

Summary

Sweden's relationship with the euro is a matter of exchange rate policy, economic policy and Sweden's place in Europe. In four parts, this report examines the history of Sweden and the EMU, the current relationship, the potential introduction of the euro, and finally Sweden's policy options regarding the EMU. The EMU has at times been the subject of intense debate and has influenced Swedish economic policy, only to fall far down the political agenda at other times. Among EU Member States, Sweden has found itself in a nearly unique position regarding the EMU. Changing this is no easy task, but it is entirely possible if this were to become the direction of policy.

A look at history

The first part of the report is a look back, which is necessary in order to understand where Sweden stands today. A few milestones are identified.

1951: Loyal participant in Bretton Woods

Sweden was the last of the Nordic countries to join the IMF and the World Bank. Sweden adopted a parity rate for the krona against the dollar that remained unchanged for two decades. Sweden became a loyal member of the IMF. The period was marked by economic success for Sweden, with high growth, expanding foreign trade and low unemployment. Sweden secured a central role in international monetary cooperation through its membership in a small circle of about ten leading member states (G10) with strong economies. Two Swedes served as IMF managing directors.

1961 and 1971: "Sweden does not fit in the EC"

Prime Minister Tage Erlander's 1961 speech on Europe is often cited as a milestone in Swedish European policy. It was based on a stance of distancing Sweden from post-war Western European integration. At the time, there was a debate on EC membership. Erlander painted a picture in which neutrality, above all, stood in the way of membership. But there was also a notion that the Swedish welfare model could conflict with the EC's market-liberal and supranational orientation. Swedish employment policy was perceived as more ambitious than that prevailing in continental Europe. The rejection of membership was reiterated in 1971, and by then the Werner Plan for the EMU had to be taken into account. A similar line of reasoning was repeated: Sweden was different and better; we didn't have much to learn.

1977–82: In and out of the currency snake. Freedom of action and large devaluations

The 1970s were economically turbulent, marked by two global oil crises and failed Swedish stabilization policies. The collapse of the Bretton Woods system in the early 1970s was followed by European monetary cooperation within the "snake". Sweden and several other European countries struggled to keep their exchange rates stable within the snake arrangement. A large Swedish devaluation of 10 percent was decided in 1977. At the same time, Sweden withdrew from the snake, as it was judged that such a large devaluation would not be accepted within the arrangement. Major devaluations followed in 1981 (10 percent) and 1982 (16 percent). After leaving the snake, Sweden transitioned to a unilateral fixed-exchange-rate regime. In 1979, the EC countries launched a more ambitious monetary cooperation through the *European Monetary System* (EMS) with the Exchange Rate Mechanism (ERM). There were also a number of devaluations in the ERM against the anchor currency, the Deutsche mark, but they were smaller and had to be negotiated with the other participants in the system.

1991–92: Rapprochement followed by the fall of the krona

In 1991, the krona was pegged to the EMS's synthetic currency, the ECU, the predecessor to the euro. The ECU peg was, in a limited sense, a technical change in the composition of the currency basket. Politically, it signalled a rapprochement with the EU and the EMS. This was in line with other European policies aimed at Sweden first joining the European Economic Area (EEA) and later becoming a full member. It was taken for granted at the time that the krona would join the EMS/ERM upon EC membership. Everything changed when the ERM crisis erupted after the summer of 1992. Several European currencies faced major problems. In broad political agreement, Sweden sought to defend the fixed krona exchange rate. The famous 500 per cent interest rate episode occurred in this period. The krona's collapse in November 1992 was a traumatic event, both economically and politically. The deep crisis of the 1990s and a reassessment of the entire economic policy framework followed. Since 1993, Sweden has a currency regime with a freely floating krona.

1993–94: EMU was a major theme in the process toward EU membership

As the prospect of EC/EU membership drew nearer, the EMU emerged as a key issue. The EMU had not been brought to the fore by the EEA Agreement, which was limited to the single market, but with full membership, the situation changed. At this time, the EC countries had established a plan in the 1991 Maastricht Treaty to implement the EMU in three stages by 1999 at the latest. Sweden's negotiating position on the EMU was hammered out in broad political agreement. The centre-right parties took a positive stance on the EMU. The Social Democrats were reserved and wanted freedom of action regarding Sweden's adoption of the single currency. The outcome was a carefully worded political statement in 1993 that was delivered by the responsible minister in the membership negotiations. It contained both a cautious reservation and positive phrasing. The statement was given great weight domestically, even though it did not alter anything in the Treaty. The clear framework presented to the Swedish people ahead of the

referendum on EU membership in November 1994 was nevertheless that EU membership is one thing and EMU another, separate, matter. The message was that the Parliament would decide on the EMU at a later point in time. This was a significant reservation, which likely determined that the 1994 referendum on EU membership resulted in a “yes”.

