European Central Bank Press Conference introductory statements

Introductory statements given by Mr Willem F Duisenberg, President of the European Central Bank, and Mr Christian Noyer, Vice-President of the European Central Bank, at the Press Conference held in Madrid on 30 March 2000.

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Ladies and gentlemen,

Today, the Governing Council of the ECB met for the first time outside Frankfurt. Therefore, let me first of all thank our host, Governor Rojo, for inviting us to meet in Madrid and for the generous hospitality offered to us. The Vice-President and I will report on the outcome of today's meeting of the Governing Council.

I should like to take the opportunity of this special meeting to take stock of where we stand 15 months after the start of Monetary Union. In January 1999 the euro was successfully launched as the single currency for 11 Member States of the EU. As a result of very careful conceptual and technical preparations, both the monetary policymaking process and the implementation of monetary policy have functioned efficiently right from the start.

The challenges involved in setting up a central bank for a currency area as large as the euro area have been enormous. The Eurosystem - which comprises the European Central Bank and the 11 national central banks of the countries which have adopted the euro - has met these challenges with success. This would not have been possible without a strong willingness to cooperate on the part of the actors involved. I should like to take this opportunity once again to thank all the members of the Governing Council and the staff of the Eurosystem for this.

From the start, we had extremely productive and open discussions in the Governing Council on monetary policy issues. In this respect, our monetary policy strategy has provided a very useful framework within which to organise our thinking. In our discussions there has always been a clear understanding, based on the Treaty, that the single monetary policy can only focus on maintaining price stability in the euro area as a whole. This is based on the simple fact that in a monetary union, there is only one monetary policy, and this must be directed to a single objective. As laid down in the Treaty, each member of the Governing Council is therefore well aware that he or she is not a representative of a country or central bank but acts in a personal capacity in deciding the appropriate conduct of monetary policy for the euro area as a whole.

The move to the single currency and the introduction of the euro were based on a degree of convergence towards price stability in participating countries that few observers would have predicted some years ago. In 1999 the average rate of consumer price increases in the euro area as a whole was among the lowest recorded since the Second World War and, at 1.1%, remained fully consistent with price stability. At the same time, Monetary Union does not mean perfect identity of economic conditions in all parts of the euro area. The experience of all larger currency areas shows that some differences in regional price developments and also in regional output growth may exist.

As differences in national or regional developments cannot be addressed by the Eurosystem, they require, whenever necessary, country-specific responses. This means, in particular, responsible national wage settlements and appropriate national fiscal policies aimed at counteracting specific national problems. In addition, reforms addressing rigidities in labour and product markets and aiming at enhancing labour and capital mobility are the tools to ensure that market mechanisms will play an increasingly important role in limiting the scope for divergent developments in the euro area.

The single monetary policy offers a great opportunity to maintain price stability in the euro area and to create the conditions needed for sustained economic growth. Currently, the prospects for strong economic growth in the euro area are very favourable - indeed, more favourable than they have been for many years. Economic activity in the euro area strengthened markedly in the second half of 1999 and this upswing is expected to continue through 2000 and beyond. Available forecasts point to real GDP growth of slightly over 3% in 2000 and 2001, reflecting both the favourable external environment and strong domestic demand. In line with this positive outlook, employment is expected to increase further and unemployment to come down in this context.

At this juncture, it remains, indeed, important that the expected improvements in economic conditions and labour market prospects are not jeopardised by inappropriate wage settlements. In fact, wage moderation, combined with structural reforms in the labour markets, would help both to contain inflation in the euro area and to lead to further progress with employment creation.

The contribution of monetary policy to strong and sustained economic growth is to ensure that price stability in the euro area will be maintained in the years to come. The Governing Council has, over recent months, raised ECB interest rates in three steps, in total by 1 percentage point, as a response to signals from both pillars of the Eurosystem's monetary policy strategy that upward risks to price stability were increasing.

Since the last meeting of the Governing Council, which was held on 16 March 2000, the main new data released relate to monetary developments and HICP inflation in the euro area. With regard to monetary developments, the annual growth rate of M3 in February 2000 was 6.2%, implying a small increase in the three-month moving average of annual M3 growth, to 5.9% for the period from December 1999 to February 2000. The annual rate of change in the HICP in the euro area rose from 1.9% in January 2000 to 2.0% in February 2000, reflecting the anticipated upward pressure on consumer prices stemming from oil price and exchange rate developments.

