

## 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, 3 January 2002.

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Ladies and gentlemen, the Vice-President and I will report on the outcome of today's meeting of the Governing Council of the ECB, which was also attended by the President of the ECOFIN Council, Mr. Rato, as well as by Commissioner Solbes.

As usual, we examined **recent monetary, financial and economic developments**. The Governing Council concluded that recent developments are in line with the interest rate decisions taken in the course of last year. We have therefore decided to keep the key ECB interest rates unchanged. We also confirmed that the current level of key ECB interest rates remains appropriate for the maintenance of price stability over the medium term.

Starting with the analysis under the **first pillar** of our monetary policy strategy, the three-month average of the annual growth rates of M3 rose to 7.4% in the period from September to November 2001, from 6.7% in the period from August to October. These high levels of the growth rate of M3 over the past few months reflect a particularly marked preference for liquid holdings by euro area investors in an economic and financial environment characterised by exceptionally high uncertainty worldwide. However, this should remain a temporary phenomenon which does not indicate future inflationary pressures. This judgement notwithstanding, the continued acceleration of M3 and the ongoing process of building up liquidity will require a thorough analysis of monetary developments in the months to come.

Regarding the **second pillar**, recent information has confirmed our earlier assessment that **economic activity** in the euro area was weak in the second half of 2001 and will probably remain so in early 2002. However, there are signs which point to a gradual recovery in the course of this year, as reflected, for example, in financial market developments or in recent survey data which indicate that the decline in confidence may have bottomed out. There are no fundamental imbalances which would require a longer correction process, and the general positive conditions for an improvement in economic activity remain in place. Financing conditions, in particular, are very favourable, and the expected further decline in consumer price inflation will lead to higher growth in real disposable income which should support domestic demand. All in all, available data remain in line with a recovery of the euro area economy this year, while the timing and strength of this upturn remain uncertain. Continued close monitoring of further incoming information is thus warranted.

In the current economic environment we do not expect medium-term upward pressures on **inflation**. However, as has been stated several times in the past, annual inflation rates for the months to come may be somewhat erratic on account of base effects as a consequence of the unwinding of past increases in energy prices and, albeit to a lesser extent, in food prices. In this connection, the possibility of some short-lived upward movements in the annual rate of inflation cannot be ruled out, but this should not be a cause for concern. Likewise, downward shifts resulting from such base effects later in the spring should not signal a change in the longer-term outlook for price stability. As regards the cash changeover, we do not expect any noticeable effect on the price level, largely due to strong competition in the retail sector, continued awareness on the part of consumers and the commitment of governments not to increase the average level of administered prices; however, we will of course remain vigilant.

Beyond short-term developments, we expect that wage moderation in the euro area will continue and that demand pressure on prices will remain subdued, although there are some grounds for concern about forthcoming wage negotiations. It is therefore particularly important to point to the indispensable role of continued wage moderation in fostering employment and maintaining a favourable outlook for price stability. On the basis of current information, annual inflation rates should fall safely below 2% this year and thereafter remain at levels consistent with price stability over the foreseeable future. Any factor which might alter this assessment in either direction will be carefully examined.

Let me also stress today how important it is for **fiscal policies** to maintain a medium-term orientation within the framework of the Stability and Growth Pact. The current weakness in economic growth

undoubtedly presents a particular challenge for those countries which have not yet attained budgetary positions close to balance or in surplus or which have high public debt-to-GDP ratios. However, rather than being detrimental to a return to sustainable economic growth, their adherence to their medium-term objectives will strengthen consumer and investor confidence. Countries without fiscal imbalances can, of course, allow automatic stabilisers to operate fully. That said, however, there is no case for fiscal activism.

Finally, I should like to reiterate our views on **structural reform** - particularly following the successful introduction of the euro banknotes and coins. The key challenge for the euro area, now more than ever, is to continue to strengthen the forces of production and expand the trend output growth of the economy in a decisive manner. This will require a deepening of structural reform in the labour and goods markets, as well as technological innovation. Likewise, governments should pursue determined reforms with regard to the size and structure of public expenditure and revenue, also in order to create room for further tax cuts and to absorb the fiscal costs of population ageing. Together with continued wage moderation aimed at sustaining recent labour market gains, these reforms will foster employment and investment.

With the ECB pursuing its primary objective of price stability, with governments willing to foster structural reforms and conduct stability-oriented fiscal policies, and with wage developments consistent with job creation and price stability, the euro - which is now also available in the form of banknotes and coins - will represent an economic area characterised by macroeconomic stability and economic dynamism.

We are now at your disposal for questions..