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May 21, 1991

To: Members of the Executive Board

From: The Secretary

Subject: Sweden - Exchange Arrangements

The Secretary has received the following memorandum dated May 17, 1991 from Mr. Fogelholm:

I have been asked by my Swedish authorities to notify you that Sveriges Riksbank (the Swedish central bank) has decided to peg the Swedish krona to the European currency unit, the ECU. The decision took effect on Friday, May 17, 1991 at the end of business Swedish time, i.e., 10.15 a.m. Eastern Daylight Time.

This decision means that Sweden has abandoned the exchange rate regime of linking the krona to a trade-weighted currency basket--a system which has been maintained since 1977--and instead has tied the krona to the currencies of the EC countries. The exchange rate of the krona against the ECU is established at such a level that there is no change in the external value of the krona. It is only the technique for maintaining a fixed exchange rate that has been modified. The benchmark value for the index of the currency basket is replaced by a central rate for the exchange rate of the krona relative to the ECU, as defined by its composite currencies. The new central rate is 7.40054 kronor per ECU, which corresponds exactly to the benchmark value for the currency index in the previous system. Variations around the central rate of ± 1.5 percent will be permitted, just as in the previous currency basket system.

The tying of the krona to the EC currencies constitutes a unilateral Swedish commitment.

The decision is to be seen in the context of Sweden's intentions to apply for membership of the European Communities. This is the first step in the adjustment of the Swedish exchange rate system to the principles of the European Monetary System (EMS). The Riksbank states in its decision that Sweden, as a second step, will seek a formal association with the EMS. The ultimate objective is full Swedish participation in the EC system for cooperation in the area of monetary and exchange rate policy.

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