

# Should Sweden finally adopt the euro?

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When the euro was introduced in 1999, Sweden chose not to join. In a referendum in 2003, a majority voted against membership of the monetary union. For many years afterwards, the issue was politically dead. Recently, however, a new discussion has started.

The likely consequences of adopting the single currency were analysed in 1996 by a government commission which I chaired. It recognised the social efficiency gains that would come from eliminating exchange-rate uncertainty and the increased political influence likely to accrue from belonging to the Eurozone. However, the commission judged that the impact of giving up an independent monetary policy would be too severe.

Today the balance of economic arguments appears more favourable to Swedish euro membership. Research has found substantially larger positive effects on trade and foreign direct investment from adoption of the single currency than was anticipated in the 1990s. At the same time, the costs as far as monetary policy is concerned seem much smaller.

First, the Swedish business cycle has become more synchronised with that of the Eurozone. Second, Sweden's public debt is now low, at 35 per cent of GDP, giving the government far greater room to use fiscal policy to support demand in a Sweden-specific recession. And third, the krona's tendency to depreciate in global crises may be less beneficial in today's geopolitically unstable world, likely to be characterised by negative supply shocks. A weaker currency in such situations makes inflation harder to control.

One concern remains the high and rising public debt in parts of the Eurozone and the associated risk of new sovereign debt crises. Yet Sweden would also be affected by these outside the single currency, while having less influence over how they are managed.

The commission's fears that remaining outside the monetary union would weaken Sweden's political influence within the EU have been only partially vindicated. This does not seem to have happened in areas such as foreign and security policy, the single market, energy policy and trade policy, although it did occur in matters of economic governance.

The most significant political change, however, concerns the worsened geopolitical situation. Europe needs deeper political co-operation if it is to assert its interests. Euro membership would mean greater Swedish participation in joint decision-making and ensure that European issues feature more prominently in domestic political debate.

Critics of monetary union often argue that it risks creating conflicts between members and undermining popular support for the EU. Such tensions occurred during the euro crisis, although

they appear to have been temporary, with support for the EU recovering in the Eurozone countries in the years since.

Various aspects of Swedish euro membership have recently been examined in a study commissioned by the Swedish Free Enterprise Foundation, which I also led. Public opinion in Sweden has become more favourable to adopting the euro, although a clear majority still opposes it. The aim of our work was to stimulate debate.

The question of how any decision on the euro should be taken is a fraught one.

Given the strong commitment to respecting the outcome of the 2003 referendum, applying for euro membership without a new vote would raise concerns about democratic legitimacy. And a fresh referendum is unlikely unless public opinion shifts significantly. But with growing geopolitical tensions and global economic uncertainty, such a shift could well occur.

**Lars Calmfors**