

### REVALUATION OF THE SLOVAK KORUNA WITHIN ERM II

With effect from 29 May 2008, the Slovak Koruna was revalued by 17.6472% within ERM II. This box provides some background to the decision.

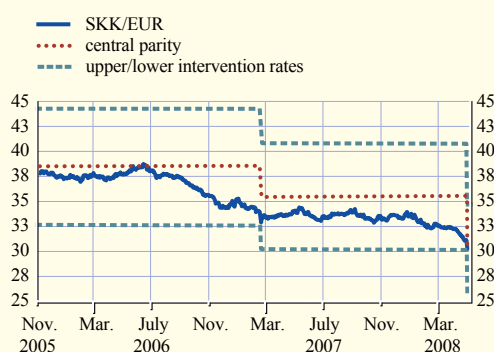
The Slovak currency began participating in the Exchange Rate Mechanism II (ERM II) on 28 November 2005 with an initial central rate of SKK/EUR 38.4550. Supported by strong macroeconomic developments and a favourable economic outlook, the koruna has traded mostly on the stronger side of the ERM II central rate since joining ERM II (see chart). Against this background, the central rate of the Slovak koruna in ERM II was revalued by 8.5% to SKK/EUR 35.4424 with effect from 19 March 2007 using the standard

ERM II exchange rate procedure.<sup>1</sup> Following the revaluation, the Slovak koruna continued to trade consistently on the stronger side of the ERM II central rate and was affected only temporarily by the global financial market tensions. In mid-January 2008, the koruna started to appreciate noticeably vis-à-vis the euro in the context of strong economic growth, with the appreciation gaining further momentum following the publication of the Convergence Reports by the European Commission and the ECB and the proposal by the European Commission to the Council for Slovakia to adopt the euro on 1 January 2009. On 28 May 2008, the Slovak currency stood at SKK/EUR 30.662, 13.5% stronger than its central rate.

At the request of the Slovak authorities, the ministers of the euro area Member States of the European Community, the European Central Bank and the ministers and the central bank governors of Denmark, Estonia, Latvia, Lithuania, and Slovakia have decided, 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. As noted before, the central rate of the Slovak koruna has been revalued by 17.6472% with effect from 29 May 2008. The new central rate of the koruna is SKK/EUR 30.1260, at the lower end of the previous fluctuation band. The standard fluctuation band of  $\pm 15\%$  continues to be observed around the central rate of the koruna. Accordingly, new compulsory intervention rates for the Slovak koruna have been established with effect from 29 May 2008, as set out in Table A below.

#### Developments in the exchange rate of the koruna since ERM II entry

(daily data)



Source: ECB.

<sup>1</sup> See Box 7 "Revaluation of the Slovak koruna within ERM II" in the April 2007 issue of the Monthly Bulletin for further information.

**Table A Euro central rates and compulsory intervention rates for the currencies of the EU Member States participating in ERM II, in force from 29 May 2008**

	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
Latvian lats (LVL)	0.808225	0.702804	0.597383
Lithuanian litas (LTL)	3.97072	3.45280	2.93488
Slovak koruna (SKK)	34.6449	30.1260	25.6071

The following is a quote from the European Union Communiqué issued on 28 May 2008:

“The revaluation of the central rate of the Slovak koruna is justified by ongoing improvements in 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 maintaining price stability in a sustainable manner, underpinning external competitiveness and strengthening economic resilience.

These policies include: strengthening the pace of fiscal adjustment in structural terms in 2008 and ensuring an annual average structural adjustment of at least 0.5% of GDP from 2009 onwards, in line with the Council opinion adopted on 12 February 2008 on the updated convergence programme of Slovakia; adopting, if necessary, an even tighter fiscal stance should additional inflationary pressures arise; promoting wage developments which reflect labour productivity growth, in particular in the public sector; further structural reforms to enhance the institutional framework in the areas of education and R&D, to foster the better functioning of labour markets (in particular by tackling the combination of a high structural unemployment rate, regional disparities and emerging skill mismatches) and to improve the business environment in order to raise productivity growth. The Slovak authorities will ensure an efficient price setting in regulated industries, in particular in the energy sector. They will continue to closely monitor financial stability to prevent relaxation of credit standards and to ensure proper accounting for credit risks. The authorities, together with the responsible EU bodies, will closely monitor macroeconomic and exchange rate developments. The authorities commit to strengthen the policy stance as warranted.

The decision is without prejudice to the possible decision of the Council regarding euro adoption by Slovakia (as outlined in Article 122(2) of the Treaty).”

**Table B The main economic indicators for Slovakia**

(annual percentage changes; percentage per annum)

	2001-2006	2007
Real economic growth	5.5	10.4
HICP inflation	5.6	1.9
Current account balance <sup>1)</sup>	-7.5	-5.1
Fiscal deficit <sup>1)</sup>	-4.4	-2.2
Government debt <sup>1)</sup>	40.1	29.4
Long-term interest rate	5.5	4.5
Short-term interest rate	5.6	4.3
Exchange rate against the euro (SKK)	41.3	33.8

Sources: ECB and Eurostat (Ameco database).

Note: The data refer to annual averages.

1) Percentages of GDP