

Lars Heikensten: The Riksbank and the euro

Speech by Mr Lars Heikensten, Governor of the Sveriges Riksbank, at the Society of International Treasurers Convention, Stockholm, 17 June 2003.

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Let me begin by thanking you for the invitation to come here and speak on the subject of EMU.

Approximately three months remain until 14 September when the Swedish people will vote on whether to participate in monetary union. In the event of a “yes” vote, Sweden will enter monetary union in 2006 and introduce the euro as its currency. The right of determination over our interest rate level will then be transferred to the European Central Bank (the ECB). On the other hand, a “no” vote would generally imply “business as usual” for the Riksbank.

Today, I will be speaking about some of the implications for the Riksbank and our operations in the event of a “yes” vote in the referendum. I will begin by speaking about the preparatory phase, that is, from 14 September until 1 January 2006, during which time preparations will be conducted in the Swedish economy for a changeover to the euro, and the krona will join the exchange rate mechanism, ERM2. Subsequently, I will talk on the issue of monetary policy as it will be conducted by the ECB and point to differences as well as similarities with how it is conducted today. Thereafter, I will touch upon the effects of a changeover on our work with financial stability. Finally, I will mention a number of issues concerning the role of the Riksbank in the event of entry into monetary union and the implications for our operations.

But before I go into these issues I would like to emphasise a number of points. This is not a campaign speech. In 1994 and 1997, the Riksbank adopted a position in favour of Sweden joining monetary union from its inception. The General Council of the Riksbank was then of the opinion that the advantages of participation outweighed the disadvantages. However, the Executive Board of the Riksbank has decided against taking a position on the issue. We have interpreted our role as being a provider of factual information to make it easier for the Swedish people to form their own opinion on the matter. Having said that, there is nothing to prevent individual members of the Executive Board from expressing their personal opinion on the issue. We have all done that. I myself am in favour of Swedish participation in monetary union.

The preparations

Should a majority of the Swedish vote “yes” to the euro, work will begin to pave the way for Swedish entry into monetary union. The Riksdag is then expected during the autumn to make a formal decision that will enable Sweden in practice to become a member of monetary union. At the same time, it is necessary that the legal and practical adaptations that are a precondition for our participation be prepared and decided upon before the EU’s finance ministers within the scope of the ECOFIN Council take the final decision.

If the referendum results in a “yes” vote, the Riksbank will be required to help ensure that entry into monetary union proceeds in a stable, smooth manner.

Since the middle of the 1990s, the Riksbank has been collaborating with the financial sector via the SIFS group - Consultation and Information with the Financial Sector - with a view to ascertaining the adaptation measures necessary ahead of a potential Swedish changeover to the euro and how long these measures would take to implement. The aim has been to make the time between a Swedish Riksdag decision in favour of participation and entry itself as short as possible. The Swedish government has recommended that Sweden, in the event of a “yes” vote, should strive to enter monetary union on 1 January 2006, and that this should be carried out through a direct changeover or “big bang”. The switch-over of all electronic transactions in society would then be made simultaneously with the cash changeover. This proposal has been welcomed by the financial sector, and there are good chances therefore of a smooth, efficient changeover to the euro at the beginning of 2006.

For the Riksbank, a changeover to the euro would of course be a major project. The practical preparations would include ensuring the production of new banknotes and coins, as well as the replacement of the old ones. The latter would entail a considerable logistical operation. For example, a couple of hundred large lorries would be required simply to deliver the necessary coins at the time of

the introduction. But there is more to it than that. Computer systems would need to be converted, not least at the Riksbank, but also in many other areas of society. The Riksbank would also expend a lot of effort on providing information to the general public about the implications of a changeover. In addition, there would be a number of changes in our own operations, which I will return to later.

Participation in ERM2

One important question that would become relevant during the preparatory phase is how best to ensure exchange rate stability against the euro within the scope of the exchange rate mechanism ERM2, the successor to the ERM system.

