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0422

EBD/92/281
Supplement 1

November 20, 1992

To: Members of the Executive Board
From: The Secretary
Subject: Sweden - Exchange Rate Action

The Secretary has received the following memorandum dated November 19, 1992 from Mr. Fridriksson:

Further to my memorandum of this morning concerning the decision of the Sveriges Riksbank to let the krone exchange rate float, please find attached a communication from the Governor of the Riksbank on the exchange rate action.

Attachment

Other Distribution:
Department Heads



THE GOVERNOR

19 November 1992

Ingimundur Fridriksson
Executive Director
International Monetary Fund
Washington, D.C.

Dear Ingimundur,

I should be grateful if you could ask Secretary Van Houtven to inform the Executive Board of the following decision, made public today at 14.30 local Swedish time:

"Sveriges Riksbank has decided, effective immediately, to let the krona exchange rate float. The Riksbank thus ceases to buy and sell kronor in order to defend the fixed rate relative to the ecu. The increase in the interest rate to 20 per cent for borrowing in the Riksbank announced this morning is canceled. Instead, the marginal interest rate is set at 12.5 per cent.

In the last couple of days, there has been massive speculation against the krona, forcing the Riksbank to intervene heavily in the foreign exchange market to support the krona. The increase of the marginal interest rate to 20 per cent announced this morning has proved insufficient to stabilize the krona. In the current circumstances, additional increases in interest rates would not create market stability."

Yours sincerely,

Bengt Dennis