



DANMARKS NATIONALBANK  
~~International Department~~  
 Secretariat

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Telefax Cover Sheet

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To	BIS Att.: Mr. Dr. G. Baer, Assistant Manager
From	Director Kirsten Mordhorst
Text	Secretariat for the COMMITTEE FOR THE STUDY OF ECONOMIC AND MONETARY UNION. Please find enclosed a short note on the legal relationship between the central bank and the political authorities in Denmark, which has been sent to you by letter today.
	Signature

**COMMITTEE FOR THE STUDY OF  
ECONOMIC AND MONETARY UNION**

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10th February 1989

For your information, please find attached copies of the notes describing the legal relationship between central banks and political authorities which have so far been received by the rapporteurs. The suggestion to prepare such notes was made at the Committee's meeting in December. Copies of the National Bank of Denmark Act, referred to in the note of Danmarks Nationalbank, and of the annexes mentioned in the note of the Banco de España can be obtained upon request from the rapporteurs.

The legal relationship between the central bank  
and the political authorities in Denmark.

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The legal framework is laid down in the National Bank  
./ of Denmark Act of 7 April, 1936, a copy of which is enclosed.

The Bank is organised as a non-profit self-governing institution managed by a Board of Directors<sup>1)</sup>, a Committee of Directors<sup>2)</sup> and a Board of Governors<sup>3)</sup>. Responsibility for the formulation and implementation of monetary policy rests with the Board of Governors.

The Royal Bank Commissioner - the Minister of Economic Affairs - constitutes the formal link between the Bank and the Government and monitors the Bank's observance of its obligations according to the Act.

The Royal Bank Commissioner presides over - but has no vote in - the meetings of the Board of Directors and may attend the meetings of the Committee of Directors and ask any informations desired. If particularly far-reaching decisions are to be taken at a meeting of the Committee of Directors the Royal Bank Commissioner shall be informed in advance. In practice, the Royal Bank Commissioner has never attended the meetings of the Committee of Directors - to be seen in view of the fact that the Royal Bank Commissioner appoints two of the seven members of the Committee of Directors.

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1)The Board of Directors has 25 members of which two are appointed by the Royal Bank Commissioner, 8 by Parliament from among its members, while the remaining 15 members are appointed by the Board itself in plenary session so as to ensure a broad representation of economic life.

2)The Committee of Directors consists of the two members of the Board of Directors appointed by the Royal Bank Commissioner and five members elected by and from among the members of the Board of Directors.

3)The Board of Governors has three members. The chairman is appointed by the King/Queen, the other two members are elected by the Board of Directors.

Members of Parliament have a - minority - representation in the Board of Directors. Apart from this there is no formal link between the Bank and Parliament. By way of example, if Parliament wants an opinion from the Bank during the reading of a Bill, the Royal Bank Commissioner or the relevant minister is asked to obtain the opinion.

While the responsibility for monetary policy rests with the Bank, foreign-exchange policy has been the responsibility of the Government since the gold standard was abandoned in 1931. Notwithstanding this formal distinction the broad guide-lines for both monetary policy and foreign-exchange policy are formulated in - an informal - co-operation between the Government and the Board of Governors.

On the basis of the general principles thus laid down the Board of Governors is in charge of the execution of monetary policy and the choice of instruments. It may be mentioned that a special provision applies to changes in the official discount rate, stipulating that the Royal Bank Commissioner and the Minister of Finance are entitled to attend - but have no vote in - the deliberations.

The Government cannot issue directives to the Bank.

There are no legal limits to Government borrowing at the Bank. However, it has been agreed and is stated in a letter that the Government's financing requirement shall be covered in the market so as to avoid undesired liquidity effects.

The Bank's profit after allocation to reserves is paid to the Government. The accounts are to be approved by the Royal Bank Commissioner and to be published together with an annual report.

The National Bank of Denmark Act does not authorize the Bank to impose cash-reserve requirements or quantitative restrictions on bank lending. Such measures may, however, be implemented within the voluntary system of agreements which the Bank has concluded with the banking system. In addition, the Credit Regulation Act (enacted in 1973) empowers the Minister of Economic Affairs, acting in consultation with the Bank, to promulgate general and selective restrictions on financial institutions' lending and credit commitments and to require banks to maintain specified reserve ratios. The Credit Regulation Act has never been used.