

SPEECH
BY GOVERNOR LARS ROHDE AT THE ECB
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CHECK AGAINST DELIVERY

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Ladies and gentlemen,

First let me thank you for inviting me to speak at this conference. It is a special pleasure to have this chance to share views and experiences on a matter close to my heart – namely Danish monetary policy and communication.

Slide 2: Never explain – never apologize

"Never explain – never apologize": It has been said that it was the motto of the Bank of England from 1920 to 1944 when the bank was led by Governor Norman.

It has also been said that Norman – somewhat of a character – enjoyed the secrecy and the mystery that the role of a central banker enabled him to have. He often adopted a false identity when travelling. Central bankers preferred to operate in secret back then.

Like a sphinx, many central bankers like to be mysterious and inscrutable.

But when it comes to communication, a lot has changed since then. Central banks' most powerful tool today is still their ability to set interest rates, but communication has come very high on the agenda.

Today we see open-mouth operations conducted by the Federal Reserve and other central banks and they are using forward guidance as an effective tool.

By doing so, usually others in the financial industry will take the appropriate actions.

It underscores the power of the communication tool.

Slide 3: Five lines about a new monetary policy

When Denmark in 1982 decided to stop a decade-long tradition of devaluating the Danish krone to counter past policy mistakes, the announcement was a one-pager – five lines announced the big news.

It was in fact one of the biggest news about Danish monetary policy for many years, but it was told in five lines and sent by the government to newspapers and the national news agency in Copenhagen. The Danish central bank did not publish a press release, or anything else, and it was not mentioned in its annual report with a single word.

It's hard to understand today. An epoch-making event like Denmark's decision to quit decades with devaluations of the Danish krone was announced in a few words.

It's quite clear for everybody that a lot of things moved slower 35 years ago. Financial markets were not as tense as they are today and neither Twitter nor Facebook were even invented.

Denmark has ever since shown both the will and the ability to pursue a fixed exchange-rate policy.

Another big event in the Danish monetary-policy history took place in the beginning of 2015.

Slide 4: Sharp increase in foreign-exchange reserves

Out of the grey sky, on a cold and dull Thursday in January 2015, the Swiss national bank announced that it would abandon the floor of the Swiss franc against the euro. As some of you might remember, Denmark experienced a massive inflow of currency shortly after this announcement. And over the following weeks, we saw unusual turbulence in the Danish foreign-exchange market.

The massive currency inflow led to a strong appreciation pressure on the exchange rate. The Swiss decision seems to have led some investors to look for comparable candidates to abandon a peg. There are not many countries to look for. These investors would make a substantial profit if the fixed exchange-rate policy were to be abandoned and the krone appreciated.

We then decided to activate a Danish version of open-mouth operation. After we had cut the deposit rate four times in three weeks in the beginning of 2015 to an unprecedented low of -0.75 per cent, and the govern-

ment decided to suspend issuance of government bonds temporarily we launched a targeted communication effort.

It was a critical moment and it was crucial to deliver the message that we had no plans to give up the fixed exchange regime at all – and deliver the message without blinking an eye.

Sales of kroner by Danmarks Nationalbank were historically large in early 2015. The volume sold within just over one month totalled 275 billion kroner – corresponding to 37 billion euros. It resulted in the sharp increase of the foreign-exchange reserves as you can see on the slide.

During the hours after the interest-rate decision I spoke with a lot of media outlets. Again and again I told the journalists that we had unlimited amounts of kroner available and we could let the currency reserves grow indefinitely. It is an option that we could use and it was unlimited since the interest differential between DKK and euro resulted in net profit on the currency reserves.

... And the communication worked as intended.

Slide 5: Rohde among sharks

In other words: We were and are ready to do whatever it takes.

It was an unusual situation and with negative interest rates as low as -0.75 per cent we were in unknown territory, but the open-mouth operation worked as intended.

We have had negative rates for some years now and so far their implications have been far less exciting or radical than some might have thought before entering the negative territory. Basically, negative interest rates have just been a continuation of low interest rates.

Slide 6: Denmark is an ECB copycat

Today, nearly three years after the massive inflow of currency, it is clear for most people that Denmark is not Swiss national bank copycats – we are ECB copycats.

If the Danish central bank again should be in a situation where highly targeted communication becomes necessary we will consider various options and use whatever it takes to get the message out.

Slide 7: Target groups for the communication

Nowadays our communication is not only targeting people in the financial markets. We have started a journey on which we aim to communicate much broader and wish to reach all Danes in an effort to pave the way for their understanding of why there is a central bank and what we are doing.

We are not publishing traditional quarterly review anymore. The publication has been cut into slices and is now released on an ongoing basis. We are now working with five different target groups: The professionals, the public servants, the academic community, the journalist and the politician. Publications are edited and targeted to audience groups.

Next step is the public and we expect to use the 200 anniversary of the Danish central bank next year to reach out to the Danes.

We have so far received positive response to the new strategy.

Are we going to see a central-bank governor using Twitter or Facebook to announce personal and professional matters? I'm not able to answer that question. What I know is, that Danmarks Nationalbank will use all appropriate communication channels but from my point of view too much information could devalue the message.

Communication is a powerful tool but it should be used in a clever way and with caution.

Thank you for your attention!