In this regard, there may be reason to say something about history. The Riksbank has previously, mainly over the years 1995-1997, considered the issue of ERM participation and the possibilities for combining this with the inflation target policy that has been conducted for a number of years. During that time, the Riksbank was legally responsible for the exchange rate regime, and the reasons therefore for considering ERM participation were quite simply to prevent the regime of floating exchange rates from constituting a formal obstacle to Swedish participation in monetary union, in the event this was to become a possibility. When the government then decided that there was insufficient popular support for Swedish participation in monetary union, the question of changing the exchange rate regime was dropped.

In connection with the Riksbank being made formally independent in 1999, new legislation on exchange rate policy was also introduced. Nowadays, it is the government that decides upon the issue of our exchange rate regime, although the Riksbank determines how it is to be implemented. In other words, it is the government that would decide whether and when the krona should join the exchange rate mechanism ERM2. Following that, the ministry of finance and the Riksbank would decide what rate between the krona and euro we assess to be consistent with a stable development of the economy. There are very good reasons to agree upon a common line of action. This is why we are holding discussions already among toplevel officials about an appropriate line of reasoning, the results produced by different estimation methods, etc. If we do not reach agreement, it is likely to be difficult to hold effective discussions with our European partners.

A decision on participation in ERM2 and on the central rate and fluctuation bands at which the krona should join would be taken through common accord of the finance ministers in the euro area Member States, the ECB, the central bank governors and finance ministers of the applicant country and the other ERM2 countries, i.e. Denmark at present. In practice, a decision would be preceded by contacts between representatives of the ministry of finance and the Riksbank as well as with our colleagues in a number of euro area Member States and Denmark. The first official step in the negotiations would be taken within the framework of the EU's economic and financial committee (EFC). Only if the committee should fail to reach agreement would direct negotiations between the concerned central bank governors and finance ministers take place. Then, when the irrevocable conversion rate against the euro is to be determined in connection with entry into monetary union, this would be decided unanimously by the ECOFIN Council members from the euro area Member States and Sweden.

Central rate in ERM2

The central rate is the krona/euro exchange rate against which the criterion of exchange rate stability would be evaluated prior to entry into monetary union. It is natural to seek to ensure that the central rate is set at a level which also becomes the conversion rate for the Swedish krona in monetary union. Generally, this has also been the norm; only in a couple of cases has a central rate been changed during the two years preceding entry into monetary union.

It is important to point out that it is not possible to exactly determine a "best" central rate or irrevocable conversion rate. What may appear to be the best value of the exchange rate for the economic climate today does not have to be the most appropriate for all time when new data on the economy has been received. A certain capacity for adjustment is therefore necessary within the economies to manage the consequences of the altered circumstances with a fixed exchange rate.

With the aid of various models, we can describe conceivable development paths for the exchange rate, given certain assumptions about how the economy will develop in other respects. When performing these kinds of forecasts, the analysis is usually carried out in terms of the real exchange rate instead of the nominal rate. The real exchange rate is the nominal rate adjusted for any

differences in the price level between the countries in question. The reason that it is often more interesting to perform analyses using the real exchange rate is that the most important macroeconomic relationships and theories about these are based on real instead of nominal exchange rates. The real exchange rate is a relative price between baskets of goods in different countries, thus reflecting both international competitiveness and purchasing power.

In principle, a suitable central rate for the krona could be estimated by producing a forecast for the nominal krona/euro rate for the exact date on which ERM2 membership is expected to begin. However, all of this is complicated by the existence of several theories for exchangerate determination and the uncertainty of the forecasts themselves. Nor are models capable of encapsulating all the relevant aspects that could conceivably affect the development of the exchange rate, which is why it would be necessary to complement the modelbased analysis with different kinds of expert assessments. This implies that we have to confine ourselves to narrowing in on an interval of conceivable central rates.

In various situations, including the December Inflation Report in 2002, the Riksbank has shown forecasts of the krona's real exchange rate against the euro according to a number of models under the assumption of a floating nominal exchange rate in the future. Forecasts of this kind underline what I've just said: the forecast outcome is highly dependent on the chosen model of application. Common to all models, however, is that they predict a strengthening of the real exchange rate over the coming years. According to the models, this strengthening is due to the expected development of a number of factors including relative GDP, Sweden's relative net assets, our terms of trade, relative demography, etc.

