Mr. Duisenberg reports at a press conference on the outcome of the meeting of the Governing Council of the ECB.

Introductory statement by the President of the European Central Bank, Mr. Wim Duisenberg, in Frankfurt on 8 April 1999.

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

Let me start with the Governing Council's discussion of recent economic developments and the decisions that the Governing Council has taken today in the field of monetary policy. After an in-depth review of recent monetary, financial and economic developments, the Governing Council decided that the interest rate for the ECB's main refinancing operations will, from next week on, be set at 2.50%. In addition, the interest rate on the marginal lending facility will be lowered to 3.50% and the interest rate on the deposit facility to 1.50% with effect from tomorrow.

Let me report in some more detail on the reasons for which the Governing Council, in the context of the ECB's monetary policy strategy, deemed it appropriate to lower interest rates.

As regards monetary developments in the euro area, the acceleration of monetary aggregates seen in January 1999 was partly reversed in February. The 12-month growth rate of M3 declined from 5.6% in January to 5.2% in February. This largely reflected a slowdown in the high pace of growth of overnight deposits, presumably reflecting the unwinding of the influence of some special factors related to the start of Stage Three and the introduction of the euro. As the February figures were somewhat higher than those observed in late 1998, the three-month moving average of M3 growth covering the period from December 1998 to February 1999 still increased by 0.2 percentage point to 5.1%. The Governing Council does not regard current monetary trends as constituting a signal of future inflationary pressures, taking into account that the rate of growth of M3 is still close to the reference value of 4½% and considering that it may to some extent mirror the specific environment related to the start of Stage Three.

The Governing Council noted that the Harmonised Index of Consumer Prices (HICP) rates of increase for the euro area have now been below 1% for several months, and even though some increases are likely to be seen in coming months owing to the reversal of energy price trends, the more lasting effect on the outlook for future prices comes from the economic environment. Indeed, reflecting the economic environment, many projections for future consumer price increases in the euro area have been revised downwards. In our current assessment of the situation, it appears unlikely that HICP increases will be out of line with the Eurosystem's definition of price stability.

With regard to financial indicators, both bond and foreign exchange markets were lately under the influence of global factors. After having risen somewhat in February 1999, in tandem with US bond yields, during March euro area government bond yields remained broadly unchanged. At the same time the US dollar strengthened further in recent weeks in the light of international developments.

When looking in some more detail at the evolution of the world economy, positive signs relate to the continuously strong growth of the US economy, the gradual recovery in some Asian countries and indications of a stabilisation in Latin America. However, there is no noticeable evidence as yet of a turnaround in Japan.

In the euro area, overall growth prospects worsened towards the end of last year, as reported when we met in early March. In the meantime, official data confirm that real GDP growth in the euro area weakened in the fourth quarter of 1998, when compared with the previous quarter. The weakness is particularly apparent in the manufacturing sector, where confidence deteriorated further. Partial information covering a substantial part of the euro area appears to confirm this picture. Most recent data on total employment in the euro area point to a certain deceleration in net job creation in the last quarter of 1998.

As regards the latest available data on the HICP, the annual increase in consumer prices has remained unchanged at 0.8% over several months up to February 1999. Underlying this stable rate of price increases have been offsetting developments at the level of services and goods prices. In February, services price increases moderated further slightly, mainly owing to downward adjustments in prices in the telecommunication area. At the same time, goods prices contributed slightly more to overall HICP increases than before, due both to price developments for unprocessed food and a deceleration in the fall in energy prices. It may be worth noting that goods prices may continue to move upwards temporarily, in particular as oil prices increased strongly from mid-February onwards. Such movements reflect the higher volatility of price changes of some categories of goods, in particular imported oil and other commodities.

The interest rate decision has been taken in a forward-looking perspective, focusing on the medium-term trends in inflation and the compatibility of these trends with the Eurosystem's definition of price stability. In the view of the Governing Council, monetary growth is - at the current juncture - not a risk for future price stability.

