

SPEECH

BY GOVERNOR LARS ROHDE AT THE 200TH ANNIVERSARY OF DANMARKS NATIONALBANK IN 2018

CHECK AGAINST DELIVERY

4 July 2018

Your Majesty.

Dear guests.

Danmarks Nationalbank was established 200 years ago. Just across the canal from here.

Danmarks Nationalbank's main building was located in what is now Slotsholmsgade.

It had simply been built across the middle of the street. You could not avoid it.

Seen from Danmarks Nationalbank's perspective, its position made good sense.

On one side was the "Red Building", which even back then housed the Ministry of Finance. On the other side, the bank was joined to Christian IV's old Stock Exchange.

The newly established central bank was a large enterprise. It had around 50 employees. But it also had an important task.

The Danish economy was in a state of chaos. It had to be sorted out.

Inflation was soaring when the war ended. It had to be reduced.

There was widespread lack of trust. Trust had to be restored.

But how had this situation arisen?

The British bombardment of Copenhagen. The state bankruptcy. We remember these events from our history lessons.

Denmark had been at war. That was expensive.

We had lost. That made matters even worse.

Enormous government budget deficits had been financed by printing more money. Prices of staples – grain, butter and meat – rose by more than 300 per cent in one year.

In recent times, this has been surpassed only in countries such as Venezuela and Zimbabwe.

And who are the greatest losers when the economy is in a shambles? Ordinary people.

There was every reason to establish a central bank. Tasked with ensuring that the value of money remains stable.

So that people know what their wages are worth. That they can trust the country's means of payment. And save or borrow money when they need it.

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Trust in the value of money is a cornerstone of all societies at all times.

To illustrate that, let me tell you a little story from my own family's past.

Not because I imagine that my family's history is special. But precisely because it is so ordinary.

Many of you could probably tell similar stories. If not, you should talk to your older family members while you still have the chance.

My paternal grandfather had a market garden near the town of Skive. He and my grandmother had 13 children. That was not unusual back then.

She was considerably younger than he was. That was also fairly common.

In 1917, my grandfather sold the market garden and bought a small house in Skive. By then he was 70.

Those of you who are good at adding up numbers may be surprised to hear that my grandfather was that old. Even though I am not exactly a

spring chicken myself. But men in my family have been a bit slow to pass on their genes.

My point is that my grandfather was convinced that there would be enough money for him and his family to live comfortably for the rest of their lives.

He was wrong.

Wartime inflation eroded my grandfather's savings.

Every krone he had carefully saved up during a life of hard work lost more and more of its value.

After his death, my grandmother had to let the best part of the house. And move into the attic herself.

Basically, it is the same story as in the years after the Napoleonic wars. Wartime inflation. Lack of trust. Uncertainty for ordinary people.

Building up confidence takes a long time. And it can be lost very quickly.

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Danmarks Nationalbank's history is Denmark's history.

Let me jump some decades forward in time. To the 1970s and early 1980s.

When Denmark was "heading towards an abyss".

I am so old that I was already an adult then. And when I look at you who are present today, I think that many of you also remember those times.

High unemployment. Large government budget deficits. Escalating foreign debt. Very fundamental problems. That could not be solved by means of devaluation.

This was gradually acknowledged.

1982 was a turning point. Poul Schlüter and Henning Christophersen were forming a government. And they issued a "joint statement" as they called it.

The statement said – and I quote – "*devaluation is not part of and will not be part of the economic policy pursued*". End of quote.

In other words: they would conduct a fixed exchange rate policy.

Not everyone believed them. Perhaps Danmarks Nationalbank didn't either.

At least it is remarkable that Danmarks Nationalbank's report for that year mentions the fixed exchange rate policy only briefly, almost casually.

I know that for certain. Because I was the young economist who wrote the draft for the Report of the Board of Governors. Or rather, the first 27 drafts. That was how the process was then.

But I may add in my own defence – and in defence of the Board of Governors at the time: there was scarcely anyone who could predict the significance of the fixed exchange rate policy at that time.

In principle it was actually quite simple. The politicians just had to keep their promises.

And that is what they did. To everyone's surprise.

Since then, the exchange rate has *not* been part of the political toolbox.

The fixed exchange rate policy was most recently put to the test in 2015. When capital flowed **into** Denmark. That was, basically, a positive problem. And presumably it was not the sort of pressure against the krone that the fathers of the fixed exchange rate policy had imagined.

In the winter of 2015, the government, policy-makers, economic experts, the business community, Danmarks Nationalbank and the banks stood shoulder to shoulder.

I would like to express my appreciation of that.

Denmark's fixed exchange rate policy has stood the test of time. Because we all agree to defend it.

It has tied us closely to the euro. So closely that Denmark is, to all intents and purposes, a euro area member state.

But **with** exchange fees. And **without** influence. But that is another story.

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Let me highlight one final period in the history of Denmark. And of Danmarks Nationalbank. After all, we have to cover 200 years.

The financial crisis in 2008.

In the period leading up to the crisis, the banks happily lent money to anyone. Perhaps also to people who were not planning to pay it back.

As a result, the banks became so financially vulnerable that the only ones they would never have lent any money were probably themselves.

House prices skyrocketed. The volume of lending soared. Politicians and everyone else should have seen the warning signs.

Danmarks Nationalbank was criticised for not having issued sufficiently loud and clear warnings.

Now we attempt to communicate more clearly. And sometimes we are also criticised for that.