1995–98: Not on board when the euro was introduced

After Sweden became a member of the EU on January 1, 1995, policy shifted away from the euro. This was reflected in statements and actions that emphasized freedom of choice, asserted Sweden’s right to remain outside the eurozone, and expressed doubts about the EMU project and the wisdom of Swedish participation. The first convergence program, the EMU public inquiry, and the government’s 1997 EMU bill were steps along that path. Around the time of accession, fiscal consolidation was successfully implemented, so that Sweden might meet the convergence criteria. The lack of public support was cited as the reason not to join the first group of Member States to adopt the euro as their currency. The result was a decision by the government and the Riksdag to remain outside the eurozone when the euro was introduced. The Council of the EU addressed this political stance, which was problematic both politically and legally, by deciding that Sweden would have the temporary status of “Member State with a derogation”. This was brought in accordance with EU law by noting that the convergence criterion regarding exchange rate stability (ERM participation) was not met. Nor was the legislation regarding the Riksbank approved.

The 2003 Referendum: A failed attempt to introduce the euro

The 2003 referendum was an attempt to reverse the rejection of the EMU. The choice of holding a referendum regarding the introduction of the euro was crucial. This choice was the outcome of a peculiar series of events and by no means a foregone conclusion. The Social Democrats had, through an internal process, prepared for a decision in the Riksdag, in accordance with the broad political compromise from the membership negotiations. But a proposal for

a referendum in the autumn of 1997 by the leader of the largest opposition party changed the playing field. The clear “no” that emerged from the referendum came as a shock that silenced the EMU debate for a long time to come. Sweden did not adopt the euro and found itself in a complicated situation in terms of EU law and EU policy.

The years that followed: Distance

Prior to the referendum, there was no publicly announced plan for how economic policy and policy regarding the EU would be conducted in the event of a “no” vote. The result could be interpreted in a very narrow sense: not adopting the euro. It could also be interpreted in a broader sense: keeping a distance from everything related to the euro. With regard to so-called open forms of cooperation, in which non-eurozone Member States can participate on a voluntary basis, Sweden has thus far chosen not to participate in the arrangements with binding commitments: ERM2, the Treaty on Stability, Coordination and Governance (Fiscal Compact), and the Banking Union. Sweden has also refrained from participating in the looser forms of cooperation, the Euro Plus Pact and the Productivity Boards. However, Sweden did provide a bilateral loan to Ireland during the euro crisis. Sweden has consistently pursued stability-oriented economic policies. Sweden is one of the few Member States that has never had an “excessive deficit” in its public finances since the euro was introduced in 1999.

Some key themes

Looking at Sweden’s history with the EMU in perspective, some themes emerge.

1. *National sovereignty and freedom of action.* In Sweden, there has been a strong belief in the nation-state and the country’s own ability to build an advanced welfare state. The Swedish social and economic policy model has often been regarded as superior to that of continental Europe. This is a background to why, in some respects, it has been difficult to tie exchange

rate policy, monetary policy, fiscal policy, and the status of the Riksbank to the rules of the EMU.

2. *Export interests have not been particularly important.* The Swedish economy is dependent on favourable conditions for exports. Exports played a major role in Sweden's entry into the Bretton Woods system, the free trade agreement with the EC, EFTA, the EEA Agreement, and EU membership. However, these interests have not been prominent in the context of the EMU, because EU law ensures full access to the single market, with or without the euro.
3. *From criticism to acceptance of the EMU's economic policy principles.* Historically, there have been concerns that the Swedish welfare model and employment policy would conflict with the EU's market-liberal and stability-oriented principles. This changed after the crisis of the 1990s. Previously, full employment had been the overriding objective of economic policy. Instead, the convergence requirements for sound public finances and price stability became fundamental to Swedish economic policy.
4. *EMU was viewed as a political matter rather than a legal one.* The EU is a cooperation built on law, and for the EMU, it was a German priority that EMU rules be binding and enshrined in the Treaty. The legal aspect of the EMU represented something of a culture clash in Sweden. Sweden is certainly governed by the rule of law, but there is not a legalistic tradition for economic policy. Domestically, it was portrayed as if Sweden had genuine freedom of choice, while the EU institutions, according to the Treaty, must view the euro as an obligation.
5. *No breach with devaluation policy.* Devaluations played a major role in Swedish economic policy during the 1970s and early 1980s. Following the krona's fall in 1992, the krona has trended weaker against the Deutsche mark and the euro. Most other Member States have made a clear breach with devaluation policy, either within the ERM or upon joining ERM2. No such breach has occurred on Sweden's part.

