Analysis of convergence of the Slovak economy

Part 2

Ing. Tibor Lalinský
National Bank of Slovakia

In the first part of the article, we have assessed the development of nominal and real convergence of the Slovak economy to the EU average. Average year-on-year inflation decreased below its reference value during the last year. The general government budget deficit for 2007 reached a value considerably below the allowed 3% of GDP. Slovakia has fulfilled all Maastricht criteria. At the same time, highest ever economic growth accompanied by an increasing economic potential has been recorded.
The second part deals with mutual comparisons of the convergence process in Slovakia with the development in other new EU member countries and with the evaluation of the long-term Maastricht criteria fulfillment after the introduction of the euro in the current euro-area countries.

Comparison of the state and prospects of the convergence process in the new EU countries

The current state of the fulfillment of the Maastricht criteria in the V4 countries

The year-on-year development in the V4 countries is characterized by an improvement of the general government balance and by accelerating inflation. Slovakia represents an exception, as the price growth has decelerated, and Slovakia is currently the only V4 country fulfilling all Maastricht criteria.

In May 2008, the European Commission (EC) stated a sustainable reduction of the government deficit below 3% of GDP in the case of the Czech Republic and Slovakia. At the same time, the commission recommended to the EU Council to abrogate the excessive deficit procedure for those countries. In late 2007, Poland was invited to submit an updated convergence program to confirm the sustainability of the excessive deficit correction and of its heading towards a balanced budget. Following the updated program submitted by Poland and the EC recommendation, the EU Council abrogated the excessive deficit procedure not only for Slovakia and the Czech Republic, but also for Poland. Hungary has also recorded a year-on-year decrease in the government deficit. But the ratio of the government deficit to GDP continues to be high above the reference value. Hungary does not fulfill either the second part of the fiscal criterion – the public debt level below 60% of GDP.

Only Slovakia fulfills the inflation criterion. Influenced by the growth of the prices of food and energy commodities on the world markets, inflation in the Czech Republic and Poland increased

Table 7 Current state of the fulfillment of the Maastricht criteria in V4 countries (March 2008)

Criterion:		Slovakia	Czech Republic	Poland	Hungary
Fiscal criterion[1)] (% of GDP)	General government budget balance	-2.2	-1.6	-2.0	-5.5
	General government debt	29.4	28.7	45.2	66.0
		fulfilled	fulfilled	fulfilled	not fulfilled
Inflation rate (HICP)		2.2%	4.4%	3.2%	7.5%
		fulfilled	not fulfilled	not fulfilled	not fulfilled
Long-term interest rate		4.5%	4.5%	5.7%	6.9%
		fulfilled	fulfilled	fulfilled	not fulfilled
Exchange rate stability		participation in ERM II	outside ERM II	outside ERM II	outside ERM II
		fulfilled	not fulfilled	not fulfilled	not fulfilled

1) Year 2007.
Source: Eurostat

Table 8 Current state of the fulfillment of the Maastricht criteria in the Baltic countries, Bulgaria and Romania (March 2008)

Criterion:		Estonia	Lithuania	Latvia	Bulgaria	Romania
Fiscal criterion[1)] (% of GDP)	General government budget balance	2.8	-1.2	0.0	3.4	-2.5
	General government debt	3.4	17.3	9.7	18.0	13.0
		fulfilled	fulfilled	fulfilled	fulfilled	fulfilled
Inflation rate (HICP)		8.3%	7.4%	12.3%	9.4%	5.9
		not fulfilled	not fulfilled	not fulfilled	not fulfilled	not fulfilled
Long-term interest rate		-	4.6%	5.4%	4.7%	7.1
		fulfilled[2)]	fulfilled	fulfilled	fulfilled	not fulfilled
Exchange rate stability		participation in ERM II	participation in ERM II	participation in ERM II	outside ERM II	outside ERM II
		fulfilled	fulfilled	fulfilled	not evaluated	not evaluated

1) Year 2007.
2) Due to low debt level, no bonds or long-term securities are available, based on which it would be possible calculate an average long--term interest rate. The level of rates in the case of commercial loans is not higher than the reference value.
Source: Eurostat.

above the level of the reference value. The twelve-month average of year-on-year inflation in Hungary exceeded the value of the reference value more than two times.

