

Box 7

REVALUATION OF THE SLOVAK KORUNA WITHIN ERM II

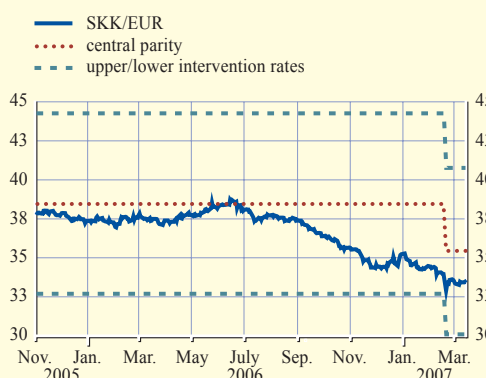
The Slovak currency began participating in ERM II on 28 November 2005 with an initial central rate of SKK/EUR 38.4550. Since joining ERM II, the koruna has traded mostly on the stronger side of the ERM II central rate (see chart). In the second quarter of 2006, however, the koruna temporarily came under some downward pressure. Against the background of strong macroeconomic developments and a favourable economic outlook, the koruna thereafter entered a protracted period of appreciation which, following a short pause at the turn of the year, gained further momentum during February and the first half of March 2007. In order to contain exchange rate volatility and excessive market pressures, Národná banka Slovenska has intervened in foreign exchange markets on a number of occasions since joining ERM II.

At the request of the Slovak authorities, the finance ministers of the euro area countries, the President of the ECB and the finance ministers and central bank governors of Denmark, Estonia, Cyprus, Latvia, Lithuania, Malta and Slovakia decided on 16 March 2007, by mutual agreement, following a common procedure involving the European Commission and after consultation of the Economic and Financial Committee, to adapt the central rate of the Slovak koruna in ERM II. The central rate of the Slovak koruna was revalued by 8.5% (see chart), now standing at SKK 35.4424 vis-à-vis the euro. The standard fluctuation band of $\pm 15\%$ continues to be observed around the central rate of the koruna.¹

Accordingly, new compulsory intervention rates for the Slovak koruna have been established with effect from 19 March 2007, as set out in Table A below. The euro central rates and compulsory intervention rates for the Danish krone, the Estonian kroon, the Cyprus pound, the Latvian lats, the Lithuanian litas and the Maltese lira remain unchanged. For the Danish krone only, a narrower fluctuation band of $\pm 2.25\%$ applies.

Developments of the koruna exchange rate since ERM II entry

(daily data)



Source: ECB.
Note: Last observation refers to 11 April 2007.

¹ See the joint communiqué on the Slovak koruna of 16 March 2007.

Table A Euro central rates and compulsory intervention rates for the currencies participating in ERM II, in force from 19 March 2007

	Upper intervention rate	Central rate	Lower intervention rate
Danish krone (DKK)	7.62824	7.46038	7.29252
Estonian kroon (EEK)	17.9936	15.6466	13.2996
Cyprus pound (CYP)	0.673065	0.585274	0.497483
Latvian lats (LVL)	0.808225	0.702804	0.597383
Lithuanian litas (LTL)	3.97072	3.4528	2.93488
Maltese lira (MTL)	0.493695	0.4293	0.364905
Slovak koruna (SKK)	40.7588	35.4424	30.126

As stated in the joint communiqué, the revaluation of the central rate of the Slovak koruna is justified given the underlying fundamentals. It will support the authorities in maintaining macroeconomic stability. The revaluation is based on a firm commitment by the authorities to pursue appropriate supportive policies, aimed in particular at achieving price stability in a sustainable manner and underpinning external competitiveness and economic resilience.

These policies include: strengthening the fiscal adjustment path in structural terms, in line with the Council opinion adopted on 27 February 2007 on the updated convergence programme of Slovakia, in order to contribute to a balanced policy mix aimed at containing inflationary risks and supporting the sustainability of the convergence process; the promotion of wage developments which reflect labour productivity growth, labour market conditions and competitiveness; and the continuous pursuit of structural reforms so as to raise productivity growth and improve the functioning of product, labour and financial markets. In addition, the Slovak authorities will be vigilant concerning risks of strong credit growth. The authorities, together with the responsible EU bodies, will closely monitor macroeconomic and exchange rate developments. The authorities are committed to strengthening the policy stance as warranted. Table B provides an overview of selected economic indicators for Slovakia since 2001.

Table B Selected economic indicators for Slovakia

(percentages, unless otherwise indicated)

	2001-2005	2006
Real economic growth	4.6	8.3
HICP inflation	5.9	4.3
Current account balance ¹⁾	-5.4	-7.8
Fiscal deficit ¹⁾	-4.8	-3.4
Government debt ¹⁾	42.2	33.0
Long-term interest rate	5.7	4.4
Short-term interest rate	5.9	4.3
Exchange rate against the euro (SKK)	41.2	37.2

Sources: ECB and Eurostat (Ameco database).

Note: The data refer to annual averages.

1) Percentages of GDP.