Current relationship with the euro

The second part of the report outlines Sweden's current relationship with the euro area.

The Treaty states that it is an obligation to adopt the euro

The report highlights the key EMU provisions in the Treaty. It is clear that EMU is an integral part of the Treaty of Lisbon. The rules on the EMU apply in full to Sweden, as they do to all Member States except Denmark. Adopting the euro is both a right and an obligation. The four convergence criteria – price stability, sound public finances, participation in ERM2 with exchange rate stability, and low long-term interest rates – are prerequisites. This stems from the fact that only Member States with a sufficiently stable economy are considered capable of successfully participating in the euro area. Furthermore, legislation regarding the central bank must be compatible with the Treaty.

According to the Treaty, a Member State must pursue economic policies that lead to the fulfilment of the convergence criteria. In practice, this means that Member States must demonstrate a certain momentum in their efforts to meet the conditions for adopting the euro. The Commission and the ECB issue convergence reports every two years. Other types of preparations for the euro must also be carried out. If the Commission assesses that a Member State is eligible, it submits a proposal for that Member State to adopt the euro as its currency. The decision is then taken by the Council of the EU.

Sweden's situation is unique

Unlike Denmark, Sweden has no legal right to opt out of adopting the euro. The statement Sweden made during the negotiations on EU membership is reproduced in an appendix. The statement does not alter anything in the Treaty. The fact that Sweden's situation is well known to the EU institutions and among other Member States is another matter.

Although it has become a common belief in Sweden that there is complete freedom of choice regarding the euro, the EU institutions cannot act on that premise. They must comply with EU law. The situation became somewhat delicate, particularly during the historically significant decisions in 1998. The solution was to disqualify Sweden on the exchange rate criterion, since Sweden does not participate in the exchange rate mechanism – a model consistent with EU law. That model has been followed 15 times since then. Furthermore, Sweden’s legislation regarding the Riksbank has failed every convergence assessment.

The Commission has a role as the “guardian of the Treaty,” that is, to ensure that Member States comply with EU law. However, the obligation to adopt the euro can be described as a provision that cannot be enforced. The Commission has chosen the approach of not pressuring unwilling Member States to adopt the euro; without stating that the obligation does not exist.

Sweden meets three of four convergence criteria

The Treaty and the convergence reports from the Commission and the ECB outline how the four criteria are interpreted and measured. Convergence must not only apply at a given point in time but must also be “sustainable.” Therefore, both a retrospective and a forward-looking analysis is conducted.

According to the latest reports from 2026, Sweden receives high marks for three of the four criteria. The criterion on price stability is met by a wide margin. Regarding public finances, the country must not be subject to an excessive deficit decision, and this is assessed based on the well-known reference values of 3 percent of GDP for the deficit and 60 percent of GDP for debt. Sweden continues to meet this criterion. The criterion regarding long-term interest rates is also met by a wide margin.

The criterion that Sweden does not meet is the exchange rate criterion. Participation in ERM2 is a requirement, and Sweden has never participated in the exchange rate mechanism. In addition, the krona’s exchange rate against the euro has been volatile.

The convergence reports also review other relevant factors. It is noted that the Swedish economy is strong and increasingly

integrated with the EU and the eurozone. Sweden has a favourable business climate and its financial sector is described as sound and highly developed. Competitiveness and the external balance are positive. On the negative side, the housing markets and private debt are highlighted.

The overall picture is that the Swedish economy meets the convergence criteria by a good margin, with the exception of ERM2.