When we adjust the forecast of the real exchange rate for the expected difference in inflation between Sweden and the euro area, we get similar development paths for the nominal krona/euro rate. As differences in inflation are expected to be small, the forecast strengthening of the real rate is also reflected in the nominal rate. Towards the end of the forecast period, the rate should lie, according to the assessments of the Riksbank, within an interval of approximately 8.20 to 9 kronor per euro. The forecast for the rate at the end of 2003, however, consists of a narrower interval, around 8.50 to around 9 kronor per euro.

Consequently, should Sweden join ERM2 around the end of the year, this kind of estimate would advocate a suitable central rate between the interval 8.50 to around 9 kronor per euro. It should be noted that the models imply an expected strengthening in both real and nominal terms but that this strengthening from next year onward will be rather limited.

When choosing a central rate, it is vital to find a rate vis-à-vis the euro that is consistent with a balanced development in the Swedish economy in both the short and long term. It is important to remember that the real exchange rate, i.e. the relative price between baskets of goods in Sweden and the euro area Member States would be variable even if were to introduce the euro as our currency. But the adjustment would then occur through the relative rate of price increases. A central rate that is overly weak would therefore provide stimulus to the Swedish economy that could lead to higher inflation than in the other participant countries as well as unemployment at a later stage when the impact of the weaker competitiveness makes itself felt. With an overly strong rate, the risk instead is of lower inflation than in the other countries, initially having a negative impact on growth and employment. This line of reasoning also clearly demonstrates the connection to fiscal policy. A weaker exchange rate requires tighter fiscal policy and vice versa.

In practice, it is not possible to base the choice of the central and conversion rate only on model estimates of what is a desirable longterm rate. It is also important to take into account expected developments in the coming years. It is not in the interests of either Sweden or the other involved countries to have problems arise during the period of Swedish participation in ERM2. In this respect, the economic climate is a factor that demands attention. Previous experience also indicates that negotiations of a central rate would be influenced by the rate that has prevailed between the krona and the euro in recent years. Recent market assessments have been in an interval between 8.50 and 9 kronor per euro, as I mentioned earlier.

Monetary policy strategy in ERM2

If Sweden were to join monetary union, the responsibility for ensuring a balanced development in our economy would essentially lie with the government and the Riksdag. There is reason to underline the fact that this would already occur during the ERM2 period, even if the shift in responsibility for

stabilising the economy from monetary policy to fiscal policy would be a gradual one. As the effects of economic policy are exerted with a time lag, this is something that fiscal policy decisionmakers should already be considering.

For the Riksbank, the issue would be to define a strategy for monetary policy in the light of the boundaries imposed by fiscal policy and the central rate and conversion rates chosen for the krona versus the euro. Essentially, it is a question of conducting monetary policy in a way that would make the conditions as favourable as possible for ensuring both the attainment of the price stability target and the objective of holding the exchange rate close to the central rate. This is a pre-requisite if we are to meet the entry requirements, or convergence criteria, of monetary union. From this perspective, it is interesting that the forecasts of the development of the exchange rate and inflation indicate that a relatively stable development for both of these variables is to be expected over the coming years.

In ERM2, the Riksbank would still have control over the repo rate. Given the boundaries established by fiscal policy in particular, this should be set with the aim of ensuring price stability, as is the case today. Normally, this should not constitute a problem as regards the exchange rate. ERM2 provides considerable scope for targeting monetary policy at price stability. This applies of course for the normal band widths of ± 15 per cent, but would also apply for the narrower bands of ± 2.25 per cent, which the European Commission has used in its evaluations. Just like today, there is therefore reason to continue publishing inflation reports and to hold regular monetary policy meetings.

Swedish experiences from recent decades of fixed exchange-rate regimes have, as we all know, not been entirely positive. The events of 1992 are still fresh in our memories. But a lot has happened over the past ten years. Our economic policy has become credible and successful. In recent years, it has followed the same principles as those in the euro area and has been characterised by efforts to achieve price stability and sound public finances. Participation in ERM2 would not change the stance or objective of policy of course. Tensions stemming from a lack of competitiveness in the Swedish economy are also unlikely; the rate is set partly to ensure a reasonable level of competitiveness, while inflation over the coming years can be expected to be more or less in line with that of the euro area. Moreover, the process for other countries' entry into monetary union was smooth in spite of the fact that the circumstances in many cases were less favourable at the time than in Sweden today. For instance, the uncertainty surrounding the implementation of the third stage and the introduction of the euro is now gone. In light of this, there is no reason for concern over participation in ERM2.