The Maastricht criterion for the level of the long-term interest rate is fulfilled by all V4 countries except Hungary. The average long-term interest rate in Hungary fell year-on-year, but it is still higher than the reference value.

Slovakia has been an ERM II member for a sufficiently long period of time and has fulfilled the criterion of exchange rate stability. The remaining V4 countries are not members of the ERM II and hence do not fulfill the main condition for exchange rate assessment.

The current state of the fulfillment of the Maastricht criteria in the Baltic countries, Bulgaria and Romania

The development in the Baltic countries, Bulgaria and Romania differs from the development of the V4 countries mainly in terms of budget discipline. Those countries had fulfilled the fiscal criterion as early as at the time of their accession to the EU. Bulgaria and Estonia have recorded a budget surplus in 2007 and Latvia had a balanced budget.

On the other hand, inflationary pressures resulting from a fast growth of domestic demand and wages increases are rising in those countries in addition to a stronger impact of the global growth of food and energy prices. With the exception of Romania, where the influence of a strengthening exchange rate becomes visible, the twelve-month average of year-on-year inflation in the countries under review reached a value several times higher than the reference value. Neither the Baltic countries, nor Bulgaria or Romania fulfill the inflation criterion.

The Baltic countries and Bulgaria fulfill the long-term interest rate criterion. In Romania, the long-term interest rate was slightly above 7% in March, i.e. higher than the 6.5% reference value.

Due to the applied currency board regime or the obligation to keep the exchange rate within the fluctuation band of ± 1% (in the case of Latvia), those countries maintain a stable exchange rate. The Baltic countries fulfill the exchange rate stability criterion also formally, because they have been members of the exchange rate mechanism for more than 2 years. The applied exchange rate mechanism, however, is reflected in their different economic development compared to V4 countries, above all in faster price level growths.

Outlook for the fulfillment of the Maastricht criteria

When evaluating the outlook for the fulfillment of the Maastricht criteria, especially of the planned fiscal consolidation, we start out from a comparison of baseline expectations of the updated convergence programs. In several cases, we take into account also more up-to-date estimates of the European Commission presented in the spring economic forecast.[1]

In its official opinion on the Updated Convergence Program (UCP) of February 2008, the EU Council acknowledged that the UCP submitted by Slovakia is in line with the aim of eliminating the excessive budget deficit until 2007. The convergence report published by the European Commission in May 2008 confirmed that Slovakia has fulfilled the conditions for an abrogation of the excessive deficit procedure. Not only Slovakia, but also other V4 countries reached, partially thanks to their fast economic growth, a significantly lower budget deficit than they had

1 Economic Forecast Spring 2008, European Commission, May 2008

Table 9 Outlook for real convergence of V4 countries

	Country	2008	2008EC	2009	2009EC	2010
HICP inflation (%)	Czech Republic	3.9	6.2	2.3	2.7	2.1
	Hungary	4.8	6.3	3.0	3.7	2.9
	Poland	2.5	4.3	2.0	3.4	1.5
	Slovakia	2.3	3.8	2.6	3.2	2.7
General government budget balance (% of GDP)	Czech Republic	-2.9	-1.4	-2.6	-1.1	-2.3
	Hungary	-4.0	-4.0	-3.2	-3.6	-2.7
	Poland	-2.5	-2.5	-2.0	-2.6	-1.5
	Slovakia	-2.3	-2.0	-1.8	-2.3	-0.8
Gross public debt (% of GDP)	Czech Republic	30.3	28.1	30.2	27.2	30.0
	Hungary	65.8	66.5	64.4	65.7	63.3
	Poland	44.2	44.5	43.3	44.1	42.3
	Slovakia	30.8	29.2	30.5	29.7	29.5

