

OPINION OF THE EUROPEAN MONETARY INSTITUTE

on a consultation from the Swedish Ministry of Finance under Article 109f (6) of the Treaty establishing the European Community (“the Treaty”) and Article 5.3 of the Statute of the EMI (“the Statute”);

on a draft government bill introducing a ban on monetary financing (“the Bill”).

CON/95/8

- 1 The present consultation was initiated on 10th April 1995 by the Swedish Ministry of Finance, which, for this purpose, transmitted to the EMI a translation of the Bill. Pursuant to Article 4 of the Council Decision of 22nd November 1993 (93/717/EC) on consultation of the European Monetary Institute by authorities of the Member States on draft legislative provisions, the EMI has been asked to deliver its opinion by 10th May 1995.
- 2 The main purpose of the Bill is to introduce into Swedish law the ban on monetary financing of the public sector. Furthermore, the Bill shall serve the purpose of ensuring, in an environment of prohibition of monetary financing, efficient management by the central bank of money market liquidity and of Sweden’s foreign exchange reserves. Moreover, the Bill proposes an adaptation of legislation on the sanctions to be imposed on credit institutions in cases of non-compliance with reserve requirements imposed by the Riksbank.
- 3 The EMI’s competence to give an opinion in this consultation is based on Article 1, paragraph 1, of Council Decision 93/717/EC, as the Bill deals with the adaptation of national law to secondary EC legislation in the fields of Articles 104 and 104a of the Treaty and with the powers of a national central bank and instruments of monetary policy.
- 4 As regards the main provisions on the ban on monetary financing, the Bill proposes the prohibition of State borrowing from the Riksbank and of direct Riksbank purchases of treasury paper from the National Debt Office. These prohibitions are necessary to make Swedish law compatible with the Treaty and the Statute of the European System of Central Banks (ESCB) (see Article 108 of the Treaty).

Regarding “other types of credit facilities” provided by the central bank to the public sector, the Bill proposes that the government takes over all commitments associated with Sweden’s membership in the World Bank (IBRD); in this respect, the Bill provides for the unrequited transfer to the Swedish government of Sweden’s paid-up capital contribution. The EMI is of the opinion that the government’s assumption of all responsibilities resulting from Sweden’s membership in the World Bank is necessary to ensure that the statute of the national central bank is compatible with the prohibition of central bank financing of public sector obligations vis-à-vis third parties specified in Council Regulation (EC) No. 3603/93, Article 1.1 (b) (ii). With respect to the proposed unrequited transfer of the paid-up capital share from the Riksbank to the government, it should be recalled that the principle underlying Article 104 of the Treaty and the Council Regulation provides for the eventual repayment of such claims. At the same time, the EMI notes that the amount in question is only a small fraction of the normal amount of the dividends which are paid by the Riksbank out of its profits to the government budget, and that redemption could alternatively have been effected in connection with the payment of the dividend.

The Bill also provides for the central bank to be entitled to provide credit within the framework of the European Community’s medium-term financial assistance. This provision of the Bill does not infringe upon the Treaty, as an exemption for this form of credit is provided for in Article 7 of Council Regulation (EC) No. 3603/93.

- 5 On the other issues contained in the Bill, the EMI considers it premature to formulate a definitive view as to whether the envisaged rules will be compatible with the future system of the ESCB, as discussions concerning the desirable features of this system have not yet been completed. The compatibility of Swedish legislation with the Treaty and the Statute of the European System of Central Banks / European Central Bank will have to be reviewed in connection with the report mentioned in Article 109j (1) of the Treaty.
- 6 The EMI agrees that this opinion may be made public by the competent Swedish authorities at their discretion.

10th May 1995