

## **Mr. Duisenberg reports on the latest meeting of the ECB Governing Council**

Introductory statement by the President of the European Central Bank, Mr W F Duisenberg, at the press conference in Frankfurt 4/2/99.

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

Let me start with the Governing Council's discussion on recent 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 monetary, financial and economic developments. After a careful examination of recent trends, in the context of its monetary policy strategy, it confirmed its earlier assessment that the outlook for price stability remains favourable. Therefore, it decided that for the main refinancing operations to be settled on 10 and 17 February 1999 the same conditions will apply as for the first such operations settled earlier this year, i.e. they will be fixed rate tenders conducted at an interest rate of 3.0%. In addition, the interest rate on the marginal lending facility continues to be 4.5% and the interest rate on the deposit facility remains 2.0%.

Let me report in more detail on the Governing Council's deliberations and thereby provide the explanations for the decisions which were taken today.

On 1 February 1999 we released the latest data on monetary developments in the euro area. These data confirmed the continuation of a favourable outlook for price stability in the euro area. The latest three-month moving average of annual M3 growth rates (covering the period from October to December 1998) was 4.7%. This result was unchanged from the average over the period from September to November 1998 and remained very close to the reference value for broad money growth of 4½% set by the Governing Council.

Developments in the narrow aggregate M1 have been more buoyant recently. Similarly, the growth of credit to the private sector continued to be high in December 1998. These developments seem to reflect, in particular, the current low levels of interest rates in the euro area. Although they are not considered by the Governing Council to imply inflationary risks at this juncture, in particular the developments in credit growth will need to be carefully monitored in the coming months.

With regard to the broadly based outlook for price developments and risks to price stability in the euro area, financial market indicators suggest that market participants continue to expect low inflation. Since early January, euro area long-term interest rates have continued to decline and the yield curve has shifted downwards.

At the same time, the latest developments are giving mixed signals as to the evolution of the world economy in 1999. On the one hand, recent events in Brazil have highlighted the fragility of the current situation in emerging markets, while on the other, output growth in the United States was much stronger in the last quarter of 1998 than expected. In the euro area too, available indicators continue to suggest a mixed picture. According to revised Eurostat estimates, real GDP growth remained broadly robust in the third quarter of 1998, while in more recent months activity may have slowed down. Such a slowdown is apparent in industrial production growth up to November 1998, in particular in the intermediate goods sector, which is particularly sensitive to any deterioration in the external environment. However, at the same time, production of capital goods and consumer durables has continued to expand rather strongly. A similar pattern can be observed in the decline in industrial confidence that has been apparent in the second half

of 1998 in the euro area, while, however, stabilising in January 1999. On the other hand, consumer confidence in the euro area continued to increase in December and in January; it has now exceeded the peak level reached in 1990, with retail sales up to November showing continued solid growth and car sales growing strongly during the last months of 1998. Finally, the mixed picture is confirmed by other data. Order books, which overall declined slightly further in December, apparently increased again in January, particularly with respect to export orders. Capacity utilisation in the manufacturing sector, which started to decrease in the third quarter recovered again thereafter, while December data on unemployment appear to suggest that the decline in unemployment rates stalled around year-end.

Therefore, with regard to the cyclical situation, recent data seem to confirm our earlier assessment that there are downside risks for output growth and that production may have slowed down around the turn of the year. Nonetheless, in the opinion of the Governing Council there are also no clear signals as yet of a stronger than expected weakening in output growth. Given the mixed picture outlined above, the Governing Council emphasised that further thorough analysis and very close monitoring of underlying trends are needed before any conclusions can be drawn concerning the broad outlook for 1999 and 2000.

With regard to the latest data on the Harmonised Index of Consumer Prices, the annual increase for December 1998 showed a further slowdown to 0.8%, compared with 0.9% in November and 1.0% in October. This development was in line with previous trends; i.e. it was due mainly to a further reduction in energy prices and also, in December, to a decline in the price increases in non-energy industrial goods. Taking a forward-looking perspective, the general environment continues to suggest that there are no significant upward or downward pressures on prices in the short term. Furthermore, the pattern of risks to price stability has remained broadly unchanged. On the one hand, downward risks could materialise if import or producer prices were to fall further. On the other, given current wage demands, wage developments, especially when measured in real terms, could become a matter of concern and fiscal policies would also pose a threat to the favourable outlook for prices and growth and employment prospects, if the credibility of the Stability and Growth Pact were undermined. In addition, exchange rate trends need to be monitored closely given their importance for domestic price developments.

In conclusion, taking into account the latest evidence available, the Governing Council has not altered its assessment of the outlook for price developments. The Governing Council therefore decided to keep ECB interest rates unchanged at the levels currently prevailing.

I should like to take this opportunity to recall that real three-month interest rates, if measured as nominal rates corrected for current HICP inflation (as a very incomplete proxy), stood at a level of 2.3% in January; this is approximately 80 basis points lower than the level one year ago. At the same time, real long-term interest rates, measured on a similar basis, have reached a level of 3.0%, which is around 110 basis points lower than in early 1998. These levels are very low, both in comparison with other countries and with historical data for the euro area. Monetary and financial conditions therefore support continued economic growth in the euro area in line with price stability.

I should now like to inform you about some other matters considered by the Governing Council.

The end-of-day procedures relating to TARGET and access to the Eurosystem's standing facilities were reviewed by Governing Council today. The Governing Council agreed that from tomorrow on the deadline for requesting access to the marginal lending facility will coincide with the deadline for access to the deposit facility, i.e. 30 minutes after the actual closing time of TARGET. Furthermore, the deadlines for requesting access to the Eurosystem's standing

facilities will be postponed by an additional 30 minutes on the last Eurosystem business day of a minimum reserve maintenance period.

As a final point, I should like to inform you that the ECB is planning an information campaign with regard to the launch of the euro banknotes on 1 January 2002. One of our aims in undertaking such an exercise will be to ensure that, by the time the euro banknotes become available, every person using and handling them will be fully acquainted with their features to the extent that everyone will be able to identify the banknotes as being genuine. In this respect, the ECB will be co-operating with the European Commission and the Member States to ensure that there will be no duplication of effort.

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