EC Current estimate of the European Commission. Spring forecast 2008.
Source: Updated convergence programs for the years 2007-2010. European Commission.

planned. Compared to the original fiscal consolidation target, the Czech Republic and Poland managed to reach a considerably lower deficit in 2007. In both cases, the general government deficit was below 3% of GDP and an excessive deficit was eliminated in advance with respect to the original targets. The excessive deficit procedure was abrogated for Slovakia, as well as the Czech Republic and Poland, by a decision of the EU Council of June 2008. Despite a more favorable actual development, the public budget deficit of Hungary was almost twice as high as the 3% reference value.

In its opinions, the EU Council invited all V4 countries to strengthen structural adjustments in order to accelerate the heading towards medium-term targets. Slovakia should adopt a more stringent fiscal position, mainly with the aim of coping with possible inflation pressures and introduce further structural reforms to improve labor market performance. The Czech Republic should further cut down on expenditure to fulfill the 3% limit with a greater margin. Hungary should adopt adequate measures to ensure the planned excessive deficit correction until 2009. It is necessary that all revenue beyond expected revenue will be earmarked for a further decrease in the deficit. In terms of long-term sustainability of public finance, the recommendations for the V4 countries except Slovakia also concern the absolute necessity of a reform of the pension systems and health care systems. In this connection, the long-term sustainability of public finance in the Czech Republic, Hungary and Poland is exposed to high risk. Slovakia is assessed as being exposed to medium risk.

With the exception of the Czech Republic, the current forecast of the European Commission does not endorse the development of budget deficit reductions outlined by the individual countries for the coming years. Based on last year's experience, the EC expects that the effect of sizeable pre-stocking with cigarettes will be repeated in Slovakia at the end of 2008, which will have negative influence on the budget in 2009. In the case of Poland, many other effects related to the steps adopted prior to the parliamentary election come into consideration in addition to the influence of tax harmonization with the EU. The steps are primarily a decrease in social contributions, income tax allowances for families (depending on the number of children) and the renewal of the indexation of retirement and disability pensions, which was abolished in 2004. The EC estimate implies that without additional measures Hungary will fail to eliminate its excessive deficit in 2009. Mainly the fulfillment of the planned rate of decrease in expenditure on price subsidies and wages of general government employees is questionable.

The expectations of the Updated Convergence Programs of the Czech Republic and Poland indicated the fulfillment of the inflation criterion in 2009. The current development of inflation, however, has been reflected in an increase in the original estimates. The EC forecast shows that the inflation criterion could be fulfilled in 2009 in the case of the Czech Republic. In Hungary and Poland, a reduction of inflation below its reference value cannot be expected before 2010.

Hungary is currently the only country failing to fulfill the long-term interest rate criterion. Due to mutual interconnections, gradual heading towards the fulfillment of the fiscal criterion and of the inflation criterion should lead to a decrease in the long-term interest rate below its reference value. An evaluation of the fulfillment of the exchange rate stability criterion is premature so far, because neither Hungary, or Poland, or the Czech Republic are ERM II members.

Inflation expectations and an outline of fiscal consolidation signal that Poland and the Czech Republic will not be able to join the euro-area before the first years of the next decade. The current development, as well as the forecast of the fiscal and monetary situation in Hungary, indicates that

Hungary will not manage to introduce the euro at the beginning of the next decade.

The Baltic countries, Bulgaria and Romania, are facing other challenges. They are not struggling with problems of fiscal consolidation; what prevents them from introducing the euro is above all high inflation, which, to a great extent, is associated with a lower real convergence level reached in those countries.

