

# Press Release

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## Exchange rate policy report liable to undermine the credibility of monetary policy

The proposals from the Exchange Rate Policy Inquiry would be liable to undermine the credibility of monetary policy and thereby the Riksbank's ability to fulfil the objective of safeguarding the value of money. That would tend to raise the level of interest rates and might also restrict the Riksbank's potential, within the framework of a policy for price stability, for supporting general economic policy.

This statement comes from today's submission by the Governing Board of the Riksbank on the report "Inquiry into the responsibility for exchange rate policy issues" that the investigator, Mr. Pierre Vinde, submitted in January. The report proposes that responsibility for exchange rate policy be transferred from the Riksbank to the Government.

In a world with deregulated financial markets and free capital flows it is inevitable that markets for money and currencies are directly interlinked and so, therefore, are monetary and exchange rate policy.

"This means", the Board states in the submission, "that goals in the two policy fields may conflict; exchange rate policy decisions may have direct consequences for the feasibility of achieving price stability. An indistinct assignment of responsibility may impair confidence in monetary policy and the objective of price stability."

A high degree of credibility as regards monetary policy and the price stability objective is, in the opinion of the Board, particularly important if Sweden were to stay outside the euro area.

Exchange rate cooperation is a central component of EU cooperation; exchange rate policy is regarded as a matter of common interest. The Governing Board therefore finds it appropriate that the Government decides the exchange rate regime for the Swedish krona in relation to other EU currencies.

The Board underscores that, in order to sustain confidence in monetary policy and the price stability objective, the issue of how this exchange rate regime should be operated is a matter for which the Riksbank must be responsible. This means that decisions about a central rate and the band width in a fixed exchange rate system are to be made by the Riksbank. Contrary to the Inquiry's proposals, it also means that the Government shall not be in a position to issue general guidelines for exchange rate policy with a flexible exchange rate.

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