The objective of keeping the exchange rate stable and close to the central rate would be facilitated by the fact that the central rate chosen for ERM2, as I mentioned earlier, can be expected to be the conversion rate vis-à-vis the euro on a known date in the future. This is an absolutely crucial difference compared with the systems of fixed exchange rates previously adhered to by Sweden. If the exchange rate nevertheless should unexpectedly move to an extent considered inappropriate, interventions could be made in the foreign exchange market. Such interventions would have certain potency due to the fact that they would involve the purchase and sale of currencies that will be traded at the same price for all time. To clarify this, interventions could be made in the form of futures contracts with a maturity date beyond the date of entry.

The single monetary policy

Entry into monetary union would imply Sweden becoming part of the euro area and the European Central Bank assuming responsibility for monetary policy.

Target and strategy

Both the Riksbank and the ECB have the task of maintaining price stability and, to the extent that it does not conflict with the price stability target, promoting a balanced development of economic activities.

The Riksbank's inflation target entails keeping annual inflation as measured by the consumer price index, CPI, at 2 per cent with a tolerance for deviations of 1 percentage point upwards or downwards. Given that monetary policy exerts its impact on the economy with a time lag, our work is based in practice on ensuring that future expected inflation is 2 per cent. Our underlying assumption is that the time lag in policy is mainly one to two years. However, there is sometimes reason to refrain from achieving the target as defined in this way. This may be the case when inflation is affected by transitory effects, such as quickly rising or falling energy prices or changes in indirect taxes or

mortgage interest expenditure. For this reason, the Riksbank also makes use of measures of inflation that exclude such effects. Inflation measured by the index UND1X is one example. Moreover, there may be reason after a shock to bring inflation back to the target in the somewhat longer term. This enables us to avoid overly negative implications for production and employment.

The ECB measures price stability as a year-on-year increase in consumer prices of below, but close to, 2 percent. The target relates to inflation measured by the Harmonised Index of Consumer Prices, HICP. The idea is to reach the goal in the medium term, which implies that the ECB also disregards transitory effects on inflation. Consequently, the ECB's definition is similar to our own. There are some differences, however.

One is that the ECB's target is defined in terms of HICP. The consumption basket in HICP is narrower than in CPI due to the fact that areas for which statistics are not yet harmonised have been excluded. The differences between HICP and the different measures normally used by the Riksbank are generally rather small.

Another difference is the target level. The Riksbank works with a definite central target surrounded by a symmetrical interval. Previously, the ECB's target was for inflation to be below 2 per cent. It was at the ECB Governing Council's evaluation of its monetary policy strategy in May this year that the target of keeping inflation close to 2 per cent was specified. With this, the ECB has become more precise in its definition. Compared with the Riksbank, the difference in target level is small and should not make any great difference in practice.

The most significant difference in target definition is that the ECB's target relates to inflation for the euro area as a whole, while the Riksbank's target applies of course to Sweden only. The ECB's policy implies therefore that the rate of inflation in individual Member States can be both higher and lower than 2 per cent without constituting neglect of the ECB's target. This is also the case in reality, as shown clearly by the inflation outcomes that have been measured. The same applies to Sweden but on a smaller scale; inflation can be different in Norrbotten and Skåne.

When formulating monetary policy, the ECB attaches special importance to monetary aggregate and credit variables. A reference value for the annual increase in the monetary aggregate has been set, currently amounting to 4.5 per cent. In general, however, the interest rate adjustments implemented by the ECB have not been justified on the basis of developments in the monetary aggregate. This has been clear on several occasions in recent years, when the refi rate has been lowered in spite of the fact that the rate of increase in the monetary aggregate clearly exceeded the reference value. The evaluation of the strategy in May also resulted in measures of the monetary aggregate being given a role primarily as indicators of future inflation. Naturally, the Riksbank also follows monetary aggregate and credit variables, even if we have not assigned them special significance when assessing inflation. Therefore, the formulation of policy nowadays is also quite similar in this respect as well.

