

Mr Duisenberg's opening statement at the press conference held on 7 January 1999

Introductory statement by the President of the European Central Bank, Dr W F Duisenberg, at the press conference in Frankfurt on 7/1/99 (with transcript of questions and answers)

Ladies and gentlemen, the Vice-President and I are here today to report on the outcome of the first meeting of the Governing Council of the European Central Bank in Stage Three of Economic and Monetary Union. For the first time, the Governing Council took decisions of an operational nature in the context of the single monetary policy.

On 1 January 1999 the euro was successfully launched. From that day onwards, the "Eurosystem" – that is, the ECB and the eleven national central banks of the Member States that participate in the euro – has assumed responsibility for the conduct of monetary policy in the euro area with the primary objective of maintaining price stability.

The Governing Council today expressed its satisfaction with the changeover to one integrated euro area money market in the initial days. Money market interest rate differentials across countries were significant only in the first few hours of 4 January 1999, but narrowed quickly thereafter, indicating that credit institutions were efficiently using arbitrage possibilities within the single money market.

As you will recall, the Governing Council of the ECB decided at its previous meeting that the corridor established by the interest rates on the Eurosystem's standing facilities would, as a transitional measure, be kept narrow. This was achieved by setting the marginal lending rate and the deposit rate at 3.25% and 2.75% respectively, for the period of 4–21 January 1999. We observed a relatively large recourse by credit institutions to these facilities in the first few days of Stage Three. To some extent, this is not surprising since the spread between the Eurosystem's marginal lending facility and the overnight money market rate has been relatively small. As we noted after our last meeting, the measure of a narrow corridor is aimed at facilitating the transition to the new regime by market participants. However, we also noted then that over a longer period of time, such a measure would hamper the development of an efficiently functioning euro area money market. We therefore confirm our intention to terminate this transitional measure following the next meeting of the Governing Council on 21 January 1999.

On 22 December 1998 the interest rate on the first main refinancing operation of the Eurosystem was set at 3.0%, with the intention to maintain this level for the foreseeable future. This first operation of the Eurosystem was successfully settled today. The decision on the amount of liquidity allocated to the banking system (EUR 75 billion) is aimed at providing sufficient liquidity to allow credit institutions, on aggregate, to neutralise their reserve deficit relatively soon within the first reserve maintenance period. It was taken on the basis of the liquidity conditions in the whole euro area money market, while paying due attention to the uncertainties related to the phasing-in of the new system.

Let me now turn to the Governing Council's discussion on recent monetary, financial and economic developments and the decisions that the Governing Council has taken today in the field of monetary policy.

At today's meeting, the Governing Council reviewed the latest data. The new pieces of information have not altered in any significant way the outlook for price developments. The Governing Council therefore decided that for the main refinancing operations to be announced on 11 and 18 January 1999 the same conditions will apply as for the first one, i.e. they will be fixed rate tenders conducted at an interest rate of 3.0%. A separate press release was issued on these ECB interest rate decisions at 6.15pm today.

Furthermore, I should like to recall that the first longer-term refinancing operation will be announced on 12 January 1999 and settled on 14 January 1999. It will be conducted as a variable rate tender, using the single rate auction procedure.

Let me report in some more detail on the Governing Council's regular assessment of monetary, financial and economic conditions, and thereby provide the explanations for our decisions of today.

On 30 December 1998 we released to the public the first of the monthly statements on recent monetary developments in the euro area. The 12-month growth rate of the broad monetary aggregate M3 decreased from 5.0% in October to 4.5% in November 1998. The latest three-month moving average of M3 growth (September to November 1998) was approximately 4.7%. This result was similar to the value estimated for the three-month period of August to October 1998 (which was revised upwards from the figure of 4.5% published on 14 December 1998) and remains very close to the reference value of 4.5% set by the Governing Council on 1 December 1998.

With respect to the broadly based outlook for price developments and risks to price stability, financial market developments may be seen as indicating a favourable assessment of the recent monetary policy decisions of the Eurosystem, signalling that financial market participants expect the environment of price stability to continue. In this connection, I could mention the fall in long-term interest rates in the last couple of days to new historical lows and also the downward shift of the yield curve.