The risk of long-term public finance sustainability

In connection with low public debt, budget surpluses or a moderate deficit and low influence of population aging, the Baltic countries are exposed to low risk of long-term public finance sustainability. Despite expected positive or slightly negative balances in the following years, the EU Council called upon the Baltic countries to more ambitious budgetary targets in its opinions to the UCP. The reasons are considerable macroeconomic imbalances requiring a more stringent fiscal policy. Fast economic growth based on domestic consumption, fostered by strong increases in loan volumes, has been reflected in an increase in inflation. Wage growth exceeding the growth of labor productivity and labor source shortage reduce competitiveness. External imbalance, as expressed by the foreign trade deficit, is also high in such a situation. Estimates published within the spring forecast of the EC confirm that fears of compliance with the planned budgets are justified. The forecast expects a considerable deterioration of the budgetary discipline and a development towards growing negative budgetary balances in all three Baltic countries.

The UCP of the Baltic countries implies gradual disinflation. The year-on-year HICP inflation in Latvia should decrease from the current two-digit level below 5%. A growth of the price level below the level of 4% is expected in Estonia and Lithuania in 2010. The EC prediction taking into account the situation at the beginning of 2008 expects small progress in nominal convergence, especially in Lithuania and Latvia.

Thanks to a low public debt, one can expect that the fulfillment of the long-term interest rate criterion will not be endangered over the coming years. Due to the regimes of exchange rate policy applied and the hitherto problem-free participation in the ERM II, the Baltic countries should not have problems with the fulfillment of the exchange rate stability criterion. It also follows from the above mentioned estimates of the development of inflation that none of the Baltic countries will manage to fulfill all Maastricht criteria by 2010.

Bulgaria will maintain its favorable budgetary position with surpluses of at least 3% of GDP. Anti-cyclical budgetary policy should contribute to a moderation of macroeconomic imbalances, which are of more or less the same nature as the imbalances in the Baltic countries and in Romania. The budgetary strategy formulated in the UCP of Romania is not in line with prudent fiscal policy necessary to increase macroeconomic and financial stability. The EU Council has called upon Romania to accelerate the pace of adjustments towards the medium-term target by focusing on far more difficult targets to mitigate the risk of an excessive deficit in the following years. Romania should restrict the expected high growth of public expenditure, apply a suitable wage policy in the public sector and implement further structural reforms.

According to the expectations of the UCP, inflation in Romania could fall to 3.3% in 2010. If we take into account the current EC estimate for

Table 10 Outlook for nominal convergence in the Baltic countries, Bulgaria and Romania

	Country	2008	2008^EC	2009	2009^EC	2010
HICP inflation (%)	Estonia	8.6	9.5	5.6	5.0	3.6
	Lithuania	6.5	10.1	5.1	7.2	3.6
	Latvia	12.5	15.8	7.2	8.5	4.9
	Bulgaria	6.9	9.9	4.4	5.9	3.7
	Romania	5.7	7.6	4.0	4.8	3.3
General government budget balance (% of GDP)	Estonia	1.3	0.4	1.0	-0.7	0.9
	Lithuania	-0.5	-1.7	0.2	-1.5	0.8
	Latvia	0.7	-1.1	1.0	-2.1	1.2
	Bulgaria	3.0	3.2	3.0	3.2	3.0
	Romania	-2.9	-2.9	-2.9	-3.7	-2.4
Gross public debt (% of GDP)	Estonia	2.3	3.4	2.0	3.5	1.8
	Lithuania	17.2	17.0	15.0	16.8	14.0
	Latvia	8.3	10.0	7.2	11.2	6.4
	Bulgaria	18.3	14.1	17.4	10.8	16.9
	Romania	13.6	13.6	14.2	14.9	14.9

EC Current estimate of the European Commission. Spring forecast 2008.
Source: Updated convergence programs for the years 2007-2010. European Commission.

Table 11 The current state of real convergence indicators of V4 countries

	GDP growth (in %)	GDP p.c. at PPP (EU-27 = 100)	Price level (EU-27 = 100)	Labor productivity (EU-27 = 100)
	2007[1)]	2007	2007	2007
Czech Republic	6.5	81.4	62.6	73.2
Hungary	1.3	64.3	65.7	74.8
Poland	6.5	54.6	63.4	66.9
Slovakia	10.4	68.7	63.0	76.7
Estonia	7.1	71.7	71.3	67.6
Lithuania	8.8	60.0	59.7	60.3
Latvia	10.3	58.2	65.0	53.7
Bulgaria	6.2	38.1	46.0	35.6
Romania	6.0	40.4	64.7	40.6

1) The average annual GDP growth rate in euro-area countries in the same period was 2.6%.
Source: Eurostat.

