

COMMUNIQUE

At the request of the **Latvian** 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 Latvia 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 Latvian lats in the Exchange Rate Mechanism II (ERM II).

The central rate of the Latvian lats is set at 1 euro = 0.702804 lats.

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

In line with the existing exchange rate regime, the Latvian authorities have declared that they will maintain the exchange rate of the lats at the central rate against the euro with a fluctuation band of plus or minus 1 percent as a unilateral commitment, thus placing no additional obligations on the ECB.

The agreement on participation of the Latvian lats in ERM II is based on a firm commitment by the Latvian authorities to achieve a sustainable reduction in inflation. The authorities recognise that strengthening the fiscal stance will be instrumental to this end, while it would also contribute to an orderly and substantial reduction of the current account deficit. The authorities will closely monitor macroeconomic developments together with the responsible EU bodies. To help reduce the external imbalance and contain it at a sustainable level, the authorities will take measures to restrain domestic demand and they will remain vigilant concerning risks of excessive domestic credit growth. Continued effective financial supervision will assist the authorities in promoting prudent credit policies and in limiting credit risk in the banking system. The authorities will also promote wage developments that are supportive to reducing inflationary pressures. 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 safeguard 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 Latvia, in time for the opening of the foreign exchange markets on 2 May 2005.