

Box 4**ENTRY OF THE CURRENCIES OF ESTONIA, LITHUANIA AND SLOVENIA INTO THE EXCHANGE RATE MECHANISM II (ERM II)**

Following requests by the Estonian, the Lithuanian and the Slovenian authorities, the ministers of the euro area Member States of the European Union, the President of the European Central Bank and the ministers and the central bank governors of Denmark and of each of the above countries decided on 27 June 2004, by mutual agreement, following a common procedure involving the European Commission and after consultation of the Economic and Financial Committee, to include the currencies of Estonia, Lithuania and Slovenia in the exchange rate mechanism II (see communiqués of the European Union of the same date).

The central rates have been set for the Estonian kroon at EEK/EUR 15.6466, for the Lithuanian litas at LTL/EUR 3.45280 and for the Slovenian tolar at SIT/EUR 239.640. For all three currencies the standard fluctuation band of $\pm 15\%$ will be observed around these central rates. Accordingly, the compulsory intervention rates for these currencies have been established with effect from 28 June 2004 as set out in the Table below. The euro central rate and compulsory intervention rates for the Danish krone remain unchanged, reflecting a 2.25% fluctuation band.

Euro central rates and compulsory intervention rates for the currencies of the Member States participating in ERM II, in force as of 28 June 2004 (EUR 1 =)

	Danish krone (DKK)	Estonian kroon (EEK)	Lithuanian litas (LTL)	Slovenian tolar (SIT)
Upper rate	7.62824	17.9936	3.97072	275.586
Central rate	7.46038	15.6466	3.45280	239.640
Lower rate	7.29252	13.2996	2.93488	203.694

Following a careful assessment of the appropriateness and sustainability of the currency board arrangements (CBAs) of Estonia and Lithuania on a case-by-case basis, it was accepted that both countries are joining ERM II with their existing CBAs in place, as unilateral commitments, thus placing no additional obligations on the ECB.

The agreements on the participation of the Estonian kroon, the Lithuanian litas and the Slovenian tolar are based on a firm commitment by the authorities in these countries in various economic policy areas.

The agreement on the participation of the Estonian kroon in ERM II is based on a firm commitment by the Estonian authorities to continue with sound fiscal policies, which are essential for preserving macroeconomic stability, for supporting an orderly and substantial reduction of the current account deficit, and for ensuring the sustainability of the convergence process. The authorities will closely monitor macroeconomic developments together with the responsible EU bodies, and they will strengthen the fiscal stance if warranted. To help reduce the external imbalance and contain it at a sustainable level, they will take the necessary measures to contain domestic credit growth and ensure effective financial supervision, and they will promote wage moderation. Structural reforms aimed at further enhancing the economy's flexibility and adaptability will be implemented in a timely fashion so as to strengthen domestic adjustment mechanisms and maintain the overall competitiveness of the economy.

The agreement on the participation of the Lithuanian litas in ERM II is based on a firm commitment by the Lithuanian authorities to pursue sound fiscal policies which are essential for preserving macroeconomic stability and ensuring the sustainability of the convergence process. The authorities, together with the responsible EU bodies, will closely monitor macroeconomic developments. The Lithuanian government's aim to secure a balanced budget over the medium term needs to be underpinned by a credible medium-term strategy with ambitious budgetary targets. Sound fiscal policy and a determination to contain domestic credit growth, assisted by effective financial supervision, will contribute to ensuring the sustainability of the current account position. Structural reforms aimed at further enhancing the economy's flexibility and adaptability will be implemented in a timely fashion so as to strengthen domestic adjustment mechanisms and to maintain the overall competitiveness of the economy.

The agreement on the participation of the Slovenian tolar in ERM II is based on a firm commitment by the Slovenian authorities to continue to take the necessary measures to lower inflation in a sustainable way: these include most notably measures aimed at further liberalising administered prices and advancing further with de-indexation, in particular of the wage and certain social transfer setting mechanisms. Continued vigilance will be needed so that domestic cost developments, in particular wages, are in line with productivity growth. The authorities, together with the responsible EU bodies, will closely monitor macroeconomic developments. Fiscal policy will have to play a central role in controlling demand-induced inflationary pressures and financial supervision will assist in containing domestic credit growth. Structural reforms aimed at further enhancing the economy's flexibility and adaptability will be implemented in a timely fashion so as to strengthen domestic adjustment mechanisms and to maintain the overall competitiveness of the economy.