Finally, allow me to point out that despite the similarities in the formulation of policy, it can not be ruled out that price and wage increases in Sweden may sometimes be both too high and too low. The main reason is that the ECB's policy is targeted at average price increases in the euro area as a whole. Partly as a result of this, there is reason to discuss both the role of fiscal policy and the functioning of the labour market in the event of an introduction of the euro in Sweden. It is particularly important that fiscal policy be conducted in a way that ensures that reserves will be available during economic declines and that institutional conditions are created to facilitate necessary decisions for tighter fiscal policy to be taken on time.

Decision-making and communication

In the event of participation in monetary union, the Riksbank Governor would become a member of the ECB Governing Council, which is the highest decision-making body of the European Central Bank. I would then, just like all the other members of the Governing Council, have the opportunity to say what interest rate level I believe to be the best taking into account developments in the entire euro area. I would be a member of the Governing Council in a personal capacity, i.e. I would not be permitted to seek or receive instruction from other individuals or institutions.

One issue that has been the subject of much discussion is the voting modalities in the Governing Council. Initially, the Riksbank Governor would always have the right to vote on interest rate decisions. This would change in the future, however. Once the number of Member States in the euro area exceeds 15, a new decision-making arrangement will enter into force. The Member States will be divided into groups according to size, and the voting rights will be rotated between the participants in

the respective groups. For Sweden, the long-term implication is that the central bank governor, once all current and new EU Member States are participating in monetary union, would be able to vote on approximately 60 per cent of the decisions. The central bank governor of a large country like Germany, on the other hand, which has around nine times as many inhabitants, would be able to vote at 80 per cent of the meetings. However, all central bank governors would have the right of attendance and expression at all meetings. From a Swedish perspective, this appears to be a rather advantageous solution in my opinion.

The ability to exert influence on the formulation of policy is important of course, particularly from a democratic point of view. But it is not simply a question of voting rights, which is the impression one gets sometimes when listening to the debate. Firstly, it is important to remember that the central bank governors must act in the interests of the entire euro area when setting interest rates. In other words, they must not give priority to national interests. Thus far, there have not been any votes held in the ECB Governing Council; rather, monetary policy has been determined through consensus. In addition, all central bank governors have the right of attendance, even under the new proposal, and can therefore be involved in discussions on the stance of policy. My own experience from other, similar discussions in the central bank sphere is that solid, wellfounded arguments weigh heavily and, in practice, play a more important role than the size of the country and the possibility to press a voting button. What I know about how the ECB Governing Council works in monetary policy discussions supports this viewpoint.

For my own part, I believe that too much attention has been paid to the voting modalities. Other factors can be particularly important in ensuring effective monetary policy. Personally, I would emphasise the internal discussion processes, which I believe to be vital. These should be of high quality and transparent, and provide scope for different decision-makers to become involved on equal terms. Clarity and transparency is also important externally, ensuring more precise and meaningful criticism, which in turn can improve and speed up internal thought processes.

Also in these respects, there are a number of similarities between the Riksbank and the ECB. Both institutions publish assessments of inflation prospects, hold press conferences in connection with their interest rate decisions and justify and explain their formulation of policy before various political bodies. In addition, a gradual evolution of intellectual thought takes place within both the Riksbank and the ECB. It is likely that this will bring us closer together. The most significant differences, in my opinion, relate to the clarity of the assessments, where the Riksbank and other countries that work with explicit figurebased targets and publish inflation reports are clearer. The Riksbank also has an internal preparation process with broad participation. Finally, we publish the minutes of Executive Board meetings in which the opinion of each member is evident. The latter issue has a different "charge" at European level since there is a risk that a genuinely single monetary policy would be undermined if individual positions were made public.

Monetary union and financial stability in Sweden

The Riksbank not only has the task of maintaining price stability but also that of promoting a safe and efficient payment system. In light of this, allow me also to say something about the potential implications of entry into monetary union from this perspective.

