

COMMUNIQUE

At the request of the **Cypriot** 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, Estonia, Lithuania, Slovenia and Cyprus have decided, by mutual agreement, following a common procedure involving the European Commission and after consultation of the Economic and Financial Committee, to include the Cyprus pound in the Exchange Rate Mechanism II (ERM II).

The central rate of the Cyprus pound is set at 1 euro = 0.585274 pound.

The standard fluctuation band of plus or minus 15 percent will be observed around the central rate of the pound.

The agreement on participation of the Cyprus pound in ERM II is based on a firm commitment by the Cypriot authorities to pursue sound fiscal policies, including lowering the high debt level, 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 Cypriot government's medium term fiscal consolidation strategy requires a high degree of budgetary discipline and needs to continue to be implemented decisively through measures of a permanent nature. The authorities will continue to ensure effective financial supervision. Continued vigilance will be needed to ensure that wage developments remain in line with productivity growth. Further structural reform efforts aimed at enhancing the economy's flexibility and adaptability, including progress with the de-indexation of wage mechanisms, will contribute to strengthening domestic adjustment mechanisms and support the overall competitiveness of the economy.

The compulsory intervention points in the exchange rate mechanism will be communicated by the ECB and the Central Bank of Cyprus, in time for the opening of the foreign exchange markets on 2 May 2005.