

OPINION OF THE EUROPEAN MONETARY INSTITUTE

on a consultation from the Danish Ministry of Economic Affairs under Article 109f(6) of the Treaty establishing the European Community and Article 5.3 of the Statute of the EMI

on a Law Proposal repealing the Credit Regulation Act No 543 of 17th October 1973

CON/95/17

1. On 22nd November 1995 the Danmarks Nationalbank forwarded a request of the Danish Ministry of Economic Affairs for consultation to the EMI on a Law Proposal repealing the Credit Regulation Act No 543 of 17th October 1973.
2. The Credit Regulation Act empowers the Minister of Economic Affairs, after negotiation with Danmarks Nationalbank, to promulgate provisions designed to regulate credit made available through financial institutions and to require each financial institution to hold specified liquid assets in an amount as stipulated in the Act. This authorisation has never actually been exercised as credit had been regulated by means of a system of credit policy agreements between the Nationalbank and the credit institutions' associations. These agreements had not been in use for more than a decade and in October 1995, the Danmarks Nationalbank renounced the powers to conclude such credit policy agreements. Against this background, the Danish authorities found the Credit Regulation Act to be outdated.
3. The EMI welcomes that the changed circumstances allow the Danish authorities to repeal the Credit Regulation Act and that the Danish Government considers its involvement in monetary policy decision-making in this area no longer to be a prerequisite. With regard to the diversity of instruments available to Danish monetary policy, the EMI considers that a repeal of the Credit Regulation Act would not inhibit a continued effective conduct of the monetary policy of Danmarks Nationalbank, nor the successful co-ordination of monetary policies between Member States. Following the liberalisation of financial markets more than a decade ago, Danish monetary policy has become market-oriented, with a focus on steering the short-term interest rate in the context of its exchange rate objective. In this setting for monetary policy, credit regulations are not the

appropriate tool to counter an excessive supply of credit by financial institutions. The proposal to repeal the C
efficient allocation of resources.

4. The EMI has no objections against this opinion being made public by the competent Danish authorities at their discretion.

18th December 1995