Legislation regarding the Riksbank has not been approved

When a country adopts the euro, its central bank becomes part of the Eurosystem (ECB and national central banks in the euro area). To ensure this functions effectively, the Commission and the ECB must assess in their convergence reports whether the legislation governing the central bank is compatible with the Treaty. This requirement has applied to Sweden since 1998. The institutions assess three broad areas: the central bank's independence, the prohibition of monetary financing, and integration into the Eurosystem.

The legislation governing the Riksbank has been criticized in every convergence report since 1998. Major changes to the Riksbank legislation took effect in 2023, but those changes did not address all of the identified shortcomings. Both institutions consider the Riksdag's involvement in setting the inflation target to be impermissible. Independence is considered to be compromised because the distinction between monetary policy and financial stability is drawn differently than what applies to the Eurosystem. The Commission and the ECB have objections regarding monetary financing. (i.e. central bank contribution to public finances). Another objection is that the legislation on integration into the Eurosystem does not recognize the ECB's competencies. Deficiencies were also identified in the Swedish Constitution regarding the issuance of banknotes.

Overall, both institutions assess that Sweden's legislation is not compatible with the Treaty, including the ESCB Statute.

Staying out of the euro means less influence

It is sometimes argued that Sweden does not lose influence by remaining outside the euro area. A closer examination, however, suggests a different assessment. The fact that the Swedish economy is so deeply integrated with the euro area means that Sweden is affected by decisions made by euro area countries. Most crucially, Sweden is excluded from the ECB's decision-making on monetary policy. While the ECB is independent, Sweden nevertheless lacks insight into monetary policymaking and the opportunity to present Swedish perspectives within the ECB Governing Council, the Executive Board, and the committees that prepare monetary policy decisions. Sweden also has no seat on the ECB's Supervisory Board, which makes decisions regarding supervision within the Banking Union. The same applies to the Single Resolution Board, which handles banking crises in the Banking Union.

Neither does Sweden have a seat in the Eurogroup, which in practice manages the coordination of economic policy in the euro area. Eurogroup meetings are prepared by the finance ministers' closest staff in the Eurogroup Working Group, and Sweden does not have a seat at that table either. Occasionally, the Eurogroup meets in an inclusive format, with the finance ministers of all Member States. In such cases, Sweden has a seat at the table but does not hold the same standing as the finance ministers from the euro area. Sweden is sometimes allowed to participate in the Euro Summit (heads of state and government), but even there, the role is not equivalent. The European Stability Mechanism (ESM) manages economic crises, and within the ESM, Sweden does not have the right to participate in the governing bodies. Sweden is allowed to participate in meetings regarding ERM2 but does not have the right to vote on entry into ERM2 or on central rates.

The Commission's economic positions have proven difficult to fill with Swedes. The position of Commissioner responsible for economic and financial affairs is, in practice, impossible for Sweden to hold. Other economic positions in the Commission, such as that for the internal market, are likely to be difficult or impossible for Sweden to hold.

Added to this is the fact that the Treaty on the Functioning of the European Union lists a number of matters where only eurozone

countries have voting rights. This applies to the coordination of economic policy (such as the Stability and Growth Pact) for the eurozone, as well as certain appointments and legal acts concerning, for example, the status of the euro and exchange rate policy globally.

The eurozone is one of the world's three major currency areas, along with the United States and China. The eurozone is Sweden's largest trading partner and has a major impact on Sweden's economy. Being able to exert influence, even if only marginally, is therefore significant. Sweden is today far from the position it held at the time of Bretton Woods. Sweden could strengthen the group of euro area countries that advocate free trade and stability-oriented economic policy. Recently, global currency issues and global imbalances have become important themes in international economic cooperation where Swedish interests are at stake, but these types of issues are handled within the Eurogroup, which consists solely of euro area countries.

It is difficult to say to what extent Sweden's choice to remain outside the euro area undermines its influence in a broader perspective. This could involve major strategic decisions regarding the direction of the EU and the euro area, as well as geopolitical dimensions. Among the factors that nevertheless give Sweden influence in EU policy without the euro are well-managed public finances, advanced financial markets, and sustained growth over time.

A volatile and weak currency is problematic for the single market, but Sweden benefits from the rules

European monetary cooperation has for decades served as a foundation for closer economic integration. The currency's significance for the single market is captured by the title of a widely circulated analysis by the Commission, *One market, one money*. Although the currency's importance for the single market is readily apparent, the connection is rarely discussed in Sweden. This report questions whether the single market would even be possible in the hypothetical scenario where all EU countries had freely floating currencies.

