

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 1 February 2001.

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Ladies and gentlemen, let me welcome you to our first press conference of 2001. The Vice-President and I are here to report, as we have done for more than two years now, on the outcome of today's meeting of the Governing Council of the ECB, which was also attended by the Eurogroup President, Minister Reynders, as well as by Commissioner Solbes. Let me also take this opportunity to again welcome Greece as the twelfth country to join the euro area. Mr. Papademos, the Governor of the Bank of Greece, has been participating in our meetings as a member of the Governing Council since 1 January 2001.

The Governing Council **conducted its regular examination of monetary and economic developments** and their implications for the maintenance of price stability in the euro area. The decision to keep interest rates unchanged reflects the Governing Council's assessment that the risks to price stability in the medium term now appear more balanced than at the end of last year. Factors which might pose upward risks to price stability in the medium term are still present and as such will be subject to ongoing close monitoring.

Let me elaborate on this assessment. Starting with the first pillar of the monetary policy strategy of the ECB, *monetary data* for December 2000 confirmed the gradual moderation of the growth of monetary aggregates which has been observed since the spring of last year. According to the latest data, the three-month average of the annual growth rates of M3 in the months from October to December 2000 stood at 5.0%, which was slightly lower than the average of 5.1% recorded for the period from September to November 2000. Therefore, after the recent slowdown in monetary growth, the risks to price stability from the monetary side have become increasingly balanced. Caution still needs to be exercised, however, given the continued dynamics in credit growth to the private sector and the upward deviation of M3 from the reference value in the past.

Turning to the examination under the second pillar, broadly similar indications are emerging, as inflationary impulses resulting from previous developments in oil prices and the external value of the euro are gradually diminishing.

As regards economic activity, uncertainty concerning the *external environment for the euro area* has increased, mainly related to signals that the slowdown in growth in the United States may be more significant than earlier expected. This is likely to result, directly and via a spillover to other regions, in some deceleration of growth in the world economy. World real GDP growth, which in 2000 posted its strongest performance for many years, may therefore moderate in 2001 but will still remain at an acceptable level.

This deceleration will clearly have some dampening effects on euro area net exports. The euro area is a large economy where exports of goods and services amount to around 17% of GDP only. *Economic activity in the euro area* is therefore determined mainly by domestic factors. Overall, the fundamentals of the euro area remain broadly favourable. While, as recently published data show, real GDP growth slowed somewhat in the second half of last year, the level of business and household confidence has remained high, supported by, inter alia, high degrees of capacity utilisation and ongoing unemployment declines. Moreover, real income in the private sector will benefit from lower oil prices and from the reductions in direct taxes in 2001. Hence, while downside risks to real GDP growth exist, growth is very likely to continue at a reasonably robust pace.

Developments in the *euro area bond markets* are in line with this outlook for economic activity. Moreover, inflationary expectations implied by bond yields confirm that the financial markets expect current levels of consumer price inflation to be temporary, and price stability to be maintained in the medium term. This assessment may also have been reinforced by the recent moderation in oil prices and the movement of the *euro exchange rate* in the period since the end of October 2000.

Lower oil prices and the appreciation of the euro have already produced some effects on price developments. In December 2000 the annual rate of increase in the *Harmonised Index of Consumer Prices* (HICP) declined to 2.6%, from 2.9% in November. A confirmation of recent developments in oil prices and the euro exchange rate would contribute to a further downward adjustment of overall HICP inflation in the period ahead. Over the near term, this process may be slowed down by the delayed impact of past import price increases and possibly also by some transitory further food price rises caused by the current health issues associated with beef consumption. It may therefore take some time for HICP inflation to move back below 2%.

Notwithstanding the assessment that the risks to price stability are now more balanced, there are still factors posing upside risks which therefore require continued attention. These are mainly related to potential second-round effects on wages of the past increases in import prices, as well as to bottlenecks and shortages in labour markets. For the medium term, it remains paramount that wage developments remain moderate.

In addition, it is crucial that structural adjustments continue. This requires sustained labour market reforms, continuing liberalisation of product markets and further integration in the financial services sector, all of which will expand economic activity and increase employment. It is equally important that further progress be achieved in the area of fiscal policy reform, with continuing progress in fiscal consolidation through limits in public spending growth, allowing both a reduction in remaining budget deficits and an alleviation of the fiscal burden on corporations and households without threatening or slowing the progress in fiscal consolidation.

Overall, the existence of the euro and the single monetary policy has provided the euro area with an institutional setting which leaves it significantly less exposed to external influences. Within the euro area the maintenance of price stability over the medium term, together with further progress on structural reforms, will provide an important contribution to the achievement of sustained non-inflationary economic growth and will thereby also support a further solid and sustainable expansion of the world economy.

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

The Governing Council has adopted a set of standards, recently endorsed by the G10 Governors, as the **minimum standards of the Eurosystem's common oversight policy on payment systems**. The Eurosystem will assess all systemically important payment systems in the euro area against these "Core Principles" and will make the results of its assessments available to the public.

Concerning **issues relating to euro banknotes and coins**, I should also like to provide you with the following information.

First, the Governing Council adopted an **ECB Guideline on the 2002 cash changeover**. Owing to the crucial importance of this matter, and given the responsibility of the Eurosystem as a whole in achieving a smooth cash changeover, a legal framework has been established. The Guideline will enable all those involved to become familiar with the basic rules to be followed in preparing for the introduction of the euro banknotes and coins. This ECB Guideline will be published today on the ECB's website and shortly in the Official Journal of the European Communities.

Second, yesterday evening the members of the Governing Council were given a presentation by Publicis, the communication agency selected to assist in conducting **the Eurosystem's Euro 2002 Information Campaign**, on the current status of the campaign. This focused in particular on the creative concept of the mass media campaign, which will start in September 2001. A website dedicated to the Euro 2002 Information Campaign has now been launched in all 11 official languages of the European Community (www.euro.ecb.int). The website currently contains a section on the euro banknotes and coins. Further sections will be added over the next two weeks to help specialist groups and the general public to prepare for the introduction of the euro banknotes and coins. These sections will be updated throughout the year.

We are now at your disposal for questions.