European Central Bank: Press Conference - introductory statements

Introductory statements 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 Frankfurt, on 14 September 2000.

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Ladies and gentlemen, the Vice-President and I are here to report on the outcome of today's meetings of the General Council and the Governing Council of the ECB.

The Governing Council of the ECB today conducted its regular examination of recent monetary and economic developments and their implications for the risks to future price stability in the euro area. Subsequently, it decided to keep the interest rates on the Eurosystem's monetary policy instruments unchanged. Thus, the minimum bid rate in the main refinancing operations of the Eurosystem was left at 4.50%, and the interest rates on the marginal lending facility and the deposit facility were kept at 5.50% and 3.50%, respectively.

Allow me to give you an overview of the main elements of our assessment of the latest information on ***monetary, financial market and other economic developments***.

As regards the developments in the context of the first pillar of the monetary policy strategy of the ECB, no new monetary data have become available since our decision taken on 31 August 2000 to raise the main ECB interest rates. After having increased at a very strong pace in the first quarter of 2000, ***M3 growth*** has been showing some signs of moderation over recent months. This moderation has mainly been a consequence of lower growth in the most liquid components of M3, which bear little or no remuneration, indicating that the monetary policy measures taken since November 1999 are gradually feeding their way through. At the same time, the average of annual M3 growth rates for the period from May to July 2000, at 5.5%, continued to deviate on the upside from the reference value of 4½%. The pronounced expansion of credit to the private sector up to July also suggested that households and firms continued to regard financing conditions in the euro area as favourable. In the context of the robust expansion of economic activity, continued ample liquidity conditions would constitute a risk to price stability.

Turning to the second pillar, ***real GDP growth in the euro area***, according to first estimates published by Eurostat today, reached 3¾% (on an annualised basis) in the first half of 2000. Currently available forecasts predict that growth will remain above 3% next year. The strength of the euro area's economic expansion in the past few months is in line with these forecasts. In fact, recent indicators suggest that, following the period of acceleration, the economic expansion may now have settled at a high rate of growth. The overall level of confidence has remained at, or close to, record highs in recent months. Moreover, employment continued to grow strongly in the first half of this year and the rate of capacity utilisation has risen further. Taken together, these factors should underpin the growth of private consumption and investment, and thus that of domestic demand.

The positive outlook for the euro area is also supported by external developments. The outlook for ***growth of the world economy***, and thus for growth of euro area exports, has remained favourable. Forecasts of world growth have consistently been revised upwards over the past few months.

Expectations of a period of sustained economic growth in the euro area can also be found in ***euro area bond markets***. Overall, longer-term bond yields in the euro area have shown a very high level of stability in the course of this year, with fluctuations being contained within a relatively narrow range.

The annual rate of increase in the Harmonised Index of Consumer Prices (HICP) was 2.4% in July 2000. Recent consumer price developments in the euro area have been very much influenced by the strong rise in oil prices and the depreciation of the exchange rate of the euro.

While monetary policy cannot address short-term developments in prices, it is imperative for monetary policy that medium-term upward pressure on prices be contained. The risk that the current pressure on the HICP might spill over onto costs and prices determined in the domestic economy must be taken seriously. This holds true in particular in the context of the favourable prospects for economic growth.

The Governing Council reacted to this picture by raising the main ECB interest rates at its meeting on 31 August 2000. This step followed a series of interest rate increases implemented since November 1999. The Governing Council will continue to remain alert to emerging risks to price stability.

It is a matter of fact that recent oil price increases have caused the terms of trade of the euro area to deteriorate, and thus have also reduced real income. This loss of real income cannot be avoided for the economy as a whole. Attempts to shift the burden of this loss within the economy will risk endangering the continuation of a non-inflationary growth process.

For the maintenance of price stability, it will be particularly important, in the current phase of strengthening economic growth, that wages continue, on average, to grow at rates compatible with the objective of price stability. Any attempt for wages to catch up in reaction to recent oil price increases would be highly detrimental to the current favourable growth prospects, since monetary policy would need to react to the resulting upward pressure on prices.

Governments also have to play a role in order not to convey the false impression that the costs stemming from the increase in oil prices could be avoided by relaxing budgetary policies. This would not be in line with the needs of establishing budget positions in balance or in surplus and would complicate the fostering of tax reforms conducive to a stronger growth potential of the euro area.

I should also like to reiterate that the prospects for a stronger potential for growth in the euro area will depend very much on progress made in enhancing the flexibility of labour and goods markets in the euro area. Although reform efforts in several countries have been heading in the right direction, there is still much to be done when looking at the area as a whole.

Finally, let me also say a few words about recent exchange rate developments. I noted earlier that, from a monetary policy point of view, these developments are a cause for concern as they add to the upward pressure on consumer prices in the euro area.

These concerns are compounded by the fact that the exchange rate of the euro does not appear appropriate when looking at economic fundamentals. As you are aware, we have been expressing this concern for some time. In the meantime, we have witnessed a considerable improvement in the economic growth prospects for the euro area. At the same time, owing to measures taken by the Governing Council, the outlook for price stability in the medium term in the euro area has remained intact. At present, inflation in the euro area is among the lowest in the world. The fact that the euro has continued to depreciate over recent months is not in line with these strong economic fundamentals in the euro area. Recent global exchange rate developments are also not in line with international balance of payments positions. Our concerns on this issue remain serious and we shall monitor developments closely.

Let me now give the floor to the Vice-President to say a few words about ***other issues*** discussed by the Governing Council.

First, I should like to inform you that the Governing Council has agreed on a ***TARGET reimbursement scheme*** for the benefit of TARGET participants in the event of malfunctioning in TARGET. The scheme will apply whenever the same-day processing of payment orders within TARGET cannot be completed. The reimbursement scheme is intended to compensate participants for certain higher costs they incur in having recourse to the standing facilities of the Eurosystem as a result of a malfunctioning. In order to ensure a level playing field, the scheme also applies to participants in euro real-time gross settlement (RTGS) systems of non-participating national central banks. The legal framework for this reimbursement scheme is reflected in an amended “TARGET Guideline” which, in line with the ECB’s policy of enhanced transparency, will be published in the Official Journal of the European Communities and made available on the ECB’s website shortly.

Second, the Governing Council addressed issues relating to ***cross-border retail payment services***, which are of particular interest for euro area consumers. You may recall that the ECB published a report on this subject a year ago, calling on the banking industry to improve the unsatisfactory service level for cross-border credit transfers before January 2002. Today, on the basis of a Progress Report, we have reviewed the advances of the banking industry against the objectives set by the Eurosystem and we have identified the outstanding issues that need quickly to be addressed. A press release on this topic will be issued later on today. The Progress Report will be available on the ECB's website shortly.