughts on the euro – a central banker's view

Statement by Mr Nils Bernstein, Governor of the National Bank of Denmark, in connection with the euro consultation of the European Affairs Committee of the Folketing (Danish parliament), Copenhagen, 22 January 2009.

The spoken version is the final version.

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Danish participation in the euro can be expected to lead to slightly lower interest rates, a small increase in foreign trade and lower transaction costs. In normal, calm periods, interest rates will be only marginally lower than under the current fixed-exchange-rate regime. In turbulent periods such as the present one, the spread widens, often at a rather inopportune time, since the widening may go hand in hand with other negative factors affecting the real economy.

Over a longer horizon, adopting the euro will have a certain positive overall effect on growth in Denmark. But it is difficult to quantify this effect, which is hardly likely to be felt in the short term.

Since the introduction of the euro in 1999, Denmark has performed well outside the euro area. This is due to our stability-oriented economic policy with focus on medium-term objectives and reforms to improve the structure of our society, not least the labour market. It is important that Denmark continues along this path – even if we eventually join the euro.

The main reason for establishing the euro was to create a foundation for sustainable economic growth by way of stable prices and an area with irrevocably fixed exchange rates. With its fixed-exchange-rate policy vis-à-vis the euro, Denmark has benefitted from this foundation.

In the current situation with a financial crisis and a global economic slowdown, the Economic and Monetary Union demonstrates its strength. The single currency and single monetary policy are stabilising factors that prevent the individual member states from seeking their own – often mutually competitive – monetary solutions to the crisis. This would only make it escalate further, as we saw in the 1970s.

It is and has been the general view of Danmarks Nationalbank that Denmark's adoption of the euro is a natural extension of our fixed-exchange-rate policy and would not involve major economic upheavals.

For Danmarks Nationalbank, Danish participation in the euro would mean joining the Eurosystem, which comprises the central banks of the euro area member states. The Chairman of the Board of Governors of Danmarks Nationalbank would be given a seat on the Governing Council of the ECB. This would give us a say in relation to monetary policy and other key decisions concerning monetary conditions in the euro area.

Today, I am a member of the General Council of the ECB, which meets every three months. This is mainly a forum for discussing and exchanging analyses of recent economic and monetary trends.

Denmark's status as a non-euro area member state excludes us from a number of decisions, even though they are highly relevant to us. This applies to interest-rate decisions, of course, which affect us directly owing to our fixed-exchange-rate policy. It also applies to e.g. the agreement with the Federal Reserve to provide dollar liquidity to euro area banks at an early stage of the financial crisis. It took some time before we were able to present a similar agreement for the Danish banks.

I could list a number of other examples. Recently the Governing Council has thus agreed on standard-setting recommendations for the structure and pricing of government guarantees

and capital injections in the banking sector. Likewise, the Governing Council has laid down rules for how EU central banks can deposit money in publicly owned banks. And decisions have been made concerning financial assistance from the ECB to Eastern and Central Europe.

These examples show that not only interest-rate decisions, but also many other decisions made by the Governing Council have a direct impact on us – and yet we have no influence on these decisions, or even insight into the rationale behind them.

In addition, the ECB is responsible for the second-largest currency in global terms and is therefore increasingly represented in international forums, where it influences global monetary issues.

The regulatory consequences of the financial crisis are being debated strongly at the moment – in the ECOFIN Council and the Eurogroup, in the Basel Committee, in the Financial Stability Forum, in the IMF and in G7, G20, etc. The outcome of these discussions will have a major impact on the structure of the financial markets and regulation and supervision of financial institutions, including the whole issue of supervising cross-border banks, funds and so forth.

It would definitely be in Denmark's interest to participate in, influence and be informed of such discussions. The ECB is an important actor on this stage. I am aware that our opportunities to exert influence should not be exaggerated, but needless to say the opportunities are greater if we actually take part in the discussions.

Participation in the Governing Council is not limited to merely safeguarding Denmark's interests. It is a question of putting a Danish fingerprint on the key discussions and decisions that are shaping and developing the monetary-policy framework for the euro area and this area's influence on global economic policy in a broader sense.

The Governing Council of the ECB has decided that when the number of euro area member states reaches 19, i.e. three more than at present, it will introduce a rotation system in relation to voting in the Governing Council, as is already the case in the Federal Reserve. When this system is introduced, the central-bank governors of all euro area member states will, for short periods, be unable to vote in the Governing Council, but they will all participate fully in the meetings and be entitled to speak. In my assessment, this system will not significantly reduce the influence of the individual central-bank governors in the Governing Council.