European Central Bank: Press conference - introductory statement

Introductory statement 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 am Main, on 14 December 2000.

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

Let me first report that the Governing Council decided to reconfirm the existing **reference value for monetary growth**, namely an annual growth rate of 4 1/2% for the broad aggregate M3. This decision was taken on the grounds that the available evidence continues to support the assumptions underlying the initial derivation of the reference value in December 1998 (and its confirmation in December 1999), namely those for trend potential output growth and the trend decline in M3 income velocity in the euro area. With regard to the assessment of trend potential output growth, there is still no decisive evidence that measurable and lasting increases in productivity growth in the euro area would warrant a significant upward revision in the assumption for trend potential growth. This notwithstanding, the uncertainties surrounding estimates of the medium-term development of potential output growth in the euro area have become skewed to the upside. Against this background, the Governing Council will carefully monitor further evidence with regard to an acceleration of productivity growth in the euro area. The Governing Council also wishes to emphasise that potential output growth could be strengthened by further structural reforms in the labour and goods markets. Naturally, the ECB's monetary policy will take such changes appropriately into account. The ECB will issue a press release today to provide some background information on the review of the reference value carried out by the Governing Council.

The Governing Council also conducted its **regular examination of monetary and economic developments** and their implications for the maintenance of price stability in the euro area. It decided to leave the minimum bid rate on the main refinancing operations of the Eurosystem unchanged at 4.75%. The interest rates on the marginal lending facility and the deposit facility were also kept unchanged at 5.75% and 3.75% respectively.

Starting with the first pillar, it is fair to say that *M3 growth rates* have shown signs of moderation over the past few months. However, taking into account the protracted upward deviation of M3 growth from the reference value of 4 1/2% and the still robust growth of credit to the private sector, caution continues to be warranted with regard to the upside risks to price stability stemming from the monetary side.

As for key indicators related to the second pillar, the assessment is currently complicated by increased uncertainty. In the first place, this applies to tendencies in the *world economy*. With regard to the evolution of *real GDP growth* currently foreseeable for the *euro area*, the underlying dynamism of growth continues to prevail, although subject to some moderation. Developments in *euro area bond markets*, characterised by a decline in bond yields in November and December, broadly confirm this assessment of growth. In *foreign exchange markets*, also reflecting the current outlook for global growth patterns, the euro has appreciated against the currencies of the euro area's most important trading partners. The Governing Council considers this development to be a step in the right direction.

Turning to *consumer price developments*, recent developments have continued to reflect, above all, developments in oil prices, but also previous developments in the euro exchange rate. Over the medium term, the upward pressures from energy prices are expected to disappear gradually, while HICP rates of inflation will increasingly depend on domestic forces. On balance, the Governing Council judges the risks to price stability still to be on the upside.

The Governing Council will continue to counteract any risks to price stability in the medium term by responding in a timely manner. At the same time, it does stress the importance of all economic actors responding in an appropriate manner to the current oil price-led increase in consumer price inflation. In particular, social partners can rely on the commitment of monetary policy to maintain price stability over the medium term and they should continue along the path of wage moderation observed in recent years. In the same vein, fiscal authorities should control expenditure growth, as it could otherwise fuel upward pressures on prices.

Let me now give the floor to the Vice-President to inform you about **other issues** discussed by the Governing Council.

First of all, I should like to provide you with information on several issues relating to the **euro banknotes and coins**.

First, pursuant to the Treaty (Article 106 (2)), the ECB has the exclusive right to approve the volume of coins issued by the euro area Member States. To this end, the Governing Council adopted an **ECB Decision on the volume of coin issuance in 2001**. This Decision, which also covers Greece for the first time, will soon be published in the Official Journal of the European Communities.

Second, in order to raise citizens' awareness and to prepare them for the cash changeover at the beginning of 2002, the Governing Council agreed to organise a **series of conferences on euro changeover issues** in the course of 2001. These conferences will bring together the key parties involved in the euro cash changeover process, both at the national and at the European level, with a view to focusing on the cash changeover preparations. This action should also be seen against the background of the Conclusions of the European Council meeting in Nice on 7 to 9 December 2000.

Third, the Governing Council decided that **tests on the euro banknotes** will be carried out in all euro area countries in 2001. These tests will offer companies an opportunity to check and fine-tune their cash and/or vending machines and sensors with regard to their being able to recognise and accept euro banknotes. They will be organised by the euro area national central banks; the Bank of England will also be invited to participate. The ECB will monitor the test scenario in order to ensure a consistent approach and will act as the contact point for companies registered in a country without a test centre.

Fourth, further to the ECB's press release of 3 August 2000, when the decisions of the Governing Council regarding the euro area financial modalities for the 2002 cash changeover were announced, the Governing Council agreed on general principles for the so-called **frontloading and sub-frontloading of euro banknotes outside the euro area** as from 1 December 2001. Today's decision, which complements the principles agreed with regard to the frontloading and sub-frontloading of euro banknotes inside the euro area, has to be seen as a contribution to ensuring a smooth cash changeover in 2002. You will find further information relating to this decision in a separate press release to be issued this afternoon.

With regard to TARGET, the Governing Council decided to establish a **long-term calendar of TARGET operating days** to be applied from 2002 onwards. The establishment of such a common long-term calendar was deemed necessary in order to reduce uncertainties for financial markets. In addition to Saturdays and Sundays, TARGET as a whole, including both domestic and cross-border transactions, will be closed for a total of six days in the calendar year. You will find further information relating to this decision in a separate press release to be issued this afternoon.

The Governing Council also adopted several **legal acts related to the field of accounting**, which will be published shortly in the Official Journal of the European Communities. These acts relate to the legal framework for accounting and reporting within the ESCB, the annual accounts of the ECB and the allocation of monetary income of the euro area national central banks and losses of the ECB for the financial years 1999 to 2001.

Let me also draw your attention to some of the **decisions taken by the Governing Council at its previous two meetings**.

First, the **ECB budget for 2001** has been approved. It includes a staff increase of 7%. By the end of 2001, the ECB will therefore have approximately 1,100 staff members.

Second, in connection with the **Bank of Greece's entry into the Eurosystem**, the Governing Council adopted several legal instruments on the transfer of foreign reserves from the Bank of Greece to the

ECB, the crediting to the Bank of Greece of a corresponding claim on the ECB and the contribution to the capital, reserves and provisions of the ECB by the Bank of Greece. These legal acts will be published in the Official Journal of the European Communities shortly. Amendments to several other legal instruments were also adopted.

Third, I should like to mention that, following the very positive reaction to last year's "Helsinki Seminar", the ECB is organising a second **seminar with high-ranking officials from the central banks of the EU accession countries**. This seminar will be held tomorrow in Vienna, in co-operation with the Oesterreichische Nationalbank, and will focus in particular on issues related to the price dynamics in accession countries, the role of the central banks in managing the accession process and the co-operation between the Eurosystem and the accession countries' central banks. The "Vienna Seminar" will be followed by a press conference at 4 p.m. tomorrow.

Finally, I should like to inform you that the Governing Council has decided that its next meeting, which is scheduled for 4 January 2001, will be held by means of a teleconference. The press conference originally planned for that day has thus been cancelled. The **next press conference** will take place on 1 February 2001.