Unfortunately, the financial crisis was an example of how the foundation for bad times is laid in good times. We have a tendency to focus on the favourable short-term outlook. We do not lift our heads and see the flames building up on the horizon.

Right now – in 2018 – the economy is booming again.

I suppose we should be pleased. All the same, I reserve the right also to be concerned in good times.

During the financial crisis, the Danish government had to issue guarantees for kr. 4,200 billion. That is – believe it or not – 2½ times Denmark's gross domestic product. That was what it took to rescue the banking sector and the Danes' deposits.

We don't want to end up in that situation again!

The financial crisis showed that regulation is all-important if we are to have a robust financial sector.

But also that regulation has a built-in paradox:

In a world **without** regulation, trust is generally **low**. So a bank must be extremely strong if customers are to have confidence in it.

In a world **with** regulation, trust in the financial system is **high**. And individual banks may be weak and just free-wheel.

For many people – including myself – the financial crisis made it very clear that we had created a system where the banks reap the gains in good times. But when things go wrong, society and the tax-payers are left to foot the bill.

In other words: in good times we have capitalism. In bad times – socialism.

Surely, there is something wrong.

If a craftsman or an industrial enterprise is imprudent, the firm will close. Owners and creditors will have to pay for the mismanagement and gambles.

That is how it should be! Also for banks!

That is why Danmarks Nationalbank wants regulation that will allow banks to fail without passing the bill to society and its citizens. And we are moving in that direction.

Tax-payers should not pay for the banks' spirit of adventure.

And for society it is of paramount importance that the financial system functions. That it is possible to borrow. That it is possible to save. That the value of money can be trusted. Also during a banking crisis.

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Ultimately it is about making people feel secure.

It is not about us who are sitting here in the Banking Hall today. But about all those outside this room.

All those who are at work or at home – or who have gone on holiday. And who may not even know that Danmarks Nationalbank is 200 years old today. It was certainly a surprise to some of the people in the video shots we just saw.

And that is okay – although we have actually done quite a lot to advertise this anniversary. A wish that was also expressed in the video.

But basically, money and banks should simply function. Ordinary people should not have to worry about that.

You might say that when we do our work well here at Danmarks Nationalbank, we are invisible to most Danes.

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Except in one respect. Wherever we have become less visible in recent years.

Banknotes and coins.

Do you remember the first 25-øre coins with a hole? Or the 10-krone banknote with Hans Christian Andersen? Many of you also know what a "ploughman" is. Banknotes and coins are highly visible. They are part of our shared memory.

But today only one tenth of private consumption is paid for in cash.

I don't think Denmark is about to become a cashless society – at least not in my lifetime. But we will have a future where fewer choose to pay with cash.

Issuing cash is probably the task that most people know Danmarks Nationalbank for. What many may not know about is that we are also the centre that keeps the electronic payment circuit running.

We own and operate an online bank for the commercial banks and together with the financial sector we have developed systems that have paved the way for the Dankort. Betalingsservice. MobilePay. Instant payments. Electronic securities.

Exchanging payments is constantly becoming cheaper, easier and faster. At least for payments in Danish kroner.

But when we need to transfer amounts in other currencies, it is expensive and cumbersome.

In that situation we may cast envious glances at the countries that have a single currency where citizens and enterprises avoid exchange fees when they trade with each other.

The way we pay today is not the same as it was 200 years ago.

But in one respect it has not changed: money and payments is based on trust.

Nor will banks be the same in the future as they are today. And to be honest, I don't care what a bank looks like – physically. It does not have to resemble a Greek temple.

But the function carried out by banks will always be required.

What matters to me is that banking operations are subject to solid regulation. So that people can feel secure.

So I find it difficult to imagine a future without a need for a central bank.

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It is my hope that when Danmarks Nationalbank celebrates a new anniversary 100 years from now, our great- and great-great-grandchildren will be living in a society that is even more affluent and offers even more opportunities than ours.

What will that require?

Well, basically, we need to be aware of how we became prosperous.

Denmark is a small country. We do not have large deposits of raw materials.

Our wealth was created by exploiting the opportunities the world offers. Via international trade. Free flows of capital. Inspiration from other countries.

But we cannot just assume that the door to the world will always be open. In these years, some people want to slam that door.

Some want to shut off trade with other countries. Shut down partnerships. Shut out the world.

That will not benefit small countries. It will never benefit Denmark.

Over the last 200 years, we have become far more prosperous. In terms of real wages, we are 17 times as rich as we were 200 years ago.

We have greater opportunities. This is because we are an open country.

Denmark may be surrounded by water, but we are not an island that is isolated from the rest of the world.

We should appreciate the opportunities the world offers us. But we should also be aware that the stable monetary system which we may regard as a law of nature can by no means be taken for granted.

We live in an age when fake news and distrust are flourishing.

So one of the most important future tasks is to protect Danmarks Nationalbank's credibility. That requires continued political determination.

For who are the greatest losers if the world becomes more closed? If stability is jeopardised? If trust is lacking?

The answer is ordinary people, who can no longer trust the value of the money they have earned.

That is why Danmarks Nationalbank should always be a little concerned. Even in optimistic times – especially in optimistic times – as this is when we must prepare for the day when dark clouds appear on the horizon.

A secure currency for the Danes. That has been our aim for 200 years. From the Napoleonic wars until today.

In that respect Danmarks Nationalbank is banker to all of Denmark.

Thank you for joining us in celebrating our first 200 years. Together we must defend openness. Trust. And security and stability.

Thank you.