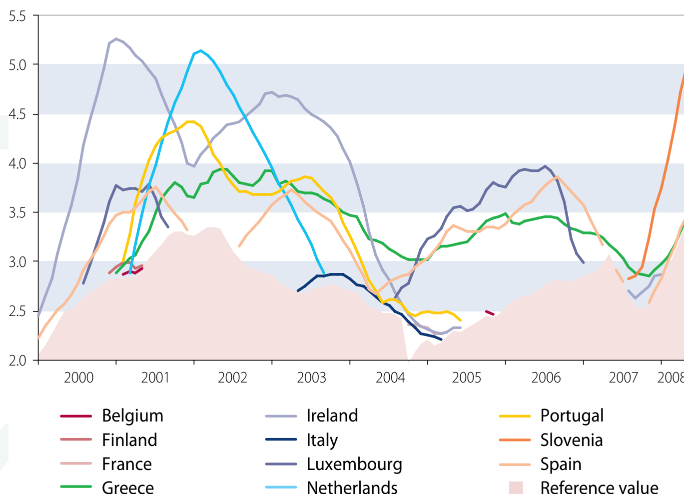
2 New EU member states with the exception of Slovenia, Cyprus, Malta.

2008 and 2009, the average growth of the price level in Romania will probably be faster in 2010. In connection with a different exchange rate policy, the global price growth might have an even more considerable negative impact on an increase in inflation in Bulgaria.

The deepening deficit and growing public debt along with a relatively high expected inflation do not set the stage for a decrease in the long-term interest rate below the reference value in Romania. Bulgaria and Romania are no members of ERM II, meaning that they do not fulfill the basic system condition for the fulfillment of the exchange rate stability criterion.

The nominal convergence outlook of the above mentioned countries indicates that after Slovakia's accession to the euro-area the enlargement process will be paused for several years. Baltic countries with sound public finance, which are currently in the so-called euro waiting room, face serious troubles with inflation. If the expected disinflation comes true or if a somewhat more favorable inflation development in 2010 occurs, the Czech Republic and, to a certain extent, also Bulgaria and Poland have the chance to fulfill all Maastricht criteria and to introduce the euro in 2012. However, they would have to join the ERM II soon in order to fulfill also the conditions of minimum two-year membership. The forecast of the development of inflation and of the public budget indicates that among the new EU member countries Hungary and Romania are the farthest from the fulfillment of all of the Maastricht criteria.

Chart 6 Development of HICP inflation in euro-area countries (12-month average of year-on-year inflation)



Note: Greece became a euro-area member on 1 January 2001, Slovenia on 1 January 2007. Cyprus and Malta, which have introduced the euro on 1 January 2008, fulfill the inflation criterion. Malta is one of the three countries with the lowest inflation in the EU.
Source: Eurostat.

Current state of real convergence

New EU member countries with the exception of Hungary have maintained a high economic growth. The average real GDP growth accelerated by almost 2 percentage points in Slovakia. Given the current growth slowdown in Estonia and Latvia, Slovakia, with its record growth of 10.4%, became the fastest growing country in the entire EU. Only Lithuania reached a considerable year-on-year acceleration in 2007. The dynamics increased only slightly in the Czech Republic and Poland. The remaining countries slowed down.

The economic performance of most economies of the new member countries went up, too. In line with the dynamics of GDP development, the most visible progress towards the average EU performance was recorded in Slovakia in 2007. A low economic growth, falling behind the average EU growth, lead to a moderate decrease in Hungary's performance as compared to the EU. Estonia has the highest price level within the new member countries outside the euro-area[2]. The price level in Bulgaria is not even the half of the average EU level. Slovakia has the second lowest price level among the V4 countries and one of the lowest price levels among the new EU member countries.

