

## **Christian Noyer: Presentation of the European Central Bank's Annual Report for 2000**

Introductory statement by Mr Christian Noyer, Vice-President of the European Central Bank, to the Committee on Economic and Monetary Affairs of the European Parliament, Brussels, 2 May 2001.

\* \* \*

It is a great pleasure for me to present to you today the third Annual Report of the ECB, which covers the second year of the ECB's operational existence. The Annual Report is an important instrument for the ECB to provide the European public and its directly elected representatives with detailed explanations of its monetary policy and other activities. It thus complements the various other channels through which the ECB is held to account such as, in particular, the quarterly testimonies before your Committee. Given the time-frame for our meeting today, it will not be possible to address all the subjects covered by the Annual Report. Therefore, I will focus on some of the most pertinent issues before answering any questions that you may have.

### **1. Review of economic and monetary developments**

The year 2000 was one of solid economic growth. The growth rate, at around 3.5%, was the highest in the euro area in over a decade, and it was accompanied by continued strong employment creation.

At the same time, we have seen an increase in HICP (Harmonised Index of Consumer Prices) inflation. HICP inflation reached 2.4% on average in 2000, a level above what we consider to be compatible with price stability. This rise in consumer prices was caused by an increase in import prices which, in turn, was mainly due to exchange rate and oil price developments. Such short-term price fluctuations cannot be avoided. It was, however, crucial in 2000 for monetary policy to prevent any spillover from the short-term upward inflationary pressure to medium-term inflation expectations, especially in the context of the strong economic growth witnessed in 2000.

A tightening of monetary policy in 2000 was also indicated by the analysis of monetary developments. M3 was continuously above the reference value of 4½% during the year and growth in the extension of credit to the private sector remained strong.

As the information stemming from both pillars of the monetary policy strategy of the ECB pointed to upward risks to price stability, the ECB raised interest rates six times in 2000, following the increase in November 1999. Overall, between November 1999 and October 2000, the key ECB interest rates were raised by 225 basis points. Through these measures, the ECB made its contribution to ensuring the sustainability of a process of non-inflationary economic growth in the euro area over the medium term. The success of this policy is evident in all measures of medium-term inflation expectations, notably in bond market developments which signal that, despite the recent increases in HICP inflation, markets expect price stability to prevail over the medium term.

Since the last increase of ECB interest rates in October 2000, risks to price stability in the euro area have become more balanced. However, they have not entirely disappeared.

With regard to the first pillar of our strategy, M3 growth has, over recent months, gradually approached the reference value of 4½%. In this respect, there is some evidence that the figures for M3 growth have been increasingly distorted upwards by measurement problems related to the non-resident holdings of marketable paper included in the definition of M3. The ECB is working on identifying these problems precisely and making the necessary corrections to the data.

Indications of lower inflationary pressures over the medium term have also emerged from the analysis under the second pillar of the ECB's monetary policy strategy. Changes in the external environment have weakened the prospects for global economic growth, and uncertainty about the economic outlook, notably for the United States and Japan, remains high. Although the euro area is a large and relatively closed economy, some effects of the slowdown in the global economy will be felt. This can already be seen from the fact that business confidence has deteriorated and industrial production growth has moderated over recent months.

Nevertheless, growth in domestic demand is expected to remain robust. Consumer confidence has remained high in recent months and, despite some decline, it is still around the cyclical peaks seen in 1998. More fundamentally, the euro area has not accumulated imbalances in the real economy or the financial sector that would require a pronounced adjustment. Therefore, economic growth in the euro area is expected to remain solid. Available forecasts (including those of the European Commission, the OECD and the IMF) suggest that actual growth will be in line with or above the trend potential growth in 2001 and 2002.

While the somewhat slower pace of economic activity this year will reduce the risk of inflationary pressures, recent consumer price developments have been very much affected by energy and food prices. Although a number of these effects are temporary in nature, it would be a mistake to rule out the possibility that their cumulative impact may produce more lasting price effects.

The abatement of such domestic upward pressures on HICP inflation remains conditional upon continued wage moderation. In this respect, it is crucial that there be no second-round effects arising from wage reactions to the current increase in consumer prices. Currently available forecasts give rise to the expectation that inflation could fall slightly below 2% in 2002 if there are no deviations from the path of wage moderation observed in recent years.

At the current juncture, it is important to recall that interest rate levels in the euro area are not high historically, neither in nominal nor in real terms. Financing conditions in the euro area are therefore conducive to economic growth.

Moreover, monetary policy cannot raise the production potential of the euro area. In this respect, in December 2000 in the context of its regular review of the reference value for M3, the Governing Council of the ECB, while acknowledging that progress had been made in the euro area in the field of structural reforms, noted that it was difficult to find clear evidence of signs of lasting increases in trend productivity growth in the euro area.

The improvement in structural conditions necessary to raise potential growth is undoubtedly of utmost priority for the euro area. Ongoing comprehensive structural reforms of labour and product markets remain essential in order to improve the functioning of markets.