No major news has come in on the outlook for the euro area economy since we last met. Hence, we continue to face uncertainties originating from the evolution of the world economy in 1999, which are reflected in a weakening of industrial confidence in the euro area over recent months. Also, euro area real GDP growth in the third quarter weakened when compared with the first half of 1998. On the other hand, consumer confidence remained high until late 1998. This mixed picture is also reflected in other indicators. Order books and capacity utilisation point to a less optimistic outlook, while retail sales and the recent pattern in employment and unemployment suggest more favourable trends. In general, this pattern of mixed evidence appears to characterise the economic situation in the euro area around the turn of the year and we shall continue to carefully monitor developments.

With respect to the latest data on the Harmonised Index of Consumer Prices, the annual increase for November 1998 showed a further slowdown to 0.9%, compared with 1.0% in the two previous months. This development was in line with previous trends, i.e. it was mainly due to lower annual percentage changes in the prices of food and a further reduction in energy prices. On balance, the general environment continues to suggest that there is no significant upward or downward pressure on prices in the short term. The pattern of risks to price stability has remained broadly unchanged. On the one hand, downward pressures could materialise if import or producer prices were to fall further, while, on the other, wage developments would become a matter of concern if wage increases were higher than expected. In addition, any relaxation of fiscal policies would negatively affect the price climate as well as the credibility of the Stability and Growth Pact.

In conclusion, taking into account the latest evidence available, the Governing Council has not altered its assessment regarding the outlook for price developments. This is why, as I already mentioned, the Governing Council decided that for the two forthcoming main refinancing operations the same conditions will apply as for the first one, i.e. they will be fixed rate tenders conducted at an interest rate of 3.0%. We also confirm our intention to maintain this rate for the foreseeable future.

I should now like to inform you about the Governing Council's review of the changeover to the euro.

First and foremost, I am happy to be in a position to report that, overall, the transition to the euro within the Eurosystem and the banking and financial industry has been accomplished to our satisfaction. With regard to the changeover weekend itself, the ECB informed you, by means of a first press release issued in the evening of 3 January 1999, that there had been no reports of any incidents that would have impaired the smooth start of the system. With regard to the first experiences of our operational existence, let me focus in particular on the performance of the TARGET system.

Overall, during the first days of operation, the TARGET system has functioned well. TARGET has contributed substantially to the integration of the euro money market and it has made possible the

consolidation of the treasury management of institutions with different activity centres throughout Europe. TARGET has handled more cross-border payments than anticipated in these early days of Monetary Union and, in doing so, has demonstrated its processing capacities.

The problems which are being experienced in this initial period can be regarded as teething troubles; after all, it is completely normal for operators – both in commercial banks and at the central bank level – to need some time to adapt to the system and to the new euro environment. In this respect, it is worth noting that more than 5,000 credit institutions are currently participating directly in TARGET.

The value of cross-border transactions settled through TARGET already exceeded EUR 310 billion on the second operating day and this figure does not yet include domestic RTGS transactions, which themselves accounted for at least another EUR 660 billion. The total value of transactions settled was therefore almost EUR 1,000 billion.

In addition to the news concerning TARGET, the ECB also informed you, by means of a press release on 5 January 1999, that its first refinancing operation – announced on 4 January 1999 – was completed successfully. Also here, the Governing Council obviously recognised that a learning process is still under way. The Governing Council will continue studying the best ways to adapt the liquidity provision to the changing conditions of this initial period.

As a final point, as indicated at our press conference on 22 December 1998, the Governing Council today revisited the issue of front-loading euro banknotes and coins.

The Governing Council holds the view that front-loading of euro banknotes and coins to the general public is excluded by Articles 10 and 11 of Council Regulation (EC) 974/98 on the introduction of the euro, since it would have the same effect as issuing or putting them into circulation.

However, front-loading of euro banknotes and coins is considered legally possible to credit institutions and security carriers as well as to other organisations (e.g. retailers and vending companies) if, but only if, legal or contractual arrangements can be put in place in each national legal system in order to ensure that euro banknotes and coins will not be put into circulation prior to 1 January 2002.