Even with a year-on-year increase in the employment rate, the level of labor productivity in Slovakia came close to average EU labor produc-

tivity by almost 5 percentage points, which is the most within the whole EU. Slovakia reached the highest labor productivity level among the new EU member countries outside the euro-area.

The economic boom transferred itself into an improved labor market situation. In the new member states, except Hungary and Romania, the total employment rate increased and the unemployment rate fell. Slovakia lags behind Poland in terms of both employment growth and decrease in unemployment and became the country with the highest unemployment rate in the EU.

The Baltic countries, Bulgaria and Romania, differ from V4 countries in terms of the extent of their external imbalance. In an environment of high growth predominantly based on domestic demand, imports from abroad visibly exceed exports. The ratio of the current account deficit to GDP reached a two-digit value in 2007. It even exceeded 20% of GDP in Latvia and Bulgaria.

The fulfillment of the Maastricht criteria in the euro-area countries following the introduction of the euro

The fulfillment of the Maastricht criteria is a condition for the accession to the euro-area. Following the introduction of the euro, countries are not forced to carry on the fulfillment of those criteria. However, with the exception of the fiscal criterion, that more or less matches the fulfillment of rules resulting from the Stability and Growth Pact. The excessive deficit procedure must not be applied to a country joining the euro-area. Experience so far, shows that several countries did not fulfill even the budgetary discipline rules obligatory for them.

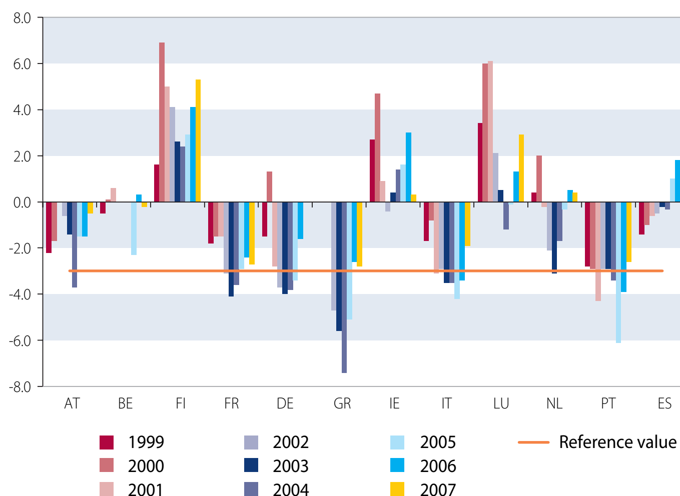
Sustainability of inflation

The currently frequently emphasized unfavorable inflation development seen following the introduction of the euro in Slovenia is not the only case of acceleration of the growth of consumer prices after the adoption of the common European currency. In the year of creation of the euro and of the euro-area, the twelve-month average of year-on-year inflation increased above the reference value in four countries. In Ireland, the twelve-month average of year-on-year inflation increased to as much as 5.3% (in December 2000). It fell back below the reference value in 2005[3] again. In Greece, average inflation was higher than the allowed value over the whole period from the introduction of the euro. Only in Germany and Austria, the prices grew more slowly than the average of the three countries with the lowest inflation increased by 1.5 p.p.

