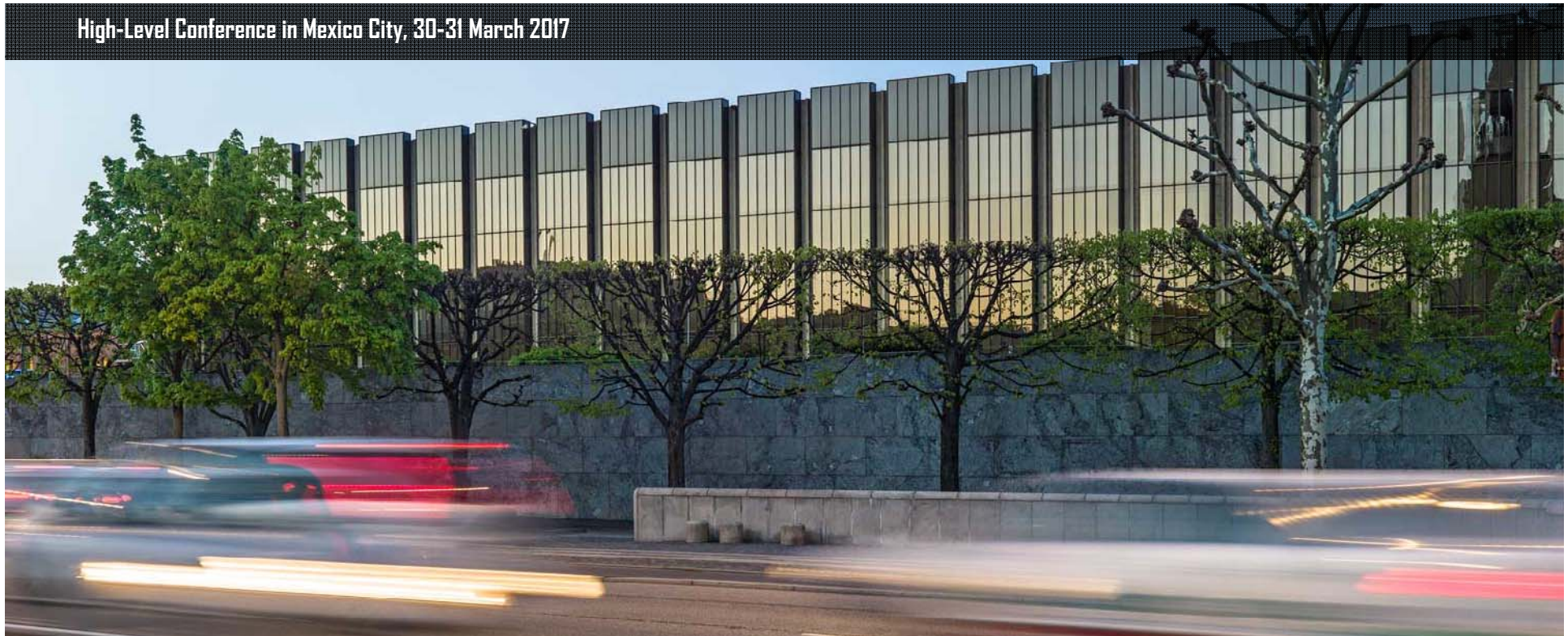


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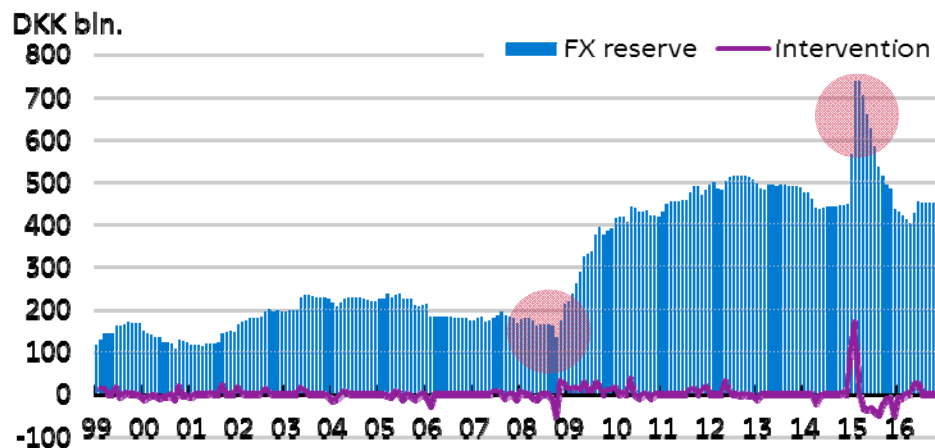
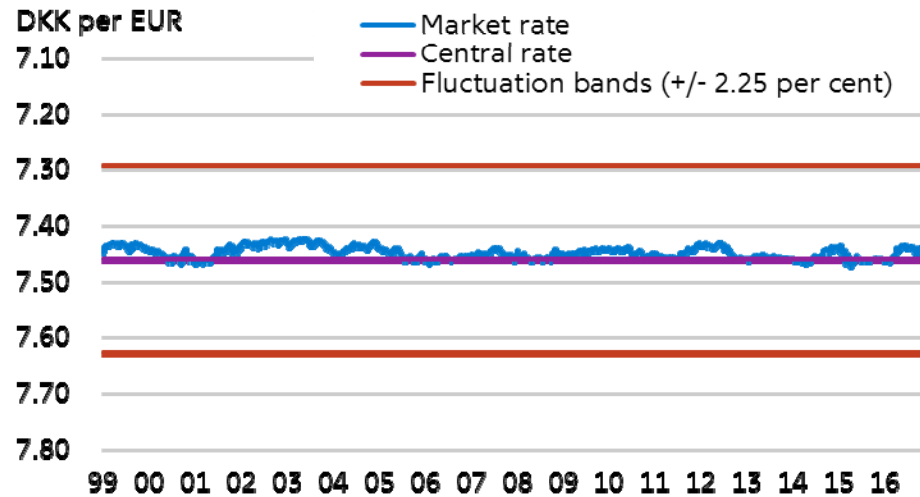
RESERVE MANAGEMENT IN TIMES OF LOW YIELDS AND SAFE-HAVEN FLOWS

High-Level Conference in Mexico City, 30-31 March 2017



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Denmark's policy framework: Interventions are common due to peg