We stand ready to answer any questions you may have.

Transcript of questions asked and answers given by Dr Willem F Duisenberg, President of the ECB, and Christian Noyer, Vice-President of the ECB

Question: The teething problems that you mentioned for TARGET, can you describe what the main problems have been, even if they are teething problems, exactly what form they have taken?

Noyer: The main problems have not been technical ones, and they have not been problems linked to TARGET itself. They have been mainly problems linked to human factors, mainly in commercial banks. The cause might also have been sometimes in the central banking system, but mainly in commercial banks. Small errors made in addresses for payments or that sort of thing, so that the payment did not arrive at the exact time when it was deemed to be received by the receiver. That sort of problem, you know, developed in some cases, but – because of this – all problems identified have been repaired in a relatively short time. This is why we are rather confident. Of course, issues may appear that we have not yet discovered. But, for the time being, no failure or real difficulty in the system itself has appeared and all problems which appeared so far to have been solved in a relatively short time.

Duisenberg: And I want to emphasise once again that for today there were no problems whatsoever. Simply the amount of payments to be handled was so enormously large and is growing so fast that it was the larger banks in some countries which simply were not able to handle them in time.

Question: Mr President and Mr Vice-President, is the ECB aware of the fact that in several or many European commercial banks to exchange paper money at the counter now between two euroland currencies is more expensive than before, significantly more expensive than before?

Duisenberg: I wasn't aware of that fact.

Question (translation): Mr Duisenberg, over the past few days there have been a whole range of issues of government paper on the European capital market. How do you assess this wave of issuing activity? Is there reason to fear an increase in interest rates at the long end and is there not a need for a harmonisation of the issuing calendar in the 11 European countries?

Duisenberg: We have not discussed this today in the Governing Council, but on one thing – on interest rates – I would like to say that it is our impression that the way in which long-term interest rates, in particular, have developed over the last few days can be interpreted as an indication that inflationary expectations of the market remain very, very subdued indeed and that there are thus no expectations in the market of a change even in the longer term.

Noyer: If I may add something. I suppose that you are referring to some issuing that has taken place this week, particularly in Germany and France. But this was related to a calendar established well in advance in both cases. On top of that, I know, we know, that Governments, Treasuries have discussed together a sort of harmonisation of calendars. Harmonisation is perhaps not the proper word, but they have exchanged their calendars of what they plan to issue, to avoid as far as possible having a lot of issues on the same day. So this process is going on, but for the total amount the President has just answered that there is no reason to think that there is any change.

Question: Mr Duisenberg, you stressed again the phrase: “for the foreseeable future”. Could you explain more explicitly what it means. Is it just a diplomatic phrase not to say that you want to say anything or could this foreseeable future end on 21 January 1999?

Duisenberg: We do not put a horizon to our future that we can see. Contrary to you, I come from a very flat country where we can always see the horizon which is very far there. So it certainly does not imply any date as you indicated that will be the end of our foreseeable future. As far as we can see, now we see no tendency which would force us to change interest rates in the future, as far as we can foresee it.

Question (translation): President Duisenberg, the euro euphoria over the past few days must be satisfying to you, but is it not also reason for some concern because, in the long run, as you know, confidence in a currency is something that is difficult to build up. A second question: given that there is such euphoria, what must policymakers do to ensure that such confidence is actually established?

Duisenberg: We as a central bank should continue to behave the way as we do, i.e. come up with clear and transparent decisions which gain the credibility and gain the confidence that we indeed will be successful in achieving our aim which is price stability over the medium term. What politics should do is also to continue to strive for a stability-oriented policy, particularly in the fiscal sphere, also in order to gain the confidence of the people and thereby to firmly establish this idea of euphoria, so that it becomes an idea which is settled in the minds of the people. It will no longer be euphoria, but it will be confidence and credibility that we are after.