Sustainability of the development of public finance

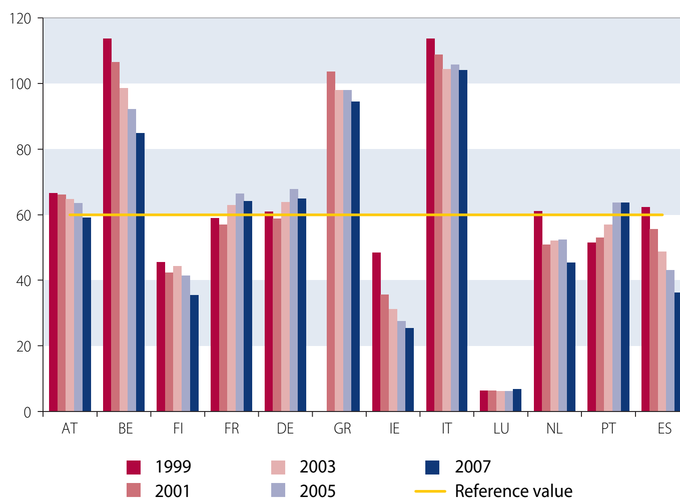
The original euro-area countries managed to keep fiscal discipline only in the first two years following the introduction of the euro. The first countries to exceed the allowed 3% deficit level were Portugal and Italy in 2001. In the following years, the government deficit increased in several countries. The worst situation was in 2004, when as much as 6 out of 12 euro-area countries recorded an excessive deficit. Greece had the highest deficit (7.4% after revision) in that year. The situation started to improve in line with the submitted stability programs. Only Portugal and Italy showed an excessive deficit in 2006. None of the euro-area countries (including Slovenia) recorded a government deficit above 3% of GDP in 2007. Five countries had a budgetary surplus and one country a balanced budget. Finland reached the highest surplus – a surplus of 5.3% of GDP. At the same time, Finland was the only EU country to have a surplus budget over the whole period

Chart 7 Development of the general government deficit in euro-area countries



Note: Data on Greece only from 2002 onwards. Slovenia had a deficit of 0.1% of GDP in the first year of euro-area membership. Cyprus and Malta have not been in the euro--area for a sufficiently long time.
AT-Austria, BE-Belgium, FI- Finland, FR-France, DE- Germany, GR-Greece, IE- Ireland, IT- Italy, LU-Luxembourg, NL-Netherlands, PT-Portugal, ES-Spain
Source: Eurostat.

Chart 8 Development of the public debt in euro-area countries



Note: Greece became an euro-area member on 1 January 2001. The public debt of Slovenia was 24.1% of GDP in the first year of euro-area membership. Cyprus and Malta have not been in the euro-area for a sufficiently long time.
Source: Eurostat.

3 To a great extent, the inflation was associated with a high economic growth, which exceeded 10% in 1999 and reached 9.3% in 2000. The Netherlands, on the other hand, where the prices increased by more than 5% on average at the turn of 2001 and 2002, recorded a below-average growth (only 0.1% in 2002).

4 *The public debt would not be allowed to exceed 60% of GDP and the deficit would have to reach less than 3% of GDP in each period under review.*

following the introduction of the euro. The reference value has not been exceeded after the euro adoption also by Luxembourg, Ireland, Belgium and Spain. Greece, France, Italy and Portugal, on the other hand, have failed to reach a surplus or balanced budget in any year.

Only three countries (Luxembourg, Ireland and Finland) fulfilled the second part of the fiscal criterion – the ratio of general government debt to GDP – continuously. Except for the years 2000 and 2002, the public debt exceeded the level of 60% of GDP at least in 50% of the euro-area countries. On the other hand, these countries were heavily indebted as early as at the time of introduction of the euro and they gradually consolidated their debts during their membership in the euro-area. The largest consolidation (by 29% of GDP) was achieved by Belgium, which had the highest debt (117% of GDP in 1998) after the adoption of the common currency. The opposite trend became visible in France and Portugal. Originally, the public debt in those countries was lower than the allowed value, but it gradually increased to a level above 60% of GDP. 7 out of 13 countries of the euro-area had a public debt above the allowed value in 2007. Italy had the highest debt (104% of GDP).

If we put together the findings so far and evaluated the strict fulfillment of both components of the fiscal criterion[4], the number of countries fulfilling the fiscal criterion in the long-term would be restricted to three countries. The countries would be Finland, Ireland and Luxembourg. Taking into account the unambiguous and relatively fast consolidation of public debt, we could add Spain to these countries.

The above-mentioned facts lead to the conclusion that if the fulfillment of the Maastricht criteria would be a condition not only for the accession, but also for the remaining in the euro-area, none of the countries would succeed in the long run.

