

Box 5

ADOPTION OF THE EURO BY SLOVENIA AS FROM 1 JANUARY 2007

Following the submission of requests by the national authorities of Slovenia and Lithuania for an examination of their progress in fulfilling the Maastricht Treaty (Article 122(2)) for the adoption of the euro, the ECB and the European Commission have prepared their respective Convergence Reports. These reports were published on 16 May 2006. On the basis of the examination therein, Slovenia was considered to have fulfilled the necessary conditions for the adoption of the single currency. In view of this, on 11 July 2006, the EU Council adopted a decision allowing Slovenia to join the euro area and adopt the euro as its currency as from 1 January 2007.

The EU Council also adopted a regulation fixing the irrevocable conversion rate between the Slovenian tolar and the euro. The conversion rate is set at 239.640 Slovenian tolar to the euro, which corresponds to the central rate agreed on 28 June 2004 when the Slovenian currency entered the Exchange Rate Mechanism II (ERM II). Within ERM II, the Slovenian currency's central rate against the euro has not been devalued and the tolar-euro exchange rate has stayed close to the central rate. The ECB supported the choice of the current central rate as the conversion rate upon euro adoption. Following the setting of the euro conversion rate of the Slovenian tolar, the ECB and Banka Slovenije will monitor developments in the market exchange rate of the Slovenian tolar against the euro in the context of the ERM II agreement until the end of 2006.

The enlargement of the euro area to include Slovenia will be a landmark. The admission of Slovenia will make it the first country to join the euro area out of the ten Member States that joined the European Union on 1 May 2004. With the adoption of the euro, Slovenia will be able to share the benefits of the single currency, which eliminates exchange rate uncertainty within the Monetary Union and offers a credible monetary policy framework for maintaining price stability in an environment of low long-term interest rates, full price and cost transparency, reduced transaction and information costs and a greater resilience to economic and financial shocks. In order to make the most of the benefits of adopting the euro, the EU Council has encouraged Slovenia to continue with appropriate policies, in particular as regards budgetary soundness, structural reform and maintaining the competitiveness of its economy. At the same time, in order to fully reap the advantages of the euro and to allow for adjustment mechanisms to operate efficiently within the enlarged currency area, it will be necessary to fully integrate Slovenia into EMU, which calls for all remaining barriers to be removed, including those related to labour mobility. Indeed, open, competitive and flexible markets are of particular importance for the functioning of the euro area economy and the smooth conduct of the single monetary policy.