The decision taken today keeps monetary policy on a longer-term stability-oriented course and, by doing so, contributes to creating an economic environment in which the considerable growth potential of the euro area could be exploited. Those responsible for other policy areas are urged now even more to take the necessary steps to improve longer-term growth prospects for the euro area through strictly and decisively adhering to the aims of the Stability and Growth Pact and through convincing structural reforms in the economy.

I should now like to inform you about some of the other matters considered today.

The Governing Council examined the outcome of a test run of the production of euro banknotes. This so-called zero production run involved the printing works of the participating countries. The main purposes of this test were, first, to check the compliance of the test banknotes against the technical specifications and, second, to prove that all printing works are in a position to produce the euro banknotes to the same high quality standards. The result of this test was positive, as only some minor technical specifications need to be modified slightly. The printing works will now start their final preparations for the commencement of the mass production of the euro banknotes.

The Governing Council also decided to establish an Analysis Centre for Counterfeit Euro Banknotes. As is already indicated by its name, the main purpose of this Analysis Centre will be to technically analyse and classify new types of printed counterfeits, and to store the related technical data in a database. The Analysis Centre will be located at the ECB in Frankfurt.

We are now at your disposal should you have any questions.

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

Question: I would be very interested if you had anything to say about the exchange rate of the euro, if the central bankers of Europe seem comfortable with it. It seems that the strategy of the ECB is now, in light of today's actions, a double strategy to re-invigorate the European economy. On the one hand, you got the exports boosted by the euro and, on the other hand, you got an interest rate cut to lubricate the economy as well.

Duisenberg: First of all, as far as the exchange rate of the euro is concerned, I always like to take a slightly longer term perspective than is normally done in articles and considerations about it. I would like to point out that, if you look at the rate of the euro, and look back to what we - in our jargon - call the synthetic euro, the euro that you can calculate before the euro was in existence, then you can observe that the rate of the euro to the dollar has been more or less stable at around a level of USD 1.08 to USD 1.10 from the middle of 1997 until early September 1998. In the middle of September it started to rise to reach a level of 1.16 at the end of the year, and that was the level at which we entered the euro era. After 1 January it gradually declined again in a few weeks to a level of around USD 1.08. So, we have no reason at all to be dissatisfied with that level. It is about the level at which the euro had stood for more than a year. And now - to take a very short outlook, between 6.15 and 6.30 today - the euro rose from USD 1.08 to USD 1.0865. I hope that answers your question.

Question: I have a question concerning your inflation target. Can we draw the conclusion that from now we have some kind of informal bottom on your inflation target?

Duisenberg: No, you cannot draw this conclusion. We are sticking to our definition of price stability which says that we regard price stability as being an increase in the rate of inflation of below 2%. And what I said today is that the present situation and the prospects for the increase in the rate of inflation are such that they seem, for as far as we can look forward, also to remain well below that ceiling of 2%. So, inflation is not a danger, which enabled us to, let me say, to pay more attention to the second area of objectives of the European Central Bank - that is to support the general economic policies of the European Community.

Question: In your meeting today, could you describe what the mood was of the meeting and whether there was much debate about your move and much debate about the level of the move and also, whether it was an unanimous vote in the end.
Duisenberg: The mood was good. We had a very long and, I must say, very interesting discussion today. There were a few who were not very inclined to do something about the rate - but here I talk about a very few - and a very large majority was inclined to do something and supported the proposal as we put it before the Council. And so, we had a very good discussion. For the final decision, I am afraid I have to tell you that we did not take a vote. But we know all the different views and so, finally, I could conclude as follows: the Governing Council decides that the main refinancing rate will be lowered from 3% to 2.5%.

Question: You said there were no monetary risks of inflation at the moment. Can we infer from today's decision that there were monetary risks of deflation or is it purely a growth-oriented decision that you have taken today?
Duisenberg: No, we also see no risks of deflation emerging. We see that inflation has now remained, on a euro area-wide basis, constant at a rate of 0.8% four months in a row up to now. We see some risks on the upside, i.e. mainly the impact of rising energy prices, but that is by definition, as it was when it was on the downside, a temporary factor. We see some risks deriving from some wage settlements here and there in Europe, those are the upside risks. We see some downside risks from a rather subdued outlook for general economic development in the entire euro area. But as such, the main thing is that we do not see the situation of price stability in which we entered the euro area, and which prevails until this moment, would be in any way endangered in the future. That gave us the leeway to take the measure I have just announced.