Fiscal policy will also have to make its contribution towards enhancing the growth potential of the economy. Despite favourable economic conditions, in 2000 no further progress was made in reducing structural fiscal deficits in the euro area as a whole.

The challenges in the area of fiscal policy are to continue on the path towards consolidation, in line with the Stability and Growth Pact, and at the same time to pursue further qualitative improvements on both the revenue and expenditure sides of the budget. A lowering of the tax burden is conducive to stimulating employment and growth, but it needs to be accompanied by corresponding restraint in public expenditure.

Although 2001 will not see economic growth as high as in 2000 owing to the weakening of economic activity abroad, the medium-term prospects for the euro area remain good overall. The euro area will be able to successfully meet the challenges ahead. The Treaty has laid down an appropriate framework for the allocation of tasks among policy areas. Monetary policy can best support economic growth over the medium term if it is strictly focused on its primary objective. At the same time, the responsibility for the reforms needed to enhance the growth potential of the euro area and to boost employment creation lies with governments, as well as with the key national economic agents in labour and industry. If all policy actors take the steps which are needed in their field of competence, I am very optimistic for the future of the euro area.

## **2. Preparation of the introduction of euro banknotes and coins**

Let me now turn to a crucial event in the history of European monetary integration, the introduction of euro banknotes and coins on 1 January 2002. The thorough and careful preparation of this historic moment continues to be one of the foremost priorities of the Eurosystem.

In order to facilitate a cost-efficient and smooth introduction of the euro banknotes and coins, the Governing Council of the ECB agreed on a Guideline (ECB/2001/1) adopting certain provisions on the cash changeover scenario, which entered into force in January this year. All national central banks of the euro area have now fully implemented this Guideline.

With regard to the production of euro banknotes, I can report that this is on track. The Governing Council of the ECB has also approved an additional production of euro banknotes of about 10% of the launch requirements. This central reserve stock of euro banknotes will further contribute to a smooth cash changeover.

As part of the efforts to prepare for the threat posed by forgery of the euro, the ECB is establishing a Counterfeit Analysis Centre and a Counterfeit Monitoring System in order to enhance the protection of the euro by providing comprehensive technical and statistical information on counterfeiting. This information will be available to all relevant competent authorities including national police authorities, Europol and the European Commission.

The Euro 2002 Information Campaign has been launched. The ECB has set up a specific website giving information on the introduction of the euro, and a series of conferences in the euro area is being organised. At the end of August, we will unveil the security features of the euro banknotes and start a mass media information campaign. Within the framework of our Partnership Programme, we are inviting public and private organisations to participate in the task of informing the public.

The introduction of the euro banknotes and coins will enhance the visibility of the single currency: in eight months' time, the public will identify the Eurosystem and the euro with the images of the euro banknotes. The banknotes will be the face of the euro and, thereby, instrumental in further increasing public and financial market confidence in the single currency. In view of the comprehensive preparations which are currently under way, I am confident that the introduction of euro banknotes and coins will proceed as smoothly and successfully as the changeover to the euro on 1 January 1999.

### **3. Comments on other activities of the Eurosystem**

As far as the other activities of the Eurosystem are concerned, during 2000, the Eurosystem continued to devote great attention to the issue of how to improve cross-border retail payment services within the euro area. In pursuit of its policy to act as a catalyst for change, the Eurosystem has continued to organise meetings with the European banking sector and payment system industry in order to monitor the progress achieved with regard to the seven objectives defined by the Eurosystem. In September last year, the Eurosystem published a progress report, which concluded that progress has been achieved in some areas, such as the agreement on standards allowing straight-through processing, the lightening and harmonisation of the balance-of-payments reporting requirements and the establishment of a cross-border low-value payment system by the European Banking Association. However, in several other areas further progress is needed, in particular with a view to further reducing the level of fees charged to retail customers. Therefore, the Eurosystem will continue to closely monitor the progress with regard to the fulfilment of its stated objectives in this field. To this end, a new progress report is intended for publication in early 2002.

To conclude my opening remarks, let me turn to the annual accounts of the ECB for last year. The ECB made a net profit amounting to EUR 1,990 million, after setting aside an agreed provision of EUR 2,600 million against its large exchange rate exposure. This profit is also net of remuneration amounting to EUR 1,375 million of the claims by the national central banks of the Eurosystem on the ECB with respect to the foreign reserve assets that had been transferred to the ECB at the beginning of 1999. In the course of last year, the ECB further increased its number of staff by 209, and it currently employs around 1,000 staff members from all 15 EU Member States. The ECB's budget for 2001 foresees an increase in the number of staff by around 7% compared with last year.

Overall, the ECB looks back over the first years of the single monetary policy with satisfaction. Developments since the start of Monetary Union have confirmed that the ECB has chosen a solid and efficient framework for monetary policy. The ECB's monetary policy strategy has offered a robust guide for taking policy decisions in an environment which was – and continues to be – characterised by a high level of uncertainty.

I shall now be happy to answer your questions.