

Box 9
ENTRY OF THE SLOVAK KORUNA INTO THE EXCHANGE RATE MECHANISM II (ERM II)

At the request of the Slovak authorities, the finance ministers of the euro area Member States of the EU, the President of the ECB and the finance ministers and the central bank governors of Cyprus, Denmark, Estonia, Latvia, Lithuania, Malta, Slovenia and Slovakia decided on 25 November 2005, by mutual agreement, following a common procedure involving the European Commission and after consultation with the Economic and Financial Committee, to include the Slovak koruna in the Exchange Rate Mechanism II (see communiqués of the EU of the same date).

The central rate for the Slovak koruna has been set at SKK/EUR 38.4550. The standard fluctuation band of $\pm 15\%$ will be observed around the central rate of the koruna. Accordingly, the compulsory intervention rates for the Slovak koruna have been established with effect from 28 November 2005 as set out in Table A below. The euro central rate and compulsory intervention rates for the Danish krone, the Estonian kroon, the Cyprus pound, the Latvian lats, the Lithuanian litas, the Maltese lira and the Slovenian tolar remain unchanged. For the Danish krone only, a fluctuation band of $\pm 2.25\%$ applies.

Table A Euro central rates and compulsory intervention rates for the currencies of the Member States participating in ERM II, in force as of 28 November 2005 (EUR 1 =)

	Upper rate	Central rate	Lower rate
Danish krone	7.62824	7.46038	7.29252
Estonian kroon	17.9936	15.6466	13.2996
Cyprus pound	0.673065	0.585274	0.497483
Latvian lats	0.808225	0.702804	0.597383
Lithuanian litas	3.97072	3.45280	2.93488
Maltese lira	0.493695	0.429300	0.364905
Slovak koruna	44.2233	38.4550	32.6868
Slovenian tolar	275.586	239.640	203.694

The agreement on the participation of the Slovak koruna in ERM II is based on a firm commitment by the Slovak authorities to promote wage developments that remain in line with productivity growth, thereby contributing to achieving price stability in a sustainable manner, and to pursue sound fiscal policies which are essential for preserving macroeconomic stability,

Table B Main economic indicators for Slovakia

(annual percentage changes, unless otherwise indicated)

	2001-2003 (average)	2004
Real economic growth	4.3	5.5
HICP inflation	6.4	7.5
Current account balance (% of GDP)	-5.7	-3.5
Fiscal deficit (% of GDP)	-6.0	-3.1
Government debt (% of GDP)	45.4	42.5
Long-term interest rate	6.7	5.0
Short-term interest rate	7.2	4.7
Exchange rate (per EUR)	42.5	40.0

Sources: ECB and Eurostat.

Note: Data refer to annual averages.

including low inflation, and for ensuring the sustainability of the convergence process. The Slovak government's medium-term fiscal consolidation strategy requires a high degree of budgetary discipline and needs to be implemented decisively through measures of a permanent nature. Strict monitoring of budget execution will be required, aimed at the timely detection and correction of slippages.

The authorities, together with the responsible EU bodies, committed to closely monitor macroeconomic developments. The authorities also committed to strengthening the fiscal stance, if warranted. They announced that they would remain vigilant concerning risks of strong domestic credit growth. They also committed to implement structural reforms aimed at further enhancing the economy's flexibility and adaptability in a timely fashion so as to strengthen domestic adjustment mechanisms, reduce unemployment and maintain the overall competitiveness of the economy.