

COMMUNIQUE

At the request of the **Maltese** 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 Malta 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 Maltese lira in the Exchange Rate Mechanism II (ERM II).

The central rate of the Maltese lira is set at 1 euro = 0.429300 lira.

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

Upon entry into the mechanism, the Maltese lira will be re-pegged to the euro from the current basket arrangement. Moreover, the Maltese authorities have declared that they will maintain the exchange rate of the Maltese lira at the central rate against the euro as a unilateral commitment, thus placing no additional obligations on the ECB.

The agreement on participation of the Maltese lira in ERM II is based on a firm commitment by the Maltese authorities to pursue sound fiscal policies, including containing current government expenditure and lowering the high debt level, which are essential for preserving macroeconomic stability, containing the current account deficit and ensuring the sustainability of the convergence process. The authorities, together with the responsible EU bodies, will closely monitor macroeconomic developments. The Maltese government's medium term consolidation strategy requires a high degree of budgetary discipline and needs to be implemented decisively. Strict monitoring of budget execution will be required, aimed at a timely detection and correction of slippages. Continued vigilance will be needed to ensure that wage developments remain in line with productivity growth. The authorities will continue to ensure effective financial supervision. Further structural reforms, aimed at supporting productivity growth and 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 Malta, in time for the opening of the foreign exchange markets on 2 May 2005.