

## Box 6

### THE INTRODUCTION OF THE EURO IN SLOVAKIA ON 1 JANUARY 2009

In response to a request by the national authorities of Slovakia for a review of their progress in fulfilling the provisions of the Maastricht Treaty for the adoption of the euro (Article 122(2)), the ECB and the European Commission both prepared the required Convergence Reports. These reports, examining the achievement of a high degree of sustainable convergence, were published on 7 May 2008. On the basis of the results of the underlying examination, the European Commission concluded that Slovakia had fulfilled the necessary conditions for the adoption of the single currency. On 8 July 2008 the EU Council adopted a decision allowing Slovakia to adopt the euro as its currency on 1 January 2009.

The EU Council also adopted a regulation fixing the irrevocable conversion rate for the Slovak koruna to the euro. The conversion rate was set at 30.1260 korunas per euro. This conversion rate corresponds to the existing central rate in the exchange rate mechanism II (ERM II). The ECB supported the choice of the existing central rate as the conversion rate upon adoption of the euro. The Slovak koruna entered ERM II in November 2005. During its participation in ERM II, the currency was revalued twice against the euro (by 8.5% in March 2007 and by 17.6472% in May 2008), supported by ongoing improvements in underlying fundamentals.<sup>1</sup> Now that the conversion rate has been fixed, the ECB, together

<sup>1</sup> See Box 11, entitled “Revaluation of the Slovak koruna within ERM II”, in the June 2008 issue of the Monthly Bulletin for further information.

with Národná banka Slovenska, will monitor developments in the market exchange rate of the Slovak koruna against the euro in the context of the ERM II agreement until the end of 2008.

With the introduction of the euro by Slovakia on 1 January 2009, the euro area will comprise 16 EU Member States. Slovakia will share the benefits of the single currency, which eliminates exchange rate uncertainty within Economic and 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 greater resilience to economic and financial shocks. In order to ensure that the benefits of adopting the euro are reaped in full, the EU Council has encouraged Slovakia to pursue prudent fiscal policies and implement further structural reforms. The EU communiqué issued upon the Slovak koruna's revaluation in May 2008 lists the relevant policy recommendations for Slovakia in more detail.<sup>2</sup> At the same time, in order to fully reap the advantages of the euro and to allow adjustment mechanisms to operate efficiently within the enlarged currency area, the full integration of Slovakia into the euro area 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.

<sup>2</sup> See the box referred to in footnote 1.