

European Central Bank: Press conference - introductory statement

Introductory statement by Mr Willem F Duisenberg, President of the European Central Bank and Mr Christian Noyer, Vice-President of the European Central Bank, at the press conference, held in Frankfurt, 2 May 2002.

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Ladies and gentlemen, the Vice-President and I will now report on the outcome of today's meeting of the Governing Council of the ECB.

The Governing Council comprehensively examined **monetary, financial and economic developments** and also considered the accumulated changes in the economic outlook since its decision to lower the key ECB interest rates in November 2001. We concluded that the prospects for price stability appear to be somewhat less favourable than they were towards the end of last year. At the same time, we recognised that the economic outlook remains subject to uncertainties and that price developments partly reflect the influence of specific temporary factors. Accordingly, we decided to leave the key ECB interest rates unchanged.

Starting with the analysis under the **first pillar** of our monetary policy strategy, the three-month average of the annual growth rates of M3 decreased to 7.5% in the period from January to March 2002, down from 7.8% in the period from December 2001 to February 2002. The high annual growth rate of M3 continues to reflect the portfolio shifts to liquid positions which occurred last autumn. In the meantime there has been some normalisation in the development of M3, as indicated by the slowdown in its short-term dynamics in early 2002. The annual rate of growth of loans to the private sector also continued to decline in March. However, M3 growth has only slowed relatively recently and, for the time being, the reversal of built-up liquidity is proceeding only slowly.

As regards the **second pillar**, our expectations for a rebound in real GDP growth in the euro area have been confirmed by recently published forecasts of international organisations, which all paint a similar picture. While the recovery in 2002 is expected to initially proceed at a gradual pace, real GDP growth rates in the euro area should again be in line with potential growth later this year and solid growth rates should be attainable by 2003. Business confidence has considerably improved in the euro area over the past few months and the conditions for a sustained upswing in domestic demand continue to be in place, including favourable financing conditions. The more positive international environment should also help stimulate euro area exports, thereby fuelling aggregate demand in the euro area. Finally, sound fundamentals and the absence of major imbalances support the positive outlook for the euro area economy. However, there are still a number of uncertainties surrounding the strength of the current upswing, such as those related to the future development of oil prices and to the impact of existing imbalances elsewhere on the world economy.

Turning to price developments, trends in inflation – with annual HICP increases of 2.7% in January falling to 2.2% in April, according to Eurostat's early estimate – have been less satisfactory than expected a few months ago, not least as a result of higher oil prices. As stated on previous occasions, price developments in both 2000 and 2001, and again in recent months, have been shaped by a sequence of adverse but rather specific shocks to prices. These should unwind sooner or later and, in principle, such shocks should not affect the medium-term outlook for price stability.

However, it is essential that past upward tendencies in prices – even though they partly resulted from a clustering of specific factors – do not become entrenched. Recently published forecasts of price developments in the euro area, developments in indicators of inflation expectations and recent trends in wage settlements neither clearly confirm nor entirely contradict the risk of such entrenchment. At this juncture, it is therefore particularly important to remain vigilant with regard to the further evolution of the key factors determining the outlook for prices.

On the basis of current information, it is still possible that annual HICP inflation rates will fall below 2% in the coming months. However, the outcome is highly dependent on oil price developments. The rather protracted upward trend in services prices is also a factor to be taken into account. For next year, projections for price developments depend largely on the assumption of continued wage moderation. The outcome of the ongoing wage negotiations in some regions of the euro area could become a matter of concern. Excessive wage increases could create additional cost pressure with

potential consequences not only for prices but also – to an even greater extent – for employment creation and real GDP growth.

Regarding **fiscal policies** in the euro area, let me reiterate the views previously expressed. It is vital that those Member States that have not already done so manage the transition to budgetary positions in balance or in surplus so that the Stability and Growth Pact can operate smoothly and effectively in future. Commitments made to achieving balanced budgets by 2003-4 must therefore be honoured by the Member States concerned.

The Governing Council calls upon Member States to make faster progress in implementing comprehensive **structural reforms** – in public expenditure and revenues and product, labour and financial markets. The forthcoming finalisation of the Broad Economic Policy Guidelines for 2002 will be an opportunity both to take stock of the unfinished agenda following the agreements of Lisbon and, more recently, of Barcelona and, in particular, to accelerate the implementation of reforms. As we have said on numerous occasions, such reforms are needed to increase the growth of real GDP and employment on a sustainable basis. Past experiences both inside and outside the European Union indicate that measures to promote the efficiency and integration of markets, the encouragement of entrepreneurship and the fostering of a knowledge-based economy are clearly working in this direction and are thus in the interest of all member countries.

We are now at your disposal for questions.