The financial markets in Europe have developed rapidly over the past decade, partly as a result of the fact that the freedom to trade financial services is fundamental to the cooperation in the EU. Competition for the national banks has hardened. The single currency has contributed to the evolution of a far better capital market outside the banks, which has increased competition further. In several large European countries, a process of structural transformation in the banking systems is underway, much like that experienced in Sweden in connection with the banking crisis at the beginning of the 1990s.

When competition grows stiffer, it can of course pose a threat to stability, especially if the banks are not accustomed to competition and are also weakly capitalised. In Sweden, the banks have operated in a competitive environment since the deregulation of the 1980s and have been forced into a process of considerable rationalisation. Capitalisation is also satisfactory. There is reason to believe that the Swedish banks would be able to take advantage of the less expensive borrowing conditions in a single currency market and that they would be able to spread their risks over a greater number of counterparties, which would be positive for stability. In the long run, the banks' customers may find it easier to come into contact with other European banks. This is an important aspect of increased

competition, although wise lenders nevertheless respect the “church tower” principle, namely to lend only to those that you know well - those that you can see from the local church tower. I do not believe that a single currency in itself would increase credit risk in the banks.

If monetary union in the long run were to result in a more integrated market for financial services, the current Swedish banks would most likely be rather small participants in this market, and each bank would be less important for the effective functioning of the payment system. Their significance for financial stability would decrease and the need for public intervention to safeguard stability in the financial system would therefore also be reduced. The reason for this quite simply is that the effect of one or a number of participants failing would not be as big if the system was supported at European level by a large number of participants, as opposed to being dependent on a small number of participants, as the Swedish system is today. A more advanced securities market would also serve as a buffer, both for borrowers and savers. This would make the banks less systemically important.

All in all, I believe that the Swedish banks are well equipped to face stiffer competition and that the effects of monetary union on stability in the financial system would primarily be positive.

The securities markets, both stock exchanges and systems for the clearing and settlement of transactions, are presently undergoing rapid development in Europe. It is likely that the principal force driving this development is technological advances that enable cost savings, and Sweden will be able to take part in this whether we use kronor or euro. However, as with trade in other markets, trade on stock exchanges is of course facilitated by a single currency.

As regards the system for large-value interbank payments - the real-time system for gross payments known as RIX in Sweden and managed by the Riksbank - monetary union would involve major changes. It is likely that we would not have a separate system for such payments after membership, but in some way would connect to the new European system (TARGET2). There would be considerable efficiency gains to be made here. However, the stability aspect of this must be given attention. The operational risk would increase when a greater number become dependent on one big system.

With regard to the Riksbank, the direct effects of participation in monetary union on the work with financial stability would not be particularly large. Even if Sweden were to join monetary union, the Riksbank, under present rules, would be responsible for making decisions on providing emergency liquidity assistance to Swedish institutions. Furthermore, the vulnerability of the banks and the payment system would not change overnight but would continue to be largely national in nature, as long as the European banks and payment systems have not become genuinely integrated. The oversight and management of crises would therefore have to be carried out by national authorities. The big difference is that international cooperation would become even more important.

In the long term, as banks and securities markets become increasingly more integrated, new and interesting issues would arise on how best to carry out international supervision and oversight. In this discussion, if Sweden were to join monetary union, our voice would carry greater weight as a member of the ECB Governing Council and in the cooperation of finance ministers. This is also important for our ability to influence how integration in general proceeds and thereby also for the financial sector's conditions in Sweden.

The role of the Riksbank

If Sweden were to join monetary union, the Riksbank would become part of a bigger whole, the Eurosystem. This does not mean that the Riksbank's tasks would disappear, however, as claimed time and again by one of my predecessors Lars Wohlin. The majority of the Riksbank's tasks would remain relatively unaffected by our participation. As I just mentioned, this applies to our work on financial stability, which would essentially remain a national responsibility for the foreseeable future. The Riksbank's operational tasks such as monetary policy transactions, the management of the Riksbank's assets, the collection of statistics, the management of banknotes and coins and various administrative tasks would also remain.

I also object to the claim that the Riksbank would become a branch office of the ECB. In actual fact, the national central banks of the Eurosystem own the ECB. If Sweden were to join the Eurosystem, we would become a member of the board and be able to influence how the system as a whole develops in the future. That is hardly an opportunity available to local offices of other organisations. In addition, the Eurosystem is a decentralised system, in which the vast majority of tasks are carried out by the

national central banks. Many tasks are also performed at national level completely outside the framework of the Eurosystem.

