

Brussels, 27 June 2004

COMMUNIQUE

At the request of the **Estonian** 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 Estonia 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 Estonian kroon in the Exchange Rate Mechanism II (ERM II).

The central rate of the Estonian kroon is set at 1 euro = 15.6466 kroon.

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

Following a careful assessment of the appropriateness and sustainability of Estonia's currency board, it was accepted that Estonia is joining the exchange rate mechanism with its existing currency board arrangement in place, as a unilateral commitment, thus placing no additional obligations on the ECB.

The agreement on participation of the 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 compulsory intervention points in the exchange rate mechanism will be communicated by the ECB and the Bank of Estonia, in time for the opening of the foreign exchange markets on 28 June 2004.