Question (translation): Mr Duisenberg, today there have been renewed calls for a stabilisation of exchange rates from Mr Lafontaine in Brussels. Such calls have also been heard in Tokyo, and Mr Chirac has likewise again spoken out in its favour. A meeting of the G7 countries has been scheduled to take place on 20 February in Bonn. Will you be participating in this meeting and what message and conviction will you express with respect to this issue?

Duisenberg: When I go to Bonn, and I will go, I will give the message to those who will listen there that we, as the central bank, are interested first and foremost in achieving our statutory aim, i.e. internal price

stability. The exchange rate for the central bank is not an explicit aim. It is one of the indicators we will look at, at its development, together with a broad range of other indicators in determining our policy decisions. But then one cannot repeat often enough that the impact of the exchange rate on the domestic European economy is much less than we were used to in the fragmented markets when we were still eleven different markets with ten different exchange rate regimes. As you know, exports account for only 10–11% of the combined GDP and which makes the impact of exchange rate variations comparable to those in the United States or Japan. So, most of all, we are interested in stable internal prices and, secondary, we are also interested in a stable exchange rate development. But that is the outcome of policies rather than as the aim.

Question: Mr President, I have a further question on the same issue: the euro exchange rate policy. Could you inform us about any exchange rate interventions during the last days to support the euro or the dollar? And if you cannot inform us about that – for obvious reasons, I would like to ask if for internal price stability revaluation would be needed, would you prefer to have this revaluation in the short run or in the longer run, more gradually?

Duisenberg: I did not inform you about interventions, although I could easily mention a figure, the figure is zero, but then we do not have an exchange rate policy, we have a policy aimed at achieving price stability and we do not have an explicit exchange rate policy or exchange rate aim vis-à-vis other major currencies. That's about all I can say about that.

Question: The euro has been not as strong as it has been in the first days. Are you happy with that tendency, that is the first question, and then the second question is similar to the one of the colleague: the Americans have always been saying the dollar is our currency and it's your problem. Are you saying that Europeans will say the same with the euro?

Duisenberg: I was happy when the euro took off with a very strong start. I was equally happy when yesterday the euro came down again somewhat vis-à-vis the dollar in the direction of the value it had right at the start of the conversion, and I'm equally happy today that again the euro rebounded somewhat to a level, when we left the bank, of USD 1.1675. So I've been happy for three days already. There will, of course, not be any neglect, neither malign neglect nor benign neglect, of the exchange rate. The exchange rate will be one of the indicators we closely watch in determining our monetary policy decisions, but only one of them.

Question: Mr Duisenberg, I just wanted to come back to these teething troubles. Well, what are these troubles? There has been reference to the TARGET system, but are these problems which are encountered by the European monetary market as a whole, and could we say that, if more than EUR 20 billion has to be covered on a single day by you, is that what you mean by teething troubles, or if this doesn't depend upon TARGET, if TARGET doesn't really have any problems, are there other problems which have been encountered or can you say, no, there aren't any other problems?

Duisenberg: Structural problems and the problems which Mr Noyer has just indicated, the problems that there were mainly the result of human errors and sometimes human ignorance. The operational personnel at the various commercial banking institutions has to get used to the new techniques, even to writing the new instructions to their computer, sometimes they make mistakes which they will learn to avoid in the very near future, but which then cause hiccups in the smooth process of transferring these large payments from one country to another. So far it looks like there are no systemic problems with TARGET, TARGET is functioning extremely well. To be quite honest, the teething problems, or birth pangs, or whatever you may want to call them, were rather smaller than we had thought at some moment that they might emerge. We regard it as quite normal that there are these problems. If you suddenly switch over to a real-time gross settlement cross-border payment system which, as I indicated, already within three days turns out to be the largest in the world encompassing more than 5,000 credit institutions, it is no wonder that there may be some ripples in the water sometimes but that'll settle down.

Question: There is one additional question on TARGET: Which consequences does it have, this closing down later? Can you quantify it, that it brings additional costs to the banks, and how much?

Duisenberg: No, on the contrary, it is more or less the result of the banks, the banks' eagerness to be able to make more and more transfers even on this day, and they asked for that only in their own interest. I can assure you, this does not create more costs.