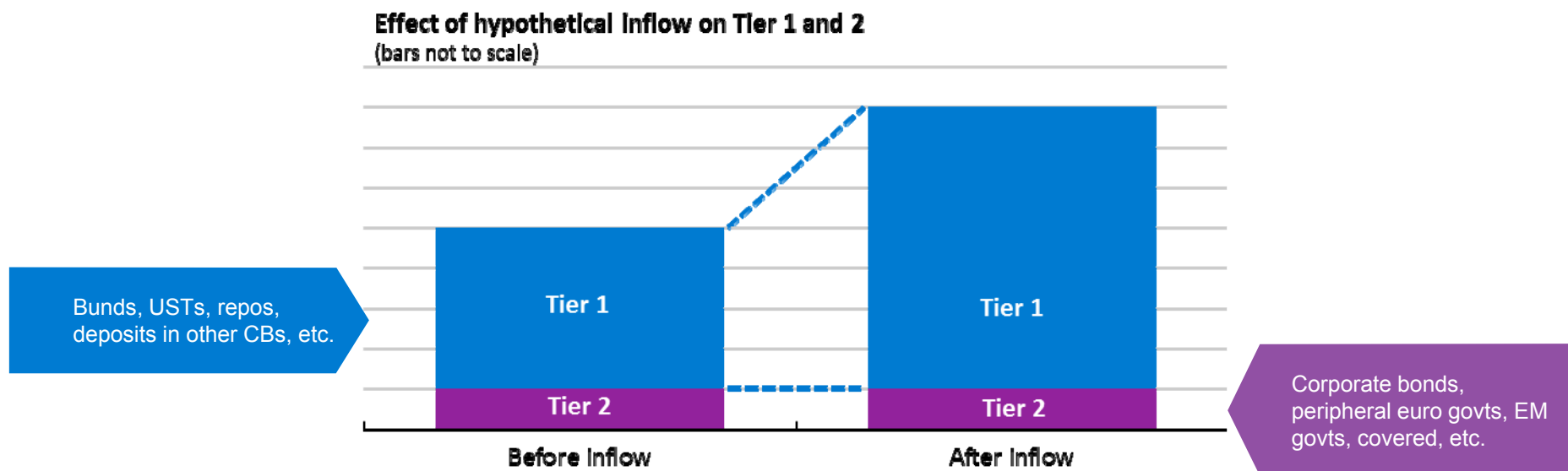


- Successful peg since early 1980s
- Peg to EUR since 1999
- Denmark has had safe-haven status since the financial crisis
- Intervention: traditionally a first line of defense → Interventions are common
- Sizeable reserves (currently ~ USD 67 bln., 23% of GDP)
- Both large outflows and inflows over past decade
- Recent challenge: large inflows

Two-tiered approach to liquidity management introduced in 2016 to handle future inflows

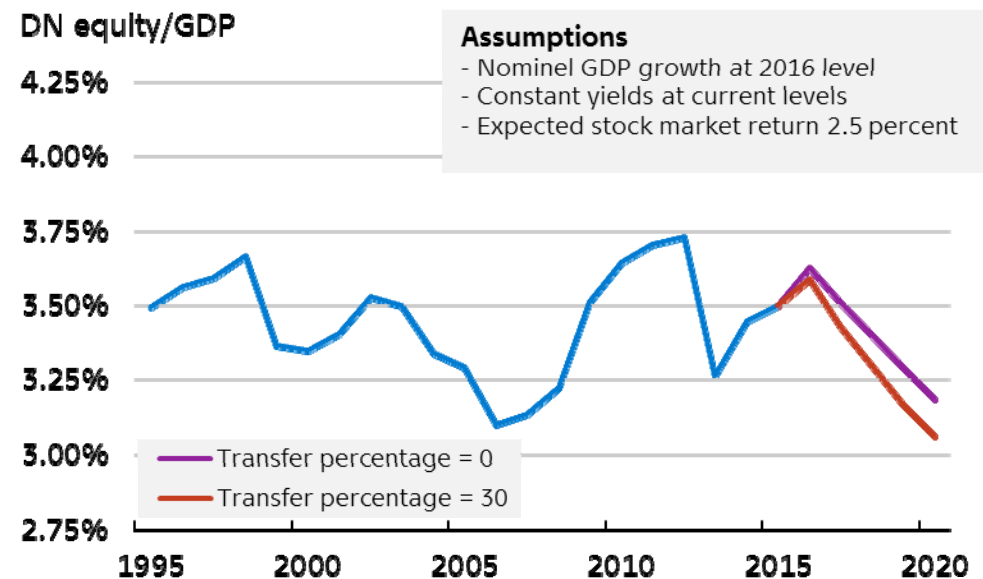
Large inflows placed in highly liquid assets

- If Tier 2 cap already reached → all further inflows in Tier 1 assets



ROE under pressure in low-yield environment

- Structural pressure on central bank PnL
 - CBs traditionally fixed income investors
 - no (or negative) seigniorage at present
- Return on equity at Danmarks Nationalbank projected to undershoot nominal GDP growth – even in absence of any transfers to government



The remedy: optimise exposures and accept the current environment

- Focus is on balance sheet optimisation and diversification
 - Adding new assets: equities, corporate bonds, EM bonds, etc.
- Beware of potential lower bound on interest rates
 - Correlations may change: important for decisions on equity exposure
- No “search for yield”
 - Focus on maintaining highly liquid portfolio and targeted level of risk

Risk budget was scaled back in September 2016

- Extremely low yield levels prompted us to scale back risk budget
- Model-based framework: return on risk-taking very low
- Duration and equity exposure scaled down