Question (translation): Mr. President, would you say you have admitted today that you are pursuing a business cycle-oriented monetary policy, which would constitute a change in model, compared with the Deutsche Bundesbank, which has always maintained that it does not pursue a business cycle-oriented monetary policy, but rather that "we have a monetary target or a potential-oriented monetary policy, which is geared to the medium term". Are you not facing the danger that such an obvious relaxation of your monetary policy could, instead of stimulating reform in other areas of fiscal, tax and labour market policy, reduce pressure for such reforms?
Duisenberg: With the greatest emphasis I am capable of, I want to deny that we have in any way switched our strategy or our approach to monetary policy. It is not a cyclically inspired policy. May I quote from my statement again; the interest rate decision "has been taken in a forward-looking perspective focusing on the medium-term trends in inflation and the compatibility of these trends with the Eurosystem's definition of price stability." That is something totally different from a "konjunkturgetriebene Politik".

Question (translation): Mr. Duisenberg, this interest rate move has turned out to be unexpectedly large. Do you believe that you are now at the limit which you can justify in terms of stability policy and how long will this interest rate remain in place if economic activity in the euro zone does indeed pick up in the second half of the year?
Duisenberg: This is something we have, of course, considered in depth. We wanted the move to be as convincing as possible and we were afraid that a smaller move would only have led to further expectations for the future, that this would only be a first step in a series. We have by all means possible tried to avoid that impression. In very parochial words, I am inclined to say - and I cannot say "do not quote me" here, I realise that - but I am inclined to say that we moved from 3% to 2.5% which is maybe a slightly, unexpectedly large fall, but I would like to add, and now you be sure: this is it.

Question: Mr. Duisenberg, I just want to ask if you could elaborate a little bit on the convincing structural reforms that you said you would like to see from euro zone governments and also if you feel that by cutting the rates in such a large step that you actually reduce the pressure on these governments to make these reforms?
Duisenberg: We hope that the contrary will emerge over time. Convincing structural reforms relate to the following: We, and most other observers, are very convinced that the phenomenon of an unacceptably high rate of unemployment across the euro area, but particularly in the larger countries in the euro area, is due to structural factors and to inflexibility in markets for labour and in markets for goods and services and that monetary policy is neither the cause of that structural unemployment nor is it the solution to it. The solution to that problem has to be found in measures of a convincingly reformist nature in the labour and in the goods markets and we do hope that taking the monetary policy stance we have taken today will in the ensuing months increasingly focus the attention of policy-makers and the public on the real causes of the unemployment problem, because it will demonstrably become clear that monetary policy is not the answer to solve those problems.

Question: Do you feel completely certain that this interest rate cut represents no danger of inflation to any part of the euro zone, I am thinking, in particular, of smaller, more dynamic economies, such as the Irish one. And secondly, is it fair to conclude that the opposition to a rate cut came from the representatives of those countries?
Duisenberg: I will not allude to any opposition by anyone in the Governing Council. We do believe that this rate cut, otherwise we would not have done it, will not pose any additional threat of inflationary pressures arising either in small or in large countries.

