Adoption by Slovakia of the single currency on 1 January 2009

2008/0092(CNS) - 07/05/2008 - Document attached to the procedure

The Commission adopted its 2008 regular convergence report which assesses the progress made by the 10 EU countries with a ‘derogation’ in order to adopt the Euro.

The latest Commission and ECB regular Convergence Reports were adopted in December 2006. Denmark and the United Kingdom have not expressed their wish to adopt the single currency. Therefore, this convergence assessment covers the following ten Member States with a derogation: Bulgaria, the Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovakia and Sweden. Having joined the EU on 1 January 2007, Bulgaria and Romania are examined for the first time.

EU countries that do not meet the Maastricht convergence criteria for the Euro set out in Article 121(1) of the EU Treaty are said to have a 'derogation'. The criteria consist of four stability-oriented economic conditions regarding the government budgetary position, price stability, exchange rate stability and convergence of long-term interest rates. The national legislation on monetary affairs must also be in line with the EU Treaty.

According to the Treaty, the Commission reports every two years on the subject. Member States concerned can request that their readiness be assessed at any other moment. Slovakia recently made such a request although the Convergence Report was already being prepared.

In terms of Slovakia, the results of the assessment are as follows:

Inflation: the 12-month average inflation in March 2008 in Slovakia was 2.2%, well below the reference value calculated at 3.2% for the same month. This is considered a sufficient margin to allay concerns about rising inflation. However, Slovakia will need to remain vigilant to keep inflation at a low level, notably by maintaining wage discipline, adopting a more ambitious fiscal stance and further advancing structural reforms to improve the functioning of product markets.

Public finances: the deficit and debt are well within the acceptable limits for the convergence assessment: the deficit was 2.2% of GDP in 2007 and is expected to come down to 2.0% of GDP in 2008, in the Commission's spring forecasts. The general government debt stood at 29.4% of GDP in 2007. The Commission considers that the excessive deficit has been corrected in a credible and sustainable way and recommends that the ECOFIN Council closes the excessive deficit procedure for Slovakia. If this is done, Slovakia will fulfil the criterion on the government budgetary situation.

Interest rates: Slovakia’s average long-term interest rate over the year to February 2008 was 4.5%, below the reference value of 6.5%. It has been below the reference value since EU accession in 2004. The spreads vis-à-vis Euro area long-term benchmark bonds have also been declining markedly since 2002, which testifies to the low residual country risk priced in by the markets.

Exchange rate: As for the exchange rate criterion, the Slovak koruna has participated in ERM II since 28 November 2005. Although the exchange rate has risen quite strongly against the central rate, the Commission finds that the reasons for the appreciation are sound and that the koruna has not experienced severe tensions.

Finally, Slovakia’s legislation in the monetary field is also found to be compatible with the EU legislation.

Based on this assessment, and on the European Central Bank's own Convergence report, the **Commission proposes that Slovakia adopts the Euro in 2009**, assuming that the Council will follow the Commission's recommendation for the abrogation of the excessive deficit of this country.

The report concludes that **none of the other nine countries** assessed in the report is found to meet all the convergence criteria for adopting the Euro