The Swedish krona has been volatile ever since it began its free float in 1992. It is a general pattern for freely floating currencies that

they fluctuate more than can be justified by economic fundamentals such as inflation or growth. In terms of trends, the krona has depreciated against the euro since its introduction in 1999, by more than 20 percent. There have been periods of both a weaker and a stronger krona. For example, the krona weakened by 18 percent during the global financial crisis, while it strengthened by 23 percent during the euro crisis. Such fluctuations are not easy for Swedish companies to manage, and they affect the internal market.

Sweden nevertheless has full access to the internal market because the rules are favourable. Joining ERM2 is not mandatory. EU rules permit a freely floating currency. The Treaty rules on the internal market apply equally to all Member States, and there are no conditions regarding the currency.

Sweden's possible road to the euro

A multi-year process

The third part of the report outlines the process if Sweden were to adopt the euro as its currency. This is a multi-year process. The euro could be introduced no earlier than January 1, 2032. The reason it takes time is that new legislation is required, as well as participation in ERM2 and the Banking Union. Legislative work needs to begin in 2027. A decision by the Riksdag is needed in 2029. Entry into ERM2 and the Banking Union would take place in the spring of 2029. Decisions on the introduction of the euro and the conversion rate would be made around the middle of 2031. If such a rapid process does not materialize, the dates will naturally be later. A referendum on the euro in 2030 would, in the event of a “yes” vote, mean that the euro could be introduced on January 1, 2034.

Year	Measure
2027	- Begin work on legislation regarding the Riksbank and the Banking Union
	- Parliamentary inquiry into introducing the euro as the currency
2028	- By May at the latest: Application to join the Banking Union
	- By May at the latest: Announcement of intention to join ERM2
2029	- January 1: Legislation on the Banking Union enters into force
	- January–April: Parliamentary resolution on the political intention to adopt the euro
	- By May at the latest: Entry into ERM2 and the Banking Union
2030	- Early in the year: Parliamentary decision on new legislation regarding the Riksbank,
	- September: General election to the Riksdag, where the EMU is discussed
	- Transition plan presented
2031	- January 1: New legislation on the Riksbank enters into force
	- May/June: Convergence reports from the Commission and the ECB
	- June/July: Decision by the Ecofin Council
2032	- January 1: The euro is introduced

ERM2

The Swedish economy has long met the criteria for adopting the euro in terms of price stability, public finances, and long-term interest rates. In these respects, economic policy can remain unchanged. The new element is ERM2. Sweden has not had a fixed exchange rate regime since the krona's fall in 1992. The rules and conditions for ERM2 are explained in this volume. The standard wide fluctuation bands of ± 15 percent would apply. In practice, however, the exchange rate needs to vary considerably less. It is important that the ECB, with its substantial resources, can defend the krona. The ECB and the Riksbank can carry out coordinated intramarginal interventions to limit the krona's exchange rate movements. The choice of central rate is a significant decision, made by the Swedish government and the Riksbank together with the euro area countries, the ECB and ERM2 participants. There is no set method for determining the central rate, but it is important to find an economically realistic rate that is neither too weak nor too strong. Entry into ERM2 would need to be announced approximately one year in advance.

An important recent change is that entry into the Banking Union must occur at the latest simultaneously with entry into ERM2. This

is an arrangement that should be viewed in light of conditions in the new Member States. However, since it is clearly stated that this rule applies to all Member States entering ERM2, it is reasonable to assume that it would also apply to Sweden. The practical consequences do not appear to be particularly significant, but the requirement does have implications for the process.

Legal adaptation

Legislation concerning the Riksbank must be amended to bring it into line with the Treaty. Amending ordinary law does not appear to be complicated, but the process takes time. The requirements for legal adaptation likely include amending the Constitution, which requires two decisions in the Riksdag with a general election (earliest 2030) in between and a two-thirds majority (a new requirement) for the second decision.