The main change if Sweden were to participate in monetary union would be that decisions on the interest rate level in Sweden would be taken by the ECB Governing Council instead of by the Executive Board of the Riksbank. The decisive factor for the setting of rates would be the inflation prospects for the euro area as a whole. As Riksbank Governor, I would become a member of the ECB Governing Council and take part in the monetary policy decisions there.

Naturally, this would affect our work on monetary policy. Prior to taking its interest rate decisions, the ECB does not perform its own assessments of inflation prospects for smaller Member States such as Sweden, so this would remain our responsibility. In light of this, it is natural that we should continue to publish assessments of the Swedish economy a couple of times per year. In this way, we would be able to make a contribution to the economic policy debate in Sweden. These assessments would also be important when we motivate, explain and justify the single monetary policy in Sweden.

As part of the Eurosystem, the Riksbank would participate in the comprehensive analysis activities of the ECB. If we are to have any influence in this process, it is important that we have performed good analyses that are tailored to the essential, relevant issues prior to the ECB's meetings. This points to a certain shift in focus from our day-to-day forecasting activities to in-depth analyses that are also of relevance to policy.

One consequence of the Riksbank no longer setting the interest rate level in Sweden would undoubtedly be a decrease in the level of attention paid to our activities in the media and elsewhere. This would primarily have direct effects for the members of the Executive Board but is not something that worries me. However, it could also affect our ability to attract employees. Certain categories of employee may no longer consider us to be as exciting a workplace. For others, the opposite may be the case, particularly for those that want to work in a more international environment.

Transparency is and has been a guiding principle of the Riksbank for many years. Should Sweden decide to join monetary union, the Riksbank would continue to be a transparent institution. In some respects, our actions would be naturally restricted by the common regulations for the euro area. To the extent we perceive this to be a problem for our operations and an obstacle to the transparency we safeguard, we would of course seek to effect a change.

Concluding remarks

Approximately three months remain until 14 September, when the Swedish people will be saying "yes" or "no" to the euro in a referendum. In light of this, I have addressed some issues today that are directly relevant to the Riksbank's operations and the preparatory work that we are carrying out in the event of a "yes" vote.

During the preparatory phase, Sweden may - if the government so decides - join ERM2. We are well prepared for this, having an economy that is in step with that of the euro area. Membership in ERM2, for a country on its way into monetary union, is different to the systems of fixed exchange rates in which Sweden has previously participated. This is partly due to the fact that the central rate chosen can be expected to become the conversion rate for entry into EMU. This would reduce the risk of uncertainty over the krona's development. As a member in ERM2, there would still be scope for the Riksbank to promote price stability, although this scope would diminish the closer to entry we come. Responsibility for stabilising the economy would gradually shift over to fiscal policy.

If Sweden were to join monetary union, the interest rate level would be set by the ECB. The differences that exist between the Riksbank's and ECB's work methods should not be exaggerated. With the ECB's latest clarifications, this has become even more obvious. But as regards the internal preparation processes, clarity and transparency, a number of differences remain. If the referendum results in a "yes" to the euro, I will be taking an active part in these issues as a member of the ECB Governing Council.

The Riksbank also works with financial stability. In this area, the institutional changes would not be that great as a result of Sweden joining monetary union. In the long term, however, the financial system in Europe would be reshaped. It is important that we have both insight and influence in this process in order to be able to do a good job at the Riksbank and also to be able to contribute to creating the best possible conditions for the Swedish financial sector.

Finally, I mentioned the Riksbank's own activities after a potential entry into monetary union. Media interest in the Riksbank would certainly diminish somewhat if we no longer set the repo rate. However, our work tasks and operations would not be affected that much. Most important would be changes in the area of monetary policy. Our perspective would have to become more European, while we would also be an important part of the domestic debate on economic policy.

In conclusion, allow me to note that a "no" to the euro would not entail any major changes for the Riksbank's day-to-day business. I expect that we would continue to conduct our operations in much the same way as before. There is a risk, however, that our significance in the international arena would diminish further.