

# Research Denmark

## Do not expect changes to exchange rate peg

- The surge in inflation has triggered more debate about the peg of DKK to EUR than we have seen in a generation.
- However, we are far away from a change in mainstream opinion and a change in policy is highly unlikely, in our view.

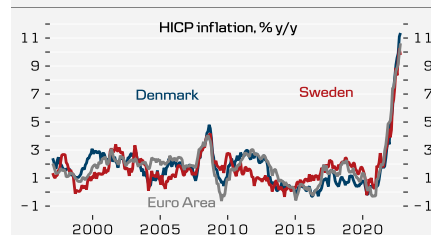
Inflation in Denmark has surged to 10.1% in October (by the national CPI definition), and as in many other countries, this has triggered debate over monetary policy. In Denmark's case, this policy is a peg to the euro, which has been successful in stabilising inflation in Denmark as long as inflation was stable in the euro area. In recent months, some academics (for example [here](#)), the free-market think tank CEPOS ([link here](#)) and former government minister Søren Pind ([here](#)) have argued that there should at least be a discussion about whether the fixed exchange rate policy is still the right choice, basically arguing that the ECB might not be up to the task of securing low inflation. Given Denmark's large current account surplus, a stronger DKK could be a way to dampen domestic price pressures.

By our judgement, this is the most debate about the fixed exchange rate policy that we have seen since at least the ERM crisis in 1992. However, it is still marginalised. As far as we can tell, most mainstream academics, government officials, the vast majority of politicians and the central bank continue to support the policy. A decision to change it would have to be made by the government, and we see it as highly unlikely that a government would go against the recommendation of virtually all its advisors, irrespective of who forms the government after the negotiations currently ongoing after the election on November 1.

Danmarks Nationalbank hosted a conference on October 31 to mark the 40th anniversary of the fixed exchange rate policy. In her concluding [speech](#), Governor Signe Krogstrup argued: "The fixed exchange rate regime has advantages and drawbacks. I believe that the balance of these is such that the regime will continue to serve us well. Most importantly, the fixed exchange rate policy provides a simple, credible and transparent nominal anchor for monetary policy, resting on the commitment and credibility built over 40 years of experience."

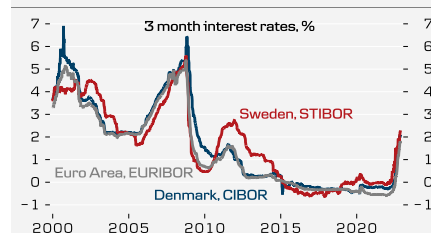
It is unlikely, in our view, that the inflation outcome in Denmark would have been substantially different if the Nationalbank had had an inflation target rather than an exchange rate target. Regardless of whether one thinks that the cause of high inflation in the euro area is a policy mistake by the ECB or unforeseeable factors (or some combination) we see little reason why those policies and factors would be different in a Denmark with a floating currency. Developments are similar in most advanced economies. In particular, Sweden, which has many similarities to Denmark but a floating currency, has a very similar inflation profile. It is far from obvious that ending the exchange rate peg would lead to a better inflation outcome, while it is clear that it would have costs. One major cost would be to the businesses and investors who rely on the policy continuing in their hedging and pricing strategies. Another cost would be losing the credibility the Nationalbank has built around the policy over 40 years. A new target such as an inflation target could also be credible of course, but it would take time and effort to achieve.

### Parallel inflation



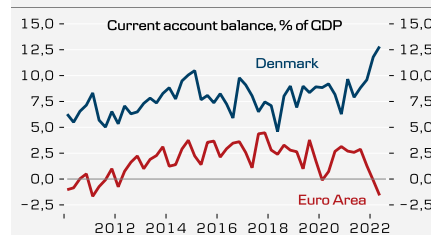
Source: Macrobond Financial

### Broadly parallel interest rates



Past performance is not a reliable indicator of current or future results. Source: Macrobond Financial

### A floating DKK could be strong



Source: Macrobond Financial

#### Chief Economist

Las Olsen  
+45 45 14 14 94  
laso@danskebank.dk

### The fixed exchange rate policy

EUR/DKK is pegged at 7.46038 with a +/- 2.25% tolerance band, which Danmarks Nationalbank and the ECB are both committed to maintain under a special Danish version of the ERMII agreement. In practice, the Nationalbank maintains a much narrower band of around +0.2% and -0.3%. When the exchange rate approaches these limits, the Nationalbank will normally react first with intervention in the FX market, and if the pressure persists, by adjusting the interest rate difference to the euro area.

Devaluation has not been used as an active part of economic policy since 1982, which is therefore marked as the beginning of the fixed exchange rate policy, although the DKK has usually been pegged in one form or another also before then. The central rate has been unchanged since 1987, except that it has changed from DEM to EUR.

The fixed exchange rate policy was a central part of the policy of macroeconomic stabilisation that brought down the high inflation and interest rates and the large fiscal and current account deficits of the early 1980's.

Danes voted on whether to join the common currency in 1992 and again in 2000, both times rejecting it, despite support from a parliamentary majority and from the Nationalbank. The latest [Eurobarometer](#) poll shows 26% for the euro in Denmark and 69% against it.

## Disclosure

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Las Olsen, Chief Economist.

### Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

### Regulation

Authorised and regulated by the Danish Financial Services Authority (Finanstilsynet). Deemed authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

### Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

### Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

### Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

### Expected updates

Ad hoc

### Date of first publication

See the front page of this research report for the date of first publication.

## Disclaimer

This research has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

This research report has been prepared independently and solely on the basis of publicly available information that Danske Bank A/S considers to be reliable but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this research report and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts and reflect their opinion as of the date hereof. These opinions are subject to change and Danske Bank A/S does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank A/S's prior written consent.

## Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank A/S is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank A/S who have prepared this research report are not registered or qualified as research analysts with the New York Stock Exchange or Financial Industry Regulatory Authority but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

## Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

## Disclaimer related to distribution in the European Economic Area

This document is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

**Report completed:** 17 November 2022, 15:30 CET

**Report first disseminated:** 18 November 2022, 9:15 CET