Special legislation is needed for a Member State outside the euro area to participate in the Banking Union through so-called “close cooperation.” The reason is that ECB legal acts can only be binding on euro area countries. Such legislation is probably not particularly complicated, but the process still takes time, involving proposals, public consultation, referral to the Council on Legislation, a government bill, and a decision by the Riksdag. The ECB needs up to a year to process an application to join the Banking Union, during which both legislation and the banking sector’s financial situation are analyzed. The legislative process must be well advanced by the time the application is submitted, and the legislative changes must have entered into force before entry into the Banking Union.

To participate in the Banking Union, Sweden must also ratify the intergovernmental agreement on the Resolution Fund. Another (likely) element involves legislation and other preparations regarding the backstop, which is a planned complement to the Resolution Fund which, for eurozone countries, is to be provided through the ESM.

Changeover plan

Changing currency is no small matter. Many parts of society would need to be involved for the whole process to run smoothly. The Commission, the ECB, and the 21 eurozone countries have accumulated significant experience on how best to manage the transition from national currencies to the euro. Sweden has already developed changeover plans twice: for the 1997 decision to remain outside the eurozone from the start and for the 2003 referendum. A changeover plan must comprise several components. Many different laws and regulations contain amounts in kronor that need to be changed. Cash is becoming less used, but there must still be euro banknotes and coins available. In the retail sector, dual pricing and measures to prevent price hikes in connection with the currency change may be necessary. The financial sector plays a key role. All bank accounts must be converted. The business sector must prepare its accounting, invoicing, and it-systems. Special information campaigns are needed for citizens and small businesses.

Political process

The form of a future political decision is essential. A review of what has been said and promised shows that a decision in the Riksdag is entirely possible and in accordance with the broad political agreement prior to EU membership. Various practical alternatives and models for such a Riksdag decision are being discussed. A new referendum is one possibility. In that case, it would be the first time a national referendum has been repeated in Sweden. There are various drawbacks and problems with a new referendum on the euro. The consequences of a new “no” vote must be made clearer than was the case in 2003. A new “no” vote is likely to be definitive or have an impact for several decades. A political stance needs to state the ambition to adopt the euro and, ideally, specify a timeline and other details. This should precede entry into ERM2, as this is a clear step toward the euro. Economic reasons also suggest that participation in ERM2 should have a political basis in order to minimize the risk for market turbulence due to political uncertainty.

The euro is not a make-or-break issue for the Swedish economy

The chapter on what would be different for the Swedish economy and economic policy addresses four areas: stabilization policy; an end to a depreciating and volatile currency relative to the euro; requirements under eurozone rules; and the risk of a federalist development.

Stabilization policy would face new conditions. This theme has been one of the dominant ones in the Swedish EMU debate. It has often been argued that Sweden needs its own monetary policy, but the Riksbank has, particularly in recent years, closely aligned itself with the ECB's monetary policy. Sweden's public finances are strong, which provides opportunities to counteract a recession at the national level if the ECB's monetary policy proves insufficient or in the event of an economic shock specific to Sweden. There is increasing Swedish economic integration into the eurozone and synchronization between the business cycles in Sweden and the euro area. This reduces the need for Swedish national policy instruments. Swedish wage formation is functioning well, and it is not particularly likely that competitiveness will be lost. Nevertheless, future economic shocks affecting only Sweden cannot be ruled out, though their timing and nature are impossible to predict. A national monetary policy is problematic in any case, given the single market.

Sweden would put an end to a policy which allows the krona to trend downward against the euro (although the future krona/euro exchange rate is unknown). This would be a significant change, though one that a number of other, economically weaker European countries have undergone. A strong currency is likely to have predominantly positive consequences in terms of predictability and productivity. On the negative side, there may be short-term pressure on the profitability of major net exporters (the basic industries). Volatility in the krona's exchange rate against the euro will cease, providing predictability for Swedish companies and citizens with economic ties to the eurozone.

The Riksbank would become part of the Eurosystem. Sweden would join the Banking Union, and this would need to happen nearly three years before the euro is introduced. Supervision and crisis management already take place according to a common regulatory framework, so the difference in substance is likely to be small.

Sweden would become a shareholder in the ESM, but this would not affect Swedish economic policy. The binding enforcement measures in the Stability and Growth Pact would apply, but all indications are that Sweden would not be affected by this at all. There is a rule regarding the review of euro area countries' draft budgets, and this could potentially have political consequences in Sweden, but hardly any substantive impact as long as the national fiscal policy framework is respected. Public debt would be converted to euros and, in principle, become foreign debt, and new government bonds would need to include clauses making them easier to restructure. The material consequences would, by all accounts, be insignificant. There would be some additional procedures and new forms of broader economic policy coordination, but hardly of a nature that would affect the freedom of action in Swedish economic policy.