Question: My question is quite similar to the one before, but I'd like to have your opinion about the forex control system that the German and Japanese governments suggest. What can you do to control forex rates when you have the big power now?

Duisenberg: Well, what I can do is a lot, but what I want to do is nothing. It's as simple as that. I mean, the same question was put to Mr Greenspan a few weeks ago when we had this exchange here in Frankfurt, and Greenspan said, it's simply not feasible at the moment. Well, I'm inclined to listen carefully to what he says, and then to have a similar opinion.

Question: I'd just like to talk to you about gold reserves. The ECB said it will readjust the value of its gold reserves on its books each quarter, and I think it has also decided to keep about 15% of its exchange reserves in gold. If there was a major change in the price of gold on the world market, that percentage would be likely to change, and so I would like to ask you if that means that the ECB would buy or sell gold in order to keep its proportion of reserves at that percentage amount.

Duisenberg: Christian, you're the gold man!

Noyer: No, there is no such conclusion to draw, because it was not a decision to hold 15% of foreign exchange reserves in gold, as a structural decision of the Governing Council. The decision of the Governing Council at the time was that in the initial transfer 15% would be made of gold, but that has no consequence on the structure of foreign exchange reserve to develop in the future, nor has it any consequence on the total percentage of gold holdings of the system, including the reserves that are still in the balance sheet of national central banks, and we know that in some cases they have more than 15% gold, and in some cases they have less, but they are for the moment and for the foreseeable future keeping the proportion they have.

Duisenberg: And in this case, the foreseeable future is much longer than in the earlier case.

Question: Mr Duisenberg, the fact that the euro has got off to such a good start is to some extent an expression of confidence in you and can we expect you to stay for eight years?

Duisenberg: This is for the first time that I give the answer which I announced I would give already on 31 December 1998, that is "no comment".

Question: Concerning TARGET, you spoke about human errors in dealing with this, and I would like to know if you can be more specific about in which countries did these errors happen, in what areas of euroland did they happen. And the second question is, the fact that there were human errors, does it mean that the people were not prepared enough, that the technology didn't take into account the human possibilities?

Duisenberg: No, it means very different things. In all countries, errors were being made, but they were of a minor nature, and I mean people also have the right to make errors. They were of a minor nature, only during two days it so happened that use was made of a rule that any single central bank can ask towards the closing time of the payment system for an extension of opening time by one hour. Now this extension in fact was asked for the first day and the second day. On the third day, yesterday, it was not asked. So yesterday everything already operated, I would not say normally, but at least within the limits set. Today again there was a request to extend it by half an hour, due not, in this case, to any faults or errors in the system or the participating institutions but due to the enormous amount of payments that still had to be

processed in order to be able to be processed within this single day. And the causes, well, they differ. It was simply making errors in the techniques, in some cases, also we think that the number of personnel engaged with executing these payments is not sufficient to handle this enormous amount of payments as it is developing. In a way today for example, as the experts at the bank said to me, what happens today is that TARGET is a victim of its own success.

Question: In October/November, several people – you, Mr Tietmeyer – were talking about a scope to cut rates, and in fact we did have the coordinated rate cut on 3 December. Now you are saying rates are on hold for the foreseeable future. Does that indicate that we no longer have an easing bias and more a neutral bias as far as rates are concerned?

Duisenberg: Effectively, there has been a considerable easing in the course of last year to the extent that the average three-months rate have in the course of last year gone down by slightly more than 100 basis points, and one third of that easing has happened in the last month, in December. And for now, I think I would agree with you that there is no bias any longer in either direction.

Question: One more time about the exchange rate: There are, in the market at least, expectations that the euro will get at least moderately stronger in the near future. Do you have the same kind of expectations or do you see this level that we now have that it will stay so in the foreseeable future?

Duisenberg: If I had expectations, I wouldn't tell you. Sorry, but when you talk to a central banker about exchange rates, always expect either no answer or expect a lie.

Question: Of course, journalists aren't as well informed as you and there are some important questions that we didn't ask at the start of the year, so maybe you could help us now?

Duisenberg: I think you have asked everything which was important.