Conclusion

Slovakia has successfully fulfilled the key part of the strategy for the introduction of a common European currency. The European Commission and European Central Bank have confirmed in their convergence reports that Slovakia has fulfilled the Maastricht criteria in a sustainable way and is prepared to introduce the euro from January 1, 2009. Economic development forecasts for the other new member countries indicate that the process of euro-area enlargement will come to a halt for several years. The Baltic countries, which have sound public finance and their currencies are ERM II members, fail to maintain sufficient price stability. The Czech Republic, to a certain extent also Bulgaria and Poland, have the chance to adopt the euro in 2012. However, their currencies would have to join the exchange rate mechanism as soon as possible.

The fulfillment of the Maastricht criteria is a condition for the accession to the euro-area. Following the introduction of the euro, the countries are obliged to carry on the fulfillment of the rules resulting from the Stability and Growth Pact. The analysis of the development in the original euro-area countries in the period from the introduction of the euro to the present shows that none of the countries managed to fulfill the fiscal criterion and at the same time the inflation criterion in the long run. The continuous fulfillment of criteria in the long run is thus a very difficult task. Mainly in connection with possible external shocks, periods can occur in the future, during which Slovakia will not fulfill some of the criteria.

As a result of continuing catching up with the developed EU countries, Slovakia will probably face higher inflation in the following years. Fiscal policy will play a key role in the promotion of price level stability. In order to achieve a sound sustainable economic growth, it is necessary to proceed to further structural reforms and to increase the flexibility of the economy.

Bibliography:

1. Benčík et al.: An estimation of the Balassa-Samuelson effect in the Slovak economy, NBS, December 2005.
2. Bulgarian convergence programme (2007–2010), November 2007.
3. Convergence Programme of Romania (2007), November 2007.
4. Czech Republic convergence programme (2007–2010), November 2007.
5. Doing Business in 2008. World Bank, 2007.
6. Doliak, M, Karmažin, B.: Analysis of the influence of the exchange rate on consumer prices. Disaggregated view. Biatec, volume 15, 2007, No. 11, p. 4-8.
7. Economic Forecast Spring 2008, European Commission, May 2008.
8. Economic Policy Reforms: Going for Growth 2008, OECD, March 2007.
9. Estonian convergence programme (2007–2010), november 2007.
10. Specification of the Strategy for Adopting the Euro in the SR, MoF SR and NBS, September 2004.
11. Convergence report 2004, ECB, October 2004.
12. Convergence report 2006, ECB, December 2006.
13. Convergence report 2008, ECB, May 2008.
14. The Convergence Programme of Slovakia for the period of 2007 to 2010, MoF SR, November 2007.
15. Lalinský, T.: Competitiveness Factors of Slovak Companies, Questionnaire survey 3/2008, NBS, May 2008.
16. Latvia – convergence programme (2007–2010), November 2007.
17. The Monetary Programme of the National Bank of Slovakia until 2008, NBS, December 2004.
18. Draft Framework of the General GovernmentBudget for the Period of 2009 to 2011, MoF of the SR, March 2008
19. Republic of Poland. Convergence programme 2007 update, March 2008.
20. Progress Report on the Implementation of the National Reform Programme of the Slovak Republic for the years 2006-2008, October 2007
21. Report on the state of entrepreneurial environment of the Slovak Republic and proposals for its improvement, MoE of the SR, 2007.
22. Strategy of the Slovak Republic for Adoption of the Euro, MoF SR and NBS, July 2003.
23. Strategic report on the renewed Lisbon strategy for growth and jobs: launching the new cycle (2008-2010), EC, December 2007.
24. Medium-term forecast (P2Q-2008), NBS, April 2008.
25. Updated convergence programme of Hungary (2007–2011), November 2007.
26. Vladová, A.: The operation of the Balassa-Samuelson effect in the Slovak economy. Biatec, volume 15, 2007, No. 11, p. 18-26.