Public finances

A concern occasionally raised in Swedish debate is that a crisis – whether a banking crisis or a fiscal crisis—would affect Swedish public finances (Sweden would have to pay for other countries' malpractice or lack of budgetary discipline). During and after the euro crisis, systems for preventing and managing crises have been established. They include the ESM, reforms to mechanisms for sound public finances, the Banking Union with improved supervision, higher capital requirements, and resolution rules. These systems have been tested during the Covid-19 crisis, though the NGEU (EU27) was established in a way that favoured certain Member States, both those inside and outside the eurozone. It is difficult to predict whether the system will withstand a future crisis. However, there are no hidden paths into the Swedish national budget; rather, the rules and mechanisms are known.

There would be three types of direct effects on public finances when adopting the euro, not counting administrative costs:

- The Riksbank would pay its entire share of the ECB's capital, estimated at around 300 million euros, or just over 3 billion kronor. The equity in the ECB will be accounted as an asset. The Riksbank is to provide the ECB with foreign exchange reserves.

- Sweden must become a member of the ESM. This entails contributing nearly 3 billion euros over a five-year period in paid-in capital. In addition, Sweden needs to provide a guarantee in the order of over 20 billion euros. The amount paid-in will be recorded as an asset on the government's balance sheet.
- The Resolution Fund and the backstop. Sweden needs to transfer funding in the order of 14–18 billion kronor to the Resolution Fund. These funds should be taken from what the banks have already paid into the Swedish Resolution Reserve. During the nearly three-year period that Sweden participates in the Banking Union through “close cooperation,” a loan commitment (credit line) of the same magnitude in parallel to the ESM will be needed (if the new ESM Treaty enters into force). Once Sweden becomes a shareholder in the ESM, this loan commitment will no longer be necessary.

Low probability of federalist development due to the EMU

Will fiscal and social policies be transferred to the EU level because of the euro? Following the euro crisis and other developments, it is now possible to identify patterns with some degree of certainty that suggest the EU will not evolve into a federal state because of the euro.

During the euro crisis, a number of radical proposals were put forward in a centralizing direction, but they were not implemented. The central funding mechanisms in the form of the ESM and the Resolution Fund that were established are subject to strict conditions. The fundamental “no-bail-out” rule, designed to prevent the EMU from becoming a transfer union, remains in place. Similarly, decisions on taxation require unanimity. Amendments to the EU's founding treaties require the approval of all Member States.

There is a tension between centralization and national democracy. In Germany, important legal rulings have been issued by the national Constitutional Court, making it clear that the EU's powers in economic policy cannot extend much beyond what is stipulated in the current Treaty.

This does not preclude the EU from moving in a federalist direction for other reasons. There are grounds for this in the form of geopolitics and greater ambitions in joint projects. There may also be tendencies toward division due to populist movements.

Sweden's policy options regarding EMU

The report concludes by identifying options for Swedish EMU policy. Four options are deemed realistic. In addition, two other conceivable but unrealistic outcomes are discussed as part of the overall picture. The four policy options are:

1. *Adopt the euro as the currency.* The process, various requirements, and consequences have been discussed in previous sections.
2. *Continue the current arrangement.* This would mean not changing the present policy, that is, not adopting the euro.
3. *Remove obstacles to introducing the euro.* This option would involve taking limited but non-binding steps toward the euro: correcting deficiencies in the legislation governing the Riksbank and preparing legislation on the Banking Union.
4. *Partially move toward the euro.* In addition to option 3, this would involve joining the Banking Union.

There are thus a couple of additional outcomes that could hypothetically result from choices regarding the EMU issue, even if they seem unlikely and unreasonable. One outcome is to seek a Treaty protocol for an opt-out. This would provide a legal right not to adopt the euro. However, such a protocol is difficult, or nearly impossible, to obtain. An extreme option would be to leave the EU. All Member States have the right to leave the EU, and in doing so, a Member State would be released from all rights and obligations under EU law. Given the experiences of Brexit and the strong support for EU membership among the Swedish public, it would be far-fetched and strange to take such a drastic step solely because of the issues surrounding EMU.