Question (translation): President Duisenberg, with regard to risks and side-effects. First question: will you keep the interest rate at 2.5% even if a recession occurs? Have we understood you correctly in this respect? Second, is it indeed so that too much capital flowing to the United States at high interest rates flows could become a problem for the external stability of the euro? I mean, the higher interest rates in the United States indicate that, at the moment, still more capital will be flowing to the United States. Third question: did you intend to increase the pressure on lenders, i.e. also on the banks, because your impression was that, in the light of the official rate of 3%, they were not answering borrowers' demands for cheaper loans?
Duisenberg: I am not going to speculate about a potential recession if we do not see one coming. We see a slowdown in economic development., We do not see, or do not yet see, a recession to be on our hands. So I will not speculate about what we would do if there really were a recession. We will cross that bridge when we come to it or, as my mother used to say: if the skies fall down, all the birds are dead. Interest rates in the United States are higher, but you have to realise that the United States is in a totally different phase of the cycle than we are and whether that will in any way induce capital flows to move differently from what they are moving today remains to be seen. And the third part of your question was, have we in any way made the conclusion that the banks, when the rate was 3 %, were not giving in enough to the demand for credit. No, on the contrary, as you know, the development of credit to the private sector has been quite buoyant over the past few months, although its bias of increase has come down somewhat. The last time I was here, I reported that credit to the private sector was growing at an annual rate of nearly 10%; the latest figure we have now is that it has come down to a rate of slightly over 9%. But then, when you analyse that credit to the private sector and its development, it is also very clear that those high rates of growth are particularly present in the smaller countries of Europe and not too much in the larger countries, although there is quite a difference between the various countries. So, in itself, that rate of growth of credit, which is already moderating somewhat, is not a cause of inflationary concern for us, and neither is the move today any inducement to the banks to be more forthcoming in giving credit. They are already quite forthcoming.

Question (translation): Mr. Duisenberg, the situation in Europe at the moment, especially this latest interest rate move by the ECB, now reminds me somewhat of Japan. You reduce interest rates time and again, yet on the other hand, no progress is being made in the areas of politics and restructuring in

Europe. In December, although I cannot quote you directly, you stated, much in the same way as today, that following the cut in interest rates the situation with regard to interest rates in Europe would be settled. It is now the beginning of April and we see obviously a further cut in interest rates. Is there not the danger, Mr. Duisenberg, that this process is about to begin again and that, after a certain period, owing to a lack of willingness in Europe and in Germany, in particular, to bring about structural reforms, the whole rigmarole will begin once more and you will be forced, yet again, to cut interest rates?
Duisenberg: Well, we do not see that danger arising from the level which we now have reached. We hope that our call - as I expressed it today - to governments to pursue a reform-oriented policy, to adopt structural reform measures in all markets, that that policy will get a new incentive from the measures we have taken today. If they do not do that - and it will take time, I admit that before you can pursue and effect policies like I have in mind - if they do not do that, then indeed monetary policy is no alternative.

Question (translation): Those who are not au fait with the intricacies of monetary policy, by that I mean Joe Soap , the man on the street, could get the impression that Oskar Lafontaine was right in making his demands. Has your decision anything to do with his resignation or could it be interpreted in another way, as a welcoming gift for the new Federal Minister of Finance in Bonn?
Duisenberg: The interest rates which we have established today are valid for the entire euro area and they have been founded on considerations related to the entire euro area and not to any particular country or finance minister.

Question: Mr. President, it sounds like you are meeting the governments halfway here with this rate cut. Especially the German government was calling for the rate cut to help with the unemployment problem. Now you are saying: here is your rate cut, fix the unemployment problem. Is that part of the decision to cut rates?
Duisenberg: No, it is not part of the decision, but I do not have that much difficulty with your words.

Question (translation): President Duisenberg, as yet, people do not have euro money in their hands. What is your message for Europeans in general with this interest rate cut?
Duisenberg: Well, I had "Eurogeld in der Hand" today. It looked quite good, as I told you. And my message to the people who will have euro money in their hands in two years time and who are already in the process today of getting used to it, more and more, as everybody can notice who travels around across Europe, the message I have is that, today's measures should increase the confidence of the people, of the "Otto Normalverbraucher" in the institution that manages their money, in the European Central Bank as the guardian of their values.

Question: Until now we did not speak of Kosovo, we have war here at our doors, was this war - the possible impact on economy or the psychological impact on Europe - part of your decision or part of your concerns?
Duisenberg: No, it was not. It neither induced nor deterred us from taking the decisions we have taken today. Of course, we are fully aware of the dramatic turmoil that is taking place in Europe, and it does not leave us untouched, by no means, but we have also noted with gratitude that all this turmoil has so far not had any impact at all on the financial markets or exchange rates.