Mr Duisenberg reports on the outcome of the latest meeting of the ECB Governing Council

Introductory statement by the President of the European Central Bank, Dr W F Duisenberg at the press conference held in Frankfurt on 6 May 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 of the ECB.

The Governing Council reviewed, as usual, the main **monetary, financial and other economic indicators** in line with its monetary policy strategy. Following this discussion it decided to keep the ECB's interest rates unchanged. The interest rate on the main refinancing operations will thus remain 2.5%. In addition, the interest rate on the marginal lending facility will continue to be 3.5% and that on the deposit facility will remain 1.5%. Let me give you some details about our latest assessment of the monetary policy stance and thereby provide **explanations** for the decisions taken today.

Overall, monetary developments and our broadly based assessment of future price developments do not signal dangers to price stability over the short and medium term.

With regard to *monetary developments* in the euro area, in March 1999 the 12-month rate of growth of M3 remained constant at 5.1%. While the pace of increase in overnight deposits reduced further, signalling the waning influence of the uncertainties surrounding the launch of the euro, deposits with an agreed maturity of up to two years grew at a stronger pace in March than in February 1999. The latest figure for the three-month moving average of M3 growth, covering the first quarter of 1999, was 5.2%. This was 0.2 percentage point higher than in the previous three-month period, covering the period December 1998 to February 1999. The Governing Council also noted that the annual rate of growth of total credit was broadly stable at 7.5% in March 1999. In line with the assessment it had made on the occasion of its previous meetings, the Governing Council took the view that recent monetary trends should not be seen as a warning signal with regard to the future evolution of inflation. As we have emphasised in the past, the monetary data in early 1999 may be affected by the special circumstances related to the changeover to Stage Three of EMU. In addition, the three-month moving average of M3 growth remains relatively close to the reference value of 4½%.

As regards *financial indicators*, I should like to stress that recent developments in bond yields in the euro area were accompanied by some decoupling of yields from those in the United States, as differentials between euro area long-term interest rates and comparable rates in the United States have widened.

As regards the evolution of the *world economy*, recent developments tend to confirm the picture of a mild overall improvement in the external environment beyond the euro area. As before, however, the main features range from continuously strong growth of the US economy to continuously weak output in Japan.

For the *euro area*, only a few additional data for economic indicators have become available, and the assessment of forthcoming GDP developments is currently complicated by the fact that the next release will be based on revised data in accordance with the new concept of the European System of Accounts (ESA 95). *Industrial production* declined at the beginning of this year, and data on *retail sales volumes* suggest that the pace of growth slowed down somewhat around the turn of the year, but recently there are preliminary indications of some improvement. Recent developments in the labour market show a somewhat decelerating *employment growth* towards the end of last year. The rate of unemployment remained unchanged in March 1999, following two consecutive declines in January and February. *Industrial confidence* declined further in the first quarter of 1999, but preliminary April figures from the European Commission point to a slight improvement. Given the latest developments up to April, it would appear that *consumer confidence* reached a peak at the beginning of this year since when it has moderated slightly.

As expected, the trend towards decreasing inflation rates appears to have been reversed in March. In March the annual rate of increase of consumer prices as measured by the *Harmonised Index of Consumer Prices (HICP)* was 1.0%, compared with 0.8% in the previous four months. This was essentially a consequence of the substantial rise in oil prices which began in mid-February feeding through to energy prices in the HICP. In addition, unprocessed food prices have continued to exert some upward pressure on overall price increases in recent months. Excluding the more volatile HICP components of energy and food, the rate of increase in consumer prices in March remained at 1.1% - i.e. unchanged from the rate observed in February and marginally lower than that recorded at the turn of the year.

In **conclusion**, at this point in time the general outlook for price stability remains favourable. Although the lower effective exchange rate of the euro and the rise in oil prices may lead to some upward pressure on headline HICP inflation in the coming months, the current economic situation is likely to contribute to containing this upward pressure. At the same time, current monetary developments and other available indicators do not point to inflationary risks over the medium term. On the basis of this assessment the Governing Council decided to keep the ECB’s interest rates at their current levels.

In addition to reviewing the main monetary, financial and other economic indicators, the Governing Council considered a report prepared by the ECB’s Banking Supervision Committee on “The effects of technology on the EU banking systems”. The report assesses the extent to which technological developments have taken place and are expected to occur in the EU banking systems, the main categories of banking risks affected by these developments and the strategic responses that EU banks are devising. The Governing Council agreed to publish the report, which will be made available in due course.