In its review of the economic and monetary situation, the Governing Council also considered the recent developments in the exchange rate of the euro. Such developments need to be carefully assessed in the framework of the Eurosystem's monetary policy strategy. The Governing Council regards the present level of the euro as not reflecting the significant recent improvements in the outlook for the euro area economy.

At today's meeting the Governing Council decided to leave ECB interest rates unchanged. We shall, however, continue to be vigilant in order to be in a position, if needed, to counter inflationary pressure in a timely manner.

There remain, however, also challenges for other economic policies in the euro area.

As regards fiscal policies, the current upswing provides, for many countries, a good opportunity to comply more quickly with the objectives of the Stability and Growth Pact. This will free up resources for private initiatives and will, over time, contribute to increasing the growth potential of the euro area.

At this juncture, probably the greatest challenge for the euro area lies in speeding up structural reform in order to reduce the high level of structural unemployment. In this respect, the Eurosystem strongly supports the conclusions of the European Council in Lisbon and calls for their timely implementation. Furthering structural reform is the key to a lasting process of job creation and a sustained period of strong economic expansion.

Let me now give the floor to the Vice-President to present some of the ***additional topics*** discussed today by the Governing Council.

I should like to draw your attention to the following two items: first, the *international financial architecture*, an issue which was discussed in preparation for the forthcoming IMF Spring Meetings in Washington, D.C., and, second, the ECB's *information campaign for the introduction of the euro banknotes and coins*.

Let me start with the Governing Council's deliberations in relation to the current discussion on the international financial architecture, for which the President was mandated to convey the Governing Council's views to the President of the ECOFIN Council. Through its representation in all-relevant international institutions and fora, the Eurosystem has been able to participate actively in ongoing discussions over the past year.

The Eurosystem actively supports those efforts made by various institutions and fora - such as the IMF, the World Bank, the Financial Stability Forum and the Basel Committee on Banking Supervision - to enhance transparency and to improve the soundness both of financial systems and of regulatory and supervisory frameworks.

Owing to the fact that unsustainable exchange rate regimes were a factor behind financial crises of previous years, recent discussions have focused in particular on the choice of appropriate exchange rate arrangements. The Governing Council is of the view that such a choice should not be confined to alternative solutions of either a hard peg or free floating. Intermediate regimes, such as adjustable pegs, may suit the needs of emerging market economies, depending on their specific domestic and external conditions.

Refocusing the role of the IMF has been central to most recent reform proposals. The Governing Council is of the view that strengthening the key responsibilities of the IMF, namely further enhancing its credibility as a policy adviser and provider of financial assistance to members facing a loss of market confidence, will make an important contribution to international monetary stability. As regards crisis management, the Eurosystem is looking forward to seeing further progress in the complex but crucial area of ensuring private sector involvement in crisis prevention and resolution.

Second, the Governing Council approved the overall framework for the *EURO 2002 information campaign* - a Europe-wide campaign intended to familiarise citizens with the euro banknotes and coins.

The *main objectives* of the campaign are to help citizens:

- to recognise the euro banknotes and coins and, in particular, their security features,
- to familiarise themselves with the different (and, in many cases, new) denominations of the euro banknotes and coins, and
- to inform themselves about the means by which the euro banknotes and coins will be introduced on 1 January 2002.

The *strategy* behind the ECB's campaign is based on the concept of cooperation with "multipliers", such as banks, retailers and their associations, as well as educational institutions and governmental authorities, at both a European and a national level. The campaign will be conducted in two main phases. In the first phase, which is about to start, the "multipliers" will be approached in order to prepare their own activities with regard to training and the provision of information. In the second phase, scheduled for the second half of 2001, the general public will actively be informed by means of a centralised mass media campaign to ensure the smooth changeover to the euro banknotes and coins. The main communication tools will be television spots and widely distributed printed matter supported by radio spots and both billboard and press advertisements. I should like to stress that due account will be taken of the specific needs of the various groups of vulnerable citizens in the conduct of the campaign. Close coordination with the EU institutions and the Member States will ensure the provision of consistent information.